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Voda redux: Tax worries stall iGate-Patni deal

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A day after iGate Corp called off a news conference to announce a "significant corporate development," it has emerged that lack of clarity about tax liability is delaying the company's proposed acquisition of about 60% stake in Patni Computer Systems Ltd.

A person with direct knowledge of the deal told *DNA* that "tax issues

involving overseas investors" were causing the delay in completing the transaction.

He denied rumours that differences between the Patni brothers — Narendra Patni, Ashok Patni and Gajendra Patni — were delaying the deal.

The brothers have a little over 45% stake in the outsourcing company, while General Atlantic Partners, the private equity firm, owns about 16% stake.

The proposed transaction, said to be worth a little over \$900 million at Rs500 per share, values Patni at around \$1.5 billion.

After iGate called off the news conference on Sunday, shares of Patni slid about 4% on the Bombay Stock Exchange during intra-day trade, but

recovered in the afternoon trading to close Monday at Rs469.60, down 1.48%, compared with a marginal gain of 0.25% in the Sensex.

Indian tax laws mandate the seller in a transaction to pay capital gains

tax. Lawyers said parties to the transaction can mutually agree on who will pay the tax.

"There is nothing in Indian tax laws that prohibit the structuring of a transaction in a way where the buyer will pay the tax," said Ravishankar Raghavan, principal in tax at corporate law firm Majmudar & Co.

"As long as the government gets its share, it doesn't matter who pays."

While by default, the seller is liable to pay tax, there have also been much-

publicised cases such as the tax dispute between the Indian tax authorities and British telecommunications giant Vodafone Plc where, despite being a buyer, Vodafone is now asked to pay Rs12,297 crore as tax involving a 2007 acquisition.

In May of that year, Vodafone bought Hutchison Telecommunications International Ltd's 66.98% stake in Indian

telecom company Hutch Essar Ltd by paying \$11.2 billion.

Hutchison's ownership of its Indian telecom subsidiary was through a

Cayman Islands entity, which sold its stake to an overseas subsidiary of Vodafone. Hutch did not pay tax to the Indian authorities as the parties to the transaction were both overseas entities. The tax liability is under litigation in the Supreme Court.

Besides the Nasdaq-listed iGate that's incorporated in the US, at least two other investors — private equity firm General Atlantic Partners and Isolutions Inc, the company through which Narendra Patni and his family members own shares — are overseas entities.

Meanwhile, under the chairmanship of Narendra Patni, the board of the company met on Monday to "take updates," the person with direct knowledge of the earlier quoted deal said.

"Till the transaction is completed, board has got nothing to do. It is the shareholders' prerogative to sell," this person said.

Meanwhile, citing an unnamed person with direct knowledge of the deal, Reuters news agency reported that US software firm iGate's deal to acquire a majority stake in India's Patni was "still on the table but has been delayed due to procedural issues."

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