

January 22, 2016

MCAPL: MUM: 2015-16: 0210

To,

**The Board of Directors,
Virinchi Limited**

(formerly known as Virinchi Technologies Limited)

Plot No. 10, SRK Colony,

West Marredpally,

Secunderabad-500 026

Telangana.

Sub : Issuance of Fairness Opinion Certificate on the Valuation exercise carried out by M/s M. Anandam & Co., Chartered Accountants

Ref : Recommendation of Equity Share Exchange Ratio for the Proposed Merger of Bristlecone Hospitals Private Limited ('BCH') with Virinchi Limited *(formerly known as Virinchi Technologies Limited)* ('Virinchi')

Dear Sir(s),

We refer to the appointment letter dated January 19, 2016 for issuance of Fairness Opinion Certificate on the valuation carried out by M/s. M. Anandam & Co., Chartered Accountants, for the proposed Merger of Bristlecone Hospitals Private Limited ('BCH') with Virinchi Limited *(formerly known as Virinchi Technologies Limited)* ('Virinchi'). Based on the details and information provided to us, we have reviewed the same on various parameters.

Please find enclosed herewith the said Fairness Opinion Certificate on the report issued by M/s. M. Anandam & Co., Chartered Accountants.

Please feel free to contact us for any clarification.

Thanking you,

For **Mark Corporate Advisors Private Limited**



Rajendra Kanoongo

Jt. Managing Director

Encl: As Above.

STRICTLY PRIVATE & CONFIDENTIAL

January 22, 2016

To,
The Board of Directors,
Virinchi Limited
(formerly known as Virinchi Technologies Limited)
10, SRK Colony, West Marredpally,
Secunderabad-500 026,
Telangana

Dear Sir(s),

This has reference to the request made by the management of Virinchi Limited (*formerly known as "Virinchi Technologies Limited"*) (hereinafter referred to as "**Virinchi**"). The Board of Directors of Virinchi has passed the resolution on January 09, 2016 and has requested us to issue Fairness Opinion Certificate in connection with the valuation exercise being carried out by M/s. M. Anandam & Co., Chartered Accountants (hereinafter referred to as "**the Valuer**") for recommending Equity Share Exchange Ratio for the Proposed Merger of Bristlecone Hospitals Private Limited (hereinafter referred to as "**BCH**") with Virinchi with effect from the Appointed Date i.e. October 01, 2015.

I. PURPOSE OF VALUATION

- 1.1 The Board of Directors of both the Companies have considered proposal for the Merger of BCH with Virinchi.
- 1.2 In this regard, M/s. M. Anandam & Co., Chartered Accountants were appointed to carry out the valuation with a view to recommend an exchange ratio of shares in the event of Merger of BCH with Virinchi and determination of Equity shares to be issued by Virinchi to the Shareholders of BCH.
- 1.3 The information contained herein and our certificate is confidential. It is intended only for the sole use of captioned purpose including for the purpose of obtaining requisite approvals as per the Listing Agreement Clauses.

II. SOURCE OF INFORMATION

For the purpose of the valuation, we have relied upon the following source of information provided by the management of the Companies:

- (i) The Projected Income Statements and Balance Sheets for the Financial Years 2016-2017 to 2024-2025 of Virinchi and BCH;



Page 1 of 5

MARK CORPORATE ADVISORS PVT. LTD.

CIN No : U67190MH2008PTC181996

404/1, The Summit Business Bay, Sant Janabai Road, (Service Lane), Off. W. E. Highway, Vile Parle (E), Mumbai - 400 057
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- (ii) Audited Consolidated Financial Statements as on March 31, 2015 for Virinchi and BCH;
- (iii) Audited financials as at September 30, 2015 for Virinchi and BCH;
- (iv) Quarterly Financial Information as published by Virinchi at BSE Limited ('BSE') for September 30, 2015;
- (v) CMA data provided to the Bank by the Management of Virinchi;
- (vi) The Term Loan details and repayment schedules of Virinchi;
- (vii) The recurring costs required to run the hospitals and the Clinics of BCH;
- (viii) The forecast on number of patients that will be treated, number of doctors, administrative and general staff, the treatment rooms, space allocation etc., of BCH;
- (ix) The Lease Rental Agreements of BCH;
- (x) A certificate evidencing BCH's registration with State Government Health Scheme and Government Health Programme-Arogya Shree;

III. EXCLUSIONS AND LIMITATIONS

- 3.1 Conclusions reached by us are dependent on the information provided to us being complete & 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. The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information used during the course of our work. We have not performed any audit, review or examinations of any of the historical or prospective information used and, therefore, do not express any opinion with regard to the same. In addition, we do not take any responsibility for any changes in the information used for any reason, which may occur subsequent to the date of our certificate.
- 3.2 This certificate is prepared with a limited purpose/scope as identified/stated earlier and will be confidential being for use only to whom it is issued. It must not be copied, disclosed or circulated in any correspondence or discussions with any person, except to whom it is issued and to those who are involved in this transaction and for various approvals for this transaction.



IV. VALUATION METHODOLOGY ADOPTED BY THE VALUER

In arriving at the exchange ratio of the equity shares for the merger of the BCH with Virinchi we have determined the values independently but on a relative basis. We have considered the methods relevant and applicable, which included:

- 1) **Market Approach:**
 - a) Comparable Companies Multiplies Method;
 - b) Current Market Price Method
- 2) **Income Approach:**
 - a) Discounted Cash Flow
- 3) **Cost Approach:**
 - a) Net Assets Value method/ Book Value

1) **Market Approach:**

a) **Comparable Companies Multiplies Method:**

The market value method has been used since market comparatives are available for a similar set up during the period of valuation considered. Market Approach refers to notion of arriving at the value of the company by comparing it to the market value of similar publicly listed companies. The comparison is based on certain financial ratios or multiples such as Price to Earnings, EV/EBITDA etc., of the equity in question of peers.

To arrive at the Equity value of Virinchi and BCH, the average of PE multiples of the peer companies in the industry at 14.75 and 16.49 respectively have been considered.

As the value of the equity is dependent on the earning capacity of the companies, the same have been appropriately incorporated in the valuation.

The Enterprise value of BCH has been considered based on EV/Bed multiple as it is considered to be one of the most appropriate sector specific multiple for healthcare industry.

b) **Current Market Price Method:**

The market price of equity as quoted on the stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded. In the present case the shares of Virinchi are listed in BSE Limited and the volume weighted average share price of Virinchi over an appropriate period has been considered under this method.



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The market value of Virinchi is arrived at by considering the higher of 6 months Average Market price or 15 days average market price.

This method is not considered appropriate to value BCH as it is an unlisted company.

2) **Income Approach:**

a) **Discounted Cash Flow Method:**

The discounted cash flow method has also been used to value the equity of the companies.

The discounted cash flow method is a modern valuation method which relates the value of an asset to the present value of the expected future cash flows on that asset. Under this the value of the business has been determined by the formula:

Value of Business = $\sum CF \text{ in period } t / (1 + WACC)^t$

Where, t=1 to n,
CF =Expected cash flow in period n,
WACC=Weighted average cost of capital.

The WACC of the companies has been calculated horizontally upto the Year end March 2025. The terminal value has been estimated in the last year of forecast period and the present value of the same is added to present value of all the cash flows. In our valuation model we have considered a stable growth rate of 1%, to arrive at the terminal value.

Terminal Value/Perpetuity= $\frac{\text{Final Projected Year Cash Flow}(1 + \text{Growth Rate})}{\text{WACC-growth rate}}$

Since DCF model is predominantly used to value the business, higher weightage has been provided to the same while arriving at the valuation of Virinchi and BCH.

3) **Cost Approach:**

a) **Book Value /Net Assets Method**

Under this approach, the value of the underlying assets of the business at book value has been considered. Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair values.

In arriving at the fair value of the equity shares of the companies, relative weights have been assigned to all the above methods.





V. CONCLUSION

- 5.1. We have reviewed the methodology as mentioned above adopted by the Valuer for arriving at the fair valuation of the equity shares of Companies and also reviewed the working and underlining assumptions adopted to arrive at the values under each of the above approaches, for the purposes of recommending a ratio of entitlement / exchange.
- 5.2. On the basis of the foregoing points, we are of the opinion that the valuation made by M/s. M. Anandam & Co., Chartered Accountants is fair & reasonable for the proposed Share Exchange Ratio of 571 Equity shares of Virinchi Limited (*formerly known as Virinchi Technologies Limited*) for every 100 shares of Bristlecone Hospitals Private Limited ('BCH').

Thanking you,

For **Mark Corporate Advisors Private Limited**

Rajendra Kanoongo
Jt. Managing Director

Place: Mumbai

54



January 30, 2016

To,
The Board of Directors,
Virinchi Limited
(formerly known as Virinchi Technologies Limited)
Plot No. 10, SRK Colony,
West Marredpally,
Secunderabad-500 026
Telangana.

Ref : Recommendation of Equity Share Exchange Ratio for the Proposed Merger of Bristlecone Hospitals Private Limited ('BCH') with Virinchi Limited *(formerly known as Virinchi Technologies Limited)* ('Virinchi')

Dear Sir(s),

This letter is in continuation to our Fairness Opinion Certificate issued on January 22, 2016 and in response to your letter dated January 28, 2016.

We have taken a note of the change in the Appointed Date from October 01, 2015 to April 01, 2016.

Thanking you,

For **Mark Corporate Advisors Private Limited**

A handwritten signature in black ink, appearing to read "Rajendra Kanoongo".

Rajendra Kanoongo
Jt. Managing Director

MARK CORPORATE ADVISORS PVT. LTD.

CIN No : U67190MH2008PTC181996

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