Report on

Valuation of

Jaypee Karcham Wangtoo Hydro Electric Plant

And

Jaypee Baspa II Hydro Electric Plant

of

Jaiprakash Power Ventures Limited

Accountants' Report

CERTIFIED TRUE COPY
For JAIPRAKASH POWER VENTURES LTD.

(M.M. SIBBAL)
Sr. General Manager & Company Secretary

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Chartered Accountants,
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1. Introduction

1.1 Background and Terms of Engagement

There is a proposal before the Boards of Directors of Jaiprakash Power Ventures Limited ("JPVL") to consider the slump transfer of JPVL's Jaypee Karcham Wangtoo Hydro Electric Plant ("Karcham Project") and Jaypee Baspa II Hydro Electric Plant ("Baspa Project"), collectively referred to as the Transferred Undertakings, as a going concern, to Himachal Baspa Power Company Limited ("Transferee Company") under a scheme of arrangement under section 391 to 394 of the Companies Act, 1956 ("the Scheme").

It is also proposed that upon the said Slump Transfer JPVL will be allotted the following:

- Equity Shares of the Transferee Company
- 13% Non-Convertible Redeemable Debentures of the Transferee Company ("13% Debentures")

We have been asked by the Management of JPVL ("the Management") to undertake valuation of the Transferred Undertakings and opine on the fairness of the consideration proposed to be issued to JPVL by the Transferee Company.This report ("Report") sets out the findings of our exercise.

Under the Scheme the "Appointed Date" is defined to be the date the scheme is made effective. We have carried out the Valuation exercise of the Transferred Undertakings as at March 31, 2015 (hereinafter referred to as the Valuation Date).

1.2 Profile of Karcham Project

The Karcham Project, inter alia, involves generation of hydro power. Karcham Project is located in the district of Kinnaur in the state of Himachal Pradesh and built on the Satluj river. The Karcham Project has an installed capacity of 1,091 MW. The Karcham Project commenced operations in September 13, 2011.The plant availability of the Karcham Project for the financial year ended March 31, 2014 was 99.76% with a net saleable energy generation of 4056.26 Million Units.

1.3 Profile of Baspa Project

The Baspa Project , inter alia, involves generation of hydro power. The Baspa Project is located at Karcham in the district of Kinnaur in the state of Himachal Project. The project is built on the lower reaches of the Baspa River. Baspa Project has an installed capacity of 300 MW. The Baspa Project commenced operations in June 8, 2003. The plant availability of the Baspa Project for the financial year ended March 31, 2014 was 99.98% with a net saleable energy generation of 1178.41 Million Units.

1.4 Profile of the Transferee Company

The Transferee Company is a public limited company incorporated under the Companies Act, 1956, having its registered office at JUIT Complex, Waknaghat, P.O. Dumehar Bani, Kandaghat – 173215, Distt. Solan (H.P.) The Transferee Company is a subsidiary of the Transferor Company in which Transferor Company holds 99% of the issued, subscribed and paid-up equity share capital. Its shares are not listed on any stock exchange.

The Company is incorporated to set up power projects – Hydroelectric or Thermal, and to carry on the business of general electric power supply in any or all of its branches and to construct, lay down, establish, fix and carry out all necessary power stations, cables and wires, lines, accumulators, lamps and works and to generate, accumulate, distribute and supply electricity and to light cities, towns, villages, streets, docks, markets, theatres, buildings, industry or industries and any other places, both public and private. The Company also has the object to carry on the business of electricians and electrical, mechanical engineers, suppliers of electricity or other power/ energy for the purposes of light, heat, motive power or otherwise, and manufacturers and dealers of apparatus and things required for or capable of being used in connection with the generation, distribution, supply, accumulation and employment of electricity, galvanism, magnetism or non-conventional, renewable or new energy/ power. The Transferee Company does not have any operations as on the date of this Report.

1.5 Share Capital of JPVL

The Authorised, Issued, Subscribed and Paid-up capital of the JPVL as on March 31, 2014 is as under:

Particulars		Amount (Rs. in Crores)
Authorised		
(i)	8,300,000,000 Equity Shares of Rs. 10/- each	8300
(ii)	300,000,000 Preference Shares of Rs. 10/- each	3000
Issued, subscribed and paid-up		
(i)	2,938,003,084 Equity Shares of Rs. 10/- each	2938

1.6 Share Capital of the Transferee Company

Particulars		Amount (Rs. in Crores)
Authorised		
(i)	50,000 Equity Shares of Rs. 10/- each	0.05
Issued, subscribed and paid-up		
(i)	50,000 Equity Shares of Rs. 10/- each	0.05

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1.7 Shareholding of JPVL

The Shareholding pattern of the JPVL as on September 30, 2014 is as under:

Name	Percentage	No of Shares
Promoter and Promoter Group	63.60%	1,868,648,237
Public Shareholding	36.40%	1,069,354,847
Total	100.00%	2,938,003,084

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2. Data Obtained

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

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

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3. Approach to Valuation

3.1 Valuation of the Transferred Undertakings:

3.1.1. 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.

3.1.2. We find that in the present case since, the Transferred Undertakings are engaged in generation of power, the sale of which is governed by Power Purchase Agreement ("PPA") entered for longer periods, thereby giving a more reliable long term perspective to the projects.

3.1.3. Given that there are more definitive long term financial projections available for the Transferred Undertakings, we have found it more appropriate to value the Transferred Undertakings by capitalizing its future cash flows. This method of valuation is popularly known as the Discounted Free Cash Flow Approach ("the DCF Approach"). The broad steps adopted for the valuation for Karcham Project and Baspa Project based on DCF Approach are given in **Appendix B** and **Appendix C** respectively.

3.1.4. Since, each power project is governed by specific PPA, a more reliable basis of valuation would be the DCF Approach, which considers project specific financials. Whilst, the approaches based on comparable companies/own multiples may be less appropriate as the same would be driven by the company specific PPA. Given that we have project specific long term projections, we have based our recommendation based only on the DCF Approach.

3.1.5. Shares of JPVL are listed on the National Stock Exchange of India Limited ("NSE") and BSE Limited ("BSE"). It may however, be noted that only the Transferred Undertakings are being exchanged under the scheme and not the operations of the company in its entirety. We have therefore, related the market capitalization of JPVL over its total power generation capacity and applied this quotient to the power generating capacity of the Transferred Undertakings to get a reflection of the project value in the market price of JPVL. This method is used as a crosscheck for the Enterprise Value as also the Business Value arrived at under the DCF Approach.

3.2 Valuation of the Instruments to be allotted:

3.2.1. As represented by the Management, 1,25,00,00,000 Equity shares of face and paid up value Rs. 10 each aggregating to Rs. 1250 Crores and 25,00,00,000 13% Debentures of face and paid up value Rs. 100 each aggregating to Rs. 2500 Crores are proposed to be allotted to JPVL for the proposed transfer.

3.2.2. In connection with determining the fair value of the equity instruments we find that the Transferee Company does not have any operations and that the break-up value of its

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equity shares based on the projected Balance Sheet of the Transferee Company as at the Valuation Date would be Rs. 10 per Equity Share which is also its face value. Accordingly, the Fair value of the equity shares of the Transferee Company would be its face and paid-up value.

3.2.3. In connection with determining the fair value of the Debentures proposed to be allotted, we have adopted the following approach:

3.2.3.1. We have taken the yield of the listed bonds and debentures that are non-convertible and unsecured from the information on Corporate Bonds listed on the Exchange from NSE as at October 31, 2014.

3.2.3.2. We have taken a simple average of the aforesaid yields to arrive at the average yield for the said Debt Segment.

3.2.3.3. The said average yield is then adjusted upward to provide for the rating of JPVL and for non-marketability.

3.2.3.4. Accordingly, we find the yield of 13% as Market yield for the Debentures proposed to be issued.

3.2.3.5. Since the Market yield is equal to the Coupon rate of the Debentures the face value of the Debentures is the fair value.

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4. Valuation and Conclusion

4.1 Based on the foregoing, in our opinion, on the Valuation Date the Enterprise Value of Karcham Project is Rs. 8262 Crores (Rupees Eight Thousand Two Hundred and Sixty Two Crores) and that of Baspa Project is Rs. 1353 Crores (Rupees One Thousand Three Hundred and Fifty Three Crores Only).

4.2 As represented by the Management, 1,25,00,00,000 Equity shares of face and paid up value Rs. 10 each aggregating to Rs. 1250 Crores and 25,00,00,000 13% Debentures of face and paid up value Rs. 100 each aggregating to Rs. 2500 Crores are proposed to be allotted to JPVL at par for the proposed transfer. Considering the debt of the Transferred Undertakings as on the Valuation Date and that the fair value of the instruments is their face and paid up value the said allotment is fair.

5. Limitations and disclaimers

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

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

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

5.4 We have relied on the written representations provided by the Management that the information contained in this report is materially accurate and complete in the manner of its portrayal and therefore forms a reliable basis for the valuation.

5.5 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. However, we have examined the projections for their acceptability before using the same for the valuation.

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

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

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

5.9 We have relied on the judgment made by the Management and, accordingly, our valuation does not consider the assumption of contingent liabilities materialising (other than those specified by the Management and the Auditors). If there were any omissions, inaccuracies or

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misrepresentations of the information provided by the Management, then this may have the effect on our valuation computations.

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

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

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

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

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

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6. Gratitude

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

Place: Mumbai

Date: November 14, 2014

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Appendix A: Broad Summary of Data Obtained

From the Management

1. Draft Scheme of Arrangement under sections 391 to 394 of the Companies Act, 1956 between JPVL and the Transferee Company.
2. Projected Financial Statements of Karcham Project from March 31, 2015 to March 31, 2037 along with the key assumptions.
3. Projected Financial Statements of Baspa Project from March 31, 2015 to March 31, 2063 along with the key assumptions.
4. Power Purchase Agreement entered into between PTC India Limited and Jaypee Karcham Hydro Corporation Limited.
5. Power Purchase Agreement entered into between the Himachal Pradesh State Electricity Board and Jaiprakash Hydro Power Limited.
6. Details of Contingent Liabilities, likely to crystallize attributable to the Transferred Undertakings
7. Provisional Financial Statements of each of the Transferred Undertakings as at September 30, 2014
8. Shareholding Pattern of JPVL as on September 30, 2014.
9. Balance Sheet of the Transferee Company as at March 31, 2015
10. 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 the website of the Reserve Bank of India.
2. Prowess Database for establishing comparability.
3. Website of JPVL and Comparable Companies for their financial statements and business background.
4. Websites of BSE and NSE for Market prices of Comparable Companies and their financial statements as also the movement in index.

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

1. We have taken the earning before tax, to which we have added back depreciation and interest. Further such earning was adjusted for non-operating incomes and expenses so as to arrive at operating Earnings before Interest Depreciation and Tax (EBIDTA).
2. Considered projected EBIDTA arrived in step 1 above for future twenty two years to end on March 31, 2037.
3. The EBIDTA as envisaged in Step 2 has been adjusted by capital outlays, as also the increase or decrease in working capital and the income tax liability so as to arrive at the Free Cash Flows in the respective future years.
4. The Project was commissioned in 2011-12, the current PPA is for 35 years which could be extended for further period of 25 years since the project could be with the company for 60 years (initial period of 40 years with provision of further extension of 20 years). The projections were provided upto 2037 beyond which estimated free cash flow for the year ending March 31, 2037 is taken as base to arrive at the continuing value, for next 34 years beyond March 31, 2037. These Free Cash Flows including continuing value are discounted at the Weighted Average Cost of Capital ("WACC") to arrive at the Net Present Value ("NPV") thereof.
5. The NPV of Free Cash Flows is aggregated to arrive at the Enterprise Value as at the Valuation Date.
6. The Enterprise Value as arrived at in step 6 is reduced by the amount of debt and the amount of contingent liabilities likely to crystallize to arrive at the Business Value of Karcham Project.

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Appendix C: Broad Description of the Steps for Arriving at Value for Baspa Project under DCF Approach

1. The Project was commissioned in 2003-04 and the current PPA is for 40 years with further possible extension of 20 years. We have been provided by the Management with the projected financial statements of Baspa Project for balance forty eight years.
2. We have taken the earning before tax, to which we have added back depreciation and interest. Further such earning was adjusted for non-operating incomes and expenses so as to arrive at operating Earnings before Interest Depreciation and Tax (EBIDTA).
3. Considered projected EBIDTA arrived in step 1 above for future forty eight years to end on March 31, 2063.
4 The EBIDTA as envisaged in Step 2 have been adjusted by capital outlays, as also the increase or decrease in working capital and the income tax liability so as to arrive at the Free Cash Flows in the respective future years.
5. These Free Cash Flows are discounted at the Weighted Average Cost of Capital ("WACC") to arrive at the Net Present Value ("NPV") thereof.
6. The NPV of Free Cash Flows is aggregated to arrive at the Enterprise Value as at the Valuation Date.
7. The Enterprise Value as arrived at in step 6 is reduced by the amount of debt and the amount of contingent liabilities likely to crystallize, if any, to arrive at the Business Value of Baspa Project.

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