

# CA Harsh Chandrakant Ruparelia

Registered Valuer – Securities or Financial Assets

(IBBI Registration No. IBBI/RV/05/2019/11106 and

Membership No. ICMAI RVO/S&FA/00054)

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## **STRICTLY PRIVATE & CONFIDENTIAL**

12<sup>th</sup> August 2024

To,

**The Board of Directors,**

**Artson Engineering Limited**

2<sup>nd</sup> Floor, Transocean House,

Lake Boulevard Road,

Hiranandani Business Park,

Powai, Mumbai – 400 076.

**Sub: Report on recommendation of Fair Value of the business of Nagpur Division of Artson Engineering Limited**

Dear Sirs,

I refer to my engagement letter dated 28<sup>th</sup> June 2024, whereby CA Harsh Chandrakant Ruparelia, Registered Valuer – Securities or Financial Assets (hereinafter referred to as “the Valuer” or “I”) has been appointed by the management of Artson Engineering Limited [CIN: L27290MH1978PLC020644] (hereinafter referred to as “AEL” or “the Company” or “the Client”) to undertake the valuation exercise of the business of Nagpur Division of the Company (‘Business Undertaking’) and issue a report recommending the Fair Value of the said Business Undertaking.

I hereby state that I have carried out the valuation exercise in my capacity as an Independent Valuer. I further state that I am not related to the Company or its promoters or its directors or their relatives. As on the date of this report, I have no interest or conflict of interest with respect to the valuation exercise under consideration.

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**CA Harsh C. Ruparelia**  
**Registered Valuer – Securities or Financial Assets**

In the following paragraphs, I have summarized my understanding of the key facts; key information relied upon, valuation approach and exclusions to my scope of work.

The report is structured as under:

1. Purpose of Valuation
2. Background
3. Sources of Information
4. Valuation Approach
5. Recommendation
6. Exclusions and Disclaimers

**1. PURPOSE OF VALUATION**

- 1.1 I understand that the Client is contemplating transfer of its Business Undertaking on a going concern basis to an identified investor/entity.
- 1.2 In this regard, CA Harsh Chandrakant Ruparelia, Registered Valuer – Securities or Financial Assets has been appointed by the Company to undertake the valuation analysis of the Business Undertaking of the Company and issue a report recommending the fair value of the said Business Undertaking of the Company as on 31<sup>st</sup> March 2024 ('Valuation Date').
- 1.3 The valuation exercise is undertaken in accordance with the Indian Valuation Standards issued by the Institute of Chartered Accountants of India (ICAI), wherever applicable as per procedures laid down therein.

**2. BACKGROUND**

**2.1 ARTSON ENGINEERING LIMITED ("AEL")**

- 2.1.1. Artson Engineering Limited was incorporated on 18<sup>th</sup> September 1978 under the provisions of the erstwhile Companies Act, 1913. The registered office of the Company is currently situated at 2<sup>nd</sup> Floor, Transocean House, Lake Boulevard Road, Hiranandani Business Park, Powai, Mumbai – 400 076 in the State of Maharashtra.
- 2.1.2. Artson Engineering Limited engages in the engineering, procurement, and construction of large diameter storage tanks, equipment erection, industrial plant piping and pipe spooling, and structural fabrication projects in India and internationally. It offers structural steel fabrication services to oil and gas, fertilizer, power, minerals and metal, chemical and petrochemical industries. The Company also manufactures plant building structures, technology structures, pipe racks, stacks/chimneys, and ducting/cladding products, as well as large diameter plate fabricated pipes, mitre bends, and silos.

### **3. SOURCES OF INFORMATION**

- 3.1. For the purpose of the valuation exercise, I have relied upon the following sources of information:
- (a) Unaudited carve-out provisional financial statements of the Company for the year ended 31<sup>st</sup> March 2024 and earlier years, as provided by the management of the Company;
  - (b) Projected financial statements (including key underlying assumptions) comprising of Balance Sheet, Statement of Profit and Loss of the Business Undertaking for FY 2024-25 to FY 2028-29, as provided by the management of the Company;
  - (c) Other publicly available information relating to market comparables and other related information necessary for the valuation exercise; and
  - (d) Other relevant details regarding the Business Undertaking such as its history, past and present activities, future plans and prospects and such other information and explanations as required and which has been provided by the management of the Company.

*Besides the above information and documents, there may be other information provided by the Company which may not have been perused by me in any detail, if not considered relevant for the defined scope. The Company has been provided with the opportunity to review the draft report as part of the standard practice to make sure that factual inaccuracy & omissions are avoided in the final report.*

### **4. VALUATION APPROACH**

- 4.1. "Value is a word of many meanings". The term "value" can have different connotations depending upon the purpose for which it is intended to be used. The valuation of Business Undertaking of any Company would need to be based on a fair value concept. The purpose of fair value is to enable valuer to exercise his discretion and judgement in light of all circumstances, in order to arrive at a value, which is fair to all parties.
- 4.2. For the purpose of valuation, generally the following approaches are adopted:
- (a) the 'Underlying Asset' approach;
  - (b) the 'Income' approach; and
  - (c) the 'Market' approach.
- 4.3. 'Underlying Asset' Approach
- a) In case of the 'Underlying Asset' approach, the value of the Business Undertaking is determined by arriving at the Net Assets (Assets Less Liabilities) of the Business Undertaking. The said approach is considered taking into account fair value of assets and liabilities, to the extent

possible, the respective asset would fetch or liability is payable as on the Valuation Date. The following adjustments be made to arrive at the Fair Value of the Business Undertaking as per the 'Underlying Asset' Approach at Fair Values:

- The Fair Value of Quoted shares/securities held by the Company and which forms part of the Business Undertaking, if any, be considered at Market Value of such shares/securities;
- The Fair Value of unquoted shares/securities held by the Company and which forms part of the Business Undertaking, if any, in other entities be arrived at as per suitable approach to that entity to arrive at Fair Value of such Investments;
- The Fair Value of Immovable properties, if any, held by the Company and which forms part of the Business Undertaking be considered at Market Value / Ready Reckoner Value as on the Valuation Date, made available by the management of the Client;
- Adjustments may be made to book value of any other assets for their recoverability on conservative basis after taking into account the management representations and their estimate of the recoverability of the same;
- Liabilities of the Business Undertaking be considered at their respective Book Values or their payable amounts as on the Valuation Date; and
- Potential Contingent Liability, if any, be considered based on the discussions with the management and their reasonable estimate of the outflow on account of the same.

B) Alternatively, the value may be determined considering the book value of the net assets (Assets Less Liabilities) of the Business Undertaking and/or replacement cost basis, to the extent possible.

#### 4.4. 'Income' Approach

Under the 'Income' approach, the value of the Business Undertaking can be determined using Discounted Cash Flow (DCF) method – FCFF approach or FCFE approach or such other approaches.

##### DCF Method – FCFF Approach (for instance)

(i) Under the DCF method, the projected free cash flows from business operations after considering fund requirements for projected capital expenditure, incremental working capital and other adjustments are discounted at the Weight 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.

(ii) Using the DCF method involves determining the following:

- *Estimating the future free cash flows:*

Future Free cash flows are the cash flows expected to be generated by the business that are available to the providers of entity's capital. The free cash flows under the FCF method are determined by adjusting the Profit after tax for Depreciation and other Non-Cash Items, Interest (net of taxes), Incremental working capital requirements and capital expenditure.

- *Time Frame of such cash flows:*

The time frame for free cash flows is determined by separating the value of the business in the explicit projection period and the post explicit projection period.

- *Appropriate Discount rate (WACC):*

Under DCF-FCF Method, the time value of money is recognized by applying a discount rate viz. WACC to the future free cash flows to arrive at their present value as on the date of valuation. 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 business. In other words, WACC is generally the weighted average of the cost of own/equity capital and debt. Normally, in stable growth entities, the cost of own/equity capital is determined by using Capital Asset Pricing Model ('CAPM').

- *Terminal or perpetuity value:*

The Perpetuity value of an ongoing business is determined as present value of the estimated future free cash flows by capitalizing the free cash flows of the last year of the explicit projection period into perpetuity using appropriate rate of return and perpetual growth rate.

- *Valuation of Investment in other entities*

The investment of the Company in other entities which forms part of the Business Undertaking is to be valued as per valuation methodologies suitable to that entity.

- *Value of the Business Undertaking:*

The Value of the Business Undertaking so arrived considering the Net Present Value of the explicit period and terminal or perpetuity value is adjusted for net of cash & cash equivalents, debt and debt like items, Investment and surplus assets, etc., if any, as on the Valuation Date to arrive at the value of the Business Undertaking as on the Valuation Date.

4.5. 'Market' Approach

(a) Comparable Companies Multiple ("CCM") Method

Under the CCM method, the value of the Business Undertaking is determined based on publicly available information of the market valuations of the comparable companies on the basis of multiples derived from such market information after making adjustments to the derived multiples on account of dissimilarities with the comparable companies and the strengths, weaknesses and other factors peculiar to the Business Undertaking being valued. This method is applied on the premise that markets are perfect and have captured all the information and factors, which are reflected through their market valuations.

(b) Comparable Transaction Multiple ("CTM") Method

Under the CTM method, the value of the Business Undertaking is determined considering the past transaction of similar companies as well as the market value of comparable companies that have an equivalent business model to the Business Undertaking being valued.

- 4.6. The present valuation is on a going concern basis, i.e., proceeding on the basis that there is no intention of disposing off the operating assets of the Business Undertaking. Considering the nature of the Business Undertaking and based on review of projected financial statements made available to me by the Client, I am of the view that 'Income' approach may be appropriate for the current valuation exercise for arriving at fair value of the Business Undertaking as the value of assets may not provide true reflection of the earning capacity of the Business Undertaking. Further, on review of market comparables of the companies having similar characteristics as to size, nature, business etc., I am of the view that Comparable Companies Multiple method under the 'Market' approach would also be appropriate for the current valuation exercise for arriving at fair value of the Business Undertaking. I have considered it appropriate to consider Enterprise Value ('EV') / Earnings Before Interest Tax Depreciation & Amortization ('EBITDA') multiple of Comparable Companies available in the public domain and apply the adjusted multiple of such comparable companies to the FY25 EBITDA of the Business Undertaking. The Enterprise Value so arrived considering the EV / EBITDA is adjusted for net of cash & cash equivalents, debt, etc., if any, as on the Valuation Date to arrive at the value of the Business Undertaking as on the Valuation Date. Also, I could not find any comparable transactions, having regard to the size and nature of operations of the Business Undertaking, in respect of which complete details of the deal structure, profitability, etc. are available.

- 4.7. It is universally recognized that the valuation is not an exact science and that estimating values necessarily involves selecting a method or approach that is suitable for the purpose. The application of any particular method of valuation depends upon various factors including nature of its business, overall objective of the transaction and the purpose of valuation.

## **5. RECOMMENDATION**

- 5.1. It is recognized that valuation of any Business Undertaking or assets as a matter is inherently subjective and subject to various factors, which are difficult to predict and beyond control. Valuation exercise involves various assumptions with respect to the specific industry, general business and economic conditions, which are beyond the control of the Company. The assumptions and analysis of market conditions, comparables, prospects of the Industry as a whole and the Company, which influence the valuation of the Business Undertaking are subject to change over a period of time and even differ between the valuers at given point of time.
- 5.2. 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 Business Undertaking. 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 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.'*
- 5.3. I have arrived at the value of the Business Undertaking of the Company considering 'Income' approach and 'Market' approach by providing appropriate weights to each method as under:

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INR in Mn		
Valuation Approach	Value of Business Undertaking	Weights
Income Approach – DCF Method	220.2	2/3
Market Approach – Comparable Companies Multiple Method	237.8	1/3
<b>Fair Value of the Business Undertaking by assigning weight to each applicable method</b>	<b>226.1</b>	

- 5.4. In the light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined herein in this report (including scope limitation and exclusions given below), in my opinion, it is thought fit to consider value of the Business Undertaking determined as per 'Income' approach - DCF Method and 'Market' approach – CCM method and provide two-third and one-third weightage to the methodology applied in the ultimate analysis to arrive at the fair value of the Business Undertaking of the Company, which works out to **INR 226.1 Mn.**

**6. EXCLUSIONS AND DISCLAIMERS**

- 6.1. The report is subject to the exclusions and disclaimers 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.
- 6.2. No investigation of the Company's 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. Therefore, no responsibility is assumed for matters of legal nature.
- 6.3. The work does not constitute certification of the historical financial statements including the working results of the Company/Business Undertaking referred to in this report. Accordingly, I am 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 the 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.
- 6.4. The recommendation is based on the estimates of future financial performance of the Business Undertaking as projected by the management of the Company, which represents their view of reasonable expectation at the point of time when they were prepared, after giving due considerations to the commercial and financial aspects of the Business Undertaking and the industry in which it operates. But such information and estimates are not offered as assurances that the particular level of income or profit will be achieved or events will occur as

predicted. Actual results achieved during the period covered by the projected financial statements may vary from those contained in the statement and the variation may be material. The fact that I have considered the projections in this valuation exercise should not be construed or taken as I being associated with or a party to such projections.

- 6.5. This report is issued on the understanding that the Company has drawn my attention to all material information, which they are aware of concerning the financial position of the Company/Business Undertaking and any other matter, which may have an impact on my opinion, on the value of the Business Undertaking of the Company, including any significant changes that have taken place or are likely to take place in the financial position, subsequent to the report date. I also have no responsibility to update this report for events and circumstances occurring after the date of this report.
- 6.6. This Valuation Report does not look into the business / commercial reasons behind the proposed transaction or address any potential synergies to the Company or any other parties connected thereto.
- 6.7. In the course of the valuation, I was provided with both written and verbal information. I have evaluated the information provided to me by the Company through broad inquiry, analysis and review. I assume no responsibility for any errors in the above information furnished by the Company and consequential impact on the present exercise. I do not express any opinion or offer any assurance regarding accuracy or completeness of any information made available to me.
- 6.8. The report is not, nor should it be construed as me opining or certifying any compliance with the provisions of any law, whether in India or any other country including companies, taxation and capital market related laws or as regards any legal implications or issues arising from any transaction proposed to be contemplated based on this Report.
- 6.9. The information contained herein and the report is confidential. Any person/party intending to provide finance/invest in the Company/Business Undertaking, 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, can be done only after obtaining prior permission in writing.
- 6.10. This report is prepared exclusively for the use of the Company and solely for the purpose of assisting the Company, under consideration, in recommending the fair value of the Business Undertaking. Further, the fees for this engagement is not contingent upon the results arrived under this valuation exercise.

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- 6.11. By its very nature, valuation work cannot be regarded as an exact science, the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement. Given the same set of facts and using the same assumptions, opinion on the valuation exercise may differ due to application of the facts and assumptions, formulas used and numerous other factors. There is, therefore, no indisputable single value or standard methodology for arriving at the recommendation. Although my conclusions are in my opinion reasonable, it is quite possible that others may not agree.
- 6.12. CA Harsh Chandrakant Ruparelia, nor his employees or agents or 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 report is issued. All such parties expressly disclaim any and all liability for, or based on or relating to any such information contained in the report. I am not liable to any third party in relation to issue of this report. In no event, I shall be liable for any loss, damage, cost or expense arising in any way from any acts carried out by the Company referred herein or any person connected thereto.

If you require any clarifications on the above, I would be happy to clarify the same. I am thankful to your team for kind co-operation and support during this assignment.

Thanking you,  
Yours faithfully,

**CA HARSH CHANDRAKANT RUPARELIA**

REGISTERED VALUER – Securities or Financial Assets

IBBI Registration No. IBBI/RV/05/2019/11106

Membership No. ICMAI RVO/S&FA/00054

ICAI Membership No. 160171

Date: 12<sup>th</sup> August 2024

Place: Mumbai

UDIN: 24160171BKDZRX6448