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**REPORT OF THE AUDIT COMMITTEE OF GRUH FINANCE LIMITED ("AUDIT COMMITTEE")
RECOMMENDING THE DRAFT SCHEME OF AMALGAMATION BETWEEN GRUH FINANCE LIMITED
AND BANDHAN BANK LIMITED, AT ITS MEETING HELD ON JANUARY 7, 2019 AT MUMBAI.**

Present Members:

1. Mr. Biswamohan Mahapatra
2. Mr. Keki M. Mistry
3. Mr. Prafull Anubhai (through video conference from Ahmedabad)
4. Mr. Rajesh Gupta
5. Ms. Bhavna Doshi

Invitees:

Mr. Sudhin Choksey - Managing Director, Mr. Kamlesh Shah - Executive Director, Ms. Renu Sud Karnad - Director and Mr. K. G. Krishnamurthy - Director, were invited and they were present at the meeting.

Mr Suresh Iyer, General Manager-Operations and Mr Hitesh Agrawal, CFO were invited and they were present at the meeting.

The following intermediaries who were also invited, were present at the meeting.

1. Mr. Rajeev Gupta and Mr. Raj Kataria, Arpwood Capital Pvt Ltd., Financial Advisors
2. Mr. Sandeep Singhi, Singhi & Co., Advocates and Notary, Legal Advisors
3. Mr. Krishnava Dutt, Argus Partners, Solicitors and Advocates, Legal Advisors
4. Mr. Atul Shah, G. M. Kapadia & Co., Chartered Accountants, Financial Advisors
5. Mr. Shailesh Haribhakti, Mr. Darpit Kanadia and Ms. Namrata Shah, Desai Haribhakti & Co., Independent Valuer
6. Ms. Sonia Dasgupta, Mr. Puneet Gulati and Mr. Rohit Baheti, JM Financial Limited, SEBI registered Merchant Bankers

In attendance:

1. Mr. Marcus Lobo, Company Secretary

1. Background

- 1.1. A meeting of the Audit Committee of GRUH Finance Limited ("Company" or "Transferor Company") was held on January 7, 2019 at Mumbai, to consider and recommend to the board of directors of the Transferor Company ("Board"), the scheme of amalgamation between GRUH Finance Limited and Bandhan Bank Limited ("Transferee Company") ("Scheme") under sections 230 to 232 of the Companies Act, 2013 ("Act") and other applicable provisions of law, which envisages the amalgamation of the Transferor Company with and into the Transferee Company, with effect from January 1, 2019, or such other date as may be mutually agreed between the Transferor Company and the Transferee Company ("Appointed Date"), subject to the approval of the requisite majority of shareholders and creditors of both the Transferor and Transferee companies, Reserve Bank of India ("RBI"), BSE Limited and the National Stock Exchange of India Limited ("Stock Exchanges"), National Company Law Tribunal, Ahmedabad Bench and the Kolkata Bench ("NCLT"), Competition Commission of India ("CCI"), Securities and Exchange Board of India ("SEBI") and such other regulatory authorities, as may be applicable. The Transferor

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Marcus Lobo

MARCUS LOBO

**COMPANY SECRETARY
GRUH FINANCE LIMITED**

A subsidiary of HDFC Ltd

Netaji Marg, Near Mithakhali Six Roads, Ellisbridge, Ahmedabad-380 006.

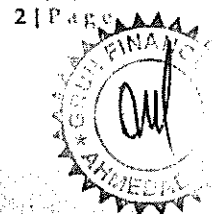
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Company and the Transferee Company collectively referred to as the "Amalgamating Companies".

- 1.2. This report of the Audit Committee is made in order to comply with the requirement of SEBI circular CFD/DIL3/CIR/2017/21 dated March 10, 2017 and all amendments thereto ("SEBI Circular") according to which the Scheme is required to be considered and recommended by the Audit Committee, taking into account *inter alia* the Valuation Report (*as defined hereinafter*).
- 1.3. The Transferor Company is engaged in the business of providing finance for housing and is registered with the National Housing Bank ("NHB") as a housing finance institution. The equity shares of the Transferor Company are listed on the Stock Exchanges. The objects clause of the memorandum of association of the Transferor Company authorises the Transferor Company to carry on the business of housing finance.
- 1.4. The Transferee Company is in the business of providing banking services. The Transferee Company is licensed as a banking company under the provisions of the Banking Regulation Act, 1949. The equity shares of the Transferee Company are listed on the Stock Exchanges. The objects clause of the memorandum of association of the Transferee Company authorises the Transferee Company to carry on the business of banking.
- 1.5. The Audit Committee has discussed and has made this report after perusing the following documents:
 - (a) the draft Scheme;
 - (b) the draft merger co-operation agreement proposed to be entered into by and between the Transferor Company and the Transferee Company;
 - (c) the (i) legal due diligence report prepared by Singhi & Co., Advocates and Notary, (ii) legal due diligence report prepared by Argus Partners, Solicitors and Advocates, and (iii) financial due diligence report prepared by M/s. G. M. Kapadia & Co., Chartered Accountants;
 - (d) the joint valuation report dated January 7, 2019 submitted by M/s. Desai Haribhakti & Co., and M/s. SRB & Associates, independent chartered accountants ("Valuation Report") along with the summary thereof;
 - (e) fairness opinion dated January 7, 2019 issued by JM Financial Limited, a SEBI registered merchant banker appointed by the Transferor Company ("Fairness Opinion");
 - (f) draft certificate by Deloitte Haskins & Sells LLP, chartered accountants, the statutory auditors of the Transferor Company, pursuant to paragraph I.A.5 of Annexure I of the SEBI Circular;
 - (g) draft of the undertaking to be provided by the Company, pursuant to paragraph I.A.9(c) of Annexure I of the SEBI Circular, in relation to non-applicability of paragraphs I.A.9(a) and I.A.9(b) of Annexure I of the SEBI Circular;
 - (h) draft certificate by Deloitte Haskins & Sells LLP, chartered accountants, statutory auditors of the Company, pursuant to paragraph I.A.9(c) of Annexure I of the SEBI Circular, in relation to non-applicability of paragraphs I.A.9(a) and I.A.9(b) of Annexure I of the SEBI Circular;
 - (i) the presentation made by Arpwood Capital Private Limited (transaction advisors) explaining the rationale and justification for the proposed merger; and
 - (j) other presentations, reports, documents and information made to/ furnished before the Audit Committee.

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2. Salient Features of the proposed Scheme

2.1. The Audit Committee noted the brief particulars of the Scheme as under:

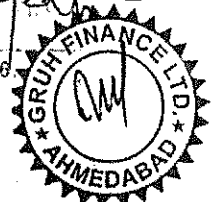
- (a) The Scheme contemplates amalgamation of the Transferor Company into the Transferee Company pursuant to the provisions of Sections 230 - 232 of the Act and other applicable provisions, and the dissolution without winding up of the Transferor Company pursuant thereto.
- (b) Appointed Date in terms of the Scheme shall mean January 1, 2019, or such other date as may be mutually agreed between the Transferor Company and the Transferee Company and is the date with effect from which the Scheme shall be effective.
- (c) With effect from the Appointed Date and upon the Scheme becoming effective, the Transferor Company along with all its assets and liabilities shall stand transferred to and vest in the Transferee Company with the Transferee Company as a going concern, without any further act, instrument or deed (as per the Scheme).
- (d) The Transferee Company shall follow the method of accounting as prescribed for the 'pooling of interest method' under Accounting Standard 14 as notified under the Companies Accounting Rules, 2006.
- (e) In consideration of the amalgamation, the Transferee Company will issue New Equity Shares to the shareholders of the Transferor Company on the Record Date (as defined in the Scheme), in accordance with the Share Exchange Ratio (as defined in the Scheme of Amalgamation) and pursuant to Sections 230 - 232 of Act, and other applicable provisions, in the manner provided for in the Scheme and in compliance with the provisions of the Income Tax Act, 1961.
- (f) All the employees of the Transferor Company shall become the employees of the Transferee Company, without any break or interruption in the services of such employees and on the same terms and conditions on which they are engaged by the Transferor Company.
- (g) The Scheme provides for the grant of stock options by the Transferee Company to all the Eligible Employees (as defined in the Scheme of Amalgamation) of the Transferor Company upon coming into effect of the Scheme, in lieu of stock options of the Transferor Company held by such employees, pursuant to and in accordance with the Scheme, taking in to consideration the Share Exchange Ratio (as defined in the Scheme).
- (h) The Scheme requires the Transferor Company and the Transferee Company to, during the period between the approval of the Scheme of Amalgamation by the respective board of directors of the Transferor Company and the Transferee Company and up to the Effective Date (as defined in the Scheme), the business of the Transferor Company and the Transferee Company shall be carried out with reasonable diligence and business prudence in the ordinary course consistent with past practice, in good faith and in accordance with applicable law.
- (i) The Scheme is required to be approved by the requisite majorities in number and value of such classes of persons including the respective members and/or creditors of the Transferor Company and the Transferee Company as may be directed by the National

~~AS SUBMITTED TO M.D.F.C. 118~~

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Company Law Tribunal, Kolkata and National Company Law Tribunal, Ahmedabad ("NCLT") benches subject to any dispensation that may be granted by the respective NCLT.

- (j) The Scheme of Amalgamation shall become effective from the Appointed Date (as defined in the Scheme) but shall be operative from the date by which all the conditions set out in Clause 9.1 of Part IV of the Scheme of Amalgamation have been satisfied. Such conditions include obtaining the prior written approval of various regulators such as Reserve Bank of India, Competition Commission of India, stock exchanges, etc. with respect to the transactions contemplated under the Scheme, the certified or authenticated copy of the order of the respective NCLT sanctioning the Scheme being filed with the respective Registrar of Companies having jurisdiction over the respective companies.

3. Rationale for the Scheme

3.1. The Audit Committee noted the rationale of the proposed amalgamation and noted that the amalgamation results in the following benefits:

- (i) The Transferee Company and the Transferor Company have developed exceptional skills in banking business and housing finance business respectively. The Transferor Company has a wide range of home loan products with a specific rural focus. With a retail network of 195 (one hundred ninety five) branches, it has a presence in 11 States and 1 Union Territory in India with almost 50% (fifty percent) of the existing loan assets advanced in rural areas. The Transferee Company received a banking license in 2015 from the RBI. Its focus has been to meet the financial needs of people who are overlooked by the formal banking system. The Transferor Company and the Transferee Company therefore have significant complementarities and the consolidation of the two businesses carried on by them is strategic in nature and will generate significant business synergies. The amalgamation will result in enhancement of shareholders' value accruing from synergy of operations, new product development, integration of technology and information technology platforms, and also enable the Amalgamating Companies to further their socio-economic objectives. Thus, a combination of the Transferor Company and the Transferee Company will enhance the value propositions of the combined entity which would be able to leverage the complementarities of the Amalgamating Companies;
- (ii) The amalgamation of the Transferor Company with the Transferee Company will enable the Transferee Company to build and strengthen its housing loan portfolio, and establish a strong customer base of affordable housing customers. The Transferee Company would benefit from the loan assets of the Transferor Company as the strong loan book of the Transferor Company will stand merged into the Transferee Company pursuant to the amalgamation. In addition, the amalgamation will not dilute the position of the Transferor Company generating predominantly Priority Sector Lending ("PSL") loans as majority portfolio of Transferee Company is PSL eligible;
- (iii) pooling of resources, creating better synergies, optimal utilisation of resources and greater economies of scale;
- (iv) better administration and cost reduction (including reduction in administrative and

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other common costs);

- (v) while the Transferee Company has pan India presence in 34 States and Union Territories with a strong presence in east and north east part of India, the proposed amalgamation will enhance reach and distribution and help expand the geographic coverage for the combined entities;
- (vi) greater efficiency in cash management and unfettered access to cash flow generated by the combined business, which can be deployed more efficiently, to maximise shareholder value;
- (vii) create value for stakeholders including respective shareholders, customers, lenders and employees as the combined business would benefit from increased scale, product diversification and expanded reach with increased ability to growth opportunities, higher cross selling opportunities to a larger base of customers, improvement in productivity and operational efficiencies amongst others;
- (viii) provide material realisable cost and revenue synergies for the benefit of the Amalgamating Companies; and
- (ix) optimal utilisation of resources and economies of scale resulting in improved efficiencies; it will help the Transferee Company to establish a strong customer base of affordable housing and scale up rural lending.

4. Valuation Report and Fairness Opinion

- 4.1. The Audit Committee reviewed the Valuation Report along with the summary thereof and noted the method of valuation and the recommended the following Share Exchange Ratio:

For every 1,000 fully paid up equity shares of face value of Rs. 2 (Rupees two) each held in the Transferor Company as on the Record Date (as defined in the Scheme), the equity shareholders of the Transferor Company shall receive 568 fully paid-up equity shares of Transferee Company of face value of Rs. 10 (Rupees ten) each credited as fully paid up in Transferee Company.

- 4.2. The Audit Committee also noted that the Fairness Opinion has confirmed that the Share Exchange Ratio in the Valuation Report is fair to the shareholders (including the minority shareholders) of the Transferor Company.

5. Recommendation of the Audit Committee

The Audit Committee having considered and noted, *inter alia*, the Valuation Report and the Fairness Opinion, recommends the Scheme in its present form for favourable consideration by the Board, the RBI, CCI, Stock Exchanges, NCLT, SEBI and such other regulatory authorities, as may be applicable.

In the opinion of the members of the Audit Committee present at the Meeting, the Scheme is in the best interest of all the stakeholders of the Transferor Company including shareholders, customers, lenders and employees and the Share Exchange Ratio as mentioned in the Valuation Report is fair and reasonable.

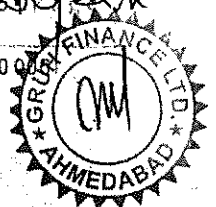
In order for the Transferor Company to comply with the requirements of extant regulations

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applicable to the listed companies undertaking any scheme of amalgamation under the Act, this report of the Audit Committee may please be taken on record by the Board while considering the Scheme for approval and further authorisations.

For and on behalf of the Audit Committee of GRUH Finance Limited

Mr. Biswamohar Mahapatra
Chairman, Audit Committee
GRUH Finance Limited
DIN: 06990345
Date: January 7, 2019
Place: Mumbai



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