# OPINION REPORT

# ON

# THE FAIR VALUATION

# OF

# EQUITY SHARES

# OF

# SENORES PHARMACEUTICALS PRIVATE LIMITED

**PREPARED BY**


**AVINASH KOTHARI**

**(B.Com, ACMA, FCS)**

**REGISTERED VALUER**

**ASSET CLASS – SECURITIES OR FINANCIAL ASSETS**

**REGN. NO: IBBI/RV/05/2020/12837**

Office: D-43, Orchid Whitefield, Nr. Makarba Rly. Crossing, Makarba, Ahmedabad – 380051 (India)
(M) 9879792476, Email: rvavinashkothari@gmail.com

# AVINASH KOTHARI

(B.Com, ACMA, FCS)
REGISTERED VALUER – S&FA
IBBI REGN. NO.: IBBI/RV/05/2020/12837

Office: D/43, Orchid Whitefield,
Nr. Makarba Rly Crossing, Makarba,
Ahmedabad – 380051,
(M) 9879792476,
Email: rvavinashkothari@gmail.com

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(B.Com, ACMA, FCS)
REGISTERED VALUER – S&FA
IBBI REGN. NO.: IBBI/RV/05/2020/12837

Office: D/43, Orchid Whitefield,
Nr. Makarba Rly Crossing, Makarba,
Ahmedabad – 380051,
(M) 9879792476,
Email: rvavinashkothari@gmail.com

## 1. INTRODUCTION

This report is prepared by Mr. Avinash Kothari, Registered Valuer (S&FA) registered with the Insolvency and Bankruptcy Board of India, having Registration No. IBBI/RV/05/2020/12837, (herein after referred to as "Valuer") for the purpose of determining fair market valuation of the equity shares **of M/s Senores Pharmaceuticals Private Limited** (hereinafter referred as the **"Company" or "SPPL" or "Senores Pharmaceuticals"**) for the proposed issue of Equity Shares by the Company under section 62(1)(c) under the Companies Act, 2013 for the purpose of purchase or acquisition of shares of Havix Inc. USA, including by way of share swap by Indian resident under automatic route and for issue of new equity shares of SPPL.

The report is prepared on the basis of accounting records, provisional & projected financials, statutory information, documents, paper sand other relevant information provided by the Company, as detailed under **Section-9 "Sources of Information"** of the report.

This report shall not be used as a base for any purpose, other than that mentioned under **Section-2 "Purpose of Valuation"** of this report.

## 2. PURPOSE OF VALUATION AND APPOINTING AUTHORITY

I am informed that the Company is proposing further issue of Equity Shares on preferential basis under the provisions of the Section 62(1)(c) under the Companies Act, 2013 and the rules made there under. The Board of Directors of the Company appointed the Valuer through the engagement letter dated October 11, 2022 for deriving fair value of equity share of the Company as on June 30, 2022 (being the valuation date) for aforesaid proposed issue of Equity Shares of the Company.

## 3. IDENTITY OF VALUER AND OTHER EXPERTS INVOLVED, IF ANY

I, Avinash Kothari, am a Registered Valuer (S&FA), having Registration No. IBBI/RV/05/2020/12837 with the Insolvency and Bankruptcy Board of India, (hereinafter referred to as "Valuer"). The Valuer is appointed by the Board of Directors of the Company through engagement letter dated October 11, 2022 for deriving fair value of equity share of the Company as on June 30, 2022 (being the valuation date) for aforesaid proposed issue of Equity Shares of the Company. There are no other experts involved in this valuation exercise.

## 4. DISCLOSURE OF VALUER INTEREST OR CONFLICT, IF ANY:

The Valuer acts as an independent professional for the said Valuation exercise. The Valuer is not interested or concerned, financially or otherwise, in the proposed issue of Equity Shares. The fee for this report is not contingent upon the values reported therein.

## 5. DATE OF APPOINTMENT, VALUATION DATE AND DATE OF REPORT

SPPL has appointed the Valuer through Engagement Letter dated November 1, 2022 i.e. Date of Appointment for this assignment, for carrying out the Valuation of its proposed issue of Equity Shares of the company.

As requested by the Management of the Company, our Valuation Report is based on the facts placed before us upto June 30, 2022 i.e. valuation date. The date on which the Valuation Report is issued is mentioned at the end of the Report i.e. November 4, 2022.

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## 6. CONFIDENTIALITY NOTE

The information contained in this document is privileged and confidential. It is intended only for the use of the addressee named above and for the purpose mentioned under the Section 2 "Purpose of Valuation" of this report.

The report shall not be disclosed or shared to any third party, without prior written consent of the Valuer, except as required by law. Any retention, dissemination, distribution or copying or sharing of any information from this document is strictly prohibited.

## 7. INSPECTION / INVESTIGATION UNDERTAKEN:

While carrying out the valuation exercise, we have considered and made review of information as mentioned in the Section-9 **"Source of Information"** in this Report. There is no any further inspection/investigation undertaken for this purpose.

## 8. BACKGROUND OF THE COMPANY

Senores Pharmaceuticals Private Limited is a Private limited Company incorporated on 26th December, 2017 and has its registered office in 1101 to 1103, 11th floor, South Tower, ONE 42, Opp. Jayantilal Park, Ambali Bopal Road, Ahmedabad – 380 054

### BUSINESS ACTIVITY:

Senores Pharmaceuticals Private Limited is actively providing various services such as Project management services, strategic consulting, Product Sourcing, Due Diligence and other management services for pharma industry and is also engaged in dealing in, including exports of various pharmaceutical products.

The Company had commenced the business by providing Project management and other general management consultancy services in relation to Pharmaceutical industry and is also engaged in dealing in, including exports of various pharmaceutical products. It is actively providing various services such as Project management services, strategic consulting, Product Sourcing, Due Diligence and other management services.

In 2020, the company has received its 1st product approval from US FDA and various other ROW markets. Currently, there are other 3 products which are under development which will be filed for approval in next financial year.

### CAPITAL STRUCTURE:

Following is break up of its capital structure as on June 30, 2022:

| **Authorized Share Capital** | **In Rs.** |
|---|---|
| 2,00,00,000 Equity Shares of Rs 10 each | **20,00,00,000** |
| **Paid Up Share Capital** | **In Rs.** |
| 98,15,000 Equity Shares of Rs 10 each | **9,81,50,000** |

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**BOARD OF DIRECTORS:**

The present Board of Directors of the Company comprises of the following individuals;

| Sr. No. | Name | Designation |
|---|---|---|
| 1. | Manoj Prakash Sanghvi | Director |
| 2. | Jitendra Babulal Sanghvi | Director |
| 3. | Deval Rajnikant Shah | Director |
| 4. | Sangeeta Mukur Barot | Director |
| 5. | Ashokbhai Vijaysinh Barot | Director |
| 6. | Swapnil Jatinbhai Shah | Managing Director |
| 7. | Anar Swapnil Shah | Director |

## 9. SOURCES OFINFORMATION

The following sources of information are utilized and relied upon to undertake the valuation:

a. Audited financials of the Company for the FY ended 2021-22;
b. Provisional financials records of the Company for the period ended on June 30, 2022.
c. Management certified Projected Financial records of the Company for future 5 financial years for the FY ended on 31st March, 2023 to the 31st March, 2027;
d. Corporate & Managerial Information of the Company;
e. Information pertaining to Market Return from the website of BSE i.e. www.bseindia.com
f. Risk free return obtained from www.investing.com

In addition to the above, we have also obtained such other information and explanations in writing or orally from the Management as considered relevant for the purpose of this valuation.

## 10. VALUATION APPROACH, BASIS & STANDARD

| Aspects | Income Approach | Market Approach | Cost / Asset (NAV) Approach |
|---|---|---|---|
| Valuation Principle Applied | Discounts future cash flows to the present date | Values of companies operating in the same industry are correlated | Book Values or Realizable Values of Assets after considering balance sheet |
| Relevant Parameters | Discounted Cash Flows (DCF) | Comparable Listed Companies/Comparable Transactions/ Market Price Method | Replacement Cost/ Net Asset Value /Realizable Value |
| Appropriate situations to Which the method may be applied | DCF is commonly used to value businesses or equity interests. It is appropriate for use when the wealth generating capacity of the business is determinable, going concern assumption is valid and when Forecasts are available. | Market Approach is used when forecasts are not available, a set of suitable comparable companies are available and going Concern assumption is valid. It is also used as a cross- check / benchmark to DCF method. | The Cost Approach is used when going concern assumption is doubtful and liquidation is predominant or if the Company is newly incorporated or the Company operates in capital intensive industry & has incurred substantial amount of capex. |

A typical valuation analysis involves review and analysis of historical financials of the company and forecasted financial projections and regards all the significant macro and micro variables like:

a) Sales and profit growth rate assumptions.
b) Company's profitability factors (industry competitive factors and Company's operating strategies and its competitive position in the industry), nature of internal and external (dis)economies of scale.
c) Accounting practices and legal provisions, etc.

Valuation is not merely a matter of mathematics or science with that kind of precision or rationality. It also involves use of skills of judgment by the Valuer to bring impact of various non-quantifiable factors to bear on the valuation analysis. In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion and judgment considering all the relevant factors. There will always be several factors, e.g. quality and integrity of the management, present and prospective competition, yield on comparable securities and market sentiment, etc. which are not evident from the face of the Balance sheet but will strongly influence the worth of a share.

BASIS OF VALUATION

This Report is prepared based on the Concept of Going Concern which assumes that Enterprise shall continue to operate and run its business for long. Considering the subject Entity as Going Concern, we have arrived at the Fair Value of Equity Shares of the Company. We have adopted & reported Fair Value as

***"The Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date."***

VALUATION STANDARD:

We have considered and adopted the International Valuation Standards (IVS) published by The International Valuation Standards Council (IVSC), which is the independent global standard setter for the valuation profession.

## 11. VALUATION METHODOLOGIES:

There are different methods for valuation which can be applied for arriving at the fair market value of the equity shares of the company. However, the application of methods depends upon various factors which directly or indirectly may affect such valuation. Some of such factors are as under;

- Objective for which the valuation is carried out.
- Industry segment where the Company is operating.
- Nature of the business and the history from its inception.
- Future projections as to business operations and financials of the Company.

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Office: D/43, Orchid Whitefield,
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There are several internationally accepted and commonly used pricing methodologies for determining the fair value of the shares of a company, whose shares are not listed on a stock exchange such as:

1. **Net Asset value ("NAV') methodology**
2. **Comparable Transaction Multiples ("CTM") methodology.**
3. **Comparable Companies Multiples ("CCM") methodology.**
4. **Discounted Cash Flow ("DCF") methodology.**

NAV Methodology

The asset-based valuation method is based on the value per share of the underlying net assets and liabilities of the Company, either on a book value basis or replacement cost basis. This valuation approach is used in cases where the firm is to be liquidated i.e. it does not meet the "going concern" criterion or is used in case where the asset base dominates earnings capacity.

In the circumstances and keeping in mind that the present valuation of the Company is on a going concern basis, and the value of the Company is driven more by the potential to generate cash flows in the future than its underlying assets, therefore, the value arrived at under this method is of little relevance as compared to the value under the other methods discussed below. We have considered to not to use this valuation method.

CTM Methodology

The CTM Methodology involves applying derived transaction multiples of comparable transactions to the company's future maintainable revenues/ profits (based on past and/ or projected working results adjusted to reflect the future earnings potential) after making adjustments to the derived multiples on account of dissimilarities with the comparable transactions and the strengths, weaknesses and other factors peculiar to the proposed transaction for which the company is being valued.

We have performed a search for suitable comparable transactions for valuing the equity shares of the Company under the CTM method. However, our research did not indicate comparable transaction in respect of which complete details of the deal structure, profitability, etc. are available in public domain. Hence, we have not been able to apply this methodology in the present case.

CCM Methodology

Under this method, one attempts to measure the value of the shares/ business by applying an appropriate capitalization rate/ multiple (the EV/Revenue multiple, the EV/EBITDA multiple, etc.) - for which one may also consider the market quotations of comparable public/ listed companies possessing attributes similar to the business - to the future maintainable profits of the business (based on past and / or projected working results adjusted to reflect the future earnings potential) after making adjustments to the capitalization rate/ multiple on account of dissimilarities with the comparable companies and the strengths, weaknesses and other factors peculiar to the company being valued.

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Consequently, identifying comparable listed companies to the company being valued, both in business and financial terms, is highly important. As in the present case, there are no publicly listed comparable companies; we have decided not to use this method.

**DCF Methodology**

Under this technique, either

1. the projected free cash flows from business operations available to all providers of capital are discounted at the weighted average cost of capital to such capital providers, from a market participant basis, and the sum of such discounted cash flows is the value of the business, from which value of debt and other capital is deducted, and other relevant adjustments made to arrive at the value of the equity - Free Cash Flows to Firm ("FCFF") technique; **or**

2. the projected free cash flows from business operations available to equity shareholders (after deducting cash flows attributable to the debt and other capital providers) are discounted at the cost of equity, from a market participant basis, and the sum of such discounted free cash flows, after making other relevant adjustments, is the value of the equity - Free Cash Flows to Equity ("FCFE") technique.

**Conclusion over selection of appropriate valuation methodology:**
Considering the above analysis of each method, nature of the industry in which the Company operates we have considered the Discounted Cash Flow (DCF) Method for the company as most appropriate for the valuation of the shares. The discounted cash flow is considered appropriate as it serves as an indicator of the prospective return that the business is able to generate in the future. The discounted cash flow method is very effective because it allows values to be determined even when cash flows are fluctuating.

The DCF method uses the future free cash flows of the firm / equity holders discounted by the cost of capital 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. This method is based on future potential and is widely accepted.

**VALUATION METHODOLOGY APPLIED FOR SPPL**
We are required to arrive at the fair valuation of shares of the Company as per any internationally accepted pricing methodology for valuation of shares on arm's length basis. Basis the analysis undertaken in previous paragraph; we have used Discounted Cash Flow approach in our analysis for computing the fair value of equity shares of the company.

The DCF method is considered the most theoretically sound approach and scientific and acceptable method of determination of the value of a business. Under this technique the projected free cash flows from business operations are discounted at the appropriate cost of capital to the providers of capital to the business, and the sum of the present discounted value of such free cash flows is the value of the business.

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Application of the DCF methodology for valuation of the Company entailed the following stages:

- Estimation of the net cash flows of the company to be generated from FY ended 2023 to FY ended 2027 based on financial projections. This estimate has been produced from financial projections supplied and approved by management.
- The future free cash flows are derived considering, inter alia, the changes in the working capital, changes in capital expenditure, if any. They are an aggregation of free cash flows during the explicit forecast period – prepared based on the business plan – and during the post explicit forecast period, estimated using an appropriate method, and are available to company's stakeholders.
- Calculation of the discount rate based on Weighted Average Cost of Capital.
- Application of the discount rate to the Free Cash Flows attributable to stakeholders from FY ended 2023 to FY ended 2027 to arrive at the Net Present Value ("NPV") of those free cash flows.
- Estimation of the terminal value of the company, calculated as NPV as at the date of valuation based on the Free Cash Flows that the company will generate from 2027 onwards in perpetuity. This has been calculated on the basis of Free Cash Flow attributable to stakeholders in 2027.
- Estimation of value calculated as summation of terminal value and present value of cash flows till March 31, 2027 and adjusted by surplus assets.

Estimate of Discount Rate

The discount rate applied to calculate current values at June 30, 2022 has been determined based on Weighted Average Cost of Capital.

Cost of Equity

Cost of equity has been estimated based on the CAPM. This model calculates the cost of equity of a Company as the sum of the risk-free rate and a Company specific equity risk premium, the latter of which represents the risk of company in question as compared to the market risk premium:

**Calculation of cost of equity**

$$COE = R_f + \beta(R_m - R_f)] + R_a$$

**Note:**

Rf = Risk-free rate

Rm = Expected market equity risk premium

Ra = Additional risk premium to account for higher risk

$\beta$ = Measure of observed volatility compared to the market

**Computation of Beta**

As our study did not find any peer group companies, we have not been able to arrive at Beta based on the peer company analysis. Thus, we have assumed the nominal Beta of 1.00 only. The attached table summarizes the main assumptions used to calculate the Company's cost of equity.

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| Particulars | Rate | Source |
|---|---|---|
| Risk free rate of return ($R_f$) | 7.45% | India 10 Year Bond Yield as on 30-06-2022 *(https://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data)* |
| Beta ($\beta$) | 1.00 | Assumed |
| Market Premium | 8.16% | 43.25 years' average return of BSE Sensex |
| Country Risk Premium | 2.18% | (Rm-Rf) |
| Additional Risk | 2.00% | Company Specific Risk Premium |
| **Cost of Equity (Ke)** | **19.79%** | |

*Basis above discussions, the discount rate considered for computation of fair value for the company is* ***19.79%***

### Weighted Average Cost of Capital:

| Particulars | Rate | Weight | WACC |
|---|---|---|---|
| Equity | 19.79% | 93% | 18.47% |
| Debt | 6.50% | 7% | 0.43% |
| **Total** | | **100%** | **18.91%** |

### Calculation of Terminal value:

| Particulars | (Amt in Lacs) |
|---|---|
| Present Value of Last Year Cash Flow | 229.53 |
| WACC | 18.91% |
| Terminal Growth Rate | 3.00% |
| **Present Value of Terminal Value** | **1486.41** |

### Equity Valuation Summary (DCF Method):

*(As on 30-06-2022)*

| Particulars | (Amt. in Lakhs) |
|---|---|
| Present Value of Explicit Period | 117.73 |
| Terminal Period Value | 1486.41 |
| Add: Cash & Bank Balance | 142.52 |
| Add: Investments & Loans to Subsidiaries | 4739.87 |
| Less: Borrowings | 262.82 |
| Less: contingent liabilities | 0 |
| **Business Value/Equity Value** | **6223.71** |
| No. of Equity Shares | 98,15,000 |
| **Value per Share (in ₹)** | **63.41** |
| **Value per Share (in ₹) rounded-off** | **63/-** |

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Office: D/43, Orchid Whitefield,
Nr. Makarba Rly Crossing, Makarba,
Ahmedabad – 380051,
(M) 9879792476,
Email: rvavinashkothari@gmail.com

## 12. CAVEATS, LIMITATIONS & DISCLAIMERS

- Our report is subject to scope limitations detailed hereinafter. As such, the report is to be read in totality and not in parts, in conjunction with relevant documents referred to herein.
- While our work involved review and analysis of the financial information of the Company, our work does not constitute an audit or validation of financial statements of the Company. Accordingly, we assume no responsibility and make no representations with respect to any audit opinion or any other form of assurance on the information provided to us.
- The realization of the projections is dependent on the continuing validity of assumptions. Our review cannot be directed to providing any assurance about the achievability of the final projections. Since projections relate to the future, the actual results may differ from projected results and differences may be material and it may have a material impact on our conclusion.
- Our work does not constitute independent valuation of any assets or liabilities of the Company. Our conclusion of fair value assumes that the title to assets and liabilities of the Company as reflected in the balance sheet is intact.
- The valuation of companies and businesses is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value. While we consider the valuation derived by us to be both reasonable and defensible based on the information available to us, others may place a different value on the subject assets.
- The actual market /transaction price achieved may be higher or lower than our estimate of value depending upon the Circumstances of the transaction, the nature of the business, the knowledge, negotiating ability and motivation of the buyers and sellers and the applicability of a discount or premium for control etc. Accordingly, our valuation conclusion will not necessarily be the price at which any agreement proceeds. The final transaction price is something on which the parties themselves have to agree.
- This report is confidential being for use of person to whom it is issued. It is not to be used other than for the purpose outlined herein above. It is not to be distributed for any other purpose or to any other person without our consent. We do not take any responsibility for the unauthorized use of this report.
- We also emphasize that our opinion is not the only factor that should be considered by the parties in agreeing on the transaction price. The Valuer does not make any recommendation as to whether parties to the transaction should proceed with the proposed transaction based on the value determined by the Valuer.

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- This valuation report at best is only an 'opinion'. It is neither a recommendation nor advice to the parties to the transaction to conclude the transaction as contemplated in this report. The parties to the transaction may do so at their risk and responsibility after undertaking necessary due diligence and evaluation.

- Our Valuation analysis is based on various factors including company financials, regulatory requirements, management & other relevant information made available to us, etc. Events occurring after the date hereof may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Report. We assume no responsibility to update reports based on changes in projections and/or their achievement in the future.

## 13. VALUATION CONCLUSION

In our valuation analysis of the Company, we have considered Income Approach indicating Cash generation capacity of the Company to arrive at the Fair Value of the Equity Shares. Typically, an Investor, contemplating an Investment in a Company with income and cash generating capability similar to this Company will evaluate the risk and return on the investment on a going concern basis. Accordingly, we have valuation approach based on Going Concern concept as outlined above and have considered Income Approach i.e. Discounted Cash Flow method of Valuation and have given 100% weightage to DCF method.

**Therefore, the Fair Value of Equity Shares of Senores Pharmaceuticals using DCF method is estimated at Rs. 63.41/- (Rounded off to Rs. 63/-) per equity Share as on the valuation date i.e. June 30, 2022.**

**Thanking you,**

**Avinash Kothari**
**Registered Valuer – S&FA**
**Regn. No. IBBI/RV/05/2020/ 12837**

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Securities or Financial Assets
Registered Valuer
IBBI/RV/05/2020/12837

**Date: November 4, 2022**
**Place: Ahmedabad**

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