



For ORIENT PAPER & INDUSTRIES LTD.


(R. P. DUTTA)
Company Secretary
ACS No. 14337

ORIENT PAPER & INDUSTRIES LTD.
CK BIRLA GROUP

**Report on Recommendation of Share Entitlement Ratio on
Demerger of Consumer Electric Business of Orient Paper
& Industries Limited into Orient Electric Limited**

October 2016

N D A & ASSOCIATES

Chartered Accountants

NDA & Associates

Chartered Accountants

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Strictly Private and Confidential

October 17, 2016

Board of Directors
Orient Paper and Industries Limited
9/1, R. N. Mukherjee Road
Kolkata - 700 001

Board of Directors
Orient Electric Limited
9/1, R. N. Mukherjee Road
Kolkata 700 001

Re: Report on Recommendation of Share Entitlement Ratio on Demerger of Consumer Electric Business of Orient Paper & Industries Limited into Orient Electric Limited.

Dear Sirs,

1.0 CONTEXT & PURPOSE

We refer to the engagement letter dated 20-09-2016 and the subsequent discussion we had with you, wherein you have requested us to provide our recommendation of a fair Share Entitlement Ratio of Equity Shares of the resultant company to be issued to the shareholders of Orient Paper & Industries Limited (hereinafter referred to as "OPIL" or the "Demerged Company") pursuant to the proposed Scheme of Demerger of Consumer Electric Business of OPIL. "Consumer Electric Business" means the undertaking of the Demerged Company carrying on the business of manufacture, production, sale and distribution of Consumer Electricals.

2.0 BACKGROUND

2.1 OPIL is a public company, limited by shares, incorporated under the provisions of the Companies Act, 1913 and having its registered office at Unit VIII, Plot No. 7, Bhoinagar, Bhubaneswar 751012, Odisha, India and has two primary business segments, being the paper business and the consumer electric business.

The equity shares of the Demerged Company are listed on BSE Limited and the National Stock Exchange of India Limited.

2.2 Orient Electric Limited (hereinafter referred to as "Resulting Company" or OEL) is a company incorporated under the Companies Act, 2013 on 10th October, 2016 and having its registered office at Unit VIII, Plot No. 7, Bhoinagar, Bhubaneswar 751012, Odisha, India.

Commerce House, Suite 4A, 5th Floor, 2A, Ganesh Chandra Avenue, Kolkata
Offices at : New Delhi & Bangaluru



The equity shares of the Resulting Company are not listed on any stock exchange in India. The entire share capital of the Resulting Company is held by the Demerged Company.

- 2.3 We understand that the management of OPIL is contemplating a restructuring of its business. Accordingly, it is proposed that the Consumer Electric Business of the company be demerged into OEL, a newly incorporated wholly owned subsidiary of OPIL.

The demerger is proposed to be effected through a scheme of Arrangement under Sections 391-394 of the Companies Act, 1956 and other applicable provisions of the Companies Act 2013 (to the extent applicable).

It will also be in accordance with Section 2(19AA) of the Income Tax Act, 1961.

- 2.4 Accordingly, the entire business of OPIL shall be restructured and the business activity relating to the consumer electric business proposed to be demerged shall be transferred to and vested with OEL. All the properties movable or immovable and assets of whatever nature and kind relating to the business divisions under consideration for the demerger, shall without any further act or deed be and stand transferred to and vested in OEL and also the liabilities pertaining to the said division shall be assumed by OEL.
- 2.5 The Appointed Date of the proposed Demerger is 1st March 2017 and the Effective Date shall be the date on which the last requisite sanctions, approvals or orders are obtained. We understand that pursuant to the Scheme of Demerger, the existing shareholders of OPIL are to receive shares in the equity share capital of the Resulting Company as referred to in Clause 8.1 of the Scheme of Arrangement, pursuant to demerger of the Demerged Undertakings into the Resulting Company.

3.0 SCOPE OF WORK

- 3.1 In the context of the proposed demerger of Business Undertaking (as mentioned above) of OPIL, you have approached us to assist in arriving at the Share Entitlement Ratio for the purpose of issue of Equity Shares in OEL to the shareholders of OPIL as on the Record Date to be fixed jointly by the Board of Directors of the Demerged Company and the Resulting Company.
- 3.2 Share Entitlement Ratio is the ratio in which equity shares of the Resulting Company are to be issued and allotted to the shareholders of the Demerged Company

4.0 BASIS, ASSUMPTIONS & PROCEDURES

- 4.1 For the purpose of arriving at the Share Entitlement Ratio, the procedure used included collection and analysis of information and data and such other substantive steps as we consider necessary under the circumstances, including but not necessarily limited to, the following:
- Discussions with the management of OPIL and OEL.
 - Study of financial and operating conditions and review of historical performance of OPIL.
 - Consideration of audited financial statements of OPIL for the financial years ended on 31st March 2016 and 31st March 2015 and the figures pertaining to the demerged business and retained business as at and for the year ended 31st March 2016



- Consideration of draft scheme of arrangement
- Consideration of Memorandum and Articles of Association of both the companies
- Such other analysis, reviews and enquiries as warranted on the facts or requirements

5.0 DEMERGER OBJECTIVES

5.1 The objectives underlying the proposed demerger as communicated by the Management are as under:

OPII. is engaged in 2 (two) distinct lines of business namely:

- (a) manufacture and distribution of paper and paper products such as writing paper, printing paper and tissue paper (collectively referred to as the "Paper Business"); and
- (b) manufacture and distribution of consumer appliances such as fans, lighting products, home appliances and switch gears (collectively referred to as the "Consumer Electric Business").

The nature of risk and competition involved in each of the Paper Business and Consumer Electric Business is distinct, necessitating different management approaches and focus. Moreover, the competitive dynamics of these businesses are also different.

5.2 The management feels that separation of the Consumer Electric Business, by way of the proposed Scheme from the Demerged Company would lead to significant benefits for both businesses including:

- (a) enable a dedicated management focus and to accelerate growth of the Consumer Electric Business unlocking significant value for the shareholders of Orient Paper and Industries Limited; and
- (b) access to varied sources of funds for the rapid growth of both businesses.

5.3 The said demerger shall enable the Management to have focused business approach for maximization of benefits to all stakeholders in future. It will also result in administrative convenience and better control through decentralization of authority as the areas of work shall become specific.

5.4 The companies shall become separate responsibility centres as a result of which the advantage and disadvantage of any decision shall remain undiluted and shall give a clear picture of the affairs of each activity thereby assisting in chalking out best possible business strategy for each activity.

6.0 OUR APPROACH

6.1 We have considered the following to arrive at our recommendation of the share entitlement ratio:

The issued, subscribed and paid up share capital of OPII. as at 31.03,2016 is as under:

Issued – 20,48,87,970 Equity Shares of Re. 1/- each

Subscribed & fully paid-up - 20,48,68,760 Equity Shares of Re. 1/- each

The Management has stated the Authorized Share Capital of OEL. is Rs 500,000/- divided into 500,000 equity shares of Re 1/- each. The issued, subscribed and paid up share capital of OEL. is 500,000 equity shares of Re. 1 each.



- 6.2 Based on audited financial statements of OPII. for the financial year 2015-16, the share of demerged business and the retained business is as under:

| Particulars | Rs in Crores | | Total |
|-------------------|----------------------------|----------------|---------|
| | Consumer Electric Business | Paper Business | |
| Net Sales | 1301.83 | 518.53 | 1820.36 |
| EBIDTA | 90.78 | 26.07 | 116.85 |
| Profit before Tax | 45.28 | (-) 23.93 | 21.35 |
| Profit after Tax | | | 21.02 |
| Net worth | | | 414.21 |
| Capital Employed | 425.99 | 439.08 | 865.07 |

Source - Management

- 6.3 We have also considered the dividend payout by OPII. for last 4 years. We have not considered the FY 2011-12 since the financial results included operations of Cement division, demerged from OPII. effective 1st April 2012.

| Financial Year | Profit after Tax (Rs in Laes) | Dividend % | Dividend payout including Tax (Rs in Laes) |
|----------------|----------------------------------|------------|--|
| 2012-13 | (-) 3223.49 | 10 | 239.69 |
| 2013-14 | 423.64 | 10 | 239.69 |
| 2014-15 | (-) 2865.02 | 10 | 245.83 |
| 2015-16 | 2102.08 | 25 | 616.44 |

Source Management

We have discussed the possibility of dividend payouts by OEL. post demerger, with the Management and they have indicated that they would like to keep a similar payout for OEL. as has been for OPII., going forward.

- 6.4 Since OEL. is a company with no other activity and all the shares, to be issued by it pursuant to demerger, are to be issued to the shareholders of OPII. in effect, no different shareholder interest is to emerge. The principle to be considered is that the shareholders proportionate holding is to remain same.

In the present analysis where the proposal is of restructuring of the existing diversified activities into specific activities and that too when the set of shareholders is identical, what is much relevant is not determination of the value of the shares of the companies separately, but the determination of the total number of shares of resulting company to be issued in exchange for / against existing shares of the company.



7.0 RECOMMENDATION

7.1 As stated in the paragraphs above, in the case of this type of de-merger, there is no requirement for separate valuation of shares as the Resultant Company is currently a 100% subsidiary of the Demerged Company and all the existing shareholders of OPIL will become shareholders of the Resulting Company. Upon allotment of equity shares by the Resulting Company in the proposed Share Entitlement Ratio, the ultimate beneficial economic interest of the existing shareholders of OPIL in the equity of the Resulting Company will be same as it is in the equity of OPIL.

7.2 Under these circumstances we recommend that based on and subject to various assumptions and limitations set forth herewith, the share Entitlement Ratio of 1 (One) equity share of Re. 1/- each of the Resultant Company as fully paid up for every 1 (one) equity share of Re. 1/- each fully paid-up to the members of OPIL as on the Record Date (to be decided by the Board of both the companies after approval of the proposed scheme of arrangement) in consideration for the demerger is fair and reasonable.

Upon the scheme of demerger becoming effective, the initial issued, subscribed and paid up share capital of the resulting company consisting of 500,000 equity shares of Re. 1 each shall stand cancelled.

8.0 LIMITATIONS

8.1 Our recommendation is dependent upon the information furnished to us by the Management of OPIL and OEL, which we believe to be reliable and complete in all respect. We do not assume any responsibility for the correctness or accuracy of the audited financial statements since we have not carried out any sort of audit or review of the same.

8.2 Our scope is limited to provide our recommendation on the proposed share entitlement ratio. Therefore this report is not an opinion or certification of compliance of various laws relating to proposed demerger.

8.3 We have not made any investigation or assume no responsibility in respect of the titles of the assets or liabilities of OPIL and disclosures made by the management have been assumed to be valid.

8.4 It should be noted here that any exercise of the nature covered in this report is not a precise science or mathematical exercise. Such exercise is always subjective and dependent on individual judgement. While we have provided our recommendation on the share entitlement ratio, others may have different opinion. Ultimately, the exercise will leave matters open for final judgment of parties concerned.

9.0 DISTRIBUTION OF OUR REPORT

9.1 This Report is issued for the Board of Directors of OPIL, and the Resulting Company. This report is intended for sole use by the companies only in connection with the proposed demerger including for the purpose of obtaining necessary approvals. This report should not be distributed or used for any purpose, other than the proposed demerger.



N D A & Associates

Chartered Accountants

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We place on record of our sincere appreciation for the co-operation extended by the management in course of this assignment.

Yours faithfully.

NDA & Associates
N D A & Associates
Chartered Accountants
(FRN: 028709N)

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For ORIENT PAPER & INDUSTRIES LTD.

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