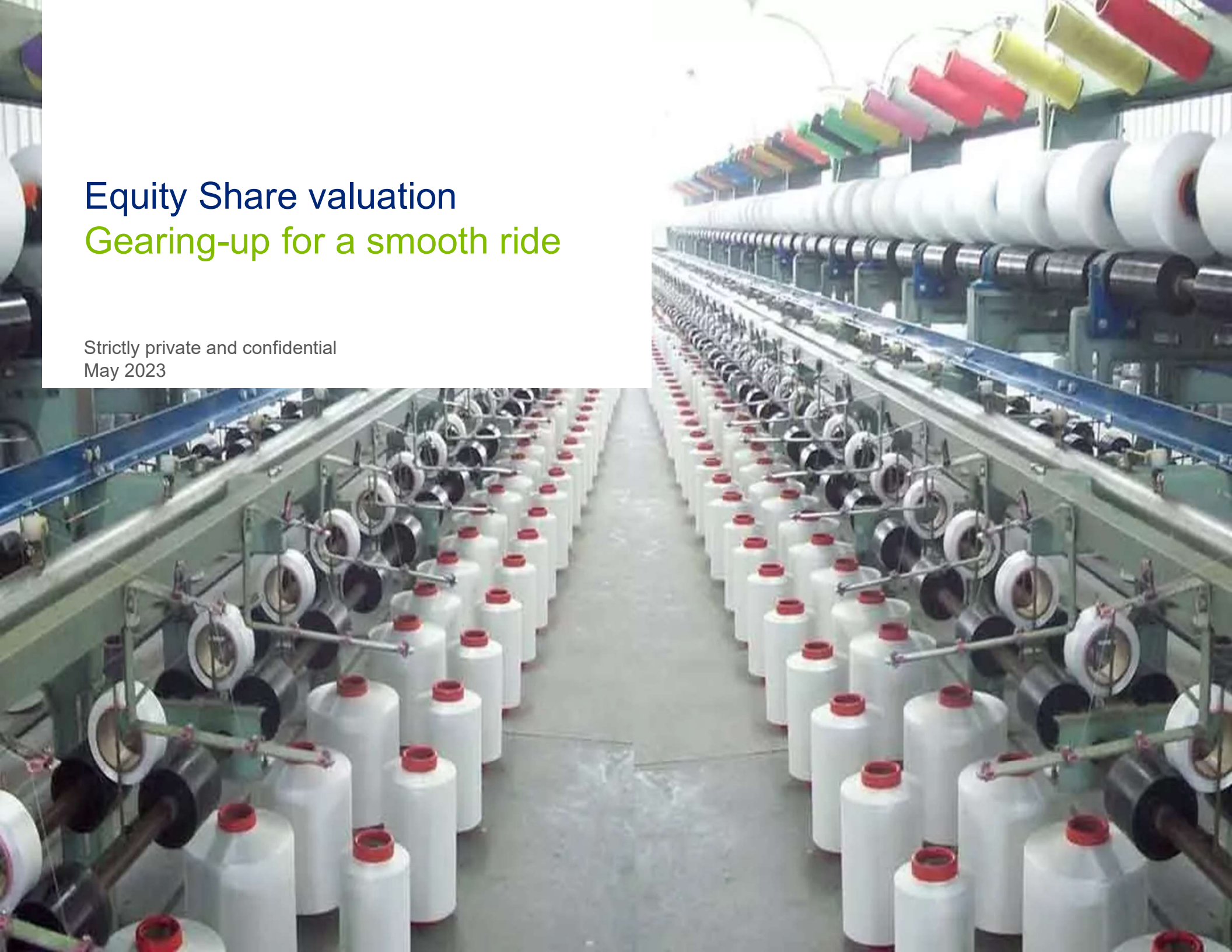


Equity Share valuation

Gearing-up for a smooth ride

Strictly private and confidential
May 2023



Private and confidential

18th May 2023

To,

Chief Financial Officer

Vardhman Polytex Limited

Vardhman Park Chandigarh Road,

Ludhiana-141123

Punjab

Dear Sir,

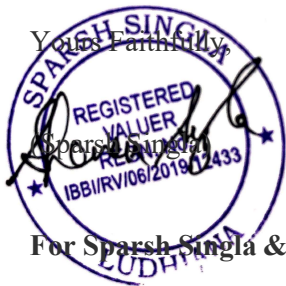
Sub: Equity Share Valuation for Vardhman Polytex Limited

We refer to our letter of engagement dated 12th May 2023 for carrying out the entity valuation of **Vardhman Polytex Limited** (here-in-after referred as “Company”). In accordance with the terms of the engagement, we are enclosing our report along with this letter. In attached report, we have summarized our Valuation Analysis of the Company as at **May 17, 2023** together with the description of methodologies used and limitation on our Scope of Work.

This Valuation Analysis is confidential and has been prepared exclusively for the Management of Company. It should not be used, reproduced or circulated to any other person, in whole or in part, without the prior consent of Sparsh Singla & Associates. Such consent will only be given after full consideration of the circumstance at the time. We are however aware that the conclusion in this report may be used for the purpose of certain statutory disclosures and we provide consent for the same.

Trust the above meets your requirements.

Please feel free to contact us in case you require any additional information or clarifications.



For Sparsh Singla & Associates

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Executive Summary



Executive Summary

Background

We have been represented by the management that the Company wants to raise capital through issue of share warrants which are convertible/exchangeable into equal number of equity shares and hence the company wants to assess the share value. In this respect, we have been appointed by the Company to determine the equity share value. It is pertinent to mention that valuation is not an exact science and ultimately depends upon a number of factors like the past financials, expected financial results, industry scenario, market recognition, market price available on exchange, etc of the comparative industry shares, price fluctuation of shares, risk free interest rate of the Company. Though there are multiple valuation methodologies, however based upon the facts of the instant case, we have carried out this Valuation Analysis by assigning weights to Discounted Cash Flow model, Net Asset Value Model and Market Comparable models.

Based on our Analysis of the Company and subject to our comments and caveats as further detailed in this report, we have arrived at the equity share value of the Company at Rs. 40.34/-.

UDIN – 23536320BGWKIA9018

Registration Number - IBBI/RV/06/2019/12433

E mail Id – singlasparsh@yahoo.in





Scope and Limitation



Scope and limitation

ABOUT THE TRANSACTION

Based on the discussions held with the Management, the company wants to raise capital through issue of share warrants which are convertible/exchangeable into equal number of equity shares and hence the company wants to assess the share value. The share valuation has been carried out according to Regulation 166A of SEBI (ICDR) Regulations. We have been appointed vide engagement letter dated 12th May,2023.

SCOPE OF SERVICES

This valuation report has been prepared by Sparsh Singla & Associates, to ascertain the Equity share Value of the Company.

SOURCES OF INFORMATION

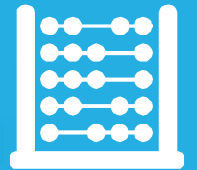
For the purpose of undertaking this valuation exercise, we have relied on the following sources of information signed by management:

- Future projections of operating statements and Balance Sheets
- Discussions with the management representative
- Memorandum & Articles of Association
- Background of key managerial persons
- Discussions about the team members
- Provisional Financial Numbers as on 31/03/2023





Valuation Methodology



Valuation Methodology

Basis of Valuation

- A. Net Asset Value Method under Asset Approach
- B. Discounted Cash Flow Method (DCF) under Income Approach
- C. Market Price Method (MP) under Market Approach

A. Net Asset Value Method (NAV)

The assets based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This methodology is likely to be appropriate for business which derives value mainly from the underlying value of its assets rather than its earnings. The method may also be appropriate for a business that is not making an adequate return on assets and for which a great value can be realized by liquidating the business and selling the assets. Determining real value of assets and liabilities appearing in books of accounts and Market Value / Replacement Value / Net Book Value of assets would reflect true value of the Assets base of the company.



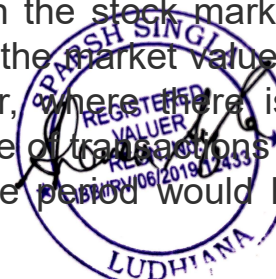
Valuation Methodology

B. Discounted Cash Flow Method (DCF)

The income based method of valuation is based on the premise that the current value of any business is a function of the future value that an investor can expect to receive from purchasing all or part of the business. Under this technique the projected free cash flows to the equity shareholders are discounted at the cost of capital. The sum of the discounted value of such free cash flows is the value of the equity shares. Using the DCF analysis involves estimating future free cash flows and application of appropriate discount rate to cash flows. The DCF approach is considered theoretically the most sound, scientific and acceptable method for determination of the value of a business undertaking. The value so derived is not impacted by accounting practices as it is based on cash flows and not book profits. Further DCF factor incorporates all factors relevant to the business.

C. Market Price (MP) Method:

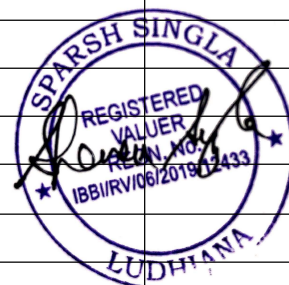
The market price of an equity share as quoted on a stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case of a merger/demerger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.



Net Asset Value Method (Working)

(Rs. In Lacs)

Particulars (Figures as on 31/103/2023)-Based on provisional Financials submitted to us	Amount (Rs in Lacs)
Book Value of Assets	
Non - current assets	
Property, plant and equipment	15,420.18
Investment Property	455.86
Intangible Assets	3.04
Investments	0.62
Trade Receivables	536.27
Other financial assets	843.45
Deferred tax assets (net)	5,016.18
Other non current assets	31.54
Total non - current assets	22,307.13
Current assets	
Inventories	1,592.72
Trade receivables	14.62
Cash and cash equivalents	30.41
Bank balances other than (ii) above	13.20
Loans	11.73
Other financial assets	36.52
Current tax assets	469.59
Other current assets	4,576.82
Total current assets	6,745.61
Total Assets (A)	29,052.76



Net Asset Value Method (Working)

(Rs. In Lacs)

Particulars (Figures as on 31/103/2023)-Based on provisional Financials submitted to us	Amount (Rs in Lacs)
Book value of Liabilities	
Non - current liabilities	
Borrowings	0.00
Provisions	264.56
Other non current liabilities	0.53
Total non - current liabilities	265.09
Current liabilities	
Short-Term Borrowings	44,748.44
Trade Payables	14,343.79
Other financial liabilities	3,588.01
Other current liabilities	926.03
Short-Term Provisions	1,022.32
Total Current Liabilities	64,628.60
Total Liabilities (B)	64,893.69
Net Asset Value (A-B)	(35,840.92)



Discounted Cash Flows (Working)

(Rs. In Lacs)

VALUTION WORKING				
	FY24	FY25	FY26	FY27
PAT	1,757.77	2,704.73	3,757.76	4,957.49
DEPRECIATION	1,158.42	1,100.50	1,045.48	993.20
CAPEX				
INC IN WC	2,489.94	3,251.22	-740.24	-763.73
FCFF	426.25	554.02	5,543.49	6,714.42
	1.1700	1.1700	1.1700	1.1700
Discounting factor	0.85	0.73	0.62	0.53
PRESENT VALUES	364.31	404.72	3,461.19	3,583.15
TOTAL PRESENT VALUES	7,813.37			
TERMINAL VALUES	46,187.09			
ENTERPRISE VALUE	54,000.47			
Cash	43.61			
Debt	44,748.44			
Equity Value	9,295.65			
Number of equity Shares	2,22,90,957.00			
Value per share	41.70			



Calculation of discounting rate

We have used Capital Asset pricing model in order to calculate cost of equity (Ke) which is explained by the formula:

$$K_e = \text{Risk free rate} + \text{Beta} \times (\text{Expected return of the market} - \text{Risk Free Rate})$$

Following table shows the Beta of comparable companies. We have taken average value of the same as Beta for our calculation.

Comparable Companies	Beta	Source
Vardhman Textiles	1.01	https://www.topstockresearch.com/INDIAN_STOCKS/TEXTILES_COTTON/PriceRangeOf_Vardhman_Textiles_Ltd.html
Abhishek Industries limited	1.05	https://www.moneycontrol.com/india/stockpricequote/textiles-spinning-cotton-blended/trident/AI01
Average Beta	1.03	

Risk Free Rate	7.01	Reserve Bank of India - NSDP Display (rbi.org.in)
Market rate of return	16.49	CAGR of S&P BSE 500 Index for past 20 years

$$\text{Cost of Equity (Ke)} = 7.01 + 1.03 \times (16.49 - 7.01) = \mathbf{16.77}$$



Calculation of discounting rate

Cost of Debt (Kd) – Interest Rate * (1-Tax Rate)

22*(1-25%)

16.50%

Following table shows calculation of weighted average cost of capital

Particulars	Weights	Multiple
Cost of Equity	0.05	0.80
Cost of Debt	0.95	15.72
Total	1.00	16.51

Weighted average cost of capital (WACC) - **16.51%**

Conservatively, we have taken WACC to be 17.00%



Market Comparable (Working)

In order to derive market comparable, we have taken a revenue and EBITDA multiple of listed peer entities to their valuation. The calculation for that derivation is as follows :

Listed peer	Market cap as on 12/05/2023 (Rs in Crores)	Revenue (Rs in Crores)	Market Cap to Revenue Multiple
Vardhman Textiles	9372.15	9840.79	1.05
Abhishek Industries limited	16174.56	6762.69	2.39
Average Revenue Multiple			1.72
Listed peer	Market cap as on 12/05/2023 (Rs in Crores)	EBITDA (Rs in Crores)	Market Cap to Revenue Multiple
Vardhman Textiles	9372.15	1477.85	6.34
Abhishek Industries limited	16174.56	1176.51	13.75
Average EBITDA Multiple			10.04



Market Comparable (Working)

In order to derive market comparable, we have taken a revenue and EBITDA multiple of listed peer entities to their valuation. The calculation for that derivation is as follows :

Particulars	(Rs in Cr.) (a)	Average Revenue Multiple from the table above (b)	Valuation (a*b) (Rs in Cr)
Revenue for Fy 2022-23	615.51	1.72	1059.21
EBITDA for FY 2022-23	(26.21)	10.4	(263.30)
Average			397.96



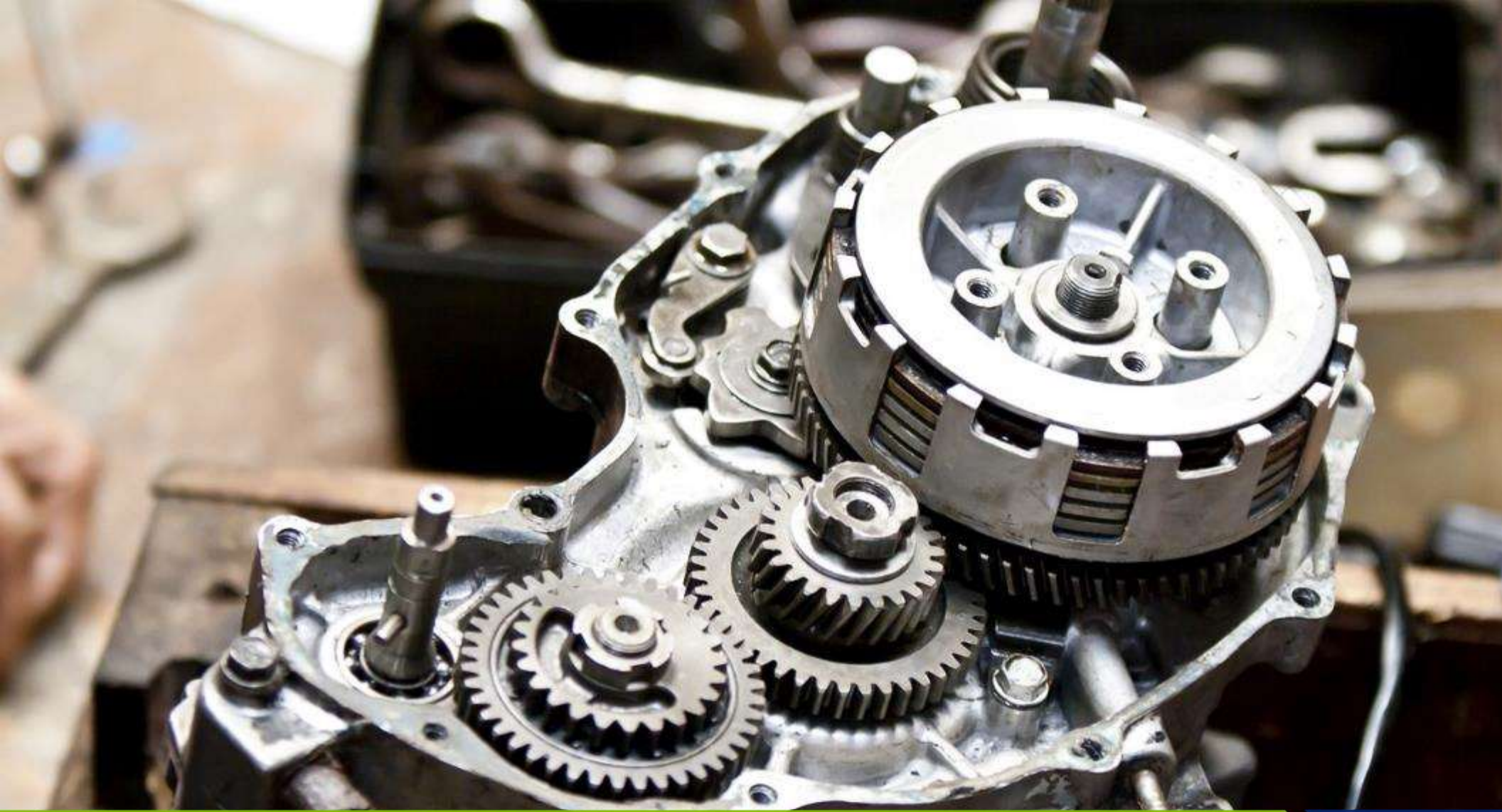
Valuation Methodology

Conclusion on Valuation Approach

Based on the information and explanations available and considering the industry, we have given equal weightage to all the three methods as below:

Valuation Approach	Enterprise Value (Rs in Lacs)	Weight	Weighted Value (Rs. In lacs)
Net Asset value Method (Asset Approach)	(35,840.92)	25%	(8,960.23)
Discounted Cash Flow Method (Income Approach)	9,295.65.34	39%	3,625.30
Market Price Method (Market Approach)	39,795.61	36%	14,326.42
Enterprise Value based on weights above			Rs. 8,9991.49 Lacs
Number of equity shares			22,290,957
Value per share			Rs. 40.34





FINANCIALS



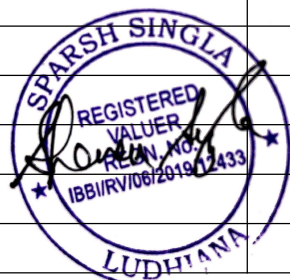
FINANCIALS

Financial Projections:

The Profit and Loss projections considered to arrive at the Valuation are as shown below:

(Rs. In Lacs)

Particulars	FY23	FY24	FY25	FY26	FY27
Revenue from operations	61,551.03	64,628.59	71,091.44	78,200.59	86,020.65
Other Income	607.42	613.50	619.63	625.83	632.09
Total Revenue	62,158.46	65,242.08	71,711.08	78,826.42	86,652.74
EXPENSES					
Cost of materials consumed	46,336.69	48,435.41	53,037.96	58,000.51	63,359.12
Purchase of Stock-in-Trade	4,088.19	10.00	10.99	12.08	13.28
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade	2,126.15	-79.64	-167.24	-183.96	-202.36
Employee Benefit Expense	4,617.74	4,748.63	5,123.49	5,535.84	5,989.42
Financial Costs	5,340.09	1,320.00	1,320.00	1,320.00	1,320.00
Depreciation and Amortization Expense	1,219.39	1,158.42	1,100.50	1,045.48	993.20
Other Expenses	7,610.94	7,891.49	8,580.64	9,338.70	10,222.57
Exceptinal Items	-9,719.63	0.00	0.00	0.00	0.00
Total expenses	61,619.56	63,484.32	69,006.35	75,068.65	81,695.25
PBT	538.90	1,757.77	2,704.73	3,757.76	4,957.49
Tax	0.00	0.00	0.00	0.00	0.00
Profit After Tax	538.90	1,757.77	2,704.73	3,757.76	4,957.49



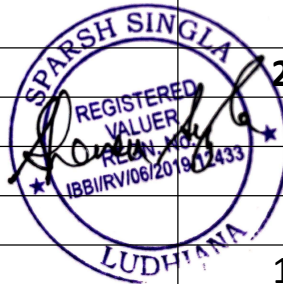
FINANCIALS

Financial Projections:

The Balance Sheet projections considered to arrive at the Valuation are as shown below:

(Rs. In Lacs)

Particulars	FY23	FY24	FY25	FY26	FY27
Share Capital (Incl Premium)	2,229.10	2,229.10	2,229.10	2,229.10	2,229.10
Reserve and Surplus	-38,070.02	-36,312.25	-33,607.52	-29,849.76	-24,892.27
Long term Provisions	265.09	20.90	30.03	50.03	70.03
Short term Borrowings	44,748.44	44,748.44	44,748.44	42,748.44	40,748.44
Trade payables	14,343.79	12,996.84	9,281.64	10,150.09	11,087.85
Other financial liabilities	3,588.01	3,593.01	3,598.01	3,603.01	3,608.01
Other current liabilities	926.03	946.03	966.03	986.03	1,006.03
Short-Term Provisions	1,022.32	407.93	1,018.00	1,058.00	1,098.00
	29,052.75	28,629.98	28,263.71	30,974.92	34,955.17
Fixed assets	15,879.08	14,720.66	13,620.15	12,574.67	11,581.47
Other long term assets	536.89	536.89	536.89	536.89	536.89
Other financial assets	843.45	843.45	843.45	843.45	843.45
Deferred tax assets (net)	5,016.18	5,016.18	5,016.18	5,016.18	5,016.18
Other non current assets	31.54	32.54	33.54	34.54	35.54
Inventory	1,592.72	1,672.36	1,839.59	2,023.55	2,225.91
Trade Receivables	14.62	538.57	592.43	651.67	738.34
Other Current assets	5,094.66	5,044.66	4,994.66	4,944.66	4,894.66
Cash and cash equivalents	43.61	224.67	786.82	4,349.30	9,082.73
	29,052.75	28,629.98	28,263.71	30,974.92	34,955.17
Working capital changes					
Current Assets	6,702.00	7,255.59	7,426.68	7,619.88	7,858.91
Current Liabilities	19,880.15	17,943.80	14,863.67	15,797.12	16,799.88
Working Capital	-13,178.15	-10,688.21	-7,436.99	-8,177.24	-8,940.97
Increase in Working Capital	-13,178.15	2,489.94	3,251.22	-740.24	-763.73





Caveats



Caveats

- This Valuation Report has been issued on the specific request of Vardhman Polytex Limited' for determining the equity share value of the company. This Report is prepared exclusively for the above stated purpose and must not be copied, disclosed or circulated or referred to in correspondence or discussion with any other party. Neither this report nor its content may be used for any other purpose without prior written consent of M/s Sparsh Singla & Associates.
- We have summarized the Valuation Analysis of Equity share Value of the Company based on the information as was provided to us pursuant to the meetings held with the management of Company and other publically available information. We do not assume any responsibility for the accuracy or reliability of such documents on which we have relied upon in forming our opinion. However, we would like to state that in the process of evaluation, nothing has come to our attention to indicate that the information provided was, materially mis-stated or incorrect or would not afford reasonable grounds to believes it is incorrect upon which the report is based.
- We have no present or planned future interest in 'Vardhman Polytex Limited' and the fee for this Valuation analysis is not contingent upon the values reported herein. The Valuation Analysis contained herein is not intended to represent the value at any time other than the date that is specifically stated in this Report.
- Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. We have therefore, not performed any audit, review or examination of any of the historical or prospective information used and therefore, do not express any opinion with regard to the same.
- The information presented in the report does not reflect the outcome of any due diligence procedures. The reader is cautioned that the outcome of any process could change the information herein and therefore the valuation materially.

