

**B S R and Associates**

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**Date: 28 June 2013****The Board of Directors****Rane (Madras) Limited**

Maithri 132, Cathedral Road  
Chennai - 600086

**The Board of Directors****Rane Diecast Limited**

Maithri 132, Cathedral Road  
Chennai - 600086

**Sub: Recommendation of fair exchange ratio of equity shares for the purpose of the proposed merger of Rane Diecast Limited into Rane (Madras) Limited**

Dear Sirs,

We refer to the engagement letter dated 24 June 2013 with B S R and Associates and addendum letter dated 27 June 2013 ("BSR", the "Valuer" or "We"), wherein Rane (Madras) Limited ("RML") and Rane Diecast Limited ("RDL") ("the Companies") have requested us to recommend an exchange ratio of equity shares in connection with the proposed merger of Rane Diecast Limited into Rane (Madras) Limited (the "Transaction").

**SCOPE AND PURPOSE OF THIS REPORT**

Rane (Madras) Limited is engaged in the manufacture of steering and suspension systems for the automobile industry. It offers its products to passenger cars, multi utility vehicles, light commercial vehicles, heavy commercial vehicles, and farm tractors. RML is based in Chennai, India. Rane (Madras) Limited operates as a subsidiary of Rane Holdings Limited. RML is listed on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE") and has its registered office at Maithri 132, Cathedral Road, Chennai - 600086. It reported net turnover of INR 6,387 million with a net profit of INR 234 million for the year ended 31 March 2013.

Rane Diecast Limited was founded in 1996 as Soubhagya Diecast Limited and changed its name to Rane Diecast Limited in November 2005. RDL is engaged in die-casting solutions for the auto, luminaries and engineering industries. Its services include design, development and machined aluminum casting components and sub - assemblies. RDL operates as a subsidiary of Rane Holdings Limited. RDL has its registered office at Maithri 132, Cathedral Road, Chennai - 600086. It reported net turnover of INR 673 million with a net loss of INR 30 million for the year ended 31 March 2013.

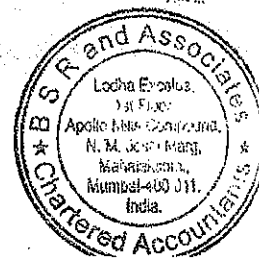
We understand that the respective boards of the Companies propose to merge RDL into RML by implementing a Scheme of Arrangement under the provisions of Sections 391-394 of the Companies Act, 1956, ("Scheme of Amalgamation"). Under the Scheme of Amalgamation, as consideration for their equity shares in RDL, the shareholders of RDL will be issued equity shares of RML.

BSR has been requested by the respective Boards of the Companies to submit a report recommending a fair exchange ratio of equity shares in connection with the Transaction. This report

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For Rane (Madras) Limited

  
S. Subha Shree  
Secretary



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is to be placed before the audit committees / Boards of the Companies, as per SEBI Circular CIR/CFD/DIL/5/2013 dated 5 February 2013.

We have carried out a relative valuation of the equity shares of RML and RDL with a view to arrive at the fair exchange ratio of the equity shares of RML for the equity shares of RDL.

**This report is our deliverable to the above engagement.**

This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

**SOURCES OF INFORMATION**

In connection with preparing this report, we have received the following information from the Management of the Companies:

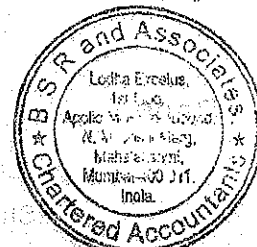
- Audited financial statements of RML for the years ended 31 March 2010, 2011, 2012 and 2013
- Audited financial statements of RDL for the years ended 31 March 2010, 2011, 2012 and 2013
- Management Business Plans for RML for the period 1 April 2013 to 31 March 2018 and Management information reports
- Management Business Plans for RDL for the period 1 April 2013 to 31 March 2018 and Management information reports
- Interviews and discussions with the Management of the Companies to augment our knowledge of the operations of the Companies including taxation related and litigation matters and
- Information and documents as provided by the Companies for the purposes of this engagement.
- Copy of the report dated 26 June 2013 from an approved land valuer

We have also obtained explanations and information considered reasonably necessary for our exercise, from the executives and representatives of the Companies. The Companies have been provided with the opportunity to review the draft report (excluding the recommended swap ratio) for this engagement to make sure that factual inaccuracies are avoided in our final report.

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

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The service does not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

This report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the date of this report and (iii) are based on the balance sheet of the Companies as at 31 March 2013. A valuation of this nature is necessarily based on prevailing



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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 report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information received till 27 June 2013 furnished by the Companies and other sources and the said recommendation(s) 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).

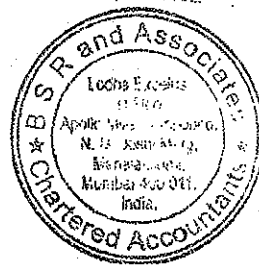
In the course of the valuation, we were provided with both written and verbal information, including market, technical, financial and operating data.

In accordance with the terms of our respective engagements, we have assumed and relied upon, without independent verification, (i) the accuracy of the information that was publicly available and formed a substantial basis for this report and (ii) the accuracy of information made available to us by the Companies. We have not 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. 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 Companies is accurate. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies 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. Our conclusions are based on these assumptions and information given by/on behalf of the Companies. The respective Managements of the Companies have indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Companies and their impact on the report. Also, we assume no responsibility for technical information (if any) furnished by the Companies. However nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the report. 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.

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies 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 audited balance sheet of the Companies.

This 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.

No investigation of the Company's claim to title of assets has been made for the purpose of this report and the Company's claim to such rights has been assumed to be valid. No consideration has



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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 book values of the assets and liabilities of the Companies have been considered as representative of their intrinsic value in the absence of any report of external valuers. We have been informed by the Management of RML to include the valuation numbers of land as per the independent valuation carried out. These valuation numbers have not been verified by us and we will not incur any liability on account of the same.

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

We owe responsibility to only the board of directors of the Companies which have retained us, and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other to RDL or RML.

We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion.

This valuation report is subject to the laws of India.

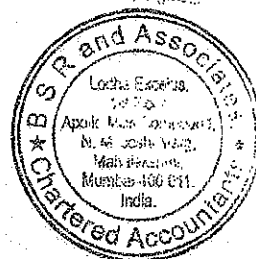
Neither the valuation report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed restructuring of the Companies including the proposed Scheme of Amalgamation, without our prior written consent. In addition, this report does not in any manner address the prices at which equity shares of RML and Rane Holdings Limited 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.

**BACKGROUND OF RML and RDL**

**Rane (Madras) Limited**

Rane (Madras) Limited, a company headquartered in Chennai, India, manufactures steering and suspension linkage products (SSLP) and steering gear products (SGP) for the automotive segment. Its manufacturing operations are carried out across 5 plants in India.

Plant	Product segment	Customer segment
Velachery	Re-Circulating Ball type Steering gear and Steering linkages	Light Commercial Vehicles and Multi-Utility Vehicles
Mysore	Re-Circulating Ball type Steering gear and Steering linkages	Farm Tractors
Pondicherry	Rack and Pinion Steering Gear and Steering Suspension ball joints	Passenger Cars
Varanavasi	Steering and Suspension ball joints	Passenger Cars, Light Commercial Vehicles and Multi-Utility Vehicles
Pant Nagar	Re-Circulating Ball type Steering gear and Steering linkages	Small Commercial Vehicle and Farm Tractors



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RML operates as a subsidiary of Rane Holdings Limited. The company has had strategic technical partnerships with TRW Inc. for steering gear products; and TRW Ehrenreich GmbH & Co. for steering linkage products.

Equity shares of RML are listed on the BSE and the NSE.

The paid up equity share capital of RML as at 31 March 2013 consists of 10,164,145 equity shares of face value of INR 10 each.

The shareholding pattern as at 31 March 2013 is as follows:

Category	% shareholding
Rane Holdings Limited	53.85
Promoter and Promoter Group	1.51
<b>Total Promoter Group</b>	<b>55.36</b>
Bodies Corporate	4.43
Public	40.22
<b>Total</b>	<b>100.00</b>

Source: Bombay Stock Exchange

#### Rane Diecast Limited

RDL was founded in 1996 as Soubhagya Diecast Limited and changed its name to Rane Diecast Limited in November 2005.

Rane Diecast Limited is engaged in die-casting solutions for the auto, luminaries and engineering industries. Services include design, development and machined aluminum casting components and sub – assemblies. Its manufacturing facility is located in Hyderabad.

The paid up equity share capital of RDL as at 31 March 2013 consists of 13,200,435 equity shares of face value of INR 10 each.

The shareholding pattern as at 27 June 2013 is as follows:

Category	% shareholding
Rane Holdings Limited, along with its 6 nominees	78.75
Rane (Madras) Limited	21.25
<b>Total</b>	<b>100.00</b>

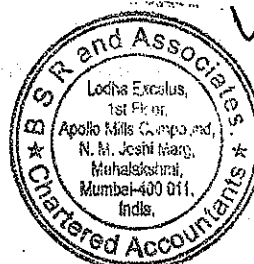
Source: Management of RDL

#### APPROACH - BASIS OF AMALGAMATION

Arriving at the fair exchange ratio of equity shares for the merger of RDL into RML would require determining the value of the equity shares of RDL in terms of the value of the equity shares of RML. These values are to be determined independently but on a relative basis, and without considering the current transaction.

There are several commonly used and accepted methods for determining the value of the equity shares of a company, which has been considered in the present case, to the extent relevant and applicable, including:

1. Comparable Companies' Multiples method / Guideline Company method



- 2. Historical and Current Market Price method
- 3. Discounted Cash Flow method
- 4. Net Asset Value method

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

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

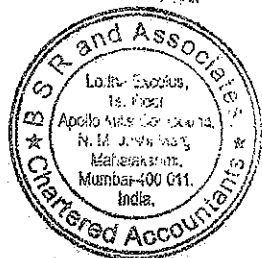
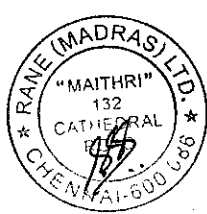
**Comparable Companies' Multiple (CCM) / Guideline Company method**

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

We have used the Profitability based valuation multiple of comparable listed companies for the purpose of our valuation analysis. We have not used the comparable transactions analysis as this Transaction is in the form of share to share fair exchange, therefore absolute multiples paid in comparable Transactions are not relevant.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under CCM method for the Companies is adjusted for the value of loans, cash, non-operating assets / liabilities (eg. fair value of land and any contingent liability etc) and preference share holders liability (Principal of INR 60.0 Mn and Arrears of Dividend, as at 31 March 2013, of INR 22.3 Mn) and related cash outflows.

We understand from the Management of RML that one third of the total land of around 4.5 acres situated at Ganapathi Buildings, 154, Velachery Main Road, Chennai 600042 is estimated to be used for RML's business requirement and the balance two thirds (around 3 acres) would become surplus available land. In this connection, the Management of RML has carried out a valuation of the land and industrial building located at Ganapathi Buildings, 154, Velachery Main Road, Chennai 600042 and provided BSR a copy of the report dated 26 June 2013 from an approved land valuer ("Land Valuation Report"). The Mangement of RML authorized BSR to use the valuation numbers mentioned in the Land Valuation Report for valuation of surplus land. We have relied on the Land Valuation Report, without any further verification or analysis of the same and incorporated the valuation numbers as mentioned in the Land Valuation Report for the valuation workings.



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**Historical and Current Market Price Method**

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case of a merger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, though the shares of RML are listed on the BSE and NSE; the shares of RDL are unlisted. Since we are carrying out a relative valuation, we have ignored the Historical and Current Market Price Method.

**Discounted Cash Flows (DCF) Method**

Under the DCF 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.

Using the DCF analysis involves determining the following:

*Estimating future free cash flows:*

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

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

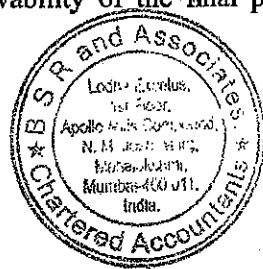
This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the equity capital provider equals the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

To the values so obtained generally from DCF analysis, the amount of loans is 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 Companies.

For the purpose of DCF valuation, the free cash flow forecast is based on Management Business Plans for each Company.

We have applied the DCF method for this valuation analysis using past trends, longer term forecasts based on past and current financial trends and general economy and industry outlook, for both RML and RDL.

We must emphasize that realisations 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



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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 the Engagement, we have relied extensively on historical information made available to us by the Management of the Companies and the respective Management Business Plans 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 Forecast, save for satisfying ourselves to the extent possible that they are consistent with other information provided to us in the course of the Engagement.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under DCF method for the Companies is adjusted for the value of loans, cash, non-operating assets / liabilities (eg. fair value of land and any contingent liability etc) and preference share holders liability (Principal of INR 60.0 Mn and Arrears of Dividend, as at 31 March 2013, of INR 22.3 Mn) and related cash outflows.

We understand from the Management of RML that one third of the total land of around 4.5 acres situated at Ganapathi Buildings, 154, Velachery Main Road, Chennai 600042 is estimated to be used for RML's business requirement and the balance two thirds (around 3 acres) would become surplus available land. In this connection, the Management of RML has carried out a valuation of the land and industrial building located at Ganapathi Buildings, 154, Velachery Main Road, Chennai 600042 and provided BSR a copy of the report dated 26 June 2013 from an approved land valuer ("Land Valuation Report"). The Mangement of RML authorized BSR to use the valuation numbers mentioned in the Land Valuation Report for valuation of surplus land. We have relied on the Land Valuation Report, without any further verification or analysis of the same and incorporated the valuation numbers as mentioned in the Land Valuation Report for the valuation workings.

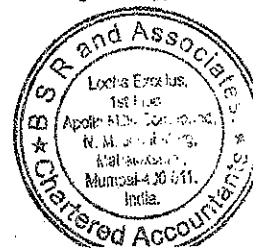
**Net Asset Value (NAV) Method**

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 case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability. A Scheme of Amalgamation would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not contemplated. In such a going concern scenario, the relative earning power is of importance to the basis of amalgamation, with the values arrived at on the net asset basis being of limited relevance.

We have not assigned any weight to this method on account of the fact that this method is applicable when the value lies in the underlying assets and not the ongoing operation.

**BASIS OF AMALGAMATION**

The basis of merger of RDL into RML would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purposes of recommending a fair exchange ratio of equity shares it is necessary to arrive at a single value for the shares of RML and of RDL. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity value of RML and RDL but at their comparative values to facilitate the



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B S R and Associates

determination of a fair exchange ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

We have used the CCM method for valuing the Companies as there are comparable companies whose equity shares are listed and frequently traded.

The DCF method was used for valuing the Companies as it captures the future earnings potential of the Companies.

We have assigned appropriate weightages to the values arrived using the CCM method and DCF method for the Companies.

Further there are certain contingent liabilities and surplus assets in RML and RDL. These have been appropriately considered in the valuation.

The fair exchange ratio of equity shares of RML and RDL has been arrived on the basis of a relative equity valuation for RML and RDL based on the various methodologies explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of the Companies, having regard to information base, key underlying assumptions and limitations.

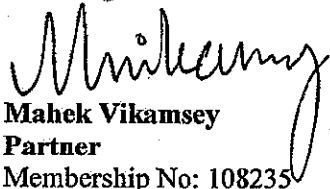
In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. quality and integrity of the management, present and prospective competition, yield on comparable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

Again, it is understood that this analysis does not represent a fairness opinion.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, we consider that the fair exchange ratio of equity shares for the merger of RDL into RML should be 1 (one) equity share of RML of INR 10/- each fully paid up for every 30 (thirty) equity shares of RDL of INR 10/- each fully paid up.

Respectfully submitted.

For B S R and Associates  
Chartered Accountants  
Firm Registration No: 128901W

  
**Mahesh Vikamsey**  
Partner  
Membership No: 108235



Place: Mumbai  
Dated: 28 June 2013

