

REPORT ON VALUATION OF CHENANI NASHRI TUNNELWAY LIMITED

SUBMITTED TO INFRASTRUCTURE LEASING & FINANCIAL
SERVICES LIMITED

OCTOBER 2022

Valuation
Investment Banking
Transaction Services
Transaction Tax
Restructuring
Risk Consulting

Private and Confidential

Infrastructure Leasing and Financial Services Limited

Plot C22, G Block,
Bandra Kurla Complex,
Bandra East, Mumbai 400 051

Kind Attention: Mr. C.S. Rajan

Dear Sir,

In accordance with our discussions and engagement letter dated September 08, 2022, with Infrastructure Leasing & Financial Services Limited (“IL&FS” or the “Client”), we enclose our report (“Report”) on enterprise valuation of Chenani Nashri Tunnelway Limited (“CNTL”/ the “Company”) as of August 31, 2022 (“Valuation Date”), for internal management consideration of IL&FS.

Infrastructure Leasing & Financial Services Limited (“IL&FS” or the “Client”) incorporated in 1987 is an infrastructure development and finance company. IL&FS is evaluating options for sale of IL&FS Group’s equity stake in specified special purposes vehicles (“SPVs”) engaged in operating road projects on annuity/ toll basis (“Proposed Transaction”). In this regard, IL&FS has approached RBSA Valuation Advisors LLP (“RBSA” / “Valuer”) to carry out valuation of CNTL as on the Valuation Date.

Chenani Nashri Tunnelway Limited (“CNTL”) is primarily engaged in operating road project which includes four laning tunnel of Chenani and Nashri section of NH 1A highway. CNTL provides all weather connectivity between Jammu and Kashmir. NH 1A is an important route connecting Kashmir valley to Jammu and the rest of India, it also carries most of the tourist traffic. The tunnel reduces the distance to ~12 kms from the existing 41 kms on NH 1A.

We have carried out the enterprise valuation of CNTL as of the Valuation Date, considering the analysis of the data/information provided by/ on behalf of the management of IL&FS (the “Management”), market analysis, discussion with Management and other key factors set out in the Report.

By its very nature, valuation 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. There is, therefore, no indisputable single value. While we normally express our assessment as falling within a likely range, considering the nature of the engagement we have provided a single point value estimate.

The value achieved, in case of a transaction, may be different than our valuation depending upon the circumstances and timing of the transaction, if any. The knowledge, negotiability and motivations of the buyers and sellers will also affect actual price achieved. Accordingly, our valuation will not necessarily be the price at which any agreement proceeds. The final transaction price is something on which the parties themselves must agree considering inter-alia their own assessment of the transaction and inputs from other advisors.

Valuation may be based on estimates of future financial performance or opinions that represent reasonable expectations at a particular 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, that events 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. We express no opinion as to how closely the actual results will correspond to the results projected.

We have analyzed the information provided to us by/ on behalf of the Management 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. Moreover, except where otherwise stated in the Report, we have not subjected the financial and other pertinent information in the Report to inspections/ investigations/ verification validation / diligence procedures.

Our valuation is based on the generally accepted valuation methodologies. A potential investor/ another valuer may use different methodologies or may arrive at different pricing using the same/ other methodologies depending upon their perceptions and the parameters that they feel have a greater significance.

This conclusion does not reflect the outcome of due diligence procedures. The reader is cautioned that the outcome of that process could change the information herein and our valuation, and that change could be material. The analysis of any change, event or circumstance that may have occurred in the business and its market after the Valuation Date is out of our scope.

The Valuation is subject to the Scope, Assumptions and Limiting Conditions mentioned in the Report.

The Valuation is not intended for general circulation or publication and is not to be reproduced without our prior written consent or used for any purpose other than for the purposes stated above and cannot be relied upon by third parties. We will not accept any responsibilities to any other party to whom the Report may be shown or who may acquire a copy of this Report.

Based on the review and analysis of the information provided by/ on behalf of the Management, industry analysis and other relevant factors, the estimated enterprise value of CNTL, as of 31 Aug 2022, is INR 59,082.5 Mn as per the breakup below,

Particulars	in INR Mn
Business Enterprise Value (Refer Note 1)	34,322.0
Add: Cash & cash equivalents	17,928.2
Add: Advance Taxes	30.5
Less: Contingent Liabilities	(42.3)
Add: Receivable from lenders	6,844.2
Enterprise Value	59,082.5

Note 1:

- *Comprising present value of free cash flow to firm for the explicit period.*
- *The Management represented that the operating creditors remaining outstanding as of October 15, 2018, shall be paid in accordance with the ‘waterfall’ structure approved by NCLAT and the amount payable in this respect is being estimated. Considering the aforementioned operating creditors pertaining to the period prior to October 15, 2018 and remaining outstanding as at the Valuation Date have been excluded from computation of Enterprise value.*

This Report forms an integral whole and cannot be split in parts. The outcome of the Valuation can only lead to proper conclusions if the Report as a whole is taken into account.

We thank you for the cooperation received by us during this engagement.

For RBSA Valuation Advisors LLP

RVE No. : IBBI/RV-E/05/2019/110

Samir Dinesh Shah

Partner

Asset Class : Securities or Financial Assets

RV No. : IBBI/RV/06/2019/12263

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BACKGROUND

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1. BACKGROUND

- Infrastructure Leasing & Financial Services Limited (“IL&FS”) is an infrastructure development and finance company in India. The company operates through Financial Services, Infrastructure Services, and Other segments. Its Financial Services segment engages in the commercialization of infrastructure; investment banking, including corporate finance, advisory, capital market, securities trading, venture capital and trusteeship operations. The company’s Infrastructure Services segment constructs and operates infrastructure assets, such as roads, bridges, ports, water, buildings, and power plants.
- IL&FS Transportation Networks Limited (“ITNL”) develops, operates, and facilitates surface transportation infrastructure projects in India and internationally. It undertakes highway, flyover, bridge, road, metro rail, city bus, and border check post projects. It also provides advisory and management services; supervisory services; operation and maintenance services; toll collection services for toll road projects; and bidding process assistance services to applicants for toll road concessions. ITNL is a subsidiary of IL&FS and is amongst largest private concessionaire of roads and operates some of India’s road assets in India. The shares of ITNL are listed on the BSE Limited and the National Stock Exchange of India Limited. As of the Valuation Date, IL&FS holds ~71.92% of the equity of ITNL. IL&FS along with ITNL operates various infrastructure projects across India through its SPV’s.
- CNTL, a wholly owned by IL&FS Transportation Networks Limited, is a special purpose vehicle incorporated to implement the four-laning of the Chenani-to-Nashri section of the National Highway 1A (including a two-lane, 9km tunnel in the Udhampur district near Jammu) on a design, build, finance, operate and transfer basis under a 20-year concession from the National Highways Authority of India. The project received provisional completion certificate with effect from March 8, 2017, with a delay of 291 days as against the scheduled COD of May 21, 2016. The independent engineer in its letter dated November 9, 2017, approved extension of SCOD by 231 days on account of various FM events. With the extension in concession period; revised concession end date is March 2032.
- The following is the brief snapshot of CNTL :

SPV Name	Concessioning Authority	Location	COD Date/Balance Period	Aggregate Length	Concession Type	Share holding
Chenani Nashri Tunnelway Limited	National Highways Authority of India (NHAI)	Jammu, Jammu and Kashmir	08-March-17 / ~9.5 years (till Mar 2032)	~ 11 Km	Annuity	100% - ITNL and its nominees

Source: Information provided by the Management

- CNTL operates the project road under annuity model and receives fixed annuity of INR 6,350.0 million per annum (payable semi annually).

SCOPE ASSUMPTIONS & LIMITING CONDITIONS

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2. SCOPE ASSUMPTIONS & LIMITING CONDITIONS

- RBSA has been appointed by IL&FS to estimate the enterprise value of Chenani Nashri Tunnelway Limited (“CNTL”/ the “Company”) as of August 31,2022 (“Valuation Date”) for the internal management consideration of IL&FS.
- This Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the date of this Report; (iii) financial statements of CNTL for the 5 months period ended August 31,2022; and (iv) projections of CNTL and other information provided by the Management of IL&FS and information obtained from public domain. The Management has represented that the business activities of the Company has been carried out in normal and ordinary course between August 31,2022, and the report date and that no material changes have occurred in their operations and financial position between August 31,2022, and the report date.
- While our work has involved an analysis of financial and other information provided by/ on behalf of the Management, our engagement does not include an audit in accordance with generally accepted auditing standards of the Company’s existing business records. We have not carried out any independent technical evaluation or appraisal or due diligence of the assets or liabilities of the Company. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by/ on behalf of the Management. 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.
- Valuation of a Company / business is not a precise science and the conclusions arrived at in many cases will be subjective our opinion on the and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value and we normally express value as falling within a likely range, considering the nature of the engagement we have provided a single point value estimate. While we have provided our opinion on the enterprise value of the Company based on the information made available to us and within the scope and constraints of our engagement, others may have a different opinion.
- A valuation of this nature is necessarily based on stock market, financial, economic, and other conditions in general and industry trends in particular prevailing as on the Valuation date and the information made available to us as of the date hereof. Events occurring after the Valuation date 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.
- In the course of valuation, we were provided with both written and verbal information as mentioned in the Section 3. We have analysed the information provided to us by/ on behalf of the Management 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. We have assumed that no information has been withheld that could have influenced the purpose of our Report.

2. SCOPE ASSUMPTIONS & LIMITING CONDITIONS

- Valuation may be based on estimates of future financial performance or opinions that represent reasonable expectations at a particular point in time. However, we do not provide assurance on the achievability of the results projected by the Management as events and circumstances do not occur as expected and differences between actual and expected results may be material. We express no opinion as to how closely the actual results will correspond to those projected as the achievement of the projected results is inter-alia dependent on actions, plans and assumptions of the Management and macro-economic and other external factors which are beyond the control of the Management.
- Our valuation is primarily from a business perspective and does not take into account various legal and other corporate structures beyond the limited information provided to us by the Management. The value conclusion is not intended to represent the value at any time other than the Valuation Date that is specifically stated in the Report.
- We have also relied on the data from external sources 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.
- The actual price achieved in case of a transaction may be higher or lower than our estimate of value depending upon the circumstances and timing of the transaction, the nature of the business and other relevant factors. The knowledge, negotiating ability and motivation of the buyers and sellers and the applicability of a discount or premium for control will also affect actual price achieved. Accordingly, our valuation conclusion will not necessarily be the price at which any agreement proceeds. The final transaction price is something on which the parties themselves have to agree considering inter-alia their own assessment of the Transaction and inputs from other advisors.
- The Report assumes that the Company complies fully with relevant laws and regulations applicable in its area of operations and usage unless otherwise stated, and that they will be managed in a competent and responsible manner. Further, unless 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 provided to us.
- 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, irrespective of the quantum of loss or damage caused, shall be limited to the amount of fees actually received by us from the Client, as laid out in the engagement letter, for such valuation work.

2. SCOPE ASSUMPTIONS & LIMITING CONDITIONS

- In rendering this Report, we have not provided any legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof.
- No investigation of the Company's claim to title of assets has been made for the purpose of this Report and the Company's claim to such rights have been assumed to be valid. Therefore, no responsibility is assumed for matters of a legal nature.
- The scope of work has been limited both in terms of the areas of the business and operations which have been reviewed. There may be matters, other than those noted in this report, which might be relevant in the context of the transaction and which a wider scope might uncover.
- RBSA is not aware of any contingent, commitment or material issue, besides the information disclosed in the audited financial statements and as provided by the Management which has been presented in this Report, which could materially affect the economic environment and Company's future performance and therefore, the value of the Company.
- We have assumed that the business would continue normally without any disruptions due to statutory or other external/internal occurrences.
- The scope of work has been limited both in terms of the areas of the business and operations which have been reviewed. There may be matters, other than those noted in this Report, which might be relevant in the context of the transaction and which a wider scope might uncover.
- This Report forms an integral whole and cannot be split in parts. The outcome of the valuation can only lead to proper conclusions if the report as a whole is taken into account.

SOURCES OF INFORMATION AND PROCEDURES

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3.1 SOURCES OF INFORMATION

This Report is prepared on the basis of the following sources of information as provided to us by/ on behalf of the Management:

- Unaudited financial statements for the five months period ended August 31,2022;
- Audited financial statements of CNTL for FY 2022.
- Projected financial statements of CNTL for the residual concession period i.e., September 01, 2022, to Mar 16, 2032, which the Management believes to be their best estimate of the expected operating performance of CNTL (“Management Projections”);
- Statement of carried forward income tax and book losses as of the Valuation Date
- Concession Agreement
- Discussions with the Management to inter-alia understand historical performance of the CNTL, key value drivers, competitive scenario, etc.;
- Information obtained from public domain and subscribed databases in respect of comparable companies;
- Such other information and explanation that we believed necessary for the purpose of valuation which was provided by the Management.

3.2 PROCEDURES ADOPTED

Procedures:

The procedures used in our valuation included such substantive steps as we considered necessary under the circumstances, including, the following:

- a) Considered audited financial statements of CNTL for FY 2022 and period ended August 31, 2022;
- b) Considered Management Projections;
- c) Discussions and correspondence with the Management to inter-alia understand the historical and expected future performance, key value drivers and other business aspects affecting CNTL;
- d) Considered Information obtained from public domain and subscribed databases in respect of comparable companies;
- e) Considered such other information and explanation that we believed necessary for the purpose of valuation which was provided by the Management.

HISTORICAL ANALYSIS

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4. HISTORICAL FINANCIAL STATEMENTS

Balance Sheet: (In INR Mn)

Particulars as on,	31-Mar-22	31-Aug-22
Net Fixed Assets	1.5	1.5
Receivable under SCA - Non current	35,349.8	37,005.9
Current Tax Assets	27.9	30.5
Advance towards Insurance Premium	143.8	-
Total Non Current Assets	35,523.1	37,037.9
Investments	0.2	0.2
Cash and cash equivalents	17,753.7	17,658.8
Receivable from lenders	6,844.2	6,844.2
Interest accrued on FD's	60.2	269.3
Other Current Assets	2.6	86.4
Total Current Assets	24,660.9	24,858.7
TOTAL ASSETS	60,183.9	61,896.6
Equity Share Capital	3,720.0	3,720.0
Other Equity	1,952.9	3,614.4
Total Equity	5,672.9	7,334.4
Long term borrowings - Bonds/Debentures	49,194.7	49,232.9
Payables to Related Party (incl. Retention Monies)	5,194.0	5,176.5
Other Payables	122.3	152.8
Total Current Liabilities	54,511.0	54,562.2
TOTAL EQUITY & LIABILITIES	60,183.9	61,896.6

Source: Management / Audited Accounts

Statement of Profit and Loss (In INR Mn)

Particulars as on, Months	31-Mar-22 12	31-Aug-22 5
Income		
Revenue From Operations:		
(a) Operation and maintenance income	501.2	214.4
(b) Finance income	3,616.9	1,444.5
(c) Overlay income	45.7	3.2
Total Income	4,163.9	1,662.1
Expenses		
O&M Costs	457.2	195.5
Overlay Expenses	49.9	2.9
Other Expenses	212.1	16.7
Total Expenses	719.3	215.2
EBITDA	3,444.6	1,446.9
Depreciation	-	-
EBIT	3,444.6	1,446.9
Other Income - Non Operating	410.4	233.7
Interest on term loans	69.8	19.1
Profit/(loss) before tax	3,785.2	1,661.5
Tax Expense	(251.0)	-
Profit After Tax	3,534.3	1,661.5

4. HISTORICAL FINANCIAL STATEMENTS

- The Company receives annual annuity of INR 6,350.4 Mn every year. NHAI had deducted Rs 1,024.38 Mn out of the first annuity and Company had already filed the claim with the authority for the same. The matter is in conciliation. During the FY22, the Company on conservative basis had not considered the receipt this annuity amount in the IRR model.
- Non-Operating income represents interest income on DSRA.
- O&M Costs is based on the technical report of independent consultant who has been appointed for the purpose
- As part of the divestment process, during the earlier year the IL&FS Board had received a single bid from an external party and the same was accepted by the Board of Directors of ITNL and IL&FS subject to necessary approvals from various regulators , Committee of creditors , NCLAT and others. We have been informed by the Management that the Share purchase agreement is presently being formalized with the bidder and the final price is subject to adjustment. On the basis of bid received, the Company had recognized impairment of in the financial statements during the earlier year. In light of the bid being continued, management is of the view that no further impairment is required for FY22.
- National Company Law Appellate Tribunal ("NCLAT") had passed an order on October 15, 2018 ("Interim Order") in Company Appeal (AT) 346 of 2018, imposing moratorium on the creditors of IL&FS and its group companies, which includes the Company. Accordingly, the Company has not accrued any interest, default interest, penal interest and any other similar charges after the said cut cut-off date of October 15,2018 and has not repaid any principal amount of debt due.
- CNTL has been classified as an 'Amber' entity, which denotes that it can meet only operational payment obligations to senior secured financial creditors and is not in a position to discharge its entire Debt as and when due. Further, since the Company has been classified under "Amber Category" it has resulted in downgrade of debt ratings of the Company. Accordingly, the Company is permitted to make only those payment s necessary to maintain and preserve the going concern status. The interest rate considered in the projections represents Managements estimate of likely interest rate that would be charged to the Company post discussions with secured lenders.
- There have been certain developments with respect to:
 - NCLT order for re-opening and re-casting of financial statements of IL&FS, IFIN and ITNL, and not covering the Company;
 - Investigation by Serious Fraud Investigation Office ("SFIO") and other regulatory agencies against IL&FS and its group companies; and
 - Forensic examination initiated by the Board of Directors of IL&FS in relation to the certain companies of the IL&FS Group, not including the Company.
 - NCLAT order on Moratorium for financial creditors of the Company based on which CNTL had stopped accruing interest and repayment to financial creditors effective October 15, 2018.

4. HISTORICAL FINANCIAL STATEMENTS

- As of March 31, 2022, no material impact/ implications had arisen from the aforesaid developments. However, there is uncertainty relating to the future outcome of the regulatory actions and is not determinable at this stage.
- The New Board of IL & FS (ultimate holding Company) in January 2019 initiated a forensic examination for the period from April 2013 to September 2018 in relation to the certain Companies of the Group and has appointed an independent third party for performing the forensic audit and to report the findings to the Board of Directors of IL&FS. The Company is not in the list of Companies identified by the New Board for forensic audit and hence no such specific audit of the affairs of the Company has been conducted. The independent third party had submitted their interim report in relation to the audit of ITNL (the Holding company) and its project related activities and the observations contained therein related primarily to the operations of ITNL. The said report was discussed by the Board of ITNL and is being dealt with in manner deemed fit by the Board of the Holding company.
- Observations made by the independent third party relating to the project undertaken by the Company, was presented to the Company's Board. After review of the observations, the Board was of the view that no adjustments will be required in the financial statements for any consequential effects / matters that may arise from the said report
- During the year FY2022, senior lenders had initiated forensic audit of the Company through an independent third party. The Company had provided the required information to the independent third party. However, Company has not received any report either from bank or such independent third party, hence presently we are unable to ascertain any impact of the same.
- The banks have debited an amount of INR 6,844.2 Million for Interest & Principal (Interest & Principal for the period of October 18 - March 20) from the Escrow accounts of the Company maintained with them. The Company has written to the banks for reversal of same in view of October 15, 2018, Order of NCLT giving moratorium. The banks have not reversed the same till date. The said amount (after reducing interest up to Oct 15, 2018) has been shown as recoverable in the financial statements. These amounts have not been handed back to the Company till date. We have assumed the same to be recoverable.

BASIS, APPROACH AND METHODOLOGY OF VALUATION

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5. BASIS, APPROACH AND METHODOLOGY OF VALUATION

Valuation is carried out in accordance with ICAI Valuation Standards (“ICAI VS”) issued by Institute of Chartered Accountants of India (“ICAI”) as prescribed under Section 247(2) of the Companies Act, 2013.

Basis of Valuation – Fair Value Basis

Valuation base means the indication of the type of value being used, considering the terms and purpose of the valuation engagement. Our estimation of the value has been carried out on Fair Value basis.

Para 17 of ICAI VS – Valuation Bases defines Fair Value as follows:

“Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.”

Premise of Value – Going Concern

Para 45 of ICAI VS 102 – Valuation Bases defines the value under Going Concern premise as follows:

“Going concern value is the value of a business enterprise that is expected to continue to operate in the future. The intangible elements of going concern value result from factors such as having a trained work force, an operational plant, the necessary licenses, systems, and procedures in place, etc.”

CNTL is an operational entity and has generated operating profits in the past. Accordingly given the operational status as on the Valuation Date and the terms and purpose of the valuation engagement, our estimation of the enterprise value of CNTL is based on the Going Concern premise which assumes that CNTL shall continue to operate in the future.

Accordingly, given the Going Concern premise, the Fair Value basis is considered the most appropriate basis for estimation of the Value of CNTL

5. BASIS, APPROACH AND METHODOLOGY OF VALUATION

General Methodology for estimating the enterprise valuation and equity valuation on a going concern premise:

Approach	Methodology Used	Rationale
Income Approach Discounted Cash Flows ("DCF")	Applied	<ul style="list-style-type: none"> ▪ Under a DCF approach, forecast cash flows are discounted back to the present date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit Forecast Period is then determined and that value is also discounted back to the valuation date to give an overall value for the business. ▪ A Discounted cash flow methodology typically requires the Forecast Period to be of such a length to enable the business to achieve a stabilized level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. ▪ The rate at which the future cash flows are discounted ("the discount rate") should reflect not only the time value of money, but also the risk associated with the business' future operations. The discount rate most generally employed is Weighted Average Cost of Capital ("WACC") or Cost of Equity (Ke), reflecting an optimal as opposed to actual financing structure. ▪ The Management has provided us the projections of the Company which we have used for the purpose of this valuation. ▪ We have adopted this methodology to arrive at the valuation conclusion of CNTL.
Market Approach Market Price Method	Not Applied	<ul style="list-style-type: none"> ▪ Under this approach, the value of the business is arrived at considering the market price of a company based on its trading prices over an appropriate period. ▪ We have not adopted this methodology since the shares of the CNTL are not listed.

5. BASIS, APPROACH AND METHODOLOGY OF VALUATION

General Methodology for estimating the enterprise valuation and equity valuation on a going concern premise:

Approach	Methodology Used	Rationale
Market Approach Comparable Companies ("Co Co")	Not Applied	<ul style="list-style-type: none"> ■ Under Comparable Companies Method, the value of shares / business of a company is determined based on market multiples of publicly traded comparable companies. Although no two companies are entirely alike, the companies selected as comparable companies should be engaged in the same or a similar line of business as the subject company/division. ■ The appropriate multiple is generally based on the performance of listed companies with similar business after appropriate adjustment for factors specific to the subject business. ■ Considering that there are no listed companies comparable to Company in respect of terms of the service concession agreement, concession period, type or region, we have not applied this method for valuation of the Company.
Market Approach Comparable Transactions ("Co Trans")	Not Applied	<ul style="list-style-type: none"> ■ Under Comparable Transaction Method, the value of shares / business of a company is determined based on market multiples of publicly disclosed transactions in the similar space as that of the subject company. ■ Multiples are generally based on data from recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. ■ We have not used this methodology due to lack of adequate information for comparable transactions in public domain.
Cost Approach Net Asset Value	Not Applied	<ul style="list-style-type: none"> ■ Under the net asset value approach, total value is based on the sum of net asset value as recorded on the balance sheet. ■ A net asset methodology is most applicable for businesses where the value lies in the underlying assets and not the ongoing operations of the business, hence we have not adopted the net assets value methodology for this exercise.

VALUATION ANALYSIS

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6. MANAGEMENT PROJECTIONS: KEY ASSUMPTIONS

Key Assumptions underlying Management Projections

The key inputs of the projections as provided by the Management are as follows:

- **Annuities:** Annuities are receivable on semi-annual basis and are supported by Concession Agreement.
- **Operational and Maintenance Expenses (Routine maintenance):** O&M expenditures estimated by the Management over the projected period are supported by the Technical study report of an external professional consultant. As given to understand, the consultant in its earlier report had considered a sum of INR 300 Mn p.a. as contingency, considering that the project was in landslide zone and Earthquake Zone 4, where there was a possibility of natural disaster which could have led to failure of slope protection, seepage in tunnel or development of cracks in tunnel etc. and other few items which might be not covered in insurance. Factoring in the same, the consultant had adopted INR 300 Mn cost per annum as contingency cost on lump sum basis.
Basis the discussions between the Management and external consultant, we understand that the above referred natural disasters would be covered under insurance and that the contingent costs of INR 300 Mn can be removed from O&M expenses. We have relied on Management / consultants explanation in this regard.
- **Major Maintenance & Repair Expenses (MMR / Periodic maintenance):** Periodic maintenance expenses are costs that are incurred to bring the road asset back to an earlier condition or to keep the road asset operating at its present condition. Similar to O&M expenditure MMR expenditures estimated by the Management over the Projected Period are supported by the technical study report of an external professional consultant.
- **Depreciation and Amortization:** Since the project is on annuity basis, as per Ind AS, no depreciation has been charged in the books. Further, for other Fixed assets, the depreciation method prescribed by the Companies Act has been followed. Since depreciation and amortization is a non-cash expenditure, the same has been added back to arrive at the net cash flows.
- **Taxes:** The taxes payable during the project life are estimated by the Management using the MAT rates and normalised tax rates, whichever applicable. Tax expense has been estimated after considering Management's estimate of carried forward losses, unabsorbed depreciation and MAT provision which may be applicable to the Company. We have relied upon the Management's estimate in this respect.
- **Working Capital:** As the Company is in the business of operating annuity road project, there is no requirement of material working capital (other than receivable on account of periodical annuity) to operate the business.

6. MANAGEMENT PROJECTIONS: KEY ASSUMPTIONS

- For purpose of valuation of Service Concession Agreement, we have considered Discounted Cash flow method of valuation.
- The following are the broad assumptions underlying projections.

Annuity:

Project road	Length in kms	Amount of annuity p.a. (in INR Mn)	Receivable	Annuity to be received at	COD
Chenani Nashri Tunnelway Limited	11	6,350.4	Semi annually	Feb end; August end	March 08, 2017

* The period of concession agreement ends in February 2032.

Major Maintenance and Repairs Expenditure:

Particulars	(in INR Mn)									
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
MMR Expenditure	327.4	10.2	-	-	9.9	8.6	3.4	11.5	0.7	8.2

Working Capital Changes

Particulars as on	(in INR Mn)										
	31-Aug-22	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	16-Feb-32
Advances towards insurance premium	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4
Assets	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4
Advance received for change in scope	-	-	-	-	-	-	-	-	-	-	-
Trade payables	74.2	-	-	-	-	-	-	-	-	-	-
Other Payables	152.8	-	-	-	-	-	-	-	-	-	-
Liabilities	226.9	-	-	-	-	-	-	-	-	-	-
Net Working Capital	(140.6)	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4	86.4
Change in Working Capital		226.9	-	-	-	-	-	-	-	-	-

Working Capital from March 31, 2022, to February 16, 2032, is assumed to remain constant at INR 86.4 Mn after repayment of INR 226.9 Mn of liability.

- Figure of INR 86.4 Mn pertains to prepaid insurance. Hence no release of Working Capital is assumed post end of concession period.

Further, CNTL being an amber category entity, out standings of related parties have been kept constant in projected period and treated as group / parent loan like item.

6. ASSUMPTIONS UNDERLYING PROJECTIONS

Details of brought forward losses and depreciation: (in INR Mn)

AY	Business loss	Unabsorbed depreciation
2017-18	-	2,744.4
2018-19	-	11,252.1
2019-20	-	5,460.0
2020-21	-	613.5
Total	-	20,069.9

6. ENTERPRISE VALUATION

Free Cash Flow to Firm (FCFF):

(In INR Mn)

Particulars Period in Months	2023 7	2024 12	2025 12	2026 12	2027 12	2028 12	2029 12	2030 12	2031 12	2032 11
Revenues	2,601.6	3,743.7	3,507.7	3,270.1	3,022.3	2,745.4	2,429.4	2,104.7	1,730.4	1,342.9
EBIT	1,870.1	3,088.4	2,853.0	2,594.4	2,283.5	1,972.3	1,624.4	1,253.4	850.2	421.6
Less Income Tax on EBIT	(460.0)	(453.9)	(453.7)	(450.0)	(440.4)	(432.4)	(427.3)	(419.9)	(412.9)	(365.9)
EBIT before overlay cost and after Tax	1,410.0	2,634.5	2,399.3	2,144.4	1,843.1	1,539.9	1,197.1	833.5	437.3	55.8
Add/(Less) : Change in SCA	3,748.8	2,606.7	2,842.7	3,080.3	3,328.1	3,605.0	3,921.0	4,245.7	4,620.0	5,007.5
Add/(Less): (Increase)/Decrease in Working Capital	(226.9)	-	-	-	-	-	-	-	-	-
Free Cash flows ('FCF')	4,932.0	5,241.2	5,242.0	5,224.7	5,171.2	5,144.9	5,118.2	5,079.2	5,057.3	5,063.3
Time to Midpoint	0.29	1.08	2.08	3.08	4.08	5.08	6.09	7.09	8.09	9.03
PV factor @ 10.00%	0.97	0.90	0.82	0.75	0.68	0.62	0.56	0.51	0.46	0.42
PV of FCFF	4,797.3	4,727.5	4,297.9	3,894.3	3,504.0	3,168.8	2,865.4	2,585.1	2,339.9	2,141.7

Particulars	in INR Mn
Business Enterprise Value (Refer Note 1)	34,322.0
Add: Cash & cash equivalents	17,928.2
Add: Advance Taxes	30.5
Less: Contingent Liabilities	(42.3)
Add: Receivable from lenders	6,844.2
Enterprise Value	59,082.5

Note 1:

- Comprising present value of free cash flow to firm for the explicit period.

The Management represented that the operating creditors remaining outstanding as of October 15, 2018 shall be paid in accordance with the 'waterfall' structure approved by NCLT and the amount payable in this respect is being estimated. Considering the aforementioned, operating creditors aggregating INR 6,022.7 million pertaining to the period prior to October 15, 2018 and remaining outstanding as at the Valuation Date have been excluded from computation of Enterprise value.

Note 2:

The banks have debited an amount of INR 6,709.4 Mn towards Interest & Principal (for the period October18-March20 from the Escrow account of the Company maintained with them. The Company has written to the banks for reversal of same in view of October 15, 2018 Order of NCLT giving moratorium. The banks have not reversed the same till date. The amount(after reducing interest till Oct 15, 2018)has been shown as receivable

6. ENTERPRISE VALUATION

Note 3: Contingent Liabilities

(in INR Mn)

Particulars	As of Mar 2021	Probability	Outflow	Tax break	Value after tax break
Claims not acknowledged as debt:					
-Claims filed by Operational Creditors	0.0	50%	0.0	0.0	0.0
-Claims filed by Financial Creditors	27.0	50%	13.5	3.4	10.1
- Claim By bank for cancellation of Hedge contract	126.6	25%	31.6	8.0	23.7
- Income tax demands contested by the Company	17.0	50%	8.5	-	8.5
			53.7	11.6	42.3

CONCLUSION

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7. CONCLUSION

- RBSA has been appointed by IL&FS to estimate the enterprise value of Chenani Nashri Tunnelway Limited (“CNTL”/ the “Company”) as of August 31,2022 (“Valuation Date”) for the internal management consideration of IL&FS.
- Based on the review and analysis of all the information provided by the Management, current market analysis and other factors set out in the report, we have estimated the enterprise value of CNTL as of August 31,2022, at INR 59,082.5 Mn.
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- This Report forms an integral whole and cannot be split in parts. The outcome of the Valuation can only lead to proper conclusions if the Report as a whole is taken into account.

APPENDIX

A: Discount Rate

Discount rate

- In order to determine the discount rate, we have used the WACC methodology as set out below:

$$\text{WACC} = K_e * (E / (D + E)) + K_d * (1 - T) * (D / (D + E))$$

Where: K_e	=	cost of equity
E	=	market value of equity
K_d	=	cost of debt
D	=	market value of debt
T	=	corporate taxation rate

The cost of equity is derived using the Capital Asset Pricing Model (“CAPM”) as follows:

$$K_e = R_f + \beta * (R_m - R_f) + \alpha$$

Where: R_f	=	the current return on risk-free assets
R_m	=	the expected average return of the market
$(R_m - R_f)$	=	the average risk premium above the risk-free rate that a “market” portfolio of assets is earning
β	=	the beta factor, being the measure of the systematic risk of a particular asset relative to the risk of a portfolio of all risky assets
α	=	company specific risk factor (alpha)

Terminal Value

- The most common approach to calculating terminal value is to apply a constant growth model, utilising the following formula:

- $\text{FV of terminal value} = [\text{FCFF}_n] \times (1 + g) / (\text{WACC} - g)$

- $\text{PV of terminal value} = \text{FV of terminal value} / (1 + \text{WACC})^n$

Where: g = growth rate

- Considering that SCA has finite life, no terminal value has been computed.

A: Discount Rate

WACC as on August 31,2022

Particulars		
Cost of Equity (Ke)		
Risk Free Rate (Rfr)	~7.21%	10 years ZCYC rate as on August 31,2022, Source: CCIL
Market Risk Premium	~7.00%	RBSA Estimate
Levered Beta	0.91	Considering beta of peer companies #
Additional Risk Premium	0.00	Refer Note below
Cost of Equity (Ke)	13.57%	
Cost of Debt (Kd)		
Pre-Tax - Cost of Debt (Kd)	~7.50%	Estimate of borrowing costs from banks as of August 31,2022, Management Estimate post restructuring
Effective tax range	~17.47%	Considering inter-alia Management's estimate of set-off of brought forward losses and unabsorbed depreciation
Post Tax - Cost of Debt (Kd)	~6.19%	
Debt : Equity	~50:50	RBSA Estimate considering inter-alia Debt: equity of peer companies
WACC (Range)	9.88%	
WACC (Rounded)	10.00%	

Note: Though the Company has annuity model, most of the road passes under the tunnel which has topographical risk and hence the risk premium has been considered at Nil instead of -1% that is normally considered by us for other annuity projects of IL&FS Group.

List of companies considered for beta calculation are Ashoka Buildcon Limited, MEP Infrastructure Developers Limited, and IRB Infrastructure Developers Limited