MANAKSIA LTD.

CAPITAL ALLOCATION FAIRNESS REPORT

ON

RESTRUCTURING

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1) INTRODUCTION

The Board of Directors of Manaksia Limited ("ML") in their meeting held on 5th October 2010 discussed the need to re-align the business activities and for this purpose the Board had constituted a Restructuring Committee and delegated its power in the restructuring process to the Restructuring Committee.

The Restructuring Committee has proposed to demerge 4 Divisions of the Company into four Transferee Companies viz. Manaksia Industries Ltd. ("MAIL") (**Transferee Company 1** / Packaging Division), Manaksia Coated Metals & Industries Ltd. ("MACMIL") (**Transferee Company 2** / Mosquito Coil & Coated Division), Manaksia Aluminium Co. Ltd ("MALCO") (**Transferee Company 3** / Aluminium Division), and Manaksia Steels Ltd. ("MAST") (**Transferee Company 4** / Steel Division).The **Residual Main Company** will be Manaksia Ltd. ("ML") . The Restructuring Committee has appointed S.K. Agrawal & Co., Chartered Accountants, to give their Advisory Opinion on the Fairness of the Share Issue Ratio and on the proposed capital structure of the companies. This report is being furnished for the purpose of expressing an Advisory Opinion on the fairness of the share issue ratio and the Fairness of the Share Capital structure of the five companies.

2) LIMITATION OF LIABILITY

In no event shall S. K. Agrawal & Co. be liable for any loss, cost or expenses arising in any way from fraudulent acts, misrepresentation or wilful default on the part of the companies under consideration, their Directors, employees or agent.

In no circumstances shall the liability of S. K. Agrawal & Co., its Partners or Employees, relating to services provided in connection with the engagement set out in this report (or valuation or addition thereto) exceed the amount paid to us in respect of the fees charged for this services.

3) SOURCES AND INFORMATION

We have called for and have been supplied with various information, explanation, data, documents, accounts and statements from time to time for the purpose of arriving at a fair exchange ratio. (**Note 1** hereto broadly summarises the principal sources of information)
For the purpose of arriving at the Entitlement Ratio, we have essentially relied on the information extracted from desk research, published reports and other data supplied by the management of the company and other sources believed to be reliable and true.

We are not required to and have not carried out any due diligence review, independent audit or other test or validation of such financial and other information to establish the accuracy or sufficiency of the financial statements considered or of the information, explanations and representations provided to us. Accordingly, we do not express an opinion or any other form of assurance thereon and accept no responsibilities for the same.

We have not verified examined or reviewed the title of or restriction on any property or shareholding in any company during the course of this exercise and have relied on the data provided by the managements and representations made by them.

Since the Share Issue Ratio is essentially based on the information provided, for which ML accepts full and sole responsibility, and our review and analysis have been limited to the below mentioned procedures, our analysis is subject to this limitation. Our reliance and use of this information should not be considered as an expression of our opinion on it, and we do not and will not accept any responsibility or liability for the impact of any inaccuracies in it.

<u>NOTE 1</u>

In preparation of this report, we have relied upon the following information:

- Audited Annual accounts of the company for the financial years ended on March 31, 2011, March 31, 2012 & March 31, 2013.

- Reading of analysis of projected income and cash flow statements of MALCO, MAST, MACMIL, MAIL, ML for the half year ending 31st March 2014 and 4 year ending March 31, 2018.

- Discussion /Meeting with the Management of the Company for understanding of the business, historical operation and future potentials, to obtain requisite explanation and clarification on data provided.
- Division Wise Accounts as provided and certified by the management.
- Proposal of Restructuring Committee
- Such other analysis and inquiries as we considered necessary

We have also relied upon the verbal explanations and information given to us by the management during discussions from time to time.

4) SCOPE OF WORK

As mentioned earlier, the Restructuring Committee of Manaksia has proposed to demerge the four divisions into four incorporated shell companies. We are informed by the company that except the subscribers of the Memorandum of Association of the new companies, there is no other share capital issued. The Appointed date for the proposed Demerger is 1St October, 2013 and the Effective Date shall be the said date or the date on which certified copies of order of the Hon'ble High Court at Calcutta sanctioning the Scheme of Arrangement are filed with the Registrar of Companies, West Bengal, whichever is later.

The present shareholders of Manaksia, post demerger will hold shares of Manaksia Ltd. (Residual), Transferee Company 1, Transferee Company 2, Transferee Company 3 and Transferee Company 4. Presently, all the transferee companies are incorporated with paid up capital of Rs. 5,00,000 /- (5,00,000 shares of Re 1/- each). This is presently held by Manaksia Ltd. but post demerger the same would be cancelled.

The present paid up share capital of the Company comprises of 6, 55, 34,050 equity shares of Rs.2/- aggregating to Rs. 13, 10, 68,100/-.

For every 1 equity share of Rs.2 each held in Manaksia Ltd. (pre restructuring) after appropriation of reserves, as provided in the Scheme, as on the Record Date, every equity shareholder of Manaksia Ltd. shall be entitled to receive 1 equity share of face value of Rs.1 each in each of the four transferee companies; Transferee Company 1, 2, 3 & 4, credited as fully paid up. The residual company ML will have 6, 55, 34,050 equity shares of Rs. 2/- each.

Therefore, as per the proposed allocation pattern, the equity shareholders of ML's pre-restructuring share capital of Rs 1,310.68 lacs will hold post restructuring paid-up share capital of the five companies as given in the table below:

Rs in Lacs

Name of the companies post restructuring*	Amount of equity share capital
Manaksia Ltd. (Residual)	1,310.68
Transferee Company 1 (Manaksia Industries Ltd.)	655.34
Transferee Company 2 (Manaksia Coated Metals & Industries Ltd.)	655.34
Transferee Company 3(Manaksia Aluminium Co Ltd.)	655.34
Transferee Company 4 (Manaksia Steels Ltd.)	655.34

*Our report discusses the aforesaid planned issue of the equity capital amongst the demerging and the resulting companies, based on each company's sustainable capital.

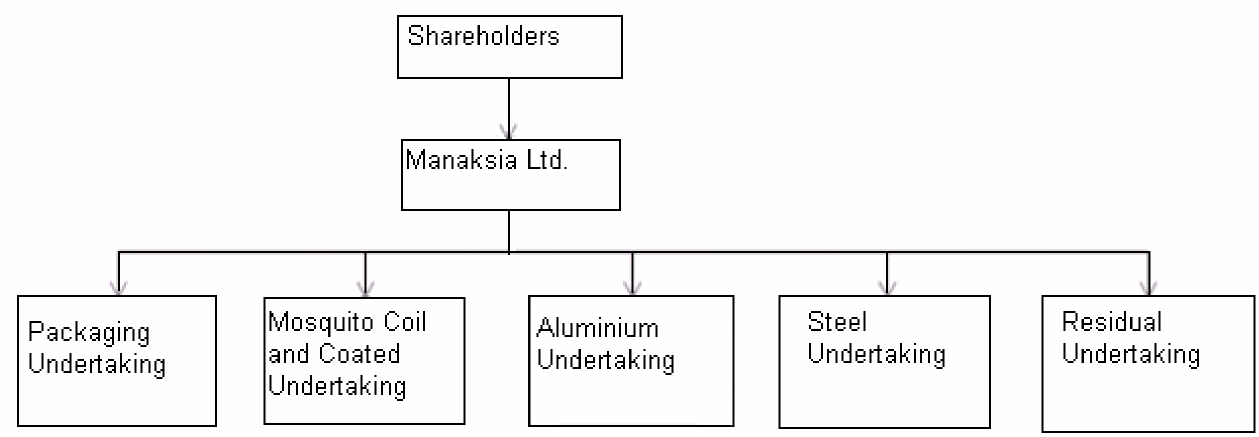
This Report is being furnished for the purpose of expressing an opinion on the fairness of the issue of the above proposed equity share capital to the equity shareholders of Manaksia Ltd. for allocation of share capital amongst the demerged and the resulting companies.

5) BRIEF PARTICULARS

Manaksia Limited was incorporated in 1984 as Hindusthan Seals Limited as a manufacturer of metal closures, and later diversified into metal products and mosquito coils. Over the years the company has grown into a multi-division entity with business interests in the Packaging, Mosquito Coils, Aluminium and Steel sectors. The company has its headquarters in Kolkata, West Bengal. The company came out with an Initial Public Offer ("IPO") in the year 1987, followed by Follow-on Public Offer ("FPO") in 2007. Presently its shares are listed on the National Stock Exchange ("NSE") and the Bombay Stock Exchange ("BSE").

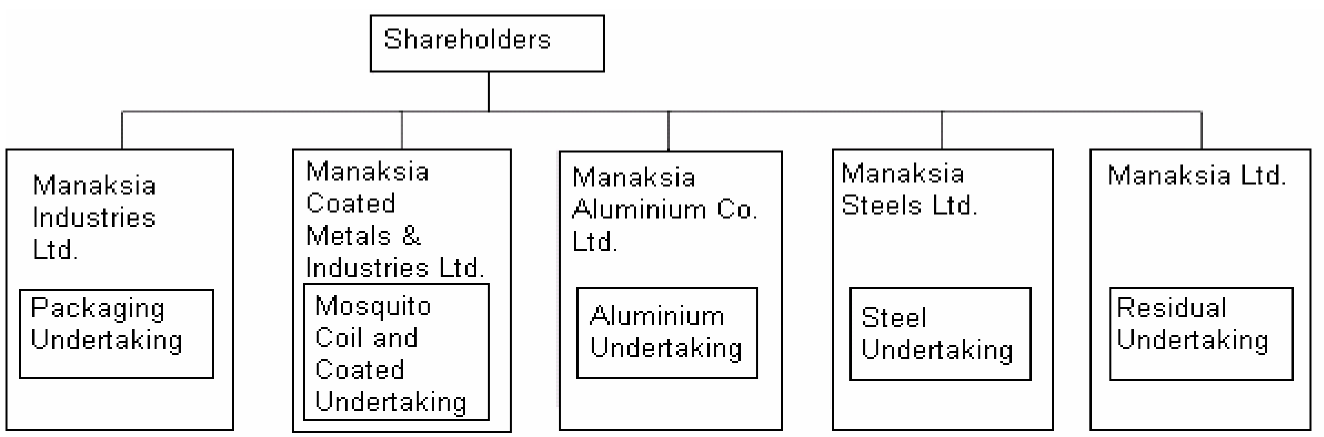
Currently, the company has 17 manufacturing plants in India. The current manufacturing operations of the company can be divided into 4 divisions. The business of residual company is the fifth Business Division.

Chart 1: <u>Present Structure</u>



<u>Note</u>: Post–Demerger, Manaksia Group will have Packaging Undertaking, Mosquito Coil and Coated Undertaking, Aluminium Undertaking, Steel Undertaking and Residual undertaking in different companies as shown in the next chart

Chart 2: <u>Post Demerger Structure</u>



The Manufacturing Operations of the company are explained briefly:

5.1) Packaging Division: Under this division, the company manufactures packaging products including Crowns, PP Caps etc. The client includes some of the big names of Corporate India.

Packaging Production Capacity:

Products	Installed Capacity
Crown Closures (In 100 Gross)	40,54,400
PP Caps (In 1000 Pcs)	1,701,100
Metal Containers (In 1000 sets)	59,600
Plastic Closures (In Million Pcs)	588
Corrugated Box (In 1000 Pcs)	6,000

5.2) Mosquito Coil & Coated Division: In the mosquito coil business, the company manufactures mosquito coils under the brand name "Mortein" for Reckitt Benckiser (India) Ltd. The company also manufactures colour coated sheets at Kutch, Gujarat. The details of this division's production capacity are given below.

Installed Production Capacity:

Product	Installed Capacity
Mosquito Coil *(Mn. Pcs.)*	2,988.064
Colour Coated Sheets (In MT)	60,000

5.3) Aluminium Division: Under this division, the company manufactures Aluminium sheets, Coils, Roofing Sheets, Aluminium alloy ingots etc. In this division, the company has two manufacturing plants in West Bengal located at Haldia and Bankura. The details of this division's production capacity are given below:

Aluminium Production Capacity:

Products	**Installed Capacity**
Aluminium Rolled Products *(in MT)*	36,000
Aluminium Alloy Ingots *(in MT)*	12,000

5.4) Steel Division: Under the steel division, the company manufactures Cold Rolled Steel Sheets and Hot Dipped Galvanizing Steel. The company has two steel processing plants in Haldia and Bankura. The details of this division's production capacity are given below:

Steel Production Capacity:

Product	**Installed Capacity**
Steel Coils & Sheets *(in MT)*	30,000
Cold Rolled Steel Sheets *(in MT)*	50,000

5.5) Financial Information of the company

Statement of Profit & Loss for the year ended 31st March, 2013

Rs in Lacs

Particulars	Total	Common	Packaging	Mosquito Coil & Coated	Aluminium	Steel
INCOME						
Net Sales	117,631.65	-	13,650.57	28,701.13	34,398.47	40,881.48
Processing Income	117.53	-	117.53	3.06	(3.06)	-
Other Income	4,898.21	4,374.15	423.82	65.95	10.84	23.45
Total Income	**122,647.39**	**4,374.15**	**14,191.92**	**28,770.14**	**34,406.25**	**40,904.93**
OPERATING EXPENSES						
Raw Material & Components Consumed	89,752.31	-	8,754.68	20,043.54	28,019.80	32,934.28
Manufacturing & Maintenance	10,095.02	-	1,498.36	4,232.81	2,557.32	1,806.52
Employees' Remuneration & Benefits	4,165.36	402.79	1,744.74	754.29	610.66	652.88
Depreciation	2,169.46	101.79	416.65	667.58	648.38	335.06
Total Finance Charges	3,697.71	1,421.42	435.78	612.83	560.57	667.11
Administrative, Selling & Other Expenses	6,746.45	463.96	820.99	1,694.90	1,214.76	2,551.84
Total	**1,16,626.31**	**2,389.96**	**13,671.20**	**28,005.95**	**33,611.49**	**38,947.69**
Profit before exceptional items and tax	**6,021.08**	**1,984.19**	**520.72**	**764.19**	**794.76**	**1,957.24**
Exceptional Items*	2,585.14	1,639.34	75.93	263.43	119.28	487.17
Profit Before Tax	**3,435.94**	**344.85**	**444.79**	**500.76**	**675.48**	**1,470.07**
Income Tax	685.14	-	91.12	121.51	126.07	346.46
Profit After Tax	**2,750.80**	**344.85**	**353.67**	**379.25**	**549.41**	**1123.61**

Balance Sheet as on 31ST March, 2013

Rs in Lacs

Particulars	Total	Common	Packaging	Mosquito Coil & Coated	Aluminium	Steel
EQUITY AND LIABILITIES						
Shareholder's Funds						
(a) Share Capital	1,310.68	1,310.68	-	-	-	-
(b) Reserves and Surplus	50,807.71	8,986.93	13,259.61	10,481.66	9,766.44	8,313.07
Non-Current Liabilities						
(a) Long-term borrowings	10,710.26	-	3,797.44	2,037.82	3,000.00	1,875.00
Secured Loan –Rupee Loan	7,915.00	-	2,555.00	485.00	3,000.00	1,875.00
Unsecured Loan - Deferred Sales tax	2,795.26	-	1,242.44	1,552.82	-	-
(b) Deferred tax liabilities (Net)	4,810.15	57.26	899.88	1,635.60	1,488.27	729.14
(c) Long term provisions	675.58	123.07	394.25	34.46	51.38	72.42
Current Liabilities						
(a) Short-term borrowings	3,111.28	(1,226.80)	3,168.04	1,479.26	(42.21)	(267.01)
(b) Trade payables	22,528.11	(754.72)	3,643.13	7,590.34	6,255.50	5,793.86
(c) Other current liabilities	7,679.75	185.66	935.77	1,530.45	1,836.44	3,191.43
Secured Loan –Rupee Loan	2,835.00	-	460.00	750.00	1,000.00	625.00
Unsecured Loan – Deferred Sales Tax	113.36	-	-	113.36	-	-
Others	4,731.39	185.66	475.77	667.09	836.44	2,566.43
(d) Short-term provisions	560.45	13.45	135.60	200.08	103.10	108.22
Total	**102,193.97**	**8,695.53**	**26,233.73**	**24,989.67**	**22,458.91**	**19,816.13**

Particulars	Total	Common	Packaging	Mosquito Coil & Coated	Aluminium	Steel
ASSETS						
Non-current assets						
(a) Fixed assets						
(i) Tangible assets	31,259.97	368.46	4,715.95	9,200.04	10,074.87	6,900.65
(ii) Intangible assets	8.21	4.95	3.26	-	-	-
(iii) Capital work-in-progress	3,394.70	-	374.71	1,474.07	1,128.41	417.51
(b) Non-current investments	6,934.51	3,695.05	3,239.30	0.06	0.10	-
(c) Long Term Loans & Advances	224.68	33.24	77.99	52.49	29.61	31.36
Current assets						
(a) Inventories	21,855.13	-	4,841.65	6,331.18	4,885.72	5,796.58
(b) Trade receivables	24,207.61	362.90	6,820.86	6,097.37	5,233.82	5,692.66
(c) Cash and cash equivalents	203.45	115.73	58.07	19.72	7.66	2.27
(d) Short-term loans and advances	12,285.91	3,908.36	5,694.19	1,633.99	850.52	198.85
(e) Other Current Assets	1,819.78	206.84	407.75	180.75	248.20	776.25
Total	**102,193.97**	**8,695.53**	**26,233.73**	**24,989.67**	**22,458.91**	**19,816.13**

***Due to continued and unexpected depreciation in the value of Rupee against the US dollar and other foreign currencies resulting from volatile global market developments during the previous quarters and current quarter, the loss arising out of foreign exchange fluctuations items has been considered as exceptional item.**

5.6) Capital Structure of Manaksia Ltd.

The Capital Structure of Manaksia Ltd., pre demerger (As on 31st March 2013) is as follows.

Rs in Lacs

Particulars	Amount
Authorized Capital	
700 Lacs Equity Shares of Rs. 2/ each	1,400.00
12.50 Lacs Preference Shares of Rs. 20/ each	250.00
Total	1,650.00
Issued, Subscribed and Paid-up	
655.3405 Lacs Equity Shares of Rs. 2/ each	1310.68

5.7) Shareholding Pattern of Manaksia Ltd.

The share holding pattern of Manaksia Ltd. as on 31st March 2013 is as under:

Particulars	No. of shares	% of Holding
Promoter's holding	4,12,55,940	62.95%
Financial Institution/Bank	19,208	0.03%
Foreign Institutional Investors	2,35,266	0.36%
Bodies Corporate	1,51,62,737	23.14%
Non Institutions (*Other than NRI)*	87,94,540	13.42%
NRI	66,359	0.10%
Total	**6,55,34,050**	**100.00%**

5.8) Past Financials

The financial summary of Manaksia Ltd for the past 4 years is as follows.

Profit & Loss A/c - *Rs in Lacs*

Particulars	Audited 2009-10	Audited 2010-11	Audited 2011-12	Audited 2012-13
Revenue from Operations	83,632.57	93,198.12	1,08,413.67	1,17,631.75
Other Income	1,506.52	452.76	5,707.55	5015.74
Total Income	**85,139.09**	**93,650.88**	**1,14,121.22**	**1,22,647.39**
Total Expenditure	**76,181.97**	**84,483.39**	**1,07,734.71**	**1,13,344.28**
EBITDA	**8,957.12**	**9,167.49**	**6,386.51**	**9,303.11**
Depreciation	1,946.81	2,015.26	2,091.87	2169.46
Interest & Financial Expenses	3,844.30	3,146.63	3,202.57	3697.71
PBT	3,166.01	4,005.60	1,092.17	3,435.94
Tax	688.00	1,079.68	361.00	685.14
PAT	**2,478.01**	**2,925.92**	**731.07**	**2,750.80**

Balance Sheet- *Rs in Lacs*

Particulars	Audited 2009-10	Audited 2010-11	Audited 2011-12	Audited 2012-13
SOURCES OF FUNDS				
Share Capital	1,390.68	1,310.68	1310.68	1,310.68
Reserves & Surplus	50,171.45	47,325.93	48,057.00	50,807.80
Total Shareholders Fund	**51,562.13**	**48,636.61**	**49,367.68**	**52,118.48**
Loans	13,956.78	14,644.94	13,872.41	13,821.54
Foreign Currency Monetary Item Transaction Account	93.69	-	(311.00)	-
Deferred Tax Liabilities	4,520	4,675	4,825	4,810.14
Total	**70,132.60**	**67,956.55**	**67,754.09**	**70,750.16**

APPLICATION OF FUNDS				
Fixed Assets/ Long term loans & advances	34,995.05	35,745.82	35,541.64	34,887.58
Investments	10,460.79	6,930.50	6,943.07	6,934.50
Net Current Assets	24,676.76	25,280.23	25,269.38	28,928.08
TOTAL	**70,132.60**	**67.956.55**	**67,754.09**	**70,750.16**

5.9) <u>Contingent Liability</u>

The contingent Liabilities & Commitments as on 31st March, 2013 are:

A) Claims against the company \ disputed liabilities not acknowledged as debt

Rs in Lacs

Sl No	Particulars	Amount
1	Excise Duty demands under appeal	738.61
2	Sales tax & Entry Tax demand under appeal	101.02
3	Income Tax demands under appeal	73.53
4	Excise Duty liability on goods exported pending submission of proof of export	30.72
5	Service Tax	72.48
6	Municipal Tax	111.24
7	Demand by Haldia Development Authority towards Land Premium	332.50
8	Stamp Duty for Registration of Land	49.45

<u>These will move by the Scheme of Arrangement to the respective demerged Companies taking over the respective businesses to which they relate.</u>

B) <u>Guarantees</u>

The Guarantees in favour of Banks /Institutions against facilities granted to Subsidiaries is Rs. 2605.44 lacs.

C) <u>Commitments</u>

The estimated amount of contracts remaining to be executed on Capital Account and not provided for (net of advances) is Rs. 17.75 lacs.

6) RESTRUCTURING OBJECTIVES

6.1) Rationale for restructuring can be summarized as follows

1) To enable each of the transferee companies to concentrate in its core business activities post demerger.
2) To scale up capacities by infusion of funds for focused business.
3) To bring about optimum utilization of resources for each of the companies.
4) To facilitate expansion, consolidation or any other arrangement depending on the opportunity in the future with similar business to achieve economies of scale and better profitability.
5) To ensure effective and efficient administration, management and control for each of the companies post demerger.

6.2) ML's Management Objectives

- Maximization of shareholders wealth through focused businesses
  - ✓ Focus on Individual Entities: For fully exploiting the potential and vast opportunity of growth.
  - ✓ Focused management
- Creation of independent focused entities to:
  - ✓ Increase scope for exploiting new opportunities.
  - ✓ Exploit vast opportunity for growth.

Accordingly, the Restructuring Committee has proposed the demerger of the Packaging, Mosquito Coil & Coated, Aluminium and Steel business division of ML into four Transferee companies.

6.3) About the scheme of Restructuring

In light of the above rationale and as per the proposal of the Restructuring Committee, the four divisions will be transferred to Transferee companies through a Scheme of Arrangement under Section 391-394 of the Companies Act, 1956.

All the assets and liabilities of the divisions will be transferred at the book value in full compliance of the provisions of the Income Tax Act, 1961 (IT Act).

The Restructuring Committee has, based on its independent judgment, proposed the issue of equity shares to the equity shareholders of Manaksia Limited in the ratio of 1:1. Thus, equity shareholders of ML (holding one equity share of Rs. 2 paid up) will additionally receive one equity share of each of the four transferee companies (of Rs.1 fully paid up).

The Restructuring Committee has appointed S.K. Agrawal & Co, to give their opinion on the fairness of the proposed share issue ratio and on the proposed capital structure of the demerged companies. Accordingly, this report is being furnished for the purpose of expressing an opinion on the fairness of the share issue ratio and the fairness of the share capital structure of the transferee companies and residual company.

7) FACTORS AFFECTING FAIRNESS OF EQUITY SHARE CAPITAL

7.1) Demerger of ML and share issue ratio

The Restructuring Committee has proposed the issue of shares by Transferee companies to the shareholders of ML in the ratio of 1:1. Thus equity shareholders of ML (for one equity share of Rs. 2 paid up) will receive one equity share of all transferee companies (of Rs. 1 fully paid up).

7.2) Fairness of the share issue ratio

The aforesaid share issue ratio provides that every shareholder holding 100 shares in ML will receive equivalent number of shares in the transferee companies i.e. the same percentage of Equity Shares in new company as in old company. The intrinsic value of each share held by a shareholder in ML pre demerger will be reflected by the combined intrinsic value of the shares in ML (post demerger) and Transferee Company 1, 2, 3 & 4. Prior to the demerger, Transferee companies have a paid-up equity share capital of Rs. 5 lacs only. After the demerger the issued paid up capital of Rs. 5 lacs shall be cancelled and the transferee companies shall have a paid-up equity share capital (face value of Rs.1/-) of Rs. 655.3405 lacs. The shareholding pattern in Transferee companies will thus be same as the shareholding pattern of ML; this means that from the control point of view also, ML shareholders will have the same degree of control on all the companies, as they had before demerger in ML; so is the case regarding value on an aggregate basis.

In view of the Management the shareholders of ML stand to gain, for the following reasons:

- The intrinsic value of their equity shareholdings pre-demerger reflected the value of the – Packaging, Mosquito Coils& Coated , Aluminium, Steel and residual businesses, that value shall post-demerger be reflected by the combined intrinsic value of their equity shareholdings in ML (post demerger) and Transferee Company 1, 2, 3 & 4; but with focused single business companies.

  To conclude, the proposed share issue ratio provides that the shareholders of ML shall receive the intrinsic value[1] of the equity shares held by them pre-demerger in the form of shares of ML (post demerger) and Transferee Companies. As focused single business companies, the market value of the holdings should go up.

- Before demerger, the individual divisions were not growing at the desired rate. However, post demerger, the Transferee undertaking shall grow much faster owing to increased investor interest and focus on the core business.

  It will also enable all the companies to become a vehicle for strategic alliances.

  Thus, the demerger of ML will be gainful to the shareholders owing to higher potential market value of equity shares and focused businesses.

[1]Meaning of intrinsic value

Intrinsic value is a measure of value based on the future earnings a company is expected to generate for its investors –and the total net assets a company is expected to build in the future. It is considered the true value of the company from an investment standpoint and is calculated by taking the present value of the earnings (attributable to investors) that a company is expected to generate in the future, along with the future asset value of the company. The idea behind this measure is that the purchase of a stock entitles the owner to his or her share of the company's future earnings. If all of the future earnings are accurately known along with the final sale price, the company's true value can be calculated. This basically relates to the business value of the Company

Need for determination of optimum share capital

The share capital of the Transferee companies needs to be tested for its sustainability.

While expressing our opinion on the fairness of share capital of Transferee companies as proposed by the Restructuring Committee, the important consideration is to maintain the value to the equity shareholders at large. The main factors that are required to be considered for ascertaining an appropriate equity capital of the company are:

- The profit available in the future years to service dividends.
- The free cash flow available to service dividends.
- The stock exchange regulations.
- The interest of the public shareholders at large.

We have evaluated the sustainability of share capital of the companies based on the above-mentioned parameters.

Principles of capital fairness, which forms the basis of our advice

While expressing our opinion on the fairness of the proposed share capital, the important consideration is to maintain the value to the equity shareholders at large. A number of factors are required to be considered for justifying the share capital of a company on the ground of its sustainability in the light of the company's financials/shareholding pattern etc .The main factors are as follows:

- **Profits available to service the equity capital**

The profits, which the company will earn in future, and the free cash flows are the most important factors for the determination of share capital. The company has to determine the amount it would want to retain to fund its future growth and the quantum of profits that are available to pay out as dividend.

The dividend rate generally is in the band of around 20% - 25% for the well-run companies in normal circumstances.

Thus the capital of the company should be such that it is sustained and serviced by the company's future profits.

❖ **Cash flow availability to service the capital**

The serviceability of the equity capital is also dependent upon capacity to generate the free cash flow to be utilized for dividend payment to equity holders. This is another very important factor for determination of optimum share capital. These free cash flows can be defined as the cash flow available from operation after the payment of debt obligations, funding of the capital expansion through internal accruals and funding of margin money for increased working capital finance. It's important that post demerger the companies should be able to generate positive free cash flows. This free cash flow availability will act as an ideal benchmark for the determination of the equity capital. Thus, one has to see the debt service coverage ratio and thereafter the free cash flow cover. The free cash flow should be equal to at least twice the dividend payment to provide an element of cushion against an adverse year performance.
Thus the capital of the company should be such that it is sustained and serviced by the company's future free cash flows.

❖ **Cash availability to fund expansion plans**

The proposed sustainable capital should not create an undue charge on the cash reserves of the company. The capital should ensure that there will be enough cash available in the companies to fund any expansion plans and to meet any unforeseen circumstances after payment of dividends and repayment of loans.

❖ **Stock Exchange Regulations**

In case the fairness of an unlisted company's capital is to be decided in a situation where a division of the listed company is demerged to an unlisted company and in consideration of transfer of division, the unlisted company issues shares to the shareholders of the listed company, the listing of securities of the unlisted company should be done subject to the maintenance by the transferee company, the requirement of Minimum issued and paid up capital and free reserves (Excluding revaluation reserves) of the stock exchange(s), where the securities of the Company are listed.

As per the listing requirement, the securities of the demerged unlisted company should be done subject to the requirement that a Minimum issued and paid up capital of 10 crores or net worth

(Excluding revaluation reserves) of Rs 20 crores is maintained both by the transferor company and the transferee company.

Thus the capital structure in a demerger has to be decided after considering the above requirement so that the intent of the listing clause is fulfilled.

❖ **Public shareholding**

Another important factor that has to be considered vis-a-vis a company's capital is that the holding pattern of the shares within the company will have to ensure compliance with Listing Norms. As per BSE norms in case of demerger of the nature as envisaged in ML's case, the public/ Non Promoter's shareholding in Transferor Company as well as resulting company will have to be at least 25%. As per NSE norms the public/ Non Promoter's shareholding in Transferor Company as well as resulting company will have to be at least 25%.

8) Projections of Manaksia Limited for the half year ended 30th September 2013

The appointed date for the proposed demerger of ML is 1st October, 2013. Hence upto the appointed date ML (Pre- Demerger) will carry on the entire business. On the appointed date ML will be demerged into MALCO, MAST, MACMIL, MAIL & ML.

8.1) Financial Information of the company

Projected Statement of Profit & Loss for the half year ended 30th September, 2013

Rs in Lacs

Particulars	Total	Common	Packaging	Mosquito Coil & Coated	Aluminium	Steel
INCOME						
Net Sales	64,967.67	2,000.00	7,507.81	15,426.86	18,059.20	21,973.80
Other Income	468.03	350.00	118.03			

Total Income	**65,435.70**	**2,350.00**	**7,625.84**	**15,426.86**	**18,059.20**	**21,973.80**
OPERATING EXPENSES						
Raw Material & Components Consumed	49,799.40	1,680.00	4,767.46	10,798.80	14,754.36	17,798.78
Manufacturing & Maintenance	5,260.39	-	750.78	2,275.46	1,300.26	933.89
Employees' Remuneration & Benefits	2,075.35	100.00	915.99	396.00	320.60	342.76
Depreciation	1,162.15	9.11	222.45	372.60	351.14	206.85
Total Finance Charges	1,030.59	-	284.28	171.57	273.35	301.39
Administrative, Selling & Other Expenses	3,558.49	150.00	431.02	1,000.00	637.75	1,339.72
Total	**62,886.37**	**1,939.11**	**7,371.98**	**15,014.43**	**17,637.46**	**20,923.39**
Profit before exceptional items and tax	**2,549.33**	**410.89**	**253.86**	**412.43**	**421.74**	**1,050.41**
Profit Before Tax	**2,549.33**	**410.89**	**253.86**	**412.43**	**421.74**	**1,050.41**
Income Tax	866.51	139.66	86.29	140.18	143.35	357.03
Profit After Tax	**1,682.82**	**271.23**	**167.57**	**272.25**	**278.39**	**693.38**

Projected Balance Sheet as on 30th September, 2013

Rs in Lacs

Particulars	Total	Common	Packaging	Mosquito Coil & Coated	Aluminium	Steel
EQUITY AND LIABILITIES						
Shareholder's Funds						
(a) Share Capital	1,310.68	1,310.68	-	-	-	-
(b) Reserves and Surplus	52,490.51	9,258.16	9,427.18	10,753.90	12,044.83	11,006.44
Non-Current Liabilities						
(a) Long-term borrowings	10,710.26	-	3,797.44	2,037.82	3,000.00	1,875.00
Secured Loan –Rupee Loan	7,915.00	-	2,555.00	485.00	3,000.00	1,875.00
Unsecured Loan - Deferred Sales tax	2,795.26	-	1,242.44	1,552.82	-	-
(b) Deferred tax liabilities (Net)	4,810.15	57.26	899.88	1,635.60	1,488.27	729.14
(c) Long term provisions	675.57	123.07	394.25	34.46	51.37	72.42
Current Liabilities						
(a) Short-term borrowings	8,175.74	-	3,168.04	2,000.00	204.93	2,802.77
(b) Trade payables	24,183.00	276.16	3,918.46	7,100.58	6,548.51	6,339.29
(c) Other current liabilities	3,457.42	41.10	804.74	1,160.21	771.28	680.09
Secured Loan –Rupee Loan	1,380.00	-	230.00	500.00	400.00	250.00
Unsecured Loan - Deferred Sales tax	56.68	-	-	56.68	-	-
Others	2,020.74	41.10	574.74	603.53	371.28	430.09
(d) Short-term provisions	560.45	13.45	135.60	200.08	103.11	108.22
Total	**106,373.78**	**11,079.88**	**22,545.59**	**24,922.65**	**24,212.30**	**23,613.37**

Particulars	Total	Common	Packaging	Mosquito Coil & Coated	Aluminium	Steel
ASSETS						
Non-current assets						
(a) Fixed assets						
(i) Tangible assets	33,492.51	359.35	4,868.21	10,301.51	10,852.14	7,111.30
(ii) Intangible assets	8.21	4.95	3.26	-	-	-
(iii) Capital work-in-progress	200.00	-	50.00	50.00	50.00	50.00
(b) Non-current investments	6,934.51	3,695.04	3,239.30	0.06	0.10	-
(c) Long Term Loans & Advances	224.68	33.24	77.99	52.49	29.60	31.36
Current assets						
(a) Inventories	23,274.13	328.77	4,936.64	6,339.80	5,046.68	6,622.24
(b) Trade receivables	24,420.10	493.15	6,993.58	6,339.80	4,452.95	6,140.62
(c) Cash and cash equivalents	8,213.92	2,050.17	774.67	24.24	2,682.10	2,682.74
(d) Short-term loans and advances	7,785.91	3,908.36	1,194.19	1,633.99	850.52	198.85
(e) Other Current Assets	1,819.81	206.85	407.75	180.75	248.21	776.25
Total	**106,373.78**	**11,079.88**	**22,545.59**	**24,922.65**	**24,212.30**	**23,613.37**

9) DETERMINATION OF SUSTAINABLE EQUITY SHARE CAPITAL FOR EACH COMPANY

In this chapter we seek to apply the tests of sustainable capital as has been elucidated in the immediately preceeding chapter of this report, on the proposed capital for the companies-post demerger. We are applying these tests first to Transferee Company 1, 2, 3 & 4 chronologically.

In each of these analysis the maximum capital that can be sustained by the subject company based on the projected PAT, the projected cash balance and cash availability criteria has been explained in point (1), (2) and (3) of the relevant section. Furthermore the capital as proposed for the subject company has been analysed in the light of listing norms under point (4) and (5).
In case of any Cash flow deficiencies the Management may decide to skip the Dividend for that particular year.

For the determination of the sustainable capital of all the companies, based on the PAT and free cash flow criteria's, the dividend distribution rate has been taken at 30% of the share capital for all companies except for Residual Undertaking, ML (Post Demerger), which has been taken at 15% of the share capital.
It is to be noted that all the Financial Projections, Profitability Assumptions & Cash flow Statements have been provided by the management.

<u>A.) Sustainable capital criteria as applicable to Transferee Company 1 (Packaging Division)</u>

1) <u>Dividend servicing capacity based on profits earned</u>

Based on this methodology, the maximum equity capital of the Transferee Company 1 that can be sustained by its projected PAT over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on Profits Earned)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
PAT	185.10	446.98	705.76	952.06	1,217.43
Average Profits	779.41				
Proportion of Dividend Payout	30.00%				
Distributable Profits	233.82				
Total dividend outflow (Including Dividend Distribution Tax)	35.10%				
Sustainable Equity Capital	666.19				
Capital Proposed	**655.34**				

2) Dividend servicing capacity based on cash flow

The free cash flows can be defined as the cash flow available after the payment of debt obligations and the funding of capital expansion through internal accruals.

Based on this methodology, the maximum equity capital of the Transferee Company 1 that can be sustained based on the undertaking’s projected cash flows from over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on cash flow)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Opening Cash Balance	774.67	925.54	2,125.25	2,307.71	2,476.27
Cash Flow from operating activities	302.43	878.90	1,156.78	991.78	940.33
Cash Flow from investing activities	(100.00)	(50.00)	(50.00)	(50.00)	(50.00)
Cash Flow from financing activities	(51.56)	370.80	(924.32)	(773.23)	(179.63)
Closing Cash Balance	**925.54**	**2,125.25**	**2,307.71**	**2,476.27**	**3,186.96**
Surplus Cash	**150.87**	**1,199.70**	**182.46**	**168.56**	**710.69**
Average Cash Flow	**536.06**				
Distributable Cash Flow (50% of average cashflow)	**268.03**				
Total dividend outflow (Including Dividend Distribution Tax)	**35.10%**				
Sustainable Equity Capital	**763.66**				
Capital Proposed	**655.34**				

3) Cash flow availability to fund expansion plans

It can be observed from the table given above that the division will generate sufficient cash to service dividends& fund its expansion plans in the future and its internal accruals are more than sufficient to meet any contingencies.

4) Listing requirements

As per the listing requirement, the securities of the unlisted company should be done subject to the requirement that a Minimum issued and paid up capital of Rs 10 crores or net worth (Excluding revaluation reserves) of Rs 20 crores is maintained both by the transferor company and the transferee company. The Transferee Company 1 has paid up capital of Rs. 655.34 lacs and a networth of approx Rs. 94 crores.

Thus, the Transferee Company 1 meets the listing norms.

5) Public float

Shareholding pattern for Transferee Company 1 based on a capital of Rs 655.304 lacs is as follows:

Particulars	Present shareholding	Shareholding in Transferee Company 1
Promoter's holding	4,12,55,940	62.95%
Financial Institution/Bank	19,208	0.03%
Foreign Institutional Investors	2,35,266	0.36%
Bodies Corporate	1,51,62,737	23.14%
Non Institutions (*Other than NRI)*	87,94,540	13.42%
NRI	66,359	0.10%
Total	**6,55,34,050**	**100.00%**

As has been mentioned in the preceding chapter of the report, the non-promoters shareholding in the Transferee Company 1 has to be at least 25%. From the table above it is clear that the proposed allocation shall result in a non-promoters shareholding of 37%, which is a mirror of present shareholding in ML. Thus, based on the capital proposed by the committee this criterion gets fulfilled.

6) Dividend Coverage

It can be observed from the table given above that the division will generate sufficient profit and cash to service dividends. For this purpose, the Profitability Coverage & Cash flow Coverage year wise is computed as shown below:

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Profit After Tax	185.10	446.98	705.76	952.06	1,217.43
Cash Balance	925.54	2,010.24	1,962.69	1,901.23	2,381.91
Dividend	98.30	196.60	196.60	196.60	196.60
Dividend Distribution Tax	16.71	33.41	33.41	33.41	33.41
Total Dividend including Dividend Distribution Tax	**115.01**	**230.01**	**230.01**	**230.01**	**230.01**
Dividend Coverage Ratio (In terms of Profitability)	1.61	1.94	3.07	4.14	5.29
Dividend Coverage Ratio (In terms of Cashflows)	8.05	8.74	8.53	8.27	10.36

Table Showing Average Sustainable Capital

Sustainable equity capital as per methods mentioned below	Transferee Company 1
Dividend Servicing capability method	666.19
Cash flow method	763.66
Average sustainable equity capital	**714.92**
Proposed Equity Share Capital	**655.34**

B.) Sustainable capital criteria as applicable to Transferee Company 2 (Mosquito Coil& Coated Division)

1) Dividend servicing capacity based on profits earned

Based on this methodology, the maximum equity capital of the Transferee Company 2 that can be sustained by its projected PAT over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on Profits Earned)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
PAT	275.58	674.57	774.30	867.56	966.79
Average Profits	790.84				
Proportion of Dividend Payout	30%				
Distributable Profits	237.25				
Total dividend outflow (Including Dividend Distribution Tax)	35.10%				
Sustainable Equity Capital	675.96				
Capital Proposed	**655.34**				

2) Dividend servicing capacity based on cash flow

The free cash flows can be defined as the cash flow available after the payment of debt obligations and the funding of capital expansion through internal accruals.

Based on this methodology, the maximum equity capital of the Transferee Company 2 that can be sustained based on the undertaking's projected cash flows from over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on cash flow)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Opening Cash Balance	24.24	243.46	673.49	1,589.08	2,571.60
Cash Flow from operating activities	675.90	1,181.65	1,142.21	1,209.14	1,279.90
Cash Flow from investing activities	(100.00)	(100.00)	(60.00)	(60.00)	(60.00)
Cash Flow from financing activities	(356.68)	(651.62)	(166.62)	(166.62)	(166.62)
Closing Cash Balance	**243.46**	**673.49**	**1,589.08**	**2,571.60**	**3,624.89**
Surplus Cash	**219.22**	**430.03**	**915.59**	**982.52**	**1,053.28**
Average Cash Flow	**800.14**				
Distributable Cash Flow (50% of average cashflow)	**400.07**				
Total dividend outflow (Including Dividend Distribution Tax)	**35.10%**				
Sustainable Equity Capital	**1,139.85**				
Capital Proposed	**655.34**				

3) Cash flow availability to fund expansion plans

It can be observed from the table given above that the division will generate sufficient cash to service dividends & fund its expansion plans in the future and its internal accruals are more than sufficient to meet any contingencies.

4) Listing requirements

As per the listing requirement, the securities of the unlisted company should be done subject to the requirement that a Minimum issued and paid up capital of Rs 10 crores or net worth (Excluding revaluation reserves) of Rs 20 crores is maintained both by the transferor company and the transferee company. The Transferee Company 2 has paid up capital of Rs. 655.34 lacs and a networth of approx Rs. 108 crores.

Thus, the Transferee Company 2 meets the listing norms.

5) Public float

Shareholding pattern for Transferee Company 2 based on a capital of Rs 655.304 lacs is as follows: -

Particulars	Present shareholding	Shareholding in Transferee Company 2
Promoter's holding	4,12,55,940	62.95%
Financial Institution/Bank	19,208	0.03%
Foreign Institutional Investors	2,35,266	0.36%
Bodies Corporate	1,51,62,737	23.14%
Non Institutions (*Other than NRI)*	87,94,540	13.42%
NRI	66,359	0.10%
Total	**6,55,34,050**	**100.00%**

As has been mentioned in the preceding chapter of the report, the non-promoters shareholding in the Transferee Company 2 has to be at least 25%. From the table above it is clear that the proposed allocation shall result in a non-promoters shareholding of 37%, which is a mirror of present shareholding in ML. Thus, based on the capital proposed by the committee this criterion gets fulfilled.

6) Dividend Coverage

It can be observed from the table given above that the division will generate sufficient profit and cash to service dividends. For this purpose, the Profitability Coverage & Cashflow Coverage year wise is computed as shown below:

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Profit After Tax	275.58	674.57	774.30	867.56	966.79
Cash Balance	243.46	558.48	1,244.06	1,996.57	2,819.84
Dividend	98.30	196.60	196.60	196.60	196.60
Dividend Distribution Tax	16.71	33.41	33.41	33.41	33.41
Total Dividend including Dividend Distribution Tax	**115.01**	**230.01**	**230.01**	**230.01**	**230.01**
Dividend Coverage Ratio (In terms of Profitability)	2.40	2.93	3.37	3.77	4.20
Dividend Coverage Ratio (In terms of Cash flows)	2.12	2.43	5.41	8.68	12.26

Table Showing Average Sustainable Capital

Sustainable equity capital as per methods mentioned below	Transferee Company 2
Dividend Servicing capability method	675.96
Cash flow method	1,139.85
Average sustainable equity capital	**907.91**
Proposed Equity Share Capital	**655.34**

C.) Sustainable capital criteria as applicable to Transferee Company 3 (Aluminium Division)

1) Dividend servicing capacity based on profits earned

Based on this methodology, the maximum equity capital of the Transferee Company 3 that can be sustained by its projected PAT over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on Profits Earned)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
PAT	312.82	722.00	834.05	943.01	1,034.03
Average Profits	854.65				
Proportion of Dividend Payout	30%				
Distributable Profits	256.39				
Total dividend outflow (Including Dividend Distribution Tax)	35.10%				
Sustainable Equity Capital	730.50				
Capital Proposed	**655.34**				

2) Dividend servicing capacity based on cash flow

The free cash flows can be defined as the cash flow available after the payment of debt obligations and the funding of capital expansion through internal accruals.

Based on this methodology, the maximum equity capital of the Transferee Company 3 that can be sustained based on the undertaking's projected cash flows from over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on cash flow)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Opening Cash Balance	2,682.10	2,778.42	3,233.90	3,730.57	3,873.68
Cash Flow from operating activities	543.95	1,295.35	1,334.91	1,430.92	1,527.71
Cash Flow from investing activities	(50.00)	(50.00)	(50.00)	(500.00)	(50.00)
Cash Flow from financing activities	(397.63)	(789.86)	(788.24)	(787.81)	(587.40)
Closing Cash Balance	**2,778.42**	**3,233.90**	**3,730.57**	**3,873.68**	**4,763.99**
Surplus Cash	**96.32**	**455.48**	**496.67**	**143.11**	**890.31**
Average Cash Flow	**462.64**				
Distributable Cash Flow (50% of average cashflow)	**231.32**				
Total dividend outflow (Including Dividend Distribution Tax)	**35.10%**				
Sustainable Equity Capital	**659.06**				
Capital Proposed	**655.34**				

3) Cash flow availability to fund expansion plans

It can be observed from the table given above that the division will generate sufficient cash to service dividends & fund its expansion plans in the future and its internal accruals are more than sufficient to meet any contingencies.

4) Listing requirements

As per the listing requirement, the securities of the unlisted company should be done subject to the requirement that a Minimum issued and paid up capital of Rs 10 crores or net worth (Excluding revaluation reserves) of Rs 20 crores is maintained both by the transferor company and the transferee company. The Transferee Company 3 has paid up capital of Rs. 655.34 lacs and a net worth of approx Rs. 120 crores.

Thus, the Transferee Company 3 meets the listing norms.

5) Public float

Shareholding pattern for Transferee Company 3 based on a capital of Rs 655.304 lacs is as follows: -

Particulars	**Present shareholding**	**Shareholding in Transferee Company 3**
Promoter's holding	4,12,55,940	62.95%
Financial Institution/Bank	19,208	0.03%
Foreign Institutional Investors	2,35,266	0.36%
Bodies Corporate	1,51,62,737	23.14%
Non Institutions (*Other than NRI)*	87,94,540	13.42%
NRI	66,359	0.10%
Total	**6,55,34,050**	**100.00%**

As has been mentioned in the preceding chapter of the report, the non-promoters shareholding in the Transferee Company 3 has to be at least 25%. From the table above it is clear that the proposed allocation shall result in a non-promoters shareholding of 37%, which is a mirror of present shareholding in ML. Thus, based on the capital proposed by the committee this criterion gets fulfilled.

6) Dividend Coverage

It can be observed from the table given above that the division will generate sufficient profit and cash to service dividends. For this purpose, the Profitability Coverage & Cash flow Coverage year wise is computed as shown below:

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Profit After Tax	312.82	722.00	834.05	943.01	1,034.03
Cash Balance	2,778.42	3,118.89	3,385.55	3,298.65	3,958.94
Dividend	98.30	196.60	196.60	196.60	196.60
Dividend Distribution Tax	16.71	33.41	33.41	33.41	33.41
Total Dividend including Dividend Distribution Tax	**115.01**	**230.01**	**230.01**	**230.01**	**230.01**
Dividend Coverage Ratio (In terms of Profitability)	2.72	3.14	3.63	4.10	4.50
Dividend Coverage Ratio (In terms of Cashflows)	24.16	13.56	14.72	14.34	17.21

Table Showing Average Sustainable Capital

Sustainable equity capital as per methods mentioned below	Transferee Company 3
Dividend Servicing capability method	730.50
Cash flow method	659.06
Average sustainable equity capital	**694.78**
Proposed Equity Share Capital	**655.34**

D.) Sustainable capital criteria as applicable to Transferee Company 4 (Steel Division)

1) Dividend servicing capacity based on profits earned

Based on this methodology, the maximum equity capital of the Transferee Company 4 that can be sustained by its projected PAT over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on Profits Earned)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
PAT	719.34	1,674.02	1,919.91	2,186.99	2,449.13
Average Profits	1,988.75				
Proportion of Dividend Payout	30%				
Distributable Profits	596.63				
Total dividend outflow (Including Dividend Distribution Tax)	35.10%				
Sustainable Equity Capital	1,699.86				
Capital Proposed	**655.34**				

2) Dividend servicing capacity based on cash flow

The free cash flows can be defined as the cash flow available after the payment of debt obligations and the funding of capital expansion through internal accruals.

Based on this methodology, the maximum equity capital of the Transferee Company 4 that can be sustained based on the undertaking's projected cash flows from over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on cash flow)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Opening Cash Balance	2,682.74	3,150.50	4,445.34	5,875.81	6,589.58
Cash Flow from operating activities	641.45	1,621.41	1,665.22	1,866.99	2,098.88
Cash Flow from investing activities	(50.00)	(50.00)	(50.00)	(1,000.00)	(50.00)
Cash Flow from financing activities	(123.69)	(276.56)	(184.75)	(153.22)	6.45
Closing Cash Balance	**3,150.50**	**4,445.34**	**5,875.81**	**6,589.58**	**8,644.92**
Surplus Cash	**467.76**	**1,294.84**	**1,430.47**	**713.77**	**2,055.34**
Average Cash Flow	**1,324.93**				
Distributable Cash Flow (50% of average cashflow)	**662.46**				
Total dividend outflow (Including Dividend Distribution Tax)	**35.10%**				
Sustainable Equity Capital	**1,887.44**				
Capital Proposed	**655.34**				

3) Cash flow availability to fund expansion plans

It can be observed from the table given above that the division will generate sufficient cash to service dividends &fund its expansion plans in the future and its internal accruals are more than sufficient to meet any contingencies.

4) Listing requirements

As per the listing requirement, the securities of the unlisted company should be done subject to the requirement that a Minimum issued and paid up capital of Rs 10 crores or net worth (Excluding revaluation reserves) of Rs 20 crores is maintained both by the transferor company and the transferee company. The Transferee Company 4 has paid up capital of Rs. 655.34 lacs and a networth of approx Rs. 110 crores.

Thus, the Transferee Company 4 meets the listing norms.

5) Public float

Shareholding pattern for Transferee Company 4 based on a capital of Rs 655.304 lacs is as follows: -

Particulars	Present shareholding	Shareholding in Transferee Company 4
Promoter's holding	4,12,55,940	62.95%
Financial Institution/Bank	19,208	0.03%
Foreign Institutional Investors	2,35,266	0.36%
Bodies Corporate	1,51,62,737	23.14%
Non Institutions (*Other than NRI)*	87,94,540	13.42%
NRI	66,359	0.10%
Total	**6,55,34,050**	**100.00%**

As has been mentioned in the preceding chapter of the report, the non-promoters shareholding in the Transferee Company 4 has to be at least 25%. From the table above it is clear that the proposed allocation shall result in a non-promoters shareholding of 37%, which is a mirror of present shareholding in ML. Thus, based on the capital proposed by the committee this criterion gets fulfilled.

6) Dividend Coverage

It can be observed from the table given above that the division will generate sufficient profit and cash to service dividends. For this purpose, the Profitability Coverage & Cash flow Coverage year wise is computed as shown below:

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Profit After Tax	719.34	1,674.02	1,919.91	2,186.99	2,449.13
Cash Balance	3,150.50	4,330.34	5,530.79	6,014.55	7,839.87
Dividend	98.30	196.60	196.60	196.60	196.60
Dividend Distribution Tax	16.71	33.41	33.41	33.41	33.41
Total Dividend including Dividend Distribution Tax	**115.01**	**230.01**	**230.01**	**230.01**	**230.01**
Dividend Coverage Ratio (In terms of Profitability)	6.25	7.28	8.35	9.51	10.65
Dividend Coverage Ratio (In terms of Cash flows)	13.70	18.83	24.05	26.15	34.08

<u>Table Showing Average Sustainable Capital</u>

Sustainable equity capital as per methods mentioned below	Transferee Company 4
Dividend Servicing capability method	1,699.86
Cash flow method	1,887.44
Average sustainable equity capital	**1,793.65**
Proposed Equity Share Capital	**655.34**

E.) Sustainable capital criteria as applicable to Residual Company (Manaksia Ltd.)

1) Dividend servicing capacity based on profits earned

Based on this methodology, the maximum equity capital of Manaksia Ltd. that can be sustained by its projected PAT over the next 4 Years and 6 Months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on Profits Earned)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
PAT	343.99	694.52	765.66	843.83	929.74
Average Profits	795.05				
Proportion of Dividend Payout	30%				
Distributable Profits	238.52				
Total dividend outflow (Including Dividend Distribution Tax)	17.55%				
Sustainable Equity Capital	1,359.12				
Capital Proposed	**1,310.68**				

2) Dividend servicing capacity based on cash flow

The free cash flows can be defined as the cash flow available after the payment of debt obligations and the funding of capital expansion through internal accruals.

Based on this methodology, the maximum equity capital of the Manaksia Ltd. that can be sustained based on the undertaking's projected cash flows from over the next 4 years and 6 months is arrived at as in the table below:

Table showing the calculation of sustainable capital (Based on cash flow)

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Opening Cash Balance	2,050.17	2,138.38	2,918.45	3,625.19	4,401.82
Cash Flow from operating activities	88.22	780.07	706.73	776.63	853.56
Cash Flow from investing activities	-	-	-	-	-
Cash Flow from financing activities	-	-	-	-	-
Closing Cash Balance	2,138.38	2,918.45	3,625.19	4,401.82	5,255.38
Surplus Cash	88.22	780.07	706.73	776.63	853.56
Average Cash Flow	712.27				
Distributable Cash Flow (50% of average cashflow)	356.14				
Total dividend outflow (Including Dividend Distribution Tax)	17.55%				
Sustainable Equity Capital	2,029.35				
Capital Proposed	**1,310.68**				

3) **Cash flow availability to fund expansion plans**

It can be observed from the table given above that the division will generate sufficient cash to service dividends &fund its expansion plans in the future and its internal accruals are more than sufficient to meet any contingencies.

4) Listing requirements

As per the listing requirement, the securities of the unlisted company should be done subject to the requirement that a Minimum issued and paid up capital of Rs 10 crores or net worth (Excluding revaluation reserves) of Rs 20 crores is maintained both by the transferor company and the transferee company. The table below shows the comparison of the capital of Manaksia Ltd as against the capital required for fulfilling the listing requirements.

Amount in Rs.

Particulars	**Proposed share capital**	**Required share capital as per listing norms**
Manaksia Ltd.	13,10,68,100	10,00,00,000

Thus the allocation of capital shall result in Manaksia Ltd. having sufficient paid up capital as is necessary to meet the listing norms.

5) Public float

Shareholding pattern for Manaksia Ltd. based on a capital of Rs 655.304 lacs is as follows: -

Particulars	**Present shareholding**	**Shareholding in Manaksia Ltd.**
Promoter's holding	4,12,55,940	62.95%
Financial Institution/Bank	19,208	0.03%
Foreign Institutional Investors	2,35,266	0.36%
Bodies Corporate	1,51,62,737	23.14%
Non Institutions (*Other than NRI)*	87,94,540	13.42%
NRI	66,359	0.10%
Total	**6,55,34,050**	**100.00%**

As has been mentioned in the preceding chapter of the report, the non-promoters shareholding in the Manaksia Ltd. has to be at least 25%. From the table above it is clear that the proposed allocation shall result in a non-promoters shareholding of 37%. Thus, based on the capital proposed by the committee this criterion gets fulfilled.

6) Dividend Coverage

It can be observed from the table given above that the division will generate sufficient profit and cash to service dividends. For this purpose, the Profitability Coverage & Cash flow Coverage year wise is computed as shown below:

Rs in Lacs

Particulars	01-Oct-13 to 31-Mar-14	01-Apr-14 to 31-Mar-15	01-Apr-15 to 31-Mar-16	01-Apr-16 to 31-Mar-17	01-Apr-17 to 31-Mar-18
Profit After Tax	343.99	694.52	765.66	843.83	929.74
Cash Balance	2,138.38	2,803.45	3,280.16	3,826.78	4,450.33
Dividend	98.30	196.60	196.60	196.60	196.60
Dividend Distribution Tax	16.71	33.41	33.41	33.41	33.41
Total Dividend including Dividend Distribution Tax	**115.01**	**230.01**	**230.01**	**230.01**	**230.01**
Dividend Coverage Ratio (In terms of Profitability)	2.99	3.02	3.33	3.67	4.04
Dividend Coverage Ratio (In terms of Cash flows)	18.59	12.19	14.26	16.64	19.35

Table Showing Average Sustainable Capital

Sustainable equity capital as per methods mentioned below	Residual Manaksia Ltd.
Dividend Servicing capability method	1,359.12
Cash flow method	2,029.35
Average sustainable equity capital	**1,694.23**
Proposed Equity Share Capital	**1,310.68**

10) FAIRNESS OPINION

Our opinion on the sustainability of the capital as proposed by the Committee on Restructuring for the five companies can be expressed based on analysis of the facts presented in our Report and summarized below:

As mentioned earlier the company's cash flow and dividend serviceability plays a crucial part in shaping the company's sustainable capital. Since the figure for sustainable capital for all the five companies has been computed under the application of the aforesaid two methods, an average of the sustainable capital as produced under the two methods for each of the five companies under consideration is given below:

Rs in Lacs

Sustainable equity capital as per methods mentioned below	Transferee Company 1	Transferee Company 2	Transferee Company 3	Transferee Company 4	ML (Residual)
Dividend Servicing capability method	666.19	675.96	730.5	1,699.86	1,359.12
Cash flow method	763.66	1,139.85	659.06	1,887.44	2,029.35
Average sustainable equity capital	**714.92**	**907.91**	**694.78**	**1,793.65**	**1,694.23**

The average sustainable equity capital for each company when compared with the capital proposed for each company by the committee, is presented below

Rs in Lacs

Particulars	Transferee Company 1	Transferee Company 2	Transferee Company 3	Transferee Company 4	ML (Residual)
Sustainable equity share capital	**714.92**	**907.91**	**694.78**	**1,793.65**	**1,694.23**
Proposed equity share capital	**655.34**	**655.34**	**655.34**	**655.34**	**1,310.68**

This implies that the capital as proposed would be well serviced through each company's cash flows and profitability.

Final analysis

It is clear from the report that

- Each of the five resulting companies would have adequate profits to service the equity shareholders, the lenders.
- Each of the five companies would have adequate potential to raise funds and grow in their business.
- All the equity shareholders would be holding the same % of shares in the transferee companies as in the transferor company.
- All the five companies will be eligible for listing on the stock exchange as they meet the criteria.

In our view, and in the light of the above data, the Capital Structure as proposed by the company is appropriate; and will be fair & equitable to all Shareholders i.e. for every 1 equity share of Rs. 2 each held in Manaksia Ltd. (pre restructuring) after appropriation of reserves, as provided in the Scheme, as on the Record Date, every equity shareholder of Manaksia Ltd. shall be entitled to receive 1 equity share of face value of Rs.1 each in each of the four transferee companies; Manaksia Industries Ltd (MAIL), Manaksia Coated Metals & Industries Ltd (MACMIL) , Manaksia Aluminium Co. Ltd (MALCO) & Manaksia Steels Ltd (MAST) credited as fully paid up.

For S. K. Agrawal & Co.
Chartered Accountants
Registration No. 306033E
SD/-
Radhakrishan Tondon
(Partner)
Membership Number: 060534
Date: 28th May, 2013
Place: Kolkata