To,
The Board of Directors of

1.M/s SUPANGITA ENGINEERS PRIVATE LIMITED
No.7C / D, Bommasandra Industrial Area, Bengaluru 560 099

2.M/s CADM TOOLS AND COMPONENTS PRIVATE LIMITED
No. 7C, Bommasandra Industrial Area, Bengaluru – 560 099

M/s Supangita Engineers Private Limited
CADM Tools and Components Private Limited
Dear Sir / Madam,

I have been requested by the management of M/s Supangita Engineers Private Limited, and M/s CADM Tools and Components Private Limited to recommend a share issue ratio for the proposed Scheme of Arrangement between M/s Supangita Engineers Private Limited, and CADM Tools and Components Private Limited and their Respective Shareholders ('Scheme of Demerger'). In this regard, please find attached my report recommending the share issue ratio.

May you need any further information or clarification on any part of the report, please feel free to let me know.

With warm regards,

Yours Faithfully,

Saurabh Srivastava
IBBI Registered Valuer
Asset Class: Securities or Financial Assets
Registration No. IBBI/RV/06/2020/13607
Place: Bangalore
Date: 9th March 2021
UDIN:

Valuation Report on the Share Issue Ratio for the Scheme of Arrangement between M/s Supangita Engineers Private Limited, M/s CADM Tools and Components Private Limited And their Respective Shareholders

1. INTRODUCTION

1.1 I have been requested by the Board of Directors of M/s Supangita Engineers Private Limited (hereinafter referred to as "SEPL " or "Transferor Company" and CADM Tools and Components Private Limited (hereinafter referred to as "CADM " or "Transferee Company"), to determine a fair share issue ratio for the proposed demerger of the business from SEPL to CADM which will take effect on the date as ordered by the Hon'ble NCLT , Bengaluru bench.

1.2 To determine the fair share issue ratio, the following data and information were obtained from the Management of SEPL and CADM:

(a) Memorandum and Articles of Association of all the Companies to the Scheme;

(b) Audited standalone financials of SEPL for the last three financial years i.e., years ended on March 31, 2018, March 31, 2019 and March 31, 2020 and Audited standalone financials of CADM last one financial year i.e., year ended on March 31, 2020 which is NIL except share Capital of ₹1,00,000.00 ;

(c) Draft Scheme of Demerger;

(d) Management certified provisional position of assets and liabilities of SEPL as on 30 April 2020 prepared in compliance with section 2(19AA) of the Income-tax Act, 1961; and

(e) My time-to-time discussion with Management.

1.3 Please refer my disclaimers with respect to the reliance placed on the above-mentioned documents, information and explanations received from the companies.

2. SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

2.1 Valuation is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. Therefore there is no indisputable single value. While I have provided an assessment of the value based on the information available, application of certain formulae and within the scope and constraints of my engagement, others may place a different value to the same. It is a known and acceptable fact that two valuers can determine significantly different values to the same subject.

2.2 As such the report is to be read in totality and in conjunction with the relevant documents referred to herein and in the context of the purpose for which it is prepared. The same is based on the historical performances of the companies, but such historical performances are not offered as assurances that the same or similar level of income or profit will be achieved in the future. Actual results achieved in the future may vary from the historical performance and the variation may be material. Consequently, I do not offer any assurances that the particular level of income or profit for the future years will be achieved.

2.3 Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report is as per agreed terms of my 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.

2.4 A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. This report is issued on the understanding that the companies have drawn my attention to all the matters, which they are aware of concerning the financial position of the companies and any other matter, which may have an impact on my opinion, on the relative value of the companies including any significant changes that have taken place or are likely to take place in the financial position of the companies. I have no responsibility to update this report for events and circumstances occurring after the date of this report.

2.5 While conducting the valuation of the companies, I have relied on the audited financial statements of the companies with respect to the historical data. My valuation analysis is dependent upon all the information given to me being complete and accurate in all material aspects. My scope of work does not enable me to accept responsibility for the accuracy and completeness of the information provided to me. It may be noted that valuation of a company is not an audit under the generally accepted auditing standards, nor a review or examination of any of the historical or prospective information and therefore, I have not expressed any opinion on any financial data or other information referred to in this report.

2.6 The fees for the engagement are not contingent upon the results reported.

2.7 No investigation of the Companies' claims to title of assets has been made for the purpose of this valuation and the Companies' 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 matters of a legal nature. My report is not, nor should it be construed as my opining or certifying the compliance with the provisions of any law including company and taxation laws or as regards any legal, accounting or taxation implications or issues.

2.8 I have been informed by the companies that from the time the audited financial statements for the year ended on March 31, 2020 have been drawn, no significant changes have taken place in the financial position of the companies or in any other matter which may have an impact on my analysis of the share exchange ratio.

2.9 My report and the information contained herein are absolutely confidential. It is intended only for the sole use and information of the Board of Directors and the Management of both the companies in connection with the limited purpose of recommending the fair share exchange ratio for the proposed demerger and should not be used for any purpose other than the purpose mentioned therein. My report should not be copied or reproduced without obtaining my prior written approval.

2.10 Any person/ party intending to provide finance / invest in the shares / business of any of the Companies shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision.

3 COMPANY PROFILE

3.1 SEPL, with CIN U85110KA1985PTC006800, a company incorporated under the Companies Act, 1956 and having its registered office at 7C/D, Bommasandra Industrial area, Bengaluru -560 099, is engaged in mechanical engineering and manufacture of tools , jigs etc and components for use in general machinery.

3.2 CADM , a company having the same management having CIN U36999KA2018PTC116426 is a company incorporated under the Companies Act, 2013 and has its registered office at 7C, Bommasandra Industrial area, Bengaluru -560 099 is engaged in mechanical engineering and manufacture of tools , jigs etc. and components for use in general machinery

3.3 As per the proposed demerger scheme, the entire business as mentioned above was housed under SEPL till 30th April 2020. The Management of CADM and SEPL have through a composite scheme of arrangement under the provision of section 230 to 232 of the companies Act, 2013 and other applicable provisions of the Companies Act, 2013 are proposing the demerger of entire business of mechanical engineering and manufacture of tools and components for use in machinery except the immovable properties to CADM. The objective of this transaction is to focus more on business control, better utilization of resources and enhance value for all stakeholders.

4 SALIENT FEATURES OF THE PROPOSED SCHEME

4.1 The proposed Scheme of Arrangement envisages:

- Demerger of the business of mechanical engineering and manufacture of tools and components for use in machinery from SEPL into CADM.
- The business of SEPL except Land and Building is to being demerged to the transferee Company - CADM.

4.2 The management of the companies believes that the merger will benefit the companies and its stakeholders on account of following reasons:

4.2.1 The Scheme will enable the Transferor Company and the Transferee Company to achieve their respective business objectives more efficiently, and offer opportunities to their respective managements to vigorously pursue growth opportunities

4.2.2 The Scheme will enable the Transferor Company to focus on its remaining business activities by streamlining operations and reducing costs;

4.2.3 The shareholders of the Companies will be able to segregate their investments in line with their investment strategies and risk profiles;

4.2.4 Accordingly, the Demerger proposed under this Scheme will build a stronger and more sustainable business for both the Companies, and is expected to result in, inter-alia, the following benefits to the Companies:

(i) Focused business and management control;

(ii) Greater efficiency and more optimal utilisation of resources; and

(iii) Enhanced value for all stakeholders. It would be advantageous to combine the activities and operations of the Companies for leveraging financial and operational resources and reflecting stronger financial position and for the benefit of lesser compliance issues.

4.2.5 The merger will result in cost saving for the Companies and is expected to result in administrative efficiency and higher profitability levels for the Transferee Company.

4.2.6 The merger will enable concentrated effort and focus by senior management to grow the business by eliminating duplicative communication and burdensome coordination efforts across multiple entities and enable them to utilize the offices and support people more efficiently.

5 METHODOLOGY

5.1 Generally, for the purpose of valuation, it is necessary to select an appropriate basis of valuation amongst the various alternatives. It is universally recognized that valuation is not an exact science and that estimating values necessarily involves selecting a method or approach that is suitable for the purpose. The application of any particular method of valuation depends upon various factors including the size of the company, nature of its business and purpose of valuation. Thus, the methods to be adopted for a particular valuation exercise have to be judiciously chosen.

5.2 As all the companies to the proposed Scheme are private companies, the suitable methods for valuation are:

a) Net Asset Value Method (NAV);
b) Price Earning Capacity Value Method (PECV).
c) Maintainable Profit Method (Discounted Cash Flows – “DCF”)

5.3 The Net Asset Value method represents the “Net Worth” of the business with reference to the value of assets owned by the company and the attached liabilities on the valuation date.

Generally, historical cost of the assets is considered in arriving at a value. However, where the nature of assets is such that assets can be liquidated without affecting other operations of the company, market value of the assets can be considered for the valuation under this method. It can be presumed that the company will continue as a going concern and no intention or need currently exists to liquidate the company and realize its assets.

5.4 The Price Earning Capacity Value Method represents the valuation of a company based on its earning capacity in comparison to other companies in similar business. For conducting the valuation under this method, one can consider the past earnings or the future projected earnings or a combination of the past and future earnings of the company. Based on the trend of the earnings, weights can be attached to these earnings to arrive the weighted average profit of the company. After deduction of income tax at the appropriate rate, the profit after tax can be arrived at. Based on the capitalization factor applicable to the particular or similar business, the capital value of the company can be arrived at.

5.5 Maintainable Profit Method (Discounted Cash Flows – "DCF")

DCF uses the future free cash flows of the company discounted by the firm's weighted average cost of capital (the average cost of all the capital used in the business, including debt and equity), plus a risk factor measured by beta, to arrive at the present value.
Beta is an adjustment that uses historic stock market data to measure the sensitivity of the company's cashflow to market indices, for example, through business cycles.
The DCF method is a strong valuation tool, as it concentrates on cash generation potential of a business. This valuation method is based on the capability of a company to generate cash flows in the future. The free cashflows are projected for a certain number of years and then discounted at a discount rate that reflects a company's cost of capital and the risk associated with the cash flows it generates. DCF analysis is based mainly on the following elements:

- Projection of financial statements (key value driving factors)
- The cost of capital to discount the projected cash flows

Terminal Value

The terminal value refers to the present value of the business as a going concern beyond the period of projections up to infinity. This value is estimated by taking into account expected growth rates of the business in future, sustainable capital investments required for the business as well as the estimated growth rate of the industry and economy.

Considering the business is being demerged as a going concern I have used this method to calculate the fair value of the Company based on the financial projections received from the management. Refer Annexure A & Annexure B for projections provided by management which forms base for Valuation and my Valuation workings, respectively.

Based on the valuation methodologies considered above and workings provided as per Annexure I & II, the Equity value of the SEPL is ₹ 24,637,729/- and rounded off to ₹2,46,43,000/-.

5.6 Based on discussions with the Management and keeping in mind the future equity servicing capacity of CADM the equity share entitlement ratio has been recommended.

6 SWAP / ENTITLEMENT RATIO AND CONCLUSION

6.1 **Demerger of the Business of SEPL into CADM**

6.1.1 Based on my review, information made available to me , work performed and discussion with the Management of SEPL and CADM, a ratio of 1 (One) equity shares of ₹ 100/- each fully paid up of CADM for each existing equity shares of SEPL of ₹100/- each fully paid up to equity shareholders of SEPL in consideration for the demerger of the business as laid down in the scheme of demerger would be reasonable. In other words, the CADM may issue 19000 equity shares of ₹100/- each fully paid up in exchange of demerger business of SEPL at the equity value of the SEPL calculated @ ₹ 2,46,43,000/-.

6.1.2 I believe that the above ratio is fair considering that all the shareholders of SEPL are and will, upon demerger, be the ultimate beneficial owners of CADM and in the same ratio (inter se) as they hold shares in SEPL.

Yours Faithfully,

Saurabh Srivastava
IBBI Registered Valuer
Asset Class: Securities or Financial Assets
Registration No. IBBI/RV/06/2020/13607
Place: Bangalore
Date: 9th March 2021
UDIN

Annexure -A

Statement of projected Profit and Loss account of SEPL as provided by the management

Amount in ₹

	PROJECTIONS				
PARTICULARS	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Revenue					
Revenue from operations	657,177,972	840,000,000	930,000,000	970,000,000	1,010,000,000
Income from Services	513,246	525,000	550,000	625,000	650,000
Total Revenue (A)	**657,691,218**	**840,525,000**	**930,550,000**	**970,625,000**	**1,010,650,000**
Expenses:					
Cost of materials	498179899	628,700,000	707,618,525	738,700,000	764,018,525
Changes in inventories of finished goods, Work in progress and Stock-in-Trade	15,165,797	12,500,000	-5,000,000	-2,500,000	-2,500,000
Employee Benefit Expense	86,969,317	115,223,198	124,969,317	129,937,967	133,969,317
Financial Costs	10,859,839	12,650,000	13,295,000	13,935,000	14,565,000
Depreciation and Amortization Expenses	23,200,000	22,000,000	20,000,000	19,000,000	18,000,000
Other Expenses	11,236,746	13,799,366	14,857,720	15,855,366	16,924,920
Total Expenses (B)	**645,611,598**	**804,872,564**	**875,740,562**	**914,928,333**	**944,977,762**
Profit before tax (A) - (B)	12,079,620	35,652,436	54,809,438	55,696,667	65,672,238
Tax expenses	-3,360,550	-9,918,508	-15,247,986	-15,494,813	-18,270,017
Profit after tax	**8,719,070**	**25,733,928**	**39,561,452**	**40,201,854**	**47,402,221**

Annexure -B

ii) Computation of Free cash flow available to firm ('FCFF') and Equity value of SEPL

Amount in ₹

PARTICULARS	PROJECTIONS				
	FY 2020-21	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**
Profit after Tax as per above	8,719,070	25,733,928	39,561,452	40,201,854	47,402,221
Add/(less):					
Finance	10,859,839	12,650,000	13,295,000	13,935,000	14,565,000
Depreciation	23,200,000	22,000,000	20,000,000	19,000,000	18,000,000
Additional Working Capital requirement (refer Note 1 below)	(35,590,274)	(38,308,605)	(53,066,607)	(52,987,666)	(58,970,567)
FCFF	**7,188,635**	**22,075,323**	**19,789,845**	**20,149,188**	**20,996,654**
Discounting period (Months)	11.0	23.0	35.0	47.0	59.0
Discounting period (Years)	0.92	1.92	2.92	3.92	4.92
Present value factor at cost of Capital (refer below note 2)	0.90	0.80	0.72	0.64	0.57
Present Value (PV) of FCFFF	**6,473,423**	**17,731,470**	**14,178,496**	**12,876,428**	**11,968,453**
					63,228,270
Terminal Value					
Terminal Value of FCFF assuming the growth rate of 2.5%					**21,521,571**
TV					223,916,306
PV of Terminal Value					127,636,137
Add Cash and Bank Balance					6,629,136
Enterprise value					197,493,543
Less: debt balance as on valuation date					172,855,814
Equity Value					**24,637,729**

Note 1: Computation of additional non-cash working capital requirement YoY

	Provisional	**Projected**				
Particulars	**As at 30th April 2020**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**
<u>Current Assets</u>						
Inventories	111,165,797	97,500,000	85,000,000	90,000,000	92,500,000	95,000,000
Trade Receivable	39,425,171	51,972,983	76,097,408	134,157,698	194,643,885	261,044,519
Short-term Loans and Advance	1,896,464	1,896,464	2,398,563	2,600,624	2,802,713	3,002,984
Total Current Assets	**152,487,432**	**151,369,447**	**163,495,971**	**226,758,322**	**289,946,598**	**359047503**
<u>Current Liabilities</u>						
Trade Payables	94,915,907	58,383,125	31,900,343	41,975,399	52,054,300	62,063,310
Short term provisions	3,251,561	3,076,084	3,376,785	3,497,473	3,619,182	3,740,510
Total Current Liabilities	**98,167,468**	**61,459,209**	**35,277,128**	**45,472,872**	**55,673,482**	**65,803,820**
Net Working capital requirement	**54,319,964**	**89,910,238**	**128,218,843**	**181,285,450**	**234,273,116**	**293,243,683**
Additional Working Capital requirements		**(35,590,274)**	**(38,308,605)**	**(53,066,607)**	**(52,987,666)**	**(58,970,567)**

Note 2: Computation of Cost of capital

Particulars	Rate
Cost of capital for Auto parts industry as per Aswath Damodaran's data sets	10.11%
Company specific risk adjustment	2.00%
Cost of capital	**12.11%**