Addendum Letter to Valuation Report

August 2023

Tel: +91 22 6228 0817

HO
The Ruby, Level 9, North West Wing,
Senapati Bapat Marg, Dadar (W),
Mumbai 400028, INDIA

Ref. No.: SD/Aug251/2023

August 25, 2023

To,

The Board of Directors
Gorani Industries Limited
Plot No. 32-33, Sector F,
Sanwer Road, Industrial Area,
Indore – 452 015.

The Board of Directors
Blow Hot Kitchen Appliances Private Limited
Industrial Estate Pologround,
Indore – 452 015.

Dear Sir(s) / Madam(s),

Sub: SEBI Query

We, BDO Valuation Advisory LLP (“**BDO Val**” or “**We**” or “**Us**”), have been appointed by Gorani Industries Limited (“**GIL**” or “**Transferee Company**” or “**the Client**”) vide Addendum Engagement Letter dated December 19, 2022 to revise the valuation of equity shares and determine the fair share swap ratio considering financial statements as on December 31, 2022 for the proposed merger of Blow Hot Kitchen Appliances Private Limited (“**BHKAPL**” or “**Transferor Company**”) into GIL on a going concern basis, as per the revised Proposed Scheme of Arrangement pursuant to provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 (“**Proposed Scheme**”).

In this regard, we had issued **Report dated February 07, 2023 bearing its reference number SD/Feb7-117/2023, Valuation Annexure dated February 07, 2023 bearing its reference number SD/Feb7-118/2023, Addendum Letter to Valuation Report dated February 21, 2023 bearing its reference number SD/Feb21-123/2023, Addendum Letter to Valuation Report dated April 06, 2023 bearing its reference number SD/Apr6-1/2023, and Addendum Letter to Valuation Report dated May 04, 2023 bearing reference number SD/May41/2023**, recommending the Fair Share Swap Ratio for the Proposed Scheme.

Further, with reference to the above-mentioned Report, we have received certain observations / queries from the Securities and Exchange Board of India (“**SEBI**”), as replied to below.

This addendum to the report shall be read in conjunction to the Valuation Report, Valuation Annexure and Addendum Letters to the Valuation Report. All other terms & conditions and other contents mentioned in the Valuation Report shall remain unchanged and would apply to this clarification to the Valuation Report as well.

Regards,

For **BDO Valuation Advisory LLP**
IBBI No.: IBBI/RV-E/02/2019/103

BDO VALUATION ADVISORY LLP

Swanand Kishor Deshpande
Partner
IBBI No.: IBBI/RV/05/2019/11148

1) *"Detailed rationale for the assumptions taken in while valuing BHKAPL and Gorani Industries."*

Our response to the same is as below:

The detailed rationale for the assumptions considered while undertaking the valuation exercise of GIL and BHKAPL are:

1. **Terminal Growth Rate**:

   Regarding the assumption of terminal growth rate, we have considered a long-term inflationary growth rate of India for both GIL and BHKAPL, as they operate in a similar industry and economy.

2. **Weighted Average Cost of Capital:**

   With regard to the valuation of GIL and BHKAPL we have considered a Weighted Average Cost of Capital ("**WACC**") of 12.4% and 15.4%, respectively. The rationale for the same is detailed herein below:

GIL:

Particulars	%	Explanation
Cost of Equity		
Risk free return (Rf)	7.3%	Risk free rate has been considered based on 10 years zero coupon yield curve issued by Government of India as at Valuation Date
Market Return (Rm)	15.0%	Market Return has been considered based on the long term average returns earned by an equity investor investing in India
Risk premium (Rf-Rm)	7.7%	Market Premium = Market Return - Risk Free Rate
Beta (ß)	0.6	Based on the beta of listed comparable companies opertaing in similar industries
Base Cost of Equity (Ke)	12.1%	Ke = Rf + ß x (Rm-Rf)
Company Specific Risk Premium (Ksp)	1.0%	Being the Company Specific Risk Premium added on account of factors inter - alia, risk of achieving projections, profitability, macro economic conditions, etc.
Revised Cost of Equity	**13.1%**	**Ke + Ksp**
Cost of Debt		
Cost of debt (Kd)	8.0%	As per the prevailing borrowing rates
Tax Rate (t)	25.2%	Based on the prevailing statutory tax rates in India
Cost of Debt (Net of Tax)	**6.0%**	**Kd * (1 - t)**
D/(D+E)	10.0%	Based on the financial statements (actual and projected)
WACC	**12.4%**	**WACC = Ke * (E/[D+E]) + Kd * (D/[D+E])**
WACC Adopted	**12.4%**	**After rounding off**

BDO VALUATION ADVISORY LLP

BHKAPL

Particulars	%	Explanation
Cost of Equity		
Risk free return (Rf)	7.3%	Risk free rate has been considered based on 10 years zero coupon yield curve issued by Government of India as at Valuation Date
Market Return (Rm)	15.0%	Market Return has been considered based on the long term average returns earned by an equity investor investing in India
Risk premium (Rf-Rm)	7.7%	Market Premium = Market Return - Risk Free Rate
Beta (β)	0.6	Based on the beta of listed comparable companies opertaing in similar industries
Base Cost of Equity (Ke)	11.9%	Ke = Rf + β x (Rm-Rf)
Company Specific Risk Premium (Ksp)	4.0%	Being the Company Specific Risk Premium added on account of factors inter - alia, risk of achieving projections, profitability, macro economic conditions, marketibility of shares, etc.
Revised Cost of Equity	**15.9%**	**Ke + Ksp**
Cost of Debt		
Cost of debt (Kd)	8.0%	As per the prevailing borrowing rates
Tax Rate (t)	25.2%	Based on the prevailing statutory tax rates in India
Cost of Debt (Net of Tax)	**6.0%**	**Kd * (1 - t)**
D/(D+E)	5.0%	Based on the financial statements (actual and projected)
WACC	**15.4%**	**WACC = Ke * (E/[D+E]) + Kd * (D/[D+E])**
WACC Adopted	**15.4%**	**After rounding off**

3. **Valuation Approach and Methodology**:

- Considering the shares of GIL are listed on BSE Limited, we have considered the Market Price method under the Market Approach for the valuation of GIL. To derive the valuation considering this methodology we have considered the ICDR Regulations which provide guidelines to estimate the market price. Further, since BHKAPL is not listed on any stock exchange in India, the Market Price method under the Market Approach has not been adopted for the valuation of BHKAPL.
- Comparable Companies Multiple (“**CCM**”) method under the Market Approach has been considered for valuation of GIL and BHKAPL whereby we have considered appropriate multiples of the listed comparable companies operating in similar industries, for the valuation exercise.
- The Discounted Cash Flow Method (“**DCF**”) under the Income Approach has been considered for valuation of GIL and BHKPAL, considering the true worth of their businesses would be reflected in their future earnings capability.
- Finally, since the Summation Method under the ‘*Asset / Cost Approach*’ does not reflect the intrinsic value of the business of the Companies in a ‘*going concern scenario*’, we have not considered the same for the current valuation exercise.

BDO VALUATION ADVISORY LLP

4. <u>**Comparable companies considered for valuation of GIL and BHKAPL as per the CCM method**</u>:

The following companies based on their similar business as that of GIL and BHKAPL, operating in the kitchen appliance business, have been considered to derive the value per share as per the CCM Method under the Market Approach.

Sr. No.	Company Name
1	Butterfly Gandhimathi Appliances Limited
2	Jaipan Industries Limited
3	Stove Kraft Limited
4	TTK Prestige Limited

We have considered the trading Enterprise Value ("**EV**") / Earnings Before Interest, Tax, Depreciation and Amortization ("**EBITDA**") multiple (x) of the above-mentioned companies for the CCM based valuation exercise of GIL and BHKAPL. The median multiple of the above companies has been discounted by 10.0% for GIL to account for factors like differences in size, stage of business, non-availability of distribution network and brand, etc., and the same median multiple has been discounted by 15.0% for BHKAPL to account for factors like differences in size, stage of business, illiquidity, etc.

2) *"Industry wide comparisons of PAT and EBITDA growth vis-à-vis the growth rates assumed in the valuation report."*

Our response to the same is as below:

We would like to clarify that the assumptions specified in the valuation report are regarding EBITDA and we have not considered Profit After Tax ("**PAT**") in our valuation exercise. We have considered the EV / EBIDTA multiple (x) in the CCM method under the Market Approach and the Free Cash Flow to the Firm ("**FCFF**") approach in the DCF Method under the Income approach, which is also an EBITDA based approach.

Hence our below analysis / comparison is based on Revenue and EBITDA:

<u>**GIL**</u>:

GIL has achieved a revenue CAGR of ~ 9.1% for the past period (FY18 to FY22), Going forward, during the projected period (FY23 to FY27) the management of GIL is estimating to grow at a revenue CAGR of ~ 20.4%. The future estimated growth will be contributed by the additional contribution of current customers, the addition of new customers in the projected period (FY23 to FY27) and increased sales volume of gas hobs, gas stoves, range hoods, and gas geysers.

BDO VALUATION ADVISORY LLP

Further, during FY22, GIL achieved an EBITDA margin (%) of ~ 10.3% which is estimated to increase to an average EBITDA margin (%) of ~ 11.3% in the projected period (FY23 to FY27).

As a valuer, we have built our comfort on the projections based on the rationale that GIL is projecting to achieve an average EBITDA margin (%) of ~ 11.3% in the projected period (FY23 to FY27) which falls in a reasonable range, considering that the company has managed to achieve in the past period. The incremental EBITDA margin (%) of ~ 1.0%, would be on account of economies of scale.

BHKAPL:

BHKAPL, for the past period (FY18 to FY22), has achieved a revenue CAGR of ~ 45.8%, and during the projected period (FY23 to FY27), the management is estimating to grow at a revenue CAGR of ~ 20.5%. We understand that in FY22, BHKAPL witnessed a substantial growth of 96.5% (Y-o-Y %) in its revenue as it began to cater to additional states and a new e-commerce / trade channel.

Further, for the past period (FY18 to FY22), BHKAPL achieved an average EBITDA margin (%) of ~ 12.8%. However, during FY22 the EBITDA margin (%) of BHKAPL dropped to ~ 1.8%, as BHKAPL entered into new states and incurred additional selling and marketing expenses to increase its brand presence, in the new states. On account of these additional expenses, BHKAPL was able to achieve the substantial growth of 96.5% (Y-o-Y %) in its revenue, in FY22. These expenses are investments made in the business to augment for additional future growth in revenue, which will translate into better EBITDA margins (%) in the future, in line with the past average EBITDA margins (%) of ~ 12.8%.

As a valuer, we have built our comfort on the fact that BHKAPL has grown at a revenue CAGR of ~ 45.8% during the past period (FY18 to FY22) and the same for the projected period (FY23 to FY27) is estimated to be ~ 20.5%. Further, we have built additional comfort on the projections based on the rationale that BHKAPL has achieved an average EBITDA margin (%) of ~ 12.8% in the past period (FY18 to FY22) and going forward, during the projected period (FY23 to FY27) the management is estimating an average EBITDA margin (%) of ~ 8.2%.

Industry Comparative Analysis:

We would like to state that companies in any industry would be operating in a business life cycle that would differ from one another. GIL and BHKAPL have been in an investment / growth stage in the past couple years that has enabled them to achieve a certain level of growth in FY22 ~ approximately ~ 56.3% for GIL and ~ 96.5% for BHKAPL. Going forward, both GIL and BHKAPL expect to see their businesses grow exponentially, as mentioned above, before they enter into a more mature / stable phase.

Since we have been requested, we have provided below an analysis of the comparable companies considered for the valuation exercise:

		Revenue Y-o-Y (%) Growth			
Sr. No.	**Company Name**	**FY19**	**FY20**	**FY21**	**FY22**
1	Butterfly Gandhimathi Appliances Limited	20.6%	4.1%	28.1%	15.6%
2	Jaipan Industries Limited	-7.6%	-13.3%	-33.8%	58.2%
3	Stove Kraft Limited	22.4%	4.5%	28.2%	32.3%
4	TTK Prestige Limited	13.0%	-1.6%	5.5%	24.5%

		Revenue - CAGR	EBITDA - CAGR	Revenue	EBITDA
Sr. No.	**Company Name**	**FY19 - FY22**	**FY19 - FY22**	**LTM* (INR Mn.)**	
1	Butterfly Gandhimathi Appliances Limited	16.8%	13.3%	10,596.0	713.4
2	Jaipan Industries Limited	-4.3%	-43.9%	406.0	8.3
3	Stove Kraft Limited	21.4%	76.4%	12,405.8	1,017.3
4	TTK Prestige Limited	9.9%	14.7%	28,636.6	3,874.3

** Last 12 month period ended February 06, 2023*

The listed comparable companies, excluding Jaipan Industries Limited, have achieved an average revenue CAGR of ~ 16.0% and the same including Jaipan Industries Limited have achieved an average revenue CAGR of ~ 10.9%, over the past period (FY18 to FY22). Further, the same listed comparable companies, excluding Jaipan Industries Limited, have achieved an average EBITDA CAGR of ~ 34.8% and the same including Jaipan Industries Limited have achieved an average EBITDA CAGR of ~ 15.1%, over the same period.

3) *"a- Historic PAT and EBITDA growth of the both the companies vis-à-vis the PAT growth of the companies taken in valuation report.*

b- Also clarify the underlying assumptions of the valuer with regard to increase in CAGR from 9.1% (FY 18 to FY 22) to 20.4% (FY 23 to FY 27)"

Our response to the same is as below:

a- For clarification on the point number 3, request you to kindly refer to the detailed explanations stated in point number 2.

BDO VALUATION ADVISORY LLP

b- Kindly refer to Addendum Letter to Valuation Report dated May 04, 2023 bearing reference number SD/May41/2023. The same has been reproduced as below:

"With regard to GIL, we understand from the management, the future growth will be achieved based on additional contribution of current customers and the addition of further customers in the projected period and basis there will be additional sales volume of gas hobs, gas stoves, range hoods, and gas geysers.

With regard to BHKAPL, we understand from the management, the company had recently increased its distribution network by entering into 5 additional states, tying up with modern trade distribution channels like Vijay Sales, DMart, Lotus, Pai, Sarvana and selling through e-commerce channels like Amazon, Flipkart, Pepperfry and Snapdeal, the benefits of which would be achieved in the future years."

BDO VALUATION ADVISORY LLP

(This space is intentionally left blank)