STRICTLY PRIVATE and CONFIDENTIAL

Date: 6th Aug, 2015

The Board of Directors

Concord Enviro Systems Pvt. Ltd.

101 HDIL House, Anant Kanekar Marg,

Bandra (East),

Mumbai 400 051, India

Dear Sirs,

Sub: Determination of fair value of common equity shares of Concord Enviro Systems Pvt. Ltd. and proposed Compulsory Convertible Preference Shares (CCPS) to be issued by the Company.

1. Background of the Company

1.1. Concord Enviro Systems Pvt. Ltd. ("Company") is a Private Limited Company incorporated under the Indian Companies Act, 1956.

1.2. The Company is involved in the business of providing environmental engineering solutions with a focus on waste water treatment & recycling, desalination and waste to energy (W2E) generation. It has manufacturing facilities in Vasai, India and Sharjah, UAE.

1.3. The subsidiaries of the Company and the Company's holding as explained & informed to us by the management in each of them is as given below:

a. Rochem Separation Systems Private Limited, India and its subsidiaries ("RSS") – 100%

b. Reva Enviro Systems Private Limited, India ("Reva") – 100%

c. Concord Enviro FZE, Sharjah, UAE and its subsidiaries ("CES FZE") – 100%

d. Concord Blue Technology Private Limited, India ("CBT") – 51%

1.4. The current holding structure as explain & informed to us by the management of the Company is as shown in Annexure 1. We have not done any verification /check for the same.

1.5. We have been given to understand that the Company is looking to issue Compulsorily Convertible Preference Shares (CCPS) to a new investor for an equity infusion of INR 350.0 mn. In this regard, the Company would like to ascertain the fair market value of its equity shares and CCPS.

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2. Scope of Valuation Report

2.1. Baweja & Kaul is a Chartered Accountants firm having registration FRN No 005834N and have been engaged by the Company to carry out a valuation of the Company taking into account the various information provided to us in this regard. We have not done any due diligence and verification is based on information /documents provided to us.

2.2. In relation to the proposed issuance of CCPS, we are required to provide a fair market valuation of the Company.

2.3. In this regard, we have been provided with information in respect of the Company. We have also relied on the discussions with the key executives and management of the Company where the background, highlights of the Company and its operations have been communicated.

2.4. The report has been prepared solely for the Company for the purpose stated hereinabove. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which the work is disclosed or otherwise made available. We will not be liable or responsible if the work is used for any other purpose or shown to any third party in whose hands it may come.

3. Basis of Valuation

3.1. Since the key drivers, business environment, competition and applicable regulations for Company's businesses viz. Water business and Waste to Energy business are different, we have used a Sum-of-the parts (SOTP) approach to value the Company as a whole.

3.2. Valuation is based on the assumption that the businesses of the Company and its subsidiaries are as defined below in 3.3 and 3.4.

3.3. **Water business** includes the business of the Company and the following subsidiaries:

a. Rochem Separation Systems Private Limited, India and its subsidiaries

b. Reva Enviro Systems Private Limited, India

c. Concord Enviro FZE, Sharjah, UAE and its subsidiaries

3.4. **Waste to Energy** business includes the 51% economic interest of the Company in Concord Blue Technology Private Limited, India

3.5. To enable us to arrive at a fair equity value of the Company, we have based our exercise on:

a. A review of the audited standalone financial statements of the Company and each of its subsidiaries for the Financial Years ending on March 31, 2011, March 31, 2012, March 31, 2013, March 31, 2014 and March 31, 2015, to the extent applicable.

b. A review of the audited consolidated financial statements of the Water business for the Financial Years ending on March 31, 2011, March 31, 2012, March 31, 2013, March 31,

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2014 and March 31, 2015.

c. Discussions with the management on various issues, particularly their views on the business operations expected in the future.

d. Projected financials of the (i) Water business and (ii) Waste to Energy business of the Company. The projected financials for the businesses have been prepared for Financial Years ending on March 31, 2016 to that ending on March 31, 2020.

e. Any sale/ write-off of assets or any reduction/ write-back of liabilities by the Company or any of its subsidiaries other than in the ordinary course of business during the period between the latest audited financials as of 31st March, 2015 and the valuation date has been considered in the valuation of the Company.

f. We confirm to the best of our knowledge and belief that:

   i. The financial position and operating results for the forecasted period reflects the best judgment of the management, based on the potential revenue to be generated, expected future market conditions and likely course of action to be taken by the management as of the valuation date.

   ii. Accounting principles used in preparation of financial projections are consistent with those used in the historical financial statements of the Company and its subsidiaries. We have consistently applied our key assumptions during the forecasted period and have not omitted any factors that may be relevant.

   iii. Going concern assumption has been considered and we believe that the Company and its subsidiaries will continue to do the business beyond the forecasted period.

   iv. Profitability margins expected over the forecasted period are based on our best understanding of the industry, demand and other factors.

4. Methodology of Valuation

4.1. The basic methodologies usually adopted in the valuation of unlisted entities on a going concern basis can be broadly classified into the following:

   a. **Discounted Cash Flow Value Method (DCF):** The DCF model is based on the principle that the value of a business can be determined according to the present value of the net cash flows that the business is likely to generate in the near future.

   b. **Net Asset Value Method (NAV):** The NAV method is based on the principle that the equity value of can be determined as the book value of the equity of the business as per the latest financial statements.

   c. **Precedent Transactions Approach:** Precedent Transaction Approach employs a multiples-based approach to derive an implied valuation range for a given company,

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division, business or collections of assets. It is premised on multiples paid for comparable companies in prior M&A and Private Equity transactions.

d. **Trading Comparables Approach:** Trading Comparables Approach is a relative valuation technique used to value the business by using the valuation multiples of Company's listed peers

4.2. Since an adequately comparable set of precedent M&A and Private Equity transactions is not available for either of the Water business and Waste to Energy business, the Precedent Transaction Approach has not been used.

4.3. Since an adequately comparable peer set of listed companies is not available for either of the Water business and Waste to Energy business, the Trading Comparables Approach has not been used.

5. Valuation Process

5.1. Valuation process as per the **Discounted Cash Flow Method:**

a. The cash profits after tax from operating activities have been determined. The cash outflow to fund capital expenditure, debt repayments etc. are also factored to arrive at Free Cash Flow to Firm ("FCFF").

b. The Free Cash Flow arrived at for the ensuing 5 years has been discounted at a rate determined and considered appropriate considering the time value of money and the risk associated with the Company's future operations. Apart from time element parameter, the discount rate is considered reasonable in view of the economic trends, expected return on investment, risk associated with the business, current market sentiment in the industry, sustainability of profitability and inherent business risks in a dynamic business environment. The discount rate applied is the weighted average cost of capital, reflecting the financing structure of the business, which is applied to cash flows.

c. The proposed issuance of CCPS by the Company to the new investor is expected to be carried out in the month of July 2015

d. We have provided the detailed workings for the Discount Cash Flow method in 6 and 7

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6. Valuation of Water business

6.1. The derivation of the value of the Water business of the Company using DCF Approach is given below:

Valuation by DCF: Water business	FY16E	FY17E	FY18E	FY19E	FY20E
Net income	249.3	287.3	344.4	411.4	489.9
Depreciation	121.3	136.9	142.4	145.2	147.9
Change in net working capital	(290.9)	(94.1)	(111.4)	(240.5)	(230.4)
Cash flow from operations	79.6	330.1	375.4	316.1	407.4
Net capital expenditure	(247.7)	(250.0)	-	(50.0)	(50.0)
Interest	107.5	107.2	103.9	103.3	103.0
Net free cash flow to firm (FCFF)	**(82.4)**	**165.6**	**458.2**	**348.4**	**439.5**
Terminal value					2,959.4
Discounting factor	0.9	0.8	0.7	0.6	0.5
Present value of FCFF	(73.7)	126.3	298.3	193.6	208.4
Present value of terminal cash flow					1,403.3
Present value of net cash flows	**(73.7)**	**126.3**	**298.3**	**193.6**	**1,611.6**
Net Present Value of the firm	**2,156.1**				

Computation of WACC		
D/E ratio	39.9%	*Refer Note 3.1, Annexure 5*
Terminal growth rate	2.0%	*Refer Note 4.1, Annexure 5*
Cost of equity	20.1%	*Refer Note 2.1, Annexure 5*
After-tax cost of debt	9.7%	
WACC	**17.1%**	

Computation of pre money equity value	
Enterprise value	**2,156.1**
Less: Total liabilities	857.3
Add: Cash and cash equivalent	75.4
Add: Investments realizable in cash	6.7
Pre money equity valuation	**1,381.0**

Figures in INR mn wherever applicable; FY ending 31st March

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7. Valuation of Waste to Energy business

7.1. The derivation of the value of the Waste to Energy business of the Company using DCF Approach is given below:

Valuation by DCF: Waste to Energy business	FY16E	FY17E	FY18E	FY19E	FY20E
Net income	(27.5)	(10.1)	14.5	39.3	63.8
Depreciation	6.5	6.5	6.5	4.8	-
Change in net working capital	(12.3)	(18.1)	(34.1)	(33.1)	(33.4)
Cash flow from operations	(33.3)	(21.7)	(13.1)	12.4	35.7
Net capital expenditure	(0.8)	-	-	-	-
Interest	7.3	4.4	6.2	8.5	10.7
Net free cash flow to firm (FCFF)	**(28.3)**	**(18.1)**	**(8.2)**	**19.2**	**44.2**
Terminal value					299.6
Discounting factor	0.9	0.8	0.7	0.6	0.5
Present value of FCFF	(25.3)	(13.8)	(5.3)	10.7	21.0
Present value of terminal cash flow					142.5
Present value of net cash flows	**(25.3)**	**(13.8)**	**(5.3)**	**10.7**	**163.6**
Net Present Value of the firm	**129.8**				

Computation of WACC		
D/E ratio	65.6%	*Refer Note 3.2, Annexure 5*
Terminal growth rate	2.0%	*Refer Note 4.2, Annexure 5*
Cost of equity	21.1%	*Refer Note 2.2, Annexure 5*
After-tax cost of debt	10.8%	
WACC	**17.1%**	

Computation of equity value	
Enterprise value	**129.8**
Less: Total liabilities	85.9
Add: Cash and cash equivalent	0.1
Equity value (pre and post money)	**44.0**

Figures in INR mn wherever applicable; FY ending 31st March

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Valuation Summary

7.2. Valuation of the Company using DCF Approach

	Valuation of the Company	Value (INR mn)
(1)	Pre-money equity value of the Water business	1,381.0
(2)	51% of pre-money equity value of the Waste to Energy business	22.4
(1) + (2)	**Equity value of the Company**	**1,403.4**

7.3. Valuation of the Company using NAV Approach

	Valuation of the Company	Value (INR mn)
(1)	Book value of equity of the Water business	1,680.2
(2)	51% of book value of equity of the Waste to Energy business	(7.7)
(1) + (2)	**Equity value of the Company**	**1,672.5**

7.4. Valuation Summary

Method of Valuation	Value (INR mn)
DCF	1,403.4
NAV	1,672.5
Average pre money equity value	**1,538.0**

As per our understanding and on the basis of independent valuation done by us, we are of the opinion that the fair market value of the equity shares of the Company prior to issuance of CCPS should not be less than INR 1,538.0 mn.

If the CCPS were to convert into equity shares as on date at 1:1 conversion ratio without considering any terms related to the CCPS, then the equity valuation of the Company post conversion would not be less than INR 1,888.0 mn.

Computation of pre-money equity value per share:

Particulars	
Number of existing equity shares (par value of INR 100 each)	42,556
Implied equity value per share	INR 36,139

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8. **Exclusions and Limitations**

8.1. In forming our view on the value of the Company, we have relied solely on the information given to us by the Company and discussions we have had with the management. We have not carried out any tests to determine the accuracy of such statements and information.

8.2. The statements and opinions included in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. We have no reason to believe that the information given to us was false or that any information has been withheld from us and have therefore, relied upon the same without undertaking any independent verification.

8.3. This report has been prepared solely for the purpose set out in this report. The information contained in this report may not be relied upon by anyone other than the management of the Company in any matter or reproduced (in part or otherwise) in any other document whatsoever without our prior written consent.

For Baweja & Kaul
Chartered Accountants
Firm Reg. No. 005834N

Amol

Muley Amol
Partner
Membership No. 137444
Dated: 06/08/2015
Place: Pune

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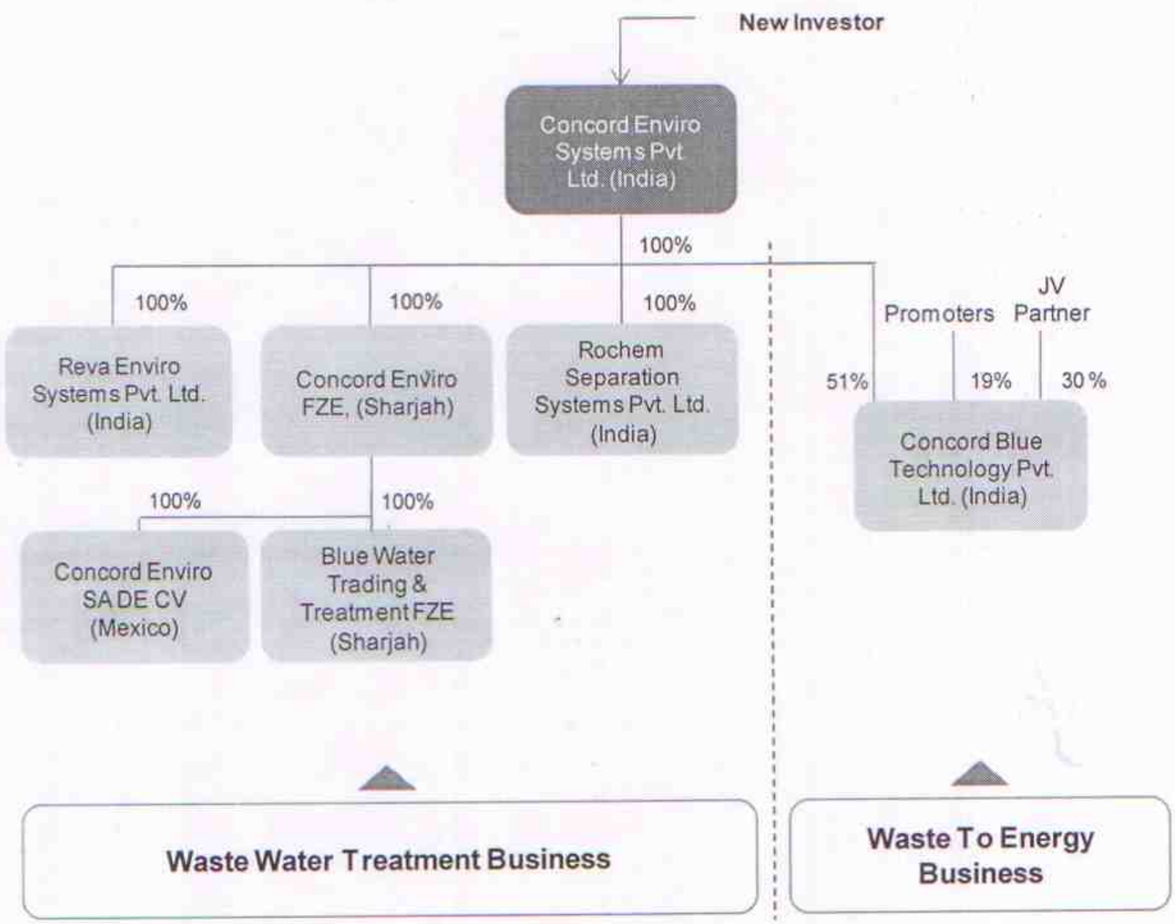
Annexure 1: Group Structure



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Annexure 2: Historical Financials

A) Water business

Income statement	FY11	FY12	FY13	FY14	FY15
Revenues	1,332.2	1,585.7	1,483.3	1,702.1	2,095.4
Material cost	633.2	690.4	609.1	694.5	898.1
Manufacturing and other expenses	253.2	308.4	324.9	411.2	418.3
Personnel cost	182.0	240.7	209.1	233.7	282.5
EBITDA	**263.8**	**346.3**	**340.3**	**362.7**	**496.6**
Depreciation and amortisation	34.3	50.8	66.3	79.9	95.9
Interest and other finance charges	35.4	63.9	80.6	103.8	105.4
Profit before tax	194.1	231.5	193.4	179.0	295.3
Taxes	43.4	62.4	19.5	25.5	74.2
Profit after tax	**150.7**	**169.1**	**173.9**	**153.5**	**221.1**

Figures in INR mn wherever applicable; FY ending 31st March

Balance sheet	FY11	FY12	FY13	FY14	FY15
Shareholders' Equity	930.2	1,121.2	1,297.2	1,456.6	1,680.2
Total Liabilities	356.8	454.7	762.2	851.9	792.9
Deferred tax liabilities/(asset)	9.8	42.4	45.8	47.8	64.4
Total Liabilities + Shareholders equity	**1,296.8**	**1,618.3**	**2,105.2**	**2,356.4**	**2,537.5**
Net block	224.1	350.7	392.0	409.4	595.7
CWIP	94.2	55.8	69.4	165.4	16.3
Investments	140.3	390.3	583.4	729.3	589.2
Other non-current assets	0.0	0.0	5.0	3.9	12.0
Cash and bank balances	94.5	176.6	110.7	123.5	75.4
Net working capital	743.7	644.9	944.7	924.8	1,248.8
Total Assets	**1,296.8**	**1,618.3**	**2,105.2**	**2,356.4**	**2,537.5**

Figures in INR mn wherever applicable; FY ending 31st March

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B) Waste to Energy business

Income statement	FY11	FY12	FY13	FY14	FY15
Revenues	117.4	245.3	183.2	62.3	72.8
Material cost	68.6	162.9	110.0	11.0	46.4
Manufacturing and labour expenses	-	-	-	-	-
Administrative and other expenses	16.4	21.4	13.9	13.7	17.4
Personnel cost	15.2	34.2	35.7	28.2	29.0
EBITDA	**17.3**	**26.8**	**23.6**	9.5	(20.0)
Depreciation and amortisation	0.3	4.0	6.2	5.6	5.5
Interest and other finance charges	5.4	7.4	16.8	16.7	17.1
Profit before tax	11.5	15.4	0.6	(12.8)	(42.6)
Taxes	2.5	3.2	0.1	(0.2)	(1.5)
Profit after tax	**9.0**	**12.2**	**0.5**	**(12.6)**	**(41.1)**

Figures in INR mn wherever applicable; FY ending 31st March

Balance sheet	FY11	FY12	FY13	FY14	FY15
Shareholders' Equity	29.6	40.0	38.8	26.2	(15.1)
Total Liabilities	94.3	121.4	149.2	117.0	85.9
Deferred tax liabilities/(asset)	0.1	1.1	0.6	0.5	(1.0)
Total Liabilities + Shareholders equity	**124.0**	**162.6**	**188.6**	**143.7**	**69.8**
Net block	18.4	38.6	35.7	30.9	25.2
CWIP	36.7	0.8	0.7	-	-
Investments	-	-	-	-	-
Other non-current assets	-	-	0.8	1.6	-
Cash and bank balances	6.7	1.2	2.9	0.5	0.1
Net working capital	62.1	122.0	148.6	110.7	44.5
Total Assets	**124.0**	**162.6**	**188.6**	**143.7**	**69.8**

Figures in INR mn wherever applicable; FY ending 31st March

Note: *The historical financials of the Waste to Energy business for the period FY11 to FY14 include the revenues and costs incurred as a part of related party transaction.*

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Annexure 3: Projected Financials

A) Water business

Income statement	FY16E	FY17E	FY18E	FY19E	FY20E
Revenues	2,433.9	2,785.3	3,200.0	3,689.2	4,266.3
Material cost	1,892.3	2,180.7	2,521.5	2,924.4	3,400.6
Manufacturing and other expenses	1,070.9	1,225.6	1,408.0	1,623.2	1,877.2
Personnel cost	490.4	561.2	644.8	743.4	859.7
EBITDA	**331.0**	**393.9**	**468.7**	**557.8**	**663.8**
Depreciation and amortisation	541.5	604.7	678.5	764.8	865.7
Interest Expense	121.3	136.9	142.4	145.2	147.9
Profit before tax	**312.8**	**360.5**	**432.2**	**516.3**	**614.7**
Taxes	63.5	73.2	87.8	104.9	124.9
Profit after tax	**249.3**	**287.3**	**344.4**	**411.4**	**489.9**

Figures in INR mn wherever applicable; FY ending 31st March

Balance sheet	FY16E	FY17E	FY18E	FY19E	FY20E
Shareholders' Equity	2,277.0	2,564.3	2,908.6	3,320.0	3,809.9
Total Liabilities	1,000.7	950.1	945.5	940.9	940.9
Total Liabilities + Shareholder's Equity	**3,277.7**	**3,514.3**	**3,854.1**	**4,260.9**	**4,750.8**
Net block	658.5	621.6	479.2	384.0	236.0
CWIP	-	-	-	-	-
Investments	669.2	819.2	819.2	819.2	819.2
Other non-current assets	12.0	12.0	12.0	12.0	12.0
Cash and bank balances	398.2	427.8	798.6	1,060.0	1,467.4
Net Working Capital	1,539.7	1,633.8	1,745.2	1,985.7	2,216.2
Total Assets	**3,277.7**	**3,514.3**	**3,854.1**	**4,260.9**	**4,750.8**

Figures in INR mn wherever applicable; FY ending 31st March

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Key assumptions	
Revenue growth	Based on the growth in different segments including plant sales, spares and O&M
Material cost	Estimated at 44.0% of revenue based on management estimates
Manufacturing and other expense	Estimated at 20.2% of revenue based on management estimates
Interest expense	Effective current cost of debt at 12.2%
Tax rate	Effective tax rate estimated at 20.3% based on historical average of 5 years
Inventory	Based on management estimates at 51.4% of material cost management estimates
Debtors	Based on management estimates at 50.0% of revenue with reduction every year based on management estimates
Trade payables	Based on management estimates at 34.0% of material cost and manufacturing exp
Recurring capex	Average annual recurring capex of INR 50.0 mn assumed in the terminal year to be recurring for perpetuity

B) Waste to Energy business

Income statement	FY16E	FY17E	FY18E	FY19E	FY20E
Revenues	120.0	160.0	240.0	320.0	400.0
Material cost	72.0	92.8	134.4	172.8	212.0
Manufacturing and labour expenses	12.0	16.0	24.0	32.0	40.0
Administrative and other expenses	11.2	10.3	9.6	9.0	8.6
Personnel cost	38.5	40.0	41.2	42.0	42.5
EBITDA	**(13.7)**	**0.9**	**30.8**	**64.1**	**97.0**
Depreciation and amortisation	6.5	6.5	6.5	4.8	-
Interest Expense	7.3	4.4	6.2	8.5	10.7
Profit before tax	**(27.5)**	**(10.1)**	**18.1**	**50.9**	**86.3**
Taxes	-	-	3.6	10.2	17.3
Profit after tax	**(27.5)**	**(10.1)**	**14.4**	**40.7**	**69.0**

Figures in INR mn wherever applicable; FY ending 31st March

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Balance sheet	FY16E	FY17E	FY18E	FY19E	FY20E
Shareholders' Equity	48.3	53.2	67.6	108.3	177.3
Total Liabilities	27.4	36.4	53.5	70.1	86.7
Total Liabilities + Shareholder's Equity	**75.7**	**89.6**	**121.1**	**178.4**	**264.1**
Net block	17.9	11.3	4.8	-	-
CWIP	-	-	-	-	-
Investments	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Cash and bank balances	1.0	3.4	7.3	36.2	88.6
Net Working Capital	56.8	74.9	109.1	142.2	175.5
Total Assets	**75.7**	**89.6**	**121.1**	**178.4**	**264.1**

Figures in INR mn wherever applicable; FY ending 31st March

Key assumptions	
General	The projections exclude revenues and costs incurred as a part of related party transaction
Revenue growth	Based on the estimated growth as per management projections
Material cost	As per management estimates
Manufacturing and labour expense	Based on management estimates at 10% of revenue
Administrative expense	To increase by 1.0% every year based on management estimates
Interest expense	Effective current cost of debt at 13.5%
Tax rate	Effective tax rate estimated at 20.0%
Inventory	Based on management estimates at 33.3% of material cost
Debtors	Based on management estimates at 33.3% of revenue
Trade payables	Based on management estimates at 25.0% of material cost and manufacturing exp

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Annexure 4: DCF Valuation Methodology

Step 1 - Project Free Cash Flows:

The Free Cash Flows to the Firm (FCFF) have been calculated based on the projected financials of the Water business and Waste to Energy business for FY16 to FY20, as provided by the Management.

Step 2 - Calculate Weighted Average Cost of Capital ("Discount Factor"):

The discounting factor considered for arriving at the present value of the free cash flows to the firm is the weighted average cost of capital (WACC). The Cost of Debt considered is the post tax interest cost of debt financing raised and Cost of Equity is calculated based on the average total returns of the market index.

Steps for calculating WACC

- Determine the Company's Capital Structure
- Estimate Cost of Debt and Equity
- Calculate WACC

2.1) Determine the Company's Capital Structure

The target capital structure is represented by the debt to total capitalization (D/ (D+E)) and equity to total capitalization (E/ (D+E)). We have arrived at the capital structure using the company's projected total capitalization ratios

2.2) Estimate Cost of Debt and Equity

The cost of debt is determined on the basis of the current yield for all outstanding term loans and working capital loans of the Company. The cost of debt is then tax-effected at the company's marginal tax rate as interest payments are tax deductible.

Cost of equity is the required annual rate of return that a company's equity investors expect to receive (including dividends). To calculate the expected return on the Company's equity, we have used the average total returns on the market which includes the risk free rate and the market risk premium.

Cost of Equity = Risk Free Rate + Market Risk Premium

Risk Free Rate: The risk-free rate is the expected rate of return obtained by investing in a "riskless" security. We have considered the risk-free rate to be the Government of India's yield on the 91 days Treasury bills, which is currently at 7.5%.

Market Risk Premium: The market risk premium is the spread of the expected market return over the risk-free rate. The market risk premium is normally estimated by taking the arithmetic average of the historical realized market premiums. Based on research publications, an estimate of 9.3%* has been considered for the market risk premium in India.

* *Source: http://www.stern.nyu.edu/~adamodar/pc/datasets/ctryprem.xls .*

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2.3) Calculate WACC:

The formula for the calculation of WACC is shown below,

WACC = {After-tax Cost of Debt * % of Debt in the Capital Structure} + {Cost of Equity * % of Equity in the Capital Structure}

As its name connotes, WACC represents the "weighted average" of the required return on the invested capital customarily debt and equity) in a given company. It is also commonly referred to as a company's "discount rate" or "cost of capital." As debt and equity components generally have significantly different risk profiles and tax ramifications, WACC is dependent on capital structure.

Step 3 - Terminal Value:

The terminal value refers to the present value of the company as a going concern beyond the period of projections (explicit period) up to infinity. Considering the industry growth and the projected growth of the Indian economy, as well as the specific risks associated with the business and the industry, we have assumed a terminal growth rate of 2.0% for both the Water business and the Waste to Energy business.

The formula for computing the Terminal value as per the perpetuity growth method is mentioned below:

Terminal Value = $(FCF_n * (1+g)) / (r-g)$

Where: FCF = Unlevered free cash flow
n = terminal year of the projection period
g = perpetuity growth rate
r = WACC

Step 4 – Determine Enterprise Valuation:

In DCF, a business' projected FCF and terminal value are discounted to the present at the company's WACC in accordance with the principle of time value of money. The present value is calculated by multiplying the FCF for each year in the projection period and the terminal value by its respective discount factor.

Discount Factor = $1 / (1+WACC)^n$

Where: n – year in the projection period
WACC – Weighted average cost of capital.

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Annexure 5: Notes to the DCF Valuation Methodology

Note 1: Discount Rate

Weighted Average Cost of Capital (WACC) has been used as the discount rate, which has been determined based on

- Capital Structure of the Company
- Estimates of Cost of Debt and Equity

Note 2: Cost of Equity

Cost of equity is the required annual rate of return that a company's equity investors expect to receive (including dividends) on their investment.

2.1: For the Water business

The Cost of Equity for the Water business comes out to 16.8% on the basis of the risk free rate and the market risk premium in India. We have added an illiquidity discount of 20% to the Cost of Equity obtained, since the Company is privately held and its shares are not traded on any recognized stock exchange. The adjusted Cost of Equity used is, therefore, 20.1% for the Water business.

2.2: For the Waste to Energy business

The Cost of Equity for the Waste to Energy business comes out to 16.8% on the basis of the risk free rate and the market risk premium in India. We have added an illiquidity discount of 20% to the Cost of Equity obtained, since the Company is privately held and its shares are not traded on any recognized stock exchange. We have also added a technology risk premium of 5% to the Cost of Equity obtained since the technology developed is in its early stages and needs to be commercially well accepted. The adjusted Cost of Equity used is, therefore, 21.1% for the Waste to Energy business.

Note 3: Capital Structure

3.1: For the Water business

The Debt/ Equity ratio is obtained by taking the average of the ratio over the period of FY11-FY20 to reflect the long term D/E ratio of the business and comes out to 39.9%.

3.2: For the Waste to Energy business

The Debt/ Equity ratio is obtained by taking the average of the ratio over the period of FY16-FY20 to reflect the long term D/E ratio of the business and comes out to 65.0%. The Debt/Equity ratio for the period FY11-FY15 is not considered as the historical ratio is significantly different from the long term target ratio for this business.

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Note 4 - Terminal Growth Rate

The terminal value refers to the present value of the company as a going concern beyond the period of projections (explicit period) up to infinity.

4.1: For the Water business

Considering the industry growth and the projected growth of the Indian economy, as well as the specific risks associated with the business and the industry, we have assumed a terminal growth rate of 2.0% for the Water business.

4.2: For the Waste to Energy business

Considering the industry growth and the projected growth of the Indian economy, as well as the specific risks associated with the business and the industry, we have assumed a terminal growth rate of 2.0% for the Waste to Energy business.

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