

## REPORT ON VALUATION OF SHARES OF BOSCH CHASSIS SYSTEMS INDIA LIMITED

### 1 INTRODUCTION

- 1.1 Bosch Chassis Systems India Limited (hereinafter referred to as "Bosch Chassis" or the "Company") established in 1982, is a subsidiary of the Bosch Group based in India. The registered office of the Company is located at Gat No 306, Nanekarwadi (Chakan), Tal Rajgurunagar, Dist Pune – 410 501.
- 1.2 Bosch Chassis is engaged in the business of actuation and modulation of the Braking System. The Company manufactures products to comply with the stringent requirements of the leading OEMs in the automobile industry as a manufacturer of brakes for 3-wheelers, Passenger Cars, Utility Vehicles, and Light Commercial Vehicles. The Company uses its system engineering capabilities to suggest the right kind of brake system for the OEMs. The Company operates in the following areas:
- Brake modulation like Antilock Braking System (ABS) and Electronic Stability Program (ESP)
  - Passive Safety Systems like Airbag Electronic Control Units (ECUs)
  - Driver Assistance Systems
  - Solutions for Electric and Hybrid Electric Vehicles
- 1.3 The Company also has a 100% subsidiary i.e. Precision Seals Manufacturing Limited (hereinafter referred to as "PSML" or the "Subsidiary"). The registered office of the Company is located Gat No 306, Nanekarwadi (Chakan), Tal Rajgurunagar, Dist Pune – 410501.
- 1.4 PSML is engaged in the manufacture and sale of rubber and plastic automobile components. PSML has manufacturing plant in Chakan, Pune and sells primarily in India.



- 1.5 In the year 2008 the Promoters' made delisting offer to the public shareholders of the Company which resulted in Promoters' stake getting increased to 97.94%. Post open offer the Company got delisted from the stock exchanges.
- 1.6 The equity shares of the Company were delisted from the National Stock Exchange of India Limited and BSE Limited with effect from November 7, 2008 at an exit price of INR 600/- per equity share as determined pursuant to the reverse book building process as per the SEBI Delisting Regulations.
- 1.7 The current shareholding pattern of the Company is as under:

Robert Bosch LLC	103,96,194	50.00%
Robert Bosch Investments Nederland B.V.	99,68,510	47.94%
Total Promoter Holding	203,64,704	97.94%
Outside Shareholders	4,28,296	2.06%
<b>Total no. of shares</b>	<b>207,93,000</b>	<b>100.00%</b>

## 2 FINANCIALS OF BOSCH CHASSIS SYSTEMS INDIA LIMITED

- 2.1 Extract of the Balance Sheet and Profit & Loss Statement of Bosch Chassis for financial years ('FY') 2012-13, 2013-14 and 2014-15 are as under:

Historical Profit and Loss Account for Bosch Chassis is as follows:

Particulars	(INR Million)		
	2012 Actual	2013 Actual	15ME Mar15 Provisional
Revenue from operations (net)	12,474.00	6,993.50	9,694.10
Other Income	263.20	346.70	285.40
<b>Total Revenue</b>	<b>12,737.20</b>	<b>7,340.20</b>	<b>9,979.50</b>
Cost of materials consumed	9,378.40	5,144.60	6,532.40
Employee benefits expense	969.30	622.30	880.70
Other expenses	2,300.30	1,669.80	1,854.40
<b>Total Expenses</b>	<b>12,648.00</b>	<b>7,436.70</b>	<b>9,267.50</b>
<b>EBITDA</b>	89.20	(96.50)	712.00
Finance costs	18.40	11.70	21.60
Depreciation and amortization expense	357.20	239.70	346.40
<b>EBT</b>	<b>(286.40)</b>	<b>(347.90)</b>	<b>344.00</b>
<b>Income tax Expense:</b>			
Current Tax	-	-	-
Deferred Tax	18.40	(128.10)	-
Tax adjustments related to earlier years	39.40	11.50	(21.90)
Mat Credit Entitlement	-	-	-
<b>Total Tax Expense</b>	<b>57.80</b>	<b>(116.60)</b>	<b>(21.90)</b>
<b>EAT</b>	<b>(344.20)</b>	<b>(231.30)</b>	<b>365.90</b>





Historical Balance Sheet for Bosch Chassis is as follows:

Particulars	(INR Million)		
	2012 Actual	2013 Actual	15ME Mar15 Provisional
<b><u>EQUITY AND LIABILITIES</u></b>			
<b>Shareholders' Funds</b>			
Share Capital	207.90	207.90	207.90
Reserves and Surplus	3,830.00	3,589.70	3,955.60
<b>Non-Current Liabilities</b>			
Long-term borrowings	239.00	196.70	148.50
Deferred tax liabilities (Net)	128.10	-	-
Other Long term liabilities	3.70	2.90	2.00
Long-term provisions	43.40	42.20	93.40
<b>Current Liabilities</b>			
Trade payables	3,115.40	2,983.50	2,002.10
Other current liabilities	277.70	260.20	225.90
Short-term provisions	43.40	32.10	168.30
<b>TOTAL</b>	<b>7,888.60</b>	<b>7,315.20</b>	<b>6,803.70</b>
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Fixed assets			
Tangible assets	1,310.00	1,618.10	1,462.40
Capital work-in-progress	81.70	111.30	56.40
Non-current investments	95.10	95.10	95.10
Long term loans and advances	237.40	275.10	313.00
Other non Current Assets	46.70	32.20	25.70
<b>Current assets</b>			
Current investments	1,946.00	2,053.10	1,975.40
Inventories	1,007.30	988.20	1,037.70
Trade receivables	1,571.20	1,189.10	1,117.40
Cash and Bank Balances	162.60	168.00	268.90
Short-term loans and advances	1,408.00	758.70	443.10
Other current assets	22.60	26.30	8.60
<b>TOTAL</b>	<b>7,888.60</b>	<b>7,315.20</b>	<b>6,803.70</b>

### 3 PURPOSE OF VALUATION

- 3.1 We have been informed by the management of Bosch Chassis (hereinafter referred to as "the Management") that the Company proposes to consolidate the face value of its equity shares from INR 10 per share to INR 1,00,000 per share pursuant to the relevant provisions of Companies Act, 1956 or Companies Act, 2013 as applicable. As a result of such



consolidation, fractional entitlements may arise in the hands of the shareholders of the Company. The Company proposes to pay off the shareholders in respect of their holding of such fractional entitlements, if any as per the valuation carried out by independent valuer(s). In this connection, SSPA & Co., Chartered Accountants (SSPA) have been requested by the Management to carry out fair valuation of equity shares of the Company.

#### **4 METHODOLOGY OF VALUATION**

There are various methods adopted for valuation of the Company. Certain methods are based on asset value of an entity while certain other methods are based on the earnings potential of the company. Each method proceeds on different fundamental assumptions which have greater or lesser relevance and at times even no relevance, to a given situation. Thus, the methods to be adopted for a particular valuation exercise must be judiciously chosen.

##### **4.1 NET ASSETS VALUE ('NAV') METHOD**

The Net Assets Method represents the value with reference to historical cost of assets owned by the company and the attached liabilities on the valuation date. Such value generally represents the support value in case of profit making business and thus, has limited relevance in the valuation of the business of a going concern.

In the present case, the business of Bosch Chasses is intended to be continued on a 'going concern basis' and there is no intention to dispose-off the assets, therefore the Net Assets Method is not adopted for the present valuation exercise.

##### **4.2 COMPARABLE COMPANIES MULTIPLE METHOD**

The Comparable Companies Multiple Method arrives at the value of the company by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences, such as growth potential, past track record, size, company dynamics, etc. The Enterprise Value (EV) to Earnings before Interest Tax Depreciation and Amortization (EBITDA) multiple of comparable listed companies are used for the present valuation exercise.





#### **4.3 DISCOUNTED CASH FLOW METHOD**

The Discounted Cash Flow (DCF) Method values the Company by discounting its free cash flows for the explicit forecast period and the perpetuity value thereafter. The free cash flows represent the cash available for distribution to both the owners and the creditors of the company. The free cash flows are discounted by Weighted Average Cost of Capital (WACC). The WACC represents the returns expected by the investors of both debt and equity, weighted for their relative funding in the entity. The present value of the free cash flows during the explicit period and the perpetuity value indicate the value of the company.

#### **4.4 MARKET PRICE ('MP') APPROACH**

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.

In the present case, the Market Price Method is not applicable, as the shares of the Company are not listed on any recognized stock exchanges as on date.

4.5 For the purpose of the present valuation exercise, we have thought fit to use Comparable Companies Multiple (CCM) Method and Discounted Cash Flow (DCF) Method for determining the fair value of equity shares of the Company.

### **5 BASIS OF VALUATION**

5.1 Our valuation exercise is based on the following information received from the Management:

- a) Management certified financial statements of Bosch Chassis for 15 Months period ended March 31, 2015.
- b) Audited financial statements of PSML for 15 Months period ended March 31, 2015.
- c) Standalone Projections of the Company comprising of Balance Sheet and Profitability statement for 9 Months period ended December 31, 2015 and Calendar Year (CY) 2016 to CY 2021, as provided to us by the Management.
- d) Standalone Projections of PSML comprising of Balance Sheet and Profitability statement for for 9 Months period ended December 31, 2015 and CY 2016 to CY 2021, as provided to us by the Management.



- e) Discussions with the Management on various issues relevant for the valuation including the prospects and outlook of the Company / 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.

## **6 COMPARABLE COMPANIES MULTIPLE ("CCM") METHOD**

6.1 The value of equity shares of Bosch Chassis under this method has been arrived at as follows:

- For arriving at the maintainable EBITDA, EBITDA for CY 2016 has been considered after making appropriate adjustments for non-recurring/non-operating items of income and expenditure.
- The maintainable EBITDA so arrived has been capitalized by applying an appropriate EV/EBITDA multiple to arrive at the enterprise value of business. In our opinion, the EV/EBITDA multiple is reasonable after considering EV/EBITDA multiples of comparable companies, the business's growth prospects, business risk, expected return and the industry in which the Company operates.
- Appropriate adjustments have been made for cash and cash equivalents (including interest accrued thereon), value of investments, contingent liabilities, unpaid dividend, loan funds and present value of interest savings on sales tax deferral loan (after considering the tax impact wherever applicable) to arrive at the equity value of the Company.
- The value so arrived is divided by the outstanding number of equity shares to arrive at the value per share.

6.2 On the basis of foregoing, the value per equity share of Bosch Chassis as per CCM Method works out to **INR 548.40**. The workings for the same are attached herewith as **Annexure I** to this report.

## **7 DISCOUNTED CASH FLOW ("DCF") METHOD**

7.1 The value of equity shares of Bosch Chassis under this method has been arrived at as follows:





- Valuation under DCF method is based on the projections of the Company for 9 Months period ended December 31, 2015 and CY 2016 to CY 2021 ('explicit period') as provided to us by the Management.
- For the explicit period, free cash flows from the business have been arrived at as follows:
  - Profits before tax as per the projections have been considered.
  - Depreciation & amortization on fixed assets have been added to the operating profits before tax to arrive at the EBITDA.
  - Fund requirements for incremental working capital and capital expenditure have been reduced from the cash earnings of the respective years.
  - Estimated tax liability has been reduced to arrive at the free cash flows from the business.
  - The cash flows of each year are then discounted at the Weighted Average Cost of Capital (WACC). 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. In other words, WACC is the weighted average of the firm's cost of equity and debt. The WACC is worked out using the following parameters:
    - Cost of Equity is worked out using the following formula:  
$$\text{Risk Free Return} + (\text{Beta} \times \text{Equity Risk Premium})$$

The risk free rate of return is taken at 8% based on the return on Government securities. Beta is taken at 0.50. Equity risk premium has been considered at 9.00%, based on the expected market return of the investor over and above the risk free rate.

Based on the above, the Cost of Equity comes to 12.50%.
    - Considering the future funding requirements of the Company, an appropriate debt equity mix of 0:1 is considered.
  - Based on the above, WACC works out to 12.5%.
  - After the explicit period, the business will continue to generate cash. In DCF Method, therefore, perpetuity value is also considered to arrive at the enterprise value. For arriving at the perpetuity value, we have considered a growth rate of 6%.
  - Cash flows for perpetuity have been arrived at after considering the corporate taxes, estimated capital expenditure and incremental working capital requirements.



- The discounted perpetuity value is added to the discounted cash flows for the explicit period to arrive at the enterprise value.
- Appropriate adjustments have been made for cash and cash equivalents (including interest accrued thereon), value of investments, contingent liabilities, unpaid dividend, loan funds and present value of interest savings on sales tax deferral loan (after considering the tax impact wherever applicable) to arrive at the equity value.
- The value so arrived is divided by the outstanding number of equity shares to arrive at the value per share.

7.2 On the basis of foregoing, the value of Bosch Chassis as per DCF Method works out to **INR 561.79** per share. The workings for the same are attached herewith as **Annexure II** to this report.

## **8 RECOMMENDATION OF FAIR VALUE FOR BOSCH CHASSIS**

8.1 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 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."*

8.2 Though different values have been arrived at under each of the above methods, for the purposes of recommending a fair value, it is necessary to arrive at a single value of the





Company. For this purpose, it is necessary to give appropriate weightages to the values arrived at under each methods.

- 8.3 Considering the fact that the business of Bosch Chassis 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 equal weightage to the values determined under CCM Method and DCF Method to arrive at fair value of equity shares of Bosch Chassis.
- 8.4 In the light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined in this report, the fair value per equity share of Bosch Chassis comes to **INR 555.10 per share**. The workings for the same are given in **Annexure III** to this report.
- 8.5 The value per share arrived at above is INR 555.10 per share. The last offer made by the Company to acquire the shares from the minority shareholders was made at INR 600 per share. Considering the same, we recommend a value of **INR 600 per share** for the proposed consolidation exercise.

## **9 LIMITATIONS/DISCLAIMERS**

- 9.1 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 and in the context of the purpose for which it is made.
- 9.2 Valuation is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value. While SSPA & Co has provided an assessment of the value based on the information available, application of certain formulae and within the scope and constraints of our engagement, others may place a different value to the same.
- 9.3 Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. We have, therefore, not performed any audit, review, due diligence or examination of any of the historical or prospective information used and therefore, does not express any opinion with regards to the same.
- 9.4 The draft of the present report was circulated to the Management for confirming the facts stated in the report and to confirm that information or facts stated are not erroneous and the assumptions used are reasonable.



- 9.5 No investigation on 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. No consideration has been given to liens or encumbrances against the assets, beyond the liabilities in the books. Therefore, no responsibility is assumed for matters of a legal nature.
- 9.6 Our work does not constitute an audit or certification of the historical financial statements/prospective results including the working results of the Company 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 mentioned in the report is as per agreed terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.
- 9.7 In the course of the valuation, we were provided with both written and verbal information. We have however, evaluated the information provided to us by the Company 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. Our conclusions are based on the assumptions, forecasts and other information given by/on behalf of the Company. We assume no responsibility for any errors in the above information furnished by the Company and consequential impact on the present exercise.
- 9.8 Our recommendation is based on the estimates of future financial performance as projected by the management, which represents their view of reasonable expectation at the point of time when they were prepared, 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 prospective financial statements may vary from those contained in the statement and the variation may be material. 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 projections.
- 9.9 A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. This report is issued on the understanding that the Management has drawn our attention to all the matters, which they are aware of concerning the financial position of the Company and any other matter, which may have an impact on our opinion, on the fair value of the shares of the





Company including any significant changes that have taken place or are likely to take place in the financial position of the Company. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

- 9.10 Any person/party intending to provide finance/invest in the shares/business of the Company 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.
- 9.11 The decision to carry out the transaction (including consideration thereof) lies entirely with the Management/ the Company and our work and our finding shall not constitute a recommendation as to whether or not the Management/ the Company should carry out the transaction.
- 9.12 Our Report is meant for the purpose mentioned in Para 3 and should not be used for any purpose other than the purpose mentioned therein. The Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared.
- 9.13 SSPA & Co., nor its partners, managers, employees 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.



*SSPA & Co.*

**SSPA & Co.**  
**Chartered Accountants**

Place: Mumbai  
Date: July 27, 2015

Annexure I

**BOSCH CHASSIS SYSTEMS INDIA LIMITED**  
**COMPARABLE COMPANIES MULTIPLE METHOD**

(INR million)

Year	EBITDA	Weights	Amount
2016	866.04	1	866.04
		1	866.04
Maintainable EBITDA			866.04
EV / EBITDA Multiple			10.13
Enterprise Value			8,772.95
Add/(Less): Adjustments			
Cash and Cash Equivalents			303.20
Value of Investments			2,521.53
Contingent Liabilities (net of tax)			(24.94)
Unpaid Dividend			(0.30)
Loan Funds			(196.70)
PV of Interest saving on STD L			27.22
Adjusted Earnings Value			11,402.97
Number of Equity Shares			207,93,000
Value Per Share (Face Value INR 10 each)			548.40





## Annexure II

BOSCH CHASSIS SYSTEMS INDIA LIMITED  
DISCOUNTED CASH FLOW METHOD - EXPLICIT PERIOD

Particulars	9ME Dec-15	2016	2017	2018	2019	2020	2021
Operating profits before tax	251.87	566.39	675.17	766.35	950.95	1,152.12	1,267.15
Add:							
Interest	-	-	-	-	-	-	-
Depreciation	222.77	299.65	303.40	271.51	250.71	240.94	233.64
EBITDA	474.64	866.04	978.56	1,037.86	1,201.66	1,393.06	1,500.78
Less:							
Capital expenditure	165.09	239.46	390.98	64.86	79.19	71.01	77.75
Incremental working capital	(12.74)	240.02	45.48	170.84	53.52	256.28	53.97
Tax	53.75	120.88	191.09	263.92	327.27	399.08	441.39
Total outflows	206.10	600.36	627.55	499.62	459.98	726.37	573.10
Net inflows/(outflows)	268.53	265.68	351.02	538.23	741.68	666.69	927.68
Discounting factor	12.50%	0.87	0.77	0.68	0.61	0.54	0.48
Net present value of inflows/(outflows)	261.72	230.16	270.31	368.42	451.28	360.58	445.98



Annexure II

**BOSCH CHASSIS SYSTEMS INDIA LIMITED**  
**DISCOUNTED CASH FLOW METHOD - PERPETUITY PERIOD**

Calculation for perpetuity		(INR million)
EBITDA (CY 2021)		1,500.78
Growth rate		6%
EBITDA for perpetuity		1,590.83
Less:		
Taxes	34.61%	(550.55)
Capital expenditure	(100.00)	
Add: Tax benefit on depreciation on capex	18.87	(81.13)
Incremental working capital requirement		(69.96)
Net cash flows for perpetuity		889.19
Capitalised value for perpetuity		13,679.77
Add: Tax benefit on depreciation on WDV at the end of explicit period		179.67
Total capitalised value		13,859.45
Discount factor		0.48
Present value of perpetuity		6,662.94

Calculation of equity value		(INR million)
Net present value of explicit period		2,388.45
Present value of perpetuity		6,662.94
Enterprise value		9,051.39
Add/(Less): Adjustments*		
Cash and cash equivalents		303.20
Investments		2,521.53
Contingent Liabilities (net of tax)		(24.94)
Unpaid Dividend		(0.30)
Loan Funds		(196.70)
PV of Interest saving on STDL		27.22
Equity value		11,681.40
Number of equity shares		207,93,000
Value per share (Face Value of INR 10 each)		561.79





**Annexure III**

**BOSCH CHASSIS SYSTEMS INDIA LIMITED  
CALCULATION OF VALUE PER SHARE**

Method of Valuation	Value per share (INR)	Weight	Product (INR)
Comparable Companies Multiple	548.40	1	548.40
Discounted Cash Flow	561.79	1	561.79
		2	1,110.20

Value per share (Face value INR 10 each)	(INR)	555.10
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Recommended Value per share (Face value INR 10 each)	(INR)	600.00
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