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Equity Valuation Report for Proposed Merger of Som Distilleries & Breweries Limited and Legend Distilleries Private Limited

Valuation Methodology

Though we have a variety of valuation methods available to assess the value of the firm but it is more prudent to use a methodology which is based upon a relative valuation technique and not based upon a direct valuation technique as the DCF valuation technique as the DCF is based upon the future cash flows as well as the assumptions for a terminal value which can be challenging.

The most popular of the relative valuation techniques is PE multiples. The price-to-earnings (P/E) ratio, which is equal to a company's market price per share divided by its earnings per share (EPS), is the most widely used earnings multiple. It provides an indication of how much investors are willing to pay for a company's earnings. Companies with high earnings growth prospects usually carry high P/E ratios because these companies are expected to be able to reward investors with a quicker and larger return on their investment in the form of dividends, increase in share price, or both.

Because the earnings of a company are influenced to varying degrees by how the company is financed (with debt or with equity) and where it pays income taxes, we can turn to a variant of the P/E ratio that removes the effect of a company's capital structure and income taxes on its earnings. This variant is the price-to-earnings before interest and taxes (P/EBIT) ratio. Still we could refine it further to remove the ambiguity of accounting policies with respect to the depreciation of tangible assets and the amortization of intangible assets, and therefore prefer to use the price-to-earnings before interest, taxes, depreciation, and amortization (P/EBITDA) ratio. The P/EBITDA ratio is also popular because of the close relationship between a company's EBITDA and its cash flow from operations.

Enterprise Value Multiples

Price multiples are popular with buy-side and sell-side analysts interested in valuing a company's price per share—that is, the company's equity value per share. In the context of M&As, however, we are often interested in assessing a target's total value, reflecting both debt

and equity. In this case, the enterprise value is a better basis for the valuation, hence the reason enterprise value multiples are widely used when valuing an acquisition target.

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27

TRANSACTION COMPARISIONS ADVANTAGES

- The goal here is to understand the multiples at which transactions in the target's industry sector have been announced or completed. The importance difference with public comparisons is that in this case, a control premium is built into the offer price and therefore the multiples.
- Specifically, determine the pricing of past deals as compared to the target's financial performance and unaffected (pre-announcement) market value
- Transactions selected should be as comparable to our proposed transaction as possible, so one should look for recent deals, where a company with highly similar business was acquired, in the same country as the target etc.

Recent deals In the Space

1. Dutch brewer Heineken NV (HEIN.AS) deal - Asia Pacific Breweries Ltd APBB.SI in a $6.4 billion deal. That translated into a multiple of 35 times earnings
2. United Spirits –Diageo Deal in April 2012 at an EBIDTA multiple of 20.5

The multiple is also justified due to complete control over the unit and the ready entry of SDBL into the state of Chhattisgarh.

EBIDTA Multiple Method		
PARTICULARS	**SDBL**	**LDPL**
Audited Turnover (Crores) FY 13-14	190.27	9.36
Audited EBIDTA (Crores)	30.46	1.58
EBIDTA Multiple	20 times	20 times
Enterprise Value (Crores)	609.20	31.6
Long Term Secured Debt (Crores)	9	Nil
Equity Value (Crores)	600.2	31.6

Note: Audited figures are relating to financial year 2013-14

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Conclusion:

- For a consideration of Rs. 31.6 crores, SDBL would issues shares @ 218 each
- Existing Share Capital of SDBL is Rs. 27.52 crores comprising of 2.75 crores equity shares of Rs. 10/- each
- Based upon the equity value of Rs. 600.2 crores, the fair market price of share comes to Rs. 218. Therefore fresh 14, 49,541 shares may be issued to LDPL.

Exchange Ratio:

The Share Exchange Ratio is 0.447790:1; Shareholders of LDPL shall be entitled to receive 0.447790 shares of face value of Rs. 10/- each of SDBL of 1 share of Face value Rs. 10/- each held in LDPL.

Compilation checked as per books of accounts maintained. Further this is certified that methodology implemented is fair and acceptable.

For **GOPAL SARAF & CO**
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Date: 12th July,2014