JK PAPER LTD.

Nehru House, 4 Bahadur Shah Zafar Marg, New Delhi-110002

Through E-mail/Confirmatory copy by hand

20th December 2013

Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001
Fax: +91-22-2272 2037, 2272 2039, 2272 2041

Kind Attn: Ms. Pooja Sanghvi

Re: Approval required under Clauses 24(f) and 36 of the Listing Agreement in relation to the proposed Scheme of Arrangement between JK Enviro-tech Limited and JK Paper Limited (Scrip Code: 532162)

Dear Madam,

This is in response to your email dated November 07, 2013 and November 13, 2013 in connection with the application filed by us for procuring consent of the stock exchange(s) and SEBI under clause 24(f) of the Equity Listing Agreement read with the provisions of SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 04, 2013 ("February 04 Circular"), as modified by SEBI Circular No. CIR/CFD/DIL/8/2013 dated May 21, 2013 ("May 21 Circular").

Before addressing your specific queries, we have provided below the background to the proposed Scheme of Arrangement ("Scheme").

JK Enviro-tech Ltd. ("JKETL") was incorporated in the year 2007, with the objective of processing lime sludge (waste) generated by JK Paper Ltd ("JKPL"). JKPL having two separate units in the States of Gujarat and Odisha (Unit CPM in Gujarat and Unit JKPM in Odisha), manufactures paper, and thus as a result generates waste during the production process, i.e., lime sludge.

As per Corporate Responsibility for Environmental Protection (CREP) guidelines, introduced by the Ministry of Environment & Forests, Government of India, it is mandatory on the part of integrated pulp and paper plants, to install lime mud re-burning kiln to avoid any solid waste discharge to reduce load on the environment due to lime sludge disposal.

JKPL requested JKETL to set-up the Lime Kiln Plants to take care of its mandatory requirement from the Government of India to re-process lime sludge and stop solid waste discharge from its integrated pulp and paper plants.

The primary business of JKETL is to convert the lime sludge received from JKPL into lime and exclusively sell such lime to JKPL with conversion charges.

Accordingly JKETL set-up Lime Kiln Plants with part funding through loan from IDFC Ltd. As per the terms between JKETL and its lender (IDFC Ltd.), JKETL entered into a conversion agreement with JKPL, which requires JKETL to raise invoices for the full amount of all variable expenses incurred for converting lime sludge and selling the lime back to JKPL. This includes the cost of purchase of any make-up limestone/lime, coal, water furnace oil or other chemicals/materials and a fixed charge at the rate of Rs. 75 lac per month as capital cost (including depreciation, interest etc.).

Initially cost of lime produced by JKETL through reprocessing of lime sludge was competitive compared to open market purchase of lime. However during the last few years we have observed the following:

1 To operate the lime kiln we need coal, make up lime, furnace oil, besides spares. We also need logistics for loading, unloading coal and lime, besides water and some chemicals. In these JKPL (the parent company) has some efficiencies and volume discounts, which is being lost by JKETL.

2 There are some operating efficiencies when the lime kiln plant is seamlessly integrated with the pulp mill.

3 In the last 4-5 years the interpretations of some tax laws (like entry tax, excise, etc) make it more economical to have a single entity rather than 2 entities.

4 With the introduction of transfer pricing rules (even for domestic transactions) which was not envisaged at all, it might be bothersome to explain the differential between the open market purchase price of lime vis-à-vis the cost of lime purchased from JKETL by JKPL which is much more energy intensive. Energy costs have risen steeply in the last 3-4 years as is known. We apprehend that it may not be possible to continue with the loan covenants of the lender given the changed scenario after introduction of transfer pricing rules.

Because of all the above reasons JKPL reckons that there will be a net benefit of Rs. 3.5-4 crores per annum to JKPL. Hence JKPL took the decision to merge the lime kiln undertaking of JKETL through Court approved slump sale.

The queries raised by you *vide* your email dated November 07, 2013 are addressed in seriatim below.

1. **What was the total valuation of JK Enviro-tech Ltd. (JKETL) when JK Paper Ltd. (JKPL) has acquired 32,00,000 shares. Also provide the valuation of lime Kiln undertaking and valuation of other undertaking separately as on date of valuation.**

For the purpose of acquisition of 32,00,000 shares of JKETL, JKPL has relied on the independent valuation report dated May 18, 2013 from M/s KSMN & Co., in which the valuation suggested was Rs. 15.55 per share of JKETL. The aforesaid valuation report is marked as Annexure 1 and attached to this mail.

We did not undertake any separate valuation of the lime Kiln undertaking and the residual undertaking(s), i.e., the undertakings that will be left with JKETL post the Scheme, as on the date of valuation for the purposes of purchase of the aforementioned shares. The net worth, as per the books of JKETL, of the lime Kiln undertaking and the residual undertaking(s) are as follows:

(i) Net worth of lime Kiln undertaking – Rs. 7.48 crore; and

(ii) Net worth of residual undertaking(s) – Rs. 0.27 crore.

2. **Who were the shareholders of JKETL from whom JKPL acquired 32,00,000 shares in June 2013. Whether any of these shareholders are related to the promoter / promoter group of JKPL.**

The details of the shareholders from whom shares were acquired by JKPL, the quantum of shares purchased from each such entity and the consideration paid are set forth below:

S. No	*Name of the Seller*	*Number of Shares*	*Consideration (in Rs.)*
1.	Bengal & Assam Co. Ltd	22,00,000	3,44,30,000
2.	Nav Bharat Vanijya Ltd	5,00,000	78,25,000
3.	Param Shubham Vanijya Ltd.	5,00,000	78,25,000

All the above entities form a part of the promoter/promoter group of the JKPL.

3. **How much value/ net worth is proposed to be transferred to JKPL in the form of lime Kiln undertaking. How much net worth will be left with JKETL and provide the working of such calculations.**

The lime Kiln undertaking is being transferred at the fair market value based on the independent valuer's report. The net consideration of the fair value of the lime Kiln undertaking transferred through slump sale has been worked out by the independent valuer to be Rs. 1.59 crore, whereas the net worth, as per the books of JKETL, of the lime Kiln undertaking and the residual undertaking(s), i.e., the undertakings that will be left with JKETL post the Scheme of Arrangement ("Scheme"), are as follows:

(i) Net worth of lime Kiln undertaking – Rs. 7.48 crore; and

(ii) Net worth of residual undertaking(s) – Rs. 0.27 crore.

4. **JKPL acquired 32,00,000 equity shares, representing 64.63% of capital of JKETL, at a price of Rs.15.65 per share only in June 2013 for an amount of Rs.5 crore whereas within a month thereafter BOD of the company approved the scheme of arrangement which *inter alia* provides for utilization of securities premium account to the tune of Rs.5.04 cr for writing of diminution in value of investment in JKETL. Kindly clarify the rational for investing in JKETL and subsequent write off of the investment made.**

The background to the Scheme has been summarized above. In order to ensure the smooth facilitation of the Scheme, the Board decided to approve the acquisition of 32,00,000 shares in JKETL from other shareholders. In fact, the original proposal was to make JKETL a wholly owned subsidiary of JKPL prior to the Scheme but due to some tax issues and advice procured from independent tax experts, a decision was taken to acquire only 99% of the share capital of JKETL. JKPL acquired the 32,00,000 shares in JKETL from other shareholders at the rate of Rs. 15.65 per share based on the book value of each share as on March 31, 2013. An independent valuation report dated May 18, 2013 from M/s KSMN & Co. which certified that the equity valuation of JKETL as Rs. 15.55 per share, is marked as Annexure 1 and attached to this mail. M/s KSMN & Co has followed the two different methods (Profit earning capitalization value -

PECV method and Book value as per Income Tax Rule 11UA – fair value) to work out the above valuation.

Please note that if the shares of the erstwhile shareholders of JKETL was not procured by JKPL, such shareholders, including Bengal & Assam Company Limited, a listed company, may not have permitted the sale of the lime kiln undertaking at anything less than the book value of the undertaking (which in any case would have been more than the combined consideration that is being paid by JKPL for acquiring the 32,00,000 shares from the original shareholders of JKETL and the lime kiln undertaking from JKETL), let alone a sale based on fair value of Rs. 1.59 crore. Further, the minority shareholders of Bengal & Assam Company Limited, a listed company, would have also questioned a sale at anything less than the book value of the lime kiln undertaking. This was one of the primary reasons for acquisition of 32,00,000 shares in JKETL from other shareholders. Further, since shares of JKETL were acquired from promoter/promoter group companies, prior to the Scheme, clause 6.5 of the Scheme provides that JKPL shall comply with the provisions of February 04 Circular and the May 21 Circular while *inter alia* procuring the approval of the public shareholders of JKPL and that it shall provide for voting by such public shareholders through postal ballot and e-voting.

Post such acquisition, the Board of JKPL, in its meeting dated July 19, 2013, approved the Scheme for acquisition of the lime kiln undertaking from JKETL for a net consideration of Rs. 1.59 crore. As stated in clause 4.1.2 of the Scheme, the purchase consideration was arrived at based on an independent valuation report dated July 15, 2013 of M/s SS Kothari Mehta & Co., and this report is marked as Annexure 2 and attached to this mail. M/s SS Kothari Mehta & Co., has also adopted two separate business valuation methods to work the net consideration in the report – DCF Method and the adjusted NAV method, on the basis of replacement value of the fixed assets worked out by another independent valuer M/s SR Jain & Associates. The fixed asset valuation report dated July 08, 2013 of M/s SR Jain & Associates is marked as Annexure 3 and attached to this mail. Further, ICICI Securities Limited, a merchant banker, has issued a fairness opinion dated July 17, 2013, stating that the valuation is fair. The fairness opinion was already furnished to your stock exchange at the time of submission of the clause 24(f) application and hence we are not resending the same.

As the nature of the two transactions – acquisition of shares of JKETL and business valuation of the lime kiln undertaking – are substantially different, there is bound to be a difference in the methods of valuation of each of them, and hence the difference in the value of the two transactions.

In terms of the relevant accounting standards, the loss arising in the books of JKPL, as a result of the diminution in value of the investments made by it in JKETL (which was direct consequence of the spin-off of the lime kiln undertaking from JKETL) has to be charged to the statement of profit and loss of JKPL. To avoid the adverse impact in the statement of profit and loss of JKPL because of this exceptional loss (not operational loss), an amount Rs. 5.04 crore is to be transferred from the securities premium reserve to the statement of profit and loss. The Scheme, including clause 6.1, clearly deals with the transfer from the securities premium reserve to the statement of profit and loss, as it amounts of a reduction of capital in terms of Section 78 of the Companies Act, 1956.

As you can ascertain from the above clarification, the Board of JKPL has been transparent at every juncture and has taken all necessary precautions, including procuring appropriate independent valuation and fairness opinion, to ensure that no prejudice is caused to any stakeholders in both the companies, including minority shareholders. The acquisition of

32,00,000 shares in JKETL from other shareholders, admittedly promoter and promoter group entities, was on arm's length basis and is backed up by appropriate independent valuations. As stated above, if the shares of the erstwhile shareholders of JKETL was not procured by JKPL, such shareholders, including Bengal & Assam Company Limited and/or its minority shareholders, may not have permitted the sale of the lime kiln undertaking at anything less than the book value of the undertaking (which in any case would have been more than the combined consideration that is being paid by JKPL for acquiring the 32,00,000 shares from the original shareholders of JKETL and the lime kiln undertaking from JKETL), let alone a sale based on fair value of Rs. 1.59 crore. Thus, in our view, there is a net benefit in implementing the sale post acquisition of shares from the other shareholders. The subsequent write off of the investment made in JKETL by JKPL is a direct consequence of the spin-off of the lime kiln undertaking from JKETL to JKPL and is mandated by accounting standards.

The Board of JKPL, in its collective commercial wisdom, has approved the Scheme as the consolidation will lead to long term benefits for JKPL (as well as all its stakeholders, including minority shareholders), as a result of *inter alia* streamlining of day to day operations and reduction in administrative and other common costs. We are confident that even if there is deemed to be an one time adverse financial impact on JKPL, such an impact will be reversed in due course and the net result of the consolidation will be positive for JKPL and its shareholders, including minority/public shareholders.

5. **What is the rational behind merging the lime Kiln of JKETL in which JKPL holds 98.98% stake, that also after creating a notional loss of Rs.5.04 crore major part of which was acquired in June 2013 only.**

   Please refer to our answer to question no. 4 above.

The queries raised by you *vide* your email dated November 13, 2013 are addressed in seriatim below.

1. **Compliance with Para 7 (requirements w.r.t. postal ballot and e-voting) of SEBI circular dated May 21, 2013.**

   Clause 6.5 of the Scheme clearly states that JKPL shall comply with the provisions of SEBI February 04 Circular, as modified by the May 21 Circular, while *inter alia* procuring the approval of the public shareholders of the Transferee Company and shall provide for voting by such public shareholders through postal ballot and e-voting. This is in accordance with the provisions of Para 7 of the May 21 Circular.

   Para 5.16 of the February 04 Circular, as modified by May 21 Circular, prescribes that a listed company shall ensure that the Scheme submitted with the Hon'ble High Court for sanction, provides for voting by public shareholders through postal ballot and e-voting *inter alia* if the parent listed company has acquired the equity shares of the subsidiary by paying consideration in cash or in kind in the past to any of the shareholders of the subsidiary who may be promoter / promoter group, related parties of promoter / promoter group, associates of promoter / promoter group, subsidiary/(s) of promoter / promoter group of the parent listed company, and <u>if that subsidiary is being merged with the parent listed company under the Scheme</u>. Although the Scheme does not contemplate a merger of JKPL with JKETL, and hence doesn't technically fall within the requirement of the aforementioned provision, since JKPL had acquired 32,00,000 shares in JKETL from promoter/promoter group companies, we have, keeping in view the interests of the public shareholders, voluntarily provided for voting by such public shareholders through postal ballot and e-voting.

We are in the process of engaging NSDL to provide the e-voting facility and we will ensure that the public shareholders have the postal ballot and e-voting option whilst approving the Scheme.

2. **Pre and Post Shareholding pattern in the attached word format.**

The pre and post shareholding pattern of JKPL and JKETL (in word format) is marked as Annexure 4 and attached to this mail.

The Scheme does not contemplate any issuance of shares or other securities and accordingly there is no change in the shareholding pattern of JKPL or JKETL. Part V of the Scheme contemplates a reduction in the share capital of JKETL so as to bring it in line with the value of the residual undertaking and this is only reason for change in the number of shares held by JKPL and Bengal & Assam Co. Ltd in JKETL on pro rata basis.

3. **Soft copy of the scheme.**

A soft copy (word format) of the scheme is marked as Annexure 5 and attached to this mail.

4. **Compliance with SEBI circular dated February 4, 2013 read with Circular dated May 21, 2013 in word format.**

JKPL has complied with all the relevant provisions of the February 04 Circular read with the May 21 Circular. Compliance report with the requirements specified in Part-A of the February 04 Circular read with the May 21 is marked as Annexure 6 and attached to this mail.

In addition, the table below captures the steps taken by JKPL to comply with the provisions of the aforementioned circulars:

Paragraph Reference	*Description of Action*	*Steps taken by JKPL*
5.1	Filing draft scheme with the stock exchanges in terms of Clause 24(f) of the Equity Listing Agreement, along with documents mentioned in Para 2 of Part A of Annexure I of the February 04 Circular.	Draft Scheme and all other relevant documents have been submitted to the stock exchanges on September 11, 2013.
5.2	Report from the Audit Committee recommending the draft Scheme, taking into consideration, *inter alia*, the valuation report.	Audit Committee of JKPL had on July 19, 2013 passed a resolution recommending the scheme to the Board of JKPL based on *inter alia* the valuation report dated July 15, 2013 of M/s SS Kothari Mehta & Co. A copy of the resolution of the audit committee was already submitted to your stock exchange on September 11, 2013.

5.3	One of the stock exchanges having nation-wide trading terminals is to be nominated as the designated stock exchange for the purpose of coordinating with SEBI.	The Board of JKPL had *vide* the resolution passed on July 19, 2013 approved the Scheme and nominated your stock exchange as the designated stock exchange. A copy of the board resolution was already submitted to your stock exchange on September 11, 2013.
5.4	Observation letter of the stock exchanges to be sent along with the notice sent to the shareholders seeking approval of the Scheme and this is to be brought to the notice of the Hon'ble High Court at the time of seeking approval of the Scheme.	We agree and undertake that we shall comply with these requirements.
5.11	Disclosure of the draft Scheme and other relevant documents on the company's website. Observation letter of the stock exchanges to be disclosed on its website within 24 hours of receiving the same.	Website link to JKPL's website where the Scheme and other documents have been uploaded on September 12, 2013 is given below http://www.jkpaper.com/index.php?option=com_content&view=article&id=86&Itemid=38. We agree and undertake that we shall disclose the Observation letter within 24 hours of receiving the same.
5.13 & 5.15	Submission of a 'Complaints Report' to stock exchanges within 7 days of expiry of 21 days from the date of filing of draft Scheme with stock exchanges.	We have submitted a 'Complaints Report' in the prescribed format on October 17, 2013.
5.14	'Complaints Report' is to be sent to the shareholders while seeking approval of the Scheme.	We agree and undertake that we shall comply with this requirement.
5.16	Provision for voting by public shareholders through postal ballot and e-voting, after disclosure of all material facts in the explanatory statement that is to be sent to the shareholders.	Clause 6.5 of the Scheme clearly states that JKPL shall comply with the provisions pertaining to procuring the approval of the public shareholders and provide for voting by such public shareholders through postal ballot and e-voting. We are in the process of engaging NSDL to provide the e-voting facility. We agree and undertake that we shall ensure that the public shareholders

		have the postal ballot and e-voting option whilst approving the Scheme and that we will disclose all material facts in the explanatory statement that is to be sent to the shareholders.

Please note that the provisions of paragraphs 4, 5.3(a), 5.3(b) and 5.16(b) to (e) of the February 04 Circular read with the May 21 Circular are not relevant for the purposes of the proposed Scheme. The provisions of paragraphs 5.5 – 5.10 and 5.12 of the February 04 Circular read with the May 21 Circular do not cast any obligations on JKPL as they are action items for the stock exchanges and SEBI.

Please feel free to contact us, if you need any further clarification. If you deem necessary, we will be happy to come down to Mumbai to make a presentation before you to further explain and elucidate the rationale for the Scheme.

Thanking you.

Yours faithfully,

For JK Paper Limited

(Suresh Chander Gupta)

Company Secretary

Encl:a/a

Annexure - I

EQUITY VALUATION REPORT

JK ENVIRO-TECH LIMITED

18th May, 2013

Prepared by:

KSMN & Company

Chartered Accountants

137, Tribhuvan Complex

Ishwar Nagar, Mathura Road

New Delhi – 110 065

Ph: 011- 4670 8888

Private and Confidential

DISCLAIMER

This Report ("Report") is being furnished on the request of the management of JK Papers Limited ("JKPL"). The management of JKPL have appointed KSMN & Company ("KSMN"), Chartered Accountants, to provide for a fair value of the Equity Shares of JK Enviro-Tech Limited ("JKETL" or "Company") for the purpose of acquisition of Equity Shares of JKETL by JKPL.

The Report has been prepared by KSMN from information extracted from desk research, published reports and other data supplied by the management of both the companies and other sources believed to be reliable and true. Our scope of work does not include verification of data submitted by management and we have relied upon the data so submitted. We have prima facie analysed the data and formed our views. The Report cannot be distributed, published, reproduced or used, without the prior express written consent of KSMN, for any purpose except for the above-stated reason.

The management of JKETL has provided the factual data, business details, market research report, and published annual accounts of the Company, on which KSMN has relied. While the information provided herein is believed to be true and reliable to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of such information.

In furnishing the Report, KSMN reserves the right to amend or replace the Report at any time. The information contained herein is based on certain assumptions and management's analysis of information available at the time the Report was prepared. KSMN does not purport to give any representation, warranty or other assurance in relation to this Report.

I. ENGAGEMENT BACKGROUD:

The Management of JKPL has mandated KSMN to value the Equity shares of the Company based on the published annual accounts for the year ending 31st March, 2010, 31st March, 2011, 31st March, 2012 & 31st March, 2013. The purpose of the report is to provide for a Fair Value of equity shares of JKETL for the purpose of acquisition of Equity Shares of JKETL by JKPL.

II. VALUATION SUMMARY:

Equity Value of the Company as on April 1st, 2013 has been determined using a weighted average of PECV and Book Value (as per Income Tax Rule 11UA) as given below:

Valuation Methodology	Value (Rs.)	Weights	Weighted Value Per Share (Rs.)
PECV	17.62	1	17.62
Book value (as per Income Tax Rule 11UA)	14.52	2	29.04
Sum			**46.66**
Weighted Average			15.55

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III. OVERVIEW OF ADOPTED VALUATION METHODOLOGY

A. Profit Earning Capitalization Value Method (Book Value):

Capitalization of future maintainable earnings is carried out under this approach. Here it is important to work out future maintainable profit. For this purpose past profitability generally gives the indication. However, if past profit is not indicative then, future profitability may be estimated after taking into account present value of future expected profits.

The value as per PECV Method is arrived at as follows:

- Valuation as per PECV involves determination of the future maintainable earnings on a post tax basis on the basis of its normal operations. These earnings are then capitalised at an appropriate rate to arrive at the Equity Value. PECV value can also be arrived at by applying the Price Earning Multiple to the net of tax future maintainable earnings.
- PECV = Future Maintainable Profits After Tax/Capitalization Rate

  Or

  PECV = Future Maintainable Profits After Tax*PE Multiple

K S M N & COMPANY NEW DELHI CHARTERED ACCOUNTANTS

Determination of future maintainable profits is a complicated task as it involves not only objective consideration of the available financial information but, subjective evaluation of many other factors such as general economic conditions, Government policies, for example, the valuer may have to take a view on exchange rate, change in custom duty or income tax rates or changes expected in subsidy given by the Government. The valuer has to give due consideration to these factors according to his reading of the situation in each individual case.

Past earnings will give indication of the future profitability and, therefore, average of the past three to five years' earnings is taken as a future maintainable profit.

The next important factor is the rate at which adjusted maintainable profit after tax is to be capitalised. The capitalization rate or the P/E Multiple shall be reflective of the value that the business commands as on the date of valuation. In case of manufacturing companies the capitalization rate generally used is 15%. Hence the same has been considered by us for the purposes of valuation of Equity Shares of JKETL.

The value of Equity Shares of JKETL as on April 1st, 2013 using PECV method is Rs. 17.62 per share.

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B. Book Value (as per Income Tax Rule 11UA) as prescribed under Income Tax Rules, 1962:

For the purpose of section 56 (Income from other sources) of the Income Tax Act, 1961, a method for computing **fair market value of unquoted equity shares** under Rule 11U read with Rule 11UA has been prescribed under the provisions of the Income Tax Rules, 1962. These rules came into force from 1st October 2009 vide notification dated 8th April 2010. As per this rule, the fair market value of unquoted equity shares will be determined in the following manner:

$$\text{Fair market Value per Equity Share} = \frac{\text{(ASSETS – LIABILITIES)} \times \text{(FACE VALUE PER SHARE)}}{\text{PAID UP EQUITY CAPITAL}}$$

The value of Equity Shares of JKETL as on April 1st, 2013 using Book Value (as per Income Tax Rule 11 UA) is Rs. 14.52 per share.

IV. EQUITY SHARE VALUATION:

As mentioned above, we have considered two methods of equity valuation, PECV & Book Value (as per Income Tax Rule 11UA). Therefore, to arrive at value per share, we have considered a weighted average of values calculated using both the methods. Based on these factors, the valuation of equity shares of JKETL is as follows:

Valuation Methodology	Value (Rs.)	Weights	Weighted Value Per Share (Rs.)
PECV	17.62	1	17.62
Book value (as per Income Tax Rule 11UA)	14.52	2	29.04
Sum			**46.66**
Weighted Average			15.55

We opine that the value of the Equity Shares of JKETL as on April 1st, 2013, using the methodology elucidated above, is Rs. 15.55 per share

The report is to be read in whole.

For KSMN & Company
Chartered Accountants
FRN- 001075N

Deepak K. Aggarwal
Partner
Membership Number: 095541

Date: May 18th, 2013
Place: New Delhi

Annexure – 2

ADVISORY REPORT ON VALUATION OF LIME KILN UNDERTAKING IN GUJARAT & ODISHA OF JK ENVIRO-TECH LIMITED

15TH JULY 2013

Prepared by:
SS Kothari Mehta & Company
146-149, Tribhuvan Complex
Ishwar Nagar, Mathura Road
New Delhi – 110 065
Ph: 011- 4670 8888

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S. S. KOTHARI MEHTA & CO. NEW DELHI CHARTERED ACCOUNTANTS

Chapter 1: Scope of Work and Limitation

This Advisory Report ("Report") is being furnished on the request of the management of JK Paper Limited ("JKPL"). JK Enviro-Tech Limited ("JKETL") is planning to sell its Lime Kiln Undertaking ("Undertaking") in Gujarat & Odisha including all its assets & liabilities to JKPL through slump sale as on April 1, 2013 (hereinafter referred to as "Transfer Date") through a Scheme of Arrangement. Therefore, the management of JKPL has appointed S.S. Kothari Mehta & Company ("SSKM"), Chartered Accountants, to advise them on an appropriate transaction price, i.e. the value of Lime Kiln Undertaking of JKETL. For the purpose of this Report, JKETL & JKPL are hereinafter collectively referred to as Companies.

Therefore, the purpose of this Report is to advise JKPL on an appropriate transaction price, i.e. the value of the Undertaking as on the Transfer Date.

Limitation

It may be noted that valuation is a highly subjective exercise and the opinion on valuation may differ from valuer to valuer depending on the individual perception of the attendant circumstances. At best, it is an expression of opinion or a recommendation based on certain assumptions.

As specified by the ICAI Technical Guide on Valuation (Page 64), we are to state that:-

a) Valuation does not include the Auditing of Financial Data provided by management, and therefore we do not take any responsibility for its accuracy and completeness.

b) Valuation should not be considered as an opinion on the achievability of Financial Projections either mentioned in, or relied upon for this Report.

c) This Valuation Advisory is to be considered only and only for the purpose of the valuation of Lime Kiln Undertaking of JKETL.

d) Our liability is only to the Board of Directors of the Companies which are parties to the transaction.

S.S. KOTHARI MEHTA & CO. ★ NEW DELHI ★ CHARTERED ACCOUNTANTS

Chapter 2: Disclaimer Clause & Preface

The Report has been prepared by SSKM from information extracted from desk research, published reports and other data supplied by the management of the Companies and other sources believed to be reliable and true. Our scope of work does not include verification of data submitted by management and we have relied upon the data so submitted. We have prima facie analysed the data and formed our views. The Report cannot be distributed, published, reproduced or used, without the prior express written consent of SSKM, for any purpose except for the reason stated in Chapter 1.

The management of JKETL and JKPL have provided the factual data, business details, market research report, and projected financial statements on which SSKM has relied. While the information provided herein is believed to be true and reliable to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of such information.

In furnishing the Report, SSKM reserves the right to amend or replace the Report at any time. The information contained herein is based on certain assumptions and management's analysis of information available at the time the Report was prepared. SSKM does not purport to give any representation, warranty or other assurance in relation to this Report.

The Report highlights the alternative approaches to valuation, identifies various factors affecting the valuation, summarizes the methodology keeping in view the circumstances of JKETL and arrives at the value of Lime Kiln Undertaking of JKETL.

The purpose of this Report is to advise JKPL on an appropriate transaction price, i.e. the value of Lime Kiln Undertaking of JKETL as on the Transfer Date; and values derived in this Report cannot be used for any other purpose. This report is not valid for any other purpose. Further, it may be noted that we are not giving any opinion, express or implied, on the amount of consideration payable by JKPL to JKETL to acquire Lime Kiln Undertaking. Our scope of work is limited to the extent of valuing the Lime Kiln Undertaking. It is discretionary to the Management of JKPL to decide upon the consideration payable to JKETL on acquiring the said Undertaking.

S. S. KOTHARI MEHTA & CO. NEW DELHI

Chapter 3: Data Relied Upon

For the purpose of this Report, the documents and/or information published or provided by management have been relied upon. We have not carried out any further verification of the same; but have carried out a prima facie review & formed our views regarding the projections. We also do not vouch for the accuracy of the forecast as is provided to us by the management of the Companies or assume the achievement thereof.

We have relied upon Management Representation Letter dated July 4th, 2013 wherein JKETL provided the following information to SSKM:

- Audited annual reports of JKETL & JKPL for the financial years 2009-10, 2010-11, 2011-12 and 2012-13.
- Financial projections of five financial years from 2013-14 to 2017-18 of JKETL, duly certified by a Director
- Shareholding Pattern of JKPL as on March 31st, 2013.
- Shareholding Pattern of JKETL as on March 1st, 2013, June 30th, 2013 and July 18th, 2013.
- Memorandum & Articles of Association of JKETL & JKPL.
- Note on the operations of JKETL
- Flow of activities between JKPL & JKETL
- Certified copies of Resolution of Board of Directors of JKETL and JKPL to explore options of consolidation of the operations of JK Enviro-tech Limited with the JK Paper Limited.
- Statement of Unabsorbed Business Losses/ Depreciation
- Details of Contingent Liabilities of the Company and;
- Details of Term Loans and Bank Limits, including amount of loan availed, amount outstanding, terms & conditions in brief, interest rate, security/guarantee.
- Reports by SR Jain & Associates on valuation of fixed assets of the Lime Kiln Undertaking in Odisha & Gujarat.

Wherever required, all the accounts, projections and schedules listed above have been certified by the management of the respective companies.

We have also relied upon verbal explanations and information given to us by the management of these companies during the course of our exercise.

Some of the data required for the purpose of this exercise has been taken from Prowess Software (CMIE), Bombay Stock Exchange's website (www.bseindia.com) & National Stock Exchange's website (www.nseindia.com).

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Chapter 4: Background of Companies

4.1 JK Paper Limited ("JKPL")

JKPL is a leading paper manufacturer in India with a combined production capacity of 2,90,000 Tonnes per annum.

It operates two integrated Pulp and Paper Mills in India:

- JK Paper Mills in Rayagada (Odisha), in eastern India and
- Central Pulp Mills in Songadh (Gujarat), in western India

4.1.1 Capital Structure

JKPL is a public limited company and has a paid up capital of Rs. 136.62 crores divided into 13,66,20,625 equity shares of Rs. 10/- each. The capital structure of the company as on 31st March, 2013 is as follows:

Table- "JKPL Capital Structure"

Rs. in Crores

Particular	Amount
Authorised Share Capital	
20,00,00,000 Equity Shares of Rs.10/- each	200.00
3,00,00,000 Redeemable Preference Shares of Rs.100/- each	300.00
Issued, Subscribed & Paid up	
13,66,20,625 equity shares of Rs.10/- each	136.62

(Source: Information from Annual Report)

JKPL is listed on National Stock exchange and Bombay Stock Exchange.

4.1.2 Shareholding pattern as on 31st March, 2013 is as follows:-

Table- "JKPL: Shareholding Pattern"

Shareholders	No. of shares	% holding
Promoters & Promoter Group	7,07,01,173	51.75%
Institutional Holding	1,50,14,607	10.99%
Non-Institutional Holding	5,09,04,845	37.26%
TOTAL	**13,66,20,625**	**100.00%**

(Source: bseindia.com)

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4.2 JK Enviro-Tech Limited ("JKETL")

Background:

JKETL was incorporated in 2008, with the objective of processing lime sludge (a waste) of JKPL. It is substantially owned by JKPL, i.e. JKPL holds 82.82% stake in JKETL as on June 30th, 2013. JKPL having plants in Gujarat & Odisha, manufactures paper and thus as a result generates a waste, i.e. lime sludge during the production process. As per the CREP (Corporate Responsibility for Environmental Protection) Guidelines introduced by The Ministry of Environment & Forests on Environmental Issues in 2003, it has become obligatory on the part of large integrated pulp and paper mill to install lime mud re-burning kiln to avoid any solid waste discharge to reduce load on the environment due to lime sludge disposal.

As a result, JKPL has set up an SPV, JKETL for carrying out the above process at both the Units i.e. JK Paper Mills & Central Pulp Mills. Thus, JKETL carries on the operations of removing the sludge from Paper Mills and use the sludge so removed in the manufacturing & extraction of lime from it. The extracted lime is sold to JKPL. It helps JKPL to get continuous supply of lime apart from complying with environment norms. JKETL, therefore, is not involved in any other business and all extracted lime is sold to JKPL, & hence, its only customer is JKPL.

Unlike the unorganized players, JKETL have to use environmental protection measure as they have to comply with CREP requirements. Therefore, in order to continue complying with CREP requirements, JKPL is acquiring the Lime Kiln Undertaking in Gujarat & Odisha through slump sale through a Scheme of Arrangement.

4.2.1 Capital Structure

JKETL is an unlisted company and has a paid up capital of Rs. 4.95 crore divided into 49,50,600 equity shares of Rs. 10/- each. The capital structure of the company as on 31st March, 2013 is as follows:

Table- "JKTEL Capital Structure"

Rs. In crores

Authorised Share Capital	Amount
1,00,00,000 equity shares of Rs.10/- each	10.00
5,00,000 preference shares of Rs.100/- each	5.00
Issued Subscribed & Paid up	**Amount**
49,50,600 equity shares of Rs.10/- each	4.95

4.2.2 Shareholding Pattern

Table- "JKETL Shareholding Pattern as on 31.03.2013"

Name of the Shareholder	No. of Shares	% Holding
JK Paper Limited	1700000	34.34%
Others	2350600	65.66%
Total	4950600	100.00%

However, JKPL further acquired shares of JKETL, thereby holding 82.82% shares of JKETL as on 30th June 2013 as shown below:

Table- "JKETL Shareholding Pattern as on 30.06.2013"

Name of the Shareholder	No. of Shares	% Holding
JK Paper Limited	4100000	82.82%
Others	850600	17.18%
Total	**4950600**	**100.00%**

4.2.3 Financials:-

Table- "Balance Sheet of JKETL as on" *(Rs. In crores)*

Particulars	31-Mar-11 Audited	31-Mar-12 Audited	31-Mar-13 Audited
Equity & Liabilities:			
Shareholders' Funds	6.28	7.48	7.75
Non-Current Liabilities	47.04	39.39	27.06
Current Liabilities	19.15	24.11	29.19
Total	**72.47**	**70.98**	**64.00**
Assets			
Non-Current Assets	69.37	65.23	58.12
Current Assets	3.1	5.75	5.88
Total	72.47	70.98	64.00

Table- "Profit & Loss of JKETL for the period ending" *(Rs. In crores)*

Particulars	31-Mar-11 Audited	31-Mar-12 Audited	31-Mar-13 Audited
Total Income	37.72	30.49	36.95
Total Operating Expenditure	24.71	17.04	27.94
PBIDTA	13.01	13.45	9.01
Depreciation	3.59	3.79	3.66
Interest	5.78	5.48	4.66
PBT (before exceptional items)	3.65	4.19	0.69
Exceptional items	-	-	-
PBT	3.65	4.19	0.69
Tax	1.86	2.12	0.41
PAT	1.79	2.06	0.28

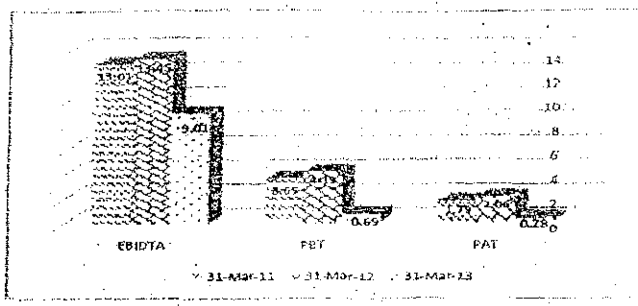

Table- "Ratio Analysis of JKETL":

Ratios	FY 2011	FY 2012	FY 2013
EBDITA Margin	34.49%	44.12%	24.38%
PAT Margin	4.75%	6.76%	0.76%
Interest Coverage Ratio	1.63	1.77	1.15
Return on Capital Employed	14.20%	16.09%	12.10%
Return on Net-worth	28.50%	27.54%	3.61%

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Chapter 5: Objective and Rationale of Valuation

5.1 Objective of this report:

JKPL intends to acquire the Lime Kiln Undertaking of JKETL including all its assets & liabilities through Slump sale through a Scheme of Arrangement. Thus objective of the valuation is to advise on an appropriate transaction price, i.e. the value of the Lime Kiln Undertaking of JKETL as on the Transfer Date and therefore, the Management of JKPL has appointed SSKM to do the abovementioned valuation.

5.2 Rationale of Slump sale:

a) JKPL has commercially agreed upon acquiring Lime Kiln Undertaking of JKETL as a going concern with all its assets & liabilities, through Slump Sale through a Scheme of Arrangement.

b) Operational Efficiency:

Consolidation of the lime kiln undertaking of JKETL with JKPL will help JKPL increase its operational efficiency.

c) Adequate manpower & other resources:

Management of JKPL is of the opinion that due to effective manpower & other resources of JKPL, they will be able to manage the consolidated entity in an effective & efficient manner. Consolidation will also allow them to control the processing of lime sludge according to their requirements.

d) The acquisition of these plants will enable JKPL to continue complying with the CREP requirements.

Chapter 6: Valuation Methodology

The valuation methodology to be adopted varies from case to case depending upon different factors affecting valuation. The basis of valuation would depend on the purpose of valuation, nature of business, future prospects of the company & industry and other attendant circumstances.

Different methodologies are adopted for valuation of manufacturing, investment, property and trading companies. Investment and property companies are valued based on the market value or fair value of their underlying assets while manufacturing companies are valued in relation to profits from business and relative value of assets. Different methodologies used for the purpose of valuation are explained subsequently:

6.1 ASSET APPROACH:

This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding and investment business. This method may also be appropriate for a business that is not making an adequate return on assets and for which a greater value can be realized by liquidating the business and selling its assets. This methodology can also assume the amount which can be realized by liquidating the business by selling off all the tangible assets of a company and paying off the liabilities. This methodology is appropriate for property holding and investment companies.

Net asset values, which are of great relevance in industries such as utilities, manufacturing and transport that are dependent on physical infrastructure and assets, may not have particular significance in industries such as information technology, pharmaceutical that are driven by intangibles not recorded in the books. The asset valuation is a good indicator of the entry barrier that exists in a business.

Some of the most common techniques of valuation considered under this approach are to value a business enterprise on the basis of book value of the assets or at Adjusted book value of the assets or at Replacement value.

i. Book value: This is simply a value based upon the accounting books of the business. In simple term, Assets less liabilities equals the owners' equity, which is the "Book Value" of the business. For mature firms with predominantly fixed assets, little or no growth opportunities and no potential for excess returns, the book value of the assets may yield a reasonable measure of the true value of these firms. For firms with significant growth opportunities in businesses where they can generate excess returns, book values will be very different from true value.

ii. **Adjusted book value:** This method involves reviewing each and every assets and liabilities on the company's balance sheet and adjusting it to reflect its estimated market value. Depending on the mix of assets owned by the company, other types of appraisers (e.g., real estate, machinery and equipment) might need to be consulted as part of the valuation process. In addition, it is important to consider intangible items that might not necessarily be reflected on the balance sheet, but which might have considerable value to a user, such as trade names, patents, etc. The unrecorded and contingent liabilities are also considered at their fairly estimated value.

iii. **Replacement value:** This method is mainly used with asset-heavy businesses such as hotels/motels and natural resources (mining) businesses. The asset valuation methodology essentially estimates the cost of replacing the tangible assets of the business. The replacement cost takes into account the market value of various assets or the expenditure required to create the infrastructure exactly similar to that of a company being valued. Since the replacement methodology assumes the value of business as if a new business is set, this methodology may not be relevant in a going concern.

6.2 INCOME APPROACH

The Income Approach derives an estimation of value based on the sum of the present value of expected economic benefits associated with the asset or business (Economic benefits have two components: cash flow (or dividends) and capital appreciation). Under the Income Approach, the appraiser may select a single period capitalization method (Profit earning capacity value method) or a multi-period discounted future income method.

a) **Profit earning capacity value method:**

- The basic of this approach is to find the normalized earning capacity of the business and to capitalize it on the basis of appropriate rate considering the business fundamentals of safety, return and time. In this method, Earning before Interest, Depreciation and Tax ("EBIDTA") is considered of comparable businesses. Alternately, an appropriate multiple can be used with the normalized earnings to arrive at fair estimation of business value ("Enterprise Value" of "EV").
- The important task is to determine two factors (1) normalized earnings (EBIDTA) and (2) rate of capitalization or multiple for capitalization
- The average annual maintainable earnings should be representative and is generally determined based on average past earnings, or future projected earnings where the past earnings are not representative of the future earning potential of the business.

Generally, when future projections of more than one financial year are used, present value of the future profits is calculated based on an appropriate discounting rate.

- The capitalization rate is taken based at EV/EBIDTA Multiple of the industry on the rate of return expected by the equity shareholders of the company.

b) Discounted Free Cash Flow Method (DCF)

- The Discounted Cash Flow (DCF) methodology expresses the present value of a business as a function of its future cash earnings capacity. This methodology works on the premise that the value of a business is measured in terms of future cash flow streams, discounted to the present time at an appropriate discount rate. It recognizes that money has a time value by discounting future cash flows at an appropriate discount factor.
- This method is used to determine the present value of a business on a going concern assumption. The DCF methodology depends on the projection of the future cash flows and the selection of an appropriate discount factor.
- When valuing a business on a DCF basis, the objective is to determine a net present value of the cash flows ("CF") arising from the business over a future select period of time (say 5 years), which period is called the explicit forecast period. Free cash flows are defined to include all inflows and outflows associated with the project prior to debt service, such as taxes, amount invested in working capital and capital expenditure. Under the DCF methodology, value must be placed both on the explicit cash flows as stated above, and the ongoing cash flows a company will generate after the explicit forecast period. The latter value, also known as terminal value, is also to be estimated.
- The future cash flows can be projected, the less sensitive the valuation is to inaccuracies in the assumed terminal value. Therefore, the longer the period covered by the projection, the less reliable the projections are likely to be. For this reason, the approach is used to value businesses, where the future cash flows can be projected with a reasonable degree of reliability. For example, in a fast changing market like telecom or even automobile, the explicit period typically cannot be more than at least 5 years. Any projection beyond that would be mostly speculation.
- The discount rate applied to estimate the present value of explicit forecast period free cash flows as also continuing value, is taken at the "Weighted Average Cost of Capital" (WACC). One of the advantages of the DCF approach is that it permits the various elements that make up the discount factor to be considered separately, and thus, the effect of the variations in the assumptions can be modelled more easily. The principal

elements of WACC are cost of equity (which is the desired rate of return for an equity investor given the risk profile of the company and associated cash flows), the post-tax cost of debt and the target capital structure of the company (a function of debt to equity ratio). In turn, cost of equity is derived, on the basis of capital asset pricing model (CAPM), as a function of risk-free rate, Beta (an estimate of risk profile of the company relative to equity market) and equity risk premium assigned to the subject equity market.

- Value obtained by using DCF method gives us the Enterprise Value; and adjustment for the loans as on the valuation date gives us the Equity Value.

This method is generally used when there is reasonable certainty on the timing, quantum and quality of the cash flows, which has its close coupling with the underlying assets (e.g. in case of a manufacturing company). It is the most commonly used valuation technique, and is widely accepted by valuers because of its intrinsic merits, some of which are given below:

(a) It is a very sound model because it is based up on expected future cash flows of a company that will determine an investor's actual return.

(b) It is based on the expectations of performance specific to the business, and is not influenced by short-term market conditions or non-economic indicators.

(c) It is not as vulnerable to accounting conventions like depreciation, inventory valuation in comparison with the other techniques/approaches since it is based on cash flows rather than accounting profits.

6.3 THE MARKET APPROACH (RELATIVE VALUATION APPROACH):

Market value is also known as extrinsic value. The basis of market value is the assumption that if comparable Asset (or property) has fetched a certain price, then the subject asset (or property) will realize a price something near to it. There is a significant philosophical difference between discounted cash flow and relative valuation. In discounted cash flow valuation, we are attempting to estimate the intrinsic value of an asset based upon its capacity to generate cash flows in the future. In relative valuation, we are making a judgment on how much an asset is worth by looking at what the market is paying for similar assets. If the market is correct, on average, in the way it prices assets, discounted cash flow and relative valuations may converge. If, however, the market is systematically over pricing or under-pricing a group of assets or an entire sector, discounted cash flow valuations can deviate from relative valuations.

This method involves reviewing transactions for companies that are in the same or similar line of business as the company being valued and then applying the relevant pricing multiples to the subject company to determine its value. The method might involve private company transactions, public company transactions, as well as public company valuation measures using current share market data. The theory behind this approach is that valuation measures of similar companies that have been sold in arms-length transactions should represent a good proxy for the specific company being valued. Depending on the source of data available and the underlying company being valued, a variety of valuation measures might be used including Enterprise Value (EV) to Sales, EV to EBITDA, EV to EBIT, Price to Earnings, etc. Adjustments are commonly made to these valuation measures before applying to the subject company to ensure an "apples-to-apples" comparison. One or many comparable sales might be considered under this method depending on the data available and the degree of similarity to the company being valued.

Commonly used Multiples are:

Business can be valued based on the multiples like

- Earning multiples- (PAT, EBITDA, EBIT etc)
- Book value (or replacement value) multiple
- Revenue Multiples
- Business specific Multiple

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Chapter 7-Methodology adopted for Valuation of the Lime Kiln Undertaking of JKETL:

7.1 Methods adopted for valuation:

The valuation of Lime Kiln Undertaking of JKETL has been done on the basis of Weighted Average of DCF & Adjusted NAV with weightage assigned as per Para 7.3 of this report.

Relative Valuation method has not been used as JKETL is not a listed company.

We emphasize that the choice of method in valuation is significantly governed by the purpose for which valuation is required. This is actually a Slump Sale transaction being executed through a Scheme of Arrangement; & it is not for the purpose of determining a Share Exchange ratio. Hence, we consider it appropriate to consider the Valuation Report of S.R. Jain & Associate, a reputed valuer, for valuing Lime Kiln Undertaking using Replacement Value Method while calculating the Adjusted NAV. Also, we consider it appropriate to take a weighted average of Adjusted NAV & DCF value.

7.2 DCF & Adjusted NAV Methods:

7.2.1 <u>DCF Method:-</u>

Based on the assumptions and business plans provided by the management, the Lime Kiln Undertaking of JKETL is valued on **Discounted Cash flow (DCF)** basis as given below:

i. <u>Free Cash Flow</u>

Explicit Period: FY 2014 to FY 2018 (5 years).

ii. <u>Period considered for projections</u>

We have considered a period of 5 operating years starting from FY 2014 for the purpose of valuation so as to cover a business cycle.

It is substantiated from the quotation from *Page 7 & 8 of "Technical guide on Share Valuation, by The Institute of Chartered Accountants of India, Published in Year 2009)*

"Cash flow should reasonably capture the growth prospects and earnings capability of a company. The forecasted period should necessarily cover the entire business cycle of a company"

Moreover, the longer the period covered by the projection, the less reliable the projections are likely to be. For this reason, the approach is used to value businesses, where the future cash flows can be projected with a reasonable degree of reliability. For example, in a fast changing market like automobile or manufacturing, the explicit period typically cannot be more than 5 years.

iii. Discounting Factor

In determining the present value of the cash flows that are available to firm, the discount rate used is Cost of Capital of the entity, i.e. Weighted Average Cost of Capital (WACC). This reflects the opportunity cost of the Company.

WACC is arrived at by using the following formula:

*= (Cost of Equity * Shareholders Funds/ Total Funds) + (Cost of Debt * Debt/ Total Funds)*

a. ***Cost of Equity***

The cost of equity has been determined by using Capital Asset Pricing model (CAPM). This has been computed as follows:

Cost of equity = Rf + [Rm – Rf] (Beta)

Where; Rf denotes risk free rate of return

Rm denotes return on diversified market portfolio

Rm-Rf is the market premium risk

Beta is the systematic risk factor

Following are the factors used for the calculation of cost of equity:

- Risk Free Return (Rf) is considered at 7.99% which is based on 10 years zero coupon Indian Government bond yield as per the *latest available "Public Debt Management Quarterly Report" for the quarter: January-March, 2013, issued in the month of May, 2013.*

- Beta is used to calculate the cost of equity (i.e. expected rate of return by the equity shareholders). It is assumed that for shareholders the substitute opportunity for investment would be investment in SENSEX. Hence, we have assumed the shareholders' expectation equal to the market return (based on the return on BSE from 1979 till date).

  In order to calculate the cost of equity, we have considered the Beta = 1.00.

  The reason behind taking 1 as beta value is that the company, JKETL, has a very minimal risk since the operations of the company are limited to procuring lime sludge from JKPL and selling the extracted lime back to JKPL. Therefore, the company as such has no operational risks, no market risk, no competitor risk and no sector risks.

Moreover, as we know that the betas measure the risk of a firm relative to the market, thus, the more sensitive a business is to overall economic conditions, the higher is its beta.

Further, beta of a manufacturing firm is also effected by degree to which a product's purchase is discretionary. However, in the case of JKETL, the purchase of lime by JKPL is mandatory in order to comply with the CREP guidelines, hence, beta value is 1.

- Market Return (Rm) is considered 16.65% which has been the market rate of return on Bombay Stock Exchange from April 1, 1979 to March 31st, 2013. ***(Source: BSE Website)***

Based on the above, cost of equity (ke) comes out to be 16.65%.

b. ***Cost of Debt***

The cost of debt has been computed considering the Current Interest rate at 12.25% and an effective tax rate of 32.45% has been taken. **Based on these assumptions, effective cost of debt works out to 8.27%.**

c. ***Cost of Capital***

The cost of capital has been worked out taking the initial Debt- Equity ratio at **2.20 : 1**. At this Debt-Equity ratio, the Cost of capital has worked out to be **10.89%.**

Therefore, on the basis of abovementioned factors, the valuation of the Lime Kiln Undertaking as per DCF Method is Rs. 0.70 crores.

7.2.2 Adjusted NAV Method:-

Adjusted NAV involves review of Assets & Liabilities of the Company and adjusting it to reflect replacement value or fair value. Hence, we have considered Adjusted NAV for the purposes of our Report.

The Net Asset Value of the Lime Kiln Undertaking is Rs. 7.49 crores.

However, the Management have got a valuation done by SR Jain & Associates, a reputed valuer, who has valued the Lime Kiln Undertaking based on the Replacement Value Method. The replacement Value is significantly lower than the Book Value & hence, the same is adopted by us in our Report.

As a result, the Adjusted NAV of the Lime Kiln Undertaking of JKETL is Rs. 3.38 crores.

7.3 Weightages Assigned to the Valuation Methods Adopted:

While valuing Lime Kiln Undertaking at Gujarat and Odisha having manufacturing facilities, we have assigned weights 2:1 to DCF and Adjusted NAV methods of valuation for valuing the operating business:

As per ***"The valuation of company shares and business"*** by Adamson & Adamson, 6th Edition published in 1980 in McCathie's case, it was decided as under:

"A purchaser of shares in a company which is a going concern does not usually purchase them with a view to attempting to wind up the company..... The real value of the share will depend more on the profits which the company has been making and should be capable of making, having regard to its nature of business....." (Page 60)

Judicial Pronouncements and Eminent Authors' Views

Though there are no thumb rules of valuation, there are a few pointers/basis to valuation principles that may be applicable on a case depending upon the attendant circumstances relative to each case.

The erstwhile Controller of Capital Issue (C.C.I.) advocated the above methodology. There are a few major Court decisions, which throw light on the adoptable basis of valuation.

In India, the valuers generally follow the principle laid down by the Hon'ble Supreme Court of India in the landmark case of merger of *Tata Oil Mills Co. Ltd. with Hindustan Levers Limited (Hindustan Lever Employees' Union vs. Hindustan Lever Limited and others (1995) 83 Comp. Cases 30 (SC))*. It suggests that *multiple methodologies are to be considered with stronger weightage to Free Cash Flow based methods*. The Court noted, *"in the case of amalgamation, a combination of all or some of the methods of valuation may be adopted for the purpose of fixation of the exchange ratio of all the entities"*. It is to be noted that even in such a situation, the book value method has been described as *"more of talking point than a matter of substance"*. Hence we are giving lower weight to Asset Value.

These approaches give a better picture of the value of the firm as they provide the value of the business on the basis of either the earning capacity of the business concerned (Income Approach) or on the basis of the value that a comparable asset (or property) has fetched in the market(Market approach) or as a composite basis.

In case of manufacturing / operating Company (as in this case), it is always preferable to do the valuation of such a company on a going concern basis.

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Chapter 8: Valuation of Lime Kiln Undertaking of JKETL

Based on the valuation elucidated in the previous chapters, the valuation of Lime Kiln Undertaking of JKETL as on 1st April, 2013, i.e. the Transfer Date is as follows:

Table- "Valuation of Lime Kiln Undertaking of JKETL" (using weighted average)

Particulars	Amount (in Rs. Crore)	Weight	Amount (in Rs. Crore)
Equity Value of Lime Kiln Undertaking using DCF Method of JKETL	0.70	2	1.40
Equity Value of Lime Kiln Undertaking using Adjusted NAV Method of JKETL	3.38	1	3.38
Total		*3*	*4.78*
Equity Value of Lime Kiln Undertaking of JKETL			**1.59**

We opine that the value of the Lime Kiln Undertaking on a slump sale basis (after considering takeover of all assets and all liabilities) of JKETL is Rs. 1.59 Cr using Adjusted Net Asset Value & Discounted Cash Flow methods of valuation.

The report is to be read in whole.

For S.S. Kothari Mehta & Co.
Chartered Accountants

S. S. KOTHARI MEHTA & CO. ★ NEW DELHI ★ CHARTERED ACCOUNTANTS

Date: July 15, 2013
Place: New Delhi

K S Mehta
Partner
Membership Number: 008883
Firm No:

GLOSSARY

Following abbreviations are used in the report:

1) JKPL- JK Paper Limited
2) JKETL- JK Enviro-Tech Limited
3) SSKM- SS Kothari Mehta & Co.
4) Report- Advisory Report on Valuation of Lime Kiln Undertaking of JKETL
5) Undertaking- Lime Kiln Undertaking of JKETL
6) Transfer Date- April 1, 2013
7) MT- Metric Tonne
8) SPV- Special Purpose Vehicle

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J.K. PAPER LIMITED NEW DELHI

Annexure-3

VALUATION REPORT

LIME KILN UNDERTAKING OF JK ENVIRO TECH LTD.,
RAYAGADA,
ORISSA

S R JAIN & ASSOCIATES

Chartered Engineers, Approved Valuer of Land & Building, Plant & machinery, Consultants - Telecommunication

1.0 STATEMENT OF LIMITING CONDITIONS

1.1 The market value set forth in this appraisal report is subject to the following limiting conditions;

1.1.1 These assets have been appraised as though free of liens and encumbrances other than those contained in the deed of record.

1.1.2 No responsibility is to be assumed for matters legal in nature, nor is any opinion of title rendered by this report. Good title is assumed.

1.1.3 Both legal description and dimension are taken from sources thought to be authoritative, however, no responsibility is assumed for either unless a survey, by a competent Surveyor or engineer, is furnished to the appraiser.

1.1.4 The sale of the subject assets is assumed to be on an all cash basis. Financial arrangements would affect the price at which the assets may sell for if placed on the market.

1.1.5 The appraiser, by reasons of this report, is not required to give testimony in court, with reference to the appraised assets unless arrangements for such contingency have been previously agreed upon

1.1.6 The physical condition of the improvements was passed on visual inspection. No liability is assumed for the soundness of the structure since no engineering tests were made of the buildings.

1.1.7 Possession of any copy of this report does not carry with it the right of publication, nor may be used for any purpose by any one, except the addressee and the property owner, without the previous written Consent of the appraiser, and in any event, only may be revealed in its entirety.

1.1.8 The Report has been prepared by us from information extracted from data supplied by the management and other sources believed to be reliable and true.

1.1.9 The Management has provided the factual data on which we have relied upon without further verification. While the information provided herein is believed to be true and reliable to the best of our knowledge, we do not make any representation or warranties, express or implied, as to the accuracy or completeness of such information.

1.1.10 The information contained herein is based on certain assumptions and management's analysis of information available at the time the report was prepared.

1.1.11 It may be noted that valuation/allocation is a highly subjective exercise and may differ from Valuer to Valuer depending on the individual perception of the attendant circumstances. At best, it is an expression of opinion or a recommendation based on certain assumptions.

1.1.12 Needless to mention that value/allocation of consideration varies with the purpose and date of transaction.

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2.0 INTRODUCTION

2.1 JK Paper Ltd. (JKPL) had requested us to undertake valuation of the Buildings and Plant & Machinery of the Lime Kiln Undertaking of the JK Enviro-tech Ltd. (JKETL) Located at Rayagada, Orissa, as on 31st March, 2013.

2.2 Accordingly, team of technical personnel visited the plant from 18th May 2013 to 19th May 2013 and carried out a survey of the assets along with company representatives (Mr.G.Prabhakar, DGM (Civil) and Mr. Md. Zaffar, A.M (Recovery). Based on the visit and information submitted by the Management, we submit hereunder our report as on 31st March, 2013.

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3.0 METHODOLGY

3.1 Building

3.1.1 Net assessed value of the buildings can be worked out by ascertaining the reproduction Value of similar building on date of valuation and deducting depreciation, due to age and other factors, from it. The reproduction value at present day Value is worked out by estimating Value of all materials and labour consumed in the building. Even though this method is time consuming and involves detailed calculations and extensive knowledge of quantity surveying, it gives the best accurate results.

3.1.2 Where the buildings are of standard type designs, having similar specifications to that of CPWD. RCC. Framed structures for offices, institutional and residential buildings, advantage is taken by adopting updated version of plinth area latest rates published by CPWD.

3.1.3 **Depreciation**

Straight-line method is the most acceptable method to work out the depreciation of a property. In this method, it is assumed that a property loses its value by the same amount every year

Let,

n - Life of property in years.
c - Reproduction Values
s - Salvage or scrap value
d - Annual depreciation

Then
$d = (c-s)/n$

3.1.4 Both the life and the salvage value of the property have direct bearing on the quality of materials, workmanship and specification adopted for construction of buildings. Keeping in view, the different standard of quality of materials used and specifications adopted in respect of each of buildings under consideration, assumptions are made in respect of life and the salvage value for different categories of buildings.

3.2 Plant and Machinery

3.2.1 The replacement value of the machines is worked out on the basis of quotations obtained, cost manuals, catalogues, from data bank and where these are not available index of Reserve Bank of India is adopted. Quotations if made available by the management as obtained by them from the manufacturers from time to time are also used. Certain percentage deduction is made in the quoted prices for obvious reasons. Price of machinery, as per quotations, would include costs, freight, packing, forwarding, insurance, installation charges, octroi, sales tax, excise and customs duty, wherever levied. It would also include cost of civil, electrical and other works along with commissioning charges incurred thereon.

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3.2.2 Replacement cost of machinery is the current cost of a similar new item having nearest equivalent utility as the one to be valued. Steps to arrive at the Replacement value are given as below:

3.2.3 Indigenous Machines

- Acquire the cost of same type model or equivalent. Alternatively the nearest cost can be worked out by applying RBI index.
- Add proportionate Freight & Insurance.
- Add local freight, incidentals, and transportation to premises where the machine is to be erected and local applicable taxes.
- Add expenses towards erection and commissioning including expenses towards testing & performance check, labour/ supervision, consumable, hiring charges for material handling equipments, interest etc.
- Total cost is the replacement cost.

3.2.4 Re-valued value after depreciation is the value of machine after taking into consideration its obsolescence (Functional and Economic), Physical deterioration, residual value, expected total life and life left over on the date of revaluation.

3.2.5 The following factors have been considered while assessing the value of the Plant and Machinery.

- Age of the installed machinery.
- Its general condition and state of repair. Type of repair / preventive maintenance.
- Technological development and efficiency.
- Residual life
- Replacement cost.
- Economic Obsolescence.
- Specifically designed for the manufacture of products.
- Purchase cost and installation expenses.
- Source of procurement and the country of origin
- Invisible Values, like cost of technical knowhow, cost of introducing the quality control system, if any (ISO series) etc.
- Functional Obsolescence

The calculation of depreciation is primarily based on wear and tear and the present productivity value. The formula as hereunder is taken into consideration for computing depreciation;

$$\frac{\text{(Estimated value of the machine-Residual value) x Expired Life of the machine}}{\text{Total life of the machine.}}$$

3.2.6 Identification of Machine and Equipment

Macro identification is a method of studying the entire manufacturing process by identifying major components contributing to the design capacity of the plant.

Micro identification is the process of finding the individual characteristics of the equipment. This involves the listing of a single machine.

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4.0 General

4.1 We have relied on the information given to us by the Management of the Company for the study. Our teams went to the site to carry out a detailed survey of the relevant assets, once the intimation was received that the documents and details are ready and available for the study.

4.2 Plant is located on the land not owned by the company.

4.3 Ownership has been taken based on the information given by the company.

4.4 Legal ownership aspects and other legal matters have not been considered while carrying out valuation.

4.5 We have assumed that the assets are free from any litigation, encumbrances, etc. as on date of valuation

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5.0 Summary of Values

LIME KILN UNDERTAKING OF JK ENVIRO TECH LIMITED, RAYAGADA AS ON 31st MARCH 2013

ASSETS	Gross Block IN ₹	Net Block IN ₹	Current Replacement Value IN ₹	Depreciation & Maintenance IN ₹	Residual Replacement Value IN ₹
BUILDINGS	466,47,059	408,69,479	321,38,000	55,27,700	266,10,300
PLANT & MACHINERY					
LIME KILN	1720,55,370	1360,17,706	2179,66,600	666,72,100	1512,94,500
PRODUCER GAS PLANT	753,51,207	594,46,722	881,39,300	269,60,300	611,79,000
PRECIPATOR/ESP	296,08,000	226,10,025	139,28,100	42,60,400	96,67,700
COAL HANDLING EQUIPMENTS	109,45,172	87,76,049	154,06,400	47,12,500	106,93,900
LIME STONE HANDLING EQUIPMENTS	102,34,839	82,06,490	56,51,000	17,28,500	39,22,500
MUD FILTER	80,94,614	64,90,417	107,60,200	32,91,400	74,68,800
OTHER STORES & SPARES	33,58,399	26,92,629	-	-	-
TOTAL (P&M)	3096,47,601	2442,40,237	3518,51,600	1076,25,200	2442,26,400
GRAND TOTAL	3562,94,660	2851,09,716	3839,89,600	1131,52,900	2708,36,700

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6.0 PLANT AT RAYAGADA

6.1 General

6.2 JK Enviro Tech Ltd. was incorporated on 19/12/2007. The main objective of establishment of JK Enviro Tech Ltd. is to operate, run and maintain Rotary Lime Kiln and Producer Gas Plant for processing Lime/Lime sludge.

6.3 Installed capacity of Lime Kiln Plant is 120 TPD. Lime Kiln plant was to put to operate and capitalized in June-2009 and PG Plant was put to operate and capitalized in June-2009. From last 12 months, plant is running smoothly.

6.4 Nearest railway station for the company is Singapuram Road (approx. 1 Km far) and Rayagada (approx. 10 Km far). The JK Enviro Tech Ltd. is established within the premises of JK Paper Limited. Other company which is nearest to JK Enviro Tech Ltd. is IMFA, Therubalii. Nearest airport is in Vishakapatnam which is about 200 Km away.

6.5 Plant was commissioned with a capacity of 160 TPD in 2009.

6.6 Buildings

6.7 Plant has mainly four building structures (Feed End Building, Feed is charge Building, Producer Gas Plant Building, Coal Crushing Unit).

6.8 **Feed End Building** It is a RCC framed structure and is part of lime kiln section. The building is Ground plus five storeyed structure. Ground level is 7.5 Mts. high to house MCC panel. Level two is 5.3 Mts. high and has main screw conveyor, a room with false flooring and ceiling for ESP controls. Level three is about 4.8 Mts. and 7.6 Mts. high and is being used for Laboratory room, Filtrate receiver, Screw Conveyor, Id fans. Level three has open terrace. Level four has Lime store storage Silo placed under a RCC roof, which is about 4.8 Mts. high. RCC structure has been designed to carry suitable heavy load.

6.9 **Feed Discharge Building** is a Ground plus one storeyed building at Lime Kiln Plant section. It is a RCC framed building with no walls at Ground level. It has rotary kiln at Ground level and Tar Mixing tanks. First floor is used for RLK and PGP control room.

6.10 **Producer Gas Plant** is a steel structure with steel columns resting on RCC foundation and asbestos sheet sheds over plant and equipments.

6.11 **Coal Crushing Unit** is a Ground Floor plus three storeyed. RCC framed structure. It has an asbestos sheet roof on third floor level.

6.12 Keeping these specifications, prevalent rate of construction in this area, Orissa PWD and CPWD rates of construction, we have worked out the plinth area rates of different assets. The Residual Replacement Value as on 31st March, 2013 works out to ₹.266,10,300. Details are attached as Appendix 'A'.

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6.13 **Plant & Machinery**

6.14 It may be mentioned that all major machineries held by the Unit form part of production lines, based on the manufacturing process/requirement.

6.15 It has a 160 TPD Lime Mud Reburing System and associated equipment's. Lime Mud Reburning plant converts the lime sludge into lime with high content of active CaO. Its end product is being sold to JKPL (Unit JKPM).

6.16 Lime Kiln with mud filters and ESP and their associated accessories

6.16.1 Technical parameters of Lime Kiln

6.16.2	Length	75 Mts, Rotary, Nine Tube Coolers
6.16.3	Diameters	3.2 Mts.
6.16.4	Inclination	1.432 Degree (2.5% slope)
6.16.5	Capacity	160 MT/day

6.17 Technical Parameters of Mud Filters (It has been moved from JKPL (Unit JKPM) in 2009 Dia 12Ft, Face width 22 Ft, Can Handle 265 TPD of Dry Lime Mud.

6.18 Producer Gas Plant There are three producer gas plant, each of capacity 2,200 NM^3/ Hr. with Tar and Gas Handling Plant.

6.19 Coal Handling System It can handle 160 Tons per day of coal and crush coal to greater than 20mm.

6.20 Lime Stone and Handling System. It can handle 80 Tons per day.

6.21 Plant was commissioned in 2009. Obsolescence was considered only in case of machinery where necessary.

6.22 The Machinery and equipment have been grouped on the basis of classification and have been divided into major work divisions of the factory.

6.23 While carrying out valuation of plant and machinery, we have assumed a concept of "Composite division" of the production of the similar product, in situ. In other words method of Macro identification has been adopted for which we have entirely relied on the details provided by the management

6.24 The condition of the machinery has been assessed based on visual inspection of select equipments, experience and information available. It may be mentioned that we are not in a position to confirm if all integral parts of the equipments, which are inaccessible to vision, are available.

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6.25 Reserve Bank of India Index, as applicable has been adopted. Prices paid by the company in different years have been considered for working out the current prices and necessary corrections wherever required have been done based on the experience Wherever quotation or data Bank information was not matching, necessary corrections have been done based on the experience.

6.26 Preoperative and Misc. expenses have been considered for working out the present replacement Value.

6.27 Keeping in view the rapid technological development, a suitable technological obsolescence factor has been considered depending on the individual merits of the machinery/equipment and this, as a percentage of current replacement Value has been deducted to arrive at the adjusted current replacement value.

6.28 The residual life of machine as on 31th March 2013 has been assessed by taking into consideration various factors such as age gap Vis-a -Vis life cycle of technology, process of the machine installed, physical deterioration (wear and tear), standard of maintenance, type of handling, quality of material used, type of use (general/special), functional obsolescence, technical obsolescence, etc.

6.29 While assessing the residual life of Plant & Machinery, due consideration has been given for the experience gained in other similar factories also. Modifications, wherever carried out, have been considered to have increased the life of the asset.

6.30 Remaining useful life has been evaluated on the basis of techno-economic angle and is based on the premise that in future the same level of maintenance and upkeep for ensuring economic production would be sustained and would be continued as is being done now. Projected balance life now, assumes maintenance rather than replacement of the aforesaid assets.

6.31 Having determined the current replacement value as mentioned above and remainder life having been assessed during physical verification, the residual replacement value has been worked out by subtracting the depreciation for the period for which the machines have already been used on the basis of straight-line method from the current replacement value.

6.32 It has been assumed that the Stores and Spares have been utilised for maintenance of the plant.

6.33 The Residual Replacement Value of Plant & Machinery, as on 31st Mar 2013, works out to ₹ 2442,26,400. Details are attached as Appendix 'B'.

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7.0 ACKNOWLEDGEMENT

7.1 We record our appreciation for the help and co-operation extended to us by the JK Paper **Ltd. and JK Enviro Tech Ltd.** during the course of our study.

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8.0 CERTIFICATE BY THE APPRAISER

8.1 It is hereby certified that in our opinion the **Fair market value (Residual Replacement Value)** of the assets by adopting prevailing market rates of assets **₹. 2708,36,700 (₹ Twenty Seven Crores Eight Lakhs Thirty Six Thousand Seven Hundred Only)**

8.2 Value varies with the purpose and date. This report is not to be referred if the purpose is different than mentioned in 2.1.

8.3 The Plant was visited from 16th May to 17th May, 2013 with representatives of the company.

8.4 The legal aspects were not considered in this valuation.

8.5 The valuation work has been undertaken by us based upon the request from **JK Paper Ltd.**

8.6 The statements of facts contained in this report are true and correct to the best of our knowledge.

8.7 This report has **nineteen** pages.

8.8 The report analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and represents the impartial and unbiased professional analysis and conclusions of the **S R JAIN & ASSOCIATE.**

8.9 **S R JAIN & ASSOCIATE** personally have no present or prospective interest in or bias with respect to the assets that are the subject of this report and have no personal interest or bias with respect to the parties involved.

8.10 The engagement of our firm in this assignment and compensation for the firm are not contingent on the development or reporting of a predetermined value or direction in value that favors the cause of the **JK Paper Ltd.**, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.

For S.R.JAIN & ASSOCIATE
Chartered Engineers
Approved Value of Land & Building, Plant & Machinery,

Place New Delhi
Date 24 July 2013

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LIME KILN UNDERTAKING OF JK ENVIRO TECH LIMITED - RAYAGADA- BUILDINGS AS ON31st MARCH 2013

APPENDIX 'A'

[illegible]	[illegible]	Specifications	Floor Area	Gross Block	Net Block	Year	Current Replacement Value	Life (in years)		Depreciation & Maintenance	Residual Replacement Value	Remarks
			In Sq. Mts.	IN ₹	IN ₹		IN ₹	Expired	Balance	IN ₹	IN ₹	
1	Feed End Building	RCC Framed Structure	1561.45			2009	233,43,700	4	46	40,15,100	193,28,600	
2	Discharge End Building	RCC Framed Structure	545.5			2009	81,55,200	4	46	14,02,700	67,52,500	
3	PG Plant	ACC Sheet Roofing										Incl in P & M
4	Coal Crusher Building	RCC Framed Structure	111.15			2009	6,39,100	4	46	1,09,900	5,29,200	
5	Misc. Construction.					2009	15,00,000				15,00,000	
	TOTAL			466,47,058.59	408,69,478.94		321,38,000			55,27,700	266,10,300	

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LIME KILN UNDERTAKING OF JK ENVIRO TECH LIMITED - RAYAGADA- PLANT & MACHINERY AS ON31st MARCH 201 **APPENDIX 'B'**

Sl No.	Particulars	Gross Block	Net Block	Year	Current Replacement Value	Life (in years)		Depreciation & Maintenance	[illegible]	
					IN ₹	Expired	Balance	IN ₹	[illegible]	
	Lime Reburning Kiln									
1	Lime Reburning Kiln Shell(9 sections), along with walkways, platforms, handrails, discharge frames(9), kiln accessories, chain, internals and refractories	424,46,240.72	340,35,243.85	2009	2179,66,600	4	30	666,72,100	1512,94,500	
2	Support Roller & Shaft Assembly 850 long along with 8 bearings and base	73,19,208.88	58,68,682.05							
3	Support Roller & Shaft Assembly 700 long along with 4 bearings and base	32,99,805.90	26,45,847.65							
4	Thrust Roller Assembly along with base frame	9,13,132.78	7,32,167.38							
5	Smoke Outlet Assembly	2,39,067.47	1,91,688.88							
6	Kiln -- Tyres	54,95,814.45	44,06,649.43							
7	End Shield Assay	9,55,754.09	7,66,341.96							
8	Belt conveyor BCN1 & components with motor	25,49,379.19	20,44,141.13							
9	Belt conveyor BCN2 & components with motor	19,51,269.24	15,64,565.10							
10	Belt conveyor BCN3 & components with motor	25,46,898.29	20,42,151.89							
11	Bucket elevator with accessories	25,08,438.96	20,11,314.47							
12	Kiln main drive consisting of main gear box, aux. gear box and accessories	41,33,436.90	33,14,268.98							
13	PHF Unit consisting of OP unit, Day Oil Tank and Flow Meter	38,55,800.93	30,91,655.14							
14	Burner system consisting of Burner, Burner trolley, flame detector, primary air fan and accessories,	82,22,782.80	65,93,184.95							
15	Kiln Girth Gear Assembly with Pinion and lubrication system	82,25,981.60	65,95,749.80							

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[illegible]	Particulars	Gross Block	Net Block	Year	Current Replacement Value	Life (in years)		Depreciation & Maintenance	Residual Replacement Value	Remarks
					IN ₹	Expired	Balance	IN ₹	IN ₹	
16	ID fan with damper	17,79,940.45	14,27,190.38							
17	Motor for ID Fan	4,58,623.27	3,67,732.93							
18	Kiln Drive Motor	13,10,664.86	10,50,916.22							
19	Kiln Auxiliary drive Motor	8,15,521.20	6,53,900.54							
20	DCS	261,69,704.56	209,83,371.00							
21	MCC (Kiln)	119,78,196.58	96,04,347.73							
22	VVF Panels	59,49,901.32	47,70,744.99							
23	UPS	20,91,565.19	16,77,057.08							
24	UPS Power DB	3,34,650.43	2,68,329.13							
25	Radiation pyrometer for burner system	9,51,441.40	7,62,883.96							
26	Mass flow meter	6,79,601.00	5,44,917.11							
27	Marshalling Panel	4,75,720.70	3,81,441.98							
28	Fuzzy Logic	48,93,127.18	39,23,403.21							
29	Suspended Magnet	8,07,424.15	6,47,408.16							
30	Screw conveyor SCA	19,60,588.18	15,72,037.21							
31	Lime Reburning Kiln -- Forex									
32	Kiln feed screw with rails and drive components	15,89,986.41	12,74,881.60							
33	Hot Lime Lump breaker assembly	6, 52,589.85	5,23,259.06							
34	Motor for Kiln feed screw	131,085.28	1,05,106.69							
35	Motor for Lump breaker	167,873.05	1,34,603.83							
36	Plant lighting	15,20,784.39	12,19,394.09							
37	Pressure transmitter	4,56,691.55	3,66,184.04							
38	Temperature transmitter	4,75,716.56	3,81,438.66							
39	Level transmitters	3,53,392.27	2,83,356.70							
40	Gas analyser	31,39,755.68	25,17,516.32							
41	Expansion joint	3,97,008.30	3,18,328.87							
42	RTD	8,42,164.77	6,75,263.86							
43	Pressure switches burner system	1,37,957.96	1,10,617.33							
44	Limit switches	48,360.94	38,776.73							
45	Miscellaneous - E & I	17,70,578.29	14,19,683.63							
46	Miscellaneous - Mech	20,32,462.43	16,29,667.36							

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[illegible]	Particulars	Gross Block	Net Block	Year	Current Replacement Value	Life (in years)		Depreciation & Maintenance	Residual Replacement Value	Remarks
					IN ₹	Expired	[illegible]	IN ₹	IN ₹	
47	BRASS BEARING LINER,OIL LUBRICATED, TYPE-1958	2,40,790.86	1,93,070.73							
48	BUS DUCT OF CURRENT RATING	6,34,231.38	5,08,538.88							
49	AIR RECIEVER AT 3M.CUB CAP WITH VALVE	2,19,068.35	1,75,669.24							
50	EMERGENCY PORTABLE FLOURCENT LANTERN	8,032.97	6,440.99							
51	LIGHTING DISTRIBUTION BOARD FOR 415 V TP&N.	23,346.64	18,719.78							
52	TUBE LIGHT AND CFL LIGHTS	50,756.42	40,697.47							
53	CAF JOINTING AND STEAM GASKET WITH TRAP BAR	1,13,441.36	90,959.46							
54	VARIOUS PIPELINES	57,84,916.25	46,38,456.79							
55	WATER CO2 FIRE EXTINGUISHER	22,221.15	17,817.35							
56	ISI MARKED MECHANICAL FOAM TYPE FIRE EXTINGUISHER	4,407.63	3,534.12							
57	4.5 KG CO2 EXTINGUISHER.	51,268.90	41,108.38							
58	5 KG DRY CHEMICAL POWDER GAS FIRE EXTINGUISHER	18,432.96	14,779.90							
59	FIRE HYDRAUNT LINE	9,68,790.85	7,76,795.08							
60	HT PANEL EXTENSION, SUITABLE FOR 6.6KV, 26.2KA	55,84,983.18	44,78,146.62							
61	PIT PUMP WITH HEAD:15M CAPACITY: 5.M.CUB	20,069.41	16,092.04							
62	INFRA RED THERMOMETER	31,448.57	25,216.06							
63	NYLON CONVEYOR BELT3-PLY, 3 MM THICK, SIZE:65	58,990.65	47,299.83							
64	Single Phase Exhaust Flan Sweep Size: 600 mm (24") 50 Hz 900 RPM	22,755.90	18,246.12							
65	2TON SPLIT AIR CONDITIONER, LG MODEL:LSA24SWAB1	2,16,552.23	1,73,635.73							

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[illegible]	Particulars	Gross Block	Net Block	Year	Current Replacement Value	Life (in years)		Depreciation & Maintenance	Residual Replacement Value	[illegible]
					IN ₹	Expired	[illegible]	IN ₹	IN ₹	
66	MAGNETIC FLOW METER SERVICE: WATER, LINE SIZE: 100	93,478.09	74,952.53							
67	AIRLINE RESPIRATOR COMPLETE	2,01,302.49	1,61,408.20							
68	BREATHING APPARATUS WITH	2,33,219.37	1,86,999.77							
69	Single Phase Exhaust Flan Sweep Size: 600 mm (24") 50 Hz 900 RPM	22,665.00	19,071.59							
70	MAGNETIC FLOW METER SERVICE: WATER, LINE SIZE: 100	88,655.19	71,085.43							
	Sub Total	**1720,55,370.20**	**1360,17,705.63**							
	Producer Gas Plant									
1	PG Plant consisting of Refractories, Insulation Material, Top shell, ash bowl, jacketed boiler, hand rails, sheeters floor plates, floor beams, bracings and column	224,52,948.30	180,03,204.55	2009	881,39,300	4	30	269,60,300	611,79,000	
2	MCC	20,07,880.84	16,09,957.36							
3	VVVF Drive	13,27,803.88	10,64,658.61							
4	Booster Fan	17,78,012.27	14,25,644.34							
5	Hydraulic Cylinder	10,78,770.67	8,64,979.01							
6	Bucket Elevator	38,77,952.51	31,09,416.69							
7	Suspended Magnet	8,87,898.42	7,11,933.98							
8	Electro Magnetic Feeder	5,39,385.33	4,32,489.51							
9	Ash Conveyor BC-5	25,36,963.24	20,34,185.78							
10	Reversible Belt Conveyor BC-6	19,44,514.82	15,59,149.28							
11	Fines Conveyor BC-2	14,21,745.19	11,39,982.56							
12	Bag Filter	17,64,719.71	14,14,986.11							
13	Return Conveyor BC-3	16,12,617.44	12,93,027.59							
14	Pneumatic Cylinder	4,41,924.33	3,54,343.40							
15	Grate Ring	24,45,082.51	19,60,514.05							

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[illegible]	Particulars	Gross Block	Net Block	Year	Current Replacement Value	Life (in years)		Depreciation & Maintenance	Residual Replacement Value	Remarks
					IN ₹	Expired	[illegible]	IN ₹	IN ₹	
16	Grate Stool	24,45,082.51	19,60,514.05							
17	Skid for Ash Bowl Support	15,30,288.29	12,27,015.30							
18	Poke Hole Plug Assay.	29,41,695.79	23,58,708.10							
19	Sector Gate	5,28,571.94	4,23,819.12							
20	Support & Guide Rollers	36,20,057.59	29,02,631.60							
21	Hydraulic Power Pack	8,93,436.99	7,16,374.91							
22	Air Blower	7,32,473.01	5,87,310.90							
23	Air Blower for Poking	3,77,313.64	3,02,537.31							
24	Control Valves	24,51,070.53	19,65,315.36							
25	Transmitters	15,52,348.21	12,44,702.56							
26	Isolation Valves	20,39,817.08	16,35,564.46							
27	Pumps	8,98,975.56	7,20,815.84							
28	Motors	10,85,416.95	8,70,308.13							
29	Mixing Chamber	10,78,770.67	8,64,979.01							
30	Roller base	10,95,386.37	8,78,301.80							
31	Ash Hopper	2,78,786.63	2,23,536.47							
32	Fine Hopper	2,78,786.63	2,23,536.47							
33	Vapour Vessel	16,29,742.79	13,06,759.03							
34	Orsat Apparatus	63,366.02	50,808.09							
35	Weigh Meter	2,53,464.06	2,03,232.35							
36	Pipes & Fittings	16,15,595.04	12,95,415.08							
37	LTC Pipe	15,68,308.90	12,57,500.15							
38	Tanks	10,95,386.37	8,78,301.80							
39	Partial Replacement of Furnace Oil with	4,33,074.73	4,02,941.27							
40	Producer Gas Plant-Forex									
41	Miscellaneous - PGP Components	15,20,784.39	12,19,394.09							
42	Yard Pipeline	11,28,617.77	9,04,947.37							
43	Cables & Lightings	22,82,486.60	18,30,141.53							
	Sub Total	**753,61,206.51**	**594,46,721.73**							
	ESP									
1	ESP	247,09,649.31	198,12,670.70	2009	139,28,100	4	30	42,60,400	96,67,700	
2	Microtapper Panel of ESP	3,43,760.64	2,75,633.87							

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[illegible]	Particulars	Gross Block	Net Block	Year	Current Replacement Value	Life (in [illegible]		Depreciation & Maintenance	Residual Replacement Value	Remarks
					IN ₹	Expired	[illegible]	IN ₹	IN ₹	
3	TR Set & TRCC of ESP	39,60,122.54	31,75,302.20							
4	Auxiliary Control Panel for ESP	5,36,266.59	4,29,988.84							
5	Rapper Distribution Panel for ESP	2,88,758.94	2,31,532.45							
6	Bleed Air Damper of ESP	3,80,196.10	3,04,848.52							
7	Stack/chimney	33,65,348.66	26,98,401.10							
8	Unax Cooler assembly	28,31,770.17	22,70,567.63							
9	ESP- Forex									
	Sub Total	**296,07,999.95**	**226,10,024.70**							
	Coal Handling Equipments									
1	COAL CONVEYING BELT EXTENSION	3,64,073.61	2,91,921.20	2009	154,06,400	4	30	47,12,500	106,93,900	
2	DRIVE PULLEY SET WITH V AND	94,632.38	75,878.06							
3	Coal Crusher	26,36,002.43	21,13,597.30							
4	Vibrating Screen for Coal Crusher	8,91,221.56	7,14,598.54							
5	Coal Conveyor BC-1	17,86,873.98	14,32,749.83							
6	Coal feeding System(Comprising of	25,25,288.84	20,24,825.03							
7	Coal Bunker	26,47,079.57	21,22,479.16							
	Sub Total	**109,45,172.37**	**87,76,049.11**							
	Lime Handling Equipments									
1	Limestone storage silo	12,05,074.05	9,66,251.48	2009	56,51,000	4	30	17,28,500	39,22,500	
2	Limestone Hopper	8,90,629.88	7,14,124.11							
3	Make-up limestone crusher (Hammer	34,54,984.49	27,70,272.82							
4	Motor for make up lime stone crusher	1,67,873.05	1,34,603.83							
5	Weigh Feeder with 4 no.s of Pneumatic	19,34,885.13	15,51,428.01							
6	Vibrating Feeder with Pin and Slide	6,19,085.33	4,96,394.49							
7	Bag filter with fan and accessories	19,62,307.19	15,73,415.54							
	Sub Total	**102,34,839.11**	**82,06,490.28**							
	Mud Filters									
1	Belt weigh scale	12,23,280.94	9,80,850.12	2009	107,60,200	4	30	32,91,400	74,68,800	
2	Piping	11,65,083.96	9,34,186.66							
3	SLURRY PUMP, TEMP. 70 DEG,C.	5,97,391.89	4,79,000.27							
4	SLURRY PUMP, TEMP. 70 DEG,C.	2,49,398.66	1,99,972.63							
5	FILTRATE PUMP, MODEL:50/210,	4,36,895.47	3,50,311.17							

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[illegible]	Particulars	Gross Block	Net Block	Year	Current Replacement Value IN ₹	Life [illegible] Expiry	[illegible]	Depreciation & Maintenance IN ₹	Residual Replacement Value IN ₹	Remarks
6	SQUIRREL CAGE INDUCTION MOTOR	36,698.35	29,425.44							
7	MOTOR SQ.CAGE, 18.5 KW ,1500 RPM	64,221.79	51,494.26							
8	SQUIRREL CAGE INDUCTION MOTOR	37,556.79	30,113.75							
9	MOTOR,INDUCTION,SQ.CAGE,AC,	1,04,067.34	83,443.19							
10	MOTOR INDUCTION SQUIRREL7.5KW,	29,541.99	23,687.33							
11	LEVEL TRANSMITTER SMART TYPE	49,357.97	39,576.16							
12	LEVEL TRANSMITTER SMART TYPE	98,716.35	79,152.66							
13	VACUUM TRANSMITTER SMART TYPE	35,741.95	28,658.58							
14	PRESSURE TRANSMITTER SMART	28,919.03	23,187.83							
15	PRESSURE TRANSMITTER,	29,142.09	23,366.69							
16	POWER TRANSFORMER,	26,33,657.52	21,11,717.11							
17	MASS FLOW METER	12,74,941.90	10,22,272.87							
	Sub Total	**80,94,613.99**	**64,90,416.74**							
	Spares of Lime Kiln									
1	Lime Sludge Reburning System Spares	25,39,076.26	20,35,880.04							
2	Producer Gas Plant - Spares	8,19,322.59	6,56,948.56							
	Sub Total	**33,58,398.85**	**26,92,828.61**							
	Grand Total	6192,95,201.96	4884,80,473.62		3518,51,600			1076,25,200	2442,26,400	

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Annexure - 3

VALUATION REPORT

LIME KILN UNDERTAKING OF JK ENVIRO TECH LTD.,
SONAGARH
GUJRAT

S R JAIN & ASSOCIATES

Chartered Engineers, Approved Valuer of Land & Building, Plant & machinery, Consultants - Telecommunication

DELHI

1.0 STATEMENT OF LIMITING CONDITIONS

1.1 The market value set forth in this appraisal report is subject to the following limiting conditions;

1.1.1 These assets have been appraised as though free of liens and encumbrances other than those contained in the deed of record.

1.1.2 No responsibility is to be assumed for matters legal in nature, nor is any opinion of title rendered by this report. Good title is assumed.

1.1.3 Both legal description and dimension are taken from sources thought to be authoritative, however, no responsibility is assumed for either unless a survey, by a competent Surveyor or engineer, is furnished to the appraiser.

1.1.4 The sale of the subject assets is assumed to be on an all cash basis. Financial arrangements would affect the price at which the assets may sell for if placed on the market.

1.1.5 The appraiser, by reasons of this report, is not required to give testimony in court, with reference to the appraised assets unless arrangements for such contingency have been previously agreed upon

1.1.6 The physical condition of the improvements was passed on visual inspection. No liability is assumed for the soundness of the structure since no engineering tests were made of the buildings.

1.1.7 Possession of any copy of this report does not carry with it the right of publication, nor may be used for any purpose by any one, except the addressee and the property owner, without the previous written Consent of the appraiser, and in any event, only may be revealed in its entirety.

1.1.8 The Report has been prepared by us from information extracted from data supplied by the management and other sources believed to be reliable and true.

1.1.9 The Management has provided the factual data on which we have relied upon without further verification. While the information provided herein is believed to be true and reliable to the best of our knowledge, we do not make any representation or warranties, express or implied, as to the accuracy or completeness of such information.

1.1.10 The information contained herein is based on certain assumptions and management's analysis of information available at the time the report was prepared.

1.1.11 It may be noted that valuation/allocation is a highly subjective exercise and may differ from Valuer to Valuer depending on the individual perception of the attendant circumstances. At best, it is an expression of opinion or a recommendation based on certain assumptions.

1.1.12 Needless to mention that value/allocation of consideration varies with the purpose and date of transaction.

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S.R. JAIN & ASSOCIATES
Valuer of Land, Building
Plant & Machinery

2.0 INTRODUCTION

2.1 JK Paper Ltd. (JKPL) had requested us to undertake valuation of the Buildings and Plant & Machinery of Lime Kiln Undertaking of the JK Enviro-tech Ltd. (JKETL) Located at Sonagarh, Gujrat as on 31st March, 2013.

2.2 Accordingly, team of technical personnel visited the plant from 16th May 2013 to 17th May 2013 and carried out a survey of the assets along with company representatives (Mr. Harendra Singh (Senior Manager (Civil) and Mr. Darb Khan, DGM (Process-Paper). Based on the visit and information submitted by the Management, we submit hereunder our report as on 31st March, 2013.

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3.0 METHODOLGY

3.1 Building

3.1.1 Net assessed value of the buildings can be worked out by ascertaining the reproduction Value of similar building on date of valuation and deducting depreciation, due to age and other factors, from it. The reproduction value at present day Value is worked out by estimating Value of all materials and labour consumed in the building. Even though this method is time consuming and involves detailed calculations and extensive knowledge of quantity surveying, it gives the best accurate results.

3.1.2 Where the buildings are of standard type designs, having similar specifications to that of CPWD. RCC. Framed structures for offices, institutional and residential buildings, advantage is taken by adopting updated version of plinth area latest rates published by CPWD.

3.1.3 Depreciation

Straight-line method is the most acceptable method to work out the depreciation of a property. In this method, it is assumed that a property loses its value by the same amount every year

Let,

n - Life of property in years.
c - Reproduction Values
s - Salvage or scrap value
d - Annual depreciation

Then
$d = (c-s)/n$

3.1.4 Both the life and the salvage value of the property have direct bearing on the quality of materials, workmanship and specification adopted for construction of buildings. Keeping in view, the different standard of quality of materials used and specifications adopted in respect of each of buildings under consideration, assumptions are made in respect of life and the salvage value for different categories of buildings.

3.2 Plant and Machinery

3.2.1 The replacement value of the machines is worked out on the basis of quotations obtained, cost manuals, catalogues, from data bank and where these are not available index of Reserve Bank of India is adopted. Quotations if made available by the management as obtained by them from the manufacturers from time to time are also used. Certain percentage deduction is made in the quoted prices for obvious reasons. Price of machinery, as per quotations, would include costs, freight, packing, forwarding, insurance, installation charges, octroi, sales tax, excise and customs duty, wherever levied. It would also include cost of civil, electrical and other works along with commissioning charges incurred thereon.

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3.2.2 Replacement cost of machinery is the current cost of a similar new item having nearest equivalent utility as the one to be valued. Steps to arrive at the Replacement value are given as below:

3.2.3 Indigenous Machines

- Acquire the cost of same type model or equivalent. Alternatively the nearest cost can be worked out by applying RBI index.
- Add proportionate Freight & Insurance.
- Add local freight, incidentals, and transportation to premises where the machine is to be erected and local applicable taxes.
- Add expenses towards erection and commissioning including expenses towards testing & performance check, labour/ supervision, consumable, hiring charges for material handling equipment, interest etc.
- Total cost is the replacement cost.

3.2.4 Re-valued value after depreciation is the value of machine after taking into consideration its obsolescence (Functional and Economic), Physical deterioration, residual value, expected total life and life left over on the date of revaluation.

3.2.5 The following factors have been considered while assessing the value of the Plant and Machinery.

- Age of the installed machinery.
- Its general condition and state of repair. Type of repair / preventive maintenance.
- Technological development and efficiency.
- Residual life
- Replacement cost.
- Economic Obsolescence.
- Specifically designed for the manufacture of products.
- Purchase cost and installation expenses.
- Source of procurement and the country of origin
- Invisible Values, like cost of technical knowhow, cost of introducing the quality control system, if any (ISO series) etc.
- Functional Obsolescence

The calculation of depreciation is primarily based on wear and tear and the present productivity value. The formula as hereunder is taken into consideration for computing depreciation;

$$\frac{\text{(Estimated value of the machine-Residual value)} \times \text{Expired Life of the machine}}{\text{Total life of the machine.}}$$

3.2.6 Identification of Machine and Equipment

Macro identification is a method of studying the entire manufacturing process by identifying major components contributing to the design capacity of the plant.

Micro identification is the process of finding the individual characteristics of the equipment. This involves the listing of a single machine.

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4.0 General

4.1 We have relied on the information given to us by the Management of the Company for the study. Our teams went to the site to carry out a detailed survey of the relevant assets, once the intimation was received that the documents and details are ready and available for the study.

4.2 Plant is located on the land not owned by the company.

4.3 Ownership has been taken based on the information given by the company.

4.4 Legal ownership aspects and other legal matters have not been considered while carrying out valuation.

4.5 We have assumed that the assets are free from any litigation, encumbrances, etc. as on date of valuation

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5.0 Summary of Values

LIME KILN UNDERTAKING OF JK ENVIRO TECH LIMITED - SONAGARH AS ON 31st MARCH 2013

[illegible]	Gross Block	Net Block	Current Replacement Value	Depreciation & Maintenance	Residual Replacement Value
	IN ₹	IN ₹	IN ₹	IN ₹	IN ₹
BUILDINGS	533,38,599	470,01,381	406,86,100	69,63,500	337,22,600
PLANT & MACHINERY					
LIME KILN	2078,11,031	1650,21,229	2288,64,900	700,05,700	1588,59,200
MUD FILTER	79,91,828	64,08,001	97,82,000	46,18,000	51,64,000
PRECIPATOR/ESP	113,79,158	91,24,027	139,28,100	42,60,400	96,67,700
PRODUCER GAS PLANT	628,44,493	546,83,413	705,11,500	215,68,200	489,43,300
COAL HANDLING EQUIPMENTS	116,01,806	100,69,529	128,38,700	39,27,100	89,11,600
LIME STONE HANDLING EQUIPMENTS	43,97,007	35,25,605	53,81,900	16,46,200	37,35,700
TOTAL (P&M)	**3060,25,323**	**2488,31,803**	**3413,07,100**	**1060,25,600**	**2352,81,500**
GRAND TOTAL	**3593,63,922**	**2958,33,184**	**3819,93,200**	**1129,89,100**	**2690,04,100**

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6.0 PLANT AT SONAGARH

6.1 General

6.2 JK Enviro Tech Ltd. was incorporated on 19/12/2007. The main objective of establishment of JK Enviro Tech Ltd. is to operate, run and maintain Rotary Lime Kiln and Producer Gas Plant for processing Lime/Lime sludge.

6.3 Installed capacity of Lime Kiln Plant is 90 TPD. Lime Kiln plant was to put to operate and capitalized in June-2009 and PG Plant was put to operate and capitalized in Oct-2010. From last 12 months, plant is running smoothly.

6.4 Nearest railway station for the company is Sonagarh (approx. 10 Km far) and Vyara (approx. 30 Km far). The JK Enviro Tech Ltd. is established within the premises of JK Paper Limited. Other company which is nearest to JK Enviro Tech Ltd. premises is Gujrat Urja Vikash Nigham Ltd. (Power Plant). Nearest airport is in Surat which is about 100 Km away. Ukai Dam is about 4Km.

6.5 Plant was commissioned with a capacity of 90 TPD in 2009.

6.6 Buildings

6.7 Plant has mainly four building structures (Feed End, Feed Discharge, MCC and Producer Gas Plant Building).

6.8 **Feed End Building** It is a RCC framed structure and is part of lime kiln section. The building is Ground plus five storeyed structure. Ground Floor has MCC, star panel, bucket elevator, isolator. First Floor has Hammer Crusher, ESP Control room. MCC panel. Second Floor has MCC panel and Screw Feeder. Third Floor has slurry tank and open terrace. Fourth Floor has open terrace. RCC structure has been designed to carry suitable heavy load.

6.9 **Feed Discharge Building** is a Ground plus two storeyed RCC framed building near Lime Godown section. At Ground floor, it has PHF Unit, Day Oil Tank, Belt Conveyor and walkway. First Floor has a lump breaker and railings. Second Floor has Bag filter fan, Control Room, Rotary Kiln.

6.10 **MCC Building** is a double storeyed RCC framed structure to house electric panel controls on First floor of building. Has false ceiling and floor. Doors and Windows are aluminium framed with glazing.

6.11 **Producer Gas Plant** is a steel structure with steel columns resting on RCC foundation and asbestos sheet sheds over plant and equipments.

6.12 Keeping these specifications, prevalent rate of construction in this area, Gujrat PWD and CPWD rates of construction, we have worked out the plinth area rates of

S. R. JAIN & ASSOCIATE ★ D-155 Anand Vihar Delhi 110092 ★ Valuer and Chartered Engineer different assets. The Residual Replacement Value as on 31st March, 2013 works out to ₹.337,22,600. Details are attached as Appendix 'A'.

6.13 **Plant & Machinery**

6.14 It may be mentioned that all major machineries held by the Unit form part of production lines, based on the manufacturing process/requirement.

6.15 It has a 90 TPD Lime Mud Reburing System and associated equipment's. Lime Mud Reburning plant converts the lime sludge into lime with high content of active CaO. Its end product is being sold to JKPL (Unit CPM).

6.16 Lime Kiln with mud filters and ESP and their associated accessories

6.16.1 Technical parameters of Lime Kiln

6.16.2 Length 63 Mts, Rotary, Five Tube Coolers

6.16.3 Diameters 2.74 Mts.

6.16.4 Inclination 1.432 Degree (2.5% slope)

6.16.5 Capacity 90 MT/day

6.17 Technical Parameters of Mud Filters (It has been moved from JKPL (Unit CPM) in 2009 Dia 8Ft, Face width 12 Ft, Can Handle 90 TPD of Dry Lime Mud

6.18 Producer Gas Plant There are two producer gas plant, each of capacity 2,200 NM^3/ Hr. with Tar and Gas Handling Plant.

6.19 Coal Handling System It can handle 125 Tons per day of coal and crush coal to greater than 20mm.

6.20 Lime Stone and Handling System. It can handle 60 Tons per day.

6.21 Black Liquor Desilication Plant of 335 TPD has been installed as mud has higher silica content in this plant area.

6.22 Plant was commissioned in 2009. Obsolescence was considered only in case of machinery where necessary.

6.23 The Machinery and equipment have been grouped on the basis of classification and have been divided into major work divisions of the factory.

6.24 While carrying out valuation of plant and machinery, we have assumed a concept of "Composite division" of the production of the similar product, in situ. In other

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words method of Macro identification has been adopted for which we have entirely relied on the details provided by the management

6.25 The condition of the machinery has been assessed based on visual inspection of select equipments, experience and information available. It may be mentioned that we are not in a position to confirm if all integral parts of the equipments, which are inaccessible to vision, are available.

6.26 Reserve Bank of India Index, as applicable has been adopted. Prices paid by the company in different years have been considered for working out the current prices and necessary corrections wherever required have been done based on the experience Wherever quotation or data Bank information was not matching, necessary corrections have been done based on the experience.

6.27 Preoperative and Misc. expenses have been considered for working out the present replacement Value.

6.28 Keeping in view the rapid technological development, a suitable technological obsolescence factor has been considered depending on the individual merits of the machinery/equipment and this, as a percentage of current replacement Value has been deducted to arrive at the adjusted current replacement value.

6.29 The residual life of machine as on 31th March 2013 has been assessed by taking into consideration various factors such as age gap Vis-a -Vis life cycle of technology, process of the machine installed, physical deterioration (wear and tear), standard of maintenance, type of handling, quality of material used, type of use (general/special), functional obsolescence, technical obsolescence, etc.

6.30 While assessing the residual life of Plant & Machinery, due consideration has been given for the experience gained in other similar factories also. Modifications, wherever carried out, have been considered to have increased the life of the asset.

6.31 Remaining useful life has been evaluated on the basis of techno-economic angle and is based on the premise that in future the same level of maintenance and upkeep for ensuring economic production would be sustained and would be continued as is being done now. Projected balance life now, assumes maintenance rather than replacement of the aforesaid assets.

6.32 Having determined the current replacement value as mentioned above and remainder life having been assessed during physical verification, the residual replacement value has been worked out by subtracting the depreciation for the period for which the machines have already been used on the basis of straight-line method from the current replacement value.

6.33 The Residual Replacement Value of Plant & Machinery, as on 31st Mar 2013, works out to ₹ 2352,81,500. Details are attached as Appendix 'B'.

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7.0 ACKNOWLEDGEMENT

7.1 We record our appreciation for the help and co-operation extended to us by the JK **Paper Ltd. and JK Enviro Tech Ltd.** during the course of our study.

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8.0 CERTIFICATE BY THE APPRAISER

8.1 It is hereby certified that in our opinion the **Fair market value (Residual Replacement Value)** of the assets including assets for which values have been retained, by adopting prevailing market rates of assets **₹. 2690,04,100 (₹ Twenty Six Crores Ninety Lakhs Four Thousand One Hundred Only)**

8.2 Value varies with the purpose and date. This report is not to be referred if the purpose is different than mentioned in 2.1.

8.3 The Plant was visited from 16th May to 17th May, 2013 with representatives of the company.

8.4 The legal aspects were not considered in this valuation.

8.5 The valuation work has been undertaken by us based upon the request from **JK Paper Ltd.**

8.6 The statements of facts contained in this report are true and correct to the best of our knowledge.

8.7 This report has **sixteen** pages.

8.8 The report analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and represents the impartial and unbiased professional analysis and conclusions of the **S R JAIN & ASSOCIATE**.

8.9 **S R JAIN & ASSOCIATE** personally have no present or prospective interest in or bias with respect to the assets that are the subject of this report and have no personal interest or bias with respect to the parties involved.

8.10 The engagement of our firm in this assignment and compensation for the firm are not contingent on the development or reporting of a predetermined value or direction in value that favors the cause of the **JK Paper Ltd.**, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.

For S.R.JAIN & ASSOCIATE
Chartered Engineers
Approved Value of Land & Building, Plant & Machinery,

Place New Delhi
Date 24 July 2013

S. R. JAIN & ASSOCIATES
Valuer of Land, Building
Plant & Machinery

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LIME KILN UNDERTAKING OF JK ENVIRO TECH LIMITED - SONAGARH- BUILDINGS AS ON31st MARCH 2013

APPENDIX 'A'

S. N.	Buildings	Floor Area	Gross Block	Net Block	Specifications	Year	Current Replacement Value	Life (In years)		Depreciation & Maintenance	Residual Replacement Value	Remarks
		IN Sq. Mts.	IN ₹				IN ₹	Expired	Balance	IN ₹	IN ₹	
1	Feed End Building	2268	502,31,285	440,93,809	RCC structure, brick wall with plaster, CC floor	2009	312,98,400	4	46	53,83,300	259,15,100	
2	Discharge End Building	541.32			RCC structure, brick wall with plaster, CC floor	2009	74,70,200	4	46	12,84,900	61,85,300	
3	MCC Building	138.95	31,07,314	29,07,572	RCC structure, brick wall with plaster, CC floor	2010	19,17,500	3	47	2,95,300	16,22,200	
4	PG Plant	307.8			Steel Columns with CC sheet roof to protect PG plant, Steel sheet platform & CC floor	2010						Included in P&M
5	Misc. Construction	307.8				2010	20,00,000				20,00,000	
	TOTAL		533,38,599	470,01,381			406,86,100			69,63,500	337,22,600	

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LIME KILN UNDERTAKING OF JK ENVIRO TECH LIMITED - SONAGARH- PLANT & MACHINERY AS ON 31st MARCH 2013 APPENDIX 'B'

Description	Gross Block	Net Block	Year of capitalization	Current Replacement Value	Life (in years)		Depreciation & Maintenance	Residual Replacement Value	Remarks
				IN ₹	Expired	Balance	IN ₹	IN ₹	
LIME KILN									
Slide Gate	26,92,500	21,58,898	2009	2288,64,900	4	30		1588,59,200	
Vibrating feeder	3,45,000	2,76,628							
Gear box	26,37,000	21,14,397							
Suspend Megnate	6,58,708	5,28,165							
Bucket Elevator	30,49,582	24,45,213							
Weigh feeder	22,59,000	18,11,310							
Belt conveyor	8,43,333	6,76,201							
Screw conveyor	14,06,481	11,27,743							
Drive system (VVF & KILN DRIVE MOTORS)	14,48,694	11,61,591							
Rotary Kiln/Lime Kiln Shell	1483,14,537	1189,56,366							
Burner system	86,89,066	69,67,060							
Service Oil tank	11,43,753	9,17,083							
Primary Air Fan	5,20,000	4,16,946							
Hot Lime Lump breaker	8,08,200	6,48,030							
Lime belt conveyor	6,06,815	4,86,556							
Bleed Air Damper	7,50,397	6,01,683							
ID Fan	15,68,512	12,57,663							
Stack (chimney)	21,00,000	16,83,820							
GL Desilication	63,30,469	50,75,891							
DCS System	251,72,004	201,83,396							
Bag filter	30,14,500	24,17,084							
Rotary Drum Slacker	33,31,305	26,71,104							
Price adjustment in Rotary Kiln	-98,78,825	-85,61,598							
SUB TOTAL (I)	2078,11,031	1650,21,229							

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Description	Gross Block	Net Block	Year of capitalization	Current Replacement Value	Life (in years)		Depreciation & Obsolescence	Residual Replacement Value	Remarks
				IN ₹	Expired	Balance	IN ₹	IN ₹	
LIME STONE HANDLING									
Make up Lime Stone Hopper	7,00,000	5,61,273	2009	53,81,900	4	30	16,46,200	37,35,700	
Make up Lime Stone conveyor	12,81,741	10,27,725							
Make up Lime Stone Crusher	14,59,086	11,69,923							
Lime stone storage Silo	9,56,180	7,66,683							
SUB TOTAL (II)	**43,97,007**	**35,25,605**							
PRECIPATOR/ESP									
Electro Static Precipitator	71,18,016	57,07,362	2009	139,28,100	4	30	42,60,400	96,67,700	
ESP Screw Conveyor	42,61,142	34,16,665							
SUB TOTAL (III)	**113,79,158**	**91,24,027**							
MUD FILTER									
Lime Mud Filter	79,91,828	64,08,001	2000	97,82,000	13	30	46,18,000	51,64,000	
SUB TOTAL (IV)	**79,91,828**	**64,08,001**							
TOTAL A (I TO IV)	**2315,79,024**	**1840,78,862**							
COAL HANDLING									
Coal Hopper	25,43,279	22,07,382	2009	128,38,700	4	30		89,11,600	
Coal Crusher	46,82,818	40,64,347							
Inclined Conveyor for recycle crushed coal	4,89,830	4,25,137							
Inclined Conveyor for coal fines	8,61,681	7,47,877							
Sized coal conveyor	30,24,198	26,24,785							
SUB TOTAL (V)	**116,01,806**	**100,69,529**							
PRODUCER GAS									
Inclined Conveyor with Magnetic Separator	44,41,100	38,54,554	2009	705,11,500	4	30	215,68,200	489,43,300	
Double Deck Vibrating Screen	6,03,907	5,24,148							
Ash Conveyor belt	9,20,655	7,99,062							

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Description	Gross Block	Net Block	Year of capitalization	Current Replacement Value IN ₹	Life (in years) [illegible] Expired	Bal[illegible]	[illegible]ation [illegible]ance ₹	Residual Replacement Value IN ₹	Remarks
Top Cell & Bottom Cell	1,85,720	1,61,192							
Great stools with great rings	47,79,750	41,48,477							
Ash Bowl	10,07,557	8,74,487							
Double gas of takes LTC	37,59,924	32,63,342							
Vapour Drums	71,125	61,731							
Gas vent / Producer Gas Generator	293,58,897	256,20,337							
Washing chambers	11,75,929	10,20,621							
Hydraulic Power Pack	17,32,626	15,03,794							
Air bowlers	47,35,520	41,10,089							
Water circulation pumps	13,87,671	12,04,398							
Water recirculation tank	1,45,833	1,26,572							
Soft water tank	2,87,675	2,49,681							
Soft water overhead tank	3,06,027	2,65,609							
Tar cleaning unit	7,25,551	6,29,726							
Gas booster fan	9,92,775	8,61,657							
Vapour Vessel	36,40,645	31,59,816							
Coal Bunker	25,85,608	22,44,121							
SUB TOTAL (VI)	**628,44,493**	**546,83,413**							
TOTAL B (V TO VI)	**744,46,299**	**647,52,941**							
GRAND TOTAL (A+B)	3060,25,323	2488,31,803		3413,07,100				2352,81,500	

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Annexure - 4

	Pre & Post Scheme of Arrangement Shareholding Pattern					
	Pre-arrangement shareholding				Post-arrangement shareholding	
	Transferor Company (Face Value: Rs. 10)		Transferee Company (Face Value: Rs. 10)		Transferee Company (Face Value: Rs. 10)	
	JK Enviro-Tech Limited (unlisted Company)		JK Paper Limited		JK Paper Limited	
	No. of Shares	% of Shares	No. of Shares	% of Shares	No. of Shares	% of Shares
I. Promoter Group						
Names of Promoters						
Bengal & Assam Company Ltd.	-	-	3,11,43,299	22.80	3,11,43,299	22.80
JK Paper Limited	49,00,000	98.98	-	-	-	-
Promoter Group-Persons Acting in Concert						
Fenner India Limited	-	-	2,54,57,500	18.63	2,54,57,500	18.63
Florence Investech Limited	-	-	1,16,81,684	8.55	1,16,81,684	8.55
BMF Investments Limited	-	-	38,02,297	2.78	38,02,297	2.78
Accurate Finman Services Limited	-	-	4,11,140	0.30	4,11,140	0.30
Smt. Sharda Singhania	-	-	1,75,000	0.13	1,75,000	0.13
Sh. Hari Shankar Singhania (since deceased)	-	-	1,75,000	0.13	1,75,000	0.13
Sh. Harsh Pati Singhania	-	-	1,31,250	0.10	1,31,250	0.10
Sh. Raghupati Singhania	-	-	1,31,250	0.10	1,31,250	0.10
Sh. Vikram Pati Singhania	-	-	1,31,250	0.10	1,31,250	0.10
Smt. Vinita Singhania	-	-	87,500	0.06	87,500	0.06
Sh. Anshuman Singhania	-	-	43,750	0.03	43,750	0.03
Smt. Sunanda Singhania	-	-	43,750	0.03	43,750	0.03
Smt. Mamta Singhania	-	-	43,750	0.03	43,750	0.03
Sh. Shrivats Singhania	-	-	43,750	0.03	43,750	0.03
Smt. Swati Singhania	-	-	43,750	0.03	43,750	0.03
Bengal & Assam Co. Ltd.	50,000	1.01	-	-	-	-
Nav Bharat Vanijya Ltd.	100	0.002	-	-	-	-
Param Shubham Vanijya Ltd.	100	0.002	-	-	-	-
Juggilal Kamlapat Udyog Ltd.	100	0.002	-	-	-	-
Rouncy Trading Pvt. Ltd.	100	0.002	-	-	-	-
Sago Trading Ltd.	100	0.002	-	-	-	-
JK Credit & Finance Ltd.	100	0.002	-	-	-	-
Total Promoter Group (A)	**49,50,600**	**100.00**	**7,35,45,920**	**53.83**	**7,35,45,920**	**53.83**
II. Public Shareholdings						
Individuals	-	-				
Pradip Kumar Khaitan Shreekant Somany	-	-	68,62,362	5.02	68,62,362	5.02
Bharat Hari Singhania-JKPEWT	-	-	67,23,000	4.92	67,23,000	4.92
Aggregate holding of others (less than 1% shareholding each)*	-	-	1,55,12,795	11.36	1,55,12,795	11.36

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Bodies Corporate						
International Finance Corporation	-	-	76,90,000	5.63	76,90,000	5.63
Life Insurance Corporation of India	-	-	32,82,805	2.40	32,82,805	2.40
Edgefield Securities Ltd.	-	-	25,00,000	1.83	25,00,000	1.83
General Insurance Corporation of India	-	-	21,00,000	1.54	21,00,000	1.54
Aggregate holding of others (less than 1% shareholding each)*	-	-	1,84,03,743	13.47	1,84,03,743	13.47
Total Public Shareholding (B)	-	-	**6,30,74,705**	**46.17**	**6,30,74,705**	**46.17**
Total (A+B)	**49,50,600**	**100.00**	**13,66,20,625**	**100.00**	**13,66,20,625**	**100.00**

* Since the number of shareholder holding shares below 1% may be quite large in the transferee company, it may be difficult to give individual names of such shareholders, both for individuals as well as Bodies Corporate. Therefore, shareholding of shareholders holding shares above 1% have been given individually and the shareholding of shareholders holding shares below 1% of the transferee company have been shown in aggregate as "Aggregate holding of others (less than 1% shareholding each)", both for individuals as well as bodies corporates.

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Annexure-5

SCHEME OF ARRANGEMENT
(UNDER SECTIONS 391 TO 394 OF THE COMPANIES ACT, 1956)

BETWEEN

JK ENVIRO-TECH LIMITED

AND

JK PAPER LIMITED

AND

THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

(soft copy sent through e-mail)

[Complete Scheme of Arrangement has already been uploaded on the Company's Website]

Annexure-6

Compliance report with the requirements specified in Part-A of the circular CIR/CFD/DIL/5/2013 dated February 4, 2013 read with circular no. CIR/CFD/DIL/8/2013 dated May 21, 2013

Sub: Application under Clause 24(f) of the listing agreement for the proposed scheme of Arrangement between JK Enviro-tech Limited and JK Paper Limited

In connection with the above application, we hereby confirm that we satisfy all the conditions as stipulated in the aforesaid SEBI circular, as given hereunder:

Sr. No.	**Requirements as per CIR/CFD/DIL/5/2013 dated February 4, 2013 read with circular no. CIR/CFD/DIL/8/2013 dated May 21, 2013**	**Whether Complied or not & How**
1.	Listed companies shall choose one of the stock exchanges having nation-wide trading terminals as the designated stock exchange for the purpose of coordinating with SEBI.	Yes. The Company has selected BSE Limited as designated stock exchange.
	Compliance as per Part A, Annexure I to the Circular	
2.	Documents to be submitted:	
2.a	Draft Scheme of arrangement/ amalgamation/ merger/ reconstruction/ reduction of capital, etc.	**Yes.** Draft Scheme of Arrangement is enclosed herewith as Annexure- A.
2.b	Valuation Report from Independent Chartered Accountant	**Yes.** Valuation Report from an Independent Chartered Accountant, M/s S.S. Kothari Mehta & Co., dt. 15th July 2013 is enclosed herewith as Annexure C.
2.c	Report from the Audit Committee recommending the Draft Scheme	**Yes.** A certified true copy of the resolution passed by the Audit Committee of the Company held on 19th July 2013, recommending the draft Scheme is enclosed herewith as Annexure D.
2.d	Fairness opinion by merchant banker	**Yes.** Fairness Opinion dt. 17th July 2013 from an independent Merchant Banker, M/s ICICI Securities Limited is enclosed herewith as Annexure E.
2.e	Pre and post amalgamation shareholding pattern of unlisted company	Yes. The shareholding pattern of the Transferee Company pre and post the acquisition of the Lime Kiln Undertaking from the Transferor Company in the format provided under Clause 35 of the Listing Agreement and the shareholding pattern of the Transferor Company has been enclosed herewith and marked as Annexure 'F1', 'F2' and 'F3' respectively. It may kindly be noted that the current shareholding pattern in case of the Transferee Company is based on the data available as on August 23, 2013 and in case of the Transferor Company it is based on the data available as on August 23, 2013. As the Scheme envisages the payment of purchase consideration in cash, there will be no change in the shareholding pattern of the Transferee Company and the Transferor Company as a consequence of

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		the effectiveness of the Scheme. However, in terms of Part – V and other relevant provisions of the Scheme, a reduction of share capital of the Transferor Company is contemplated and accordingly, the Shareholding Pattern of the Transferor Company post such reduction of capital has been enclosed and marked as Annexure 'F4'.
2.f	Audited financials of last 3 years (financials not being more than 6 months old) of unlisted company;	Yes. Audited Financials, in the specified format, of the Transferee and Transferor Companies for the last three (3) financial years, i.e., FY 2010-11, 2011-12 and 2012-13, are enclosed herewith and marked as Annexure 'G1' and 'G2' respectively.
2.g	Compliance with Clause 49 of Listing Agreement	**Yes.** Compliance report, in the specified format, in regard to clause 49 of the Listing Agreement as specified in Part - A of Annexure 1 to the February Circular, is enclosed herewith and marked as Annexure 'H'.
2.h	Complaints Report	A Complaints report was submitted with BSE Limited on 17th October, 2013, i.e., within 7 days of expiry of 21 days from the date of filing of Draft Scheme. A copy of the Complaints Report is enclosed herewith and marked as Annexure 'I'.
3.	The equity shares sought to be listed are proposed to be allotted by the unlisted Issuer (transferee entity) to the holders of securities of a listed entity (transferor entity) pursuant to a scheme of reconstruction or amalgamation (Scheme) sanctioned by a High Court under Section 391-394 of the Companies Act, 1956	**Not Applicable.** The Scheme only envisages the payment of purchase consideration in cash to the transferee Company, and there will be no issuance of any shares/securities.
4.	At least 25% of the post scheme paid up share capital of the transferee entity shall comprise of shares allotted to the public holders in the transferor entity.	**Not Applicable.**
5.	The transferee entity will not issue/reissue any shares, not covered under the Draft scheme.	**Not Applicable.** The Scheme only envisages the payment of purchase consideration in cash to the transferee company, and there will be no such issuance or reissuance of any shares.
6.	As on date of application there are no outstanding warrants/ instruments/ agreements which give right to any person to take the equity shares in the transferee entity at any future date. If there are such instruments stipulated in the Draft scheme, the percentage referred to in point (b) above, shall be computed after giving effect to the consequent increase of capital on account of compulsory conversions outstanding as well as on the assumption that the options outstanding, if any, to	As on date of application, Unsecured Foreign Currency Convertible Bonds (FCCBs) aggregating to Euro 35 Million, issued by the Company on private placement basis to European Development Institutions on 30th May 2011 are convertible into 3,63,16,875 Equity Shares anytime after 3.5 years from date of the issue of the FCCBs at an initial conversion price of Rs.65/- per Equity Share of Rs. 10 each, subject to adjustments for the FCCBs. If FCCBs are

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	subscribe for additional capital will be exercised.	not converted, they are repayable between 15th May 2016 to 15th May 2018. The Scheme only envisages the payment of purchase consideration in cash to the transferee company, and there will be no issuance of any shares/securities.
7.	The shares of the transferee entity issued in lieu of the locked-in shares of the transferor entity are subjected to the lock-in for the remaining period.	**Not Applicable.**

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