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additional

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August 10, 2016

The Board of Directors
Tata Chemicals Limited
Bombay House,
24 Homi Mody Street, Fort,
Mumbai 400 001.

Re: Recommendation of fair value of Babrala Division for the proposed sale of Babrala Division by Tata Chemicals Limited

Dear Sirs,

As requested by the management of Tata Chemicals Limited (hereinafter referred to as "TCL" or "the Company"), we have undertaken the valuation exercise of Babrala Division of TCL (hereinafter referred to as "Babrala Division" or "the Division") for recommending fair value of the Division for the purpose of proposed sale by TCL.

1 PURPOSE OF VALUATION

We have been informed by the management of TCL (hereinafter referred to as "the Management") that TCL is considering a proposal to sell Babrala Division on a slump sale basis for a lump sum consideration pursuant to a Scheme of Arrangement ("Scheme") under section 391 of the Companies Act, 1956 and other applicable provisions of Companies Act, 2013. Further, we have been informed that the transaction would be subject to customary closing adjustments on account of changes in working capital.

In this connection, SSPA & Co., Chartered Accountants (hereinafter referred to as "SSPA") have been appointed by the Management to carry out fair valuation of the Division.



2 BRIEF BACKGROUND

2.1 TATA CHEMICALS LIMITED

TCL, a part of Tata Group conglomerate and headquartered at Mumbai, is the second largest producer of soda ash in the world. Tata Salt, a TCL's product, is market leader in national branded salt segment in India. The Company has significant operations in Europe, Africa, South East Asia and the Middle East markets as well. The shares of TCL are listed on BSE Limited and National Stock Exchange of India.

TCL operates in the following business segments:

- **Inorganic Chemicals:** TCL is an integrated manufacturer of basic and value added chemicals; key among them being soda ash, sodium bicarbonate, cement and salt. The Company produces a range of chemicals at its integrated complex at Mithapur. The Company also has overseas operations in North America, United Kingdom and Kenya for soda ash, bicarbonate and industrial salt.
- **Fertilisers:** This segment comprises of two manufacturing units viz. Babrala Plant manufacturing Urea and Customised Fertilisers and the Haldia Plant producing Phosphatic Fertilisers like Di-ammonium Phosphate (DAP), NPK and Single Super Phosphate (SSP). In addition to these, the Company imports and sells bulk fertilisers like Muriate of Potash (MOP) and DAP. This segment also provides a dedicated network for distribution of agri inputs and services to farmers through its network of Tata Kisan Sansar. These centres are one-stop resource centres for farmers.
- **Other Agri Inputs:** The Company is also engaged in the Crop Protection business directly and through its subsidiary viz. Rallis India Limited. The latter is one of India's leading agrochemicals companies with a comprehensive portfolio of pesticides, herbicides, fungicides and plant nutrients for Indian farmers.
- **Others:** This segment primarily comprises of pulses, spices, water purifiers and nutritional solutions.

2.2 BABRALA DIVISION

Babrala Division is a state-of-art fertiliser complex in Babrala (Uttar Pradesh), engaged in the business of manufacture, sale and distribution of urea and customized fertilisers. Commissioned on a green-field site in 1994, Babrala Division is India's most energy efficient urea plant. TCL has an established presence in respect of these products primarily in the north Indian states of Uttar Pradesh, Punjab and Haryana. Urea is



marketed under the flagship brand of Tata Paras and customised fertilisers are sold under the Paras Farmoola brand.

3 SOURCES OF INFORMATION

Our valuation exercise is based on the following sources of information:

- (a) Management certified divisional balance sheet and profit & loss statement of Babrala Division for financial year (FY) 2013-14, 2014-15 and 2015-16.
- (b) Management certified divisional balance sheet and profit & loss statement of Babrala Division for the quarter ended 30 Jun 2016.
- (c) Management certified assets and liabilities position as at 30 Jun 2016 of Babrala Division proposed to be transferred pursuant to slump sale.
- (d) Discussions with the Management on various issues relevant for the valuation including the prospects and outlook for the nitrogenous fertilizers industry, expected growth rate and other relevant information relating to expected future/maintainable profitability of the Division, etc.
- (e) Such other information and explanations as we have required and which have been provided by the Management.
- (f) Information available in public domain.

4 EXCLUSIONS AND LIMITATIONS

- 4.1 Our report is subject to the scope limitations detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.
- 4.2 Valuation is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value. While SSPA has provided an assessment of the value based on the information available, application of certain formulae and within the scope and constraints of our engagement, others may place a different value to the same.
- 4.3 No investigation of the Company'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, beyond the



loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

- 4.4 Our work does not constitute an audit or certification of the historical financial statements / prospective results including the working results of Babrala Division referred to in this report. Accordingly, we are unable to and do not express an opinion on the fairness or accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report is as per agreed terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.
- 4.5 A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. This report is issued on the understanding that the Management of the Company have drawn our attention to all the matters, which they are aware of concerning the financial position of Babrala Division and any other matter, which may have an impact on our opinion, on the fair value of Babrala Division including any significant changes that have taken place or are likely to take place in the financial position of Babrala Division. We have no responsibility to update this report for events and circumstances occurring after the date of this report.
- 4.6 In the course of the valuation, we were provided with both written and verbal 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 purpose of this engagement. Public information, estimates, industry and statistical information relied in this report have been obtained from the sources considered to be reliable. However, we have not independently verified such information and make no representation as to the accuracy or completeness of such information from or provided by such sources. Our conclusions are based on the assumptions, forecasts and other information given by/on behalf of the Company. We assume no responsibility for any errors in the above information furnished by the Company and consequential impact on the present exercise.
- 4.7 Our report is not, nor should it be construed as our opining or certifying the compliance of the proposed transfer with the provisions of any law including companies, taxation



- and capital market related laws or as regards any legal implications or issues arising from such proposed transfer.
- 4.8 This Report is prepared only in connection with the proposed transfer exclusively for the use of the Company and for submission to any regulatory/statutory authority as may be required under any law.
- 4.9 Any person/party intending to provide finance/invest in the shares/business of the Company/Babrala Divison shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision.
- 4.10 It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, other than in connection with the proposed transfer as aforesaid, can be done only with our prior permission in writing.
- 4.11 SSPA, nor its partners, managers, employees makes any representation or warranty, express or implied, as to the 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.

5 VALUATION APPROACH

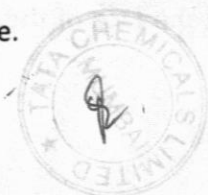
- 5.1 For the purpose of valuation of business, generally the following approaches are adopted:

- (a) the "Underlying Asset" approach
- (b) the "Income" approach; and
- (c) the "Market" approach

- 5.2 Considering the fact that the business of the Division is intended to be continued on a "going concern" basis, we have considered it appropriate not to consider the Underlying Asset approach for the present valuation exercise.

Babrala Division is not separately listed on any stock exchange. Hence, Market approach has not been adopted.

Considering the above and given the nature of the business in which Babrala Division is engaged in, we have thought fit to use Income approach for the present valuation exercise.



5.3 INCOME APPROACH

Under Income approach, the Division has been valued using the Comparable Companies Multiple ('CCM') Method.

5.3.1 The CCM Method arrives at the value of an entity/business by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. 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 such as growth potential, past track record, size, business dynamics, etc. The Enterprise Value (EV) to Earnings before Interest Tax Depreciation and Amortization (EBITDA) multiples of comparable listed companies are used for the present valuation exercise.

5.3.2 Under the CCM method, the Division is valued as follows:

- EBITDA of the Division for FY 2015-16 is considered for arriving at the maintainable EBITDA. While arriving at the maintainable EBITDA, adjustments have been made for non-recurring/non-operating items of income/expenditure.
- The maintainable EBITDA as arrived above is capitalized by applying an appropriate EV/EBITDA multiple to arrive at the enterprise value of Babrala Division. EV/EBITDA Multiple is based on the multiples of comparable listed companies and in our opinion, the same is reasonable considering the growth prospects, business risk, expected return and the industry in which the Division operates.
- To the enterprise value so arrived at, adjustments have been made for contingent liabilities and value of surplus assets (after considering the tax impact wherever applicable).
- On the basis of foregoing, the value of Babrala Division works out to **INR 2,410 crores.**

6 RECOMMENDATION OF FAIR VALUE

6.1 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 business. This concept is also recognized 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 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.'

- 6.2 In light of the above and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove earlier in this report, in our opinion, the fair value of Babrala Division is **INR 2,410 crores.**

Thank you,
Yours faithfully,

SSPA & Co



SSPA & CO.
Chartered Accountants
Firm registration number: 128851W

Place: Mumbai

