



# Chartered Capital And Investment Ltd.

Date: March 7, 2014

To

The Board of Directors

**EVEREST ORGANICS LTD**

Aroor Village, Sadasivapet Mandal,

Medak, Andhra Pradesh

Dear Sirs,

**FAIRNESS OPINION CERTIFICATE ON VALUATION OF SHARES OF**  
**EVEREST ORGANICS LTD**

With reference to our offer letter dated Monday, February 10, 2014, which has been duly accepted by you, whereby we have been appointed as an Independent Merchant Banker for furnishing a 'Fairness Opinion' on the valuation carried out by the Valuer, M/s. V Ramachandra Rao, Chartered Accountant, vide their report dated March 3, 2014, in terms of Clause 24 of Listing Agreement.

We have been given to understand that the objective for this exercise is to obtain the fair value of the Equity Shares of Everest Organics Ltd (EOL) as on appointed date for the purpose of capital reduction through a scheme of arrangement in accordance with the Companies Act, 1956.

We have examined the methodologies used and corresponding share valuation to arrive at the fair value based on the Valuation Report furnished by M/s. V Ramachandra Rao, Chartered Accountant of **Rs. 5.85 (Five Rupees and Eighty Five Paisa)** per Equity Share.

We enclose herewith our Report on the Fairness of the Valuation carried out by M/s. V Ramachandra Rao, Chartered Accountant.

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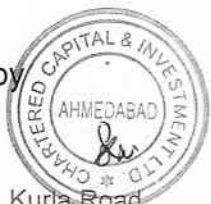
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We hereby give our consent to present and disclose the Fairness Opinion in accordance with Clause 24 of Listing Agreement to the Registrar of Companies, Andhra Pradesh, Hyderabad, BSE Ltd (BSE) and the High Court of Judicature of Andhra Pradesh at Hyderabad and any other regulatory / competent authorities in connection with the proposed purpose outlined above.

We highly appreciate the co-operation and support received by us from your representatives during preparation of the said Report.

Thanking you,

Yours faithfully,

**For Chartered Capital And Investment Limited**



*Mohib N. Khericha*

**Mohib N Khericha**  
**Managing Director**



**FAIRNESS OPINION ON VALUATION OF SHARES OF EVEREST ORGANICS  
LTD**

**CONTENTS**

- I. Terms of Reference
- II. Information Received and Relied upon by us for the Fairness Opinion
- III. Brief Background of Company under Reference
- IV. Synopsis Of The Scheme Of Arrangement For Capital Reduction
- V. Method Of Valuation And Valuation Of Everest Organics Ltd
- VI. Fair Value Per Equity Share Of Everest Organics Ltd
- VII. Opinion on Valuation Report





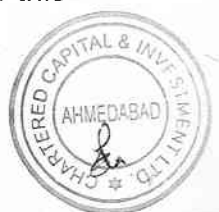
## FAIRNESS OF VALUATION OF SHARES

### I. TERMS OF REFERENCE

- 1.1 **Everest Organics Ltd (EOL)** is listed on BSE.
- 1.2 The Board of Directors of Everest Organics Ltd is proposing capital reduction through a scheme of arrangement in accordance with the Companies Act, 1956. The fair value of Equity Shares of EOL has been decided based on the Valuation Report prepared by M/s. V Ramachandra Rao, Chartered Accountant as on appointed date i.e. April 1, 2013.
- 1.3 For the purpose of ascertaining the fairness of the valuation used by Everest Organics Ltd, has appointed, CCIL, for furnishing a **Fairness Opinion** on the valuation carried by the aforesaid Valuer.

### II. INFORMATION RECEIVED AND RELIED UPON BY US FOR THE FAIRNESS OPINION

- 2.1 We, CCIL, have prepared the **Fairness Opinion** on the basis of the following information provided to us:
  - a) Memorandum and Articles of Association of the Company
  - b) Audited Annual Accounts and Annual Reports of the Company for the past three years.
  - c) Valuation Report dated March 3, 2014 of M/s. V Ramachandra Rao, Chartered Accountant.
- 2.2 Our work does not constitute an audit or certification of the historical financial statements of Everest Organics Ltd, including their working results referred to in this Report. Accordingly, we are unable to and do not express any opinion on the accuracy of any financial information referred to in this





Report. We do not express any opinion on the compliance or otherwise of the applicable provisions of the Law by the company. We assume no responsibility for any errors in the information/clarifications submitted by the Management and their impact on the present exercise. **This Fairness Opinion has been furnished on the methodologies and resultant share valuation used by the Valuer.**

2.3 This Report is issued on the understanding that Everest Organics Ltd has drawn our attention to all the relevant matters, of which they were aware of, concerning the company's financial position and businesses, which may have an impact on this Report.

2.4 Our report is also subject to the limitations referred to in the Valuation report.

### III. BRIEF BACKGROUND OF COMPANY UNDER REFERENCE

#### Everest Organics Ltd

Everest Organics Limited, having its registered office at Aroor Village Sadashivpet Mandal, Medak District Andhra Pradesh is a Company registered under the Companies Act, 1956. The company is manufacturing bulk drugs viz. Omeprazole, esomeprazole, Pantoprazole, Pregabalin, Benzimidazole, etc and related activities.





## **Capital Structure**

The capital structure of Everest Organics Ltd. on March 31, 2013 is as under:

### **Authorised Capital**

The Authorised capital of Everest Organics Ltd. is Rs 10,00,00,000/- (Ten Crores) divided in to 1,00,00,000 (One Crore) equity shares of Rs. 10 each.

### **Issued, Subscribed and Paid up Capital**

The issued, subscribed and paid up capital of Everest Organics Ltd. is Rs 9,27,30,000/- (Nine Crores Twenty Seven Lacs and Thirty Thousands) divided in to 92,73,000 (Ninety Two Lacs Seventy Three Thousands) equity shares of Rs. 10 each.

## **IV. SYNOPSIS OF THE SCHEME OF ARRANGEMENT FOR CAPITAL REDUCTION**

### **Rationale for the Scheme of Arrangement**

(a) In view of the accumulated carry forward losses that the company's balance sheet is reflecting and with the future prospect of growth and value addition to the shareholders, the company has proposed to clean its books





there by enabling the company to raise future resources considering the expansion programs and various API that has been considered for development would need huge amount of investment both in terms of equity as well as debt.

(b) This has given rise to the need to re-adjust the relation between capital and assets and to accurately and fairly reflect the liabilities and assets of the Company in its books of accounts. The Company has evaluated the effect of this upon the Company's functioning and has carefully examined different options available to the Company. After detailed deliberations, the Board of Directors of the Company is of the view that reduction of share capital in accordance with Section 100 of the Companies Act, 1956 is the only practical and economically efficient legal option available to the Company. In order to reflect its assets and liabilities at their real value and maximize its business value, the Company proposes to reduce the equity share capital of the Company, in accordance with Section 100 of the Companies Act, 1956.

### **Purpose of the Scheme**

The purpose of the Scheme is to reorganize the Capital Structure of the Company so as to represent the realistic value for the Shares of the Company.

### **Upon the Scheme coming into effect from the Appointed Date;**

i. on the effective date and after securing necessary approvals and permissions, the Accumulated losses of Rs. 5,93,47,200/- (Rupees Five Crore Ninty Three lacs Forty Seven Thousand and Two Hundred only) of the Company is sought to be set off against the paid up capital of the Company with effect from the appointed date.





ii. As an integral part of this Scheme and upon coming into effect of the Scheme the issued, subscribed and paid up share capital of the Company shall be reduced by cancelling a sum of Rs. 6.40 from every paid up share of Rs. 10/- and thereafter consolidating 1 Equity Shares of Rs.10/- each as fully paid up capital in the Company i.e. after reduction the capital of the company will be of 33,38,280 (Thirty Three Lacs Thirty Eight Thousand Two hundred and Eighty) fully paid equity shares of Rs.10/- each aggregating to Rs. 3,33,82,800/- (Rupees Three Crores Thirty Three Lacs Eighty Two Thousand and Eight hundred Only).

iii. Upon coming into effect of the scheme, the share capital of the Company will be reduced and reorganized by reducing the paid up equity shares of Everest Organics Limited from Rs.10/- per equity share to Rs. 3.60 per equity share and further consolidating the same in to fully paid up shares of Rs10/- per equity share.

## V. METHOD OF VALUATION AND VALUATION OF EVEREST ORGANICS LTD

### 1. Asset Backing Method

The net assets value, as at the latest audited balance sheet date, will be calculated starting from the total assets of the Company or of the branch and deducting there from all debts, dues, borrowings and liabilities, including current and likely contingent liabilities and preference capital, if any. In other words, it should represent the true net worth of the business after providing for all outside present as well as potential liabilities. In the case of companies, the net assets value as calculated from the assets side of the balance sheet in the above manner will be cross checked with equity share capital plus free reserves and surplus, less the likely contingent liabilities.







## **2. Earning Capitalization Method**

Under this method estimates / projections of average future maintainable profits are made. The estimated average future maintainable profits are capitalized at an appropriately selected rate and the resultant figure is divided by the number of equity shares.

## **3. Hybrid Method**

Occasionally a combination of the above methods is being used for valuation.

## **4. Market value for quoted shares**

The value of the shares is computed on the basis of market price / traded price of the shares recognized by the Stock Exchanges.

## **5. Pricing methodology given under erstwhile CCI Guidelines for the Public Issue of shares**

The pricing of shares is based on the fair value of the shares which is worked out on the basis of the following:

- Net Assets Value (NAV)
- Profit Earning Capacity Value (PECV)
- Market Value for Listed Companies

### **Net Assets Value (NAV)**

The method referred here has already been described at point 1 above under the head "Asset Backing Method" and the valuation as per this method would be arrived as under:





Book Value as on March 31, 2013	
Paid up capital	92730000
Reserve	-59856102
Total	32873898
No of share	9273000
NAV	3.55

### **Profit Earning Capacity Value (PECV)**

The method referred here is similar to method described at point 2 above.

The profit earning capacity value will be calculated by capitalizing the average of the after tax profits at 15% for manufacturing companies, 20% for trading companies and 17.50% in case of intermediates companies that is to say companies whose turnover from trading activities is more than 40% but less than 60% of their total turnover.

The crux of the estimating the profit earning of the business while the past trends in the profits and profitability would serve as a guide, it should not be overlooked that the valuation is for the future and that it is the future maintainable streams of earning that is of the great significance in the process of valuation.

The latest PECV ratio for comparable companies (As per annexure) is 12.03% as per the information available of these companies, hence same is taken for valuation for the future maintainable streams of earning which is of great significance in the process of valuation. The valuation as per this method would be arrived as under:





A.	MAINTAINABLE PROFIT		(Rs. Lacs)
(1)	(2)	(3)	(4)= (2)x(3)
YEAR	Profit PAT	Weightage	Profit
2010-11	114.48	1.00	114.48
2011-12	105.97	2.00	211.94
2012-13	73.05	3.00	219.15
Total			545.57
1.	Weighted Average Profit		Rs. Lacs 90.93
2.	No. of Shares		9273000
3.	EPS		0.98
4.	PECV (Capitalised @12.03%)		Rs. 8.15

Note: The capitalization rate of industry average of Bulk Drug companies is taken @12.03% as per the CCI guidelines for valuation of equity shares of companies. (HLL formula)

### Market Value

The market value will be taken cognizance of in the following manner:

The average market price will be determined taking into account the stock market quotation in the preceding three years (after making appropriate adjustments for bonus issues and dividend payment) as under:

- The high and low of the preceding two years and
- The high and low of each month in the preceding 12 months

The reasonableness of the fair value will be checked against the average market price in the following lines:





- If the average of the net assets value and the profit earning capacity value on 15% capitalization rate is less than the average market price by about 20% only, then the average will be regarded the fair value
- If however, the average of the net assets value and the profit earning capacity value is less than the average market price by a substantial margin, say by over 20% than the profit earning capacity value may be reworked by liberalizing suitably the capitalization rate of 15%.
- If the average market price is more than 20% to 50% of the fair value, the capitalization rate will be 12%. If the average market value is more than 50% to 75% of the fair value, the capitalization rate will be 10%. If the average market price is more than 75% and above of the fair value, the capitalization rate will be 8%.

As informed by management the trading in equity shares of the company are suspended at the present moment. However the company has also stated that they have already applied to BSE Ltd for Revocation of Suspension.

The fair value will be determined on the basis of the average of the net assets value and the profit earning capacity value as the shares are suspended for trading on BSE.

### **SELECTION OF METHOD**

After considering the above methods and in view of the fact that shares of the company are not traded in any of the stock exchanges, the fair value of the shares has been arrived at after considering the pricing methodology given under the erstwhile CCI Guidelines and also by placing reliance on Hon'ble supreme court Decision in case of Hindustan Lever Employees Union Vis. Hindustan Lever Ltd., 1995 (83 com case 30).





## VI. FAIR VALUE PER EQUITY SHARE OF EVEREST ORGANICS LTD

The fair value will be determined on the basis of the average of the net assets value and the profit earning capacity value as the shares are suspended for trading on BSE.

Based on audited financial statement for the last three years and from the observation on the same financial statements, the fair value of the shares of company has been arrived at Rs 5.85 per fully paid-up equity share of Rs.10/- each.

Accordingly, in our opinion, the fair value of an equity share (face value of Rs. 10) in the paid up capital of Everest Organics Ltd is Rs. 5.85 per equity share.

## VII. OPINION ON VALUATION REPORT

*The fair value of Equity shares of the company has been arrived on the basis of various methodologies explained herein earlier and various qualitative factors relevant to company and the business dynamics and growth potentials of the business of the company, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.*

*Based on the information, material, data made available to us, including the Valuation Report and working thereto, to best of our knowledge and belief, the methodologies used and corresponding share valuation suggested by M/s. V Ramachandra Rao, Chartered Accountant proposed under the scheme of arrangement are Fair.*

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## Annexure

Comparable companies for "Pharmaceuticals – Indian – Bulk Drugs" Sector

Sr. No.	Company Name	Sales Rs. Cr.	NP Rs. Cr.	P/E Ratio
1	Anuh Pharma	242.70	12.60	8.30
2	DIL	18.00	5.40	22.50
3	Dishman Pharma	484.60	63.10	13.70
4	Guj. Themis Bio.	28.40	1.00	5.60
5	Marksans Pharma	192.30	39.60	8.20
6	Neuland Labs.	460.60	13.10	12.40
7	Shilpa Medicare	328.20	46.20	16.70
8	Suven Life Scie.	257.70	30.80	8.80

(Source: "Capital Market" Edition Feb 03-16, 2014)

