

VALUATION REPORT

OF

SPECIALITY CHEMICAL DIVISION OF VIVIMED LABS LIMITED



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Notice to Reader

This report is prepared by Saffron Capital Advisors Private Limited ("Saffron"), a Category I Merchant Banker registered with SEBI, solely for the purpose of estimating the value of Speciality Chemical Business of Vivimed Labs Limited ("Vivimed" or "The Company"). For the purpose of this valuation, Saffron has been commissioned by Vivimed.

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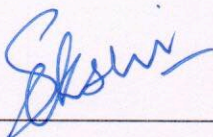
Saffron has called for and obtained such data, information, etc. as was necessary for the purpose of this assignment which has been made available to Saffron by the management of Vivimed. For the purpose of this assignment, Saffron has relied on the statements; information and explanation provided to it and has not tried to evaluate the accuracy thereof.

Saffron's work does not constitute certification or due diligence of the past working results of Vivimed and Saffron has relied upon the information provided to it by the company as set out in their audited and working results.

Saffron has not carried out any physical verification of the assets and liabilities of the company and takes no responsibility on the identification of such assets and liabilities.

The valuation of this company has been carried out for the express purpose of assessing the valuation of Vivimed and may not be applicable or referred to or quoted in any other context.

For Saffron Capital Advisors Private Limited



Authorised Signatory



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1. Introduction and Scope of Assignment

Vivimed Labs Limited is an India-based global supplier of specialty chemicals and pharmaceuticals. Headquartered in Hyderabad, India. It has two divisions broadly, speciality chemicals and pharmaceuticals. The company for its internal purposes, proposes to value its speciality chemical division ("SCD") of Vivimed. The Company has approached Saffron for determining the fair value for the same on the basis of Discounted Cash Flow Method.

The equity valuation mentioned herein reflects our independent opinion based on the fair value of SCD which is arrived at based on the financial information and projected financial statements and assumptions provided by Vivimed.

The Management of Vivimed ("Management") has been provided with an opportunity to review factual information in our report as part of our standard practice to ensure that factual inaccuracies/omissions/etc. are avoided in our final signed report.

2. Sources of Information

For the purposes of the valuation exercise, we have had access to and relied on relevant data and information provided to us by the management of Vivimed and data available in public domain, which includes but is not limited to the following:

- Approved Forecasted Financial Statements (comprising Periodic Income statements, Periodic Balance Sheets) for a period of 5 years from 1st April 2018 to 31st March 2023, provided by the management.
- Discussions with the management on various issues relating to the operations and finances relating to the entity including but not limited to industry, business plan, taxes, Capital Expenditure plan, working capital management, capital structure, Cost of equity, expected Perpetual growth rate.
- Such other data and information as provided by the management.



3. Exclusions and Limitations

- During the course of work, we have relied upon the past audited financials and working results as well as provisional and projected financial statements of SCD as provided to us by the Management.
- Our valuation exercise and conclusions reached by us are dependent on the information provided to us being complete and accurate in all material respects. Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information used during the course of our work. As such we have not performed any audit, review or examinations of any of the historical or prospective information used and, therefore, do not express any opinion with regard to the same. In addition, we do not take any responsibility for any changes in the information used for any reason, which may occur subsequent to the date of our report.
- We have prepared our report based on the financial information provided by the management of Vivimed. We have not visited the offices of Vivimed for verification purpose and we have only relied on the financial information as provided by its Management.
- Our valuation will not be offered to any section of the public to subscribe for or purchase any securities in or assets or liabilities of any company or business valued by us.
- This report is prepared with a limited purpose / scope as identified / stated earlier and will be confidential being for use only to whom it is issued. It must not be copied, disclosed or circulated in any correspondence or discussions with any person, except to whom it is issued and to those who are involved in this transaction and for various approvals for this transaction.
- Our valuation is based purely on financial parameters and does not take into consideration the market value or realisable value of fixed assets including land building machinery etc. Our valuation does not attempt to value any intangibles like goodwill, brand value etc.
- Our work is neither, nor it should be construed as, our opinion on/or certification of compliance by the Company with the provisions of any law including Companies, Foreign Exchange, Taxation and Capital market related laws or as regards any legal implications or issues arising thereon.



- A valuation of this nature involves application of discounted cash flow method which is a globally accepted valuation method, exercise of professional judgement and consideration of various factors including those related to, and arising from, the prevailing capital market trends in general and industry trends in a particular and is based on subjective individual interpretation.

4. Valuation Methodology

As per the scope of this assignment, for the purpose of valuation of shares of SCD we have used Discounted Cash Flow method:

Discounted Cash Flow Method

The DCF method uses the future free cash flows to the equity, discounted by the cost of equity 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.

Estimating Free Cash Flows:

For the purpose of DCF analysis, the financial projections, explanations and assumptions provided by the management for the period starting from 1st April 2018 to 31st March 2023 have been relied upon.

Discount Rate:

The Free Cash flows to the Equity, during each year covered by the projections, are discounted using the weighted average cost of capital so as to arrive at the present value of the free cash flows to equity during the explicit forecast period and over the perpetuity period.

Terminal Value:

The terminal value refers to the present value of the business as a going concern beyond the explicit period of forecasts up to perpetuity. This value is estimated taking into consideration the past growth rates of the product / service, expected growth rates in future, capital investments made in the business as well the estimated growth rate of the industry and economy.



5. Valuation of Speciality chemical division of Vivimed:

(Rupees in Crores)

Particulars	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
PAT	30.54	33.95	42.69	52.32	61.01
Add: Depreciation	7.45	8.15	8.50	8.85	9.84
Add: Interest less tax	3.08	5.13	4.72	4.32	3.91
Less: Capital Expenditure	20.00	10.00	10.00	10.00	5.64
Less: Working Capital Increase	9.11	12.18	12.99	16.04	18.96
Free cash flow to SGD	11.97	25.04	32.92	39.45	50.15

Weighted Average Cost of Capital	14.33%	15.01%	15.71%	16.40%	17.05%
Years	1	2	3	4	5

Present Value of future Cash flows	10.47	18.93	21.25	21.49	22.83
Terminal Value	426.32				
Present Value of Terminal Value	194.06				
Total Value	289.04				
Less: Debt	21.00				
Add: Cash	6.53				
Fair Value of SCD	274.57				

Key Assumptions:

- 1) It is assumed that the cashflows occur at the end of the year.
- 2) A perpetual growth rate of 4% is considered.

By applying the Discounted Cash Flow Method, the fair value of SCD to the equity shareholders as on March 31, 2018 is **Rs. 274.57 crores.**

