

Sharp & Tannan Chartered Accountants Ravindra Annexe, 194, Churchgate Reclamation, Dinshaw Vachha Road, Mumbai - 400 020, Maharashtra	R. V. Shah & Associates Chartered Accountants 108, Sujata, Station Road, Malad East, Mumbai - 400 097, Maharashtra
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Dated: 3rd October, 2020

To,

The Board of Directors Electrosteel Castings Limited. Rathod Colony, Rajgangpur, Sundergarh, Odisha - 770 017	The Board of Directors Srikalahasthi Pipes Limited Srikalahasthi Mandal, Chittoor District, Rachagunneri Village, Andhra Pradesh -517 641
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Re: **Recommendation of Fair Equity Share Exchange Ratio for Proposed Amalgamation of Srikalahasthi Pipes Limited into and with Electrosteel Castings Limited**

Dear Sir/Madams,

This is with reference to our discussions held from time to time, whereby

- Electrosteel Castings Limited (“ECL”) has engaged R.V. Shah & Associates, Chartered Accountants [Firm Registration No. 133958W] (Herein referred to as “RVS”) vide the engagement letter dated 19th September, 2020, and
- Srikalahasthi Pipes Limited (“SPL”) has engaged M/s Sharp & Tannan, Chartered Accountant [Firm Registration No. 109982W] (Herein referred to as “S&T”) vide the engagement letter dated 19th September, 2020

to recommend fair equity share exchange ratio for the proposed amalgamation of SPL with ECL (together referred to “the Companies”) (hereinafter referred to as “Proposed Amalgamation”).

We are pleased to present herewith our joint report on the same.

S&T and RVS are herein jointly referred to as “Valuers” or “We” and individually referred to as “Valuer”



1. BRIEF BACKGROUND

1.1 ELECTROSTEEL CASTINGS LIMITED (“ECL”)

1.1.1 Electrosteel Castings Limited (CIN: L273100R1955PLC000310) is a public limited company incorporated on 26th November 1955 and having registered office at Rathod Colony, Rajgangpur, District: Sundergarh, Odisha 770 017.

1.1.2 ECL is engaged in the manufacture and supply of Ductile Iron (DI) Pipes, Ductile Iron Fittings (DIF) and Cast Iron (CI) Pipes as its core business and produces and supplies Pig Iron, in the process. It also produces Metallurgic Coke, Sinter and Power for captive consumption. The company caters to the needs of Water Infrastructure Development.

1.1.3 Equity shares of ECL are listed on National Stock Exchange of India Limited (“NSE”) and Bombay Stock Exchange Limited (“BSE”).

1.1.4 The Company is the first to set up a Ductile Iron Pipe Plant in India. Today, it is India’s leading pipeline solution provider. It has a strong brand presence around the Globe. The Company is distinct choice for water engineers and domain experts in Ductile Iron Pipes and Fittings.

1.1.5 ECL has overseas subsidiaries which are primarily engaged in the business of trading of DI Pipes and Fittings.

1.1.6 ECL has reported a consolidated shareholder’s fund of INR 2,881 Cr as on 31st March 2020 and consolidated revenue and consolidated profit after tax of INR 2,711 Cr and INR 161 Cr respectively for the year ended 31st March 2020.

1.1.7 The shareholding pattern of ECL as on 30th September 2020 is as follows:

Sl. No.	Category	No. of Shares	% Holding
a.	Promoter & Promoter Group	23,89,57,776	55.19%
b.	Public	19,39,96,933	44.81%
Total		43,29,54,709	100.00%

1.2 SRIKALAHASTHI PIPES LIMITED (“SPL”)

1.2.1 Srikalahasthi Pipes Limited (CIN: L74999AP1991PLC013391) is a listed public company, incorporated on November 01, 1991, having its registered office in Rachgunneri Village, Srikalahasthi Mandal, District - Chittoor, Andhra Pradesh - 517 641. SPL was formerly known as Lanco Industries Limited. ECL holds 1,93,01,218 fully paid up equity shares having face value of INR 10 each of SPL amounting to 41.33% of the total equity share capital of SPL. ECL and SPL are under control of common promoter group. ECL along with its promoter group of companies are in a position to and do exercise control over SPL.



1.2.2 SPL is one of the leading players in the DI pipe industry in India with plant located at Rachgunneri Village, Srikalahasthi, Chittoor District, Andhra Pradesh near Tirupati and its key products include DI Pipes, Pig Iron, Coke & Cement. SPL has a backward integrated manufacturing facility which includes a sinter plant, coke oven plant, and power plant and Sewage Treatment facilities in the same complex spread over 330 acres, giving the company a significant competitive advantage. The company supplies DI pipes to various Water Boards, Municipal Corporations and Turnkey Contractors across the country for their Water Infrastructure Projects which is the thrust area of the Government of India.

1.2.3 Equity shares of SPL are listed on NSE and BSE.

1.2.4 SPL has reported shareholders' fund of INR 1,416 as on 31st March 2020, revenue and profit after tax of INR 1,663 Cr and INR 188 Cr for the year ended 31st March 2020.

1.2.5 The shareholding pattern of SPL as on 30th September, 2020 is as follows:

Sl. No.	Category	No. of Shares	% Holding
a.	Promoter & Promoter Group	2,24,83,513	48.15%
b.	Public	2,42,14,894	51.85%
Total		4,66,98,407	100.00%

2. SCOPE & PURPOSE

2.1 We understand that management of ECL & SPL ("Management") is contemplating to amalgamate SPL with ECL pursuant to a scheme to enable the Companies to streamline their business activities into single combined entity, thereby resulting in economies of scale and avoidance of undue duplication in work, reduction in common expenditure otherwise incurred by the two entities within common group, better and more productive utilization of financial, human and other resource and enhancement of overall business efficiency. The managements expects that amalgamation will enable the combined entity to leverage their consolidated resources to: (a) increase production capacities; (b) undertake research and development initiatives to improve manufacturing processes and final product; (c) serve the needs of a larger customer base leading to overall business domestically as well as overseas; and (d) improved credit rating.



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- 2.2 The proposed amalgamation of SPL with ECL is to be affected through Scheme of Amalgamation on going concern basis with effect from the opening business hours of 01st October, 2020 (“Appointed Date”) pursuant to the provisions of Section 230 to 232 and other applicable provisions of the Companies Act 2013 (including any statutory modifications, re-enactments or amendments thereof) and other applicable securities and capital market laws and rules issued thereunder to the extent applicable (“Proposed amalgamation”). In consideration thereof equity shares of ECL will be issued to the shareholders of SPL once the scheme become effective. The number of equity shares of ECL of face value of INR 1 each to be issued for the equity shares of SPL of face value of INR 10 each in the event of proposed amalgamation is referred to as the “Fair Equity Share Exchange Ratio” or “Share Exchange Ratio”.
- 2.3 In this regard S&T and RVS have been appointed by the Companies to submit a Joint Valuation Report recommending a Fair Equity Share Exchange Ratio (“Report”) in connection with the Proposed Amalgamation of SPL with ECL to be placed before the Audit Committee and Board of Directors (“Boards”) of the Companies as required under the provisions of Section 230-232 of the Companies Act 2013 and other applicable securities and capital market laws and rules issued thereunder.
- 2.4 The scope of our services is to conduct a relative valuation (not an absolute valuation) of the equity shares of the Companies and recommend a Share Exchange Ratio as on 1st October 2020 (“Valuation Date”) for issue of equity shares of ECL to the equity shareholders of SPL for the Proposed Amalgamation in accordance with ICAI Valuation Standards 2018 issued by Institute of Chartered Accountants of India.
- 2.5 This Report will be placed before the Boards and Audit Committees of the Companies, as applicable, as per the relevant SEBI circulars, and, to the extent mandatorily required under the applicable laws of India. This Report may be required to be produced before the judicial, regulatory or government authorities, stock exchanges, shareholders in connection with the Proposed Amalgamation under applicable laws.
- 2.6 We have considered financial information up to 30th June 2020 and the current market parameters in our analysis and made adjustments for additional facts made known to us till the date of our Report which will have a bearing on the valuation analysis to the extent considered appropriate. Further, the Management has informed us that all material information impacting the Companies has been disclosed to us.



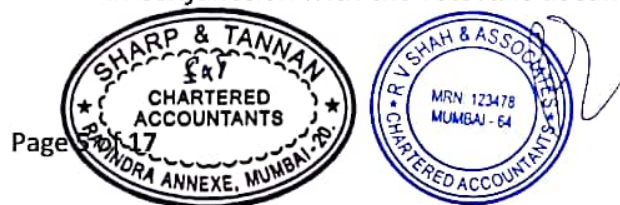
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- 2.7 Management of ECL has informed that their group's operations and financial results for the quarter ended 30th June 2020 have been adversely affected by the Outbreak of Covid-19 pandemic and consequent lockdown announced by various governments where subsidiaries are based including India due to which the operations were suspended for the part of the quarter and gradually resumed with requisite precautions. Also the group has incurred losses in Q1 FY 20-21. ECL has the sufficient liquidity to meet its future liabilities and obligations.
- 2.8 Further Management of SPL has also informed that their company's operations and financial results for the quarter ended 30th June 2020 have been adversely affected by the Outbreak of COVID-19 pandemic and consequent lockdown announced by the Government of India. The plant was shut down in the initial period of lock down days. It was further informed that the production is ramping up gradually and is hopeful that normal working is likely to be restored soon. SPL has incurred losses in Q1 FY 20-21. SPL has the sufficient liquidity to meet its future liabilities and obligations.
- 2.9 Management has informed that the uncertainties involved in view of the continuance of the pandemic, the effect of future impact of the pandemic on the operations of the Companies have been adequately adjusted in the future projections of the Companies.
- 2.10 The Management has informed us that:
- a) There would not be any capital variation in the Companies till the Proposed Amalgamation becomes effective without the approval of the shareholders;
 - b) Neither Companies would declare any dividend which are either materially different than those declared in the past few years or having materially different yields.

We have relied on the above while arriving at the Share Exchange Ratio for the Proposed Amalgamation.

- 2.11 This Report is our deliverable in respect of our recommendation on the Fair Equity Share Exchange Ratio for the Proposed Amalgamation.
- 2.12 Our opinion is based on prevailing market, economic and other conditions as at the date of this Report. These conditions can change over relatively short periods of time. Any subsequent changes in these conditions could have an impact upon our opinion. We do not undertake to update this Report for events or circumstances arising after the date of this Report.
- 2.13 This Report is subject to the assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such, the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.



3. SOURCE OF INFORMATION AND PROCEDURES ADOPTED

3.1 For the purpose of this valuation exercise, we have received & relied upon the following sources of information:

- ❖ Audited Annual Accounts of the Companies for FY 2015-16 to FY 2019-20;
- ❖ Management Certified financial statements of the Companies for the quarter ended 30th June 2020;
- ❖ Management Certified financial projections of the Companies for 9 months ending on FY 2020-21 and for FY 2021-22 to FY 2021-28;
- ❖ Management Certified financial statements of overseas subsidiaries of ECL as on 30th June 2020;
- ❖ Fair Valuation Report of surplus lands of ECL;
- ❖ Management Certified lists of contingent liabilities of Companies as on 30th June 2020;
- ❖ Income Tax returns for AY 19-20 and draft statement of tax computation for AY 20-21 of the Companies;
- ❖ Shareholding Pattern of the Companies as on 30th September, 2020.
- ❖ Brief Overview of the Companies and its past & current operations;
- ❖ Management certified draft Scheme of Amalgamation for the Proposed Amalgamation;
- ❖ Management Representation Letter dated 1st October, 2020, containing various data, documents and information relating to the Companies, which is relevant for the present valuation;
- ❖ Other information provided, as well as discussions held with, the Management of the Companies and other key personnel regarding past, current & future business operations;
- ❖ Published & secondary sources of data, whether or not made available by the Companies.
- ❖ Such other necessary information as considered relevant.

3.2 In addition to review of the above information, we have also held various discussions with the Management and other key personnel of the Companies from time to time regarding past, current & future business operations and obtained requisite explanation and clarification of data provided, either in oral or written form or in soft copy.

3.3 In this valuation exercise, the effect of recent slump in the economy and its consequential effect on the Companies due to COVID-19 pandemic and nationwide lockdown in almost whole of Quarter ended on 30th June 2020 have been considered. The projections provided by the management also include such effect for FY 2020-21 in terms of clause 2.7 & clause 2.8 of this Report.

3.4 For the above exercise, we have also analyzed general market data, including economic, governmental, environmental forces and industry information that may affect the equity valuation of ECL and SPL.



- 3.5 Further, we have also relied on published and secondary sources of data whether or not made available by the Companies. We have not independently verified the accuracy or timeliness of the same.
- 3.6 Management of ECL and SPL has been provided with an opportunity to review the draft Report for confirming the accuracies of facts and statements made herein this Report.

4. ASSUMPTIONS, EXCLUSIONS, LIMITATIONS & DISCLAIMERS

- 4.1 This Report is intended only for the sole use and information of the Boards of the Companies and only in connection with the Proposed Restructuring including for the purpose of obtaining regulatory approvals, as required under applicable laws of India. Valuation analysis and results are specific to the purpose of valuation and is not intended to represent value at any time other than Valuation Date for the purpose of this Report and as per agreed terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.
- 4.2 This Report, its contents and the results are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the Valuation Date and (iii) are based on the financial information of the Companies till 30th June 2020. The Management of the Companies have represented that the business activities of the Companies have been carried out in normal and ordinary course between 30th June 2020 and the Report Date and that no material changes have occurred in their respective operations and financial position between 30th June 2020 and the Report Date except the effect of COVID-19 pandemic which have been duly considered in the current valuation exercise in terms of clause 2.7 & clause 2.8 of this Report and receipt of Arbitration Award vide Order of Arbitral Tribunal dated 10th August, 2020 by ECL, whereby ECL is entitled to receive INR 232.45 Cr from Railway Authorities.
- 4.3 We have no responsibility to update the Report for any events and circumstances occurring after the date of the Report. However, we reserve the right to amend or replace the Report at any time in the event of any material change in the facts presented to us. Our valuation analysis was completed on a date subsequent to the Valuation Date and accordingly we have taken into account such valuation parameters and over such period, as we considered appropriate and relevant, up to a date close to Valuation Date.
- 4.4 This Report and the information contained herein are absolutely confidential and is prepared on for the stated purposes in this Report. This Report should not be copied, disclosed, circulated, quoted or referred to either in whole or in part, in correspondence or in discussion with any other person except to whom it is issued without our written consent. The Companies are required to submit this Report to regulatory or judicial authorities, government authorities, stock exchanges, courts, shareholders, their professional advisors including merchant bankers providing the



fairness opinion on the Share Exchange Ratio in connection with the Proposed Amalgamation to the extent mandatorily required under applicable laws of India. We hereby consent to such disclosure of this Report, on the basis that we owe responsibility only to the Boards of the Companies that have engaged us, under the terms of our engagement, and no other person; and that, to the fullest extent permitted by law, we accept no responsibility or liability to the shareholders of the Companies or any other party, in connection with this Report. The results of our valuation analysis and our Report cannot be used or relied by the Companies for any other purpose or by any other party for any purpose whatsoever. Possession of this Report, or a copy thereof, does not carry with it the right of publication of all or any part of it, nor may it be used for any purpose by anyone, without the previous written consent of us and, in any event, only with proper attribution.

- 4.5 We are not responsible to any other person / party for any decision of such person / party based on this Report. Any person / party intending to provide finance / invest in the shares / business of the Companies / their holding companies / subsidiaries / associates / investee companies / other group companies, if any, shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision. If any person / party (other than the Companies) choose to place reliance upon any matters included in the Report, they shall do so at their own risk and without recourse to the Valuer.
- 4.6 For the purpose of providing recommendation on the Share Exchange Ratio, we have used financial and other information provided to us by the Management of the Companies and the information that was publicly available, sourced from subscribed databases and formed substantial basis for this Report which we believe to be reliable and conclusions are dependent on such information being complete and accurate in all material aspects. While information obtained from public domain or external sources have not been verified for authenticity, accuracy or completeness, we have obtained information as far as possible, from sources generally considered to be reliable. We assume no responsibility for such information. Our scope of work refrains us to accept responsibility for the accuracy and completeness of the financial and other information provided to us by the Managements. Our conclusion on value assumes that the assets and liabilities of the Companies, reflected in their respective latest balance sheets remain intact as of the Report date.
- 4.7 In accordance with the terms of engagement letter and in accordance with the customary approach adopted in valuation exercises, we have not audited, certified, carried out a due diligence, or otherwise investigated the historical and projected financial information, if any, provided to us regarding the Companies / their holding / subsidiary / associates / joint ventures / investee companies, if any. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in the historical financials / financial statements and projections. The assignment did not involve us to conduct the financial, legal, regulatory, tax, accounting, actuarial or



technical feasibility study. We have not done any independent technical valuation or appraisal or due diligence of the assets or liabilities of the Companies. Also, with respect to explanations and information sought from the Managements, we have been given to understand by the Management that they have not omitted any relevant and material factors about the Companies and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt.

- 4.8 It should be noted that we have examined the Share Exchange Ratio for the Proposed Amalgamation and not examined any other matter including economic rationale for the Proposed Amalgamation per se or accounting, legal or tax matters involved in the Proposed Amalgamation.
- 4.9 The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the audited / unaudited balance sheets of the Companies / their holding / subsidiary / associates / joint ventures / investee companies, if any.
- 4.10 Our Report is not, nor should it be construed as our opining or certifying the compliance of the Proposed Restructuring with the provisions of any law / standards including companies, foreign exchange regulatory, securities market, accounting and taxation (including transfer pricing) laws / standards or as regards any legal, accounting or taxation implications or issues arising from such Proposed Restructuring.
- 4.11 Our Report is not, nor should it be construed as our recommendation on the Proposed Amalgamation or anything consequential thereto / resulting therefrom. Our scope of work is limited to expression of our view on the Share Exchange Ratio. This Report does not address the relative merits of the Proposed Amalgamation as compared with any other alternatives or whether or not such alternatives could be achieved or are available. Any decision by the Companies / their shareholders / creditors regarding whether or not to proceed with the Proposed Amalgamation shall rest solely with them. We express no opinion or recommendation as to how the shareholders / creditors of the Companies should vote at any shareholders' / creditors' meeting(s) to be held in connection with the Proposed Amalgamation. This Report does not in any manner address, opine on or recommend the prices at which the securities of the Companies could or should transact at following the announcement / consummation of the Proposed Amalgamation. Our Report and the opinion / valuation analysis contained herein is not, nor should it be construed as advice relating to investing in, purchasing, selling or otherwise dealing in securities or as providing management services or carrying out management functions. It is understood that this analysis does not represent a fairness opinion.



- 4.12 We express no opinion on the achievability of the forecasts, if any, relating to the Companies given to us by the Management. The fee for our valuation analysis and the Report is not contingent upon the results reported.
- 4.13 The Companies and their representatives warranted to us that the information as supplied to us is complete & accurate. Financial results reflect the result of operations and financial condition in accordance with Indian Accounting Standards (Ind AS). Information &/or explanations, as provided by the Management or other key management personnel of the Companies has been accepted as correct without further verification and we express no opinion on that information.
- 4.14 Our conclusion is based on the assumptions and information given to us by/on behalf of the Companies. A valuation or determination of Share Exchange Ratio of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. This Report is issued on the understanding that the Management has drawn our attention to all the matters, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the Share Exchange ratio for the Proposed Amalgamation as on the Valuation Date. If there were any omissions, inaccuracies or misrepresentations of the information and financial projections as provided by the Management or other key management personnel of the Companies, this may have a material effect on our findings. It is expressly understood and agreed that we shall not in any respect be responsible for the accuracy or completeness of, or have any obligation to verify, any of the information made available to us including, without limitation, prospective financial information. Consequently, the Companies shall accept full responsibility for the reasonability and reliability of this information & data and that our valuation exercise will be subject to this limitation.
- 4.15 Valuation work, by its very nature, cannot be regarded as an exact science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. Given the same set of facts and using the same assumptions, expert opinion may differ due to separate judgments & decisions, which have to be made. The fair value of Equity shares of ECL and SPL has been derived in accordance with Valuation Standards, 2018 issued by ICAI.
- 4.16 Whilst all reasonable care has been taken to ensure that the facts stated in the Report are accurate and the opinion given is fair and reasonable, neither ourselves, nor any of our partners, officers or employees shall in any way be responsible for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of completeness, authenticity or accuracy of such statements. We expressly disclaim any and all liabilities, which may arise based upon the information used in this Report. We are neither liable to any third party nor liable for any loss, damage, cost or expense arising in any way from fraudulent acts, misrepresentations or willful default on the part of the Companies, their management, directors, employees or agents in relation to the issue of this Report.



- 4.17 We shall not be called upon to prove or defend the valuation exercise in any forum and we are not required to give testimony in Court/Tribunal, etc., or be in attendance during any hearings or depositions, or give explanation to the auditors with reference to the value of the Companies, if required, unless previous and separate arrangements for the same have been made with us.

5. VALUATION

5.1 BASIS OF VALUATION

The purpose of this Valuation Report is to compute the value of ECL and SPL on a going concern basis as on Valuation Date and thereby recommending a Share Exchange Ratio for the proposed Amalgamation.

5.2 KEY FACTORS AFFECTING VALUATION

To carry out a valuation, we consider certain fundamental factors that affect the wealth generating capability of the company. These include:

- ❖ General economic outlook as well as current & expected conditions in the business environment;
- ❖ Competitive environment prevailing within the industry;
- ❖ Relative competitive advantages of the business in terms of the service capability, management capabilities, etc.;
- ❖ Historical financial and operational performance.

5.3 VALUATION METHODOLOGIES AND RATIONALE

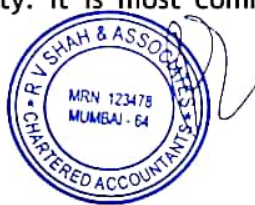
Valuation cannot be regarded as an exact science, given the same set of facts & using the same assumptions, expert opinion may differ due to the number of separate judgment decisions, which have to be made. There can be three internationally accepted approach/approaches as per Valuation Standards 2018 issued by ICAI to valuation:-

- (i) Cost Approach,
- (ii) Market Approach and
- (iii) Income Approach.

5.3.1 COST APPROACH

Net Assets Value (“NAV”) Method

- Under this method, total value of the business is based on sum of the Net Assets Value either on book value or realizable value or replacement cost basis. NAV methodology is most applicable for the business where the value lies in the underlying assets and not the ongoing operations of the business. NAV method does not capture the future earning capacity of the business.
- This method is mainly used in the cases where the fixed asset base dominates the earnings capability. It is most commonly used in for valuation of Finance



companies, Real Estate companies and manufacturing companies having wide asset base, where the assets of the company represent its value.

- Under this approach, Management certified financials of the Companies as on 30th June, 2020 are available. In present exercise we have considered it appropriate to give weightage to Net Assets Value method as both the Companies are having wide asset base.

5.3.2 MARKET APPROACH

Market Price Method

- Under this method, the market price of an equity share as quoted on a recognized Stock Exchange is normally considered as the value of the equity shares of that company, where such quotations are arising from the shares being regularly and frequently traded. The market value generally reflects the investors' perception about the true worth of the company. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market.
- Further in case of amalgamation, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.
- Since, ECL and SPL are listed companies, Market Price of equity shares of ECL and SPL traded on NSE over a reasonable period has been considered for this valuation method.

Market Multiple Method

- Under Market Multiple Method, the value is determined on the basis of multiples derived from valuations of comparable companies, as manifested through stock market valuations of listed companies.
- This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.
- The availability of listed companies which are pure-play in DI pipes and CI Pipes sector have enabled the computation of multiples that would facilitate usage of this method in arriving at the equity value of ECL and SPL. Accordingly, this method has been considered for valuation of ECL and SPL.



- We have considered Enterprise value to Earnings before interest, tax, depreciation and amortization (EV/EBITDA) Multiple to value the equity shares of ECL and SPL under this method.

Market Transactions Method

- This method is based on the assumption that if comparable Asset (or company) has fetched certain price, then the subject asset (or company) will realize a price something near to it. This method involves reviewing transactions for companies that are in the same or similar line of business as the company being valued and then, applying the relevant pricing multiples to the subject company to determine its value. The method might involve private company transactions or public company transactions. Adjustments are commonly made to these valuation measures before applying to the subject company to ensure an "Apple-to-Apple" comparison. One or many comparable sales might be considered under this method depending on the data available and the degree of similarity of the company being valued.
- This method has not been used in current valuation since there is no recent comparable transaction whose information is available in public domain.

5.3.3 INCOME APPROACH

Discounted Cash Flow ("DCF") Method

- DCF Method seeks to arrive at a value of a business based on the strength of its future cash flows. This method captures the risk involved with these cash flows.
- Under this method, the business is valued by discounting its free cash flows for an explicit forecast period and the perpetuity value thereafter. The free cash flows to the firm ("FCFF") represent the cash available for distribution to both the owners and the creditors of the business. The free cash flows in the explicit period and those in perpetuity are discounted by Weighted Average Cost of Capital ("WACC"). WACC is an appropriate rate of discount to calculate the present value of the future free cash flows as it considers debt-equity risk and also debt-equity ratio of the company/industry.
- To the present value of the cash flows so arrived, adjustments are made for the value of debt, surplus/non-operating assets including investments, surplus cash & bank balance and contingent assets/liabilities and other liabilities, if any, in order to arrive at the value for the equity shareholders. The total value for the equity shareholders so arrived has to be then divided by the number of equity shares in order to work out the value per equity share of the company.
- We have considered DCF method to derive the value of Equity shares of ECL and SPL since both the Companies are of operating nature and derive its value from their respective operations. Since DCF captures the future prospects of the



company & tries to value the company from that perspective, DCF Method has been used.

5.4 VALUATION METHODOLOGIES AND RATIONALE

5.4.1 It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made certain assumptions with respect to industry performance and general business and economic conditions. In additions, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of Companies and their assets.

5.4.2 The application of any particular method of valuation depends on the purpose for which the valuation is done. Our choice for methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignment of a similar nature.

5.4.3 **Net Asset Value Method:** Under this method, based on management representation, we have considered the carrying value of assets and liabilities in management certified financial statements for the period ending on 30th June, 2020 as realizable value. Further we have made adjustments for fair value of non-operating assets (like surplus land and other assets) & investments on basis of valuation certificates, expert opinions, etc. We also have made appropriate adjustments for contingent liabilities as on 30th June, 2020.

5.4.4 **Market Price Method:** Under this method, equity value of ECL and SPL has been determined based on Regulations 164 (1) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018 ('ICDR'), volume weighted market prices, up to 1st October 2020 using NSE data¹.

We observe & believe that value arrived under the market price method for ECL varies as compared to values arrived under other methods primarily on account of (i) Holdco discount (on investments held by ECL in SPL) and (ii) discounted/lower value of non-operating assets/non-core assets of ECL, factored by the market. Given that shares of both ECL and SPL are frequently traded on stock exchanges, we have considered it appropriate to give weightage to market price method computed in accordance with Regulation 164 (1) of SEBI ICDR 2018.

5.4.5 **Market Multiple Method:** Under this method, the Enterprise Value of ECL (consolidated) & SPL has been determined by considering EV/EBITDA Trading Multiple of other guideline companies primarily engaged in DI pipes and CI Pipes Business. EV/EBITDA Multiple of guideline comparable companies have been

1. Since equity shares of ECL & SPL are more frequently traded on NSE as compared with BSE, we have considered data as available with NSE.



derived considering EBITDA for FY 19-20. Operations of the entire industry including the comparable companies have been severely impacted after FY 19-20 owing to the Covid-19 pandemic and hence performance in quarter ending June 2020 cannot be considered as normal. The average EV/EBITDA multiple of guideline comparable companies has been adjusted with an appropriate discount rate of 15%.

The adjusted multiple so arrived is multiplied with the EBITDA of ECL and SPL for FY 2019-20 to arrive at the Enterprise value of ECL & SPL respectively.

Appropriate adjustment has been made for net debt, non-operating assets, investments, if any, & other assets of ECL & SPL to arrive at their respective equity values.

5.4.6 Discounted Cash Flow Method:

5.4.6.1 Electrosteel Castings Limited:

For arriving at the enterprise value of ECL under this method, we have determined the present value of the operating cash flows of ECL. Operating cash flows have been projected by the company considering its future prospects, government spending on water logistics and its market share in the industry.

To the value so arrived at, we have added net-worth of the overseas subsidiaries of ECL as on 30th June 2020, fair value of its investment in Equity shares of SPL based on the value so arrived as per this Report, fair value of surplus land, fair value of other investments, fixed deposits, expected realisable value from other surplus assets and Cash & Cash Equivalent of ECL as on 30th June 2020.

To the value so arrived by adding the aforesaid items, we have reduced the debt and contingent liabilities of the company as on 30th June 2020 to arrive at the equity value of ECL.

Management confirms that ECL has been carrying its normal operations after 30th June 2020 till the date of this Report and no significant deviations in the operations have taken place (except clause 2.7 of this Report). Hence, based on the representation given by the management we confirm that equity value of ECL as determined above, under DCF approach, represents value of the Company as on Valuation Date.

5.4.6.2 Srikalahasthi Pipes Limited

Under this method for arriving at the enterprise value of SPL, we have determined the present value of the operating cash flows of SPL. Operating cash flows have been projected by the company considering its future prospects such as expansion of production capacity, if any, government spending on water logistics and its market share in the industry.



To the value so arrived at, we have added realisable value of non-operating assets such as Security Deposits, loans advanced, sales tax incentive receivable and Cash & Cash Equivalent of SPL as on 30th June 2020.

To the value so arrived by adding the aforesaid items, we have reduced the debt and contingent liabilities of the company as on 30th June 2020 to arrive at the equity value of SPL.

Management confirms that SPL has been carrying its normal operations after 30th June 2020 till the date of this Report and no significant deviations in the operations have taken place (except clause 2.8 of this Report). Hence, based on the representation given by the management we confirm that equity value of SPL, as determined above under DCF approach, represents value of SPL as on Valuation Date.

6. RECOMMENDATION OF EXCHANGE RATIO

- 6.1 The basis of the amalgamation of SPL with ECL would have to be determined after taking into consideration all the factors and methods mentioned hereinabove. Though different values have been arrived at under each of the above methods, for the purposes of recommending the fair exchange ratio of equity shares it is necessary to arrive at a final value for each of the Companies' shares. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of the Companies, but at their relative values to facilitate the determination of the Fair Equity Share Exchange Ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each approaches / methods.
- 6.2 The Fair Equity Share Exchange Ratio has been arrived at on the basis of a relative equity valuation of the Companies based on the various approaches / methods explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of the Companies, having regard to information base, key underlying assumptions and limitations.
- 6.3 In light of the above and on consideration of all the relevant factors and circumstances as discussed & outlined hereinabove referred to earlier in this Report for Proposed Amalgamation and upon the proposed Scheme becoming effective, in our opinion, we recommend Fair Equity Share Exchange Ratio for the amalgamation of SPL with ECL of:

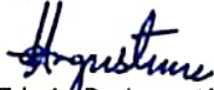
“59 equity shares of Electrosteel Castings Limited of face value of INR 1/- each fully paid up for every 10 equity shares of Srikalahasthi Pipes Limited of face value of INR 10/- each fully paid up”



The aforesaid share exchange ratio has been recommended based on value of equity shares of ECL and SPL as arrived under various valuation methodologies tabled hereunder:

Valuation Approach	Electrosteel Castings Limited		Srikalahasthi Pipes Limited	
	Weight	Value per Share (INR)	Weight	Value per Share (INR)
Asset Approach - Net Asset Value	10%	49.62	10%	299.97
Income Approach - Discounted Cash Flow Method	40%	57.21	40%	300.14
Market Approach - Market Price Method	35%	18.84	35%	167.88
Market Approach - Comparable Companies Multiple Method	15%	47.51	15%	242.03
Value per share	100%	41.57	100%	245.12
Exchange Ratio (Rounded off)				5.90

SHARP & TANNAN
Chartered Accountants
Firm Registration No. 109982W
by the hand of



Edwin P. Augustine
Partner
Membership No. 043385
Date: 3rd October, 2020
Place: Mumbai
UDIN: 20043385AAAAEH7687
Encl.: a/a



For R V Shah & Associates
Chartered Accountants
Firm Regn No. 133958W



Rashmi Shah
Proprietor
Membership. No. 123478
Date: 3rd October, 2020
Place: Mumbai
UDIN: 20123478AAAAHD2697
Encl.: a/a