

Annexure - 3

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STRICTLY PRIVATE & CONFIDENTIAL

March 29, 2016

To,
The Board of Directors
Dynacons Technologies Limited
78, Ratnajyot Industrial Estate,
Irla Lane, Vile Parle (W),
Mumbai - 400 056.

The Board of Directors
Ducon Technologies (I) Private Limited
Plot No. A/4, Road No. 1,
MIDC, Wagle Industrial Estate,
Thane - 400 604.

Re: Recommendation of fair equity share entitlement ratio for the purpose of proposed demerger of 'Demerged Undertaking' of Ducon Technologies (I) Private Limited into Dynacons Technologies Limited.

Dear Sir(s),

As requested by the management of Dynacons Technologies Limited (hereinafter referred to as the "DTL") and Ducon Technologies (I) Private Limited (hereinafter referred to as the "DTPL") (hereinafter collectively referred to as 'Companies'), we have undertaken the valuation of the business undertaking of DTPL proposed to be demerged into DTL (hereinafter referred to as the "Demerged Undertaking") and the equity shares of DTL for recommending fair equity share entitlement ratio for the purpose of the said demerger.

1. PURPOSE OF VALUATION

- 1.1 We have been informed that the Board of Directors of Companies are considering a proposal for demerger of Demerged Undertaking of DTPL into DTL in accordance with Section 2(19AA) of the Income Tax Act, 1961 and pursuant to provisions of Section 391 to 394 of the Companies Act, 1956 and other relevant provisions of the Companies Act, 1956 and Companies Act, 2013. Subject to necessary approvals, Demerged Undertaking of DTPL would be demerged into DTL with effect from the Appointed Date of April 1, 2015. In



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consideration of demerger of Demerged Undertaking into DTL, equity shares of DTL would be issued to the equity shareholders of DTPL.

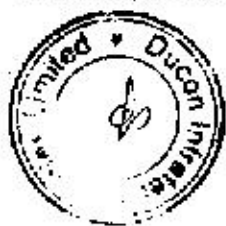
- 1.2 For this purpose, SSPA & Co., Chartered Accountants (SSPA) and Khimji Kunverji & Co., Chartered Accountants (KKC) have been appointed to carry out the valuation of Demerged Undertaking and equity shares of DTL and to recommend fair equity share entitlement ratio of equity shares of DTL to be issued to the equity shareholders of DTPL for the consideration of the Board of Directors of the Companies.

2. BRIEF BACKGROUND OF DTL

- 2.1 DTL, incorporated in April 2009, is a distribution, marketing and logistics Company for the IT industry. It also helps the vendors worldwide to identify potential markets in India and help them market their products in India.
- 2.2 The Company has recently obtained shareholder's approval for change of name to Ducon Infrotechnologies Limited and for change of its object clause to include activities pertaining to infrastructure industry, power and power transmission industry and renewable energy industry.
- 2.3 The shares of DTL are listed on The National Stock Exchange of India Limited and BSE Limited.

3. BRIEF BACKGROUND OF DTPL

- 3.1 DTPL, incorporated in March 2005, is primarily engaged in the business of design, supply and erection of air pollution control systems, commissioning and operating various industrial projects for pollution control systems and implementation of new technologies for modernization of plants. We have been informed by the Management that the Company has also commenced business of providing consultation services, erection, commissioning and operating electrification projects, wherein it has entered into a contract for supply and erection for Rural Electrification work under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) scheme. This business of DTPL is referred to as the "Demerged Undertaking" in the report.



4. EXCLUSIONS AND LIMITATIONS

- 4.1 Our report is subject to the scope limitations detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.
- 4.2 Valuation is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value. While SSPA and KKC have provided an assessment of the value based on the information available, application of certain formulae and within the scope and constraints of our engagement, others may place a different value to the same.
- 4.3 No investigation of the Companies' claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.
- 4.4 Our work does not constitute an audit or certification of the historical financial statements / prospective results including the working results of the Companies / Demerged Undertaking referred to in this report. Accordingly, we are unable to and do not express an opinion on the fairness or accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report is as per agreed terms of our engagement. It may not be valid or used for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.
- 4.5 A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. This report is issued on the understanding that the management of the Companies have drawn our attention to all material information, which they are aware of concerning the financial position of the Companies / Demerged Undertaking and any other matter, which may have an impact on our opinion, on the value of the Demerged Undertaking / shares of the Companies for the purpose of the proposed demerger, including any significant changes that have taken place or are likely to take place in the financial position of the Companies



/ Demerged Undertaking, subsequent to the Appointed Date for the proposed demerger. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

- 4.6 In the course of the valuation, we were provided with both written and verbal information. We have however, evaluated the information provided to us by the Companies through broad inquiry, analysis and review but have not carried out a due diligence or audit of the information provided for the purpose of this engagement. Public information, estimates, industry and statistical information relied in this report have been obtained from the sources considered to be reliable. However, we have not independently verified such information and make no representation as to the accuracy or completeness of such information from or provided by such sources. Our conclusions are based on the assumptions, forecasts and other information given by/on behalf of the Companies. We assume no responsibility for any errors in the above information furnished by the Companies and consequential impact on the present exercise.
- 4.7 Our report is not, nor should it be construed as our opining or certifying the compliance of the proposed demerger with the provisions of any law including companies, taxation and capital market related laws or as regards any legal implications or issues arising from such proposed demerger.
- 4.8 This report is prepared only in connection with the proposed demerger exclusively for the use of the Companies and for submission to any regulatory/statutory authority as may be required under any law.
- 4.9 The information contained herein and our report is confidential. Any person/party intending to provide finance/invest in the shares/businesses of any of the Companies, shall do so, after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision.
- 4.10 It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, other than in connection with the proposed demerger as aforesaid, can be done only with our prior permission in writing.
- 4.11 SSPA and KKC, nor its partners, managers, employees or agents of any of them, makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information, based on which the valuation is carried out. All such



parties expressly disclaim any and all liability for, or based on or relating to any such information contained in the valuation.

5. SOURCES OF INFORMATION

For the purpose of valuation exercise, we have relied upon the following sources of information provided by the Management of Companies.

- (a) Audited financial statements of DTL and DTPL for the financial year ended March 31, 2015.
- (b) Draft Scheme of Arrangement u/s 391 to 394 of the Companies Act, 1956 and other relevant provisions of the Companies Act, 1956/ Companies Act, 2013
- (c) Management certified position of assets and liabilities of Demerged Undertaking, as at March 31, 2015 (in accordance with Section 2(19AA) of the Income tax Act, 1961).
- (d) Estimated profit & loss statement of Demerged Undertaking and DTL for FY 2015-16.
- (e) Other relevant details regarding the Companies such as their history, past and present activities, existing shareholding pattern and other relevant information and data, including information available in the public domain.
- (f) Discussions with the Management on various issues relevant for valuation including the prospects and outlook for the industry, expected growth rate and other relevant information relating to future expected profitability of the business, etc.
- (g) Such other information and explanations as we have required and which have been provided by the Management.

6. VALUATION APPROACH

For the purpose of valuation for demerger, generally the following approaches are adopted:

- (a) the "Underlying Asset" approach;
- (b) the "Income" approach; and
- (c) the "Market Price" approach;

6.1 DTL and Demerged Undertaking of DTPL are operating in service industry, where asset base has lesser relevance and is driven by human resource. Accordingly, we have thought fit not to use "underlying asset" approach for the present valuation exercise.



- 6.2 As stated earlier, DTL is a distribution, marketing and logistics Company for the IT industry. Due to pricing pressure and slow down of investments by government and corporates, the future outlook for this sector remains sluggish. Further, the Company is exploring the possibility of diversifying into areas pertaining to Infrastructure, Power and Renewable Energy industry.
- Considering the above, the current profitability of the Company does not represent its future potential. Therefore, we have thought fit not to use "Income" approach for arriving at the valuation of shares of DTL.
- 6.3 DTPL is not listed on any stock exchanges. Therefore, the "Market" Approach has not been considered for arriving at the value of Demerged Undertaking of DTPL.
- 6.4 Considering the above, we have used "Income" Approach for valuation of Demerged Undertaking of DTPL and "Market" Approach for valuation of equity shares of DTL.

7. INCOME APPROACH

- 7.1 Under the "Income" approach, Demerged Undertaking of DTPL has been valued using Comparable Companies Multiple (CCM) Method.
- 7.1.1 Under CCM Method, value of the shares of the company/demerged undertaking is determined by using multiples derived from valuations of comparable companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances. The Enterprise Value (EV) to Earnings before Interest Tax Depreciation and Amortization (EBITDA) multiples of comparable listed companies are used.
- 7.2 Under this method, EBITDA is capitalized using the EV/EBITDA multiple of comparable listed companies. To the value so arrived, adjustments have been made for contingent liabilities adjusted for probability of devolvement, outstanding loans, share application money received post March 31, 2015, value of investments, intercorporate deposit and cash and cash equivalents, after considering the tax impact wherever applicable.
- 7.3 The equity value as arrived above is divided by the diluted number of equity shares (considering shares allotted against the share application money) to arrive at the value per share.



8. MARKET APPROACH

- 8.1 The market price of an equity share as quoted on a stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in
- 8.2 The weighted average market price of DTI as quoted on Stock Exchanges for past six months has been considered.

9. RECOMMENDATION OF FAIR EQUITY SHARE ENTITLEMENT RATIO

- 9.1 The fair basis of demerger of Demerged Undertaking of DTPL into DTL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove.
- 9.2 As mentioned above, we have considered the "Income" Approach for arriving at the value per share of Demerged Undertaking of DTPL and "Market" Approach for arriving at the value per share of DTL.
- 9.3 The fair equity share entitlement ratio has been arrived on the basis of valuation of the shares of the Company/Demerger undertaking based on the approach explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potential of the businesses of the Companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.
- 9.4 In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognized in judicial decisions. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Supreme Court of India in the case reported in 175 ITR 417 as under:
- "If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has*

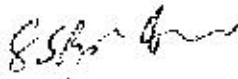


allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible.

9.5 In light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined hereinabove earlier in this report, in our opinion, a fair equity share entitlement ratio in the event of demerger of Demerged Undertaking of DTPL into DTL would be:

66 (Sixty Six) equity shares of DTL of INR 1 each fully paid for every 25 (Twenty Five) equity shares of DTPL of INR 10 each fully paid.

Thanking you,
Yours faithfully,



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Chartered Accountants
Firm Registration number: 128851W
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KHIMJI KUNVERJI & CO
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Place: Mumbai

