

REPORT OF THE AUDIT COMMITTEE OF NELCO LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AND AMALGAMATION BETWEEN NELCO LIMITED (TRANSFEROR COMPANY) AND ITS SUBSIDIARY COMPANY NAMELY, NELCO NETWORK PRODUCTS LIMITED (TRANSFEEE COMPANY) AND TATANET SERVICES LIMITED (AMALGAMATING COMPANY) AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS. (THE SCHEME)

The Securities and Exchange Board of India vide its circular no. CFD/DIL3 /CIR/2017/21 dated 10th March, 2017 (SEBI Circular) as amended by as modified by Circular no. CFD/DIL3/CIR/2017/26 dated 23rd March, 2017 has, amongst other requirements, sought a report from the Audit Committee of listed companies recommending the Scheme.

The Audit Committee of the Board at the Meeting held 1st September, 2017, has considered and reviewed the draft Scheme of Arrangement and Amalgamation for the Slump Sale of the ISSS business undertaking situated at EL-6 TTC Industrial Electronics Zone, MIDC, Mahape, Navi Mumbai 400 710 and the VSAT hardware business undertaking situated at EL-6 TTC Industrial Electronics Zone, MIDC, Mahape, Navi Mumbai 400 710 by Nelco Limited (Transferor Company) to its wholly owned subsidiary company namely, Nelco Network Products Limited (Transferee Company) and thereafter, amalgamation of Tatanet Services Limited (Amalgamating Company) with Nelco Limited (Amalgamated Company) and their respective shareholders (Scheme) under the provisions of Sections 230 to 232 of the Companies Act, 2013 read with sections 13, 14 and 61 and other relevant provisions of the Companies Act, 2013 read with rules made there under, pursuant to above SEBI Circular.

This report of the Audit Committee is made in order to comply with the requirement of the aforesaid SEBI Circular after considering the following necessary documents:

- 1) Draft Scheme of Arrangement and Amalgamation comprising
 - a) Slump Sale of the business of providing solutions in the areas of Automation Control of Integrated Security and Surveillance Solutions (ISSS) through the supply, installation and fixed annual maintenance of security systems to railways, oil companies, large Government undertakings and other customers (**Transferred Undertaking 1**) to Nelco Network Products Limited (NNPL), on a going concern basis.
 - b) Slump Sale of the business of providing VSAT hardware and allied services consisting of network management, project management, infrastructure services, turnkey solutions for satellite communication systems, and co-location services to all customers other than to Tatanet Services Limited (TNSL) (**Transferred Undertaking 2**) to NNPL, on a going concern basis.



- c) Amalgamation of TNSL (post slump sale) with Nelco Limited (Nelco) in accordance with Section 2(1 B) of the Income Tax Act, 1961 and the consequential alteration of the main objects clause of the Memorandum of Association of Nelco and authorised share capital clause in the Memorandum and Articles of Association of Nelco.

and their respective shareholders under the provisions of Sections 230 to 232 of the Companies Act, 2013 and other relevant provisions of the Companies Act, 2013 read with rules made there under, pursuant to above SEBI Circular;

- 2) Valuation Report dated 1st September 2017, issued by Thacker & Associates, Independent Chartered Accountant;
- 3) Fairness Opinion dated 1st September 2017, issued by J.M. Financial Institutional Securities Limited, a Category I SEBI registered Merchant Banker; and
- 4) Certificate dated 1st September 2017, from the Statutory Auditors of the Company, Deloitte Haskins & Sells LLP regarding compliance with applicable Accounting Treatment.

Proposed Scheme of Arrangement and Amalgamation:

The Committee noted that the salient features of the Scheme are as under:

- a) The scheme is for (i) the transfer by way of slump sale of the Transferred Undertaking 1 and Transferred Undertaking 2 of the Company (as defined in the Scheme) to Nelco Networks Products Ltd. on a going concern basis and (ii) the amalgamation of the Tatanet Services Ltd. with the Company.
- b) The Appointed Date of the Scheme is 1st April, 2017.
- c) The consideration for the transfer by way of slump sale of the Transferred Undertaking 1 is Rs. 10,08,00,000/- (Rupees Ten Crores and Eight Lakhs only).
- d) The consideration for the transfer by way of slump sale of the Transferred Undertaking 2 is Rs.15,83,00,000 (Rupees Fifteen Crores and Eighty Three Lakhs only).
- e) The shares held by the Company in Tatanet Services Ltd. will be cancelled upon the merger of TNSL with the Company.
- f) Upon the transfer of Transferred Undertaking 1 and Transferred Undertaking 2 to Nelco Network Products Ltd. all assets, liabilities, contracts, rights and obligations of these undertakings as of the Effective Date will stand transferred to Nelco Network Products Ltd. save and except the Residual Undertaking of the Transferor Company (as defined in the Scheme).



- g) Upon the amalgamation of Tatanet Services Ltd. with Nelco all assets, liabilities, contracts, rights, telecom licenses and obligations of Tatanet Services Ltd. as of the Effective Date will stand transferred to Nelco.
- h) Upon the Scheme coming into effect, Tatanet Services Ltd. will stand dissolved without winding up.

After reviewing the Scheme, Valuation Report and Fairness Opinion, the Audit Committee also noted the rationale and benefits of the Scheme, which inter-alia includes the following:

- a) TNSL's revenue comes from sale of VSAT communication services, majority of which is recurring in nature. On the other hand, the revenue earned by Nelco is partially from recurring services of hardware maintenance but mainly from one time sale of hardware including VSAT equipment.
- b) The organizational and operational structure would be simplified on completion of the Arrangement and Amalgamation with the VSAT communication service business vesting in Nelco, the flagship listed parent entity and the related hardware business vesting in NNPL. This would result in the recurring revenue from VSAT communication service being in Nelco and the revenue from sale of hardware including VSAT equipment being in NNPL.
- c) The enhanced net worth of Nelco after the Arrangement and Amalgamation will improve its ability to bid for larger projects and pursue bigger opportunities.

Recommendation of the Audit Committee:

The Audit Committee recommends the draft Scheme of Arrangement and Amalgamation for favourable consideration by the Board of Directors of the Company, the Stock Exchanges and the SEBI.

K Raghuraman
Chairman, Audit Committee
Place: Mumbai



Date: 1st September 2017