SHARE VALUATION REPORT

Khoday India Limited

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1. Introduction

1.1. Background

Khoday India Limited ("The Company") is a company incorporated under the Companies Act, 1956. The Company is a part of "Khoday Group of Industries" having its diversified business activities. It was established in the year 1965, with manufacture & sale of liquor being its major activity. It employs more than 6,000 people engaged in activities that include distilling, brewing, and malt mashing.

The Company holds one of the prime positions in the alcoholic beverages industry in the Country. Its brands include Peterscot, Red Knight and Khodays Rum enjoying a substantial market share. The distribution of liquor is mainly done by State Beverages Corporations set-up in respective states.

The Company is being managed by heirs of Khoday family, who are part of the Board. The Board's expertise has been steering the business of the company with traditional methods. The Company's shares are listed in stock exchanges of Bombay, Bangalore & Madras.

1.2. Purpose of Valuation

The purpose of this valuation report is to arrive at a fair value of the equity shares of the Company as on the valuation date for the purpose of capital reduction through a scheme of arrangement in accordance with the Companies Act, 1956.

1.3. Date of Valuation

The effective date of valuation is **31st December 2012**.

2. Company Information

2.1. Overview

Khoday India Limited is engaged in the manufacture and distribution of high quality Alcoholic Beverages for the Indian and Overseas markets. The company is also into manufacture of high quality glass bottles through separate divisions.

The Company's brand portfolio includes some premium brands like Red Knight Malt Whisky, Peter Scot Malt Whisky, Hercules XXX Rum, Honeywell brandy, etc.

Some of the key milestones in the history of the Company are given below:

- **1965** - Khoday Distilleries was incorporated as a Private Limited Company
- **1986** – Converted into a public limited company
- **1986** – Public issue and modernization drive
- **1992** – Name changed to Khoday India Limited
- **2000** - Manaylux Papers and Boards Pvt Ltd amalgamated with the company.
- **2003** – Amalgamation of Khodays Systems Limited with Khoday India Limited

2.2. Management

The following is the structure of the Management of the Company:

Table 1: Composition of Management

Name	Title
K.L.Ramachandra	Chairman
K.L. Srihari	Vice Chairman & Managing Director
K.L.A. Padmanabhasa	Joint Managing Director
K.L. Swamy	Executive Director
K.R.Nithyanand	Director
K.H.Gurunath	Director
K.S. Giridhar	Director
Prof. L.R. Vagale	Independent Director
Major Gen. (Retd.) M.K.Paul	Independent Director
B.K. RatnakarRao	Independent Director
SudhakarShetty	Independent Director
P.R. Ananda Murthy	Independent Director
D.V.Sathyanarayana	Independent Director
D.PrabhakaraRao	Independent Director

2.3. Financial Summary

The following table gives the financial summary of the financial position and operating performance of the company for the previous three years as per the audited financial statements:

Table 2: Financial Summary

Amount Rs. In Lakhs

Particulars	2009-10	2010-11	2011-12
Net Worth	10,915.80	9,506.89	10,891.93
Income	13,197.82	13,743.10	16,477.40
Profit After Tax (PAT)	(557.97)	(1,332.92)	1,580.28

Note: Figures in bracket indicate negative amounts

The position and performance of the Company based on unaudited numbers as on 31st December 2012 as provided by the Management are discussed below:

Assets

The following chart represents the Company's assets as at 31st December 2012:

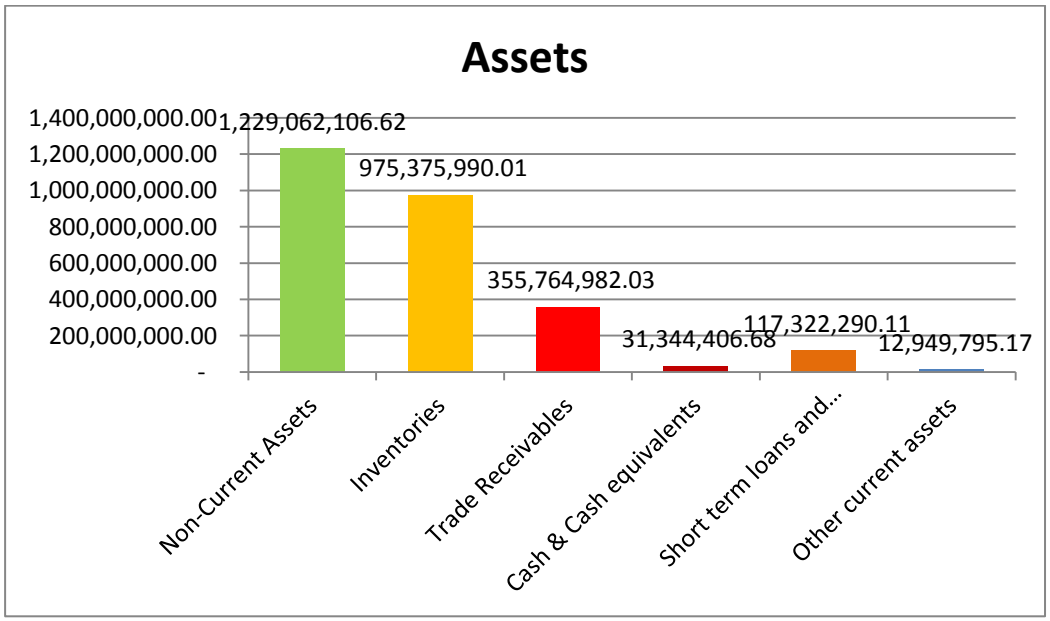

Figure 1: Analysis of Assets

Non-Current Assets about **45%** of the total assets since this is a capital intensive industry with heavy investments in plant and machinery. It also includes land and buildings whose current market value (based on Management certificate) are discussed in the later part of this report. Inventory represents about **36%** of the total assets. These primarily consist of inventory of raw material, work in progress and finished goods pertaining to the various divisions in the Company.

Liabilities

Current and non-current liabilities fund about **66%** of the total assets of the Company. The balance is funded by share capital and accumulated reserves. The long term liabilities of the company include notes payable which are due for payment beyond twelve months from the end of the reporting period. These represent **16%** of the total assets of the Company, while the short term liabilities represent about **50%** of the total assets of the Company.

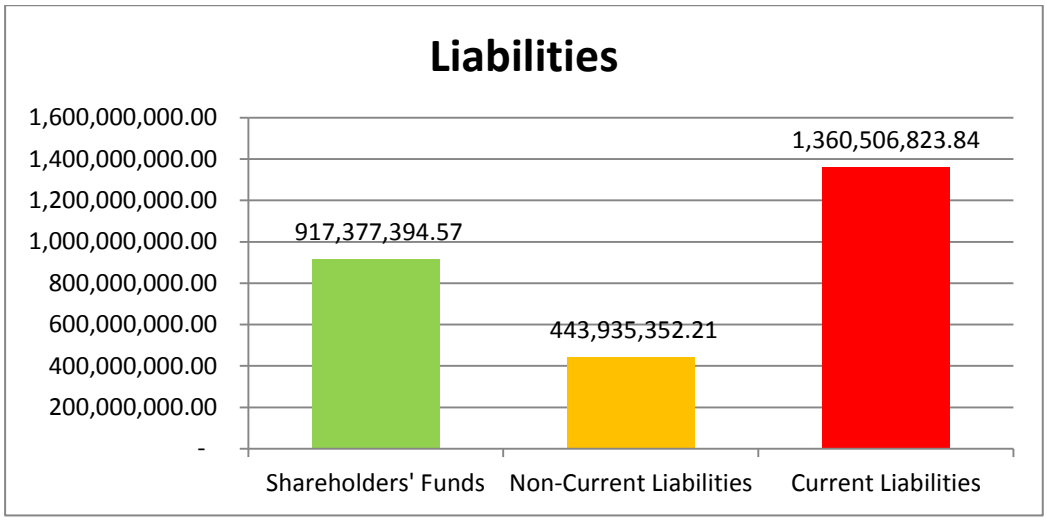

Figure 2: Analysis of Liabilities

2.4. Income Statement Analysis

Figure 3 presents the income and profit for the period 2009-10 to 2011-12:

Sales and Operating expenses

Figure 3: Income Statement Analysis

Sales have continuously grown over the three years period at a Compounded Annual Growth Rate (CAGR) of **12%**. The Company was making losses in 2009-10 and 2010-11. However in the year 2011-12, the Company posted a profit of **Rs.1,580.28 lakhs**.

2.5. Shareholding Pattern

The Company is a listed company with the following shareholding pattern as on 31st December 2012:

Table 3: Shareholding pattern

Shareholder	No. of shareholders	No. of shares	Percentage
Promoters/Promoter Group			
Individuals/HUF	30	27,605,270	73.44%
Bodies Corporate	14	6,054,925	16.11%
Total (A)	**44**	**33,660,195**	**89.54%**
Public Shareholding			
Institutions	5	3,927	0.01%
Non-Institutions	15,962	3,927,115	10.45%
Total (B)	**15,967**	**3,931,042**	**10.46%**
Grand Total	**16,011**	**37,591,237**	**100.0%**

3. Approach and Methodology

3.1. The Approach

In determining the valuation of shares of the company, the following considerations are important for arriving at a realistic estimate of the value of equity of the Company. These considerations look at different perspectives of the valuation of the company:

- **Asset Approach:** Under this approach the net value of assets are considered after deducting outside liabilities. This approach gives the value of the Company based on book value as well as market value.

- **Discounted Cash Flow Approach**: Under this approach the income and expenses are projected for the future years. Based on this cash flow projections are made and are discounted using an appropriate discount rate to arrive at the present value of the cash flows.

- **Industry Rules of the thumb**: Under this method the value of the equity is arrived based on certain multiples from the industry.

3.2. Methodology

There are five primary methodologies which have been used in this report in arriving at the value of equity of the Company as at the valuation date:

Table 4: Methodology Overview

Sl. No.	Method	Approach	Rationale
1.	Net Assets/Net Worth	Asset	Under this method, the book value of equity is arrived at.
2.	Revaluation Method	Asset	Wherever the market value of assets is significantly different from the book value, the market values are substituted. The liabilities are deducted from this value to arrive at the value of equity.
3.	Discounted Cash Flow	Discounted Cash Flow Approach	Under this method the future cash flows are projected and discounted at an appropriate rate to arrive at the present value. This present value is the value of equity.
4.	Revenue Multiple	Industry rules of thumb	Under this method the 'Revenue multiple' is arrived based on market information from similar companies. These are then used as the base to arrive at the equity value of Khoday India Limited.

Sl. No.	Method	Approach	Rationale
5.	EBITDA Multiple	Industry rules of thumb	Under this method the 'Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) multiple' is arrived based on market information from similar companies. These are then used as the base to arrive at the equity value of Khodays India Limited.

4. Valuation of Khoday India Limited

4.1. Summary

The value of the Company has been arrived using the five methods under the Asset, Income and Market Approaches to valuation as discussed above.

The results from these methods have been used to arrive at the value of equity of Khoday India Limited as on the date of valuation. In order to eliminate bias of usage of different methods, equal weights have been assigned to all the five methods.

Table 5: Summary of various Valuation Approaches

Sl. No	Method	Weight	Value (Rs.)	Weighted Value (Rs.)
1.	Net Worth	20%	91,73,77,395	18,34,75,479
2.	Revaluation Method	20%	93,51,14,635	18,70,22,927
3.	Discounted Cash Flow	20%	62,75,00,385	12,55,00,077
4.	Revenue Multiple	20%	230,18,25,482	46,03,65,096
5.	EBITDA Multiple	20%	111,76,76,733	22,35,35,347
6.	**Total (1)to (5)**	**100%**		**117,98,98,926**
7.	No. of shares			3,75,91,237
8.	**Value per share (6) ÷ (8)**			**31.39**

Source: Compiled from various approaches outlined in this report

The value of equity of Khoday India Limited as on 31st December 2012 works out to **Rs. 117,98,98,926**. At this value, the value per share works out to **Rs. 31.39** per share

4.2. Net Worth Method

Under this method of valuation, the equity of the Company is valued based on the book value per share. For this purpose the book value of liabilities as on the valuation date is subtracted from the book value of assets as on the valuation date. This net worth can also be computed by adding the value of share capital and accumulated profits.

For the purpose of arriving at the value of equity under this method, the unaudited financial statements as at 31st December 2012 were considered. The value of equity of Khoday India Limited as on 31st December 2012 works out to **Rs. 91,73,77,395.** The breakup of this value is given below:

Table 6: Net Worth Method

Sl. No.	Particulars	Value (Rs.)
1.	Share Capital	37,59,12,370
2.	Accumulated Reserves	54,14,65,025
3.	**Total Value (1) + (2)**	**91,73,77,395**

4.3. Revaluation Method

The valuation under this method is similar to the net worth method. The only difference is that the revalued amounts are considered instead of book values. For the purpose of revalued amounts for assets, the information provided by the Management of Khoday has been relied upon. For all other assets and liabilities (i.e. those that are not revalued), the information has been extracted from the unaudited financial statements as at 31st December 2012.

The value of equity of Khoday India Limited as on 31st December 2012 works out to **Rs. 93,51,14,635**

The breakup of this given in **Table 7** below:

Table 7: Net worth Method

Sl. No.	Particulars	Value (Rs.)
1.	Net worth as per books (Refer Table 6)	91,73,77,395
2.	Less: Book value of land (which is considered for revaluation)	(4,94,05,210)
3.	Add: Revalued amount of land	6,71,42,450
4.	Net Worth (Based on revaluation)	**93,51,14,635**

4.4. Discounted Cash Flow Method

The primary concept behind this method is to value a business based on its earning capacity. Cash Flow is linked with all other fundamentals of the business like growth, capital requirements, risk involvement or uncertainty, etc. Thus valuation under this method is based on the earning capacity of the business.

The Discounted Cash Flow Approach derives the value of the business from the sum of the present value of free cash flows accruing to the equity shareholders. Value of the business under this approach comprises of the following:

- Free cash flow to the Equity after meeting all its expenses, repayment of loans and normal capital expenditure to maintain current level of operations.
- Terminal value of the business at the end of the last year of projections

This method uses financial projections to determine the value of business or value of ownership based on future income for several periods (unstable growth period) and terminal value after expiry of that period (stable growth period). Then, a discount rate is employed to convert those future values back to a present value.

These Free Cash Flows to Equity (FCFE) is discounted at the appropriate rate for the equity shareholders, that is, the Cost of Equity to arrive at the value of equity as on the valuation date.

The valuation of the Company under this method comes to **Rs.44,87,01,896**

Table 8: Valuation under Discounted Cash Flow method

Amount in Rs.

Sl. No	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
		Projected	Projected	Projected	Projected	Projected
1.	Cash Profit	(15,57,80,136)	4,99,48,754	12,47,68,199	20,53,16,174	19,58,97,904
2.	Add: Increase in current liabilities	(17,32,38,200)	(45,69,024)	1,16,47,858	1,26,80,033	13,811,422
3.	Less: Increase in current assets	38,23,19,107	(5,29,63,760)	(10,19,50,770)	(11,21,45,847)	(12,33,60,432)
4.	Add: Increase in Working Capital borrowing	(7,85,17,269)	4,31,49,588	6,77,27,184	7,45,99,361	8,21,61,757
5.	**Cash Profit after Working Capital adjustments (1) +(2) - (3)+(4)**	**(2,52,16,497)**	**3,55,65,558**	**10,21,92,471**	**18,04,49,721**	**16,85,10,652**
6.	Less: Increase in Fixed Assets	(50,00,000)	(50,00,000)	(50,00,000)	(50,00,000)	(50,00,000)
7.	Less: Repayment of loans (principal)	(14,62,70,068)	(10,30,63,563)	(11,41,20,267)	(10,74,04,287)	(1,17,88,334)
8.	Terminal Value*	-	-	-	-	1,39,87,52,182
9.	Free Cash Flow to Equity (FCFE) **(5)-(6)-(7)+(8)**	**(17,64,86,565)**	**(7,24,98,004)**	**(1,69,27,796)**	**6,80,45,434**	**1,55,04,74,500**
10	Value of Equity @ 13.88%	**62,75,00,385**				

* Terminal value is computing using the EBITDA purchase method. Under this method, the EBITDA for the year 2016-17 is multiplied by the purchase index (times). For the purpose of this report, an EBITDA multiple of 5 times has been considered in 2016-17. Considering the growing demands of the industry and the potential of this company, this assumption is reasonable and conservative.

The financial projections as certified by the Management are given in **Annex 1** to this report. The key valuation assumptions are given in **Annex 2** to this report.

4.5. Revenue Multiple Method

Under this method, the revenue multiple has been used as the basis for arriving at the value of the Company. Under this method, the industry rules of the thumb are arrived at. For this purpose, companies whose information is freely available from public sources have been considered. These multiples have been compiled based on the publicly available information of the below companies.

The following companies have been shortlisted for the purpose of computation of multiples:

- United Spirits Limited
- Som Distilleries Limited
- Empee Distilleries Limited
- RadicoKhaitan Limited

The following are the key statistics of these companies:

Table 9: Key Statistics of Industry Comparables

Name of the Company	Revenue Multiple
United Spirits Limited	2.86
Som Distilleries Limited	2.61
Empee Distilleries Limited	0.22
RadicoKhaitan Limited	1.62
Average	**1.83**

Source: Compiled from www.moneycontrol.com

For the purpose of valuation of the Company under this method, the average revenue multiple of all the above four companies has been used. The value under this method comes to **Rs.230,18,25,482**.

4.6. EBITDA Multiple Method

Under this method, the EBITDA multiple has been used as the basis for arriving at the value of the Company. Under this method, the industry rules of the thumb are arrived at. For this purpose, companies whose information is freely available from public sources have been considered. These multiples have been compiled based on the publicly available information of the above companies.

The following companies have been shortlisted for the purpose of computation of multiples:

- United Spirits Limited
- Som Distilleries Limited
- Empee Distilleries Limited
- RadicoKhaitan Limited

The following are the key statistics of these companies:

Table 10: Key Statistics of Industry Comparables

Name of the Company	Revenue Multiple
United Spirits Limited	19.60
Som Distilleries Limited	16.80
Empee Distilleries Limited	3.16
RadicoKhaitan Limited	8.59
Average	**12.03**

Source: Compiled from www.moneycontrol.com

For the purpose of valuation of the Company under this method, the average revenue multiple of all the above four companies has been used. The value under this method comes to **Rs.111,76,76,733**.

5. Statement of Limiting Conditions

a. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.

b. Financial statements and other related information provided by Khoday India Limited or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein.

c. Public information and industry and statistical information have been obtained from sources which are considered to be reliable. No representations are made as to the accuracy or completeness of such information and no procedures have been performed to corroborate the information.

d. No assurance is provided on the achievability of the results forecasted by Khoday India Limited because events and circumstances frequently do not occur as expected and achievement of the forecasted results is dependent on actions, plans, and assumptions of management. These projections and forecasts have been provided by the Management and have been relied upon to arrive at the value of equity as discussed in this report.

e. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

f. This report and the conclusion of value arrived at herein are for the exclusive use for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever.

g. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value, useful condition and title of all equipments, assets, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report.

Annex 1: Financial Projections as certified by the Management

Profitability Projections

Amounts in Rs.

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Income					
Revenue from Operations	1,256,832,056	1,382,515,261	1,520,766,787	1,672,843,466	1,840,127,813
Other Income	4,198,109	4,408,015	4,628,415	4,859,836	5,102,828
Total Revenue	**1,261,030,165**	**1,386,923,276**	**1,525,395,203**	**1,677,703,302**	**1,845,230,641**
Expenses					
Cost of raw materials consumed and purchase of goods for resale	637,246,015	665,922,085	732,514,294	805,765,723	886,342,296
Employees benefit expenses	139,176,377	146,135,196	153,441,956	161,114,054	169,169,756
Finance costs	248,687,595	123,153,253	62,996,610	1,326,958	83,852,532
Depreciation:	47,762,332	45,618,647	39,028,731	33,435,987	28,922,831
Other expenses	391,700,314	399,534,320	407,525,006	415,675,507	423,989,017
Total Expenses	**1,464,572,633**	**1,380,363,501**	**1,395,506,598**	**1,417,318,228**	**1,592,276,432**
Profit/ (Loss) Before Exceptional Items And Tax	(203,542,468)	6,559,775	129,888,605	260,385,074	252,954,209
Tax	-	2,229,667	44,149,137	88,504,887	85,979,136
Profit after tax	**(203,542,468)**	**4,330,107**	**85,739,468**	**171,880,187**	**166,975,073**

Cash Flow Projections

All amounts in Rs.

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Sources of Funds					
Cash Profit	(155,780,136)	49,948,754	124,768,199	205,316,174	195,897,904
Increase in Share Capital	-	-	-	-	-
Increase in Secured Loans	127,280,026	-	-	-	-
Increase in Unsecured Loans	-	-	-	-	-
Increase/(decrease) in Current Liabilities	(173,238,200)	(4,569,024)	11,647,858	12,680,033	13,811,422
Increase in Working capital borrowings	(78,517,269)	43,149,588	67,727,184	74,599,361	82,161,757
Total	**(280,255,578)**	**88,529,318**	**204,143,242**	**292,595,568**	**291,871,084**
Application of Funds					
Increase in Fixed Assets	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Increase in Investments	-	-	-	-	-
Increase/(decrease) in Current Assets	(382,319,107)	52,963,760	101,950,770	112,145,847	123,360,432
Repayment of secured loans	146,270,068	103,063,563	114,120,267	107,404,287	11,788,334
Repayment of unsecured loans					
Total	**(231,049,039)**	**161,027,323**	**221,071,037**	**224,550,135**	**140,148,766**
Opening balance	17,804,539	(31,402,000)	(103,900,004)	(120,827,800)	(52,782,367)
Add: Surplus/(Deficit)	(49,206,539)	(72,498,004)	(16,927,796)	68,045,434	151,722,318
Closing balance	(31,402,000)	(103,900,004)	(120,827,800)	(52,782,367)	98,939,951

Balance Sheet Projections

All amounts in Rs.

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Liabilities						
Share Capital	375,912,370	375,912,370	375,912,370	375,912,370	375,912,370	375,912,370
Reserves & Surplus	713,280,772	509,738,304	514,068,411	599,807,879	771,688,066	938,663,140
Secured Loans	361,276,479	342,286,437	239,222,874	125,102,607	17,698,320	5,909,986
Unsecured Loans	75,314,871	75,314,871	75,314,871	75,314,871	75,314,871	75,314,871
Current Liabilities	624,486,334	451,248,134	446,679,111	458,326,969	471,007,002	484,818,425
Working Capital Borrowing	709,085,725	630,568,457	673,718,044	741,445,228	816,044,589	898,206,346
Other Non-Current Liabilities	40,676,747	40,676,747	40,676,747	40,676,747	40,676,747	40,676,747
Total	**2,900,033,298**	**2,425,745,320**	**2,365,592,429**	**2,416,586,672**	**2,568,341,966**	**2,819,501,885**
Assets						
Fixed Assets	496,565,509	453,803,177	413,184,530	379,155,799	350,719,812	326,796,981
Investments	616,001,091	616,001,091	616,001,091	616,001,091	616,001,091	616,001,091
Other Non-Current Assets	95,336,975	95,336,975	95,336,975	95,336,975	95,336,975	95,336,975
Current Assets	1,674,325,184	1,292,006,077	1,344,969,837	1,446,920,607	1,559,066,454	1,682,426,887
Cash balances	17,804,539	(31,402,000)	(103,900,004)	(120,827,800)	(52,782,367)	98,939,951
Total	**2,900,033,298**	**2,425,745,320**	**2,365,592,429**	**2,416,586,672**	**2,568,341,966**	**2,819,501,885**

Annex 2: Key Valuation Assumptions

Computation of discount rate

For the purpose of computing the discount rate for discounted cash flows, the Capital Asset Pricing Model (CAPM) has [1]been used. The discount rate computation is as follows:

Risk Free Rate	8.15%[2]
Beta	0.94 (based on beta of KIL and Sensex for the period January 2012 to December 2012)
Risk Premium	6.10%[3]
Discount Rate (Cost of Equity)	13.88%

Since the Free Cash Flows to Equity are discounted, the relevant rate, that is, the Cost of Equity has been used as the discount rate.

Computation of Terminal Value

The terminal value for the purpose of valuation has been computed using the Multiple Approach[4]. The Exit or Terminal Multiple Approach assumes a business will be sold at the end of the projection period. Valuation analytics are determined for various operating statistics using comparable acquisitions. A frequently used terminal multiple is Enterprise Value/EBITDA or EV/EBITDA. The analysis of comparable acquisitions will indicate an appropriate range of multiples to use. The multiple is then applied to the projected EBITDA in Year N, which is the final year in the projection period.

[1] French, Craig W. (2003). "The Treynor Capital Asset Pricing Model". Journal of Investment Management 1 (2): 60–72. SSRN 447580
[2] http://www.moneycontrol.com/news/business/rbi-sets-rateinterestfloating-rate-bonds-at-815_797803.html Last visited 28th March 2013
[3] Equity Risk Premiums (ERP): Determinants, Estimation and Implications – 2012 Edition, AswathDamodaran, Stern School of Business, pp 57
[4] http://pages.stern.nyu.edu/~adamodar/New_Home_Page/valquestions/termvalapproaches.htm Last visited 28th March 2013

This provides a future value at the end of Year N. The terminal value is then discounted using a factor equal to the number of years in the projection period.

The EV/EBITDA Multiple for the comparable companies operating in the same industry as Khoday India Limited is 12.03 times. However as a measure of conservatism an Exit EBITDA multiple of 5 has been considered for the purpose of arriving at the terminal value