ANNEXURE 3

22

SSPA & Co.
Chartered Accountants
1st Floor, "Arjun",
Plot No. 6A,
V. P. Road, Andheri (W),
Mumbai – 400 058

B S R and Associates
Chartered Accountants
Lodha Excelus, 1st Floor,
Apollo Mills Compound,
N.M. Joshi Marg, Mahalaxmi,
Mumbai – 400 011

Date: 20 May 2014

The Board of Directors
Rane Engine Valve Limited
Maithri 132, Cathedral Road
Chennai – 600 086

The Board of Directors
Kar Mobiles Limited
Maithri 132, Cathedral Road
Chennai – 600 086

Sub: Recommendation of fair exchange ratio of equity shares for the purpose of the proposed merger of Kar Mobiles Limited into Rane Engine Valve Limited (the "Transaction")

Dear Sirs,

We refer to:

a) the engagement letter dated 29 April 2014 with SSPA & Co. (hereinafter referred to as "SSPA") wherein Rane Engine Valve Limited ("REVL") and Kar Mobiles Limited ("KML") (together referred to as the "Companies") have requested SSPA to recommend an exchange ratio ("Exchange Ratio") of equity shares for the proposed merger of KML into REVL and
b) the engagement letter dated 12 May 2014 (including addendum dated 19 May 2014) with B S R and Associates (hereinafter referred to as "BSR") to recommend an exchange ratio ("Exchange Ratio") of equity shares for the proposed merger of KML into REVL.

SSPA and BSR are collectively referred to as the "Valuers" or "we" or "us" in this report.

SCOPE AND PURPOSE OF THIS REPORT

Rane Engine Valve Limited manufactures and markets components for the transportation industry in India. It manufactures engine valves, guides, and tappets for passenger cars, commercial vehicles, farm tractors and two/three wheelers. REVL also serves customers in India, Europe, North America, and the Far Eastern markets. REVL was founded in 1959 and is headquartered in Chennai, India. REVL operates as a subsidiary of Rane Holdings Limited. REVL is listed on BSE Limited ("BSE"), National Stock Exchange of India Limited ("NSE") and Madras Stock Exchange ("MSE"). REVL reported net turnover of INR 1,883 million with a net loss of INR 316 million for the nine months period ended 31 December 2013.

Kar Mobiles Limited manufactures and sells medium and large engine valves for power generation, marine and special applications. It offers steel and nickel alloy engine valves that are used in various applications in segments such as agricultural/industrial/stationary, marine, locomotives, battle tanks, farm tractors, automotive-passenger cars/light commercial vehicle/heavy commercial vehicles and high performance cars. The Company also engages in trading of valves. It serves original equipment manufacturers in India and internationally. KML was founded in 1974 and is headquartered in Chennai, India. KML is listed on Bangalore Stock Exchange ("KSE"), MSE and traded/quoted on IndoNext platform of BSE Limited. It reported net turnover of INR 881 million with a net loss of INR 1 million for the nine months period ended 31 December 2013.

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RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI-600 086

For RANE ENGINE VALVE LIMITED
V SUBRAMANI
Secretary

23

We understand that the management of the Companies ("Management") propose to merge KML into REVL with effect from Appointed date of 1 April 2014. This is proposed to be achieved by implementing a Scheme of Amalgamation under the provisions of Sections 391-394 of the Companies Act, 1956, ("Scheme of Amalgamation"). As part of the proposed merger, KML will cease to exist and as consideration for their equity shares in KML, the shareholders of KML will be issued equity shares of REVL.

SSPA and BSR have been requested by the respective Management of the Companies to jointly submit a valuation report recommending a fair exchange ratio of equity shares in connection with the Transaction to be placed before the audit committees of the Companies, as per the requirement of SEBI Circular CIR/CFD/DIL/5/2013 dated 4 February, 2013.

We have carried out a relative valuation of the equity shares of REVL and KML with a view to arrive at the fair exchange ratio of the equity shares of REVL for the equity shares of KML.

This report is our joint deliverable to the above engagement.

This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

SOURCES OF INFORMATION

In connection with preparing this report, we have received the following information from the Management of the Companies:

- Audited financial statements of REVL for the years ended 31 March 2012, 2013 and provisional financial statements for the year ended 31 March 2014;
- Audited financial statements of KML for the years ended 31 March 2012, 2013 and provisional financial statements for the year ended 31 March 2014;
- Management Business Plans for REVL and KML for the period 1 April 2014 to 31 March 2019 and Management information reports;
- Interviews and discussions with the Management of the Companies to augment our knowledge of the operations of the Companies including taxation related matters and any litigation related matters;
- Representation related to surplus assets, including copy of the report from a government registered valuer for REVL dated 10 May 2014 for Alandur land and 12 May 2014 for land at Medchal;
- Representation related to surplus assets, including copy of the report dated 9 May 2014 for Pollachi land and 10 May 2014 for land at Peenya from government registered valuer for KML;
- Information and documents as provided by the Companies for the purposes of this engagement;

We have also obtained explanations and information considered reasonably necessary for our exercise, from the executives and representatives of the Companies. The Companies have been

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RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI-600 086

provided with the opportunity to review the draft report (excluding the recommended exchange ratio) for this engagement to make sure that factual inaccuracies are avoided in our final report.

SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The service does not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

This Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the date of this report and (iii) are based on the balance sheet of the Companies as at 31 March 2014. A valuation of this nature is necessarily based on prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this report and the assumptions used in preparing it. We do not assume any obligation to update, revise or reaffirm this report.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information furnished by the Companies to us untill 17 May 2014 and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors).

In the course of the valuation, we were provided with both written and verbal information, including market, technical, financial and operating data.

In accordance with the terms of our respective engagements, we have assumed and relied upon, without independent verification, (i) the accuracy of the information that was publicly available and formed a substantial basis for this report and (ii) the accuracy of information made available to us by the Companies. We have not carried out a due diligence or audit of the Companies for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided. We are not legal or regulatory advisors with respect to legal and regulatory matters for the Transaction. We do not express any form of assurance that the financial information or other information as prepared and provided by the Companies is accurate. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness. Our conclusions are based on these assumptions and information given by/on behalf of the Companies. The respective Managements of the Companies have indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Companies and their impact on the report. Also, we assume no responsibility for technical information (if any) furnished by the Companies. However nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.
The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a

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RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI 600 086

25

competent and responsible manner. Further, except as specifically stated to the contrary, this valuation report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in audited balance sheet of the Companies.

This report does not look into the business / commercial reasons behind the Transaction nor the likely benefits arising out of the same. Similarly, the report does not address the relative merits of the Transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

No investigation of the Company's claim to title of assets has been made for the purpose of this report and the Company's claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature. The book values of the assets and liabilities of the Companies have been considered as representative of their intrinsic value in the absence of any report of external valuers. We have been informed by the Management of REVL and KML to include the valuation numbers of surplus land as per the independent valuation carried out. These valuation numbers have not been verified by us and we will not incur any liability on account of the same.

We must emphasize that realization of free cash flow forecast used in the analysis will be dependent on the continuing validity of assumptions on which they are based. Our analysis therefore, will not, and cannot be directed to providing any assurance about the achievability of the financial projections. Since the financial forecast relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences could be material.

The fee for the Engagement is not contingent upon the results reported.

We owe responsibility to only the Board of Directors of the Companies which have retained us, and nobody else. Each of us has been engaged severally and not jointly and each of us will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other to REVL or KML respectively.

We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion.

This valuation report is subject to the laws of India.

Neither the valuation report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed restructuring of the Companies including the proposed Scheme of Amalgamation, without our prior written consent. In addition, this report does not in any manner address the prices at which equity shares of REVL, KML and Rane Holdings Limited will trade following consummation of the Transaction and we express no opinion or recommendation as to how the shareholders of any of the Companies should vote at any shareholders' meeting(s) to be held in connection with the Transaction.

SSPA & CO. CHARTERED ACCOUNTANTS MUMBAI

RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI-600 086

BACKGROUND OF REVL and KML

Rane Engine Valve Limited

Rane Engine Valve Limited, a company headquartered in Chennai, India, manufactures and markets components for the transportation industry. It manufactures engine valves, guides, and tappets for passenger cars, commercial vehicles, farm tractors, and two/three wheelers. Its manufacturing operations are carried out across 5 plants in India.

Plant	Product segment
Chennai	Engine Valves
Hyderabad	Engine Valves
Chennai	Valves, Guides and Tappets
Hyderabad	Engine Valves
Trichy	Engine Valves

REVL operates as a subsidiary of Rane Holdings Limited.

The equity shares of REVL are listed on the BSE, NSE and MSE.

The paid up equity share capital of REVL as at 31 March 2014 consists of 5,150,992 equity shares of face value of INR 10 each.

The shareholding pattern as at 31 March 2014 is as follows:

Category	% shareholding
Rane Holdings Limited	53.58
Promoter and Promoter Group	0.08
Total Promoter Group	**53.66**
Institutions	2.03
Non-Institutions	44.31
Total	**100.00**

Source: BSE Limited

Kar Mobiles Limited

Kar Mobiles Limited, a Company headquartered in Chennai, India, manufactures and sells medium and large engine valves for power generation, marine, and special applications. Its manufacturing operations are carried out 2 plants (Bangalore and Tumkur) in India.

Equity shares of KML are listed on the KSE, MSE and are traded on the IndoNext platform of BSE.

The paid up equity share capital of KML as at 31 March 2014 consists of 2,240,000 equity shares of face value of INR 10 each.

The shareholding pattern as at 31 March 2014 is as follows:

Category	% shareholding
Rane Holdings Limited	39.57
Promoter and Promoter Group	4.09
Total Promoter Group	**43.66**

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RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI-600 086

27

Category	% shareholding
Institutions	1.85
Non-Institutions	54.49
Total	**100.00**

Source: BSE Limited

APPROACH - BASIS OF AMALGAMATION

Arriving at the fair exchange ratio of equity shares for the merger of KML into REVL would require determining the value of the equity shares of KML in terms of the value of the equity shares of REVL. These values are to be determined independently but on a relative basis, and without considering the current transaction.

There are several commonly used and accepted methods for determining the value of the equity shares of a company, which have been considered in the present case, to the extent relevant and applicable, including:

1. Discounted Cash Flow method
2. Comparable Companies' Multiples method / Guideline Company method
3. Market Price method
4. Net Asset Value method

It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.
The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

Discounted Cash Flows (DCF) Method

Under the DCF method the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.

Using the DCF analysis involves determining the following:

Estimating future free cash flows:
Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

Appropriate discount rate to be applied to cash flows i.e. the cost of capital.

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to

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RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI-600 086

the total capital of the company. The opportunity cost to the equity capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

For the purpose of DCF valuation, the free cash flow forecast is based on Management Business Plans of REVL and KML provided by the management of the Companies.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under DCF method for the Companies is adjusted for the value of loans, cash, non-operating assets / liabilities (e.g. fair value of land and any contingent liability etc) and related cash outflows. To the values so obtained generally from DCF analysis, the amount of loans is adjusted to arrive at the total value available to the equity shareholders. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share of the Companies.

We understand from the Management of REVL that 10.98 acre of the total land situated at Alandur,Chennai and 9.2 acres of land situated at Medchal, Telengana is estimated to be surplus available land.

We understand from the Management of KML that 2.5 acre of the total land situated at Peenya Industrial Area, Bangalore city and 9.45 acres of land situated at Pollachi Taluk is estimated to be surplus available land.

The Mangement of REVL and KML have authorized SSPA and BSR to use the valuation numbers mentioned in the Land Valuation Report for valuation of surplus land. We have relied on the Land Valuation Report, without any further verification or analysis of the same and incorporated the valuation numbers as mentioned in the Land Valuation Report for the valuation workings for the surplus portion of the land parcels represented by the respective management of REVL and KML.

Comparable Companies' Multiple (CCM) / Guideline Company method

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as manifest through stock market valuations of listed companies and the transaction valuation. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

We have not used guideline company method since we were unable to establish a reasonable comparability between the comparable companies with REVL and KML. We also have not used the comparable transactions analysis as this Transaction is in the form of share to share fair exchange, therefore absolute multiples paid in comparable Transactions are not relevant.

Market Price Method

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market.

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RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI-600 086

29

Further, as per the SEBI Takeover code - **"frequently traded shares"** means shares of a target company, in which the traded turnover on any stock exchange during the twelve calendar months preceding the calendar month in which the public announcement is made, **is at least ten per cent of the total number of shares** of such class of the target company."

Further, in the case of a merger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.
The shares of both REVL and KML are not frequently traded hence we have ignored Market Price Method for valuation exercise.

Net Asset Value (NAV) Method

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. Under the Net Asset Value approach, total value is based on the sum of book values as recorded on the consolidated balance sheet of respective companies. Appropriate adjustments have been made for surplus / non operating assets / liabilities (eg contingent liability etc).

We have used Net Asset Value method for both the Companies.

BASIS OF AMALGAMATION

The basis of merger of KML into REVL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purposes of recommending a fair exchange ratio of equity shares it is necessary to arrive at a single value for the shares of REVL and of KML. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity value of REVL and KML but at their comparative values to facilitate the determination of a fair exchange ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

We have used the DCF method for valuing the Companies as it captures the future earnings potential of the Companies. We have also used the NAV method for valuing the Companies.

We have assigned appropriate weightages to the values arrived using the DCF method and NAV method for the Companies.

The fair exchange ratio of equity shares of REVL and KML has been arrived on the basis of a relative equity valuation for REVL and KML based on the various methodologies explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of the Companies, having regard to information base, key underlying assumptions and limitations.

In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g., present and prospective competition, yield on comparable securities and market sentiment, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognised in judicial decisions.

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RANE ENGINE VALVE LIMITED "MAITHRI" 132 CATHEDRAL ROAD CHENNAI-600 086

Again, it is understood that this analysis does not represent a fairness opinion.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, we consider that the fair exchange ratio of equity shares for the merger of KML into REVL should be a ratio of 7 (seven) equity share of REVL of face value of INR 10/- each fully paid up for every 10 (ten) equity shares of KML of face value of INR 10/- each fully paid up.

The Valuers worked independently in their analysis and after arriving at a consensus share exchange ratio, are issuing this joint report.

Respectfully submitted,

For SSPA & Co.
Chartered Accountants
ICAI Firm Registration No. 128851W

Parag S. Ved

Partner: Parag Ved
ICAI Membership No. 102432
Place: Mumbai
Date: 20 May 2014

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For B S R and Associates
Chartered Accountants
ICAI Firm Registration No. 128901W

Partner: Mahek Vikamsey
ICAI Membership No. 108235
Place: Mumbai
Date: 20 May 2014

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