

**REPORT OF THE AUDIT COMMITTEE OF EDELWEISS FINANCIAL SERVICES LIMITED  
RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN EDELWEISS FINANCIAL  
SERVICES LIMITED AND EDELWEISS SECURITIES LIMITED AND THEIR RESPECTIVE SHAREHOLDERS  
AND CREDITORS AT ITS MEETING HELD ON FRIDAY, MAY 13, 2022 AT 6.30 P.M.**

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**1. Background**

- 1.1. A meeting of the Audit Committee of Edelweiss Financial Services Limited ("**Company**" or "**Demerged Company**") was held on May 13, 2022 to consider and recommend the proposed Scheme of Arrangement between the Company and Edelweiss Securities Limited ("**Resulting Company**") and their respective shareholders and creditors under Sections 230 to 232 read with Section 52 and other applicable provisions of the Companies Act, 2013 ("**Act**") ("**Scheme**").
- 1.2. The Company is a public company incorporated under the provisions of the Companies Act, 1956. The Company is principally engaged in providing investment advisory services, merchant banking services (registered with Securities and Exchange Board of India ("**SEBI**")), investment banking services and holding company activities comprising of development, managerial and financial support to the business of its subsidiaries. The equity shares of the Company are listed on BSE Limited and the National Stock Exchange of India Limited (collectively referred to as "**Stock Exchanges**").
- 1.3. The Resulting Company is a company incorporated under the provisions of the Companies Act, 1956. The Resulting Company is registered as a trading and clearing member with Stock Exchanges and provides securities broking, investment advisory and research analysis services to its clients. The Resulting Company is a SEBI registered stock broker, investment advisor and research analyst. The Resulting Company also acts as a 'Sponsor' to AIFs. The equity shares of the Resulting Company are not listed on the Stock Exchanges.
- 1.4. The Audit Committee noted that the Scheme *inter alia* provides for demerger, transfer and vesting of the Demerged Undertaking (*as defined in the Scheme*) from the Company into the Resulting Company on a *going concern* basis and reduction of the capital of the Resulting Company, in the manner set out in the Scheme.
- 1.5. The Appointed Date for the Scheme means the Effective Date (*as defined in the Scheme*) or such other date as may be decided by the Boards of the Parties (*as defined in the Scheme*).
- 1.6. This Report of the Audit Committee is made in compliance with the requirements of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**") and SEBI Master Circular number SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 ("**SEBI Master Circular**"), including amendments thereto.
- 1.7. The following documents were placed before the Audit Committee:
  - (a) Draft Scheme, duly initialed by the Company Secretary of the Company for the purpose of identification;
  - (b) Draft of the share entitlement ratio reports dated May 13, 2022, issued by M/s. Price Waterhouse & Co., Chartered Accountants ("**PwC**") and Mr. Suman Kumar Verma, Registered Valuers duly initialed by the Company Secretary of the Company for the purpose of identification ("**Share Entitlement Ratio Report**");





- (c) Draft of the fairness opinion dated May 13, 2022, ("**Fairness Opinion**") issued by M/s. Equirus Capital Private Limited, on the fairness of the share entitlement ratio determined under the Share Entitlement Ratio Report in connection with the proposed Scheme; and
- (d) Draft certificate issued by M/s. S. R. Batliboi & Co., Chartered Accountants, the Statutory Auditors of the Company, confirming the accounting treatment prescribed in the Scheme.

## 2. Proposed Scheme

### 2.1. Need for the arrangement and rationale of the Scheme

The Audit Committee of the Company noted the rationale and the benefits of the Scheme which, *inter-alia*, are as follows:

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1. *The Demerged Company and the Resulting Company seek to reorganise their respective businesses, by transfer of the Demerged Undertaking from the Demerged Company to the Resulting Company, so as to consolidate the wealth management business under one single entity (i.e. the Resulting Company).*
2. *The demerger of the Demerged Undertaking from the Demerged Company to the Resulting Company will result in the equity shares of the Resulting Company becoming listed on the National Stock Exchange Limited and BSE Limited, with the Resulting Company focussing exclusively on wealth management business and capable of independent valuation and participation therein by any suitable investor interested in such businesses, in the future.*
3. *The proposed restructuring pursuant to the said Scheme is expected, inter alia, to result in following benefits:*
  - (i) *value unlocking of wealth management business with ability to achieve valuation based on respective-risk return profile and cash flows;*
  - (ii) *attracting business specific investors and strategic partners and providing better flexibility in accessing capital, focused strategy and specialisation for sustained growth and thereby enable de-leveraging of the respective businesses in the longer-term;*
  - (iii) *segregation and unbundling of the wealth management business of the Demerged Company into the Resulting Company, will enable enhanced focus on the Demerged Company and the Resulting Company for exploiting opportunities in their respective business domains; and*
  - (iv) *focused management approach for pursuing the growth in the respective business' verticals and de-risk the businesses from each other.*

*The Scheme would be in the best interests of the shareholders, employees and creditors and other stakeholders of each of the Parties as it would result in enhancement of*





*shareholder value, operational efficiencies and greater focus and would enable the management of each of the aforesaid companies to vigorously pursue revenue growth and expansion opportunities."*

## 2.2. **Synergies of business of the companies involved in the Scheme**

The background and information of the companies is, *inter-alia*, as under:


- (a) The Demerged Company is principally engaged in providing investment advisory services, merchant banking services, investment banking services and holding company activities comprising of development, managerial and financial support to the business of its subsidiaries.
- (b) The Resulting Company is registered as a trading and clearing member with Stock Exchanges and provides securities broking, investment advisory and research analysis services to its clients. The Resulting Company is a SEBI registered stock broker, investment advisor and research analyst. The Resulting Company also acts as a 'Sponsor' to AIFs.
- (c) Pursuant to the proposed Scheme, the benefits as stated in Paragraph 2.1 above are proposed to be derived.

## 2.3. **Impact of the Scheme on the shareholders of the Company**

- (a) The Scheme *inter alia* provides for demerger, transfer and vesting of the Demerged Undertaking (*as defined in the Scheme*) from the Company into the Resulting Company on a *going concern* basis and reduction of the capital of Resulting Company, in the manner set out in the Scheme.
- (b) In consideration for the demerger, transfer and vesting of the Demerged Undertaking from the Company into the Resulting Company, the Resulting Company shall issue its equity shares to the shareholders of the Demerged Company, as specified in the Scheme. Pursuant to the Scheme, the equity shares of the Resulting Company will be listed on the Stock Exchanges.
- (c) Hence, there is no adverse impact of the Scheme on the shareholders of the Company and the economic interest of the shareholders of the Company pre-Scheme and post-Scheme shall remain the same.

## 2.4. **Cost benefit analysis of the Scheme**

Although the Scheme would lead to incurring of some costs towards its implementation, however, the benefits of the Scheme over a longer period would far outweigh such costs for the stakeholders of the Company.



3. **Recommendation of the Audit Committee**

The Audit Committee *inter alia* having noted the rationale, benefits and the impact of the Scheme on the shareholders and in particular the fact that the Scheme is not detrimental to the interests of shareholders of the Company and in consideration of the Scheme and other documents placed before it, the Audit Committee of the Company hereby recommends the Scheme to the Board of Directors of the Company for its consideration and approval.

For and on Behalf of **Edelweiss Financial Services Limited**



**P N Venkatachalam**

**Chairman - Audit Committee**

**May 13, 2022**