

REPORT ADOPTED BY THE AUDIT COMMITTEE OF PIRAMAL ENTERPRISES LIMITED RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AMONGST PIRAMAL ENTERPRISES LIMITED (“COMPANY” OR “PEL”), PIRAMAL CAPITAL & HOUSING FINANCE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS AT ITS MEETING HELD ON 8 MAY 2024 AT MUMBAI

1. Overview

- 1.1. A meeting of the Audit Committee of the Company (“**the Committee**”) was held on 8 May 2024 to consider and if thought fit recommend to the board of directors (“**Board**”) of the Company, the composite scheme of arrangement amongst the Company, Piramal Capital & Housing Finance Limited (“**PCHFL**”) 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 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 (“**SEBI Listing Regulations**”), 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 (“**SEBI Scheme Circular**”), 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. In accordance with the provisions of the SEBI Scheme Circular and directions issued by BSE Limited and the National Stock Exchange of India Limited (collectively, the “**Stock Exchanges**”) in connection with scheme of arrangements, a report from the Committee (“**Report**”) of the Company recommending the draft Scheme, is required taking into consideration, *inter alia*, the Valuation Reports (*as defined hereinafter*). The Report shall comment on the need for the amalgamation, rationale of the Scheme, synergies of business of the entities involved in the Scheme, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme.
- 1.3. This Report is made in compliance with the applicable provisions of the SEBI Listing Regulations, and the SEBI Scheme Circular, as amended from time to time.
- 1.4. The implementation of the Scheme is subject to the: (i) receipt of approval from the Board of the Company and PCHFL; (ii) sanction of the jurisdictional National Company Law Tribunal (“**NCLT**”); and (iii) receipt of necessary approvals from the Stock Exchanges, SEBI, Reserve Bank of India (“**RBI**”), the shareholders and creditors, as may be directed by the NCLT and any other regulatory/ governmental authorities or person, as may be applicable.

Piramal Enterprises Limited

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2. Documents placed before the Committee

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

- (a) Draft Scheme;
- (b) The 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) The fairness opinion dated 8 May 2024 issued by Axis Capital Limited, an independent SEBI Registered merchant banker (SEBI Registration No. INM000012029) and the fairness opinion dated 8 May 2024 issued by PL Capital Markets Private Limited, an independent SEBI Registered merchant banker (SEBI Registration No. INM000011237) (“**Fairness Opinions**”) providing their opinion on the fairness of the recommendations made in the Valuation Reports;
- (d) The auditors certificate dated 8 May 2024 issued by Suresh Surana & Associates LLP (Firm Registration No. 121750W/ W-100010) and Bagaria & Co. LLP (Firm Registration Number 113447W/W-100019), the joint statutory auditors of the Company, certifying that the accounting treatment contained in the draft 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; and
- (e) Other presentations, reports, documents and information pertaining to the draft Scheme made available to/ circulated to the Committee.

3. Salient features of the Scheme

3.1. The Committee noted that the Scheme, *inter alia*, provides for:

- (a) the amalgamation of the Company with PCHFL (the wholly owned subsidiary of the Company) and dissolution of the Company without winding up, and the consequent issuance of equity shares and, subject to receipt of approval from the RBI, non-convertible non-cumulative non-participating redeemable preference shares (“**NCRPS**”) of PCHFL to the shareholders of the Company as set out in the Scheme;
- (b) adjustment of debit balance of amalgamation adjustment reserve account in the books of PCHFL; and
- (c) various other matters consequential or otherwise integrally connected therewith.

3.2. The Appointed Date for the Scheme is 1 April 2024.



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- 3.3. The Effective Date (*as defined in the Scheme*) for the Scheme will be the last date as notified by the Boards of the Company and PCHFL, on which all conditions precedent specified in the Scheme have been fulfilled, completed or waived, as applicable, as determined by the Boards of the Company and PCHFL.
- 3.4. The shares issued and allotted pursuant to the Scheme, shall be listed and admitted to trading on the Stock Exchanges after obtaining the requisite approvals.
- 3.5. Upon the Scheme becoming effective, and as an integral part of the Scheme, the entire shareholding of PCHFL held by the Company shall stand cancelled and the Company and PCHFL shall not be required to comply with the provisions of Section 66 of the Act or any other applicable provisions.
- 3.6. the Scheme is and shall be subject to certain conditions precedent therein, including:
- (a) Issuance of the certificate of registration/ license by the RBI permitting PCHFL to operate as an Non-Banking Finance Company - Investment and Credit Company (“**NBFC-ICC**”);
 - (b) Certified copy of the order of the NCLT sanctioning the Scheme being filed with the Registrar of Companies;
 - (c) Issuance of the observation/ no-objection letter by the Stock Exchanges as required under the SEBI Listing Regulations read with the SEBI Scheme Circular and SEBI Debt Circular;
 - (d) Compliance with all other conditions prescribed by SEBI under the SEBI Scheme Circular and SEBI Debt Circular;
 - (e) Approval by the respective requisite majorities of members and creditors (where applicable) of the Company and PCHFL, as required under the Act, subject to any dispensation that may be granted by the NCLT;
 - (f) Satisfaction (or waiver in writing) of such other conditions precedent as mutually agreed between the parties in writing;
 - (g) Receipt of approval/ no objection certificate from the RBI for this Scheme and all related matters as required under applicable law; and
 - (h) Receipt of relevant approvals/ no objection certificate for this Scheme as may be required from relevant regulatory and governmental authorities, if any.

4. Details of the Scheme

4.1. Background of the Scheme and need for the amalgamation

- (a) Pursuant to the audited financial statements for the financial year ended 31 March 2024, PCHFL 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 of PCHFL has approved the conversion of PCHFL from an HFC to an

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NBFC-ICC and PCHFL 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.

- (b) 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. PCHFL 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.
- (c) Accordingly, the Company and PCHFL have proposed to enter into the Scheme.

4.2. Rationale of the Scheme

- (a) Pursuant to the audited financial statements for the financial year ended 31 March 2024, PCHFL does not meet the requisite PBC Criteria to continue operating as an HFC. PCHFL 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, PCHFL will operate as an NBFC-ICC resulting in 2 (two) distinct NBFC-ICCs in the group (i.e. the Company and PCHFL), and as such the RBI may not permit the group having two NBFC-ICCs.
- (b) Further, as per the Scale Based Regulations, PCHFL is required to be listed prior to 30 September 2025.
- (c) Accordingly, the Company and PCHFL are now proposing to enter into a composite scheme of arrangement whereby the Company will amalgamate with PCHFL.
- (d) Upon the Scheme becoming effective, the Company will amalgamate with PCHFL, and PCHFL will be listed on a recognised stock exchange thereby ensuring compliance with applicable RBI regulations.
- (e) The amalgamation of the Company with PCHFL would be a seamless transition, as PCHFL has significantly larger scale of operations and wider geographical presence, as compared to the Company. This is evident given that:
 - (i) PCHFL's interest income and assets under management (“**AUM**”) constitute 79.9% and 77.2% of the Company and PCHFL's aggregate interest income and AUM, respectively.
 - (ii) PCHFL originates almost the entire credit portfolio of the Company and PCHFL through its wide network which constitutes 99% of the overall network. PCHFL also houses more than 95% of the aggregate employees of the Company and PCHFL.
 - (iii) The amalgamation of the Company with PCHFL would entail lesser disruptions in the retail lending business of PCHFL. This approach would

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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 PCHFL.

- (f) 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.
- (g) 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.
- (h) 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.
- (i) 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, PCHFL would, subsequent to the amalgamation, benefit from economies of scale and operational efficiencies, leading to revenue and cost synergies.
- (j) 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.
- (k) The amalgamation will result in the shareholders of the Company 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.

4.3. Synergies of business of the entities involved in the Scheme

As detailed above in the rationale of the Scheme, the amalgamation would result in the formation of a unified, stronger entity which would benefit from economies of scale and operational efficiencies. Further, the consolidation of businesses of the Company and PCHFL would bring efficiency with respect to its treasury operations and enhanced access to the capital market for the entire lending business.

4.4. Impact of the Scheme on the shareholders

- (a) Upon the Scheme becoming effective, in consideration of the transfer and vesting of the Company in PCHFL, PCHFL shall issue the following shares to the shareholders of the Company in the manner set out in the Scheme;

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- (i) For every 1 (one) equity share having face value of INR 2 (Indian Rupees Two only) of the Company, 1 (one) equity share having face value of INR 2 (Indian Rupees Two only) of PCHFL shall be allotted to the shareholders of the Company; and
 - (ii) Subject to receipt of approval from the RBI, for (a) issuance of NCRPS to the non-resident shareholders of the Company; 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 the Company 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 the Company, 1 (one) NCRPS having face value of INR 67 (Indian Rupees Sixty Seven only) of PCHFL shall be allotted to the shareholders of the Company.
- (b) The equity shares and, subject to receipt of RBI approval, NCRPS issued and allotted by PCHFL to the shareholders of the Company as consideration for the amalgamation shall be listed and admitted to trading on the Stock Exchanges after obtaining the requisite approvals.
 - (c) Further, upon the Scheme coming into effect, the existing shareholding of the Company in PCHFL shall stand cancelled and extinguished without any further act, instrument or deed.
 - (d) The Scheme is expected to have several benefits for the Company as indicated in the rationale of the Scheme and is expected to be beneficial to the shareholders of the Company 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.
 - (e) Accordingly, the Scheme will have no adverse effect on the shareholders of the Company due to the amalgamation.

4.5. Cost benefit analysis of the Scheme

Although the Scheme would lead to incurring of some costs by the Company and PCHFL towards implementation, the benefits of the said Scheme over a longer period would, in the view of the Committee, outweigh such costs given the long-term benefits for the financial services business to be consolidated under PCHFL.

5. Valuation Reports

5.1. The Committee noted that the share exchange ratio is as recommended in the Valuation Reports.

5.2. No special valuation difficulties were reported.



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6. Recommendations of the Committee

After noting and taking into consideration the terms of the draft Scheme, the Valuation Reports, Fairness Opinions, need for the amalgamation, rationale of the Scheme, synergies of business of the entities involved in the Scheme, effect of the Scheme on the shareholders, cost benefit analysis of the Scheme and that the post-Scheme shareholding pattern of PCHFL will be the same as the pre-Scheme shareholding pattern of the Company, the Committee recommends the draft Scheme for favourable consideration and approval by the Board of the Company, Stock Exchanges, SEBI, NCLT, RBI and other appropriate authorities.

For and on behalf of the Audit Committee

Rajiv Mehrishi
Chairman of the Audit Committee
DIN: 00208189
Date: 08.05.2024
Place: Mumbai