



**KPMG Valuation Services LLP**  
2<sup>nd</sup> Floor, Block T2 (B Wing)  
Lodha Excelus, Apollo Mills Compound,  
N. M. Joshi Marg, Mahalaxmi,  
Mumbai – 400 011 India

Telephone: +91 (22) 3989 6000  
Fax: +91 (22) 3090 2210  
Internet: [www.kpmg.com/in](http://www.kpmg.com/in)  
Email: [indiawebsite@kpmg.com](mailto:indiawebsite@kpmg.com)

The Board of Directors,  
**R Systems International Limited**  
GF-1-A, 6, Devika Tower, Nehru Place,  
New Delhi- 110019, India

The Board of Directors,  
**Velotio Technologies Private Limited**  
GF-1-A, 6, Devika Tower, Nehru Place,  
New Delhi- 110019, India

Date: 10 September 2024

Re: **Recommendation of Optionally Convertible Redeemable Preference Share ("OCRPS") Swap Ratio for the composite scheme of amalgamation of Velotio Technologies Private Limited, Scaleworx Technologies Private Limited and R Systems International Limited**

Dear Madams/Sirs,

We refer to our engagement letter dated 03 September 2024 and addendum to the engagement letter dated 09 September 2024 (hereinafter collectively referred as "Engagement Letter" or "LoE") whereby R Systems International Limited ("R Systems" or "Amalgamated Company") and Velotio Technologies Private Limited ("Velotio" or "Amalgamating Company 1") (collectively referred as the "Clients" or the "Companies" or the "Businesses" or "you" or "your" and individually referred to as the "Client" or the "Company" or the "Business") have requested KPMG Valuation Services LLP (hereinafter referred to as "KPMG" or "Valuer" or "us" or "we") to carry out a valuation and recommend Optionally Convertible Redeemable Preference Share ("OCRPS") Swap Ratio in relation to composite scheme of amalgamation of Velotio Technologies Private Limited and Scaleworx Technologies Private Limited ("Scaleworx" or "Amalgamating Company 2") with R Systems International Limited.

#### **BACKGROUND OF THE COMPANIES**

R Systems International Limited is a public limited company incorporated on May 14, 1993, under the Companies Act, 1956, having registration number L74899DL1993PLC053579 and having its registered office at New Delhi, India. R Systems is engaged in the business of digital product engineering, designing and developing chip-to-cloud software products, platforms, and digital experiences.

The equity shares of R Systems International Limited are listed on National Stock Exchange of India Limited ("NSE") and BSE Limited ("BSE").

Velotio Technologies Private Limited is a private limited company incorporated under the Companies Act 2013, having registration number U72100DL2016PTC434014 and having its registered office at New Delhi, India. Velotio is engaged in the business of outsourced information technology services including outsourced product development and digital product engineering services. As on 3 July 2023, R Systems has acquired 100 per cent equity shares in the Velotio. Further, Velotio has issued certain Optionally Convertible and Redeemable Preference Shares ("OCRPS") to certain individuals.

Scaleworx Technologies Private Limited is a private limited company incorporated under the Companies Act 2013, having registration number U72900DL2020PTC434013, and having its registered office at GF-1-A, 6, Devika Tower, Nehru Place, New Delhi- 110019, India. Scaleworx is engaged in the business of information technology relating to DevOps consulting, infrastructure management, outsourced product development and digital product engineering services and is wholly owned subsidiary of Velotio.

KPMG Valuation Services LLP, an Indian limited liability partnership and a member firm of KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

KPMG Valuation Services (a partnership firm with Registration No. 414) converted into Limited Liability partnership with LLP Registration No. AAP-2732, with effect from May 13, 2019

Registered Office:  
8th Floor, Tower C, Building No.  
10, DLF Cyber City, Phase II,  
Gurgaon- 122002 India





## SCOPE AND PURPOSE OF THIS REPORT

As per the draft Composite Scheme of Amalgamation between R Systems International Limited – Amalgamated Company and Velotio Technologies Private Limited – Amalgamating Company 1 and Scaleworx Technologies Private Limited – Amalgamating Company 2, We understand that the management of R Systems and Velotio (collectively referred as “Managements” and individually referred as “Management”) are contemplating to:

### **As First Step (“Proposed Transaction” or “Transaction”):**

- (i) the amalgamation of the Amalgamating Company 1 into the Amalgamated Company;
- (ii) the dissolution of the Amalgamating Company 1 without winding up or any further act, deed or thing;
- (iii) the consequent cancellation of the equity shares of the Amalgamating Company 1 held by the Amalgamated Company and the cancellation of the Amalgamating Company 1 OCRPS (“Velotio OCRPS”) held by the certain individuals (“Existing Shareholders” as defined in the draft Composite Scheme of Amalgamation);
- (iv) issuance of optionally convertible redeemable preference shares by the Amalgamated Company (“OCRPS”) to the Existing Shareholders in lieu of the Amalgamating Company 1 OCRPS; and

Pursuant to the first step, the Amalgamating Company 2 will become a direct and wholly owned Subsidiary of the Amalgamated Company

### **As Second Step (after first step being effective):**

- (i) the amalgamation of Amalgamating Company 2 into the Amalgamated Company;
- (ii) the dissolution of Amalgamating Company 2 without winding up or any further act, deed or thing; and
- (iii) the consequent cancellation of the equity shares of Amalgamating Company 2 held by the Amalgamated Company; and
- (iv) various other matters consequential and incidental thereto,

pursuant to Sections 230 to 232 and other relevant provisions of the Companies Act, 2013 in the manner provided for in the Scheme and in compliance with the provisions of the Income Tax Act, 1961.

In regard to the First Step or the Proposed Transaction, R Systems and Velotio has appointed us as a Registered Valuer under the provision of Section 230 to 232 of the Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations, 2015 and, including the applicable circulars, rules and regulations thereunder as in force for the time being (collectively “the Act”). Clients have appointed us to render our professional services by way of submitting a report recommending the Swap Ratio for the Proposed Transaction.

In consideration thereof, R Systems will issue its OCRPS to the Velotio OCRPS holders (referred as “Swap Ratio”), in the event of the Proposed Transaction.





In this connection, the Clients have requested us to render our professional services by way of carrying out a valuation of R Systems and Velotio (respectively on consolidated basis) and submit a report recommending the Swap Ratio for the Proposed Transaction, on a going concern basis as on 30 June 2024 ("Valuation Date") (the "Services") for the consideration of the Board of Directors (including audit committees, if applicable) of the Clients in accordance with relevant laws, rules and regulations. To the extent mandatorily required under applicable laws of India, this report maybe produced before the judicial, regulatory or government authorities, stock exchanges, shareholders in connection with the Proposed Transaction.

The scope of our Services is to conduct a valuation (not an absolute valuation) of R Systems and Velotio (respectively on consolidated basis) and recommend Swap Ratio for the Proposed Transaction.

We have been provided with the limited review consolidated financials of R Systems and consolidated Velotio financials prepared based on the standalone audited financials of Velotio, limited review standalone financials of Scaleworx and limited review consolidation adjustments as discussed below. We have considered financial information up to 30 June 2024 (the "Valuation Date") in our analysis and made adjustments for facts made known to us till the report date, including taking into consideration current market parameters, which will have a bearing on the valuation analysis. The Managements have informed us that they do not expect any events which are unusual or not in normal course of business up to the effective date of the Proposed Transaction, other than the events specifically mentioned in this report. We have relied on the above while arriving at the Swap Ratio for the Proposed Transaction.

This report dated 10 September 2024 is our deliverable in respect of our recommendation of the Swap Ratio for the Proposed Transaction.

This report and the information contained herein is absolutely confidential. The report will be used by the Clients only for the purpose, as indicated in this report, for which we have been appointed. The results of our valuation analysis and our report cannot be used or relied by the Clients for any other purpose or by any other party for any purpose whatsoever. We are not responsible to any other person/ party for any decision of such person/ party based on this report. Any person/ party intending to provide finance/ invest in the shares/ businesses of the Companies/ their holding companies/ subsidiaries/ joint ventures/ associates/ investee/ group companies, if any, 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. If any person/ party (other than the Clients) chooses to place reliance upon any matters included in the report, they shall do so at their own risk and without recourse to the Valuer. It is hereby notified that usage, reproduction, distribution, circulation, copying or otherwise quoting of this report or any part thereof, except for the purpose as set out earlier in this report, without our prior written consent, is not permitted, unless there is a statutory or a regulatory requirement to do so.

The report including, (for the avoidance of doubt) the information contained in it is absolutely confidential and intended only for the sole use and information of the Clients. Without limiting the foregoing, we understand that the Client/(s) may be required to submit the report to or share the report with their professional advisors, shareholders, merchant bankers providing fairness opinion on the Swap Ratio and regulatory authorities, in connection with the Proposed Transaction (together, "Permitted Recipients"). We hereby give consent to the disclosure of the report to any of them, subject to the Clients ensuring that any such disclosure shall be subject to the condition and understanding that:





- it will be the Clients' responsibility to review the report and identify any confidential information that it does not wish to or cannot disclose;
- we owe responsibility only to the Clients that have engaged us and nobody else, and to the fullest extent permitted by law;
- We do not owe any duty of care to anyone else other than the Clients and accordingly that no one other than the Clients is entitled to rely on any part of the report;
- We accept no responsibility or liability towards any third party (including, the Permitted Recipients) to whom the report may be shared with or disclosed or who may have access to the report pursuant to the disclosure of the report to the Permitted Recipients. Accordingly, no one other than the Clients shall have any recourse to us with respect to the report;
- We shall not under any circumstances have any direct or indirect liability or responsibility to any party engaged by the Clients or to whom the Clients may disclose or directly or indirectly permit the disclosure of any part of the report and that by allowing such disclosure We do not assume any duty of care or liability, whether in contract, tort, breach of statutory duty or otherwise, towards any of the third parties.

It is clarified that reference to this valuation report in any document and/ or filing with aforementioned tribunal/ judicial/ regulatory authorities/ government authorities/ courts/ shareholders/ professional advisors/ merchant bankers, in connection with the Proposed Transaction, shall not be deemed to be an acceptance by the Valuer of any responsibility or liability to any person/ party other than the Boards of Directors of the Clients.

This report is subject to the scope, assumptions, qualifications, exclusions, limitations and disclaimers detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

#### **DISCLOSURE OF INTEREST/ CONFLICT**

- KPMG is not affiliated to the Clients in any manner whatsoever.
- KPMG does not have a prospective interest in the Businesses/ Companies which is the subject of this report.
- KPMG's fee is not contingent on an action or event resulting from the analyses, opinions or conclusions in this report.

#### **SOURCES OF INFORMATION**

In connection with this exercise, we have used the following information shared with us during the course of the engagement:

- Considered the draft Composite Scheme of Arrangement ("Scheme") for the Proposed Transaction;
- Considered audited consolidated financials of the R Systems for financial year ending 2021, 2022 & 2023 and limited review consolidated financials of the R Systems for the six-month period ended 30 June 2024;
- Considered standalone audited financials of Velotio for the three-month period ended 30 June 2024, limited review standalone financials of Scaleworx for the three-month period ended 30 June 2024;





- Considered audited financials of Velotio and Scaleworx for financial year ending March 24.
- Consolidated financial projections of Velotio for the period 01 July 2024 to 31 March 2032 and R Systems for the period 01 July 2024 to 31 December 2031, which the Management believes to be its best estimates of the future operating performance;
- Number of equity shares and OCRPS of the Companies as on the Valuation Date and the number of equity shares and OCRPS on a fully diluted basis as at the date of this report;
- Number of Restricted Stock Units ("RSUs") of R Systems as on the Valuation Date and as at the date of this report;
- Discussion with the Managements of the Companies in connection with the operations of the respective Companies, past and present activities, future plans and prospects, share capital and shareholding pattern of the Companies as of Valuation Date and report date and any such information which is known and available as at the report date.
- For our analysis, we have relied on published and secondary sources of data, whether or not made available by the Companies. We have not independently verified the accuracy or timeliness of the same; and
- Other relevant information and documents for the purpose of this engagement provided through emails or during discussion.

We have also obtained the explanations, information and representations, which we believed were reasonably necessary and relevant for our exercise from the Managements and representatives of the Companies. The Clients have been provided with the opportunity to review the draft report (excluding the recommended Swap Ratio) for this engagement to make sure that factual inaccuracies are avoided in our final report.

#### **SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS**

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The Services do not represent accounting, assurance, accounting/ tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

This report, its content, and the results herein are specific to the purpose of valuation and the Valuation Date mentioned in the report and agreed as per the terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

A valuation of this nature involves consideration of various factors including those impacted by prevailing stock 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 the matters, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the Swap Ratio for the Proposed Transaction as on the Valuation Date. We have considered only circumstances existing at the Valuation Date and events occurring up to the Valuation Date. Events and circumstances may have occurred since the Valuation Date concerning the financial position of the Companies or any other matter and such events or circumstances might be considered material by the Companies or any third party. We have taken into account, in our valuation analysis, such events and circumstances occurring after the Valuation Date as disclosed to us by the Companies, to the extent considered appropriate by us based on our professional judgement. Further, we have no responsibility to update the report for any events and circumstances occurring after the date of the report. Our valuation analysis was completed on a date subsequent to the Valuation Date and accordingly we have taken into account such valuation





parameters and over such period, as we considered appropriate and relevant, up to a date close to such completion date.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information received from the Companies till the report date and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors). You acknowledge and agree that you have the final responsibility for the determination of the Swap Ratio of OCRPS at which the Proposed Transaction shall take place and factors other than our Valuation report will need to be taken into account in determining the Swap Ratio; these will include your own assessment of the Proposed Transaction and may include the input of other professional advisors.

In the course of the valuation, we were provided with both written and verbal information, including market, financial and operating data. In accordance with the terms of our engagement, we have carried out relevant analyses and evaluations through discussions, calculations and such other means, as may be applicable and available, we have assumed and relied upon, without independently verifying, (i) the accuracy of the information that was publicly available, sourced from subscribed databases and formed a substantial basis for this report and (ii) the accuracy of information made available to us by the Companies. While information obtained from the public domain or external sources have not been verified for authenticity, accuracy or completeness, we have obtained information, as far as possible, from sources generally considered to be reliable. We assume no responsibility for such information. Our valuation does not constitute as an audit or review in accordance with the auditing standards applicable in India, accounting/ financial/ commercial/ legal/ tax/ environmental due diligence or forensic/ investigation services and does not include verification or validation work. In accordance with the terms of our Engagement Letter and in accordance with the customary approach adopted in valuation exercises, we have not audited, reviewed, certified, carried out a due diligence, or otherwise investigated the historical and projected financial information, if any, provided to us regarding the Companies/ their holding/ subsidiary/ associates/ joint ventures/ investee companies, if any. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in the historical financials/ financial statements and projections. The assignment did not involve us to conduct the financial or technical feasibility study. We have not done any independent technical valuation or appraisal or due diligence of the assets or liabilities of the Companies. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusion is based on the assumptions and information given by/on behalf of the Companies. The respective Managements of the Companies have indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/ results. Accordingly, we assume no responsibility for any errors in the information furnished by the Companies and their impact on the report.

The report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this valuation report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the





audited/ unaudited balance sheets of the Companies/ their holding/ subsidiary/ associates/ joint ventures/ investee companies, if any. Our conclusion of value assumes that the assets and liabilities of the Companies reflected in their respective latest limited review balance sheets remain intact as of the report date. No investigation of the Companies'/ subsidiaries claims to title of assets has been made for the purpose of this report and the Companies'/ subsidiaries 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.

Our report is not, nor should it be construed as our opining or certifying the compliance of the Proposed Transaction with the provisions of any law/ standards including companies, foreign exchange regulatory, accounting and taxation (including transfer pricing) laws/ standards or as regards any legal, accounting or taxation implications or issues arising from such Proposed Transaction.

Our report is not should it be construed as our recommending the Proposed Transaction or anything consequential thereto/ resulting therefrom. This report does not address the relative merits of the Proposed Transaction as compared with any other alternatives or whether or not such alternatives could be achieved or are available. Any decision by the Companies/ their shareholders/ creditors regarding whether or not to proceed with the Proposed Transaction shall rest solely with them. We express no opinion or recommendation as to how the shareholders/ creditors of the Companies should vote at any shareholders'/ creditors' meeting(s) to be held in connection with the Proposed Transaction. This report does not in any manner address, opine on or recommend the prices at which the securities of the Companies could or should transact at following the announcement/ consummation of the Proposed Transaction. Our report and the opinion/ valuation analysis contained herein is not nor should it be construed as advice relating to investing in, purchasing, selling or otherwise dealing in securities or as providing management services or carrying out management functions. It is understood that this analysis does not represent a fairness opinion.

We express no opinion on the achievability of the forecasts, if any, relating to the Companies/ their subsidiaries/ associates/ joint ventures/ investee companies/ their businesses given to us by the Managements. The future projections are the responsibility of the respective management of the Companies. The assumptions used in their preparation, as we have been explained, are based on their present expectation of both – the most likely set of future business events and circumstances and the respective management's course of action related to them. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period may differ from the forecast and such differences may be material.

We have not conducted or provided an analysis or prepared a model for any individual assets/ liabilities and have wholly relied on information provided by the Companies in that regard.

Neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the Proposed Transaction, without our prior written consent.

This valuation report is subject to the laws of India.

Any discrepancies in any table/ annexure between the total and the sums of the amounts listed are due to rounding-off.





## PROCEDURES ADOPTED

In connection with this exercise, we have adopted the following procedures to carry out the valuation:

- Requested and received financial and qualitative information, and clarifications regarding past financials performance of the Companies, their subsidiaries and associates, as applicable;
- Obtained data available in public domain;
- Undertook high level industry analysis and research based on publicly available market data;
- Discussions (over call/ emails/ conferences) with the Management to understand the business and fundamental factors that could affect its earning-generating capability including strengths, weaknesses, opportunity and threats analysis and historical financial performance;
- Selection of valuation methodology(ies) as appropriate;
- Determined the Swap Ratio based on the selected methodology for Proposed Transaction;
- For the purpose of arriving at the valuation of the Companies we have considered the valuation base as 'Fair Value' and the premise of value is 'Going Concern Value'. Any change in the valuation base, or the premise could have significant impact on our valuation exercise, and therefore, this report.

## SHARE CAPITAL DETAILS OF THE COMPANIES

### R Systems International Limited ("R Systems")

As at 30 June 2024 and the report date, the paid-up equity share capital of R Systems is INR 118.3 million consisting of 118,303,445 equity shares of face value of INR 1/- each fully paid up. The shareholding pattern of R Systems is as follows:

Category	No of equity shares	% shareholding
Promoters	61,433,005	51.9
Public	56,870,440	48.1
Total	118,303,445	100.0

Note: We have been guided by the management to consider dilution impact of RSU basis their existing vesting schedule and conditions expected to be fulfilled. Accordingly, we have considered 121,180,223 as fully diluted shareholding for the purpose of our analysis.

### Velotio Technologies Private Limited ("Velotio")

As at 30 June 2024 and the report date, the paid-up equity share capital of Velotio is INR 0.1 million consisting of 110,813 equity shares of face value of INR 1/- each fully paid up and Velotio OCRPS is INR 0.1 million consisting of 123,850 Velotio OCRPS of face value of INR 1/- each fully paid up. The shareholding pattern of Velotio is as follows:

Category	No. of equity shares	% Shares	% Diluted shareholding
R Systems International Limited	110,813	100.0	66.6
Total	110,813	100.0	66.6







Category	No. of Velotio OCRPS	% Velotio OCRPS	Diluted Equity Shares	% Diluted shareholding
Kalpesh Shah	55,881	45.1	25,096	15.1
Chirag Jog	55,881	45.1	25,096	15.1
Madhur Nawandar	10,527	8.5	4,728	2.8
Pranav Kulkarni	421	0.3	189	0.1
Samata Shah	570	0.5	256	0.2
Hemant Jog	570	0.5	256	0.2
<b>Total</b>	<b>123,850</b>	<b>100.0</b>	<b>55,621</b>	<b>33.4</b>

As per the guidance of the Management and basis the Share Purchase Agreement outlining the conversion terms of Velotio OCRPS, we understand that Velotio OCRPS are convertible into equity shares of Velotio as per the conversion ratio of 0.45:1. Accordingly, 123,850 Velotio OCRPS are equivalent to 55,621 equity shares of Velotio on a fully diluted basis resulting into a 33.4 per cent equity stake in Velotio.

#### APPROACH AND METHODOLOGY – BASIS OF TRANSACTION

The Scheme contemplates amalgamation of Velotio into R Systems wherein equity shares held by R Systems in Velotio will get cancelled and the Velotio OCRPS currently held by certain individuals in Velotio will get exchanged in lieu of OCRPS of R systems (preferentially allotted) having similar time and performance terms, which will be convertible at 1:1 to equity shares of R Systems, R Systems shall issue its OCRPS to such shareholders under the provisions of Section 230 to Section 232 and other relevant provisions of the Companies Act, 2013 and rules issued thereunder to the extent applicable.

Arriving at the Swap Ratio for the purposes of an arrangement such as the Proposed Transaction, would require determining the relative values of Companies/ undertaking and of their OCRPS, shares and securities. These values are to be determined independently but on a relative basis, and without considering the effect of the arrangement.

#### BASIS OF VALUE

The report has been prepared on the basis of "Fair Value" as at Valuation Date. The generally accepted definition of "Fair Value" is the value as applied between a hypothetical willing vendor and a hypothetical willing prudent buyer in an open market and with access to all relevant information.

#### PREMISE OF VALUE

The report has adopted "Going Concern Value" as the premise of value in the given circumstances. The generally accepted definition of Going concern value is the value of a business enterprise that is expected to continue to operate in the future.

We have carried out the valuation in accordance with the principles laid in the ICAI Valuation Standards/ International Valuation Standards, as applicable to the purpose and terms of this engagement.

The three main valuation approaches are the market approach, income approach and asset approach. There are several commonly used and accepted methods within the market approach, income approach and asset approach, for determining the value of OCRPS of a company, which can be considered in





the present valuation exercise, to the extent relevant and applicable, to arrive at the Swap Ratio for the purpose of the Proposed Transaction, such as:

- Market Approach - Market Price Method; Comparable Companies Multiples (CCM) Method
- Income Approach - Discounted Cash Flow (DCF) Method
- Asset Approach – Net Asset Value (NAV) Method

It should be understood that the valuation of any company or its assets is inherently subjective and is subject to uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the companies/ businesses, and other factors which generally influence the valuation of companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of method of valuation has been arrived at using usual and conventional methods adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

**Asset Approach:** Under the asset approach, the Net Asset Value (NAV) method is considered, which is based on the underlying net assets and liabilities of the company, taking into account operating assets and liabilities on a book value basis and appropriate adjustments for, inter alia, value of surplus/ non-operating assets.

**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 capitalised) amount. The value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Under DCF method, the projected free cash flows from business operations available to all providers of capital are discounted at the weighted average cost of capital to such capital providers, on a market participant basis, and the sum of such discounted free cash flows is the value of the business from which value of debt and other capital is deducted, and other relevant adjustments made to arrive at the value of the equity – Free Cash Flows to Firm (FCFF) technique; This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

For the purpose of DCF valuation, the free cash flow forecast is based on projected financials as provided by the Management of the Companies. While carrying out this engagement, we have relied on historical information made available to us by the Management of the Companies and the projected financials for future related information. Although we have read, analyzed and discussed the Management Business Plan for the purpose of undertaking a valuation analysis, we have not commented on the achievability of the assumptions/ projections provided to us save for satisfying





ourselves to the extent possible that they are consistent with other information provided to us in the course of the assignment. We have assessed and evaluated the reasonableness of the projections based on procedures such as analyzing industry data, historical performance, expectations of comparable companies, analyst reports etc.

**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.

- **Market Price Method:** Under this method, the value of shares of a company is determined by taking the average of the market capitalisation of the equity shares of such company as quoted on a recognised stock exchange over reasonable periods of time where such quotations are arising from the shares being regularly and freely traded in an active market, subject to the element of speculative support that may be inbuilt in the market price. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share, especially where the market values are fluctuating in a volatile capital market. Further, in the case of a merger/ demerger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard. This method would also cover any other transactions in the shares of the company including primary/ preferential issues/ open offer in the shares of the company available in the public domain.
- **Comparable Companies Multiples (CCM) Method:** Under this method, one attempts to measure the value of the shares/ business of company by applying the derived market multiple based on market quotations of comparable public/ listed companies, in an active market, possessing attributes similar to the business of such company - to the relevant financial parameter of the company/ business (based on past and/ or projected working results) after making adjustments to the derived multiples on account of dissimilarities with the comparable companies and the strengths, weaknesses and other factors peculiar to the company being valued. These valuations are based on the principle that such 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 valuation approaches/ methods used, and the values arrived at using such approaches/ methods have been tabled in the next section of this report.

## BASIS OF EXCHANGE RATIO

The basis of the Proposed Transaction would have to be determined after taking into consideration all the factors, approaches and methods considered appropriate by the respective Valuer. Though different values have been arrived at under each of the above approaches/ methods, for the purposes of recommending the Swap Ratio it is necessary to arrive at a single value for the shares of the companies involved in a transaction such as the Proposed Transaction. It is however important to note that in doing so, we are not attempting to arrive at the absolute values of the shares of the Businesses but at their values to facilitate the determination of Swap Ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each approach/ method.





In the ultimate analysis, valuation will have to be arrived at by the exercise of judicious discretion by the valuer and judgments taking into account all the relevant factors. There will always be several factors, e.g., quality of the management, present and prospective competition, yield on comparable securities and market sentiment, etc. which are not evident from the face of the balance sheets, but which will strongly influence the worth of a share. The determination of exchange ratio 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. This concept is also recognized in judicial decisions. There is, therefore, no indisputable single exchange ratio. While we have provided our recommendation of the Swap Ratio based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the Swap Ratio of the OCRPS of R Systems and Velotio OCRPS. The final responsibility for the determination of the Swap Ratio at which the Proposed Transaction shall take place will be with the Board of Directors of the Companies who should take into account other factors such as their own assessment of the Proposed Transaction and input of other advisors.

The Swap Ratio has been arrived at on the basis of valuation for OCRPS of R Systems and Velotio OCRPS based on the various applicable approaches/ methods explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of these Companies, having regard to information base, key underlying assumptions and limitations.

We have applied relevant methods discussed above, as considered appropriate, and arrived at the assessment of the values per OCRPS of R Systems and per OCRPS of Velotio. To arrive at the Swap Ratio for the Proposed Transaction, suitable minor adjustments/ rounding off have been done in the values arrived at by us.

#### VALUER NOTES

For the present valuation analysis, we have considered it appropriate to apply the Income Approach and Market Approach for arriving at the value for the OCRPS of R Systems as well as of Velotio for the purpose of the Proposed Transaction.

Given the nature of the businesses of the Companies and the fact that R Systems and Velotio have provided projected financials for their respective Businesses, we have considered it appropriate to apply the DCF Method under the Income Approach to arrive at the relative fair value of the OCRPS of R Systems and OCRPS of Velotio for the purpose of arriving at the Swap Ratio.

In the present case, the shares of R Systems are listed on BSE and NSE. As mentioned earlier, the OCRPS of R Systems would be convertible into equity shares with a conversion a ratio of 1:1. Thus, the price of equity shares of R Systems can be considered as a proxy for OCRPS value of R Systems. Additionally, the management has confirmed that the terms of R System's OCRPS (to be issued pursuant to this Proposed Transaction) will carry the same conditions for vesting and exercising as the existing OCRPS for Velotio. Further, we understand that there are regular transactions in R Systems's equity shares with reasonable volume. In the circumstances, the share price of R Systems has been considered as suggested in Regulation 164 of Chapter V of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 as amended. Accordingly, higher of the below two methods has been taken for determining the value of R Systems under the market price methodology:





- the volume weighted average price for 90 trading days (including the report date) from the report date,
- the volume weighted average price for 10 trading days (including the report date) from the report date,

Considering the availability of comparable listed peer set in the businesses carried out by the Velotio, we have applied the Comparable Companies Multiples method under the Market Approach to arrive at the value of the Velotio OCRPS for the purpose of arriving at the Swap Ratio.

In the current analysis, the amalgamation of the Companies is proceeded with on the assumption that they would merge as going concerns and an actual realization of the operating assets is not contemplated. The operating assets have therefore been considered at their book and non-operating/surplus assets, if any at their values under the Asset Approach. In such a going concern scenario, the earning power, as reflected under the Income/ Market approach, is of greater importance to the basis of amalgamation/ demerger, with the values arrived at on the net asset basis being of limited relevance. Hence, while we have calculated the values of the shares of the Businesses under the Asset Approach, we have considered it appropriate not to give any weightage to the same in case of R Systems and Velotio.

In light of the above, and on consideration of all the relevant factors and circumstances as discussed and outlined herein above, we recommend the following Swap Ratio for the Proposed Transaction whose computation is as under:

The computation of Swap Ratio as derived by KPMG, is given below:

Valuation Approach	R Systems		Velotio	
	Value per OCRPS (INR)*	Weight	Value per OCRPS (INR)	Weight
(i) Income Approach – DCF Method	509.0	50%	21,008.4	50%
(ii) Market Approach				
Market Price Method	508.7	50%		
Multiples Method			21,394.7	50%
<b>Relative Value per OCRPS</b>	<b>508.9</b>	<b>100%</b>	<b>21,201.6</b>	<b>100%</b>
<b>Swap Ratio (Rounded off)</b>	<b>41.67</b>			

\*The value per OCRPS of R Systems as per DCF Method has been arrived after considering the dilution impact of the RSUs.

*Note: We have considered valuing both R Systems and Velotio using Income as well as Market Approach. Under Income approach, we have used Discount Cash Flow Method. For Market Approach, we have considered Market Price Method for R Systems, given the share is frequently traded on stock exchanges and Multiples Method for valuing Velotio. While we have calculated value of both R Systems and Velotio using Asset Approach, since the Companies are going concern in nature, we considered it appropriate not to give any weightage to the same in case of R Systems and Velotio.*





## RATIO

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 Swap Ratio for proposed Transaction:

**Four Thousand One Hundred and Sixty-Seven (4,167 Only) OCRPS of R Systems of INR 1/- each fully paid up for every One Hundred (100 Only) Velotio OCRPS of INR 1/- each fully paid up.**

Our Valuation report and Swap Ratio is based on the share capital structure of the R Systems and Velotio as mentioned earlier in this report. Any variation in the share capital of the Companies may have material impact on the Swap Ratio.

Respectfully submitted,

**For KPMG Valuation Services LLP**

Registered Valuer Entity under Companies (Registered Valuers and Valuation) Rules, 2017

IBBI Registration No. IBBI/RV-E/06/2020/115

Asset class: Securities or Financial Assets

**Amit Jain, Partner**

IBBI Registration No. IBBI/RV-E/06/2018/10501

Date: 10 September 2024

