



Reports of Audit Committee

Report of the Audit Committee of Utkarsh Small Finance Bank Limited, recommending the draft Scheme of Amalgamation of Utkarsh CoreInvest Limited with Utkarsh Small Finance Bank Limited and their respective shareholders.

1. Background

- 1.1 A meeting of the Audit Committee (**Committee**) was held on September 20, 2024 to consider and recommend the proposed scheme of amalgamation of Utkarsh CoreInvest Limited (**UCL/ Transferor Company**) with Utkarsh Small Finance Bank Limited (**USFBL/ Transferee Company**) and their respective shareholders (**Scheme**), under the provisions of Section 230 to 232 of the Companies Act, 2013 (**Act**) and the Rules made thereunder and other regulatory guidelines, a draft of which was tabled before the Committee.
- 1.2 The equity shares of the Transferee Company are listed on BSE Limited (**BSE**) and the National Stock Exchange of India Limited (**NSE**). The Transferor Company is the promoter and holding company of the Transferee Company and holds [69.02% (sixty-nine point zero two percent)] of the total paid-up equity share capital of the Transferee Company as on the date of this report, i.e., 30 June 2024.
- 1.3 This report is made in accordance with the Master Circular issued by the Securities and Exchange Board of India (**SEBI**) bearing number SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated 20 June 2023 (**SEBI Merger Circular**) and the Master Circular bearing number SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/48 dated 21 May 2024 (**SEBI Debt Circular**) (collectively, the **SEBI Circulars**) and read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**SEBI Listing Regulations**). In accordance with the SEBI Circulars, the following were presented for consideration of the Committee:
- (i) A draft of the Scheme;
 - (ii) Valuation report dated September 20, 2024 issued by RBSA Valuation Advisors LLP, a registered valuer, providing the share exchange ratio based on valuation of UCL and USFBL (**Valuation Report**);
 - (iii) Fairness opinion dated September 20, 2024 issued by DAM Capital Advisors Limited, a SEBI Registered Category I Merchant Banker (**Fairness Opinion**); and
 - (iv) Certificate dated September 20, 2024 from Deloitte Haskins & Sells, Chartered Accountants & Kirtane & Pandit LLP, Chartered Accountants, the Statutory Auditors of the Transferee Company, certifying that: (a) the Transferee Company is capable of payment of interest/ repayment of principal debt amounts, and (b) the accounting treatment provided in the Scheme is in conformity with the applicable accounting standards and regulations under the Act and as specified by the sector regulator i.e., Reserve Bank of India (**RBI**) (**Statutory Auditors Certificate**).

2. Review of the Scheme

2.1 The Committee notes that, upon of the Scheme coming in effect, in consideration of the amalgamation, and based on the Valuation Report and Fairness Opinion, the Transferee Company would issue and allot to the shareholders of the Transferor Company whose names are recorded in the register of members of the Transferor Company as on the Record Date (*as defined in the Scheme*), 699 equity shares of the face value of INR 10 each of Transferee Company, credited as fully paid-up, for every 100 equity shares of the face value of INR 10 each fully paid-up held by such member in the Transferor Company (**Share Exchange Ratio**).

2.2 The Committee further notes that, the Scheme is conditional upon and subject to the following:

- (i) the approval of the RBI in terms of the RBI (Amalgamation of Private Sector Banks) Directions, 2016 dated 21 April 2016, and RBI certification under Section 44(B)(1) of the Banking Regulation Act, 1949;
- (ii) no-objection / no-adverse observation letter from the BSE and the NSE in relation to the Scheme as per Regulation 37 and Regulation 94 of SEBI Listing Regulations read with SEBI Circulars;
- (iii) the expiry of the lock-in restriction on 219,752,029 (twenty-one crore ninety-seven lakhs fifty-two thousand twenty-nine) equity shares held by the Transferor Company in the Transferee Company under Regulation 16(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (this restriction / lock-in period expires on 19 January 2025);
- (iv) the Scheme being approved by the respective requisite majority (in number and value) of such class of persons including the shareholders and/or creditors of the Transferor Company and the Transferee Company as prescribed under applicable law, either at a meeting or through consent or no-objection letters or otherwise, and as may be directed by the National Company Law Tribunal, Allahabad bench ("NCLT") under Sections 230 to 232 of the Act or dispensation having been received from the NCLT in relation to obtaining such approval from the members and/or creditors;
- (v) the Scheme being approved by e-voting by the requisite majority of the public shareholders of the Transferee Company as required under the SEBI Merger Circular (since the Scheme involves amalgamation of a listed entity with its promoter);
- (vi) the Scheme being approved by e-voting by the requisite majority of the debenture holders of the Transferee Company as required under the SEBI Debt Circular;
- (vii) the Scheme being sanctioned by the NCLT or any other competent authority, as may be applicable, under Sections 230 to 232 of the Act;
- (viii) fulfilment of any compliance(s), condition(s) etc., if any, stipulated by the RBI, SEBI, BSE, NSE and/or any other relevant governmental authority prior to effecting the Scheme;
- (ix) receipt of such other sanction(s), approval(s) etc., of any other Governmental Authority as may be required by Applicable Laws in respect of the Scheme; and
- (x) certified copy of the NCLT order sanctioning the Scheme being filed with the jurisdictional Registrar of Companies by both the Transferor Company and the Transferee Company.

2.3 Lastly, the Committee notes that, the Scheme is proposed to take effect from the Appointed Date (i.e., April 01, 2025).

3. Need and Rationale for the Scheme

- 3.1 The Transferee Company is functioning as a small finance bank (**SFB**) and was issued a license in this regard by the RBI on 25 November 2016. As per the conditions laid in the said license read with RBI Guidelines for Licensing of 'Small Finance Banks' in the Private Sector dated 27 November 2014 and the RBI Guidelines for 'on-tap' Licensing of 'Small Finance Banks' in Private Sector dated 5 December 2019 (**SFB Guidelines**), the promoter of SFB was required to reduce its equity stake in the SFB to 40% within a period of 5 years and thereafter to 26% within a period of 15 years from the date of commencement of business operations by the SFB.
- 3.2 Further, in terms of Direction 7.1 of the Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023, USFBL submitted its plan for undertaking dilution of the promoter's shareholding including by way of reverse merger of UCL with USFBL and this dilution plan submitted by USFBL was acknowledged by the RBI pursuant to its email dated 9 February 2024.
- 3.3 Accordingly, the proposed amalgamation of UCL with USFBL, among other business objectives and benefits (as indicated in the Scheme), would enable the Transferee Company to meet the aforesaid dilution requirements.

4. Synergies

- 4.1 The Scheme will create value for all stakeholders (including respective shareholders, debenture holders, and employees) as it will lead to simplification of group structure, thereby resulting in reduction of multiplicity of legal and regulatory compliances, and optimal utilization of common resources.
- 4.2 The proposed amalgamation would result in formation of a larger, stronger and single unified entity having greater economic capacity for conducting its operations with more focused operational efforts and synergies and efficient functioning.

5. Effect of the Scheme on the respective stakeholders of USFBL /Transferee Company

S. No.	Category of Stakeholder	Effect of the Scheme on Stakeholders
1.	Promoter shareholders	The Transferor Company is the promoter of the Transferee Company. Pursuant to the Scheme, the Transferor Company will be dissolved without winding up and the shareholders of the Transferor Company would benefit by directly holding shares in the Transferee Company and derive value from the business of Transferee Company directly.
2.	Non-promoter shareholders	The Scheme will not impact the rights and interest of the Transferee Company's non-promoter shareholders.
3.	Depositors	The Scheme will not impact the rights and interest of the Transferee Company's depositors.

S. No.	Category of Stakeholder	Effect of the Scheme on Stakeholders
4.	Creditors	The Scheme will not impact the rights and interest of the Transferee Company's creditors, and any amounts due to any creditor will be paid in full, as and when their dues become payable in accordance with the usual course of business of the Transferee Company
5.	<p>A. Holders of Non-convertible Debentures issued by the Transferee Company (NCDs)</p> <p>B. Safeguards for the protection of holders of NCDs</p> <p>C. Exit Offer to the dissenting holders of NCDs</p>	<p>A. No impact on the holders of the NCDs as they will be paid the principal amount of the NCDs and the coupon thereon in full by the Transferee Company as and when their respective amounts fall due in accordance with the terms of the NCDs.</p> <p>B. There will be no change in terms and conditions of the NCDs pursuant to the Scheme. The holders of the NCDs as on the Effective Date (<i>as defined in the Scheme</i>) will continue to hold the NCDs, without any interruption and with the same rights that they enjoy as on the Effective Date. The liability of the Transferee Company towards holders of the NCDs is neither being reduced nor being extinguished under the Scheme.</p> <p>C. There will be no adverse impact on the rights and interest of holders of the NCDs, accordingly, the Scheme does not provide any exit offer / mechanism to the dissenting holders of the NCDs.</p>
6.	Deposit Trusts and Debenture Trustees	The Scheme will not impact the rights and interest of the Transferee Company's Deposit Trusts or the Debenture Trustees.
7.	Employees and Key Managerial Personnel (KMP)	The Scheme will not impact the rights or obligations of the Transferee Company's employees or KMPs.
8.	Directors	The Scheme will not impact the rights or obligations of the Transferee Company's directors.

6. Cost benefit analysis of the Scheme

6.1 Keeping in view the rationale, purpose and synergies of the proposed amalgamation as mentioned above, the Committee is of the view that:

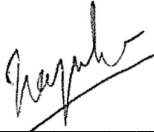
- (i) the Scheme would result in USFBL complying with the RBI mandated dilution norms applicable to small finance banks;

- (ii) the amalgamation proposed under the Scheme would result in reduction in compliance and administrative costs, increase efficiencies, and better administration, thereby contributing to future profitability of the Transferee Company; and
- (iii) the benefits resulting from the proposed amalgamation would exceed costs from the proposed amalgamation, resulting in increased productivity and efficiency, thereby resulting in enhancement of stakeholder value.

7. Recommendation of the Audit Committee

7.1 The Committee after due deliberations and in consideration of, *inter alia*, the draft Scheme, Share Exchange Ratio, Valuation Report, Fairness Opinion, Statutory Auditors Certificate, and the above referred considerations, recommends the draft Scheme for favorable consideration by the board of directors of the Transferee Company.

**For Audit Committee of
Utkarsh Small Finance Bank Limited**



Nagesh Dinkar Pinge
Chairman of the Audit Committee
DIN: 00062900
Date: September 20, 2024