

**FAIRNESS OPINION REPORT ON VALUATION FOR THE PROPOSED MERGER OF**

**of**

**ARCHANA HI-TECH CONSULTANTS LIMITED**

**&**

**VANDANA HI-TECH CONSULTANTS LIMITED**

**&**

**SPG MULTI TRADE PVT. LIMITED**

**With**

**GANON TRADING & FINANCE CO. LTD.**

**By**

**GUINNESS CORPORATE ADVISORS PVT. LTD.**

**(Formerly: GUINNESS MERCHANT BANKERS PVT. LTD.)**

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**SEBI Registered Category I Merchant Banker**

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## Notice to Reader

Guinness Corporate Advisors Private Limited ("Guinness" / "GMBPL" or "Authors of the Report") is a SEBI registered 'Category I' Merchant banker in India and was engaged by Board of Directors of Ganon Trading & Finance Co. Limited (herein after referred as "GTFL") 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 M/s Singrodia Goyal & Co., Chartered Accountants ("SGCO") an independent Valuers for the purpose of intended proposed Merger of Archana Hi-Tech Consultants Limited ("AHCL") & Vandana Hi-Tech Systems Limited ("VHSL") & SPG Multi Trade Private Limited ("SMTPL") with Ganon Trading & Finance Co. Limited. AHCL, VHSL, SMTPL AND GTFL are collectively referred as "Companies"

The Fairness Opinion Report ("Report") has been prepared on the basis of the review of information provided to Guinness and specifically the Report on Swap ratio (hereinafter referred as Valuation Report) prepared by SGCO 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

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

**Name of the Companies:** Amalgamating Companies: i. Archana Hi-Tech Consultants Limited  
ii. Vandana Hi-Tech Systems Limited  
iii. SPG Multi Trade Private Limited  
Amalgamated Company: Ganon Trading & Finance Co. Limited



Merged Business: AHCL, VHSL and SMTPL will merge with GTFL and this merger will lead to synergies of operations and thus contribute to the profitability of the combined entity.

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### **Background of the Companies**

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#### **GANON TRADING & FINANCE CO. LIMITED**

Ganon Trading & Finance Co. Limited, a Public Limited Company was incorporated on 2<sup>nd</sup> July, 1985.

GTFL is engaged in the business of trading of various goods as well as in to financing operations. The registered office of the company is situated at 303, Sapphire Arcade, Above Sejal Jewellers, M.G. Road, Ghatkoper (East), Mumbai 400 077.

At present, Equity Shares of the company are listed on the BSE Limited ("BSE").

#### **ARCHANA HI-TECH CONSULTANTS LIMITED:-**

Archana Hi-Tech Consultants Limited, a limited company, was originally incorporated on 2<sup>nd</sup> March, 2000 under the Companies Act, 1956.

The Company is engaged in the business of Management consultancy and Investment in Equity share & mutual funds. The registered office of the company is situated at G-1504, Ajmera Royal Classic, Andheri Link Road, Andheri (W), Mumbai 400 053, India.

#### **VANDANA HI-TECH SYSTEMS LIMITED:-**

Vandana Hi-Tech Systems Limited, a limited company, was originally incorporated on 2<sup>nd</sup> March, 2000 under the Companies Act, 1956.

The Company is engaged in dealing in computer systems and allied activities. The registered office of the company is situated at G-1504, Ajmera Royal Classic, Andheri Link Road, Andheri (W), Mumbai 400 053, India.

#### **SPG MULTI TRADE PRIVATE LIMITED:-**

SPG Multi Trade Private Limited, a private limited company, was originally incorporated on 24<sup>th</sup> February, 2006 under the Companies Act, 1956.

The core business of the company is commodity trading like Coal, Cotton, Pharmaceutical intermediaries etc. The registered office of the company is situated at Prabha Co-op. Hsg Soc. Ltd., Flat No. 10, 2nd Floor, R.B. Mehta Marg, Ghatkoper (East), Mumbai 400 077.

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### **Transaction Overview and Rational**

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The Purpose of merger is aimed at maximizing the value for the shareholders of all companies by



availing the benefits of economies of scale and synergies of operations.

Also, the amalgamation will provide the enhancement in net worth of combined entity which would provide growth potential.

The amalgamation would provide synergistic linkages besides economies in costs by combining the total business functions and the related activities and operations

#### **Valuation Methodology & Explanation adopted by SGCO:**

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

1. **Net Asset Value Method (NAV)**
2. **Discounted Cash Flow Method (DCF)**
3. **Profit Earning Capitalisation Value Method (PECV)**

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

#### 1. **THE NET ASSET VALUE (NAV) METHOD:**

The Net Asset Value or NAV is a term used to describe the value of an entity's assets less the value of its liabilities. To give an indication of what we could mean by the value of assets, consider some of these variations. Each one achieves something slightly different, and is applied in different ways:

##### ▪ At Book Value

The Net Assets Value (at book value) Method represents the value of a Business with reference to the historical cost of the assets owned by the Company and the attached liabilities as on the valuation date. Such value represents the support value of an equity share of a going concern.

Book Value is the shareholders' equity of a business (assets - liabilities) as measured by the accounting books. The term is used in the context where the analyst is trying to distinguish between the accounting measures (usually historical cost) and the market value. It is a valuation metric that sets the floor for stock prices under a worst-case scenario. When a business is liquidated, the book value is what may be left over for the owners after all the debts are paid.

Net Assets Value on the basis of the Book Value method is ignored by SGCO as it represents the historic values of the assets and does not give any consideration to their present realizable value.

##### ▪ At Market Value or Replacement Cost

This method of valuation considers net values of Assets and liabilities at present Market Valuation as on given date so as to reflect the present Net Assets value of the Business. Investors/ Analyst might want to know if a company is cheap or expensive to invest in. One possibility is to compare its current market capitalization with its net asset value - since, all things being equal, one might expect them to be the same. There are reasons why this might not be true.

Net Asset Value (at market value) method can be useful while valuing any manufacturing entity since manufacturing entities are generally capital intensive and carry huge amount of fixed as well as current assets in its business as compared to a service Company.



SGCO have considered this method of valuation while valuing the Four Companies under consideration. For this purpose, Net Asset Values of all the Four Companies have been considered with reference to the market values of their respective assets on the basis of information provided by the Management of the Companies.

## **2. DISCOUNTED CASH FLOW METHOD:**

The Discounted Cash Flow (DCF) Approach describes a method to value a project or an entire Company using the concept of the time value of money. The DCF method determines the present value of future cash flows by discounting them using the appropriate cost of capital. This is necessary because cash flows in different time periods cannot be directly compared since most people prefer money sooner rather than later.

In Finance parlance, Discounted Cash Flow Method (DCF) of Valuation values the equity of the Company as the value of the Company's operations less the value of debt and investors claims. The DCF method is futuristic in nature, one which is based on the future projected cash flow generation capabilities of the business on an ongoing basis for its long term fund providers. DCF procedure involves three important concerns:

- The forecast of future cash flows,
- The incorporation of taxes (firm income taxes), and
- The determination of the appropriate cost of capital.

## **3. PROFIT EARNING CAPITALISATION VALUE METHOD:**

The Profit Earning Capitalisation Value Method or PECV works on the principle that the value of a business is dependent upon returns generated over and above the expected cost of capital, commensurate with perceived risk of the investment.

The Earnings Capitalization Method involves determination of the maintainable earnings level of the Business from its normal operations. These earnings, considered on a post-tax basis, are then capitalized at a rate, which, in the opinion of the valuer, combines an adequate expectation of reward from enterprise and risk. The business value arrived at is then divided among shareholders. This method is based on the earning capacity of the business and is consistent with the "Going Concern" basis applicable to continuing business entities. This method works on the lines of the DCF Method to a great extent. However, unlike DCF, this method also considers the past performance of the Company while working out the valuation

### **Basis of Valuation and Assumptions made by SGCO:**

For determining the fair value of the Shares in order to determine the fair exchange ratio for the Merger of AHCL, VHSL and SMTPL with GTFL, SGCO has adopted the aforesaid methods in following manner.



- For AHCL, SGCO have based its valuation, on the Net Assets Value (At Market Value) considering that AHCL is majorly having income of investment and share trading hence PECV and DCF method would not be suitable due to its nature of operations.
- For VHSL, SGCO have based its valuation, on the Net Assets Value (At Market Value) considering that VHSL is majorly having income of investment hence PECV and DCF method would not be suitable due to its nature of operations.
- For SMPTL, SGCO have based its valuation, on the combination of all methods considering the expansion programme of SMPTL. SGCO has assigned the weights of 0.20, 0.45 and 0.35 for NAV, DCF and PECV respectively.
- For GTFL, SGCO have based its valuation, on the Net Assets Value (At Market Value) considering that GTFL is majorly having income of investment hence PECV and DCF method would not be suitable due to its nature of operations.

**Accordingly Fair value per share has been arrived as under:-**

Sr. No.	Name of Company	Face Value (Rs.)	Fair Value per share (Rs.)
1	Ganon Trading & Finance Co. Ltd.	10	11.07
2	Archana Hi-tech Consultants Ltd.	10	10.39
3	Vandana Hi-Tech Systems Ltd.	10	11.09
4	SPG Multi Trade Pvt. Ltd.	10	198.38

SGCO is of the opinion that the exchange ratio based on such fair value of the shares as follows:

For every One (1) Equity share of Archana Hi-tech Consultants Limited, One (1) New Equity Share of Ganon Trading & Finance Co. Ltd. will be issued.

For every One (1) Equity share of Vandana Hi-Tech Systems Limited, One (1) New Equity Share of Ganon Trading & Finance Co. Ltd. will be issued.

For every One (1) Equity share of SPG Multi Trade Private Limited Nineteen (19) New Equity Shares of Ganon Trading & Finance Co. Ltd. will be issued.

#### **Our Fairness Opinion:**

Based upon valuation carried out by SGCO, 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 SGCO depict a correct picture on the value of shares of all three companies
- (2) Calculating the fair market value of all three companies



For every One (1) Equity share of SPG Multi Trade Private Limited Nineteen (19) New Equity Shares of Ganon Trading & Finance Co. Ltd. will be issued.

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**Our Fairness Opinion:**

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Based upon valuation carried out by SGCO, 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 SGCO depict a correct picture on the value of shares of all three companies
- (2) Calculating the fair market value of all 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 SGCO is justified.

We are in opinion that, SGCO is justified by taking the Net Assets Value (At Market Value) of Archana Hi-tech Consultants Limited and Vandana Hi-Tech Systems Limited and combination of Net Assets Value, Discounted Cash Flow Method and Profit Earning Capacity Method of SPG Multi Trade Private Limited.

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

For Guinness Corporate Advisors Pvt. Ltd.  
(Formerly Guinness Merchant Bankers Pvt. Ltd.)



Sarthak Vijlani  
Director

