Valuation of Identified Business of Sunshield Chemicals Limited

Reliance Restricted

15 January 2021

Building a better working world

Ernst & Young Merchant Banking Services LLP
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29 Senapati Bapat Marg
Dadar (West), Mumbai- 400 028

Reliance Restricted

15 January 2021

Attention: The Board of Directors
Sunshield Chemicals Limited
Equinox Business Park, Tower 4,
Unit No 903,LBS Marg, Kurla (West),
Mumbai 400 070, India

Fair valuation of Identified Business of Sunshield Chemicals Limited

Dear Board of Directors,

In accordance with your instructions, we have performed the work set out in our Engagement Letter dated 14 October 2020 and addendum to Engagement Letter dated 12 January 2021 (hereinafter referred to as "Engagement Agreement"). We are pleased to present the following report ("Report") to Sunshield Chemicals Limited (hereinafter referred to as "SCL" or the "Company" or "the Client") in connection with fair valuation of certain identified products in the Novecare segment of surfactants as at 31 December 2020 ("Valuation Date").

It may be noted that for carrying out the valuation, we have relied upon information provided by the management of the Company (the "Management"). We have been given to understand that the information provided is correct and accurate and that the Management was duly authorized to provide us the same on your behalf.

Purpose of our report and restrictions on its use

The Company is proposing to transfer certain identified products in the Novecare segment of surfactants ("Identified Business") to Solvay Specialities India Private Limited, a Solvay Group entity ("Proposed Transaction"). In this regard, the Company requires fair valuation of Identified Business as at 31 December 2020 for the purpose of internal management analysis, submission to Board of Directors and filing with Indian Income Tax Authorities, if required, in connection with Proposed Transaction ("Purpose").

This Report was prepared solely for the above Purpose and should not be used or relied upon for any other purpose. This Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Engagement Agreement.

We accept no responsibility or liability to any person other than to the Client, or to such party to whom we have agreed in writing to accept a duty of care in respect of this Report, and accordingly if such other persons choose to rely upon any of the contents of this Report, they do so at their own risk.

Building a better working world

Nature and scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement. The contents of our Report have been reviewed by the Client, who have confirmed to us the factual accuracy of the Report.

Whilst each part of our Report may address different aspects of the work we have agreed to perform, the entire Report should be read for a full understanding of our findings and advice.

The COVID-19 (SARS-CoV-2) (“Coronavirus” or “Virus” or “Covid”) is presenting potentially significant impacts upon economic activity and certain businesses. At the Valuation Date, the Covid crisis was still unfolding and the future impact of the Coronavirus was not capable of being qualitatively or quantitatively assessed at this time. The Management has factored in the impact of Covid in the business plans of the Company based on the information available till Valuation Date and their understanding of the likely impact. We have relied on the same for the valuation analysis. However, this should not be considered as an accurate assessment of the future impact of the Coronavirus on the Company, or any prediction regarding the future course of events that would arise due to the Covid crisis

As per your request, our work commenced on 13 October 2020 and was completed on 15 January 2021. Our Report does not take account of events or circumstances arising after Valuation Date and we have no responsibility to update the Report for such events or circumstances. If you have any questions or require additional information, please do feel free to contact us.

Yours faithfully

Navin Vohra

Partner

Dashboard

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Valuation Summary

1 Valuation Summary
Engagement Background

Background and purpose

- SCL is engaged in the business of manufacturing of Speciality Chemicals. The Company operates as a subsidiary of Rhodia Amines Chemicals Pte. Limited ("RACPL"), Solvay group entity. The shares of the Company are listed on Bombay Stock Exchange ("BSE").
- SCL is proposing to transfer certain identified products (along with Technology, Specification, Brand names and Customer Contracts) in the Novecare segment of surfactants ("Identified Business") to Solvay Specialities India Private Limited, a Solvay Group entity. ("Proposed Transaction").
- We have been informed by the Management that the fixed assets (property, plant and equipment), working capital and employees will not be transferred as part of the Proposed Transaction.
- Our scope of work as per the terms of our Engagement Agreement dated 14 October 2020 is as follows:

  "The scope of our Services is to perform a valuation of Identified Business, as at 31 December 2020 based on the latest available balance sheet for the purpose of internal management analysis, submission to Board of Directors and filing with Indian Income Tax Authorities, if required, in connection with Proposed Transaction (Purpose)."

- This report is our deliverable for this engagement.

Valuation Date

31 December 2020

Applicable standard(s)

International Valuation Standards

Scope of work

Valuation of Identified Business

Premise of value

Fair Value

Value definition

The basis of value is fair value, which is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction as of the date(s) of the valuation.

Date of commencement

13 October 2020

Date of completion

15 January 2020

1 Valuation Summary
Sources of Information

Sources of Information

- The following sources of information have been utilized in conducting the valuation exercise:
- The following information, as provided by the Management, verbally or in written form have inter-alia been used in the valuation:
  - Carved out profit & loss summary and working capital requirements of the Identified Business for CY16 to CY20.
  - Financial projections of the Identified Business from 1 January 2021 to 31 December 2025 (These includes forecasts of profit and loss statements and working capital requirements)
  - Background information regarding the Company and Identified Business provided through emails or during discussions.
- Besides the above listing, there may be other information provided by the Management which may not have been perused by us in any detail, if not considered relevant for our defined scope.
- Industry and economy information: The following sources were utilized for analysing the industry and the competitors:
  - Discussions with the Management
  - Publicly available information
  - Proprietary databases subscribed to by EY or its member firms.
- In addition to the above, we have also obtained such other information and explanations from the Management as were considered relevant for the purpose of the valuation.
- It may be mentioned that the Client has been provided an opportunity to review factual information in our draft Report as part of our standard practice to make sure that factual inaccuracies/omissions/etc. are avoided in our final Report.

1 Valuation Summary
Valuation Results / Conclusion

Valuation Summary

- The Management has informed that the products under the Identified Business are expected to be relevant for ~15 years starting from CY 2021. Hence, the financial forecast for the Identified Business was provided by the Management for entire remaining life cycle of products (from CY21 to CY35).
- Considering the nature of operations and definite life of the Identified business, we have used the Discounted Cash Flows (DCF) method based on the Management provided forecast for the Identified Business.
- A discussion on the appropriateness of use of valuation methods is carried out in Section: Valuation Methodology
- The summary of equity valuation of Identified Business as at 31 December 2020 is summarized in the table below :

Particualrs	**Weights (%)**	**Value ₹ mn**	**Value US$ mn**
Business value			
Discounted cash flows method (DCF)	*100.0*	178.2	2.44
Value of Identified business		178.2	**2.44**

Note 1: *INR / 1USD = 73.0243 as at 15 January 2020, Source: https://www.fbil.org.in*

- The value of Identified Business as at 31 December 2020 was estimated to be ₹178.2 mn
- This Report should be read in its entirety but especially in conjunction with the ‘Statement of limiting conditions’

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Statement of Limiting Conditions

2 Statement of Limiting Conditions

Statement of Limiting Conditions

- Provision of valuation opinions and consideration of the issues described herein are areas of our regular valuation practice. The services do not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.
- The user to which this valuation is addressed should read the basis upon which the valuation has been done and be aware of the potential for later variations in value due to factors that are unforeseen at the valuation date. Due to possible changes in market forces and circumstances, this valuation report can only be regarded as relevant as at the Valuation Date.
- This Report has been prepared for the Purpose and should not be relied upon for any other purpose. Our Client is the only authorized user of this report and is restricted for the purpose indicated in the engagement letter. This restriction does not preclude the Client from providing a copy of the report to third-party advisors whose review would be consistent with the intended use. We do not take any responsibility for the unauthorized use of this report.
- While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the client existing business records. Accordingly, we express no audit opinion or any other form of assurance on this information.
- The valuation has been performed on the provisional carved out balance sheet of Identified Business provided by Management as at 31 December 2020.. The management has also confirmed that there has not been any material change in the operations of the Company since the last available financial statements
- In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or wilful default on part of the client or companies, their directors, employees or agents.
- The Client and its management/representatives warranted to us that the information they supplied was complete, accurate and true and correct to the best of their knowledge. We have relied upon the representations of the Client, their management and other third parties, if any, concerning the financial data, operational data and other information, except as specifically stated to the contrary in the report. We shall not be liable for any loss, damages, cost or expenses arising from fraudulent acts, misrepresentations, or wilful default on part of the companies, their directors, employee or agents.
- EY is not aware of any contingency, commitment or material issue which could materially affect the Company’s economic environment and future performance and therefore, the fair value of the Identified Business.
- We do not provide assurance on the achievability of the results forecast by the management as events and circumstances do not occur as expected; differences between actual and expected results may be material. We express no opinion as to how closely the actual results will correspond to those projected/forecast as the achievement of the forecast results is dependent on actions, plans and assumptions of management.
- The COVID-19 (SARS-CoV-2) (“Coronavirus” or “Virus” or “Covid”) is presenting potentially significant impacts upon economic activity and certain businesses. At the Valuation Date, the Covid crisis is still ongoing and the future impact of the Coronavirus was not capable of being qualitatively or quantitatively assessed at this time. For carrying out the valuation, we have factored the impact of Covid in the valuation based on the information available till the Valuation Date, and based on our understanding of the likely impact on the Company. However, this should not be considered as an accurate assessment of the future impact of the COVID-19 on the Company, or any prediction regarding the future course of events that would arise due to the Covid crisis.

2 Statement of Limiting Conditions

Statement of Limiting Conditions

- The Report assumes that the Company complies fully with relevant laws and regulations applicable in its area of operations and usage unless otherwise stated, and that the Company will be managed in a competent and responsible manner. Further, as specifically stated to the contrary, this report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigations and other contingent liabilities that are not recorded/reflected in the balance sheet/fixed assets register provided to us.
- The valuation analysis and result are governed by concept of materiality.
- It has been assumed that the required and relevant policies and practices have been adopted by Company and would be continued in the future.
- The fee for the Report is not contingent upon the results reported.
- We owe responsibility to only to the Client that has appointed us under the terms of the engagement letters. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions or advice given by any other person.
- The actual transacted value achieved may be higher or lower than our estimate of value (or value range of value) depending upon the circumstances of the transaction (for example the competitive bidding environment), the nature of the business (for example the purchaser's perception of potential synergies). The knowledge, negotiating ability and motivation of the buyers and sellers will also affect the transaction value achieved. Accordingly, our valuation conclusion will not necessarily be the value at which actual transaction will take place.
- We have also relied on data from external sources to conclude the valuation. These sources are believed to be reliable and therefore, we assume no liability for the truth or accuracy of any data, opinions or estimates furnished by others that have been used in this analysis. Where we have relied on data, opinions or estimates from external sources, reasonable care has been taken to ensure that such data has been correctly extracted from those sources and /or reproduced in its proper form and context.

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Background

3 Background
Company Background

Business Overview

- SCL is engaged in the business of manufacturing of speciality chemicals which are used in diverse range of Industries such as Wire Insulation Enamel, PVC stabilizers, Inks, Colours, Coatings, Textiles, Agro-chemicals, Plastics, Rubber and Latex, Tyre and Tubes, Lubricant and additives, etc. The shares of the Company are listed on Bombay Stock Exchange.
- The Company's manufacturing site is located in Rasal, Maharashtra and employs about 94 people. It operates as a subsidiary of Rhodia Amines Chemicals Pte. Limited, a Solvay group entity.

Identified Business

- The Identified Business comprises of products in the Novecare segment of surfactants. The list of the products are shown below:
  - ANTAROX 149
  - ANTAROX 245S
  - ANTAROX ASP
  - ANTAROX B600
  - ANTAROX BL 225
  - ANTAROX L-62
  - ANTAROX LT 104
  - ANTAROX PC 75
  - ANTAROX PL/122
  - ANTAROX SFT 12
  - ALKAMULS FO6
  - SUN L61
  - SUN L62
  - SUN L64
  - AGENT AT230 C 340
  - ALKAMULS 696
  - RHODASURF 234
  - RHODASURF 860/P
  - RHODASURF CS 20R FLAKES
  - RHODAMEEN HPE
  - RHODAMEEN HPE A
- The products find their uses in agrochemicals additives, water treatment, printing additives, metal treatment, home care detergent etc.

Key Financial Metrics of Identified Business

(YE 31 December 2020)

Revenue

₹236.7 mn

EBITDA margin

13.4%

Source: Management

3 Background
Historical and Prospective Financial Information

- The carved out historical and prospective profit and loss summary of Identified Business as provided by the Management is tabulated below:

Currency: ₹ mn	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24	CY25
Actual / forecast	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Number of months	12	12	12	12	12	12	12	12	12	12
Volume in MT	**599**	**815**	**867**	**1,099**	**1,243**	**1,416**	**1,599**	**1,785**	**1,965**	**1,976**
Realisation/MT (in ₹ '000)	184	188	200	189	190	197	198	199	199	199
Net sales	**110.1**	**152.8**	**173.3**	**207.8**	**236.7**	**278.5**	**316.8**	**355.0**	**390.7**	**393.0**
Variable cost of sales	(80.1)	(109.3)	(128.2)	(161.6)	(184.8)	(211.1)	(237.8)	(265.0)	(291.8)	(293.4)
Variable sales expense	(1.1)	(1.5)	(1.4)	(1.2)	(2.2)	(2.5)	(2.7)	(3.0)	(3.2)	(3.3)
Contribution margin	**28.9**	**42.1**	**43.6**	**45.0**	**49.6**	**65.0**	**76.3**	**87.0**	**95.6**	**96.3**
Workshop cost	(0.9)	(0.9)	(0.9)	(1.1)	(2.3)	(2.6)	(2.7)	(2.9)	(3.1)	(3.3)
Plant overheads	(4.2)	(5.6)	(6.2)	(9.0)	(10.1)	(11.9)	(13.3)	(14.6)	(16.0)	(16.9)
Selling, general & admin expense	(0.9)	(3.9)	(3.4)	(5.3)	(5.4)	(6.3)	(7.1)	(7.8)	(8.5)	(9.0)
Total expenses	(6.0)	(10.4)	(10.5)	(15.4)	(17.9)	(20.8)	(23.1)	(25.3)	(27.5)	(29.2)
Operating EBITDA before tolling charges	**22.9**	**31.7**	**33.1**	**29.6**	**31.8**	**44.1**	**53.2**	**61.7**	**68.1**	**67.1**
Fixed assets charge/tolling charges	-	-	-	-	-	(18.0)	(20.3)	(22.6)	(24.9)	(25.1)
Operating EBITDA after tolling charges	**22.9**	**31.7**	**33.1**	**29.6**	**31.8**	**26.1**	**32.9**	**39.1**	**43.2**	**42.0**
Sales growth (%)	*na*	*35.9*	*6.4*	*26.8*	*13.1*	*14.0*	*12.9*	*11.6*	*10.1*	*0.6*
Volume growth (%)	*na*	*35.9*	*6.4*	*26.8*	*13.1*	*14.0*	*12.9*	*11.6*	*10.1*	*0.6*
Contribution margins (%)	*26.3*	*27.5*	*25.2*	*21.7*	*21.0*	*23.3*	*24.1*	*24.5*	*24.5*	*24.5*
EBITDA margins before tolling charge (%)	*20.8*	*20.7*	*19.1*	*14.2*	*13.4*	*15.8*	*16.8*	*17.4*	*17.4*	*17.1*
EBITDA margins after tolling charge (%)	*Na*	*Na*	*Na*	*Na*	*Na*	*9.4*	*10.4*	*11.0*	*11.1*	*10.7*

Source: Management

3 Background

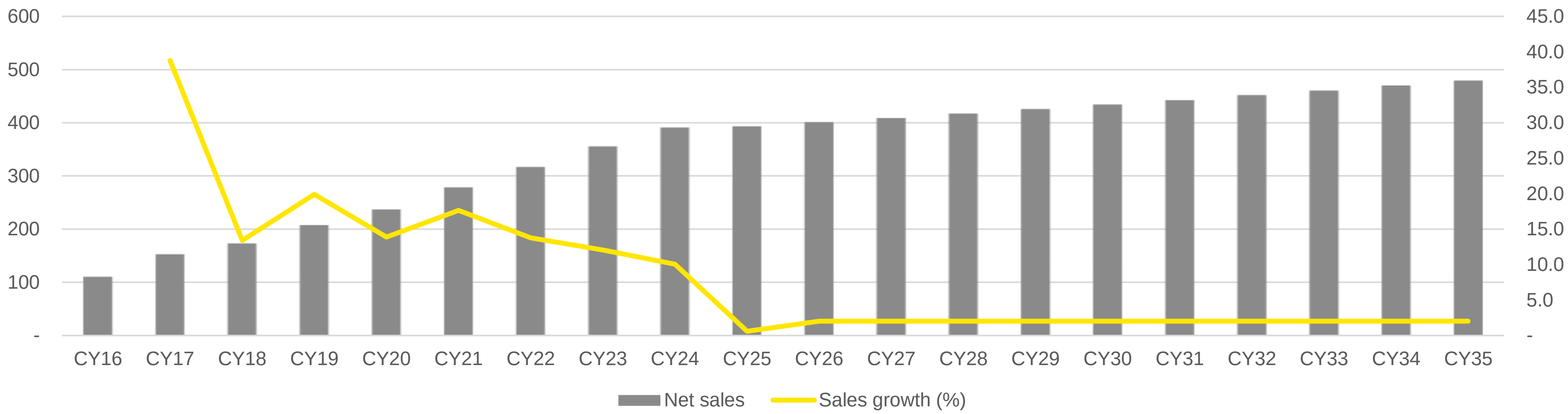
Historical and Prospective Financial Information

- The carved out historical and prospective profit and loss summary of Identified Business as provided by the Management is tabulated below:

Currency: ₹ mn	CY26	CY27	CY28	CY29	CY30	CY31	CY32	CY33	CY34	CY35
Actual / forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Number of months	12	12	12	12	12	12	12	12	12	12
Volume in MT	**2,016**	**2,056**	**2,097**	**2,139**	**2,182**	**2,225**	**2,270**	**2,315**	**2,362**	**2,409**
Realisation/MT (in ₹ '000)	199	199	199	199	199	199	199	199	199	199
Net sales	**400.9**	**408.9**	**417.1**	**425.4**	**433.9**	**442.6**	**451.4**	**460.5**	**469.7**	**479.1**
Variable cost of sales	(299.3)	(305.3)	(311.4)	(317.6)	(324.0)	(330.5)	(337.1)	(343.8)	(350.7)	(357.7)
Variable sales expense	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	(3.7)	(3.7)	(3.8)	(3.9)	(4.0)
Contribution margin	**98.2**	**100.2**	**102.2**	**104.3**	**106.3**	**108.5**	**110.6**	**112.8**	**115.1**	**117.4**
Workshop cost	(3.4)	(3.4)	(3.5)	(3.6)	(3.6)	(3.7)	(3.8)	(3.9)	(3.9)	(4.0)
Plant overheads	(17.2)	(17.6)	(17.9)	(18.3)	(18.7)	(19.0)	(19.4)	(19.8)	(20.2)	(20.6)
Selling, general & admin expense	(9.2)	(9.3)	(9.5)	(9.7)	(9.9)	(10.1)	(10.3)	(10.5)	(10.7)	(11.0)
Total expenses	(29.8)	(30.4)	(31.0)	(31.6)	(32.2)	(32.9)	(33.5)	(34.2)	(34.9)	(35.6)
Operating EBITDA before tolling charges	**68.5**	**69.8**	**71.2**	**72.7**	**74.1**	**75.6**	**77.1**	**78.6**	**80.2**	**81.8**
Fixed assets charge/tolling charges	(25.6)	(26.1)	(26.6)	(27.2)	(27.7)	(28.3)	(28.8)	(29.4)	(30.0)	(30.6)
Operating EBITDA after tolling charges	**42.9**	**43.7**	**44.6**	**45.5**	**46.4**	**47.3**	**48.3**	**49.2**	**50.2**	**51.2**
Sales growth (%)	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Volume growth (%)	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Contribution margins (%)	*24.5*	*24.5*	*24.5*	*24.5*	*24.5*	*24.5*	*24.5*	*24.5*	*24.5*	*24.5*
EBITDA margins before tolling charge (%)	*17.1*	*17.1*	*17.1*	*17.1*	*17.1*	*17.1*	*17.1*	*17.1*	*17.1*	*17.1*
EBITDA margins after tolling charge (%)	*10.7*	*10.7*	*10.7*	*10.7*	*10.7*	*10.7*	*10.7*	*10.7*	*10.7*	*10.7*

Source: Management

3 Background
Historical and Prospective Financial Information



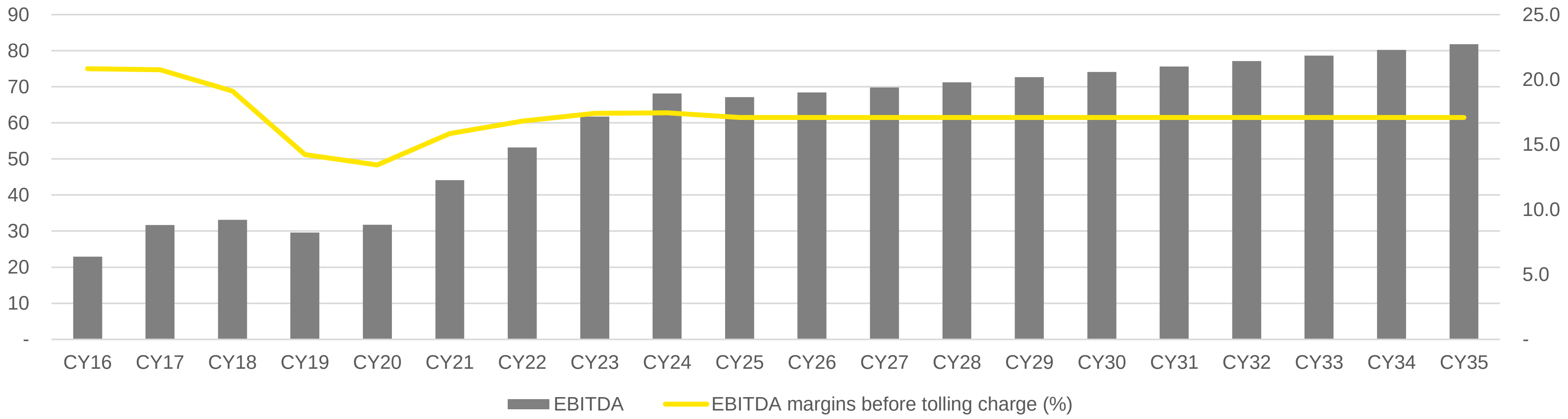
- The Management has informed that the products under the Identified Business are expected to be relevant for ~15 years starting from CY 2021. Hence, the financial forecast for the Identified Business was provided by the Management for entire remaining life cycle of products (from CY21 to CY35).

Revenue

- The revenue of Identified Business increased at a CAGR of 21% from ₹110.1 mn in CY16 to ₹236.7 mn in CY20. The growth was mainly driven through increase in volume from 599 MT in CY16 to 1,243 MT in CY20. The realisation per metric ton (MT) was in the range of ₹1,85,000 to ₹ 200,000.
- The Management informed that the revenue would grow at a CAGR of 11% from ₹236.7 mn in CY20 to ₹393.0 mn in CY25 mainly driven through growth in volume. The Management has informed that the forecast volume growth for the Identified Business is based on the market assessment carried out by its marketing team.
- The Management informed that the revenue growth estimate at 2% year-on-year from CY26 to CY35, is reasonable given that:
  - Production ramp-up for the associated products will be in the first 3-5 years and hence, no room for volume growth after CY25 and
  - The capacity of Rasal Plant will be full by 2025 and any growth onwards will be from debottlenecking through efficiency improvements.

3 Background

Historical and Prospective Financial Information



EBITDA

- The EBITDA margin declined from 19.1% in CY18 to 14.2% in CY19 on account of:
  - Decline in contribution margin by 3.5% (25.2% in CY18 to 21.7 in CY19) as prices for raw material went up and the Company could not pass on the same to the buyers given the competitive market scenario.
  - Increase in plant fixed cost due to realignment of cost allocation method in CY19
- The Contribution and EBITDA margin further declined marginally to 21.0% and 13.4% respectively for CY20.
- The Management has estimated EBITDA margin (before tolling charge) to improve in CY21 to 15.8%. Further, the same has has been estimated ~17-17.5% from CY21 onwards. The Management indicated following reasons for estimating EBITDA margin in the range of ~17-17.5% compared to historical level of 19-21%:
  - The margins were in a declining trend from CY16 to CY20;
  - Increase in raw material prices and realignment of cost allocation method in CY19 to have effect in forecast period as well.
- Since the Identified Business is being transferred without fixed assets and buyer is expected to enter into tolling arrangement with SCL itself in the initial period for manufacturing of these products, the Management has considered tolling charge at 8% of total manufacturing cost to incorporate the required return on fixed asset investment. We understand that the aforementioned charge has been estimated by the parties on arms length basis considering existing similar tolling arrangements within Solvay Group

3 Background

Historical and Prospective Financial Information

► The historical and projected working capital of Identified Business as provided by the Management is tabulated below:

Currency: ₹ mn	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23	31-Dec-24	31-Dec-25
Actual / Forecast	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Current assets										
Inventories	13.5	18.8	21.3	25.5	29.1	34.2	38.9	43.6	48.0	48.3
Trade receivables	13.2	18.3	20.7	24.9	28.3	33.3	37.9	42.5	46.7	47.0
	26.7	37.1	42.0	50.4	57.4	67.5	76.8	86.1	94.7	95.3
Current liabilities and provisions										
Trade payables	6.8	9.5	10.8	12.9	14.7	17.3	19.7	22.1	24.3	24.4
Net current assets (NCA)	**19.9**	**27.6**	**31.2**	**37.5**	**42.7**	**50.2**	**57.1**	**64.0**	**70.4**	**70.9**
Working capital change						**(50.2)#**	**(6.9)**	**(6.9)**	**(6.4)**	**(0.4)**

Currency: ₹ mn	31-Dec-26	31-Dec-27	31-Dec-28	31-Dec-29	31-Dec-30	31-Dec-31	31-Dec-32	31-Dec-33	31-Dec-34	31-Dec-35
Actual / Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Current assets										
Inventories	49.3	50.3	51.3	52.3	53.3	54.4	55.5	56.6	57.7	58.9
Trade receivables	47.9	48.9	49.9	50.9	51.9	52.9	54.0	55.1	56.2	57.3
	97.2	99.2	101.1	103.2	105.2	107.3	109.5	111.7	113.9	116.2
Current liabilities and provisions										
Trade payables	24.9	25.4	25.9	26.5	27.0	27.5	28.1	28.6	29.2	29.8
Net current assets (NCA)	**72.3**	**73.7**	**75.2**	**76.7**	**78.2**	**79.8**	**81.4**	**83.0**	**84.7**	**86.4**
Working capital change	**(1.4)**	**(1.4)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.6)**	**(1.6)**	**(1.6)**	**(1.7)**	**(1.7)**

► The Management has estimated working capital requirements in line with historical trends i.e. inventories - 60 days, debtors - 44 days and creditors – 30 days.

#Working capital as on Valuation Date is not getting transferred under the Proposed Transaction, therefore, working capital as of 31-Dec-20 has been considered in outflow.

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Valuation Analysis

4 Valuation Analysis

Valuation Methods Used / Not used

- To determine the value of Identified Business, three traditional approaches can be considered namely, Income, Market and Cost Approaches. Accordingly, we have considered the following approaches / methods:

Methodology		Description	Yes /No	Weights	Remarks
Market	**Market Price**	▸ The market price method determines value of an equity share as quoted on a stock exchange as the value of the equity shares of that company.	No	-	▸ Not applicable as the Identified Business is not listed
Market	**CCM**	▸ The Market approach measures value based on what other purchasers in the market have paid for assets that can be considered reasonably similar to those being valued. ▸ CCM method measures the value of the business based on the value of comparable public companies	No	-	▸ Considering the nature of Proposed Transaction wherein only identified products are being transferred without fixed assets and working capital, we have not used CCM method for valuation of Identified business ▸ There are no recent comparable transactions to Identified business wherein sufficient information is available in the public domain
Market	**CTM**	▸ CTM method measures the value of the business based on the value of comparable transactions	No	-	
Income	**DCF Method**	▸ The Income approach determines the value of a business based on its ability to generate desired economic benefit for the owners. The key objective of the income based methods is to determine the business value as a function of the economic benefit. ▸ Measures the intrinsic value of the business based on the expected future cash flow.	Yes	100%	▸ Considering the nature of Identified business, we have considered it appropriate to use DCF method and have applied 100% weight to the same
Asset	**Net Asset Value Method**	▸ The Asset approach seeks to determine the business value based on the value of its assets.	No	-	▸ The Identified Business is proposed to be transferred without fixed assets and working capital. Therefore, Net Asset Value method is not applicable

4 Valuation Analysis
Discounted Cash Flows Method

DCF Methodology:

Income based approach

- Taking into consideration the specifics of Identified Business and the business environment, we have used the discounted cash flow (DCF) method (Free Cash Flow to Entity approach) to determine the enterprise values of Identified Business.
- The forecast covers the entire 15 year lifecycle of the products of Identified business from CY 21 to CY 35. For terminal value, we have considered release of entire working capital at the end of the forecast period.

Free Cash Flow Calculations

- The calculation of free cash flows is based on the following data provided by the Management for the definite life of the Identified Business:
  - projected profit and loss and
  - projected increase in net working capital
- Earnings before interest and taxes were reduced by the tax effect to arrive at EBIT after tax and were further adjusted for changes in working capital. The Management has prepared financial plan for the period 1 January 2021 to the end of project life and the same has been discussed in detail in the prospective financial information section.

Mid-Year Discounting Convention

- EY DCF approach assumes that the cash flows occur evenly during each of the measurement period (and not at the end of the year); therefore the discounting rate is adjusted to value the cash flows at midpoint of the measurement period.
- Working capital release is expected to be received at the end of the forecast period; therefore the same have been discounted using a year-end discount factor.

Step 1	Projections	Analysis of cash flow projections and their parameters specified in the financial plan
Step 2	Discount Rate	Determination of the investor's rate of risk and corresponding discount rate
Step 3	Terminal Value	Release of working capital based on Management estimates
Step 4	Adjustments	Considering the value of assets and liabilities not reflected in the cash flow projections
Step 5	Value	Determination of the enterprise value

4 Valuation Analysis
Free Cash Flows to Firm

Free cash flow calculation

- The calculation of free cash flows is based on the following data provided by the Management for the projected period from 1 October 2020 to end of life
  - Projected profit and loss account and
  - Projected investments into net working capital items
- Earnings before interest and taxes (EBIT) are reduced by effective tax rate to arrive at EBIT post tax and is adjusted for changes in working capital.
- The following table summarizes the calculation of free cash flows to Identified Business as considered in our valuation:

Currency: ₹ mn	CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29	CY30
	12	12	12	12	12	12	12	12	12	12
Net sales	**278.5**	**316.8**	**355.0**	**390.7**	**393.0**	**400.9**	**408.9**	**417.1**	**425.4**	**433.9**
Variable cost	(213.5)	(240.5)	(268.0)	(295.1)	(296.7)	(302.6)	(308.7)	(314.8)	(321.1)	(327.6)
Contribution margin	**65.0**	**76.3**	**87.0**	**95.6**	**96.3**	**98.2**	**100.2**	**102.2**	**104.3**	**106.3**
Operating expenses	(38.9)	(43.4)	(47.9)	(52.4)	(54.3)	(55.4)	(56.5)	(57.6)	(58.8)	(59.9)
EBITDA	**26.1**	**32.9**	**39.1**	**43.2**	**42.0**	**42.9**	**43.7**	**44.6**	**45.5**	**46.4**
Tax expense	(6.6)	(8.3)	(9.9)	(10.9)	(10.6)	(10.8)	(11.0)	(11.2)	(11.5)	(11.7)
Debt free net income	**19.5**	**24.6**	**29.3**	**32.4**	**31.5**	**32.1**	**32.7**	**33.4**	**34.0**	**34.7**
(Increase)/ Decrease in net working capital	(50.2)	(6.9)	(6.9)	(6.4)	(0.4)	(1.4)	(1.4)	(1.5)	(1.5)	(1.5)
Debt free cash flow	**(30.7)**	**17.7**	**22.4**	**25.9**	**31.0**	**30.7**	**31.3**	**31.9**	**32.5**	**33.2**

4 Valuation Analysis
Free Cash Flows to Firm

Free cash flow calculation (continued…)

Currency: ₹ mn	CY31	CY32	CY33	CY34	CY35	Terminal
	12	12	12	12	12	12
Net sales	**442.6**	**451.4**	**460.5**	**469.7**	**479.1**	**-**
Variable cost	(334.1)	(340.8)	(347.6)	(354.6)	(361.7)	-
Contribution margin	**108.5**	**110.6**	**112.8**	**115.1**	**117.4**	**-**
Operating expenses	(61.1)	(62.4)	(63.6)	(64.9)	(66.2)	-
EBITDA	**47.3**	**48.3**	**49.2**	**50.2**	**51.2**	**-**
Tax expense	(11.9)	(12.2)	(12.4)	(12.6)	(12.9)	-
Debt free net income	**35.4**	**36.1**	**36.9**	**37.6**	**38.3**	**-**
(Increase)/ Decrease in net working capital	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)	86.4
Debt free cash flow	**33.9**	**34.5**	**35.2**	**35.9**	**36.6**	**86.4**

Discount Rate

Discount Rate:

Purpose of a discount rate

- The application of the income approach requires the determination of an appropriate discount rate at which future cash flows are discounted to their present value as of valuation date.
- The discount rate reflects the time value of money and the risk associated with projected future cash flows. It is derived on the basis of the expected return on capital and the price of the best alternative investment. Therefore, the discount rate indicates the minimum required return from the asset being valued if the investor is not to be worse off than he/she would be if he/she had invested his money in the next best alternative. The return on this alternative investment must be comparable in terms of dimensions, timing and certainty, with the net cash flows expected to be derived from the subject asset.
- To derive the discount rate, the Weighted Average Cost of Capital (WACC), which refers to the total capital invested (equity and debt), is used and adjusted for risk premiums or discounts, depending on the asset's specific risk compared to the risk of the overall enterprise. To determine the appropriate WACC it is adequate to consider cost of equity and cost of debt separately.
- The formula for the calculation of the WACC is shown in table "WACC calculation".
- The derivation of the WACC is based on a group of guideline companies (peer group) which are operating in the same industry/sector as that of the Identified Business. To calculate the WACC, cost of equity, cost of debt and the capital structure have to be determined based on market data of the group of "potential acquirers".

Calculation for WACC

$$\mathbf{WACC = W_E * R_E + W_D * R_D}$$

where:

W_E	=	Value of equity/value of total capital, E/E+D
K_E	=	Cost of equity
W_D	=	Value of interest-bearing debt/value of total capital, D/E+D
R_D	=	After-tax cost of interest-bearing debt

Calculation for cost of equity

$$\mathbf{R_E = RF + ß * MRP + \alpha}$$

where:

R_E	=	Cost of equity
RF	=	Risk-free rate of return
ß	=	Systematic risk of the equity, measure of the level of non diversifiable risk associated with company returns
MRP	=	Market equity risk premium
α	=	Unsystematic risk of the equity

Calculation for cost of debt

$$\mathbf{R_D = r_D * (1 – S)}$$

where:

R_D	=	After-tax cost of interest-bearing debt
S	=	cost of interest-bearing debt
r_D	=	Corporate tax rate

4 Valuation Analysis
Discount Rate

Risk free rate 6.0%

- Risk-free rate corresponds to the minimum return that an investor can expect from an investment "without" risk and generally derived from the rate of return on a high quality long-term government bond.
- The Identified Business has its operations in India. Given that we have applied discount rate parameters applicable to India for our analysis. The risk-free rate is based on current YTMs of Government Bonds with 10 years residual maturity.

Market risk premium 7.0%

- Long-term capital market studies have shown that historically investments in shares have yielded higher returns than investments in low-risk bonds. Market Risk Premium ('MRP') levels of 7% p.a. has been considered based on EY understanding of the expected MRP in India
- The market risk premium is defined as the difference between the expected return on a market portfolio and the risk-free rate.

Beta coefficient 0.73

- According to the CAPM in arriving at the appropriate risk premium, non-systematic risk, which attaches to the specific enterprise and can therefore generally be eliminated by diversifying, is distinguished from systematic risk.
- A risk premium will only be required to compensate for systematic risk, which cannot be eliminated by diversification. In practice, systematic risk is measured in terms of the beta coefficient and the market risk premium. The beta coefficient indicates the risk of the equity of the enterprise that is being valued relative to the average market risk (for stocks), which is represented by the market risk premium
- A beta higher than one implies that the systematic risk of the company's stock is higher than the market risk. The risk premium is calculated by multiplying the market risk premium by the enterprise's beta coefficient. Betas reported in public sources are "leveraged", which means that the additional risk to a stockholder due to debt financing of the company is incorporated in the corresponding beta coefficient.
- **Refer next page for beta computation**

The debt equity ratio of 0:100 is considered based on capital structure of Identified Business and that of companies operating in similar business

Based on the above parameters, the WACC for valuation of Identified Business is estimated to be 11.1%.

4 Valuation Analysis
Discount Rate

Beta computation

- The beta is computed as shown in the table below. To calculate beta for Identified Business, we have used unlevered beta of SCL. Since the Identified Business is part of SCL, the beta of SCL is the most appropriate for calculating cost of equity for Identified Business. We have also looked at Damodaran's beta for Speciality Chemicals segment in India which is also in a similar range.

Currency: ₹ mn	Equity beta (e)	Market capitalisation	Net debt (f)	Enterprise value	Debt-equity ratio based on 3 year average	Effective tax rate (%)	Unlevered beta	Re-levered beta
Sunshield Chemicals Limited	1.32	1,608	1,085	2,692	108.7	25.2	0.73	0.73

Source: Capital IQ

Notes:

(e) Based on 3 years weekly returns ended 07 January 2021

(f) Net debt includes gross debt net of surplus cash and bank balances, investments, capital work-in-progress and net deferred tax @50% as per latest available financials

4 Valuation Analysis
Discount Rate

- DCF valuation of Identified Business as at 31 December 2020 has been presented in the below table:

Currency: ₹ m	CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29	CY30	CY31	CY32	CY33	CY34	CY35	Terminal
	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	
Debt free cash flow	**(30.7)**	**17.7**	**22.4**	**25.9**	**31.0**	**30.7**	**31.3**	**31.9**	**32.5**	**33.2**	**33.9**	**34.5**	**35.2**	**35.9**	**36.6**	**86.4**
Discount rate (%)	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Present value factor- Mid year discounting	0.95	0.85	0.77	0.69	0.62	0.56	0.50	0.45	0.41	0.37	0.33	0.30	0.27	0.24	0.22	0.22
Present value debt free cash flow	**(29.1)**	**15.1**	**17.2**	**17.9**	**19.3**	**17.2**	**15.8**	**14.5**	**13.3**	**12.2**	**11.2**	**10.3**	**9.5**	**8.7**	**8.0**	**16.9**
Present value for explicit period	161.2															
Present value of working capital release	16.9															
Enterprise value	**178.2**															

- The values represented above should be read in conjunction with the 'Statement of Limiting Conditions'

Enterprise Value of Identified Business as per DCF is ₹178.2 mn

5

Abbreviations

5 Abbreviations
Abbreviations

SCL or the Company or Client	Sunshield Chemicals Limited
Capex	Capital Expenditure
CAPM	Capital asset pricing model
CCM	Comparable Company Multiples
COE	Cost of Equity
CTM	Comparable Company Transaction Multiples
CWIP	Capital Work in progress
CY	Calendar year
DCF	Discounted cash flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EV	Enterprise value
EY	Ernst & Young Merchant Banking Services LLP
Management	References to ‘Management’ will include the Company’s management unless otherwise specified
mn	Million
na / NA	Not available
NAV	Net assets value
NCA	Net Current Assets
NFA	Net Fixed Assets
p.a.	Per annum
PAT	Profit after tax
PBT	Profit before tax
PV	Present Value
Valuation Date	31 December 2020
WACC	Weighted average cost of capital
YoY	Year on year