

**Recommendation**

**For**

**Fair Value of Equity Shares**

**of**

**Vipul Organics Limited**

**As on**

**17<sup>th</sup> April, 2023**

**Prepared By:**

**Nikhil P Chandak**

**Registered Valuer for Securities and Financial Assets  
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**STRICTLY PRIVATE & CONFIDENTIAL**

To,  
**The Board of Directors,**  
**Vipul Organics Limited**  
102, Andheri Industrial Estate,  
Off. Veera Desai Road,  
Andheri (West),  
Mumbai MH 400053 In.

**Sub: Recommendation to ascertain the Fair Equity Valuation in Vipul Organics Limited.**

Dear Sirs,

As requested by the management of **Vipul Organics Limited**, we have undertaken the valuation exercise of the Equity Valuation of **Vipul Organics Limited**, to recommend **Fair Valuation of Equity Valuation** as on 17th April 2023.

This report is structured under the following broad heads;

- Purpose of Valuation
- Brief background of the company
- Exclusion and Limitations
- Sources of Information
- Valuation Approach
- Discounted Cash Flow (DCF) Method;
- Net Asset Value Method; (underlying asset approach); and
- Profit Earning Capacity Value (income approach)
- Market-based valuation approach
- Recommendation to ascertain the fair the Equity Valuation in Vipul Organics Limited.



**1. PURPOSE OF VALUATION**

- 1.1 We have been requested by the Management to submit a report on our Recommendation for Fair Valuation of Enterprise, in accordance with the provisions of the Companies Act, 2013 and rules made there under as well as Securities Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ('SEBI ICDR Regulations'), under which company is raising funds through issue of new shares on preferential basis. This report recommends, what in our opinion, is a fair and equitable Equity Valuation of the company.
- 1.2 The information contained herein and our report is confidential. It is intended only for the sole use and information of the Company. Any person / party intending to provide finance / invest in the shares / businesses of the Company, 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. It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, in the company as aforesaid, can be done only with our prior permission in writing.

**2 BRIEF BACKGROUND OF THE COMPANY**

- **Vipul Organics Limited** is a Public incorporated on 21<sup>st</sup> June, 1972.
- It is classified as non-govt. company and is registered at Registrar of companies, Mumbai.
- Its current authorised capital is Rs.13,50,00,000/- and its paid up capital is Rs. 12,81,18,752/-.
- It is involved in manufacture of basic chemicals.
- Details of shares held by each shareholder (Promotor group):

Sr No	Name of Shareholder	Nos	FV	% Holdings
1	Vipul P Shah	312500	10/-	2.43%
2	Vipul Pravinchandra Shah	2835675	10/-	22.13 %
3	Kavita Javadsha Varaiya	86250	10/-	0.67 %
4	Jaya Pravinchandra Shah	608125	10/-	4.74 %
5	Mita Vipul Shah	765625	10/-	5.97 %
6	Mihir Vipul Shah	2128250	10/-	16.61 %
7	Vatsal Vipul Shah	1679250	10/-	13.10 %





Sr No	Name of Shareholder	Nos	FV	% Holdings
8	Niloni Mehul Shah	96250	10/-	0.75 %
	<b>Total</b>	<b>8511925</b>		<b>66.43 %</b>

➤ Details of shares held by each shareholder holding more than 2 lakhs share capital:

Sr No	Name of Shareholder/Promotors	Nos	FV	% Holdings
1	Kishor Punamchand Ostwal	437500	10/-	3.41
2	Mehul Madhusudan Shah	208125	10/-	1.62
3	Pranay Rajesh Shah	175000	10/-	1.36
	<b>Total</b>	<b>241913</b>		<b>1.88</b>

### 3 EXCLUSIONS, ASSUMPTIONS AND LIMITATIONS

- 3.1 Our report is subject to the scope limitations detailed hereinafter. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.
- 3.2 The method adopted for doing valuation is based on representation received from the Management.
- 3.3 No Investigation of the Company claims to title of assets has been made for the purpose of this valuation and their 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 to matters of a legal nature.
- 3.4 Sales figure and all other expenses are taken as per management projection and their future plans.
- 3.5 We do not certify the historical financial statements including the results of the Company referred to in this report. Accordingly, we are unable to and do not express an opinion on the fairness or accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report is as per the agreed terms of our engagement. It may not be valid or used for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.
- 3.6 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 Company has drawn our attention to all the material information, which they are aware of concerning the Financial Position of the Company and any other matter which may have an impact on our opinion on the fair value of the shares of the company for the Equity



- Valuation of the company, including any significant changes that have taken place or are likely to take place in the financial position, subsequent to the report date. We have no responsibility to update this report for the events and circumstances occurring after the date of this report.
- 3.7 The realization of the projections in the business plan, based on which the report has been prepared, is dependent on the continuing validity of the assumptions on which they are based. The report cannot be directed to provide an assurance about the achievability of these financial projections. Since these projections relate to future, actual results may be different from the forecast and the differences could be material. We express no opinion as to how closely the actual results will correspond to the projections.
- 3.8 We have no responsibility to update this report for the events and circumstances occurring after the date of this report. The report cannot be directed to provide an assurance about the achievability of these financial projections. Since these projections relate to future, actual results may be different from the forecast and the differences could be material. We express no opinion as to how closely the actual results will correspond to the projections.
- 3.9 The Firm, nor its partners or employees make any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information, based on which valuation is carried out. All such parties expressly disclaim any and all liability for, or based on or relating to any such information contained in the valuation.
- 3.10 The information contained herein and our report is confidential. Any person/party intending to provide finance/invest in the shares/businesses of any of the company/divisions, 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.
- 3.11 Valuation analysis and results are specific to the date of this Report. We have no responsibility to update this Report for events and circumstances occurring after the date of this Report. The reporting date for the purpose of valuation has been taken as 17th April 2023.

#### 4 SOURCES OF INFORMATION

For the purpose of the valuation exercise, we have relied upon the following sources of information provided by the management:

- (a) Memorandum and Articles of Association of the Company.
- (b) Management Certified Financial Statements as on 31<sup>st</sup> March, 2023.
- (c) Projections of the Vipul Organics Limited for the financial year ending 31<sup>st</sup> day of March, 2024 to 31<sup>st</sup> day of March, 2028.





- (d) Other relevant details regarding the Company such as their history, their promoters, past and present activities, existing shareholding pattern and other relevant information and data, including information in the public domain.
- (e) Such other information and explanations as we required and which have been provided by the management of the Companies.

For the purpose of the valuation, we have relied upon the financial statements and the information and explanation given to us, without carrying out any audit or other tests to verify the accuracy thereof.

## 5 VALUATION APPROACH

5.1 For the purpose of arriving at the fair equity value of the Company, it would be 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. Further, the concept of valuation is all about the price at which a transaction takes place i.e. the price at which seller is willing to sell and buyer is willing to buy. Thus, the market value would be the most indicative price. Accordingly, a fair and proper approach for valuing the shares of the company would be to use a combination of these methods.

5.2 There are various valuation methods for the purposes of valuation of the company. These are as follows: -

- Discounted Cash Flow (DCF) Method;
- Net Asset Value Method; (underlying asset approach); and
- Profit Earning Capacity Value (income approach)
- Market-based valuation approach



A handwritten signature in blue ink, appearing to read "Nikhil P. Chandak".

**6 DISCOUNTED CASHFLOW (DCF)**

The DCF method seeks to capture the discounted present value of free cash flows generated by a going concern business over a period of time. It requires two key estimates

- The free cash flow generated by a business over a period of time and
- The weighted average cost of capital.

In developing the free cash flow forecast, length of the forecast period and determination of the perpetuity value of the business at the end of the forecast period are required.

The free cash flows generated are discounted using minimum acceptable rate of return which is the weighted average cost of capital of the business (including the risk element).

The DCF valuation is ascertained by discounting the free cash flow of the Company with the weighted average cost of capital.

We have considered this as an appropriate method for purpose of this valuation exercise since the method considers discounted value of all the cash flows the Company which it expects to receive based on cost of capital of business and expectation of shareholders.

**Valuation Analysis**

The Company has projected the financials for FY24 to FY28. After the end of the projection period we have assumed the growth rate of the company @ 6% indefinitely.

The Free Cash Flows to the Equity (FCFE) have been calculated based on Financial Projections of Company from FY24 through FY28.

**Discount Rate**

The discount rate considered for arriving at present value of the free cash flows I have used weighted average cost of capital. Cost of Equity is 16.97%. and the company hasn't any interest-bearing debt. So, we have considered cost of equity and cost of debt as per their weights to arrive at Weighted Average Cost of Capital which is 13.72%



*Nikhil*

### Cost of Equity

- Risk Free Rate:

The nominal risk free rate of return is considered as 7.32%. We have considered the 10 Year Government of India Securities Yield for the purpose of arriving at the nominal rate.

General Chart News & Analysis Technical Forum

Overview Historical Data

#### India 10-Year Bond Yield Historical Data

Time Frame:

Daily

Download Data

30/03/2023 - 01/04/2023

Date :	Price :	Open :	High :	Low :	Change % :
Mar 31, 2023	7.315	7.339	7.339	7.280	0.26%
Highest: 7.339	Lowest: 7.280	Difference: 0.059	Average: 7.315	Change %: 0.260	

- Equity Risk Premium (ERP):

The equity risk premium is the additional return that investors expect to earn in excess of government securities to compensate for the additional risk, or the degree of uncertainty, that the expected future equity returns will not be realized. We have considered the market rate of return of 15.97% based on the return of the BSE SENSEX for last 20 years. The ERP have been appropriately assumed as 8.65% based on the difference between BSE SENSEX over last 20 years and the Risk free rate.

- Beta (B):

Beta is a measure of the risk of the shares of a company. Beta 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. The observed beta in the market reflects actual financing structures.

In undertaking a DCF analysis of this company we have taken beta as 1.

- Company Specific Risk Premium (CSRP):



*Nikhil P. Chandak*



The factors considered for adding a company specific risk premium include relation between company size & return, stability of industry in which the company operates, stability of earnings, earnings margins, financial structure, management depth and achievability of projections. Therefore, an additional risk premium of 1% is added.

**Calculation of the Cost of Equity:**

The Cost of the Equity (Ke) is % which is derived from Capital Asset Pricing Model (CAPM) as follows: -

Ke	$R(f) + B(R(m) - R(f)) + CSRP$
R(f)	Risk free rate
R(m)	Market return (based on the return of BSE SENSEX over last 20 years)
B	Sensitivity of index to the market / Measure of market risk.
CSRP	Company Specific Risk Premium

**Calculation of Terminal value**

The Company will continue its business, perpetually. Hence the terminal value is considered at 6% after the end of the forecast period. The same has been calculated as per below formula:-

$$\text{FV of Terminal Value} = (\text{FCFF}) * (1+g) / (\text{WACC}-g)$$

$$\text{PV of Terminal Value} = \text{FV of Terminal Value} / (1+\text{WACC})^n$$

**7 NET ASSET VALUE METHOD; (UNDERLYING ASSET APPROACH)**

In case of the Net Asset Value method, the value is determined by dividing the net assets of the company by the number of shares. Since the shares are valued on a "going concern" basis and an actual realization of the operating assets is not contemplated, we have considered it appropriate not to determine the realizable or replacement value of the assets. The operating assets have therefore been considered at their book values.



We have not considered the above method as the company is incurring sizeable amount of Capital expenditure in this and next FY and the same will increase profit in future years due to which major cash flow for shareholders will come in future years.

**8 PROFIT EARNING CAPACITY VALUE METHOD ("INCOME" APPROACH)**

The earnings value method involves determination of future maintainable earnings of the Company from normal operations. These earnings are considered on post-tax basis and are then capitalized at appropriate rate based on risk and expectation of reward. In its simplest and most commonly used form value of its business is derived by multiplying estimated maintainable earnings with price earnings ratio of comparable companies in Industry.

However, no two companies are entirely alike and the companies selected for comparing should be engaged in the same or similar line of business.

**9 MARKET-BASED VALUATION APPROACH**

The market value of listed stock carries significant weightage in the analysis of the equity value of the company. The price at which the shares of the listed company are quoted on a recognized stock exchange is an indicator of the value of the company. This method is effective in various situations as market forces collectively determine the price quoted on the stock exchanges. The market value is an outcome of various factors like quality and integrity of the management, present and prospective Competition, yield on comparable securities, market sentiment, etc.

In the instant case, the company is listed on BSE Limited, thus we have considered it appropriate to apply this method in the present case.

We have considered Higher of last 10 trading days weighted average market price and last 90 trading days weighted average market price.

Particulars	Total Turnover (A)	Total Number of Shares (B)	Weighted Avg Price (A)/(B)
Last 10 Days Average Price	1,57,69,704	1,64,507	95.86
Last 90 Days Average Price	6,30,53,335	5,70,812	110.46
<b>Fair Market value of Shares (Higher of the two)</b>			<b>110.46</b>





**10 RECOMMENDATION OF EQUITY SHARE VALUE**

- 10.1 The Equity Value has been arrived on the basis of valuation of the Company and various qualitative factors relevant to the company and the business dynamics.
- 10.2 On the basis of the foregoing, in our opinion, Value attributable to shareholder of the company would be INR 90.67 Crores (approx)(Indian Rupees Ninety Crores and Sixty Seven Lakhs Only).
- 10.3 Number of shares outstanding with face value of Rs. 10/- is 1,28,11,875 in number.
- 10.4 Therefore, the value per shares based on DCF is ~INR 74.30/-
- 10.5 As the company is listed on BSE Limited, Weighted Average value per share of the company, which is higher of last 10 trading days weighted average price and last 90 trading days weighted average price is ~INR 110.46/-
- 10.6 Since the shares are frequently traded on stock exchange, weighted has been given 75% to fair market value and 25% to Discounted cash flow method.
- 10.7 Hence, the Equity Value of Vipul Organics Limited as on 17th April 2023 is recommended at 75:25 weighted average value of Fair Market Value and Discounted cash flow method respectively, which is **Rs. 101.42/-** per Share.

Thank you,

Yours faithfully,



**Nikhil P Chandak**  
Registered Valuer for Securities or Financial Assets  
IBBI/RV/07/2019/11801

Place: Mumbai

Date: 15<sup>th</sup> May, 2023



Annexure I

Statement Showing Calculation of the Discounted Cash Flow

Particulars for the year/period ended	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-28
Earnings After Tax	19,043	31,325	34,914	45,716	60,093	78,997
<b>ADD:</b>						
i) Depreciation	60,881	63,925	67,121	70,477	74,001	77,701
ii) Equity Infusion	25,624	3,000	4,000	-	-	-
iii) Net Debt	-23,620	15,568	-500	-500	-500	-500
iv) Capex	-77,508	-1,13,925	-1,30,423	-1,25,477	-1,29,001	-1,37,701
v) Other Non Current Assets	42,417	-24,107	-2,000	-3,000	-2,000	-1,000
vi) Other Non Current Liabilities	-	-	-	-	-	-
vii) Net Working Capital	-19,215	-37,536	-11,747	13,624	-3,035	-17,408
viii) Dividend and DDT	-8,967	-8,969	-9,457	-9,457	-9,457	-9,457
ix) Other	9,598	38,969	49,457	9,457	9,457	9,457
<b>Free cash flow To Equity</b>	<b>28,253</b>	<b>-31,749</b>	<b>1,366</b>	<b>840</b>	<b>-443</b>	<b>89</b>
Discounting factor for TVM	1.00	0.88	0.77	0.68	0.60	0.53
<b>PV of Free Cash Flow</b>	<b>28,253</b>	<b>-27,919</b>	<b>1,056</b>	<b>571</b>	<b>-265</b>	<b>47</b>

Annexure II

Statement Showing Calculation of the Cost of Equity

<u>Cost of Equity</u>	
Risk Free Rate-10 Years bond Yield	7.32%
Market Risk	15.97%
Beta	1.00
CSRP	1%
<b>Equity cost</b>	<b>16.97%</b>



*Nikhil*

**Annexure III**

**Statement Showing Calculation of the Cost of Equity**

<b>Market rate of return (Rm)</b>	
Value of BSE Sensex - as at 30-06-2002	3,049
Value of BSE Sensex - as at 30-06-2022	58,992
- Number of years	20
- CAGR	15.97%

**Annexure IV**

**Statement Showing Calculation of the WACC**

<b>WACC</b>				
Particulars	ROI	Amount	Product	Final ROC
Promoters Contribution	16.97%	5,70,756.83	96,839.06	-
Term Loan & CC	6.74%	2,65,732.00	17,912.99	-
		<b>8,36,488.83</b>	<b>1,14,752.06</b>	<b>13.7183%</b>

**Annexure V**

**Statement showing Calculation of value of Equity Share of the company**

Particulars	Amount
Sum of DCF for the Projected Period (as on 31/03/2023)	1,742.44
Further Discounted By (in Months)	0
<b>Present Value on the date of Valuation</b>	<b>1,742.44</b>
Free cash flow in last year of projection	0.00
Growth	6.00%
FCF x (1+g)	1,37,437.47
WACC - g	7.72%
Terminal value	17,80,669.98
<b>Present terminal value</b>	<b>9,36,335.79</b>
Less: PV of Equity Infused	31,354.99
Add: Cash Balance	45,246.00
Less: Preference Shares Capital	0
<b>Enterprise Value</b>	<b>9,51,969.24</b>
Number of Equity Shares outstanding (FV Rs10)	1,28,11,875
<b>Value Per Share (in Rupees)</b>	<b>74.30</b>



*Nikhil P. Chandak*

Annexure VI

Statement showing Calculation of weighted Average value of Equity Share of the company.

Particulars	Price (A)	Weight (B)	Weighted Avg Price (A) X (B)
Market Value Method	110.46	0.75	82.85
DCF Method	74.30	0.25	18.58
<b>Weighted Average Fair Value of the shares</b>			<b>101.42</b>



*Nikhil*