



ENTERPRISE VALUATION

NANGLOI WATER SERVICES PRIVATE LIMITED

December 30, 2023

30th December, 2023

To,
Mr. A.K.Damanji,
Chief Manager
Bank of India,
Assets Recovery Branch,
Star House, 5 B.T.M Sarani
Kolkata-700001

Dear Sir,

Re: Report on Enterprise Valuation of M/s Nangloi Water Services Private Limited (“NWSPL”)

We appreciate having been given the opportunity to Indcap Advisors Pvt Ltd. (hereinafter referred to as **‘we’ or ‘Indcap’**) to provide valuation services to Bank of India (hereinafter referred to as **‘the Client’**). We have conducted an Enterprise Valuation of **M/s Nangloi Water Services Private Limited** (‘NWSPL’ or the ‘Company’) in accordance with your signed letter dated 18th December 2023.

The scope of our engagement includes having discussions with you, about the nature of business; considering applicable economic, industry and competitive environments, selecting and implementing appropriate valuation methodologies and preparing this report summarizing our estimation of fair value, along with the data and significant assumptions on which this value is based. Our engagement is subject to the limiting conditions contained in this report. In particular, it may be noted that we have relied upon the information provided by the Client. We have been given to understand that the

information provided is correct and accurate and that the Client was duly authorised to provide us the same.

Our report does not take account of events or circumstances arising after the submission of our report (“Completion Date”). We have no responsibilities to update this report for events or circumstances occurring after the completion date. The valuation date is 30th **December 2023.**

This report can be used only for the purpose mentioned in this report and for no other purpose.

This report should be read in its entirety.

Yours sincerely,

Samir Agarwal
Director

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- NWSPL is a Special Purpose Vehicle (SPV) promoted by Veolia Water India Private Limited (51%) and Swach Environment Private Limited (49%).
- NWSPL was awarded a 15 year contract on a Public Private Partnership (PPP) model for uninterrupted water supply system in Nangloi area in New Delhi from Delhi Jal Board (DJB).
- In addition, a concession agreement was executed on 28.03.2013 between Delhi Jal Board and NWSPL wherein NWSPL's scope covers rehabilitation and expansion of the water supply system, transmission and distribution network under the command area of Nangloi Water Treatment Plant.
- The project mentioned above included
 - Water treatment plant (WTP) at Nangloi
 - Rehabilitation of raw water main and clear water main
 - Rehabilitation of Nangloi WTP
 - Rehabilitation of existing underground reservoirs (Mohan Garden + Najafgarh A)
 - Clear water transmission mains for new underground reservoirs
 - Construction of new underground reservoirs (Mundka + Najafgarh B)
 - Distribution network rehabilitation (Phase 1 & 2)
- The Nangloi WTP is currently operational and water is being supplied to over 2,77,000 household connections. At present major process related works are nearing completion and significant amount of capex towards the rehabilitation project has been undertaken. The same is major source of revenue for the Company.
- For the purpose of the concession agreement, the Company had availed credit limits from banks and financial institutions. However, due to macro and internal issues, the Company failed to complete the construction and monetize the capex incurred.

We understand that the account of the Company has become a Non-Performing Asset (NPA) with Bank of India on 31st March 2023 and for the final resolution in the account, the Client wishes to determine the Enterprise Valuation of NWSPL, for which it has appointed Indcap ("**Purpose**").

Deliverable and scope of work

Our scope of work as per the terms of signed letter dated 18th December 2023 is conducting Enterprise Valuation of NWSPL.

This report is our deliverable to the Client.

The following sources of information have been utilized in conducting the valuation analysis:

- **Company specific information** – The following Company specific information, as and are available in public domain and provided by the Company, verbally or in written form, have *inter-alia* been used in the valuation:
 - Audited Financial Statements for the years ended 31st March 2022 to 31st March 2023
 - Provisional financials for period ended September 2023 and November 2023
 - Business plan and Financial projections as shared by the Company, to the extent as considered in line with the industry standards
 - Details of current subscribers where water is being supplied
 - Techno Economic Viability Study Report of January 2023
 - Concession Agreement entered by the Company with Delhi Jal Board
 - Outstanding Debt Balances

Limits	Balance outstanding as on 29.12.23
Bank of India	96.37
SREI Equipment Finance Limited	105.29
Total	201.66

- Besides the above listing, there may be other information provided by the Company which may not have been perused by us in detail as they were not considered relevant for our defined scope.
- Industry and economic information – The following sources were utilized for analyzing the industry :
 - Publicly available information
 - Proprietary data bases subscribed to by Indcap

In addition to the above, we have also obtained such other information and explanations from the Client as were considered relevant for the purpose of the valuation. Such additional information have been analyzed and accordingly used for the purpose of arriving at the Enterprise Valuation of NWSPL.

Enterprise Valuation of Nangloi Water Services Private Limited

Rs. in crore					
Valuation Method	Value	Weightage	Value	+5%	-5%
Discounted Cash Flow Method	62	100%	62	65	59
Gross Enterprise Value			62	65	59
Less: Contingent Liabilities			-	-	-
Net Enterprise Value			62	65	59

Current Status of the Company

- NWSPL is currently operating Water Treatment Plant in Nangloi district of New Delhi and supplies water to more than 2,77,000 households.
- In addition to operating the water treatment plant, the Company has been under-going rehabilitation and expansion of the water supply system, transmission, and distribution network under the command area of Nangloi Water Treatment Plant.
- However, due to financial constraints, the Company has not been able to complete the construction and not been able to monetize the same.
- For the purpose of completion of the project, the Company had availed credit facilities from banks/ financial institutions as mentioned earlier. However, due to constraints, the Company has defaulted in making the repayments and discharging of interests.
- Pursuant to the above, the Client has approached us for undertaking a detailed valuation of the Company understanding its viability.
- A detailed discussion on the appropriateness of use of valuation methods is carried out later in the report

Valuation summary

The Enterprise valuation of NWSPL as at the Valuation date is summarised in table alongside.

Accordingly, based on the information available and Indcap’s estimates, the Enterprise Value of NWSPL would be in the range of Rs. 59 Cr. to Rs. 65 Cr. with a base value of Rs. 62 Cr. (Subject to Matter of Emphasis and Statement of Limiting Conditions as provided in this report)

Our valuation analysis is based solely on various information provided to us and certain assertions made by the Company before us including Management Representation letter dated <Date>. We have not verified these assertions with original documents.

- The Company will be able to continue with its operations till the end of the tenure of the agreement entered with Delhi Jal Board i.e., September 2028.
- The Company will have enough liquidity to run its operations till the end of the agreement. Promoters have already infused more equity / loans than was envisaged initially. However Promoters are going to bring in the necessary funds in the form of equity / loans or a combination thereof to meet the net funding requirement for the balance capex plan subject to satisfactory resolution of debt
- The Company will be making constant efforts to increase the number of customers and hence the annual increase in customers have been considered
- The Company will not be able to make sufficient PBT during the tenure of the agreement and hence no tax liability shall arise
- We have been informed by the Company that there is balance capex requirement that needs to be undertaken by the Company to the tune of INR 141 crores comprising of –
 - a) ~INR 113 crores related to distribution network, water treatment plant, underground reservoirs and automation
 - b) ~INR 28 crores of net payableswhich will be spread over a period upto Mar-25. In relation to point (a) above a cost escalation of 10% has been assumed and ~70% of original BOQ cost shall be borne by Delhi Jal Board as per the agreement entered
- Post incurring capex over a period upto Mar-25, the Company expects improvement in cash flows on account to additional consumers, increased usage per connection and collection efficiency which are reflected in the estimates provided to you
- Company will be incurring expenses such as network replacement and meter replacement and O&M costs as per the agreement with the Delhi Jal Board and as provided by the management of the Company

Matter of Emphasis

- We have worked with limited information as can be seen from 'Sources of Information' section.
- We have received provisional financial numbers for the period ended 30th November 2023 for our evaluation. Any material deviation which we are not aware of or has not been shared with us then the same shall have a bearing on the Enterprise Valuation of the Company.
- Further, we have conducted a desktop search of NWSPL including MCA records to retrieve company specific data.
- We did not conduct a site visit of the water treatment plant or the under construction section of the project. Further, we have been informed that the Company is currently operating under financial stress and looking for resolution with lenders.
- The contingent liabilities are not disclosed in the financial statements for FY 22-23. There aren't any contingent liability or litigations except those listed below:
 - a) There is ongoing litigation with SREI and BOI for NCLT matter
 - b) Bank Guarantee of INR 33 crs given to DJB

In a situation where any liability arises in future (i.e after the issuance of this report) it shall have a bearing on the Enterprise Valuation of the Company.

- We have been informed by the Company that there is balance capex requirement that needs to be undertaken by the Company to the tune of INR 141 crores comprising of –
 - a) ~INR 113 crores related to distribution network, water treatment plant, underground reservoirs and automation
 - b) ~INR 28 crores of net payableswhich will be spread over a period upto Mar-25. In relation to point (a) above a cost escalation of 10% has been assumed and ~70% of original BOQ cost shall be borne by Delhi Jal Board as per the agreement entered
- The Company does not have any other project apart from the existing project.
- Promoters have already infused more equity / loans than was envisaged initially. However Promoters are going to bring in the necessary funds in the form of equity / loans or a combination thereof to meet the net funding requirement for the balance capex plan subject to satisfactory resolution of debt. There is a possibility that if the capex is not undertaken, the on-going project from Delhi Jal Board may be cancelled which will have an impact on instant valuation and it may not hold good.
- Post incurring capex over a period upto Mar-25, the Company expects improvement in cash flows on account to additional consumers, increased usage per connection and collection efficiency which are reflected in the estimates provided
- The intangible asset amounting to ~INR 191 crores as on 31 March 2023 appearing on the balance sheet of the Company is the Concession Rights which is being amortized over the period of the concession. It does not represent any real asset as all these represented would belong to Delhi Jal Board post the concession term.

Statement of Limiting Conditions (1/2)

- As the Company consists of only one project with less than 5 year remaining life of concession, it does not have a comparable peer and post the concession period the majority of assets will be transferred to Delhi Jal Board.
- Provision of valuation opinions and consideration of the issues described herein are areas of our regular valuation practice. The services do not represent accounting, assurance, accounting/tax due diligence, consulting or tax related services.
- The estimates of value contained herein are not intended to represent value of the entity at any time other than the Valuation Date i.e. 30th December, 2023, as per the agreed scope of our engagement. Changes in market/industry conditions could result in opinions of value substantially different than those presented.
- The valuation report is prepared for the purpose defined earlier in the report and is for the confidential use of the Client only. Its suitability and applicability to any other use has not been checked by us. Neither the valuation report nor its contents may be disclosed to any third party or referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, any public communication, loan agreement or other agreement or document given to third parties without our prior written consent. We retain the right to deny permission for the same.
- In accordance with our Engagement terms and in accordance with the customary approach adopted in valuation exercises, we have not audited, reviewed or otherwise investigated the historical financial information provided to us. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in the financial statements.
- We have been given to understand from the Client that no relevant and material information/factors have been omitted or concealed or given inaccurately by people assigned to provide information and clarifications to us for this exercise and that it has checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. We have assumed that the information provided to us presents a fair image of the Company's activities and the assets being valued at the Valuation Date. Therefore, Indcap will accept no responsibility for any error or omission in the report arising from incorrect information provided. Also, we assume no responsibility for technical information furnished by the Client and believed to be reliable.
- As informed by the Client, NWSPL is an operating company with a 15 year concession on a Public Private Partnership (PPP) model for development of uninterrupted water supply system at Nangloi area in New Delhi from Delhi Jal Board (DJB). The project scope of work covers rehabilitation and expansion of the water supply system, transmission, and distribution network under the command area of Nangloi Water Treatment Plant and rehabilitation of WTP of 40 MGD. We have mostly relied on the audited financials for FY 2022-23.
- In addition, we have received revenue projections and related expenses based on the on-going project. We have not validated or verified the numbers shared with related contracts or agreements.

Statement of Limiting Conditions (2/2)

- The Report assumes that the Company complies fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that it will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this valuation report has given no consideration to the following matters -
 - Matters of a legal nature, including issues of legal title and compliance with local laws, and
 - Litigation and other contingent liabilities (except that has been specifically provided to us) that are not recorded in the audited/unaudited balance sheet of the Company in the report.
- Indcap is not aware of any contingency, commitment or material issue which could materially affect the Company's economic environment and future performance and therefore, the fair value of the Company's business. No effort has been made to determine the possible effect, if any, on the subject business due to future central, state or local legislation, including any environmental or ecological matters or interpretations thereof.
- The valuation analysis and result are governed by concept of materiality.
- We owe responsibility only to the Client that have retained us and nobody else.
- Indcap does not accept any liability to any third party in relation to the issue of this valuation report.

DRAFT FOR DISCUSSION

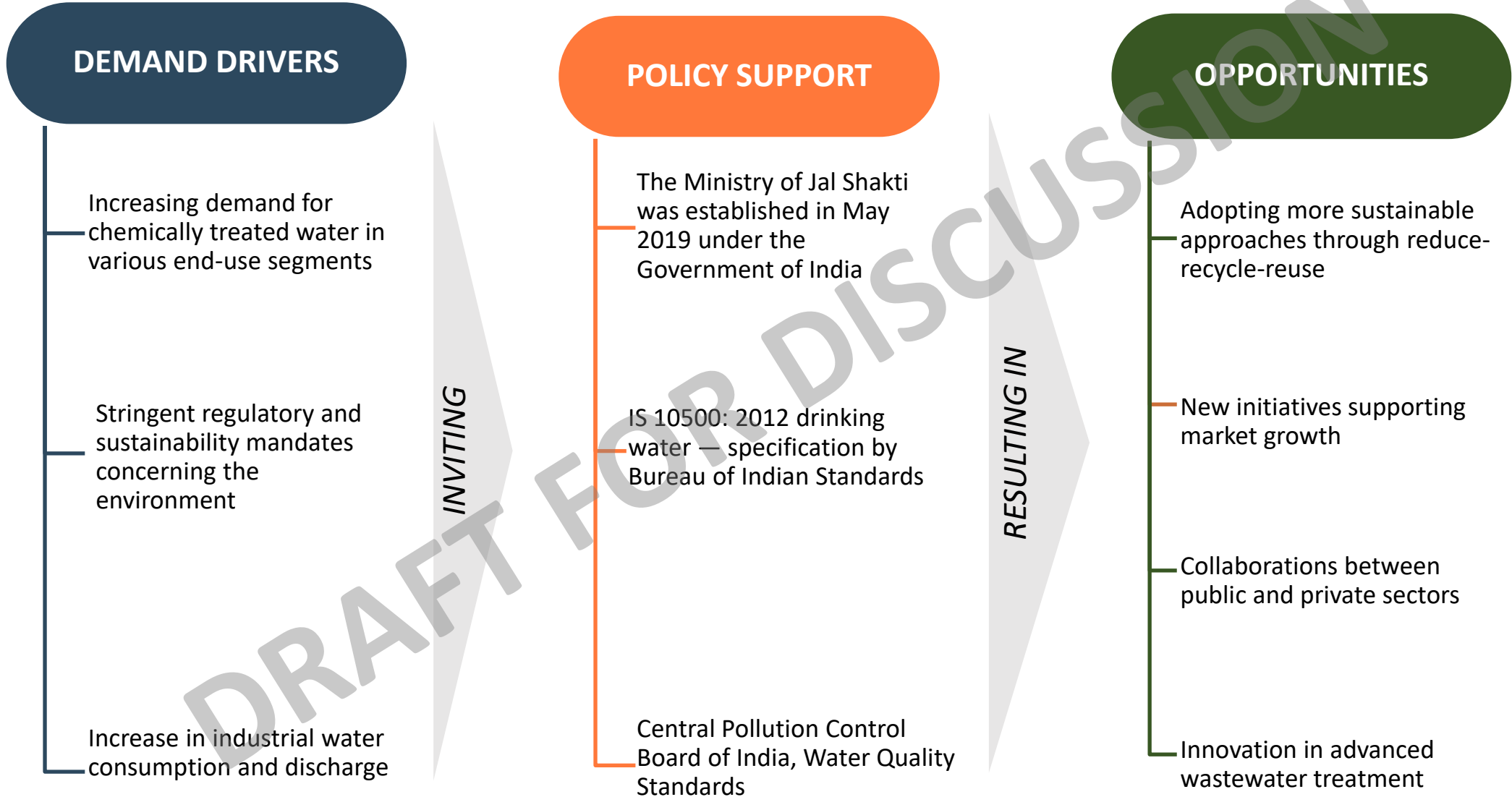
- Difference between the world's water supply and demand is predicted to increase to 40% by 2030. Demand already outpaces supply in many areas, and in other areas, water shortage is impeding economic progress
- Increase in urban population is unsustainable without effective city planning and the supply of utility services, particularly clean and inexpensive water
- In India, it is projected that by 2050, around 1450 km3 of water would be required, with approximately 75% being utilized in agriculture, 7% for drinking water, 4% in industry, and 9% for energy generation. However, due to increasing urbanization, the need for drinking water will trump rural water requirements
- The urban sewage generation was 72,368 MLD in 2020-21, whereas the existing sewage treatment capacity was 31,841 MLD. The operating capacity is 26,869 MLD, which is much less than the load generation. Only 28% of total sewage generation, or 20,236 MLD, was processed, implying that 72% of waste water is left untreated and is disposed of in various water bodies such as rivers, lakes, or subterranean water
 - ✓ There has been some capacity expansion, such as 4,827 MLD sewage treatment, but there is still a 35,700 MLD gap, or 49%, between waste water generation and treatment

Region-wise sewage generation and treatment capacity of urban centers-India, 2020 (MLD)

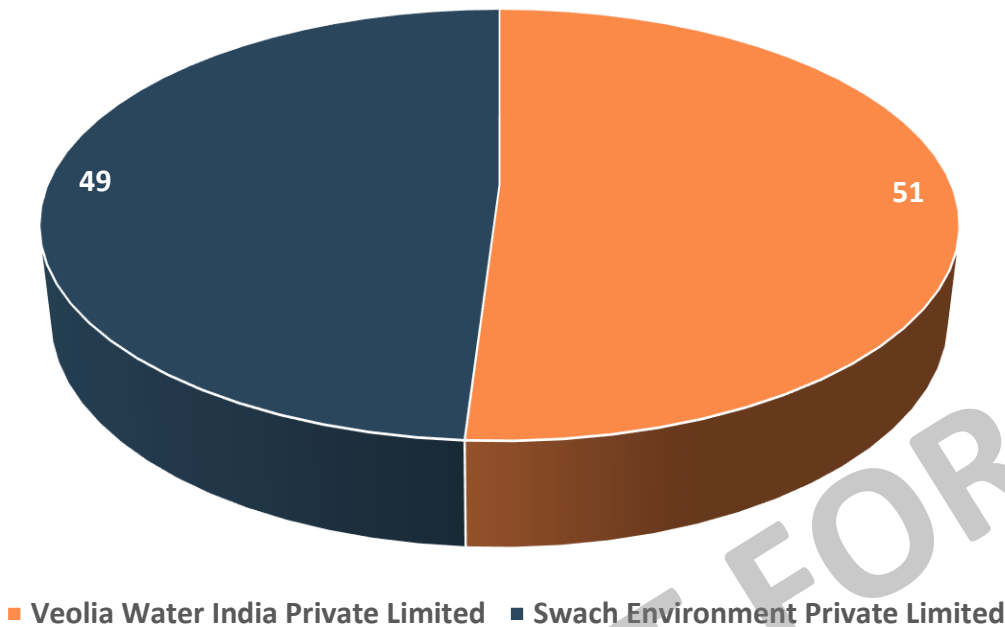
States / UTs	Sewage Generation (MLD)	Installed Capacity (MLD)	Proposed Capacity (MLD)	Operations Treatment Capacity (MLD)
East India	12226	1345	1553	440
West India	19212	13356	3161	11332
South India	20851	6114	23	4869
North India	16894	11026	90	10228
Total	72368	31841	4827	26869

Source: Central Pollution Control Board, National Inventory of Sewage Treatment Plants, Ministry of Jal Shakti





SHAREHOLDING PATTERN AS ON 30.11.2023



Incorporation	February 04, 2013
CIN	U41000DL2013PTC247846
Constitution	Company Limited by Shares
Sector/Industry	Operations & Management
Services	Water Treatment and Supply
Registered Office and Plant Location	Nangloi Water Treatment Plant, Kamruddin Nagar Nangloi, South West Delhi, New Delhi 110041
Directors of the Company	Sourav Daspatnaik – Director Ajay Pradhan – Director Lucie Teague – Director Neeraj Narang – CEO Shantanu Mitra – CFO Herve Louis Lienhardt – Director

- NWSPL is a special purpose entity set up to undertake water treatment activity and for uninterrupted water supply system in Nangloi area in New Delhi. The Company was awarded a 15 year concession on a Public Private Partnership model.
- In addition to the above the Company in accordance with the agreement entered had to undertake rehabilitation and expansion of the water supply system, transmission, and distribution network under the command area of Nangloi Water Treatment Plant and rehabilitation water treatment plant.
- Capacity of Nangloi WTP is 40 MGD (million gallons per day).
- Currently, the Company is supply water to around 2,77,000 households in New Delhi.

Balance Sheet

Particulars	Mar 22	Mar 23
ASSETS		
Non-Current Assets	239.45	203.35
Current Assets	60.96	64.03
Total Assets	300.41	267.37
EQUITY & LIABILITIES		
Equity Share Capital	1.01	1.01
Other Equity	-124.15	-196.90
<i>Net-worth</i>	<i>-123.14</i>	<i>-195.89</i>
Non-Current Liabilities	323.86	314.64
Current Liabilities	99.69	148.63
Total Liabilities	300.41	267.37

Profit and Loss Statement

Particulars	Mar 22	Mar 23
Revenue from Operations	57.40	70.91
Total Revenue	57.40	70.91
Total Operational Expenses	48.74	53.08
EBITDA	8.65	17.82
Less: Depreciation & Amortisation	37.05	35.77
Less: Finance Costs	48.31	55.05
Add/Less: Other Income/Expenses	3.71	0.10
PBT	-73.01	-72.91
<u>Less: Taxes</u>	-	-
PAT	-73.01	-72.91

- Note:
- We have received the Audited Financial for the year ended on 31 March 2023 and 31 March 2022 from the Company.
 - Concession Rights amounting to INR 191.34 crores are included in the Non Current Assets for period ended 31 March 2023. The same are amortized over a period of time and does not hold any market value.
 - As mentioned in earlier, the Company was awarded a 15 year concession on a Public Private Partnership (PPP) model for development of uninterrupted water supply system at Nangloi area in New Delhi from Delhi Jal Board (DJB). The project scope of work covers rehabilitation and expansion of the water supply system, transmission, and distribution network under the command area of Nangloi Water Treatment Plant and rehabilitation of WTP of 40 MGD.

Valuation Methods Used / Not Used

To determine the value of enterprises, three traditional approaches can be considered:

A. Market approach

The Market approach measures value based on what other purchasers in the market have paid for assets that can be considered reasonably similar to those being valued.

B. Income approach

The income approach determines the value of a business based on its ability to generate desired economic benefit for the owners. The key objective of the income based methods is to determine the business value as a function of the economic benefit.

C. Asset approach

The asset approach seeks to determine the business value based on the value of its assets.

For details of Valuation Approaches and Method -Refer **Appendix-1**

Summary of various methods used / not used in this engagement is as given below:

Valuation Methodology	Used	Weight Given	Remarks
Market Approach			
Market Price method	No	-	Not Applicable, since the Company is not listed on any bourses
Price of recent Investment method	No	-	Not Applicable
Comparable Companies' multiples method	No	-	The Company is operating with a single project with company specific constrains and hence comparing it with peers will not be relevant
Income Approach			
Discounted Cash Flows method	Yes	100%	As the Company is operating on an agreement basis with the Delhi Jal Board wherein the Company has to supply water as per agreement and undertake pre-decided capex. Accordingly, the revenue can be estimated in accordance with the agreement and hence Income Approach is the most appropriate method.
Cost approach			
Adjusted Net Assets Value method (ANAV)	No	-	The Company does not hold any major assets and the same need to be transferred to Delhi Jal Board upon end of concession and hence this approach shall not be applicable

DCF Methodology

01

Projection: Analysis of cash flow projection and their parameters specified in financial plan.

02

Discount Rate: Determination of Investor's rate of risk and corresponding discount rate.

03

Perpetuity: Estimation of value of company beyond the explicit period.

04

Adjustment: considering the value of asset & liabilities not reflected in the cash flow projection

05

Value: Determination of the Enterprise Value

DCF Methodology

Income-based approach

- Taking into consideration the specifics of the Company and the business environment, we have used the discounted cash flow (DCF) method (Free Cash Flow to Firm approach) to determine the Enterprise Value of the Company.
- The profit and loss account forecast covers a period of 3 months till March 2024, 4 (four) years starting from April 2024 to March 2028 and 6 months till September 2028. This is in accordance with the terms of the agreement with Delhi Jal Board.
- The above has been considered in accordance with the terms of the agreement of the Company with Delhi Jal Board. The agreement expires in September 2028. Further, there are no business plans of the Company to execute beyond the specified period.

Free cash flow calculation

- The calculation of free cash flows is based on the following data provided by the management of the Company a period of 3 months till March 2024, 4 (four) years starting from April 2024 to March 2028 and 6 months till September 2028. This is in accordance with the terms of the agreement with Delhi Jar Board. (Life of business)
 - Assumptions for preparing projected business plan; to the extent considered in line with the industry practice
 - Projected capital expenditures into fixed assets.
- Since we are computing Enterprise Value, earnings before interest, taxes, depreciation and amortization have been discounted to arrive at Free Cash Flow to the Firm. We have done this with an assumption that there will not be tax liability over the life to our projections.
- The financial plan has been discussed in detail in the prospective financial information section.

CAPEX

- In terms of Capex required in accordance with the agreement with Delhi Jal Board, we have been given to understand from the management that capital expenditure as given in the table below is required to be incurred. The following table summarizes the calculation of free cash flows to the firm:

Particulars	31 March 2024	31 March 2025	31 March 2026	31 March 2027	31 March 2028	30 September 2028
Months in Operation	3	12	12	12	12	6
Net Revenue	23.38	85.35	100.41	112.69	120.63	63.54
Growth			17.65%	12.23%	7.04%	-47.33%
EBITDA	7.16	23.40	36.98	35.02	48.65	28.56
EBITDA Margin	30.64%	27.41%	36.83%	31.07%	40.33%	44.96%
Less: Tax Expense	-	-	-	-	-	-
Debt Free Net Income	7.16	23.40	36.98	35.02	48.65	28.56
Add: Increase/Decrease in Working Capital	-	-	-	-	-	-
Less: Capital Expenditure net of grants	-6.85	-85.83	-	-	-	-
Free Cash Flow to Firm	0.31	-62.24	36.98	35.02	48.65	28.56

WACC calculation

$$WACC = \frac{E}{E + D} * r_e + \frac{D}{E + D} * r_d * (1 - T)$$

- WACC = Weighted Average Cost of Capital
- = Cost of Equity
- = Cost of Debt
- E = Market value of Equity
- D = Market value of Debt
- E+D = Capital Employed
- T = Corporate Tax rate

Cost of Equity calculation

- r_e = Cost of Equity
- r_f = Risk free rate of return
- b = Beta
- r_m = Market risk

Discount Rate:

- The application of the income approach requires the determination of an appropriate discount rate at which future cash flows are discounted to their present value as of valuation date.
- The discount rate reflects the time value of money and the risk associated with projected future cash flows. It is derived on the basis of the expected return on capital and the price of the best alternative investment. Therefore, the discount rate indicates the minimum required return from the asset being valued if the investor is not to be worse off than he would be if he had invested his money in the next best alternative. The return on this alternative investment must be comparable in terms of dimensions, timing and certainty, with the net cash flows expected to be derived from the subject asset.
- To derive the discount rate, the weighted average cost of capital (WACC), which refers to the total capital invested (equity and debt), is used and adjusted for risk premiums or discounts, depending on the asset’s specific risk compared to the risk of the overall enterprise. To determine the appropriate WACC it is adequate to consider cost of equity and cost of debt separately.
- The formula for the calculation of the WACC is shown in table “WACC calculation” and is accordingly computed as -

Particulars	Cost	Weights	Value
Cost of Debt	10.06%	70%	7.05%
Cost of Equity	16.02%	30%	4.81%
WACC			11.85%
Additional Risk			2.00%
Adjusted WACC			13.85%

Determination of WACC

Cost of equity

- For the estimation of the cost of equity, the capital asset pricing model (“CAPM”) is applied. According to the CAPM, cost of equity consists of a risk-free interest rate and a risk premium. The risk premium is calculated by multiplying the market risk premium by the beta-factor, a company-specific measure of the systematic risk of an equity investment in a company.

Cost of debt

- We have assumed average cost of debt of 13.45% based on their existing facilities for calculation of WACC and the after-tax rate is computed at 10.06%.

Risk Free Rate

- We have taken yield of 10 year bond issued by Government, i.e. 7.18%, as Risk Free Rate.

Equity Market Risk Premium

- Equity risk premium is calculated as excess return that an investor earns for undertaking additional risk by investing in the stock market over a risk-free investment. We have taken stock market return (BSE) spread over a period of 10 years for calculating Equity Market Risk Premium.

Equity Beta

- Considering the risk element in the business and the scale of its operation, an Equity Beta of 1.50 has been considered.

Capital structure

- For the purpose of WACC estimation, the D/E ratio is taken as 70:30

Alpha (Additional Risk premium)

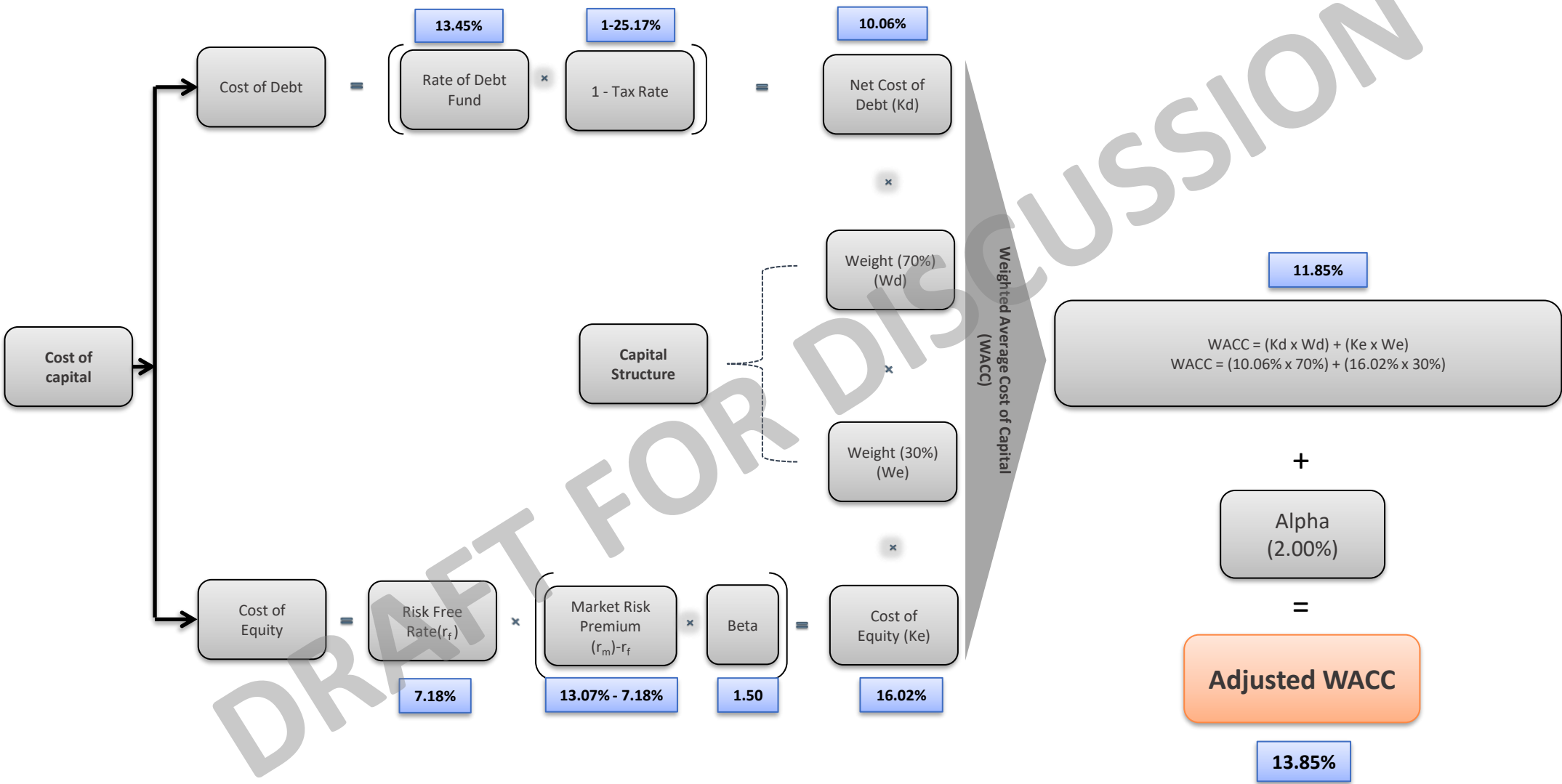
- We have considered an additional risk premium of 2% considering the current scale of operation and its high debt levels. Also considering the forecasted numbers, we believe that one could argue that there should be further premium to capture the risk of achieving the same.

Adjusted Weighted average cost of capital (WACC)

- Given the aforesaid, the WACC is estimated to be 13.85%.

A graphical presentation of the Discount rate is shown in the next slide.

Valuation Analysis | Calculation of Discount Rate - WACC



Mid-Year Discounting Convention

Indcap DCF approach assumes that the cash flows occur evenly during each of the measurement period (and not at the end of the year); therefore the discounting rate is adjusted to value the cash flows at midpoint of the measurement period

DCF result

Based on the above mentioned WACC, free cash flow and terminal value assumptions as discussed earlier, the DCF valuation of SVIL is shown in the following table.

Particulars	31 March 2024	31 March 2025	31 March 2026	31 March 2027	31 March 2028	31 March 2029
Months in Operation	3	12	12	12	12	6
Net Revenue	23.38	85.35	100.41	112.69	120.63	63.54
Growth			17.65%	12.23%	7.04%	-47.33%
EBITDA	7.16	23.40	36.98	35.02	48.65	28.56
EBITDA Margin	30.64%	27.41%	36.83%	31.07%	40.33%	44.96%
Less: Tax Expense	-	-	-	-	-	-
Debt Free Net Income	7.16	23.40	36.98	35.02	48.65	28.56
Add: Increase/Decrease in Working Capital	-	-	-	-	-	-
Less: Capital Expenditure net of grants	-6.85	-85.63	-	-	-	-
Free Cash Flow to Firm	0.31	-62.24	36.98	35.02	48.65	28.56
Discount Rate	13.85%					
Growth	2.00%					
Time Period	0.25	1.25	2.25	3.25	4.25	4.75
Discounting Factor	0.97	0.85	0.75	0.66	0.58	0.54
Present Value of Cash Flows	0.30	-52.92	27.62	22.97	28.03	15.42
NPV of Explicit Period	41.43					
Present Value of Perpetuity	-					
Value of Operations	41.43					
Business Value	41.43					
+ Available cash & bank balance	17.03					
+ non current Investment	3.52					
Enterprise Value	61.97					

Valuation Summary					
Rs. In Cr	Value	Weights	Weighted Value	(+)5%	(-)5%
Income Approach					
Discounted Cash Flows method	62	100%	62	65	59
Enterprise Value			62	65	59
Less: Contingent Liabilities			-	-	-
Net Enterprise Value			62	65	59

- The current valuation has been carried out based on the valuation methodologies explained herein earlier. Further, various qualitative factors, the business dynamics and growth potential of the business, having regard to information base, management perceptions, key underlying assumptions and limitations were given due consideration.
- We have assigned 100% weight to the Discounted Cash Flow Method in order to arrive at the Enterprise Valuation of Nangloi Water Services Private Limited.

Accordingly, based on the information available and Indcap’s estimates, the Enterprise Value of NWSPL would be in the range of Rs. 59 crores to Rs. 65 crores with a base value of Rs. 62 crores.

Appendix 1 | Valuation Approaches and Method (1/5)

- To carry out a valuation analysis of the Company, we consider certain fundamental factors that affect the wealth-generating capability of the Company. These include:
 - The general economic outlook as well as the current and expected conditions in the business environment and the industry's relationship with the economy
 - The competitive environment prevailing within the industry
 - The relative competitive advantages of the business in terms of the service capability, management capabilities and the quality of the Clients of the entity
 - The historical financial and operational performance of the business, etc.
- Accordingly, 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), nature of internal and external (dis)economies of scale, optimum capital structure
 - Accounting practices and legal provisions, etc.
- There are a number of methodologies to value companies / businesses using historical and forecast financials of the Company. In case, the Company is widely held and regularly traded on stock market, we may attach maximum weightage to the Market Price method. However, for valuing other businesses on the basis of going concern, we attach primary significance to the use of Comparable Companies. These methods are outlined below:

Market price method (based on trailing information)

- Uses historical average market price quotations on major stock exchanges) - Simple/Weighted average (by volume)
- Price of recent investment method

Comparable Companies' Multiples method (based on trailing/current/forward information)

- Uses valuation multiples derived from listed market prices or transacted values of comparable companies in the market as adjusted for differences.
- Price to maintainable PAT/ PBT/ EBITDA/sales amount/ sale quantity or to NAV, etc.

Appendix 1 | Valuation Approaches and Method (2/5)

Discounted Cash Flow method (based on future information)

- Uses projections of cash flows referenced to market parameters)
- Based on market beta of subject Company and/or comparable listed companies

Net Assets Value method (based on trailing information)

- Book value / original cost minus depreciation
- Market replacement cost – adjusted for expired life
- Market realizable value (break-up or asset-by-asset sale)

Market Price (MP) method

- Based on historical average of market price quotations of Company's shares on major stock exchanges
- Usually prices are weighed by volume of related trades to ensure that frivolous small trades do not vitiate averaging process
- Pre-requisite - existence of regular and free trades in Company's shares
- Considered to be one of the best methods for valuation of shares if the above pre-requisite is satisfied
- Practical difficulties that may be faced
 - Nil or very little trading in Company's shares
 - Apparent price-rigging in Company's shares (especially if the public investor base is small)
 - Very high volatility in prices (with little trading volumes)
- We take longer term trends in valuation multiples of comparable companies under this method than just taking a particular day's price since latter, especially in Indian context, is widely believed to be significantly more influenced by speculative factors than fundamental factors. Under PORI variant, private arm's length transactions (i.e. other than through stock markets) are considered if they have resulted in change in relative stakes of shareholders.

Comparable Companies' Multiples (CCM) method

- Uses multiples derived from valuations of comparable companies, as manifest through
 - Stock market valuations of listed companies
 - Valuation based on M&A deals involving comparable companies

Appendix 1 | Valuation Approaches and Method (3/5)

- Based on the principle that 'comparable transactions/ market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation'
- Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances. Earnings (operating) based multiples are usually considered analytically better for CCM analysis compared to sales multiples.
- The above multiples are applied to future maintainable profits/sales/etc. of the Company
- Practical difficulties that may be faced
 - No or very few sufficiently comparable companies
 - No or very few listed/ recent transactions history in sufficiently comparable companies
 - Lack of availability of the credible data about recent transaction in sufficiently comparable companies.

Discounted Cash Flows (DCF) method

- The DCF method is one of the most scientific among all the valuation methods in terms of conceptual framework. As per the method, value is defined as following:
 - Value = present value of future cash flows that can be withdrawn from the Company
 - The value so derived is not impacted by accounting practices (which are many a times non-uniform across companies/ time), as it is based on cash flows and not book profits. The method incorporates all factors relevant to business (e.g. tangible and intangible assets, current and future competitive position, financial and business risks, etc.). The key steps involved in a DCF method based valuation are explained below.

Step 1: Analyze Historical performance

- Calculate NOPLAT & invested capital
- Calculate value drivers
- Analyse financial health

Step 2: Forecast performance

- Understand strategic position
- Develop performance scenarios
- Check overall forecast for reasonableness

Appendix 1 | Valuation Approaches and Method (4/5)

Step 3: Estimate cost of capital

- Estimate cost of non-equity financing
- Estimate cost of equity financing

Step 4: Estimate continuing value

- Define the parameters/ assumptions
- Discount continuing value to present

Step 5: Calculate and interpret results

- Test the reasonableness of the results using other techniques
 - Interpret the results within the decision context
- To estimate the cash flows available to stakeholders, projected income statement and balance sheet of the entity are prepared for certain future years (explicit forecast period) until the time when Company's business(es) stabilize. These estimates are based on financial assumptions that are derived by the management of the Company from the integrated results of the economic outlook, industry outlook, corporate analysis, historical financial analysis and management's expectations.
 - A very important element in this model 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 indicator of the relevant discount rate. The WACC is defined as the weighted combination of the Cost of Equity Capital (COEC) and the Cost of Debt Capital (CODC).
 - The COEC as per the Capital Asset Pricing Model (CAPM) is arithmetically expressed as follows:
$$k_e = r_f + (b \times r_{pm})$$

where

k_e = Cost of equity financing
 r_f = Risk-free rate of return
 b = Beta, a measure of risk associated with the Company
 r_{pm} = Market risk premium

Appendix 1 | Valuation Approaches and Method (5/5)

- Practical difficulties
 - Forecasting future cash flows is not easy/ objective in many cases (due to industry/ company factors)
 - Finding appropriate beta in Indian market conditions may not be a wholly objective exercise.

Net Assets Value (NAV) method

- **Arrives at valuation in terms of stated net worth of the Company**
 - Usually, not a good indicator of the value of a going concern
 - Ignores business potential
 - Does not take intangibles into account
 - Impacted by accounting practices
 - Is useful only when
 - Other methods do not adequately reflect the fair value
 - Threat to survival of the business
- Variations of this method use depreciated replacement cost of fixed assets or net realizable value (break-up or asset-by-asset sale basis). These methods are used mostly in cases where valuation under these methods is expected to be higher compared to valuation under any other method. This is usually the case when tangible assets dominate earnings capability or when the business has to be closed down (i.e., not a 'going concern'). The final value is derived on the basis of values as reached under each of the above methods and has to be arrived at in a professionally justifiable manner.

DRAFT FOR DISCUSSION