# VALUATION REPORT OF SHARES

# OF

# ReNew Solar Energy (Karnataka) Private Limited

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## 1. Background

ReNew Solar Energy (Karnataka) Private Limited ('Company') is a Private Limited Company incorporated on 03 June 2013 under Companies Act 2013.The Company is engaged in generating Solar Power.

## 2. Objective of Valuation Guidelines

The objective of this 'Valuation Report' is to arrive at a fair value of Equity Shares of company on fully diluted basis. The information contained herein and our report is absolutely confidential. It is intended only for the sole use and information of the company (and its shareholders) and only for arriving at a fair value of Equity Shares of company on fully diluted basis. We are not responsible to any other person /party for any decision of such person or party based on this report. It is hereby notified that any reproduction, copying or otherwise quoting of this report or any part thereof, other and in connection to above objective, can be done only with our prior permission in writing, except in cases where it may be disclosed where the disclosure is requested or required by law, regulation, or by a governmental authority or central bank or fiscal or monetary authority.

## 3. Source of Information:

For the purpose of this report the following documents have been perused and relied upon by us:

- Unaudited Financial statements for the year financial year ended 31st March, 2019.
- Financial Projections prepared by the management of the company
- Information in Business & profile provided by the Company.
- Relevant extracts of the Memorandum and Articles of Association.
- The write-up denoting the activities and background.
- Such other information and explanation as may be required by us and provided by management. We have also placed reliance on the verbal explanations and information given to us by the appropriate authorities in connection with the operation of the company.

## 4. Valuation Methodologies

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. This exercise may be carried out based on generally accepted methodologies, the relative emphasis of each often varying with various factors.

The results of this exercise could vary significantly depending upon the basis used, the specific circumstances and professional judgment of the valuer. In this regard, we have evaluated suitability of three commonly used approaches of valuation to determine the fair value of the company. After arriving at the values based on appropriate methods, we have assigned weights to these methods to determine the fair value of the company.

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The valuation methods identified are:-

- Net Asset Value Method;
- Profit Earning Capitalization Method (PECV)and
- Discounted Cash Flow (DCF)

***Net Asset value (NAV)***

For the purpose of arriving the Net Asset Value as at the latest audited balance-sheet date, we need to calculate the total assets of the company and deduct there from all debts, dues, borrowings and liabilities, including current and likely contingent liabilities and preference capital, if any.

More often assets of the company are, and ideally so, valued at book value, as assets are normally acquired with the intent to be used in business and are not for resale, in the ordinary course of business. The method ignores the enterprise's prospects of future earnings and ability to generate cash in business valuation. Accordingly, this method has been ignored to arrive at a fair value of Equity Shares and CCDs of company on fully diluted basis.

***Profit Earning Capitalization Method***

The Profit Earning Capitalization Method seeks to determine the net maintainable profits on the basis of the past performance of the company, which is capitalized at the rate equivalent to the expected market rate of return for investment in a similar business.

The said method required averaging of the profits for the latest three years for which the audited accounts are available. However, the company has commenced operation only in 2015 and audited financial statements for FY 2018-19 not available, accordingly this method has been ignored to arrive at a fair value of Equity Shares on fully diluted basis.

***Discounted Cash Flow***

Discounted cash flow valuation relates the value of a business to the present value of expected cash flows of that of business. In discounted cash flow valuation, we estimate the intrinsic value of a business that would be attached to the security by not only estimating the expected cash flow but also attaching the right discounting rate to these cash flows and valuing them.

Projection of the future cash flows relating to business operations is, as provided by and based on appropriate assumptions by the management.

The future cash flows of the business are discounted at an appropriate rate i.e. weighted average cost of capital and after taking into consideration the expected risk-free rate of return plus risk inherent to company in specific and the industry, to which company pertains, as a whole.

The weighted average cost of capital (WACC) represents the cost of debt and equity.

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The present value of the cash flows after reducing the present value of debt at the end of explicit period indicates the equity value.

We are enclosing **Annexure "A"** showing the valuation based on the above method. The value diluted equity per share is **Rs. 137.30** as per Discounted Cash Flow Method.

***Fair value***

The Fair Value is the final stage of the valuation process from which a reasonable judgment of the value of the shares is derived. The Fair Value is calculated by taking a simple average of the NAV, PECV and Discounted Cash Flow Method.

In the current case, the value of shares as per NAV method and the PECV method cannot be computed. Consequently, fair value of share is determined by using DCF method.

The objective of the valuation process is to make a best reasonable judgment of the value of the equity shares of the company.

5. **Assumptions.**

Following assumptions have been made based on information shared by the management and further clarifications:

- Based on the management letter of the Company, actual value of tangible assets is more than or equal to the value in Balance Sheet as on 31st March 2019.
- Based on the management letter of the Company, all the receivables are good as in the unaudited financial statements.
- As per management letter of the Company, current fair values of land are Rs 18.04 Crores which belongs to Company as on 31st March 2019.
- As per management letter of the Company, power generation forecast is being considered based on actual generation for financial year ending on 31st March 2019 and annual degradation of 0.60% thereafter.
- As per management letter of the Company, payment of cross charge to the holding company for the expenses incurred on its behalf is being considered based on actual amount charged for financial year ending on 31st March 2019 and annual reduction of 6% thereafter.
- As per management letter and terms of JVA agreement between Company and Heron International, the diluted equity shares outstanding as on valuation date have been arrived considering conversion ratio of 1:1 for Compulsory Convertible Debentures and 0.62:1 Compulsory Convertible Preference Shares.



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- For calculation of weighted average cost of capital (WACC), following assumption have been taken :

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| Risk Free Rate (Rf)<br><br>7.78 per cent | •Risk free rate is based on the yield for 10 year benchmark government of India Securities.<br><br>•We have considered the nominal risk free rate of 7.78 percent. |
| Market Rate of Return –Risk Free Rate (Rm-Rf)<br><br>6.22 per cent | Equity Risk Premium (Rm-Rf) is the difference between the estimated Market Rate of Return and the Risk Free Rate.<br><br>•We have considered equity risk premium of 6.22 percent. |
| Beta<br><br>1.00 | Beta is a measure of the risk of the shares of a company. ß is the co-variance between the return on sample stock and the return on the market. In order to determine the appropriate beta factor, consideration must be given either to the market beta of the comparable quoted companies.<br><br>•We have considered a market beta of 1 for our analysis as there is no publicly listed company which is comparable to the Company. |
| Cost of Equity (Ke)<br><br>14 per cent | •Based on above parameters, Ke is14 percent. |
| Tax<br><br>21.55% & 29.12% | Effective tax rate to the company is considered as 21.55% for first twelve years and 29.12% thereafter |
| Debt-Equity<br><br>80:20 | We have considered D/E structure of 80:20 for the valuation analysis based on our discussion with Management. |

## 6. Valuation & Conclusion

On the basis of abovementioned facts, the fair value of equity shares of the Company on fully diluted basis would be Rs. 137.30 per share each fully paid up. Accordingly, fair value of CCD (Compulsory Convertible Debentures) would also be Rs 137.30 per CCD each fully paid up.

## 7. Limitations

This report has been prepared for the exclusive use of company and shall not be given or reproduced or quoted to any third parties without our prior written consent except for the fulfillment for the purpose mentioned in para 2.



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This report is based on the information provided to us by the management of the Company. We have relied on the representations made to us by the management. We have assumed such representations to be reliable and our conclusions are dependent on such information being complete and accurate in all material respects.

Our work was not designed to verify the accuracy, reliability or achievability of the information provided to us and nothing in this report should be taken to imply that we have conducted procedures, audits or investigations in an attempt to verify or confirm any of the information supplied to us.

Our findings do not constitute a recommendation as to whether to carry out the transaction based on this valuation.

**For B D G & Associates**
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**Sourabh Chittora**
**Partner**
**Membership No. 131122**
Gurugram 30th May, 2019