

**REPORT OF THE AUDIT COMMITTEE OF 3i INFOTECH LIMITED ("COMPANY") RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND ITS SHAREHOLDERS DATED JUNE 29, 2018**

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To  
The Board of Directors  
3i Infotech Limited  
Tower No. 5, International Infotech Park,  
Vashi Station, Complex,  
Navi Mumbai - 400703

**1. Background**

- 1.1. A meeting of the Audit Committee of the Company was held on June 29, 2018 to consider and recommend the proposed Scheme of Arrangement between the Company and its shareholders, under Sections 230 - 232 and other applicable provisions of the Companies Act, 2013 ("**Scheme**").
- 1.2. This report of the Audit Committee is made to comply with the requirements of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SEBI circular number CFD/DIL3/CIR/2017/21 dated March 10, 2017 and as amended from time to time.
- 1.3. The following documents were placed before the Audit Committee:
  - (a) Draft Scheme, duly initialed by the Company Secretary of the Company for identification; and
  - (b) Fairness opinion dated June 29, 2018 ("**Fairness Opinion**") prepared by Saffron Capital Advisors Private Limited, independent Merchant Banker providing the Fairness Opinion on the Scheme.
  - (c) Independent Auditor's Certificate in terms of Para (I) (A) (5) of Annexure I of the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 read with SEBI Circular No. CFD/DIL3/CIR/2018/2 dated January 3, 2018 ("Accounting Treatment Certificate") issued by M/s GMJ & Company, Chartered Accountants (Firm Registration No. 103429W) and

**2. Proposed Scheme**

- 2.1. The Audit Committee noted the rationale and the benefits of the Scheme which, *inter-alia*, are as follows:
  - (i) The Company has suffered substantial losses since FY 2011-12 and has not been able to scale its business and unleash its full potential for growth and profitability. However, there has been a turnaround in the fortunes of the Company. The Company has in the financial year 2016-17 and 2017-18, reported profits on a consolidated basis and it has also entered into a Supplemental Master Restructuring Agreement with its lenders with a view to proactively manage its debt position.
  - (ii) As per the audited financial statements for the year ended March 31, 2018, the Company has accumulated losses amounting to INR2526.99 crores. The said accumulated losses have wiped off the value represented by the share capital. Thus, the financial statements of the Company are not reflective of the financial position of the Company.
  - (iii) Due to huge accumulated losses of the prior years, the financial statements do not reflect the turnaround in the business of the Company. Thus, with a view to ensure that (i) the financial statements of the Company reflect its true and fair financial health/ position; and



- (ii) to obliterate the share capital being lost and not represented by available assets of the Company, it is necessary to carry out reduction of share capital of the Company. Subsequent, to reduction, the consolidation of equity shares aims to maintain optimum liquidity in the market commensurate with other entities of similar size and in similar business.
- (iv) The reduction of share capital and subsequent consolidation in the manner proposed herein would enable the Company to rationalise its capital structure and present a true and fair financial position of the Company which commensurate with its business and assets.
- (v) Hence, the proposed reduction of share capital and subsequent consolidation is in the interest of the Company and its shareholders, creditors and all concerned.

2.2. The salient features of the draft Scheme are as under:

- (i) Reduction of share capital of the Company on the Record Date (as defined in the Scheme). Such reduction shall be effected by reducing the face value of the equity shares of the Company from INR 10 to INR 1. The capital so reduced will be utilized to write off the accumulated losses of the Company.
- (ii) Subsequent to such reduction in face value of the equity shares of the Company, the Scheme provides for consolidation of 10 equity shares of the Company of INR 1 into one equity share of the Company of INR 10 each.

2.3. The Audit Committee reviewed the Fairness Opinion and noted the recommendations made therein. Further, the Fairness Opinion confirmed that the Scheme is fair to the shareholders of the Company.

2.4. Further, the Audit Committee reviewed the Accounting Treatment Certificate and noted that that the accounting treatment in the Scheme is in line with generally accepted accounting principles.

### 3. Recommendation of the Audit Committee

Taking into consideration the draft Scheme, Fairness Opinion and Accounting Treatment Certificate as placed, the Audit Committee recommends the draft Scheme to the Board of Directors of the Company for its consideration and approval.

By Order of the Audit Committee

For and on behalf of **3i INFOTECH LIMITED**



Shashank Desai

**Chairman**

**Audit Committee**

Place: Mumbai

Date: June 29, 2018