

VALUATION REPORT

**for determination of
Fair Value of CCPS
of
Hella Infra Market Limited**

Prepared by:

Registered Valuer: Ashish Mandowara

IBBI Registration No.: IBBI/RV/06/2019/11908

ICAI RVO Registration No.: ICAIRVO/06/RV-P00132/2019-20

Private and Confidential

To,

December 12, 2024

The Board of Directors,

Hella Infra Market Limited ,
Infra.Market House, Road No. 16/Z,
opposite Ashar IT park, Ambica Nagar,
Wagle Industrial Estate, Thane West,
Maharashtra 400604

Subject - Valuation report for determination of Fair Value of Compulsory Convertible Preference CCPS of Hella Infra Market Limited.

Dear Sir,

With reference to above, we are submitting you the fair valuation report as on 30th September, 2024.

Thanks & Regards

Ashish Mandowara



Registered Valuer

Ashish Mandowara

IBBI Registration No.: IBBI/RV/06/2019/11908

ICAI RVO Registration No.: ICAIRVO/06/RV-P00132/2019-20

ICAI MN. - 140714

Date: December 12, 2024

Place : Mumbai

UDIN: 24140714BKDIVA6979

4140, Eaze Zone Mall, Sunder Nagar, Malad (West), Mumbai- 400064,



: 022- 49623254



: +91-9220610787 / 8788251658



: ashishmandowara89@gmail.com

Table of Contents

<i>Disclaimer</i>	<i>4</i>
<i>Chapter 1: Background.....</i>	<i>5</i>
1.1 Purpose of Valuation Exercise	5
1.2 Background of HIML	6
1.3 Industry Overview.....	9
<i>Chapter 2: Scope of Work & Limitation</i>	<i>10</i>
<i>Chapter 3: Information Sources</i>	<i>13</i>
<i>Chapter 4: Selection of Valuation Methodology</i>	<i>14</i>
Asset Approach - Net Asset Value Method (NAV)	16
Market Approach -	17
Preferred approach to value HIML CCPS.....	18
<i>Chapter 5: Valuation.....</i>	<i>19</i>
Valuation of HIML as per Discounted Free Cash Flow Method (DCF)	19
<i>Chapter 6: Fair value of CCPS of HIML</i>	<i>23</i>

Disclaimer

This 'Valuation Report' ("report") is being furnished for determination of the fair value of CCPS of Hella Infra Market Limited ("HIML"), on a going concern basis. I understand that the purpose of the said report is to determine the fair value of CCPS of HIML as on 30th September, 2024. I, Ashish Mandowara, (hereafter referred to as "Registered Valuer") have been appointed by the management of the company i.e. HIML for submitting the fair valuation report of CCPS. The value of CCPS of HIML is to be determined with reference to valuation as on **30th September, 2024**. I have not considered the impact of any changes on the business / economic environment of the company or general industry post the valuation date.

The report has been prepared by Registered Valuer from information extracted from desk research, published reports and other data supplied by the management of HIML and other sources believed to be reliable and true. Our scope of work does not include verification of data submitted by management and has been relied upon by us. The report may not be distributed, published, reproduced or used, without the prior express written consent of Registered Valuer, for any purpose other than the objectives of this report but may be used of the purpose of making statutory filings in accordance with the Companies Act, 2013 and the Foreign Exchange Management Act, 1999.

The factual data, business details and financial statements have been provided by the management of HIML, which has been relied upon by Registered Valuer, without verifying the accuracy thereof. While such information reproduced herein is believed to be true and reliable to the best of our knowledge, I do not make any representations or warranties, express or implied, as to the accuracy or completeness of such information.

The report highlights the alternative approaches to valuation, identifies various factors affecting the valuation, summarizes the methodology keeping in view the circumstances of the company and arrives at the value of the company.



Chapter 1: Background

1.1 Purpose of Valuation Exercise

- The Management of HIML appointed Registered Valuer to issue the Valuation Report ("the report") for determination of the fair valuation of CCPS of the company as per the internationally accepted valuation principles, as on 30th September, 2024.
- Company is evaluating the possibility of issuing Compulsorily Convertible Preference Shares to prospective investors. In this context, The Board of Directors of HIML appointed Registered Valuer to issue the Valuation Report ("the report") for determination of the fair valuation of Compulsorily Convertible Preference Shares of the company as per the internationally accepted valuation principles, as on 30th September, 2024. The conversion ratio of the Equity Shares to CCPS is 1:1. Since the underlying instrument of CCPS is the equity shares of HIML, the value of equity share has been used for the valuation
- The valuation is undertaken based on Management Certified Financial statements for the financial year ended 30th September, 2024, and as per projected financial statements for the period 1st October 2024 to 31st March, 2029. We have been informed by the Management that there is no material change in the Company from the provisional financial statements for the period ended 30th September, 2024 to the date of valuation report, which may potentially affect the valuation.
- This report has been prepared in accordance with Section 55 of the Companies Act, 2013, which prohibits companies limited by shares from issuing irredeemable preference shares. If authorized by the company's articles, such shares must be redeemable within 20 years, adhering to prescribed conditions.
- This report has been issued in accordance with section 247 of Companies Act 2013, which provides statutory backing to the Valuation, which requires that in respect of valuation of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it should be

valued by a person having such qualification and experience and registered as valuer in such manner as may be prescribed. This report has also been issued for the purposes of the pricing guidelines under the Foreign Exchange Management Act, 1999, read with the Foreign Exchange Management (Non-debt Instruments) Rules, 2019.

- The report has been issued under provisions of the Income Tax Act 1961 (i.e., Section 50CA and 56(2)(x) of the IT Act read with Rule 11UA/11UAA of the Income- Tax Rules, 1962)
- In view of the above background, Registered Valuer understands that the purpose of this report is to determine the fair value of CCPS of HIML that will be allotted to the investors in accordance with the requirement of sections 42 and 62(1)(c) of the Companies Act, 2013, which states that when a company proposes to issue new shares, the price of such shares should be determined by the valuation report of a Registered Valuer.
- This report has been issued in accordance with CHAPTER VIII Clause 21 of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 ("FEMA Rules"): The pricing guidelines specified in these rules shall not be applicable for any transfer by way of sale done in accordance with Securities and Exchange Board of India regulations where the pricing is specified by Securities and Exchange Board of India.

1.2 Background of HIML

Hella Infra Market Limited is a public limited unlisted company incorporated on 15.07.2016. It is classified as Non-government Company and is registered with Registrar of Companies, Maharashtra. HIML's Corporate Identification Number is U45309MH2016PTC283737. HIML registered office address is 2nd Floor, Office No. 201, Olethia Business Spaces, Plot No A-184 and A-185, Road No 16Z, Opposite Ashar IT Park, Wagle Industrial Estate, Thane (West) 400604, Maharashtra, India, Wagle I.E., Thane, Thane, Maharashtra, India, 400604.

The Directors of HIML are Souvik Pulakesh Sengupta, Aaditya Gajendra Sharda, Prashanth Prakash, Rohit Batra Schanker, Deep Varma, Rajendran Chinna Veerappan, Shan Jain and Michael Glover



The Company is engaged in the business of wholesale trading of construction materials.

HIML's authorised share capital is INR 100,000,000 and its paid up capital is INR 170,54,938.5 as on 30th September, 2024 Detailed breakup provided below :

Name of the Shareholder	Total No. of Shares (on a Fully Diluted Basis)	% Shareholding (on a Fully Diluted Basis)
Souvik Pulakesh Sengupta	1,18,000	11.87%
Aaditya Gajendra Sharda	1,17,800	11.85%
Bizzaro Productions LLP	10,000	1.01%
Bizzaro Advisory Limited	58,000	5.83%
Silverline Home Private Limited	8,000	0.80%
Nikhita Aaditya Sharda	50	0.01%
Aarti Gajendra Sharda	50	0.01%
Sunita Sharda	50	0.01%
Gajendra Sharda	50	0.01%
Employee Stock Options Available & Free	65,985	6.64%
Employee Stock Options Granted and Vested	12,819	1.29%
Employee Stock Options Granted and Unvested	21,362	2.15%
Shashank Dangayach	1,250	0.13%
Vikram Reddy	1,250	0.13%
Dhruv Agarwala	700	0.07%
Accel India V (Mauritius) Limited	1,65,811	16.68%
Internet Fund V Pte Ltd	2,09,664	21.09%
Nexus Ventures V LTD	83,162	8.36%
Evolve India Fund III Limited	41,374	4.16%
Evolve India Coinvest PCC	15,550	1.56%
Sistema Asia Fund Pte Ltd	19,705	1.98%
Sistema Asia Fund India Ventures	1,606	0.16%
Foundamental GmbH	14,763	1.48%
Alteria Capital India Fund I	1,225	0.12%
Alteria Capital India Fund II - Scheme I	515	0.05%
Alteria Capital India Fund III - Scheme A	314	0.03%
Strides Venture India Debt Fund - 1	459	0.05%
Innoven Capital India Private Limited	6,175	0.62%
Innoven Capital India Fund	523	0.05%

Trifecta Venture Fund II	5,886	0.59%
Stride Ventures Debt Fund II	852	0.09%
Trifecta Venture Debt Fund III	524	0.05%
Trifecta Venture Debt Fund III	472	0.05%
Amit Vijaysingh Barad	1,164	0.12%
Barad Sanjay Amarsingh	944	0.09%
Kailash Kanjibhai Desai	340	0.03%
Jaydeep Dayaram Sanariya	95	0.01%
Rajeshkumar Kanjibhai Detroja	113	0.01%
Kishor Kanjibhai Detroja	133	0.01%
Vijay Dhanjibhai Detroja	279	0.03%
Dipak Dhanjibhai Detroja	596	0.06%
Anand Kantilal Zalariya	20	0.00%
Suresh Keshavjibhai Charola	77	0.01%
Neel Rajeshkumar Pujara	59	0.01%
Gautam Kishorbhai Bhanvadia	8	0.00%
Nilesh Kanjibhai Detroja	61	0.01%
Dhanjibhai Chhaganbhai Detroja	206	0.02%
Other Series E2 investors	5,041	0.51%
Dinesh Kantilal Ghodasara	356	0.04%
Jagrutiben Ghodasara	73	0.01%
Vipulkumar Kantilal Ghodasara	188	0.02%
Nitesh Bhuvra	188	0.02%
Amrishbhai D. Sardharia	35	0.00%
Ramnik K. Ghodasara	365	0.04%
Savan Pravinbhai Patel	56	0.01%
Total	9,94,343	100.00%



(This space has been left blank intentionally)

1.3 Industry Overview

INFRASTRUCTURE OVERVIEW

As per the Infrastructure Industry Report issued by India Brand Equity Foundation (An initiative of the ministry of commerce and industry, Government of India) in Nov, 2022:

- Increased impetus to develop infrastructure in the country is attracting both domestic and international players. Private sector is emerging as a key player across various infrastructure segments, ranging from roads and communications to power and airports. In order to boost the construction of buildings in the country, the Government of India has decided to come up with a single window clearance facility to accord speedy approval of construction projects.
- India plans to spend US\$ 1.4 trillion on infrastructure projects through the National Infrastructure Pipeline (NIP), from 2019 to 2023, to ensure sustainable development in the country. The infrastructure sector has seen some major developments, investments and support from the government in the recent past. The infrastructure sector has become the biggest focus area for the Government of India. India plans to spend US\$ 1.4 trillion on infrastructure during 2019-23 to have a sustainable development of the country. India and Japan have partnered together for infrastructure development in the northeastern states of India, and are also establishing an India-Japan Coordination Forum for Development of Northeast to carry out important infrastructure projects for the area
- The Mega Investment Textiles Parks (MITRA) scheme was launched to establish world-class infrastructure in the textile sector and establish seven textile parks over three years.
- The future outlook of the infrastructure sector looks on track with pandemic easing out.



(This space has been left blank intentionally)

Chapter 2: Scope of Work & Limitation

Scope of Work

- Registered Valuer has been appointed by Management of HIML to issue a report on the likely valuation of equity shares of HIML as on 30th September, 2024.
- Registered Valuer to value the company as per Rule 11UA Section 50CA and 56(2)(x) of the Income Tax Rules.
- Registered Valuer to value the company as per Valuation rules under the Companies Act 2013, for the purpose of the pricing guidelines under the Foreign Exchange Management Act, 1999, read with the Foreign Exchange Management (Non-debt Instruments) Rules, 2019.
- The value is to be determined with reference to the valuation date, which is 30th September, 2024.
- Our report on recommendation of fair value of CCPS is in accordance with Indian Valuation Standards, 2018 issued by the Institute of Chartered Accountants of India and internationally accepted valuation standards.

Appointing Authority

- As per Section 247 of The Companies Act, 2013 in absence of the Audit Committee, the Management of HIML appointed Ashish Mandowara (Registered Valuer) for valuation of CCPS.

Appointment date, Valuation date and Report date

- The Management appointed Ashish Mandowara on 25th November, 2024. The analysis of the fair value of the CCPS of the Company has been carried out on the valuation date i.e. 30th September, 2024. The valuation report is issued on 12th December, 2024.

Identity of the Valuer

- Ashish Mandowara is a Registered Valuer as required under The Companies (Registered Valuers & Valuation) Rules, 2017. Ashish Mandowara is registered with Insolvency & Bankruptcy Board of India vide registration number IBBI/RV/06/2019/11908. Ashish's primary membership is registered with ICAI Registered Valuers Organization vide registration no. ICAIRVO/06/RV-P00132/2019-20 and member of ICAI vide membership no. 140714.



Disclosure of Valuer Interest

- I have no present or prospective contemplated financial interest in HIML nor any personal interest with respect to the Promoters & Board of Directors of HIML. I have no bias/prejudice with respect to any matter that is the subject of the valuation report or to the parties involved with this engagement.
- My professional fee for this valuation is based upon my normal billing rates, and not contingent upon the results or the value of the business or in any other manner.

Scope Limitations

- i. Valuation analysis and result are specific to the purpose of valuation and are based on the financial information provided to us. It may not be valid for any other purpose or as at any other date.
- ii. Valuation analysis and result are specific to the date of this report. A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. As such, valuation results are, to a significant extent, subject to continuance of current trends beyond the date of the report. Registered Valuer, however, has no obligation to update this report for events, trends or transactions relating to the company or the market/economy in general and occurring subsequent to the date of this report.
- iii. Registered Valuer provides no assurance that the issue of shares can be completed successfully at or close to our recommended valuation within a particular timeframe. Our valuation only aims to represent the likely price that is the minimum price for issue of shares.
- iv. Registered Valuer has relied upon the information furnished by the management of the company and other sources believed to be reliable and true.
- v. In the course of the valuation, Registered Valuer has been provided with both written and verbal information, including market, technical, financial and operating data. However, Registered



Valuer has not carried out a due diligence or audit of HIML for the purpose of this engagement, nor have independently investigated or otherwise verified the data provided.

- vi. Further, Registered Valuer has made various assumptions in relation to valuation of HIML. Registered Valuer has made such assumptions, post discussions with management of the company.
- vii. It may be noted that valuation is a highly subjective exercise and may differ from valuer to valuer depending on the individual perception of the attendant circumstances. At best, it is an expression of opinion or a recommendation based on certain assumptions.
- viii. This Valuation report should not be construed as investment advice, specifically I do not express any opinion on the suitability or otherwise of entering into the proposed transaction.



(This space has been left blank intentionally)

Chapter 3: Information Sources

For the purpose of this report, the documents and/or information published or provided by management have been relied upon. Registered Valuer have fully relied on the information provided by the company and do not vouch for the accuracy of the information as is provided to us by the management of HIML.

Registered Valuer has relied upon the following information:

- i. Management Certified Financial statements for the year ended 30th September, 2024 & 31st March, 2024.
- ii. Audited financial statements for the period ended 31st March, 2023.
- iii. Projected financials from 1st October, 2024 to 31st March, 2029 as provided to us by the management.
- iv. Shareholding pattern as on 30th September, 2024.
- v. Underlying assumption in relation to capital expenditure, perpetuity growth etc; and
- vi. Registered Valuer has also relied upon written and verbal explanations and information given to us by the management of the company during the course of our exercise.



(This space has been left blank intentionally)

Chapter 4: Selection of Valuation Methodology

There is no single definition of the term 'Value' that is suitable for all purposes or at all times. The value of a particular asset may vary according to different valuation methodologies that are adopted to ascertain the value for a specific purpose. Valuation of securities may sometimes involve a set of judgments and assumptions that may be subject to certain uncertainties. In the section below, Registered Valuer have discussed some of the commonly used valuation methodologies. The valuation methodology to be adopted varies from case to case depending upon different factors affecting valuation. There are a number of methodologies to value companies / businesses using historical and forecast financials of the company.

A typical valuation analysis involves review and analysis of historical financials of the company and broad comparison of the company's forecast financial projections as regards all the significant macro and micro variables like economy and industry growth rate assumptions, inflation, interest and foreign exchange rates and tax rate forecasts. Company's profitability factors (industry competitive factors and company's operating strategies and its competitive position in the industry), economies of scale and optimal capital structure also affects the business valuation of the company.

In order to value the Company, we considered three approaches to valuation, as provided under the IVS 103 – Valuation Approaches and Methods: the market approach, the income approach and the asset approach. We have reviewed and analyzed several methods and their results to determine which methods would generate the most reasonable opinion of value of the Company's operations as on the valuation. After careful consideration of each method's underlying assumptions and variables that were utilized, we concluded that the income approach, utilizing the discounted cash flow method, would provide the most appropriate indication of the fair value of the Company. A description of this method and the methods considered but not used are included within this report.

Both internal and external factors, which influence the value of the Company have been reviewed, analyzed, and interpreted. Internal factors included the Company's financial position and results of operations. External factors included, among other things, the status of the economy and the position of the Company relative to the industry.



However, the value is specific to the point in time and may change with the passage of time. In the present case, the objective of the valuation exercise is to value the CCPS of HIML.

Among other factors, this valuation considers relevant non-financial information as listed in the IVS 201 - Scope of Work, Analyses and Evaluation, which includes the following:

- The nature, background, and history of the business;
- Facilities;
- Organizational structure;
- Management team (which may include officers, directors, and key employees);
- Classes of equity ownership interests and rights attached thereto;
- Products or services, or both;
- Prior transactions involving the subject business, or involving interests in, the securities of, or intangible assets in the subject business;
- Economic environment;
- Geographical markets;
- Industry markets;
- Competition;
- Business risks;
- Future outlook for the business;
- Strategy and future plans;
- Governmental or regulatory environment.

The established methods of valuation and a brief description of each method is provided below

- Income Approach - Discounted Free Cash Flow Method (DCF).
- Asset Approach - Net Asset Value Method (NAV)
- Market Approach - Comparable Company Multiples Method (CCM)



Income Approach - Discounted Free Cash Flow Method (DCF)

For our discounted cash flow analysis, we relied upon the multi-year projections, long-term growth expectations and other related information provided by the Management. The formula for FCFF is defined as follows

1. Projected EBIT Less: Income Tax

Add: Depreciation and Amortization Less: Capital Expenditures

Less: Increase in Non-Cash, Non-Debt Net Working Capital

= Free Cash Flows to Firm (FCFF)

2. Determination of Discounting Factor

As we have used FCFF to determine the Enterprise Value and subsequently equity value, the discount rate used is the Weighted average Cost of Capital ("WACC"). This reflects the opportunity cost of capital for the firm.

WACC is arrived at by using the following formula:

$$= (\text{Cost of Equity} * \text{Shareholders Funds} / \text{Total Funds}) + (\text{Cost of Debt} * \text{Debt} / \text{Total Funds})$$

Asset Approach - Net Asset Value Method (NAV)

The Net Asset Value method attempts to measure the value of the net assets of the company against each share. It is computed by taking the net value of the company's assets, subtracting from them the amount of liabilities and preferred shareholders claims, and dividing the remainder amongst the number of CCPS. For an investment company valuation, NAV valuation, based on the asset backing is generally given more importance. Net Asset Value Method is also considered appropriate, where the future cash flows / commercial operations of the valued company cannot be reasonably ascertained.



Market Approach -**1. Market Price Method - Market Approach**

Under this approach, the value of business is arrived at considering the market price of the company based on daily moving averages of the last six months volume traded weighted average of closing price on the stock exchange where the company's shares are most frequently traded

As the shares of the Company are not listed, we have not considered this method in our approach.

2. Comparable Company Multiple Method (CCM) - Market Approach

This method involves reviewing valuation multiples for companies that are in the same or similar line of business as the company being valued and then applying the relevant valuation multiples to the subject company to determine its value.

The theory behind this approach is that valuation measures of similar companies, as manifested through stock market valuations of listed comparable companies, should represent a good proxy for the specific company being valued. Depending on the source of data available and the underlying company being valued, a variety of valuation measures might be used including Enterprise Value (EV) to Sales, EV to EBITDA, Price to Earnings, etc.

We have performed a search for suitable comparable companies. However, we did not find any company listed in India which is in same business line as the Company and is frequently traded. Due to limited availability of peer sets, we have not considered this method in our approach.

3. Comparable Transaction Multiple Method (CTM) - Market Approach

This method involves reviewing transaction multiples for companies that are in the same or similar line of business as the company being valued and then applying the relevant transaction multiples to the subject company to determine its value. The transaction multiples are determined for the comparable transactions for which financial details are available in the public domain. The theory behind this approach is that valuation measures of similar companies, as manifest through



market transactions (i.e. acquisition or equity funding), should represent a good proxy for the specific company being valued. Depending on the source of data available and the underlying company being valued, a variety of valuation measures might be used including Enterprise Value (EV) to Sales, EV to EBITDA, Price to Earnings, etc.

We have reviewed the domestic deals involving companies in same business and their underlying multiples within the industry. However, there are no third-party transactions involving comparable companies or businesses which could be considered comparable and for which complete and reliable information is available in public domain. Accordingly, we have not considered this for the purpose of our valuation

Preferred approach to value HIML CCPS Shares

Both the DCF and the CCM methods of valuation, as described above, are based on the earning capacity of the company and thus are generally used in the valuation of a company whose future profits are amenable to projections. NAV method will give value of shares based on the net assets value as on balance sheet date and will not consider the future value of businesses.

The above three approaches are the valuation approaches which are used globally for valuations. Considering the peculiarity of the company HIML i.e. being a private company with a unique business model, I preferred to use DCF method for the purposes of valuation of shares, considering it to be the most rationale method. Since the business model is unique, I cannot use the market approach because it is very difficult to get comparable data. The asset approach is not considered as it will not give true value because it will give value of company based on net assets value as on valuation date only which may not be best indicator of true value.

Therefore, I have decided to use DCF method for the purposes of valuation of shares, considering it to be the most suitable method for valuation of HIML.

(This space has been left blank intentionally)



Chapter 5: Valuation

Valuation of HIML as per Discounted Free Cash Flow Method (DCF)

For the DCF valuation, I have relied on the Information submitted by the management of HIML. Based on the financial projections provided by the management of HIML, I have arrived at the free cash flows of HIML.

The free cash flows to be used for the purpose of the model has been arrived at based on the financial projections as provided by the management from October 1, 2024 to March 31, 2029 and in perpetuity thereafter. The value of Equity Shares of HIML has been calculated as on 30th September, 2024. The management has made these projections by considering the impact of its future expansion plans, and foreseeable changes in its future expansion plans, while making the financial projections and other suitable assumptions.

Valuation Analysis

An important element of valuation using DCF is the selection of discount rate that reflects the expected rate of return (adjusted for risks associated with the investment) to prospective investors in similar investment opportunities. The Weighted Average Cost of Capital ("WACC"), which reflects the opportunity cost to providers of capital, weighted by their relative contribution to the total capital of the company, is used as the best indicator of the relevant discount rate. The WACC is defined as the weighted combination of the Cost of Equity Capital and the Cost of Debt.

The calculation of WACC has been elucidated in the succeeding Para.

Determination of WACC

As discussed above, WACC is defined as the weighted combination of the Cost of Equity Capital and the Cost of Debt.

$$WACC = K_e * E / (D+E) + K_d * D / (D+E)$$

Where,



D= Debt Funds

E= Equity Shareholders Funds

Accordingly, the key variables of the WACC are explained below:

Determination of Cost of Equity

The cost of equity has been determined by using the Capital Asset Pricing model ("CAPM").

$$\text{Cost of Equity} = R_f + (R_m - R_f) \times \beta + \text{SCRIP}$$

R_f : Risk free rate of return

R_m : Return on diversified market portfolio

$R_m - R_f$: Market risk premium

β : Systematic risk factor associated with the industry i.e. Beta

SCRIP : Specific Company risk premium

Accordingly, in this case the cost of equity has been arrived at as under:

$$\text{Cost of Equity} = R_f + (R_m - R_f) \times \beta + \text{SCRIP}$$

Cost of equity for HIML= 24.93%

Determination of Risk Free Rate and Market Risk Premium

R_f has been taken at 6.75% being YTM on long-term risk free central government securities based on yield of India 10-Year Government Bond as on date of valuation. Basis the above, $R_m - R_f$ (Market risk premium) has been calculated at 9.20% for the company.

Determination of Beta

Beta is a measure of volatility, or systematic risk of the return on a particular security to the return on a market portfolio. It is understandable that the Company's business model is unique and it is difficult to find any listed companies, which are comparable to the Company in terms of nature of services, stages of operations etc. Accordingly, having regard to management representations and generally accepted valuation principles, I have considered the Beta of 0.89 for HIML. This Beta has been considered for the purposes of valuation of HIML based on the information derived from www.damodaran.com.



Determination of Specific Company risk premium (SCRIP)

SCRIP has been considered after adding company specific size and liquidity risk of 10.0% in total on a reasonable basis since the company is in a unique business model and relatively young private company and has established itself gradually since the incorporation.

Determination of Average cost of debt funds

The cost of debt is the minimum rate of return that a lender expects on his investment after tax adjustment as the interest paid on debt is tax-deductible expenses. It is calculated as per formula as given below:

$$K_d = \text{Interest Rate} (1 - \text{Tax Rate})$$

Based on the financial projections and our discussions with the management, I understand that HIML will use debt funds in its capital structure; and post-tax average cost of debt funds for HIML is approx. 9.35%. The same has been considered for the purposes of valuation.

The target debt-equity ratio of be approximately 60:40 has been assumed based on discussions with the management, for arriving at the weighted Average Cost of Capital ("WACC"). In the Case of HIML, pre-tax cost of debt has been assumed to be is 12.50%.

INTEREST RATE

It is the minimum rate of return that a lender expects on his investment and is generally equal to the coupon rate of interest.

Accordingly, WACC has been computed as follows:

WACC		At the tax shield of 34.944%	
	Cost (K)	Weight (W)	K*W
Equity	24.93%	40%	9.97%
Debt	9.35%	60%	5.61%
WACC	15.58%		



WACC as determined above is taken into account to determine the free cash flows arising to the company from the explicit forecast period.

Determination of Value in Perpetuity

The perpetuity value is the value of the business beyond the explicit forecast period and is the value of the maintainable annual cash flow divided by the WACC less growth factor. The perpetuity value is then discounted to the present value. I have considered 4.00% perpetuity growth considering the nature of business model of HIML and its product lines and future competitors in Indian economy scenario.

The Sum of value during the explicit forecast period and perpetuity value gives the "Enterprise Value" (EV). The EV is further adjusted with value of non-operating assets / investments, cash and debt (as on 30th September, 2024) to arrive at the equity value of HIML.

The perpetuity corporate tax rate has been considered to be 25.17% (effective tax rate).



(This space has been left blank intentionally)

Chapter 6: Fair value of Equity Shares of HIML

In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. quality 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 sheets but which will strongly influence the worth of a share. This concept is also recognized in judicial decisions. For example, Viscount Simon said in *Gold Coast Selection Trust Ltd. Vs. Humphrey* reported in 30 TC 209 (House of Lords) and quoted with approval by the Supreme Court of India in the case reported in 176 ITR 417 as under:

"If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible."

As has been mentioned earlier in the chapter on choice of valuation methodologies for the companies, the value of each share of HIML has been arrived at as per the DCF method. Having regard to the aforesaid, the fair value of Equity Shares of HIML, as per DCF method, has been determined at **INR 2,13,434.2/- per share**. Please refer **Annexure A** for detailed calculations.

Ashish Mandowara



Registered Valuer: Ashish Mandowara

IBBI Registration No.: IBBI/RV/06/2019/11908

ICAI RVO Registration No.: ICAIRVO/06/RV-P00132/2019-20

ICAI MN. - 140714

Date: December 12, 2024

Place: Mumbai

UDIN: 24140714BKDIVA6979

Chapter 7: Fair value of CCPS Shares of CCPS

HIML has issued Compulsory Convertible Preference Shares (CCPS) & is considering to issue Compulsory Convertible Preference Shares (CCPS) to new investors, The key terms of the CCPS are as follows:

- CCPS will be issued for 19 years. The Holder of CCPS may convert whole or part of CCPS anytime before 19 years in equity. At the end of 19 years, all CCPS will be converted into equity.
- It has been agreed that at the time of conversion, the holder of one CCPS will get one equity share subject to adjustments as provided in the terms of the CCPS. Therefore, the number of equity shares to be issued at time of conversion is fixed at the time of issue of CCPS.
- CCPS holders will be entitled to receive 0.01% dividend cumulatively. In case HIML pays dividend to equity shareholders at a rate higher than 0.01%, then CCPS holder will be entitled to receive higher rate of dividend.

As discussed with the HIML management, the CCPS holders will receive a fixed number of equity shares at the time of conversion. Therefore, the CCPS have to be valued by considering the value of underlying instrument i.e. equity shares of HIML as of valuation date i.e. 30th September, 2024. Though CCPS holders will get equity value after 19 years conversion period, the best estimate of equity value is considered as on valuation date.

The fair value of equity shares of HIML as of 30th September, 2024 is **INR 2,13,434.2/- per share**. Considering the best estimate value of underlying asset of the convertible instrument, the Compulsory Convertible Preference Shares can also be issued at **INR 2,13,434.2/- per share** to the investors.



(This space has been left blank intentionally)

Annexure- A

Determination of equity valuation of HIML as per DCF method as on 30th September, 2024.

Amount in Millions	Projections				
	2025	2026	2027	2028	2029
Cash Flow	6	12	12	12	12
EBIT * (1-t)	4727.10	10950.65	15931.52	20333.72	27464.36
Depreciation	2545.36	5741.30	6137.53	4536.69	3434.66
Change in NWC	6316.92	2572.22	2536.03	5290.85	6445.75
Capex	-1106.85	-1000.00	-1000.00	-1000.00	-600.00
Free Cash Flow to Firm	12482.54	18264.18	23605.08	29161.26	36744.77
Time period (no. of years)	0.50	1.50	2.50	3.50	4.50
Discounting Factor	0.93	0.80	0.70	0.60	0.52
Discounted FCFF	11610.40	14697.14	16433.37	17563.71	19146.70
Total DCF of explicit period	79,451.33				

Terminal Value: (Amt in Mns) except Value Per Share	
Terminal Cash Flow	36744.77
Terminal Growth rate (g)	4%
Terminal Value	3,29,786.87
Discounted Terminal Value	1,71,842.99

Value per share:	(in Millions)
Total DCF of explicit period	79451.33
Discounted Terminal Value	171842.99
cash & cash equivalents	7053.32
Less: debt	46120.83
Equity Value	2,12,226.80
No. of shares (Fully Diluted)	9,94,343
Value per share INR	2,13,434.20

