Piramal Finance

REPORT ADOPTED BY THE BOARD OF DIRECTORS OF PIRAMAL CAPITAL & HOUSING FINANCE LIMITED ("COMPANY" OR "PCHFL") IN ACCORDANCE WITH SECTION 232(2)(C) OF THE COMPANIES ACT, 2013 AND CIRCULAR NO. SEBI/HO/DDHS/PoD1/P/CIR/2023/108 DATED 29 JULY 2022 (UPDATED AS ON 30 JUNE 2023) ISSUED BY THE SECURITIES EXCHANGE BOARD OF INDIA, AT ITS MEETING HELD ON 8 MAY 2024 AT MUMBAI

1. **Overview**

1.1. The board of directors of the Company ("**Board**") at its meeting held on 8 May 2024 have approved the proposed composite scheme of arrangement amongst Piramal Enterprises Limited ("**PEL**"), the Company and their respective shareholders and creditors ("**Scheme**") on the terms and conditions as set out in the Scheme pursuant to the provisions of Sections 230 to 232 read with Section 52, Section 66 and other applicable provisions, if any, of the Companies Act, 2013 ("**Act**"), read with the Companies (Compromise, Arrangements and Amalgamations) Rules, 2016, Section 2(1B) of the Income Tax Act, 1961, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the master circular issued by the Securities and Exchange Board of India ("**SEBI**") bearing reference number SEBI/HO/CFD/POD- 2/P/CIR/2023/93 dated 20 June 2023, the master circular issued by SEBI bearing reference number SEBI/HO/DDHS/PoD1/P/CIR/2023/108 dated 29 July 2022 (updated as on 30 June 2023) ("**SEBI Debt Circular**") and any other applicable provisions of any other law for the time being in force (including any statutory modification(s), amendments thereto, or re-enactment thereof, for the time being in force).

1.2. The Scheme, *inter alia*, provides for:

(a) the amalgamation of PEL (the parent company of the Company) with the Company and dissolution of PEL without winding up, and the consequent issuance of equity shares and, subject to receipt of approval from the Reserve Bank of India ("**RBI**"), non-convertible non-cumulative non-participating redeemable preference shares ("**NCRPS**") of the Company to the shareholders of PEL as set out in the Scheme;

(b) adjustment of debit balance of amalgamation adjustment reserve account in the books of the Company; and

(c) various other matters consequential or otherwise integrally connected therewith.

1.3. The Scheme was recommended for approval by the Audit Committee at its meeting held on 8 May 2024. Based on the recommendation of the Audit Committee, the Board at its meeting held on 8 May 2024, *inter alia*, approved the draft Scheme subject to the sanction of the jurisdictional National Company Law Tribunal ("**NCLT**") and receipt of necessary approvals from BSE Limited, National Stock Exchange of India Limited (collectively, the "**Stock Exchanges**"), SEBI, RBI, the shareholders and creditors, as may be directed by the NCLT and any other regulatory/ governmental authorities or person, as may be applicable.

1.4. Pursuant to the Section 232(2)(c) of the Act, the Board is required to adopt a report explaining the effect of the Scheme on each class of shareholders (promoter and non-promoter

shareholders) and key managerial personnel of the Company setting out, *inter alia*, the share exchange ratio, specifying any special valuation difficulties. Further, pursuant Paragraph 2(d) of Part I(A) of Annexure XII-A of the SEBI Debt Circular, the Board is required to adopt a report recommending the draft Scheme, taking into consideration, *inter alia*, the valuation reports and ensuring that the Scheme is not detrimental to the holders of the non-convertible debentures ("**NCDs**"). Further, the report is also required to comment on the impact of the Scheme on the holders of NCDs, safeguards for the protection of the holders of NCDs, and exit offer to the dissenting holders of the NCDs, if any.

1.5. Accordingly, this report of the Board ("**Report**") is made in compliance with the aforesaid requirements.

1.6. The appointed date for the Scheme is 1 April 2024.

2. **Documents placed before the Board**

2.1. For the purpose of making this Report, the Board has considered and taken on record the following documents:

(a) Draft Scheme;

(b) Valuation reports dated 8 May 2024 submitted by Bansi S. Mehta Valuers LLP, (Registered Valuer, Registration No. IBBI/RV-E/06/2022/172) ("**Valuation Reports**") recommending the share exchange ratio in connection with the Scheme;

(c) Fairness opinion dated 8 May 2024 issued by Axis Capital Limited, an independent SEBI Registered merchant banker (SEBI Registration No. INM000012029) and fairness opinion dated 8 May 2024 issued by PL Capital Markets Private Limited, an independent SEBI Registered merchant banker (SEBI Registration No. INM000011237) providing their opinion on the fairness of the recommendations made in the Valuation Reports;

(d) Auditors certificate dated 8 May 2024 issued by Walker Chandiok & Co. LLP (Firm Registration No. 001076N/N500013) and T R Chadha & Co. LLP (Firm Registration No. 006711N/N500028), certifying (i) the payment/ repayment capability of the Company against outstanding listed non-convertible debentures of PEL as prescribed under the SEBI Debt Circular, and (ii) that the accounting treatment contained in the Scheme is in compliance, *inter alia*, with all the applicable accounting standards specified by the Central Government under Section 133 of the Act and other generally accepted accounting principles;

(e) Draft of the Compliance Report as prescribed by the SEBI to be filed with the Stock Exchanges; and

(f) Other presentations, reports, documents and information furnished to the Board, pertaining to the draft Scheme.

3. **Background of the Scheme**

3.1. Pursuant to the audited financial statements for the financial year ended 31 March 2024, the Company does not meet the requisite Principal Business Criteria ("**PBC Criteria**") prescribed by the RBI under the Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021, to continue operating as a housing finance company ("**HFC**"). Accordingly, the Board has approved the conversion of the Company from an HFC to a Non-Banking Financial Company- Investment and Credit Company ("**NBFC-ICC**") and the Company is in the process of making an application to the RBI for such conversion. Upon receipt of the NBFC-ICC license, there will be 2 (two) distinct NBFC-ICCs in the group, and as such, the RBI may not permit the group to have 2 (two) NBFC-ICCs.

3.2. Further, as per the RBI's (NBFC – Scale Based Regulation) Master Directions, 2023 ("**Scale Based Regulations**"), all NBFCs identified as upper layer NBFCs are mandatorily required to be listed within 3 (three) years of being identified as an upper layer NBFC. The Company has been identified as an upper layer NBFC, and accordingly, is required to be listed prior to 30 September 2025 as per the Scale Based Regulations.

3.3. Accordingly, PEL and the Company have proposed to enter into the Scheme. The Scheme, *inter alia*, provides for (i) the amalgamation of PEL with the Company, (ii) adjustment of debit balance of amalgamation adjustment reserve account in the books of the Company, and (iii) various other matters consequential or otherwise integrally connected therewith.

4. **Rationale of the Scheme**

4.1. Pursuant to the audited financial statements for the financial year ended 31 March 2024, the Company does not meet the requisite PBC Criteria to continue operating as an HFC. The Company is in the process of making an application to the RBI for conversion of its HFC license to an NBFC-ICC license. Upon receipt of the said license, the Company will operate as an NBFC-ICC resulting in 2 (two) distinct NBFC-ICCs in the group (i.e. the Company and PEL), and as such, the RBI may not permit the group having two NBFC-ICCs.

4.2. Further, as per the Scale Based Regulations, the Company is required to be listed prior to 30 September 2025.

4.3. Accordingly, PEL and the Company are now proposing to enter into a composite scheme of arrangement whereby PEL will amalgamate with the Company.

4.4. Upon the Scheme becoming effective, PEL will amalgamate with the Company, and the Company will be listed on a recognised stock exchange thereby ensuring compliance with applicable RBI regulations.

4.5. The amalgamation of PEL with the Company would be a seamless transition, as the Company has significantly larger scale of operations and wider geographical presence, as compared to PEL. This is evident given that:

(a) The Company's interest income and assets under management ("**AUM**") constitute 79.9% and 77.2% of PEL and the Company's aggregate interest income and AUM, respectively.

(b) The Company originates almost the entire credit portfolio of PEL and the Company through its wide network which constitutes 99% of the overall network. The Company also houses more than 95% of the aggregate employees of PEL and the Company.

(c) The amalgamation of PEL with the Company would entail lesser disruptions in the retail lending business of the Company. This approach would also substantially reduce the administrative and operational challenges that would arise in otherwise consolidating the infrastructure and assets of both companies, given the extensive scale of operations of the Company.

4.6. The amalgamation would lead to optimisation in supervisory and management overlap, minimisation of regulatory and legal compliances with respect to business registrations and labour laws.

4.7. The amalgamation would result in having a unified approach to customer interactions, as well as lender engagement under a single platform which would further simplify operations, thereby enhancing customer and lender servicing experiences.

4.8. The unification of businesses would result in the consolidation of financial, managerial, technical, and human resources, thereby creating a stronger base for future growth and stakeholder value accretion.

4.9. The creation of a larger consolidated financial services entity will enable such entity to deliver an increased range of financial products to a broader customer base. Further, the Company would, subsequent to the amalgamation, benefit from economies of scale and operational efficiencies, leading to revenue and cost synergies.

4.10. An enhanced consolidated balance sheet would also bring efficiency with respect to the merged entity's treasury operations, thereby helping in the overall liability management of the organization.

4.11. The amalgamation will result in the shareholders of PEL having direct ownership in one single listed entity, which houses all the operations, profits, and in-effect the entire value of the lending business under one roof.

Based on the aforesaid considerations, the proposed amalgamation is expected to enhance optimisation of the capital structure, comply with applicable regulatory requirements, and maximise shareholders' value.

5. **Effect of the Scheme on the stakeholders**

5.1. Shareholders (Promoter and Non-Promoter)

(a) The Company is a wholly owned subsidiary of PEL and accordingly, the shareholders of PEL are the indirect shareholders of the Company.

(b) Upon the Scheme becoming effective, in consideration of the transfer and vesting of PEL (the parent company of the Company) with the Company, the Company shall issue the following shares to the shareholders of PEL in the manner set out in the Scheme:

(i) For every 1 (one) equity share having face value of INR 2 (Indian Rupees Two only) of PEL, 1 (one) equity share having face value of INR 2 (Indian Rupees Two only) of the Company shall be allotted to the shareholders of PEL; and

(ii) Subject to receipt of approval from the RBI, for: (a) issuance of NCRPS to the non-resident shareholders of PEL; or (b) if RBI approval as requested pursuant to (a) is not received, appointment of a category – I merchant banker/ appropriate SEBI registered intermediary to hold and sell the NCRPS on behalf of the non-resident shareholders of PEL and dispose the sale proceeds in the manner set out in the Scheme, for every 1 (one) equity share having face value of INR 2 (Indian Rupees Two only) of PEL, 1 (one) NCRPS having face value of INR 67 (Indian Rupees Sixty Seven only) of the Company shall be allotted to the shareholders of PEL.

(c) The equity shares and, subject to receipt of RBI approval, NCRPS issued and allotted by the Company to the shareholders of PEL as consideration for the amalgamation shall be listed and admitted to trading on the Stock Exchanges after obtaining the requisite approvals.

(d) Further, upon the Scheme coming into effect, the existing shareholding of PEL in the Company shall stand cancelled and extinguished without any further act, instrument or deed.

(e) Since the Company is a wholly owned subsidiary of PEL, the Scheme is expected to have several benefits for PEL as well as the Company as indicated in the rationale of the Scheme and is expected to be beneficial to the shareholders of PEL as it would enhance optimization of the capital structure, provide an opportunity for growth and value creation thereby leading to maximization of value and returns to the shareholders of PEL.

(f) Accordingly, the Scheme will have no adverse effect on the shareholders of PEL due to the amalgamation.

5.2. Key Managerial Personnel

(a) The existing key managerial personnel ("**KMPs**") of the Company will remain engaged with the Company without interruption of their service. However, their role(s)/ function(s)/ responsibilities may undergo change pursuant to business and organization requirements /needs.

(b) None of the KMPs of the Company have any interest in the Scheme except to the extent of the equity shares held by them/ their relatives in the Company.

5.3. Holders of NCDs

(a) Effect and impact on the NCD holders and safeguards for the protection of the NCD holders:

(i) The terms of the NCDs issued by the Company will remain the same and such NCDs will continue to be listed on the Stock Exchanges.

(ii) Accordingly, the Scheme will have no adverse effect on the holders of the NCDs issued by the Company and thus adequately safeguards interests of the holders of the NCDs.

(b) Exit offer to the dissenting holders of the NCDs of the Company

Given that the Scheme will have no adverse effect on the holders of NCDs issued by the Company, no exit offer is required.

6. **Valuation Reports**

6.1. The Board noted that the share exchange ratio is as recommended in the Valuation Reports.

6.2. No special valuation difficulties were reported.

7. **Adoption of the Report by the Board**

7.1. After noting and taking into consideration the information set forth in this Report and that the post-Scheme shareholding pattern of the Company will be the same as the pre-Scheme shareholding pattern of PEL, the Board has arrived at the conclusion that the Scheme is fair, reasonable and not detrimental to the shareholders (promoters and non-promoter shareholders) of PEL, KMPs of the Company, and NCD holders of the Company and that there shall be no prejudice caused to them in any manner by the Scheme. Accordingly, the Board has adopted this Report.

7.2. The Board or any duly authorised committee/ person by the Board is entitled to make relevant modifications to this Report, if required and such modifications or amendments shall be deemed to form part of this Report.

For and on behalf of the Board

Ajay G. Piramal
Chairman
DIN: 00028116
Date: 08.05.2024
Place: Mumbai