

**REPORT
ON
FAIR VALUATION OF
INDO GULF FERTILISER DIVISION
OF
GRASIM INDUSTRIES LIMITED ("GIL")**

ACCOUNTANTS' REPORT

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**CERTIFIED TRUE COPY
FOR GRASIM INDUSTRIES LIMITED**

Hutokshi Wadia

**HUTOKSHI WADIA
COMPANY SECRETARY**





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1. Introduction and Brief History

- 1.1. Indo Gulf Fertiliser Division (“IGF Division”) of Grasim Industries Limited (“GIL” or the “Transferor”) is engaged in the business of manufacture, trading and sale of urea, customised fertilisers, agri-inputs, crop protection, plant and soil health products and speciality fertilisers and has its manufacturing facilities located at Jagdishpur, District Amethi, in the State of Uttar Pradesh, India.
- 1.2. There is a proposal before the Board of Directors of GIL to transfer the IGF Division of GIL to Indorama India Private Limited (“Transferee”) on a slump sale basis for a lump sum consideration (subject to certain customary closing adjustments as agreed between the Transferor and Transferee) under a scheme of arrangement under section 230 to 232 of the Companies Act, 2013. It is understood that the Appointed date of the transaction shall be the Effective Date.
- 1.3. In this regard, I have been called upon by the management of GIL (“the Management”) vide Engagement Letter dated November 6, 2020 to undertake the fair valuation of IGF Division for the purpose of transfer.
- 1.4. Accordingly, this valuation report (“Report”) sets out the findings of the valuation exercise. For the purpose of this Report, I have considered the Valuation Date of September 30, 2020 (“Valuation Date”).

1.5. Key financial data of IGF Division

Key financial data of IGH Division is mentioned hereunder for ready reference:

Particulars	(INR in crores)	
	FY 2018-19	FY 2019-20
<u>Revenue</u>		
Urea Business	2,517	2,339
Non-Urea Business	293	339
Total	2,810	2678
EBITDA*	253	213

Source: Management

*EBITDA is before allocation of corporate overheads and after adjusting non-operating income..

Further, above EBITDA excludes exceptional items

It may herein be noted that the Urea Business has to shut down for maintenance every 18 months. There was a shut-down in FY 2019-20 on account of the same.



2. Data obtained

- 2.1. I have called for and obtained such data, information, etc. as were necessary for the purpose of the assignment, which have been, as far as possible, made available to me by the Management. **Appendix A** hereto broadly summarizes the data obtained.
- 2.2. For the purpose of my assignment, I have relied on such data summarized in the said Appendix and other related information and explanations provided to me in this regard.



3. Approach to Valuation

- 3.1. As mentioned above, the valuation is to be carried in accordance with the Rules⁴ based on internationally accepted pricing methodology.
- 3.2. It is universally recognized that valuation is not an exact science and that estimating values necessarily involves selecting a method or an approach that is suitable for the purpose.
- 3.3. It may be noted that the Institute of Chartered Accountants of India (ICAI) on June 10, 2018 has issued the ICAI Valuation Standards (“IVS”) effective for all the valuation reports issued on or after July 1, 2018. The IVS shall be mandatory for the valuation done under the Companies Act, 2013, and recommendatory for valuation carried out under other statutes/ requirements. I have given due cognizance to the same in carrying out the valuation exercise.
- 3.4. For the purpose of arriving at valuation of IGF, I have considered the valuation base as ‘Fair Value’. My valuation, and this report, is based on the premise of ‘going concern’. Any change in the valuation base, or the premise could have significant impact on my valuation exercise, and therefore, this Report.
- 3.5. IVS 301 on Business Valuations deals with valuation of a business or business ownership interest (i.e. it includes valuation of equity shares).
- 3.6. IVS 301 specifies that generally, the following three approaches for valuation of business/business ownership interest are used:
- Market approach
 - Income approach
 - Cost approach
- 3.7. Each of the above approaches are discussed in the following paragraphs.

3.8. Market Approach:

3.8.1. Market Price Method:

This method involves determining the market price of an entity based on its traded price on the stock exchange over a reasonable period of time. The market price of GIL reflects the combined values of all the business taken together and therefore, not reflective of the isolated value of the IGF Division. Therefore, the Market Price Method is not used to determine the value of the IGF Division.

3.8.2. Comparable Companies Multiple Method (“CCM”):

This method involves valuing the equity shares by using market multiples of listed companies in the similar sphere of operations as IGF Division (“Comparable Companies” or “Comparables”) to determine its value.

- 3.8.2.1. I have used the Enterprise Value to Earnings Before Interest Tax, Depreciation and Amortization Multiple (“EV/EBITDA Multiple”) to derive the value of IGF Division under this method. I have followed the following steps to derive the value of IGF Division:





- 3.8.2.2. For the purpose of arriving at the value under this method I have considered the profitability of the IGF Division for year ended March 31, 2019 and March 31, 2020.
- 3.8.2.3. The amount of Depreciation and Interest has been added to Adjusted Profit before Tax ("APBT") to arrive at Adjusted Earnings before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA") for the Trailing Twelve Months ("TTM") ended March 31, 2019 and March 31, 2020. I have considered average of the Adjusted EBITDA for the year ended March 31, 2019 and March 31, 2020 to arrive at the maintainable Adjusted EBITDA for IGF Division.
- 3.8.2.4. I have then computed the Market Capitalization of Comparable Companies in similar sphere of operations ("Comparables") for an appropriate period as at the Valuation Date. Further, I have computed the Adjusted Market Capitalization of the Comparables by reducing the amount of cash and bank balances, other surplus assets and fair value of investments from the Market Capitalization.
- 3.8.2.5. I have then computed the Enterprise Value ("EV") to Earnings before Interest, Tax, Depreciation and Amortization multiple ("EV/EBITDA multiple") for Comparables. EV of the Comparables has been arrived at by adding the amount of debt, preference share capital and minority interest, if any, to the Adjusted Market Capitalization of the Comparables. The EBITDA of comparable companies is based on the average EBITDA for the year ended March 31, 2019 and the year ended March 31, 2020.
- 3.8.2.6. The Average EV/EBITDA multiple of the Comparables is applied to the EBITDA of IGF Division to arrive at the EV of the said Division.
- 3.8.2.7. The EV so arrived at is reduced by the amount lease liabilities as at the Valuation Date and by the amount of contingent liabilities likely to crystallize to arrive at the Business Value.
- 3.8.2.8. It may herein be noted that the Working Capital in the industry in which IGF Division operates is volatile and is one of the major drivers for the value. The working capital on the proposed transfer has been fixed between the Transferor and Transferee. The value derived under this method does not take into consideration the agreed amount of working capital. I have therefore, used the value under this method only as a crosscheck and not the primary method to derive the fair value of IGF Business.

3.9. **Income Approach:**

- 3.9.1. Income Approach is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted or capitalised) amount. An approach based on earnings is relevant in case of companies generating a steady stream of income.
- 3.9.2. As for IGF, I have used the DCF Method to derive a value under the Income Approach. The broad steps followed to derive a value under these approaches are discussed hereunder:



3.9.3. DCF Method:

3.9.3.1. For the purposes of arriving at a value under the DCF Method, I have relied on the projections and business plan provided by the Management. It may herein be noted that the projections are responsibility of the Management. I have, therefore, not performed any audit, review or examination of any prospective information used and therefore, do not express any opinion with regards to the same. However, I have reviewed the projections for their acceptability.

3.9.3.2. Under the DCF Approach, the future cash flows are appropriately discounted to arrive at a value of the enterprise on a going concern basis. This value would, primarily, be based on the present value of such future cash flows generated.

I have considered the Projected Earnings before Depreciation, Interest, Tax and Amortisation (“EBIDTA”) adjusted for non-operating income and expenses of IGF for future three years starting from the Financial Year to end on March 31, 2021 to the Financial Year to end on March 31, 2024.

3.9.3.3. Such EBIDTA is then adjusted for the projected tax out-flow, capital outlays and also by increase or decrease in working capital so as to arrive at “Free Cash Flows” available for the respective future years.

3.9.3.4. Perpetuity beyond the projected period is considered as follows:

3.9.3.4.1. For the Urea Business: based on the normalised cash flows so as to get the enterprise value on a going concern basis considering a growth of 5%.

3.9.3.4.2. For Non-Urea Business: This Business is in high growth phase in the projected period. Therefore, I have used a H-model and considered that the growth rate for the non-urea business would be 20.25%¹ to 5% over a ten year period with 5% growth beyond 10 years in perpetuity.

3.9.3.5. Free Cash Flows for the projected years and the perpetuity value are discounted using the Weighted Average Cost of Capital (“WACC”) as the discounting factor to arrive at their Net Present Value (“NPV”) as at the Valuation Date. For the purpose of arriving at the WACC I have considered the industry debt equity ratio of comparable companies.

3.9.3.6. The aggregate of such present values of Free Cash Flows and the perpetuity value is the Enterprise Value of IGF as at the Valuation Date. From the enterprise value arrived at above, I have reduced the amount of contingent liabilities expected to crystallize and debt proposed to be transferred with the division to arrive at the Business Value of IGF Division. It is understood that no cash shall be transferred with the Division and debt that would be transferred would only comprise of Special Banking Arrangement Loan in respect of outstanding subsidy.



¹ Growth rate in EBITDA of the Non-Urea Business in the last projected year





3.10. Cost Approach:

3.10.1. It is a valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). IVS 301 on Business Valuations and IVS 103 on Valuation Approaches and Methods specify that common methodologies for the Cost Approach are the Replacement Cost Method and the Reproduction Cost Method. These methods involve determining the value of the asset based on the cost that would have to be incurred to recreate/replicate the asset with substantially the same utility as that of the asset under valuation.

3.10.2. I note that the IGF Division was merged with GIL pursuant to the merger of Aditya Birla Nuvo Limited in to GIL in 2017. Pursuant to the said merger, the assets and liabilities of IGF Division were recorded in the books of GIL at fair value as on the date of transfer. However, I do not have the current replacement cost of these assets. Therefore, I have not applied the cost approach to determine its value.

3.11. Fair Value:

I have arrived at the fair value of the IGF Division on the Valuation Date under DCF Approach which I have crosschecked with the business values derived under EV/EBITDA Multiple Method.

Further, it may be noted that the value obtained under both the approaches is based on a going concern assumption, which is based on perpetual existence. Therefore, the same would hold good till the underlying assumptions on growth and other factors such as the risk free rate, the equity risk premium of the market, beta of companies etc. remain in similar range.



4. Observations and Conclusion

Based on the foregoing data, considerations and following the aforesaid steps, in our opinion, the fair value of the IGF Division is Rs. 1947.8 crores. (including a Target Working Capital of Rs. 1248.8 Crs)

The fair value of IGF Division under various methods is as follow:

(Amt in Rs. crores)

Valuation Approach	IGF Division	
	Business Value	Weightage
Market Approach: EV/EBITDA Multiple Method	1730.9	Used as crosscheck – refer para 3.8.2.8
Income Approach; DCF Method	1947.8	100%
Cost Approach	-	Not considered in recommending the value- refer para 3.10
Final Business Value	1947.8	



5. Limitations and Disclaimers

- 5.1. As such the report is to be read in totality and not in parts.
- 5.2. The valuation is based on the information furnished to me being complete and accurate in all material respects.
- 5.3. I have relied on the written representations from the Management that the information contained in this report is materially accurate and complete in the manner of its portrayal and therefore forms a reliable basis for the valuation.
- 5.4. The information presented in my report does not reflect the outcome of any financial due diligence procedures. The reader is cautioned that the outcome of that process could change the information herein and, therefore, the Valuation materially.
- 5.5. My scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to me. I have, therefore, not performed any audit, review or examination of any of the historical or prospective information used and therefore, I do not express any opinion with regard to the same.
- 5.6. I have relied on the judgment made by the Management and, accordingly, the valuation does not consider the assumption of contingent liabilities materializing (other than those specified by the Management and the Auditors). If there were any omissions, inaccuracies or misrepresentations of the information provided by the Management, then this may have the effect on the valuation computations.
- 5.7. The Report is meant for the specific purpose mentioned herein and should not be used for any purpose other than the purpose mentioned herein. The Report should not be copied or reproduced without obtaining my prior written approval for any purpose other than the purpose for which it is prepared.
- 5.8. No investigation of the Company's claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature. The report is not, nor should it be construed, as my opining or certifying the compliance with the provisions of any law including company and taxation laws or as regards any legal, accounting or taxation implications or issues.
- 5.9. The valuation is based on the market conditions and the regulatory environment that existed at the Valuation Date. However, changes to the same in the future could impact the companies and the industry they operate in, which may impact the valuation. , it may be noted that the value obtained under both the approaches is based on a going concern assumption, which is based on perpetual existence. Therefore, the same would hold good till the underlying assumptions on growth and other factors such as the risk free rate, the equity risk premium of the market, beta of companies etc remain in similar range.



- 5.10. I have no obligation to update this Report because of events or transactions occurring subsequent to the date of this Report.
- 5.11. I have not carried out any physical verification of the assets and liabilities of the Company and take no responsibility for the identification of such assets and liabilities.
- 5.12. This Report does not look into the business/commercial reasons behind the proposed transaction nor the likely benefits arising out of it. Similarly, it does not address the relative merits of the proposed transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.





6. Gratitude

I am grateful to the Management for making information and particulars available to me, often at a short notice, without which my assignment would not have been concluded in a time-bound manner.



DRUSHTI R. DESAI

Registered Valuer

Registration Number: IBBI/

RV/06/2019/10666

Place: Mumbai

Date: November 12, 2020

UDIN: 20102062AAAACM2708



Appendix A: Broad Summary Of Data Obtained

From the Management:

1. Projected Profit and Loss Account for years to end on March 31, 2021 to March 31, 2024
2. Audited Financial Statements for the year ended March 31, 2020, 2019 and 2018.
3. Provisional Financial Statements for quarter ended June 30, 2020 and June 2019.
4. Capital expenditure schedule for the projected period.
5. Working Capital for Non-Urea Business for the year ended March 31, 2020 and 2019.
6. Contingent Liabilities proposed to be transferred along with the likelihood of their crystallization.
7. Answers to specific questions and issues raised by us to the Management after examining the foregoing data.

From publicly available sources :

1. Quantity of shares traded and Traded Turnover of equity shares of the Comparable Companies on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).
2. Data of Comparable Companies from the database of ACE TP
3. Audited financial statements of comparable companies.
4. Risk Premium from Database of Ashwath Damodaran

