BPT BIRLA PRECISION

(44)

ANNEXURE I

Extract from the valuation report: depicting the workings, relative fair value per share and fair share exchange ratio in the following manner: [For details please refer Valuation Report]

Computation of Fair Share Exchange Ratio

Valuation Approach	BPT Limited		BAPL	
	Value per Share	Weight	Value per Share	Weight
Asset Approach	NA	NA	2	1
Income Approach	3,26,36,000	1	NA	NA
Market Approach	NA	NA	NA	NA
Relative Value per Share	**3,26,36,000**		**2**	
Exchange Ratio (rounded off)			**1,63,18,000**	

Ratio:

- To issue and allot 1,63,18,000 (One Crore Sixty-Three Lakhs and Eighteen Thousand) equity shares of Rs. 2 (Rupees Two) each of BAPL (the Resulting Company) to the shareholders of BPTL (the Demerged Company).

Note:

1. In case of BPTL, Asset Approach is not used considering that the valuation is on "going concern" basis and there is no intention to dispose of the operating assets. Further, we could not use Market Approach as the company is demerging one of its divisions.
2. Income Approach and Market Approach not considered in case of BAPL as the company do not have operating revenues.

I hereby confirm that:

(i) No material event impacting the valuation has occurred during the intervening period of filing the scheme documents with Stock Exchange (BSE Ltd.) and period under consideration for valuation.

a) There have been no defaults of listed debt obligations of the entities forming part of the scheme

BIRLA PRECISION TECHNOLOGIES LIMITED

Parth Matolia
Company Secretary & Compliance Officer

SNEHAL SHAH & ASSOCIATES
Chartered Accountant & Registered Valuer
920, Samanvay Silver Complex, B/s Royal Orchid Hotel, Mujmahuda, Akota, Vadodara.
E-mail :office@casnehalshah.in | M : 87580 74411, 94844 51600

August 29, 2022

To,
The Board of Directors
Birla Precision Technologies Limited
23, Birla Mansion No 2, 1st Floor,
D.D. Sathe Marg, Prarthana Samaj,
Mumbai- 400001, Maharashtra.

To,
The Board of Directors
Birla Accucast Private Limited
23, Birla Mansion No 2, 1st Floor,
D.D. Sathe Marg, Prarthana Samaj,
Mumbai- 400001, Maharashtra.

Subject: Report on share entitlement ratio for proposed Demerger of 'Foundry Division' of Birla Precision Technologies Limited into Birla Accucast Private Limited, in accordance with the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act 2013 (hereinafter referred to as "Scheme of Arrangement").

Dear Sir,

This has reference to our engagement, appointing us as an Independent Valuer in the matter of providing recommendation on share entitlement ratio for the proposed scheme of demerger of Foundry Division of Birla Precision Technologies Limited (BPTL, or "the Transferer Company" or "the Demerged Company") into Birla Accucast Private Limited (BAPL or " the Transferee Company" or "the Resultant Company") with effect from the appointment date of April 1, 2022, in accordance with sections 230 to 232 of the Companies Act, 2013 ("the Act").

In the attached report, we have summarised our valuation analysis and recommendation with respect to the proposed demerger, along with limitation of our scope. We are grateful for the co-operation and support extended to us by the management in providing us the required information and details to carry out this exercise.

With best regards,

For **Snehal Shah & Associates**
Chartered Accountant & Registered Valuer

CA. Snehal Shah
Proprietor

M. No.: ICAIRVO/06/RV-P00116/2019-2021
IBBI Regn. No: IBBI/RV/06/2019/11772
UDIN: 22128640AQIMGN6514

SNEHAL SHAH Regn. No.: IBBI/RV/06/2019/11772 Registered Valuer (SFA)

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SECTION – 1: BACKGROUND AND PURPOSE

1.1 BACKGROUND

Birla Precision Technologies Limited:

- BPTL was incorporated as Public Limited Company on 13th October, 1986 under the Companies Act, 1956 in the State of Maharashtra originally in the name of Birla Erickson(Tools) Limited and name changed to Birla Kennametal Limited on 1st December, 1989 and again name changed to Birla Precision Technologies Limited on 20th November, 2007 and validly subsisting under the Companies Act, 2013 (CIN: L29220MH1986PLC041214).

- The Registered Office of BTPL is situated at 23, Birla Mansion No. 2, 1st Floor, D. D. Sathe Marg, Prarthana Samaj, Mumbai, Maharashtra - 400004 in the State of Maharashtra.

- BPTL is an Engineering company and a pioneer in the various areas it operates within. It has 3 divisions viz. Tool Division, Tool Holder Division and Foundry Division. It is in the business of manufacturing of various types of machine tools, tools holder and precision components.

- Following are the details of Share Capital structure of BPTL as on valuation date:

Authorized Share Capital	Amount (Rs)
60,00,00,000 equity shares of Rs. 2/- each	120,00,00,000
Total	**120,00,00,000**
Issued, Subscribed & Paid-up Share Capital	**Amount (Rs.)**
6,52,71,137 equity shares of Rs. 2/- each	13,05,42,274
Total	**13,05,42,274**

- Following are the details of share holding pattern of BPTL as on valuation date:

Name	No. of Shares	% Share holding
Promoter and Promoter Group	3,90,61,322	59.84
Public Holding	2,62,09,815	40.16
Total	**6,52,71,137**	**100.00%**

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Birla Accucast Private Limited:

- BAPL is an unlisted private company incorporated on 12th August, 2021 under the provisions of Companies Act, 2013 in the State of Maharashtra (CIN: U29100MH2021PTC365754).
- The Registered Office of BAPL is situated at 23, Birla Mansion No. 2, 1st Floor, D. D. Sathe Marg, Prarthana Samaj, Mumbai, Maharashtra - 400004 in the State of Maharashtra.
- BAPL is engaged in the business of manufacture of various types of machine tools, parts of machine tools and machine tools accessories.
- Following are the details of Share Capital structure of BAPL as on valuation date:

Authorized Share Capital	Amount (Rs.)
10,000 equity shares of Rs. 10/- each	1,00,000
Total	**1,00,000**
Issued, Subscribed & Paid-up Share Capital	**Amount (Rs.)**
10,000 equity shares of Rs. 10/- each	1,00,000
Total	**1,00,000**

- BAPL is a wholly owned subsidiary of BPTL.

1.2 PURPOSE OF VALUATION

The Management of BPTL is proposing to segregate the management and ownership of the different manufacturing facilities for the manufacture of cutting tools; tool holders and foundry products without splitting any of such standalone manufacturing units. As per the management, this will create separate platforms for maximum exploitation of business opportunities through each of the companies and will maximise value for all shareholders and drive future strategic growth.

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SECTION – 2: SCOPE OF WORK AND BASIS FOR VALUATION

2.1. SCOPE OF WORK

In the light of above facts & circumstances, we, Snehal Shah & Associates, Registered Valuer (SFA), have been requested to provide fair share entitlement ratio for the proposed demerger.

Valuation by its very nature, cannot be regarded as an exact science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. Our assessment of the valuation will be on the basic assumption of a going concern entity and would be based on some or all of popular methodologies under Income Approach, Market Approach and Asset Approach.

Please note that this valuation exercise does not constitute an audit of the books and records of the Company under the Companies Act. We will not accept any responsibility for the accuracy or authenticity of the records or information provided to us.

In carrying out the exercise, we have relied upon the information and clarifications provided by the management of both companies. We have also relied upon management's representation as well as other documentation provided to us.

No responsibility is taken to update this report for events and circumstances occurring after the report date of 29th August, 2022.

2.2. VALUATION STANDARD

Business valuation can be undertaken in a variety of contexts and for a variety of purposes. To begin with any valuation process, it is most pertinent to identify the type of value relevant to the transaction/case as different standards of value would yield different valuation figure for same business interest. In the given context, Fair value is considered as the appropriate standard of value.

Fair value is defined as: "The fair value of asset (or liability) is the amount at which that asset (or Liability) could be bought (or incurred) or sold (or settled) is a current transaction between willing parties, that is, other than in a forced or liquidation sale."

2.3. PREMISE OF VALUE

The Report has been prepared in compliance with the Valuation Standards issued by the Institute of Chartered Accountants of India and adopted by ICAI Registered Valuers Organisation.

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The valuation has been carried out under the fundamental premise of "Going Concern" as this, in our opinion, represents the best use of the business assets of the subject business enterprise.

2.4. DATE OF VALUATION

Based on the discussion with the management of BPTL and BAPL, we understand that upon scheme becoming effective, all the assets and liabilities of the foundry division of BPTL as of 31.03.2022 would be transferred to BAPL. Hence, the date of valuation is considered as 31.03.2022.

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SECTION – 3: CAVEATS, LIMITATIONS AND DISCLAIMERS

3.1 RESTRICTIONS ON USE OF VALUATION REPORT

This valuation report has been prepared for the purpose stated herein and should not be relied upon for any other purpose. Our client is only authorized user of this report and is restricted for the purpose stated. We do not take any responsibility for the unauthorized user of 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.

3.2 OUR RESPONSIBILITY

We owe responsibility only to our client that has appointed us under the terms of the engagement letters. we will not be liable for any losses, claims, damages or liabilities arising out of the action taken, omissions or advise given by any other person. In no event shall we be liable for any loss, damages, cost or expense arising in any way from fraudulent acts, misrepresentations or wilful default on part of the client or companies, their directors, employees or agents.

The decision to carry out the transaction (including consideration thereof) lies entirely with the management/ board of directors and our work and our finding shall not constitute a recommendation as to whether or not the management /board of directors should carry out the transaction.

3.3 DECLARATION OF INDEPENDENCE

We are independent of the company and have no current or expected interest in the company or its assets. The fee paid for our services in no way influenced the results of our analysis.

3.4 ACCURACY OF INFORMATION

While our work has involved an analysis of financial information accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the clients existing business records. Accordingly, we express no audit opinion or any other form of assurance on this information. Accordingly, we assume no responsibility and make no representation with respect to the accuracy or completeness of any information provided by and on behalf the client. Our report is subject to the scope and limitations detailed in this report. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein and in the context of the purpose for which it is made.

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3.5 POST VALUATION DATE EVENTS

The user to which this valuation is addressed should read the basis upon which the valuation has been done and be aware of the potential for variations in value due to factor that are unforeseen at the valuation date. Due to possible changes in market forces and circumstances, this valuation report can only be regarded as relevant as at the valuation date.

3.6 RELIANCE ON THE REPRESENTATIONS OF THE CLIENTS, THEIR MANAGEMENT AND OTHER THIRD PARTIES

The company and its management/representatives have represented to us that the information they supplied was complete, accurate and true and correct to the best of their knowledge. We have relied upon the representations of the owners/clients, their management and other third parties concerning the financial data, operational data and maintenance schedule of all plant-machinery-equipment-tools-vehicle, real estate investments and any other investments in tangible assets except as specifically stated to the contrary in the report. We shall not be liable for any loss, damages, cost or expenses arising from fraudulent acts, misrepresentations, or wilful default on part of the companies, their directors, employees or agents. The management has represented that the companies have clear and valid title of asset. No investigation on the companies claim to such rights has been assumed to be valid.

3.7 NO PROCEDURE PERFORMED TO CORROBORATE INFORMATION TAKEN FROM RELIABLE EXTERNAL SOURCES

We have relied on data from external sources also to conclude the valuation. These sources are believed to be reliable and therefore, we assume no liability for the truth or accuracy of any data, opinions or estimates furnished by others that have been used in this analysis. Where we have relied on data, opinions or estimates from external sources, reasonable care has been taken to ensure that such data has been correctly extracted from those sources and /or reproduced in its proper form and context.

3.8 COMPLIANCE WITH RELEVANT LAW

The report assumes that the client complies fully with relevant laws and regulations applicable in is area of operations and usages unless otherwise stated, and that the companies will be managed in a competent and responsible manner. Further, as specifically stated to the contrary, this report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigations and other contingent liabilities that are not recorded/reflected in the financial statements and other information provided to us. Our report is not, nor should it be construed as me opining or certifying the compliance of the proposed transaction with the provisions of any law including companies,

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competition, taxation and capital market related laws or as regards any legal implications or issues arising in India or abroad.

3.9 SUBSEQUENT EVENTS

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

3.10 FUTURE SERVICES INCLUDING BUT NOT LIMITED TO TESTIMONY OR ATTENDANCE IN COURTS/TRIBUNALS/AUTHORITIES FOR THE OPINION OF VALUES IN THE VALUATION REPORT

We are fully aware that based on the opinion expressed in this report, we may be required to give testimony or attend court/ judicial proceedings with regard to the subject assets, although it is out of scope of the assignment, unless specific arrangements to do so have been made in advance, or as otherwise required by law. In such event, the party seeking our evidence in the proceedings shall bear the cost/professional fee of attending court/ judicial proceedings and my / our tending evidence before such authority shall be under the applicable laws.

3.11 INFORMATION PROVIDED WITH RESPECT TO VALUATION

In the course of the valuation, we were provided with written information. We have however, evaluated the information provided to us by the company through broad inquiry, analysis and review but have not carried out a due diligence or audit of the information provided for the purposes of this engagement. Our conclusions are based on the assumptions, forecasts and other information given by/ on behalf of the company.

We do not make any representation or warranty, express or implied, as to accuracy, reasonableness or completeness of the information, based on which the valuation is carried out. All such parties expressly disclaim any and all liability for/ or based on or relating to any such information contained in the valuation. No responsibility or liability is accepted for any loss or damage howsoever arising that you may suffer as result of this Report and all responsibility and liability is expressly disclaimed by us.

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SECTION – 4: SALIENT FEATURES OF THE PROPOSED SCHEME

The Management of both the companies believe that the restructuring would benefit the Companies on account of the following reasons:

- To create opportunities for pursuing independent growth and expansion strategies in the segregated businesses and effectively unlock value of each of the manufacturing units;
- The segregation will allow each of the Companies to create a strong and distinctive platform with more focused management teams, which will enable greater flexibility to pursue long-term objectives and independent business strategies;
- To streamline management and provide diversity in decisions regarding the use of respective cash flows for dividends, in capital expenditure or other reinvestment in their respective business;
- To have operational flexibility in the future;
- To explore varied investment opportunities and attract various investors and strategic partners.
- To optimize the capital structure and profitability for the Demerged Company by way of reduced cost.

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SECTION – 5: INFORMATION SOURCES

For the purpose of this report, the documents and/or information published or provided by managements of BPTL and BAPL have been relied upon. However, we do not vouch for the accuracy of the information provided to us.

We have relied on the following information sources:

- Audited financial statements of BPTL of last three years
- Unaudited provisional financial statements of BPTL and BAPL as on date of valuation.
- Projected financial statements of foundry division of BPTL up to FY 2026 – 27.
- Draft scheme of arrangement;
- MOA and AOA of both the companies.
- Other relevant details such as its history and other information (including verbal) as required from time to time.

We have also obtained such other analysis, review, explanations and information considered reasonably necessary for our exercise, from the client or other public available sources.

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SECTION – 6: VALUATION METHODOLOGIES & APPROACH ADOPTED

6.1 VALUATION METHODOLOGIES

For the purpose of valuation, it is necessary to select an appropriate basis of valuation amongst the various alternatives. It is universally recognized that valuation is not an exact science and that estimating values necessarily involves selecting a method or approach that is suitable for the purpose. The application of any particular method of valuation depends upon various factors including the size of company, nature of its business and purpose of valuation. Further, the concept of valuation is all about the price at which a transaction takes place i.e. the price at which seller is willing to sell and buyer is willing to buy. Accordingly, a fair and proper approach for valuing the shares of the company is to use a combination of these methods.

There are 3 fundamental approaches to Valuation viz. Income Approach, Market Approach and Cost / Asset Approach. Each approach uses different parameters / methodology and are used in different situations as mentioned hereunder:

Asset Based Approach:

The asset-based valuation technique is based on the value of 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 (i) asset base dominates earning capability (ii) there are no intangible assets in the form of brands, trademarks etc and (iii) there is no future growth potential of the business or the company does not have any operations.

Market Based Approach:

The market approach is a valuation method used to determine value of a business by considering the market prices of comparable assets or businesses that have been sold recently or those that are still available. Price-related indicators like sales, book values, and price-to-earnings are usually utilized. Regardless of the asset under valuation, the market approach looks at the prices of comparable companies and makes proper adjustments for different quantities, qualities, or sizes.

Income Based Approach:

Income based approaches value a business based upon the past, current, or expected future cash flows of the business and the risk that the business will not produce the desired return. Estimating and valuing flows of income is done through a process called capitalization. Capitalizing the income streams will produce a so-called present value. Risk is incorporated into this valuation through a discounting process. An applicable

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valuation formula will discount the present value of cash flows based upon the probability that the firm will not achieve the desired cash flows in the future. The discount rate uses many factors relevant to the individual firm that make the firms projections more or less likely.

6.2 APPROACH ADOPTED

6.2.1 Valuation of Foundry Division of BPTL

As BPTL is going concern entity, we have used Discounted Cash Flow method under Income Approach to value its foundry division.

Calculation under DCF method is based on the following factors:

I. Beta: Beta is a measure of a stock's volatility in relation to the market. The market has beta of 1.0, and individual stocks are ranked according to how much they deviate from the market. A stock that swings more than the market over time has a beta above 1.0. If a stock moves less than the market, the stock's beta is less than 1.0. High-beta stocks are supposed to be riskier but provide a potential for higher returns; low-beta stocks pose less risk but also lower returns.

Beta is a key component for the capital asset pricing model (CAPM), which is used to calculate cost of equity. All things being equal, the higher a Company's beta is, the higher its cost of capital discount rate. The higher the discount rate, the lower the present value placed on the Company's future cash flows. In-short, beta can impact a Company's valuation.

II. Cost of Equity: Cost of equity refers to a shareholder's required rate of return on an equity investment. It is the rate of return that could have been earned by putting the same money into a different investment with equal risk. We have used most viable Capital Asset Pricing Method [CAPM] for Valuation purpose, because CAPM explicitly accounts for an investment's riskiness and can be applied by any Company, regardless of its dividend size or dividend growth rate. The CAPM method also implicitly relies on past performance to predict the future.

III. Capital Asset Pricing Model - CAPM: A model that describes the relationship between risk and expected return and that is used in the pricing of risky securities Where:

The general idea behind CAPM is that investors need to be compensated in two ways:

- Time value of money
- Risk.

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The time value of money is represented by the risk-free (rf) rate in the formula and compensates the investors for placing money in any investment over a period of time. The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market premium (Rm-rf).

IV. Terminal Value: The terminal value of an asset is its anticipated value on a certain date in the future. It is used in multi-stage discounted cash flow analysis and the study of cash flow projections for a several-year period. We have used perpetuity growth model for identifying ongoing free cash flows. The exit or terminal multiple approaches assume the asset will be sold at the end of a specified time period, helping investors evaluates risk/ reward scenarios for the asset.

We have considered following factors during calculations under DCF Method:

- We have considered management certified unaudited financial statements up to 31st March 2022 and projected financial statements for financial years 2022-23 to 2026-27 of foundry division, as provided by the management of BPTL.
- Risk Free rate (RFR) of return has been taken based on 10 years bond yield of Government of India as at 31st March 2022, which is 6.84%.
- Market Rate of Return has been worked out by taking CAGR of NIFTY over the last 20 years, which is 14.67%. As the Risk-Free Rate is 6.84%, the risk premium is considered at 7.83%.
- Beta value of the Company has been considered at 1.00.
- We have considered the Perpetual Growth Rate i.e. the present value of going concern beyond the period of projection to infinity at 1.50% considering the expected growth of the sector in a long-term basis.
- We have considered company specific risk premium and company size premium of 2.00% each in our valuation calculations.
- Considering the above parameters and after applying CAPM model, the Cost of Equity (Ke) is worked out at 18.67%.
- We have applied discount for lack marketability @25% to arrive at fair market value.

Based on above, we have arrived at the fair value of foundry division of BPTL as follows:

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Particulars	Amount (Rs.)
Business Enterprise Value as per DCF Method	4,14,25,285
Add: Cash and Cash Equivalents	20,89,418
Business Equity Value	**4,35,14,704**
Less: Discount for lack of market @ 25%	1,08,78,676
Fair Value of Foundry Division (R'off)	**3,26,36,000**

6.2.2 Valuation of BAPL

In case of BAPL we have used Asset Approach as the company is recently incorporated and its operations will start once the Scheme of Arrangement is implemented. Further to that, BAPL does not have any assets and hence, we have considered appropriate to use Book Value method to determine its fair value.

Based on the unaudited balance sheet of BAPL as on 31.03.2022, following is be the value of equity shares of BAPL:

Particulars	Amount (Rs.)
Networth as on 31.03.2022	1,00,000
Number of Shares outstanding as on 31.03.2022	10,000
Fair Value per equity share	**10.00**

Further, as informed to us by the management and as mentioned in the draft scheme of arrangement, it is proposed that, in accordance to the provisions of section 61 of the Companies Act 2013, upon the Scheme of Arrangement becoming effective, with effect from the Appointed Date, the authorised share capital of the BPTL shall stand reduced by 1,62,68,000 equity shares of Rs.2/- each and such reduced authorised share capital shall stand transferred to BAPL. Further, the authorised share capital of the BAPL shall be reclassified from face value of Rs. 10 per equity share to Rs. 2/- per equity share.

As the fair value of equity share of BAPL is equal to the face value of its equity share, we have considered fair value of equity share of BAPL as Rs.2/- while recommending the share entitlement ratio to the shareholders of BPTL.

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SECTION – 7: SHARE ENTITLEMENT RATIO & CONCLUSION

The share entitlement ratio has been arrived at on the basis of a relative valuation based on the various approaches/ methods explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potential of the businesses. Suitable averaging and rounding off in the values have been done to arrive consensus in share entitlement ratio.

CONCLUSION:

On the basis of above, we recommend the following Share Exchange Ratio

- *To issue and allot 1,63,18,000 (One Crore Sixty-Three Lakhs and Eighteen Thousand) equity shares of Rs. 2 (Rupees Two) each of BAPL (the Resulting Company) to the shareholders of BPTL (the Demerged Company).*

The computation of Fair Share Entitlement Ratio as derived by us is given in Annexure -1, enclosed herewith.

With best regards,

For **Snehal Shah & Associates**
Chartered Accountant & Registered Valuer

CA. Snehal Shah
Proprietor

M. No.: ICAIRVO/06/RV-P00116/2019-2021
IBBI Regn. No: IBBI/RV/06/2019/11772
UDIN: 22128640AQIMGN6514

Annexure - 1

Computation of Fair Share Entitlement Ratio:

Valuation Approach	BPTL		BAPL	
	Value of Foundry Division (Rs.)	Weight	Value Per Share (Rs.)	Weight
Income Approach	3,26,36,000	1	NA	NA
Market Approach	NA	NA	NA	NA
Asset Approach	NA	NA	2	1
Relative Value Per Share	3,26,36,000		2	
Entitlement Ratio (R'off)			**1,63,18,000**	

Ratio:

- **To issue and allot 1,63,18,000 (One Crore Sixty-Three Lakhs and Eighteen Thousand) equity shares of Rs. 2 (Rupees Two) each of BAPL (the Resulting Company) to the shareholders of BPTL (the Demerged Company).**

Note:

1. *In case of BPTL, Asset Approach is not used considering that the valuation is on "going concern" basis and there is no intention to dispose of the operating assets. Further, we could not use Market Approach as the company is demerging one of its divisions.*

2. *Income Approach and Market Approach not considered in case of BAPL as the company do not have operating revenues.*

***

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