



December 20, 2016

The Board of Directors
HIM TEKNOFORGE LIMITED
Billanwali Village, Labana, Baddi,
Solan, District- 173205
Himachal Pradesh

The Board of Directors
GUJARAT AUTOMOTIVE GEARS LIMITED
Village Billanwali, Baddi,
Solan (Dist.) – 173 205
Himachal Pradesh.

Sub: Recommendation of Share Exchange Ratio for the proposed merger of HIM Teknoforge Limited with Gujarat Automotive Gears Limited

Dear Sir/Madam,

1. PURPOSE OF VALUATION:

- 1.1 M/s. HIM Teknoforge Limited (hereinafter referred to as "HTL" or "Transferor Company") was incorporated on 11th January, 1989 under the provisions of Companies Act, 1956, having its registered office in District Solan, Himachal Pradesh. HTL is engaged in the business of manufacturing of production of forgings and finished components for automotive and engineering applications..
- 1.2 M/s. Gujarat Automotive Gears Limited (hereinafter referred to as "GAGL" or "Transferee Company") was incorporated on 27th March, 1971 under the Companies Act, 1956, having its registered office in District Solan (Himachal Pradesh). The equity shares of GAGL are listed on BSE Limited. GAGL is engaged in the business of manufacturing of Auto and Tractor Components under the brand name KAG. . GAGL is an associate company of HTL..
- 1.3 The management of GAGL and HTL proposes to merge HIM Teknoforge Limited with Gujarat Automotive Gears Limited (together referred to as "the Companies") under the Scheme of Amalgamation between GAGL, HTL and their respective shareholders under Section 230-232 and other applicable provisions of the Companies Act, 2013 ("the Scheme").
- 1.4 In this regard, we, R.J.Rathi & Co, Chartered Accountants, have been appointed to carry out valuation of equity shares of HTL and GAGL to determine the Share Exchange Ratio for the proposed merger of HTL with GAGL. This report will be placed before the Boards and the Audit Committee of GAGL, as per the SEBI Circular No CIR/CFD/CMD/16/2015 dated November 30, 2015 and to the extent mandatorily required under the applicable laws of India, maybe produced before the judicial, regulatory or government authorities, stock exchanges, shareholders in connection with the proposed merger.

2. SOURCES OF INFORMATION

For the purpose of undertaking this valuation exercise, we have relied on the following sources of information:

- 2.1 Audited financial statements of HTL for the year ended March 31, 2016;
- 2.2 Audited financial statements of GAGL for the year ended March 31, 2016;
- 2.3 Unaudited financial statements of HTL and GAGL for 6 months ended September 30, 2016;
- 2.4 Projected profitability statement, balance sheet and cash flow of HTL for 6 months and 4 years starting from October 1, 2016 and ending March 31, 2021;



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- 2.5 Projected profitability statement, balance sheet and cash flow of GAGL for 6 months and 4 years starting from October 1, 2016 and ending March 31, 2021;
- 2.6 Latest shareholding patterns of HTL and GAGL (Pre Amalgamation);
- 2.7 Memorandum of Association and Articles of Association of HTL and GAGL;
- 2.8 Other relevant information and documents regarding Companies such as their history, past and present activities, future plans and prospects, existing shareholding pattern and other relevant information and data, including information in the public domain; and
- 2.9 Such other information and explanations as we required and which have been provided by the Management including Management Representations.

3. SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS:

- 3.1 Our report is subject to the limitations 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.
- 3.2 The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion, on the fairness or accuracy of any financial or analytical information that was provided and used by us during the course of our work. The assignment did not involve us to conduct a financial or technical feasibility study. We have not done any independent valuation or appraisal or due diligence of the assets or liabilities of HTL or GAGL and have considered them at the value as disclosed by the Companies in their regulatory filings with any public office or in submissions, oral or written, made to us.
- 3.3 In addition, we do not take any responsibility for any changes in the information used by us to arrive at conclusion which may occur subsequent to the date of our report or by virtue of fact that the details provided to us are incorrect or inaccurate. Any updates or second opinions on this valuation report cannot be sought by HTL and GAGL from external agencies without our prior written permission. The report is made on good faith basis, believing that the details provided to us are true, correct, accurate and complete.
- 3.4 We have assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us or used by us; we have assumed that the same are not misleading and does not assume or accept any liability or responsibility for any independent verification or checking of such information or any/ independent valuation or appraisal of any of the assets, operations or liabilities of HTL or GAGL.
- 3.5 This report and the information contained herein are intended for sole use of the Board of Directors of HTL and GAGL for and only in connection with the purpose of merger as aforesaid including for the purpose of obtaining requisite approvals. We will not accept any responsibility to any other party to whom this report may be shown or who may acquire a copy of the report, without our written consent.
- 3.6 Further, this report is necessarily based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to, the date hereof. This report exclusively focuses on the recommendation of number of shares to be issued in exchange for the proposed merger and does not address any other issues such as the underlying business decision to recommend the transaction or its commercial merits, which are matters solely for the board of directors of HTL and GAGL to address and further to be confirmed by the shareholders of both HTL and GAGL. Subsequent developments in the aforementioned conditions may affect this report and the assumptions made in preparing this report and we shall not be obliged to update, revise or reaffirm this report if such conditions change.
- 3.7 This report is based on the specific information received from sources mentioned herein and discussions with the management/representatives of HTL/GAGL and believing the same are true, correct, accurate and complete. We have assumed that they have furnished to us all information, which they are aware of concerning the financial statements and liabilities of HTL and GAGL and no information has been withheld that could have influenced the purpose of our report.
- 3.8 Our recommendation is based on the estimates of future financial performance as projected by the Management of the Companies, which represents their view of reasonable expectation at that point of time when they are prepared,



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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. The fact that we have considered the projections in this exercise of valuation should not be construed or taken as our being associated with or a party to such projections.

- 3.9 Whilst all reasonable care has been taken to ensure that the facts stated in the report are accurate and the opinions given are fair and reasonable, neither ourselves, nor any of our Partners, Officers or Employees shall in any way be liable or responsible either directly or indirectly for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of the 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 not liable to any third party in relation to the issue of this report.
- 3.10 For the present valuation exercise, we have relied on information available in public domain; however the accuracy and timelines of the same has not been independently verified by us.
- 3.11 In the particular circumstances of this case, our liability (in contract or under statute or otherwise) for any economic loss or damage arising out of or in connection with this engagement, however the loss or damage caused, shall be limited to the amount of fees actually received by us, as laid out in the engagement letter, for such valuation work.
- 3.12 Formation of this report is based on information supplied to us by both HTL and GAGL, on various issues and we have relied upon them as such without any independent verification as such. We do not hold ourselves responsible if our report becomes flawed as a result of any shortcomings in such information given by GAGL and HTL.
- 3.13 In rendering this report, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof. This report is prepared only in connection with the proposed amalgamation exclusively for the use of Companies and for submission to any regulatory/statutory authority as may be required under any law.
- 3.14 This report does not in any way constitute a recommendation by us to any shareholders as to whether such holders should approve or reject the said proposed amalgamation transaction. We urge you to read this report and methodology and other details stated herein carefully and entirely.
- 3.15 Reliance has been placed on the financial information made available to us by the companies. We have not performed any audit or other examination of the financial statements, projections, information or documentation made available to us in the course of the valuation procedure and therefore do not accept any liability for the same.
- 3.16 As this report has been compiled in good faith based on the documents and records made available for verification and information and explanation offered to us, should any of our observations be different from what the management perceives, it is imperative that we be informed immediately.
- 4. VALUATION APPROACH:**
- 4.1 The Scheme contemplates the Proposed Merger under Sections 230-232 and other applicable provisions of Companies Act, 2013 and rules issued thereunder to the extent applicable.
- 4.2 Arriving at the fair value share exchange ratio for the purpose of merger such as proposed merger would require determining the relative values of each company involved and of their shares. These values are to be determined independently but on relative basis, without considering the effect of the merger.
- 4.3 There are several commonly used and accepted methods for determining the value of shares/businesses, which have been considered in the present case, to arrive at the Fair Equity Share Exchange Ratio for the purpose of proposed Merger to the extent relevant and applicable, including:



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- a) Net Asset Value (NAV) Method;
- b) Earnings Capitalisation Value Method;
- c) Discounted Cash Flow Method
- d) Market Price Method

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

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of 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 assignments of a similar nature.

Net Asset Value (NAV) Method

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. The Net Asset Value ignores the future return the assets can produce and is calculated using historical accounting data that does not reflect how much the business is worth to someone who may buy or invest in the business as a going concern. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability. A Scheme of Amalgamation and Arrangement would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not contemplated. The operating assets have therefore been considered at their book value. In such a going concern scenario, the relative earning power is of importance to the basis of amalgamation, with the values arrived at on the net asset basis being of limited relevance.

We have computed the Net Asset Value of equity shares of the Companies. We have considered the balance sheets as at the March 31, 2016 and made suitable adjustments for, inter-alia, surplus assets as deemed appropriate for the purpose of our valuation analysis. In the present case, keeping in mind that our evaluation is on a going concern basis and having regard to the diverse nature of the businesses of the Companies, we have not considered it appropriate to apply this method in the present case for arriving at the value of the Companies.

Earnings Capitalisation Value Method

Under this method, value of the equity shares of a company is arrived at by using multiples/capitalization rates derived from valuations of comparable companies, as manifest 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/ capitalization rates need to be chosen carefully and adjusted for differences between the circumstances.

We have performed a search for suitable comparable companies for the Companies to derive an appropriate capitalization rate/multiple and have considered the appropriate Income based valuation multiples of comparable listed companies for the purpose of our valuation analysis. To arrive at the total value available to the equity shareholders of HTL and GAGL, the value of the businesses of HTL and GAGL arrived at above under this method has been suitably adjusted, inter-alia, for debt, cash, value of investments and value of surplus assets as deemed appropriate, for the purpose of our valuation analysis. The total value for equity shareholders is then divided by the total number of equity shares of HTL and GAGL respectively, in order to work out the value per equity share of HTL and GAGL.



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Discounted Cash Flows (DCF) Method

Under the DCF method the projected free cash flows to the firm are discounted at the cost of capital. The sum of the discounted value of such free cash flows is the value of the firm. Using the DCF analysis involves determining the following:

Estimating future free cash flows:

Free cash flows are the cash flows expected to be generated by the Company that are available to all providers of the company's capital both debt and equity.

Appropriate discount rate to be applied to cash flows i.e. the cost of capital of the shareholders:

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), on a market participant basis, weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To arrive at the total value available to the equity shareholders of the Companies, the value of the businesses of Companies arrived under DCF method has been suitably adjusted, inter alia, for debt, cash, value of investments and

The total value for equity shareholders is then divided by the total number of equity shares of the respective Companies in order to work out the value per equity share of the Companies.

Market Price Method

The market price of an equity share as quoted on a 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 freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. 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 merger, where the question of evaluating the shares of one company against of another, the volume of transactions and the number of shares available for trading on stock exchange over a reasonable period would have to be of comparable standard.

In the present case, the equity shares of GAGL are listed on BSE Limited but those of HTL is not listed on any recognised stock exchanges. In such a case, where we are valuing the Companies on a relative basis, we deemed it appropriate to not consider the Market Price for the purpose of valuation.

5. Basis of Fair Equity Share Exchange Ratio

The fair basis of the Proposed Merger would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values can be arrived at under each of the above methodologies, for the purposes of recommending a Fair Equity Share Exchange Ratio it is necessary to arrive a single value for the shares of the Companies involved in a merger such as Proposed Merger. It is however important to note that in doing so, we are not attempting to arrive at the absolute values of the shares of the Companies but at their relative values to facilitate the determination of Fair Equity Share Exchange Ratio. For this purpose, it is necessary to give appropriate weights to the value arrived at under each methodology. For arriving at the value of equity shares of the Companies, for the purpose of arriving at the Share Exchange Ratio for the proposed merger, we have given weights to the values arrived at under different methodologies, based on our evaluation and judgement of the businesses of the Companies, in order to arrive at the relative values of the equity shares of the Companies.

In the ultimate analysis, valuation will have to be arrived at by the exercise of judicious discretion by the valuer and judgment taking into account all the relevant factors. There will always be several factors, e.g. quality of the management, present and prospective competition, yield on comparable securities and market sentiment, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognised in judicial decisions.



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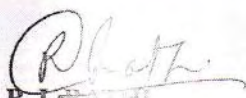
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 Company Secretary

The Fair Equity Share Exchange Ratio has been arrived at on the basis of a relative valuation of the equity shares of HTL and GAGL, based on the various methodologies explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the business of the Companies, having regard to the information base, key underlying assumptions and limitations.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined herein above, we recommend the following Share Exchange Ratio for the proposed merger:

"3(Three) fully paid up Equity Shares of face value Rs 2/- (Rupees Two only) each of the GAGL for every 13[Thirteen] fully paid up Equity Share of face value of Rs 10/- (Rupees Ten Only) each held in HTL".

Yours faithfully,
For R J Mathi & Co.
Chartered Accountants


R.J. MATHI
M.No. 032421



For Gujarat Automotive Gears Ltd.


Chintan Doshi
Company Secretary