Biren Shah & Co.

Chartered Accountants

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September 22, 2018

To,
The Board of Directors
Zenith Medicine Private Limited
504, Iscon Elegance, Prahlad Nagar Cross Road
Nr. Anand Dham Jain Derasar, S. G. Road
Ahmedabad – 380 051

Sub : **Recommendation of fair equity share exchange ratio for the Proposed Scheme of Amalgamation between Zenith Medicine Private Limited & Zenith Healthcare Limited.**

Dear Sir,

Zenith Medicine Private Limited (hereinafter referred to as "ZHL" 'the Transferee Company', 'you', 'your'), has appointed M/s. Biren Shah & Company (hereinafter referred to as "Biren Shah & Company", 'the Valuer' 'we', 'our') to recommend a fair exchange ratio of equity shares for the Proposed Amalgamation of Zenith Medicine Private limited with Zenith Healthcare Limited (hereinafter referred to as 'ZMPL' and 'ZHL' respectively and together as 'the Companies') based on the discussions that we have had with information that we have received from, the managements of the Companies ('Managements') from time to time.

DISCLAIMER AND LIMITATIONS

This Share Exchange Ratio Report is prepared by M/s. Biren Shah & Company, Chartered Accountants under an engagement letter from Zenith Medicine Private Limited on the basis of information, documents, papers and explanations given by the management, officers and staff of the Companies to M/s. Biren Shah & Company.

In preparing the Share Exchange Ratio Report, M/s. Biren Shah & Company has relied upon and assumed, without independent verification, the truthfulness, accuracy and completeness of the information and the financial date (which shall include, but not be limited to historical financial information, financial projections or forward looking statements that have a bearing on financial information) provided by the Companies. M/s. Biren Shah & Company has therefore relied upon all specific information as received and declines any responsibility should the results presented be affected by the lack of completeness or truthfulness of such information. Actual performance, results of operations or facts may differ from management certified projected financial information or forward looking statements.

Our work does not constitute an audit or certification or due diligence of the past financials of the Companies and we have relied upon the information provided to us by the Companies as regards such working results.

Publicly available information deemed relevant for the purpose of the analysis contained in the Share Exchange Ratio Report has also been used.

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M/s. Biren Shah & Company has not provided any accounting, tax or legal advice to Companies. Share Exchange Ratio Report should not be construed as investment advice or any form of recommendation either for making or divesting investment in the Company. The Companies are assumed to be in compliance with all the laws applicable to them.

All the workings for the valuation are made to the nearest two decimal points.

SOURCES OF INFORMATION

We have relied on the following information made available to us by the management of the Companies for the purpose of this report:

1. Salient Features of the Proposed Scheme of Amalgamation;
2. Audited Financial Statements of ZMPL for the year ended on March 31, 2018 and as on June 30, 2018;
3. Audited Financial Statements of ZHL for the year ended on March 31, 2018 and as on June 30, 2018;
4. Brief History, Present Activities, Business Profile, Shareholding Pattern of the Companies;
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;
6. Other relevant information and documents for carrying out this valuation exercise.

(A) Zenith Healthcare Limited (ZHL)

Zenith Healthcare Limited (ZHL) bearing Corporate Identification Number (CIN) L24231GJ1994PLC023574, is a listed Public Limited Company Incorporated on November 15, 1994 with Registrar of Companies, Gujarat, Ahmedabad and is having registered office at 504, Iscon Elegance, Nr. Anand Dham Jain Derasar, Prahlad Nagar Cross Road, S.G. Road, Ahmedabad – 380 015, Gujarat, India ZHL is engaged in the business of manufacturing and supplies of wide range of pharmaceutical formulations, tablets, ointments, injectibles, capsules and oral liquid including exports.

Equity Shares of the Company are Listed on BSE Limited Script Code 530665.

Shareholding pattern as on June 30, 2018

Particulars	No. of Shares	Shareholding %
Promoters and Promoters Groups	1,54,43,579	28..7381%
Public	3,82,95,421	71.2619%
Total	5,37,39,000	100.00%

(B) Zenith Medicine Private Limited (ZMPL)

Zenith Medicine Private Limited (ZMPL), bearing Corporate Identification Number (CIN) U85310GJ2008PTC053890, is an unlisted Private Limited Company Incorporated on May 15, 2008, registered with the Registrar of Companies, Gujarat, Ahmedabad and is having the Registered Office at 504, Iscon Elegance, Nr. Sapath – 5, S.G. Road, Ahmedabad – 380 015, Gujarat, India. ZMPL is a Company held wholly by the Promoter Group of ZHL, engaged in the expert business of medicine, particularly, injectables, vaccines and ointments.

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Shareholding pattern as on June 30, 2018

Particulars	No. of Shares	Shareholding %
Promoters and Promoters Group	97,100	100.00%
Total	97,100	100.00%

VALUATION APPROACH

The Proposed Amalgamation contemplates the Amalgamation pursuant to a Scheme of Arrangement. Arriving at the fair equity share exchange ratio for the proposed amalgamation of ZMPL with ZHL would require determining the fair values of each company. These values are to be determined independently but on a relative basis, and without considering the effect of the proposed amalgamation.

As per SEBI Circular CFD / DIL3/CIR/2017/21 dated March 10, 2017. The issuance of shares under scheme in case of allotment of shares only to a select group of shareholders or shareholders of unlisted companies pursuant to such schemes shall follow the pricing provisions of Chapter VII of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (hereinafter referred to as '"the ICDR Regulations").

There are several methods of valuation, which are recognized as sound methods for arriving at the fair market value of the equity shares of the Companies. It is beyond doubt that no single method can be competently used in all situations.

Several factors will have to be factored in before one arrives at the decision of using one or more methods of valuation. Some indicative illustrations are as under:

1. The nature of the business of the history of the enterprise from its inception.
2. History of asset creation and change in its market value as compared to book value.
3. Intangible assets either on or off the Balance Sheet.
4. Objective for which the valuation is carried out.
5. Comparison of profitability of the company inter-se and with industry average.

VALUATION OF EQUITY SHARE UDNER DIFFERENT APPROACHES

COST APPROACH

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. The Cost Approach ignores the future return the assets can produce and is calculated using historical accounting data that does not reflect how much the business is worth to someone who may buy or invest in the business as going concern.

This valuation approach is mainly used in case where the firm is to be liquidated i.e., It does not meet the "going concern" criteria or in case where the assets base dominate earnings capability. The operating assets have therefore been considered at their book values.

Net Assets is the excess of all assets of company over its liabilities to outsiders as shown in the Balance Sheet.

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INCOME APPROACH

A. PROFIT EARNING CAPACITY VALUE METHOD

Under this method, the average of profits after tax of the past years is capitalized at an appropriate rate to arrive at value of shares. The crux of estimating the profit earning capacity value lies in the assessment of the future maintainable earnings of the business. While the past trends in profits and profitability would serve as a guide, it is not be overlooked that the purpose of valuation is to arrive at the future post tax maintainable stream of earnings. All relevant factors that have a bearing on the future maintainable earnings of the business must, therefore, be given due consideration.

Method of computation of average profits:

Ordinarily, the averaging of profits will be worked out for the past three accounting years for which audited accounts are available. But in appropriate cases, e.g., where the capital base of the company or the profits show erratic variation or where the premium involved is substantial or the industry concerned is subject to cyclical trends, a weighted average of the profits after tax will be considered.

If the year-to year variation in the profits of the last three years is considered to be normal, the average may be calculated on the basis of a simple arithmetical average. But if the profits are rising consistently from year to year at a steady ratio and there are reasons to believe that the rising trend will be maintained into the future, the average may be calculated on a weighted basis giving a weight age of 3 for the latest year, 2 for the middle year and 1 for the farthest year. Conversely, if the profits are declining consistently from year to year, it would be advisable to consider the profits of only the latest year since any average-simple or weighted will result in a higher figure than the profits of the latest year which is inconsistent with the situation of consistently declining profits. Here also, it would be prudent to look in to the accounts of the last 5 years to make a judgment on the trend in profits.

Capitalization Rate:

The erstwhile CCI Guidelines prescribed capitalization rates for different class of companies. The guidelines categorized the capitalization rate under three broad categories viz. Manufacturing Companies, Trading Companies and intermediate Companies. The rates prescribed were:

1. 15% in the case of manufacturing companies / service providers
2. 20% in the case of trading companies and
3. 17 ½ in the case of "intermediate companies", that is to say, companies whose turnover from trading activity is more than 40%, but less than 60% of their total turnover.

B. DISCOUNTED CASH FLOWS (DCF) METHOD

Under this method, the value of equity shares of the Company is arrived at by analyzing the historical trends and the future financial projections of the Company. 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.

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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.

Use of Discounted Free Cash Flows Method involved determining the following.

- Estimated future cash flows
- Number of years cash flows used in the study
- Appropriate Discount Rate to be applied to cash flows
- The continuing value i.e. the cumulative value of the free cash flows beyond the explicit forecast period.
- Value of Debt, if any.

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 firm, weighted by their market value proportions.

The weighted average cost for capital is the discount factor used to arrive at the value for the company. 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 value of non-operating assets will also have to be added. Non-operating assets include cash, marketable securities and holding in the other companies.

MARKET APPROACH

Under Market approach, the valuation is based on the market value of the company in case of listed companies. The market approach generally reflects the investors' perception about the true worth of the company.

MARKET PRICE METHOD

This method evaluates the value on the basis of prices quoted on the stock exchange(s). Average of quoted price is considered as indicative of the value perception of the company by investors operating under free market conditions. The average of such Market Prices could be taken on a simple or weighted average basis taking into consideration the value and the volumes of the transactions taken place on the stock exchange.

This method is important for the Valuer as the secondary Equity Market is not only a reflection of the fair value of the Company, but also of the other market information to know the perception of the market prevailing during the span of time for which the price of the share is evaluated.

Under this method of valuation, calculation is done based on the average of weekly high lows of volume weighted market price of shares of a company for a period of 26 weeks from the date for which the valuation is to be arrived at.

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In compliance of SEBI Circular CFD/DIL3/CIR/2017/21 dated March 10, 2017 and on the basis of pricing formula prescribed under Regulation 76 of ICDR Regulations, the volume- weighted average market price, the value per shares of the company shall be higher of the following:

i) The average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognized stock exchange during the twenty six weeks preceding the relevant date; or

ii) The average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognized stock exchange during the two weeks preceding the relevant date.

Pricing of equity shares –infrequently traded shares

As per ICDR Regulation 76A. Where the shares are not frequently traded, the price determined by the issuer shall take into account valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies.

BASIS OF FAIR EQUITY SHARE EXCHANGE RATIO

The fair exchange ratio of equity shares has been arrived at on the basis of a fair equity valuation of the companies and is based on the various methodologies explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the business of the Companies, having regard to information base, key underlying assumptions and limitations.

Though different value have been arrived at under each of the above methodologies, for the purpose of recommending a fair exchange ratio of equity shares, it is necessary to arrive at a single value for the shares. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of the Companies but at their relative values to facilitate the determination of a fair equity shares exchange ratio. For this purpose, it is necessary to give appropriate weights to the value arrived at under each methodology. We have given weights to the value arrived at under different methodologies, based on the evaluation and judgement of the business of the companies, in order to arrive at the relative values of the equity shares.

Valuation Approach	ZHL		ZMPL	
	Value Per Share	Weight	Value Per Share	Weight
Adjusted Net Asset Value Method	1.14	1	513.78	1
Discounted Cash Flow Method	-	-	-	-
Market Price Method *	-	-	-	-
Relative Value Per Share	1.14		513.78	
Share Allotment Ratio			450	

*** Infrequently traded shares**

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In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined herein above, we recommend the following fair equity share exchange ratio of equity shares for the Proposed Amalgamation:

"450 equity shares of ZHL of Rs. 1/- each fully paid up for every 1(one) equity shares of ZMPL of Rs. 10/- each fully paid up".

For, **BIREN SHAH & COMPANY**
Chartered Accountants

(Biren Shah)
Proprietor
M. No. 126881