



## COMFORT SECURITIES LIMITED

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FAIRNESS OPINION REPORT ON VALUATION FOR THE PROPOSED

MERGER OF

ANURODH INFRASTRUCTURE LIMITED

AND

ORIGINAL FASHION TRADERS LIMITED

WITH

KWALITY CREDIT & LEASING LIMITED

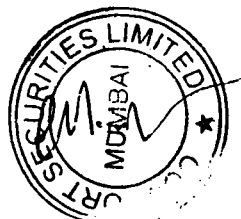
By

COMFORT SECURITIES LIMITED

10<sup>TH</sup> FEBRUARY, 2014

SEBI Registered Category I Merchant Banker

SEBI Registration No: INM000011328



TRADE WITH COMFORT

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**NOTICE TO READER:**

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Comfort Securities Limited ("Comfort" or "Authors of the Report") is a SEBI registered 'Category I' Merchant banker in India and was engaged by Board of Directors of Kwaliti Credit & Leasing Limited (herein after referred as "Kwaliti") to prepare an Independent Fairness Opinion Report ("Report") with respect to providing an independent opinion and assessment as to fairness of Valuation Report and Swap ratio determined by Bajoriya Mayank & Associates an independent Valuers for the purpose of intended proposed Merger of Anurodh Infrastructure Limited ("Anurodh") and Original Fashion Traders Limited ("Original") with Kwaliti Credit & Leasing Limited ("Kwaliti"). Anurodh, Original and Kwaliti are collectively referred as "Companies".

The Fairness Opinion Report ("Report") has been prepared on the basis of the review of information provided to Comfort and specifically the Report on Swap ratio (hereinafter referred as Valuation Report) prepared by Bajoriya Mayank & Associates as an independent valuer. The report does not give any valuation or suggest any swap ratio. However this report is limited to provide its fairness opinion on the Valuation Report.

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**EXECUTIVE SUMMARY**

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Purpose: Express an Independent Fairness Opinion and assessment with respect to fairness of Valuation Report and Swap ratio determined by Bajoriya Mayank & Associates for the proposed Merger.

Name of the Companies: - Anurodh Infrastructure Limited  
- Original Fashion Traders Limited  
- Kwality Credit & Leasing Limited

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**BACKGROUND OF THE COMPANIES**

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**ANURODH INFRASTRUCTURE LIMITED (ANURODH):**

The Company was originally incorporated in Kolkata on 24th January, 2011 under the Companies Act, 1956 vide Certificate of Incorporation issued by the Registrar of Companies, Kolkata.

Registered office of the Company is situated at 319/21, Jessore Road, Khudiram Colony, Kolkata- 700074.

Anurodh is in the business of properties and real estate business.

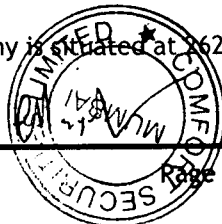
The shareholding pattern of Anurodh Infrastructure Limited as on 8<sup>th</sup> February, 2014 are as follows:

Sr. No.	Particulars	% of Holding
1.	Promoter and Promoter Group	33.71
2.	Others	66.29
TOTAL		100.00

**ORIGINAL FASHION TRADERS LIMITED (ORIGINAL):**

Original was originally incorporated 31<sup>st</sup> January, 2011 in Kolkata under the Companies Act, 1956 vide Certificate of Incorporation issued by the Registrar of Companies, Kolkata.

Registered office of the Company is situated at 262, Panchanantala Road, Howrah- 711101.



The Company is in the business of dealing in various products.

The shareholding pattern Original Fashion Traders Limited as on 8<sup>th</sup> February, 2014 are as follows:

Sr. No.	Particulars	% of Holding
1.	Promoter and Promoter Group	0.00
2.	Others	100.00
TOTAL		100.00

**KWALITY CREDIT & LEASING LIMITED (KWALITY):**

Kwality was incorporated on 25<sup>th</sup> September, 1992 in Kolkata under the Companies Act, 1956 vide Certificate of Incorporation issued by the Registrar of Companies, Kolkata.

Registered office of the Company is situated at 27, Weston Street, 5th Floor, Room No-526, Kolkata-700012.

Kwality is a public limited company listed with the Bombay Stock Exchange Limited (BSE Limited), Calcutta Stock Exchange Association Limited and Jaipur Stock Exchange Limited. The Transferee Company was incorporated on 25th September, 1992.

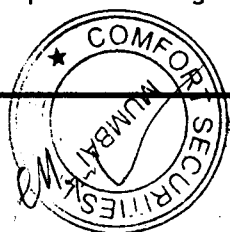
The shareholding pattern Kwality Credit & Leasing Limited as on 31<sup>st</sup> December, 2013 are as follows:

Sr. No.	Particulars	% of Holding
1.	Promoter and Promoter Group	0.99
2.	Others	99.01
TOTAL		100.00

**TRANSACTION OVERVIEW AND RATIONAL:**

**Purpose of the Merger and Benefits of the Merger:**

For the purpose of proper utilization of surplus fund of the Transferor Companies into the production unit and also for better efficient and economical management, control and running of the business of the undertaking concerned and/or administrative convenience and to obtain advantages of economics of scale the present scheme is proposed to amalgamate the Transferor Companies with the Transferee Company.



**VALUATION METHODOLOGY & EXPLANATION ADOPTED BY BAJORIYA/MAYANK & ASSOCIATES**

Some of the methods considered by Bajoriya for arriving at fair value of shares of a company are as under:

- a. Net Asset Value or networth Method
- b. Profit/Price Earning Capacity Method
- c. Market Value Method

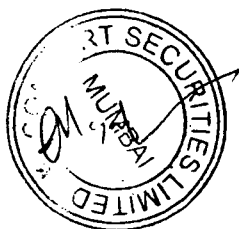
The methods available for valuation are discussed in brief as under:

(a) **NET ASSET VALUE OR NET WORTH METHOD:**

In the net asset value method, net asset value is computed based on the latest available audited balance sheet. The genesis of this method of valuation lies in the total assets that the companies own. The values of intangible assets are excluded. Loan funds are deducted. The diminution, if any, in the value of assets, not reflected in the accounts is deducted. Contingent liabilities, to the extent that they impair the net worth of the company, are also deducted. The resultant figure represents the net worth of the company on the given day. This method cannot be altogether avoided in a case of a going concern.

(b) **PROFIT/PRICE EARNING BASIS METHOD:**

Earnings potential of the business is the most important determinant in case of going concern. For this purpose, both past and future projected earnings have to be analysed and then capitalised at an appropriate yield rate to arrive at the value of the business. The capitalisation rate so factored has to be decided depending upon various factors such as the earning trend in the industries, P/E ratios prevailing in the industry etc.



(c) MARKET VALUE METHOD :

This method can be used for the valuation is by taking the average of the quotes in the stock markets over a period of time for company's shares and further adjusting them for the speculative factor. This method of valuation of the business is used on presumption that stock market quotations reflect the health of the business. This method should not be used in cases where the markets are being dominated by BULL/BEAR pressures.

However, the market price method becomes redundant as the shares of Original and Anurodh are not listed on any of the exchanges. Accordingly, our valuation has been based on the Net Asset Value Method and Profit Earning Capacity method.

Considering the above facts the net asset value of the companies, as March 31, 2013, has been determined by Bajoriya Mayank & Associates as follows:

The net asset value of Kquality is as follows:

Particulars	Total (Rs.)
Paid up Equity	4,22,27,030
Add: Reserves & Surplus	7,10,65,586
Less : Miscellaneous Expenditure	NIL
<b>Net Asset Value [A]</b>	<b>11,32,92,616</b>

Hence, the Net Asset Value of "Kquality" is determined at Rs. 11,32,92,616/- (*Rupees Eleven Crores Thirty Two Lacs Ninety Two Thousand Six Hundred Sixteen only*)



The net asset value of "Original" has been determined as follows:

Particulars	Total (Rs.)
Paid up Equity	48,51,00,000
Add: Reserves & Surplus	32,28,473
Less: Miscellaneous Expenditure	64,420
<b>Net Asset Value [A]</b>	<b>48,82,64,053</b>

Hence, the Net Asset Value of "Original" is determined at Rs. 48,82,64,053/- (*Rupees Forty Eight Crores Eighty Two Lacs Sixty Four Thousand and Fifty Three Only*)

The net asset value of "Anurodh" has been determined as follows:

Particulars	Total (Rs.)
Paid up Equity	42,63,00,000
Add: Reserves & Surplus	21,61,075
Less: Miscellaneous Expenditure	61,028
<b>Net Asset Value [A]</b>	<b>42,84,00,047</b>

Hence the Net Asset Value of "Anurodh" is determined at Rs. 42,84,00,047/- (*Rupees Forty Two Crores Eighty Four Lacs Forty Seven Only*)



### Profit Earning Capacity Value Method

In this method, the average earnings based on the past 3 years are first determined. Adjustments are then made for any exceptional transactions or items of a non-recurring nature. The adjusted average earnings are then capitalized at an appropriate rate to arrive at the value of the business.

The PECV is calculated as under, by capitalizing the weighted average post-tax profits of the company for last 3 years at a rate of 20%.

#### 3.2.1 Calculation of PECV of Equity Shares of Kwality

Particulars		2012-13	2011-12	2010-11
Profit after tax		1,22,831	45,897	8,684
Weights	(i)	3	2	1
Weighted average PAT	(ii)	3,68,493	91,794	8,684
Total of Weighted average PAT	(iii) = Total of (ii)	4,68,971		
Total of Weights	(iv) = Total of (i)	6		
Total Weighted average PAT	(v) = (iii) / (iv)	78,162		
Capitalising factor	(vi)	20%		
Value of the business [B]	(v) / (vi)	3,90,810		



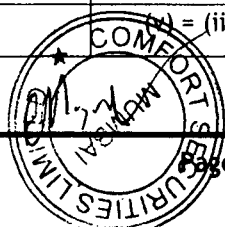


**Calculation of PECV of Equity Shares of Original**

Particulars		2012-13	2011-12	2010-11
Profit after tax		5,59,775	2,438	42,760
Weights	(i)	3	2	1
Weighted average PAT	(ii)	16,79,325	4,876	42,760
Total of Weighted average PAT	(iii) = Total of (ii)	17,26,961		
Total of Weights	(iv) = Total of (i)	6		
Total Weighted average PAT	(v) = (iii) / (iv)	2,87,827		
Capitalising factor	(vi)	20%		
Value of the business [B]	(v) / (vi)	14,39,135		

**Calculation of PECV of Equity Shares of Anurodh**

Particulars		2012-13	2011-12	2010-11
Profit after tax		4,06,613	3,209	45,753
Weights	(i)	3	2	1
Weighted average PAT	(ii)	12,19,839	6,418	45,753
Total of Weighted average PAT	(iii) = Total of (ii)	12,72,010		
Total of Weights	(iv) = Total of (i)	6		
Total Weighted average PAT	(v) = (iii) / (iv)	2,12,002		



Particulars		2012-13	2011-12	2010-11
Capitalising factor	(vi)	20.00%		
Value of the business [B]	(v) / (vi)	10,60,010		

#### **FAIR VALUE AND CONCLUSION:**

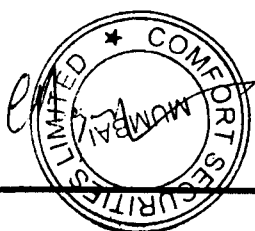
#### **Fair Value per share**

Based on the Average of the Net asset value and PECV Method, the fair value of business of the three companies is as tabulated below.

Particulars	Kwality	Original	Anurodh
Net worth of the Companies (A)	11,32,92,616	48,82,64,053	42,84,00,047
PECV of the Companies (B)	3,90,810	14,39,135	10,60,010
Fair Value of Business (Average of Net asset value and PECV Method) (A + B )/2	5,68,41,713	24,48,51,594	21,47,30,029
No. of shares (face value Rs. 10/-)	42,22,703	4,85,10,000	4,26,30,000
Fair Value per share	13.46	5.05	5.04

#### **Determination of exchange/swap ratio:**

Based on the above calculations, and on the basis of valuation report provided by Bajoriya Mayank & Associates, the exchange/swap ratio between the companies works out to be as follows:



Particulars	Original	Anurodh
Fair Value per share	5.05	5.04
Fair Value per share of Kwality	13.46	13.46
Exchange Swap Ratio	0.38 : 1 Or 1 : 2.67	0.37: 1 Or 1 : 2.67

Bajoriya Mayank & Associates would like to opine that aforesaid valuation methods to determine the values of the companies as justified on the basis of the fact that these valuation methods are recognised economic methods to calculate enterprise values and the basis for determining the values of companies taking part in the merger are appropriate and in line with recognised principles of company valuation.

However, taking into consideration the Listing status of Kwality that shall be beneficial to the shareholders of Original and Anurodh, the SWAP Ratio for exchange of shares between the companies may be fixed by Bajoriya Mayank & Associates as follows:

- a. Between Kwality and Original at anything less than 1: 3 (i.e. shareholders holding 3 shares of Original will receive 1 share of Kwality)
- b. Between Kwality and Anurodh at anything less than 1: 3 (i.e. shareholders holding 3 shares of Anurodh will receive 1 share of Kwality)

To conclude, in a nutshell, results achieved from the aforesaid valuation methods selected by Bajoriya Mayank & Associates, it can be considered that the Share Exchange Ratio which the Board of Directors of the Parties intends to propose to the General Meeting of Shareholders is, from a financial perspective, fair and in the best interest of the shareholders of Kwality.

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#### OUR FAIRNESS OPINION:

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Based upon valuation work prepared by Bajoriya Mayank & Associates, we are of the opinion that the purpose of the proposed Merger are fair, from a financial point of view.



The fairness of the Proposed Merger is tested by:

- (1) Considering whether the Valuation methods adopted by Bajoriya Mayank & Associates depict a correct picture on the value of shares of all the three companies
- (2) Calculating the fair market value of all the three companies
- (3) Considering qualitative factors such as economies of scale of operations, synergy benefits that may result from the proposed merger

The rationale for Share Exchange ratio as explained above, will be issued as assumed by Bajoriya Mayank & Associates is justified.

We are in opinion that, Bajoriya Mayank & Associates is justified by taking the combination of all the methods on weighted average basis to arrive fair market value of Companies. As Combining all the methods will cover each aspect of valuation such as present valuation, future earning capacity and market driven price in case of listed entity.

The fairness opinion is fair in considering the above factors, and on the basis of report received by us from Bajoriya Mayank & Associates we conclude that exchange of shares between the companies are as follows as follows:

- a. Between Kwality and Original at anything less than 1: 3 (i.e. shareholders holding 3 shares of Original will receive 1 share of Kwality)
- b. Between Kwality and Anurodh at anything less than 1: 3 (i.e. shareholders holding 3 shares of Anurodh will receive 1 share of Kwality)

This being of our best of professional understanding, we hereby sign the Fairness Opinion report on valuation for the proposed merger.

For Comfort Securities Ltd.

Mayuri Thakkar

Asst. Vice President - MBD

