KPIT Cummins
Infosystems Limited

September 7, 2011

To,
Mr. Sumit Agrawal
Assistant Legal Adviser
Integrated Surveillance Department
Securities and Exchange Board of India,
SEBI Bhavan, Plot C4-A, G Block,
Bandra Kurla Complex, Bandra (East)
MUMBAI -400051

Sub.: *'No-action letter'* under SEBI Informal Guidance Scheme

Ref.: Your letter No.ISD/SKV/SA/24332/2011 dated July 27, 2011

Dear Sir,

This is with respect to the subject matter and the above referred letter received from your good office on the same.

We are describing herein below the existing process of exercise of options (Normal Route) and the proposed operation / process of the cashless scheme with an example illustrating the series of activities which would be undertaken during the course:

Process:

Normal Route:

- Options are granted to eligible employees in a duly convened board / committee meeting.
- Options are vested in the employee after a period of one year and not more than four years, from the date of grant.
- The employee can exercise the options within three years from the date of grant.
- Once the options are vested and are exercisable, the employee can exercise the options on line through the system.
- After exercising the options, an exercise form and the perquisite tax report is generated from the system. The employee hands over the duly signed exercise form and the perquisite tax report along with the cheque for exercise price payable and the perquisite tax payable to the Secretarial Department. The employees have also been provided the option of wire transferring the funds to the Company's account.
- The perquisite tax is calculated on the basis of Fair Market Value of the Company's stock on the exchange which has the highest traded quantity, as on the date of exercise.

KPIT Cummins Infosystems Limited
PUNE

- After collection of the application forms and credit of the application money, allotment of shares against the options exercised, is done at a duly convened quarterly Board or Committee meeting.
- These shares are then processed for corporate action i.e. crediting the shares to the respective demat accounts of the employees as per the information provided.
- Thereafter applications are processed for listing of the shares on the stock exchanges, where the shares of the Company are listed.
- The employee can thereafter trade in the shares of the Company.

It is now proposed to implement the Cashless route, which will be the exceptional route. The process for the same would be as follows:

- In order to implement Cashless mechanism, the Company will route it through Welfare Trust set up for the same. The Trust is a Private, unregistered Trust.
- The process starts with the Company allotting shares to the Trust. The quantum of shares to be allotted is determined on the basis of Vested options due for exercise in the near future.
- The price at which shares are allotted to the Trust will be equal to the exercise price of the respective grant which has vested options. In case more than one grant has vested options, the allotment would be at different prices (equal to respective exercise prices of those grants).
- Typically the Company will fund the Trust for the subscription amount. The Companies Act, 1956 allows this funding (proviso to Section 77A of the Act).
- On allotment, the shares will be credited to the demat account of the Trust and listed on the Stock exchange.
- On the exercise date, an employee is offered a choice of Exercise against cash or Cashless exercise.
    - If he chooses Exercise against cash, he will pay the exercise price and perquisite tax to the Trust and the Trust will instantly transfer (electronic transfer) shares into his Demat account.
    - If he chooses Cashless exercise:
        - The Trust calculates the number of shares required to be sold to fund the employee's liability (exercise price + perquisite tax) and communicate accordingly to the employee.
        - The employee gives an authority to the Trust to execute the necessary sale on his behalf and pay off his entire liability to the Company.
        - On sale of shares, Trust receives proceeds from the Broker and forwards them to the Company towards settlement of loan and perquisite tax.
        - The balance shares are transferred by the Trust to the employee's demat account.
        - In case the employee wants to sell all the exercised shares, Trust will do so, on his behalf and remit the necessary funds to the Company and to the employee (sale value of remaining shares). This scenario is helpful for option holders who are foreign nationals.

KPIT Cummins Infosystems Limited PUNE

KPIT Cummins
Infosystems Limited

- The process is further explained through the following illustration:

Particulars	Figures
Options granted	1000
Vested Options	250
Exercise price	Rs. 100
Market price on date of Exercise	Rs. 300
Options exercised under Cashless route	200
Perquisite tax	Rs.12,000 =[(300-100)*200)]*30%
Exercise amount payable	Rs. 20,000 =(Rs.100*200)
Shares required to be sold to cover Exercise amount, Perquisite tax, brokerage and STT	107 =[(Rs.20,000+Rs.12,000)/300]
Shares required to be transferred to the employee	93

We are enclosing herewith the Employee Stock Option Plan (ESOP) 2006 Scheme of the Company and the Company's Code of Conduct for Prevention of Insider Trading, for your perusal.

We would be highly obliged if you can grant us a personal meeting as per your convenience.

Needless to mention that the information disclosed by way of the enclosed documents will not be disclosed while publishing the reply on SEBI website.

Thanking you.

Yours sincerely,
For **KPIT Cummins Infosystems Limited**

Anil Patwardhan
Vice President - Finance

KPIT Cummins Infosystems Limited * PUNE