Annexure 4 (86)

Report on
Fair Valuation Of The Western Cement Division of
Jaypee Cement Corporation Limited ("JCCL")
For the Purpose of Determination
Of The Allotment of Equity Shares
On Its demerger
into
Ultratech Cement Limited ("Ultratech")

Accountants' Report

Bansi S. Mehta & Co.
Chartered Accountants,
Merchant Chamber, 3rd floor,
41, New Marine Lines,
Mumbai-400 020.

September 11, 2013

This report contains 15 pages

Certified True Copy
For UltraTech Cement Limited

S. K. Chatterjee
Company Secretary

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Bansi S. Mehta & Co

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1. Introduction

1.1 Background and Terms of Engagement

There is a proposal before the Boards of Directors of JCCL and the Ultratech to consider the demerger of JCCL's Cement Plants based in Gujarat more specifically in Wanakbori and Sewagram, (hereinafter referred to as the "Western Cement Division"), as a going concern, into Ultratech under a scheme of arrangement u/s. 391 to 394 of the Companies Act, 1956 ("the Scheme").

It is also proposed that upon the said Demerger, Equity shares of Ultratech would be allotted to the shareholders of JCCL.

We have been approached by Ultratech and JCCL to recommend a fair Enterprise Value of the Western Cement Division which would be the basis for determining the ratio of allotment of Equity Shares to the shareholders of JCCL on such demerger.

This report ("Report") sets out the findings of our exercise.

1.2 Salient features of the Scheme:

- Under the Scheme the "**Appointed Date**" is defined to be the Effective Date as defined in the Scheme
- The "**Effective Date**" is defined to mean the date on which the Scheme becomes effective in accordance with its terms, which shall be the Closing Date;
- "**Closing Date**" is explained in Clause 10 of the Scheme as follows:

  Closing shall occur on the date 28th day following the later of (i) the date of the receipt of the last High Court Order (or High Courts orders for condonation of delay in filing form 21, if applicable); (ii) date of approval granted by SEBI in terms of the SEBI Circulars; and (iii) date of the grant of approval under the Competition Act, 2002 and the Combination Regulations (the "**Closing Date**").
- The transfer and vesting of the Western Cement Division shall be deemed to be complete and absolute with effect from the Closing Date.
- The consideration for the Demerger shall be determined as the enterprise value as per the Report as

  A. reduced by the Financial Indebtedness of INR 3,664.69 crores as set out in **Schedule III** of the Scheme; and
  B. increased by the Net Working Capital of INR 12.33 crores as set out in **Schedule III** of the Scheme.
- The consideration is, however, to be decided on the Closing Date, based on the closing adjustment to the amount of debt, working capital and fixed assets as more particularly brought out in clause 9(b) of the Scheme.
- As per clause 9(c) of the Scheme, the Consideration shall not exceed Rs. 150,00,00,000/- (Rupees One Hundred and Fifty Crores only)

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- Consideration for the transfer and vesting of the Western Cement Division in Ultratech in accordance with the provisions of the Scheme would be the issue and allotment of equity shares of Ultratech to the equity and preference shareholders of JCCL.
- The price per share of the Transferee Company for determining the share entitlement shall be the higher of the following ("Price Per Share"):
    - the average of the weekly high and low of the closing prices of the equity shares of the Transferee Company on NSE during the twenty six weeks preceding the day that is one Business Day prior to the date of determination; or
    - the average of the weekly high and low of the closing prices of the equity shares of the Transferee Company on NSE during the two weeks preceding the day that is one Business Day prior to the date of determination.

1.3 Profile of the Western Cement Division:

The Western Cement Division is engaged, inter alia, in the business of manufacture of cement in the State of Gujarat and sale in the State of Gujarat and other neighbouring States. The Western Cement Division has cement plants located in Sewagram (Kutch, Bhuj) and Wanakbori (Near Ahmedabad) in the state of Gujarat. While Sewagram is an integrated unit, Wanakbori is a grinding unit. The combined capacity of these two cement plants is 4.8 mtpa. The operations are duly supported by captive limestone mines, captive power plants of 35MW and 22.5MW and a captive jetty. The cement operations of the Target were commenced in two phases – first phase in 2009 and second phase in 2011.

1.4 Share Capital of JCCL

The Authorised, Issued, Subscribed and Paid-up capital of the JCCL as on June 30, 2013 is as under:

Particulars		Amount (Rs. in Crores)
Authorised		
(i)	150,00,00,000 Equity Shares of Rs. 10/- each	1,500
(ii)	15,00,00,000 12% Non Cumulative Redeemable Preference Shares of Rs. 100/- each	1,500
Issued, subscribed and paid-up		
(i)	62,75,00,000 Equity Shares of Rs. 10/- each	627.5
(ii)	10,00,00,000 12% Non Cumulative Redeemable Preference Shares of Rs. 100/- each	1,000

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1.5 Shareholding of JCCL

The Shareholding pattern of the JCCL as on June 30, 2013 is as under:

Name	Percentage	No of Shares	Share Capital Amount (Rs. In Cores)
Equity Shareholding			
Jaiprakash Associates Limited	100%	62,75,00,000	627.5
Preference Shareholding			
Jaiprakash Associates Limited	100%	10,00,00,000	1,000

1.6 Profile of Ultratech

Ultratech is a public limited company incorporated under the Act, having its registered office at B Wing, Ahura Centre, 2nd Floor, Mahakali Caves Road, Andheri (East), Mumbai 400 093. The Transferee Company is primarily engaged in the business of manufacture and sale of various grades and types of cement, ready mix concrete and other cement related products. The equity shares of the Transferee Company are listed on National Stock Exchange and Bombay Stock Exchange.

1.7 Share Capital of Ultratech

The shares of Ultratech are listed on the National Stock Exchange and the Bombay Stock Exchange. The Authorised, Issued, Subscribed and Paid-up capital of the Transferee Company as on June 30, 2013 is as under:

Particulars		Amount (Rs.)
Authorised		
(i)	28,00,00,000 Equity Shares of Rs. 10/- each.	2,80,00,00,000
Issued, subscribed and paid-up		
(i)	27,41,82,511 Equity Shares of Rs. 10/- each paid-up	2,74,18,25,110

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1.8 Shareholding of Ultratech

The Shareholding of the Transferee Company as on June 30, 2013 is as under:

Category	No. of Shares	%
Equity shareholders		
Promoter & Promoter Group	169,887,299	61.96
Banks/MFs / FIs		
Mutual Fund & UTI	3,349,641	1.22
Banks, FI's and Central / State Governments	168,500	0.06
Insurance Companies	9,103,907	3.32
Foreign Investors		0.00
FIIs	56,746,134	20.70
GDRs	5,338,699	1.95
NRIs/OCBs	2,273,595	0.83
Corporates	9,658,687	3.52
Others	17,656,049	6.44
Total	**274,182,511**	**100.00**

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2. Data Obtained

2.1 We have called for and obtained such data, information, etc. as were necessary for the purpose of our assignment, which have been made available to us by the Management of Ultratech and JCCL ("the Managements"). **Annexure A** hereto broadly summarises the data obtained.

2.2 For the purpose of our assignment, we have relied on such data summarized in the said Appendix and other related information and explanations provided to us in this regard.

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3. Approach to Valuation

3.1 It is universally recognized that valuation is not an exact science and that estimating values necessarily involves selecting a method or an approach that is suitable for the purpose. Besides, Courts in India (whose permission will have to be sought for effecting the transaction) have, over a period of time, evolved certain guiding principles, the most leading case being the decision of the Supreme Court in Hindustan Lever Employee's Union vs. Hindustan Lever Limited and Others [(1995) 83 Company Cases 30].

3.2 The aforesaid decision endorses that a fair and appropriate approach for valuing the companies would be to use a combination of various methods which in that case were:

- Net Asset Value ("NAV") method;
- Market Value ("MV") method.; and
- Earnings Capitalization Value ("Earnings") method

3.3 Whilst the foregoing case dealt with a full-scale merger of two corporate entities, the "demerger" of the undertaking from one corporate entity is in pith and substance a transfer by JCCL to Ultratech of the Western Cement Division against allotment by the latter to the shareholders of the former equity shares in Ultratech that corresponds to the fair value of the Western Cement Division. Accordingly, we have assessed such fair value based on the generally accepted principles enunciated by the Supreme Court in the foregoing case which could be the basis for determining ratio of entitlement in terms of the Scheme.

3.4 The applicability of each of the above methods in context of the given valuation is discussed as follows:

3.5 Valuation of the Western Cement Division:

3.5.1. Valuation Approach with respect to the Western Cement Division proposed to be transferred:

3.5.1.1. Applicability of the NAV Method :

Cement manufacturing is an asset-intensive class of business. Therefore, majority of its value flows from its tangible as well as intangible assets.

Insofar as the Western Cement Division is concerned, since the facility is fairly new, its comparability with that of the older established listed entities cannot be equated for applying the Market Value to Book Value ("MV/BV") multiple of those entities to the book value of the said Undertaking.
Further, Book value of the Western Cement Division would only give the cost of the tangible assets, which may not be considered as the value of its operations.

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It would, therefore, not be correct in this scenario to rely on the asset base.

3.5.1.2. Applicability of MV Method :

MV method is not applicable in this case as the shares of JCCL are not listed.

3.5.1.3. Applicability of Earnings Method :

The Earnings Method envisages consideration of profits at a maintainable level in future for determination of the value of the business based on its profitability. In the case of the Western Cement Division we observe that the plant capacity is proposed to be utilized upto its optimum level over next few years. As a result we believe that the past profits are not reflective of the future maintainable profit.

3.5.1.4. Another approach favoured in valuation exercises is the approach that capitalises future cash flows by discounting them based on a rationally selected discount rate. This method of valuation is popularly known as the Discounted Cash Flows Approach ("the DCF Approach").

3.5.1.5. We find that what is relevant in this case, is the future earnings capacity of the projects comprised in the Western Cement Division. We have, therefore, used the DCF Approach in order to arrive at the fair value of the Western Cement Division.

3.5.1.6. For the purpose we have looked at the projections given to us by the Managements. We have applied checks to the same for accepting the same for the purpose of our exercise.

3.5.1.7. The broad steps adopted for the valuation based on DCF Approach are given in **Appendix B** hereto.

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4. Valuation and Conclusion

4.1 Based on the foregoing, we have computed the Enterprise Value of the Western Cement Division at Rs. 3800 crores.We consider that the Enterprise Value would remain constant over a period of time given that the fundamental premises on which the business operates remain constant over such time.

4.2 As discussed in para 1.2 above the consideration for transfer is to be based on the Enterprise Value as adjusted for the amount of liabilities and the net working capital transferred and adjustment in fixed assets on account of physical verification on the Closing Date. Further, it is proposed in the Scheme that the consideration for transfer would be discharged by way of issue of shares of Ultratech at the average of the closing price as more particularly described in para 1.2 above. Further, the maximum consideration to be satisfied by the issuance of equity shares of the Transferee Company is capped by clause 9(c) of the Scheme at Rs 150 Cr (Rupees One Hundred and Fifty Crore only) (**"Maximum Consideration"**).

4.3 The Preference Shareholders of JCCL are to continue without any modification to their rights. Accordingly, we have not considered the same as relating to the Western Cement Division. Further, in compliance with the relevant tax laws we recommend a ratio of

1 (One) equity shares of Ultratech of Rs. 10 each fully paid up to be issued for every 10,00,000 (ten lacs) preference shares held in JCCL.

4.4 The amounts of Financial indebtedness and working capital on June 30, 2013, being the date upto which the information was provided by the Management at the time of finalizing this Report, are as follows:

Particulars	Amounts (In Crores of Rupees)
Financial Liabilities/Indebtedness (Including Liabilities to the Parent of Rs. 1522.73 Crores)	3664.7
Net Working Capital	12.33
Adjustment in Fixed Assets	Nil

4.5 The Enterprise Value as mentioned in para 4.1 above as adjusted by the foregoing items of adjustment taking their values on June 30, 2013 gives a consideration of Rs. 147.64 crores.

4.6 We have computed the average of the Price Per Share of Ultratech being the higher of the following, taking the report date as the date of determination:

- the average of the weekly high and low of the closing prices of the equity shares of the Transferee Company on NSE during the twenty six weeks preceding the day that is one Business Day prior to the date of determination; or
- the average of the weekly high and low of the closing prices of the equity shares of the Transferee Company on NSE during the two weeks preceding the day that is one Business Day prior to the date of determination.

4.7 We have reduced the portion of the consideration discharged by issue of equity shares of Ultratech to the Preference Shareholders of JCCL in accordance with paragraph 4.3 above from the total equity entitlement worked out above.

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4.8 Accordingly, the indicative ratio for allotment to the equity shareholders of JCCL on the date of this Report is

7.7 equity shares of Ultratech of paid up value of Rs. 10 each for every 6000 equity shares held in JCCL

4.9 The actual number of shares that would become the entitlement of the shareholders of JCCL, would be determined on the Closing Date based on the business value and the value per share of Ultratech as would be calculated then in accordance to para 4.2.

4.10 The foregoing basis of valuation of the business and the shares of the Ultratech to discharge the Consideration as calculated above for the reasons dealt with in this Report, is reasonable and fair in our opinion[1].

[1] On the footing that the aggregate consideration as more specifically discussed in para 11.2 of the Report that would be given to the shareholders of JCCL would not exceed Rs. 150 Crores, which is brought out in clause 9(c) of the Scheme, which amounts to less than 0.3% of the Market Capitalization of Ultratech taking the Price Per Share on the Date of this Report as discussed in Para 4.6 above, it would reinforce the fairness of the method adopted by us in that, the value of the shares to be so allotted would barely represent 0.3% of Ultratech's Market Capitalization.

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5. Limitations and disclaimers

5.1 Our Report is subject to the scope of limitations detailed hereinafter. As such the report is to be read in totality and not in parts. This report has been prepared solely for the purpose set out in this report and should not be reproduced (in part or otherwise) in any other document whatsoever without our written consent.

5.2 Our valuation is based on the information furnished to us being complete and accurate in all material respect. The same is based on the estimates of future financial performance as projected by the Managements, which represents their view of reasonable expectations at the point in time when they were prepared, but such information and estimates are not offered as assurances that the particular level of income or profit will be achieved or events will occur as predicted. Actual results achieved during the period covered by the prospective financial statements may vary from those contained in the statement and the variation may be material.

5.3 Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. We have therefore, not performed any audit, review or examination of any of the historical or prospective information used and therefore, do not express any opinion with regard to the same.

5.4 The information presented in the Report does not reflect the outcome of any due diligence procedures. The reader is cautioned that the outcome of that process could change the information herein and, therefore, the valuation materially.

5.5 The Report is meant for the purpose mentioned in Para 1.1 and should not be used for any purpose other than the purpose mentioned therein.

5.6 Our Report should be used only by the Company and by no other person. The report may be shared with the regulators and the Merchant Banker providing Fairness Opinion on this Report. The Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared.

5.7 The projected working results are those as prepared by the Managements and furnished to us for the purposes of the Report. Although, we have reviewed the underlying assumptions and parameters, we accept no responsibility for them, or the ultimate accuracy and realization of the forecasts.

5.8 We have relied on the judgment made by the Managements and, accordingly, our valuation does not consider the assumption of contingent liabilities materialising (other than those specified by the Management and the Auditors). If there were any omissions, inaccuracies or misrepresentations of the information provided by the Managements, then this may have the effect on our valuation computations.

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5.9 No investigation of the Company's claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature. The report is not, nor should it be construed, as our opining or certifying the compliance with the provisions of any law including company and taxation laws or as regards any legal, accounting or taxation implications or issues.

5.10 Any person/ party intending to provide finance / deal in the shares / business of any of the Companies shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are taking an informed decision.

5.11 We have relied upon the written representations received from the Managements that the information contained in this Report is materially accurate and complete, fair in the manner of its portrayal and therefore forms a reliable basis for the valuation.

5.12 Our valuation is based on the market conditions and the regulatory environment that currently exist. However, changes to the same in the future could impact the Company valued by us and the industry it operates in, which may impact our valuation.

5.13 We have no obligation to update this Report because of events or transactions occurring subsequent to the date of this Report.

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6. Gratitude

We are grateful to the Managements for making information and particulars available to us, often at a short notice, without which our assignment would not have been concluded in a time-bound manner.

Mumbai

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Bansi S. Mehta & Co.

Dated: September 11, 2013

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Appendix A: Broad Summary of Data Obtained

From the Managements

1. Brief history and brief note on the business profile of the Western Cement Division and Ultratech.
2. Draft Scheme of Arrangement under sections 391 to 394 of the Companies Act, 1956 between Ultratech and JCCL and their respective shareholders and creditors.
3. Projections of Western Cement Division along with key assumptions.
4. Net Working Capital Statement and Statement showing liabilities taken over of Western Cement Division as on June 30, 2013.
5. Statement of Financial Indebtedness of JCCL relating to the Western Cement Division.
6. Statement of Profit and loss Accounts of Western Cement Division for the period ended March 31, 2013 and June 30, 2013.
7. Balance Sheet of Western Cement Division as on March 31, 2013 and June 30, 2013.
8. Shareholding Pattern of JCCL and Ultratech as on June 30, 2013.
9. Rate of Interest on debt as on June 30, 2013.
10. Tax computation working for the Assessment Year 2012-13 and 2013-14 of Western Cement Division.
11. Working for tax benefit relating to the Western Cement Division.
12. Answers to specific questions and issues raised by us after examining the foregoing data.

From publicly available sources

1. The Risk free rate of return used in the calculation of cost of equity is taken from Reserve Bank of India website.
2. Prowess Database for establishing comparability.
3. Website of Ultratech and Comparable Companies for their financial statements and business background.
4. Bombay Stock Exchange and National Stock Exchange website for Market prices of Comparable Companies and their financial statements.

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Appendix B: Broad Description of the Steps for Arriving at Value under DCF Approach

1. We have taken the earning before tax, to which we have added back depreciation and interest. Further such earning was adjusted for non-operating incomes and expenses so as to arrive at operating Earnings before Interest Depreciation and Tax (EBIDTA).
2. Considered projected EBIDTA arrived in step 1 above for the future 10 years to end on March 31, 2023.
3. The EBIDTA as envisaged in Step 2 have been adjusted by capital outlays, as also the increase or decrease in working capital and the income tax liability so as to arrive at the Free Cash Flows in the respective future years.
4. These Free Cash Flows are discounted at the Weighted Average Cost of Capital ("WACC") to arrive at the Net Present Value ("NPV") thereof.
5. The estimated Free Cash Flows for the Financial Year to end on March 31, 2023 have been capitalized using WACC with a perpetual growth rate of 5% and thereafter discounted to arrive at the NPV of perpetuity as at June 30, 2013.
6. The NPV of Free Cash Flows and perpetuity is aggregated to arrive at the Enterprise Value as at the June 30, 2013.
7. The Enterprise Value arrived at in Step 6 is than increased by the amount of tax benefit which will benefit the Ultratech hence we have treated it as surplus assets.
8. The Enterprise Value as adjusted in step 7 is reduced by financial indebtedness as at June 30, 2013.
9. Further the same is increased by the working capital being taken over and by the cash and bank balance and the realisable value of Surplus Assets (if any) as at June 30, 2013.
10. The value so arrived at is the Business Value attributable to the Equity Shareholders.

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