



**CERTIFICATE FOR 'FAIR VALUE' OF EQUITY SHARES**

This is with reference to the proposed Preferential Allotment ("**Allotment**") of **3,84,00,000** equity shares of Rs 1/- each amounting to **Rs. 3,84,00,000**, representing **75.21%** of the fully diluted total issued and paid up equity share capital (*post Allotment*) of **Frontier Informatics Limited** (Target Company) to the Promoters and Public shareholders of the Company.

The equity shares of the Target Company are listed on the BSE Limited ("BSE") only. Based on the trading volumes obtained from BSE website, we certify that the equity shares are **infrequently traded** in terms of Regulation 2(1)(j) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ("**SEBI (SAST) Regulations**").

We certify that the offer price of **Re. 1/- (Rupee One only)** per equity share ("**Offer Price**"), being the nominal value of the Equity Share, is justified in terms of Regulation 76(A) of SEBI (ICDR) Regulations, being higher than the valuation arrived as per the following:

Sr. No	Details	Rupees	Annexure
1.	Valuation based on other Financial Parameters as at as at March 31, 2018: a. Return on Net worth (%) b. Book Value per share (Rs.) c. Earnings per share (Rs.)	(17.75) (1.41) (0.25)	--
2	Fair Market Value of Equity Shares of the Company as on March 31, 2018 (Rs.)	(0.12)	A

The workings for arriving at this Offer Price as mentioned in the table above are attached herewith vide Annexure.

For Ramesh Kumar Rao & Co  
Chartered Accountants

**S.Ramesh Kumar Rao**

Proprietor

M.No : 212769



Date: 3<sup>rd</sup> September, 2018

Place: Hyderabad (Camp)

## **REPORT ON VALUATION OF SHARES OF FRONTIER INFORMATICS LIMITED**

### **1. INTRODUCTION**

Frontier Informatics Limited (the “**Company**”) is registered under the Companies Act, 1956 and was incorporated in the year 1986. The registered office of the Company is located Plot No. 31 P & 32, 3rd Floor, Tower A, Ramky Selenium, Financial District, Nanakramguda, Hyderabad-500032, Telangana, India. The Company is engaged in the business of Software Services. The company has recorded insignificant turnovers during the past 5 years.

### **2. PURPOSE OF VALUATION**

The company intends to allot **3,84,00,000** equity shares through a preferential allotment. Pursuant to regulation 76(A) of SEBI (ICDR) Regulations, we have been requested by the company to carry out the fair market valuation of the equity shares of the Company as on August 30, 2018.

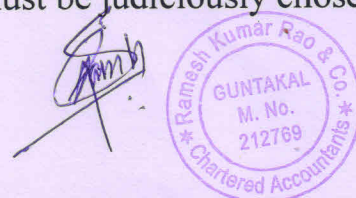
### **3. DOCUMENTS PERUSED FOR VALUATION**

Audited Balance Sheet and Profit and Loss account for last 5 years i.e. Financial Years, 2013-14 to 2017-18 of the Target Company.

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

**The fair value of shares has been arrived by considering the Hon’ble Supreme Court Judgment in the case of Hindustan Lever Employee Union V/s Hindustan Lever Ltd. [(1995) 83 CC 30] and with due regards to the erstwhile CCI formula for valuation of shares and relevant financial and market factors.**

There are various methods commonly adopted for valuation of shares. These are the Net Assets Method, the Earnings Capitalisation Method, the Discounted Cash Flow Method, Market Price Method etc. 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 must be judiciously chosen.



#### 4.1 The Net Assets Method

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

The value of the equity shares of a company based on the historical cost of its tangible assets may not always serve as reflecting its real worth on the valuation date. This is for the reason that the value of assets acquired in the past would not be static but would either appreciate or depreciate in value depending upon the nature of the asset, its economic life, and the demand in the market and several other factors. In evaluating the real worth of the assets, therefore, the intrinsic worth or realizable value of the assets on the valuation date needs to be determined.

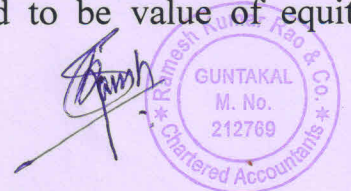
#### 4.2 The Earnings Capitalization Method

The Earnings Capitalization Method involves determination of the maintainable earnings level of the entity from its normal operations. These earnings considered on a post tax basis, are used to arrive at equity value by capitalising at a rate, which in the opinion of the valuer combines an adequate expectation of risk & reward from business.

The transactions happened in the recent past for sale of shares concluded at varied multiples to Profit after tax or EBIT are considered for determining the multiple (or capitalized rate). The multiples are affected by factors like industry consolidation, presence of strong brand, control over market share, controlling stake in a company, growth prospects etc.

#### 4.3 The Discounted Cash Flow Method

The Discounted Cash Flow (DCF) Method values the equity shares of a 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 business. The free cash flows are discounted by Weighted Average Cost of Capital (WACC). The WACC represents the returns required 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 discrete period and the perpetuity value indicate the value of the business. After reducing outstanding debt, the residual value is considered to be value of equity shares.



#### 4.4 The Market Price Method

The Market Price Method evaluates the value on the basis of prices quoted on the stock exchange. Average of quoted price is considered as indicative of the value perception of the company by investors operating under free market conditions.

### 5. BASIS OF VALUATION

5.1 Audited financial statements of the Company for the year ended March 31, 2018.

5.2 Discussions with the management on various issues like outlook for its business, competition in the industry, contingent liabilities, surplus assets, and other issues relevant to valuation.

5.3 For the purpose of the valuation, we have relied upon the financial statements and the information and explanations given to us, without carrying out any audit or other tests to verify the accuracy thereof.

### 6. VALUATION OF SHARES

The fair market value, which is the best reasonable judgment of the value, is arrived at, on the basis of the following:

#### 6.1 Net Assets Value

The Net Assets Value of the Company as at March 31, 2018 has been arrived at, by considering the amount of Equity of the Shareholders and Free Reserves of the Company.

The net asset value so arrived at is divided by total number of equity shares as on March 31, 2018 to arrive at value per share as per Net Assets Method.

Based on the foregoing, value per share of Target Company as per Net Assets Method comes to **Rs. (1.41)/- per share**. The working for the same is given in **Annexure – A1**.

#### 6.2 Earnings Capitalisation Value

Since the Company has been incurring continuous losses for the past five financial years, this method has been ignored and no weights have been assigned. The relevant amounts are shown in Annexure A-2.

#### 6.3 Discounted Cash Flow Value

The company, as per the Audited Financial Statements as on 31<sup>st</sup> March 2018, has substantial accumulated losses (to the tune of Rs 3.05 Crores)

and also has unsecured loans repayable within the next one year (Rs 2.64 Crores). The company is likely to remain with less than 33% of the proceeds of the Preferential Allotment after repayment of loans. Further the management does not have any firm order book as on the date or any specific action plan in place for revival of operations of the company. Under the circumstances it is not possible to evaluate the share price under DCF method with any degree of accuracy.

#### 6.4 **Market Price Method**

The equity shares of the Target Company are listed on BSE. Based on the trading volumes obtained from BSE website, we certify that the equity shares are **infrequently traded** in terms of Regulation 2(1)(j) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (“SEBI (SAST) Regulations”). The closing price of the Equity Shares of the Company as on March 31, 2018 was Rs. **2.45/-**

#### 7. **FAIR MARKET VALUE**

The Return on Net worth percentage based on Audited Financial Statements for the year ended 31st March, 2018 with PAT (loss) of Rs (31,62,905) and Net worth (Negative) of Rs (1,78,22,239) is coming to Negative of Rs (17.75).

**The Fair Market Value** of the shares of the Company has been arrived at by averaging the values arrived as per the different methods adopted.

A weight of 2 has been assigned to the value arrived under the Net Asset Method and weight of 1 to the value arrived under the Market Price Method.

Based on the foregoing and also as per the Supreme Court Decision in **Hindustan Lever Employees Union Vs. Hindustan Lever Ltd**, the valuation of the Company is negative of **Rs. (0.12)/-**.

The computation of the same is given in **Annexure A** to this Report.

Our recommendation is dependent upon the information furnished to us being complete and accurate in all material respects. 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 or examination of any of the historical



information used and therefore, does not express any opinion with regards to the same.

Our report is meant for the purpose mentioned in Para 2 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.

For Ramesh Kumar Rao & Co  
Chartered Accountants



**S. Ramesh Kumar Rao**

Proprietor

M.No : 212769

Date: 3<sup>rd</sup> September, 2018

Place: Hyderabad (Camp)

## ANNEXURE A

Sr. No.	Method	Amount Per Share (Rs.)	Weight	Product
		(A)	(B)	(A * B)
	Particulars	March 31, 2018	March 31, 2018	March 31, 2018
1	Net Asset Value (As per Annexure A1)- [A]	(1.41)	2	(2.82)
2	Market Price Per Share as on March 31, 2018- [B] as per BSE web Site	2.45	1	2.45
3	<b>Total (A+B)</b>	-	3	(0.37)
4	Weighted Avg. Fair Value per Share			(0.12)
5	<b>Fair Value per Share Being Face Value of Share</b>			(0.12)
<p><i>Based on the above calculations, we certify that the Fair market Value of each fully paid-up equity shares of Frontier Informatics Limited as on March 31, 2018 in terms of SEBI (SAST) Regulations is Rs. (0.12) /- (Negative Paise Twelve only) per equity share.</i></p>				

For Ramesh Kumar Rao & Co  
Chartered Accountants

**S.Ramesh Kumar Rao**

Proprietor

M.No : 212769

Date: 3<sup>rd</sup> September, 2018

Place: Hyderabad (Camp)

## ANNEXURE A1

### Valuation based on Net worth Method

The value per share based on Net worth Method has been derived as under:

<b>Particulars</b>	<b>March 31,2018</b>
Net Worth (Rs. in amount)	(1,78,22,239)
Outstanding Shares (diluted)	1,26,55,200
<b>Book Value Per Share (Rs.)</b>	<b>(1.41)</b>

(Source: Audit Report for the financial year 2017-18)

## ANNEXURE A2

Valuation based on Profit Earning Capacity Value (PECV) for the last five financial years ended on 31st March, 2018

The value per share based on Profit Earning Capacity Value (PECV) Method has been derived as under:

<b>Financial year</b>	<b>Profits (Rs.)</b>
2017-18	(31,62,905)
2016-17	(20,13,386)
2015-16	(48,23,171)
2014-15	(25,82,105)
2013-14	(25,15,986)
Total	(1,50,97,553)
Simple Average Profit	(30,19,510)
Capitalization @ 0 %	-
Number of Equity Shares (Nos.)	-
Value per Equity Shares (Rs.)	-

For Ramesh Kumar Rao & Co  
Chartered Accountants

**S.Ramesh Kumar Rao**

Proprietor  
M.No : 212769



Date: 3<sup>rd</sup> September, 2018  
Place: Hyderabad (Camp)