

# SAI PARENTERAL'S PRIVATE LIMITED

## Valuation Report



Report Date: 11-10-2021.

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## 1. Overview

**I. ABOUT THE SAI PARENTERAL'S PRIVATE LIMITED (SPPL)** The Company was incorporated as an unlisted Private Limited Company under the provisions of the Companies Act 1956 on 12/01/2001 vide CIN U24231TG2001PTC036043 and having its Registered Office at D4, PHASE-V, I.D.A.JEEDIMETLA, HYDERABAD-55 ANDHRA PRADESH TG 500055 IN

SPPL was founded in the year 2001 specializes in manufacturing of pharmaceutical parenteral formulations started its inception in the year 2001

### 1.2. CORPORATE STRUCTURE OF THE COMPANY

The capital structure of the Company as on 11<sup>th</sup> October, 2021 is as follows:

The below details are as on 27<sup>th</sup> Sept'2021

Authorised capital Rs. 7,50,00,000/- divided into 75,00,000 equity shares of Rs.10/- each. Issued, Subscribed and Paid up equity capital of Rs. 5,76,00,000/- divided into 57,60,000 equity shares of Rs.10/- each;



### 1.3 Management Team

#### Board of Directors

DIN/DPIN/PAN	Full Name	Designation	Date of Appointment
01673731	ARUNA KARUSALA	Additional Director	16/08/2016
03492979	VIJITHA GORREPATI	Additional Director	16/08/2016

### 1.4 Current Assignment

The valuation exercise or proposed transaction of issuance of equity shares to identified investors on preferential basis under section 62 of the companies act 2013. The objective of the Valuation is to provide a fair value of equity shares of the company, as on 31<sup>st</sup> March 2021.

We have been appointed by the board of directors of the **(SPPL)** to carry out the valuation of fair price of the Company as on 31<sup>st</sup> March 2021 vide the appointment letter dated 1<sup>st</sup> Oct'2021

### 1.5 About Valuer and other experts involved if any:

Mr. Vinod Sakaram is aa registered Valuer under Asset Classification Securities & Financial Assets, duly registered with Insolvency and Bankruptcy Board of India, having membership number as **M.No. IBBI/RV/02/2020/13284.**

No other expert was involved in this transaction.



### **1.6 Disclosure of the valuer's interest:**

I, Vinod Sakaram, registered Valuer hereby declare that I have not been associated in this Company and is not interested in Company in any manner. and I further declare that I am not interested or become so interested, in the asset valued either directly or Indirectly in the period during three years prior of this engagement or three years after this valuation of asset.

## **2. Valuation Analysis**

### **2.1. Methodology**

According to standard valuation practice, the fundamental precondition for obtaining significant and comparable valuations in determining the share value transactions is the consistency and comparability of the methods applied according to the characteristics of the companies and/or groups being valued.

In addition, a second fundamental principle often adopted for determining share value is the “stand alone” assumption. That is, a valuation perspective based on the current configuration and future prospect of the Company on an independent basis, without taking any potential synergies from determining the share value into account.

As stated previously, the selected methodologies – which represent recognized techniques, widely used in valuation practice both in India and internationally - should not be considered individually, but rather as different parts of a single valuation process. Independent use of the results obtained from each methodology, without duly considering the complementary relationship with other methodologies, will result in loss of the meaningfulness of the valuation process itself.



Valuation of the enterprise or its equity shares is not an exact science and ultimately depends upon what it is worth to a serious investor or buyer who may be even prepared to pay goodwill. This exercise may be carried out based on the generally accepted methodologies, the relative emphasis of each often varying with the factors such as:

- Specific nature of the business
- Economic life cycle in which the industry or the company is operating and
- Extent to which and comparable company information is available.
- Global Health Crisis on Account of Covid.

The results of this exercise could vary significantly depending upon the basis used, the specific circumstances and professional judgment of the Valuer. In respect of going concerns, certain valuation techniques have evolved over time and are commonly in vogue. In this regard, I have evaluated suitability of four commonly used approaches of valuation to determine the fair value of the Company.

#### **Net Assets Method (NAV):**

The value arrived at under this approach is based on the estimated financial statements of the business and may be defined as Shareholder's Funds or Net Assets owned by the business. The Net Assets Value is generally used as the minimum break-up value for the transaction. This methodology calculates the underlying net Assets of the business on a book value basis. **Net assets value of business will not represent the future cash flows to company and other future economic benefits; hence I have not considered this method in my valuation.**



**a. Discounted Cash Flow Method (DCF):**

The DCF method uses the future free cash flows of the Company discounted by the cost of capital to arrive at the present value. In general, the DCF method is a strong and widely accepted valuation tool, as it concentrates on cash generation potential of a business. Considering that this method is based on future potential and is widely accepted, I have included this approach as one of the methodologies in the valuation exercise.

Using the DCF analysis involves determining the following:

***Estimating future free cash flows:***

Free cash flows are expected to be generated by the company that is available to all providers of the Company's capital-both debt and equity.

***“Appropriate discount rate to be applied to cash flows i.e., the cost of capital”.***

The discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the Company. The opportunity cost to the equity capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To the values so obtained from DCF analysis, the amount of loans has to be adjusted to arrive at the total value available to the equity shareholders. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share of the companies.



**b. Stock Exchange Quotation or Market Price Method:**

This valuation reflects the price that the market at a point in time is prepared to pay for the shares. It is therefore influenced by the condition of the stock market, the concerns and opportunities that are seen for the business in the sector or market in which it operates.

The market price is also reflects the investor's view of the ability of the management to deliver a return on the capital it is using. In the case of companies not frequently traded, this value may be very different from the inherent value of the shares, but nevertheless forms a benchmark value.

Since the **SPPL** is not listed in any of the stock exchanges in India nor outside India, **I have not used this market price method for the purpose of this valuation analysis.**

**Comparable Company Market Multiple Method:**

Under this methodology, market multiples of comparable listed companies are computed and applied to the business being valued in order to arrive at a multiple based valuation. This approach is usually applied in case of valuation of listed companies. Some of the common multiples used in a valuation are listed below:

- Market Cap / Sales Multiple
- Price / Earnings Multiple
- Precedent Transactions Multiple Method

Since the comparable companies are not available in the market with the exact size, nature of business, **I am not using the comparable company market multiple method.**



I have carried out the valuation analysis as described above, based on the fundamental assumption of going concern for the business under consideration.

Based on these considerations, the following valuation methodology has been selected:

❖ **Discounted Cash Flow Method (DCF):**

In selecting and applying the stated methods, I have considered the advantages and limitations implicit in each on the basis of common practice in the sector and its own experience.

**Discounted Cash Flow Method (DCF)**

**Estimated Free Cash Flows:**

We can set the forecast period in such a way that the Company reaches a stable phase after that. In other words, we are assuming that the company will grow at a constant rate after the forecast period.

For the purpose of valuation exercise, I have considered that the Company will grow at a constant rate after the forecast period of a five years projected period i.e. upto the financial year 01<sup>st</sup> April 2024 to 31<sup>st</sup> March 2025.

The cash flow projections of a free cash flow to equity (FCFF) basis are summarized below:



## 2.2 VALUATION OF COMPANY SHARE:

### DISCOUNTED FREE CASH FLOW METHOD:

The purpose of DCF-Valuation is to determine the value of the Company in terms of its future cash flows. The cash flows are adjusted with certain items in order to make sure the flows reflect the actually generated cash. The Discounted Free Cash Flow method is based on the premise that the value of the business is the sum of the present values of all future cash flows. This procedure recognizes that the cash flow streams at different time periods differ in value and hence all cash flows are expressed in terms of their present values. These discounted values are then aggregated to arrive at the enterprise value of Business.

The basic formulation of discounted cash flow valuation is as follows:

- PAT is adjusted with total depreciation and other non-cash costs to get Gross cash flow. This has to be done because depreciation and other non-cash costs have no cash effect and thus does not really reduce the cash generated.
- The gross cash flow is then discounted at cost of capital to get the discounted cash flow stream.
- The resultant cash flow stream is added along with the terminal value of the enterprise to get the sum of the discounted free cash flow.
- The proportion of total cumulative discounted free cash flows to profit share held by the investor company is calculated to get the fair price of capital contribution.

or DCF methodology, we have used the Free Cash Flow to Equity (FCFE) approach based on the characteristics of the Company being valued. FCFE is the cash flow available to the Company holders of common capital after all



operating expenses, interest, and principal payments have been paid and necessary investments in working and fixed capital have been made. The value of the Company's capital contribution is the present value of the expected future FCFE discounted at the cost of equity

- FCFE is calculated as follows:
- $FCFE = \text{Net profit after tax} + \text{depreciation} + \text{non cash expenses} - \text{Net changes in working capital} + \text{debt added} - \text{changes in fixed assets}$
- amount in Indian Rupees("INR") and figures in only In the below table it is given Rs in lakhs
- Growth Rate for Terminal Cash Flow has been considered as 4%.

					Rs. In Lakhs
Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Profit after tax	671.41	1028.34	1616.19	2315.96	3007.36
Add : Depreciation	118.49	152.12	311.77	226.20	178.09
Add: Increase in Capital	0.00	0.00			
Less : Debt repay	468.50	241.72	102.71	38.87	1.35
Less : WC changes	1257.12	768.74	1414.25	2363.05	1858.05
Less : Capex	300.00	765.00	400.00	2.00	60.00
Free cash flow to equity	-1235.72	-595.00	11.00	138.24	1266.05
Discount factor	16%	16%	16%	16%	16%
Period	1	2	3	4	5
Discounted free cash flow to equity	-1065.28	-442.18	7.05	76.35	602.78
Explicit period	-821.28				
Terminal period value	5274.37				
Equity value	4453.09				
Add : Cash	43.88				
Equity value	4496.97				
Number of shares As at 31 <sup>st</sup> March, 2021	3.6				
Value per share (for Rs.100/- each face value)	1,249.16				
<b>Value per Share (for Rs.10/- each face value)</b>	<b>124.91</b>				



**Footnotes:**

- WACC is considered at 16%
- Corporate tax including surcharge and Health and Education Cess is assumed at 28.60%
- Growth Rate for Terminal Cash Flow has been considered as 4%.

**3. CONCLUSION**

**As per DCF, the value of shares as of 31<sup>st</sup> March 2021 is**

Number of equity shares (absolute and fully dilutive basis) : 3,60,000 Equity Shares of Rs.100/- each (as at 31<sup>st</sup> March, 2021).

**Hence, the indicative value per shares is Rs.125/- per equity share of Rs.10/- each.**

**4. SOURCES OF INFORMATION**

- a. Background information of the Company and its business.
- b. Audited Financials as on 31.03.2021.
- c. Financial projections of the Company for the period from F.Y.2021-22, F.Y.2022-23, F.Y.2023-24, F.Y.2024-25, and F.Y. 2025-26.
- d. Resolution passed by Shareholders for Division of Shares on 22<sup>nd</sup> September, 2021 for Division of Share Face value from Rs.100/- each to Rs.10/- each.
- d. Such other information as we considered relevant.

In addition to the above we have also obtained such other information explanations which were considered relevant for the purpose of our analysis. We have not independently verified or audited the information and have relied on the information presented to us.



## 5. CAVEATS

Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report as agreed and as per terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

Valuation analysis and results are also specific to the date of this report. A review 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 review results are, to a significant extent, subject to continuance of current trends beyond the date of the report. I, however, have no obligation to update this report for events, trends or transactions relating to the companies or the market/economy in general and occurring subsequent to the date of this report.

The terms of our engagement were such that I was entitled to rely upon the information provided by the Company without detailed inquiry. Also, I have been given to understand by the Management that they have not omitted any relevant and material factors. Our conclusions are based on these assumptions, forecasts and other information given by/on behalf of the Company.

No investigation of the Company's claim to title of assets has been made for the purpose of this review and the Company's claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matter of a legal nature. I have not conducted or provided an analysis or prepared a model for any asset valuation



and have wholly relied on information provided by the Company in that regard.

Our report is not nor should it be construed as our recommending the Acquisition or opining or certifying the compliance of the proposed Acquisition with the provisions of any law including companies, taxation and capital market related loss or as regards any legal complications or issues arising from proposed Acquisition. The fee for the report is not contingent upon the results reported.

Subject to the limitations and exclusions has mentioned above, I owe responsibility only to the Board of Directors of the Company that has retained me and nobody else. I do not accept any liability to any third party in relation to the issue of this report. Neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or documents given to third parties, other than in connection with the proposed allotment of shares of the Company contained in the engagement letter, without our prior written consent.

Place: Hyderabad

Date: 11-10-2021



**VINOD SAKARAM**

Registered Valuer-Securities or Financial Assets

IBBI No: IBBI/RV/02/2020/13284

ICSI UDIN: A023285C001152853

VRN : IOV/2021-2022/806

