



To

The Board of Directors
Steel Exchange India Limited
Hyderabad

To

The Board of Directors
Simhadri power Limited
Hyderabad

Dear Sir,

Sub: Recommendation of Fair Equity Share Exchange Ratio for the purpose of the proposed merger of Simhadri power Limited (SPL) with Steel Exchange India Limited (SEIL).

We refer to our engagement letter 4th June 2013 for carrying out the valuation of SPL & SEIL for the purpose of arriving at the swap ratio for Merger. As per the terms of the engagement, we are enclosing herewith our report.

We thank you for providing us the opportunity to work on this engagement and we look forward to continued association with you.

We trust you will find our report informative and useful.

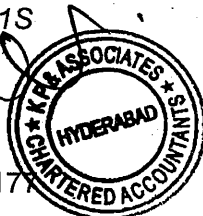
Feel free to contact us if you have any further clarification or need any information.

Yours faithfully,

For K P & ASSOCIATES.,
Chartered Accountants
Firm Reg No : 012191S


(CA. VPRN Prasad)
Partner


Membership No.219177



Place: Hyderabad
Date : 24th June 2013

Certified True Copy

For STEEL EXCHANGE INDIA LIMITED


Company Secretary

SCOPE AND PURPOSE OF THIS REPORT:

Steel Exchange India Limited (herein after referred as "**SEIL** ") is a listed company engaged in the business of manufacturing of steel products and trading of steel related products.

Simhadri power Limited (herein after referred as "**SPL**") is engaged in the business of generation of Power.

We have been given to understand that the management of the companies (i.e., **SEIL & SPL**) are exploring the possibility of consolidating their business into a single entity by merging SPL into SEIL (the proposed "Merger") on a going concern basis through a scheme of amalgamation under the provisions of Sections 391 to 394 of the Companies Act 1956 (the "Scheme").

In this connection, **K P & ASSOCIATES.**, Chartered Accountants has been requested by the Boards of the Companies to submit a report recommending the fair equity share exchange ratio for the proposed merger for the consideration of the boards of the companies.

As requested, we have carried out a relative valuation of equity shares of SEIL and SPL with a view to recommending a fair equity share exchange ratio of the equity shares of SPL for the equity share of SEIL in the event of proposed merger. This report recommends, what in our opinion is a fair and equitable equity share exchange ratio for the proposed merger.

The information contained herein and our report is absolutely confidential. It is intended only for the sole use and information of the companies and only in connection with the proposed merger as aforesaid including for the purpose of obtaining regulatory approvals for the proposed merger. We are not responsible to any other person/party for any decision of such person or party based on this report. Any person /party intending to provide finance / invest in shares / business of any of the companies and /or investee companies shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision. It is hereby notified that any reproduction, copying or otherwise quoting of this report or any part thereof, other an in connection with proposed merger as aforesaid, can be done only with our prior permission in writing.

This report is our deliverable in respect of our recommendation of the fair equity share exchange ratio for the purpose of the proposed merger.

Our report is subject to the scope of limitations detailed herein after. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

K P & ASSOCIATES.,

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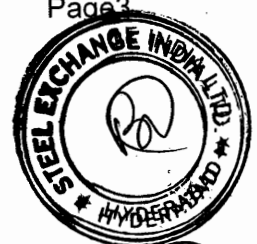
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I. SEIL - Introduction & Background

History :

SEIL was originally incorporated in India under the Companies Act, 1956 with Registration No L74100AP1999PLC031191 as M/s. Pyxis Technology Solutions Private Limited. The name of the company has been changed to M/s Pyxis Technology Solutions Limited, on 24th February, 2000 with Registrar of Companies, Andhra Pradesh at Hyderabad. Subsequently, the name of the company has been changed to Steel Exchange India Limited on August 25, 2004.

The Registered Office of Company is situated at Flat No. 303, My Home Lakshmi Nivas Apts, Ameerpet Greenlands, Hyderabad- 500016, Andhra Pradesh.

**Steel Exchange India Limited, a trusted source for Quality of steel products since 2002.
SPL is in the business of power generation**

SEIL has the following manufacturing units:

A. Steel Melting Shop (Ingot & Billet)

1. **Steel Ingot and Natural Gas based power plant** : Kothapeta Village, East Godavari District, Andhra Pradesh.

Product – 90,000 TPA of Steel ingots & 11.64 MW of gas based Power

2. **Billet unit** : Maliveedu, L.Kota Mandal, Vizianagaram District, Andhra Pradesh

Product – 200,000 TPA of Steel Billets

B. Rolling Mills

1. IDA, Bonangi Village, Parawada Mandal, Visakhapatnam District, Andhra Pradesh.

Product- TMT Re-bars of sizes 8 mm to 25 mm. Capacity-45,000 TPA

2. Maliveedu, L.Kota Mandal, Vizianagaram District, Andhra Pradesh

Product- TMT Re-bars of sizes 8 mm to 25 mm. Capacity-2,25,000 TPA

C. Wire Drawing Division

Plot No.17 & 18, IDA, Block-E , Auto Nagar, Vishakapatnam- 12, Andhra Pradesh.

Product- Mild steel and special steel PC wires, wire strands and gauge wire- 24,000 TPA

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D. Sponge Iron Division

2,20,000 TPA of Sponge Iron at Maliveedu, L.Kota Mandal, Vizianagaram District, Andhra Pradesh

SEIL is dealing with manufacturing of the following steel products:

1. Steel rebars of various sizes
2. Billets
3. Ingots
4. Gauge wire and LRPC wire
5. Sponge Iron

The Company is listed on Bombay Stock Exchange (BSE) and Calcutta Stock Exchange (CSE).

Vision & Strength:

Our vision is to participate in the growth of per capita steel consumption by providing quality material and competitive advantage in the sector.

Our strength of the product under Constant innovation through high end technologies led to our emergence as of the well known product manufacturer. This drives SEIL in to the focus of customer with the stamp of a class of its own standing tall in the industry with superior quality. The hallmark of forefront organization gearing up to meet the needs of future in the steel sector.

Forging a character of steel, with determination, devotion and dedication over the period of years, we the SEIL, blended years of experience, production excellence and trained manpower and amalgam of brilliance resulted in our setting up a hard working ambitious enterprise, poised to scale new heights year by the year 2020 in Andhra Pradesh.

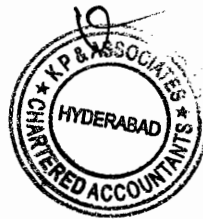


Valuation date & Source of Information

The date of valuation considered is March 31, 2013. We have been provided the SEIL information for our valuation analysis.

- Audited financial statements of SEIL for the year ended March 31, 2011, for 15 months ended June 30, 2012 and 9 months ended March 31, 2013
- Financial projections prepared by the management for the years ended March 31, 2014, 2015, 2016, 2017 & 2018
- Information on business and profile provided by the management of SEIL.
- Other related information from various sources.

We have also obtained necessary explanations and information, which we believed were relevant to the present exercise, from the executive and representatives of SEIL. It may be mentioned that SEIL has been provided opportunity to review the draft report (excluding our valuation analysis and recommendation) for the current job as part of our standard practice to make sure that factual inaccuracies are avoided in our report.



Business Overview

Financial information

The key audited financial items of SEIL for the year ended 31st March 2011, 31st March 2012 and 31st March 2013 are shown below:

Profit and Loss Account:

(Rs in Lakhs)

Particulars	As at 31.03.11	% of Income	As at 30.06.12 (For 15 months period from 01.04.2011 To 30.06.2012)	% of Income	As at 31.03.13 (for 9 months period from 01.07.2012 To 31.03.2013)	% of Income
Total Revenue	1,16,184	100.00%	1,71,644	100.00%	1,00,101	100.00%
Expenses	1,07,543	92.56%	1,55,366	90.52%	88,582	88.49%
EBIDTA	8,641	7.44%	16,278	9.48%	11,520	11.51%
Depreciation	1,114	0.96%	1,716	1.00%	1,176	1.17%
Finance Charges	4,792	4.12%	10,781	6.28%	6,309	6.30%
PBT	2,735	2.35%	3,781	2.20%	4,034	4.03%
Tax Expenses	1,035	0.89%	1,094	0.64%	(1,294)	-1.29%
PAT	1,700	1.46%	2,687	1.57%	5,329	5.32%

Source: Audited financial statements of SEIL.



Balance Sheet:

Particulars	(Rs in Lakhs)					
	As at 31.03.2011 Amount ₹	% of Assets	15 months ended as at 30.06.2012 Amount ₹	% of Assets	9 months ended as at 31.03.2013 Amount ₹	% of Assets
I. EQUITY AND LIABILITIES						
Shareholder's funds:						
a) Share Capital	4,340	5.08%	5,195	4.41%	5,195	4.27%
b) Reserves and Surplus	11,806	13.82%	17,093	14.52%	22,422	18.42%
c) Equity Share Capital Suspense Account	-	0.00%	598	0.51%	598	0.49%
d) Money received against Share Warrants	3,815	4.47%	-	0.00%	-	0.00%
	19,961		22,886		28,215	
Non-Current liabilities						
a) Long Term Borrowings	15,653	18.32%	13,955	11.86%	11,320	9.30%
b) Deferred Tax Liability	1,541	1.80%	1,449	1.23%	1,804	1.48%
c) Other Long Term Liabilities	-	0.00%	-	0.00%	300	0.25%
	17,195		15,404		13,424	
Current Liabilities						
a) Short-term Borrowings	14,485	16.96%	22,814	19.38%	24,347	20.00%
b) Trade Payables	21,539	25.21%	43,069	36.59%	42,518	34.93%
c) Other Current Liabilities	11,441	13.39%	11,687	9.93%	13,058	10.73%
d) Short Term Provisions	810	0.95%	1,840	1.56%	177	0.15%
	48,275	100.00%	79,411	100.00%	80,100	100.00%
TOTAL	85,430	100.00%	1,17,701	100.00%	1,21,740	100.00%
II. ASSETS						
Non-current assets						
a) Fixed assets						
(i) Tangible assets	18,267	21.38%	32,753	27.83%	32,473	26.67%
(ii) Capital Work in Progress	970	1.14%	247	0.21%	358	0.29%
b) Non Current Investments	1,669	1.95%	3,529	3.00%	3,529	2.90%
c) Long-term Loans and Advances	11,557	13.53%	1,067	0.91%	684	0.56%
	32,462		37,595		37,044	
Current assets						
a) Inventories	20,851	24.41%	35,011	29.75%	41,716	34.27%
b) Trade Receivables	16,988	19.89%	26,281	22.33%	26,134	21.47%
c) Cash and Cash Equivalents	2,680	3.14%	4,867	4.14%	3,704	3.04%
d) Short term Loans & Advances	12,328	14.43%	13,627	11.58%	11,955	9.82%
e) Other Current Assets	120	0.14%	319	0.27%	1,186	0.97%
	52,968	100.00%	80,105	100.00%	84,696	100.00%
TOTAL	85,430	100.00%	1,17,701	100.00%	1,21,740	100.00%

Source: Audited financial statements of SEIL



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Financial Projections

The financial projections for the year ended 31st March 2014 to 31st March 2018 are shown below:

(Rs. In Lakhs)

Particulars	FY 2014 (E)	FY 2015 (E)	FY 2016 (E)	FY 2017 (E)	FY 2018 (E)
Gross Sales Revenue	1,33,937	1,25,424	1,27,004	1,31,688	1,32,229
Cost of Sales	1,18,541	1,06,310	1,08,590	1,12,887	1,13,624
Marketing & Admin. Exp.	2,855	2,769	2,847	2,977	3,026
EBIDTA	12,541	16,345	15,567	15,824	15,579
Dep. & Amortization	1,327	1,315	1,270	1,249	1,230
Finance Charges	6,779	6,107	5,849	5,689	5,509
PBT	4,435	8,923	8,448	8,886	8,840
Tax Expenses	976	1,963	1,859	1,955	2,917
PAT	3,459	6,960	6,589	6,931	5,923
EBIT	11,214	15,030	14,297	14,575	14,349

Source: Projected financial statements of SEIL.



II. SPL - Introduction & Background

History

SPL was originally incorporated in India under the Companies Act, 1956 with Registration No. U40101AP2009PLC064736 as M/s Simhadri Power Private Limited on August 13, 2009 with Registrar of Companies, Andhra Pradesh at Hyderabad. Subsequently the company converted in to Public Limited Company with effect from November, 09, 2010.

The Registered Office of SPL is situated at 303, My Home Lakshmi Nivas, Green Lands, Ameerpet, Hyderabad, Andhra Pradesh - 500016

SPL is in the business of generation of power

SPL has established its 60 MW power Plant at SEIL Integrated Steel Plant Premises Malliveedu, L. Kota Mandal, Vizianagaram District, Andhra Pradesh. The plant has a 50 MW CFBC boiler and 2 WHRBC boilers of 5 MW capacities each. The waste flue gases of the DRI kilns of SEIL are used to generate power up to 10 MW. The CFBC boiler utilizes coal char and fines generated by the DRI kilns of SEIL and fresh coal. The power plant thus efficiently utilizes the waste generation of SEIL.

SPL is a captive power plant of SEIL promoted by SEIL. By virtue of the stipulations of CEA, i.e. if 26% of the paid up share capital of the power company is held by another company and if it supplies up to 51% of its power generated to that company then it is treated as a captive power plant of that company.

The company has started its commercial operations in the year 2012-13.
The Company is not listed in any stock exchanges in India and abroad.

Strength

The strength of Company is its technical staff. SPL has well experienced persons heading the power generation activity. The project was completed well in time with barely any delay considering nature of project and has already commenced generation and supply of power to SEIL and power traders.

Vision

The company plans to for optimum utilization of scare resources and waste products to produce energy with cost efficiency and having benefits of environmental protection.



Valuation date & Source of Information

The date of valuation considered is March 31, 2013. We have been provided with the following information for our valuation analysis.

- Audited financial statements of SPL for the years ended March 31, 2011, 2012, 2013
- Financial projections prepared by the management for the years ended March 31, 2014, 2015, 2016, 2017 & 2018.
- Information on business and profile provided by the management of SPL.
- Other related information from various sources.

We have also obtained necessary explanations and information, which we believed were relevant to the present exercise, from the executive and representatives of SPL. It may be mentioned that SPL has been provided opportunity to review the draft report (excluding our valuation analysis and recommendation) for the current job as part of our standard practice to make sure that factual inaccuracies are avoided in our report.



Business Overview

Financial information

The key audited financial items of SPL for the year ended 31st March 2011, year ended 31st March 2012 and 31st March 2013 are shown below:

Profit and Loss Account:

(Rs in Lakhs.)

Particulars	As at 31.03.11	% of Income	As at 31.03.12	% of Income	As at 31.03.13	% of Income
Total Revenue					5,362.95	100.00%
Expenses					3,318.39	61.88%
EBIDTA	NA	NA	NA	NA	2,044.55	38.12%
Depreciation	1.38		7.53		545.72	10.18%
Finance Charges	28.31		1401.45		1,332.55	24.85%
PBT	NA	NA	NA	NA	166.29	3.10%
Tax Expenses	8.13		8.65		1,883.52	35.12%
PAT	NA	NA	NA	NA	(1,717.24)	-32.02%

Source: Audited financial statements of SPL.



Balance Sheet:

Particulars	(Rs in Lakhs)					
	As at 31.03.2011 Amount ₹	% of Assets	As at 31.03.2012 Amount ₹	% of Assets	As at 31.03.2013 Amount ₹	% of Assets
I. EQUITY AND LIABILITIES						
Shareholder's funds:						
a) Share Capital	3,349	83.99%	7,159	26.64%	9,000	22.86%
b) Reserves and Surplus	-	0.00%	-	0.00%	(1,717)	-4.36%
c) Share Application Money Pending Allotment	306	7.68%	-	0.00%	-	0.00%
	3,655		7,159		7,283	
Non-Current liabilities						
a) Long Term Borrowings	3	0.09%	19,074	70.99%	21,954	55.76%
b) Deferred Tax Liability	-	0.00%	-	0.00%	1,882	4.78%
	3		19,074		23,836	
Current Liabilities						
a) Short-term Borrowings	-	0.00%	-	0.00%	2,515	6.39%
b) Trade Payables	-	0.00%	-	0.00%	3,386	8.60%
c) Other Current Liabilities	320	8.04%	629	2.34%	2,322	5.90%
d) Short Term Provisions	8	0.20%	9	0.03%	35	0.09%
	329	100.00%	637	100.00%	8,257	100.00%
TOTAL	3,987	100.00%	26,871	100.00%	39,376	100.00%
II. ASSETS						
Non-current assets						
a) Fixed assets						
(i) Tangible assets	15	0.38%	30	0.11%	31,386	79.71%
(ii) Capital Work in Progress	1,150	28.86%	22,437	83.50%	-	0.00%
b) Pre-Operative Expenses	210	5.27%	1,949	7.25%	-	0.00%
c) Long-term Loans and Advances	2,194	55.03%	0.69	0.00%	0.10	0.00%
	3,570		24,417		31,386	
Current assets						
a) Inventories	-	0.00%	-	0.00%	5,396	13.70%
b) Trade Receivables	-	0.00%	-	0.00%	1,699	4.31%
c) Current Investments	-	0.00%	800	2.98%	-	0.00%
d) Cash and cash equivalents	142	3.57%	837	3.12%	736	1.87%
e) Short term Loans & Advances	274	6.88%	817	3.04%	159	0.40%
	417	100.00%	2,454	100.00%	7,990	100.00%
TOTAL	3,987	100.00%	26,871	100.00%	39,376	100.00%

Source: Audited financial statements of SPL



Financial Projections:

The financial projections for the year ended 31st March 2014 to 31st March 2018 are shown below:

Particulars	(Rs. In Lakhs)				
	FY 2014 (E)	FY 2015 (E)	FY 2016 (E)	FY 2017 (E)	FY 2018 (E)
Gross Sales Revenue	18,994	20,175	20,176	20,175	20,175
Cost of Sales	10,419	10,489	10,527	10,566	10,607
Marketing & Admin. Exp.	194	205	211	216	222
EBIDTA	8,381	9,481	9,438	9,393	9,346
Dep. & Amortization	1,585	1,585	1,585	1,585	1,585
Finance Charges	3,570	3,588	3,319	3,031	2,726
PBT	3,226	4,308	4,534	4,777	5,035
Tax Expenses	581	861	1,360	1,576	1,662
PAT	2,645	3,447	3,174	3,201	3,373
EBIT	6,796	7,896	7,853	7,808	7,761

Source: Projected financial statements of SPL.

III. Valuation Analysis

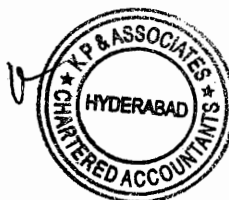
Valuation Methodologies (SEIL & SPL)

Valuation of the enterprise or its equity shares is not an exact science and ultimately depends upon what it is worth to a serious investor or buyer who may be even prepared to pay goodwill. This exercise may be carried out based on the generally accepted methodologies, the relative emphasis of each often varying with the factors such as:

- Specific nature of the business
- Listing and liquidity of the equity
- Economic life cycle in which the industry or the company is operating and
- Extent to which and comparable company information is available.

The results of this exercise could vary significantly depending upon the basis used, the specific circumstances and professional judgment of the valuer. In respect of going concerns, certain valuation techniques have evolved over time and are commonly in vogue.

In this regard, we have evaluated suitability of three commonly used approaches of valuation to determine the fair value of two companies and used them in our valuation. After arriving at the values based on appropriate methods, we have assigned weightings to these methods to determine the fair value for the two companies.



1) Net Assets Method (NAV):

The value arrived at under this approach is based on the estimated financial statements of the business and may be defined as Shareholder's Funds or Net Assets owned by the business. The Net Assets Value is generally used as the minimum break-up value for the transaction. This methodology calculates the underlying net Assets of the business on a book value basis. We have used the said method as one of the methodologies to estimate the value of two companies.

2) Discounted Cash Flow Method (DCF):

The DCF method uses the future free cash flows of the company discounted by the cost of capital to arrive at the present value. In general, the DCF method is a strong and widely accepted valuation tool, as it concentrates on cash generation potential of a business, considering that this method is based on future potential and is widely accepted, we have included this approach as one of the methodologies in the valuation exercise.

Using the DCF analysis involves determining the SEIL owing:

Estimating future free cash flows:

Free cash flows are the expected to be generated by the company that is 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 share holders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the equity 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, the amount of loans has to be adjusted to arrive at the total value available to the equity shareholders. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share of the both companies.

3) Stock Exchange Quotation or Market Price Method:

This valuation reflects the price that the market at a point in time is prepared to pay for the shares. It is therefore influenced by the condition of the stock market, the concerns and opportunities that are seen for the business in the sector or market in which it operates.

The market price is also reflects the investor's view of the ability of the management to deliver a return on the capital it is using. In the case of companies not frequently traded, this value may be very different from the inherent value of the shares, but nevertheless forms a benchmark value. We have adopted this method for SEIL as one of the methodologies and not used for SPL for the purpose of this valuation analysis as its not listed on any of the Stock Exchanges.

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Valuation Analysis (SEIL):

We have carried out the valuation analysis as described above, based on the fundamental assumption of going concern for the business under consideration. The detailed analysis and the assumptions made these purpose are given below:

Method 1: Net Asset Value Method (NAV)

In order to assess the NAV of the Company, we have used the **audited financial statements** for the year ended 31st March 2013. The estimated value arrived under this approach using the shareholders funds of Net Assets owned by the business as at 31st March 2013 is **Rs.18,729 lakhs**.

Valuation as on 31.03.2013 - NAV Method		
Particulars	Rs. In Lakhs	Rs. In Lakhs
Fixed Assets: Net Block	32,473.02	
Less: impairment / adjustment	-	
Net block of FA	32,473.02	
Capital work in progress	358.16	
Total fixed assets (Net)		32,831.18
Investments		3,528.71
Current Assets		
Net Current assets	25,923.15	
Realizable value of Net Current assets		25,923.15
Cash & Bank Balances		3,704.10
Total Assets		65,987.14
Borrowings		
Secured Loans		35,667.79
SAM & Unsecured Loans		300.00
Total borrowings		35,967.79
Net worth - unadjusted		30,019.35
Less: Revaluation Reserve		10,256.11
Less: Contingent liabilities		1,034.20
Net Value		18,729.04

Source: Audited financial statements of SEIL

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Method 2: Discounted Cash Flow Method (DCF)**Estimated Free Cash Flows:**

For the purpose of valuation exercise, we have considered a five year projected period i.e. from the financial year 2014 to 2018.

The cash flow projections as on a free cash flow to equity (FCFE) basis are summarized below:

(Rs. In lakhs)

FCFF - DCF Calculation	FY 2014 (E)	FY 2015 (E)	FY 2016 (E)	FY 2017 (E)	FY 2018 (E)
EBIT	11,214.09	15,030.80	14,296.84	14,574.54	14,348.88
Taxes	975.72	1,963.14	1,858.58	1,954.82	2,917.04
NOPLAT	10,238.37	13,067.66	12,438.26	12,619.73	11,431.84
Add: Dep. & Amortization	1,327.04	1,314.69	1,269.67	1,248.96	1,230.34
Less: Capex	1,327.04	1,314.69	1,269.67	1,248.96	1,230.34
Less: Working Capital Changes	2,324.32	(652.34)	3,717.40	1,028.88	113.78
Free Cash flow	8,889.77	15,683.14	10,579.44	13,545.67	14,235.10
Year	1.00	2.00	3.00	4.00	5.00
Disc Factor	0.92	0.84	0.77	0.71	0.65
Present Value of Cash Flows	8,149.02	13,178.41	8,149.07	9,564.46	9,213.74

Source: Projected financial statements of SEIL

Valuation assumptions**Discounting factor**

The discounting factor considered for arriving the present value of the free cash flows to the equity is cost of equity, since the free cash flows to equity shareholders are estimated. The cost of equity computed using the Capital Assets Pricing Model (CAPM) using the formula;

$$K_e = r_f + \beta(r_m - r_f) \text{ where}$$

K_e = Cost of Equity

r_f = Risk Free Return

r_m = Market Price of Return and

β (beta) = Measure of Market Risk

Risk free rate of return has been estimated on 10 year Indian Government bond yield, market return is based on the return from Indian stock market index over a long term historical period and beta coefficient is based on companies stock being traded in Bombay Stock Exchange against the Sensex for the last year. Based on the above we have worked out the discount factor for SEIL as 9.09 %.

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The calculations of discounting factor are given below:

Risk free rate of return	7.44%
Beta	-0.001
Market rate of return	19.69%
Cost of Equity	7.42%
Discounting factor / WACC	9.09%

Terminal Value

The terminal value refers to the present value of the business as a going concern basis beyond the period of projections up to perpetuity. This value is estimated taking into business growth rates as well estimated growth rates of the industry and economy. Based on the factors specific to the company as mentioned above, the equity value to the equity shareholders is Rs.2,00,641 lakhs after considering the debt Rs 35,968 lakhs and the terminal value of Rs.1,88,355 lakhs.

Method 3: Stock Exchange Quotation or Market Price Method (MPM):

This valuation reflects the price that the market at a point in time is prepared to pay for the shares. It is therefore influenced by the condition of the stock market, the concerns and opportunities that are seen for the business in the sector or market in which it operates.

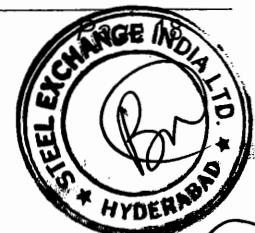
Based on the highest of average closing price of last 26 weeks or last 2 weeks, the value of the Company is Rs.41,127 lakhs. The details calculations are in Annexure I.

Business valuation & Value per share:

We have assigned weights to NAV, DCF & MPM methods to arrive at the average values of equity share of SEIL. We have given the weights for Market Price Method of 40%, Net Asset Value method a weight of 40% and 20% weights given for Discounted Cash Flow method as while it takes into consideration future business potential, it is based on forecast.

Particulars	Weight	Value	Value
Market Price Method	40%	41,127.42	16,450.97
Net Assets Value method	40%	18,729.04	7,491.61
Discounted Cash Flow method	20%	2,00,641.43	40,128.29
Value of the Business	100%		64,070.87
No. of Equity Shares outstanding			519.50
Value per Share (Rs)			123.33
Value per Share - Rounded off (Rs)			123.00

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Valuation Analysis (SPL):

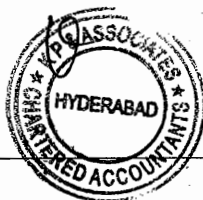
We have carried out the valuation analysis as described above, based on the fundamental assumption of going concern for the business under consideration. The detailed analysis and the assumptions made for this purpose are given below:

Method 1: Net Asset Value Method (NAV)

In order to assess the NAV of SPL, we have used the *audited financial statements* for the year ended 31st March 2013. The estimated value arrived under this approach using the shareholders funds of Net Assets owned by the business as at 31st March 2013 is Rs 9,164 lakhs.

Valuation as on 31.03.2013 - NAV Method		
Particulars	Rs. In Lakhs	Rs. In Lakhs
Fixed Assets: Net Block	31,386.30	
Less: impairment / adjustment		
Net block of FA	31,386.30	
Capital work in progress	-	
Total fixed assets (Net)		31,386.30
Investments		-
Current Assets		
Net Current assets	1,511.53	
Realizable value of Net Current assets		1,511.53
Cash & Bank Balances		735.92
Total Assets		33,633.75
Borrowings		
Secured Loans		24,469.41
SAM & Unsecured Loans		-
Total borrowings		24,469.41
Net worth - unadjusted		9,164.34
Less: Contingent liabilities		-
Net Value		9,164.34

Source: Audited financial statements of SPL



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Method 2: Discounted Cash Flow Method (DCF)**Estimated Free Cash Flows:**

For the purpose of valuation exercise, we have considered a five year projected period i.e. from the financial year 2014 to 2018.

The cash flow projections as on a free cash flow to equity (FCFE) basis are summarized below:
(Rs. In lakhs)

FCFF - DCF Calculation	FY 2014 (E)	FY 2015 (E)	FY 2016 (E)	FY 2017 (E)	FY 2018 (E)
EBIT	6,795.67	7,895.60	7,852.78	7,808.05	7,761.32
Taxes	580.63	861.47	1,360.26	1,576.28	1,661.69
NOPLAT	6,215.03	7,034.13	6,492.53	6,231.77	6,099.63
Add: Dep. & Amortization	1,585.00	1,585.00	1,585.00	1,585.00	1,585.00
Less: Capex	1,585.00	1,585.00	1,585.00	1,585.00	1,585.00
Less: Working Capital Changes	1,008.66	(1.78)	(1.86)	(1.95)	(2.03)
Free Cash flow	5,206.37	7,035.91	6,494.39	6,233.72	6,101.67
Year	1.00	2.00	3.00	4.00	5.00
Disc Factor	0.91	0.84	0.76	0.70	0.64
Present Value of Cash Flows	4,757.72	5,875.54	4,955.98	4,347.12	3,888.36

Source: Projected financial statements of SPL

Valuation assumptions**Discounting factor**

The discounting factor considered for arriving the present value of the free cash flows to the equity is cost of equity, since the free cash flows to equity shareholders are estimated. The cost of equity computed using the Capital Assets Pricing Model (CAPM) using the formula;

$$K_e = r_f + \beta(r_m - r_f) \text{ where}$$

K_e = Cost of Equity

r_f = Risk Free Return

r_m = Market Price of Return and

$B(\beta)$ = Measure of Market Risk

Risk free rate of return has been estimated on 10 year Indian Government bond yield, market return is based on the return from Indian stock market index over a long term historical period (10 years) and beta coefficient is based on similar companies stock being traded in Bombay Stock Exchange against the Sensex for the last year. Based on the above we have worked out the discount factor for SPL as 9.43 %.

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The calculations of discounting factor are given below :

Risk free rate of return	7.44%
Beta	-0.001
Market rate of return	19.69%
Cost of Equity	7.43%
Discounting factor / WACC	9.43%

Terminal Value

The terminal value refers to the present value of the business as a going concern basis beyond the period of projections up to perpetuity. This value is estimated taking into business growth rates as well estimated growth rates of the industry and economy. Based on the factors specific to the company as mentioned above, the value to the equity shareholders is Rs.75,369 lakhs after considering the debt Rs.24,469 lakhs and the terminal value of Rs. 76,014 lakhs.

Business valuation & Value per share:

We have assigned 30% weight to NAV & 70% weight to DCF methods to arrive at the average values of equity share of the Company.

Particulars Weight Value

Particulars	Weight	Value	Value
Market Price Method	NA	NA	NA
Net Assets Value method	30%	9,164.34	2,749.30
Discounted Cash Flow method	70%	75,369.29	52,758.50
Value of the Business	100%		55,507.80
No. of Equity Shares outstanding			900.00
Value per Share (Rs)			61.68
Value per Share - Rounded off (Rs)			62.00

IV. Scope of Limitations

Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report as agreed per terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

Valuation analysis and results are also specific to the date of this report. A review of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. As such, our review results are, to a significant extent, subject to continuance of current trends beyond the date of the report. We, however, have no obligation to update this report for events, trends or transactions relating to the companies or the market/economy in general and occurring subsequent to the date of this report.



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In the course of the review, we were provided with both written and verbal information, including market, technical, financial and operating data. We have however, evaluated the information provided to us by the companies through broad inquiry, analysis and review (but not have carried out a due diligence or audit of the companies for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided). Through the above evaluation, nothing has come to our attention to indicate that the information provided was materially misstated / incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be constructed 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.

The terms of our engagement were such that we were entitled to rely upon the information provided by the companies without detailed inquiry. Also, we have been given to understand by the Management that they have not omitted any relevant and material factors. Our conclusions are based on these assumptions, forecasts and other information given by/on behalf of the companies.

No investigation of the companies claim to title of assets has been made for the purpose of this review and the companies 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 matter of a legal nature.

We have not conducted or provided an analysis or prepared a model for any asset valuation and have wholly relied on information provided by the companies in that regard.

Our report is not nor should it be construed as our recommending the Merger or opining or certifying the complains of the proposed Merger with the provisions of any law including companies, taxation and c capital market related loss or as regards any legal complications or issues arising from proposed Merger.

The fee for the report is not contingent upon the results reported.

Subject to the limitations and exclusions has mentioned above, we owe responsibility to only to the Board of Directors of the company that has retained us and nobody else. We do not accept any liability to any third party in relation to the issue of this report. Neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or documents given to third parties, other than in connection with the proposed merger of the companies contained in the proposed scheme, without our prior written consents

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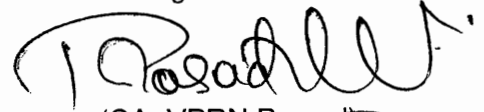
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V. Swap Ratio

In the light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, In our opinion, the fair value of the equity shares of SEIL is Rs.123 each of face value of Rs.10 each and the equity shares of SPL is Rs.62 each of face value of Rs.10 each. The exchange ratio of equity shares of SEIL between SEIL & SPL to the existing shareholders of SPL would be allotted in the ratio of one equity shares in SEIL of Rs.10 each fully paid up for every 2 equity shares of SPL of Rs. 10/-each fully paid up (i.e., 1 equity shares of SEIL equal to 2 equity shares of SPL). If there is any difference in future financial projections, the exchange ratio as indicated above may change.

Place: Hyderabad
Date : June 24, 2013

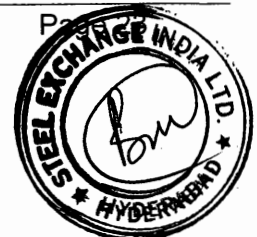
For K P & ASSOCIATES.,
Chartered Accountants
Firm Reg No : 012191S



(CA. VPRN Prasad)
Partner
M.No : 219



K P & ASSOCIATES.,



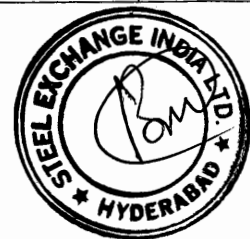
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Annexures:

SEIL : Details of calculation of Market Price – Annexure III

Week Date Open High Low Close Max Min Average

Week	Date	Open	High	Low	Close	Max	Min	Average
26	28-03-2013	74.20	76.50	72.00	73.95	89.20	71.00	80.10
	26-03-2013	89.20	89.20	73.55	75.35			
	25-03-2013	71.55	76.00	71.00	74.65			
25	22-03-2013	71.50	76.60	71.50	75.15	79.00	66.10	72.55
	21-03-2013	70.50	75.30	69.15	74.65			
	20-03-2013	71.20	75.60	69.50	70.80			
	19-03-2013	75.00	76.50	70.35	73.25			
	18-03-2013	66.10	79.00	66.10	78.45			
24	15-03-2013	72.25	72.25	69.15	71.75	75.00	66.00	70.50
	14-03-2013	72.75	72.75	66.00	71.55			
	13-03-2013	68.30	72.50	67.05	68.05			
	12/3/2013	71.60	74.60	71.00	71.90			
	11/3/2013	70.75	75.00	67.05	74.85			
23	8/3/2013	75.85	78.00	70.00	73.05	81.45	53.10	67.28
	7/3/2013	63.90	73.00	63.90	72.80			
	6/3/2013	65.00	67.00	53.10	63.90			
	5/3/2013	81.45	81.45	61.45	65.30			
	4/3/2013	77.25	80.00	63.30	76.80			
22	1/3/2013	77.00	80.00	73.05	79.10	83.45	73.05	78.25
	28-02-2013	79.00	79.50	76.05	78.90			
	27-02-2013	80.50	83.45	77.20	79.70			
	26-02-2013	80.20	82.00	79.00	80.15			
	25-02-2013	80.00	83.20	77.10	80.05			
21	22-02-2013	81.00	81.40	78.95	79.90	84.80	76.00	80.40
	21-02-2013	80.50	81.00	78.05	80.95			
	20-02-2013	84.80	84.80	78.60	80.00			
	19-02-2013	76.00	82.35	76.00	81.40			
	18-02-2013	77.30	81.95	77.30	79.05			
20	15-02-2013	81.15	84.30	75.10	80.60	87.50	75.10	81.30
	14-02-2013	85.00	87.50	80.45	83.85			
	13-02-2013	82.50	82.50	79.35	82.00			
	12/2/2013	78.50	81.90	77.00	81.80			
	11/2/2013	83.00	83.00	76.00	78.15			



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19	8/2/2013	76.50	81.20	76.50	80.60	83.90	76.50	80.20
	7/2/2013	81.80	81.80	79.10	80.00			
	6/2/2013	78.50	81.40	78.50	80.50			
	5/2/2013	78.60	82.40	78.60	79.80			
	4/2/2013	82.00	83.90	80.20	80.60			
18	1/2/2013	83.00	83.30	80.20	82.10	89.00	77.40	83.20
	31-01-2013	84.90	84.90	79.00	81.85			
	30-01-2013	81.80	82.75	80.05	80.10			
	29-01-2013	89.00	89.00	78.00	80.95			
	28-01-2013	77.50	84.00	77.40	80.95			
17	25-01-2013	82.50	83.30	79.25	81.20	85.50	75.75	80.63
	24-01-2013	82.50	83.45	78.25	80.80			
	23-01-2013	75.75	82.10	75.75	80.95			
	22-01-2013	82.45	82.45	76.50	77.15			
	21-01-2013	80.15	85.50	79.50	80.75			
16	18-01-2013	86.00	86.00	80.50	83.80	88.00	75.50	81.75
	17-01-2013	85.80	87.50	84.00	85.00			
	16-01-2013	81.40	88.00	78.20	84.80			
	15-01-2013	79.00	81.00	75.50	80.95			
	14-01-2013	83.00	83.50	76.50	80.70			
15	11/1/2013	83.70	83.70	77.00	79.70	84.00	73.50	78.75
	10/1/2013	84.00	84.00	77.00	78.85			
	9/1/2013	82.00	82.00	78.10	78.65			
	8/1/2013	77.80	81.75	73.50	78.90			
	7/1/2013	83.95	84.00	74.40	76.60			
14	4/1/2013	70.60	86.50	70.60	82.45	92.00	70.60	81.30
	3/1/2013	89.80	89.80	85.00	85.75			
	2/1/2013	92.00	92.00	85.25	86.90			
	1/1/2013	87.50	88.00	84.20	87.65			
	31-12-2012	90.60	90.60	85.00	86.35			
13	28-12-2012	92.30	92.30	89.00	89.95	93.20	88.00	90.60
	27-12-2012	90.40	91.00	88.00	90.75			
	26-12-2012	91.90	91.90	89.00	89.05			
	24-12-2012	93.20	93.20	89.50	90.00			
12	21-12-2012	95.50	95.50	90.00	90.25	96.40	89.40	92.90
	20-12-2012	90.80	94.60	90.05	93.20			
	19-12-2012	96.40	96.40	91.15	92.40			
	18-12-2012	95.30	95.30	89.40	92.50			
	17-12-2012	90.25	94.00	90.25	92.95			
11	14-12-2012	91.00	95.00	90.10	92.25	104.25	86.30	95.28
	13-12-2012	90.00	95.00	90.00	93.00			



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	12/12/2012	95.50	96.00	94.00	94.15			
	11/12/2012	98.00	98.00	94.00	96.75			
	10/12/2012	86.30	104.25	86.30	94.75			
10	7/12/2012	89.95	92.95	86.60	86.90	95.00	85.00	90.00
	6/12/2012	89.80	89.80	86.65	87.70			
	5/12/2012	89.85	91.40	87.25	89.05			
	4/12/2012	95.00	95.00	85.00	89.80			
9	30-11-2012	89.00	89.40	85.00	85.55	94.00	85.00	89.50
	29-11-2012	89.00	90.50	85.70	87.05			
	27-11-2012	91.50	91.65	89.00	89.25			
	26-11-2012	94.00	94.00	89.00	91.85			
8	23-11-2012	92.30	92.50	88.00	91.80	94.25	88.00	91.13
	22-11-2012	91.80	92.00	90.00	91.70			
	21-11-2012	92.20	94.25	90.25	92.00			
	20-11-2012	92.00	93.50	91.15	92.25			
	19-11-2012	91.00	93.75	90.00	92.10			
7	16-11-2012	82.50	95.00	82.50	90.35	95.00	72.50	83.75
	15-11-2012	86.00	94.90	84.10	92.05			
	13-11-2012	74.00	90.70	73.80	85.60			
	12/11/2012	73.00	76.25	72.50	75.60			
6	9/11/2012	74.00	75.85	72.50	73.70	77.00	69.00	73.00
	8/11/2012	69.00	77.00	69.00	74.15			
	7/11/2012	72.00	73.60	69.20	70.20			
	6/11/2012	74.65	74.75	71.20	71.95			
	5/11/2012	75.80	76.00	73.15	73.80			
5	2/11/2012	74.50	76.25	74.50	75.15	77.45	73.30	75.38
	1/11/2012	75.50	77.45	74.05	76.25			
	31-10-2012	75.80	76.45	74.00	76.35			
	30-10-2012	74.15	76.30	74.15	76.15			
	29-10-2012	77.00	77.00	73.30	75.95			
4	26-10-2012	76.90	77.00	74.50	75.05	79.95	66.05	73.00
	25-10-2012	79.50	79.95	70.80	74.95			
	23-10-2012	71.50	72.45	70.00	70.60			
	22-10-2012	66.05	71.50	66.05	70.80			
3	19-10-2012	67.00	70.05	63.60	66.70	70.05	62.55	66.30
	18-10-2012	65.00	66.90	63.20	65.90			
	17-10-2012	67.30	67.30	64.20	65.75			
	16-10-2012	65.20	66.00	65.20	65.25			
	15-10-2012	65.95	67.15	62.55	66.85			
2	12/10/2012	66.00	68.20	62.15	67.15	70.50	56.00	63.25
	11/10/2012	58.70	70.50	57.15	66.25			



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	10/10/2012	56.00	58.90	56.00	58.75			
	9/10/2012	57.80	57.80	56.15	56.15			
	8/10/2012	58.05	58.10	56.20	57.95			
1	5/10/2012	59.15	59.20	58.00	59.00	60.00	56.15	58.08
	4/10/2012	58.85	59.85	56.70	59.15			
	3/10/2012	60.00	60.00	57.45	58.85			
	1/10/2012	56.15	59.90	56.15	58.25			

Value per Share as per this Method is HIGHER of	
Option 1	
The average of weekly high and low of the closing prices of the related equity shares quoted on the recognised stock exchange during the six months preceeding the relevant date	79.17
Option 2	
The average of weekly high and low of the closing prices of the related equity shares quoted on the recognised stock exchange during the two weeks preceeding the relevant date	76.33
Value as per Market Value Method (INR)	79.17



• K P & ASSOCIATES.,

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For STEEL EXCHANGE INDIA LIMITED

[Signature]
Company Secretary

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