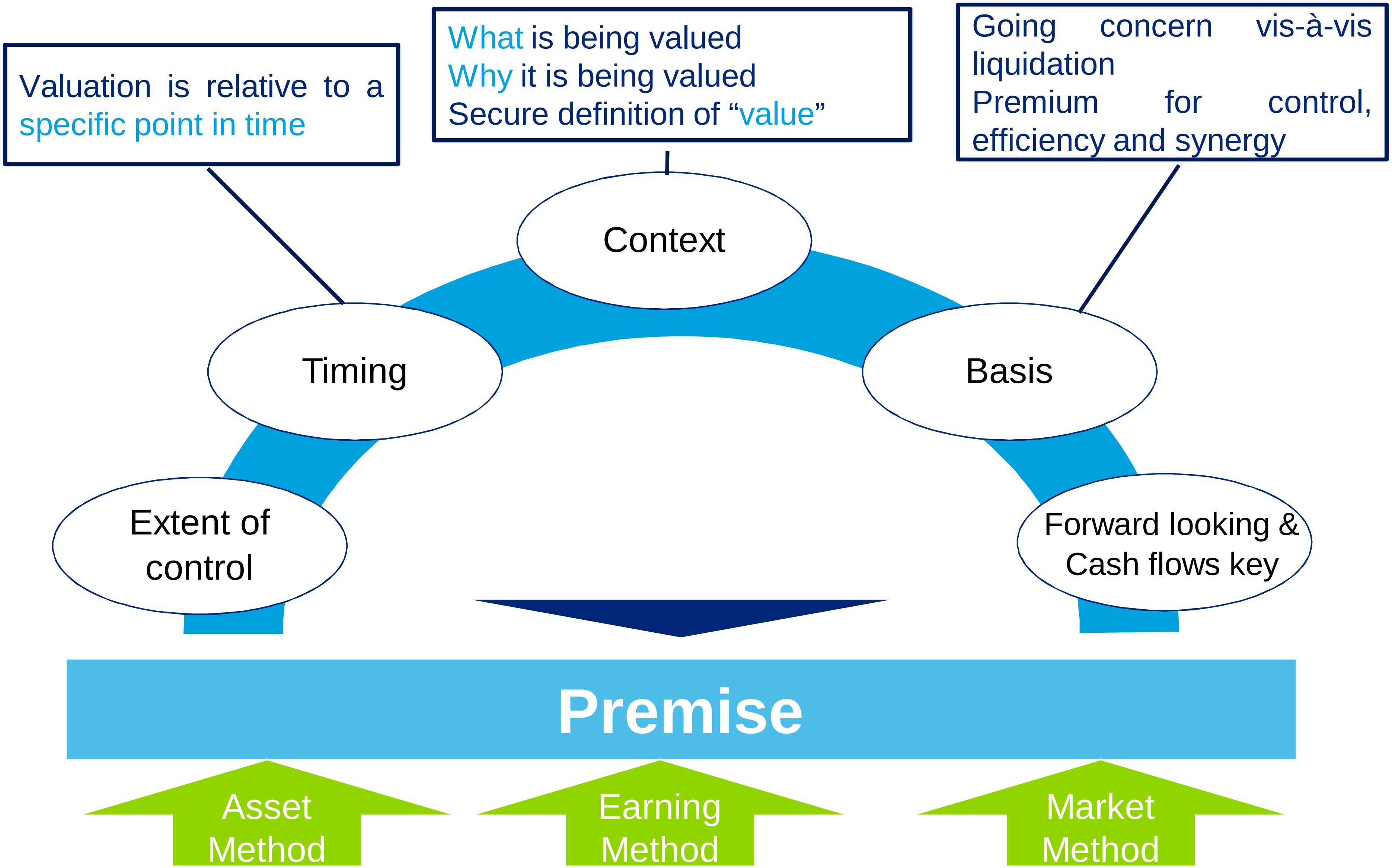
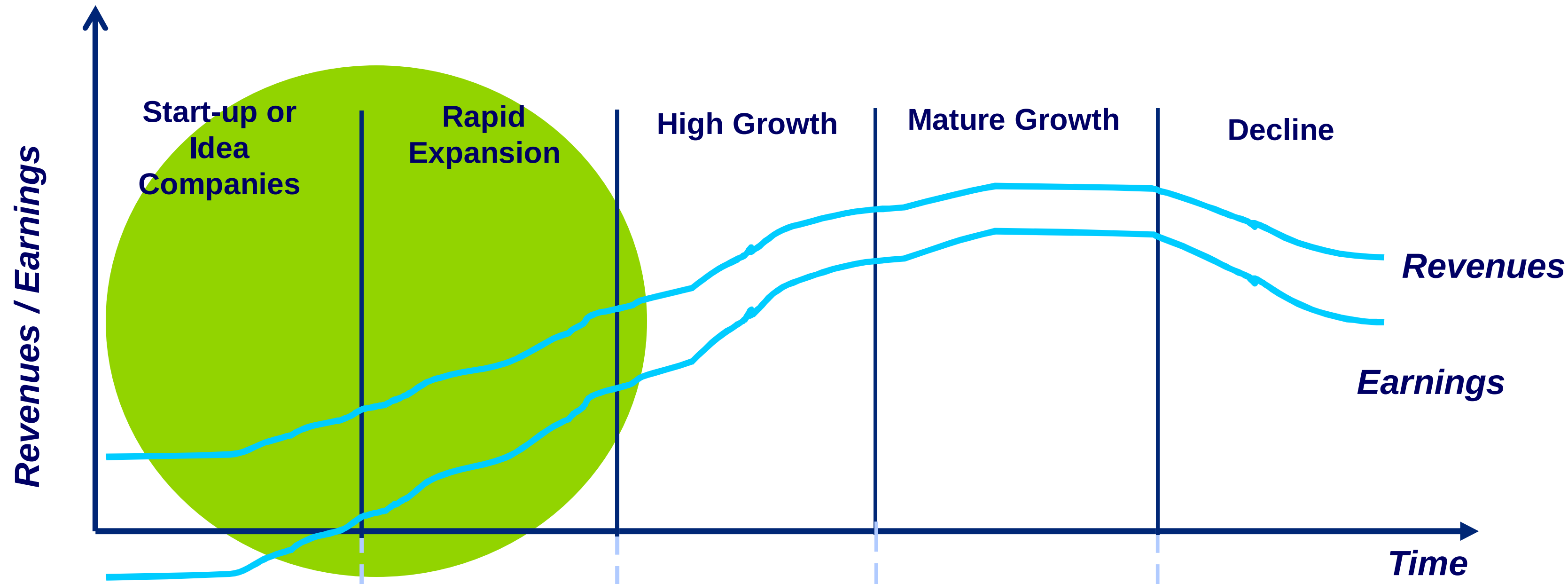
Case Studies

WIRC
28th May 2016
Pinkesh Billimoria

Valuation – A Perspective



Valuation in Real life



Revenue/Current Operations	Non-existent or low revenue/negative operating income	Revenue increasing/Income still low or negative	Revenue in high growth/Operating income also growing	Revenue growth slows/Operating income still growing	Revenue and operating income growth drop
Operating History	None	Very limited	Some operating history	Operating history can be used in valuation	Substantial operating history
Comparable Firms	None	Some, but in same stage of growth	More comparables, at different stages	Large number of comparables, at different stages	Declining number of comparables, mostly mature
Source of Value	Entirely future growth	Mostly future growth	Portion from existing assets/Growth still dominates	More from existing assets than growth	Entirely from existing assets

Valuation Methodologies

Asset based

Net Asset Value

Earnings based

- Discounted Cash Flow
- Earnings Capitalisation
- Royalty Relief method
- Contribution/ Excess earnings method
- Incremental Cashflows method

Value of Business / Equity

Market based

- Market Price
- Comparable Companies Multiples
- Comparable Transaction Multiples

- ➢ *More than one right way to value*
- ➢ *Approaches are not exclusive; but complement each other*

Valuation Conclusion

- Methods throw a range of values
- Consider relevance of each methodology depending upon the purpose & premise of valuation – decide on primary and corroborative methods
- Selecting the final value / range of values
  - ❖ Subjective weighting:
    - ✓ In professional judgement the conclusion is based on experience and judgment given the quality of information and the approaches applied
  - ❖ Mathematical weighting
    - ✓ In mathematical weighting specific weights are assigned to each approach and the weighted average calculated
- Both methods require subjectivity since the weights selected in mathematical

Final Recommendation – common sense and reasonableness

Factors affecting Valuation

- ✓ Deal Structure - Merger / Demerger / Slump Sale / Intangible
- ✓ Funding structure and Forex movements
- ✓ Tax and Transfer Pricing – tax breaks, amortisation rules, DTAA etc.
- ✓ RBI / FEMA Regulations – Valuation giving minimum / maximum price.
- ✓ SEBI guidelines – Takeover / Preferential pricing, Takeover - Direct / Indirect, Delisting / Open offer / Reverse Book Building
- ✓ Synergies
- ✓ Premium / Discount
- ✓ DD Issues
- ✓ Accounting – different GAAPs
- ✓ Jurisdiction – different regulations, settlement mechanism
- ✓ Background – Company / Promoters / Top Management

Premiums & Discounts

- Lack of marketability
- Business dynamics
- Small size
- Growth & margin trends
- Holding company discount
- Percentage stake – control, minority

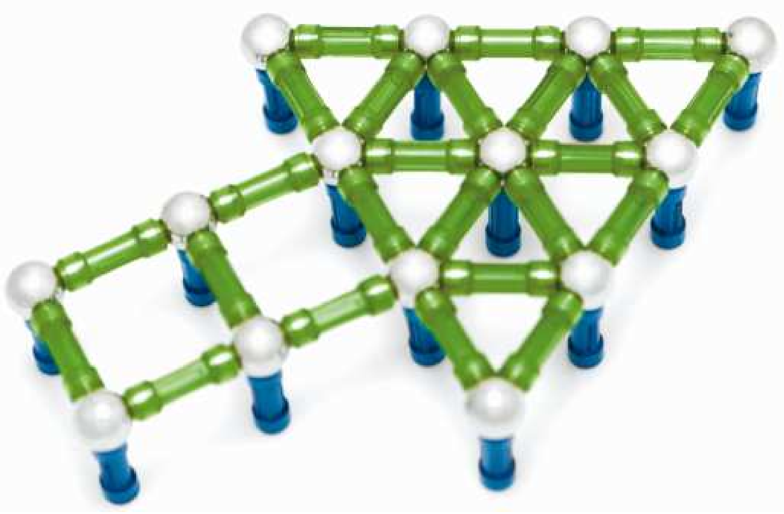
Adjusting the benchmark multiples critical

Industry Multiples

Market Multiples – Generally Used

- **List of other multiples that could be considered for the valuation / cross checks**
- **EV / Customer multiple – Telecom, Internet**
- **EV/ Rooms – Hotel**
- **EV / Subscriber – Television Channels**
- **Embedded Value / NBAP – Life Insurance**
- **% of AUM – Mutual Fund**

Case Study



Case Study –

A Valuation Working example

Case Study – Information

ABC Limited

INR Million

	FY 12	FY 13	FY 14	FY 15	FY 16
Extracted Profit and Loss Account					
Sales Units (Mio units)	37	38	36	33	32
Sales Price (INR per Unit)	72	97	118	121	119
Revenue	2,700	3,700	4,200	4,000	3,800
Adjusted EBIDTA	300	600	1,000	700	400
Reported PAT	100	300	700	300	75
Margins (%)					
EBIDTA	*11.1%*	*16.2%*	*23.8%*	*17.5%*	*10.5%*
Reported PAT	*3.7%*	*8.1%*	*16.7%*	*7.5%*	*2.0%*

Extracted Balance Sheet					
Net Fixed Assets (Inc CWIP)	**200**	**263**	**309**	**345**	**333**
Maintenace Capex	50	50	50	50	50
Expansion Capex	100	100	100	50	50
Total Capex	**150**	**150**	**150**	**100**	**100**
Inventory	450	430	550	560	950
Debtors	500	480	600	610	1,000
Creditors	(300)	(350)	(400)	(400)	(700)
Net Working Capital excluding cash	**650**	**560**	**750**	**770**	**1,250**
Cash	10	15	20	30	10
Debt	100	200	200	300	350
Net Assets	**760**	**638**	**879**	**845**	**1,243**

Number of Equity Shares	**10 Million**

BSE	
Current Price	399
Trading %	15%
VWAP	
60 Days	280
6 Months	345
12 Months	283

NSE	
Current Price	400
Trading %	25%
VWAP	
60 Days	310
6 Months	360
12 Months	254

Case Study – Information

ABC Limited

INR Million

	FY 17	FY 18	FY 19	FY 20	FY 21
Extracted Profit and Loss Account					
Sales Units (Mio units)	35	39	43	47	52
Sales Price (INR per Unit)	135	129	123	123	129
Revenue	4,750	4,988	5,237	5,761	6,625
Adjusted EBIDTA	499	648	759	922	1,060
Reported PAT	241	342	416	517	614
Margins (%)					
EBIDTA	***10.5%***	***13.0%***	***14.5%***	***16.0%***	***16.0%***
Reported PAT	***5.1%***	***6.9%***	***7.9%***	***9.0%***	***9.3%***
Depreciation	***106***	***105***	***104***	***115***	***111***
Interest	***49***	***55***	***62***	***68***	***72***
Extracted Balance Sheet					
Net Fixed Assets (Inc CWIP)	**325**	**319**	**314**	**311**	**345**
Maintenace Capex	50	50	50	50	50
Expansion Capex	50	50	50	100	50
Total Capex	**100**	**100**	**100**	**150**	**100**
Inventory	950	998	1,047	1,152	1,325
Debtors	1,188	1,247	1,309	1,440	1,656
Creditors	(713)	(748)	(786)	(864)	(994)
Net Working Capital	**1,425**	**1,496**	**1,571**	**1,728**	**1,987**
Debt	350	400	450	500	550
Net Assets	**1,400**	**1,415**	**1,435**	**1,539**	**1,783**

Case Study – Information

Industry / Peer Group Aggregate

INR Million

Profit & Loss Accounts	FY 12	FY 13	FY 14	FY 15	FY 16
Sales Units (Mio units)	430	450	500	550	600
Sales Price (INR per Unit)	70	103	116	132	133
Revenue	30,000	46,500	58,125	72,656	79,922
Adjusted EBIDTA	3,000	8,800	10,500	13,750	15,000
Reported PAT	1,000	4,000	6,000	6,500	7,000
Margins (%)					
EBIDTA	10.0%	18.9%	18.1%	18.9%	18.8%
Reported PAT	3.3%	8.6%	10.3%	8.9%	8.8%
Working Capital					
Net Working Capital	**4,500**	**7,000**	**8,700**	**11,000**	**12,000**
Capex					
Maintenace Capex	500	500	500	500	500
Expansion Capex	1,000	2,000	2,500	3,000	3,500
Total Capex	**1,500**	**2,500**	**3,000**	**3,500**	**4,000**
Multiples					
EV / EBITDA Multiple	16.87	6.59	7.88	7.86	7.16
PE Multiple	48.48	11.29	11.14	11.08	8.87

Case Study – Analysis

	FY 12	FY 13	FY 14	FY 15	FY 16	Average	CAGR	FY 17	FY 18	FY 19	FY 20	FY 21	Average	CAGR
Sales Quantity (Mio Unit)														
Industry	430	450	500	550	600	506	***8.7%***							
ABC Ltd	37	38	36	33	32	35	***-3.7%***	35	39	43	47	52	43	***10.0%***
Sales Price (INR per Unit)														
Industry	70	103	116	132	133	111	***17.5%***							
ABC Ltd	72	97	118	121	119	105	***13.1%***	135	129	123	123	129	128	***1.6%***
Revenue (INR Million)														
Industry	30,000	46,500	58,125	72,656	79,922	57,441	***27.8%***							
ABC Ltd	2,700	3,700	4,200	4,000	3,800	3,680	***8.9%***	4,750	4,988	5,237	5,761	6,625	5,472	***11.8%***
EBITDA %														
Industry	10.0%	18.9%	18.1%	18.9%	18.8%	16.9%								
ABC Ltd	11.1%	16.2%	23.8%	17.5%	10.5%	15.8%		10.5%	13.0%	14.5%	16.0%	16.0%	14.0%	
PAT %														
Industry	3.3%	8.6%	10.3%	8.9%	8.8%	8.0%								
ABC Ltd	3.7%	8.1%	16.7%	7.5%	2.0%	7.6%		5.1%	6.9%	7.9%	9.0%	9.3%	7.6%	
Net Working Capital %														
Industry	15.0%	15.1%	15.0%	15.1%	15.0%	15.0%								
ABC Ltd	24.1%	15.1%	17.9%	19.3%	32.9%	21.8%		30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	
Capex %														
Industry	5.0%	5.4%	5.2%	4.8%	5.0%	5.1%								
ABC Ltd	5.6%	4.1%	3.6%	2.5%	2.6%	3.7%		2.1%	2.0%	1.9%	2.6%	1.5%	2.0%	

Case Study – NAV

	INR Million		INR Million	
Based on the Audited Balance Sheet of ABC Ltd as at 31st March 2016			**Replacement Value**	
Particulars				
Assets				
Fixed Assets	333		583	
Inventory	950		950	
Debtors	1,000		1,000	
Cash and Bank Balances	10		10	
Loans and Advances	-	2,293	-	2,543
Liabilities				
Loans	350		350	
Deferred Tax Liability (net)	-		-	
Current Liabilities	700		700	
Provisions	-	1,050	-	1,050
Net Assets		**1,243**		**1,493**
Adjusted for :				
Revaluation Reserve		**- [..]**		
Contingent Liabilities		**- [..]**		**- [..]**
Surplus Asset - Fair Value (Net of Tax)	**+ [..]**			
Surplus Asset - Book Value	**- [..]**	**+ [..]**		
Adjusted Net Assets		**1,243**		**1,493**
Adjusted Value per Share		**124**		**149**

Case Study – Comparable Companies Method

Relevant Maintainable Earnings			INR Million
	Adjusted EBIDTA	Reported PAT	Weights
FY 14	1,000	700	1.00
FY 15	700	300	1.00
FY 16	400	75	1.00
Weighted Average	**700**	**358**	

Appropriate & Reasonable Multiple

	EBITDA Multiple	PE Multiple
Industry Multiples	**7.00**	**9.00**
Adjusted Multiples	**5.25**	**6.75**

Case Study – Comparable Companies Method

EV / EBIDTA Multiple	INR Million
EBIDTA	700
EV / EBIDTA Multiple	5.25
Enterprise Value	**3,675**
Debt	(350)
Cash	10
Surplus Assets	-
Contingent Liabilities	-
Other Adjustment	-
Equity Value	**3,335**
Value per Share	**334**

PE Multiple	INR Million
PAT	358
PE Multiple	6.75
Operating Enterprise Value	**2,419**
Debt	-
Cash	-
Surplus Assets	-
Contingent Liabilities	-
Other Adjustment	-
Equity Value	**2,419**
Value per Share	**242**

Case Study – Comparable Transaction Multiple

There were two transactions in the industry, the details of which are as follows:

	Revenue (INR Million)	EBITDA %	PAT %	EBITDA Multiple	PE Multiple
Jan 2014	12,500	18%	12%	7.20	NA
Nov 2015	14,000	22%	9%	8.40	NA

Appropriate & Reasonable Multiple

	EBITDA Multiple	PE Multiple
Transaction Multiples	8.40	NA
Adjusted Multiples	6.30	NA

Case Study– Comparable Transaction Multiple

	INR Million
EV / EBIDTA Multiple	
EBIDTA	700
EV / EBIDTA Multiple	6.30
Enterprise Value	**4,410**
Debt	(350)
Cash	10
Surplus Assets	-
Contingent Liabilities	-
Other Adjustment	-
Equity Value	**4,070**
Value per Share	**407**

Case Study– DCF

INR Million

		FY 17	FY 18	FY 19	FY 20	FY 21	Pepetuity
DCF							
Profit After Tax		241	342	416	517	614	
Depreciation		106	105	104	115	111	
Interest (Net of Tax)		32	36	41	45	47	
Inflows		**379**	**483**	**560**	**677**	**773**	
Incremental Working Capital		(175)	(71)	(75)	(157)	(259)	
Incremental Capital Expenditure		(100)	(100)	(100)	(150)	(100)	
Free Cash Flows		104	312	385	370	413	413
Perpetuity Value							6,199
Terminal Growth Rate	***5.0%***						
Discount Rate	***12.0%***	0.89	0.80	0.71	0.64	0.57	0.57
Present Value of Free Cash Flows		**93**	**249**	**274**	**235**	**235**	**3,518**

Enterprise Value	**4,603**
Debt	(350)
Cash	10
Equity Value	**4,263**
Value per Share	**426**

Sensitivity Analysis - Value per Share

	11.5%	12.0%	12.5%
4.0%	409	379	354
5.0%	464	426	394
6.0%	538	489	447

Case Study– Summary

Methodology	Value Per Share (INR)	Weights
Net Asset Value	124	?
Replacement Value	149	?
Market Price	310	?
Comparable Companies Multiples		
EV / EBITDA Multiple	334	?
PE Multiple	242	?
Comparable Transaction Multiples		
EV / EBITDA Multiple	407	?
Discounted Cash Flow Method	426	?
FINAL		

Final Recommendation – common sense and reasonableness

Practical Example

THE ECONOMIC TIMES

You are here: ET Home › News › Company › Corporate Trends

How Kesh King's Sanjeev Juneja made history by selling his company for Rs 1,651 crore

Post a Comment

By Writankar Mukherjee, ET Bureau | 4 Jun, 2015, 10.31AM IST

The first two years were tough as Ju... shop to shop, convincing retailers... directly interacting with consum...

ET SPECIAL: Lov... this exclusive slides...

KOLKATA: In today's world of high-flying ecommerce entrepreneurs running companies with multi-million dollar valuations, a 38-year-old, low-profile, first-generation businessman from Chandigarh who started off in a one-room office and went from shop to shop to sell his products is a bit of an oddity.

Meet Sanjeev Juneja, the man who was little known until he stole the headlines by selling a six-year-old hair care brand in one of the largest transactions in the country's FMCG sector in recent history. Juneja sold Kesh King to Emami on Tuesday for Rs 1,651 crore, a valuation that's more than five times its annual sales. The brand notched up Rs 300 crore in sales in 2014-15, expanding at a compounded annual growth rate of more than 60%.

The Kesh King portfolio consists of hair oil, shampoo and an Ayurvedic capsule. Analysts estimate hair oil contributes 80% to total sales, followed by shampoo at 15% and the rest from capsules.

live mint

Emami to purchase Kesh King for Rs1,651 crore

...a ...ir, ...eja said. His fath... operated a small clinic at his residence in Mohali. His interest in traditional Indian medicine started in hi... father develop new products.

When Juneja started out, it was from a ...ffice in Ambala near Chandigarh. The first two y... around from shop to shop, convincing ...uct and directly interacting with consumers... would require quality products and s... in Himachal Pradesh.

Juneja created his portfolio of pro... ...rch or consulting graduates fro... Institutes of Management.

He did this without any big-bar... ...sold products online at a slight discount and ...t have a mobile app.

Why did he sell such a suc... build a huge distribution n... Ayurvedic products. We... is also a joint promoter

Emami Says Higher Valuation of Kesh King Justified, Shares Rebound

NDTV | Updated On: June 03, 2015 16:28 (IST)

Tweet 87 | 8+1 0 | Recommend 36 | Reddit this! | Mail

Corporate Announcement

Security Code : 531162   Company : EMAMI LTD

BSE EXPERIENCE THE NEW

Updates

02 Jun 2015 11:32

Emami Ltd has informed BSE that on June 02, 2015 the Company has entered into an agreement with Mr. Sanjeev Juneja to acquire his hair & scalp care business under the 'Kesh King' and allied brands. The transaction envisages transfer of the business as a going concern on a slump sale basis and will include brand portfolio of ayurvedic medicinal oil, herbal shampoo & conditioner and ayurvedic capsules along with its respective formulations and all related assets, rights and liabilities including working capital for a total consideration of Rs. 1651 Crores. The acquisition process is expected to be completed in a month's time.

Promoters / Promoter group / Group Companies do not have any interest in the above acquisition and the acquisition does not fall in related party transaction.

What could have possibly affected the valuation?

Continuing Tax benefits

Lean Model

Variable Cost Structure

Sustainable Margins

Product Positioning
Ayurvedic Medicine v/s Hair Oil

Buyers characteristics
FMCG, Distribution channels, Lab Testing, R&D, Marketing

Buy Side v/s Sell Side

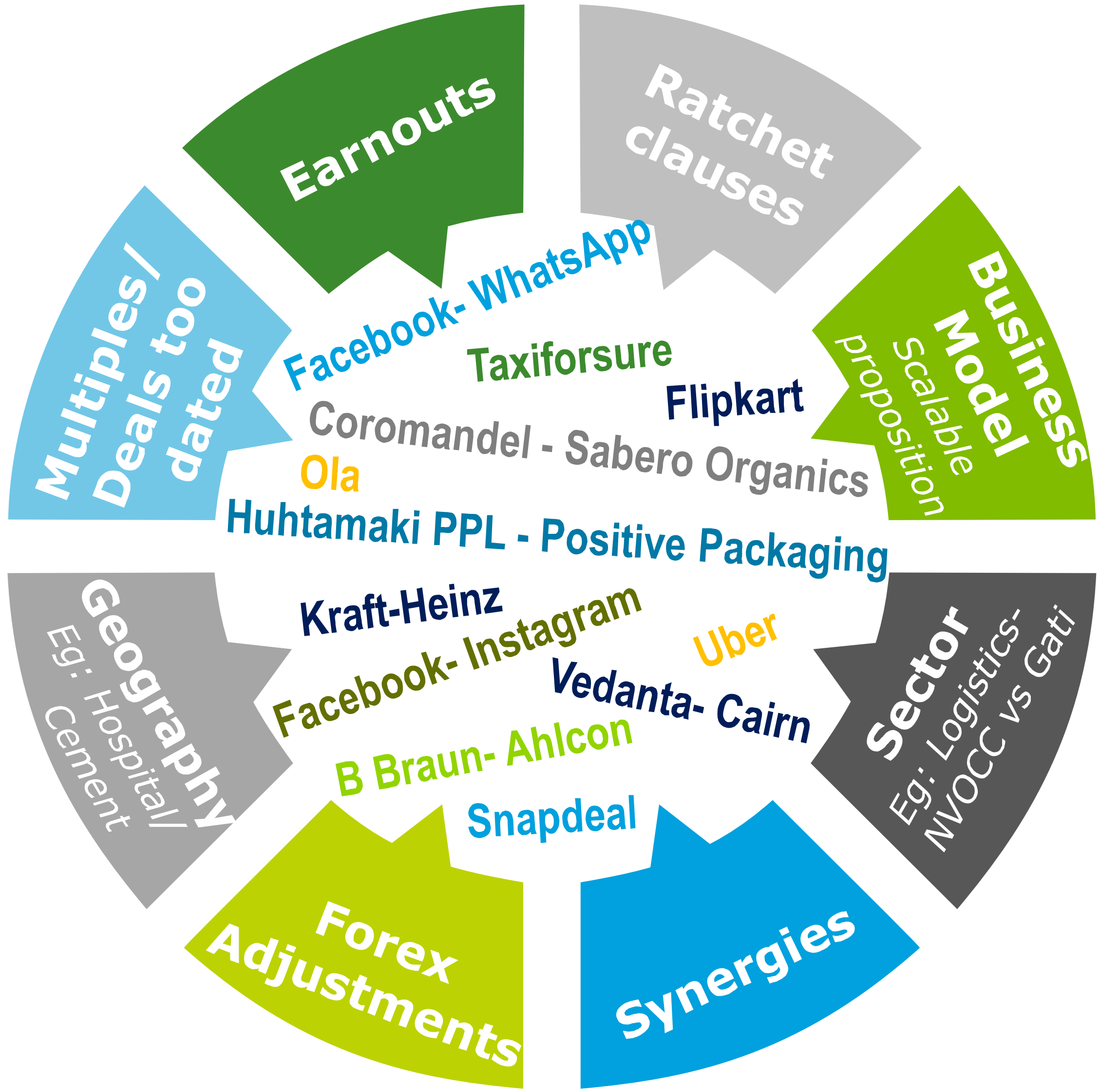
Management Remuneration

Cost of professional run business

Proforma P&L

Buyers Cost Structure

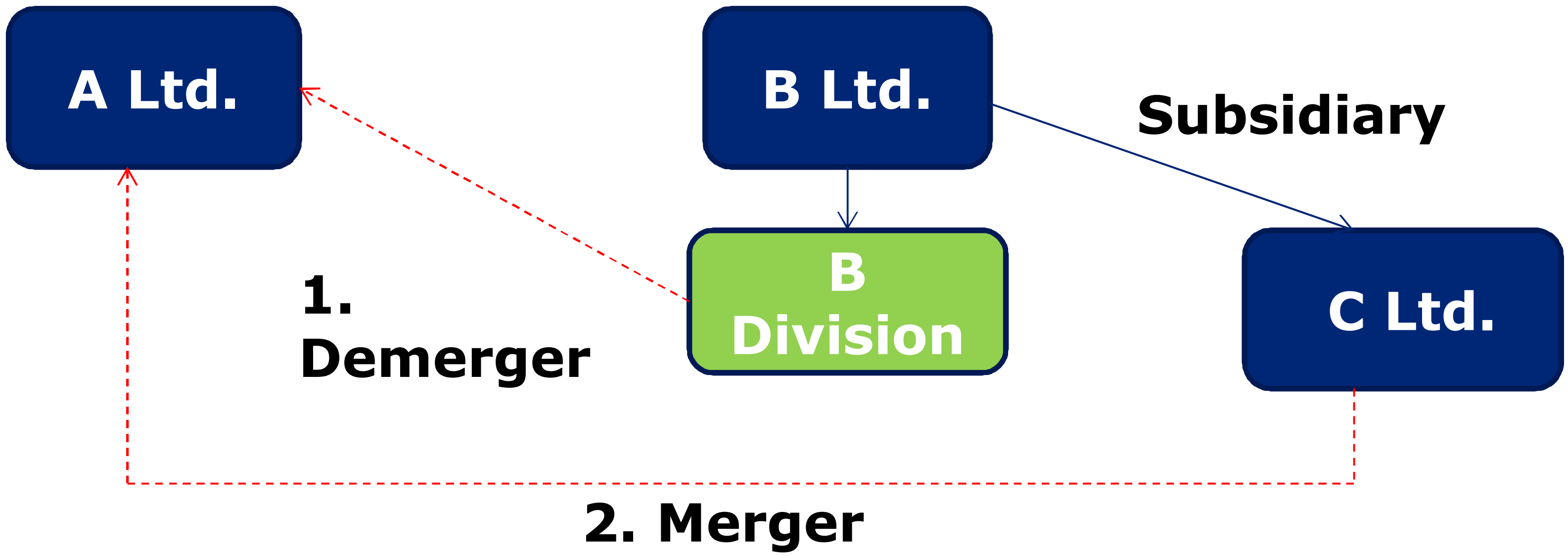
Some Pointers



Case Study -

Transaction

Proposal



Company	Ownership	Business
A Ltd.	Listed	• Large Conglomerate • Presence in several businesses • Trading, Manufacturing and Marketing
B Ltd.	Listed	• Large Conglomerate • Manufacturing, Retailing
B Division	Segment	• Manufacturing
C Ltd.	100% subsidiary of B Ltd.	• Marketing and Distribution of the products of B Division

Valuation Approach

Valuation Methodologies	A Ltd.	B Division	C Ltd.
Market Price Method	• Market price reflects revenues and profitability of several businesses	• Cannot split market capitalisation to reflect the value of the segment. • If significant segment, one may derive from value of company / multiples.	Not applicable
Comparable Transaction Method	• Not much information available in public domain. • Transactions - non-control stake, strategic / financial investments, synergies may not reflect in the price paid for the transaction.		
Comparable Companies Multiples Method	• Multiples of companies comparable to each business	• Multiples of manufacturing companies applied to the division results • Multiples adjusted to reflect growth, capacity expansion in recent past, newly product launches etc.	• Multiples of marketing and distribution companies
	• Relative valuation difficult as each company / division in different segment, different risk reward profiles, governed by different laws		

Valuation Approach

Valuation Methodologies	**A Ltd.**	**B Division**	**C Ltd.**
Discounted Free Cash Flow Method	• WACC and TVG to be seen on a relative basis • COE based on several businesses	• Segment profit and loss account and balance sheet • Segment projections • Cost allocations etc. • WACC and TVG to be seen on a relative basis	• WACC and TVG to be seen on a relative basis
Other Issues	• Due Diligence adjustments • Weightages to different methodologies • Focus on resultant shareholding of A Ltd. since listed		

THANK YOU

This document discusses various methods and process of valuation. The style contained herein is intended to make aware the valuation process in relation to general issues and concerns. The approach might be different in light of specific issues that are in nature different in context and character.

Further, the information contained in this document is intended only to provide a perspective on valuation methods and the process followed in relation to such and related engagements. It should be in no way construed to be an opinion or advise of any character and is in no way represented as such. The information provided herein should not be used and reproduced and should be considered privileged and only for the intended recipients.