

STRICTLY PRIVATE & CONFIDENTIAL

Date: October 20, 2016

The Board of Directors
Kirloskar Pneumatic Co.Ltd
Hadaspar Industrial Estate,
Pune – 411 013

The Board of Directors
Pneumatic Holdings Limited
Survey No. 13, 156 Kothrud,
Pune – 411 038.

The Board of Directors
Kirloskar RoadRailer Limited
Hadaspar Industrial Estate,
Pune – 411 013

Re: Proposed amalgamation of Pneumatic Holdings Limited and Kirloskar RoadRailer Limited into Kirloskar Pneumatic Co. Limited

Dear Sirs,

We have been requested by the management of Kirloskar Pneumatic Co. Ltd (hereinafter referred to as "KPCL"), Pneumatic Holdings Limited (hereinafter referred to as "PHL") and Kirloskar RoadRailer Limited (hereinafter referred to as "KRL"), (collectively referred to as "Companies") to issue a report containing recommendation of fair equity share exchange ratio for the proposed amalgamation of PHL and KRL into KPCL.

1. SCOPE AND PURPOSE OF THIS REPORT

- 1.1. We have been given to understand that in order to *inter alia* simplify the shareholding structure of KPCL, reduce shareholding tiers for the promoters of KPCL, and to integrate manufacturing and service operations of RoadRailer, it is proposed that PHL and KRL will amalgamate into KPCL in accordance with the provisions of Sections 391 to 394 read with sections 100 to 104 of the Companies Act, 1956 (hereinafter referred to as "Scheme of Amalgamation"). Subject to necessary approvals, PHL and KRL would be merged with KPCL, with effect from appointed date of April 1, 2016.



- 1.2. In this regard, we have been requested to issue a report containing recommendation of fair equity share exchange ratio for the proposed amalgamation of PHL and KRL into KPCL.

2. BRIEF BACKGROUND OF COMPANIES

2.1. KIRLOSKAR PNEUMATIC COMPANY LIMITED

2.1.1. KPCL, is a company incorporated under the Companies Act, 1956 having its registered office at Hadapsar Industrial Estate, Pune – 411 013. KPCL started its operations with the manufacture of Air Compressors and Pneumatic Tools. New product lines were then added, including Air Conditioning and Refrigeration systems, Marine HVACR, Process Gas systems and Hydraulic Power Transmission machinery. Over the years, KPCL has developed various sophisticated and high-tech products in the above categories to cater to the demands of various industrial sectors.

2.1.2. KPCL has also established a number of technology partnerships with leading global companies. KPCL has earned the distinction of developing a host of advanced products to suit Indian conditions and has been continuously updating them to maintain the highest standards of quality and reliability.

2.1.3. The equity shares of KPCL are listed on BSE Limited.

2.2. PNEUMATIC HOLDINGS LIMITED

2.2.1. PHL is a company incorporated under the Companies Act, 2013 having its registered office at Survey No. 13, 156 Kothrud, Pune – 411 038. PHL was originally incorporated as a wholly owned subsidiary of Kirloskar Brothers Investments Limited (KBIL) with the purpose of transfer and vesting of certain investments and vehicle leasing business of KBIL on a going concern basis.

2.2.2. PHL holds 54.45% equity share capital of KPCL.

2.2.3. The equity shares of PHL are listed on BSE Limited and National Stock Exchange of India Limited.

2.3. KIRLOSKAR ROADRAILER LIMITED

2.3.1. KRL is a company incorporated under the Companies Act, 1956 having its registered office at Hadapsar Industrial Estate, Pune – 411 013. KRL is presently setting up business of carrying on multimodal transport business using RoadRailer technology of KPCL.



2.3.2. KRL is a 100% subsidiary of KPCL. As part of this Scheme of Amalgamation, KRL is also proposed to be amalgamated with KPCL. Since KRL is a 100% subsidiary of KPCL no shares would be issued on amalgamation.

3. SOURCES OF INFORMATION

For the purposes of this exercise, we have relied upon the following sources of information:

- (a) Annual Report of KPCL, PHL and KRL for the financial year 2015-16.
- (b) Such other information and explanations as we required and which have been provided by the management of KPCL and PHL.

4. LIMITATIONS

- 4.1. Our recommendation is dependent upon the information furnished to us being complete in all material respects.
- 4.2. This report has been prepared for the Board of Directors of KPCL and PHL solely for the purpose of recommending a fair equity share exchange ratio for the proposed amalgamation of PHL and KRL into KPCL.
- 4.3. The information contained herein and our report is absolutely confidential. It is intended only for the sole use and information of the Companies, and only in connection with the proposed Amalgamation as aforesaid including for the purpose of obtaining requisite approvals. It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, other than in connection with the proposed Amalgamation as aforesaid, can be done only with our prior permission in writing.

5. BASIS FOR DETERMINATION OF RATIO

- 5.1 We have been informed by the management of PHL that they currently hold 69,94,176 shares in KPCL. We have been further informed by PHL that prior to effective date, PHL proposes to acquire 13,375 equity shares of KPCL from the existing cash balance in the books of PHL. Thus PHL will hold 70,07,551 equity shares in KPCL.
- 5.2 PHL has also informed that tangible assets in its books could be considered as realisable.



- 5.3 Further we have been informed that cash balance post above acquisition of shares of KPCL and realisation of tangible assets will be utilised to meet the costs, fees and expenses including stamp duties payable on issue of new shares in relation to the proposed amalgamation and balance cash available will be distributed as dividend to the equity shareholders prior to the effective date.
- 5.4 Upon Amalgamation of PHL into KPCL, the shareholders of PHL would be entitled to the same number of shares of KPCL which they own on the effective date of the proposed merger indirectly through their holding in PHL. Pursuant to the amalgamation, there would be no change in the paid-up capital of KPCL.

6. RECOMMENDED RATIO

- 6.1. Based on above, we recommend a fair equity share exchange ratio as follows:
53 (Fifty Three) equity shares of KPCL (face value of INR 10 each) to be issued and allotted for every **40 (Forty)** equity shares of PHL (face value of INR 10 each) in proportion of their holdings in PHL.
- 6.2. We believe that the above ratio is fair and equitable considering that all the shareholders of PHL are and will, upon amalgamation, remain ultimate beneficial owners in KPCL in the same ratio (inter-se) as they hold shares prior to the amalgamation and that the interest of other shareholders in KPCL remains unaffected.

Thanking you,
Yours faithfully,

SSPA & Co.



SSPA & CO.
Chartered Accountants
Firm registration number: 128851W

Place: Pune