Stovec Industries Limited

Contract Manufacturing Benchmarking

17 February 2020

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1. Executive Summary

Stovec Industries Limited ("SIL" or "the Company") incorporated in 1973 is a subsidiary of SPGPrints B.V. ("SPGPrints"). SIL is primarily in the business of textile machinery and textile consumables, while it also deals in graphic products and galvanic products. The manufacturing plant and corporate office of SIL is situated at Lambha Village, Ahmedabad, Gujarat[1].

Considering the domestic market scenario, Stovec estimates that it would have additional capacity for manufacturing of textile screens. Hence, it is desirable by SIL to enter into a 'Contract Manufacturing Agreement' with SPGPrints for supply of textile screens. For the said support SIL will charge an arms length mark-up on the actual cost (comprising of the production and general admin cost allocable to this operation)

The objective of this report is to identify mark-up for contract manufacturing activity undertaken by SIL which meets the arm's length principle, contained in the Indian Transfer Pricing Regulations ("Indian Regulations") and in addition refers to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations ("OECD Guidelines") published by the Organisation for Economic Cooperation and Development ("OECD") for further guidance in applying the arm's length standard.

The search was undertaken on Capitaline database to identify comparable companies engaged in the provision of contract manufacturing in India region, providing similar services as being rendered by SIL. In this regard, Operating Profit/Total Cost ("OP/TC") was considered as the reliable profit level indicator for the purpose of this analysis. SIL when selling to SPGPrints would cater to an export market, while the comparable contract manufacturers identified were catering to the domestic market. Hence, an adjustment with regard to the difference in market of SIL and the selected uncontrolled comparables was made.

The Table 1 below summarises the outcome of the economic analysis.

Table 1: Adjusted Weighted Average OP/TC results of comparable contract manufacturing companies

No. of comparable companies	35 Percentile	Median	65 Percentile
7	10.43%	11.79%	12.10%

Further, we identified manufacturers catering to export market. The Table 2 below summarises the outcome.

Table 2: Weighted Average OP/TC results of comparable manufacturing companies catering to export market

No. of comparable companies	35 Percentile	Median	65 Percentile
6	10.83%	11.01%	11.19%

[1] https://in.reuters.com/finance/stocks/company-profile/STOV.BO

Our analysis shows that the range of OP/TC of comparable companies is 10.43% to 12.10% with a median of 11.79%.

The, price of international transactions between Stovec and SPGPrints that achieve an OP/TC between the above-mentioned range would meet the arm's length standard required under the Indian Regulations. However, it is prudent to set the mark-up close to the median or above, considering the litigious tax environment in India.

2. About SPG

2.1. SPGPrints Group

SPGPrints Group is headquartered in Boxmeer, Netherlands. It was founded in 1947 by Gaitjan Bilderbeek and Henk Edens by venturing into the business of supplying equipment for the dairy industry. Subsequently, the Group entered into textile industry in 1953, sugar industry in 1975 and graphic industry in 1981.

The Group has three major sections, as follows:

- Textile
- Graphics
- Metal Precision[2]

SPGPrints Group's primary market was textile printing. Its technical innovations made it the first one to be able to offer high-speed printing of popular designs. Today, with its global presence in the Netherlands, USA, Mexico, UK, China, India, Pakistan etc., SPGPrints Group is one of the market leaders in rotary screen printing for the textile industry, label and industrial markets. It also has a significant position in digital printing.[3]

2.2. Stovec Industries Limited

SIL is a part of SPGPrints Group[4]. SIL is primarily in the business of textile machinery and textile consumables, while it also deals in graphic products and galvanic products. The company manufactures and markets perforated rotary and engraved cylindrical screens, galvano consumables and screens printing machines. SIL is also engaged in trading of digital inks and other products. The manufacturing plant and corporate office of SIL is situated at Lambha Village, Ahmedabad, Gujarat[5].

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2 https://www.spgprints.com/spgprints-group/history
https://www.spgprints.com/spgprints-group
3 https://www.spgprints.com/spgprints-group/history
https://www.spgprints.com/spgprints-group/companies-agents
https://www.spgprints.com/spgprints-group
4 https://in.reuters.com/finance/stocks/company-profile/STOV.BO
5 https://in.reuters.com/finance/stocks/company-profile/STOV.BO

3. Contract Manufacturing

3.1. Contract Manufacturing Agreement

Considering the domestic market scenario, Stovec estimates that it would have additional capacity for manufacturing of textile screens. Hence, it is desirable by SIL to enter into a 'Contract Manufacturing Agreement' with SPGPrints for supply of textile screens.

SIL will not be required to make any additional capital investments to improve or expand its existing manufacturing facility beyond its current state for supplying the products under the said agreement. SIL will manufacture products as per the specification provided by SPGPrints and any manufacturing defect in product will be borne by SIL. However, SPGPrints will have the product defect risk if it is due to defect in product specification.

For the said support SIL will charge an arms length mark-up on the actual cost (comprising of the production and general admin cost allocable to this operation).

3.2. Economic Analysis

3.2.1. Selection of the tested party

The choice of the tested party should be consistent with the functional analysis of the transaction. As a general rule, the tested party is the one to which a transfer pricing method can be applied in the most reliable manner and for which the most reliable comparables can be found i.e. it will most often be the one that has the less complex functional analysis.[6]

For the contract manufacturing to be undertaken by SIL for SPGPrints, it is easier to identify the costs incurred by the contract manufacturing entity and the Operating Profit (mark-up) earned thereon. Also, as these services are availed by a Group company only, there are limited risks in providing such services.

Accordingly, SIL was selected as the tested party for economic analysis.

3.2.2. Selection of most appropriate method

The Transactional Net Margin Method ("TNMM") assesses the arm's length character of transfer prices in a controlled transaction by testing the profit results of one participant in the transaction. The TNMM examines the net profit[7] relative to an appropriate base (e.g. costs, sales, assets) that a taxpayer realises from a controlled transaction (or transactions that are appropriate to aggregate....)[8].

Under the TNMM, comparable transactions need to be broadly similar. Significant product diversity and some functional diversity between the controlled and uncontrolled parties are acceptable.

One strength of the TNMM is that profit level indicators ("PLI") (e.g. return on assets, operating income to sales, and possibly other measures of net profit) are less affected by transactional differences than is the case with price, as used in the Comparable Uncontrollable Price Method. PLIs

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[6] OECD Guidelines 3.18

[7] The expression 'net profit' has not been defined in the Indian Regulations. However, OECD Guidelines permit the use of operating margins for the purpose of benchmarking under the TNMM. We have adopted the same interpretation for this transfer pricing analysis.

[8] OECD Guidelines 2.64

also may be more tolerant to some functional differences between the controlled and uncontrolled transactions than gross profit margins. Differences in the functions performed between enterprises are often reflected in variations in operating expenses. Consequently, enterprises may have a wide range of gross profit margins but still earn broadly similar levels of net operating profit Indicators.[9]

Accordingly, TNMM was selected as the most appropriate method for the economic analysis.

3.2.3. Choice of Profit level indicator

The application of TNMM requires the selection of an appropriate PLI. The PLI measures the relationship between (i) profits and (ii) either costs incurred, revenue earned, or assets employed. A variety of PLI can be used. TNMM aims at arriving at the arm's length operating profit (i.e. profit before financial and non-operating expenses).

Full-cost mark-up was selected to reliably measure the income of the tested party that it would have earned had it dealt with uncontrolled parties at arm's length.

The return on total cost or full-cost mark-up (“Operating Profit/ Total Cost”) is similar to an operating margin indicator except that the denominator is cost-based rather than revenue based. This ratio is also easy to calculate and because the denominator includes both operating expenses and cost of goods sold, it is less susceptible (than the use of gross margins) to accounting and functional differences. As service providers usually have functional differences because of the varied nature of services, the return on total cost is generally considered an acceptable PLI.

3.3. External Benchmarking

3.4. Search Process

The search for comparables was undertaken, keeping in mind, that SIL is engaged in providing contract manufacturing services.

Accordingly, our comparable search strategy covered one broad segment of manufacturers engaged in provision of contract manufacturing services and companies engaged in manufacturing of metal products catering to export marketwere considered.

The selection may include certain companies having changed their financial year during the period under consideration.

To perform this analysis, a proprietary transfer pricing application of PwC, Transfer Pricing Intelligence (TPI), which sources data from Capitaline TP was used. For details about this application and its limitations and selection of time period, please refer Appendix B and C respectively.

9 OECD Guidelines 2.68

3.4.1. Search from Capitaline TP through TPI-TNMM

The source of data for our search was Capitaline TP database. Companies have been extracted only if they had relevant financial data for FY 2018-19 or FY 2017-18.

Table 3: Summary of Search Process – Entity and Segment Level

Search Summary	Criteria	Total	Entity	Segment
Tested Party FYE	03/31/2019			
Timeframe (years)	3			
Alignment Rule	12 & 0			
Aligned Dates	FY19:4/1/2018 - 3/31/2019; FY18:4/1/2017 - 3/31/2018; FY17:4/1/2016 - 3/31/2017;			
Financial Values	shown in ₹ 10,000,000			
Mode	India (Capitaline)			
IQR Method	India_CBDT			
Currency	INR			
Data Vendors (in priority order)	Capitaline TP Entity, Capitaline TP Segment			
Forex	Non-Operating			
Data Set	2019-04 Capitaline	58,933	54,684	4,249
Company Type (no finance, bank, insurance or trading services)	Yes	40,342	36,093	4,249
Turnover greater than 0 for L or L-1	Yes	10,286	6,037	4,249
Total After Removing Duplicates and Before Quantitative Screening:		**10,286**	**6,037**	**4,249**
Turnover >= INR 1 crore for L or L-1	Keeping companies and segments that have Turnover greater than or equal to INR 1 crore for L or L-1.	-867	-537	-330
Net Worth >= 0 for L or L-1	Keeping companies and segments that have Net Worth greater than or equal to 0 for L or L-1.	-565	-389	-176
R&D to Turnover	Keeping companies that have R&D to Turnover less than or equal to 3.00%	-93	-93	0
Advertising & Marketing Expenses to Turnover	Keeping companies that have Advertising & Marketing Expenses to Turnover less than or equal to 5.00%	-280	-280	0
Ownership	Keeping only companies and segments with PwC Ownership equal to "Private owned"	-349	-97	-252

Search Summary	Criteria	Total	Entity	Segment
Function	Keeping only companies and segments with PwC Function equal to "Manufacturer" or "Manufacturer/Distributor"	-3,383	-1,973	-1,410
Industry	Keeping only companies and segments with PwC Industry equal to "Machinery (Combination of Electrical Machinery other than electronics, Non electrical machinery and electronics)", "Diversified", "Base Metals" or "Textiles"	-2,615	-1,486	-1,129
Segment Type	Keeping only segments with PwC Segment equal to "Business Segment"	-399	0	-399
Total Before Qualitative Screening:		**1,735**	**1,182**	**553**
Companies/Segment rejected based on business description and information from website		-1722	-1170	-552
Total Accepted[10]:		**18**	**17**	**1**

Table 4: Companies and Segments accepted

S. No.	Names of the companies and segments	Data Source[11]
(A)	**Contract Manufactures**	
1	Hindustan Foods Ltd	CPL
2	Integra Engineering India Ltd	CPL
3	JHS Svendgaard Laboratories Ltd	CPL
4	Lipi Data Systems Ltd	CPL
5	Prima Automation India Pvt Ltd	CPL
6	Shree Pacetronix Ltd	CPL
7	GTN Industries Ltd	CPL
8	Ginni Filaments Ltd - Others	CPLS
(B)	**Manufacturers Catering to Export Market**	
9	Dembla Valves Ltd	CPL
10	Jash Engineering Ltd	CPL
11	JC Valvulas India Pvt Ltd	CPL
12	Maharashtra Seamless Ltd	CPL
13	Man Industries (India) Ltd	CPL

10 Before applying RPT Filter
11 Legend: CPL – Capitaline TP Entity; CPLS – Capitaline TP Segment

S. No.	Names of the companies and segments	Data Source[11]
14	Oswal Industries Ltd	CPL
15	Shri Lakshmi Metal Udyog Ltd	CPL
16	Transpares Ltd	CPL
17	Vallabh Steels Ltd	CPL
18	Welspun Corp Ltd	CPL

Accounting Standard 17 ("AS-17") on 'Segment reporting' came into effect in respect of accounting periods commencing on or after 01 April, 2001, and is mandatory for enterprises listed on recognised stock exchanges or for those enterprises whose turnover for the accounting period exceeds INR 50 crores.

IND AS came into effect in respect of accounting periods commencing on or after 01 April, 2016 and is applicable to following companies

a) Companies whose Equity or Debt Securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than INR 500 crore.

b) Unlisted Companies having net worth of INR 250 crore or more but less than INR 500 crore.

c) Holding, Subsidiary, Joint Venture / Associate Companies of Companies covered in (a) and (b) above.

IND AS 108 relates to 'Segment reporting'. The objective of AS-17/IND AS 108 is to establish principles for reporting financial information about the different types of products and services of an enterprise and the different geographical areas in which it operates. Segmental financial data, where available and as applicable, was also considered in this analysis.

The segments considered for our analysis were based on common segments disclosed in latest or one year immediately preceding the current year (when current year data is not available). The segmental data of companies appearing in the database was exhaustively considered. We extracted segmental financial data from Capitaline TP using the segment query module as given in the database.

It may be noted that due to the unavailability of disaggregated financial information as part of segmental financial data, i.e., the limitation of information on the various items of income, expenditure, assets, and liabilities, we primarily relied on qualitative information for the purposes of the comparable search. However, we quantitatively screened12 to select those segments (of companies) with a positive net worth and excluded segments (of companies) whose net worth had eroded.

Further, where segmental financial data were available and provided a closer comparison than the company level financial data, the segmental financial data were considered for the purposes of this analysis.

12 It may be noted that since this data is not available on a segmental basis the filter was applied by using the information provided for the company as a whole.

3.4.2. Elimination of companies having related party transactions

The total number of comparable companies and/or segments prior to applying related party transactions filter were 18.

From the above, based on information available in the databases, we eliminated companies having related party transactions which had an impact on their operating profit.

The threshold limit for rejecting comparable companies having related party transactions has been set at 25%.

The period to be considered for RPT analysis would be the current year or one year immediately preceding the current year (where current year data is not available).

The basis of determining the threshold limit would be the ratio of all operating level (operating expenses and revenue) related party transactions to Total Sales.

This resulted in the number of comparable companies and/or segments being reduced from 18 to 13.

Finally, we were left with 13 comparable companies and/or segments post analysing the filters based on each of the individual year criteria as per Rule 10CA.

3.4.3. Adjustments

If there are material differences between the enterprises being examined, adjustments may need to be made to them to improve the reliability of the results if the effect of such differences on prices or profits can be ascertained with sufficient accuracy.

SIL when selling to SPGPrints would cater to an export market, while the comparable contract manufacturers identified were catering to the domestic market. Thus, the reward expectation would be change with change in market. Hence, an adjustment with regard to the difference in market of SIL and the selected uncontrolled comparables was made.

3.5. Arm's Length Result

The Indian Regulations[13] require that the ALP in relation to an international transaction shall be determined by any of the prescribed methods (CUP, RPM, CPM, TNMM, PSM and Other Method), being the most appropriate method.

All methods other than CUP and Other Method are methods that enable determination of ALP on the basis of respective margins earned by comparable uncontrolled companies. The relevant Rules envisage determination of ALP by applying margins of each comparable company / segment to the appropriate base of the enterprise. The Regulations further provide that, where more than one price is determined by the most appropriate method, the ALP shall be taken to be the arithmetical mean of such prices.[14]

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13 Section 92C(1)

14 To illustrate, say where the TNMM is applied using Operating Profit / Total Cost (OP / TC) as a Profit level indicator and there are 6 or more comparable companies, the OP / TC of the comparable companies are arranged in ascending order and the arm's length range would be data points lying between the 35th and 65th percentile of the data set. This is as per the CBDT Notification No. 83 dated 19th October, 2015.

An alternative practical approach to arrive at such ALP could be to compute the range [15] of margins of comparable companies / segments and apply the same to the appropriate base of SIL to determine the ALP.

The data of the accepted companies / segments has been updated from database updated till December 2019.

We have accordingly determined the range [16] of the margins of the comparable companies / segments as seen in the table below:

Table 5: Arm's length result of contract manufacturing companies

Sr. No.	Name of the Company	Data Sources[17]	Weighted Average OP/TC	Adjusted Weighted Average OP/TC
1	Hindustan Foods Ltd	CPL	6.42%	12.10%
2	Integra Engineering India Ltd	CPL	4.75%	10.43%
3	JHS Svendgaard Laboratories Ltd	CPL	6.79%	12.47%
4	Lipi Data Systems Ltd	CPL	4.56%	10.24%
5	Prima Automation India Pvt Ltd	CPL	3.72%	9.32%
6	Shree Pacetronix Ltd	CPL	6.62%	11.79%
7	Ginni Filaments Ltd- Others	CPLS	18.92%	18.92%
	Count		*7*	*7*
	35th Percentile		***4.75%***	***10.43%***
	Median		***6.42%***	***11.79%***
	65th Percentile		***6.62%***	***12.10%***

15 Rule 10CA(4)
16 Rule 10CA(4)
17 Legend: CPL – Capitaline TP Entity; CPLS – Capitaline TP Segment

Table 6: Arm's length result of manufacturing companies catering to export oriented

Sr. No.	Name of the Company	Data Sources[18]	Weighted Average OP/TC
1	Dembla Valves Ltd	CPL	11.98%
2	Jash Engineering Ltd	CPL	10.83%
3	JC Valvulas India Pvt Ltd	CPL	3.32%
4	Maharashtra Seamless Ltd	CPL	11.61%
5	Man Industries (India) Ltd	CPL	3.36%
6	Oswal Industries Ltd	CPL	11.19%
	Count		**6**
	35th Percentile		***10.83%***
	Median		***11.01%***
	65th Percentile		**11.19%**

Our analysis shows that the range of adjusted weighted average OP/TC of comparable companies is 10.43% to 12.10% with a median of 11.79%. Hence, prices of international transactions of SIL that achieve an OP/TC of 10.43% or higher would meet the arm's length standard required under the Indian Regulations as per the third proviso to section 92C(2) of the Act read with Rule 10CA(4) of the Rules.

The business description of the comparable companies have been provided in **Appendix F**.

18 Legend: CPL – Capitaline TP Entity;

Appendices

Appendices

Appendix A. Abbreviations

Table 7: Abbreviations

AEs	Associated Enterprises
FCMU	Full Cost Mark-Up
Indian Regulations	Indian Transfer Pricing Regulations
OECD	Organization for Economic Co-operation and Development
OECD Guidelines	Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations
OP/TC	Operating Profit/Total Cost
PLI	Profit level indicator
SIL	Stovec Industries Limited
SPGPrints	SPGPrints B.V.
TPI	Transfer Pricing Intelligence
TNMM	Transactional Net Margin Method

Appendix B. Scope and limitations

Price Waterhouse & Co LLP has been engaged by Stovec India Limited ("SIL" or "the Company") to review the transfer pricing arrangement for international transaction that the Company is going to enter with its associated enterprise ("AE") on the terms set out in our engagement letter read with the scope and limitations as provided below.

This document was prepared by Price Waterhouse & Co LLP in connection with the provision of an analysis of functions and comparable data to assist SIL to identify arm's length mark-up for the international transaction. Price Waterhouse & Co LLP has not examined any of SIL's other tax obligations arising separately or in conjunction with our transfer pricing analysis.

The maintenance of the information and documents as envisaged under the Indian Regulations is the responsibility of the management of the Company. The Company's management is responsible for properly recording all transactions in the accounting records and for establishing and maintaining internal control sufficient to permit the appropriate documentation in conformity with the requirements of the Indian Regulations.

The results of our transfer pricing analysis and our recommendations in this document are based on facts and financial data as of March 31, 2019 and are pertinent to the financial year ended March 31, 2019. On a going forward basis, the results would need to be altered so as to incorporate latest financial results and any changes in the functions performed, risks assumed and the level of tangible and intangible assets owned and employed by SIL and its AE. Also, we recommend that SIL reviews and updates its transfer pricing arrangements to reflect changes in the market or changes in the nature of its intra-group transactions.

This document is based upon information and explanations provided by personnel of SIL. Price Waterhouse & Co LLP disclaims any liability for the analysis based on incorrect or inaccurate information provided to us relating to the operations of SIL and its international transaction under review.

In addition, in preparing this document, Price Waterhouse & Co LLP has relied upon the accuracy of information generated from databases (which are licensed from third parties) and does not assume any responsibility in respect of any inaccuracies, omissions or errors, which may subsequently be discovered in information contained in the databases.

While we believe our results reflect reasonable interpretations of the Indian Transfer Pricing Regulations, these results are not binding on any regulatory/tax authority. As a consequence, this document should not be taken as assurance that any regulatory/tax authority will agree with our conclusions or that the same would prevail against a proposed transfer pricing adjustment.

If there are any changes in the tax laws or regulations or market conditions in India, or in the business practices of SIL, our opinions and results would necessarily have to be re-evaluated.

Neither Price Waterhouse & Co LLP nor any individuals associated with this document shall be required, by reason of this document, to provide testimony to appear in Court or at other legal proceedings, unless specific arrangements to do so have been made.

Appendix C.Databases and Application used and their limitations

Capitaline TP Database

The search for comparable uncontrolled companies relied on the financial information extracted from Capitaline TP database, a widely recognised electronic corporate database developed and maintained by Capital Markets Publishers India Pvt. Ltd. It contains financial information on companies that include public, private, cooperative and joint sector companies, listed or otherwise.

During the year, the compilers of this database standardised and normalised the data through the reclassification of certain heads of income, expenses, assets and liabilities.

Financial data is updated in Capitaline TP as and when the data is made available with the database provider. Information updated in this database till December 2019 was used for this analysis. The economic analysis has focused on the financial results of companies having financial years ending during the period April 1, 2016 and March 31, 2019.

Our work using database was subject to the following limitations:

We have not tested the validity of the search engine employed by the database.

a. We have not in general, examined the published financial statements of the companies in our comparable set, nor have we otherwise enquired into the nature of their circumstances, activities or results.

b. The financial data provided in the database is not complete in all respects for all companies and the data is classified and treated in a manner that is unique to Capitaline TP. Accordingly the data fields provided by Capitaline TP have been used by us to define various financial terms. The Indian Accounting Standards and Generally Accepted Accounting Practices / Principles followed in India do not specifically define certain financial terms and those coined by us for the purposes of this benchmarking exercise (e.g. gross profit, direct and indirect costs of production, operating profit, net profit, value adding expenses etc.)19 Also, they are typically not represented in the annual accounts of companies nor is the level of disaggregated information required to define such financial terms typically available in annual accounts. We believe that our definitions are reasonable and appropriate in view of general accounting and cost accounting concepts.

c. In the cases of most of the companies, Capitaline TP does not provide financial data such as break-up of sales into sales from manufacturing, trading and / or service income. Accordingly, the classification of companies into these categories was undertaken on the basis of qualitative analysis.

d. Capitaline TP does not reclassify company defined segments i.e. it reports the segments as defined by the company.

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[19] The pre-defined financial terms have been specifically used while querying on company level data. These pre-defined definitions could not be used for the purpose of segmental analysis and therefore, we have relied on the segmental data as provided by these databases.

e. Disaggregated financial information is not available as part of the segmental information i.e. no break-down of the various items of income and expenditure and the segregation of manufacturing and traded sales is available. Furthermore, in the segmental information reported by the companies, not all items of income and expenditure are allocated to the various segments. This results in 'net unallocable income / expenditure'. Accordingly, in using segmental database we adopted the following approach:

   – Identification of a segment as a manufacturing, trading or services segment is based on the qualitative analysis of information available in the database.

   – Due to the limited availability of financial information in respect of individual segments, we can use segmental information where TNMM is applied and where return on sales or return on total cost is used as the PLI. The calculation of alternative PLIs e.g. return on value added expenses, return on capital employed or gross margin is not possible where segmental information is used, neither is it possible to identify or evaluate the segment specific data pertaining to related party transactions.

   – Consequently, to use the TNMM, operating profit has been computed by allocating the 'net unallocable expenses' (as provided in the database as on the cut-off date) in the ratio of gross segmental sales mentioned in the database.

TPI Application

TPI is a proprietary transfer pricing application of PwC that combines information from multiple databases and repositories allowing practitioners to gain insight into projects, people, specialties and other project related concepts. The reason for using TPI in addition to the databases is that the functionality of databases have certain limitations whereby most of the review steps are more suitably performed in TPI. Through the use of TPI users can create profiles, add global transfer pricing projects, and even see what other work practitioners have done.

TPI- TNMM

It is a PwC proprietary next generation comparable tool. There are about 4 million companies currently available with about 100,000 of them having financial data. Data is sourced directly from:

- Standard & Poor's Xpressfeed data feed management solution, specifically the Capital IQ platform
- Standard & Poor's Xpressfeed data feed management solution, specifically Compustat
- Thomson Reuters Fundamentals Global
- BvD ORBIS
- BvD TP Catalyst
- Capitaline TP

Appendix D.Selection of time period

As per the Indian Regulations[20], the data to be used in analysing the comparability of an uncontrolled transaction with an international shall be the data relating to the current financial year in which the controlled transaction has been entered into or the year immediately preceding the current financial year. However, data relating to two years prior to such financial year shall be considered for computation of arm's length price.

It may be noted that current year company accounts may not have been filed and entered on the database before the comparable company has filed their accounts with regulatory authorities. However, we have, as far as possible, depending upon availability, also considered companies having their year ending anytime during the current financial year. Further, quarterly financial data, where available, would be in an abridged form and may be unaudited, and also would not provide all the necessary information required for analysing the comparability. Accordingly, the said data, if used may distort comparability.

Further, the regulations[21] require that the comparable data, as far as possible, should be contemporaneous and should exist latest by the due date of filing the return of income for the year under consideration.

Use of multiple year data for the purpose of computation of ALP is permitted under the Indian Regulations, with the possibility of a look back of up to two financial years prior to the current financial year. Through use of multiple year data, differences due to factors such as business or product cycles can be effectively taken into account and comparability can be reliably determined. Also, there are various differences in accounting standards and practices adopted by the enterprises. Some are permanent differences, while others are timing differences that reverse over time and are generally adequately overcome by the use of multiple year data, or when the period under examination is long enough.

Under a realistic situation, the arm's length nature of the transaction undertaken should be assessed at the point of undertaking the transaction itself or at such further point when the commercial actions needed to align the transaction with the arm's length standard are taken. The maximum limit to which the time of such analysis can be stretched is the time when the profits could be realistically adjusted (through book adjustments or otherwise) to take into account any change required to align the profit level to the arm's length profit level. This limit of time would be the point when the financial year ends, i.e. on March 31 of the financial year. Beyond this point the company would not realistically be in a position to take commercial steps to adhere to the arm's length principle, since any possibility of compensation adjustments would be exhausted.

To comply with the requirements of contemporaneous documentation to exist by the due date of filing the return of income as per the Indian Regulations, the Company has conducted a benchmarking analysis using information in databases, focusing on the financial results of companies having financial years ended during the period April 1, 2016 and March 31, 2019 (hereinafter, individually, also referred to as 'financial year ended 2017' or '2017', 'financial year ended 2018' or '2018' and 'financial year ended 2019' or '2019'), thereby capturing, to the maximum extent possible, financial data for comparables having year end falling within 2019. However, in case of benchmarking study pertaining to America region, most of the companies do not have March year ends. Also the database reports year ends in such a way that 2019 would represent year end of companies between April 1,

[20] Rule 10B(5)
[21] Rule 10D(4)

2018 to March 31, 2019, which actually refers to FY 2018-19 as per Indian context. Accordingly, the same holds good for other years also.

Throughout the analysis, companies from databases have been extracted only if:

- They had relevant financial data for FY 2018-19; or
- They had relevant financial data for FY 2017-18.

Companies have been selected as comparable companies if:

- They cleared all the quantitative and qualitative filters in FY 2018-19; or
- Relevant financial data was not available for FY 2018-19, relevant financial data for FY 2017-18 was available and they cleared all the quantitative and qualitative filters in FY 2017-18.

Companies failing quantitative or qualitative filters in FY 2018-19 were rejected even if they cleared quantitative and qualitative filters in FY 2017-18.

For computation of arm's length price, data for FY 2016-17 has also been considered. Data for the years (FY 2017-18, FY 2016-17) in which companies have failed quantitative or qualitative filters has not been considered for computing the arm's length price.

Given the above, the mechanism of using multiple year data applied by the Company for setting prices for its international transactions is in accordance with the Indian regulations.

Appendix E. Accept-Reject Matrix

Refer Annexure A.

Appendix F.Business description of comparable companies

Contract Manufacturers

1. **Hindustan Foods Ltd:** T The company is involved in the manufacturing of cereal based foods. It is involved in contract manufacturing activities of a wide range of products involved in day-to-day life, ranging from food and beverages, etc

2. **Integra Engineering India Ltd:** The company is involved in the manufacturing of machineries and components. It caters to power and transportation sector. It is involved in manufacturing of railway control systems and contract engineering activity. Its product list includes electro-mechanical relays, cable harnesses, wiring plates, fuse auto change over systems and mechanical enclosures like power converter, traction converter, as well as auxiliary converters.

3. **JHS Svendgaard Laboratories Ltd:** The company is involved in the manufacturing and export of oral and dental products such as toothpastes, mouthwash and denture tablets. The company is also involved in provision of contract manufacturing services.

4. **Lipi Data Systems Ltd:** The company undertakes contract manufacturing activities for PCP assembles, hardware and software, parts procurement, inventory management, functional and environmental testing and warranty repairs services.

5. **Prima Automation India Pvt Ltd:** The company provides contract manufacturing services in the field of wind turbine control panels, hydro turbine control panels, steam turbine control panels and inverter control panels to clients like Suzlon, Siemens, etc.

6. **Shree Pacetronix Ltd:** The company is involved in the business of selling and manufacturing of different range of quality implantable cardiac pacemakers. It also provides contract manufacturing services.

7. **Ginni Filaments Ltd-** Others: The segment is involved in contract manufacturing of wet wipes

Manufactures catering to export market

1. **Dembla Valves Ltd:** The company is involved in manufacturing of control valve and on off valve. It offers butterfly valves, ball valve, globe control valves, check valves, gate valves etc.

2. **Jash Engineering Ltd:** The company is involved in manufacturing of valves and gates components used in basic infrastructural activities. Its product offerings includes gates, screening components, valves and valve components and process equipments, castings, hydro screw, etc.

3. **JC Valvulas India Pvt Ltd:** The company is involved in manufacturing of industrial valves.

4. **Maharashtra Seamless Ltd:** The company is involved in the manufacturing of steel pipes and tubes.

5. **Man Industries (India) Ltd:** The company is involved in the manufacturing, processing and trading of submerged arc welded pipes & steel products. Some of its other products are LSAW pipes, spirally welded pipes and coating systems.

6. **Oswal Industries Ltd:** The company is involved in manufacturing of high quality carbon, low-alloy and stainless steel castings mainly for valves, pumps and other heavy industrial end-markets.