

VIRINCHI LIMITED

(Formerly Known as Virinchi Technologies Limited)

AND

BRISTLECONE HOSPITALS PRIVATE LTD

**EQUITY VALUATION REPORT TO DETERMINE THE
SHARE EXCHANGE RATIO**

22nd January 2016

By

**M. ANANDAM & Co.,
Chartered Accountants,
7A, Surya Towers, S. P. Road,
Secunderabad 500 003.**

To,
The Board of Directors
Virinchi Limited
Secunderabad

To,
The Board of Directors
Bristlecone Hospitals Private Limited
Hyderabad

Dear Sir's,

Sub: Recommendation of Equity Share Exchange Ratio for the proposed Merger of Bristlecone Hospitals Private Limited with Virinchi Limited

Please refer to the engagement letter dated **02nd January, 2016**, addressed to us by Virinchi Limited (hereinafter referred as Virinchi), Bristlecone Hospitals Private Limited (hereinafter referred BCH). The respective Boards by resolutions dated **01st January, 2016**, have requested us to recommend a share exchange ratio of equity shares in connection with the proposed amalgamation/ merger of BCH with Virinchi.

As presented in the attached valuation report, our objective was to estimate the Equity Value of Virinchi and BCH as on 30th September, 2015, to determine the equity share exchange ratio.

We have considered the Market Value Approach, Discounted Cash Flow based valuation method and Book Value/ Net Assets Method to arrive at Equity Share Value of both Virinchi and BCH.

Based on the results of these valuation approaches and considering other relevant data, we have estimated the Equity Value and Exchange Ratio as on September 2015 as under:

Sl. No.	Particulars	Amount in Cr's
A.	Value of Bristlecone (as per Annexure A)	54.02
B.	No. of outstanding shares	1,500,000
C.	Therefore value per share of Bristlecone (A/B)	360.11
D.	Value of Virinchi (As per Annexure B)	113.38
E.	No. of outstanding shares	17,986,050

F.	Therefore value per share of Virinchi (D/E)	63.04
G.	One (1) share of Bristlecone is equivalent to 5.71 shares of Virinchi (C/F)	
H.	One Hundred (100) shares of Bristlecone is equivalent to 571 shares of Virinchi [(C*100)/F]	

In other words, we recommend issue of 571 (Five Hundred and Seventy One) equity shares of Virinchi in exchange of 100 (One Hundred) equity shares of BCH resulting in a fresh issue of 85,65,000 (Eighty Five Lakhs and Sixty Five Thousands) equity shares of Virinchi to the shareholders of BCH.

Please note that this estimate is subject to the assumptions and limiting conditions set out in the valuation report.

Thanking You.,

For M Anandam & Co,
Chartered Accountants

M.R. Vikram

M.R. Vikram
(Partner)



Date 22.01.2016

Contents

BACKGROUND.....1

SOURCE OF INFORMATION.....3

PURPOSE OF VALUATION.....4

DATE OF VALUATION.....4

METHODS OF VALUATION.....5

- 1. Market value approach
 - a. Comparables method
 - b. P/E method of valuation
- 2. Discounted Cash Flow method
- 3. Book Value method

VALUATION CONCLUSIONS.....8

LIMITATIONS AND DISCLAIMERS.....9

BACKGROUND

M/s. Virinchi Limited (Formerly known as Virinchi Technologies limited) is a Company incorporated on 13.03.1990, under the provisions of the Companies Act, 1956, bearing CIN: L72200TG1990PLC011104 and having its registered office situated at 10, SRK Colony, West Marredpally, Secunderabad-500 026, Telangana. (Hereinafter referred to as "Virinchi"). The Authorised Capital of the Company as on 30.09.2015, is Rs.25,00,00,000/- (Rupees Twenty Five Crores only) and the paid up capital of the Company as on 30.09.2015, is Rs. 17,96,10,102/- (Rupees Seventeen Crores Ninety Six Lakhs Ten Thousand One Hundred and Two only) of which 1,79,58,228 shares of Rs 10/- paid up and 27,822 shares of Re 1/- paid up. The Shares of Virinchi are listed and traded on the BSE Limited.

The share holding pattern of Virinchi as on 30/09/2015

Sl. No.	Name of the Shareholder	Number of Shares Held	Stake in Overall Shareholding
I.	<u>Held By Promoter & Promoter Group:</u>		
1	Viswanath Kompella	25,68,300	14.28%
2	Virinchi Employees Welfare Trust	5,08,385	2.83%
3	Others (Promoters)	23,34,857	12.99%
	Sub-Total	54,11,542	30.09%
II.	<u>Public Share Holding</u>	1,25,74,508	69.91%
I+II	Total	1,79,86,050	100.00%

Details of Subsidiaries of Virinchi as on 30.09.2015:

Sl. No.	Name of the Subsidiary	Virinchi's Stake:
1.	KSoft Systems INC	100%
2.	Qfund Technologies Pvt Ltd	100%
3.	Virinchi Healthcare Pvt Ltd	100%
4.	Virinchi Learning Pvt Ltd	100%
5.	Tyohar Foods Pvt Ltd	100%
6.	Virinchi Media & Entertainment Pvt Ltd	100%
7.	Virinchi Infra & Realty Pvt Ltd	100%
8.	Asclepius Consulting & Technologies Pvt Ltd	51%

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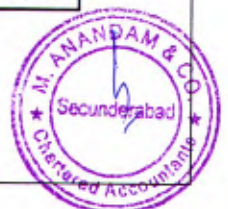
The consolidated value of Virinchi has been calculated on sum of parts method. The values of the Subsidiaries have been calculated independently based on the existing circumstances of each subsidiary. Since few of the subsidiaries Tyohar Foods Private limited, Virinchi Media & Entertainment Pvt Ltd, Virinchi Infra & Realty Pvt Ltd, Virinchi Learning Private Limited and Asclepius Consulting Technologies Pvt Ltd, have limited activity, we have relied on the Net assets method/ book value of the Companies, as on the date of valuation. Virinchi Health Care Private limited is yet to commence its business and currently is in the construction phase and commercial operations are yet to start, hence considered the book value.

Bristlecone Hospitals Pvt Ltd (BCH) is a multi-specialty 60 bed hospital in Barkatpura (BKT), Hyderabad operating since 2009. The hospital comprises prominent panels of consultants, surgeons and physicians and aims to provide affordable and quality healthcare services. It has good reputation in its sector and has been running profitably. The hospital has 106 employees including 7 consultants. The hospital has entered into a lease agreement for the building for a period of 20 years, renewable for another 5 years.

BCH has also leased an existing hospital premises with 120 beds Multi Specialty Center, at Hayathnagar (HYT). The hospital has 120 employees including 8 consultants. BCH (HYT) has entered into a registered lease agreement for the building for a period of 30 years. BCH (HYT) is registered with State Government Health Scheme and Government Health Programme-Arogya Shree.

The share holding pattern of BCH as on 30/09/2015 is as follows:

Sl. No.	Name of the Shareholder	Number	%
1.	Viswanath Kompella	7,42,500	49.50%
2.	Madhavi Latha Kompella	1,95,000	13.00%
3.	Lopa Mudra Kompella	1,87,500	12.50%
4.	Rama Krishna Paramahansa Kompella	1,87,500	12.50%
5.	Modini Kompella	1,87,500	12.50%
	Total	15,00,000	100%



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We understand that the managements of Virinchi and BCH are considering to merge BCH with Virinchi by implementing a Scheme of Amalgamation under the provisions of Sections 391-394 of the Companies Act, 1956, or the case may be under the corresponding sections of the Companies Act 2013. Under the Scheme of Amalgamation, as consideration for their equity shares in BCH, the shareholders of BCH will be issued equity shares in Virinchi.

We have carried out a relative valuation of the equity shares of Virinchi and BCH with a view to arrive at the equity share exchange ratio.

SOURCE OF INFORMATION

The following information has been provided by the management:

1. The projected income statements and balance sheets for the years 2016-17 to 2024-25 of Virinchi.
2. The projected income statements and balance sheets for the years 2016-17 to 2024-25 of BCH.
3. Audited Consolidated Financial Statements of the Companies 31 March 2015.
4. Audited financials as at 30 September 2015 for VTL and BCH.
5. Quarterly Financial Information as published by Virinchi at Bombay Stock Exchange.
6. CMA data of Virinchi provided to the bank by the management.
7. The term loan details and repayment schedules.
8. The recurring costs required to run the hospitals and the clinics.
9. The forecast on number of patients that will be treated, no of doctors, administrative and general staff, the treatment rooms, space allocation etc.
10. Lease rental agreements.



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11.A certificate evidencing BCH (HYT) registration with State Government Health Scheme and Government Health Programme-Arogya Shree.

12.Interviews and discussions with the management of Virinchi and BCH to augment our knowledge of the operations of the company.

We have also obtained explanations and information considered reasonable and necessary for our exercise from the executives and representatives of the entities.

PURPOSE OF VALUATION:

The purpose of this valuation/ report is to provide the BOD/Management of Virinchi, and BCH with elements and points that will aid in determination of the exchange ratio to be proposed in the merger of the said companies.

The valuation has been done taking into account the current and future prospects of the entities on an independent and standalone basis, without taking any potential synergies from the merger into account.

DATE OF VALUATION:

The valuation is done as of period ended on 30th September 2015.

METHODS OF VALUATION:

In arriving at the exchange ratio of the equity shares for the merger of the BCH with Virinchi we have determined the values independently but on a relative basis. We have considered the methods relevant and applicable, which included:

1. Market Approach:

- a. Comparable Companies Multiplies Method.
- b. Current Market Price Method



2. Income Approach:

- a. Discounted Cash Flow

3. Cost Approach

- a. Net Assets Value method/ Book Value

1. Market Value Approach:**a. Comparable Companies Multiplies Method:**

The market value method has been used since market comparatives are available for a similar set up during the period of valuation considered. Market Approach refers to notion of arriving at the value of the company by comparing it to the market value of similar publicly listed companies. The comparison is based on certain financial ratios or multiples such as Price to Earnings, EV/EBITDA etc of the equity in question of peers.

To arrive at the Equity value of Virinchi and BCH we have considered the average of PE multiples of the peer companies in the industry at 14.75 and 16.49 respectively.

As the value of the equity is dependent on the earning capacity of the companies, we have appropriately incorporated the same in our valuation.

We have also considered Enterprise value of BCH based on EV/Bed multiple as it is considered to be one of the most appropriate sector specific multiple for healthcare industry.

b. Current Market Price Method:

The market price of equity as quoted on stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded. In the present case the shares of

Virinchi are listed in BSE and the volume weighted average share price of Virinchi over an appropriate period has been considered under this method.

The market value of Virinchi is arrived at by considering the higher of 6 months Average Market price or 15 days average market price.

This method is not considered appropriate to value BCH as it is an unlisted company.

2. Income Approach

a. Discounted cash flow method

The discounted cash flow method has also been used to value the equity of the companies.

The discounted cash flow method is a modern valuation method which relates the value of an asset to the present value of the expected future cash flows on that asset. Under this the value of the business has been determined by the formula:

$$\text{Value of Business} = \sum \text{CF in period } t / (1 + \text{WACC})^t$$

Where, $t=1$ to n ,

CF = Expected cash flow in period n ,

WACC = Weighted average cost of capital.

The WACC of the companies has been calculated horizontally upto the Year end March 2025. The terminal value has been estimated in the last year of forecast period and the present value of the same is added to present value of all the cash flows. In our valuation model we have considered a stable growth rate of 1%, to arrive at the terminal value.

$$\text{Terminal Value/Perpetuity} = \frac{\text{Final Projected Year Cash Flow}(1 + \text{Growth Rate})}{\text{WACC} - \text{growth rate}}$$

Since DCF model is predominantly used to value the business, we have provided higher weightage to the same while arriving at the valuation of Virinchi and BCH.

3. Cost Approach

a. Book Value /Net Assets Method

Under this approach, we have considered the value of the underlying assets of the business at book value. Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair values.

In arriving at the fair value of the equity shares of the companies, relative weights have been assigned to all the above methods.

Accordingly the following weights have been assigned in Virinchi and BCH

(Rs. In Lakhs)

Method-Virinchi	Values	Weights	Amount
DCF	5,600	55%	3,080.08
P/E Method	12,771	15%	1,915.63
Book Value	7,285	15%	1,092.75
Market Value	8,693	15%	1,303.88
Virinchi-Standalone	34,348.55	100%	7,392.34
Subsidiaries			3,946.06
Total			11,338.40

(Rs. In Lakhs)

Method-BCH	Values	Weights	Amount
DCF	6,478.82	55%	3,563.35
P/E Method	2,832.02	15%	424.80
Book value	403.12	15%	60.47
EV/ BED	9,019.52	15%	1,352.93
VALUATION:	18,733.49	100%	5,401.55



VALUATION CONCLUSIONS

The different values have been arrived at under each of the above methods, for the purpose of recommending an equity exchange ratio, it is necessary to arrive at a single value for the shares of both the companies (i.e. Virinchi and BCH). In this context, we are not attempting to arrive at the absolute value of shares of the companies, our exercise is to work out a relative value of the shares. In view of this it is necessary to give appropriate weightage to the approaches adopted.

On considering the relative weights of all the above methods, we arrive at an exchange ratio of equity shares of BCH and Virinchi of 1:5.71

In other words, we recommend issue of 571 (Five Hundred and Seventy One) equity shares of Virinchi in exchange of 100 (One Hundred) equity shares of BCH resulting in a fresh issue of 85,65,000 (Eighty five Lakhs and sixty five thousand) equity shares of Virinchi to the shareholders of BCH.

Sl. No.	Particulars	Amount in Cr's
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The details of the workings are available in annexure A- "Valuation of Virinchi" and annexure B-"Valuation of BCH".

All the workings form an integral part of this report.



LIMITATIONS AND DISCLAIMERS

- (i) We do not express an opinion on the true and fairness of the financial information referred to, in this report.
- (ii) Our valuation and analysis and the conclusions drawn there from are based on the consideration of a variety of factors, which are largely dependent on the prevailing business conditions on the valuation date and explanation of the management.
- (iii) We presume that the management have taken reasonable care to ensure that all the relevant information which could have an impact on the valuation has been duly disclosed and made available to us.
- (iv) We presume that the management has taken reasonable care while estimating the financial projections of the companies
- (v) We do not take the responsibility of up-dating this report for any events or circumstances occurring after the date of our report. However, as on this date we are informed by the management that they are not aware of any material event(s) which could have had an impact on our valuation.
- (vi) In the course of valuation, we were provided with both written and verbal information(s), including market, financial and operating data(s). We have however, evaluated the information provided to us by the Company through broad enquiry, inquiry, analysis and review.
- (vii) In the process of evaluation, nothing has come to our attention to indicate that the information provided was materially mis-stated/incorrect or would afford reasonable grounds to conclude that it is mis-stated or untrue or incorrect.
- (viii) We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.
- (ix) As per the terms of our engagement we have relied upon the information provided by the Company without undertaking any detailed inquiry. Also, we have been given to understand, by the management that it has not omitted any

relevant/material facts and that it has checked out relevance or materiality of any specific information relevant to the present exercise, in case of any doubt.

- (x) Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness and our conclusions are based on the assumptions and other information given by/on behalf of the Company's. The management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the above information furnished by the Company's and their impact on the present exercise. Also, we assume no responsibility for the information furnished by the company and believed to be reliable.
- (xi) We express no opinion on the achievability of the forecasts given to us. The assumptions used in their preparation, as we have been explained, are based on the management's present expectation of both – the most likely set of future business events and circumstances and the management's course of action related to them. It is usually the case that some events and circumstances do not occur as expected or as anticipated. Therefore, actual results during the forecast period may differ from the forecast assumed as of now and such variations may be material.
- (xii) No investigation of the Company's claim to title of assets has been made for the purpose of this valuation and the Company's claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets. Therefore, no responsibility is assumed for matters of a legal nature.



M.Anandam & Co.,
Chartered Accountants

(xiii) This report does not provide any assurance on realisability of assets and amount payable against liabilities.

Thanking You,

For M.Anandam & Co.,
Chartered Accountants

M.R. Vikram

M.R. Vikram
(Partner)

Date: 22.01.2016

