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**File No.: RKA/FY20-21/MUM-106 Dated: 21.12.2020**

**ENTERPRISE VALUATION REPORT**

**OF**

**EPC COMPANY ENGAGED IN THE DEVELOPMENT OF INFRASTRUCTURE PROJECTS**

**REGISTERED AT**

**6-3-871, Snehalata, 1st Floor, Greenlands Road, Begumpet, Hyderabad- 500016 OWNER/ PROMOTER**

**A/C: M/S. SEW Krishnagar Bahrarampore Highways LIMITED**

**REPORT PREPARED FOR**

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***Part G: R.K Associates Important Definitions, Remarks & Declaration*** *are integral part of this report and Value assessment is subject to this section. Reader of the report is advised to read all the points mentioned in these sections carefully.*

|  |  |
| --- | --- |
| **PART A** | **INTRODUCTION** |

1. **ABOUT THE REPORT:** Enterprise Valuation of Engineering-Procurement-Construction (EPC) Company M/S. SEW Krishnagar Baharampore Highways Limited (The Company) engaged in construction projects having its registered office address at  6-3-871, 'SNEHALATA', GREENLANDS ROAD BEGUMPET, HYDERABAD, Hyderabad, Telangana, India.
2. **Company Details:**

|  |  |
| --- | --- |
| Name of the Company | SEW Krishnagar Baharampore Highways Limited |
| CIN No. | U45400AP2011PLC073116. |
| Date of Incorporation | March 8, 2011 |
| Constitution | Public Limited (Closely held) |
| Sector | Infrastructure – Roads & Highways |
| Registered Office | 6-3-871, Snehalata, 1st Floor, Greenlands Road, Begumpet, Hyderabad- 500016 |
| Site Location | Krishnagar to Baharampore section of NH-34from km 115.00 to km 193.00 |
| Activity | Four Laning of Krishnagar Baharampore section of NH 34. |
| Authorized Capital | Rs 5,00,000/- |
| Project Description | Four-laning of Krishnagar to Baharampore section of NH-34from km 115.00 to km 193.00 in the state of West Bengal under NHDP Phase III on Design, Build, Finance |

***Source:*** *Project Information Memorandum*

**EPC Projects under Development**

| **S. No.** | **Project Name** | **Work Location and Address** | **Status of the Project as on 31.12.2020** |
| --- | --- | --- | --- |
|  | **Industrial Structures and Buildings** | | |
|  | **Direct** | | |
| 1. | Krishnagar Baharampore Highway Limited | Four-Laning of Krishnagar-Baharampore section of NH-34 from km 115.000 to km 193.000 in the State of West Bengal | Construction work of remaining 11 Km road is active |

The Company (Sew Krishnagar Baharampore Highways Limited) is an unlisted public company. It was incorporated on 8th March, 2011 and is majorly involve in Construction business from last 9 years. Currently, company’s operations are active and is currently involved in the construction of Krishnagar Baharampore highway in West Bengal.

**Financial Performance:** The financial performance of the Company from F.Y. 2013-14 to 31st March, 2020 are provided below:-

*(Figures in Rs. Lakhs)*

| **Particulars** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Total Revenue** | 532.34 | 330.43 | 204.40 | 5784.06 | 23118.36 | 14484.64 | 1895.00 |
| **EBITDA** | -1.71 | -2.30 | -3.43 | 2271.21 | 2770.98 | 3294.01 | 1557.00 |
| *EBITDA %* | *-0.3%* | *-0.7%* | *-1.7%* | *39.3%* | *12.0%* | *22.7%* | *82.2%* |
| **EBIT** | -1.71 | -2.30 | -3.43 | -3329.83 | -4089.91 | -4693.43 | -6008.00 |
| *EBIT %* | *-0.3%* | *-0.7%* | *-1.7%* | *-57.6%* | *-17.7%* | *-32.4%* | *-317.0%* |
| **PBT** | -1.71 | -2.30 | -3.43 | -3329.83 | -4089.91 | -4693.43 | -6008.00 |
| *PBT %* | *-0.3%* | *-0.7%* | *-1.7%* | *-57.6%* | *-17.7%* | *-32.4%* | *-317.0%* |
| **PAT** | -1.71 | -2.30 | -3.43 | -3329.83 | -4089.91 | -4693.43 | -6008.00 |
| *PAT %* | *-0.3%* | *-0.7%* | *-1.7%* | *-57.6%* | *-17.7%* | *-32.4%* | *-317.0%* |

***Source:*** *Previous Financial Statements provided by the Company*

**Total Credit Facilities of the Company with Outstanding Amount**

*(Figures in Rs. Lakhs)*

|  |  |  |
| --- | --- | --- |
| **Name of the Bank** | **Principal O/S In Cr** | **Interest O/S as on 31.03.20 In Cr** |
| Allahabad Bank | 2,484 | 779 |
| ICICI | 10,121 | 3,166 |
| IIFCL | s 9,562 | 3,580 |
| Indian Bank | 4,994 | 1,554 |
| IOB | 4,994 | 1,516 |
| SBBJ | 2,490 | 873 |
| SBI | 15,002 | 5,035 |
| SBM | 2,496 | 866 |
| UBI | 7,131 | 2,519 |
| **Total** | 59,273 | 19,888 |

***Source:*** *Data provided by the Company and Bank*

**Reasons for Financial Stress in the Company:** The construction work of the company was stopped due to COVID pandemic lockdown being imposed by government across the country. However, the company again started the work on the rest of the project (7.39 Km) from June 2020. The construction work again got hindered by the local land owner on the plea that they didn’t receive adequate compensation for their land. Further, the work put on haul till September 2020 due to monsoon season. SEW started de watering of the construction from September 2020. Again local villagers protests occurred on 7th November 2020. The local administration scheduled a meeting between the SEW and local villagers. There was no positive outlook seen in the respective meeting. SEW asked for the NHAI to provide security for their construction work. SEW told to the Authority that any delay in the construction will lead to huge losses due to idling of the resources of the company.

1. **TYPE OF REPORT:**

It is an Enterprise Valuation report to ascertain the present value of the Company based on the existing projects undertaken by the Company and the risk associated with it.

1. **PURPOSE OF THE REPORT:** To assess & determine Enterprise Value of the existing Project under implementation as a whole as required by the lenders to go into the strategic sale of the Company in open market.
2. **SCOPE OF THE REPORT:** As per the client requirement and based on the purpose of the report, RK subject matter expert team has identified following points for arriving at Fair Valuation of the Projects and describe in-depth detailed assessment of the clear basis of the Valuation assessment.
3. **Business Plan Assessment:**

* Business Model
* Pricing strategies
* Risk and mitigation strategies

1. **Financial Forecasting:**

* Key Financial Projections
* Key Financial Indicators

1. **Enterprise/ Business Valuation:**

* Based on Discounted Cash Flow Model (Free Cash Flow to Firm)

***NOTES:***

* ***This is just the enterprise valuation of the project based on its income generating capacity in future years. This Valuation shall not be construed as the physical asset or should be directly related to cost approach or Project cost.***
* ***This Valuation only covers the cash flow generated from construction business of the Company.***
* ***This Enterprise Valuation report doesn’t cover vetting of the documents/ financial data/ projections or any other information provided to us by the Bank.***
* ***It doesn’t contain the principles of physical asset valuation and is not based on the site inspection of the project.***
* ***This exercise is neither an audit activity nor investigative in nature.***
* ***We have relied on the data provided by the Bank and the Company in good faith.***

1. **METHODOLOGY/ MODEL ADOPTED:** Free Cash Flow to Firm Model for the calculation of Enterprise Value of the Company.
2. **DOCUMENTS / DATA REFFERED:**

* Audited Financial Statements and Notes Provided by the Company.
* Tripartite Agreement, Independent Engineer report, PCOD document, and other documents shared by the bank and the Company.
* Industry Analysis etc.

|  |  |
| --- | --- |
| **PART B** | **COMPANY DETAILS** |

1. **BRIEF DESCRIPTION ABOUT THE COMPANY**

The incorporation details of the Project Company are provided in the table below:

|  |  |
| --- | --- |
| **CIN** | U45400TG2011PLC073116 |
| **Company / LLP Name** | SEW KRISHNAGAR BAHARAMPORE HIGHWAYS LIMITED |
| **ROC Code** | RoC-Hyderabad |
| **Registration Number** | 073116 |
| **Company Category** | Company limited by Shares |
| **Company Subcategory** | Non-govt company |
| **Class of Company** | Public |
| **Authorised Capital(Rs)** | 270000000 |
| **Paid up Capital(Rs)** | 269060000 |
| **Number of Members(Applicable in case of company without Share Capital)** | 0 |
| **Date of Incorporation** | 08/03/2011 |
| **Registered Address** | 6-3-871, 'SNEHALATA', GREENLANDS ROAD BEGUMPET HYDERABAD Hyderabad TG 500016 IN |
| **Email Id** | cs@sewinfrastructure.com |
| **Whether Listed or not** | Unlisted |
| **Date of last AGM** | 30/09/2019 |
| **Date of Balance Sheet** | 31/03/2019 |
| **Company Status(for efiling)** | Active |

***Source:*** *“http://www.mca.gov.in/mcafoportal/companyLLPMasterData.do” and Data provided by the Company*

1. **Capital Structure**

Equity Share Capital (in lakhs):

* Authorised: Equity Shares at Rs.10 each- Rs. 2700
* Issued Subscribed & Paid up: Equity Shares of Rs. 10 each full paid up- 2690.60

1. **SHAREHOLDING PATTERN**

The Shareholding Pattern of the company as follows:-

|  |  |  |
| --- | --- | --- |
| Shareholding Pattern of M/s. SEW Krishnagar Baharampore Highways Limited is | | |
| Name of the Shareholder | No. of Equity Shares of Rs. 10/- each | % of holding |
| 1. SEW Transportation Networks Limited (‘STNL’) | 2,69,05,940 | 99.9998% |
| 2. Mr. V Rajasekhar \* | 10 | 0.00004% |
| 3. Mr. Y Gangadhara Rao \* | 10 | 0.00004% |
| 4.Mr. S Anil Kumar \* | 10 | 0.00004% |
| 5.Mr. Y S Prakasa Rao \* | 10 | 0.00004% |
| 6. Mr. V Rajkumar \* | 10 | 0.00004% |
| 7. Mr. Y Aditya Krishna \* | 10 | 0.00004% |
| TOTAL | 2,69,06,000 | 100.0000% |

***Source:*** *Data provided by the Company*

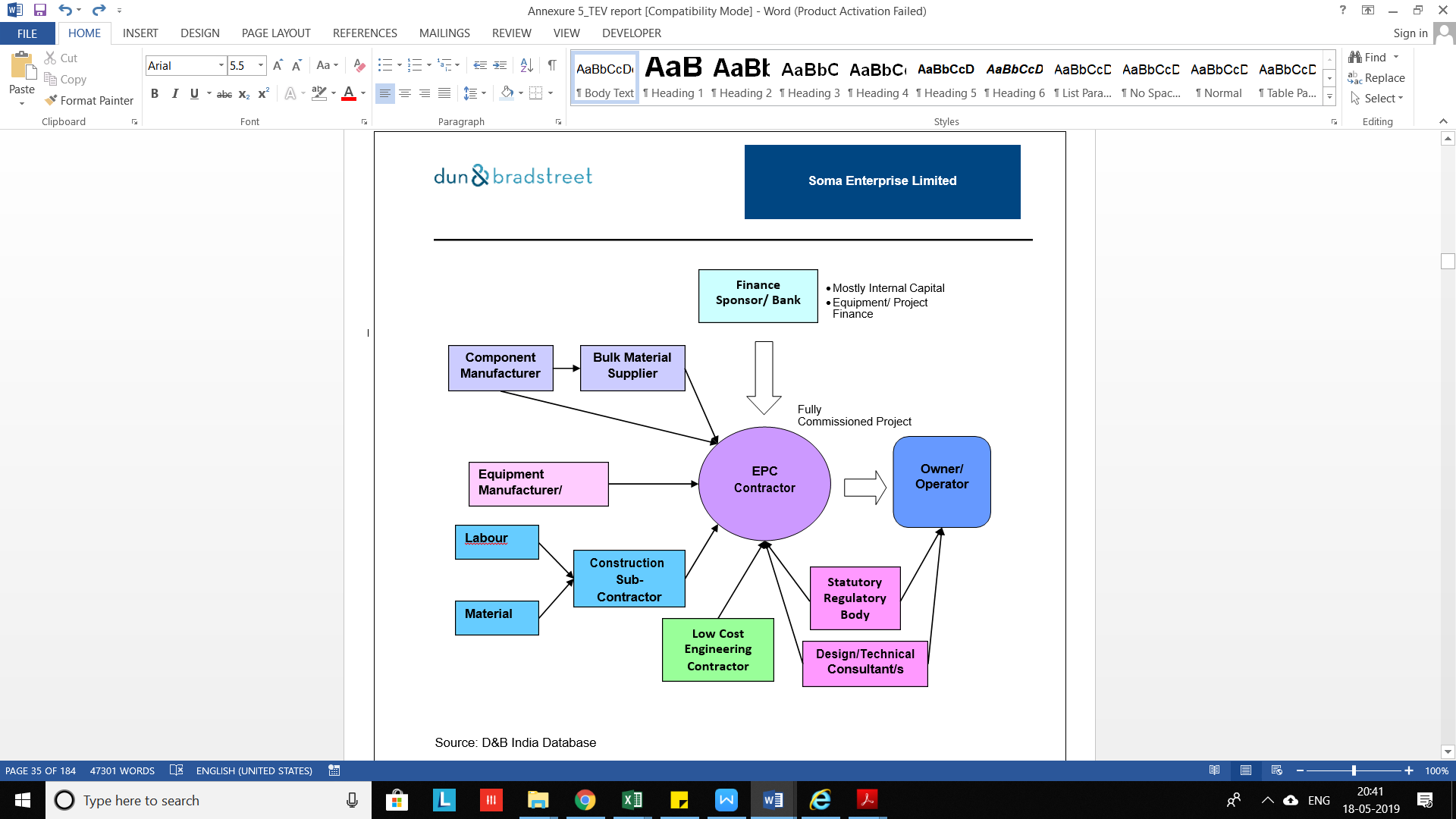
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| --- | --- |
| **PART C** | **PROJECT ASSESSMENT** |

Engineering procurement and construction (EPC) contracts are the most common form of contracts used to undertake construction works by the public and private sector on large scale and complex infrastructure projects, such as power plants, petroleum and LNG terminals, steel mills, roads, bridges etc. Under an EPC contract a contractor is obliged to deliver a complete facility to a developer who needs only turnkey to start operating the facility; hence EPC contracts are sometimes called turnkey construction in contracts. In addition to delivering a complete facility, the contractor must deliver that facility for a guaranteed price by a guaranteed date and it must perform to the specified level. Failure to comply with any requirements will usually result in the contractor incurring monetary liabilities.

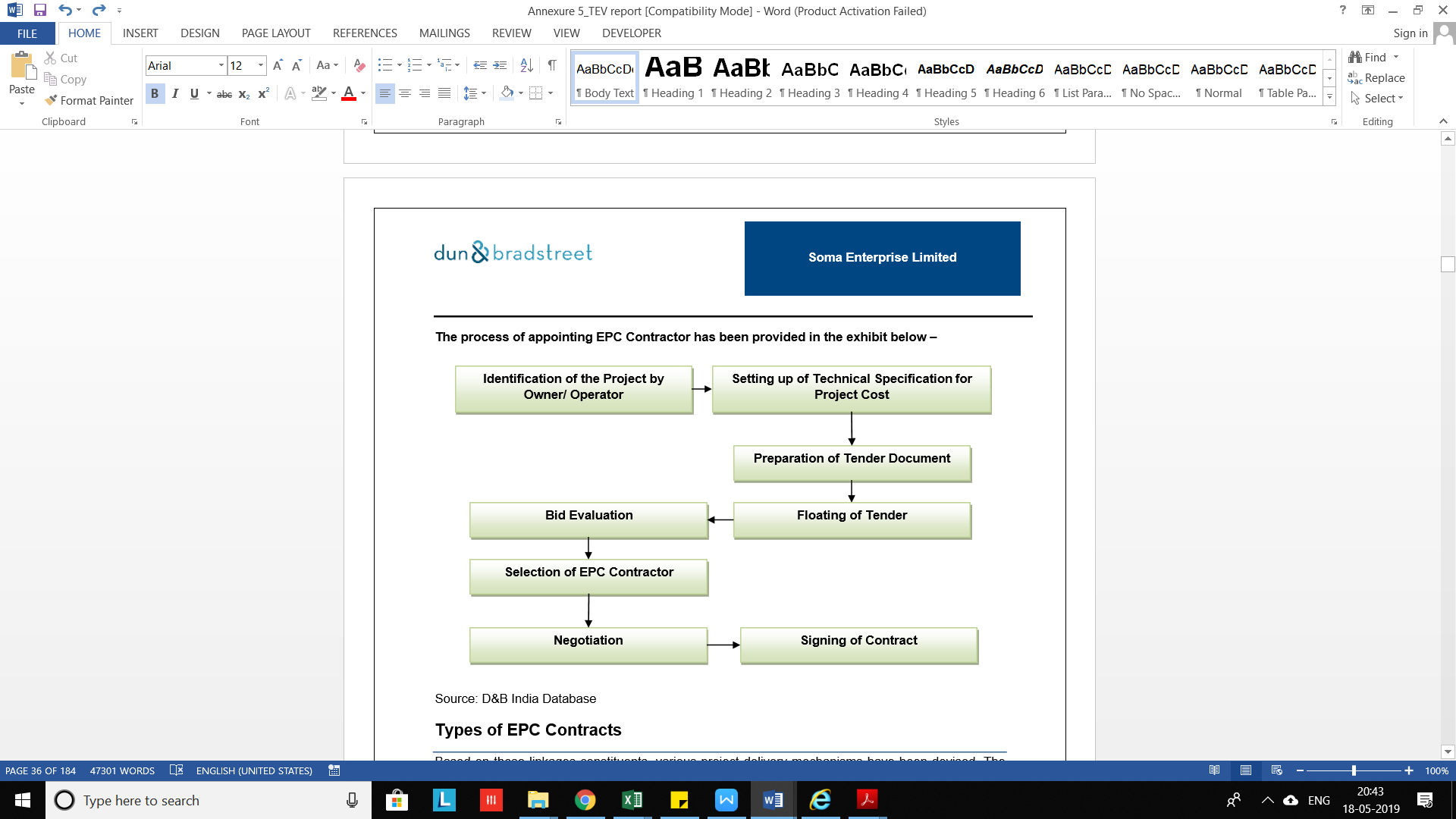
1. **EPC PROCESS**

The most modern variation is called EPCM that is engineering, procurement, construction and management. On a global level, construction industry has completely adopted the EPC contracts and the EPC contractors have limited the otherwise predominant role of engineering consultants. These EPC firms are ready to take the risks associated with managing a project and possess procurement and project.

Competitive forces are driving consolidation of construction in the EPC industry and leading to alliances among the large players. EPC contracts may vary in the basis of assignment of responsibility and related penalties. The relationship between different constituents of the industry is very flexible as shown in the exhibit below.



The process of appointing EPC Contractor has been provided in the exhibit below –



1. **TYPE OF EPC CONTRACTS**

Based on these linkages constituents, various project delivery mechanisms have been devised. The size and nature of the project also influences the choice of the project delivery mechanism. The different types of contracts are as given here:

1. Engineering, Procurement and Construction (EPC)

* Complete single point responsibility
* Fixed time fixed price contracts, heavy penalties for non-performance
* Escalation possible by mutual consent

1. Lump-sum Turnkey (LSTK)

* Preferred for power and industrial projects
* Engineering Procurement Construction Management (EPCM)
* Responsibility for placement of order for equipment and payment lies with the promoters.
* Fixed time–fixed price contracts
* Lower penalties relative to EPC for non-performance
* Preferred for very large projects in sectors such as petrochemicals, oil and gas and steel

1. Turnkey

* Responsibility to implement complete project
* Fixed price as well as cost plus contracts are possible
* Contractor need not have financial capability
* Preferred for medium and small projects

1. Engineered Packages Route

* Promoter breaks up the project into packages
* Turnkey supply of packages
* Promoter is responsible for project co-ordination

1. Item Rate Contract

* This is the most prevalent contractual mechanism in which: -
* The owner through an appointed consultancy organization does the Engineering.
* Bill of qualities is furnished and tenderer is required to quote the price item-wise.
* The contractor need not have large financial capability in this case.

**EPC Construction Risk Management**

Often EPC construction contemplates a turnkey approach to project delivery. In other words, the project owner or employer will look to the EPC contractor as the single point of contact for all facets of the project, from basic design through commissioning and startup of the facility. EPC projects offer a mutually beneficial and exciting form of project delivery for both the owner and the contractor. But, with the EPC contract come many new risks that are often severe due to the complex nature and high cost frequently associated with this type of project. Understanding these risks and some of the other unique characteristics of EPC contracting its critical to a successful project where both the owner and the contractor obtain the high rewards for the risk. Project owners have attempted to shift more risk to the contractor, understanding at least theoretically, that this risk allocation carries a higher price tag. Some important features that differentiate risk in an EPC contract as compared to regular contracts can be seen below:

* Risks traditionally assumed by the owner in design-bid-build and design build contracts may no longer fall under the owner's umbrella of responsibility. For example, the contractor may be required to assume the risk of unforeseen site conditions and may be responsible for events that would traditionally be viewed as force majeure (i.e. beyond the control of either party).
* The greatest risk for the contractor in entering into the EPC contract is not necessarily anything inherent in the EPC form of contracting. Instead, the problems most frequently arise when the contractor commits to a lump sum or fixed price. Despite the inherent risks to the contractor, the project owner cannot assume that lump pricing insulates him from all cost overruns. There are always activities on a project that interfaced business processes such as marketing, sales and customer services. After each phase, reviews are also undertaken.

At the initial stage a strategic review is carried out of the works to be carried out. This is followed by the "offer kick off, which is in the form of proposals submitted by the EPC contractor, defining how and at what price the project should be undertaken. After the contract agreement, review is conducted to ascertain whether the engineering by the contractors conforms to the contractual obligation.

**Development Phase**

The development phase is the first stage of the EPC project process and covers the important aspects of engineering. This can be viewed as an extension of the planning process. The engineering process produces a range of deliverables, which includes –

* Feasibility Study
* Estimates
* Designs
* Drawings
* Specifications
* Data sheets

**Tests Results**

Having made a decision to execute the process on EPC turnkey basis, the employer appoints a consultant and states his requirements in the form of a design brief. The consultant then expands the design brief into a more explicit employer’s requirement, taking into account the project development phase during which the design responsibility is handed over to the contractor.

**Financing Stage**

The employer has to achieve financial closure, which involves the promoters brining in their own funding in the shape of equity as well as organizing loans. This should ideally precede or proceed with parallel with the EPC negotiation process.

**Bidding Award of Contract**

Having made a decision to benefit from a contractor's expertise and experience by selecting the EPC Turnkey approach the Employer, usually in collaboration with his chosen consultant, will, first of all, express his requirements in the form of a design brief. The consultant, normally employed to oversee the project, advises the Employer from the conceptual stage of the project and is then involved in expanding the brief in to the more explicit "Employer's Requirements"' taking into consideration, up to what stage it has been decided that the design responsibility should be taken over by the successful contractor. The consultant, with or without the aid of the Employer, will then incorporate the Employer's

Requirements into bid documents for presentation to various prequalified bidders before finally being involved in the technical and financial assessment of the successful contractor's bid in response to the same. It can be seen, therefore, in reality that in EPC Turnkey projects contractors may have to assume responsibility for completing and/or developing an incomplete design at any time from briefing onwards.

**Negotiating Stage**

The consultant incorporates the employer's requirements into the bid documents and brings out a notice for prequalification. This is done so that only established parties are short listed as bidders. Thereafter, a notice inviting tenders (NIT) is issued by the consultant on the employers' behalf. The short-listed contractors are then required to submit a two part proposal. The technical part contains details of all deliverables and processes. Those technical bids that are found satisfactory are put through the commercial bidding process. The price of the bids finally determines the contract award.

**Contract Agreement**

After the contract has been awarded, the two parties, that is, the contractor and the employer, sign the contract agreement. The contract includes the following aspects to be covered.

* The time and the mode of payment of the works.
* It also consists of the warranty terms and tenure in addition to the damages that would be payable if the contractor deviates from the contract in terms of specified design or commissioning schedule etc.
* The contract also covers the interest payable to the turnkey contractor in case the employer is not able to release funds in time.

**Design and Manufacture of Equipment**

Once the contract has been signed, the selected EPC contractor assumes his responsibility for satisfying employer's requirements. Verifying does this first the incomplete bid package or basic design and then expanding this design into a complete description of the required project in the form of residual and detailed design, engineering drawings, diagrams, specifications, purchase orders and other specified matters.

**Procurement**

After the completion of all design related parameters, the procurement process begins. The contractor is responsible for supplying all the equipment and procuring all the equipment from the vendors. In this process, the EPC contractor also assumes responsibility for inventory and materials management.

Procurement becomes important because it is here that project management can be most effective in cutting time without compromising quality. For this, either the EPC contractor puts together a separate team or hires a project management.

**Construction**

Once the project and related subsystem have been designed, manufactured and supplied, construction begins. This includes pre-installation, civil construction as well as installation of the project at the identified site.

**Training**

In an EPC contract, it is also the responsibility of the EPC contractor to impart training to a team of engineers or other technical staff of the employer at the site during the pre-commissioning and commissioning of the project. In addition, training programs are also arranged at the supplier's works.

**Commissioning and Handing Over**

This is the final stage of the EPC contract. Once the pre-commissioning and commissioning trials of the individual equipment and of overall systems are complete, the contractor has to commission the contract as per the term of the contract. The contractor has to conduct the trail run or the reliability run– trials at full load, varying loads etc. for a period defined by the contract. Following this demonstration, the project is handed over to the owner.

|  |  |
| --- | --- |
| **PART D** | **FINANCIAL PROJECTIONS** |

1. **PREVIOUS YEARS FINANCIAL PERFORMANCE:**

***(Figures in Rs. In Lakhs)***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** |
| **Total Revenue** | 532 | 330 | 204 | 5784 | 23118 | 14485 | 1895 |
| Total Expenditure | 534 | 333 | 208 | 3513 | 20347 | 11191 | 338 |
| EBITDA | -2 | -2 | -3 | 2271 | 2771 | 3294 | 1557 |
| ***EBITDA%*** | 0% | -1% | -2% | 39% | 12% | 23% | 82% |
| Finance Cost |  |  |  | 5601 | 6861 | 7987 | 7565 |
| EBIT | -2 | -2 | -3 | -3330 | -4090 | -4693 | -6008 |
| ***EBIT%*** | 0% | -1% | -2% | -58% | -18% | -32% | -317% |
| Profit / (Loss) Before Tax | -1.7 | -2.3 | -3.4 | -3329.8 | -4089.9 | -4693.4 | -6008.0 |
| ***PBT%*** | 0% | -1% | -2% | -58% | -18% | -32% | -317% |
| Profit / (Loss) After Tax | -1.7 | -2.3 | -3.4 | -3329.8 | -4089.9 | -4693.4 | -6008.0 |
| ***PAT%*** | 0% | -1% | -2% | -58% | -18% | -32% | -317% |

Based on the data/ information/ inputs provided by the Company Officials and the assessment & analysis conducted by us, financial projections of the company have been estimated as below by way of several different financial indicators and assumptions. The enterprise valuation has been done by us only based on the active Krishnagar Bahrampore Highway Construction. No hypothetical assumption has been made by us for any new projects to be taken by the Company in future.

1. **PROJECTED PROFIT & LOSS STATEMENT:**

***(Figures in Rs. Lakhs)***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Mar-21** | **Mar-22** | **Mar-23** | **Mar-24** | **Mar-25** | **Mar-26** | **Mar-27** |
|  | **3 M** | **12 M** | **12 M** | **12 M** | **12 M** | **12 M** | **12 M** |
| **Revenue** | **6,200** | **9,121** | **11,358** | **12,240** | **12,240** | **12,240** | **9,180** |
| **Expenses** |  |  |  |  |  |  |  |
| **Major Maintenance Expenditure** |  |  |  | **9,000** |  |  |  |
| **Routine & Periodic Maintenance Expenses** | **1,059** | **978** | **1,192** | **1,252** | **1,314** | **1,380** | **1,449** |
| **Independent Engineer Salary** | **600** | **600** | **600** | **600** | **600** | **600** | **600** |
| **Other Expenses** | **30** | **44** | **55** | **59** | **59** | **59** | **44** |
| **Employee Expenses** | **300** | **300** | **300** | **300** | **300** | **300** | **300** |
| **EBITDA** | **4,211** | **7,199** | **9,212** | **1,030** | **9,967** | **9,901** | **6,787** |
| ***EBITDA %*** | **68%** | **79%** | **81%** | **8%** | **81%** | **81%** | **74%** |
| **Depreciation** | **14** | **14** | **14** | **14** | **14** | **14** | **-** |
|  |  |  |  |  |  |  |  |
| **EBIT** | **4,197** | **7,186** | **9,198** | **1,016** | **9,953** | **9,887** | **6,787** |
| ***EBIT%*** | **68%** | **79%** | **81%** | **8%** | **81%** | **81%** | **74%** |
| **Finance Cost** | **6,994** | **6,297** | **5,517** | **4,645** | **3,670** | **2,580** | **1,362** |
|  | **`** |  |  |  |  |  |  |
| **PBT** | **-2,797** | **889** | **3,681** | **-3,629** | **6,283** | **7,307** | **5,425** |
| **Tax** |  | **222** |  |  | **1,571** | **1,827** | **1,356** |
| **PAT** | **-2,797** | **667** | **3,681** | **-3,629** | **4,712** | **5,480** | **4,069** |

**NOTES:** The brief description about the assumptions relating to revenue and expenses for the projected period are provided in the “Key Assumptions and Workings Section” under “Part F”.

|  |  |
| --- | --- |
| **PART F** | **VALUATION OF FIRM** |

**1. METHODOLOGY/ MODEL ADOPTED:** Sew Krishnagar Baharampore Highway Limited has significant Cash Flows arising from Annuity payments from NHAI. Further, we have used discounted cash flow methodology for the purpose of calculating PV of the future cash flows of the company.

1. The free cash flow method is similar to the method used for public companies.
2. FCFF is more practical when substantial capital changes are expected because weighted average cost of capital (WACC) is less sensitive to the cost of equity.

**Rationale for using FCFF Model for the Enterprise Valuation:**

1. The 3 Broad Model of Company Valuation are - Present Value (Discounted Cash Flow Models), Asset Based and Market Multiple.
2. Asset Based Model is inappropriate as the Company is a going concern and the model is unable to capture the Value of the company.
3. Market Multiple Approach is also not suitable as the company is not listed and no proper similar recent comparable transactions are available.
4. Therefore the most appropriate Model left to Value the subject Company will be using the Present Value Model.
5. The Present Value Model gives us a variety of input options to use while calculating the Value of the firm - Dividend, Free Cash Flow to the Firm, Free Cash Flow to Equity, Capitalized Cash Flows and Residual Earnings.
6. Dividends cannot be used as the Company has no history of paying dividends and we don’t foresee any dividend payments to occur in the future due to the high leverage of the firm.
7. The best method input option for the PV Model in the case of the subject company will be FCFF as it represents the benefits accruable to all the stakeholders in the Business enterprise.

**FCFF Model Formula and Key Inputs:**



1. **Free Cash Flow to Firm (FCFF)** - is the [cash](http://www.investinganswers.com/node/5011) available to pay investors after a company pays its costs of doing business, invests in short-term assets like [inventory](http://www.investinganswers.com/node/2474), and invests in assets like property, plants and equipment.

**FCFF = Net Income + Non-Cash Charges + Interest (1-t) – Working Capital Investment – Fixed Capital Investment.**

1. **Weighted Average Cost of Capital (WACC)** - The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets. The WACC is commonly referred to as the firm’s cost of capital. WACC is used as the discount rate to discount FCFF.

******

Where D is the total debt, E is the shareholders equity and Kd and Ke are the cost of debt and cost of equity, respectively.

1. **Cost of Equity**: The Cost of capital for SEW is assumed to be 17.28% using CAPM Model and Beta of Comparable companies. The same assumption has been used to calculate WACC.

**Comparable Companies to Sew Infrastructure Limited**

***(Figures in INR.)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Comparable Companies** | **Market Capitalisation** | **Beta Value** | **Debt-Equity** | | | | | **Average D/E** | **Unlevered Beta** |
| **2020** | **2019** | **2018** | **2017** | **2016** |
| **Irb Infrastructure Developers Ltd** | **39,36,24,00,000** | **2.1** | **10.88** | **12.48** | **17.69** | **8.11** | **13.92** | **12.616** | **0.20** |
| **Dilip Buildcon Ltd** | **55,03,62,00,000** | **1.58** | **0.76** | **1** | **1.13** | **1.19** | **2.02** | **1.22** | **0.83** |
| **JMC Projects (India) Ltd.** | **11,06,50,00,000** | **1.54** | **0.75** | **0.71** | **0.82** | **0.83** | **0.78** | **0.778** | **0.97** |
| **Gayatri Projects Ltd.** | **7,31,01,00,000** | **1.04** | **2.06** | **1.69** | **2.29** | **3.79** | **6.68** | **3.302** | **0.30** |
| **Hindustan Construction Company Ltd.** | **15,28,16,00,000** | **1.78** | **2.31** | **2.16** | **1.19** | **1.48** | **2.58** | **1.944** | **0.72** |
|  |  |  |  |  |  |  |  |  | **0.60** |

**Calculation of Company Beta for SEW**

|  |  |  |
| --- | --- | --- |
| **CALCULATION OF COMPANY BETA** | | |
|  |  |
| **Unlevered Beta** | 0.60 |
|  |  |
| Company Average Debt/ Equity Ratio | 9.49 |
| Company Tax Rate | 25% |
|  |  |
| **Company Beta** | 4.90 |
|  |  |
| **Calculation of Cost of Equity According to CAPM** | | |
|  |  |
| Risk Free Rate | 6.01% |
| Market Rate of Return | 8.31% |
|  |  |
| **Cost of Equity** | **17.28%** |

**2. CALCULATION OF FREE CASH FLOW TO FIRM**

***(Figures in Lakhs.)***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **In Lakhs** | **FY21E** | **FY22E** | **FY23E** | **FY24E** | **FY25E** | **FY26E** | **FY27E** |
|  | **3M** | **12M** | **12M** | **12M** | **12M** | **12M** | **12M** |
| **EBITDA** | **4,211** | **7,199** | **9,212** | **1,030** | **9,967** | **9,901** | **6,787** |
|  |  |  |  |  |  |  |  |
| **Free Cash Flow to Firm (FCFF)** | **4,211** | **7,199** | **9,212** | **1,030** | **9,967** | **9,901** | **6,787** |
|  |  |  |  |  |  |  |  |
| **Discount Period** | **0.27** | **1.27** | **2.27** | **3.27** | **4.27** | **5.27** | **6.27** |
| **Discount Factor** | **0.97** | **0.87** | **0.78** | **0.70** | **0.63** | **0.56** | **0.50** |
| **Present Value of FCFF** | **1,109** | **6,266** | **7,187** | **720** | **6,247** | **5,563** | **3,419** |
| **DSCR** | **0.33** | **0.56** | **0.71** | **0.08** | **0.77** | **0.77** | **0.53** |
| **Final Enterprise Value** | | **30509.99** |  | | | | |

1. **KEY INPUTS USED TO DISCOUNT CASH FLOWS DURING THE PROJECTION PERIOD:**

The Inputs used to Value the firm:-

|  |  |
| --- | --- |
| **Inputs** | |
| **Valuation Date** | **19-Dec-2020** |
| **Cost of Equity** | **17.28%** |
| **Cost of Debt** | **11.85%** |
| **Discount Rate (WACC)** | **11.5%** |
| **Tax Rate** | **25%** |

**Calculation of WACC for SEW**

|  |  |  |
| --- | --- | --- |
| **Weighted Average Cost of Capital** | | |
| **Particular** | **Weightage** | **Discount Rate** |
|  | | |
| Debt | 95% | 11.85% |
| Equity Including Quasi Equity (Promoter Subordinate debt) | 5% | 17.23% |
| **WACC** |  | **11.5%** |

1. **CALCULATION OF ENTERPRISE VALUE**

|  |
| --- |
| **ENTERPRISE VALUE OF THE FIRM** |
| **305.10 Crore** |

1. **KEY ASSUMPTIONS AND WORKINGS**

**Revenue/ Income:**

* Revenue of the company is calculated on the basis of the annuity payments from NHAI to the SEW Krishnagar Baharampore Highways Limited. Annuity payments of 61.20 crore is to be paid on half yearly basis which accounts for 122.40 crore annual payments to the company.

***(Figures in INR.)***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| **Annuity Payments** | **3,21,79,60,176** | **2,26,55,90,929** | **2,23,99,20,000** | **1,22,40,00,000** | **1,22,40,00,000** | **1,22,40,00,000** | **91,80,00,000** |
|  |  |  |  |  |  |  |  |
| **Payment to NHAI** | **2,59,79,60,176** | **1,35,34,88,002** | **1,10,40,86,385** |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Total Revenue** | **62,00,00,000** | **91,21,02,927** | **1,13,58,33,615** | **1,22,40,00,000** | **1,22,40,00,000** | **1,22,40,00,000** | **91,80,00,000** |

1. **Expenses:**
2. **Major Maintenance Expenses:**

There is an expense of 90 crore which needs to be incurred in the year 2024. According to the information provided by the management of the company major maintenance expenditure of 80-90 crore needs to be incurred after 5th year and 10th year from the PCOD date.

1. **Routine & Periodic Maintenance Expenses:**

First year Routine and Periodic Maintenance expenditure is calculated for 13.65 months. For the next upcoming years the expenditure will calculated for 12 months. Routine and maintenance expense is calculated using the rate of Rs. 1,19,351/ per Km per month. It is assumed that the road will be completed in next two years (till 31st March, 2023).For this purpose, routine & maintenance expenditure for 11 Km will be added from the year 2023 in the past year expenditure. The tabular view of the same shown below.

|  |  |
| --- | --- |
| R&P Maintenance expense for 76Km (65.018+11) | |
| **Rate/per Km per month** | 1,19,351 |
| **R&P Maintenance Expense for 11 Km/ per annum** | 1,57,54,332 |
| **Total R&P Maintenance Expense (with added expense of last year (FY-2022))** | 11,35,29,866 |
| **R&P Maintenance Expense in the year 2023** | 11,92,06,359 |

1. **Depreciation:**

The SLM method is used for the Assets held with the company with a gross block of 96.76 lakhs as 31st March, 2020. The tabular representation for the same is shown below:

| Year |  | Amount as at 31st March, 2020 | Depreciation % | Depreciation amount | Accumulated | Closing Balance |
| --- | --- | --- | --- | --- | --- | --- |
| 2021 | 1 | **96,76,000** | 14.29% | 13,82,285.71 | 13,82,285.71 | 82,93,714.29 |
| 2022 | 2 | 82,93,714.29 | 14.29% | 13,82,285.71 | 27,64,571.43 | 69,11,428.57 |
| 2023 | 3 | 69,11,428.57 | 14.29% | 13,82,285.71 | 41,46,857.14 | 55,29,142.86 |
| 2024 | 4 | 55,29,142.86 | 14.29% | 13,82,285.71 | 55,29,142.86 | 41,46,857.14 |
| 2025 | 5 | 41,46,857.14 | 14.29% | 13,82,285.71 | 69,11,428.57 | 27,64,571.43 |
| 2026 | 6 | 27,64,571.43 | 14.29% | 13,82,285.71 | 82,93,714.29 | 13,82,285.71 |
| 2027 | 7 | 13,82,285.71 | 14.29% | 13,82,285.71 | 96,76,000.00 | - |

1. **Provision for Tax:**

The Company would be liable to pay tax at an effective rate of 25%

|  |  |  |  |
| --- | --- | --- | --- |
| **Declaration** | 1. *Since this is Enterprise Valuation hence no site inspection was carried out by us.* 2. *The undersigned does not have any direct/ indirect interest in the above property.* 3. *The information furnished herein is true and correct to the best of our knowledge.* 4. *This valuation work is carried out by our Financial Analyst team on the request from State Bank Of India,* ***Stressed Asset Resolution Group Branch, Mumbai****.* 5. *We have submitted Valuation report to the Client.* | | |
| **Name & Address of Valuer company** | | **Signature of the authorized person** |
| M/s R.K. Associates Valuers & Techno Engineering Consultants Pvt. Ltd.  D-39, Second Floor, Sector-2, Noida, UP-201301  India | |  |
| **Enclosed Documents** | | 1. Valuer’s Remark - Page No. 25 | |
| **Number of Pages in the Report** | | 27 | |
| **Financial Analyst Team worked on the report** | | ***PREPARED BY: Mr. Jatin Joshi*** | |
| ***REVIEWED BY: HOD Valuations*** | |

**For R.K Associates Valuers & Techno Place : Noida**

**Engineering Consultants (P) Ltd. Date : 22 December 2020**

**(Authorized Signatory)**

**Valuations**

|  |  |
| --- | --- |
| **PART G** | **IMPORTANT DEFINITIONS | REMARKS** |

***Definitions:***

* ***Fair Market Value****suggested by the competent Valuer is that prospective estimated amount in his expert & prudent opinion of the subject asset without any prejudice after he has carefully & exhaustively evaluated the facts & information came in front of him related to the subject asset at which the subject asset should be exchanged between a willing buyer and willing seller at an arm’s length transaction in an open & unrestricted market, after proper marketing, wherein the parties, each acted knowledgeably, prudently and without any compulsion on the date of the Valuation.*

*Forced, under compulsion & constraint, obligatory sales transactions data doesn’t indicate the Fair Market Value.*

* ***Realizable Value*** *is the minimum prospective estimated value of the Company which it may be able to realize at the time of actual transaction factoring in the potential prospects of deep negotiations carried out between the buyer & seller for ultimately finalizing the transaction across the table. Realizable value may be 10-20% less than the Fair Market Value depending on the various salability prospects of the subject asset and the needs of the buyer & the seller.*
* ***Forced/ Distress Sale Value*** *is the value when the company has to be sold due to any compulsion or constraint like financial encumbrances, dispute, as a part of a recovery process, legal issues or any such condition or situation. In this type of sale, minimum fetch value is assessed which can be 15-25% less than the estimated Fair Market Value. In this type of sale, negotiation power of the buyer is always more than the seller and eagerness & pressure of selling the asset is more than buying it. Therefore the Forced/ Distress Sale Value will always fetch significantly less value compare to the estimated Fair Market Value.*
* ***Liquidation Value*** *is the amount that would be realized when an asset or group of assets are sold on a piecemeal basis that is without consideration of benefits (or detriments) associated with a going-concern business. Liquidation value can be either in an orderly transaction with a typical marketing period or in a forced transaction with a shortened marketing period.*
* ***Difference between Cost, Price & Value:*** *Generally these words are used and understood synonymously. However in reality each of these has a completely different meaning, premise and also have different definitions in the professional & legal terms. Therefore to avoid confusion, it is our professional responsibility to describe the definitions of these words to avoid ambiguity & confusion in the minds of the user of this report.*
  + *The* ***Cost*** *of an asset represents the actual amount spend in the construction/ actual creation of the asset.*
  + *The* ***Price*** *is the amount paid for the procurement of the same asset.*
  + *The* ***Value*** *is defined as the present worth of future rights in the asset and depends to a great extent on combination of various factors such as demand and supply, market situation, purpose, situation & needs of the buyer & seller, saleability outlook, usability factor, market perception & reputation. needs of the buyer & seller, saleability outlook, usability factor, market perception & reputation.*
  + *Therefore in actual for the same asset, cost, price & value remain different since these terms have different usage & meaning.*

***Remarks:***

1. This is just an opinion report on Valuation based on the copy of the documents/ information provided to us by the client which has been relied upon in good faith and the assessment and assumptions done by us.
2. This report is prepared based on the copies of the documents/ information which interested organization or customer could provide to us out of the standard checklist of documents sought from them and further based on our assumptions and limiting conditions. All such information provided to us has been relied upon in good faith and we have assumed that it is true and correct. Verification or cross checking of the documents provided to us from the originals has not been done at our end. If at any time in future it’s found or came to our knowledge that misrepresentation of facts or incomplete or distorted information has been provided to us then this report will automatically become null & void.
3. This Valuation is prepared based on the current financial status and projections of the company, financial data/ model, future projections, other facts & information provided by the company/ lender in writing & during verbal discussion during the course of the assignment and based on certain assumptions which are specifically mentioned in the Valuation section of the Report.
4. Key assumptions in the report is taken based data, information, inputs, financial statements, financial model, etc. provided by the company to us during the course of the assessment and on the basis of the assessment done by us and we have assumed that all such information is true & factual to the best of the knowledge of the promoter company.
5. Sale transaction method of the asset is assumed as free market transaction while assessing Prospective Fair Market Value of the asset.
6. Legal aspects for eg. Investigation of title, ownership rights, lien, charge, mortgage, lease, verification of documents from originals, etc. has to be taken care by legal experts/ Advocates.
7. Value varies with the Purpose/ Date/ Condition of the market. This report should not to be referred if any of these points are different from the one mentioned aforesaid in the Report.
8. Analysis and conclusions adopted in the report are limited to the reported assumptions, conditions and information came to our knowledge during the course of the work.
9. This report is having limited scope as per its fields to provide only the general indication of the Enterprise value of the company prevailing in the market based on the documents/ data/ information/ financial model/ financial statements provided by the client and the assessment and assumption taken by us. The suggested value should be considered only if transaction is happened as free market transaction.
10. Secondary/ Tertiary costs related to transaction like Stamp Duty, Registration charges, Brokerage, etc. pertaining to the sale/ purchase of the company are not considered while assessing the Market Value.
11. Appropriate methodology & assumptions are rationally adopted based on the facts of the case came to our knowledge during the course of the assignment considering many factors like nature of Industry, current market situation and trends.
12. Valuation is a subjective field and opinion may differ from consultant to consultant. To check the right opinion, it is important to evaluate the methodology adopted and various factors/ basis considered during the course of assessment before reaching to any conclusion.
13. At the outset, it is to be noted that Value analysis cannot be regarded as an exact science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. Given the same set of facts and using the same assumptions, expert opinions may differ due to the number of different factors, which have to be made. Therefore, there can be no standard formulae to establish an indisputable exchange ratio. In the event of a transaction, the actual transaction value achieved may be higher or lower than our indicative analysis of value depending upon the circumstances of the transaction. The knowledge, negotiability and motivations of the buyers and sellers and the applicability of a discount or premium for control will also affect actual price achieved. Accordingly, our indicative analysis of value 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. However our Valuation analysis can definitely help the stakeholders to make them informed and wise decision about the Value of the asset and can help in facilitating the arm’s length transaction.
14. This report is prepared on the Enterprise Valuation format as per the client requirement. This report is having limited scope as per its fields to provide only the indicative Enterprise value of the company based on the current financial position, future prospects & current Industry trends. The Valuation assessed in this Valuation Report should hold good only if transaction is happened as per free market transaction. No detailed analysis or verification of the information is carried upon pertaining to the value of the subject property. No claim for any extra information will be entertained whatsoever be the reason. For any extra work over and above the fields mentioned in the report will have an extra cost which has to be borne by the customer.
15. As per the scope of the report no site survey has been carried out by us and no thorough vetting of the financial model provided to us has been done at our end.
16. This is just an opinion report and doesn’t hold any binding on anyone. It is requested from the concerned stakeholder which is using this report that they should consider all the different associated relevant & related factors also before taking any business decision based on the content of this report.
17. This Valuation report is prepared based on the facts of the company provided to us during the course of the assignment. However in future the assumptions taken may change or may go worse due to impact of Govt. policies or effect of World economy, Industry/ market scenario may change, etc. Hence before taking any business decision the user of this report should take into consideration all such future risk.
18. This report only contains opinion based on technical & market information which came to knowledge during course of the assignment. It doesn’t contain any recommendations.
19. This report is prepared following our Standard Operating Procedures & Best Practices, Limitations, Conditions, Remarks, Important Notes, Valuation TOR.
20. Valuation is done based on the Industry wide general accepted norms and based on the international standards & best practices for enterprise/ business valuations.
21. Any kind of unpaid statutory, utilities, lease, interest or any other pecuniary dues on the asset has not been factored in the Valuation.
22. This Valuation is conducted based on the macro analysis of the asset/ property and not based on the micro, component or item wise analysis. Analysis done is a general assessment and is not investigative in nature.
23. All Pages of the report including annexures are signed and stamped from our office. In case any paper in the report is without stamp & signature then this should not be considered a valid paper issued from this office.
24. Defect Liability Period is **30 DAYS**. We request the concerned authorized reader of this report to check the contents, data and calculations, assumptions taken in the report within this period and intimate us in writing if any corrections are required or in case of any other concern with the contents or opinion mentioned in the report. Corrections only related to typographical, calculation, spelling mistakes will be entertained within the defect liability period. No request for any illegitimate value revision, date change or any other change will be entertained other than the one mentioned above.
25. Our Data retention policy is of **ONE YEAR**. After this period we remove all the concerned records related to the assignment from our repository. No clarification or query can be answered after this period due to unavailability of the data.
26. This Valuation report is governed by our (1) Internal Policies, Processes & Standard Operating Procedures, (2) R.K Associates Quality Policy, (3) Valuation & Survey Best Practices Guidelines formulated by management of R.K Associates, (4) Information input given to us by the customer and (4) Information/ Data/ Facts given to us by our field/ office technical team. Management of R.K Associates never gives acceptance to any unethical or unprofessional practice which may affect fair, correct & impartial assessment and which is against any prevailing law. In case of any indication of any negligence, default, incorrect, misleading, misrepresentation or distortion of facts in the report then it is the responsibility of the user of this report to immediately or at least within the defect liability period bring all such act into notice of R.K Associates management so that corrective measures can be taken instantly.
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28. If this report is prepared for the matter under litigation in any Indian court, no official or employee of R.K Associates will be under any obligation to give in person appearance in the court as a testimony. For any explanation or clarification, only written reply can be submitted on the additional payment of charges.