



**Corporate  
Professionals**

**FAIRNESS OPINION**

**R SYSTEMS INTERNATIONAL LIMITED**

**02<sup>nd</sup> May, 2019**

**Strictly Private & Confidential**

Corporate Professionals Capital Private Limited

CIN - U74899DL2000PTC104508

D 28, South Extn. Part-I, New Delhi 110049, India | T: +91 11 40622200 | F: +91 11 40622201 | E: mb@indiaccp.com

[www.corporateprofessionals.com](http://www.corporateprofessionals.com)

Ref. No: CPC/MB/20A/2019-20

Dated: 02.05.2019

SEBI Reg. No: INM000011435

To,

The Board of Directors

R SYSTEMS INTERNATIONAL LIMITED

C-40, C Block,

Sector 59, Noida-201307,

Uttar Pradesh, India

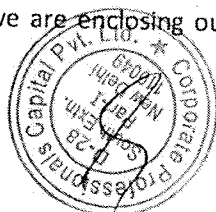
**Subject: Fairness Opinion on the valuation report issued in the capacity of Registered Valuer under the provisions of Companies Act, 2013 by CA Gandharv Jain and in the capacity of Independent Chartered Accountant as per the regulations of Security and Exchange Board of India by "Jain Gandharv & Associates, Chartered Accountants" dated May 1, 2019 in the proposed Scheme of Reduction of Share Capital of R Systems International Limited.**

Dear Sir,

We refer to the request made by the management of R Systems International Limited (here-in-after referred to as "Company/ R Systems") for the purpose of arriving at an opinion on the Valuation Report issued for reduction of capital between Company, its creditors and its shareholders dated 1.05.2019, issued by an Independent Chartered Accountant "Jain Gandharv & Associates, Chartered Accountants" through CA Gandharv Jain, Registered Valuer, (here-in-after referred as "Valuer") as per the regulations of Securities and Exchange Board of India and under the provisions of Companies Act, 2013 by in respect of the proposed Reduction of Share Capital of Company pursuant to a scheme ("Proposed Scheme/Scheme"). The Management of R Systems is considering a Scheme of Capital Reduction under the provision of Sections 66 and other applicable provisions of the Companies Act, 2013. The scheme provides for re-organization and reduction of equity share capital of R Systems.

With reference to the above, Corporate Professionals Capital Private Limited has been appointed as Merchant Bankers by the management of R Systems International Limited to provide a Fairness Opinion on the valuation report issued by CA Gandharv Jain in the capacity of "Registered Valuer" and "Jain Gandharv & Associates, Chartered Accountants" in the capacity of Independent "Chartered Accountant" pursuant to the Proposed Scheme of Capital Reduction for Cancellation of shares held by R Systems Employee Welfare Trust in R Systems International Limited.

In terms of our engagement, we are enclosing our opinion on the fair value of the equity shares of the Company to



comply with the valuation requirements under the Companies Act, 2013 and regulations issued by SEBI with respect to the scheme of capital reduction proposed by the company along with this letter. All comments as contained herein must be read in conjunction with the caveats to this opinion. The opinion is confidential and has been made on the basis of the valuation report dated 1<sup>st</sup> May, 2019 mentioned above.

The opinion is confidential and has been made in accordance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (here-in-after referred to as "listing regulations") read with SEBI Circular no. CFD/DIL3/CIR/2017/21 dated March 10, 2017 and SEBI Circular no. CFD/DIL3/CIR/2017/26 dated March 23, 2017. It should not be used, reproduced or circulated to any other person, in whole or in part, without the prior consent of Corporate Professionals Capital Private Limited, such consent will only be given after full consideration of the circumstance at the time. We are however aware that the conclusion in this report may be used for the purpose of disclosure to be made to the stock exchange, NCLT, ROC, RD, RBI and other related statutory authority in this regard and we provide consent for the same. Please feel free to contact us in case you require any additional information or clarifications.

Yours Faithfully

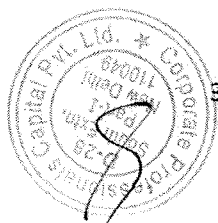
For Corporate Professionals Capital Private Limited

  
Maneesh Srivastava

[Authorized Signatory]

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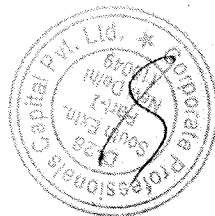
## CONTEXT AND BACKGROUND

We understand that R Systems, founded in 1993, is IT Services & Solutions and IT-enabled services provider. Its services and solutions extended across five major verticals which include Telecom & Digital Media, Banking & Finance, HealthCare, Manufacturing & Logistics, and Retail & E-Commerce.

The Management of R Systems is considering a proposed Scheme of Capital Reduction for Cancellation of shares held by R Systems Employee Welfare Trust in R Systems International Limited under the provision of Sections 66 and other applicable provisions of the Companies Act, 2013. The scheme provides for re-organization and reduction of equity share capital of R Systems.

In accordance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with SEBI Circular no. CFD/DIL3/CIR/2017/21 dated March 10, 2017 and SEBI Circular no. CFD/DIL3/CIR/2017/26 dated March 23, 2017, the Listed Company shall submit the "Fairness Opinion" obtained by a Merchant Banker on the Valuation of assets / shares done by the Valuer for the listed entity and unlisted company.

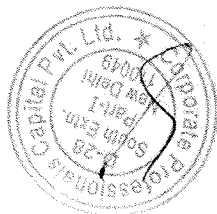
With reference to the above, we, **Corporate Professionals Capital Private Limited**, a SEBI Registered Merchant Banker, have been appointed by the company to provide the "Fairness Opinion" on the same.



**KEY FACTS & CERTAIN EXTRACTS OF THE SCHEME**

Following are the extracts of the proposed scheme of capital reduction of R Systems International Limited and its shareholders and creditors under Section 66 of the Companies Act, 2013:

- ❖ R Systems has an employee welfare trust named as R Systems Employees Welfare Trust (hereinafter referred as "Trust") wherein certain employees had been specified as eligible beneficiaries to get the equity shares of R Systems on vesting and exercise of options granted to them as per R Systems International Ltd. Employees Stock Option Plan - Year 2001.
- ❖ The Trust transferred equity shares of R Systems on exercise of options by the eligible employees prior to January 2006 and thereafter no options were in force which could have been exercised subsequently. Hence, since January 2006 till date, there are no ascertained employees or beneficiaries of this Trust who are eligible to get the Trust Fund including the equity shares in R Systems as held by Trust.
- ❖ As on the Valuation Date, the Trust holds 738,980 equity shares of Re.1/- each in R Systems. Since, there is no eligible employee or beneficiary of this Trust, hence Trustees are considering to wind up this Trust in near future post utilization or extinguishing the Trust Fund. The extinguishment of Trust Fund would result into cancellation of equity shares of R Systems held by this Trust. Therefore, R Systems is re-aligning its share capital structure by cancelling the equity shares held by the Trust following the process of capital reduction.
- ❖ In view of the above, the Management of R Systems has decided to reduce the paid-up equity share capital of R Systems by cancelling and extinguishing the equity shares as held by the Trust and there will be no payout to the Trust pursuant to the proposed capital reduction.
- ❖ The proposed capital reduction would be beneficial for all remaining shareholders of R Systems as it would improve earnings per share and also enhance the shareholders' value.
- ❖ Furthermore, Board has also considered that the proposed capital reduction would not have any adverse effect on the creditors of R Systems and the Company would honour its commitments and meet its obligations in the ordinary course of business and also there is no payout to the Trust pursuant to the proposed capital reduction.



**VALUER ANALYSIS & WORKINGS**

**Valuation Approaches**

In order to value the Company, the valuer has considered three approaches to valuation, as provided under the IVS 103 issued by ICAI 2018 – Valuation Approaches and Methods namely;

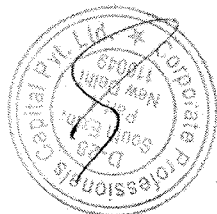
1. Asset Approach – Book Value Method
2. Income Approach
  - a. Discounted Cash Flows Method
  - b. Capitalization of Free Cash Flows Method
3. Market Approach –
  - a. Comparable Companies Multiples Method
  - b. Comparable Companies Transaction Method

**Pricing Regulations as per SEBI**

As per the SEBI (ICDR) Regulations, 2018 pricing rules for frequently traded shares states that “If the equity shares of the issuer have been listed on a recognized stock exchange for a period of twenty six weeks or more as on the relevant date, the price of the equity shares to be allotted pursuant to the preferential issue shall be not less than higher of the following:

- a. 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
- b. 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.”

Further, SEBI (ICDR) Regulations, 2018 defines frequently traded shares “means the shares of the issuer, in which the traded turnover on any recognized stock exchange during the twelve calendar months preceding the relevant date, is at least ten per cent of the total number of shares of such class of shares of the issuer”



Since the company's traded turnover during the twelve calendar months preceding the relevant date is less than ten per cent of the total number of shares. Therefore, valuer has applied the methods of valuation provided for infrequently traded shares as per SEBI (ICDR) Regulations, 2018. In this respect SEBI (ICDR) Regulations, 2018 states that "Where the shares of an issuer are not frequently traded, the price determined by the issuer shall take into account the valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies: Provided that the issuer shall submit a certificate stating that the issuer is in compliance of this regulation, obtained from an independent valuer to the stock exchange where the equity shares of the issuer are listed"

**Valuation under different methods as per regulations has been presented below:**

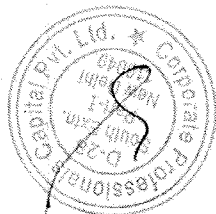
a) **Asset Approach - Book Value Method**

The asset-based (net underlying assets) approach is a form of the cost approach. The sum of the individual asset values represents the total asset value of the enterprise. The enterprise's liabilities related to working capital are deducted to arrive at an indication of value for the invested capital of the business. Because the cost approach does not always reflect the full value of intangible assets, it is often not appropriate to value an operating business. An asset's book value is equal to its carrying value on the balance sheet, and companies calculate it netting the asset against its accumulated depreciation.

Book value as on valuation date March 31, 2019 is INR 26.83 per equity share which has been calculated by the valuer attached in the Appendix 1 of valuation report issued by the valuer.

b) **Discounted Cash Flow Method**

The DCF method values the asset by discounting the cash flows expected to be generated by the asset for the explicit forecast period and also the perpetuity value (or terminal value) in case of assets with an indefinite life. The DCF method is one of the most common methods for valuing various assets such as shares, businesses, real estate projects, debt instruments, etc. This method involves discounting of future cash flows expected to be generated by an asset over its life using an appropriate discount rate to arrive at the present value.





R Systems being a listed entity, as per management information related to future financial projections is price sensitive. Therefore, the valuer has not been provided with the financial projections of the Company by the Management. Thus, the valuer did not apply the discounted cash flow method to determine fair value of equity shares of R Systems.

c) **Capitalization of Free Cash Flow Method**

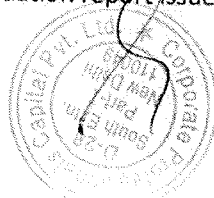
The capitalization of free cash flow method is an income-based approach which is used to value a business based on future estimated free cash flows to equity or free cash flows to the firm generated by the company. The projected free cash flow is capitalized using an appropriate capitalization rate. This method assumes that all of the assets, tangible or intangible, are indistinguishable parts of the business, and does not attempt to separate the values of the two. The capitalization of free cash flow method is a single period method that assumes a stable level of cash flow. This method is not appropriate for valuing companies in which the projected stream of cash flows is expected to vary. In the case with R Systems, the free cash flows in last few quarters have varied. Further, considering Company's growth plan, there may be variability in free cash flows in coming periods by the valuer. Therefore, it is considered inappropriate to use capitalization of free cash flows method for aforesaid valuation done by the valuer.

d) **Comparable Company Multiple Method**

Under this method, value of equity shares of a company is arrived at by using multiples derived from the valuations of comparable companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to the valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

A search for publicly traded comparable companies with similar core business, sales size and other attributes has been analyzed by using the various databases (S&P Capital IQ and Moneycontrol.com) and other publicly available data to arrive at the fair value of INR 62.71 per equity share by the valuer. The valuer has considered Enterprise Value to Revenue multiple and Enterprise value to EBITDA multiple of the comparable listed companies for the purpose of valuation.

An analysis of comparable companies and conclusion of fair value per equity share has been presented in the Appendix 2, 3, 4 and 8 of the valuation report issued by the valuer.



e) **Comparable Transaction Multiple Method**

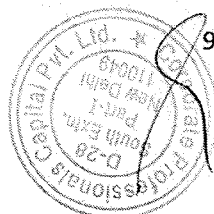
The comparable transaction multiple method is a market-based approach. The underlying principle of this method is that the value of a company is defined in terms of what it can be sold for in a cash transaction. This same value should apply not just to the company being sold, but also to other similar companies. Therefore, a company's value may be determined based on what similar or comparable companies have recently been sold for in cash transactions. The market approach using real transactions gives the good indication of the fair value or the correct worth of a business in the marketplace.

The valuer has used S&P Capital IQ database for analysis of the Company, and eliminated the transactions which were not considered to be sufficiently comparable based on description, revenue size, transaction date, etc., resulting in a sample of 4 transactions.

The criterion for screening the database and developing a set of comparable transactions has been presented in the Appendix 5 of the valuation report. The transaction multiples based on which the fair value has been arrived at INR 68.22 per equity share by the valuer which has been presented in the Appendix 6, 7 and 8.

Value per equity share by each approach has been presented in the table below:

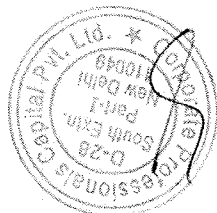
R Systems International Limited		
Valuation Approaches	Value Per Equity Share (INR)	Weight
<b>(a) Asset Approach</b>		
Book value Method	NA	
<b>(b) Income Approach</b>		
Discounted Cash Flow Method	NA	
Capitalization of free Cash Flow Method	NA	
<b>(c) Market Approach</b>		
Comparable Companies Multiple Method	62.71	50%
Comparable Transaction Method	68.22	50%
<b>Fair value per Equity share</b>	<b>65.46</b>	



**CONCLUSION & OPINION**

- With reference to above and based on information provided by the Management/ "Valuer" of the Company forming part of the proposed scheme for Reduction of capital pursuant to the Section 66 of Companies Act, 2013 and other applicable regulations of Securities and Exchange Board of India (hereinafter "SEBI"), we have been represented by the management that the pursuant to a proposed Scheme of Capital Reduction for Cancellation of shares held by R Systems Employee Welfare Trust in R Systems International Limited, so as to give a true and Fair view of the financial statement of the company.
- The Scheme envisages that the proposed reduction in Equity Share capital of R Systems neither involves any financial outlay/ outgo on the part of the Company, nor does it directly or indirectly involves any outflow of the company's assets to its shareholders.

*"Subject to above read with the caveats as detailed later, we as a Merchant Banker hereby certify that pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Circular no. CFD/DIL3/CIR/2017/21 dated March 10, 2017 and SEBI Circular no. CFD/DIL3/CIR/2017/26 dated March 23, 2017 we have reviewed the Valuation Report of the Valuer M/s JAIN GANDHARV & ASSOCIATES, Chartered Accountants and are of the opinion that the proposed reduction of capital may be taken as fair and reasonable from the perspective of Equity Shareholders of the Company."*



**CAVEATS**

- We wish to emphasize that, we have relied on explanations and information provided by the respective management and other public available information. Although, we have reviewed such data for consistency and reasonableness, we have not independently investigated or otherwise verified the data provided.
- We have not made an appraisal or independent valuation of any of the assets or liabilities of the companies and have not conducted an audit or due diligence or reviewed / validated the financial data except what is provided to us by the management of Company.
- The scope of our work has been limited both in terms of the areas of the business and operations which we have reviewed and the extent to which we have reviewed them. There may be matters, other than those noted in this Scheme, which might be relevant in the context of the transaction and which a wider scope might uncover.
- We have no present or planned future interest in the Company and the fee payable for this opinion is not contingent upon the opinion reported herein.
- Our Fairness Opinion should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering into the proposed transaction.
- The Opinion contained herein is not intended to represent at any time other than the date that is specifically stated in this Fairness Opinion. This opinion is issued on the understanding that the Management of the Company under the Scheme have drawn our attention to all matters of which they are aware, which may have an impact on our opinion up to the date of signature. We have no responsibility to update this report for events and circumstances occurring after the date of this Fairness Opinion.

