



Determination of fair value of equity shares of **Sakthi Finance Limited** under Section 62 of the Companies Act, 2013 and Regulation 165 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018

Rashmi Shah FCA

Registered Valuer with IBBI Registration No.: IBBI/RV/06/2018/10240

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Kind Attn:
The Directors
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Sub: Determination of fair value of Equity Shares proposed to be issued by Sakthi Finance Limited

Sakthi Finance Limited (hereinafter referred to as "SFL" or "the Company") intends to raise capital by issuing Equity Shares to certain investors.

In this regard, Rashmi Shah FCA, Registered Valuer with IBBI Registration No. IBBI/RV/06/2018/10240 ('RVS') has been appointed by the Management of Sakthi Finance Limited ('the Management') to report on the fair valuation of Equity Shares of Sakthi Finance Limited as required under Section 62 of the Companies Act, 2013 and Regulation 165 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("SEBI (ICDR) Regulations, 2018").

The valuation date is 30th January 2020 ('Valuation Date').

On the basis of our analysis discussed under 'Valuation Analysis' section, the fair value per Equity Share is **Rs. 16.96/-**. Please find enclosed a narrative report detailing our recommendation of value, the methodology employed and the assumptions used in our analysis.

You have confirmed to us that you have provided us with all the relevant information, knowledge, supporting documents and confirmations completely and correctly and that no material information has been concealed or withheld or misrepresented by you and that you have checked to ensure that there are no factual errors in this report. It is our understanding that the results of our valuation will be used by management for compliance with specified sections of the Companies Act, 2013 and SEBI (ICDR) Guidelines 2018 only. If you have any questions or require additional information, please do feel free to contact us.

Respectfully submitted




Rashmi Shah FCA
Registered Valuer with IBBI Registration No.: IBBI/RV/06/2018/10240
R V Shah & Associates
Chartered Accountants
ICAI Membership No.: 123478
FRN: 133958W
Place: Mumbai
Date: 30th January 2020
ICAI UDIN: 20123478AAAAA14606

Contents

<i>Engagement Background and Corporate Overview</i>	4
<i>Valuation Conclusion</i>	6
<i>Valuation Analysis</i>	7
<i>Limiting Conditions</i>	11
<i>Sources of Information</i>	13



Engagement Background and Corporate Overview

Sakthi Finance Limited ("SFL" / "Company"). SFL is a registered Non-Banking Financial Company ("NBFC") in commercial vehicle financing segment primarily in Southern India.

Sakthi Finance Limited ("SFL") was incorporated in the year 1955 and has a track record of nearly four decades in commercial vehicle financing segment. SFL is registered with RBI, Department of Non-Banking Supervision, Chennai, as a deposit taking NBFC to carry on asset financing activities under section 45-IA of the Reserve Bank of India Act, 1934. SFL is a part of "Sakthi Group" of companies based in Coimbatore, South India, a reputed and well-known Industrial conglomerate having major presence in sugar, industrial alcohol, automobile distribution, auto components, dairy, co-generation, wind energy and transportation.

SFL is an asset finance company with primary focus on financing pre-owned commercial vehicles. SFL also provides finance for purchasing infrastructure construction equipment, multi-utility vehicles, cars, jeeps and other machinery. The finances provided are secured by lien on the assets financed. SFL's target customers predominantly comprise Small / Medium Road Transport Operators (SRTOs / MRTOs) and primarily hail from rural / semi-urban area. The SRTOs / MRTOs looks for speedy disposal of finance at competitive rates. SFL has network of 47 branches, located in Tamil Nadu, Kerala, Andhra Pradesh, Karnataka, Maharashtra, Haryana and Union Territory of Puducherry.

In addition to finance business, it generates power from windmills and sells the same to Tamil Nadu Electricity Board and Gujarat UrjaVikas Nigam Limited. At present, it has 17 windmills with an aggregate capacity of 5,150 kW located in the States of Tamil Nadu and Gujarat. As on March 31, 2019, it has Assets Under Management (AUM) (i.e. Stock on Hire) of Rs. 93,525.21 lakh. The shareholding pattern of the Company as of the Valuation Date is as below:

Name of Shareholder	No. of shares held	% shareholding
(A) Promoter & Promoter Group	3,21,07,125	64.21
(B) Public	1,78,92,875	35.79
Grand Total	5,00,00,000	100.00



Sakthi Finance Limited (hereinafter referred to as "SFL" or "the Company") intends to raise capital by issuing Equity Shares to certain investors. The equity shares of the Company are listed on the Bombay Stock Exchange and the National Stock Exchange. The equity shares of the Company are not frequently traded as per the SEBI (ICDR) Regulations, 2018.

In this regard, Rashmi Shah FCA, Registered Valuer with IBBI Registration No. IBBI/RV/06/2018/10240 ('RVS') has been appointed by the Management of Sakthi Finance Limited ("the Management") to report on the fair valuation of Equity Shares of Sakthi Finance Limited as required under Section 62 of the Companies Act, 2013 and regulation 165 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

The valuation date is 30th January 2020.



Valuation Conclusion

The fair value per Equity Share of Sakthi Finance Limited is determined to be **Rs. 16.96/-** based on the weighted average value of Market Price method, Comparable Companies' Multiple (CCM) method and Net Asset Value (NAV) method.

Kindly refer detailed analysis in 'Valuation Analysis' section of this report.

Our valuation analysis is based on the financial and other information as provided to us by the Management as of the Valuation Date. Management has provided us with financials for the year ended 31st March 2019 and has confirmed that there are no material changes between the financial position as of the valuation date and the balance sheet provided to us, so as to materially impact our value recommendation.



Valuation Analysis

Valuation Recommendation

For the purpose of the present valuation exercise, we have assigned different weight to value so derived under various methods and arrived at the fair value of equity share. Considering the above analysis of each method, we have considered the Comparable Company Method for valuation of the company as the most appropriate method for valuation of equity shares of the Company and have assigned more weight as against Net Assets Value and Market Price Method.

Valuation Methodology	Value per share (Rs.)	Weight (%)
Market Price method	15.43	10%
Net Asset Value method	23.49	10%
Comparable Companies' Multiple method	16.33	80%
Average value per share	16.96	

Value per equity share using Market Price method

The market price of a share as quoted on a stock exchange is normally considered as the fair value of the shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares.

In the present case, since the traded turnover of shares is low, we have taken the weighted average closing price of one year (February 1, 2019 till January 28, 2020) of the Company from the Bombay Stock Exchange and arrived at a price of Rs. 15.43 per share.



Value per equity share using Net Asset Value method

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

In the circumstances and keeping in mind that the present valuation of the Company is on a going concern basis, and the value of the Company is driven more by the potential to generate cash flows in the future than its underlying assets, therefore, the value arrived at under this method is of little relevance as compared to the value under other methods discussed in this report.

Particulars	Value
Equity Capital (INR Crores)	50.00
Add: Reserves and Surplus (INR Crores)	112.18
Less: Revaluation Reserve (INR Crores)	17.36
Less: Net NPA (INR Crores)	27.37
Adjusted Net Worth (INR Crores)	117.45
No. of Shares O/s (Crores)	5.00
Value per Share (Rs.)	23.49



Value per equity share using Comparable Companies' Multiple method

The Comparable Companies Multiple Method arrives at the value of the company by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that 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, such as growth potential, past track record, size, company dynamics, etc.

For valuation of Banks and NBFCs, Market Price to Book Value or Adjusted Book Value multiple and Price to Earnings Multiple of the comparable listed companies are used. In the present scenario, we have identified similar companies listed on recognized Stock Exchanges, multiple of which are applied to determine the value of equity shares of the Company.

Company	Revenue (INR Crores)	PAT (INR Crores)	Book Value (INR Crores)	Net NPA (Rs Crore)	Adj Book Value (Rs Crore)	Market Cap (INR Crores)	Price / EPS	Adj	ROE (%)
								Price / Book Value	
IndoStar Capital Finance Limited	1,177.17	255.00	3,029.89	164.21	2,865.68	1,745.24	6.84 x	0.61 x	8.42%
GIC Housing Finance Limited	1,227.66	171.36	1,254.00	73.78	1,180.22	848.96	4.95 x	0.72 x	13.67%
PNB Housing Finance Limited	7,484.60	979.29	14,003.36	278.11	13,724.92	8,160.43	8.33 x	0.59 x	6.99%
Shriram City Union Finance	5,781.30	979.74	11,814.02	1452.94	10,361.08	9,240.00	9.43 x	0.80 x	8.29%
PTC India Financial Services Limited	1,336.51	150.53	2,066.55	401.46	1,665.09	882.50	3.86 x	0.53 x	7.28%
Average							7.09 x	0.67 x	8.93%

Valuation based on Price to Book Value multiple

Particulars	Adjusted Price to Book Value
Public Companies Multiple	0.67 x
Adjusted Book Value of SFL (INR Crores)	117.45
Equity Value of SFL (INR Crores)	78.57
No. of Shares O/s (Crores)	5.00
Value per Share (Rs.)	15.71

Valuation Based on Price to Earnings Multiple

Particulars	Price to Earnings Multiple
Public Companies Multiple	7.09x
PAT of SFL (INR Crores)	11.96
Equity Value of SFL (INR Crores)	84.76
No. of Shares O/s (Crores)	5.00
Value per Share (Rs.)	16.95



Weighted Average Value under Comparable Companies Multiple Method

Particulars	Adjusted Price to Book Value	Price to Earnings Multiple
Value per Share (Rs.)	15.71	16.85
Weightage Given	50%	50%
Weighted Average Value Per Share (Rs.)		16.33

Value per equity share using Discounted Cash Flows method

The Discounted Cash Flow (DCF) Method values the Company by discounting its free cash flows during the explicit forecast period and the perpetuity value thereafter. The free cash flows represent the cash available for distribution to both the owners and the creditors of the company. The free cash flows are discounted by Weighted Average Cost of Capital (WACC). The WACC represents the returns expected by the investors of both debt and equity, weighted for their relative funding in the entity. The present value of the free cash flows during the explicit period and the perpetuity value indicate the value of the company.

The DCF method uses the future free cash flows of the firm / equity holders discounted by the cost of capital to arrive at the present value. In general, the DCF method is a strong and widely accepted valuation tool, as it concentrates on cash generation potential of a business. However, for Banks and NBFCs pose special challenges to value them on Discounted Cash Flow, for three reasons. The first is that the nature of their businesses makes it difficult to define both debt and reinvestment, making the estimation of cash flows much more difficult. The second is that these firms tend to be heavily regulated and changes in regulatory requirements can have a significant effect on value. The third is that the accounting rules that govern accounting for financial services firms have historically been very different from the accounting rules for other firms, with assets being marked to market more frequently.

We have therefore not considered DCF method for the said valuation purpose.

Valuation Conclusion

In light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined in this report, we have estimated the fair equity value of SFL is **Rs. 16.96/-** per share.



Limiting Conditions

- o The valuation is based on information provided to us by the Management. Valuation analysis and results are specific to the purpose of valuation mentioned in this report as per agreed terms of our engagement. It may not be valid for any other purpose or after material time-lag from the valuation date. Also, it may not be valid if done on behalf of any other entity.
- o 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 that may otherwise be provided by us or our affiliates.
- o The valuation report was prepared for the purpose of complying with specified provisions and the stated Valuation Purpose and is for the confidential use of the Client only. Its suitability and applicability of 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.
- o 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.
- o We have been given to understand by the Management that it has made sure that no relevant and material 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 valuation subject's activities and the assets being valued at the Valuation Date. Therefore, we will accept no responsibility for any error or omission in the Report arising from incorrect or incomplete information provided by the Management. Also, we assume no responsibility for technical information furnished by the Management and believed to be reliable. We may however in no way be held responsible for completeness, accuracy, etc. for the data provided to us.



- 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 that are not recorded in the audited/unaudited balance sheet of the Company.
- The valuation analysis and result are governed by concept of materiality.
- The opinion(s) rendered in the Report only represent the opinion(s) based upon information furnished by you and others on your behalf and other sources and the said opinion(s) shall be considered advisory in nature. Our opinion is however not for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors.
- The fee for the Report is not contingent upon the results reported.
- We owe responsibility to only to the directors of the company who have retained us and nobody else.
- We do not accept any liability to any third party in relation to the issue of this valuation report.
- The Report is not for anybody to make any investment into the valuation subject nor meant to assist anybody for any transaction purpose (for which expert opinion needs to be obtained) nor as to how the voting should be conducted in any meeting. The Report is purely for compliance with requirements of as mentioned in this report. This report has been prepared for a very specific purpose. Thus, this valuation report cannot be used for any other purpose apart from what is mentioned herein.
- We will not be held responsible to anybody in relation to this report. We understand that the contents of the report have been reviewed in detail before we issued the final signed report.
- We are not responsible to update this report subsequent to the date mentioned in this report because of any material event or any event that could have a bearing on our valuation analysis.



Sources of Information

The following sources of information have been obtained from the Management of Sakthi Finance Limited and utilized in conducting the valuation:

- o Discussions with the Management
- o Audited Financial Statements of as on March 31, 2018 and March 31, 2019.
- o Audited Financial Statements of the Comparable Companies as on March 31, 2019 available from Bombay Stock Exchange.
- o Publicly Available Information

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

It may be mentioned that the Management has been provided with an opportunity to review factual information in our report as part of our standard practice to ensure that factual inaccuracies/omissions/etc. are avoided in our final signed report.

