



**Report of the Audit Committee of Equitas Holdings Limited  
recommending the draft Composite Scheme of Arrangement**

To  
The Board of Directors  
Equitas Holdings Limited  
410A, 4th Floor,  
Spencer Plaza, Phase II  
No.769, Mount Road, Anna Salai  
Chennai - 600002

**Members present in person:**

Mr Viswanatha Prasad S, Chairman  
Mr Yogesh Chand Nanda (by Video-conferencing)  
Mr Rajaraman P V

**In attendance:**

Ms Deepti R, Company Secretary (CS)

**Invitees:**

Mr Bhaskar S, ED & CEO  
Ms Srimathy R, Chief Financial Officer (CFO)  
Mr Vasudevan P N, MD & CEO, ESFBL  
Mr Sampathkumar K R, CS, ESFBL

**Background:**

A Meeting of the Audit Committee was held on February 1, 2019 to consider inter alia the draft Composite Scheme of Arrangement (hereinafter referred to as "Scheme") to be entered between Equitas Holdings Limited ("EHL"), Equitas Small Finance Bank Limited ("ESFBL") and their respective shareholders under Section 230 read with Section 52 and other applicable provisions of the Companies Act, 2013 and recommend the same to the Board of Directors.

In terms of SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 issued by the Securities and Exchange Board of India ("SEBI") read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the audit committee is required to consider the Scheme, inter alia, taking into account the valuation report, and recommend the Scheme to the Board.

The Audit Committee examined the draft Scheme inter-alia taking into consideration the following documents:



**EQUITAS HOLDINGS LIMITED**

- a. Valuation Report dated January 30, 2019 issued by Independent Valuers viz., M/s C Ramaswamy & B Srinivasan, Chartered Accountants providing the share valuation of EHL and ESFBL. The audit committee however noted that the "Issuance Ratio" as prescribed in the Scheme is based on the eligible quantum of reserves and surplus of ESFBL available as of March 31, 2018, in terms of the Scheme, against which shares are proposed to be issued and is not linked to the value of ESFBL as a business, relative to the value of EHL.;
- b. Fairness Opinion dated January 30, 2019 issued by IIFL Holdings Limited, Category I Merchant Bankers;
- c. Certificate dated January 30, 2019 from M/s S R Batliboi & Associates LLP, Statutory Auditors confirming compliance with accounting standards as specified under Section 230 of the Companies Act, 2013, and SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017

**Proposed Scheme:**

1. The salient features of the draft Scheme are as under:
  - a. The Scheme is presented for
    - i. issuance and allotment of 89,20,62,982 (Eighty nine crores twenty lakhs sixty two thousand nine hundred and eighty two only) fully paid-up equity shares of ESFBL ("Scheme Shares") for no cash consideration to the shareholders of EHL as of the Record Date in accordance with the Issuance Ratio defined in the Scheme (Issuance Ratio = Scheme Shares / Total number of fully paid-up equity shares of the Company as of the Record Date and "Record Date" being the date, to be fixed jointly by the Boards of the Company and ESFBL, after sanctioning of Scheme by National Company Law Tribunal ("NCLT"), for the purpose of determining the shareholders of the Company who would be eligible for receiving the aforesaid Scheme Shares) and
    - ii. consequent reduction by ESFBL of securities premium account, the revenue and other reserves and the surplus in profit and loss account by an amount equal to the face value of the shares of ESFBL issued under the Scheme.
  - b. The Scheme inter-alia seeks to achieve compliance with the following directives of the Reserve Bank of India ("RBI") in a manner that is in the best interests of and without being prejudicial to EHL, ESFBL, the shareholders of EHL or any other stakeholders:
    - Listing of equity shares of ESFBL on the recognized Stock Exchange in India by September 04, 2019
    - Retention of 40% stake by EHL in ESFBL for a period of 5 (five) years from the date of commencement of business of ESFBL (i.e., till September 04, 2021)





- Reduction of stake of EHL in ESFBL to 40% within a period of 5 (five) years from the date of commencement of business of ESFBL (i.e., no later than September 04, 2021).
- c. In the Opinion of the Audit Committee, the Scheme strives to provide the following benefits to ESFBL and the shareholders of EHL:
- Achieve satisfaction and compliance of the conditions laid down by RBI in relation to the shareholding of ESFBL thereby ensuring continuity of the business of ESFBL.
  - Providing shareholders of EHL with direct shareholding in ESFBL thereby helping them to unlock value to their investments in the business of ESFBL, which is currently held through EHL. Consequently, the shareholders of EHL can take independent decisions with respect to their holdings in EHL and ESFBL without being constrained to hold an investment in EHL to be able to derive value of benefit from ESFBL's business.
  - The listing of ESFBL's shares increases the transparency and disclosures relating to the business of ESFBL, which would provide the shareholders of EHL better insight into the status of the business, thus resulting in their ability to make better decisions in relation to business of ESFBL.
  - The Scheme is not in any manner prejudicial or against public interest and would, on the contrary, serve the interest of all shareholders, depositors, creditors and stakeholders given that the Scheme ensures compliance of the conditions prescribed by RBI required for continued banking operations.
- d. ESFBL shall account for the issuance and allotment of the Scheme Shares in its books/ financial statements upon receipt of all relevant/ requisite approvals for the Scheme, in accordance with accounting standards applicable to banking companies on the date the scheme is effective.
- e. There is no accounting implication, arising out of the Scheme, in the standalone books / financial statements of EHL.
- f. With respect to stock options granted by EHL to the employees of EHL and its Subsidiaries, including ESFBL, under the EHL Employees Stock Option Scheme, the Scheme seeks to provide for cancellation of options issued by EHL and in lieu of the same, provides for issue of fresh stock options of ESFBL, in a manner which is not detrimental to the interest of employees, holding the options.
- g. The Scheme in its present form or with any modification(s) approved or imposed or directed by the RBI, NCLT, the stock exchanges and SEBI shall be effective from the Effective Date (as such term is defined in the Scheme).

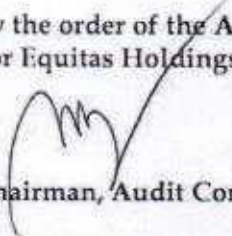


h. The Scheme would be subject to the approval of the Reserve Bank of India.

2. The Audit Committee reviewed the Valuation Report as well as the Fairness Opinion as placed before the Committee. Committee also took note of the manner in which the Issuance Ratio under the Scheme has been fixed and found it to be fair to the shareholders of EHL.

After deliberations and due consideration of the terms of the draft Composite Scheme of Arrangement, Valuation Report, Fairness Opinion, Auditors' Certificate along with the observations/comments connected thereto, the Audit Committee does hereby unanimously recommend the draft Scheme for consideration by the Board of Directors of the Company.

By the order of the Audit Committee  
For Equitas Holdings Limited

  
Chairman, Audit Committee