

**SSPA & CO.**

Chartered Accountants

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August 26, 2015

The Board of Directors,  
The Waterbase Limited  
Anantha Puram Village,  
T.P.Gudur Mandal, Nellore,  
Andhra Pradesh - 524 344.

The Board of Directors,  
Pinnae Feeds Limited  
Thapar House,  
37 Montieth Road, Egmore,  
Chennai - 600 008, Tamil Nadu.

Re: Recommendation of fair equity share exchange ratio for the purpose of proposed amalgamation of Pinnae Feeds Limited into The Waterbase Limited

Dear Sirs,

As requested by the management of The Waterbase Limited (hereinafter referred to as "TWL") and Pinnae Feeds Limited (hereinafter referred to as "PFL"), SSPA & Co., Chartered Accountants (hereinafter referred to as "SSPA") has undertaken valuation exercise of equity shares of TWL and PFL to recommend fair share exchange ratio for the proposed amalgamation of PFL into TWL (hereinafter collectively referred to as "Companies").

**1. PURPOSE OF VALUATION**

- 1.1 We have been informed that the Board of Directors of TWL and PFL are proposing amalgamation of PFL with TWL (hereinafter referred to as the "Amalgamation").
- 1.2 We have been informed by the management of TWL and PFL (hereinafter referred to as the "Management") that, pursuant to a scheme of arrangement under sections 391 to 394 and other relevant provisions of the Companies Act, 1956 and Companies Act, 2013 to the extent applicable (hereinafter referred to as "the Scheme") and subject to necessary approvals, PFL would be merged with TWL. The Appointed Date for the proposed Amalgamation is August 1, 2015.

Certified copy  
For THE WATERBASE LTD.

G. V. V. V.  
Company Secretary



## 2. BRIEF BACKGROUND

### 2.1 THE WATERBASE LIMITED

2.1.1 TWL is a public company incorporated on November 23, 1987, having its registered office at Anantha Puram Village, T.P Gudur Mandal, Nellore, Andhra Pradesh – 524 344.

2.1.2 TWL is primarily engaged in the manufacture & trading of shrimp feed and processing of shrimp. TWL's factory is located at Nellore.

2.1.3 Shares of TWL are listed on BSE Limited ('BSE').

### 2.2 PINNAE FEEDS LIMITED

2.2.1 PFL is a public company incorporated on July 05, 2012 having its registered office at Thapar House, 37 Montieth Road, Egmore, Chennai – 600 008, Tamil Nadu.

2.2.2 PFL is engaged in the business of manufacturing of shrimp feed. PFL has a manufacturing unit located at Nellore, Andhra Pradesh having an installed capacity of 75,000 tonne per annum (TPA).

## 3. SOURCES OF INFORMATION

For the purposes of our valuation exercise, we have relied upon the following sources of information as provided to us by the management of the Companies:

- (a) Audited financial statements of TWL and PFL for the year ended March 31, 2015.
- (b) Management certified financials of TWL and PFL for 4 months ended July 31, 2015.
- (c) Financial Projections of TWL and PFL for 8 months period from August 01, 2015 to March 31, 2016 and from financial year (FY) 2016-17 to FY 2019-20.
- (d) Draft Scheme of Amalgamation.
- (e) Discussions with the Management on various issues relevant for the valuation including the prospects and outlook for the industry, expected growth rate and other relevant information relating to future expected profitability of the business, etc.
- (f) Such other information and explanations as we have required and which have been provided by the Management and information available in public domain.



4. EXCLUSIONS AND LIMITATIONS

- 4.1 Our report is subject to the scope limitations detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.
- 4.2 No investigation of the Companies' claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.
- 4.3 Our work does not constitute certification of the historical financial statements including the working results of the Companies referred to in this report. Accordingly, we are unable to and do not express an opinion on the fairness or accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report is as per agreed terms of our engagement. It may not be valid or used for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.
- 4.4 A valuation of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. This report is issued on the understanding that the Companies have drawn our attention to all material information, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the fair value of shares of the Companies for the purpose of the proposed amalgamation, including any significant changes that have taken place or are likely to take place in the financial position of the Companies, subsequent to the report date. We have no responsibility to update this report for events and circumstances occurring after the date of this report.
- 4.5 During the course of work, we have relied upon assumptions and projections made by management of the Companies. These assumptions require the exercise of judgment and are subject to uncertainties. There can be no assurance that the assumptions are accurate. The fact that we have considered the projections in this exercise of valuation should not be construed or taken as our being associated with or a party to such



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projections. Since the estimates/projections relate to the future, actual results may be different from estimated/projected results because events and circumstances do not occur as expected, and differences may be material.

- 4.6 In the course of the valuation, we were provided with both written and verbal information. We have evaluated the information provided to us by the Companies through broad inquiry, analysis and review but have not carried out a due diligence or audit of the information provided for the purpose of this engagement. We assume no responsibility for any errors in the above information furnished by the Companies and consequential impact on the present exercise.
- 4.7 Our report is not, nor should it be construed as our opining or certifying the compliance of the proposed amalgamation with the provisions of any law including companies, taxation and capital market related laws or as regards any legal implications or issues arising from such proposed amalgamation.
- 4.8 This report is prepared only in connection with the proposed amalgamation exclusively for the use of the Companies and for submission to any regulatory/statutory authority as may be required under any law.
- 4.9 The information contained herein and our report is confidential. Any person/party intending to provide finance/invest in the shares/businesses of any of the Companies, shall do so, after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision. It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, other than in connection with the proposed amalgamation as aforesaid, can be done only with our prior permission in writing.
- 4.10 SSPA, nor its partners, managers, employees or agents of any of them, makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information, based on which the valuation is carried out. All such parties expressly disclaim any and all liability for, or based on or relating to any such information contained in the valuation.

## 5. VALUATION APPROACH

- 5.1 For the purpose of valuation for amalgamation, generally the following approaches are



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adopted:

- (a) the "Underlying Asset" approach
- (b) the "Income" approach; and
- (c) the "Market" approach

## 5.2 UNDERLYING ASSET APPROACH

The equity shares of TWL and PFL have been valued using the "Underlying Asset" Approach.

- 5.2.1 In case of the "Underlying Asset" approach, the value is determined by dividing the net assets of a company based on the balance sheet as on the Appointed Date by the number of shares.
- 5.2.2 Valuation of net assets is calculated with reference to the historical cost of the assets owned by the company. Such value usually represents the minimum value or a support value of a going concern.
- 5.2.3 Since the shares are valued on a "going concern" basis and an actual realization of the operating assets is not contemplated, we have considered it appropriate not to determine the realizable or replacement value of the assets. The operating assets have therefore been considered at their book values.
- 5.2.4 In arriving at the Net Asset Value, we have made appropriate adjustments for contingent liabilities and equity infusion after considering the tax impact wherever applicable.
- 5.2.5 The underlying net assets value as arrived above is divided by the diluted number of equity shares to arrive at the value per share.

## 5.3 INCOME APPROACH

Under the "Income" approach, the equity shares of TWL and the equity shares of PFL have been valued using Discounted Cash Flow ('DCF') Method.

- 5.3.1 Under the DCF method the projected free cash flows from business operations after considering fund requirements for projected capital expenditure and incremental working capital are discounted at the Weighted Average Cost of Capital (WACC). The sum of the discounted value of such free cash flows and discounted value of perpetuity is the value of the business.



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The free cash flows represent the cash available for distribution to both the owners and the creditors of the business. The free cash flows are determined by adding back to profit before tax, (i) depreciation and amortizations (non-cash charge), (ii) interest on loans, if any and (iii) any non-operating item. The cash flow is adjusted for outflows on account of capital expenditure, tax and change in working capital requirements.

WACC is considered as the most appropriate discount rate in the DCF Method, since it reflects both the business and the financial risk of the company. WACC is the weighted average of the company's cost of equity and debt. Considering an appropriate mix between debt and equity, we have arrived at the WACC to be used for discounting the Free Cash Flows of TWL and PFL.

- 5.3.2 Appropriate adjustments have been made for contingent liabilities, loan funds, cash and cash equivalents, value of investment and equity infusion after considering the tax impact wherever applicable to arrive at the Equity value.
- 5.3.3 The equity value as arrived above is divided by the diluted number of equity shares to arrive at the value per share.

#### 5.4 MARKET APPROACH

- 5.3.4 The market price of an equity share as quoted on a stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares.
- 5.3.5 Since the equity shares of PFL are not listed on any recognized stock exchange, 'Market' approach has not been considered for current valuation exercise.

#### 6. RECOMMENDATION OF FAIR EQUITY SHARE EXCHANGE RATIO

- 6.1 The fair basis of amalgamation of PFL with TWL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above approaches, for the purposes of recommending a ratio of exchange it is necessary to arrive at a single value for the shares of the Companies. It is however important to note that in doing so, we are not attempting to arrive at the absolute values of the shares of each company. Our



exercise is to work out relative value of shares of the Companies to facilitate the determination of a ratio of exchange. For this purpose, it is necessary to give appropriate weightage to the values arrived at under each approach.

6.2 Considering that after the amalgamation, the business of the Companies is intended to be continued on a "going concern" basis and that there is no intention to dispose-off the assets, we have considered it appropriate to give a higher weightage of "4" to the value determined under the 'income' approach as compared to the weightage of "1" to the value determined under the 'underlying asset' approach to arrive at relative value of shares of TWL and PFL.

6.3 Since the shares of PFL are not listed on any recognized stock exchange in India, we have applied illiquidity discount to arrive at value of PFL.

6.4 The share exchange ratio has been arrived on the basis of a relative valuation of the shares of the Companies based on the approaches explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potential of the businesses of the companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.

6.5 In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognized in judicial decisions. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Supreme Court of India in the case reported in 176 ITR 417 as under:

*'If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset*



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*is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible.*

6.6 In the light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined hereinabove earlier in this report, in our opinion, a fair equity share exchange ratio in the event of amalgamation of PFL into TWL would be:

4 (Four) equity shares of TWL of INR 10 each fully paid up for every 17 (Seventeen) equity shares of PFL of INR 10 each fully paid up

Thanking you,  
Yours faithfully,

SSPA & Co.



SSPA & CO.

Chartered Accountants

Firm Registration No: 128851W

Place: Mumbai

A handwritten signature in black ink.

