Annexure - 3

42

HARIBHAKTI & CO. LLP

Chartered Accountants

Ref no: LM-576/30/LM

14th September 2016

The Board of Directors
Ashok Leyland Limited
1, Sardar Patel Road,
Guindy, Chennai,
Tamil Nadu - 600032

The Board of Directors
Hinduja Foundries Limited
Kathivakkam High Road,
Ennore, Chennai,
Tamil Nadu - 600 057

<u>Re: Recommendation of share exchange ratio</u>

Dear Sirs,

We, Haribhakti & Co. LLP ("H&Co."), have been appointed vide letter dated 16th August 2016 to determine the share exchange ratio for the purpose mentioned in Para 1 below. We are pleased to present herewith our report on the same.

1. Purpose of Valuation

1.1. Ashok Leyland Limited ("ALL") is engaged in business of commercial vehicles and related components. Its product portfolio includes buses, trucks, light commercial vehicles, defence vehicles and power solutions.

1.2. Hinduja Foundries Limited ("HFL") is engaged in the business of manufacturing grey iron and aluminum gravity die-castings for automobiles, compressors, industrial engines, power generators and tractors, as well as for defence and marine applications. Its manufacturing facilities are located in Ennore (Chennai), Sriperumpudur - SIPCOT (near Chennai) and at Hyderabad.

1.3. The management of ALL & HFL proposes to merge Hinduja Foundries Limited into Ashok Leyland Limited (together referred to as "the Companies") under a scheme of amalgamation between HFL and ALL and their respective shareholders and creditors under section 391 to 394 of the Companies Act, 1956 and other relevant provisions of the Companies Act, 2013 ("the Scheme").

1.4. In this regards, we, Haribhakti & Co. LLP ("**H&Co.**") have been appointed to undertake the relative valuation of HFL and ALL to determine the share exchange ratio for the Proposed Merger of HFL into ALL.

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(43)

2. Sources of Information

2.1. For the purpose of undertaking this valuation exercise, we have relied on the following sources of information:

a) Audited financial statements of ALL and subsidiaries for the financial years ended 31st March 2014, 31st March 2015 and 31st March 2016;

b) Audited financial statements of HFL for the period ended 30th September 2014 and period ended 31st March 2016;

c) Provisional financial statements of ALL and HFL for the three months period ended 30th June 2016.

d) Projected financials of ALL and HFL including tax computations from FY 17 to FY 20.

e) Details of Contingent liability for ALL and HFL as on 31st March 2016.

f) Financial Information of Hinduja Leyland Finance Limited.

g) Relevant data and information provided to us by the representatives of ALL & HFL either in written or oral form or in form of soft copy;

h) Discussions with the representatives of ALL and HFL regarding the past & current performance of the Companies respectively;

i) Information provided by leading database sources, market research reports and other published data;

j) Management Representation Letters from ALL and HFL dated 12th September 2016.

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. This report and the information contained herein are absolutely confidential and are intended for the use of management and representatives of the Companies for providing select information and only in connection with the purpose mentioned above or for sharing with statutory or regulatory authorities. 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 without our written consent. In the event, the Companies or their management or their representatives intends to extend the use of this report beyond the purpose mentioned earlier in the report, with or without our consent, 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.

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3.3. 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 the Companies or any of its subsidiaries or associated companies and have considered them at the value as disclosed by the Companies in their regulatory filings or in submissions, oral or written, made to us.

3.4. 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.

3.5. This report is based on the information received from the sources mentioned herein and discussions with the representatives of the Companies. We have assumed that no information has been withheld that could have influenced the purpose of our report.

3.6. 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 the Companies. 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.

3.7. During the course of our work, we have relied upon the valuation reports by other valuers and chartered engineers based on the assumptions made by the management and representatives of the Companies. Though we have reviewed it, we have not independently verified the same. As these assumptions require the exercise of judgment and are subject to uncertainties, there can be no assurance that these assumptions are accurate.

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

3.9. 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 here in 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.

3.10. Further, this report is necessarily based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us upto, the date hereof. 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 the information provided to us changes.

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3.11. We have arrived at a relative value based on our analysis. Any transaction price may however be significantly different and would depend on the negotiating ability and motivations of the respective buyers and sellers in the transaction.

3.12. Valuation is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value. While we have provided an assessment of the value based on an analysis of information available to us and within the scope of our engagement, others may place a different value on this business.

3.13. Valuation is based on estimates of future financial performance or opinions, which represent reasonable expectations taking into consideration the economic, social and market patterns existing at that point in time but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, a particular event will occur or that a particular price will be offered or accepted. Actual results achieved during the period covered by the prospective financial analysis will vary from these estimates and the variations may be material.

3.14. Whilst all reasonable care has been taken to ensure that the factual statements in the report are accurate, neither us, nor any of our partners, 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 party in relation to the issue of this report.

3.15. In the particular circumstances of this case, our liability, if any (in contract or under statute or otherwise) for any economic loss or damage arising out of or in connection with this engagement, howsoever the loss or damage caused, shall be limited to the amount of fees actually received by us from the Companies, as laid out in the engagement letter, for such valuation work.

4. Brief Background of the Companies:

Ashok Leyland Limited:-

4.1. Ashok Leyland Limited ("ALL") is engaged in business of commercial vehicles and related components. Its product portfolio includes buses, trucks, light commercial vehicles, defence vehicles and power solutions. It offers buses, a range of trucks for diverse applications such as long-haul, mining and construction, and distribution.

4.2. The subscribed and paid-up equity share capital of ALL as at 30th June 2016 stood at INR 2,845.88 mn comprising of 28,45,876,634 equity shares of INR 1/- each, as follows:

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Shareholding pattern of ALL as on 30th June 2016

Category	Number of Shares* (Mn)	% holding
Promoters	1,433.85	50.38%
Public	1,412.03	49.62%
Total	**2,845.88**	**100.00%**

* includes 352.24 Mn GDRs listed on LSE

4.3. The GDRs issued by ALL are listed on the London Stock Exchange ("LSE"). The Board of Directors have approved the delisting of the GDRs from the London Stock Exchange and the due process is expected to be completed during FY 2016-17.

Hinduja Foundries Limited:-

4.4. Hinduja Foundries Limited ("HFL") is engaged in the business of manufacturing grey iron and aluminum gravity die-castings for automobiles, compressors, industrial engines, power generators and tractors, as well as for defence and marine applications. Its manufacturing facilities are located in Ennore (Chennai), Sriperumpudur - SIPCOT (near Chennai) and at Hyderabad.

4.5. The subscribed and paid-up equity share capital of HFL as at 30th June 2016 stood at INR 2070.54 mn comprising of 2,07,054,576 equity shares of INR 10/- each, as follows:

Shareholding pattern of HFL as on 30th June 2016

Category	Number of Shares (Mn)	% holding
Promoters	38.04	53.25%
Public	33.39	46.75%
GDR's	135.62	
Total	**207.05**	**100.00%**

4.6. The 2008 series GDRs and the 2016 series GDRs are issued by HFL and listed on the Euro MTF Market of the Luxembourg Stock Exchange. The conversion ratio for the 2008 GDRs is 3 GDR stands for 1 equity shares and the conversion ratio of 2016 GDRs is 1 GDR stands for 12,000 equity shares.

5. Valuation Approach

5.1. The Proposed Merger scheme contemplates the merger of the Companies pursuant to the scheme of Amalgamation under sections 391 to 394 of the Companies Act, 1956 and other relevant provisions of the Companies Act, 2013. Arriving at the share exchange ratio for the Proposed Merger would require determining the relative values of each company. These values

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5.2. It is pertinent to note 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, and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.

5.3. 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.

5.4. The cut-off date for the valuation exercise has been considered as 30th June 2016.

5.5. There are three generally accepted approaches to valuation:

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

Cost Approach

5.6. The cost approach focuses on the net worth or net assets of a company. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" or where the assets base dominates earnings capability or if it is investment holding company and significant value is derived from its investment holdings.

5.7. The Net Asset Value ("NAV") Method under the Cost Approach considers the Assets and Liabilities, including Intangible Assets and Contingent Liabilities. The Net Assets, after reducing the dues to the Preference Shareholders, if any, represent the equity value of a company.

Income Approach

5.8. The income approach is widely used for valuation under "Going Concern" basis. It focuses on the income generated by the company in the past as well as its future earning capability. The Discounted Cash Flow (DCF) Method under the income approach seeks to arrive at a valuation based on the strength of future cash flows.

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Discounted Cash Flow (DCF) Method

5.9. Under the DCF Method, the business is valued by discounting its free cash flows for the explicit forecast period and the perpetuity value thereafter. The free cash flows represent the cash available for distribution to both, the owners and creditors of the business. The free cash flows in the explicit period and those in perpetuity are discounted by the Weighted Average Cost of Capital (WACC). The WACC based on an optimal vis-à-vis actual capital structure, is an appropriate rate of discount to calculate the present value of the future cash flows as it considers equity-debt risk by incorporating debt-equity ratio of the firm.

5.10. The perpetuity (terminal) value is calculated based on the business' potential for further growth beyond the explicit forecast period. The "constant growth model" is applied, which implies an expected constant level of growth for perpetuity in the cash flows over the last year of the forecast period.

5.11. The discounting factor (rate of discounting the future cash flows) reflects not only the time value of money, but also the risk associated with the business' future operations.

5.12. The Enterprise Value (aggregate of the present value of explicit period and terminal period cash flows) so derived, is further adjusted for the borrowings, cash, non-operating assets/liabilities (e.g fair value of investments in subsidiaries/associates/mutual funds, value of surplus assets, any contingent liability, etc.) and preference shareholders liability, if any, to arrive at value to the owners of the business.

Market Approach

5.13. Under the Market approach, the valuation is based on the market value of the company in case of listed companies and comparable companies trading or transaction multiples for unlisted companies. The Market approach generally reflects the investors' perception about the true worth of the company.

Market Price ("MP") Method

5.14. Under the "Market" Approach, the market price of an equity share as quoted on a recognized stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded.

Comparable Companies Multiples ("CCM") Method

5.15. The value is determined on the basis of multiples derived from valuations of comparable companies, as manifest in the stock market valuations of listed companies.

5.16. This valuation is based on principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation.

5.17. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

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Comparable Transactions Multiples ("CTM") Method

5.18. Under the CTM Method, the value is determined on the basis of multiples derived from valuations of similar transactions in the industry. Relevant multiples have to be chosen carefully and adjusted for differences between the circumstances. Few of such multiples are Enterprise Value/ EBITDA multiple, Enterprise Value/ Revenue multiple.

5.19. This valuation is based on the principle of transactions taking place in the market between informed buyers and informed sellers, incorporating all factors relevant to valuation. While using transaction multiples, adjustment needs to be made for difference in circumstances, business volume, margins etc in order to arrive at the enterprise value for the company.

6. Conclusion on Valuation Approach of ALL & HFL

6.1. Based on the information and explanations available and considering the industry, we have considered the Discounted Cash Flow (DCF) Method under Income Approach & Market Price Method under the Market Approach for valuation of ALL & HFL.

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 appropriate weightage to the values arrived at under each approach. To arrive at relative value of shares of ALL and HFL, we have considered it appropriate to give an equal weightage of 1:1 to the value arrived at under the Income Approach and Market 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 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 Honourable Supreme Court of India in the case reported in 176 ITR 417 as under:

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"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. In the light of the above, and on consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, in our opinion a share exchange ratio in the event of merger of HFL with ALL would be:

100 (One Hundred) equity shares of INR 10/- each fully paid up of HFL will get 40 (Forty) equity shares of INR 1/- each fully paid up of ALL.

1,000 (One Thousand) 2008 Series GDRs of HFL will get 133 (One Hundred Thirty Three) equity shares of INR 1/- each fully paid up of ALL.

1 (One) 2016 Series GDRs of HFL will get 4,800 (Four Thousand Eight Hundred) equity shares of INR 1/- each fully paid up of ALL.

Yours faithfully,
For Haribhakti & Co. LLP
Chartered Accountants
ICAI Firm Registration No.103523W / W100048

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Sumant Sakhardande
Partner
Membership No.: 034828

Place: Mumbai

CERTIFIED TRUE COPY

FOR ASHOK LEYLAND LIMITED

N. RAMANATHAN
Company Secretary

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