Annexure-III

CHATURVEDI & SHAH
Chartered Accountants

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# Valuation Report

**Composite Scheme of Arrangement between Alembic Limited and Shreno Limited and Nirayu Private Limited and their respective shareholders**

**3rd November 2018**

ALEMBIC LIMITED VADODARA

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**The Board of Directors**
**Alembic Limited**
Alembic Road,
Vadodra-390003,
Gujarat.

**The Board of Directors**
**Shreno Limited**
Alembic Road,
Vadodra-390003,
Gujarat.

*Date: 3rd November 2018*

Dear Sir,

**Sub : Recommendation of Share Entitlement Ratio pursuant to the Composite Scheme of Arrangement between Alembic Limited, Shreno Limited and Nirayu Private Limited and their respective shareholders**

Chaturvedi & Shah ("We" or "the Valuer" or "us" or "C&S"), as per our engagement letter dated September 18, 2018, have been appointed by the Management of Alembic Limited ("the First Demerged Company" or "Alembic") and Shreno Limited ("the First Transferee Company" or "the Second Demerged Company" or "Shreno") (Collectively referred to as "Companies") for recommending the Share Entitlement Ratio in this report ("Report") for the proposed demerger of the Identified Real Estate Undertaking ("Demerged Undertaking 1") of Alembic, the First Demerged Company into Shreno, the First Transferee Company ("Proposed Transaction"), as on 1st November 2018 ("Valuation Date") required for the purpose of the Proposed Transaction pursuant to a Composite Scheme of Arrangement under Section 230 to 232 read with Section 66 of the Companies Act, 2013 and other applicable provisions of the Companies Act, 2013 ("Scheme"). The Appointed Date for the Scheme is 1st November 2018.

All information in this report with respect to the valuation subject has been obtained by us from you / your authorized personnel only. We are responsible only to the Companies engaging us and nobody else. We understand that the contents of our report have been reviewed in detail by the Management and that you agree with the contents of this report (especially fact based). We would like to represent that we do not have any conflict of interest or interest in Companies.

If you have any questions or require additional information, please do feel free to contact us.

For **Chaturvedi & Shah**
Chartered Accountants, Mumbai

**Amit Chaturvedi**

**Partner**

**Membership No: 103141**

**Firm Reg: 101720W**

CHATURVEDI & SHAH MUMBAI CHARTERED ACCOUNTANTS

ALEMBIC LIMITED VADODARA

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ALEMBIC LIMITED VADODARA

**Engagement Background**

i. **Alembic Limited**

- Alembic was originally incorporated as Alembic Chemical Works Company Limited on 30th July, 1907 under the Indian Companies Act, VI of 1882 in the State of Gujarat. The name was changed to Alembic Limited from 31.05.1999 pursuant to the fresh certificate of incorporation obtained from the Registrar of Companies, Gujarat (CIN L26100GJ1907PLC000033)
- Alembic is a company listed on BSE Limited and National Stock Exchange of India Limited and having its registered office at Alembic Road, Vadodara, Gujarat - 390003.
- It is, inter alia, engaged in the business of manufacturing and trading of active pharmaceutical ingredients and real estate development.
- Capital structure as on 30th September, 2018 is as follows:

| Share Capital | Rupees |
|---|---|
| **Authorized Share Capital** | |
| 30,00,00,000 Equity Shares of Rs. 2/- each | 60,00,00,000 |
| **Issued, subscribed and paid-up Share Capital** | |
| 25,67,81,828 Equity Shares of Rs. 2/- each fully paid up | 51,35,63,656 |
| **Total** | **51,35,63,656** |

There is no change in the capital structure after the aforesaid date.

ii. **Shreno Limited**

- Shreno was originally incorporated under the Companies Act, 1913 on 19th December, 1944 at Vadodara in erstwhile Vadodara State, in the name and style of Alembic Glass Industries Limited.
- Shreno, pursuant to and as part of the scheme of merger of erstwhile Shreno Limited with erstwhile Alembic Glass Industries Limited, approved by Hon'ble High Court of Gujarat vide its order dated 21st July 2006, changed its name to Shreno Limited and obtained fresh certificate of incorporation dated 19th September, 2006 (CIN U26100GJ1944PLC000345).
- The Registered Office of Shreno, is situated at Alembic Road, Vadodara - 390003 in the State of Gujarat.
- It is, inter alia, engaged in the business of manufacturing and trading of glassware items, machinery & equipment required for various industries, making investments and real estate development.

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- Capital structure as on 30th September, 2018 is as follows:

| Share Capital | Rupees |
|---|---|
| **Authorized Share Capital** | |
| 59,50,000 Equity Shares of Rs. 100/- each | 59,50,00,000 |
| 45,12,500 Preference Shares of Rs. 400/- each | 180,50,00,000 |
| **Total** | **240,00,00,000** |
| **Issued, subscribed and paid-up Share Capital** | |
| 59,48,298 Equity Shares of Rs. 100/- each fully paid up | 59,48,29,800 |
| **Total** | **59,48,29,800** |

There is no change in the capital structure after the aforesaid date.

iii. **Proposed Transaction**

We understand the management of the Companies are contemplating a Composite Scheme of Arrangement ("Scheme") whereby
(1) Part 1 of the Scheme provides for the demerger of the Identified Real Estate Undertaking of Alembic into Shreno,; and
(2) Part 2 of the Scheme provides for the demerger of the Engineering Division and Investment Division of Shreno into Nirayu Private Limited
This Report deals with Part 1 of the Scheme. The following are the relevant extracts of the Scheme which relate to this Report:

- The Appointed Date of the Scheme is November 1, 2018;
- As a consideration for the Proposed Transaction, equity shareholders of Alembic, would be issued 7% Non-Convertible Cumulative Redeemable Preference Shares ("Preference Shares") in Shreno. The terms of issue of such Preference Shares have been given in detail in Annexure 1 of the draft of the Scheme provided to us. Share Entitlement Ratio for this Report refers to the number and value at which Preference Shares of Shreno would be issued to the equity shareholders of Alembic.

The scope of our services is to conduct valuation in accordance with generally accepted professional standards for the purpose of Proposed Transaction.

This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed in this Report. As such, the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

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**Information Sources**

For the purposes of undertaking this Valuation exercise, we have relied on the following sources of information and documents:

- Management Certified financial statements of Shreno as on 30th June, 2018;
- Shareholding pattern of Alembic and Shreno as on 30th June, 2018 and 30th September 2018;
- Audited Financial statements of Alembic and Shreno for FY 2017-18;
- Financial Projections of Shreno for FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22, FY 2022-23;
- Financial Projections of Identified Real Estate Undertaking for FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22, FY 2022-23;
- Financial Projections of Shreno for FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22, FY 2022-23;
- Management Certified financial statements Nirayu Private Limited as on 30th June, 2018;
- Audited Financial statements of Nirayu Private Limited for FY 2017-18;
- Valuation reports of M/s. Kanti Karamsey & Co. Advisors LLP for valuation of immovable properties;
- Draft Scheme;
- Write up on brief overview of the Companies and its operations;
- Discussion with Management including Management Representation Letter dated 31st October, 2018.

The Companies have been provided with the opportunity to review the draft Report (excluding the recommended Share Entitlement Ratio) as part of our standard practice to make sure that factual inaccuracies /omissions are avoided in our final Report.

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## Valuation Methodologies

- The Institute of Chartered Accountants of India (ICAI) has notified 8 valuations standards known as the Indian Valuation Standards (IVS) and some of them draw parallels from the International Valuation Standards. Valuers have to mandatorily comply with the IVS for valuation engagements as required under Section 247 of the Companies Act, 2013. The IVS contain the framework and principals for undertaking a valuation assignment – its bases, methods & process.

### a) Valuation Bases

- IVS 102 defines the Valuation Bases and prescribes the corresponding fundamental assumptions on which valuation will be based and provides the premises of values.
- IVS 102 provides three valuation bases which are required to be chosen by the Valuer considering the terms and purpose of the valuation engagement
  - **Fair value**: 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.
  - **Participant specific value**: Estimated value of an asset or liability after considering the advantages and disadvantages that may arise to the owner, identified participant or identified acquirer.
  - **Premise of Value**: The logic behind the current and future use of the asset. Some common premises of value are; highest-and-best-use, as-is-where-is, going concern value, orderly liquidation and forced transaction.

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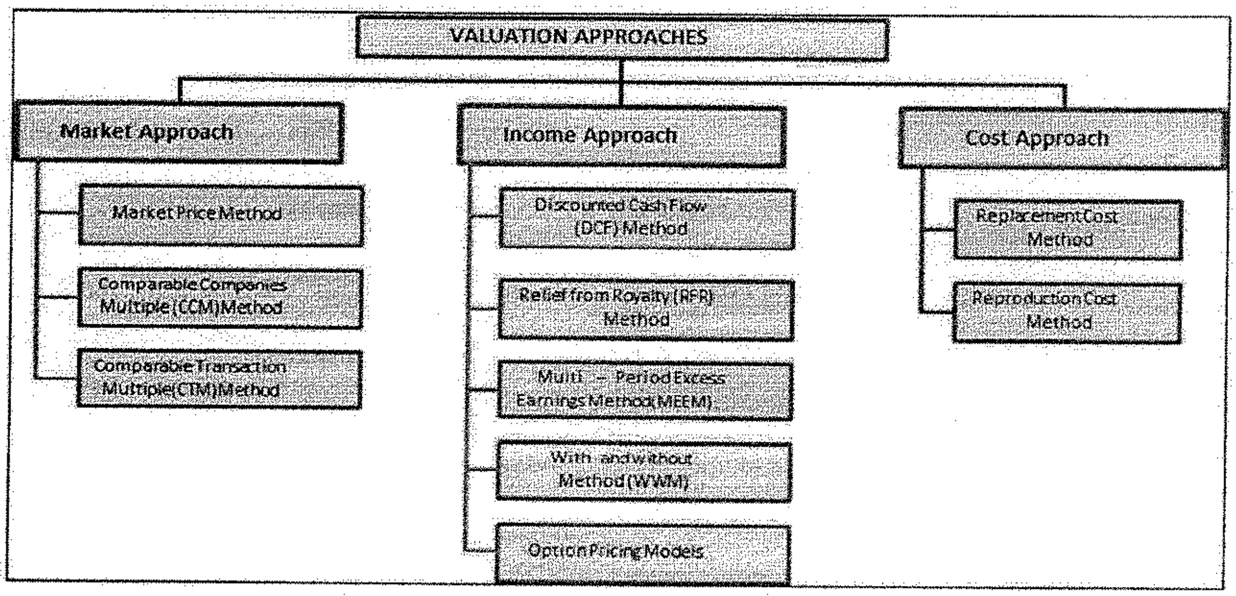
**b) Valuation Methodologies**

The IVS provides for following main valuation methods:




- **<u>Market Approach</u>**

  Market approach is a valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.

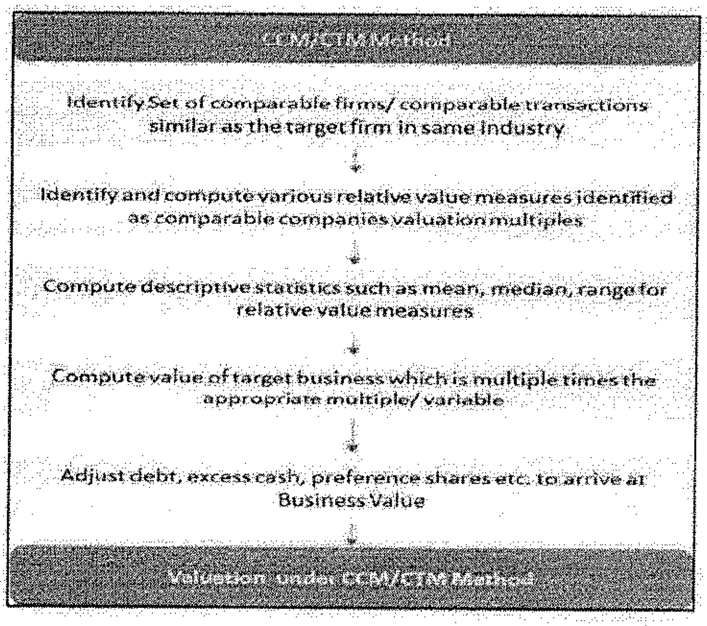
  - **<u>Market Price Method</u>**

    Under this method, the market price of an equity share of the company as quoted on a recognized stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded. The market value generally reflects the investor's perception about the true worth of the company.

  - **<u>Comparable Companies Multiples (CCM) Method</u>**

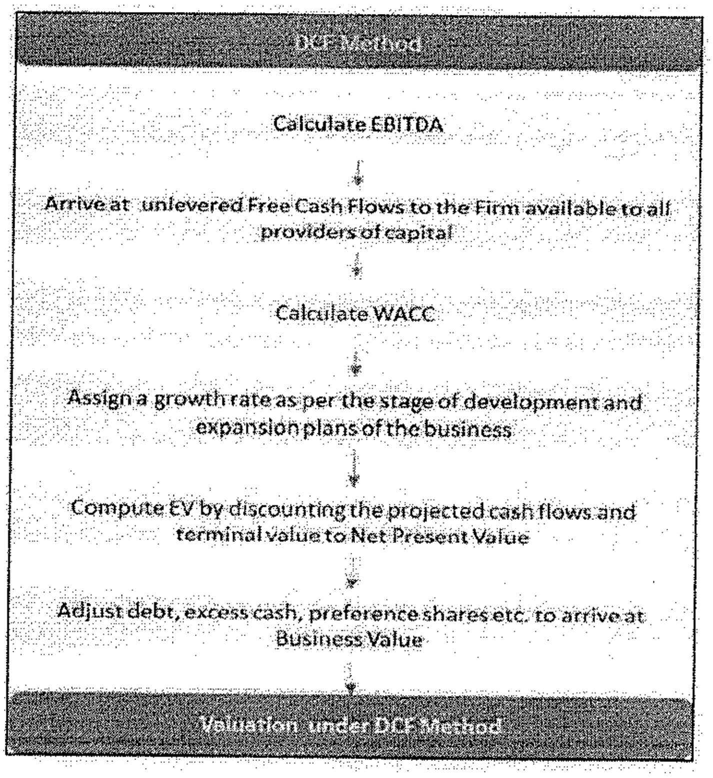
    The value is determined on the basis of the multiples derived from valuations of comparable companies, as manifest in the stock market valuations of listed companies. This valuation is based on principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

- **Comparable Transactions Multiples (CTM) Method**
  Under CTM Method, the value is determined on the basis of multiples derived from valuations of similar transactions in the industry. Relevant multiples need to be chosen carefully and adjusted for differences between circumstances.




- **Income Approach**
  - **Discounted Cashflow Approach ("DCF")**
    - DCF Approach is widely used for valuation under 'Going Concern' basis. It focuses on the income generated by the company in the past as well as its future earning capability.
    - Under the DCF method, the business is valued by discounting its free cash flows for the explicit forecast period and the perpetuity value thereafter. The free cash flows in the explicit period and those in perpetuity are discounted by Weighted Average Cost of Capital (WACC). The WACC, based on an optimal vis-à-vis actual capital structure, is an appropriate rate of discount to calculate the present value of future cash flows as it considers debt-equity risk by incorporating debt-equity ratio of the firm.

- The perpetuity (terminal value) is calculated based on the business potential for further growth beyond the explicit forecast period. The "Constant Growth Model" is applied, which implies an expected constant level of growth for perpetuity in the cash flows over the last year of forecast period.
- The discounting factor reflects not only the time value of money, but also the risk associated with the future business operations. The Enterprise Value (aggregate of present value of explicit period and terminal period cash flows) so derived, is further reduced by value of debt, if any, (net of cash and cash equivalents) to arrive at value to the owners of business.




- **Cost Approach**

  Cost approach is a valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

  - **Replacement Cost Method**
    - Replacement Cost Method, also known as 'Depreciated Replacement Cost Method' involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the

same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence.

- **Reproduction Cost Method**
  - Reproduction Cost Method involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.

When evaluating an appraisal engagement there are generally two different types of companies:

- **an operating company**, which is in business primarily to derive profits through the offering of some product or service, or
- **a holding company**, which is usually established to derive profits primarily through the holding of assets for investment purposes.

In certain situations where an operating company is asset-intensive or has operating income that is consistently less than the value of the assets that it holds, we evaluate the company based more on the value of its assets than on the value of its operating income.

A holding company typically does not have ongoing operations other than the retention and management of assets in anticipation of future sale or trade. These assets often consist of cash, marketable securities, equipment, and real estate. The valuation of these companies usually relies significantly upon the asset approach, which estimates business value based upon the market value of the underlying assets rather than upon the income producing capacity of the company or the market values of similarly situated and comparable companies.

One of the typical appraisal methods under the asset approach involves determining net asset value, which can be represented as the market value of company assets net of liabilities.

Valuation discounts typically relate to either the lack of control or lack of marketability inherent in an equity interest. While these discounts are usually considered in many business appraisals, the determination of these values differs, sometimes significantly, depending upon whether a company is valued as an operating company or as a holding company.

For an operating company, the company being valued is assumed to continue to operate for the foreseeable future. Due to its scientific and holistic approach, DCF method is typically considered as the most appropriate. The DCF method is used when:

- There is reasonable business viability and business operations are expected to be ongoing in the medium term. DCF method is the most appropriate method when business is viable and cash flows can be projected with reasonable certainty.
- Financial Projections and other inputs and assumptions are adequately available for valuation.

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**Valuation Analysis/Approach**

The valuation exercise involves selecting a method suitable for the purpose of valuation, by exercise of judgment by the valuer, based on the facts and circumstances as applicable to the business of the company to be valued.

As mentioned earlier, the present valuation exercise is being undertaken in order to derive the Share Entitlement Ratio for the Proposed Transaction.

In the case on hand, the engagement includes valuation of operating companies as well as holding companies and also includes the cross holding between them.

Hence, the following valuation approach has been adopted:

- For valuation of any unlisted Cash Generating Unit / operating business, the valuation has been arrived by applying DCF method;
- For investment in unlisted non-operating companies, we have carried out the valuation on realizable net asset value basis, derived from the fair valuation of the underlying assets and liabilities.
- For investment in listed securities, we carried out the valuation as per SEBI (Issue of Capital and Disclosure Requirements) Regulations.
- For valuation of any land and property, we have relied on fair market value of the asset based on reports of experts.
- For investment in any holding companies, we have carried out sum of the parts valuation of the assets and liabilities basis the above methodology.

Considering the coupon rate, terms of redemption and the current market value of similar instruments, we are of the view that the value of the Preference Shares is equal to its issue price per share ( viz. Face value of Rs 2/- issued at a premium of Rs 14.37/- per share)

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**Valuation Conclusion – Share Entitlement Ratio**

The Share Entitlement Ratio is based on the valuation methodologies explained herein earlier and various qualitative factors relevant to Identified Real Estate Undertaking and the business dynamics and growth potential of the business of Identified Real Estate Undertaking, having regard to key underlying assumptions and limitations.

Based on the above, and on the consideration of all the relevant factors and circumstances as discussed and outlined herein above, we recommend the following Share Entitlement Ratio (as elaborated in Annexure 1):

- 1 (One) 7% Non-Convertible Cumulative Redeemable Preference Shares of Rs. 2/- each at premium of Rs. 14.37/- per share of Shreno for every 1 (One) fully paid up equity share of Rs. 2/- each held in Alembic.

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## Annexure 1

**The Computation of Fair Share Entitlement Ratio as derived by us, is given below:**

| Valuation Approach | Identified Real Estate Undertaking of Alembic Limited | | Equity Shares of Shreno Limited | |
|---|---|---|---|---|
| | Value per Share | Weight | Value per Share | Weight |
| Asset Approach | 16.37 | 100% | N.A. | - |
| Income Approach | N.A. | - | N.A. | - |
| Market Approach | N.A. | - | N.A. | - |
| **Relative Value per Share** | 16.37 | **100%** | | |
| **Share Entitlement Ratio** | | | 1:1 | |

N.A. = Not Applicable / Not Adopted

Notes:

1. We have done a sum-of-the-parts valuation of the Identified Real Estate Undertaking by adopting a mix of approaches for the purpose of valuation. Cost / Asset approach has been used for investments and real estate at their fair values and Income approach has been used for businesses which have future cash flows. However, since the composition of the Cost / Asset approach is significantly higher than the Income approach, we have classified the valuation entirely under the Asset Approach.
2. The Market Approach is not applicable since we are valuing the Demerged Undertaking 1 of Alembic, which is unlisted and further comparable multiples for the Demerged Undertaking 1 will be difficult to derive due to the unique nature of the Demerged Undertaking 1
3. We have not valued the equity shares of Shreno as under the proposed Scheme, 7% Non-Convertible Cumulative Redeemable Preference Shares ("Preference Shares") of Shreno are being issued instead of equity shares.

**SHARE ENTITLEMENT RATIO**

**1 (One) 7% Non-Convertible Cumulative Redeemable Preference Shares of Rs. 2/- each at premium of Rs. 14.37/- per share of Shreno, for every 1 (One) fully paid up equity share of Rs. 2/- each held in Alembic.**

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