



Valuation Report

XYZ Pvt. Ltd.

MAY 2018

1. Scope and Limitations

This valuation report for XYZ Private Limited (the company) has been prepared on the basis of information provided by the company and gathered by means of inquiry. The report also relies on secondary data widely available from reputed sources.

The estimation of value of the Company in this report is based on reasonable and achievable assumptions. The Company is valued as a stand-alone business entity (presuming its current status of capital, management and employees), and under the premise that it is an ongoing operating business enterprise and is expected to continue to operate into the future.

Although our valuation is intended to estimate fair market value, we assume no responsibility for the inability of a seller or buyer to obtain a sale or purchase contract at that price. The reader is expected and advised to exercise professional judgement when using the report to initiate any dialogue, business transaction or relationship with the Company.

2. Objective

The objective of this valuation report is to provide a business valuation based on the information shared by the Company for a proposed transaction of sale. No matter affecting the conclusion of the report has been knowingly withheld or omitted.

3. Sources of Information

For the purpose of this report audited financial statements from 2012-13 to 2016-17, company's information obtained from management, videos and company website and information available in public domain has been reviewed. No responsibility is undertaken for the accuracy of the documents and financial information provided.

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4. Economy and Industry Outlook

- GDP growth of 7.1% in FY 2016-17-Likely improvement in the overall economy, in terms of Industrial production, inflation, FDI investments, etc.
- Real estate sector has seen some sign of revival with increase in absorption, the new launches continue to show declining but the inventory level is dropping, thus new launches are expected to see an improving trend in the near future.

- Currently, around 340 mn or 1/3 of the Indian population lives in cities. By 2030, the number, near **50%** of the country's population is expected to live in the urban areas having 68 cities with a population of over 1 mn, a sharp rise from the current **31%**.
- This is the reason why multinational elevator firms are expanding their capacities. The neighbourhood markets of Sri Lanka, Bangladesh, Nepal, etc., are also catered by India.
- In 2013, The Top 30 cities accounted for over 70% of the Elevator market in India. [Source: 10]

Market Size:

- India is the second largest market for elevators and escalators in the world after China, expected to grow at a healthy rate of more than 12% for the next 5 years. Increasing number of customers are getting positively sophisticated, demanding & people now want convenient and comfort-solutions for elevators.
- The 2016 Indian elevator market size is estimated at 68,200 units is set to cross 75,000 units by 2020 and 1,04,600 units by 2021. It is valued at around INR 10,000 Cr.
- For the period 2017 to 2021, the market forecast pegs the growth average of 2,500 to 3,000 escalators per annum.[Source: 1]
- The market for elevators in India is projected to grow at a CAGR of over 12% between 2018 and 2021 with the size of the market forecast to cross \$1.6 billion in 2020. By 2020-21, the Indian market is expected to grow at 35-40% crossing 70,000 elevators per annum mark.
Southern India dominated the country's elevators market last year, due to increasing government projects, rising commercial and high rise buildings in the region.
- The 2017 **current state** elevator market size is estimated at around 3,200 elevators last year.

Segmentation:

- Moving stairs escalator has led the market, however moving walkway sub-segment is gaining popularity with the installation at airports, and shopping centres.
- In 2016, Commercial application captured the largest share in overall market.
- Majority of the market installations are witnessed in areas such as residential, retail, transportation and hospitality sectors.
- Residential segment is the biggest chunk of the business in India. According to industry estimates, the split between residential and commercial market for elevators is around 70-80% v/s 20-30%.
- As far as industry sources are concerned, most companies are banking on the growth of the residential segment, which already accounts for over 60% of elevator sales in India.
- Passenger elevators grabbed the largest volume share in India elevators market, on account of increasing number of housing projects, premium hotels, government infrastructure development projects, etc, according to the latest report.
- In this regard the creation of Smart Cities or new residential & commercial infrastructure hub will always be of interest.
- Also, Maintenance segment of elevators in India is projected to grow over a CAGR of 8.5% during 2016-2021. The maintenance services are now 18% of the total industry size. The maintenance market turned to be a new profit growth engine, so that major companies intensified layout. It generates around 25-50% margin v/s 5-15% margin in New Installation or Modernization.

Government Initiative:

- Increasing urbanization, continuous construction of high rise buildings, growing government expenditure on infrastructure development and initiatives such as 100 Smart Cities and AMRUT cities were cited as the major growth drivers for the segment.
- Additionally, the growth in metro projects coupled with the railway station redevelopment & modernisation programmes is also fuelling the demand.
- With GST and RERA rolled out, not only will there be greater demand for elevators but there will be transparency and value for quality services.
- Also, RERA will bring in faster turnaround of the projects as timely delivery of residential and commercial projects is mandatory under RERA norms.
- Central government's push to affordable housing coupled with time-bound delivery of residential and commercial projects, especially across realty hotspots such as Mumbai, Pune, Hyderabad, Bengaluru, Chennai, Kolkata and Ahmedabad and also, ongoing metro projects across Delhi, Nagpur, Chennai, Bengaluru, Lucknow, Hyderabad and few more cities will push the demand for elevators.
- In line with the government's aim to provide housing for all by 2022, it will create 20 million new urban housing units and 30 million rural homes.
- Drop in borrowing rate is also expected to boost demand for more housing.

Challenges:

- The lack of skilled manpower and differing applicability of safety codes across India are two biggest challenges currently faced by the industry.
- Another issue plaguing the elevators market in the country is the transparency in reporting sales figures. But there are a number of reasons why even established players do not wish to report their figures.

Competitors' actions:

- India is home to about **300-400** elevator manufacturers.
- The demand for high-speed elevators is increasing. Innovations in look and feel are also big differentiators. And then, the servicing and maintenance is a crucial factor for customers.
- Together, the elevator companies are gearing up to cater to a big surge in the demand for elevators and escalators. In 2015-16, the top 6 players generated around 9.17% as net profit:
 - o Schindler
 - o Johnson
 - o KONE
 - o OTIS
 - o Mitsubishi elevators
 - o Thyssenkrupp
- First 3 together have a combined market share of close to 60%.
- These organised players account for a lion's share in the INR 10,000-cr. elevators and escalators market in India, are all pumping in an estimated INR 700-800 cr. to expand their respective manufacturing capabilities.

- The top elevator manufacturers are also gearing up by focusing on smart & efficient elevators in a big way to serve the rising demand:
 - Schindler: is investing INR 170 cr. to expand its manufacturing facilities by setting up India's first escalator manufacturing line near Chakan, Pune.
 - Johnson: Chennai-based homegrown manufacturer recently announced a heavy duty escalator manufacturing facility at Oragadam, Chennai.
 - KONE: has just commissioned construction of its second manufacturing plant at Oragadam, Chennai spread over 18 acres. It will be operational in early 2019 with the capacity to manufacture 200-250 elevators a day with a little over 20% market share.
 - OTIS: India's oldest lift maker is expanding its manufacturing in India & has doubled its capacity in Bengaluru plant last year- invested INR 100 Cr. for expansion. **57.28% of its Revenue comes from New Equipment Installations and 42.71% from Services. Otis has around 12% market share in the Indian Elevator market.**
 - Mitsubishi: has set up its 5,000 units p.a. plant at Vemgal near Bengaluru.
 - ThyssenKrupp: has also set up its first multi-purpose (also having a distribution centre & training facilities) elevator manufacturing plant at Chakan in Pune with capacity to manufacture 6,000 elevators p.a. extendable to 10,000, with an investment of around INR 300 Cr.-will focus on Indian markets & export to Nepal & Bangladesh.
 - o The company has a market share of around 6.5% to 7% in Indian elevator markets which stands at 55,000 units and is valued at INR 9000 cr.
 - o It clocked the Revenue of around INR 3700 cr. for all its business verticals at the end of Dec, 2016, growing at 4% y-o-y.

Road Ahead:

- With tall buildings being the current trend, there is need of providing faster elevators.
- Need for innovative and energy efficient products is also increasing with the 'Green Building' concept gaining significant ground in our country. [Source: 9]
- Construction companies are building more and more cities in the sky which means vertical mobility solutions play a key role in transporting people up and down.
- In India, gearless & machine room less type of technology elevator is growing at a faster rate than geared type of elevator & is expected to hold the major share in coming years.
- Need for technological advancements and new product developments covering safety, speed, advanced control systems, passenger convenience & comfort, Energy efficiency features for high rise buildings.
- Companies working on Smart Elevators- capable of communicating with passengers, building managers, service staff and other building systems to improve their experience.

5. Company outlook

Key Facts:

Nature of Organization	Private Limited
Establishment year	20XX
Directors	X Directors
Background of Directors	Partners: -XXXXX,years of experience and involved into....., X% -YYYYYY,,Y% -ZZZZ,....., ZZZ%
Location of premises	XXXXXXX

USP's:

- Excelled in services
- High on delivery
- Provides actual value to the clients
- Offers one of the least lead times in the industry.
- Streamlined processes are designed for cutting overhead costs so as to offer competitive prices.

Product/Services Information:

- Business Segment: The range of products includes Passenger Elevators,etc.
- It also offers wide variety of designs like Classic.....
- The company is active in the areas of designing, engineering, installations, servicing, modernization and maintenance of the elevating devices.

Presence:

It has provided turnkey automation solution to almost XXX plants across the state and has a great potential to increase its reach to other states.

These installations cover XXX Elevators, XX Elevators, XX Controllers and XX doors. The company has majorly worked on the most prestigious orders of the state.

Headcount:

- X Promoters: The promoter started this business for the purpose of this diversification. He belongs to one of the Group of companies which is a
- Techie: The team includes mainly X technicians in engineering department including mechanical, electrical and electronic engineers.
- Service Technicians: X team members work for the maintenance mainly for on the AMC.
- Sales: Around X to Y people are outsourced mainly for the promotion and X people are work especially for the Project sales.
- Supervisor: Quality HOD & Commission (HOD) associated with the company from X years

6. Company's Position vis-a-vis Competition

• **Bargaining power of Customers:**

Some of its Prime customers:

- Client 1
- Client 2
- Client 3
- Client 4
- Client 5
- Client 6
- Client 7

Company provides elevator installations service to major builders, Corporate, etc..Currently, the company is in talks with Government, for orders ranging from INR X Cr. to Y Cr. 2-3 orders comes through Referrals per day.

Payment terms with clients:

The company's revenue accrues from 3 major business segments- New Equipment sales, Services and Modernization.

- Construction contracts are recognized using the percentage of completion (PoC) method. The market is going through the lag effect of Demonetization and with the impending GST the outlook is of moderate growth:
 - Income from New Equipment Sales is determined based on the stage of completion of the contract and recognized as revenue. This can occur at a point in time or over time. Generally, the payment is received within XX days after delivering the product.
 - For modernizations, company recognize revenue progressively over time beginning with the start of installation.
- For maintenance, revenue is recognized over time as the service is provided, and for repairs, it is recognized at the point of customer acceptance and when they are performed. Maintenance is generally provided periodically and revenue is therefore recognized on a straight-line basis. The company charges handsome amount for services ranging from INR XXXX per customer- X year average duration contract.

Segmentation of Revenue:

	2016-17	% of revenue	2015-16	2014-15
New Equipment Sale & Modernization	XXXXXXXX	XX.XX%	XXXXXX	XXXXXXXX
Services/Maintenance	XXXXXXXX	XX.XX%	XXXX	XXXXXX
TOTAL	XXXXXXXX		XXXXXXXX	XXXXXX

- Bargaining power of suppliers:**

There is minimal issue as such supplier side is concerned, indicating Bargaining power of supplier to be low to moderate.

- Creditors amounting

	2016-17	2015-16	2014-15
Creditors	XXXXXX	XXXXXXXX	XXXXXXXX

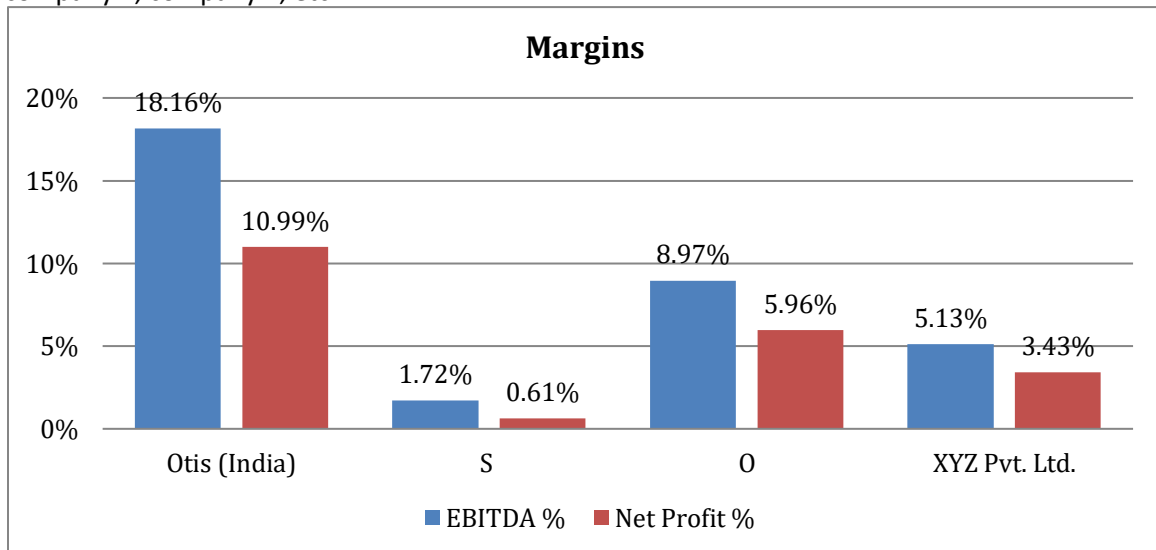
- Threat of New Entrants**

The company is operating in a highly growing industry with the increasing competition. As the growth rate of the company is increasing rapidly; it may attract others to enter into this industry. So, there is a threat of new entry in the market which may bring competition in this industry; resultantly the company may not be allowed to have pricing power for its services. This may limit the potential growth of the company in terms of sales and profit margin in long run. So, the threat of new entrants is moderate to high.

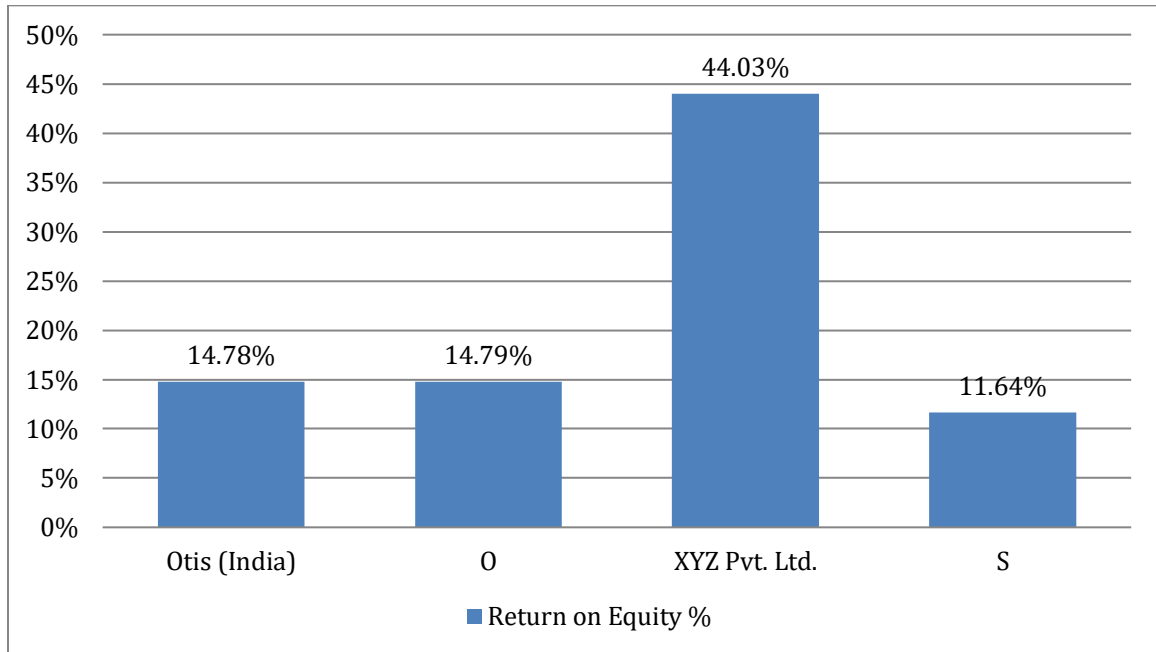
- Intensity of Competition:**

The company is majorly targeting the state and nearby areas. Nearly, all MNCs in the Elevators Industry in India having 10 years of experience can be considered as the major Competitors for the company.

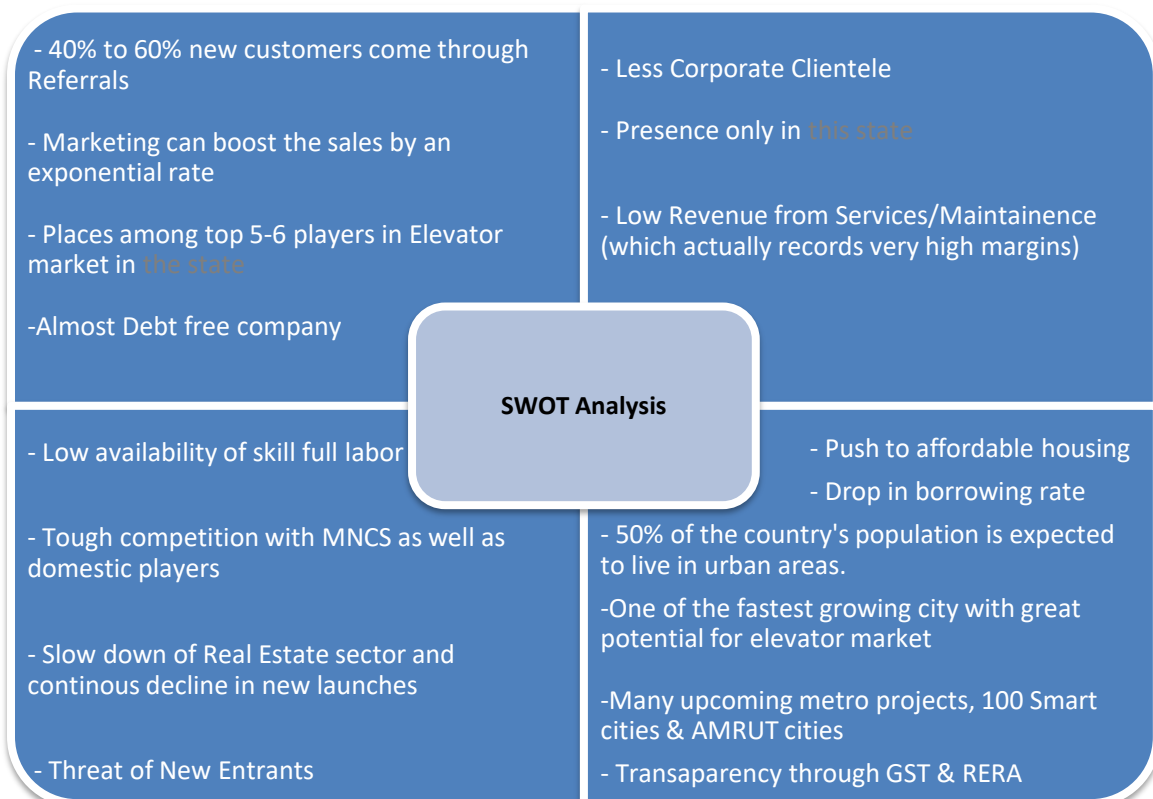
Some of them are Otis Elevators, Kone, Schneider, and the domestic companies gearing up are company 1, company 2, etc..



- **Return on Equity (RoE)**



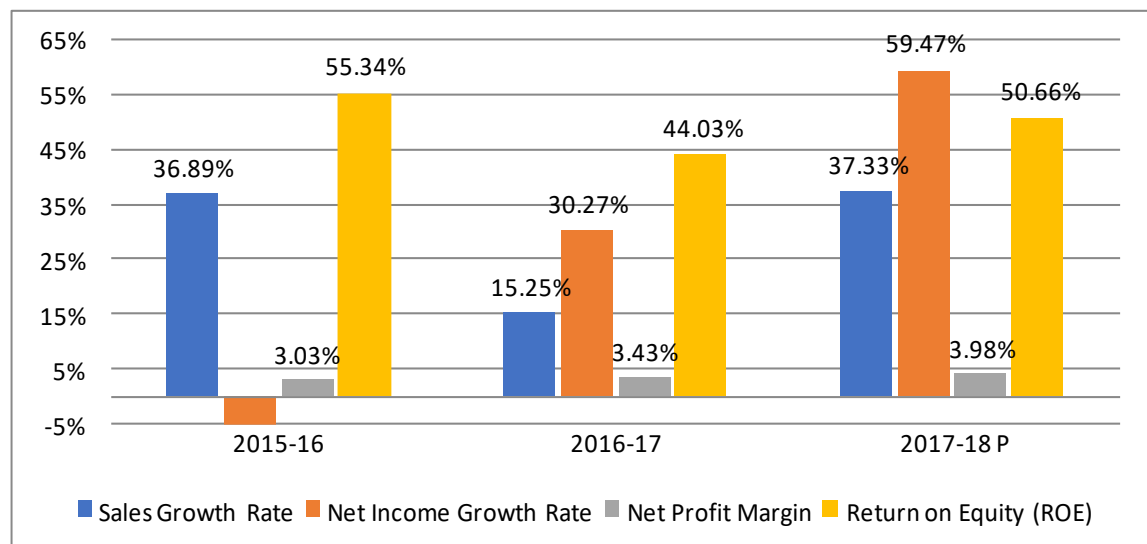
7. SWOT Analysis:



8. Key Factors affecting Valuation:

1. The company has very little debt so there is almost nil interest expenses for the company.
2. Dependency on Promoters: Both the promoters mainly work to get new orders only from the market like orders from Government amounting to INR XX to YY Cr.
3. The company retains its customers through Annual Maintenance Contract (AMC). They are very much excelled in their services.
4. Among top XXX players in the market: Aiming to penetrate deeper into the target segments and providing optimum value.
5. Competent team: The business is well managed by very highly skilled competent team consisting of XX main engineers, each having good amount of experience in their field, a Head of Department (HoD) for the Quality check & sound Sales team for approaching the clients.
6. Wide customer base: The Company serves for many construction projects and has a wide clientele from Residential, Commercial as well as Corporate projects.
7. Profitability Indicators:

Sales growth rate, gross and net profit margin, net income growth rate and return on equity are indicators of business' profitability.



- In 2016-17, around XX% RoE was recorded, which is significantly high, positively impacting.
- Total Turnover of the company has grown at CAGR of XX% to INR XXX Cr.
- Receiving a major order from the Government may highly inflate the Turnover of the Company.
- On an average, the Gross Profit margin was greater than XX% during the time period between FY 2014-15 to FY 2016-17.

So far, the company has performed well and has the capacity to outperform, there is huge growth potential in the market.

9. Key Performance Indicators:

	2015-16	2016-17	2017-18 P
Return on Assets (ROA)	XX	XX	XX
Return on Equity (ROE)	XX	XX	XX
Net Profit Margin	XX	XX	XX
Gross Profit Margin	XX	XX	XX
Operating Profit Margin	XX	XX	XX
Sales Growth Rate	XX	XX	XX
Current Ratio	XX	XX	XX
Quick Ratio	XX	XX	XX
Times Interest Earned Ratio	XX	XX	XX
Financial Leverage Ratio	XX	XX	XX
Debt to Assets Ratio	XX	XX	XX
Debt to Capital Ratio	XX	XX	XX
Debt to Equity Ratio	XX	XX	XX

10. Financial Performance

The historical financial statements have been obtained from Client's management team.

INCOME STATEMENT ANALYSIS

Historical Income/Expense (INR in Lacs)	2014-15	2015-16	2016-17	2017-18 P
Revenue from operations	XX	XX	XX	XX
Other income	XX	XX	XX	XX
Total income	XX	XX	XX	XX
Direct Expenses	XX	XX	XX	XX
Employee expenses	XX	XX	XX	XX
Gross profit	XX	XX	XX	XX
Other expenses	XX	XX	XX	XX
EBITDA	XX	XX	XX	XX
Depreciation and amortization	XX	XX	XX	XX
EBIT	XX	XX	XX	XX
Finance/interest costs	XX	XX	XX	XX
EBT	XX	XX	XX	XX
Tax	XX	XX	XX	XX
Net income	XX	XX	XX	XX
	XX	XX	XX	XX
Earnings Per Share	XX	XX	XX	XX

BALANCE SHEET ANALYSIS

Historic Assets/Liabilities (INR in Lacs)	2014-15	2015-16	2016-17	2017-18 P
Assets				
Cash and Marketable Securities	XX	XX	XX	XX
Accounts Receivable	XX	XX	XX	XX
Other Current Assets	XX	XX	XX	XX
Total Current Assets	XX	XX	XX	XX
Net Fixed Assets	XX	XX	XX	XX
Deferred Tax Assets	XX	XX	XX	XX
Other Non-Current Assets	XX	XX	XX	XX
Total Non-Current Assets	XX	XX	XX	XX
Total Assets	XX	XX	XX	XX
Liabilities & Shareholders' Equity				
Accounts Payable	XX	XX	XX	XX
Short-Term Borrowings	XX	XX	XX	XX
Other Current Liabilities	XX	XX	XX	XX
Provisions	XX	XX	XX	XX
Total Current Liabilities	XX	XX	XX	XX
Long-Term Debt	XX	XX	XX	XX
Other Long-Term Liabilities	XX	XX	XX	XX
Total Non-Current Liabilities	XX	XX	XX	XX
Total Liabilities	XX	XX	XX	XX
Paid-In Capital	XX	XX	XX	XX
Retained Earnings	XX	XX	XX	XX
Total Shareholders' Equity	XX	XX	XX	XX
Total Liabilities & Shareholders' Equity	XX	XX	XX	XX

11. Valuation Methodology

The value of XYZ Pvt. Ltd. can be estimated by using following approaches:

1. Discounted Cash Flow Approach:

This approach estimates value of the company using following assumptions:

- Required rate of return on equity of the company is XX.XX% which is calculated as $R_f + (\text{Beta} * (R_m - R_f))$ where Market return (R_m) is considered as X%, Beta is considered as X and Risk free return (R_f) is considered as X.XX%.
- The company pays income tax at the rate of XX%.
- Pre-tax and post-tax cost of debt is XX% and XX% respectively. XX% is derived by $[(\text{Finance cost}) / (\text{Short term borrowing} + \text{Long term borrowing})]$ and XX% of tax rate is applied to it.
- Weighted average cost of capital – the discount rate for free cash flow to the firm – is estimated at XX% which is derived by $(\text{weight of equity in the company} * \text{cost of equity}) + (\text{weight of debt in the company} * \text{cost of debt})$
- Free cash flow to the firm shall grow at a rate of XX% for next X years from the year 2018-19 to 2022-23 and at a constant rate of XX% for perpetuity from the year 2023-24. XX% growth rate is derived after having detailed discussion with the management.

DCF Valuation

INR (in Lacs)	2013-14	2014-15	2015-16	2016-17	2017-18 P
EBIT	XX	XX	XX	XX	XX
EBIT(1-tax rate)	XX	XX	XX	XX	XX
Depreciation	XX	XX	XX	XX	XX
ΔFCInv	XX	XX	XX	XX	XX
ΔWCInv	XX	XX	XX	XX	XX
FCFF		XX	XX	XX	XX

INR (in Lacs)	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Growth rate	XX	XX	XX	XX	XX	XX
Estimated FCFF	XX	XX	XX	XX	XX	XX
PV	XX	XX	XX	XX	XX	XX

Here, **FCFF** is calculated as **EBIT (1-tax rate) + Depreciation - Δ FC Inv (Change in Fixed Assets) - Δ WC Inv (Change in Working Capital)**

Assuming growth rate of XX% for perpetuity, Estimated free cash flow to the firm (FCFF) for: FY 2018-19 is XXX.

The present value of FCFF of next XX years has also been considered in valuation as follows:

$$\begin{aligned} \text{Value} &= \frac{XX}{(X - X)(1 + XX)^5} + \frac{XX}{(1 + XX)^1} + \frac{X}{(1 + XX)^2} \\ &+ \frac{XX}{(1 + 0.XX)^3} + \frac{XX}{(1 + 0.XX)^4} + \frac{XX}{(1 + 0.XX)^5} \\ &= XX + XX + XX + XX + XX + XX \end{aligned}$$

Value of Equity of the firm = INR XXX

2. Relative Valuation Approach as per Comparables

The relative valuation approach (using P/E) relies on the market value of similar listed companies. This approach provides information as to what investors are willing to pay for buying similar companies on the stock exchange.

We have applied relative valuation approach based on P/E ratio of similar companies, which is into the same segment few listed automation companies in same segment. We have also referred the report by Duff & Phelps 'Industry multiples in India':

Reference	P/E
XX	XX
XX	XX
Industry Average	XX

Value of the Firm= (Earning Per Share)*(Industry Price-Earning ratio)*(No. of Shares)

= (XX) * (XX) * (XX)

= INR XXXX

12. Conclusion

The elevator market is doing exceptionally well in the state and nearby markets and is gradually evolving in other markets with the rise in the race of excellence in services and providing value to the customers. With the increase in the urbanization, many MNCs are setting up their production facilities in the Indian markets to grab the increasing demand for Indian elevator Industry as well as nearby countries (Nepal, Bangladesh, & Srilanka). In current market scenario & for next X years, elevator market has huge potential, because of strong need of providing faster elevators to the sky rise buildings. XYZ is the elevator solution provider for Residential, Commercial and Corporate projects. The company's Turnover is growing at a CAGR of XX% in past X years and average gross profit margin is greater than XX%. Over the years, the company has developed expertise and a good reputation in the market in terms of Quality services. The company also has substantial Return on Equity of around XX%.

We have applied XXX approach and XXX Valuation approach. Both the valuation approaches are equally significant.

The DCF approach infers value of the company based on the XX% growth of FCFF forever. The valuation estimate has been provided in view of their growth potential, expertise in the area they are serving, and high RoE.

Considering all the factors, the estimated value of the equity of XYZ Pvt. Ltd. is calculated as average of both the approaches is INR XXXXXXXXX.

13. Sources:

- Report:

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