



MAITHON POWER LIMITED

Revision in markup under RPT

Approved by: Board of Directors

Date : Wednesday, 16th October 2019

FOR MAITHON POWER LIMITED

P. S. S.

AUTHORISED SIGNATORY



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Date:	18 April 2017
To:	Mr. Aditya Mishra The Tata Power Company Limited ('TPCL')
From:	Mr. Anis Chakravarty / Mr. Bhupendra Kothari / Mr. Deepak Makhija Deloitte Touche Tohmatsu India LLP ('DTTI LLP' / 'we' / 'us' / 'our')
Subject:	Transfer Pricing benchmarking analysis for the operations - Technical services rendered by The Tata Power Company Limited to its group companies

This note has been prepared for determining the arm's length mark-up for availing of technical services from The Tata Power Company Limited ("TPCL") by its group companies under the Companies Act 2013 ("2013 Act"). Though no guidance has been provided under the 2013 Act on application of arm's length price to related party transactions ("RPTs"), reference has been sought from international best practices and Indian transfer pricing regulations on the subject matter.

Based on study of inter-company agreements provided and discussion with TPCL's personnel, it is observed that services rendered by TPCL includes monitoring the setting-up of power plant, ensuring proper and smooth operation & maintenance of plant, etc. These services has been discussed in detailed as under:

A. Technical services

The technical services comprises of 3 broad types:

(A) Project Management Services ("PMS")

PMS involves services in nature of project management, project monitoring & control, project inspection & expediting, contract management, construction management and commissioning of power plants.

TPCL undertakes resource assignment job, create work break down structure and develop manpower mobilization plan for the project. It also undertakes monitoring of site construction and flagging of delays to the respective management personnel of group companies. TPCL tabs the progress on the project on timely basis and provides monthly report to the management of group companies.

(B) Asset Management Services ("AMS")

AMS involves monitoring the overall operation and management ("O&M") of the power plant i.e. supervise and co-ordinate with third party O&M contractor to ensure that power plant operates at efficient level, review design-engineering documents in relation to safety and operability of plant, develop a mobilization plan detailing the activities, sequence and

schedule in preparation to operate the plant recruit the plant staff and arrange training for their deployment at site and various other services.

(C) Corporate Service Agreement (“CSA”)

CSA involves rendering of technical advisory services in relation to overall O&M of the power plant. The services also involves advisory in relation to equipment, product technology and design, residual life assessment and life extension projects, diagnostic and analytical services for operating plants, data acquisition and analysis for predictive behaviour of plant and equipment, occurrence analysis, evaluating and adopting tools for enhanced statistical prediction, system/network studies for control of plants and equipment fatigue, overhauls and interventions for life extension of plant and equipment.

The above services are high end and technical in nature which involves expertise of operating and constructing a power plant. TPCL over the period of time has developed such expertise and has agreed to provide such technical services to its group companies at the arm’s length compensation.

In view of the above, Tata Power is characterised as technical service provider (not carrying out any sort of procurement of asset activity)

B. Databases used

A search for the companies comparable to TPCL was conducted using the publicly available database namely ProwessIQ, having large number of Indian companies. A brief description of the database is available at **Appendix A**. The search for comparable companies was carried out using the version updated as on 27 January 2017.

It is notable here that the database has data of the Indian companies, in pre-defined sets, based on the business/economic activities carried out by it. We used the pre-defined sets to categorise companies into three sets, namely Manufacturing, Trading and Services. The details of pre-defined sets (including the sub-classification and sub-sub-classification) that were used for categorization of the companies into the three sets are provided in **Appendix A**.

The activities performed by TPCL are in the nature of technical services. For identifying potential comparable companies that perform similar functions and bear similar risks to that of TPCL, we selected the ‘Services set’.

C. Number of Years Used for analysis

The Central Board of Direct Taxes had notified on 19 October 2015 rules for determining arm’s length price in respect of all the related party transactions entered into on or after 1 April 2014, using multiple year data and range.

As per these rules, Rule 10B(5) of the Income Tax Rules, 1962 (the Rules), the data to be used for determining arm’s length price shall be:

- (i) The data relating to the current year; or
- (ii) The data relating to the Financial Year (FY) immediately preceding the current year, if the data relating to the current year is not available at the time of furnishing the return of income by the assessee, for the assessment year relevant to the current year.

As the arm's length price of the international transactions entered into during FY 2015-16 is required to be determined based on the above rule, we have included the comparable companies having data for the current year (i.e. FY 2015-16) or the year immediately preceding the current year (i.e. FY 2014-15) while applying the primary quantitative criteria.

The table below outlines the criteria applied for selecting companies based on the data available:

FY 2015-16	FY 2014-15	Accept / Reject
Yes	Yes	Accept
Yes	No	Accept
No	Yes	Accept
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Further, the rules permit the use of multiple year data for arriving at the data set, while undertaking comparability analysis. Hence, while analysing financial results, where data for the year ended 31st March 2016 is available, the same has been considered along with the data for the year ended 31st March 2015 and 31st March 2014.

D. Financial Year Alignment

In the database, it was observed that the accounting period for all the companies listed in the databases is not uniform. For the purpose of this analysis, the financial data of the companies has been aligned based on the end-date of the financial year in the following manner:

Financial year end-date falling between	Considered as the data for the FY
01 April 2013 to 31 March 2014	2013-14
01 April 2014 to 31 March 2015	2014-15
01 April 2015 to 31 March 2016	2015-16

E. Application of Primary Quantitative Filters

The financial information viz., the profit and loss statements and the balance sheet data of the companies, as reported in the respective databases, was used for application of the primary quantitative filters. A standard definition for each line item was arrived at to have consistency in usage of the data from Prowess. **Appendix B** outlines in detail the method used for classifying the various line items.

Following primary quantitative filters were applied using the data of the companies available for FY 2015-16 and / or FY 2014-15:

- **Minimum turnover:** Accepted companies that reported net sales (as defined in Appendix

B) equal to or more than INR 1 crore;

- **Positive net worth:** Accepted companies that reported net worth more than zero. The networth value as provided by the databases was used for applying this filter; and
- **Service income:** Accepted companies that had majority of their revenue from services activities i.e. the ratio of manufacturing sales and trading sales to net sales (as defined in Appendix B) less than 50 percent.

F. Application of Additional Quantitative Filter Based on Annual Report

The annual reports of the companies which satisfied the aforementioned primary quantitative filters, were downloaded from various sources including the websites and report.capitaline.com. Following additional quantitative filter was applied using the data of the companies available for FY 2015-16 and / or FY 2014-15:

- **Related party transaction to net sales ratio** – Accepted companies having ratio of related party transaction to net sales less than 25 percent.

G. Selection of Industry Classifications / Keywords

The information obtained from the above sources along with information from the company websites, were reviewed to classify the companies into various industry and sub-industry. The industry and sub-industry classifications are provided in **Appendix C**.

From the above list of industry and sub-industry classifications and the keywords available in ProwessIQ databases, the following categories of industry filters / keywords was / were used for identifying potential comparable companies:

Table: Industry classifications selected

Particulars	Industry / keyword
Industry classification as per Database	Technical Consultancy & Engineering Services
	Other Consultancy
	Other Business Activities Nec

H. Detailed Qualitative Review

The business descriptions of the set of companies so obtained from the above step were reviewed in detail. The source for reviewing the qualitative information included the company websites and latest annual reports as was publicly available. Using the sources, the following reviews were done:

- Review of annual reports; and
- Review from company websites / internet.

Companies which queered the comparability analysis were rejected in this step for the following reasons:

- Undertaking significantly different functions / providing different services or products (e.g. manufacture, trading, Engineering, Procurement and commissioning or diverse activities);
- Inadequate business segment information;
- Having extraordinary events during the year or years under study (e.g. mergers, acquisitions, or restructuring) that would impact the comparability of the company;
- Incomplete financial data or annual reports not available
- Government companies;
- Reporting abnormal fluctuating margins.

The above analysis resulted in a set of **12** independent broadly comparable companies engaged in technical services.

I. Summary of Search Process

The results of the above analysis carried out are tabulated herein below:

Set obtained from Prowess

Sr. No.	Search Criteria	Eliminated companies	Accepted companies
1	Total number of companies in Prowess classified under 'All Industries' as on 27 January 2017	41,015	
2	Total number of companies classified under 'Services' based on the pre-defined set	36,588	4,427
3	Data availability: Accepted companies that reported financial data in the current year if available or immediately preceding financial year	2,011	2,416
4	Application of basic quantitative filters: Accepted companies that passed the below mentioned criteria in the current year if available or immediately preceding financial year		
a)	Accepted companies that reported Net sales greater than or equal to INR 1 crore	568	1,848
b)	Accepted companies that reported Net worth greater than 0	281	1,567
c)	Accepted companies that reported Manufacturing +Trading income to sales as less than 50%	73	1,494
5	Accepted companies classified under Industry classification / keywords selected	1,390	104
6	Application of qualitative filters based on review of annual reports and other information available in the public domain		
a)	Accepted companies that performed similar functions as that of the TPCL (including rejecting government companies, group company)	65	39

Sr. No.	Search Criteria	Eliminated companies	Accepted companies
b)	Accepted companies that reported complete financial data / annual report containing both balance sheet data and profit and loss statement	22	17
(c)	Accepted companies having ratio of related party transaction to net sales less than 25%	5	
7	Companies that passed through all the above filters	12	

Please refer **Appendix D** and **Appendix E** for the Accept-Reject matrix.

J. Computation of Arm's Length Price

Rule 10CA of the Rules provides that if the application of the TNMM results in more than one price, the arm's length price would be determined by constructing a data set. The data set has to be prepared by placing the prices in an ascending order.

In case the current year of data is used for analyzing comparability, the data set would be prepared by considering the weighted average values of the current year as well as the previous two years in which same or similar uncontrolled transactions have been undertaken.

On the other hand, if the data of the FY preceding the current year is used for analyzing comparability, the data set would be prepared by considering the weighted average values of the two consecutive FYs preceding the current year in which same or similar uncontrolled transactions have been undertaken.

Considering the degree of comparability and the other factors covered in Section 10B, as mentioned earlier, we have selected TNMM as the most appropriate method. The Rule 10CA provides that in case the TNMM is selected as the most appropriate method, the weighted average of the prices would be computed based on the operating profit to revenue, assets, cost or any other base for determining the arm's length price.

Considering the type and nature of proposed arrangement, a return on total operating cost i.e. operating profit/ total operating cost (OP/TC) was selected as the profit level indicator. Therefore, weighted average was computed by considering the operating cost as the base.

The weighted average operating profit to operating cost of the comparable companies is provided below:

Financial analysis of comparable companies

Sr. No.	Name of comparable companies	FY 2013-14 (In %)	FY 2014-15 (In %)	FY 2015-16 (In %)	Weighted Unadjusted Average (IN %)
1	Artefact Projects Limited	22.56	19.26	18.3	20.13
2	Bechtel India Pvt. Limited	13.88	12.51	NA	13.12
3	Korus Engineering Solutions Private Limited	16.68	NA	NA	16.68

Sr. No.	Name of comparable companies	FY 2013-14 (In %)	FY 2014-15 (In %)	FY 2015-16 (In %)	Weighted Unadjusted Average (IN %)
4	D R A Consultants Limited	26.7	26.7	26.51	26.61
5	Feedback Infra Private Limited	10.96	13.57	NA	12.26
6	Kitco Limited	30.55	23.92	NA	27.04
7	L & T Technology Services Limited	17.12	16.21	19.8	18.07
8	Mahindra Consulting Engineers Limited	2.32	11.81	12.18	10.17
9	Semac Consultants Private Limited	22.04	7.44	NA	14.31
10	Tata Consulting Engineers Limited	15.79	15.37	NA	15.56
11	U O P India Private Limited	20.13	25.07	24.49	23.28
12	V M S Engg. & Design Services Private Limited	18.11	18.38	NA	18.25
Upper Quartile (65th percentile)					15.56
Median					17.37
Lower Quartile (35th percentile)					18.25
Mean					17.96

Please refer **Appendix F** for business descriptions and financial margin computation.

Rule 10CA (4) provides that in case there are six or more comparable, the arm's length range would be between thirty-fifth percentile and the sixty-fifth percentile of the dataset. Based on the said rule, the arm's length range of weighted average operating profit to total operating cost of the broadly independent comparable companies is **15.56** percent to **18.25** percent and the median of the data set is **17.37** percent.

K. Conclusion

Based on the functional and economic analysis undertaken in detail above, return on total operating cost of the comparable companies is in the range of **15.56** percent to **18.25** per cent with median being **17.37** percent meets the ALP criteria as required under Indian TP regulations.

Note: We recommend to revisit the arm's length margin on a regular basis to align the Company's transfer pricing policy to ensure mark to market compensation. Any deviation of the mark-up from the aforesaid arm's length range should be backed by the proper business reasons or other economic analysis.

Appendix A – Identification of Three Broad Sets from the Databases

The publicly available database viz., ProwessIQ, (updated as of 27 January 2017) have been used to identify potential comparable uncontrolled companies for determining the arm’s length price.

The search process consisted of the following main stages of identifying three broad sets – Manufacturing, Trading and Services, from the databases:

1. Prowess provides pre-defined sets classifying companies into Non-financial and Financial services. These are further sub-classified into various functions and services as mentioned in the table below;

Pre-defined set	Sub-classification	Sub-Sub-classification	
Non-Financial Services	Manufacturing		
	Mining		
	Electricity		
	Services		Hotels & Tourism
			Wholesale & retail trading
			Transport Services
			Communication Services
			Information Technology
		Misc. Services	
		Construction & Real Estate	
Financial Services	Banking Services		
	Investment Services		
	Asset financing Services		
	Other fund based financial services		
	Fee based financial services		
	Other financial services		

For quantitative and qualitative screening, companies pertaining to manufacturing and trading functions and non-financial services were extracted as three different sets, as given in the table below;

- Manufacturing Set

Pre-defined set	Sub-classification
Non-Financial Services	Manufacturing
	Mining

	Electricity
	Construction & Real Estate

- Trading Set

Pre-defined set	Sub-classification	Sub-Sub-classification
Non-Financial Services	Services	Wholesale & retail trading

- Services Set

Pre-defined set	Sub-classification	Sub-Sub-classification
Non-Financial Services	Services	Hotels & Tourism
		Transport Services
		Communication Services
		Information Technology
		Misc.Services

Appendix B – Data definition

Database: ProwessIQ	Data definition
Line Items	Formula
Sales Manufacturing	Sales of goods + Sale of scrap + Sale of electricity, gas and water
Sales Trading	Trading income
Other Operating income (Service Income)	Income from non-financial services + Job-work income + Construction income + Income from repairs & maintenance including after-sales service income - Rent income - Sales Trading
Indirect taxes (Net Sales)	Excise duty + Sales tax + Value added tax + Turnover tax + Service tax
Net Sales	Sales manufacturing + Sales trading + Other operating income + Fiscal benefits - Indirect taxes (Net Sales)
Raw Material Consumption	Raw materials, stores & spares + Packaging and packing expenses + Purchase of finished goods + Sale of raw materials and stores
Indirect taxes (Input Costs)	Indirect taxes - Indirect taxes (Net Sales)
Input Cost	Raw material consumption + Indirect taxes (Input Costs) - Change in stock
Gross profit	Net Sales - Input Cost
Energy	Power & Fuel
Employee Cost	Compensation to employees - Voluntary retirement scheme (VRS) (amortised) - Payment under VRS (one time charge)
Depreciation	Depreciation - Lease equalisation adjustment
Other Operating Expenses	Water charges + Royalties, technical know-how fees, etc + Rent & lease rent + Insurance premium paid + Outsourced manufacturing jobs + Outsourced professional jobs + Directors' salary + Travel expenses + Communications expenses + Printing & stationery expenses + Miscellaneous expenditure + Other operational expenses of industrial enterprises + Other operational expenses of non-financial services enterprises - Expenses charged to other expenditure heads
Value added expenditure (VAE)	Energy + Employee cost + Depreciation + Amortization + Advertising + Marketing + Distribution + Bad Debts written off + Provisions for bad and doubtful advances, debts & debtors + Repairs & maintenance + Other operating expense - Expense recovered - Expense capitalized
Operating Cost	Input Cost + Value added expenditure (VAE)
Operating profit	Net Sales - Total Cost
Other Income	Rent income + Income from financial services - Lease equalisation adjustment + Liquidated damages + Miscellaneous income + Prior period and extra ordinary income

Database: ProwessIQ	Data definition
Line Items	Formula
Non-operating expenditure	Payment under vrs + Financial services expenses + Total provisions + write-offs + Prior period and extraordinary expenses
Average Debtors	<p>Average (Sundry Debtors, prevy(sundry_debtors))</p> <p>Sundry Debtors = Average(Total Sundry Debtors(L), Total Sundry Debtors(L-1))</p> <p>Total Sundry Debtors = Sundry debtors (outstanding less than six months) + Sundry debtors (outstanding over six months) + Bills receivable</p>
Inventory	Raw materials, packing material, & stores & spares + Finished & semi-finished goods
Cash profit	Operating profit + Depreciation + Amortization
Advertising, Marketing and Distribution	Advertising + Marketing + Distribution
Reco of Operating Profit with Profit After Tax (PAT)	(Operating profit + Other Income) - Non-operating expenditure - PAT (as per Prowess) - Provision for direct tax

Appendix C – Industry Classification

Industry	Sub Industry
Administrative support services	Office administrative support services
Advertising Services	Advertising and related activities
	Advertising and Market Research
	Entertainment & media content provider
	Television/Radio broadcasting media
	Online advertising services
Agency/Broking Services	Agency broking services
Agriculture support services	Agriculture support services
Animation services	Animation content provider
	Online gaming services
Asset Rental/Leasing Services	Hire purchase and leasing services
	Renting Services
Aviation services	Aviation services
Business support services	Legal and professional services
	Payroll services
	Accounting and reporting services
	Other - Business support services
Cable Operations & Broadcasting	Broadcasting media
	Cable Operation
Certification services	Certification and testing services
Clinical Trial/Contract Research	Clinical trial/Contract research
Commission Agents	Trade & commissioning agent's services
Engineering and design services	Architectural services & interior designing services
	Engineering and design services – CAD / CAM
	Engineering consultancy and services
Entertainment/Production house/Malls/Clubs	Motion picture production, distribution & exhibition
	Clubs and other entertainment
	Marketing of telefilms/serials/TV programmes

Industry	Sub Industry
EPC Services	Engineering, Procurement and Construction Services
Exhibition & Publications	Motion picture exhibition Event management services Printing and service activities related to printing of brochures/pamphlets, etc.
Financial Services	Asset management Services Financial Consultancy & Advisory Services Portfolio management services Securities Broking Services Securities investment services Insurance services Other – financial services Investment advisory services
Hospitality & Tourism	Hotel and food services Travel and tourism services Others - hospitality & tourism
Hospitals and Diagnostic Centres	Hospitals and diagnostic centres Medical support services Veterinary services Dental services Others - hospitals and diagnostic centres
HR Recruitment Services	HR consultancy services Placement / manpower / staffing Professional services
Infrastructure services	Construction and allied activities Infrastructure for recreation, cultural services, etc (incl studio) Infrastructure Services Real estate development Toll collection services Civil engineering
IT enabled Services	BPO Services / call center Data processing / mining Database / content management services IT enabled software services IT enabled transaction processing services Medical transcription and consultancy Software training & consultancy services GIS services Image processing services
Journalism services	Journalism services Online journalism services

Industry	Sub Industry
Knowledge process outsourcing services	Business and financial data analysis
	Market research/survey
	Others - KPO
Management Services	Management consultancy Services
Marketing/Sales Support Services	Marketing, consultation fees, sales commission, distribution, market research
	Telemarketing & data entry
	Royalty, marketing & service charges
	Customer relationship management services
	Others - marketing/sales support services
Mining support services	Exploration and maintenance of mines
	Others - mining support services
Personal service activities	Beauty services
	Dry cleaning and laundry services
	Facility management services
	Others - personal service activities
Public services	Public administration services
	Water and electricity management services
	Sewage management services
Publishing and printing services	Publishing, printing and related services
	E-publishing
Repairs and maintenance support services	Repairs and maintenance support services
Research & Development	Research & development (non pharma)
	Scientific research & development
Security Services	Security Services
Shipping services	Maintenance and management of vessels
	Port services
	Shipping agents
Software Development Services	Cloud based services
	Computer software & technical services
	Computer software & training education
	Computer software incl. licenses & subscr. Charges
	Computer software, designs & applications
	Operation & maintenance of software
	Software development & implementation
	Software testing
	IT infrastructure management
	Software development services
Computer programming and consultancy	

Industry	Sub Industry
	Software integration
	Others - software development services
Software Product Development	Software development, portals & website
	Software Products
	Software products sales & services
Sourcing / procurement services	Sourcing / procurement services
SWD/ITeS/SPD	Software products and solutions/services
	Software development services and BPO
	Software products and BPO services
	Software products/software services/BPO
Technical support services	Technical support services
Telecommunication Services	Telecommunication services
Training & Education	Training & education
	Online training and education
	Education content development
Transportation and Logistics	Freight forwarding services / custom clearance
	Transportation and logistics
	Supply chain management
	Courier agency services
	Warehousing services
Web-hosting Services	Data communication systems
	Database services
	Web portal
	E-commerce services
	Maintenance of websites

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Date:	1 August 2017
To:	Mr. Aditya Mishra The Tata Power Company Limited ('TPCL')
From:	Mr. Anis Chakravarty / Mr. Bhupendra Kothari / Mr. Deepak Makhija Deloitte Touche Tohmatsu India LLP ('DTTI LLP' / 'we' / 'us' / 'our')
Subject:	Transfer Pricing benchmarking analysis for Support services rendered by The Tata Power Company Limited to its group companies

This note has been prepared for determining the arm's length mark-up for availing of support services from The Tata Power Company Limited ("TPCL") by its group companies under the Companies Act 2013 ("2013 Act"). Though no guidance has been provided under the 2013 Act on application of arm's length price to related party transactions ("RPTs"), reference has been sought from international best practices and Indian transfer pricing regulations on the subject matter.

Based on study of inter-company agreements provided and discussion with TPCL's personnel, it is observed that services rendered by TPCL are in the nature of support services. These services has been discussed in detailed as under:

A. Support services

The support services provided by TPCL includes the following:

- Provision of manpower support;
- Provision of technical training to staff;
- Assistance in framing of policies;
- Ensuring implementation of policies;
- Provision of management personnel support;
- Provision of management support,
- Calling for tendering, negotiation and assistance in price fixing of commercial contracts; and
- Provision of project related support services i.e. making data entries in SAP system, Payments processing, Issuance of C-forms, registration with various authorities, maintaining accurate cost ledgers and accounting records, Co-operating with the

independent public accountant, timely liaison with different relevant authorities, preparation of annual budget for operation and maintenance of the facility and house-keeping at plant, etc.

B. Databases used

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D. Financial Year Alignment

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The information obtained from the above sources along with information from the company websites, were reviewed to classify the companies into various industry and sub-industry. The

industry and sub-industry classifications are provided in **Appendix C**.

From the above list of industry and sub-industry classifications and the keywords available in ProwessIQ databases, the following categories of industry filters were used for identifying potential comparable companies:

Table: Industry classifications selected

Particulars	Industry / keyword
Industry classification as per Database	Business Services
	Entertainment Content Provider
	Commission Agents Services
	Motion Picture Exhibition
	Entertainment & Media Content Provider
	Market Research & Public Opinion Polling
	Advertising
	Business Management
	Event Management Services
	Marketing Of Telefilms/Serials/Tv Programmes
	Business Activity Nec
	Business Services
	Call Centers
	Database Services
	Information Technology Enabled Service/BPO
	Investigation & Securities Activities
	Management Consultancy
	Market Research & Public Opinion Poll
	Medical & Health Services
	Other Business Activities Nec
	Other Consultancy
	Other Education
	Other Personal Services
	Placement & HR Consultancy Service
Professional Courses	
Portal	
Specialized Medical Centers	

H. Detailed Qualitative Review

The business descriptions of the set of companies so obtained from the above step were reviewed in detail. The source for reviewing the qualitative information included the company websites and latest annual reports as was publicly available. Using the sources, the following reviews were done:

- Review of annual reports; and
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- Incomplete financial data or annual reports not available
- Government companies
- Having consistent losses in previous years
- Reporting abnormal fluctuating margins

The above analysis resulted in a set of **25** independent broadly comparable companies engaged in support services.

I. Summary of Search Process

The results of the above analysis carried out are tabulated herein below:

Set obtained from Prowess

Sr. No.	Search Criteria	Eliminated companies	Accepted companies
1	Total number of companies in Prowess classified under 'All Industries' as on 27 January 2017	41,015	
2	Total number of companies classified under 'Services' based on the pre-defined set	36,588	4,427
3	Data availability: Accepted companies that reported financial data in the current year if available or immediately preceding financial year	2,011	2,416
4	Application of basic quantitative filters: Accepted companies that passed the below mentioned criteria in the current year if available or immediately preceding financial year		
a)	Accepted companies that reported Net sales greater than or equal to INR 1 crore	568	1,848
b)	Accepted companies that reported Net worth greater than 0	281	1,567
c)	Accepted companies that reported Manufacturing +Trading income to sales as less than 50%	73	1,494
5	Accepted companies classified under Industry classification / keywords selected	1,110	384
6	Application of qualitative filters based on review of annual reports and other information available in the public domain		
a)	Accepted companies that performed similar functions as that of the TPCL (including rejecting government companies, group company, consistent loss-making)	325	59

Sr. No.	Search Criteria	Eliminated companies	Accepted companies
b)	Accepted companies that reported complete financial data / annual report containing both balance sheet data and profit and loss statement	21	38
(c)	Accepted companies having ratio of related party transaction to net sales less than 25%	13	
7	Companies that passed through all the above filters	25	

Please refer **Appendix D** for the Accept-Reject matrix.

J. Computation of Arm's Length Price

Rule 10CA of the Rules provides that if the application of the TNMM results in more than one price, the arm's length price would be determined by constructing a data set. The data set has to be prepared by placing the prices in an ascending order. In case the current year of data is used for analyzing comparability, the data set would be prepared by considering the weighted average values of the current year as well as the previous two years in which same or similar uncontrolled transactions have been undertaken.

On the other hand, if the data of the FY preceding the current year is used for analyzing comparability, the data set would be prepared by considering the weighted average values of the two consecutive FYs preceding the current year in which same or similar uncontrolled transactions have been undertaken.

Considering the degree of comparability and the other factors covered in Section 10B, as mentioned earlier, we have selected TNMM as the most appropriate method. The Rule 10CA provides that in case the TNMM is selected as the most appropriate method, the weighted average of the prices would be computed based on the operating profit to revenue, assets, cost or any other base for determining the arm's length price.

Considering the type and nature of proposed arrangement, a return on total operating cost i.e. operating profit/ total operating cost (OP/TC) was selected as the profit level indicator. Therefore, weighted average was computed by considering the operating cost as the base.

The weighted average operating profit to operating cost of the comparable companies is provided below:

Financial analysis of comparable companies

Sr. No	Name of comparable companies	FY 2013-14 (in %)	FY 2014-15 (in %)	FY 2015-16 (in %)	Weighted Unadjusted Average
1	3I Infotech B P O Ltd.	1.69	8.97	5.03	4.98
2	3I Infotech Consultancy Services Ltd.	3.23	7.20	5.14	5.15
3	A 2 Z Infraservices Ltd.	6.35	7.22	6.99	6.87
4	Cosmic Global Ltd.	18.11	6.32	5.35	10.00
5	Eclerx Services Ltd.	70.14	41.36	52.87	53.20

Sr. No	Name of comparable companies	FY 2013-14 (in %)	FY 2014-15 (in %)	FY 2015-16 (in %)	Weighted Unadjusted Average
6	Firstsource Solutions Ltd.	17.71	21.50	23.27	20.70
7	Forbes Facility Services Pvt. Ltd.	4.58	1.98	0.71	2.11
8	H G S Intl. Services Pvt. Ltd.	33.62	27.67	35.62	32.62
9	I C R A Online Ltd.	28.26	30.99	36.49	32.42
10	Mahindra Integrated Business Solutions Pvt. Ltd.	20.30	19.18	5.04	13.68
11	Concept Public Relations India Ltd.	10.45	17.34	NA	14.66
12	D D B Mudra Max Pvt. Ltd.	5.18	3.54	NA	4.36
13	E R M India Pvt. Ltd.	9.04	4.73	NA	6.85
14	I Media Corp Ltd.	34.31	-22.03	6.72	11.79
15	Majestic Research Services & Solutions Ltd.	9.18	19.01	NA	15.97
16	Marketing Communication & Advertising Ltd.	9.06	8.77	NA	8.91
17	Pressman Advertising Ltd.	7.70	12.81	13.24	11.36
18	Vibrant Advertising Pvt. Ltd.	7.37	18.40	NA	13.22
19	Egon Zehnder International Private Limited	NA	28.64	34.04	31.42
20	Virtual Global Education Limited	NA	1.85	10.55	8.17
21	I C R A Management Consulting Services Limited	NA	19.83	16.34	18.07
22	Grow Talent Company Limited	10.20	NA	NA	10.20
23	I E C S Consultancy Limited	9.77	7.71	NA	8.82
24	Aristotle Consulting	10.26	8.84	NA	9.49
25	Security & Intelligence Services (I) Limited	9.44	8.16	NA	8.16
35th percentile					8.82
Median					10.20
65th percentile					13.68
Arithmetic Mean					14.53

NA – Not Applicable

Please refer **Appendix E** for business descriptions and financial margin computation.



Rule 10CA (4) provides that in case there are six or more comparable, the arm's length range would be between thirty-fifth percentile and the sixty-fifth percentile of the dataset. Based on the said rule, the arm's length range of weighted average operating profit to total operating cost of the broadly independent comparable companies is **8.82** percent to **13.68** percent and the median of the data set is **10.20** percent.

K. Conclusion

Based on the functional and economic analysis undertaken in detail above, return on total operating cost of the comparable companies is in the range of **8.82** percent to **13.68** per cent with median being **10.20** percent meets the ALP criteria as required under Indian TP regulations.

Note: We recommend to revisit the arm's length margin on a regular basis to align the Company's transfer pricing policy to ensure mark to market compensation. Any deviation of the mark-up from the aforesaid arm's length range should be backed by the proper business reasons or other economic analysis.

Appendix A – Identification of Three Broad Sets from the Databases

The publicly available database viz., ProwessIQ, (updated as of 27 January 2017) have been used to identify potential comparable uncontrolled companies for determining the arm’s length price.

The search process consisted of the following main stages of identifying three broad sets – Manufacturing, Trading and Services, from the databases:

1. Prowess provides pre-defined sets classifying companies into Non-financial and Financial services. These are further sub-classified into various functions and services as mentioned in the table below;

Pre-defined set	Sub-classification	Sub-Sub-classification
Non-Financial Services	Manufacturing	
	Mining	
	Electricity	
	Services	Hotels & Tourism
		Wholesale & retail trading
		Transport Services
		Communication Services
		Information Technology
		Misc. Services
		Construction & Real Estate
Financial Services	Banking Services	
	Investment Services	
	Asset financing Services	
	Other fund based financial services	
	Fee based financial services	
	Other financial services	

For quantitative and qualitative screening, companies pertaining to manufacturing and trading functions and non-financial services were extracted as three different sets, as given in the table below;

- Manufacturing Set

Pre-defined set	Sub-classification
Non-Financial Services	Manufacturing
	Mining
	Electricity
	Construction & Real Estate

- Trading Set

Pre-defined set	Sub-classification	Sub-Sub-classification
Non-Financial Services	Services	Wholesale & retail trading

- Services Set

Pre-defined set	Sub-classification	Sub-Sub-classification
Non-Financial Services	Services	Hotels & Tourism
		Transport Services
		Communication Services
		Information Technology
		Misc. Services

Appendix B – Data definition

Database: ProwessIQ	Data definition
Line Items	Formula
Sales Manufacturing	Sales of goods + Sale of scrap + Sale of electricity, gas and water
Sales Trading	Trading income
Other Operating income (Service Income)	Income from non-financial services + Job-work income + Construction income + Income from repairs & maintenance including after-sales service income - Rent income - Sales Trading
Indirect taxes (Net Sales)	Excise duty + Sales tax + Value added tax + Turnover tax + Service tax
Net Sales	Sales manufacturing + Sales trading + Other operating income + Fiscal benefits - Indirect taxes (Net Sales)
Raw Material Consumption	Raw materials, stores & spares + Packaging and packing expenses + Purchase of finished goods + Sale of raw materials and stores
Indirect taxes (Input Costs)	Indirect taxes - Indirect taxes (Net Sales)
Input Cost	Raw material consumption + Indirect taxes (Input Costs) - Change in stock
Gross profit	Net Sales - Input Cost
Energy	Power & Fuel
Employee Cost	Compensation to employees - Voluntary retirement scheme (VRS) (amortized) - Payment under VRS (one time charge)
Depreciation	Depreciation - Lease equalization adjustment
Other Operating Expenses	Water charges + Royalties, technical know-how fees, etc. + Rent & lease rent + Insurance premium paid + Outsourced manufacturing jobs + Outsourced professional jobs + Directors' salary + Travel expenses + Communications expenses + Printing & stationery expenses + Miscellaneous expenditure + Other operational expenses of industrial enterprises + Other operational expenses of non-financial services enterprises - Expenses charged to other expenditure heads
Value added expenditure (VAE)	Energy + Employee cost + Depreciation + Amortization + Advertising + Marketing + Distribution + Bad Debts written off + Provisions for bad and doubtful advances, debts & debtors + Repairs & maintenance + Other operating expense - Expense recovered - Expense capitalized
Operating Cost	Input Cost + Value added expenditure (VAE)
Operating profit	Net Sales - Total Cost
Other Income	Rent income + Income from financial services - Lease equalization adjustment + Liquidated damages + Miscellaneous income + Prior period and extra ordinary income
Non-operating expenditure	Payment under vrs + Financial services expenses + Total provisions + write-offs + Prior period and extraordinary expenses

Database: ProwessIQ	Data definition
Line Items	Formula
Average Debtors	<p>Average (Sundry Debtors, prevy(sundry debtors))</p> <p>Sundry Debtors = Average(Total Sundry Debtors(L), Total Sundry Debtors(L-1))</p> <p>Total Sundry Debtors = Sundry debtors (outstanding less than six months) + Sundry debtors (outstanding over six months) + Bills receivable</p>
Inventory	Raw materials, packing material, & stores & spares + Finished & semi-finished goods
Cash profit	Operating profit + Depreciation + Amortization
Advertising, Marketing and Distribution	Advertising + Marketing + Distribution
Reco of Operating Profit with Profit After Tax (PAT)	(Operating profit + Other Income) - Non-operating expenditure - PAT (as per Prowess) - Provision for direct tax



Appendix C – Industry Classification

Industry	Sub Industry
Administrative support services	Office administrative support services
Advertising Services	Advertising and related activities Advertising and Market Research Entertainment & media content provider Television/Radio broadcasting media Online advertising services
Agency/Broking Services	Agency broking services
Agriculture support services	Agriculture support services
Animation services	Animation content provider Online gaming services
Asset Rental/Leasing Services	Hire purchase and leasing services Renting Services
Aviation services	Aviation services
Business support services	Legal and professional services Payroll services Accounting and reporting services Other - Business support services
Cable Operations & Broadcasting	Broadcasting media Cable Operation
Certification services	Certification and testing services
Clinical Trial/Contract Research	Clinical trial/Contract research
Commission Agents	Trade & commissioning agent's services
Engineering and design services	Architectural services & interior designing services Engineering and design services - CAD / CAM Engineering consultancy and services
Entertainment/Production house/Malls/Clubs	Motion picture production, distribution & exhibition Clubs and other entertainment Marketing of telefilms/serials/TV programmes
EPC Services	Engineering, Procurement and Construction Services

Industry	Sub Industry
Exhibition & Publications	Motion picture exhibition
	Event management services
	Printing and service activities related to printing of brochures/pamphlets, etc.
Financial Services	Asset management Services
	Financial Consultancy & Advisory Services
	Portfolio management services
	Securities Broking Services
	Securities investment services
	Insurance services
	Other - financial services
	Investment advisory services
Hospitality & Tourism	Hotel and food services
	Travel and tourism services
	Others - hospitality & tourism
Hospitals and Diagnostic Centres	Hospitals and diagnostic centres
	Medical support services
	Veterinary services
	Dental services
	Others - hospitals and diagnostic centres
HR Recruitment Services	HR consultancy services
	Placement / manpower / staffing
	Professional services
Infrastructure services	Construction and allied activities
	Infrastructure for recreation, cultural services, etc (incl studio)
	Infrastructure Services
	Real estate development
	Toll collection services
	Civil engineering
IT enabled Services	BPO Services / call center
	Data processing / mining
	Database / content management services
	IT enabled software services
	IT enabled transaction processing services
	Medical transcription and consultancy
	Software training & consultancy services
	GIS services
	Image processing services
Journalism services	Journalism services
	Online journalism services
Knowledge process outsourcing services	Business and financial data analysis
	Market research/survey
	Others - KPO

Industry	Sub Industry
Management Services	Management consultancy Services
Marketing/Sales Support Services	Marketing, consultation fees, sales commission, distribution, market research
	Telemarketing & data entry
	Royalty, marketing & service charges
	Customer relationship management services
	Others - marketing/sales support services
Mining support services	Exploration and maintenance of mines
	Others - mining support services
Personal service activities	Beauty services
	Dry cleaning and laundry services
	Facility management services
	Others - personal service activities
Public services	Public administration services
	Water and electricity management services
	Sewage management services
Publishing and printing services	Publishing, printing and related services
	E-publishing
Repairs and maintenance support services	Repairs and maintenance support services
Research & Development	Research & development (non pharma)
	Scientific research & development
Security Services	Security Services
Shipping services	Maintenance and management of vessels
	Port services
	Shipping agents
Software Development Services	Cloud based services
	Computer software & technical services
	Computer software & training education
	Computer software incl. licenses & subscr. Charges
	Computer software, designs & applications
	Operation & maintenance of software
	Software development & implementation
	Software testing
	IT infrastructure management
	Software development services
	Computer programming and consultancy
	Software integration
	Others - software development services
Software Product Development	Software development, portals & website
	Software Products
	Software products sales & services

Industry	Sub Industry
Sourcing / procurement services	Sourcing / procurement services
SWD/ITeS/SPD	Software products and solutions/services
	Software development services and BPO
	Software products and BPO services
	Software products/software services/BPO
Technical support services	Technical support services
Telecommunication Services	Telecommunication services
Training & Education	Training & education
	Online training and education
	Education content development
Transportation and Logistics	Freight forwarding services / custom clearance
	Transportation and logistics
	Supply chain management
	Courier agency services
	Warehousing services
Web-hosting Services	Data communication systems
	Database services
	Web portal
	E-commerce services
	Maintenance of websites