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Dated: 26 April 2016

The Board of Directors
Elecon Engineering Company Limited
Anand Sojitra Road,
Vallabh Vidyanagar,
Gujarat - 388120.

The Board of Directors
Elecon EPC Projects Limited
Anand Sojitra Road,
Vallabh Vidyanagar,
Gujarat - 388120.

Sub: Recommendation of fair exchange ratio for the proposed merger of Elecon EPC Projects Limited into Elecon Engineering Company Limited (the "Transaction")

1. SCOPE AND PURPOSE OF THIS REPORT

1.1. Elecon Engineering Company Limited ("EECL") and Elecon EPC Projects Limited ("EEPL") collectively referred to as the "Companies", have requested Haribhakti & Co. LLP, Chartered Accountants (hereinafter referred to as "Haribhakti") and SSPA & Co., Chartered Accountants (hereinafter referred to as "SSPA") collectively referred to as the "Valuers" or "we" or "us" in this report to jointly recommend a fair share exchange ratio for the proposed merger of EEPL into EECL.

1.2. We understand that the management of the Companies are proposing to merge EEPL into EECL, with effect from the Appointed Date of March 30, 2015. This is proposed to be achieved by a Scheme of Amalgamation under the provisions of Sections 391-394 of the Companies Act, 1956 (hereinafter referred to as the "Scheme of Amalgamation"). We understand from the management of the Companies that:

- The equity shares held by EECL in EEPL will be cancelled;
- Remaining equity shareholders of EEPL will be issued equity shares of EECL as consideration for the proposed amalgamation; and
- The preference shares held by EECL in EEPL will be cancelled.

1.3. This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter.

2. SOURCES OF INFORMATION

For the purposes of this report, we have relied upon the following sources of information as provided by the management of EECL and EEPL:

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2.1. Audited financial statements of the Companies for the financial year ended 31 March 2013, 2014 and 2015;

2.2. Provisional financial statements of the Companies for the nine months period ended 31 December 2015;

2.3. Financial projections of the Companies from 1 January 2016 to 31 March 2020;

2.4. Draft Scheme of Amalgamation

2.5. Relevant data and information provided to us by the representatives of EECL and EEPL in written or oral form or in form of soft copy.

2.6. Discussions with the representatives of EECL and EEPL regarding the past, current & future business projections of EECL and EEPL.

2.7. Information provided by leading database sources, market research reports and other published data.

2.8. Management Representation Letters provided by the Management of respective Companies.

3. Exclusions And Limitations

3.1. Our report is subject to the limitations detailed hereinafter. This report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

3.2. The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information that was provided and used by us during the course of our work. The assignment did not involve us to conduct the financial or technical feasibility study. We have not done any independent technical valuation or appraisal or due diligence of the assets or liabilities of EECL and EEPL.

3.3. In addition, we do not take any responsibility for any changes in the information used by us to arrive at our conclusion as set out herein which may occur subsequent to the date of our report or by virtue of fact that the details provided to us are incorrect or inaccurate.

3.4. We have assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us or used by us. We have assumed that the same are not misleading and do not assume or accept any liability or responsibility for any independent verification of such information or any independent technical valuation or appraisal of any of the assets, operations or liabilities of EECL and EEPL. Nothing has come to our knowledge to indicate that the material provided to us was mis-stated or incorrect or would not afford reasonable grounds upon which to base our report.

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3.5. This report and the information contained herein are intended for the sole use of Board of Directors of EECL and EEPL and only in connection with the purpose of the Proposed Merger as aforesaid including for the purpose of obtaining requisite approvals. It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person except to whom it is issued. We will not accept any responsibility to any other party to whom this report may be shown or who may acquire a copy of the report, without our written consent.

3.6. Further, this report is necessarily based on financial, market and other conditions as in effect on, and the information made available to us or used by us up to, the date hereof. This report exclusively focuses on the valuation of companies proposed to be merged pursuant to the Scheme of Amalgamation and the share exchange ratio and do not address any other issues such as the underlying business decision to recommend the transaction or its commercial merits. Subsequent developments in the aforementioned conditions may affect this report and the assumptions made in preparing this report and we shall not be obliged to update, revise or reaffirm this report if information provided to us changes.

3.7. This report is based on the specific information received from sources mentioned herein and discussions with the management/representatives of EECL and EEPL. We have assumed that no information has been withheld that could have influenced the purpose of our report.

3.8. Whilst all reasonable care has been taken to ensure that the factual statements in the report are accurate, neither ourselves, nor any of our Directors, Officers or Employees shall in any way be liable or responsible either directly or indirectly for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such factual statements. We expressly disclaim any and all liabilities, which may arise based upon the information used in this report. We are not liable to any third party in relation to the issue of this report.

3.9. For the present valuation exercise, we have relied on information available in public domain; however the accuracy and timelines of the same has not been independently verified by us.

3.10. In the particular circumstances of this case, our liability (in contract or under statute or otherwise) for any economic loss or damage arising out of or in connection with this engagement, however the loss or damage caused, shall be limited to the amount of fees actually received by us from the Companies.

3.11. The fee for this engagement is not contingent upon the results of the report.

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3.12. In rendering this report, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof.

3.13. This report does not in any way constitute a recommendation by us to any shareholders as to whether such shareholders should approve or reject the said Proposed Merger. We urge you to read this report and methodology and other details stated herein carefully and entirely.

3.14. Our recommendation is based on the estimates of future financial performance as projected by the management, which represents their view of reasonable expectation at the point of 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. The fact that we have considered the projections in this exercise of valuation should not be construed or taken as our being associated with or a party to such projections.

3.15. This report is subject to the laws of India.

3.16. This report is prepared for the Board of Directors of EECL and EEPL and to the extent mandatorily required under applicable laws of India, may be produced before judicial, regulatory or government authorities, stock exchanges where shares of EECL are listed, the shareholders of EECL, Registrar of Companies, Regional Director, Official Liquidator, High Court of the state where the registered office of EECL and EEPL is located and disclosed on the EECL website if required under any applicable laws in India, in connection with the Transaction.

4. Brief Background

4.1. ELECON ENGINEERING COMPANY LIMITED

4.1.1. EECL, public listed company incorporated under the provisions of Companies Act, 1956 in the State of Gujarat, is engaged in the business of manufacturing industrial geared motors and reducers, mining equipment, casting processes, material handling equipment etc.

4.1.2. Equity shares of EECL are listed on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE").

4.1.3. EECL is engaged in designing and manufacturing worm gears; parallel shaft and right angle shaft; helical and spiral level helical gears; fluid geared and flexible couplings, as well as planetary gear boxes.

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4.1.4. The issued, subscribed and paid-up share capital of EECL as at 31 December 2015 stood at INR 217.87 mn comprising of 108,935,843 equity shares of face value INR 2/- each fully paid up. The shareholding pattern as on 31 December 2015 was as follows:

Sr. No.	Name of Shareholder	No. of shares held	% of Holding
1	Promoter Group	62,462,919	57.34%
2	Public Shareholders	46,472,924	42.66%
	Total	**108,935,843**	**100.00%**

4.1.5. We have been informed by the management of EECL that there has been no change in the above share capital of EECL till the date of this report.

4.2. ELECON EPC PROJECTS LIMITED

4.2.1. EEPL, a public limited company incorporated under the provisions of Companies Act, 1956 in the State of Gujarat, is a subsidiary company of EECL.

4.2.2. EEPL is engaged in the business of providing engineering, procurement, construction and project management services. It manufactures all types of bulk material handling equipment.

4.2.3. The issued, subscribed and paid-up equity share capital of EEPL as at 31 December 2015 stood at INR 4.66 mn comprising of 446,609 equity shares of face value INR 10/- each fully paid up and its shareholding pattern as on 31 December 2015 was as follows:

Sr. No.	Name of Shareholder	No. of shares held	% of Holding
1	EECL	270,170	60.49%
2	Promoter Group	176,439	39.51%
	Total	**446,609**	**100.00%**

4.2.4. The issued, subscribed and paid-up 0% Non-Cumulative Non-Convertible Redeemable Preference Share Capital of EEPL as at 31 December 2015 stood at INR 1,273.2 mn comprising of 12,732,000 preference shares of face value INR 100/- each fully paid up entirely held by EECL.

4.2.5. We have been informed by the management of EEPL that there has been no change in the above share capital of EEPL till the date of this report.

5. VALUATION APPROACH

5.1. Arriving at the share exchange ratio would require determining the fair value of equity shares of EECL and EEPL as at 31 December 2015 (the "Valuation Date").

5.2. Approach for Valuation

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There are three generally accepted approaches to valuation:

(a) "Cost" approach
(b) "Income" approach
(c) "Market" approach

5.3. Cost Approach

The Cost approach focuses on the net worth or net assets of a company. The Net Assets Value (NAV) method, widely used under the Cost approach, considers the assets and liabilities as stated at their book values. The net assets, after reducing the dues to the preference shareholders, and contingent liabilities, if any, represent the value of the company to the equity shareholders. This valuation approach is mainly used in case where the assets base dominate earnings capability.

5.4. Income Approach

- Under the "Income" approach, we have considered Discounted Cash Flow (DCF) Method.
- Under the DCF method the projected free cash flows from business operations after considering fund requirements for projected capital expenditure and incremental working capital are discounted at the Weighted Average Cost of Capital (WACC). The sum of the discounted value of such free cash flows and discounted value of perpetuity is the value of the business.
- The free cash flows represent the cash available for distribution to both the owners and the creditors of the business. The free cash flows are determined by adding back to profit before tax, (i) depreciation and amortizations (non-cash charge), (ii) interest on loans and (iii) any non-operating item. The cash flow is adjusted for outflows on account of capital expenditure, tax and change in working capital requirements.
- WACC is considered as the most appropriate discount rate in the DCF Method, since it reflects both the business and the financial risk of the Company. In other words, WACC is the weighted average of the firm's cost of equity and debt. Considering an appropriate mix between debt and equity for the Company, we have arrived at the WACC to be used for discounting the Free Cash Flows of the Companies.
- Value for equity shareholders is arrived at after making adjustment for loan funds, cash and cash equivalents, preference share liabilities, non-operating assets/liabilities (e.g. value of non-operating investments/surplus assets, impact of contingent liability adjusted for probability of devolvement after considering the tax impact wherever applicable, etc.) as deemed appropriate.
- The equity value so arrived at is divided by the number of equity shares to arrive at the value per equity share.

5.5. Market Approach

- **Market Price Method**

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- 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.

- Under this method, the value is determined on the basis of weighted average stock prices of the company listed on the stock exchange for a reasonable period.

- **Comparable Companies' Multiple ('CCM')**

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

6 VALUATION METHODS CONSIDERED FOR VALUATION OF EECL AND EEPL

- We have considered NAV method under Cost Approach for the present valuation exercise for both the companies.

- It may be noted that the equity shares of EECL are listed and frequently traded, hence, we have valued EECL using the Market Price method under Market Approach by taking volume weighted average price over a reasonable period. We have considered CCM method under Market Approach for EEPL.

- We have considered DCF method under Income Approach which considers the future earning capabilities of both the Companies.

- We have assigned appropriate weights to values arrived under the Cost Approach, Market Approach and Income Approach for the Companies

- The fair share exchange ratio of equity shares of EECL and EEPL has been arrived on the basis of a relative equity valuation for EECL and EEPL 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

7 CONCLUSION

7.1 Our exercise is to work out the relative value of shares of the Companies to facilitate the determination of share exchange ratio. For this purpose, it is necessary to give

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appropriate weightage to the values arrived at under each approach. To arrive at relative value of shares of EECL and EEPL, we have considered it appropriate to give a weightage of 1:2:2 to the value arrived at under the Cost Approach, Market Approach and Income Approach respectively.

7.2 In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognised in judicial decisions. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Honourable Supreme Court of India in the case reported in 176 ITR 417 as under:

"If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible."

7.3 On the basis of the valuation above, in our opinion a fair ratio of exchange in the event of merger of EEPL with EECL would be:

37 (Thirty Seven) equity shares of EECL of INR 2 each fully paid up for every 2 (Two) equity shares of EEPL of INR 10 each fully paid up.

Respectfully submitted,

For Haribhakti & Co. LLP
Chartered Accountants
Firm Registration No: 103523W

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