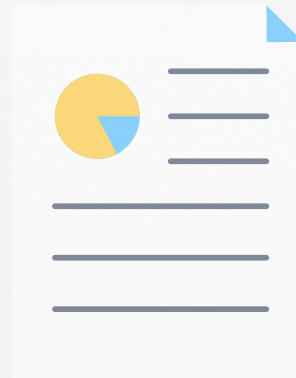




VALUATION METHODOLOGY DOCUMENT



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VALUATION

METHODOLOGY

Introduction to the Methodologies of Valuation

FundTQ uses a proprietary valuation methodology, based on the globally renowned methodologies. The pre-money valuation provided in the Dashboard and Impacteaser is the outcome of the arithmetic average of different valuations using renowned methodologies.

It is suggested to use various methods for valuing your company in order to get comprehensive and reliable outcome. FundTQ provides valuation using four different methodologies.

All methodologies are explained in detail in the following pages of this report.



1. Discounted Cash Flow Method

- a. Discounted cash Flow Method with Growth
- b. Discounted Cash Flow Method with Multiple

2. Enterprise Value / EBITDA

3. Enterprise Value/ Revenue



Discounted Cash Flow

Discounted Cash Flow Method (DCF) is the most widely acceptable method of valuation. In the DCF approach to Valuation, the value of a business is determined based on future expected free cash flows discounted at a rate that reflects the risk involved in the business and the cash flows. The total business value comprises of the following two components:-

- The present value of cash flow from operations for a forecast 3 year period, plus
- An estimate of residual or Terminal value, which is present value of the business attributable to operations beyond the forecast / stabilized period.

A DCF estimates the value of the company also known as Enterprise Value based on the Present Value of its Cash Flows and the Present Value of its Residual Value

$$\text{Enterprise Value} = FCF_1/(1+r)^1 + FCF_2/(1+r)^2 + FCF_n/(1+r)^n + PV \text{ of Terminal Value}$$

Where:

FCF = Free cash flows for the given year.

r = the discount rate (Weighted Average Cost of Capital / WACC)

PV of Terminal Value = Present Value of Terminal value (TV)

Present Value of Cash Flows

Free Cash Flows for each projected year are computed as follows:

$$\text{Free cash flow to firm} = \text{Operating Income} \times (1 - \text{Tax Rate}) - \text{Capital Expenditure} - \text{Change in Working Capital}$$

Where Operating Income or Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is calculated as below:

$$\text{Operating Income} = \text{Revenue} - \text{Operating Cost}$$

The free cash flows are discounted to a Net Present Value applying a discount rate i.e. Weighted Average Cost of Capital (WACC).

The equity valuation is the sum of the present value of all the free cash flows to company / enterprise which it will be going to generate in the future as reduced by outstanding debt in the books.

a. Discounted Cash Flow Method with Growth

The perpetuity value is taken after the completion of 3 year projected period covering the entire business cycle. Perpetuity Value is computed using Gordon Growth method where the cash flows beyond the projected period grow at a stabilized rate which is also called Long Term Growth Rate.

The perpetuity value is computed as per the formula given below:

$$\text{Perpetuity Value} = \frac{\text{Discounted Cash flow in the perpetuity period}}{(\text{WACC}) \text{ less } (\text{growth rate})}$$

b. Discounted Cash Flow Method with Multiple

The perpetuity value is taken after the completion of period covering the entire business cycle. The perpetuity value is computed as per the formula given below:

$$\text{Perpetuity Value} = \text{Discounted Cash flow in the perpetuity period} \times \text{Industry EBITDA Multiple}$$

The Industry EBITDA Multiple is further subjected to various adjustments mentioned below;

Discount Rate (WACC)

FundTQ uses the company's weighted average cost of capital (WACC) as the discount rate when calculating the DCF. WACC is the weighted average of the firm's cost of debt (K_d) and cost of equity (K_e). The weights represent the composition of debt or equity in the capital structure of the business, which has been provided as input by the user.

$$\text{WACC} = \text{Equity} / (\text{Debt} + \text{Equity}) \times K_e + \text{Debt} / (\text{Debt} + \text{Equity}) \times K_d$$



Cost of Debt or the effective interest rate a company pays on its debt is taken as tax adjusted interest expense as a proportion of Total Debt.

$$\text{Cost of debt} = [\text{Interest Expense} \times (1-t) / \text{Total Debt}] \times 100$$

Cost of equity is computed using Capital Asset Pricing Model (CAPM), which is the required rate of return a company pays out to equity investors.

$$\text{Cost of Equity} = R_f + \beta \times (\text{Market Risk Premium})$$

Where:

R_f = Risk free rate of return on investment

R_m = Market rate of return on equity investment

Market Risk Premium = ($R_f - R_m$) where

β = Beta coefficient ("Beta"), which denotes the risk correlation between the market

Risk-Free Rate (R_f) of return represents 10 year Government Bond yield of the respective country where the company is based. This has been sourced from Bloomberg.

Market rate of return (R_m) represents expected return on market portfolio. This is considered based on the compounded annual growth rate (CAGR) from investment in stock exchange for last adequate period to cover all business cycles.

The market risk premium is the difference between the expected return on a market portfolio and the risk-free rate.

Beta denotes the risk correlation between the market and stock.

The relevant beta of peer companies selected by user is considered to derive at the applied beta as adjusted further by proprietary algorithm.

Enterprise Value to Revenue or EV/Revenue Multiple is a type of relative valuation method, where multiple is calculated based on peer companies selected by the user. FundTO uses appropriate multiple for companies listed on both BSE and NSE.

The appropriate multiple applied to the forward revenue as discounted by the applicable discount rate.



Enterprise Value to EBITDA Multiple

Enterprise Value to EBITDA or EV/EBITDA Multiple is a type of relative valuation method, where multiple is calculated based on peer companies selected by the user. FundTQ uses appropriate multiple for companies listed on both BSE and NSE. The appropriate multiple of selected peer group is applied to the forward EBITDA as discounted by the applicable discount rate.

Equity Value

Equity Value denotes the residual value as derived by equity shareholders after paying off debt holders in the company.

Equity Value = Enterprise Value - Outstanding Debt - Free cash - Surplus Assets

Adjustments

The discount rate and multiples are adjusted for risks related to size, scale, development stage and profitability. Additionally, an illiquidity discount is also applied to compute the estimated valuation of the venture. The proprietary algorithms are adjusted with the renowned methodologies to derive at pre-money valuation estimate.

In case of "No Listed Comparable" selected by the user, the appropriate multiples as well as other relevant factors are calculated using proprietary methodology based on listed companies in the similar industry as well as prevailing transaction multiples

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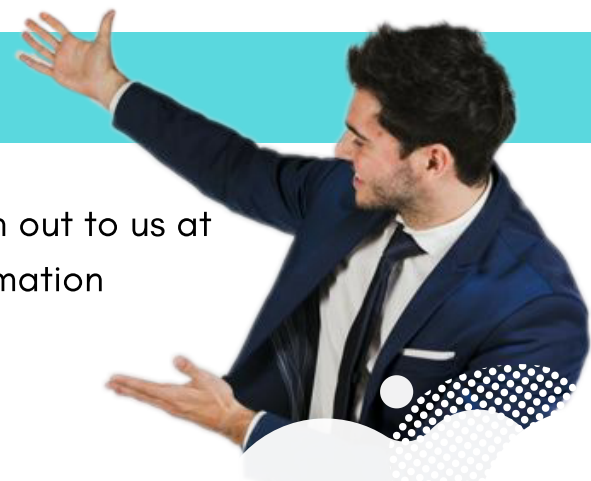
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