M M REDDY & CO.,
Chartered Accountants

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Annexure - II.

Board of Directors,
Ortin Laboratories Limited,
Hyderabad.

Valuation of Ortin Laboratories Limited (OLL)

We refer to our engagement letter June 1st 2017 for carrying out the valuation of **M/s.Ortin Laboratories Limited** (OLL). As per the terms of the engagement, we are enclosing our report along with this letter.

The report has been prepared exclusively for the purpose of management internal evaluation and hence should not be used for any other purposes. Please note that all comments in our report be read in conjunction with the Caveats to the Report, which are contained in this report.

Feel free to contact us if you have any clarification or need any information.

Yours faithfully

For M M REDDY & CO.,
Chartered Accountants
Firm Reg. No. 010371S

(M.Madhusudhana Reddy)
Partner
Membership No.213077

Place: Hyderabad
Date: June 19th, 2017

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ORTIN LABORATORIES LIMITED HYD

I. Introduction & Background

History

Ortin Laboratories Limited (OLL) was originally incorporated in India under the Companies Act, 1956 with Registration No.L24110AP1986PLC006885 as M/s. Ortin Laboratories Limited on October 27, 1986 with Registrar of Companies, Telangana at Hyderabad. The Registered Office of Company is situated at D. No: 1-2-593/29, Ground Floor, Street No.4, GaganMahal Colony, NearBalaSaiTemple,Domalguda,Hyderabad,Telangana, 500029.

Ortin Laboratories Limited (OLL), a Trusted Reliance for Quality and offer Quality Drugs and Medicines to the suffering mankind.Company Formulations unit is located in a spacious area of 25000 sq feet with all ultra-modern infrastructures as per the WHO GMP Standards to manufacture the complete range of Pharmaceutical Formulations of TABLETS, CAPSULES, SYRUPS, and DRY POWDERS.

In the year 2010, M/s Vineet Laboratories Private Limited has been merged with Ortin. Vineet Laboratories is an established Drug Intermediates manufacturing unit, majorly involved in the preparations of intermediates for ANTI-RETRO VIRALS and LIPID LOWERING AGENTS which is located in Choutuppal, Nalgonda District. The manufacturing unit is a complex of Production Blocks, Quality Control, R & D and Quality Assurance. The production blocks are well equipped with multipurpose SS and GLASS-LINED REACTORS.

Company Drug API Intermediates manufacturing unit has been certified as an ISO 9001: 2008 companies by Det Norske VERITAS, The Netherlands for its quality systems management which shows the quality conscious to deliver best quality products.

Company Formulations unit has been certified as a WHO - GMP certified company and an ISO 9001: 2008 Company by the Internationally Recognized Quality Management Certification Body, the BMQR & Accredited by AIAO-BAR, USA in pursuance of its focus towards Quality with its Policy to enhance customer satisfaction by providing Quality Pharmaceutical Formulations at optimum cost and maintain profitability through continual improvement of Quality Management Sytems and cGMP.

Company marketing its formulations all over India and its products has been well accepted by the medical profession. Company honored as a registered Supplier of Drugs & Medicines with the most reputed Central, State & Quasi-Government Organizations

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&Institutions of our Country.

The Company is listed in Bombay Stock Exchange and National Stock Exchange of India.

Upon merger of M/s. Vineet Laboratories Pvt Ltd into the Company operating both divisions (i.e., formulations/tablets in Unit I, and API&Intermediaries are in Unit II) under one Company. Now the both units are functioning well and running successfully.

Considering the business opportunities and market regulations privileged in the Pharma Industry, the company now intends to demerge the both units and run under two separate entities. It will give both quality compliance and acquire the market regulatory compliances for its products. Accordingly we are now valuing the both units to demerge into separate entities.

Our Values

OLL adheres to various procedural checks and controls to ensure that the Product is of the required Quality. This is by company Quality Assurance Department which is well equipped with the latest Analytical Instruments. OLL have laid down various in-house and Pharmacopoeia Specifications for each step from the testing of Raw Materials to Finished Products. It has standardized and validated all our systems like water supply, procurement of specific ingredients, quality testing, manufacturing procedures, cleaning procedures etc.

All the crude drugs are tested for Microscopic & Macroscopic specifications. Phytochemical Screenings for the presence of Activity Secondary Metabolites viz., Alkaloids, Tannins, Flavonoids etc., and alcohol, water soluble extract, Ash values and Volatile substances. Extracts are tested for description, pH, water soluble extract etc. All the finished products viz., Tablets, Capsules, Syrups, Powders and Ointments are tested for average weights, disintegration time, diameter, thickness, moisture, volume, color sedimentation, taster, pH, clarity etc. OLLhas separate Microbiological Laboratory for testing the Microbial contamination in all the Products.

To ensure quality, our Quality Control Department is well equipped with most sophisticated, ultra-modern chemical, micro-biological and state-of-the-art instrumentation lab and we have modern instruments like:Gas Chromatography, HPLC, FTIR, UV Spectrophotometer, Photo Fluorometer, Dissolution Apparatus, Karl Fischer Titrator, Humidity Control Oven, Colony Counter, D.T. Apparatus, Fumigator, Friability Apparatus, I.R., Moisture Balance, Incubator, Leakage Test Apparatus, Polarimeter, pH Meter, Refracto meter, Zone Reader, Autoclave, Centrifuge Machine etc.

OLLhasmetGLP(Good Laboratory Practices) standards with the stringent/strict quality control systems as per the rules and regulations of the pharmacopaeal systems.

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In a nutshell, the key elements of Company Quality Assurance System are:

i. Leadership
ii. Training
iii. Design, Construction & Installation
iv. Formula Cards, Specifications and Standards
v. Written Procedures
vi. Validation
vii. House Keeping, Pest Control, Sanitation and Maintenance
viii. Starting materials
ix. Manufacturing operations
x. Packing Operations
xi. Handling & Storage of Finished Products
xii. Laboratory Control
xiii. Process Control
xiv. In-Process and Finished Product release and control
xv. Records
xvi. Self-Improvement Program
xvii. Complaints
xviii. Quality System Results tracking and improvement

Key Managerial Personal who are contributed to growth of OLL as follows

Full Name	DIN//PAN	Designation
GaddamVenkataRamana	31873	Managing Director
JalluriRadhakrishnaPandurangaRao	294746	Director
MathpatiTippayya	306985	Director
Murali Krishna Murthy Sanka	540632	Managing Director
Mohan Krishna Murthy Sanka	540705	Wholetime Director
BalajiVenkateswarluSanka	2010148	Wholetime Director
SrinivasakumarSanka	2010272	Wholetime Director
SatyanarayanaRajuBhupathiraju	2697880	Wholetime Director
SatyanarayanaRajuBhupathiraju	ACEPB4059N	CFO(KMP)
PradyumnaTejaKavoory	3074013	Director
Lakshmi SravaniDasari	3118833	Director
SeshagiriTirukkovalluru	6715818	Director
Gopal Reddy Bheemreddy	6716560	Director

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The shareholding pattern of OLL as at 31st March , 2017 is as under:

Category of shareholder	No. of fully paid up equity shares held	Shareholding as a % of total no. of shares
Promoter & Promoter Group	60,38,348	35.64%
Public	1,09,02,052	64.36%
Shares underlying DRs	-	-
Shares held by Employee Trust	-	-
Non Promoter-Non Public	-	-
Total	**169,40,400**	**100.00%**

Valuation date& Source of Information

The date of demerger of UNIT-II (API Intermediaries & Bulk Drug Manufacturing Unit) of OLL (Demerger Company) is considered is March31, 2017. In order to determine the exchange ratio prior to demerger was agreed to value UNIT-II and OLL as on March 31, 2017. The key presentation provided by the management for the purpose of valuation analysis is that the audited financial statements for the year ended March 31, 2017and there will not be any material difference between these estimated statements and actual figures. In addition to these, we have provided the following other information for our valuation analysis.

a) Audited financial statements ofOLLfor the years ended March 31, 2013, 2014, 2015, 2016 and 2017
b) Projections of both Units of the Company including profit & loss account, balance sheet and cash flow analysis for the financial years ending March 31, 2018 to 2022.
c) Information on business and profile provided by the management of OLL.
d) Other industry related information from various sources.

We have also obtained necessary explanations and information, which we believed were relevant to the present exercise, from the executive and representatives of OLL. It may be mentioned that OLL has been provided opportunity to review the draft report (excluding our valuation analysis and recommendation) for the current job as part of our standard practice to make sure that factual inaccuracies are avoided in our report.

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II. Business Overview

Financial information

The key financial items of OLL for the year ended 31st March 2016 and 31st March 2017 are shown below:

Key Financial Information: Profit and Loss Account (consolidated): (Rs. In lakhs)

Particulars	As at 31.03.2017	% of Income	As at 31.03.2016	% of Income	% of Growth
Gross Sales Revenue	6219.50	100.00%	6,352.25	100.00%	-2.09%
Cost of Sales	5,319.70	85.53%	5,256.89	82.76%	1.19%
Administrative Expenses	201.51	3.24%	308.43	4.86%	-34.67%
Marketing Expenses	133.00	2.14%	140.48	2.21%	-5.32%
EBIDTA	565.29	9.09%	646.46	10.18%	-12.56%
Depreciation	170.37	2.74%	164.74	2.59%	3.42%
Finance Charges	292.87	4.71%	342.13	5.39%	-14.40%
PBT	102.04	1.64%	139.59	2.20%	-26.90%
Tax Expenses	62.72	1.01%	56.20	0.88%	11.60%
PAT	39.33	0.63%	83.38	1.31%	-52.83%

Source: Audited financial statements of OLL

Key Financial Information: Balance Sheet (consolidated): (Rs. In lakhs)

Particulars	As at 31.03.2017	% of Assets	As at 31.03.2016	% of Assets
Source of Funds				
Shareholders' Funds	2,366.56	51.25%	2,327.25	74.93%
Loan Funds	1944.85	42.12%	479.88	15.45%
Deferred Tax	305.87	6.62%	298.86	9.62%
Total	**4,617.28**	100.00%	**3,105.99**	**100.00%**
Application of Funds				
Fixed Assets	2,104.14	45.57%	2,162.73	69.63%
Investments	3.08	0.07%	3.08	0.10%
Long term loans and advances	211.29	4.58%	172.27	5.55%
Net Current Assets	2298.77	49.79%	767.91	24.72%
Total	**4,617.28**	100.00%	**3,105.99**	**100.00%**

Source: Audited financial statements of OLL

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Financial Analysis

We have carried out a financial analysis of the audited financial statements for the year ended 31st March 2017 and the audited financial statements for the year ended 31st March 2016. OLL's performance mainly depends on sale of formulations and API Intermediates.

Total revenue for the fiscal year 2017 was down by Rs.132.75 lakhs 2.09% to Rs.6219.50lakhs as compared to fiscal year 2016. Total revenue for the fiscal year 2016 is Rs.6,352.25 lakhs.

Cost of Sales has increased by Rs.49.17lakhs to Rs.5,319.70lakhs (85.53%of sales) in fiscal 2017 compared to Rs.5,256.89 lakhs in fiscal 2016 (82.76% of sales) and includes cost of raw materials, cost of services, production staff costs, consumables, wages and other direct expenses.

General Administrative Expenses were Rs.201.51lakhs (3.24% of sales) in fiscal 2017 as compared to Rs.308.43lakhs (4.86% of sales) in fiscal 2016. They include employee costs, traveling and communication expenses, employee welfare expenses, profession charges and other office maintenance expenses.

Selling & Marketing Expenses were Rs.133.00lakhs (2.14% of sales) for fiscal 2017 as compared to Rs.140.48 lakhs (2.21% of sales) in fiscal 2016. They include employee costs, traveling and communication expenses, brand building and other promotional expenses, and other advertising department expenses.

Operating profits (EBIDTA) of Rs.565.29 lakhs (9.09% of sales) in the fiscal 2017 as compared to Rs.649.57 lakhs (10.67% of sales) in the fiscal 2016.

Depreciation & amortization in fiscal 2017 was Rs.170.37lakhs (2.74% of sales) as compared to Rs.164.74 lakhs (2.59% of sales) in fiscal 2016.

Finance charges in fiscal 2017 were Rs.292.87lakhs (4.71% of sales) as compared to Rs.342.13 lakhs (5.39% of sales) in fiscal 2016.

Tax expenses include current income tax, fringe benefit tax and deferred tax. For the fiscal 2016, Provision for tax was Rs.62.72 lakhs (1.01% of sales) as compared to Rs.56.20lakhs (0.88% of sales) in fiscal 2016.

Profit after Tax in fiscal 2017 was decreased by Rs. 44.05 lakhs to Rs.39.33 lakhs (0.63% of total income) as compared to Rs.83.38lakhs (1.31% of total income) in fiscal 2016.

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Financial Projections

The financial projections for the year ended 31st March 2017 to 31st March 2021for the both divisions are shown below:

Projections of UNIT-I (Formulations Unit):

(Rs. In Lakhs)

Particulars	Projected as on 31st March				
	2018	2019	2020	2021	2022
Gross Sales Revenue	1,104.73	1,325.68	1,590.82	1,908.98	2,290.77
Direct Costs of Revenue	552.37	662.84	795.41	954.49	1,145.39
Gross Margin	**552.37**	**662.84**	**795.41**	**954.49**	**1,145.39**
Operating Expenses	306.56	367.88	441.45	529.74	635.69
Operating Income	-	-	-	-	-
Other Income	-	-	-	-	-
Earning Before Dep. & Tax	**245.80**	**294.96**	**353.96**	**424.75**	**509.70**
Less: Depreciation	30.26	30.26	30.26	30.26	30.26
Less: Written off of Expenses	-	-	-	-	-
Profit Before Tax	215.54	264.70	323.70	394.49	479.44
Less: Interest Expenses	107.68	107.75	107.75	107.75	107.75
Less: Tax Expenses	32.36	47.09	64.78	86.02	111.51
Profit after Tax	**75.50**	**109.87**	**151.16**	**200.72**	**260.18**

Source: provisional financial statements of UNIT-I

Projections of UNIT-II (API Intermediaries & Bulk Drug Manufacturing Unit):

(Rs. In Lakhs)

Particulars	Projected as on 31st March				
	2018	2019	2020	2021	2022
Gross Sales Revenue	5,757.16	6,045.02	6,347.27	6,664.63	6,997.86
Direct Costs of Revenue	4,433.01	4,660.71	4,893.74	5,135.10	5,391.85
Gross Margin	**1,324.15**	**1,384.31**	**1,453.52**	**1,529.53**	**1,606.01**
Operating Expenses	971.23	1,027.65	1,079.04	1,132.99	1,190.09
Operating Income	-	-	-	-	-
Other Income	-	-	-	-	-
Earning Before Dep. & Tax	**352.91**	**356.66**	**374.49**	**396.55**	**415.92**
Less: Depreciation	140.11	140.11	140.11	140.11	140.11
Less: Written off of Expenses	-	-	-	-	-
Profit Before Tax	**212.80**	**216.55**	**234.38**	**256.44**	**275.81**
Less: Interest Expenses	141.96	133.86	125.76	117.66	116.50
Less: Tax Expenses	21.25	24.81	32.59	41.63	47.79
Profit after Tax	**49.59**	**57.88**	**76.03**	**97.14**	**111.51**

Source: provisional financial statements of UNIT-II

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III. Valuation Analysis

Valuation Methodology

Valuation of the enterprise or its equity shares is not an exact science and ultimately depends upon what it is worth to a serious investor or buyer who may be even prepared to pay goodwill. This exercise may be carried out using generally accepted methodologies, the relative emphasis of each often varying with the factors such as:

- Specific nature of the business,
- Listing and liquidity of the equity,
- Economic life cycle in which the industry or the company is operating and
- Extent to which and comparable company information is available.

The results of this exercise could vary significantly depending upon the basis used, the specific circumstances and professional judgment of the valuer. In respect of going concerns, certain valuation techniques have evolved over time and are commonly in vogue. In this regard, we have evaluated suitability of four commonly used approaches of valuation to determine the fair value of two companies. After arriving at the values based on appropriate methods, we have assigned weightings to these methods to determine the fair value for the two divisions.

1) Net Assets Method (NAV):

The value arrived at under this approach is based on the audited financial statements of the business and may be defined as Shareholder's Funds or Net Assets owned by the business. The Net Assets Value is generally used as the minimum break-up value for the transaction. This methodology calculates the underlying net Assets of the business, either on a book value basis or realizable value basis or replacement cost basis. We have used the book value basis to estimate the value of two Units.

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2) Discounted Cash Flow Method (DCF):

The DCF method uses the future free cash flows of the division discounted by the weighted average 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, considering that this method is based on future potential and is widely accepted, we have included this approach in the valuation exercise.

Using the DCF analysis involves determining the following:

Estimating future free cash flows:

Free cash flows are the expected to be generated by the company that is available to all provides of the company's Capital-both debit and equity.

Appropriate discount rate to be applied to cash flows i.e., the cost of capital

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely share holders and Lenders), weighted by their relative contribution to the total capital of the company. The opportunity cost to the equity capital provider equals the rate of Return the capital provider expects to earn on other investments of equivalent risk.

To the values so obtained from DCF analysis, the amount of loans has to be adjusted to arrive at the total value available to the equity shareholders. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share of the company.

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3) **Stock Exchange Quotation or Market Price Method:**

This valuation reflects the price that the market at a point in time is prepared to pay for the shares. It is therefore influenced by the condition of the stock market, the concerns and opportunities that are seen for the business in the sector or market in which it operates.

The market price is also reflects the investor's view of the ability of the management to deliver a return on the capital it is using. The company is trading in exchanges as a whole. Since the both divisions are not traded independently, we have not used Market Price Method for the purpose of this valuation analysis.

4) **Comparable Company Market Multiple Method:**

Under this methodology, market multiples of comparable listed companies are computed and applied to the business being valued in order to arrive at a multiple based valuation. This approach is usually applied in case of valuation of unlisted companies. Some of the common multiples used in a valuation are listed below:

- Market Cap / Sales Multiple
- Price / Earnings Multiple
- Precedent Transactions Multiple Method

There are no comparable companies in pure listed bio diesel companies in India and some of the comparables are available outside India but which is also not comparable, since these companies are producing bio diesel from edible oils. In UNIT-II segment also no exact comparables are available to compare the division. Hence, we have not used Market Multiple Method for the purpose of this valuation analysis.

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Valuation Analysis: UNIT-I

We have carried out the valuation analysis as described above, based on the fundamental assumption of going concern for the business under consideration. The detailed analysis and the assumptions made these purpose are given below:

Method 1: Net Asset Value Method (NAV)

In order to assess the NAV of UNIT- I, we have used the Audited financial statements of two units for the Yearended 31stMarch 2017. The value arrived under this approach using the shareholders funds of Net Assets owned by the business as at 31stMarch 2017 is Rs. 1,135.95 lakhs.

PARTICULARS	Rs. In Lakhs	Rs. In Lakhs
Fixed Assets: Net Block	438.66	
Capital work in progress	-	
Total fixed assets (Net)		438.66
Investments		0.08
Current Assets		
Net Current assets		819.62
Cash & Bank Balances		28.96
Total Assets		1,287.32
Borrowings		
Secured Loans	-	
Un Secured Loans	85.75	
Deferred tax liability	65.62	
Total borrowings		151.37
Net worth - unadjusted		1,135.95
Less: Contingent liabilities		-
Less: Misc. expenses		-
NET VALUE		1,135.95
Total number of equity shares outstanding		1,69,40,400
Value Per Share		6.71

Source: Audited financial statements of UNIT-I

Method 2: Discounted Cash Flow Method (DCF)

Estimated Free Cash Flows:

For the purpose of valuation exercise, we have considered a seven years projected period i.e. from the financial year 2018 to 2022.

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The cash flow projection as on a free cash flow to equity (FCFE) basis is summarized below:

Particulars	Projected as on 31st March				
	2018	**2019**	**2020**	**2021**	**2022**
Free Cash Flow (Net Profit + Dep.+ W/o)	105.76	140.13	181.42	230.98	290.44
Less: Capital Expenditure	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)
Add / (less): Decrease / (increase) in non-cash working capital	11.38	(136.29)	(91.10)	(89.39)	(160.32)
Add / (less): (Decrease) / increase in Secured / unsecured Loans/Promoters funds	-	-	-	-	-
Net Free Cash Flows	**112.14**	**(1.16)**	**85.32**	**136.58**	**125.12**

Source: Provisional financial statements of UNIT-I

Valuation assumptions

Discounting factor

The discounting factor considered for arriving the present value of the free cash flows to the equity is cost of equity, since the free cash flows to equity shareholders are estimated. The cost of equity computed using the Capital Assets Pricing Model (CAPM) using the formula;

$Ke = rf + \beta(rm - rf)$ where
Ke = Cost of Equity
Rf = Risk Free Return
Rm = Market Price of Return and
B(beta) = Measure of Market Risk

Risk free rate of return has been estimated on 10 year Indian Government bond yield, market return is based on the return from Indian stock market index over a long term historical period and beta coefficient is based on companies stock being traded in Bombay Stock Exchange against the Sensex for the last year. Based on the above we have worked out the discount factor for UNIT-I as 12.34%. The calculations of discounting factor are given below:

Risk free rate of return	8.30%
Beta	1.00
Market rate of return	12.00%
Cost of Debt	13.50%
Discounting Factor	12.34%

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Terminal Value

The terminal value refers to the present value of the business as a going concern basis beyond the period of projections up to perpetuity. This value is estimated taking into business growth rates as well estimated growth rates of the industry and economy. Based on the factors specific to the company as mentioned above, the free cash flow to the equity shareholders after considering all terminal value is Rs.484.51 lakhs.

Projected cash flow value	314.79
Terminal Value	484.51
Enterprise Value	799.30
Net Debt	116.53
Value of Equity	682.77
No of Equity Shares	**1,69,40,400**
value equity per share	**4.03**

Valuation Analysis: UNIT-II

We have carried out the valuation analysis as described above, based on the fundamental assumption of going concern for the business under consideration. The detailed analysis and the assumptions made these purpose are given below:

Method 1: Net Asset Value Method (NAV)

In order to assess the NAV of UNIT-II, we have used the Audited financial statements for the quarter ended 31st March 2017. The estimated value arrived under this approach using the shareholders funds of Net Assets owned by the business as at 31st March 2017 is Rs. 1,230.62 lakhs.

PARTICULARS	**Rs. In Lakhs**	**Rs. In Lakhs**
Fixed Assets: Net Block	1,665.48	
Capital work in progress	-	
Total fixed assets (Net)		1,665.48
Investments		3.00
Current Assets		
Net Current assets		34.92
Cash & Bank Balances		114.07
Total Assets		**1817.48**
Borrowings		
Secured Loans	188.60	

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Un Secured Loans	158.01	
Deferred tax liability	240.25	
Total borrowings		586.86
Net worth - unadjusted		1230.62
Less: Contingent liabilities		-
Less: Misc. expenses		-
NET VALUE		1230.62
Total number of equity shares outstanding		1,69,40,400
Value Per Share		7.26

Source: Audited financial statements of UNIT-II

Method 2: Discounted Cash Flow Method (DCF)

Estimated Free Cash Flows:

For the purpose of valuation exercise, we have considered a Seven years projected period i.e. from the financial year 2018 to 2022.

The cash flow projection on a free cash flow to equity (FCFE) basis is summarized below:

Particulars	Projected as on 31st March				
	2018	2019	2020	2021	2022
Free Cash Flow (Net Profit + Dep.+ W/o)	189.70	197.99	216.14	237.25	251.62
Less: Capital Expenditure	-	-	-	-	-
Add / (less): Decrease / (increase) in non-cash working capital	(233.02)	(80.68)	(35.00)	17.36	(62.15)
Add / (less): (Decrease) / increase in Secured / unsecured Loans	-	-	-	-	-
Net Free Cash Flows	**(43.32)**	**117.31**	**181.15**	**254.61**	**189.48**

Source: Provisional financial statements of UNIT-II

Valuation assumptions

Discounting factor

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The discounting factor considered for arriving the present value of the free cash flows to the equity is cost of equity, since the free cash flows to equity shareholders are estimated. The cost of equity computed using the Capital Assets Pricing Model (CAPM) using the formula;

$Ke = rf + \beta(rm - rf)$ where
Ke = Cost of Equity
Rf = Risk Free Return
Rm = Market Price of Return and
B(beta) = Measure of Market Risk

Risk free rate of return has been estimated on 10 year Indian Government bond yield, market return is based on the return from Indian stock market index over a long term historical period and beta coefficient is based on companies stock being traded in Bombay Stock Exchange against the Sensex for the last year. Based on the above we have worked out the discount factor for UNIT-II as 12.38%. The calculations of discounting factor are given below:

Risk free rate of return	8.30%
Beta	1.00
Market rate of return	12.00%
Cost of Debt	13.50%
Discounting Factor	12.38%

Terminal Value

The terminal value refers to the present value of the business as a going concern basis beyond the period of projections up to perpetuity. This value is estimated taking into business growth rates as well estimated growth rates of the industry and economy. Based on the factors specific to the company as mentioned above, the free cash flow to the equity shareholders after considering all terminal value is Rs.727.97 lakhs.

Projected cash flow value	447.33
Terminal Value	727.97
Enterprise Value	1,175.30
Net Debt	435.64
Value of Equity	739.65
No of Equity Shares	1,69,40,400
DCF value per share	4.37

Exchange Ratio

We have assigned weights to NAV & DCF methods to arrive at the average values of equity share of the Unit-I and UNIT-II. We have given the Net Asset Value method aweight of 25% as both the Units and 75% weights given for Discounted Cash Flow method as while it takes into consideration future business potential, it is based on forecast.

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Value in Lakhs

Particulars	UNIT-I		UNIT-II		OLL
	Weight	Value of the Business	Weight	Value of the Business	Value of the Business
Net Assets Value method	25%	283.99	25%	307.65	591.89
Discounted Cash Flow method	75%	512.07	75%	554.74	1,067.57
Value of the Business	**100%**	**796.06**	**100%**	**862.40**	**1,659.46**
Total No. of equity shares outstanding (In Numbers)		169,40,400		169,40,400	169,40,400
Value per equity share		4.70		5.09	9.80
Number of shares to be issued to Unit-I					81,31,422
Number of shares to be issued to Unit-II					88,08,978

Based on our valuation of both Units and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, upon scheme become effective the share holder of 100 equity shares of the nominal value of Rs. 10/- each in OLL will get 48 equity shares of nominal value of Rs.10/- each in OLL (Demerger Company/Unit-I) and 52 equity shares of the nominal value of Rs.10/- each in ((Resulting Company/Unit-II) (API Intermediaries & Bulk Drug Manufacturing Unit))).

IV.Scope of Limitations

Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report as agreed per terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

Valuation analysis and results are also specific to the date of this report. A review of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. As such, our review results are, to a significant extent, subject to continuance of current trends beyond the date of the report. We, however, have no obligation to update this report for events, trends or transactions relating to the companies or the market/economy in general and occurring subsequent to the date of this report.

In the course of the review, we were provided with both written and verbal information, including market, technical, financial and operating data. We have however, evaluated the information provided to us by the companies through broad inquiry, analysis and review

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(but not have carried out a due diligence or audit of the companies for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided). Through the above evaluation, nothing has come to our attention to indicate that the information provided was materially misstated / incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be constructed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose. The terms of our engagement were such that we were entitled to rely upon the information provided by the companies without detailed inquiry. Also, we have been given to understand by the Management that they have not omitted any relevant and material factors. Our conclusions are based on these assumptions, forecasts and other information given by/on behalf of the companies.

No investigation of the companies claim to title of assets has been made for the purpose of this review and the companies 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 matter of a legal nature.

We have not conducted or provided an analysis or prepared a model for any asset valuation and have wholly relied on information provided by the companies in that regard.

We owe responsibility to only Board of Directors of OLL, which has retained us and nobody else.

We do not accept any liability to any third party in relation to the issue of this report.

Yours faithfully

For M M REDDY & CO.,
Chartered Accountants
Firm Reg. No. 010371S

M M REDDY & CO. Chartered Accountants Hyderabad

(M.Madhusudhana Reddy)
Partner
Membership No.213077

Place: Hyderabad
Date: June 19th, 2017

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