



Ref: NSE/LIST/40148

August 28, 2015

The Company Secretary
Sterlite Technologies Limited
Godrej Millennium,
9, Koregaon Road,
Pune – 411001.

Kind Attn.: Mr. Amit Deshpande

Dear Sir,

Sub: Observation letter for Scheme of Arrangement between Sterlite Technologies Limited and Sterlite Power Transmission Limited and their respective Shareholders and Creditors.

This has reference to draft Scheme of Arrangement between Sterlite Technologies Limited and Sterlite Power Transmission Limited and their respective Shareholders and Creditors (Pursuant to Sections 391 to 394 read with sections 100-103 of the Companies Act, 1956 and section 52 of the Companies Act 2013) submitted to NSE vide your letter dated June 8, 2015.

Based on our letter reference no Ref: NSE/LIST/32685 submitted to SEBI and pursuant to SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 04, 2013 and SEBI Circular no. CIR/CFD/DIL/8/2013 dated May 21, 2013, SEBI vide letter dated August 27, 2015, has given following comments on the draft Scheme of Amalgamation:

SEBI's Observations with regard to the Scheme of Arrangement:

1. The Scheme, which involves demerger of Power Products and Transmission Grid Business ('Demerged Undertaking') of STL into SPTL, certain concerns are observed with regard to the following:

1.1 Partial Delisting of STL without providing an exit opportunity- an attempt to circumvent the obligations under Delisting Regulations.

1.2 Clubbing of the number of independent unrelated transactions in the draft scheme of arrangement.

1.1 Partial Delisting of STL without providing an exit opportunity- an attempt to circumvent the obligations under Delisting Regulations

1.1.1. The draft scheme proposes to demerge Power Products and Transmission Grid Business ('Demerged Undertaking') of STL into SPTL (an unlisted entity). From the disclosures in draft scheme and supporting documents, it is observed that the contribution of Demerged Undertaking in the operations of STL is as under:

Parameter	STL	Demerged Undertakin	Contri. to STL (%)
Net worth (Rs. Cr.)	1242.65	574.84	46%
Turnover (Rs. Cr.)	3030.10	1499.99	50%
PBT (Rs. Cr.)	99.02	(116.66)	-118%

②



Thus, from the above parameters, it appears that the Demerged Undertaking contributes significantly to the operations of STL.

1.1.2. From the disclosures in draft scheme and supporting documents, it is observed that the SPTL has been incorporated in May 2015 and has very limited experience in Power Products and Transmission Grid Business.

1.1.3. As consideration for the aforesaid demerger, the draft scheme provides for provide an option to the shareholders of the STL to elect the Securities being issued by SPTL as either:

- 1(one) fully paid equity share of Rs. 2/- (Rupees two) each of SPTL for every 5 (five) fully paid up equity shares of Rs. 2/- (Rupees two) each of the STL held by the said Eligible Member;
- 1 (one) fully paid-up redeemable preference share of Rs. 2/- (Rupees two) each at a premium of Rs. 110.30 (Rupees One hundred ten and thirty paise) per redeemable preference share in SPTL for every 5 (five) fully paid equity shares of Rs. 2/- (Rupees two) each of the STL held by the said Eligible Member, with the option of seeking voluntary exit.

1.1.4. The Redeemable Preference Shares issued by SPTL shall be listed on a recognised stock exchange. However, Equity Shares of the SPTL shall not be listed on any stock exchange. Further, the draft scheme provides that Redeemable Preference Shares shall be redeemable on the expiry of 18 (eighteen) months from the date of allotment at a premium of Rs. 123.55 thereof.

1.1.5. The equity shares of SPTL will be unlisted from the date of allotment whereas Redeemable Preference Shares shall cease to exist after 18 months from the date of allotment. This effectively means that no securities of the SPTL will continue to remain listed.

1.1.6. The draft scheme further proposes that the equity shares allotted to non-residents and FII shareholders of STL shall be compulsorily purchased by promoters of the SPTL whereas no such benefit has been extended to resident shareholders. The company could have provided the exit option of compulsory purchase by the Promoters to resident shareholders to maintain parity among shareholders. As per draft scheme, the resident shareholders opting for equity shares will end up holding unlisted equity share whereas non-residents and FIIs will have additional exit option of compulsory purchase by the Promoters. Thus, the exit opportunity provided to shareholders of STL also varies among class of shareholders.

1.1.7 By providing aforesaid exit option only to non-residents and FIIs shareholders, it appears that company has provided preferential treatment to one set of shareholders over others.

1.1.8. SEBI, in order to protect the interest of investors, has put in place SEBI (DELISTING OF EQUITY SHARES) REGULATIONS, 2009 ("Delisting Regulations") which seek to ensure that the delisting of a listed company in the securities market takes place in a fair, equitable and transparent manner. Delisting Regulations are based on the following principles:

- Equality of treatment and opportunity to all shareholders.
- Protection of interests of shareholders.
- Fair and truthful disclosure of all material information by the acquirer in all public announcements.
- Availability of sufficient time to shareholders for making informed decisions.
- Delisting offer to be announced only after most careful and responsible consideration.



- *Delisting Price determined by independent market mechanism (Reverse Book Building)*
- 1.1.9. *Delisting Regulations require the promoter to make an offer/ give exit opportunity to incumbent shareholders before delisting the listed Company.*
- 1.1.10. *However, it may be argued that such delisting of listed company due to scheme of arrangement pursuant to the sanction of Hon'ble High Court will not be in line with the procedure laid down in Delisting Regulations.*
- 1.1.11. *Partial delisting of listed company is taking place without any reasonable exit opportunity to the public shareholders of the listed entity. Moreover, the shareholding of the erstwhile public shareholders of the listed entity in SPTL would get reduced to a significantly low percentage in the post scheme capital, i.e. from 45.17% to only 6.57% of post-scheme capital of SPTL if all STL shareholders opt for Redeemable Preference Shares Option.*
- 1.1.12. *Partial delisting of listed company is being achieved without going through the transparent mechanism of envisaged in the Delisting Regulations. Thus, the principles underlying the regulations have also been defeated because of this non-transparent method adopted through the Scheme of Arrangement.*
- 1.1.13. *The present Scheme appears to have been designed as an artifice to circumvent the compliance with the provisions of the Delisting Regulations.*
- 1.2. ***Clubbing of the number of independent unrelated transactions in the draft scheme of arrangement***
 - 1.2.1 *The draft scheme, in addition to demerger of demerge Power Products and Transmission Grid Business ('Demerged Undertaking') of STL into SPTL, seeks approval for following:*
 - *Transfer of investment in ENICL to Sterlite Grid Limited (SGL)*
 - *Enhancing the borrowing and lending limit of the SPTL to Rs. 3000 cr.*
 - 1.2.2 *Due to the clubbing of the number of independent unrelated transactions in the draft scheme of arrangement, the shareholders are required to choose (by voting) either the all transactions together or none of the transactions. Had the transaction involving ENICL or enhancing the borrowing and lending limit not been included in draft scheme, the regulatory framework would have provided opportunity to the shareholders to decide on each transaction independent of decision on approval the draft scheme. The limited supporting information about the transactions further aggravates the problem.*

2. Conclusion on the Scheme of Arrangement

- 2.1. *The Scheme of Arrangement in its current form is resulting in partial delisting of a listed company and will be detrimental to the public shareholders of STL as the delisting process is achieved through a non-transparent, inequitable and unfair method.*
- 2.2. *Due to clubbing of the number of independent unrelated transactions in the draft scheme of arrangement, the right of the shareholders to decide on each transaction independent of decision on approval the draft scheme has been diluted.*

The above comments/observations do not preclude the company from filing the draft scheme with the Hon'ble High Court for sanction.



In addition to above, the Company has to comply with following:-


- a. *The Company to ensure that "fairness opinion" submitted by the Company Sterlite Technologies Limited, as forwarded by NSE, vide Letter received by SEBI on June 11, 2015, is displayed from the date of receipt of this letter on the website of the listed Company along with various documents submitted pursuant to the Circulars.*
- b. *Considering that STL is promoter of SPTL and the shareholding of STL in SPTL is proposed to be cancelled as part of the proposed scheme, it may advise the Company to consider modifying the draft scheme to clearly state that the obligation of purchasing equity shares and redeemable preference shares pursuant to the scheme of arrangement will be on promoters of STL and not on STL, as informed by STL in earlier communications.*
- c. *The Company shall duly comply with various provisions of the Circulars.*

Further, in case the Company proposes to file the present scheme with the Hon'ble High Court, the company is advised to take following actions:

- a. The objections/observation of the SEBI and/or Stock Exchange shall be incorporated in the petition to be filed before the Hon 'ble High Court and the Company is obligated to bring the aforesaid objections to the notice of the Hon'ble High Court;.
- b. To request the Hon'ble High Court to serve a notice on Stock Exchange and SEBI, in case if any clarification is required to enable Stock Exchange and SEBI to appear before the Hon'ble High Court.
- c. To provide a copy of advertisement to Stock Exchange, in case the Hon'ble High Court directs the company to advertise the scheme inviting objections, if any, to the scheme, before approving the scheme.

Yours faithfully,

For National Stock Exchange of India Limited

 Kamlesh Patel
Manager