

Report on Purchase Price Allocation of Specified Hydraulics Business acquired by Danfoss Technologies Private Limited

Valuation | Investment Banking
Transaction Services | Transaction Tax
Restructuring | Risk Consulting

Private and Confidential

Danfoss Technologies Private Limited

S 03, 602A, RMZ Millenia Business Park, Phase-II 4B Campus,
No. 143, Dr. M G R Road, Perungudi, Chennai 600096

Kind Attention – Mr Ganapathy Subramanian

Dear Sir,

We refer to the engagement letter dated October 4, 2021, with Danfoss Technologies Private Limited ('DTPL' or 'Client'), to carry out Purchase Price Allocation ('PPA') on acquisition of Hydraulics Engineering and Support Services Business ("Specified Hydraulics Business") from Eaton entities in India as of August 2, 2021 ('Valuation Date'), for financial reporting purposes as per IndAS 103 – Business Combination.

Danfoss Technologies Private Limited ("DTPL" or the "Company" or the "Client") is a group company of Danfoss Group. In 2020 Danfoss Group announced acquisition of Eaton's Hydraulics Business for a consideration of ~ USD 3.3 Bn, which was consummated on August 2, 2021. The acquisition has aided Danfoss Group to enter the industrial hydraulics market that was served by Eaton Hydraulics. The Hydraulics Business provides products for customers in markets such as agriculture, construction, and in industrial market segments.

Danfoss is a Danish multinational company, based in Denmark, with more than 37,000 employees globally. Its solutions are used in areas, such as refrigeration, air conditioning, heating, motor control and mobile machinery.

Pursuant to the global acquisition, the Specified Hydraulics Business of Eaton entities in India was acquired by DTPL for a consideration of ~ INR 7,040 Mn, on a 'slump sale' basis on August 2, 2021 ("Acquisition Date"). The Specified Hydraulic Business has ~ 560 employees and will provide engineering services and support services to the hydraulics business of Danfoss Group, on a 'cost plus agreed mark-up' basis.

We understand from the management of DTPL ('Management') that the acquisition of Specified Hydraulics Business was consummated on August 2, 2021, i.e., date of acquisition of effective control. Accordingly, the same has been considered as Valuation Date for the purpose of this exercise.

In this connection, DTPL has appointed RBSA Valuation Advisors LLP ('RBSA') to carry out the PPA as on August 2, 2021 ('Valuation Date') on acquisition of Specified Hydraulics Business, to assist in accounting for the transaction in DTPL's financial statement.

This report ('Report') has been prepared solely for DTPL in connection with the purpose stated herein and should not be relied upon for any other purpose. A copy of our Report may be provided to the statutory auditors of DTPL ('Permitted Recipient') only for information purposes in connection with their statutory audit and is not a substitute for their own independent audit procedures. RBSA accepts no responsibility or liability to any other party (including Permitted Recipient), in connection with this Report.

Our Value Analysis is based on information and financial data provided to us by/ on behalf of the Management. We have analyzed the information provided to us by the Management 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 work did not constitute an audit conducted in accordance with generally accepted auditing standards or an examination of internal controls or other attestation or review services. Accordingly, we do not express an opinion on the information presented.

As agreed, we have carried out PPA exercise as on the Valuation Date, considering the analysis of the data/information provided by the Management, market analysis, discussion with Management and other factors set out in the Report. The value analysis 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. We will not accept any responsibility to any other party to whom the report may be shown or who may acquire a copy of this report.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will necessarily be subjective and dependent on the exercise of professional judgments. There is, therefore, no indisputable single value. While we normally express our value conclusion in a range, considering the nature of this assignment, we have provided a point estimate.

Based on the analysis of the information provided by/ on behalf of the Management, industry analysis and other relevant factors, estimate of fair value of assets and liabilities of Specified Hydraulics Business acquired by DTPL is as under:

(In INR Mn)

Particulars as on August 2, 2021	Book Value	PPA adjustments	Recasted Balance Sheet
Fixed Assets	426.3	4.9	431.3
Pension Asset	165.4	-	165.4
Leave and Pension accruals	(271.2)	-	(271.2)
Payroll Accrual	(1.0)	-	(1.0)
Goodwill	6,718.8	(4.9)	6,713.9
Total	7,038.3	-	7,038.3

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.

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 would like to take this opportunity to express our appreciation for the assistance and co-operation provided to us by the Management during the performance of our assignment.

For RBSA Valuation Advisors LLP
(RVE No: IBBI/RV-E/05/2019/110)

Ravishu Vinod Shah
Partner
Asset Class: Securities or Financial Assets
RVE No.: IBBI/RV/06/2020/12728

1121, Building No. 11, 2nd Floor, Solitaire
Corp. Park, Chakala, Andheri Kurla Road,
Andheri (E), Mumbai - 400 093.

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COMPANY OVERVIEW

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1. Company Overview

- Danfoss is a Danish multinational company, based in Denmark, with more than 37,000 employees globally. Its solutions are used in areas, such as refrigeration, air conditioning, heating, motor control and mobile machinery.
- Eaton Corporation Plc. is a part of the Eaton group with its headquarters in Dublin, Ireland. Eaton group is a power management major and provides energy-efficient solutions that help customers effectively manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably.
- Danfoss Technologies Private Limited (“DTPL”) is a group company of Danfoss Group. In 2020 Danfoss Group announced acquisition of Eaton’s Hydraulics Business for a consideration of ~ USD 3,300 Mn, which was consummated on August 2, 2021. The acquisition has aided Danfoss Group to enter the industrial hydraulics market that was served by Eaton Hydraulics. The Hydraulics Business provides products for customers in markets such as agriculture, construction, and in industrial market segments.
- DTPL is engaged in the business of providing solutions for Product Development Engineering (such as R&D Engineering & Sustaining Engineering) & Non-Product Development Engineering (such as Manufacturing Engineering, Application engineering, Quality Engineering & Service Engineers etc.
- Pursuant to the global acquisition, the Specified Hydraulics Business of Eaton entities in India was acquired by DTPL for a consideration of INR 7,038.3 Mn, on a ‘slump sale’ basis on August 2, 2021. The Specified Hydraulic Business has ~ 560 employees and will provide engineering services and support services to the hydraulics business of Danfoss Group, on a ‘cost plus agreed mark-up’ basis.
- Fixed Assets transferred as a part of acquisition of Specified Hydraulics Business are computers, laptops and workstation. As represented by the Management the written down book value of fixed assets is representative of the fair value of the said fixed assets. Working capital taken over as a part of acquisition includes gratuity liability and liability towards leave encashment. The reports for valuation of gratuity and leave encashment liability by an independent actuary have been provided by the Management and has been considered to arrive at the fair value of working capital acquired.

The summary of PPA exercise is given in the table below: (in INR Mn)

Particulars	Amount
Purchase Consideration	7,038.3
Less: Net Assets taken over:	
Fixed Assets	431.3
Working Capital	-106.8
Goodwill	6,713.9

SOURCES OF INFORMATION

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2. Sources of Information

Sources of Information

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

- Carved out Balance Sheet of Specified Hydraulics Business as of August 2, 2021
- Valuation report by an independent actuary pertaining to gratuity and leave encashment liability taken over by DTPL as of August 2, 2021
- Information obtained from public domain and subscribed databases in respect of comparable companies
- Discussions with the Management to inter-alia understand the nature of key intangible assets, value drivers, historical and projected performance of Specified Hydraulics Business.
- We have also received explanations, information and representations which we believed were necessary and relevant to the present PPA exercise from the Management.
- Some of the clarifications were provided verbally by the Management, without further confirmations in writing. We have assumed that such verbal information or clarifications provided to us is reliable, accurate and complete in all material respects.

Procedures

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

- a. Considered carved out provisional accounts of Specified Hydraulics Business
- b. Had discussions and correspondence with the Management to inter-alia understand the historical and expected future performance, key value drivers and other business aspects affecting Specified Hydraulics Business
- c. Considered information available in public domain in respect of comparable companies and
- d. Such other analyses, reviews and inquiries, as we considered necessary

Our scope of work did not include valuation of tangible assets of the Specified Hydraulics Business .

Scope, Assumptions and Limiting Conditions

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3. Scope, Assumptions and Limiting Conditions

- The basis of value considered in this engagement is fair value. As per Ind AS 113 and ICAI Valuation Standards, fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.
- 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 judgement. In the ultimate analysis, our valuation will have to be tempered by the exercise of judicious discretion and judgment taking into accounts all the relevant factors. There is, therefore, no indisputable single value. While we normally express our assessment as falling within a likely range, as per requirement of this Engagement, we are providing a single value. While we have provided our opinion on valuation based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion.
- Our valuation is based on the market, financial and other information provided by the Management and other information that was publicly available or sourced from subscribed databases, which has been relied upon by us. In accordance with the terms of our engagement, we have carried out relevant analyses and evaluations through discussions, calculations and such other means, as appropriate. In accordance with the terms of our engagement letter and in accordance with the customary approach adopted in valuation exercises, our valuation does not constitute as an audit or review in accordance with the auditing standards applicable in India, accounting/ financial/ commercial/ legal/ tax/ environmental due diligence or forensic/ investigation services and does not include verification or validation work. The Management had indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/ conclusion. Accordingly, we assume no responsibility for any errors in the information provided by the Management or obtained from public domain/ subscribed databases and their impact on the Report.
- Valuation analysis may contain and/ or are based on estimates of future financial performance or opinions that represent reasonable expectations at a particular point of time, but such information, estimates or opinions are not offered as our predictions or as our assurances that a particular level of income or profit will be achieved, that events will occur, or that a particular price will be offered or accepted. Because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results, and those differences may be material. We take no responsibility for the achievement of the predicted results.
- Our work did not constitute an audit of the financial statements and accordingly, we do not express any opinion on the truth and fairness of the financial position as indicated in this report. Internally prepared financial statements including management accounts and other pertinent information were provided by the Management and have been accepted without further verification as correctly reflecting the results of operations, financial and business conditions of Specified Hydraulics Business. If there were any omissions, inaccuracies or misrepresentations of the information provided by the Management, it may have a material effect on our findings

3. Scope, Assumptions and Limiting Conditions



- Our report can be used by the Client only for the purpose, as indicated in this report, for which we have been appointed. The results of our valuation and our report cannot be used or relied by the Client for any other purpose or by any other party for any purpose whatsoever. We are not responsible to any other person / party for any decision of such person / party based on this report. Any person / party intending to provide finance / invest / divest in the shares / business of the Company/ their holding companies /other group companies, if any, 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. If any person / party (other than the Client) chooses to place reliance upon any matters included in the report, they shall do so at their own risk and without recourse to RBSA. It is hereby notified that usage, reproduction, distribution, circulation, copying or otherwise quoting of this report or any part thereof, except for the purpose as set out earlier in this report, without our prior written consent, is not permitted, unless there is a statutory or a regulatory requirement to do so.
- Valuation analysis and results are specific to the date of this Report. A valuation of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. This Report is issued on the understanding that the Management have 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 valuation analysis for the Proposed Transaction as on the Valuation Date. Valuation is based on business, economic, market and other conditions as they existed as of the Valuation date. Subsequent events or circumstances that could affect the conclusions set forth in our valuation include, without limitation, adverse changes in industry performance or market conditions and changes to the business, financial condition and results of operations of the Company. RBSA is under no obligation to update, revise or reaffirm the valuation.
- The Report assumes that the Specified Hydraulics Business complies and has complied fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated and will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the audited/ unaudited balance sheet of the Company. Our conclusion of value assumes that the assets and liabilities of the Company reflected in its latest balance sheet remain intact as of the Report date. No consideration has been given to liens or encumbrances against the assets, beyond that disclosed in the accounts.
- Certain clarifications were provided by the Management orally, without confirmations in writing. We have assumed that such verbal information or clarifications provided to us is reliable, accurate and complete in all respects.

3. Scope, Assumptions and Limiting Conditions

- RBSA owes responsibility to only the Board of Directors of DTPL that have appointed us under the terms of our engagement letter and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other third party to the Client. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Client, their directors, employees or agents. In no circumstances shall the liability of a Valuer, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in this Report will exceed the amount paid to such Valuer in respect of the fees charged by it for these services.
- Our valuation is primarily from a business perspective and does not consider various legal and other corporate structures beyond the limited information provided to us by the Management. The subject valuation exercise is based on prevailing market dynamics as on the Valuation Date and does not take into account any unforeseeable developments which could impact the same in the future. The value analysis recommendation is not intended to represent the value at any time other than the date that is specifically stated in the report.
- Possession of this report or any copy thereof does not carry with it right of publication. No portion of this report shall be disseminated to third parties through prospectus, advertising, public relations, news or any other means of communication without the written consent and approval of RBSA.
- In the course of this exercise, we have relied upon the hardcopy, softcopy, email, documentary and verbal information provided by the company without further verification. We have assumed that the information provided to us is reliable, accurate and complete in all respects. We reserve our right to alter our conclusions at a later date, if it is found that the data provided to us by the Company was not - reliable, accurate or complete.
- This valuation is valid only for the purposes mentioned in this report; and neither intended nor valid to be used for any other purposes. This report shall not be provided to any third party without our written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party or external party to whom the report is disclosed or otherwise made available.
- The Client has been provided with the opportunity to review the draft report for this engagement to make sure the factual inaccuracies / omissions are avoided in the final report. 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.

3. Scope, Assumptions and Limiting Conditions



- For the purpose of this exercise, we have assumed that the assets considered under this valuation are owned by Specified Hydraulics Business and they have a clear and marketable title, free from legal and physical encumbrances, disputes, claims and other statutory liabilities. Further, we have assumed that the subject assets have requisite planning approvals and clearances from appropriate local authorities, and they comply with local development control regulations.
- Any matters related to legal title and ownership are outside the purview and scope of this valuation exercise. Further, no legal advice regarding the title and ownership of the subject property has been obtained while conducting this valuation exercise. The reader is advised to take appropriate legal opinion on the matter while taking any decision on the basis of this report.
- The subject valuation exercise is based on prevailing market dynamics as on the date of the valuation and does not take into account any unforeseeable developments which could impact the same in the future.
- This report is further governed by our standard terms and conditions our letter of engagement.
- The estimated Fair Value, which are defined in the report, are subject to change with market fluctuations over time. These values are highly related to exposure, time, promotion effort, terms, motivation and conclusions surrounding the offering. The value estimate(s) considers the productivity and relative attractiveness of the assets, both physically and economically, in the open market.

Identification of Assets and Liabilities

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4.1. Identification of Assets and Liabilities

Valuation of Intangible Assets under Ind AS guidelines:

- a) The standard of value to be used for measuring the assets and liabilities is the fair value. Fair value 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.
- b) As per Ind AS 38, quoted market prices in active market provide the most reliable estimate of fair value of an intangible asset. If current bid prices are not available, the price of most recent bid can provide a basis. If no active market exists, its fair value is the amount that the entity would have paid on acquisition date, in arms length transaction between knowledgeable and willing parties, on the basis of the best information available.
- c) As per paragraph B40 of Ind AS 103, the acquirer would take into account assumptions that market participants would consider, such as expectations of future contract renewals etc., in measuring fair value.
- d) Further as per paragraph B43 of Ind AS 103, the acquirer may intend not to use an acquired asset, for example, a research and development intangible asset, or it may intend to use the asset in a way that is different from the way in which other market participants would use it. Nevertheless, the acquirer shall measure the asset at fair value determined in accordance with its use by other market participants.
- e) To determine the assets acquired, we had discussions with the Management and reviewed and relied on the following relevant and available documents, including,
 - Financial statements of Specified Hydraulics Business.
 - Details of working capital and fixed assets of Specified Hydraulics Business taken over by DTPL as on Valuation Date.
 - We have also received explanations, information and representations which we believed were necessary and relevant to the present PPA exercise from the Management.
- f) Pursuant to the acquisition, DTPL has acquired tangible assets (mainly Computers) and working capital.

4.1. Identification of Assets and Liabilities

Valuation of Intangible Assets under Ind AS guidelines:

- g) After reducing the fair value of acquired tangible assets and working capital from purchase consideration, the excess is related to goodwill, which has been calculated as follows:

(in INR Mn)

Particulars	Amount
Fixed Assets	431.3
Pension Asset	165.4
Leave and Pension accruals	(271.2)
Payroll Accrual	(1.0)
Goodwill	6,713.9
Total	7,038.3

- h) As per Paragraph 12 of Ind AS 38, an asset is identifiable if it either:
- Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
 - arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- i) As per Paragraph 11 of Ind AS 38, goodwill recognized in a business combination is an asset representing the future economic benefits arising from other asset acquired in a business combination that are not individually identified and separately recognized.
- j) Based on the discussion with the Management, there were certain intangible assets which were identified but not valued for the reasons mentioned in the subsequent page:

4.1. Identification of Assets and Liabilities

Intangible Assets		Remarks / Comments
Technology know-how		- Specified Hydraulics Business provide engineering support services to its parent / group companies. Based on the discussions with the Management, the technical knowhow resides with the Denmark entity of Danfoss and India operations only renders support services and do not own intellectual property. - Hence, we have not attributed any value to Technical know-how.
Trademark/ Brand		- As discussed above, Specified Hydraulics Business provide support services to its group companies. - Based on discussion with the Management, 'Eaton' brand was not transferred nor acquired by Danfoss Group. Considering this, no value has been attributed to Trademark / Brand.
Customer Relationships/ Contracts		- We understand from the Management that Specified Hydraulics Business will be providing support services to its parent / group companies at cost plus mutually agreed mark up. We understand that DTPL will enter into fresh contracts with the Danfoss entities to render the aforementioned support services based on renegotiated terms. - Services provided by Specified Hydraulics Business will be entirely to Danfoss group companies and not to any third party. - Considering inter-alia the aforementioned, no customer relationships / contracts have been transferred which can be valued from a market participant's perspective.
Order Backlog		We understand from the Management that there are no material order back-log that were transferred to DTPL on acquisition and hence not valued.

4.2. Goodwill

- As per Appendix A of Ind AS 103, goodwill recognised in a business combination is an asset representing the future economic benefits arising from other asset acquired in a business combination that are not individually identified and separately recognized.
- As per Para 32 of Ind AS 103 “The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:
 - (a) the aggregate of:
 - (i) the consideration transferred measured in accordance with the standard, which generally requires acquisition-date fair value;
 - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Ind AS; and
 - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree.
 - (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Ind AS.
- As per Para B37 of Ind AS 103 “The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill, any value attributed to it is subsumed into goodwill.”
- As per Para B38 of Ind AS 103 “The acquirer also subsumes into goodwill any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential contracts the acquiree is negotiating with prospective new customers at the acquisition date. Because those potential contracts are not themselves assets at the acquisition date, the acquirer does not recognise them separately from goodwill. The acquirer should not subsequently reclassify the value of those contracts from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.”

4.2. Goodwill

- Goodwill is an intangible asset representing various rights and advantages which are inseparable from the business to which it relates to and which are not identified or recognized separately. In the current instance, goodwill inter-alia include future customer relationships, benefits on account of ready to use facility with the requisite statutory approvals, assembled work force, economies of scale inter-alia on account of new customers, synergies from inter-play of various tangible and intangible assets, etc.
- The Management believes that the consideration paid to acquire Specified Hydraulics Business (after excluding the value ascribed to Fixed Assets and Net Current Assets) includes other unidentifiable/individually inseparable intangible benefits enjoyed by the Company which are captured in the Goodwill so calculated.

CONCLUSION

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5. Conclusion

Fixed Assets transferred as a part of acquisition of Specified Hydraulics Business are computers, laptops and workstation. As represented by the Management the written down book value of fixed assets is representative of the fair value of the said fixed assets.

Working capital taken over as a part of acquisition of Specified Hydraulics Business includes gratuity liability and liability towards leave encashment. The valuation reports of the same have been provided by the Management and the same have been considered to arrive at the fair value of working capital acquired.

Basis our discussion and information provided by the Management, there are no other intangibles that have been acquired by DTPL pursuant to the acquisition.

The following is the value of Assets and Intangibles acquired,

(in INR Mn)	
Particulars	Amount
Purchase Consideration	7,038.3
Less: Net Assets taken over:	
Fixed Assets	431.3
Pension Asset	165.4
Leave and Pension accruals	(271.2)
Payroll Accrual	(1.0)
Goodwill	6,713.9