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January 17, 2015

**The Board of Directors,
Pudumjee Pulp & Paper Mills Limited**
Thergaon, Chinchwad,
Pune – 411 033,
Maharashtra.

**The Board of Directors,
Pudumjee Industries Limited**
Thergaon, Chinchwad,
Pune – 411 033,
Maharashtra

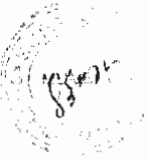
**The Board of Directors,
Pudumjee Hygiene Products Limited**
Thergaon, Chinchwad,
Pune – 411 033,
Maharashtra

**The Board of Directors,
Pudumjee Paper Products Limited**
Thergaon, Chinchwad,
Pune – 411 033,
Maharashtra

Re: Recommendation of fair equity share entitlement ratio for the purpose of proposed demerger of "Manufacturing Business Undertaking" of Pudumjee Pulp and Paper Mills Limited, "Manufacturing Business Undertaking" of Pudumjee Industries Limited and "Trading Business Undertaking" of Pudumjee Hygiene Products Limited into Pudumjee Paper Products Limited.

Dear Sirs,

As requested by management of Pudumjee Pulp and Paper Mills Limited (hereinafter referred to as "PPPML"), Pudumjee Industries Limited (hereinafter referred to as "PIL"), Pudumjee Hygiene Products Limited (hereinafter referred to as "PHPL") and Pudumjee Paper Products Limited (hereinafter referred to as "PPPL") (hereinafter collectively referred to as "Companies"), we have undertaken the valuation exercise of "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL, "Trading Business Undertaking" of PHPL (hereinafter collectively referred to as the "Demerged Undertakings") and equity shares of PPPL for recommending the fair equity share entitlement ratio for the purpose of proposed demerger of "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL and "Trading Business Undertaking" of PHPL into PPPL.



1. PURPOSE OF VALUATION

1.1 We have been informed that the Board of Directors of the Companies are considering a proposal for the demerger of "Manufacturing Business Undertakings" of PPPML, "Manufacturing Business Undertaking" of PIL and "Trading Business Undertaking" of PHPL into PPPL 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. Subject to necessary approvals, "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL and "Trading Business Undertaking" of PHPL (hereinafter referred to as the "Demerged Undertakings") would be demerged into PPPL with effect from the Appointed Date of April 1, 2014. In consideration of demerger of the Demerged Undertakings into PPPL, equity shares of PPPL would be issued to the equity shareholders of PPPML, PIL and PHPL.

1.2 For this purpose, we have carried out valuation of the Demerged Undertakings and the equity shares of PPPL with a view to recommend fair equity share entitlement ratio of equity shares of PPPL to be issued to the equity shareholders of PPPML, PIL and PHPL for the consideration of the Board of Directors of the Companies.

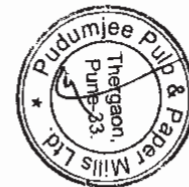
2. BRIEF BACKGROUND

2.1 PUDUMJEE PULP AND PAPER MILLS LIMITED

PPPML is engaged in the manufacturing of specialty paper. It operates in the following four segments viz.:

- Paper - manufacture and marketing of Paper and processing activity at Pune and Mahad;
- Real Estate - engaged in construction activity;
- Power Generation - generation of power from diesel generator (D.G).Set and Wind Power Turbine; and
- Investment - primarily engaged in purchase and sale of shares.

The equity shares of PPPML are listed on National Stock Exchange of India Limited, BSE Limited and Pune Stock Exchange.



“Manufacturing Business Undertaking” of PPPML is engaged in the manufacturing of Specialty Papers used in various sectors. Its products include Calendered Paper, Security Paper, Decor Papers, and Other Specialty Papers.

2.2 PUDUMJEE INDUSTRIES LIMITED

PIL is engaged in manufacturing and sale of various types of papers viz. Crepe Tissue, M.G. Kraft, Carbon based tissue, Poster papers, etc. The equity shares of PIL are listed on National Stock Exchange of India Limited and BSE Limited.

“Manufacturing Business Undertaking” of PIL is engaged in the manufacturing of Specialty Papers used in various sectors. Its products include fairly wide range of papers such as Crepe Tissue, Hygiene Tissue, M.G. Tissue, Carbon Tissue, and Wrappers for fruit, flowers and food, Poster Paper, Kraft Paper etc.

2.3 PUDUMJEE HYGIENE PRODUCTS LIMITED

PHPL is engaged in trading a wide array of Hygiene Products. It is also engaged in leasing business. PHPL is a wholly owned subsidiary of PIL. The equity shares of PHPL are not listed on any stock exchange.

“Trading Business Undertaking” of PHPL is engaged in trading of wide range of hygiene products, which includes a variety of tissues, technologically advanced soap and tissue dispensers, an array of liquid soaps, hand sanitizers and washroom cleaning aids.

2.4 PUDUMJEE PAPER PRODUCTS LIMITED

PPPL is incorporated on January 14, 2015 as a special purpose vehicle for the purpose of integrating Manufacturing Business Undertaking of PPPML, Manufacturing Business Undertaking of PIL and Trading Business Undertaking of PHPL into one entity.

3. SOURCES OF INFORMATION

For the purposes of our valuation exercise, we have relied upon the following sources of information as provided to us by the management of the Companies:



- (a) Audited Financial Statements of PHPL, PPPML and PIL for the year ended March 31, 2014.
- (b) Management certified position of assets and liabilities of the Demerged Undertakings (in accordance with Section 2(19AA) of the Income tax Act, 1961) proposed to be demerged into PPPL as at March 31, 2014.
- (c) Projections comprising of Income Statement, Balance Sheet and Cash Flows of the Demerged Undertakings for FY 2014-15 to 2018-19.
- (d) Draft Scheme of Arrangement u/s 391 to 394 of the Companies Act, 1956.
- (e) Other relevant details regarding the Companies such as their history, past and present activities, future plans and prospects, existing shareholding pattern and other relevant information and data, including information in the public domain.
- (f) Discussions with the Management on various issues relevant for the 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.

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 has 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 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 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 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 fair value of the shares of the Companies including any significant changes that have taken place or are likely to take place in the financial position of the Companies, 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 recommendation is based on the estimates of future financial performance as projected by the management of the Companies, which represents their view of reasonable expectation at the point of time when they were prepared, but such information and estimates are not offered as assurances that the particular level of income or profit will be achieved or events will occur as predicted. Actual results achieved during the period covered by the prospective financial statements may vary from those contained in the statement and the variation may be material. The fact that we have considered the projections in this exercise of valuation should not be construed or taken as our being associated with or a party to such projections.
- 4.8 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 amalgamation.
- 4.9 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.
- 4.10 Any person/ party intending to provide finance / invest in the shares / business 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.
- 4.11 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.
- 4.12 SSPA & Co., nor its partners, managers, employees 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. VALUATION APPROACH

- 5.1 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" approach

5.2 UNDERLYING ASSET APPROACH

- 5.2.1 In case of the "Underlying Asset" approach, the value is determined by dividing the net assets of a company/undertaking by the number of shares. Since the business is valued on a "going concern" basis and an actual realization of the operating assets is not contemplated, we have considered it appropriate not to determine the realizable or replacement value of the assets. The operating assets have therefore been considered at their book values.
- 5.2.2 In arriving at the Net Assets Value, we have made appropriate adjustments for appreciation/diminution in the value of surplus assets and investments, present value of tax benefit on account of unabsorbed losses, present value of benefit on account of sales tax deferment loan and contingent liabilities adjusted for probability of devolvement, after considering tax impact wherever applicable.
- 5.2.3 The underlying net assets value as arrived above is divided by the outstanding number of equity shares to arrive at the value per share.

5.3 INCOME APPROACH

Under the "Income" approach, the "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL and "Trading Business Undertaking" of PHPL have been valued using Discounted Cash Flow (DCF) Method.

PPPL is recently incorporated and currently does not have any business activity. Therefore, Income approach has not been used for valuation of equity shares of PPPL.

- 5.3.1 Under the DCF method, the projected free cash flows from business operations after considering fund requirements for projected capital expenditure and incremental working capital are discounted at the Weighted Average Cost of Capital (WACC). The sum of the discounted value of such free cash flows and discounted value of perpetuity is the value of the business.



- 5.3.2 The free cash flows represent the cash available for distribution to both the owners and the creditors of the business. The free cash flows are determined by adding back to profit before tax, interest, depreciation and amortizations (non-cash charge). The cash flow is adjusted for outflows on account of capital expenditure, tax and change in working capital requirements.
- 5.3.3 WACC is considered as the most appropriate discount rate in the DCF Method, since it reflects both the business and the financial risk of the company. In other words, WACC is the weighted average of the company's cost of equity and debt. Considering an appropriate mix between debt and equity for the company, we have arrived at the WACC to be used for discounting the Free Cash Flows.
- 5.3.4 Value for equity shareholders is arrived at after making adjustment for loan funds, value of surplus assets, inter corporate deposits, value of investments, cash and cash equivalents, present value of sales tax deferment loan and contingent liabilities adjusted for probability of devolvement, after considering the tax impact wherever applicable.
- 5.3.5 The equity value so arrived at is divided by the outstanding number of equity shares to arrive at the value per share.

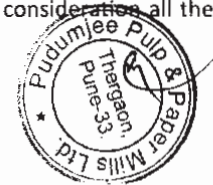
5.4 **MARKET APPROACH**

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, subject to the element of speculative support that may be inbuilt in the value of the shares.

The Demerged Undertakings are not separately listed on any recognized stock exchange. Further, the shares of PPPL are not listed on any stock exchanges. Therefore, for the purpose of present valuation exercise, Market approach has not been considered.

6. **RECOMMENDATION OF FAIR EQUITY SHARE ENTITLEMENT RATIO**

- 6.1 The fair basis of demerger of the "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL and "Trading Business Undertaking" of PHPL into PPPL would have to be determined after taking into consideration all the



factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above approaches, for the purposes of recommending a fair equity share entitlement ratio, it is necessary to arrive at a single value for the shares. It is however important to note that in doing so, we are not attempting to arrive at the absolute value per share of "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL, "Trading Business Undertaking" and PPPL.

- 6.2 Our exercise is to work out relative value of shares to facilitate the determination of a fair equity share entitlement ratio. For this purpose, it is necessary to give appropriate weightage to the values arrived at under each approach.

Considering the fact that, after the demerger, the business of "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL and "Trading Business Undertaking" of PHPL are intended to be continued on a "going concern" basis and that there is no intention to dispose off the assets, we have considered it appropriate, to give weightage of '2' to the value determined under the "Income" approach and weightage of '1' to the value determined under the "Underlying Asset" approach. For PPPL, as mentioned earlier, we have not adopted the "Income" approach and the value per share has been arrived at on the basis of "Underlying Asset" approach.

- 6.3 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 176 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.'

6.4 In the 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 the "Manufacturing Business Undertaking" of PPPML, "Manufacturing Business Undertaking" of PIL and "Trading Business Undertaking" of PHPL into PPPL would be:

37 (Thirty Seven) equity share of PPPL of INR 1 each fully paid for every 20 (Twenty) equity shares of PPPML of INR 2 each fully paid.

9 (Nine) equity share of PPPL of INR 1 each fully paid for every 20 (Twenty) equity shares of PIL of INR 2 each fully paid.

7 (Seven) equity share of PPPL of INR 1 each fully paid for every 20 (Twenty) equity shares of PHPL of INR 10 each fully paid.

Thank you,
Yours faithfully,

SSPA & Co.



SSPA & CO.
Chartered Accountants

Place: Mumbai

