



Ref no: 107/12/2017

December 13, 2017

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To,  
The Board of Directors  
Tata Communications Limited,  
VSB, Mahatma Gandhi Road,  
Fort, Mumbai-400001

The Board of Directors  
Hemisphere Properties India Limited  
Room No-409 Sanchar Bhawan, Ashoka Road  
New Delhi - 110 001

Dear Sir(s)/Madam(s),

**Sub: Recommendation of share entitlement ratio for the proposed Demerger of Surplus Land of Tata Communications Limited ("TCL" or "the Transferor Company") pursuant to the Scheme of Arrangement & Reconstruction among TCL, Hemisphere Properties India Limited ("HPIL" or "the Transferee Company") and their respective Shareholders & Creditors ("the Scheme")**

This has reference to:

- Our Engagement Letter dated October 13, 2017, wherein the management of TCL and letter dated October 24, 2017 pursuant to which management of HPIL, have engaged MSKA & Associates, Chartered Accountants ("MSKA" or "we" or "us") to recommend share entitlement ratio for the proposed Demerger of Surplus Land (the terms "Demerger" and "Surplus Land" as defined in the Scheme are mentioned in Annexure 1) of TCL pursuant to the Scheme; and
- Our subsequent discussions with the executives, representatives and management of TCL and HPIL from time to time in relation to the same.

#### 1. Brief Background

- 1.1. TCL (formerly known as Videsh Sanchar Nigam Limited) is a public limited company duly incorporated under the Companies Act, 1956 and has its registered office at VSB, Mahatma Gandhi Road, Fort, Mumbai - 400 001.
- 1.2. The Transferor Company is primarily engaged in the business of, among others, provision of international and national voice and data transmission services, selling and leasing of bandwidth on undersea cable systems, broadband services, and other value-added services comprising telepresence, managed hosting, mobile global roaming and signaling services, transponder lease, television uplinking and other services and owns vast tracts of land originally acquired for the purpose of use in telecom business of the Transferor Company and its predecessor.



- 1.3. The issued, subscribed and paid up equity share capital of TCL as at September 30, 2017 is INR 2,850 million consisting of 285 million equity shares of face value of INR 10 each.
- 1.4. The equity shares of TCL are listed on the National Stock Exchange of India Limited and The BSE Limited. TCL has also issued unlisted non-convertible debentures on private placement basis.
- 1.5. HPIL is a public limited company duly incorporated under the Companies Act, 1956 and having its registered office at Room No-409 Sanchar Bhawan, Ashoka Road New Delhi - 110 001.
- 1.6. The equity shares of HPIL are presently not listed on any stock exchange. Presently, 51.12% of the shareholding of HPIL is held by the Government of India ("GOI") and 48.88% shareholding is held by Panatone Finvest Limited ("Panatone") and accordingly, the Transferee Company is a 'government company' as defined under Section 2(45) of the Companies Act, 2013 and consequently public sector undertaking under Section 2(36A) of the Income Tax Act, 1961.
- 1.7. The main objects of the Memorandum of Association of the Transferee Company permit the carrying on the business of constructing, acquiring, developing, managing and dealing in properties in any other manner, where such properties are in nature of land and /or buildings, anywhere in India and if permitted by legislation, outside India as well.
- 1.8. The issued, subscribed and paid up equity share capital of HPIL as at September 30, 2017 is INR 500,000 consisting of 50,000 equity shares of face value of INR 10 each.
- 1.9. The Shareholding pattern of TCL and HPIL as on as on September 30, 2017 has been provided in Annexure 2.

## 2. Scope & Purpose of this Report

2.1. In 2002, the GOI divested 25% of its equity holding in the Transferor Company. Panatone was the successful bidder in the said divestment process. As part of the divestment process:

- Share Purchase Agreement ("SPA") dated February 6, 2002 was entered between the GOI, Panatone, Tata Sons Ltd, Tata Power Company Ltd, Tata Iron and Steel Company Ltd, Tata Industries Ltd and the Transferor Company; and
- Shareholders' agreement dated February 13, 2002 ("SHA") was entered between the GOI, Panatone, Tata Sons Ltd, Tata Power Company Ltd, Tata Iron and Steel Company Ltd and Tata Industries Ltd.
- Letter of Offer dated March 27, 2002 ("Letter of Offer") was issued by Panatone to the Equity Shareholders and American Depository Shareholders of TCL (formerly known as Videsh Sanchar Nigam Limited).

2.2. As per:

- Article 7.10 of SPA and Article 4.7 of SHA, the Land (as defined in the respective agreements); and
- Paragraph 1.2 (d) and Paragraph 7 of Letter of Offer, the surplus land (as referred to in its specific paragraphs)

of the Transferor Company were to be separated through a demerger process.

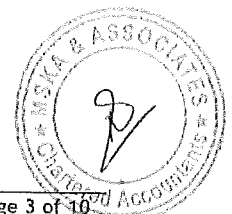
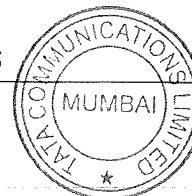
- 2.3. The said aspect of demerger of the Land is also recognized in Clause 4.7 of Article IV of Articles of Association of the Transferor Company. Relevant clause is stated in Annexure 3.
- 2.4. In order to give effect to the terms and conditions of the SPA and SHA, it is now proposed to reconstruct or split up the Transferor Company by, way of, transferring the Surplus Land of the Transferor Company to the Transferee Company in lieu of which shareholders of Transferor Company as on the Record Date (as defined in the Scheme) shall be issued equity shares of the Transferee Company, by way of the scheme of arrangement & reconstruction under the provisions of Sections 230 to 232 of the Companies Act, 2013 and Explanation 5 to Section 2(19AA) of the Income Tax Act, 1961.
- 2.5. In this connection, MSKA has been requested by TCL and HPIL to submit a report ("the Report") for consideration of the Board of TCL and HPIL respectively, recommending the share entitlement ratio of equity shares of HPIL to be issued to the shareholders of TCL pursuant to the Scheme.
- 2.6. This Report, and the information contained herein, is absolutely confidential. This Report will be placed before the Audit Committee, the Board of TCL and the Board of HPIL and to the extent mandatorily required under applicable laws of India, maybe produced before judicial, regulatory or government authorities, in connection with the proposed Demerger. We are not responsible to any other person or party, for any decision of such person or party based on this Report. Any person or party intending to provide finance/ invest in the shares/ business of TCL/ HPIL or their holding companies, subsidiaries, associates, joint ventures shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision. It is hereby notified that reproduction, copying or otherwise quoting of this Report or any part thereof, other than for the aforementioned purpose, is not permitted.

### 3. Sources of Information

For the purpose of undertaking this exercise, we have relied on the following sources of information provided to us by the management of the Transferor Company:

- 3.1. Audited financial results of TCL for the Financial Year ("FY") ended March 31, 2017 available in public domain;
- 3.2. Audited financial statements of HPIL for the FY ended March 31, 2017;
- 3.3. SPA dated February 6, 2002;
- 3.4. SHA dated February 13, 2002;
- 3.5. Letter of Offer dated March 27, 2002
- 3.6. Scheme of Arrangement & Reconstruction among TCL, HPIL and their respective Shareholders & Creditors received from TCL on October 16, 2017 to be placed before the Board for its approval;
- 3.7. Shareholding pattern of TCL as on September 30, 2017 as available in public domain;
- 3.8. Shareholding pattern of HPIL as on September 30, 2017;
- 3.9. Proposed Capital Structure of HPIL as on the Effective Date (as defined in the Scheme);
- 3.10. Memorandum of Association and Articles of Association of TCL;
- 3.11. Memorandum of Association and Articles of Association of HPIL;

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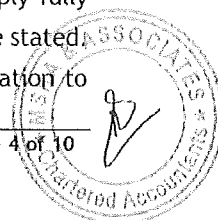
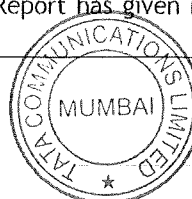


3.12. Other relevant details regarding TCL & HPIL and the proposed Demerger including explanation and clarifications which we deemed relevant to the present exercise.

It may be noted that TCL and HPIL have been provided opportunity to review the draft report (excluding our recommendation of share entitlement ratio) for the current exercise as part of our standard practice to make sure that factual inaccuracies are avoided in our Report.

#### 4. Exclusion & Limitations

- 4.1. Our Report is subject to the limitations 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.
- 4.2. Provision of share entitlement ratio and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.
- 4.3. The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information that was provided and used by us during our work. The assignment did not involve us to conduct the financial or technical feasibility study. We have not done any independent technical valuation or appraisal or due diligence of the assets or liabilities of the Transferor Company including the Surplus Land, and have considered them at the value as disclosed by them in their regulatory filings or in submissions, oral or written, made to us.
- 4.4. Our scope is limited to expression of our view on the proposed share entitlement ratio and its impact on the economic interest of the shareholders of TCL and HPIL. The Report should not be construed as, our opinion or certifying the compliance of the proposed Demerger with the provisions of any law including the Companies Act 1956, Companies Act 2013, Foreign Exchange Management Act, 1999, taxation related laws, capital market related laws, any accounting, taxation or legal implications or issues arising from proposed Demerger.
- 4.5. Recommendation of the share entitlement ratio is specific to the purpose as mentioned above. It may not be valid for any other purpose. Also, it may not be valid if done on behalf of any other entity.
- 4.6. Please note that the valuation of a business or an enterprise, its equity shares or its equity options is not an exact science and ultimately depends upon what the enterprise or shares might be worth to an independent investor or buyer. Therefore, there is no indisputable single share entitlement ratio. While we would provide our view on the share entitlement ratio based on the information available to us and within the scope and constraints of our Engagement Letter, others may have a different opinion. The management of TCL and HPIL both, acknowledge and agree that the final responsibility for determination of the share entitlement ratio for the proposed Demerger and factors other than our Report will need to be taken into account in determining such ratios; these will include the TCL's and HPIL's assessment of the proposed Demerger and may include the input of other professional advisors.
- 4.7. Our conclusion assumes that the Transferor Company and the Transferee Company comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated. Further, except as specifically stated to the contrary, this Report has given no consideration to



matters of legal nature, including issues of legal title and compliance with local laws and litigations. Our conclusion on the share entitlement ratio assumes that the Surplus Land of the Transferor Company remain intact as of date of forming such conclusion on share entitlement ratio.

- 4.8. We do not take any responsibility for any changes in the information used by us to arrive at our conclusion as set out herein which may occur subsequent to the date of our Report or by virtue of fact that the details provided to us are incorrect or inaccurate.
- 4.9. We have assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us or used by us; we have assumed that the same are not misleading and do not assume or accept any liability or responsibility for any independent verification of such information or any independent technical valuation or appraisal of any of the assets, operations or liabilities of the Transferor Company (including the Surplus Land) and Transferee Company. Nothing has come to our knowledge to indicate that the material provided to us was mis-stated or incorrect or would not afford reasonable grounds upon which to base our Report.
- 4.10. The fees for the engagement is not contingent upon the conclusion of this Report.
- 4.11. We owe responsibility to only the Board of Directors of TCL and HPIL and nobody else. We 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 party to TCL and HPIL. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of TCL and HPIL, their directors, employees or agents. In no circumstances shall the liability of MSKA, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in this Report shall exceed the amount paid to MSKA in respect of the fees charged by MSKA for these services.
- 4.12. 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 Report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose.
- 4.13. This Report is subject to the laws of India.
- 4.14. Neither the 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 Scheme, without our prior written consent. In addition, this Report does not in any manner address the prices at which equity shares of the Transferor Company and Transferee Company will trade following announcement of the proposed Demerger and we express no opinion or recommendation as to how the shareholders of the Transferor Company and Transferee Company should vote at any shareholders' meeting(s) to be held in connection with the proposed Demerger.

## 5. Approach for Share Entitlement Ratio

- 5.1. As discussed in para 2.1 to 2.4 above, to give effect to the conditions mentioned under the SPA and SHA, the management of TCL proposes to demerge the Surplus Land of the Transferor Company to the Transferee Company by way of Demerger under the Scheme.

5.2. As per the audited financials of HPIL for the year ending March 31, 2017 ("audited financials"), a brief summary balance sheet of HPIL for the year ending March 31, 2017 is as under:

*Figures in millions*

Particulars	INR	Particulars	INR
Shareholders Funds		Non-Current Assets	
Share Capital	0.50	Capital work-in-progress	3.90
Reserves & Surplus	(0.50)		
Non-Current Liabilities		Current Assets	
Long-term borrowings	10.00	Cash & cash equivalents	7.48
		Short term loans & advances	0.24
Current Liabilities			
Other Current Liabilities	1.62		
Total Liabilities & Shareholders Capital	11.63	Total Assets	11.63

5.3. As per the audited financials of HPIL:

- HPIL has availed a loan of INR 10 million from the Department of Telecommunications primarily to meet start up costs including day to day administrative and incidental expenditure for acquisition of land. Major portion of the said loan amount is appearing as cash and cash equivalents.
- The said loan is also availed for appointing consulting firm having expertise in handling Company law matters, legal, land revenue and taxation affairs. The consulting firm has to do due diligence regarding title, change of land use and all other preparatory steps needed for finalization of Scheme of Arrangement to enable the hiving off the Surplus Land from the Transferor Company to the Transferee Company. HPIL has to also pay stamp duty fee for transfer of Surplus Land to it. HPIL has incurred INR 3.9 million towards the same.

- 5.4. Upon the Scheme becoming effective and upon vesting of the Surplus Land into the Transferee Company and in consideration of the proposed Demerger, the Transferee Company shall, without any further application act, instrument or deed, issue and allot to each member of the Transferor Company whose name is recorded in the register of members as a shareholder of the Transferor Company on the Record Date (as defined in the Scheme), or his legal heirs, executors or administrators or (in case of a corporate entity) its successors, equity shares in the Transferee Company. Immediately upon the issuance of shares by Transferee Company to the shareholders of Transferor Company pursuant the Scheme, the entire share capital of the Transferee Company as existing on the Appointed Date (as defined in the Scheme) shall stand cancelled.
- 5.5. We have been informed by the management of TCL that upon coming into effect of the Scheme (as defined in the Scheme), the Authorized Equity Share Capital of the Transferee Company shall be INR 2,850 million consisting of 285 million equity shares of face value of INR 10/- each ("the proposed Capital Structure").

- 5.6. We understand from the management of TCL that for the proposed Demerger, the ratio of entitlement of equity shares to the shareholders of TCL is determined on the basis of the proposed Capital Structure of HPIL (post-demerger).
- 5.7. Based on the aforementioned and upon the Scheme becoming effective (post demerger), the set of shareholders and holding proportion in the Transferee Company shall be identical to that of Transferor Company. The beneficial economic interest of Transferor Company shareholders in Transferee Company will remain same as at the time of demerger (pre-demerger) and hence would not have any impact on the economic interest of the shareholders of the Transferor Company. The share entitlement ratio would not have any impact on the ultimate value of the shareholders of Transferor Company and the proposed Demerger will be value-neutral to Transferor Company's shareholders.


## 6. Recommendation of Share Entitlement Ratio

- 6.1. On the basis of the foregoing, considering the proposed Capital Structure of HPIL as informed to us by the management of the Transferor Company and on consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, a share entitlement ratio in the event of the proposed Demerger would be as follows:

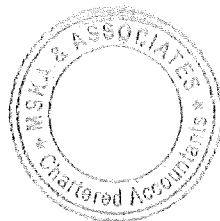
Particulars	Share Entitlement Ratio
Equity Shares	1 (One Only) fully paid Equity Share of INR 10/- each in HPIL for every 1 (One Only) fully paid Equity Share of INR 10/- each held in TCL

- 6.2. Our Report and share entitlement ratio is based on the envisaged equity share capital structure of TCL and HPIL as mentioned above. Any variation in the equity share capital structure of TCL and HPIL apart from the above mentioned may have an impact on the share entitlement ratio.
- 6.3. Further the stock exchanges vide their circular to the Companies (Ref No: NSE/CML/2017/12 and LIST/COMP/02/2017-18) require the share entitlement ratio in the format mentioned in the said circular. However, considering the approach and rationale for the share entitlement ratio discussed in para 5 above, the specified format to present the share entitlement ratio will not be applicable in the instant case.

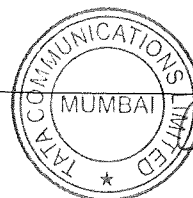
For MSKA & Associates (formerly known as 'MZSK & Associates')  
Chartered Accountants  
ICAI Firm Registration No. 105047W



Rajesh Thakkar  
Partner  
M.No. 103085  
Place: Mumbai



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## 7. Annexure

### Annexure 1: Definition of "Demerger" and "Surplus Land" as per the Scheme

- As per Clause 1(1.1)(h) of the Scheme, "**Demerger**" means the reconstruction or splitting up of the Transferor Company into separate companies by way of transfer of the Surplus Land of the Transferor Company to the Transferee Company in terms of Explanation 5 to Section 2(19AA) of the Income Tax Act, 1961 and other relevant sections of Income Tax Act, 1961 and in compliance with conditions notified in this respect by Central Government and in terms of Sections 230 to 232 of the Companies Act 2013, to give effect to the conditions mentioned under the SHA and SPA, and the consequent issue of equity shares by the Transferee Company to the shareholders of the Transferor Company as set out in this Scheme.;
- As per Clause 1(1.1) (s) of the Scheme "**Surplus Land**" means the pieces and parcels of land described in Schedule 1 hereunder and shall mean and include all the rights, title, interest and/or liabilities, if any, of the Transferor Company in relation thereto. Without prejudice and limitation to the generality of the above, the Surplus Land shall mean and include:
  - i. all rights, title, interest, covenant, undertakings, liabilities including continuing rights, title and interest in connection with the pieces and parcels of land described in Schedule 1, including the balances in the FD Account, and DMRC Compensation;
  - ii. Demerged Liabilities, including the list of Demerged Liabilities known set out in Part A of Schedule 2;
  - iii. litigations, claims and disputes pertaining to the Surplus Land, including those set out in Part B of Schedule 2; and
  - iv. all benefits and obligations under the contracts, deeds, bonds, agreements, schemes, arrangements and other instruments of any nature relating exclusively to the pieces and parcels of land described in Schedule 1;





Annexure 2: Shareholding Pattern of TCL & HPIL

(i) Shareholding Pattern of TCL as on September 30, 2017

Shareholding Pattern as on September 30, 2017	No of Shares	Share Capital (Face Value INR 10 each)	% Shareholding
<u>Promoter:</u>			
• President of India	7,44,46,885	74,44,68,850	26.12%
• Panatone Finvest Limited	8,57,76,654	85,77,66,540	30.10%
• Tata Sons Limited	4,00,87,639	40,08,76,390	14.07%
• The Tata Power Company Limited	1,34,22,037	13,42,20,370	4.71%
<u>Non Promoter:</u>			
• Central Government/ State Government/ President of India	5,25,000	52,50,000	0.18%
• Institutions	5,29,92,585	52,99,25,850	18.59%
• Others	1,77,49,200	17,74,92,000	6.23%
Grand Total	28,50,00,000	285,00,00,000	100.00%

Source: www.bseindia.com

(ii) Shareholding Pattern of HPIL as on September 30, 2017

Shareholding Pattern as on September 30, 2017	No of Shares	Share Capital (Face Value INR 10 each)	% Shareholding
Government of India	25,560	255,600	51.12%
Panatone Finvest Limited	24,440	244,400	48.88%
Grand Total	50,000	500,000	100.00%

Source: Management of the Transferor Company

Annexure 3: Clause 4.7 of Article IV of ARTICLES OF ASSOCIATION OF TATA COMMUNICATIONS LIMITED

**Land**

(a) (i) The Strategic Partner confirms that it shall cause and procure the Company to hive off or demerge the Land into the Resulting Company pursuant to a scheme of arrangement in terms of the provisions of Section 391 to 394 of the Act.

(ii) The Strategic Partner confirms its understanding that it will transfer all such shares in the Resulting Company to the Government as it may acquire as a consequence of this transaction, that is a minimum of 25% of the Resulting Company's issued equity shares or a higher number which shall include shares in the Resulting Company that it may further acquire as a consequence of any further sale of the Equity Shares in the Company by the Government to the Strategic Partner, prior to the demerger, as part consideration of transfer of the Transaction Shares and any subsequent sale of the Company's shares by the Government to the Strategic Partner, pursuant to this transaction.

(b) The Strategic Partner confirms that:

(i) it shall do and cause to be done all and any such acts, matters, deeds and things as are necessary, usual or expedient including voting in favour of the item of business relating to the approval of the scheme of arrangement to implement the hiving off or demerging of the Land into the Resulting Company;

(ii) it shall not directly or indirectly do or cause to be done any acts, matters, deeds or things which may adversely affect or delay the hiving off or demerging of the Land into the Resulting Company.

(c) (i) If for any reason the Company cannot hive off or demerge the Land into the Resulting Company then, subject to Article 5.6 (b) (iv) and (xiv) hereto at any time when the Company sells or transfers the Land or agrees to sell or transfer or otherwise develop the Land, the Strategic Partner shall pay to the Government within seven days of the sale or transfer of the Land an amount equivalent of 25% of the benefit accruing to the Company pursuant to such sale or transfer or otherwise development of the Land, as determined by the Appraiser, after taking into account any impact under the Income Tax Act, 1961.

(ii) Subsequent to this Agreement and the Share Purchase Agreement, if the Government sells more than 25% of its equity shareholding in the Company to the Strategic Partner, then the percentage of amount to be paid to the Government by the Strategic Partner on account of sale or transfer or otherwise development of the Land under Article 4.7(c)(i) shall increase in proportion to the percentage of such further sale of equity shareholding in the Company by the Government to the Strategic Partner. For the purpose of this Article the term "transfer" shall include sale, lease, licence, grant of development rights or the parting of physical possession of the Land or transfer of any interest, whatsoever, in the Land.

As per Article 1(v):

"Strategic Partner" means Panatone Finvest Limited, a company duly incorporated and existing under the provisions of the Companies Act, 1956 and who has purchased 25% of the equity shareholding of the Company from the Government of India, in the year 2002.

