

# **Valuation Analysis Issuance of Warrants A B Cotspin India Limited**

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*31<sup>st</sup> August 2023*

*Strictly Private & Confidential*

To,  
The Board of Directors  
A B Cotspin India Limited  
NH-54, Goniana Road, Near Lake-3,  
Bathinda, Punjab – 151 001, India

Ref. No.: CPV/RV/2023-24/018

**Subject: Valuation Analysis of Equity Shares of A B Cotspin India Limited (“Company”) as per SEBI (ICDR) Regulations for the issuance of Fully Convertible Warrants (“Warrants”)**

Dear Sir/Madam,

We, **Corporate Professionals Valuation Services Private Limited**, an Insolvency and Bankruptcy Board of India (“IBBI”) Registered Valuer (“herein-after-referred as “Valuer”) have been appointed as valuers by **A B Cotspin India Limited** (“Company”/ “Client”) to assist in determination of the fair value of equity shares of the Company for allotment of Warrants on preferential basis to certain proposed allottees.

The underlying transaction is the preferential issue of Warrants of the Company to certain proposed investors. The Company is a frequently traded company listed on the SME platform of the National Stock Exchange of India Limited (NSE). In terms of Regulation 166A read with Regulation 164 of SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2018, a preferential issue, in which allotment of more than 5% of the post-issue fully diluted share capital of an issuer, to an allottee or to allottees acting in concert, shall require a valuation report from an independent registered valuer and should be considered for determining the issue price. Accordingly, the Company has approached us to compute a valuation.


Based on our valuation analysis of equity shares of **A B Cotspin India Limited** and subject to the notes and comments provided herein, we hereby certify that the equity value of the Company at **INR 718.75 Million** and value per equity share as **INR 69.83/-** as on 25<sup>th</sup> August 2023.

This certificate is being issued for compliance with the aforesaid regulatory purpose only and the value determined herein would be the minimum price for this purpose. We further undertake that we are an independent valuer having no present or future interest in any transaction of the Company.

Thanking you

Date: 31<sup>st</sup> August 2023  
Place: New Delhi

For **Corporate Professionals Valuation Services Private Limited**  
(Registration No. **IBBI/RV-E/02/2019/106**)

  
Debashis Das  
(Director)  
UDIN: 2313306ZZYL53MM649

Enclosures:  
Annexure I: Scope of Work  
Annexure II: Valuation Approaches and Workings  
Annexure III: Provisional Profit and Loss Statement for the period ended August 25<sup>th</sup>, 2023.  
Annexure IV: Caveats

**Annexure I: Scope of Work****A. PURPOSE OF VALUATION AND APPOINTING AUTHORITY**

Based on the discussions held with the Management we understand that the Company is proposing preferential allotment of Share Warrants to certain investor(s). In terms of Regulation 166A read with Regulation 164 of SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2018 ('SEBI (ICDR) Regulations'), a preferential issue, which may result in a change in control or allotment of more than 5% of the post issue fully diluted share capital of an issuer, to the allottee acting in concert, shall, besides the market price, require valuation from an independent registered valuer and should be considered for determining the issue price. Thus, we, being a Registered Valuer, have been engaged as per the engagement letter dated 26<sup>th</sup> August 2023, we are issuing this certificate for compliance with Chapter V of SEBI (ICDR) Regulations.

**B. IDENTITY OF CLIENT AND OTHER INTENDED USERS**

**A B Cotspin India Limited**  
NH-54, Goniana Road, Near Lake-3,  
Bathinda, Punjab – 151 001, India

**C. IDENTITY OF VALUER AND OTHER EXPERTS**

**Corporate Professionals Valuation Services Private Limited**  
Registered Valuer (IBBI)  
Registration No. IBBI/RV-E/02/2019/106

**D. BACKGROUND INFORMATION OF THE ASSET BEING VALUED**

A B Cotspin India Limited, based in Jaitu, Punjab, is a renowned cotton yarn manufacturer. Since its inception in 1997, the company has built a solid reputation for providing high-quality cotton yarn products to consumers all throughout India and the world.

A B Cotspin India Limited provides high-quality products to its customers. To accomplish this, the company has adopted stringent quality control methods at every stage of the manufacturing process, from raw material procurement through final product inspection. The management team has many years of experience and expertise in the cotton yarn sector, allowing it to keep ahead of market trends and satisfy its customers' changing needs on a constant basis.

- **Date of Appointment** – 26<sup>th</sup> August 2023 as per Engagement Letter
- **Valuation Date** – 25<sup>th</sup> August 2023
- **Date of Report** – 31<sup>st</sup> August 2023
- **Base of value** – Fair Value
- **Valuation Currency** – INR

**E. PROCEDURES ADOPTED AND VALUATION STANDARDS FOLLOWED**

We have performed this valuation in accordance with the internationally accepted valuation standards and customary valuation practices in India for such purposes.

**F. NATURE AND SOURCES OF INFORMATION USED OR RELIED UPON**

We have reviewed the following documents including but not limited to:

- Discussions with the KMPs.
- Provisional Profit and Loss Statement for the period ended August 25<sup>th</sup>, 2023.
- Provisional Balance Sheet Statement for the period ended August 25<sup>th</sup>, 2023.
- Capital line Database and other information in the public domain.
- Management Representation

**G. EXTENT OF INVESTIGATION UNDERTAKEN**

We have taken due care in performing valuation procedures and have also applied appropriate discount rates considering the riskiness of the business plan. However, we would like to expressly state that though we have reviewed the financial data for the limited purpose of valuation assessment, but we have not performed an Audit and have relied upon the historical as well as future financials (P&L Account and Balance Sheet) as prepared and submitted to us by the management of the company. It may so happen that the projections do not materialize but the management has represented to us that it has taken due care in the preparation of such forecasts of financial statements and the same may be considered as a true and fair view of the expected business plan of the company.

**Annexure II: Valuation Approaches and Workings**

There are three approaches to Valuation namely Income, Asset and Market Approaches.

Approach	Valuation Methodologies	Basis of Consideration
Asset	<b>Net Asset Value (NAV) Method</b>	<p>The Asset-based method views the business as a set of assets and liabilities that are used as building blocks of a business value. The difference in the value of these assets and liabilities on a Book Value basis or Realizable Value basis or Replacement Cost basis is the business value. However, this methodology recognizes the historical cost of net assets only without recognizing its present earnings, the comparative financial performance of its peers and their enterprise values, etc. Therefore, in general, Net Asset Value only reflects the minimum proxy value of the company. <b>In the instant case, we have considered this methodology for the valuation exercise of the Company.</b></p>
Market	<b>Comparable Companies Multiples (CCM) Method</b>	<p>This methodology uses the valuation ratio of a publicly traded company and applies that ratio to the company being valued. The valuation ratio typically expresses the valuation as a function of a measure of financial performance or Book Value (e.g., Revenue, EBITDA, EBIT, Earnings per Share, or Book Value). A key benefit of Comparable Companies Trading Multiple analysis is that the methodology is based on the current market price which is generally viewed as one of the best valuation metrics. <b>In the instant case, we have applied this methodology as the listed peers of the Company were available. To arrive at the value of equity shares, we have considered the 'EV/EBITDA Multiple' of the comparable companies. We have determined the comparable companies, considering the industry/sector, size of operation, financial performance, and other relevant factors.</b></p>
Income	<b>Discounted Free Cash Flow (DFCF) Method.</b>	<p>The DFCF method expresses the present value of the business as a function of its future cash earnings capacity. This methodology works on the premise that the value of a business is measured in terms of future cash flow streams, discounted to the present time at an appropriate discount rate. The value of the firm is arrived at by estimating the Free Cash Flows (FCF) to the Firm and discounting the same with the Weighted Average cost of capital (WACC). The DFCF methodology is the most appropriate basis for determining the earning capability of a business.</p> <p>In the DFCF approach, the appraiser estimates the cash flows of any business after all operating expenses, taxes, and necessary investments in working capital and Capex are being met.</p> <p>We have considered this methodology for the calculation of the fair equity value of the Company based on its consolidated cash flows. After considering its business plan. We have calculated the Enterprise value and then derived the Equity value by adjusting its debt, cash and cash equivalents, and surplus assets on the date of valuation.</p> <p><b>We have considered this methodology in the instant case.</b></p>

Computation of Equity value as on 25<sup>th</sup> August 2023

Net Asset Value (NAV) Method:

Particulars	All Amount (INR Million)
Capital Account	449.11
Profit & Loss A/c	36.39
<b>Net Asset Value</b>	<b>485.50</b>
Appreciation of Investment	5.04*
<b>Adjusted Net Worth</b>	<b>490.54</b>

Comparable Companies Multiples (CCM) Method:

EV/EBITDA Multiple

Particulars	Amount (INR Million)
EBITDA for the 12 Months period ended 30.06.2023	146.22*
Industry Multiple (Peers) as on 25.08.2023	11.15
<b>Enterprise Value as on 25.08.2023</b>	<b>1,630.02</b>
Add: Cash and cash equivalents	0.25
Add: Fixed Deposit	7.24
Add: Fair Value of Investment	48.84*
Less: Loans	646.82
Less: Bank Overdraft	372.46
<b>Adjusted Equity Value as on 25.08.2023</b>	<b>667.07</b>

To arrive at the value of equity shares, we have calculated the 'EV/EBITDA Multiple', wherein the EBITDA of the Company for the Trailing Twelve months (TTM) period from 01<sup>st</sup> July 2022 to 30<sup>th</sup> June 2023 is multiplied by the 'Daily Mean EV/EBITDA Multiple' of listed peer companies as on 25.08.2023.

\*Kindly note that the TTM EBITDA figure is considered till 30<sup>th</sup> June 2023 as only such data is readily available with the management of the Company for the valuation exercise.

**We have considered Comparable Companies as a follow-on the basis of the following parameters:**

- Business Model:** We have considered only those companies whose Industry classification and business model (in terms of the principal products/services) are similar to the company's business model. For Industry classification, we have relied upon the BSE and Capitaline databases.
- Turnover, Profit Margins, and Return on Capital Employed (ROCE):** We have considered only those companies whose risk and return characteristics fall within close range to that of the Company. The risk and return metrics have been evaluated in terms of the Turnover, Profit margins, and ROCE which segment the broad industry into a bifurcate turnover that is close to the Company's turnover.
- Trade Volume:** Only those companies have been considered, whose shares are frequently traded at the National Stock Exchange (NSE) or Bombay Stock Exchange (BSE) under the SEBI (ICDR) Regulations, 2018.

**Discounted Free Cash Flow to Firm (DFCF):**

<b>Discounted Free Cash Flow Analysis – A B Cotspin India Limited</b>							
<b>WACC :</b>	<b>15.71%</b>	<b>Amount In INR Millions</b>					
<b>Growth Rate :</b>	<b>4 %</b>						
<b>FY</b>	<b>2024 (219 Days)</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>Terminal</b>
<b>Particulars</b>							
Revenue from Operation	1,241.65	2,437.83	2,854.03	3,284.21	3,713.55	4,124.74	
Other Income	9.92	16.71	26.42	39.15	54.10	69.34	
PBT (Excluding Other Income)	67.26	142.49	190.03	243.11	298.22	351.47	
Less: Direct Taxes Paid	16.93	35.86	47.83	61.19	75.06	88.46	
<b>PAT (Excluding other income)</b>	<b>50.33</b>	<b>106.63</b>	<b>142.20</b>	<b>181.93</b>	<b>223.17</b>	<b>263.01</b>	
Add: Depreciation	24.17	59.58	65.54	72.10	79.31	87.24	
Less: Capital Expenditure	86.12	61.39	72.23	83.87	96.09	108.68	
Add: Interest on Loan (Post Tax)	59.11	93.02	102.99	110.57	116.36	120.80	
Less: Change in Non-Cash Working Capital	182.37	97.94	104.81	109.59	111.96	111.84	
<b>Free Cash Flows to Company</b>	<b>(134.88)</b>	<b>99.91</b>	<b>133.69</b>	<b>171.14</b>	<b>210.78</b>	<b>250.52</b>	<b>3,048.96</b>
Discounting Factor (Mid-Year)	0.96	0.85	0.74	0.64	0.55	0.48	0.48
Present value of Cash flow	(129.12)	85.12	98.44	108.90	115.92	119.07	1,449.16
<b>Enterprise Value</b>	<b>1,847.49</b>						
Add: Cash and cash equivalents	0.25						
Add: Fixed Deposit	7.24						
Add: Fair Value of Investment	48.84*						
Less: Loans	646.82						
Less: Bank Overdraft	372.46						
<b>Equity Value as on 25.08.2023</b>	<b>884.54</b>						

**Note:**

For the valuation of equity shares through DCF methodology, we have relied upon the projections provided by the management for the period beginning August 26, 2023, and ending March 31, 2029, duly supplemented by its Terminal Value based on the Gordon Model and extrapolating the adjusted free cash flows for last year at an annual growth rate of 4% to perpetuity.

**DCF Assumptions:**

Particulars		Notes
Risk free rate (Rf) as on 25.08.2023	7.21%	Considering of long-term Indian government bond rate
Market Rate of Return	15.13%	BSE Sensex returns on a long-term basis
Industry Beta... ( $\beta$ )	0.83	We have taken the Leveraged beta for 5 Years of comparable company Beta value ( $\beta$ ) as 0.83 as there are listed companies in this domain hence, we have taken the comparable industry to arrive at the beta.
Additional Company Specific (Including Small Company) Risk Premium (Unsystematic Risk) (CSRP)	10%	We have given a 10% additional risk premium looking into company profile, financial structure, and ROI an investor will investigate while investing in this type of company. This is also dependent upon the level of aggressiveness of the future cash flows the present scenario of the country and the company environment in which it is operating.
<b>Cost of Equity (Ke)</b>	<b>23.82%</b>	<b>As per Modified CAPM model i.e. <math>[Ke = Rf + \beta(Rm - Rf) + CSRP]</math></b>
Cost of Debt	8.50%	As represented by the management of the Company
Equity portion in capital structure	53.54%	As per the average D/E Ratio of the Listed peers' companies.
<b>WACC</b>	<b>15.71%</b>	<b><math>WACC = (Ke * \% \text{ Equity in Capital Structure}) + (\text{Cost of Debt} * \% \text{ Debt in Capital Structure} * (1 - \text{Tax Rate}))</math></b>
Growth Rate	4%	As the perpetuity growth rate assumes that the Company will continue its historic business and generate Free Cash Flows at a steady state forever. Since terminal value constitutes a major proportion of the entire value of the business, we while deciding the terminal growth rate have given emphasis to economic factors & financial factors like Inflation of the Country, GDP growth of the Country, Projected Financials, Historical Financial Position, Organic & Inorganic growth strategies of the Company etc. Accordingly, for perpetuity, we have considered 4% growth rate.

**Computation of Fair Value of A B Cotspin India Limited**

Approach Applied	Methodology Applied	Weight	Equity Value	All Amount INR Millions Weighted Average Equity Value
Asset	Net Asset Value	20%	490.54	98.11
Market	Comparable Companies Multiples	40%	667.07	266.83
Income	Discounted Cash Flow	40%	884.54	353.82
<b>Weighted Average Equity Value</b>				<b>718.75</b>
No. of Equity Shares				10,292,200
<b>Value per Equity share (INR)</b>				<b>69.83</b>

*Based on our analysis of the Company and subject to our comments and caveats as further detailed in this report, we have arrived at the equity value of the Company at INR 718.75 Million and value per equity share as INR 69.83/- as of 25<sup>th</sup> August 2023.*

**\*Appreciation of Investment**

Particular	Non- Current Investment in equity instruments (Quoted)					
	No of Share	Book Value (INR Million)	Book Value per share (INR)	Fair Value per share (INR)	Fair Value (INR Million)	Appreciation (INR Million)
MK PROTEINS LIMITED (SHARE A/C)	60,000	43.80	730.00	813.95 <sup>#</sup>	48.84	5.04

**#The Fair Value per Share is considered as per the closing price available on BSE as of 25<sup>th</sup> August 2023.**

**Annexure III:**
**Provisional Balance Sheet as of 25<sup>th</sup> August 2023**

<b>Particulars</b>	<b>Amount in INR Million</b>
Capital Account	449.11
Profit & Loss A/c	36.39
<b>Total Shareholder's Fund</b>	<b>485.50</b>
Loans (Liability)	646.82
Provisions & Sundry Creditors	17.13
Bank Accounts	372.46
<b>Total Capital and Liabilities</b>	<b>1,521.91</b>
Non-Current Assets	805.17
Current Assets	716.75
<b>Total Assets</b>	<b>1,521.91</b>

**Provisional Profit and Loss Statement for the period ended 25<sup>th</sup> August 2023**

<b>Particulars</b>	<b>Amount in INR Million</b>
Sales Accounts	805.69
Direct Incomes	0.01
<b>Total Incomes</b>	<b>805.70</b>
Total Operating Expenses	711.58
<b>EBITDA</b>	<b>94.12</b>
Depreciation & Amortization	30.00
<b>EBIT</b>	<b>64.12</b>
Finance Cost	27.73
<b>Profit Before Tax (PBT)</b>	<b>36.39</b>

**Annexure IV: Caveats**

- This Valuation Report has been issued on the specific request of “**A B Cotspin India Limited**” for determining the value of the Equity Share of the Company in accordance with the SEBI (ICDR) Regulations. This Report is prepared exclusively for the above-stated purpose and must not be copied, disclosed, circulated, or referred to in correspondence or discussion with any other party. Neither this report nor its content may be used for any other purpose without our prior written consent.
- No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in accounts. Therefore, no responsibility is assumed for matters of a legal nature.
- In Accordance with the customary approach adopted in the Valuation exercise, we have summarized the Valuation Analysis of equity shares of the Company based on the information as was provided to us by the management of the Company both written, verbal, and other publicly available information. We do not assume any responsibility for the accuracy or reliability of such documents on which we have relied in forming our opinion.
- This Report does not investigate the business/commercial reasons behind the transaction nor the likely benefits arising out of the same. In addition, we express no opinion or recommendation, and the shareholders are expected to exercise their own discretion.
- We have no present or planned future interest in the Company and the fee for this Valuation analysis is not contingent upon the values reported herein. The Valuation Analysis contained herein is not intended to represent the value at any time other than the date that is specifically stated in this Report.
- The report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.
- In no circumstances shall the liability of a valuer, its partners, directors, or employees, relating to the services provided in connection with the engagement set out in this Valuation report shall exceed the amount paid to such valuer in respect of the fees charged by it for these services.
- Our valuation report should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering into the proposed transactions.