

Valuation Report of
DRC Systems India Limited

24th Floor, GIFT Two Building, Block No. 56, Road-5C
Zone-5, GIFT CITY, Gandhinagar, Gujarat 382355

Issued By:

CHETANKUMAR J SHAH, FCA, DISA

REGISTERED VALUER

Asset Class: Securities or Financial Assets

Reg No: IBBI/RV/06/2020-13505

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Date: - 19th September, 2022

To

The Board of Directors,

DRC Systems India Limited

24th Floor, GIFT Two Building,

Block No. 56, Road-5C,

Zone-5, GIFT CITY,

Gandhinagar, Gujarat 382355

Dear Sirs/ Madams,

Subject: Valuation of equity shares of DRC Systems India Limited ("DRC") for the purpose of further issue of equity shares on preferential basis to identified investors in accordance with the provisions of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("SEBI ICDR Regulations")

DRC Systems India Limited (hereinafter referred to as "DRC", "you", "your", "Company") has approached Chetan Shah, Registered Valuer under the Companies (Registered Valuers and Valuation) Rules, 2017 (hereinafter referred to as "Valuer", "we", "us", "our"), to value the equity shares of the Company for the purpose of proposed issue of equity shares on preferential basis to identified investors in accordance with SEBI ICDR Regulations.

On the basis of the discussions that we had and based on the information and documents received from the management of the Company (hereinafter referred to as "**Management**") from time to time, we hereby provide our report on the valuation of equity shares of DRC Systems India Limited.

1. BRIEF DETAILS OF THE COMPANY

- 1.1 DRC Systems India Limited is a public company limited by shares, incorporated on April 27, 2012, having Corporate Identification Number L72900GJ2012PLC070106
- 1.2 The registered office of the Company is situated at 24th Floor, GIFT Two Building, Block No. 56, Road-5C, Zone-5, GIFT CITY, Gandhinagar, Gujarat - 382355 IN.
- 1.3 DRC Systems is an IT services and Consultancy Company in India focused on providing robust, scalable and lasting solutions to businesses.

Valuation of Equity Shares of DRC Systems India Limited



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- 1.4 The Equity Shares of the Company are currently listed on BSE Limited ("BSE") and NSE Limited ("NSE") and traded on BSE as well as NSE (Security ID BSE: DRCSYSTEMS and Security code BSE: 543268), (Security ID NSE: DRCSYSTEMS). The equity shares of the DRC listed on NSE and BSE from 10th March, 2021.
- 1.5 The equity shares of the Company are infrequently traded shares within the meaning of regulation 164 of SEBI ICDR Regulations.
- 1.6 The shareholding pattern of the Company as on March 31, 2022 is as under:

Category	No. of Equity Shares	% of total share capital
Promoter & Promoter Group	99,07,760	25.63
Public	2,87,45,800	74.37
Total	3,86,53,560	100.00%

(Note: During the year, the Shareholders of the Company have approved the Split/Sub-division of each Equity Share of the Company from the existing Face Value of ₹.10/- (Rupees Ten Only) per Equity Share to Face Value of ₹1/- (Rupee One Only) per Equity Share in Extra Ordinary General Meeting held on February 25, 2022. The Record Date for Sub-division was March 17, 2022.)

- 1.7 A brief summary of the financial profile of the Company for the years ended on March 31, 2020, March 31, 2021 and March 31, 2022 is as follows:

(₹ in Crores)

Particulars	March 31,	March 31,	March 31,
	2020	2021	2022
	Audited	Audited	Audited
Share Capital	2.25	3.87	3.87
Other Equity	0.15	1.84	2.92
Total Non-Current Asset	0.54	3.81	17.70
Total Current Assets	4.64	10.62	7.25
Total Non-Current Liabilities	0.37	0.35	16.15
Total Current Liabilities	2.41	8.38	2.02
Net Revenue from Operations	10.87	20.59	19.5
Other Income	0.76	0.12	0.33
Operating Expenses	11.20	19.07	17.23
Earnings Before Interest, Depreciation and Tax (EBIDTA)	0.43	1.65	2.60



Finance Cost	0.11	0.05	0.07
Depreciation	0.26	2.21	1.32
Profit before Tax (PBT)	0.06	(0.61)	1.21
Taxes	0.05	(0.13)	0.51
Profit after Tax (PAT)	0.01	(0.48)	0.703

2. PURPOSE OF VALUATION AND ASSET UNDER VALUATION

- 2.1 The Company is proposing to issue equity shares of face value of ₹1/- each ("**Equity Shares**") on preferential allotment basis to certain identified persons.
- 2.2 The preferential allotment is proposed to be made for consideration in cash.
- 2.3 To issue the Equity Shares on preferential allotment basis, the Company is required to determine the price at which Equity Shares should be allotted in accordance with the SEBI ICDR Regulations.
- 2.4 Accordingly, we have been engaged by the Company to determine the price at which Equity Shares of the Company may be issued on preferential basis in accordance with the SEBI ICDR Regulations.
- 2.5 Since the Equity Shares of the Company are infrequently traded, the price at which the Equity Shares to be issued by the Company shall be determined in accordance with Regulation 165 of the SEBI ICDR Regulations, relevant extract of which is reproduced below:

"Where the shares are not frequently traded the price determined by the issuer shall take in to account valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies."

- 2.6 Hence, we have carried out valuation as per Regulation 165, 166A and as per AOA of the Company.



3. DISCLAIMER AND LIMITATIONS

- 3.1 This Valuation Report is prepared by us under a mandate from DRC Systems India Limited on the basis of information, documents, papers, representation and explanations given by the management, officers and staff of DRC Systems India Limited to us.
- 3.2 This Report is issued to facilitate the Company to determine the price at which Equity Shares of the Company may be issued on preferential basis.
- 3.3 In preparing the Valuation Report, we have relied upon and assumed, without independent verification, the truthfulness, accuracy and completeness of the information and the financial data provided by DRC Systems India Limited. We have therefore relied upon all specific information as received and decline any responsibility should the results presented be affected by the lack of completeness, accuracy or truthfulness of such information.
- 3.4 Our work does not constitute an audit or certification or due diligence of the past financials of the Company and we have relied upon the information provided to us by the Company as regards such working results.
- 3.5 We have not conducted any independent valuation or appraisal of any of the assets or liabilities of the Company. As implied by the financial statements, DRC Systems India Limited is assumed to have those legal rights to the assets and be subject to those claims represented by the liabilities presented in its financial statements. No investigation was undertaken to confirm these legal rights or claims.
- 3.6 Publicly available information deemed relevant for the purpose of the analysis contained in the Valuation Report has also been used. Accordingly, the Valuation Report is based on our interpretation of the information provided by DRC Systems India Limited and/or any of its affiliates as well as its representatives and advisors, to date.
- 3.7 We shall not be liable for any losses whether financial or otherwise or expenses arising directly or indirectly out of the use of or reliance on the information set out herein in this report.
- 3.8 This Valuation Report should not be construed as an investment advice or any form of recommendation either for making or divesting investment in the Company.



- 3.9 This Report does not constitute a fairness opinion, solvency opinion, or an investment recommendation and should not be construed as such either for making or divesting investment. No responsibility is assumed for market prices / multiples that differ from the values presented / assumed in this report.
- 3.10 This Valuation Report is furnished on strictly confidential basis. Neither this Valuation Report nor the information contained herein may be reproduced or passed to any person or used for any purpose other than stated above.
- 3.11 This Report, its contents and the results herein (i) are specific to the purpose of valuation agreed as per the terms of our engagement; (ii) are specific to the date of this report and (iii) are necessarily based on the prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the written and oral information made available to us as of date of this report.
- 3.12 Events occurring after this date may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

4. SOURCES OF INFORMATION

We have relied on the following information made available to us by DRC Systems India Limited for the purpose of this report:

- 4.1 Audited Financial Statements of DRC Systems India Limited for the years ended March 31, 2020, March 31, 2021, March 31, 2022;
- 4.2 Unaudited Financial Results of DRC Systems India Limited for the quarter ended on June 30, 2022;
- 4.3 Future Projection Certified by management of DRC Systems India Limited for the year till 2027;
- 4.4 Brief History, Present Activities, Business Profile, Existing Shareholding Pattern;
- 4.5 Such other information and explanations as required and which have been provided by the management of the Company, which were considered relevant for purpose of carrying out this Valuation assignment;



5. METHODS AND APPROACH OF VALUATION

5.1 In order to arrive at the value of the Equity Share, there are three traditional approaches which can be considered:

i) 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.

ii) Income approach:

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. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

iii) Cost approach:

The Cost approach seeks to determine the business value based on the value of its assets.

5.2 In arriving at the value of the equity shares of DRC, we have used the Income Approach in which we have considered the Discounted Cash Flows Method. We have considered it appropriate to use the Discounted Cash Flow method as this method taken into consideration the growth potential of the business and the future prospects of the Company.

5.3 Further, we have not used Net Assets Value method under Cost approach as Cost approach establishes value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. The cost-based approach derives an indication of value based on anticipated cost to replace, replicate, or recreate the assets. It is often considered as "Floor" value. This method may be used when company is not profitable enough to result in a value greater than tangible assets. Since DRC Systems India Ltd. is IT Company, cost approach is not appropriate to arrive its fair value of the business.



- 5.4 Further, we have also not used Comparable Companies Method ("CCM") or any other method under Market Approach as no similar size company are listed on the stock exchange which has similar business. Hence, CCM method under market approach is also not appropriate to use to arrive fair valuation of the company.

Hence, under such scenario, we understand that only Discounted Cash Flow method can best suitable method to arrive fair valuation of the company.

A. DISCOUNTED CASH FLOWS (DCF) METHOD

- a. Under this method, the value of equity share of the Company is arrived at by analyzing the historical trends and preparing the future financial projections. This method takes into account the future potential earnings of the Company and profitability of the Company. It discounts the future earning potential of the Company and arrives at the possible market price of the Company on the present day.
- b. The discounted Free Cash Flow method is one of the most rigorous approaches to valuation of business. In this method, the projected free cash flows from business operations are discounted at the weighted average cost of capital and sum of such discounted free cash flows is the value of the business.
- c. The value of the Company is obtained by discounting expected cash flows to the Company, i.e., the residual cash flows after meeting all operating expenses, reinvestment needs and taxes, but prior to any payments to either debt or equity holders, at the weighted average cost of capital, which is the cost of the different components of financing used by the Company, weighted by their market value proportions.

$$\text{Value of Firm} = \sum_{t=1}^{t=n} \frac{CF \text{ to Firm}_t}{(1 + WACC)^t}$$

Where,

CF to Firm = Expected Cash flow to Firm in period t

WACC = Weighted Average Cost of Capital

- d. The discount rate reflects the time value of money and the risk associated with the projected future cash flows. The Weighted Average Cost of Capital (WACC) is the discount factor used to arrive at the value of the Company, which refers to the total capital invested (equity and debt) and is used and adjusted for risk premiums or discounts, depending on the assets



specific risk compared to the risk of the overall enterprise. The formula for calculating WACC is as under:

$$WACC = w_e \times k_e + w_d \times k_d \times (1 - t)$$

Where

w_e = Percentage of Financing from Equity

k_e = Cost of Equity

w_d = Percentage of Financing from Debt

k_d = Cost of Debt

t = Corporate Tax Rate

- e. In order to estimate the cost of equity, we have applied the Capital Asset Pricing Model (CAPM). According to CAPM, the cost of equity consists of a risk free rate and a risk premium. The risk premium is calculated by multiplying the market risk premium by the beta factor, a Company specific measure of the systematic risk of an equity investment in a Company. The formula for cost of equity is as under:

$$k_e = Rf + \beta (Rm - Rf) + SCRP + CSRP$$

Where

Rf = Risk free rate of return (Generally taken as 10- year Government Bond Yield)

β = Beta Value (Sensitivity of stock returns to market returns)

k_e = Cost of Equity

Rm = Market Rate of Return (Generally taken as Long Term average return of Stock Market)

$SCRP$ = Small Company Risk Premium

$CSRP$ = Company Specific Risk Premium

- f. Discounting free cash flow to the Company at the cost of capital will yield the value of operating assets of the Company. To arrive at the Company value, the fair value of non-operating assets will also have to be added. Non-operating assets include cash, marketable securities and holdings in other companies.
- g. Terminal value is the present value at a future point in time of all future cash flows when we expect stable growth rate forever. To arrive at the terminal value, the Perpetuity Growth Model is used which accounts for the value of free cash flows that continue into perpetuity in the future, growing at an assumed constant rate. Here, the projected free cash flow in the first year beyond the projection horizon (N+1) is used. This value is divided by the discount rate minus the assumed perpetuity growth rate.

$$T_0 = \frac{FCF_{n+1}}{(WACC - g)}$$



Where,

T_0 = the value of future cash flows at a future point in time which is immediately prior to $n+1$, or at the end of period N , which is the final year in the projection period,

$WACC$ = Weighted Average Cost of Capital; and

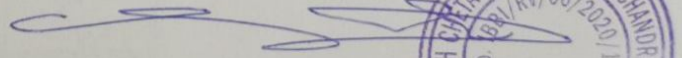
g = perpetual growth rate.

This equation is a perpetuity, which uses a geometric series to determine the value of a series of growing future cash flows. We have attached Summary of our working as per **Annex. - A**.

6. CONCLUSION

On the basis of the valuation methodologies and basis for determining value of Equity Shares discussed above, we estimate the Fair Value of the Equity Shares of DRC Systems India Limited as on June 30, 2022 to be **₹32.11** per Equity Share.

FOR, CHETANKUMAR J. SHAH



PLACE: AHMEDABAD
DATE: 19TH SEPTEMBER 2022

REGISTERED VALUER
ASSETS CLASS: SECURITIES OR
FINANCIAL ASSETS
REGN NO. IBBI/RV/06/2020/13505
UDIN : 22120539ATNAUU2738

Annexure – A
Discounted Cash Flow Method
Income Approach

Discounted Cash Flow Method		(₹ In Crore)				
Particulars		9M2023	2024	2025	2026	2027
PAT		2.52	5.39	7.65	10.03	12.93
Add: Interest		0.58	0.64	0.43	0.22	-
Add: Depreciation and Amortisation		0.51	0.68	0.61	0.55	0.50
Gross Cash Flow to Firm		3.61	6.71	8.69	10.81	13.43
Capital Expenditure		(0.75)	(0.75)	(0.75)	(0.75)	(0.50)
Changes in W.C.		0.86	(2.01)	(2.28)	(2.44)	(3.07)
Net Free Cash Flow to Firm or Equity		3.72	3.95	5.66	7.62	9.87
Year for Discounting Factor		0.38	1.38	2.38	3.38	4.38
Discounting Factor		0.96	0.87	0.78	0.71	0.64
Net Present Value		3.58	3.44	4.44	5.40	6.31
Present Value for Explicit Period	23.17					

Equity Valuation as on June 30, 2022

Particulars	Amount ₹ in Crore
Present Value of Explicite period	23.17
Present Value of Terminal Period Value	115.59
Cash & Bank Balance	0.51
Less: Total debt	(15.15)
Equity Valuation	124.12
Existing No. of Shares	38,653,560
Value Per Share (in INR)	32.11

