PROPOSED DEMERGER OF

POWER DIVISION OF JAGDAMBA POWER AND ALLOYS LIMITED

INTO

GODAWARI POWER AND ISPAT LIMITED

BANSI S. MEHTA & CO.
Chartered Accountants,
Metro House, 3rd floor,
41, New Marine Lines,
Mumbai-400 020.

CONTENTS

1. Introduction

1.1. There is a proposal before the Boards of Directors of Jagdamba Power and Alloys Limited ("JPAL") and Godawari Power and Ispat Limited ("GPIL") to consider the demerger of the Power division of JPAL into GPIL, as a going concern through a scheme of arrangement under the Companies Act, 2013. Upon the said demerger, equity shares of GPIL would be issued to the shareholders of JPAL. This is hereinafter referred to as the Proposed Transaction.

1.2. We have been asked by managements of JPAL and GPIL ("the Managements") vide engagement letter dated June 19, 2019 to determine the Share Allotment Ratio of equity shares of GPIL to the equity shareholders of JPAL on the proposed demerger. For the purpose of this Report, we have considered the Valuation Date as December 23, 2019 being the date prior to the date of the Audit Committee Meeting to consider the Transaction and the Scheme for approval. This report ("**Report**") sets out the findings of our exercise.

1.3. Brief Profile of the Companies:

1.3.1. Profile of JPAL

Jagdamba Power And Alloys Limited was originally incorporated under the Companies Act, 1956 on 16th September, 1999. JPAL is engaged in various businesses including generation of electricity having a thermal power plant of 25MW, investment and financing activities and wire drawing activities. GPIL has invested into the Share Capital of JPAL and is presently holding 33.96% of the total paid up share capital of JPAL. The equity shares of JPAL are not listed on any stock exchange.

1.3.2. Profile of the Power Division of JPAL

Power Division of JPAL has a thermal power plant of 25MW. It uses coal and dolochar to produce power. JPAL has recently been granted long term coal linkages from South Eastern Coalfields Ltd under coal linkage policy of Government of India, to meet its requirement of coal for generation of power. The electricity generated by JPAL is being supplied to GPIL as captive arrangement.

1.3.3. Profile of GPIL

GPIL was incorporated under the Companies Act, 1956. The registered address of GPIL is 428/2, Phase-I, Industrial Area, Siltara – 493111, Dist. Raipur, Chhattisgarh, India. It is engaged in the business of manufacturing of Steel and generation of power. It has an integrated Steel plant (with captive iron ore mining, pellet plant, sponge iron and finished steel manufacturing facilities with the captive power generation capacity of 73 MW) located at Siltara Industrial Estate, Raipur. It also has 50MW Independent Power plant set up through subsidiary Company, in Rajasthan. The equity shares of GPIL are listed on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE").

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1.4. SHAREHOLDING PATTERN OF THE COMPANIES

1.4.1. GPIL

The share capital of GPIL as at the Valuation Date is as follows:

Particulars	Amount (in Crores)
Authorised 4,98,00,000 Equity Shares of Rs. 10/- each	49.80
Issued, subscribed and paid-up 3,52,36,247 Equity Shares of Rs. 10/- each fully paid	35.24

The aforesaid share capital is held as follows:

Sr. No.	Particulars	Percentage
1.	Promoter Group of GPIL	67.36%
2.	Non-promoter Group*	32.64%
	Total	**100.00%**

**Non-promoter includes Institutions*

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1.4.2. JPAL

The share capital of JPAL as at the Valuation Date is as follows:

Particulars	Amount (in Crores)
Authorized 1,00,00,000 Equity Shares of R. 10/- each	10.00
Issued, subscribed and paid-up 76,69,700 Equity Shares of R. 10/- each fully paid	7.67

The aforesaid share capital is held as follows:

Sr. No.	Shareholder	Percentage
1.	Promoter Group of JPAL	66.04%
2.	GPIL	33.96%
	Total	**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 Managements. **Appendix A** hereto broadly summarizes the data obtained.

2.2 For the purpose of this 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.

3.2. It may be noted that the Institute of Chartered Accountants of India (ICAI) on June 10, 2018 has issued the ICAI Valuation Standards ("IVS") effective for all the valuation reports issued on or after July 1, 2018. The IVS is mandatory for a valuation done under the Companies Act, 2013, and recommendatory for valuation carried out under other statutes/ requirements. We have given due cognizance to the same in carrying out the valuation exercise.

3.3. For the purpose of arriving at the valuation, we have considered the valuation base as 'Fair Value'. Our valuation, and this Report, is based on the premise of 'going concern'. Any change in the valuation base, or the premise could have significant impact on the valuation exercise, and therefore, this Report.

3.4. IVS 301 on Business Valuations deals with valuation of a business and business ownership interest (i.e. it includes valuation of shares).

3.5. IVS 301 specifies that generally, the following three approaches for valuation of business/business ownership interest are used:

3.5.1. Market Approach
3.5.2. Earnings based Approach
3.5.3. Cost Approach

3.6. The applicability of each of the above methods is discussed hereunder:

3.7. **Market Price:**

For GPIL:

3.7.1. This method involves determining the market price of an entity based on its traded price on the stock exchange over a reasonable period of time. For the purpose of GPIL, we have considered the Stock Exchange where the volume of shares traded is higher.

3.7.2. We have determined the market price of shares of GPIL based on weighted average price on NSE for an appropriate period.

For Power Division of JPAL:

3.7.3. As stated in para 1.3.1 above, the equity shares of JPAL are not listed on any stock exchange and therefore, this method cannot be used to derive the fair value of the Power Division of JPAL.

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3.8. **Earnings Approach:**

This method involves valuing an asset based on earnings of the company. We have used the Enterprise Value to Earnings before Interest Tax, Depreciation and Amortization Multiple ("EV/EBITDA Multiple") and the Price to Earnings Multiple ("P/E Multiple") of Comparable Companies to derive the value of GPIL and Power Division of JPAL under this method.

3.8.1. **Under EV/EBIDTA Approach:**

For GPIL:

3.8.1.1. We have followed the following steps to derive the value of GPIL under EV/EBITDA approach:

3.8.1.2. We have considered the Profit before Tax ("PBT") for Trailing Twelve Months ("TTM") ended September 30, 2019 of GPIL and adjusted such profit for Non-operating and Non-recurring Expenses/Income for the period in order to arrive at the Adjusted Profit Before Tax ("Adjusted PBT")

3.8.1.3. The amount of Depreciation and Interest has been added to the Adjusted PBT arrived at above to compute Adjusted Earnings before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA") for TTM ended September 30, 2019 for GPIL.

3.8.1.4. We have computed the Market Capitalization of Comparable Companies in similar sphere of operations as GPIL ("Comparables") for an appropriate period as at the Valuation Date. Further, we have computed the Adjusted Market Capitalization of the Comparables by reducing the amount of cash and bank balances, other surplus assets and fair value of investments from the Market Capitalization ("Adjusted Market Capitalization").

3.8.1.5. We have then computed the EV/EBITDA multiple for Comparables. EV of the Comparables has been arrived at by adding the amount of debt, preference share capital and minority interest, if any, to the Adjusted Market Capitalization of the Comparables.

3.8.1.6. The EV/EBITDA multiple derived based on Comparables is applied to the Adjusted EBITDA of GPIL to arrive at the EV of GPIL.

3.8.1.7. The EV of GPIL so arrived at is reduced by the amount of borrowings as at the Valuation Date and increased by the amount of non-operating cash and bank balances and fair value of investments ("surplus assets") as on the Valuation Date to arrive at the Business Value.

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3.8.1.8. It may be noted that the Management does not expect any contingent liability to crystallise. We have therefore, not made any adjustment on this account.

3.8.1.9. This above arrived at Business Value is then divided by the total number of equity shares for arriving at the value per share of GPIL.

For Power Division JPAL:

3.8.1.10. We have followed the following steps to derive the value of Power Division of JPAL under EV/EBITDA approach:

3.8.1.11. We have considered the projected financial statements for the year ended March 31, 2021 provided by the management. We understand from the Management that earnings for the twelve-month period ended March 31, 2019 and March 31, 2020 are not reflective of its maintainable level as the plant was partly non-operational for the both the years due to maintenance work required at the plant. As per management estimate, the plant will be fully operational for the year ended March 31, 2021. We have therefore, considered the EBITDA for twelve months period ended March 31, 2021 as the maintainable level of EBITDA.

3.8.1.12. We have computed the Market Capitalization of Comparable Companies in similar sphere of operations as the Power Division of JPAL ("Comparables") for an appropriate period as at the Valuation Date. Further, we have computed the Adjusted Market Capitalization of the Comparables by reducing the amount of surplus assets from the Market Capitalization.

3.8.1.13. We have then computed the EV/EBITDA multiple for Comparables. EV of the Comparables has been arrived at by adding the amount of debt, preference share capital and minority interest, if any, to the Adjusted Market Capitalization of the Comparables. It may herein be noted that the EBITDA of Comparables is also based on FY 2020-2021 level (based on analyst reports) to capture the industry growth and to have a like to like comparison.

3.8.1.14. The EV/EBITDA multiple derived based on Comparables is applied to the EBITDA of Power Division of JPAL to arrive at the EV of Power Division of JPAL.

3.8.1.15. The EV so arrived at is increased by the surplus assets of Power Division of JPAL as on the Valuation Date to arrive at the Business Value of Power Division of JPAL.

3.8.1.16. It may be noted that the Management does not expect any contingent liability to crystallise. We have therefore, not made any adjustment on this account.

3.8.1.17. The Business Value as arrived at above is then divided by the total number of equity shares for arriving at the value per share of Power Division of JPAL.

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3.8.2. **Under P/E Approach:**

For GPIL:

3.8.2.1. We have followed the following steps to derive the value of GPIL under the P/E approach:

3.8.2.2. From the Adjusted PBT of GPIL, we have reduced the Income Tax amount to arrive at the Adjusted Profit after Tax ("Adjusted PAT").

3.8.2.3. We have computed the Market Capitalization of Comparables of GPIL for an appropriate period as at the Valuation Date. Further, we have computed the Adjusted Market Capitalization of the Comparables by reducing the surplus assets from the Market Capitalization.

3.8.2.4. We have then computed the P/E multiple for Comparables. The P/E multiple derived based on Comparables is applied to the Adjusted PAT of GPIL to arrive at the Business Value of GPIL.

3.8.2.5. The Business Value so arrived at is increased by the amount of surplus assets as on the Valuation Date to arrive at the Adjusted Business Value as at the Valuation Date.

3.8.2.6. It may be noted that the Management does not expect any contingent liability to crystallise. We have therefore, not made any adjustment on this account.

3.8.2.7. This Adjusted Business Value is then divided by the total number of equity shares for arriving at the value per share of GPIL.

For Power Division of JPAL:

3.8.2.8. We have followed the following steps to derive the value of Power Division of JPAL under the P/E approach:

3.8.2.9. As mentioned earlier in para 3.8.1.11, we have considered the PAT for twelve months period ended March 31, 2021 as the maintainable level of PAT.

3.8.2.10. We have computed the Market Capitalization of Comparables of Power Division of JPAL for an appropriate period as at the Valuation Date. Further, we have computed the Adjusted Market Capitalization of the Comparables by reducing the amount of surplus assets from the Market Capitalization.

3.8.2.11. We have then computed the P/E multiple for Comparables. It may herein be noted that the PAT of Comparables is also based on FY 2020-2021 level (based on analyst reports) to capture the industry growth and have a like to like comparison.

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3.8.2.12. The P/E multiple derived based on Comparables is applied to the PAT of Power Division of JPAL to arrive at the Business Value of the Power Division of JPAL.

3.8.2.13. The Business Value so arrived at is increased by the amount of surplus assets of the Power Division of JPAL as on the Valuation Date to arrive at the Adjusted Business Value as at the Valuation Date.

3.8.2.14. This Adjusted Business Value is then divided by the total number of equity shares for arriving at the value per share of Power Division of JPAL.

3.8.2.15. It may be noted that the Management does not expect any contingent liability to crystallise. We have therefore, not made any adjustment on this account.

3.8.3. **Under PAT Capitalization Approach:**

For GPIL

3.8.3.1. This is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted or capitalised) amount.It may be noted that the industry in which GPIL operates is a cyclical industry imposing difficulty on projecting the maintainable amount of income and expenses. Hence, we have not considered this approach for arriving at a value under PAT Capitalisation for GPIL.

For Power Division of JPAL

3.8.3.2. To derive the value under this approach, we have considered the Adjusted Profit after Tax arrived at P/E Approach above.

3.8.3.3. The adjusted PAT, as discussed above, is capitalized using the expected growth rate and cost of equity for JPAL to arrive at its Business Value.

3.8.3.4. The value so arrived at is increased by the amount of surplus assets as at the Valuation Date to arrive at the Adjusted Business Value. It may be noted that the Management does not expect any contingent liability to crystallise. We have therefore, not made any adjustment on this account.

3.8.3.5. We have divided the Adjusted Business Value as computed above by the divided by the total number of equity shares for arriving at the value per share of Power Division of JPAL.

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3.9. **Asset Based Approach:**

For GPIL:

3.9.1. This approach involves determining the fair value of the company based on the assets of the company after applying a Price to Book Value Multiple ("P/B

Multiple") observed from the listed comparable companies in the same industry. The broad steps adopted to arrive at a value under this approach are as under:

3.9.2. For the purpose of this approach, we have considered the latest Balance Sheet of GPIL as at September 30, 2019.

3.9.3. Based on these numbers, we have calculated the net worth of GPIL reduced by the amount of surplus assets.

3.9.4. Likewise, we have calculated net worth of listed companies operating in sector comparable to GPIL ("Comparables"). Thereafter, we have calculated the Market Capitalization of Comparables by using the same mechanism as discussed at para 3.8.1.4.

3.9.5. The amount so derived is adjusted for investments as per their balance sheets. The Adjusted Market Capitalization and the Net Worth of the Comparables form a basis to calculate the P/B Multiple for each of the Comparables.

3.9.6. We have then computed the average of the P/B Multiple calculated for each of the Comparables above, thus arriving at the Average P/B Multiple.

3.9.7. The Average P/B multiple, as calculated above, is applied to the net worth of the GPIL as on September 30, 2019, to arrive at the Business Value of GPIL.

3.9.8. Such Business Value is increased by the amount of surplus assets as on the Valuation Date to arrive at the Adjusted Business Value as at the Valuation Date.

3.9.9. The Adjusted Business Value arrived at above is divided by the number of issued, subscribed and fully paid-up equity shares to derive the value per share under this Approach.

3.9.10. It may be noted that the Management does not expect any contingent liability as likely to crystallise. We have therefore, not made any adjustment on this account.

For Power Division of JPAL:

3.9.11. As discussed earlier, this approach involves determining value of the company based on its asset base by applying a multiple based on comparable companies. However, it is understood from the Management that Power Division of JPAL was not carrying out operations from April 1, 2015 on account of non-availability of commercially viable tariff therefore there was delay in permission to connect the power plant of Power Division of JPAL to the steel plant of GPIL for direct supply of power directly without using the state grid. The permission has been received since October 2018. However, the plant has undergone several maintenance expenditure.

Thus, its balance sheet is not considered comparable to the other companies in similar sphere of operations. Therefore, we have not considered the asset base approach to derive the value of Power Division of JPAL.

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3.10. **Fair Value of GPIL**

We have arrived at the fair value of the GPIL by applying higher weights to values computed under the Earnings Approach and the Market Value Approach and a lower weight to the value derived under the Asset Based Approach.

Attention may also be drawn to Regulation 158 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulation") which specifies that preferential issue of equity shares to shareholders of an unlisted entity pursuant to a National Company Law Tribunal approved scheme shall conform with the pricing provisions of preferential issue specified under Regulation 164 of the said regulations. Further, it may be noted that Regulation 164 specifies the base price for issue of shares on a preferential basis. In the Proposed Transaction, the Power Division of JPAL, being an unlisted entity is getting demerged into a listed entity. We have therefore, given due cognizance to the base price derived using the formula prescribed under ICDR Regulations after considering the fair value of Power Division of JPAL while determining the Share Allotment ratio.

We observe that the price derived under the ICDR Regulations is lower than the fair value per share of GPIL computed by us. Therefore, we have considered the fair value per share, as computed by us to determine the ratio of allotment of shares.

3.11. **Fair Valuation of the Power Division of JPAL:**

We have arrived at the fair value per share of Power Division of JPAL by giving equal weights to the values arrived at under the EV/EBITDA approach, P/E Approach, PAT Capitalisation.

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4. Valuation and Conclusion

Based on the foregoing data, considerations and steps followed, in our opinion the share allotment ratio would be as follows:

"For every **140 (One hundred and Forty)** Equity shares of face and paid up value of Rs. 10/- (Ten) held in Power Division of JPAL, **89 (Eighty Nine)** Equity shares of face and paid up value of Rs. 10/- (Ten) in GPIL to be issued to the equity shareholders of Power Division of JPAL".

It may herein be noted that the Stock Exchanges have issued a Circular to the Listed Companies (e.g. BSE Circular LIST/COMP/02/2017-18 dated May 29, 2017) ("the Circular"), on advice by SEBI, laying down the format in which the valuation report shall display the workings, relative fair value per share and fair share exchange ratio. The disclosure in the format suggested by the stock exchange is as under:

Particulars	**GPIL (A)**		**Power Division of JPAL (B)**	
	Value per Share	**Weight**	**Value per Share**	**Weight**
Asset based Method	191.54	1	-	See Para 3.9.11 Above
Earnings based Method	334.60	2	148.44	1
Market Price Method	153.23	2	-	See Para 3.7.3 above
Relative Value per share (a)		233.44		148.44
Price as per ICDR Regulation (b)		178.51		-
Relative Value per Share for the purpose of Exchange Ratio (max (a) or (b)		**233.44**		**148.44**
Exchange Ratio (B)/(A) (Rounded off)		**0.636**		

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5. Limitations and disclaimers

Our Report is subject to the scope of limitations detailed hereinafter. Our Report is to be read in totality and not in parts.

5.1 As such this Report is to be read in totality and not in parts.

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 evaluated and performed checks on the projections provided but have not performed any audit, review or examination of any of the historical information used and therefore, we do not express any opinion with regard to the same. However, we have broadly reviewed the projections for their acceptability before using the same for valuation.

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 1.2 and should not be used for any purpose other than the purpose mentioned therein. This 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. Our Report should be used only by the Managements and the fairness evaluator for the Proposed Transaction and by no other person.

5.6 The projected working results of Power Division of JPAL are those as prepared by the Managements and furnished to us for the purposes of the Report. We accept no responsibility for them, or the ultimate accuracy and realization of the forecasts.

5.7 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 Managements 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.

5.8 No investigation of GPIL & Power Division of JPAL'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. Therefore, no responsibility is assumed for matters of a legal nature. The report is not, nor should it be construed, as us 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.

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

5.10 Our valuation is based on the market conditions and the regulatory environment that existed around the time of the valuation date.

5.11 We have not carried out any physical verification of the assets and liabilities of the GPIL and the Power Division of JPAL, and take no responsibility for the identification of such assets and liabilities.

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6. Gratitude

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

For **BANSI S. MEHTA & CO.**
Chartered Accountants
Firm Registration No. 100991W

Ushma Shah

BANSI S. MEHTA & CO. MUMBAI CHARTERED ACCOUNTANTS

USHMA A. SHAH
Partner
Membership No. 156423

Place: Mumbai
Date: December 23, 2019
UDIN: 19156423AAAAAE3208

Appendix A: Broad Summary of Data Obtained

From the Managements

1. Projected Financial Statements of the Power Business of JPAL for year to end March 31, 2021.
2. Divisional unaudited financial statements of JPAL for the period ended September 30, 2019.
3. Audited financial statements of investee companies of GPIL.
4. Shareholding pattern of Power Division of JPAL as on September 30, 2019.
5. Audited Financial statements of Power Division of JPAL for the year ended March 31, 2019.
6. Surplus assets of Power Division of JPAL as at September 30, 2019.
7. 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. ACE TP for establishing comparability.
3. Website of GPIL, Power Division of JPAL and Comparable Companies for their financial statements and business background.
4. Websites of National Stock Exchange Limited and BSE Limited.

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