

**Report of the Audit Committee of Equitas Small Finance Bank Limited, recommending the draft Scheme of Amalgamation between Equitas Holdings Limited, Equitas Small Finance Bank Limited and their respective shareholders and creditors**

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**1. Background**

- 1.1 A Meeting of the Audit Committee (“the Committee”) was held on July 26, 2021 through video conferencing to consider and if thought fit, recommend the proposed Scheme of Amalgamation (hereinafter referred to as “the Scheme”) to be entered between Equitas Holdings Limited (“EHL/Promoter/Transferor Company”), Equitas Small Finance Bank Limited (“ESFBL/Bank/Transferee Company”) and their respective shareholders under the provisions of Section 230 to 232 of the Companies Act, 2013 (“the Act”) and the Rules made thereunder and other regulatory guidelines.
- 1.2 This report of Audit Committee is made in accordance with the SEBI Master Circular bearing number SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 consolidating SEBI Circulars dated March 10, 2017, March 23, 2017, May 26, 2017, September 21, 2017, January 3, 2018, September 12, 2019 and November 3, 2020 (collectively referred to as “SEBI Circulars”) read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”). In accordance with the SEBI Circular, the following were presented for consideration of the Committee:
- A draft of the proposed Scheme
  - Valuation Report dated July 26 2021 issued by Independent Valuers viz., M/s BDO Valuation Advisory LLP providing the share exchange ratio based on valuation of EHL and ESFBL.
  - Fairness Opinion dated July 26, 2021 issued by IIFL Securities Limited, a SEBI Registered Category I Merchant Bankers;
  - Certificate dated July 26, 2021 from M/s T R Chadha & Co LLP, Statutory Auditors certifying that the accounting treatment provided in the Scheme is in conformity with the applicable accounting standards and regulations issued by the respective sector regulator i.e., RBI with respect to accounting.
  - Presentations, documents and information related to the Scheme
  - Management’s note recommending the scheme
- 1.3 The Scheme is proposed to take effect from the Appointed Date (as defined in the Scheme) but shall be operative from the Effective Date (as defined in the Scheme).
- 1.4 The Scheme is conditional upon and subject to
- the sanction or approval under Applicable Law or any other Appropriate Authority, agency or department concerned being obtained and granted in respect of any of the matters in respect of which such sanction or approval is required.
  - The Scheme being approved by the stock exchanges and the SEBI.



- c. The Scheme being approved by the RBI as per Applicable Laws. The sanction by the NCLT to the Scheme is subject to the RBI certifying, in exercise of its powers conferred under Section 44B(1) of the Banking Regulation Act, 1949 if applicable, that the Scheme is not incapable of being worked and as not being detrimental to the interests of the depositors of ESFBL.
- d. The Scheme being agreed to by the respective requisite majorities of the shareholders and creditors of ESFBL and the public shareholders and creditors of EHL as the NCLT may direct and the sanction of the NCLT being accorded to the Scheme. EHL and ESFBL shall provide electronic voting facility to its public shareholders and the Scheme shall be acted upon only if the votes cast by the public shareholders in favour of the Scheme are more than the number of votes cast by the public shareholders against it.

## 2. Need for the Scheme:

- a. As per the conditions laid down in the small finance bank license issued by RBI and the Guidelines for Licensing of 'Small Finance Banks' in the Private Sector dated November 27, 2014, the promoter's shareholding in small finance bank has to be reduced to 40% within a period of 5 years from the date of commencement of business of the bank. Accordingly, EHL, as the promoter of ESFBL, is required to reduce its stake to 40% within a period of 5 (five) years from the date of commencement of business of the bank (i.e., before September 04, 2021).
- b. The SFB Licensing Guidelines read with Clarification issued by RBI on January 1, 2015 to the queries on SFB Licensing Guidelines ("RBI Clarification"), permit a promoter to exit or to cease after lock-in period of five years, subject to the RBI's regulatory and supervisory comfort and SEBI Regulations in this regard. The RBI also issued guidelines for on-tap Licensing of Small Finance Banks in Private Sector according to which a promoter can exit from the Small Finance Bank after completing the lock in period of five years with the approval from Reserve Bank of India.
- c. In accordance with the SFB Licensing Guidelines read with RBI Clarification, the Scheme of Amalgamation contemplates amalgamation of EHL with ESFBL and issue of shares of ESFBL to the shareholders of EHL as of the Record Date in the manner set out in the Scheme in order to comply with the above directives of the RBI in a manner that is in the best interests of all the stakeholders of EHL and ESFBL.

## 3. Rationale for the Scheme:

- 3.1 As part of the conditions laid down in the small finance bank licence referenced Licence No. MUM: 119 dated June 30, 2016 issued by the RBI and the Guidelines for Licensing of 'Small Finance Banks' in the Private Sector dated November 27, 2014, the RBI had directed that
  - a. The equity shares of ESFBL should be listed on recognized stock exchange(s) in India within a time period of 3 (three) years from the date the net worth of ESFBL reaches INR 500 crores (i.e., by September 04, 2019, since ESFBL commenced banking operations with a net worth of more than INR 500 crores); and



- b. If the promoter of ESFBL, i.e., EHL holds more than 40% (forty percent) of equity shares in ESFBL, then EHL should reduce its stake in ESFBL to 40% (forty percent) within a period of 5 (five) years from the date of commencement of business of the bank (i.e., up to September 04, 2021).
- 3.2 The directive of the RBI regarding listing as mentioned under Clause 3.1.a was acted upon by the Bank by way of Initial Public Offering and the Bank fulfilled the condition of listing of its shares on the Stock Exchanges with effect from November 2, 2020 only.
- 3.3 The Scheme seeks to achieve the requirement of dilution of promoter shareholding in ESFBL 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.
- 3.4 Further, as per the SFB Licensing Guidelines read with RBI Clarification, a promotor can exit from the Small Finance Bank after completing the lock-in period of five years with the approval from RBI and subject to applicable SEBI Regulations.
- 3.5 The amalgamation of EHL with ESFBL and issue of shares of ESFBL to the shareholders of EHL in accordance with the Scheme will also enable meeting the minimum public shareholding requirement by ESFBL, subject to regulatory approvals.
- 4. Synergies**
- 4.1 The proposed restructuring will lead to simplification of group structure, elimination of duplication and multiplicity of compliance requirements.
- 4.2 Pooling of financial, managerial and technical resources, expertise, skills and capabilities would aid in optimization of resources, efficiencies and reduction of administrative and operational costs.
- 4.3 The proposed amalgamation will pave way for creation of stronger platform for growth and allow greater business focus by getting regulatory requirements completed. It also helps in creation of enhanced value to the stakeholders of ESFBL including the prospective stakeholders.
- 5. Impact of the Scheme on the shareholders:**
- 5.1 The Scheme also ensures that there is no dilution of value to public shareholders in the process of amalgamation in accordance with the Scheme.
- 5.2 There is no likelihood that the interests of any shareholder would be prejudiced as a result of the Scheme. The Scheme will not impose any additional burden on the members of the Bank.
- 5.3 The Scheme, if implemented, would result in increase in shareholding of public shareholders of the Bank from 18.75% as on June 30, 2021 to 100%.



**6. Cost benefit analysis of the Scheme:**

Keeping in view, the synergies as referred under Clause 4 above, the Audit Committee is of the view that benefits resulting from amalgamation would exceed costs resulting in increased productivity and efficiency, thereby resulting in enhancement of stakeholder value. The Scheme would help in achieving basic requirements of RBI SFB Licensing Guidelines and SEBI prescriptions on minimum public shareholding.

**7. Recommendation of Audit Committee:**

The Audit Committee reviewed the draft Scheme of Amalgamation, Valuation Report, Fairness Opinion, Certificate from Auditors along with the observations/comments connected thereto and other documents as placed before the Committee and noted that the proposed Scheme contemplates to achieve *inter-alia* the following:

- Achieve satisfaction and requirements of the conditions laid down by RBI in the SFB Licensing Guidelines and the subsequent clarifications, thereby ensuring continuity of the business of ESFBL.
- The manner in which the Share Exchange Ratio under the Scheme has been arrived at, is found to be fair to the shareholders of ESFBL.
- The Scheme will lead to simplification of group structure, elimination of duplication and multiplicity of compliance requirements
- 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 meeting basic requirements sans the time lines, of the conditions prescribed by RBI required for uninterrupted banking operations.
- The accounting treatment contemplated in the Scheme for the proposed amalgamation is in accordance with the applicable accounting standards and regulations issued by the respective sector regulator i.e., RBI with respect to accounting.
- Upon the Scheme becoming effective and after cancellation of the options granted by the Transferor Company to the Eligible Employees under the EHL ESOP Scheme, the fresh options shall be granted by the Transferee Company to the Eligible Employees on the basis of the Share Exchange Ratio (i.e. for every 100 (One Hundred only) options held by an Eligible Employee in the Transferor Company, such Eligible Employee will be granted 226 (Two Hundred and Twenty Six only) options in the Transferee Company which shall entitle him to acquire 226 (Two Hundred and Twenty Six only) equity shares in the Transferee Company), such that the Eligible Employee shall, as option holders of the Transferee Company, enjoy the same economic benefit as they would have received under the EHL ESOP Scheme.



Based on foregoing paragraphs, the Audit Committee recommends the Scheme for favourable consideration of the Board of Directors of the Bank.

**By the order of the Audit Committee  
For Equitas Small Finance Bank Limited**

*Arun Kumar Verma*

**Arun Kumar Verma  
Chairman, Audit Committee  
DIN: 03220124**

**Date: July 26, 2021  
Place: Bhubaneshwar**

