

# Valuation of Optionally Convertible Redeemable Preference Shares issued by Kesoram Industries Limited

Valuation  
Investment Banking  
Transaction Services  
Transaction Tax  
Restructuring  
Risk Consulting

**Private and Confidential**

**Kesoram Industries Limited**

9/1 R. N. Mukherjee Road,  
Kolkata-700 001  
West Bengal, INDIA

Kind Attention: Mr. Rohit Shah, CFO

**Sub: Valuation of Optionally Convertible Redeemable Preference Shares**

Dear Sir,

We refer to our engagement letter dated July 13, 2022, wherein RBSA Valuation Advisors LLP ("RBSA") has been appointed by Kesoram Industries Limited ("KIL"/ "Client"/ the "Company"), for carrying out the valuation of Optionally Convertible Redeemable Preference Shares ("OCRPS") issued by the Company for the internal management purpose as of March 31, 2022 ("Valuation Date").

KIL, the flagship company of the B K Birla group of companies, is a diversified conglomerate that manufactures cement and rayon. Its equity shares are listed on the BSE Limited and the National Stock Exchange of India.

KIL had issued 4,48,97,195 OCRPS of face value INR 100/- on a preferential basis to its lenders as a part of resolution plan on March 08, 2021. The Management of KIL ("Management") is desirous to obtain valuation of OCRPS issued to lenders for internal management purpose as of the Valuation Date.

In this connection, the Company has requested RBSA Valuation Advisors LLP ("RBSA"), to carry out valuation of OCRPS as on the Valuation Date.

The outbreak of Novel Coronavirus (COVID 19) pandemic has led to significantly higher uncertainties in the near to medium term and its impact is evolving. Considering the unprecedented set of circumstances, Valuation analysis is reported on the basis of 'material valuation uncertainty' and accordingly, less certainty and a higher degree of caution should be attached to the Valuation analysis than would normally be the case.

Based on the analysis of the data and information provided by the Management, estimate of projected cash flows accruing to the OCRPS holders, conversion terms, as well as market analysis, the value of OCRPS of face value INR 100 of KIL as of March 31, 2022, is estimated at ~ INR 26.47 per OCRPS.

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This Report forms an integral whole and cannot be split in parts. The outcome of the Valuation can only lead to proper conclusions if the Report as a whole is taken into account.

We sincerely thank the Management for the cooperation extended to us during this engagement.

**For RBSA Valuation Advisors LLP**

RVE No. : IBBI/RV-E/05/2019/110

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**Samir D. Shah**

Partner

Asset Class : Securities or Financial Assets

RV No. : IBBI/RV/06/2019/12263

# Table Of Content

Sr. No.	Particulars	Page No.
1	Background	5
2	Scope and Limitation	9
3	Source of Information & Procedure Adopted	12
4	Basis and Methodology of Valuation	14
5	Valuation Analysis	18
6	Conclusion	21

# Background

1

# 1. Background

- a) Kesoram Industries Limited (“KIL”/ the “Company”) is a public company incorporated under the provisions of the Indian Companies Act, 1913. The Company is a flagship company of B. K. Birla group of companies. Its equity shares are listed on the BSE Limited and the National Stock Exchange of India.
- b) The Company markets its cement and cement products under the Birla Shakti brand in India. It also offers rayon, transparent paper, and filament yarn under the Kesoram Rayon brand. The cement units have an aggregate capacity of 10.75 mtpa and are located at Karnataka and Telangana. The rayon, paper and chemical businesses are housed under 100% subsidiary, Cygnet Industries Limited, whose plant is in West Bengal.
- c) KIL had issued 4,48,97,195 OCRPS of face value INR 100/- on a preferential basis to its lenders as a part of its resolution plan on March 8, 2021.
- d) The Management of KIL (“Management”) is desirous of obtaining valuation of OCRPS issued to lenders for the internal management purpose as of the Valuation Date.
- e) The following are the main terms of OCRPS as provided to us by the Management,
  - Face Value : Each OCRPS are of face value INR 100/-
  - Issue Price: OCRPS have been issued at par value i.e., INR 100/-
  - Issue Size: 4,48,97,195 OCRPS aggregating to issue size of INR 4,489.7 Mn
  - Dividend Payment: OCRPS carry zero coupon rate
  - Conversion Option: Each OCRPS can be converted into equity share of the Company, within 18 month from date of issue, on request from the OCRPS holders at the option of issuer
  - Redemption of OCRPS: OCRPS shall be redeemed at par in 5 equal installments each starting March 31, 2028, till March 31, 2032.

# 1. Background

f) The following is the summarized financial position of KIL,

## Standalone Profit & Loss Statement

Particulars	in INR Mn.		
	31-Mar-20	31-Mar-21	31-Mar-22
Revenue (inc. Other income)	24,093.0	25,174.3	35,777.1
Expenses	(25,076.8)	(23,627.1)	(35,633.4)
Profit Before Tax (before exceptional items)	(983.8)	1,547.2	143.7
Exceptional Items	(3,871.2)	(2,948.3)	(1,542.5)
Profit Before Tax	(4,855.0)	(1,401.1)	(1,398.8)
Tax expense/ (credit)	0.0	(307.1)	(98.7)
<b>Profit/(Loss) for the year</b>	<b>(4,855.0)</b>	<b>(1,094.1)</b>	<b>(1,300.1)</b>
Other Comprehensive Income/ (loss)	(113.7)	84.2	9.7
<b>Total comprehensive income/ (loss) for the year</b>	<b>(4,968.7)</b>	<b>(1,009.9)</b>	<b>(1,290.4)</b>

## Standalone Balance Sheet

Particulars	in INR Mn.		
	31-Mar-20	31-Mar-21	31-Mar-22
Net Fixed Assets	16,835.3	16,127.5	15,711.0
Investments in subsidiary and joint venture	4,995.5	5,378.8	3,800.5
Financial Assets	4,535.2	1,343.8	1,645.9
Non-Current Assets	122.5	2,740.1	2,911.6
Current Assets	3,826.4	5,540.0	8,189.1
<b>Total Assets</b>	<b>30,314.9</b>	<b>31,130.2</b>	<b>32,258.1</b>
Share Capital	1,425.9	1,648.1	2,444.1
Share application money pending allotment			10.6
Other Equity	(1,152.3)	1,823.5	3,608.1
<b>Total Equity</b>	<b>273.6</b>	<b>3,471.6</b>	<b>6,062.8</b>
Borrowings	19,773.2	18,326.0	16,965.2
Non-Current Liabilities	1,078.0	1,030.5	1,135.6
Current Liabilities	9,190.1	8,302.1	8,094.5
<b>Total Equity and Liabilities</b>	<b>30,314.9</b>	<b>31,130.2</b>	<b>32,258.1</b>

# 1. Background

- g) As per the latest credit rating of the Company (June 20, 2022), ICRA has assigned 'ICRA BBB-' rating to the INR 1,549 Mn Non-Convertible Debentures and INR 167 Optionally-Convertible Debentures of the Company. The rating rationale, as explained by ICRA, considers established track record of the Company in the cement business with integrated manufacturing facilities. It further considers improved operating performance in FY2022; viz. increase in sales volumes by 37% YoY backed by improved sales realizations and better absorption of fixed costs, aided by improved liquidity post the one-time settlement with lenders in Q4 FY2021. The long-term demand prospects for the cement industry remain positive because of the demand from rural housing and the Government's thrust on the affordable housing and infrastructure segments.
- h) Further proceeds from rights issue will support debt prepayments, the company had launched a rights issue in September 2021 and proceeds of around INR 400 crore had been received as of June 2022, which has aided the liquidity position. Of these proceeds, INR 50 crore of ICDs infused from promoters in H1 FY2022 has been converted into equity as a part of this rights issue, an amount of INR 55 crore has been used to redeem NCDs in November 2021, while INR 293.9 crore has been used to prepay OCDs in January 2022. Further, in May 2022, KIL has prepaid OCDs to the tune of INR 47.09 crore.
- i) The Company as part of resolution plan (RP) in August 2020 had issued zero coupon optionally convertible redeemable preference shares (OCRPS). The following table shows the main terms of issuance of OCRPS's.

Security	OCRPS
Issue Size - (No's)	4,48,97,195
Face Value per instrument (in INR)	100
Total Issue Size (in INR Mn)	4,490
Issue Date	08-03-21

# Scope & Limitations

2

## 2. Scope & Limitation

- a) RBSA has been appointed by KIL to carry out valuation of the OCRPS issued by the Company as of March 31, 2022 (“Valuation Date”) for the internal management purpose of the Company.
- b) RBSA has carried out the valuation as on March 31, 2022, considering the analysis of the data/information provided by/on behalf of the management of Management of KIL (the “Management”), current market analysis, discussion with Management and other factors set out in the Report. While our work has involved analysis of financial and other information, it has not included an audit in accordance with generally accepted auditing standards. Moreover, except where otherwise stated in the Report, we have not subjected the financial and other pertinent information in the Report to inspections/investigations/verification/validation/ diligence procedures.
- c) For our analysis, we have relied on primary and secondary sources of data, whether or not made available by the Client. We have not independently verified the accuracy or timeliness of the same.
- d) It is inappropriate to use this Report for financing or any purpose other than the purpose mentioned above. We are not responsible for the unauthorized use of this Report. We shall not assume any responsibility to any third party to whom the Report is disclosed or otherwise made available. Unless required by law, it shall not be provided to any third party without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom the Report is disclosed or otherwise made available.
- e) This Report is prepared on the basis of the sources of information listed in section 3. RBSA has relied upon written representation provided by the Management that the information contained in the Report is materially accurate and complete, fair in its manner of portrayal and therefore forms a reliable basis for the Valuation.
- e) We have provided a draft copy / workings of this Report to the Management, who have confirmed to the best of their knowledge and belief that the factual information contained within this document is correct and that there are no material omissions. We reserve the right to alter our conclusions should any information that we are not aware of at the time of preparing this Report comes to light that has a material impact on the conclusions herein.
- f) Value analysis 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 judgement. In the ultimate analysis, valuation will require exercise of judicious discretion and judgment taking into accounts all the relevant factors There is, therefore, no indisputable single value.
- g) This Report forms an integral whole and cannot be split in parts. The outcome of the valuation can only lead to proper conclusions if the Report as a whole is taken into account.
- h) The valuation is not intended for general circulation or publication and is not to be reproduced without our prior written consent or used for any purpose other than for the purposes stated above and cannot be relied upon by third parties.
- i) Valuation is carried out in accordance with the Valuation Standards issued by the Institute of Chartered Accountants of India (“ICAI Valuation Standards”). The basis of value for the analyses is fair value, which is defined as “The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.”

## 2. Scope & Limitation

- j) Valuation is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value and while we normally express our opinion on the value as falling within a likely range, considering the nature, purpose and requirement of the engagement we have provided a single point value. While we have provided our opinion on the value of OCRPS based on the information made available to us within the scope and constraints of our engagement, others may have a different opinion.
  
- k) The outbreak of Novel Coronavirus (COVID 19) pandemic has led to significantly higher uncertainties in the near to medium term and its impact is evolving. Considering the unprecedented set of circumstances, Valuation analysis is reported on the basis of 'material valuation uncertainty' and accordingly, less certainty and a higher degree of caution should be attached to the Valuation analysis than would normally be the case.

# Source of Information

3

# 3. Source of Information & Procedure Adopted



This Report is prepared based on the following sources of information as provided to us by the Management:

- a. Audited financial statements of KIL for the year ended March 31, 2022
- b. Note on OCRPS including its key terms such as face value, issue price, dividend, conversion option, call option, redemption period, redemption price, etc.
- c. Information obtained from public domain, subscribed databases and secondary sources
- d. Discussions with the Management to inter-alia understand historical performance of the Company, key value drivers, competitive scenario, etc.
- e. Such other information and explanation that we believed necessary for the purpose of valuation which was provided by the Management.

The procedures used in our valuation included such substantive steps as we considered necessary under the circumstances, including, the following:

## I. General

- Considered audited financial statements of the Company.
- Considered terms of OCRPS
- Considered Information obtained from public domain and subscribed databases in respect of comparable companies;
- Discussions with the Management to inter-alia understand historical performance of the Company, key value drivers, competitive scenario, etc.;
- Such other information and explanation that we believed necessary for the purpose of valuation which was provided by the Management.

# **BASIS AND METHODOLOGY OF VALUATION**

4

# 4. BASIS AND METHODOLOGY OF VALUATION

The scope of this valuation exercise is to ascertain value of the OCRPS issued by the Company as of Valuation Date. This report follows the Valuation Standards issued by the Institute of Chartered Accountants of India.

Commonly accepted methods for determining the value of a company / share, include:

- Income Approach
- Market Approach
- Asset Approach

There are several commonly used and accepted methods, within the income approach, market approach and asset approach, for determining the value of the Company, which can be considered in the present case, to the extent relevant and applicable, and subject to the availability of detailed information, to arrive at the value of OCRPS.

## 1. Income Approach – Discounted Cash Flow (“DCF”)

Income approach is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted or capitalized) amount.

Under the DCF method the projected free cash flows are discounted at the weighted average cost of capital. This method is used to determine the present value of a business on a going concern assumption and recognizes the time value of money by discounting the free cash flows for the explicit forecast period and the terminal value at an appropriate discount factor. The terminal value represents the total value of the available cash flow for all periods subsequent to the horizon period. The terminal value of the business at the end of the horizon period is estimated, discounted to its present value equivalent, and added to the present value of the available cash flow to estimate the value of the business.

Such DCF analysis involves determining the following:

- *Estimating future free cash flows:* Free cash flows are the cash flows expected to be generated by the company/ asset that are available to the providers of the company’s capital – both debt and equity.
- *Appropriate discount rate to be applied to cash flows i.e., the cost of capital:* This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

# 4. BASIS AND METHODOLOGY OF VALUATION

## Bases for Valuation – Enterprise Value

### 2. Market Approach

Market approach is a valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.

#### 5.5.1 Market Price Method:

Under this method, the value of the Company of a company is determined by taking the average of the market capitalization of the value of the Company of such companies as quoted on a recognized stock exchange over reasonable periods of time where such quotations are arising from the shares being regularly and freely traded in an active market, subject to the element of speculative support that may be inbuilt in the market price.

#### 5.5.2 Comparable Companies Multiple (CCM) Method:

Under this method, the value of the shares/ business of a company is estimated by applying the derived market multiple based on market quotations of comparable public / listed companies, in an active market, possessing attributes similar to the business of such company - to the relevant financial parameter of the company/ business (based on past and / or projected working results) after making adjustments to the derived multiples on account of dissimilarities with the comparable companies and the strengths, weaknesses and other factors peculiar to the company being valued. These valuations are based on the principle that such 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 between the circumstances.

#### 5.5.3 Comparable Transaction Multiple (CTM) Method

Under Comparable Transaction Method, the value of the Company / business of a company is determined based on market multiples of publicly disclosed transactions in the similar space as that of the subject company. Multiples are generally based on data from recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

### 3. Asset Approach

The asset-based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. A net asset methodology is most suitable for businesses where the value lies in its underlying assets and not in the ongoing operations of the business.

# 4. BASIS AND METHODOLOGY OF VALUATION

## Bases for Valuation,

Valuation Approach/ methodology adopted for valuation of OCRPS.

1. Valuation of OCRPS as of Valuation Date has been carried out on an 'going concern' premise.
2. Considering, inter-alia, the nature of the instruments, the tenure, finite life, call option with holder and issuer, we have adopted the DCF method under Income Approach to arrive at the value of OCRPS.
3. The valuation has been done based on a valuation technique that uses data from observable markets on the basis of quoted prices for identical or similar assets or liabilities in markets that are not active.

# Valuation Analysis

5

# 5. Valuation Analysis

## Details of the Investment:

Total number of OCRPS issued	4,48,97,195
Face Value (in INR)	100
Total Investment (INR Million)	4,489.72
Coupon Rate	0.00%
Maturity Date	in 5 Equal Installments starting March 31, 2028
Premium on Maturity	Nil (Redemption at Par)

Particulars Period in Months	Till FY 2027	in INR Mn				
		FY 2028 12	FY 2029 12	FY 2030 12	FY 2031 12	FY 2032 12
Dividend Payments	0.0	0.0	0.0	0.0	0.0	0.0
OCRPS Redemption	0.0	897.9	897.9	897.9	897.9	897.9
Free Cash flows	0.0	897.9	897.9	897.9	897.9	897.9
Time to Midpoint		6.00	7.00	8.00	9.00	10.00
Discount Rate (Refer Note 1)	18.50%	0.36	0.30	0.26	0.22	0.18
<b>Discounted Cash Flow</b>	<b>0.0</b>	<b>324.3</b>	<b>273.7</b>	<b>230.9</b>	<b>194.9</b>	<b>164.5</b>

in INR Mn	
Particulars	
Present Value of Cash Outflow	1,188.3
No of OCRPS	44,897,195
<b>Value per OCRPS</b>	<b>26.47</b>

## Note 1 – Computation of Discount Rate

Particulars		Remarks
Risk Free Rate (Rfr) - March 2022	7.10%	Estimate for Government of India(GOI) securities ZCYC rate as on March 31, 2022. Source: CCIL
Credit Risk Premium	4.89%	Considered BBB- risk premium from FIMMDA website as on March 31, 2022
Additional Spread	4.08%	Worked out considering the additional spread on the initial date of issuance.
<b>Cost of Capital</b>	<b>16.06%</b>	
Additional Risk Premium for OCRPS	2.00% - 3.00%	RBSA estimate considering inter-alia additional risk associated with the unsecured nature of OCRPS, repayment priority vis-à-vis NCDs, etc.
<b>Discount Rate (Kc)</b>	<b>18.00% - 19.00%</b>	
<b>Selected Discount Rate (Kc)</b>	<b>18.50%</b>	

# 5. Valuation Analysis

## Sensitivity Analysis - Enterprise Value

Increase / (Decrease) in Discount Rate by,	-1.00%	-0.50%	0.00%	0.50%	1.00%
Implied Discount Rate	17.50%	18.00%	18.50%	19.00%	19.50%
Present Value of Cash Flows (in INR Mn)	1,268.08	1,227.41	1,188.25	1,150.54	1,114.21
Value per OCRPS (in INR)	28.24	27.34	26.47	25.63	24.82

### Key Notes:

- We understand from the Management that:
  - The Company had issued OCRPS as part of the difference between the loans outstanding on the final cut-off date of the resolution plan and sum of upfront payment and equity shares issued to lenders.
  - To settle the upfront consideration, the Company has issued Non-Convertible Debentures and Optionally Convertible Debentures, with a redemption premium that results in an XIRR of 20.75% to the Debenture holders on March 16, 2021.
  - The discount rate for OCRPS has been estimated using risk free rate and spread of 'BBB-' rated bonds as published by FIMMDA as of the Valuation Date, for a term similar to the subject OCRPS, including additional spread at the time of issuance. However, considering the lack of directly observable yield data for a debt instrument having similar features (term, credit quality etc.) and considering uptick of rating, we have factored in additional risk premium in the range of 2% - 3% as the fair representative of the applicable discount rate for the future cashflows of the OCRPS.
  - The OCRPS can be converted to equity shares of the Company at the option of the Company with prior consent of the OCRPS holder, within 18 months from date of issue. Considering that the conversion of OCRPS makes economic benefit to either the issuer or the holder, and for conversion to happen the consent of both holder and issuer would be required, we have carried out the valuation assuming, there won't be any conversion of the OCRPS throughout its tenure.

# Conclusion

6

# 6. Conclusion

- RBSA has been appointed by KIL to carry out valuation of the OCRPS issued by the Company as of March 31, 2022, for internal management purposes.
- Based on the analysis of the data and information provided by the Management, the value of OCRPS of KIL as of March 31, 2022, for financial reporting purposes, is estimated at INR 26.47 per OCRPS.
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