



**BONFIGLIOLI TRANSMISSIONS PRIVATE
LIMITED**

&

**BONFIGLIOLI RENEWABLE POWER
CONVERSION INDIA PRIVATE LIMITED**

Share Valuation Report

Prepared by

N.C.Rajagopal & Co.,

Chartered Accountants

Date: 9th January 2017

Contents

1. GENERAL INFORMATION	3
1.1 Purpose of Valuation.....	3
1.2. Approach for Valuation:.....	3
2. BONFIGLIOLI TRANSMISSIONS PRIVATE LIMITED	4
2.1. About the Company	4
2.2 The Methodology.....	4
2.3. Valuation	4
2.3.1. Summary	4
2.3.2 Net-Worth Method	5
2.3.3 Discounted Cash Flow Method	6
2.4. Statement of Limiting Conditions	9
3. BONFIGLIOLI RENEWABLE POWER CONVERSION INDIA PRIVATE LIMITED:	10
3.1 About the Company	10
3.2 Methodology.....	10
3.3 Valuation.....	10
3.4. Statement of Limiting Conditions	11
4. SWAP RATIO:.....	13

1. GENERAL INFORMATION

1.1 Purpose of Valuation

The purpose of this valuation report is to arrive at a fair value of the equity shares of the Companies as on the valuation date for the purpose of demerger through a scheme of arrangement in accordance with the Companies Act, 2013. This valuation report is based on latest available audited Financial Statements and underlying assumptions provided to us as on date.

1.2. Approach for Valuation:

In determining the valuation of shares of the company, the following considerations are important for arriving at a realistic estimate of the value of equity of the Companies. These considerations look at different perspectives of the valuation of the company:

Asset Approach: Under this approach the net value of assets are considered after deducting outside liabilities. This approach gives the value of the Company based on book values.

Discounted Cash Flow Approach: Under this approach the income and expenses are projected for the future years. Based on this cash flow projections are made and are discounted using an appropriate discount rate to arrive at the present value of the cash flows.



2. BONFIGLIOLI TRANSMISSIONS PRIVATE LIMITED

2.1. About the Company

Bonfiglioli Transmissions Private Limited (BTPL) designs, manufactures and distributes a complete range of gear motors, drive systems and planetary gearboxes to satisfy the most demanding needs for industrial processes, automation, mobile and renewable energy applications. The company offers tailored solutions, whose strength lies in the high technology content of each product and the careful integration of different technologies.

The company leads in the production of planetary gearboxes of wind turbine yaw and blade pitch control and also the productions of gearboxes for excavators, road construction machines and wind turbines.

This organization gives operational validity to developments that have already led to the concentration of specific and dedicated competences to serve the various areas of industry.

2.2 The Methodology

There are two primary methodologies which have been used in this report in arriving at the value of equity of the Company as at the valuation date:

Sl.	Method	Approach	Rationale
1.	Net Assets/Net Worth	Asset	Under this method, the book value of equity is arrived at.
2.	Discounted Cash Flow	Discounted Cash Flow Approach	Under this method the future cash flows are projected and discounted at an appropriate rate to arrive at the present value. This present value is the value of equity.

2.3. Valuation

2.3.1. Summary

The value of the Company has been arrived using the two methods (under the Asset and Income) to valuation as discussed above.



The results from these methods have been used to arrive at the value of equity of BTPL as on the date of valuation.

The company expects a consistent increase in revenues and cash flows in the future, keeping in mind the industry trends and growth prospects of the company. Hence, the Company expects to derive its valuation through better performance in the form of increased revenue. Accordingly, giving a higher weightage for Discounted Cash Flow method would result in a more appropriate and fair valuation.

Sl. No	Method	Weight	Value (Rs.)	Weighted Value(Rs.)
1.	Net Worth	30%	2,42,73,90,000	72,82,17,000
2.	Discounted Cash Flow	70%	8,53,04,22,655	5,97,12,95,858
3.	Total	100%		6,69,95,12,858
4.	No. of shares (In Nos.)			12,50,00,000
5.	Value per share			53.60

2.3.2 Net-Worth Method

Under this method of valuation, the equity of the Company is valued based on the book value per share. For this purpose the book value of liabilities as on the valuation date is subtracted from the book value of assets as on the valuation date. This net worth can also be computed by adding the value of share capital and accumulated profits.

For the purpose of arriving at the value of equity under this method, the audited financial statements as at 31st March 2016 were considered. Since the company is a Private Limited Company which restricts transfer of its shares, the value of the enterprise has to be adjusted for illiquidity. The Illiquidity factor for the same has been considered as 10%.

Accordingly, the value of equity of BTPL as on 31st March 2016 works out to **Rs. 24,274 lakhs**. The breakup of this value is given below:

Sl. No.	Particulars	Value (Rs. in Lakhs)
1.	Share Capital	12,500
2.	Accumulated Reserves	14,471
3.	Total Value of Enterprise	26,971
4.	Illiquidity factor at 10%	2,697
5.	Net Value of the Enterprise	24,274



2.3.3 Discounted Cash Flow Method

The primary concept behind this method is to value a business based on its earning capacity. Cash Flow is linked with all other fundamentals of the business like growth, capital requirements, risk involvement or uncertainty, etc. Thus valuation under this method is based on the earning capacity of the business.

The Discounted Cash Flow Approach derives the value of the business from the sum of the present value of free cash flows accruing to the equity shareholders. Value of the business under this approach comprises of the following:

- Free cash flow to the Equity after meeting all its expenses, repayment of loans and normal capital expenditure to maintain current level of operations.
- Terminal value of the business at the end of the last year of projections.

This method uses financial projections to determine the value of business or value of ownership based on future income for several periods (unstable growth period) and terminal value after expiry of that period (stable growth period). Then, a discount rate is employed to convert those future values back to a present value.

These Free Cash Flows to Equity (FCFE) is discounted at the appropriate rate for the equity shareholders, that is, the Cost of Equity to arrive at the value of equity as on the valuation date.

The value thus arrived is then adjusted for illiquidity (considered at 10%) to account for restricted transferability of the shares of the company, due to the fact that the company is a Private Limited Company.

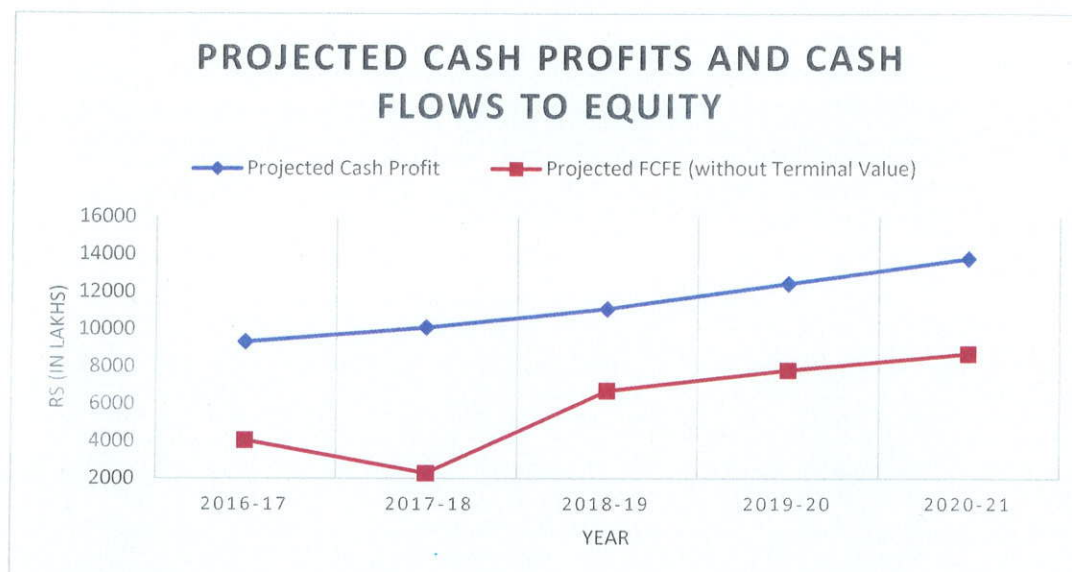
The valuation of the Company under this method comes to **Rs. 85,304 Lakhs**.

(Rs. in Lakhs)

S.No	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
1	Cash Profit	9,328.88	10,088.45	11,086.12	12,438.16	13,782.24
2	Add: Increase/ (Decrease) in Working Capital	-3,765.40	-2,308.77	-2,257.51	-2,480.50	-2,935.80
3	Cash Profit after working capital adjustments	5,563	7,780	8,829	9,958	10,846
4	Less: Increase in FA	-3,033.95	-6,931.20	-1,993.25	-2,000.00	-2,000.00
	Less: Changes in Net Equity	1,540.21	1,466.56	-122.50	-134.75	-148.23
		4,070	2,315	6,713	7,823	8,698
5	Terminal Value					1,23,961.79
6	Free Cash Flow to Equity (FCFE)	4,070	2,315	6,713	7,823	1,32,660
7	Discount Rate @ 10.89 %	0.9018	0.8133	0.7334	0.6614	0.5965
8	Discounted Cash Flow	3,670	1,883	4,923	5,174	79,132
9	Value of Enterprise					94,782
10	Less: Illiquidity factor					9,478
11	Net Value of Enterprise					85,304



The projected cash flows and Free Cash Flows for Equity arising out of operations are depicted below.



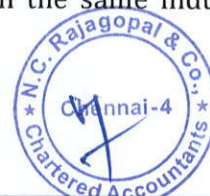
Computation of discount rate

For the purpose of computing the discount rate for discounted cash flows, the Capital Asset Pricing Model (CAPM) has¹ been used. The discount rate computation is as follows:

Particulars	Value (as stated)
Risk free Rate	7.88 % ²
Beta	1.11
Risk Premium	2.71% ³
Discount Rate	10.89%

Computation of Terminal Value

The terminal value for the purpose of valuation has been computed using a combination of the Multiple Approach⁴ and the Perpetual Growth Approach⁵. Valuation analytics are determined for various operating statistics using comparable acquisitions. A frequently used terminal multiple is Enterprise Value/EBITDA or EV/EBITDA. The analysis of comparable acquisitions will indicate an appropriate range of multiples to use. The multiple is then applied to the projected EBITDA in Year N, which is the final year in the projection period. This provides a future value at the end of Year N. The terminal value is then discounted using a factor equal to the number of years in the projection period. The EV/EBITDA Multiple for the comparable companies operating in the same industry as



BTPL is **10.46** times. However as a measure of conservatism EBITDA multiple of **7** has been considered for the purpose of arriving at the terminal value.

Under the perpetual growth rate, if we assume that cash flows, beyond the terminal year, will grow at a constant rate forever, the terminal value can be estimated as:

$$\text{Terminal Value} = \frac{\text{Cash Flow}_{(t+1)}}{r - g_{\text{stable}}}$$

(where r= cost of equity and g= stable growth rate in the future)

On a conservative basis, it is assumed that the cash flows for BTPL are to grow at a rate of 3% post the terminal year. Thus, the terminal value for the enterprise has been estimated with growth rate as 3% and cost of equity as 10.89%.

However, the perpetual growth model assumes a stable growth rate to continue for perpetuity which may not be very realistic, owing to the inherent business risks and environmental changes. Thus, higher weightage has been given for the EBITDA Multiple Approach, which enables the computation of a scientific terminal value for the company.

The weighted terminal values are given as below.

	Method used	Terminal Value	Weight	Weighted Terminal Value
1	EBITDA Multiple	1,28,400.94	0.7	89,880.66
2	Perpetual Growth Method	1,13,603.78	0.3	34,081.13
	Terminal Value			1,23,961.79

¹French, Craig W. (2003). "The Treynor Capital Asset Pricing Model". Journal of Investment Management 1(2): 60-72. SSRN 447580

² <http://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data> Last visited 05th January 2017.

³Equity Risk Premiums (ERP): Determinants, Estimation and Implications- Aswath Damodaran, Stern School of Business ,pp 57

⁴ http://pages.stern.nyu.edu/~adamodar/New_Home_Page/valquestions/termvalapproaches.htm.

⁵ http://pages.stern.nyu.edu/~adamodar/New_Home_Page/valquestions/termvalapproaches.htm



2.4. Statement of Limiting Conditions

- a. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.
- b. Financial statements and other related information provided by BTPL or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein.
- c. Public information and industry and statistical information have been obtained from sources which are considered to be reliable. No representations are made as to the accuracy or completeness of such information and no procedures have been performed to corroborate the information.
- d. No assurance is provided on the achievability of the results forecasted by BTPL and circumstances frequently do not occur as expected and achievement of the forecasted results is dependent on actions, plans, and assumptions of management. These projections and forecasts have been provided by the Management and have been relied upon to arrive at the value of equity as discussed in this report.
- e. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
- f. The conclusion of value arrived at herein is based on the latest audited Financial Statements as at 31st March 2016.
- g. This report and the conclusion of value arrived at herein are for the exclusive use for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever.
- h. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value, useful condition and title of all equipment, assets, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report.



3. BONFIGLIOLI RENEWABLE POWER CONVERSION INDIA PRIVATE LIMITED:

3.1 About the Company

Bonfiglioli Renewable Power Conversion India Private Limited ('BRPCI') is a Private Company incorporated on 17th September 2013. It is classified as a subsidiary of a Foreign Company and is registered at Bangalore, Karnataka. The company offers tailored solutions, whose strength lies in the high technology content of each product and the careful integrations of different technologies.

The organization gives operational validity to developments that have already led to the concentration of specific and dedicated competencies to serve the ever increasing demands of Indian Photovoltaic markets.

3.2 Methodology

The primary methodology which has been used in this report in arriving at the value of equity of the Solar Division of BRPCI as at the valuation date is the Net Assets/ Net worth method, where the book value of equity is arrived at.

3.3 Valuation

3.3.1 Summary:

The value per share of the Solar Division of the company has been arrived at using the Net Assets Method, which has been summarized as below.

Particulars	Value (Rs.)
Value of the Division to be demerged (BRPCI - Solar)	17,05,52,700
No. of shares outstanding in BRPCI	3,50,00,000
Value per share	4.87

3.3.2 Net Assets Method:

Under this method of valuation, the equity attributable to the Division of the Company being demerged, is valued based on the book value per share. For this purpose the book value of liabilities of the division as on the valuation date is subtracted from the book value of assets of the division as on the valuation date. This net worth can also be computed by



adding the value of share capital and accumulated profits attributable to the division being demerged.

For the purpose of arriving at the value of equity under this method, the audited financial statements as at 31st March 2016 were considered.

Accordingly, the value of equity of Solar Division of BRPCI as on 31st March 2016 works out to **Rs. 1,705.53 lakhs**. The breakup of this value is given below:

Sl. No.	Particulars	Value (Rs. in lakhs)
1.	Total Assets of Solar Division	2934.36
2.	Less: Outside Liabilities	(1,228.83)
3.	Total Value of Enterprise	1,705.53

3.4. Statement of Limiting Conditions

- a) The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.
- b) Financial statements and other related information provided by BRPCI or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein.
- c) The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
- d) The conclusion of value arrived at herein is based on the latest audited Financial Statements as at 31st March 2016.
- e) This report and the conclusion of value arrived at herein are for the exclusive use for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever.
- f) Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value, useful condition and title of all



equipment, assets, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report.

- g) The demarcation of assets and liabilities of the company into the assets and liabilities attributable to each division is based on the information given by the management.



4. SWAP RATIO:

The swap ratio, i.e. the number of shares in BTPL to be issued for every one share held in BRPCI is tabulated as follows.

Particulars		Amount (Rs.)
Value of one share of BTPL as computed above	-[A]	53.60
Value of one share of BRPCI as computed above	-[B]	4.87
Swap Ratio	-[C] = (A/B)	11
1 [One] fully paid up Equity Share of face value Rs. 10/- each of BTPL shall be issued and allotted to Equity Shareholders of BRPCI at a premium of Rs. 43.60/- per share in proportion to 11 [Eleven] fully paid up equity shares held by them in BRPCI.		
Total number of shares outstanding in BRPCI	-[D]	3,50,00,000
Number of shares of BTPL to be issued	-[E] = (D/C)	31,81,818
Number of shares of BTPL currently outstanding	-[F]	12,50,00,000
Post-demerger share capital of BTPL	-[G] = (E+F)	12,81,81,818

