30 MAY, 2014

STRICTLY PRIVATE AND CONFIDENTIAL

The Board of Directors
Action Construction Equipment Limited
5th Floor, TDI Tower
Jasola, Delhi

The Board of Directors
ACE TC Rentals Private Limited
5th Floor, TDI Tower
Jasola, Delhi

Dear Sirs,

Subject: ***Recommendation on ratio for allotment of equity shares of Action Construction Equipment Limited ('ACEL') to the equity shareholders of ACE TC Rentals Private Limited ('ATRPL'), upon the merger of ATRPL with ACEL.***

In terms of our engagement letter dated May 21, 2014, VGR & Co., Chartered Accountants, has carried out an independent valuation of ACEL and ATRPL, with a view to recommend a share allotment ratio for the purpose of determining number of equity shares of ACEL to be issued to equity shareholders of ATRPL pursuant to the proposed merger (ACEL and ATRPL are collectively referred to as "Companies").

In the following paragraphs, we have summarized the valuation analysis of ACEL and ATRPL as on 1st April 2014 ('Appointed Date') together with the description of the methodologies used and limitation on our scope of work.

CONTEXT AND PURPOSE

We understand that the Management of ACEL is contemplating a restructuring exercise wherein it proposes to merge ATRPL into ACEL to achieve synergies through focused business segments and leverage on its operations for future growth ("Transaction").

This would be achieved by a Scheme of Arrangement for merger ("Scheme") under the relevant provisions of the Companies Act.

In this connection, VGR & Co. has been appointed to carry out the relative valuation of ACEL and ATRPL with a view to recommend a share allotment ratio.

The information contained herein and our report is confidential. It is intended only for the sole use and information of the Companies, and only in connection with the Scheme of Arrangement. It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, other than in connection with the Scheme of Arrangment as aforesaid, can be done only with our prior permission in writing.

BACKGROUND INFORMATION

ACEL is an existing company within the meaning of the Indian Companies Act 1956 (the "Act"), having its registered office at 5th Floor, TDI Tower, Jasola in the state of Delhi and its equity shares are listed on the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE). ACEL is a material handling and construction equipment manufacturing company active in the mobile cranes segment. In addition to mobile cranes, ACEL also offers Mobile / Fixed Tower Cranes, Loaders, Vibratory Rollers, Truck Mounted Cranes, Crawler Cranes, Forklifts, Tractor and other Construction Equipment.

ATRPL is an existing company within the meaning of the Act, having its registered office in Delhi and is owned 100% by the promoters of ACEL in their individual capacities. ATRPL is into business of rental of fixed tower cranes to its customers on long term basis. ATRPL procures the fixed tower cranes manufactured by ACEL and provide it on lease basis to its customers on long term basis, generally for three years period. ATRPL has long term supply arrangement with ACEL for purchase of tower cranes and generally maintain very less inventory of these cranes. The utilization of these tower cranes has been around 85-90% historically as informed to us by the management.

SOURCES OF INFORMATION

For arriving at the share allotment ratio, we have relied upon the following information, as provided to us by the Management of the Companies:

- Brief background of the business of ACEL and ATRPL;
- Audited financial statements of ACEL and ATRPL for the financial years ended 31st March 2011, 31st March 2012, 31st March 2013 and 31st March 2014;
- Projected financial statements of ACEL and ATRPL;
- Draft Scheme of Arrangement of merger;
- Discussions with the management of Companies including necessary information, explanations and representations provided by the management;
- Shareholding pattern of ACEL and ATRPL as at April 1, 2014;
- Details of contingent liabilities of ACEL and ATRPL as at April 1, 2014;

VALUATION METHODOLOGY

The standard of value in our analysis is defined as the price that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, in an independent third party arm's length transcation.

For the purpose of arriving at the share allotment ratio for the proposed merger; we have placed reliance on various judicial precedents laid down by Courts while deciding the matters involved in determination of share allotment ratios. The valuation of a business is an exercise which is carried out using various methodologies, to the extent applicable:

1. Net Asset Value (NAV) Method
2. Comparable Companies (Quoted) Multiple Method.
3. Discounted Cash Flow (DCF) Method
4. Market Price Method
5. Price Earnings Capacity Value (PECV) Method

The application of any particular method of valuation depends on the purpose for which the valuation exercise is performed, relevance of each method under the circumstances of the case and other factors as determined appropriate.

1. **Net Asset Value (NAV) method**

The asset based valuation technique is based on the value of the underlying net assets of the business. Under this method, the net assets as per financial statements are adjusted for the market value of surplus/ non operating assets, contingent liabilities which may be crystallized and other adjustments as determined appropriate.

a) **ATRPL:**

To perform this exercise, we have used the audited financial statements of ATRPL. We were not provided the market / fair value of fixed assets, other assets and current liabilities and in absence of information and based on representation provided by the management, the historical assets and liabilities have been assumed to represent the fair value as at Appointed Date. Based on the explanations provided by the management, all the assets and liabilities of ATRPL will fetch atleast the book value which is shown in the audited financial statements as at March 31, 2014.

b) **ACEL:**

To perform this exercise, we have used the audited financial statements of ACEL. We were not provided the market / fair value of fixed assets, other assets and current liabilities and in absence of information and based on representation provided by the management, the historical assets and liabilities have been assumed to represent the fair value as at Appointed Date. Based on the explanations provided by

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the management, all the assets and liabilities of ACEL will fetch atleast the book value which is shown in the audited financial statements as at March 31, 2014.

2. **Comparable Companies (Quoted) Multiple (CCM) method:**

Under this method, value of the equity shares of the company is arrived at by using multiples derived from valuations of comparable listed companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that market valuations, taking placed between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

a) **ATRPL**:

We could find only one company i.e. Sanghvi Movers Limited (SML), a company listed in India, which is directly comparable with ATRPL in terms of its service offerings, and we have used their EV/EBITDA multiple for arriving at Enterprise Value of ATRPL.

The CCM is based on annualised Trailing Twelve Months (TTM) multiple basis financials for the period ended December 31, 2013 as the audited results for year ended March 31, 2014 were not available at the time of our working. Further, the net debt has been considered based on the financials of SML as of September 30, 2013 as the balance sheet as March 31, 2014 was not available in public domain at the time of our working.

b) ACEL:

Since ACEL is a listed company as on the Valuation Date, we have not used this method of valuation.

3. **Discounted Cash Flow(DCF) method**

The DCF method is one of the most scientific methods amongst all the valuation methods in terms of conceptual framework. As per this method, equity value is defined as the 'the present value of future cash flow that are available to all the equity holders of the Company'.

The value so derived is not impacted by accounting practices as it is based on cash flows and not book profits. Further, DCF method incorporate all factors relevant to the business.

a) **ATRPL**:

Based on the financial projections for ATRPL provided to us by the Management, we have applied the DCF method by discounting the free cash flows by a discount rate of 14.7%.

b) **ACEL**:

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Based on the financial projections for ACEL provided to us by the Management, we have applied the DCF method by discounting the free cash flows by a discount rate of 14.0%.

4. **Market price (MP) method**

The market price of an equity share as quoted on the stock exchange in the same company is normally considered as the fair value of the shares of that company where such quotation are arising from the shares being regularly and freely traded in.

a) **ATRPL:**

As the shares of ATRPL are not listed on stock exchange, the MP method cannot be used for determining the value.

b) **ACEL:**

We have used the MP method to determine the value of equity share of ACEL which is listed on the BSE and the NSE and there are regular transactions in its equity share with reasonable volumes. We have considered the volume weighted average market price of the equity share of ACEL as on 1st April 2014 from the information available in public domain and information provided by the Management. The weighted average price as at April 1, 2014 was higher than the price arrived at by us using SEBI prescribed formula.

5. **Price Earnings Capacity Value (PECV) Method**

This method suggests the valuation of the Company by capitalizing the average of profits after tax. Future maintainable net profits are ascertained on the basis of the normalized past earnings of the company. Implied assumption of this method is that future earnings potential of the Company is the underlying value driver of the Company. The profit earning capacity is generally based on the profits actually earned or anticipated. It values a company on the basis of the underlying assets.

a) **ATRPL:**

For calculating the value based on PECV, the weighted average profit after tax based on the audited financial statements for the previous four years has been considered. In case of weighted average profit, the same has been capitalized in terms of Industry parameters to get the fair valuation of the Company. The PECV value per share has been arrived at after applying capitalization rate.

b) **ACEL:**

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For calculating the value based on PECV, the weighted average profit after tax based on the audited financial statements for the previous four years has been considered. In case of weighted average profit, the same has been capitalized in terms of Industry parameters to get the fair valuation of the Company. The PECV value per share has been arrived at after applying capitalization rate.

RELATIVE VALUATIONS

The Fair basis for the proposed merger of ATRPL into ACEL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purpose of recommending a share allotment ratio, it is necessary to arrive at the single relative value of the ATRPL and ACEL. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity value, but at their relative values to facilitate the determination of a fair shares allotment ratio. For the purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

Valuation of ATRPL

For valuation of ATRPL we have applied the following weightages:

- the Net Assets Value Method (NAV) (10%),
- Comparable Companies Multiple (CCM) method (10%),
- Discounted Cash Flow (DCF) method (70%)
- Price Earnings Capacity Value (PECV) Method (10%).

We have assigned weightage of 70% to DCF method being the most relevant method to arrive at fair value in case of growing service companies. Further, we have assigned equal weight of 10% each to NAV, PECV and CCM method. Since the comparable company is not exactly comparable to ATRPL and the latest financials were not available in the public domain, we have assigned lower weight to CCM method.

Valuation of ACEL

For valuation of ATRPL we have applied the following weightages:

- Net Assets Value Method (NAV) (10%),
- Market price (MP) method (40%),
- Discounted Cash Flow (DCF) method (40%) and
- Price Earnings Capacity Value (PECV) Method (10%).

We have assigned equal weightage of 40% to Market Price method and DCF method being the most relevant methods to arrive at fair value in case of manufacturing companies. Further, we have assigned equal weight of 10% each to NAV and PECV.

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SCOPE LIMITATIONS

This report is subject to the limitation detailed hereinafter. As such the report has to be read in totality, and not in parts, in conjunction with the relevant documents referred to above.

- Computation of share allotment ratio is specific to the intended purpose as agreed in the terms of our Arrangement Letter. The share allotment ratio is as on the proposed Appointed Date i.e. 1st April, 2014. Accordingly, the share allotment ratio should not be used for any other purpose nor would it be applicable as at any other date.
- We owe responsibility only to the Board of Directors of the Companies, and do not accept any liability to any third party, in relation to this report. Neither the report nor the contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed Scheme of Arrangement, without our prior written consent.
- The determination of share entitlement ratio involves considerable exercise of professional judgment as regards alternative methodologies and is also significantly influenced by prevailing industry, economic and market (including capital market) conditions. We have exercised reasonable care while exercising professional judgment and consideration of the aforesaid factors; however it is possible that any other valuer may not agree with the methodologies used by us and the relevant factors considered by us.

- Valuation analysis performed by us is not and should not be construed to constitute as an audit. VGR & Co. is not expressing any opinion on any GAAP related issues and has not offered any attestation services. The above mentioned procedures were performed to the extent of data provided to us by the management of ACEL and ATRPL.

- Valuation analysis are also specific to the date of this report. An exercise of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. As such, our results are, to a significant extent, subject to continuance of current trends beyond the date of the report. We, however, have no obligation to update this report for events, trends or transactions relating to ACEL / ATRPL or the market / economy in general and occurring subsequent to the date of this report.

- Our report on valuation analysis was based on inquiries of and discussions with management of ACEL and ATRPL and reading of the documents provided to us. In the course of our valuation analysis, we have relied upon financials and other information, including estimates of future financial performance and assumptions thereof, provided by management of ACEL and ATRPL.

- Our conclusions are dependent on such information being complete and correct in all material respects. We have not conducted an independent audit, due diligence review or validation of such information and estimates of future financial performance for the purpose of this assignment. Accordingly, we don't express an opinion or any other form of assurance thereon and we accept no responsibility or liability for any losses occasioned to ACEL or ATRPL, their directors or shareholders or to any other party as a result of our reliance on such information. No representation is made as to the accuracy or completeness of such information unless expressly stated and nothing in our report should be relied as a representation of the future.

- We make no representation or warranty as to the accuracy or completeness of the information used for our analysis, including any estimates, and shall have no liability for any representations (expressed or implied) contained in, or for any omission from, these procedures.

- We have performed our analysis of ACEL or ATRPL and no account has been taken of any discount or premium that may be negotiated in the market in the event of a distress sale.

- We have been informed that the there are no outstanding warrant/convertible securities in ACEL or ATRPL as at Appointed Date. Also our analysis does not factor into account any instruments that ACEL may issue to the shareholders of ATRPL as part of this scheme of merger.

- It is understood that this report is required in connection with the limited purpose and will not be used to solicit either directly or indirectly – investments in ACEL or ATRPL or otherwise for any transaction.

- This report was not prepared by VGR & Co. for use by prospective financing sources. If, at any time, a potential financing source reviews this report, such financing source should conduct their own investigation and analysis of the data set forth in this document, obtain their own independent advice, and reach their own conclusions.

- VGR & Co. is not required to give testimony or to appear in court by reason of this valuation analysis, with reference to the Companies in the report.

- Any inferences drawn from this valuation report should consider the report in its entirety.

- Nothing has come to our attention to indicate that the information provided was materially mis-stated/incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose. We are not responsible for arithmetical accuracy / logical consistency of any information provided by ACEL or ATRPL and used in our analysis.

- The recommendation rendered in this report only represent the recommendations of VGR & Co. based upon information provided by the management of ATRPL and ACEL and other sources and said recommendations shall be considered advisory in nature. Our recommendation will however not be for advising anybody to take buy or sell decision for which specific opinion needs to be taken from expert advisors.

- Our valuation analysis should not be constructed as investment advice; specifically we do not express any opinion on the suitability or otherwise of entering into any transcation with ATRPL or ACEL.

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SHARE ALLOTMENT RATIO

In the light of the above and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, in our opinion, the share allotment ratio for the merger of the ATRPL into ACEL to be ***1168 equity shares of face value of Rs. 2 per share of ACEL issued against every 100 shares of face value of Rs. 10 per share of ATRPL .***

Summary (in Rs. Lacs unless stated otherwise)	ACE Equipments Values	ACE Rentals Values	ACE Equipments Weight	ACE Rentals Weight	ACE Equipment Weighted Average	ACE Rentals Weighted Average
Net Assets Value	27,159	1,161	10%	10%	2,716	116
Market Price Method	15,761		40%	0%	6,304	-
CCM		5,612	0%	10%	-	561
Discounted Cash Flow Method	20,382	7,965	40%	70%	8,153	5,575
Price Earning Capacity Value	8,915	1,469	10%	10%	891	147
Weighted Average Value			100%	100%	18,064	6,399
Number of Shares (Million)					989	30
Share Price Value (Rs.)					18.26	213.31
Share Allotment Ratio					11.68	1.00
Share Allotment Ratio (Rounded)					1,168	100

For VGR & Co., Chartered Accountants

VGR & Co. New Delhi Chartered Accountants

Vaibhav Bhatia
(Partner)
Membership no. : 094547
Firm Registration no. : 026807N

Place : Delhi
Dated : 30th May, 2014