PROPOSED AMALGAMATION OF

PIRAMAL PHYTOCARE LIMITED

INTO

PIRAMAL ENTERPRISES LIMITED

ACCOUNTANTS' REPORT ON RATIO OF EXCHANGE

BANSI S. MEHTA & CO.
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Mumbai-400 020.

Certified True Copy
For Piramal Enterprises Limited

Leonard D'Souza
Company Secretary

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1. Introduction

1.1. Background and Terms of Engagement

There is a proposal before the Boards of Directors of Piramal Phytocare Limited ("PPL"/ "The Target Company") and Piramal Enterprises Limited ("PEL"/ "The Acquirer") to consider the amalgamation of PPL into PEL, through a scheme of arrangement under the Companies Act, 2013. Upon the said amalgamation, equity shares of PEL would be issued to the shareholders of PPL. This is hereinafter referred to as the Transaction.

We have been asked by managements of PPL and PEL ("the Managements") to recommend a fair ratio of allotment of equity shares of PEL to the equity shareholders of PPL on the proposed amalgamation.

For the purpose of this Report, we have considered the Valuation Date as May 25, 2018. This report ("**Report**") sets out the findings of our exercise.

1.2. Profile of PPL

Piramal Phytocare Limited (PPL) offers medicinal products that are made from standardized herbal extracts. The Company is engaged in global marketing of finished pharmaceutical dosage forms especially Proprietary Formulations, wherein the active ingredients are derived from natural sources. The marketing of PPL's products is done through country specific marketing & distribution partners, manufacturing is outsourced on Loan License basis. In the year ended March 31, 2018, the Company has also entered into an arrangement with PEL whereby PPL has appointed PEL as a distributor to sell certain over the counter products bearing specific trademarks. The equity shares of PPL are listed on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE").

1.3. Profile of PEL

Piramal Enterprises Limited (PEL) is engaged in the business of pharmaceuticals, including research and development, financial services and information management through its subsidiaries. The Company's pharmaceutical business consists of manufacturing and sale of own and traded bulk drugs and formulations. It operates through three segments: Healthcare, Financial Services and Information Management. Its Healthcare segment includes pharma solutions, critical care, consumer products and imaging. Its Financial Services segment includes wholesale lending, alternative asset management and investments in Shriram Group. Its Information Management segment is engaged in Decision Resources Group (DRG). DRG's product and services portfolio consists of data and analytics, research products and global consulting services. The Company offers its products under brands, including Saridon, Lacto Calamine, i-pill/i-know, Polycrol, Tetmosol, Untox, Stop AllerG and Throatsil.

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1.4. SHAREHOLDING PATTERN OF COMPANIES

1.4.1. PEL

The issued and subscribed equity share capital of PEL as at March 31, 2018 is as under:

Share Capital	Amount (in Crores)
Authorised	
25,00,00,000 Equity Shares of Rs. 2/- each	50.00
30,00,000 Preference Shares of Rs.100/- each	30.00
2,40,00,000 Preference Shares of Rs.10/- each	24.00
10,50,00,000 Unclassified Shares of Rs. 2/- each	21.00
Total Authorised share capital	**125.00**
Issued, subscribed and paid-up	
18,02,73,674 Equity Shares of Rs. 2/- each fully paid	36.05

The aforesaid share capital is held as follows:

Sr. No.	Shareholder	Percentage
1.	Promoter Group	51.38%
2.	Public*	48.62%
	Total	**100.00%**

* *Includes Institutions*

1.4.2. PPL

The issued and subscribed equity share capital of PPL as at March 31, 2018 is as under:

Share Capital	Amount (in Crores)
Authorised	
3,00,00,000 Equity Shares of Rs. 10/- each	30.00
Issued, subscribed and paid-up (pre buy back)	
2,59,60,340 Equity Shares of Rs. 10/- each fully paid	25.96

The aforesaid share capital is held as follows:

Sr. No.	Shareholder	Percentage
1.	Promoter Group	56.08%
2.	Public*	43.92%
	Total	**100.00%**

* *Includes Institutions*

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2. Data Obtained

2.1 We have called for and obtained the following information which have been made available to us by the Managements. **Appendix A** hereto broadly summarises the data obtained.

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

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3. Approach to Valuation

3.1 It is universally recognized that Valuation is not an exact science and that estimating values necessarily involves selecting a method or an approach that is suitable for the purpose. Courts in India have, over a period of time, evolved certain guiding principles, the most leading case being the decision of the Supreme Court in Hindustan Lever Employee's Union vs. Hindustan Lever Limited and Others [(1995) 83 Company Cases 30].

3.2 That decision endorses that a fair and proper approach for valuation of shares of companies would be to use a combination of various approaches which in that case were:

- Market Price ("**MP**") Approach;
- Net Asset Value ("**Asset Based**") Approach; and
- Earnings Capitalization Value ("**Earnings**") Approach

3.3 Another classical approach to valuation is to look at the future cash flows of the company, so as to arrive at a valuation that would, primarily, be based on the present value of such future cash flows by discounting such future cash flows using an appropriate rate of discounting. This method of valuation is popularly known as the Discounted Cash Flows Approach ("**the DCF Approach**").

3.4 The broad methodology used to arrive at the value per share of PEL and PPL is discussed in the following paragraphs.

3.5 Valuation of PPL:

3.5.1 Asset Based Approach:

This approach involves determining the fair value of the company based on the assets of the company after applying a Market Value to Book Value Multiple observed from the listed comparable companies in the same industry. However, since PPL carried out its operations through contract manufacturing and the asset base of PPL is negative (as at March 31, 2018), the asset based approach cannot be used for valuing the company. Therefore we have not considered the asset based approach to derive the value of PPL.

3.5.2 Earnings Approach:

Under the earnings approach, typically, the past profits of the company are used to determine its value. Enterprise Value to Earnings before Interest Tax Depreciation and Amortization Approach (EV/EBITDA Approach) and Price to Earnings Approach (PE Approach) can be used to determine the value of the company under Earnings approach. However it has been observed that EBITDA and PAT of PPL for the year ended March 31, 2018 are negative. Therefore, valuing PPL using EV/EBITDA Approach and PE Approach would not be appropriate.

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3.5.3 **DCF Approach :**

In this approach the valuation would primarily be based on the present value of future cash flows by discounting such future cash flows using an appropriate rate of discounting. Broad steps followed to derive the value under this approach are described hereunder:

- We have considered the Projected Earnings before Depreciation, Interest, Tax and Amortisation ("EBIDTA") of PPL for future four years starting F.Y. 2018-19 to F.Y. 2021-22.

- Adjusted the EBIDTA for total non-operating income and expenses of PPL to arrive at the Adjusted operating EBIDTA.

- The Adjusted operating EBIDTA has then been adjusted by the projected capital outlays, projected increase or decrease in working capital and projected tax so as to arrive at the "Free Cash Flows" available in the respective future years.

- The value beyond the projected period is considered for PPL so as to get the enterprise value on a going concern basis. A high growth rate of 10% is considered for a period of 5 years post the projected period and a growth rate of 6% has been considered in perpetuity.

- Free Cash Flows for the projected years and the perpetuity value are discounted using the Weighted Average Cost of Capital ("WACC") as the discounting factor to arrive at their Net Present Value ("NPV") as at the Valuation Date.

- The aggregate of such NPV of free cash flows and perpetuity value is the Discounted Free Cash Flows at the Valuation Date

- The Enterprise Value so arrived at above has been increased by the surplus assets, cash and bank balance and reduced by the debt to arrive at the Business Value attributable to the equity shareholders of PPL. It is understood from the Management that there are no Contingent Liabilities that are likely to crystallize as at the Valuation Date and therefore, we have not made any adjustment on account of the same.

- The Business Value attributable to the Equity Shareholders has been then divided by the number of Equity Shares of PPL as on the Valuation Date to arrive at the Value per Equity Share as at the Valuation Date.

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3.5.4 MP Approach:

- MP Approach involves determining the value per share based on its quoted price.
- We have determined the market price of shares of PPL based on volume weighted average closing price on the recognized stock exchange which has maximum shares of PPL traded over a period of three months prior to the Valuation Date.

3.5.5 Fair Valuation of PPL:

We have arrived at the fair value of the PPL by applying equal weights to values computed under the DCF Approach and the MP Approach.

3.6 Valuation of Equity Shares of PEL:

In the proposed, transaction the Business value of the target company PPL as computed above is just 0.21% of the Market capitalization of the acquirer company, namely PEL as on May 25, 2018. Since the size of the Target Company is insignificant compared to the acquirer, we have not undertaken the mammoth task of carrying out a full-fledged valuation of PEL. Instead we have considered the volume weighted average market price of PEL (for a period of three months ended the Valuation Date) for the purpose of determining the ratio of exchange.

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4. Valuation and Conclusion

Based on the foregoing data, considerations and steps followed, we consider that the fair ratio of exchange would as follows:

> "For every **70 (Seventy)** Equity shares of face and paid up value of Rs 10/- (Ten) held in PPL, **1 (One)** Equity shares of face and paid up value of Rs. 2/- (Two) in PEL to be issued to the equity shareholders of PPL".

It may herein be noted that the Stock Exchanges have issued a Circular to the Listed Companies (e.g. BSE Circular LIST/COMP/02/2017-18 dated May 29, 2017) ("the Circular"), on advice by SEBI, laying down the format in which the valuation report shall display the workings, relative fair value per share and fair share exchange ratio. The disclosure in the format suggested by the stock exchange is as under:

<table>
<tr><th rowspan="2">Particulars</th><th colspan="2">PEL</th><th colspan="2">PPL</th></tr>
<tr><th>Value per Share</th><th>Weight</th><th>Value per Share</th><th>Weight</th></tr>
<tr><td>Asset based Approach</td><td rowspan="2">Not Applicable</td><td rowspan="2">See Para 3.6</td><td>Not Applicable</td><td>See Para 3.5.1</td></tr>
<tr><td>Earnings Approach (DCF Approach)</td><td>29.02</td><td>1</td></tr>
<tr><td>Market Price Approach</td><td>2,488.28</td><td>1</td><td>42.54</td><td>1</td></tr>
<tr><td>Relative Value per share</td><td>2,488.28</td><td></td><td>35.78</td><td></td></tr>
</table>

Share Exchange Ratio: 1 (One) equity share of PEL of INR 2 each fully paid up for every 70 (Seventy) equity shares of PPL of INR 10 each fully paid up

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5. Limitations and disclaimers

5.1 As such this Report is to be read in totality and not in parts

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

5.3 Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. We have evaluated and performed checks on the projections provided but have not performed any audit, review or examination of any of the historical information used and therefore, we do not express any opinion with regard to the same. However, we have broadly reviewed the projections for their acceptability before using the same for valuation.

5.4 The information presented in the Report does not reflect the outcome of any due diligence procedures. The reader is cautioned that the outcome of that process could change the information herein and, therefore, the valuation materially.

5.5 The Report is meant for the purpose mentioned in Para 1.1 and should not be used for any purpose other than the purpose mentioned therein. This Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared

5.6 Our Report should be used only by the Managements and by no other person. The Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared.

5.7 We have relied on the judgment made by the Managements and, accordingly, our valuation does not consider the assumption of contingent liabilities materialising (other than those specified by the Managements and the Auditors). If there were any omissions, inaccuracies or misrepresentations of the information provided by the Managements, then this may have the effect on our valuation computations.

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

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

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

5.11 We have not carried out any physical verification of the assets and liabilities of the PEL & PPL, and take no responsibility for the identification of such assets and liabilities.

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6. Gratitude

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

PLACE: MUMBAI

DATE: 2 8 MAY 2018

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BANSI S. MEHTA & CO.

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Appendix A: Broad Summary of Data Obtained

From the Managements

1. Insured value of movable Plant and Machinery of PPL as at March 31, 2018
2. Unaudited Financial Statements of PPL for the year ended March 31, 2018
3. Projected Financial Statements of PPL for future four years - F.Y. 2018-19 to F.Y. 2021-22
4. Answers to specific questions and issues raised by us after examining the foregoing data

From publicly available sources

1. ACE TP for establishing comparability
2. Audited Financial statements of PEL for the year ended March 31, 2017 and period ended December 31, 2017
3. Audited Financial statements of PPL for the year ended March 31, 2017 and period ended December 31, 2017
4. Website of PEL, PPL and Comparable Companies for their financial statements and business background
5. Websites of NSE and BSE