

# HARIBHAKTI & CO. LLP

Chartered Accountants

Ref: LM-501/19/LM

18<sup>th</sup> May 2015

The Board of Directors  
Sterlite Technologies Limited  
Survey No.68/1, Madhuban Dam Road,  
Rakholi - 396 230,  
Union Territory of Dadra & Nagar Haveli,  
India.

## Re: Valuation of the Power Business of Sterlite Technologies Limited

Dear Sirs/ Madams,

We, Haribhakti & Co. LLP, Chartered Accountants ("H&Co"), have been appointed vide letter dated 29<sup>th</sup> April 2015 Ref: CFAS-2/6D/LM to undertake the valuation of Power Business of Sterlite Technologies Limited ("STL" or "the Company") as at 31<sup>st</sup> March 2015 on a going concern basis for the purpose mentioned in Para 1 below. We are pleased to present herewith our report on the same.

### 1. Purpose of Valuation

- 1.1. STL is a public company domiciled in India and incorporated on 24<sup>th</sup> March 2000 under the provisions of the Companies Act, 1956. The equity shares of STL are listed on BSE Limited and the National Stock Exchange Limited in India. The Company is primarily engaged in the manufacture and sale of Power and Telecom products and solutions.
- 1.2. The Telecom products and solutions ("the Telecom Business") mainly includes manufacturing of integrated optical fibers, fiber optic cables, structured data cables, other telecom products and system integration solution offerings for telecom networks and other service providers.
- 1.3. The Power products and solutions ("the Power Business") mainly includes manufacturing of power transmission conductors and cables, aluminium & alloy Rods and ownership and operations of power transmission networks. The Power Business, thus may be divided into two sub-divisions:
  - 1.3.1. The Power Product & Solution Division: This division is primarily engaged in manufacturing power conductors, power cables optical fibers composite ground wire cables and rods and kitting of accessories such as suspension sets, tension sets, assemblies, vibration dampers, joint boxes, bonding clamps, etc.
  - 1.3.2. The Power Transmission (Grid) Division: This division primarily undertakes power transmission (Grid) projects. Through this division, the Company is currently

Haribhakti & Co. LLP, Chartered Accountants (converted on 17th June, 2014 from a firm Haribhakti & Co. FRN: 103523W)  
701, Leela Business Park, Andheri-Kurla Road, Andheri (E), Mumbai - 400 059, India Tel: +91 22 66729999 Fax: +91 22 6672 9777  
Registered offices: 205, Leela Business Park, Andheri-Kurla Road, Andheri (E), Mumbai - 400 059, India.  
Other offices: Ahmedabad, Bengaluru, Chennai, Coimbatore, Hyderabad, Kolkata, New Delhi, Pune.



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executing power transmission system projects. Pan-India via its wholly-owned subsidiary companies awarded on a 'Build, Own, Operate and Maintain' (BOOM) basis. In accordance with this, transmission lines would be commissioned and the Company would operate and maintain the same for a tenure of 25-35 years through project Special Purpose Vehicles (SPVs) acquired through competitive bidding process.

1.4. We understand that the management of the Company is considering a proposal to demerge its entire Power Business of STL to Sterlite Power Transmission Limited ("SPTL"), a wholly owned unlisted subsidiary of the Company with effect from 1<sup>st</sup> April 2015 ("Appointed Date") ("Proposed Demerger"). The Proposed Demerger is proposed to be carried through a scheme of arrangement under the provision of section 391 to 394 read with sections 100 to 103 of the Companies Act, 1956 ("the Scheme"). Post the Proposed Demerger, the Telecom Business shall continue to remain with STL.

1.5. It is proposed, under the Scheme, the equity shareholders of STL would be provided with the following options:

1. Accept allotment of one fully paid up equity share having face value of INR 2/- each of the SPTL for every five fully paid up equity share of INR 2/- each in STL at a fair value; or

2. Accept allotment of one fully paid-up redeemable preference share, having face value of INR 2/ each ("RPS") of SPTL for every five fully paid up equity share of INR 2/- each in STL at a fair value.

a. We understand from the Management of STL that such RPS will carry a right to a fixed preferential dividend of 8% per annum and will be redeemable in 18 months from the date of allotment at a premium.

b. Such RPS shall be listed on a recognized stock exchange.

c. The holder of RPS shall have the right to vote in general meeting of SPTL in accordance with Section 47 of the Act.

1.6. In this regards, we H&Co have been appointed to undertake the valuation of the Power Business of STL as at 31<sup>st</sup> March 2015 on a going concern basis for the Proposed Demerger and consequently the fair value of the equity shares and RPS of SPTL. Further, we need to provide a report thereon to the Board of Directors of the Company containing a fair value of the Power Business and the fair value of the equity shares and RPS of SPTL.

## 2. Sources of Information

2.1. For the purpose of undertaking this valuation exercise, we have relied on the following sources of information provided by the management of the Company and information available in the public domain:



Haribhakti & Co. LLP, Chartered Accountants

11/04/2015 11:00:00 AM

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- a) Extracted summarized profit and loss accounts of the Power Business for Financial Year ("FY") 2013, 2014 and 2015 and extract of the balance sheet of the Power Business as at 31<sup>st</sup> March 2015;
- b) Audited financial statements of the subsidiaries belonging to the Power Division of the Company for FY 2014;
- c) Unaudited provisional financial statement of the subsidiaries belonging to the Power Division of the Company for FY 2015;
- d) Draft Scheme of Arrangement;
- e) Projections of the Power Business including the subsidiaries belonging to the Power Business for the period from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2020 or from 1<sup>st</sup> April 2015 to the end of the respective project life of the subsidiary companies, as the case maybe;
- f) Relevant data and information provided to us by the representatives of STL in written or oral form or in form of soft copy;
- g) Discussions with the representatives of STL regarding the past, current & future business projections of STL;
- h) Information provided by leading database sources, market research reports and other published data;
- i) Management Representation Letter dated 14 May 2015.

### 3. Exclusions and Limitations

- 3.1. This report, its contents and the results herein are (i) Specified to the purpose mentioned in this report (ii) Specific to the date of this report and (iii) are based on the balance sheet of the Company/ Power Business as at 31<sup>st</sup> March 2015. The Management has represented that the business activities of the Company / Power Business have been carried out in the normal and ordinary course between 31<sup>st</sup> March 2015 and date hereof and that no material adverse change has occurred in their respective operations and financial position between 31<sup>st</sup> March 2015 and date hereof.
- 3.2. In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification, (i) The accuracy of information made available to us by the Company and (ii) the accuracy of the information that was publicly available, and formed substantial basis for this valuation report. We have not carried out a due diligence or audit of the Company/the Power Business, nor have we independently investigated or otherwise verified the data provided by the Company. We do not express any form of assurance that the financial information or other information as provided by the Company is accurate. Also, with respect to explanations and information sought from the Company, we have been given to understand by the Company that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the



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- present exercise with us in case of any doubt. Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness.
- 3.3. Our conclusions are based in these assumptions and information given by/on behalf of the Company. The management of the Company has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/result. Accordingly, we assume no responsibility for any errors in the information furnished by the Company and their impact on the valuation report. However, nothing has come to our attention to indicate that the information provided was materially mis-stated/incorrect. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.
  - 3.4. During the course of work we have relied upon the financial projections of operating Company/the Power Business provided to us by the management. The realizations of the projections are dependent on the continuing validity if the assumptions on which they are based. Since, the projections relate to the future, actual results may be different from the projected results because events and circumstances do not occur as expected, and differences may be material.
  - 3.5. 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 judgement. Given the same set of facts and using the same assumptions, expert opinion may differ due to number of separate judgement decisions, which have to be made. There can therefore be no standard formulae to establish an undisputable value, although certain formulae are helpful in assessing reasonableness. There is, therefore, no indisputable single fair value. While we have provided our recommendation of the fair value based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the fair value.
  - 3.6. This report and its contents is prepared for the Company and to be used only for the specific engagement and regulatory reporting purpose and must not be copied, disclosed or circulated or referred to or quoted in any correspondence, registration statement, prospectus, offering memorandum, loan agreement or other agreement or discussion with any person. The report is confidential to the Company and it is given on the express undertaking that will not be communicated, in whole or in part, to any third party without any prior written consent of H&Co. Neither this report nor its contents may be used for any other purpose other than in connection with this Proposed Demerger without prior written consent of H&Co.
  - 3.7. 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, or Officers or employees shall in any way be responsible 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



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all liabilities which may arise based on the information used in this report. We owe responsibility to the Board of Directors of the Company and nobody else. We are not liable to any third party in relation to the issue of this report. In no event we shall be liable for any loss, damage, cost or expense arising in any way for fraudulent acts, misrepresentations or willful default on the part of the Company, their management, directors, employees or agents.

- 3.8. A valuation of this nature is necessarily based on prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the information made available to us of, the date hereof. Events occurring after the date hereof, may affect this valuation report and the assumptions used in preparing it, and we do not assume any obligations to update, revise or reaffirm this valuation 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.
- 3.9. The valuation report assumes that the Company comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Company will be managed in a competent and responsible manner. Our conclusion of value assumes that the assets and liabilities of the Company, reflected in their respective latest balance sheets remain intact as of the date hereof.

## 4. Brief Background

Sterlite Technologies Limited

- 4.1. STL, a public company domiciled in India, is primarily engaged in the manufacture and sale of Power and Telecom products and solutions. STL is a part of Vedanta group of companies and is headquartered in Pune.
- 4.2. The Telecom products and solutions ("the Telecom Business") mainly includes manufacturing of integrated optical fibers, fiber optic cables, structured data cables, other telecom products and system integration solution offerings for telecom networks and other service providers.

Power Business

- 4.3. The Power products and solutions ("the Power Business") mainly includes manufacturing of power transmission conductors and cables, aluminium & alloy Rods and ownership and operations of power transmission networks. The Power Business, thus may be divided into two sub-divisions:



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## Power Product and Solutions Division

- 4.4. The Power Product & Solution Division: This division is primarily engaged in manufacturing power conductors, power cables optical fibers composite ground wire cables and rods and kitting of accessories such as suspension sets, tension sets, assemblies, vibration dampers, joint boxes, bonding clamps, etc.
- 4.5. The range of product manufactured by this division includes various power conductors like AI 59 Conductors, TACSR Conductors, ACSS Conductors, ACCC Conductors, ECO Conductors, DULL Conductors etc. The single integrated power cables manufacturing facility of this division is located at Haridwar, Uttaranchal. It manufactures and supplies MV, HV and EHV cables. The plants have facilities for rod rolling, wire drawing, heat treatment and stranding.

## Power Transmission Grid Division

- 4.6. The Power Transmission (Grid) Division primarily executes power transmission system projects and provides strategic solutions through systems design, application engineering, complete engineering-procurement-construction project management, commissioning and lifecycle services to its clients.
- 4.7. Following are the subsidiaries of the Company forming part of the Power Transmission (Grid) Division of the Power Business:

- 4.8. Sterlite Grid Ventures Private Limited ("SGVPL")

SGVPL is a subsidiary of STL, acts as the holding company for all the SPVs of the Grid Business. We understand that STL holds 96.15% stake in SGVPL. However, on fully diluted basis (considering conversion of OCRPS) stake held in SGVPL would be 72.90%.

- 4.9. Sterlite Grid Limited ("SGL")

SGL is a wholly owned subsidiary of SGVPL. Currently, it has three subsidiary companies, as mentioned below:

- 4.9.1. East North Interconnection Company Limited ("ENICL")

ENICL has established two 400kV Double Circuit transmission lines (with a total line length of 450 kms) that passes through the Indian states of Assam, West Bengal and Bihar. Currently, SGL holds 49% of the equity stake in ENICL whereas the remaining 51% is held directly by STL.

- 4.9.2. Jabalpur Transmission Company Limited ("JTCL")

JTCL is engaged in establishment of a 765 kV Double Circuit and a 765 kV Single Circuit transmission line each which passes in the Indian states of Chhattisgarh and Madhya Pradesh. Currently, SGL holds 100% stake in JTCL.



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## 4.9.3. Bhopal Dhule Transmission Company Limited ("BDTCL")

BDTCL has established four 765 kV Single Circuit and two 400 kV Double Circuit transmission lines for transmission system in the Indian states of Madhya Pradesh, Maharashtra and Gujarat. BDTCL is a wholly owned subsidiary of SGL.

## 4.10. Sterlite Grid Limited 1 ("SGL1")

SGL1 is a wholly owned subsidiary of SGVPL. Currently, it has three subsidiary companies, as mentioned below:

### 4.10.1. RAPP Transmission Company Limited ("RTCL")

RTCL is involved in establishment of 400 kV Double Circuit transmission line that would strengthen the transmission system in the Indian states of Rajasthan and Madhya Pradesh. SGL1 holds 100% stake in RTCL.

### 4.10.2. Purulia Kharagpur Transmission Company Limited ("PKTCL")

PKTCL is involved in establishment of two 400 kV Double Circuit transmission lines that would strengthen the transmission system in the Indian states of West Bengal and Jharkhand. SGL1 holds 100% stake in PKTCL.

### 4.10.3. NRSS XXIX Transmission Limited ("NRSS")

NRSS has established three 400 kV Double Circuit transmission lines & one 400/220 kV GIS Substation that would strengthen the transmission system in the Indian states of Jammu & Kashmir and Punjab. SGL1 holds 100% stake in NRSS.

## 4.11. Sterlite Grid Limited 2 ("SGL2")

SGL2 is a wholly owned subsidiary of SGVPL. Currently, it has no operations.

## 5. Valuation Approach

### 5.1. There are three generally accepted approaches to valuation:

- (a) "Cost" approach
- (b) "Income" approach
- (c) "Market" approach

#### Cost Approach

5.2. The cost approach focuses on the net worth or net assets of a company. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" or where the assets base dominates earnings capability or if it is investment holding company and significant value is derived from its investment holdings.



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## Net Asset Value ("NAV")

- 5.3. The NAV Method under the Cost Approach considers the Assets and Liabilities, including Intangible Assets and Contingent Liabilities. The Net Assets, after reducing the dues to the Preference Shareholders, if any, represent the equity value of a company.

## Income Approach

- 5.4. The income approach is widely used for valuation under "Going Concern" basis. It focuses on the income generated by the company in the past as well as its future earning capability. The Discounted Cash Flow Method under the income approach seeks to arrive at a valuation based on the strength of future cash flows.

## Discounted Cash Flow ("DCF") Method

- 5.5. Under the DCF Method, the business is valued by discounting its free cash flows for the explicit forecast period and the perpetuity value thereafter.
- 5.6. We have considered the Free Cash Flow to Equity ("FCFE") under DCF Method for valuation of the Grid Business. The free cash flows available to equity shareholders in the explicit period are discounted by discounting factor based on cost of equity.
- 5.7. We have considered the Free Cash Flow to Equity ("FCFF") under DCF Method for valuation of the Conductor Business. The free cash flows available to firm in the explicit period and those in perpetuity are discounted by discounting factor based on cost of capital.
- 5.8. The perpetuity (terminal) value is calculated based on the business' potential for further growth beyond the explicit forecast period. The "constant growth model" is applied, which implies an expected constant level of growth for perpetuity in the cash flows over the last year of the forecast period.
- 5.9. To the value of the firm so arrived, adjustments need to be made for the value of investments and contingent assets/liabilities, if any, in order to arrive at the value for the equity shareholders.

## Market Approach

- 5.10. Under the Market approach, the valuation is based on the market value of the company in case of listed companies or/and comparable companies trading or transaction multiples of comparable companies. The Market approach generally reflects the investors' perception about the true worth of the company.

## Market Price ("MP") Method

- 5.11. Under the "Market" Approach, the market price of an equity share as quoted on a recognized stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded.



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*Comparable Company Multiples (CCM) method*

- 5.12. Under CCM 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.
- 5.13. 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.

*Valuation Methodologies Applied:*

- 5.14. The cut-off date for the valuation exercise has been considered as 31<sup>st</sup> March 2015.
- 5.15. In the present case, we have considered the NAV method for the valuation of the holding companies and have considered the DCF method for the valuation of operating companies / businesses.

## 6. Valuation Conclusion

- 6.1. In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments 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. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Honourable Supreme Court of India in the case reported in 176 ITR 417 as under:

"If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible."

*Valuation of the Power Business / Equity Share of SPTL / RPS of SPTL*

- 6.2. On the basis of the foregoing, in our opinion, the value of the Power Business proposed to be demerged to SPTL entity as at 31<sup>st</sup> March 2015 on a going concern basis is arrived in the range of INR 8,252 million to INR 8,784 million.



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6.3. Based on the assumption that:

78,811,801 equity shares of SPTL are issued to the equity shareholders of STL, assuming equity shareholders of STL exercises the option stated in 1.5(1) above, the value per equity share of INR 2/- each for the Power Business is assessed as:

INR 104.75 per share to INR 111.50 per share

78,811,801 RPS of SPTL are issued to the shareholders of STL, assuming shareholders of STL exercises the option stated in 1.5(2) above, the value per RPS of INR 2 each for the Power Business is assessed as:

INR 104.75 per share to INR 111.50 per share

Yours faithfully,  
For Haribhakti & Co. LLP  
Chartered Accountants  
Firm Registration No. 103523W

  
Sumant Sakhardande  
Partner  
M.No. 034828



# Price Waterhouse & Co LLP

Chartered Accountants

18 May 2015

Board of Directors  
Sterlite Technologies Limited  
Godrej Millennium  
9, Koregaon Road  
Pune - 411 001, India

Board of Directors  
Sterlite Power Transmission Limited  
Survey No. 68/1  
Rakholi Village  
Madhuban Dam Road, Silvassa  
Dadar Nagar Haveli- 396230

Dear Sirs,

## 1 CONTEXT AND PURPOSE

- 1.1 We refer to our engagement letter dated 30 April 2015 and the subsequent discussions we had with you, to carry out valuation of power business (hereinafter called the 'Power Business' or the 'Specified Business') of Sterlite Technologies Limited ('STL' or the 'Company'), for the purposes of proposed demerger of the Power Business from STL into Sterlite Power Transmission Limited (the 'New Co' or 'SPTL'), with effect from 1 April, 2015.

## 2 BACKGROUND

- 2.1 Sterlite Technologies Limited ('STL' or the 'Company') is a public limited company incorporated in India. The equity shares of STL are listed on the Bombay Stock Exchange ('BSE') and the National Stock Exchange ('NSE'). STL is primarily engaged in the manufacture and sale of power products, telecom products and solutions and setting up of power transmission infrastructure (through its transmission grid infrastructure subsidiaries).
- 2.1.1 The Power Business comprises power products and solutions business ('Power Products Business') and STL's investment interest in the transmission grid infrastructure companies ('Transmission Grid Business').
- 2.1.2 We understand that STL's investment interest in the Transmission Grid Business comprises its controlling interest in six wholly owned transmission grid infrastructure companies (Operating SPVs), i.e. East-North Interconnection Company Limited ('ENICL'), Bhopal-Dhule Transmission Company Limited ('BDTCL'), Jabalpur Transmission Company Limited ('JTCL'), Rajasthan Atomic Power Project ('RTCL'), Purulia & Kharagpur Transmission Company Limited ('PKTCL') and Northern Region Strengthening Scheme project ('NRSS').
- 2.1.3 STL holds controlling stake in these six Operating SPVs directly and through a structure of holding companies comprising Sterlite Power Grid Ventures Limited (SPGVL) and SPGVL's wholly owned subsidiaries i.e. Sterlite Grid Limited (SGL) and Sterlite Grid Limited 2 (SGL2). Further, SPGVL also holds 100% stake in Sterlite Grid Limited 3 (SGL3), currently a shell company.

Price Waterhouse & Co LLP, Building No. 10, 17th Floor, Tower - C, DLF Cyber City, Gurgaon - 122 002  
T: +91 (124) 3306000, F: +91 (124) 3306999

Registered office and Head office: Sucheta Bhawan, 11-A, Vishnu Digambar Marg, New Delhi 110 002

Price Waterhouse & Co (a Partnership Firm) converted into Price Waterhouse & Co LLP (a Limited Liability Partnership with LLP identity no: LLPIN AAC-2731) with effect from April 24, 2014. Post its conversion to Price Waterhouse & Co LLP, its ICAI registration number is 016844NN-600016 (ICAI registration number before conversion was 016844N)

- 2.1.4 We further understand that in year 2014 Standard Chartered Financial Holdings ('StanC PE') invested in SPGVL against which it was allotted Optionally Convertible Preference Share ('OCPS'). As per the Management these OCPS on conversion will give StanC PE, a significant minority stake in SPGVL.
- 2.2 We understand that the Management of STL ('Management') intends to de-merge the Specified Business of STL into its wholly owned unlisted subsidiary, Sterlite Power Transmission Limited ('SPTL' or Resulting Company), with effect from 1 April, 2015 ('Appointed Date') (the 'Transaction' or the 'Restructuring' or the 'Demerger'). The Demerger is proposed to be carried out through a Scheme of Arrangement ('Scheme of Demerger') under the provision of section 391 to 394 read with Sections 100 to 103 of the Companies Act, 1956.
- 2.3 Under the Scheme of Demerger it is envisaged that the shareholders of STL shall be provided with the following options:
- Accept 1 fully paid up equity share having face value of INR 2/- each of the Resulting Company for 5 fully paid up equity share of INR 2/- each in STL; or
  - Accept 1 fully paid-up redeemable preference share, having face value of INR 2/ each and premium of INR 110.30/ each, of the Resulting Company for 5 fully paid up equity share of INR 2/- each in STL.
    - We understand from the Management of STL that such redeemable preference shares will carry a right to a fixed preferential dividend of 8% per annum and will be redeemable in 18 months from the date of allotment at a premium.
    - Such redeemable preference shares shall be listed on a recognized stock exchange.
    - The holder of redeemable preference share shall have the right to vote in general meeting of the Resulting Company in accordance with Section 47 of the Act.
- 2.4 We understand that the equity shares of the Resulting Company are not proposed to be listed and the Shareholders of STL are provided an exit opportunity in the Scheme of De-merger. Shareholders of STL will have an option to choose redeemable preference shares in the Resulting Company which will be listed on a recognized stock exchange.
- 2.5 We also understand that pursuant to the Demerger the equity holding of STL in SPTL will be cancelled and its equity shares will remain unlisted.
- 2.6 In context of the above, Price Waterhouse & Co LLP ('PW&Co') has been requested to estimate the value of the Power Business ('Valuation') as at 31 March, 2015 ('Valuation Date') and the resulting per share equity value of SPTL on the assumption that all shareholders exercise option 2.3 (a).
- 2.7 We have carried out Valuation of the Power Business as at Valuation Date and our approach and methodology are detailed in this report. This valuation report ('Valuation Report') is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such the Valuation Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein

### 3 PROCEDURES

- 3.1 The procedures used in our analysis included such substantive steps as we considered necessary under the circumstances, including, but not necessarily limited to the following:
- Considered the carve-out financial statements of the Specified Business for the year ended 31 March 2015;



- Considered the financial projections of the Power Products, along with the underlying assumptions for the period 1 April 2015 to 31 March 2020 (referred to as the 'Financial Projections');
- Considered the Transmission Service Agreements ('TSA') pertaining to the Transmission Grid Business;
- Considered the financial projections of six Operating SPV's under the Transmission Grid Business for their licensing term (term of the TSA);
- Interviews and discussions with the Management to augment our knowledge of the operations of the Power Products and the Transmission Grid Business. Other information, explanations and representations that were required and provided by the Management;
- Draft Scheme of Demerger;
- Analysis of information available in the public domain in respect of the comparable companies/ transactions, as may be relevant under the circumstances; and
- Such other analysis, reviews and inquiries, as we considered necessary

3.2 During discussions with the Management, we have also obtained explanations and information considered reasonably necessary for our exercise.

**4 BACKGROUND**

**4.1 Power Products Division**

4.1.1 Power Products Business is a division of STL and has the following three sub-segments:

- a) Power transmission conductors;
- b) Optical fiber composite overhead ground wire (OPGW) cables; and
- c) Extra high voltage power cables (PCB).

4.1.2 The total installed capacity for a) Power transmission conductors is 1,60,000 MT; b) OPGW is 7,000 MT; and c) PCB is 1600 KM. The Power Products Business has three manufacturing facilities located at Haridwar, Silvassa and Jharsuguda in India.

4.1.3 We understand that the Power Products Business manufactures and sells products to domestic as well as export markets. The major export markets include Europe, Africa, the Middle East and Latin America. Further in domestic market, Power Grid Corporation of India Limited (PGCIL), State Electricity Boards and Distribution companies ('Discoms') are their key clients.

INR in Cr	Financial year ending March 31,		
	2013	2014	2015
<b>Income statement</b>			
Total revenues	2,278	1,681	1,504
Operating EBITDA:	94	85	41

Source: Management information

- STL manufactures two types of conductors: a) conventional conductors and b) High Performing Conductors (HPC). HPC conductors, as compared to conventional conductors, are more efficient in power transmission and have longer life.
- Revenues from sale of conductors constitute major proportion (~86% during FY15) of the total revenues of the Power Products Business.



**4.2 Transmission Grid Business**

4.2.1 The Transmission Grid Business comprises of STL's investment interest in six transmission grid infrastructure companies (Operating SPVs). STL investment interest in these six transmission grid infrastructure companies is held directly and through a structure of holding companies comprising Sterlite Power Grid Ventures Limited (SPGVL) and SPGVL's wholly owned subsidiaries i.e. Sterlite Grid Limited (SGL) and Sterlite Grid Limited 2 (SGL2). We understand that last year Standard Chartered Private Equity Fund ('StanC PE') invested in SPGVL by way of Optionally Convertible Preference Share ('OCPS'). As per the Management these OCPS on conversion will give StanC PE, a significant minority stake in SPGVL. In addition, SPGVL also holds 100% stake in Sterlite Grid Limited 3 (SGL3), currently a shell company.

4.2.2 These six transmission grid infrastructure companies/Operating SPVs are engaged in the development and implementation of interstate transmission projects in India on a build, own, operate and maintain ('BOOM') basis. Following are the details on the Operating SPVs:

- East North Interconnection Company Limited ("ENICL"): ENICL is the developer of 2\*400 kV double circuit transmission lines between Assam, Bihar & West Bengal with total 450 kilometers line length. We understand that these transmission lines are utilized for transmitting the surplus power from the North East Region Eastern Region to North India. The total term of the Transmission Service Agreement ("TSA") for ENICL is 25 years. ENICL commissioned operations last year.
- Bhopal Dhule Transmission Company Limited ("BDTCL"): BDTCL is the developer of 4\*765 kV single circuit, 2\*400 kV double circuit transmission lines and 2 sub stations between Jabalpur Bhopal, Bhopal Indore, Aurangabad Dhule and Dhule Vadodara regions with total 975 kilometers line length. BDTCL has partially commissioned operations and the remaining operations are expected to commence from April 2015. The total licensing period for BDTCL as per the Transmission Service Agreement ("TSA") is 35 years.
- Jabalpur Transmission Company Limited ("JTCL"): JTCL is the developer of 1\*765 kV single circuit and 1\*765 kV double circuit transmission lines between Madhya Pradesh and Chhattisgarh with total 634 kilometers line length. As per the Management, JTCL is expected to commence operations from July 2015 onwards. The total licensing period for JTCL as per the Transmission Service Agreement ("TSA"), is 35 years.
- RAPP Transmission Company Limited ("RTCL"): RTCL is developing 1\*400 kV double circuit transmission lines between Rajasthan and Madhya Pradesh with total 200 kilometers line length. As per the Management, RTCL is expected to commence operations from January 2017 onwards. The total licensing period for RTCL as per the Transmission Service Agreement ("TSA") is 35 years.
- Purulia and Kharagpur Transmission Company Limited ("PKTCL"): PKTCL is 2\*400 kV double circuit transmission lines between West Bengal and Jharkhand with total 270 kilometers line length. As per the Management, PKTCL is expected to commence operations from January 2017 onwards. The total licensing period for PKTCL as per the Transmission Service Agreement ("TSA"), is 35 years.
- NRSS XXIX Transmission Company Limited ("NRSS"): NRSS is developing 3\*400 kV double circuit transmission line and 1 substation between Punjab and Jammu & Kashmir with total 440 kilometers line length. As per the Management, NRSS is expected to commence part operations from Dec 2017 onwards and fully from April



2019 onwards. The total term of the Transmission Service Agreement ("TSA") for NRSS is 35 years.

**5 VALUATION APPROACH AND METHODOLOGY**

**5.1 Valuation Approaches**

There are several commonly used and accepted methods for determining the equity value of a company/business, namely:

- Income Approach - Discounted Cash Flow method
- Market Approach
  - Comparable Companies' Multiple method
  - Share Price Method
- Asset Approach - Net Asset Value method

**5.1.1 Income Approach – Discounted Cash Flow ('DCF') Method**

- Under DCF Method value of a company can be assessed using the Free Cash Flow to Firm Method (FCFF) or Free Cash Flow to Equity Method (FCFE).
- Under the FCFE method, the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm. The FCFE 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.*

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and lenders), 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 the values so obtained from DCF analysis, adjustment, as appropriate, are made for borrowings, surplus assets, contingent liabilities and other matters to arrive at the equity value. The equity value is then divided by the total number of equity shares to arrive value per equity share.

- The FCFE method indicates the value of the equity by discounting the projected cash flows available to equity shareholders. The method involves the estimation of the residual cash flows after meeting all expenses, tax obligations and net debt payments (interest, principal payments and new debt issuance) and discounting these cash flows at the cost of equity, i.e., the rate of return required by equity shareholders. The sum of the discounted value of such free cash flows is the value of equity.

**5.1.2 Market Approach**

- Comparable Companies' Multiple ('CCM')
  - Under this method, value of a company is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as



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manifested through stock market valuations of listed companies and the transaction valuation. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to the valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

- Share 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 which are regularly and freely traded.
  - In the present case, since the Specified Business is a segment and not a company whose shares are separately listed on a stock exchange, the Share Price Method has not been adopted.

### 5.1.3 Asset Approach - 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. This valuation approach is mainly used in cases where the asset base dominates the earnings capability or the firm is to be liquidated i.e. it does not meet the "going concern" criteria. A scheme of de-merger would normally be proceeded with on the assumption that the Specified Business de-merged as going concerns and an actual realization of the operating assets is not contemplated. 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.

5.1.4 It should be noted that the application of any particular method of valuation depends on the purpose for which the valuation is done. 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 bonafide manner based on our previous experience of assignments of a similar nature

### 5.2 Methodology

5.2.1 For valuation of the Power Business we have primarily relied on the Income Approach – DCF method and have benchmarked our results with the Net Asset Value method. Market Approach has not been considered on account of lack of any direct comparable.

5.2.2 While carrying out the Valuation of the Power Business, we have adopted the sum of the parts approach, wherein we determined the Enterprise Value of the Power Products Business and value of STL's investment interest in the Transmission Grid Business separately. Subsequently, we aggregated the Enterprise Value of the Power Products and the value of STL's investment interest in Transmission Grid Business and then adjusted the same for debt, surplus cash and cash equivalents, surplus assets, contingent liability etc. as deemed appropriate to arrive at the Equity Value of the Power Business.

5.2.3 Power Products Business has been valued using Free Cash Flow to Firm (FCFF) method of the Income Approach.

5.2.4 To assess the value of STL's investment interest in the Transmission Grid Business:

- Value of each of the six Operating SPV has been assessed using Free Cash Flow to Equity (FCFE) method)



- Value of the Operating SPVs has then been rolled up to their holding companies, SGL and SGL 2 and ultimately to SPGVL to assess their Net Asset Values. While carrying out the roll-up of values the inter-company receivables and payables were eliminated.
  - Net Asset Value of SGL 3 (currently a shell company) has been added to the above value to arrive at the equity value of SPGVL.
  - Equity value of SPGVL has then been adjusted for STL's effective stake in SPGVL (assuming conversion of OCPS held by StanC PE) to arrive at the value of STL's investment interest in the Transmission Grid Business.
- 5.2.5 For the purpose of the DCF analysis, the free cash flow forecast for the Power Products and each of the six Operating SPVs of the Transmission Grid Business is based on the Financial Projections as provided by the Management. Management represented that the Financial Projections represents their best estimate of the expected performance considering inter-alia existing and projected operations and market conditions.
- 5.2.6 We must emphasize that realizations of free cash flow forecast will be dependent on the continuing validity of assumptions on which they are based. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences may be material. While carrying out this engagement, we have relied extensively on historical information made available to us by the management of the Companies and the respective Financial Projections for future related information. We did not carry out any validation procedures or due diligence with respect to the information provided/ extracted or carry out any verification of the assets or comment on the achievability and reasonableness of the assumptions underlying the Financial Projections, save for satisfying ourselves to the extent possible that they are consistent with other information provided to us in the course of this engagement.
- 5.2.7 In performing our analysis, we were provided with assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Company. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Company, and other factors which generally influence the valuation of Companies and their assets.
- 5.3 Proposed Scheme of Demerger – We understand from the Management of STL that the proposed Scheme of Demerger provides that shareholders of STL will have an option to:
- a) Accept 1 fully paid up equity share having face value of INR 2/- each of Resulting Company for 5 fully paid up equity share of INR 2/- each in STL; or
  - b) Accept 1 fully paid-up redeemable preference share, having face value of INR 2/ each, and premium of INR 110.30/ each, of the Resulting Company for 5 fully paid up equity share of INR 2/- each in STL.
- 5.4 We understand that the equity shares of the Resulting Company are not proposed to be listed and the Shareholders of STL are provided an exit opportunity in the Scheme of De-merger. Shareholders of STL will have an option to choose redeemable preference shares in the Resulting Company which will be listed on a recognized stock exchange.
- 5.5 Considering that the paid up equity share capital of STL comprises of 39,40,59,001 equity shares of Rs 2 each fully paid up and assuming that the shareholders of STL exercises their entitlement as stated in clause 5.3 (a) above, SPTL will issue 78,811,801 equity shares of Rs 2 each fully paid-up to the shareholders of STL pursuant to the Demerger.



- 5.6 Considering that the paid up equity share capital of STL comprises of 39,40,59,001 equity shares of Rs 2 each fully paid up and assuming that the shareholders of STL exercises their entitlement as stated in clause 5.3 (b) above, SPTL will issue 78,811,801 redeemable preference shares of Rs 2 each fully paid-up to the shareholders of STL pursuant to the Demerger.

**6 CONCLUSION**

- 6.1 Based on consideration of the relevant factors and circumstances as discussed and outlined in this report, the valuation of the Power Business is assessed in the Range of

**INR 804 crore to INR 885 crores**

- 6.2 Based on the assumption that:

- 6.2.1 78,811,801 equity shares of the Resulting Company are issued to the shareholders of STL, assuming shareholders of STL exercises the option stated in 5.3 (a) above, the value per equity share of Rs 2 each for the Power Business is assessed as:

**Rs 102.05 per share to Rs 112.30 per share**

- 6.2.2 78,811,801 redeemable preference shares of the Resulting Company are issued to the shareholders of STL, assuming shareholders of STL exercises the option stated in 5.3 (b) above, the value per redeemable preference shares of Rs 2 each for the Power Business is assessed as:

**Rs 102.05 per share to Rs 112.30 per share**

**7 SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS**

- 7.1 The Valuation Report, its contents and the results herein are specific to (i) the purpose as per the terms of our engagement and (ii) and are based on the information provided by the Management of STL for the Specified Business as detailed in Paragraph 2. The Management has represented that no material adverse change has occurred in the operations and financial position of the Specified Business between 31 March 2015 and the date of the issue of this Valuation Report.

- 7.2 A valuation of this nature is necessarily based on prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this Valuation Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Valuation Report.

- 7.3 The service provided under this Valuation Report does not represent accounting, assurance, accounting/ tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

- 7.4 The recommendation rendered in this Valuation Report is based upon information received from the Companies till 17 May 2015 and other sources and the said recommendation shall be considered to be in the nature of non-binding advice (our recommendation will, however, not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors).

- 7.5 Valuation is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgement. There is, therefore, no indisputable single value and we normally express our analysis as falling



within a likely range. While we have provided our conclusion based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the Valuation conclusion. You acknowledge and agree that the you have the final responsibility for the determination of and arriving at the final valuation conclusion; and factors other than PW&Co's Valuation will need to be taken into account in determining the final Valuation conclusion; these will include your own assessment of the acquisition or disposal opportunity and may include the inputs of other professional advisors. In addition to our report you will naturally take into account matters outside the scope of our work of which you are aware.

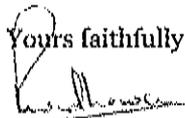
- 7.6 We have not carried out a due diligence or audit of the Specified Business, nor have we independently investigated or otherwise verified the data provided by the Management. We are not legal or regulatory advisors with respect to legal and regulatory matters for the Transaction. We do not express any form of assurance that the financial information or other information as prepared and provided by the Management is accurate. Also, with respect to explanations and information sought from the Management, we have been given to understand by the Management that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness.
- 7.7 This Valuation Report does not address the relative merits of the Transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.
- 7.8 The fee for this engagement is not contingent upon the results of the Valuation Report.
- 7.9 We understand that the equity shares of the Resulting Company shall not be listed on any stock exchange and the shareholders of STL are being provided an exit opportunity in the Scheme of De-merger. Shareholders of STL will have an option to choose redeemable preference shares in the Resulting Company which will be listed on a recognized stock exchange. We are not required to comment on non-listing of the equity shares of SPTL and the fairness / adequacy of the exit option being provided to the shareholders.
- 7.10 Our scope of work is limited to Valuation of the Power Business. Our report is not, nor should it be construed as, our opining or certifying the compliance of the proposed Demerger with the provisions of any law including companies, FEMA and taxation related laws or as regards any legal implications or issues arising from such proposed demerger. Also, this Valuation Report and analysis does not represent a fairness opinion.
- 7.11 The Valuation Report assumes that the Specified Business complies fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Specified Business will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this Valuation 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 balance sheet of the Specified Business. Our conclusion of value assumes that the assets and liabilities, reflected in their respective latest balance sheet remain intact as of the Valuation Report date. We owe responsibility to only the Board of Directors of the Companies which have retained us, and nobody else. We do not accept any liability to any third party in relation to the issue of this Valuation Report. This Valuation Report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose. It is understood that this analysis does not represent a fairness opinion.
- 7.12 Neither the Valuation Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, loan agreement or other



agreement. Further, it cannot be used for purposes other than in connection with the Transaction, without our prior written consent. In addition, this Valuation Report does not in any manner address the prices at which equity shares will trade following consummation of the Transaction and we express no opinion or recommendation as to how the shareholders of either Company should vote at any shareholders' meeting(s) to be held in connection with the Transaction.

- 7.13 This Valuation Report is subject to the laws of India.
- 7.14 This report is prepared for the Board of Directors of STL and SPTL and to the extent mandatorily required under applicable laws of India, may be produced before judicial, regulatory or government authorities, stock exchanges where shares of STL are listed, the shareholders of STL, Registrar of Companies, Regional Director, Official Liquidator, High Court of the state where the registered office of STL is located and disclosed on the Company website if required under any applicable laws in India, in connection with the Transaction.
- 7.15 In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of STL or SPTL, their directors, employees or agents. In no circumstances shall the liability of Price Waterhouse & Co LLP, its partners, directors or employees, relating to the services provided in connection with the engagement set out in this report exceed the amount paid to us in respect of the fees charged for these services.

We would like to record our appreciation for the courtesy and co-operation received by us during the course of our work.

Yours faithfully  


Rajan Wadhawan  
Partner

Membership Number: 090172  
For and on behalf of  
Price Waterhouse & Co.  
Firm Registration No 016844N