


Satisf Gaiikwad
Head - Legal, Compliance & Company Secretary



REPORT ON THE RECOMMENDATION OF THE AUDIT COMMITTEE ("COMMITTEE") OF CAPITAL FIRST LIMITED ON THE DRAFT COMPOSITE SCHEME OF AMALGAMATION OF CAPITAL FIRST LIMITED, CAPITAL FIRST HOME FINANCE LIMITED AND CAPITAL FIRST SECURITIES LIMITED WITH IDFC BANK LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

COMPOSITE SCHEME OF AMALGAMATION

1. Capital First Limited ("Company") is a public limited company incorporated under the Companies Act, 1956 with its registered office at One Indiabulls Centre, Tower 2A & 2B, 10th Floor, Senapati Bapat Marg, Lower Parel (West), Mumbai - 400013. The Company is registered as a systemically important non-banking financial company (non-deposit taking) under Section 45-IA of the Reserve Bank of India Act, 1934.
2. IDFC Bank Limited ("IDFC Bank") is a public limited company incorporated under the Companies Act, 2013 with its registered office at KRM Tower, 7th Floor, No. 1, Harrington Road, Chetpet, Chennai - 600031. IDFC Bank is engaged in the business of providing banking services and is registered with the Reserve Bank of India ("RBI") as a banking company.
3. A meeting of the Audit Committee of the Company was held on January 13, 2018 to consider and recommend the proposed composite scheme of amalgamation of the Company, and Capital First Home Finance Limited and Capital First Securities Limited (together, "the Subsidiaries") with IDFC Bank and their respective shareholders and creditors under Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions, if any, under applicable law ("Scheme") involving the amalgamation of the Company and the Subsidiaries into and with IDFC Bank, with effect from April 1, 2018 or such other date as may mutually agreed between the Company, the Subsidiaries and IDFC Bank ("Appointed Date") ("Proposed Amalgamation"), subject to the approval of the RBI, National Stock Exchange of India Limited and BSE Limited ("Stock Exchanges"), the Securities and Exchange Board of India ("SEBI") and the Competition Commission of India, the National Housing Bank, the National Company Law Tribunal and such other regulatory authorities, as may be applicable.
4. This report of the Audit Committee is made in order to comply with the requirements of SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 as amended by Circular No. CFD/DIL3/CIR/2018/2 dated January 3, 2018 on Schemes of Arrangement by Listed Entities ("SEBI Circular").
5. The Committee noted the rationale of the Proposed Amalgamation and the summary of the Scheme from the documentation tabled before the Committee. The Committee also noted the key financial diligence findings and the key legal diligence findings tabled before the Committee.

6. The sealed envelope handed over by Walker Chandiook & Co LLP, the chartered accountants appointed by the Company, containing a copy of the valuation report prepared by them, was un-sealed and the share exchange ratio was read out to the Committee. Walker Chandiook & Co LLP then made a presentation to the Committee explaining the methodology adopted by them in arriving at the share exchange ratio. Then JM Financial Institutional Securities Limited, merchant bankers, also made a presentation to the Committee on the valuation of assets / shares done by the valuer.
7. The following documents were placed before the Audit Committee:
 - a) The draft Scheme;
 - b) The draft implementation agreement to be executed between the Company and IDFC Bank to provide for the manner of effecting the Proposed Amalgamation;
 - c) Valuation report dated January 13, 2018 issued by Walker Chandiook & Co LLP, chartered accountants ("Valuation Report");
 - d) Fairness opinion dated January 13, 2018 from JM Financial Institutional Securities Limited, merchant banker ("Fairness Opinion");
 - e) Certificate dated January 13, 2018 issued by BSR & Co. LLP, the statutory auditors of the Company, certifying that the accounting treatment contained in the Scheme is in compliance with all the Accounting Standards specified by the Central Government under the Companies Act, 2013 read with the rules framed thereunder or the accounting standards issued by the Institute of Chartered Accountants of India, as applicable, and other generally accepted accounting principles;
 - f) The draft of the management undertaking to be issued by the Company in relation to the non-applicability of paragraph I.A.9(b) of Annexure I of the SEBI Circular;
 - g) The draft of the certification to be issued by B S R & Co LLP, the statutory auditor in relation to the non-applicability of paragraph I.A.9(b) of Annexure I of the SEBI Circular; and
 - h) Other presentations, reports, documents and information furnished before the Committee.
8. The salient features of the Proposed Amalgamation are as follows:
 - a) Amalgamation of the Company and the Subsidiaries into and with IDFC Bank in accordance with Section 2(1B) of the Income Tax Act, 1961, and the dissolution without winding up of the Company and the Subsidiaries with effect from the Appointed Date;
 - b) Issuance of equity shares by IDFC Bank to the shareholders of the Company, based on the share exchange ratio recommended by the valuers;

- c) Transfer of authorised share capital of the Company and the Subsidiaries to IDFC Bank and cancellation of the securities held by IDFC Bank in the Subsidiaries consequent upon the Proposed Amalgamation; and
 - d) The grant of stock options by IDFC Bank to employees of the Company and the Subsidiaries in lieu of the outstanding employee stock options of the Company held by such employees, upon their transfer to IDFC Bank, as set out in the Scheme.
9. The Audit Committee reviewed the Valuation Report and noted the valuation and the recommended share exchange ratio for the Proposed Amalgamation ("Share Exchange Ratio") as under:

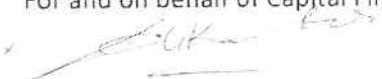
In consideration for the Proposed Amalgamation, IDFC Bank shall issue and allot fully paid up equity shares to all the equity shareholders of the Company in the following ratio and the securities held by IDFC Bank in the Subsidiaries consequent upon the completion of the Proposed Amalgamation shall stand cancelled:

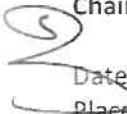
For every 10(Ten) fully paid up equity shares of face value of INR 10 each held in the Company as on the Record Date (as defined in the Scheme), the equity shareholders of the Company shall be issued 139(One Hundred and Thirty Nine) equity shares of face value of INR 10 each credited as fully paid up in IDFC Bank.

10. Further, the Fairness Opinion confirmed that the Share Exchange Ratio in the Valuation Report is fair to the shareholders of the Company.
11. The equity shares issued by IDFC Bank to the shareholders of the Company pursuant to the Proposed Amalgamation are proposed to be listed on the Stock Exchanges.
12. **Recommendation of the Audit Committee**

The Audit Committee recommends the draft Scheme to be effective from the Appointed Date, after taking into consideration the Valuation Report and the Share Exchange Ratio, to the Board of Directors of the Company and shareholders of the Company for its approval and for favorable consideration by the Stock Exchanges, the SEBI and other regulatory authorities, as may be required.

By Order of the Audit Committee
For and on behalf of Capital First Limited


Dinesh Kanabar
Chairman, Audit Committee


Date: January 13, 2018
Place: Mumbai



Capital First Limited