FAIR VALUATION

OF

BINA TERMAL POWER PROJECT

A UNIT OF

JAIPRAKASH POWER VENTURES LIMITED
("JPVL" or "the Company")

ACCOUNTANTS' REPORT

CERTIFIED TRUE COPY
For JAIPRAKASH POWER VENTURES LTD.

(M. M. SIBBAL)
Vice President & Company Secretary

Bansi S. Mehta & Co.
Chartered Accountants,
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41, New Marine Lines,
Mumbai-400 020.

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Jaiprakash Power Ventures Ltd.

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 Bina Thermal Power Project ("Bina Project") referred to as the Undertaking, as a going concern, to Bina Power Supply 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.
- 12.5% Non-Convertible Debentures of the Transferee Company.

We have been approached by the Management of Jaiprakash Power Ventures Limited (JPVL) ("the Management") to carry out a fair valuation of Bina Thermal Power Plant as at September 1, 2015 for its sale purpose.

Accordingly, this valuation report ("the Report") sets out the findings of our exercise. For the purpose of our Report, we have considered the Valuation Date of September 1, 2015 ("Valuation Date").

1.2. Profile of the Bina Project:

Bina Thermal Power Project is a unit of Jaiprakash Power Ventures Limited. Company entered into an Implementation Agreement ("IA") on January 30, 2009 with the Government of Madhya Pradesh to set-up a 1250 MW coal based thermal power project at Bina, Madhya Pradesh in two phases. As per the IA, Company would set-up power plant of 500 MW (2 X 250 MW) in the first phase (Phase I) and the balance would be implemented in second phase based on availability of coal (Phase II).

Currently, Bina Thermal Power Project of JPVL consist of 2 units of 250 MW each. It is located about 15 km north of Bina town, district Sagar, Madhya Pradesh. In the First Phase, first unit of Bina Thermal Power Project commissioned on 31st August 2012 whereas second unit commissioned on 7th April 2013.

Some basic financial information of Bina Project:

Particulars	Amount in Rs. Crores
Revenue for the year ended March 31, 2016	896
EBITDA for the year ended March 31, 2016	461
Net-worth of the transferred assets of the Undertaking as at September 30, 2015	1,121
Borrowings as at September 1, 2015 (including working capital loan)	2,085

1.3. Profile of the Transferee Company

Bina Power Supply Limited, a company incorporated under the Companies Act, 1956, having its registered office at Rajiv Nagar, Post Box and P.O. Agasod, Tehsil & P.O. – Bina – 470113, Madhya Pradesh. The equity share capital of the Company is held to the extent of 98.99% by JPVL.

Shares of Bina Power Supply Limited are not listed on any stock exchange.

1.4. Share Capital of JPVL

The Authorised, Issued, Subscribed and Paid-up capital of the JPVL as on March 31, 2016 is as under:

Particulars		Amount (Rs. in Crores)
Authorised		
(i)	8,300,000,000 Equity Shares of Rs. 10/- each	8,300.00
(ii)	300,000,000 Preference Shares of Rs. 10/- each	3,000.00
Issued, subscribed and paid-up		
(i)	2,938,003,084 Equity Shares of Rs. 10/- each	2,938.00

1.5. Shareholding of JPVL

The Shareholding pattern of the JPVL as on March 31, 2016 is as under:

Name	Percentage	No of Shares
Promoter and Promoter Group	63.60%	1,86,86,48,237
Public Shareholding	36.40%	1,06,93,54,847
Total	**100%**	**2,93,80,03,084**

1.6. Marketability

The shares of JPVL are listed on BSE and NSE in India.

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2. **DATA OBTAINED**

2.1. We have called for and obtained such data, information, etc. as were deemed necessary for the purpose of our assignment, which have been made available to us by the Management of JPVL. **Appendix A** hereto gives a broad summary of the data obtained.

2.2. For the purpose of our assignment, we have relied on the statements, information and explanations provided to us and have not tried to establish the accuracy or otherwise thereof.

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3. APPROACH FOR VALUATION

3.1. Valuation of the Undertaking

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 undertaking that is being valued is engaged in generation of power, the sale of which is governed by Power Purchase Agreement ("PPA") entered for a long period extending upto twenty five years, thereby giving a more reliable long term perspective to the project.

3.1.3. Given that there are more definitive long term financial projections available for the Undertaking, we have found it more appropriate to value the Undertaking 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 based on DCF Approach are given in **Appendix B** hereto.

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. 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 only on the DCF Approach.

3.1.5. We have calculated the range of EV to capacity multiples for some of the recent power Undertaking deals. We have applied this range to the commissioned capacity of Bina Project to derive the range of values for the same. We observe that the fair value of the Undertaking arrived at under the DCF Approach as discussed in para 3.1.3 hereinabove is within the range of these values. This method is used as a crosscheck for the value arrived at under the DCF Approach.

3.2. Valuation of the Instruments to be allotted:

3.2.1. As represented by the Management, 25,00,00,000 Equity shares of face and paid up value Rs. 10 each aggregating to Rs. 250 Crores and 5,00,00,000 12.5% Debentures of face and paid up value Rs. 100 each aggregating to Rs. 500 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 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.

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 have arrived at the Market yield for the Debentures proposed to be issued.

3.2.3.5. We have arrived at the Fair Value of the debentures by discounting the same as at Valuation Date based on its terms of redemption at the Market yield.

4. **VALUATION AND CONCLUSION**

4.1. Based on the foregoing, in our opinion, on the Valuation Date the Enterprise Value of Bina Project is Rs. 2,669 Crores (Rupees Two Thousand Six Hundred and Sixty Nine Crores)

4.2. As represented by the Management, 25,00,00,000 Equity shares of face and paid up value Rs. 10 each aggregating to Rs. 250 Crores and 5,00,00,000 12.5% Debentures of face and paid up value Rs. 100 each aggregating to Rs. 500 Crores are proposed to be allotted to JPVL at par for the proposed transfer. Considering the debt of the Undertaking as on the Valuation Date and the fair value of the instruments as derived under para 3.2.3 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 materializing (other than those specified by the Management and the Auditors). If there were any omissions, inaccuracies or 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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Jaiprakash Power Ventures Ltd.

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

BANSI S. MEHTA & CO.

BANSI S. MEHTA & CO. MUMBAI CHARTERED ACCOUNTANTS

Bansi S. Mehta & Co.

DATE: JUNE 16, 2016

CHARTERED ACCOUNTANTS

Jaiprakash Power Ventures Ltd.

APPENDIX A : BROAD SUMMARY OF DATA OBTAINED

From the Management

1. Brief history and brief note on the business profile of Bina.
2. Projected Financial Statements of Bina for future twenty years and seven months to end March 31, 2036 along with key assumptions.
3. Details of Contingent Liabilities, likely to crystallize, attributable to the Bina Project.
4. Statement of Assets and Liabilities of Bina as at March 31, 2016.
5. Shareholding Pattern of JPVL as on March 31, 2016.
6. Answers to specific questions and issues raised by us after examining the foregoing data.

From publicly available sources

1. The Risk free rate of return used in the calculation of cost of equity is taken from Reserve Bank of India website.
2. Prowess Database for establishing comparability.
3. Website of JPVL and Comparable Companies for their financial statements and business background.
4. Websites of BSE Ltd. and National Stock Exchange of India Limited for Market prices of Comparable Companies and their financial statements as also the movement in Sensex.

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APPENDIX B : BROAD DESCRIPTION OF THE STEPS FOR ARRIVING AT VALUE UNDER DCF APPROACH

1. We have been provided with the projections for the future twenty years for Phase I of the Project. We have taken the earning before tax, to which we have added back depreciation and interest from such projections. Further such earning was adjusted for non-operating incomes and expenses so as to arrive at operating Earnings before Interest Depreciation and Tax (EBIDTA) for Phase I.

2. Considered projected EBIDTA arrived in step 1 above for the future seven months and twenty years to end on March 31, 2036.

3. 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 attributable to Phase I of the Project in the respective future years.

4. These Free Cash Flows are discounted at the Weighted Average Cost of Capital ("WACC") to arrive at the Net Present Value ("NPV") thereof.

5. It may be noted that the PPA entered into with the Government of Madhya Pradesh for Phase I is for a period of 25 years (w.e.f. April 13, 2013), i.e. for a period of two years beyond the projected period, we have therefore computed the continuing value of Phase I of the Bina Project for the next two years beyond the projected period.

6. As discussed earlier, Phase I of Bina Project has already commissioned. The projections provided by the Management capture the value derived from Phase I of Bina Project. However, it is understood from the client that certain facilities for Land, Barrage (Water Facility) and Transmission lines are already in place even for Phase II and additional expenditure would not have to be incurred for Phase II in this regard. We have therefore allocated the market value of land, the cost of construction of Barrage, and the cost of Transmission lines proportionately to Phase II of the Project.

7. The NPV of Free Cash Flows, continuing value as discussed above, recoverable value of the project at the end of the PPA for Phase I as also the proportionate value of certain facilities allocated to Phase II, as discussed at Point 6 above are aggregated to arrive at the Enterprise Value as at the Valuation Date.

8. The Enterprise Value as arrived at in step 7 has been reduced by the amount of debt and the amount of contingent liabilities likely to crystallize, if any, to arrive at the Business Value of Bina Project.

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