



Proxy Advisory Report IIFL Holdings Ltd

BSE Code: 532636 | NSE Code: IIFL | ISIN: INE530B01024

Sector: Stock/ Commodity Brokers | Meeting Type: NCLT Convened Meeting

e-Voting Platform: [NSDL](#)

e-Voting Period: From 08th May, 2017 to 10th May, 2017

Meeting Date: 11th May, 2017 at 4:00 PM

Cut-Off date to be eligible for voting: 04th May, 2017

Meeting Venue: Hall of Harmony, Nehru Center, Dr. Annie Besant Road, Worli, Mumbai – 400 018

Notice: [Click here](#) | Annual Report: [FY 2015-16](#)

Company Email: shareholders@indiainfoline.com

Company Phone: +91 22 4249 9000 | Company Fax: +91 22 2580 6654

Company Registered Office: IIFL House, Sun Infotech Park, Road No. 16V, Plot No B-23, Thane Industrial Area, Wagle Estate Thane – 400 604

REPORT SNAPSHOT**TABLE 1 - AGENDA ITEMS AND RECOMMENDATIONS**

S. No.	Resolution	Type	Recommendation	Concern [#]
1	Approval of Scheme of Arrangement between IIFL Holdings Limited and 5Paisa Capital Limited and their respective Shareholders	**	<u>FOR</u>	-

** Resolution under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and Rules framed thereunder

RESEARCH ANALYST: SUMIT TANK

#Concern Terminology

C - Compliance F - Fairness G - Governance T - Disclosures & Transparency



COMPANY BACKGROUND

TABLE 2 - MARKET DATA (As on 13th April, 2017)

Price (₹)	442.05	52 wk H/L	473.00 / 196.15	M Cap (₹ Cr.)	14,053.10	Net Worth* (₹ Cr.)	1,475.89	PE Ratio [#]	80.52
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* As on 13th April, 2017

Based on EPS for FY 16

TABLE 3: FINANCIAL INDICATORS (STANDALONE)

(In ₹ Crores)	2016	2015	2014
Revenue	211.41	109.04	88.67
Other Income	0.00	1.01	0.00
Total Income	211.41	110.05	88.67
PBDT	190.52	101.30	82.68
Net Profit	171.98	98.22	97.77
EPS (₹)	5.49	3.24	3.31
Dividend per share (₹)	4.25	3.00	3.00
Dividend Pay-Out (%)	93.17	111.44	109.00
Face Value per share (₹)	2.00	2.00	2.00
OPM (%)	93.12	96.87	93.25
NPM (%)	81.35	90.08	110.26

Dividend pay-out includes Dividend Distribution Tax. Source: BSE

TABLE 4: PEER COMPARISON (2016)

	Edelweiss Financial Services Ltd	Motilal Oswal Financial Services Ltd
	335.36	1,055.00
	2.97	24.70
	338.33	1,054.90
	187.55	259.48
	155.59	163.32
	1.93	11.74
	1.25	3.50
	78.02	127.76
	1.00	1.00
	62.85	24.60
	46.39	16.03

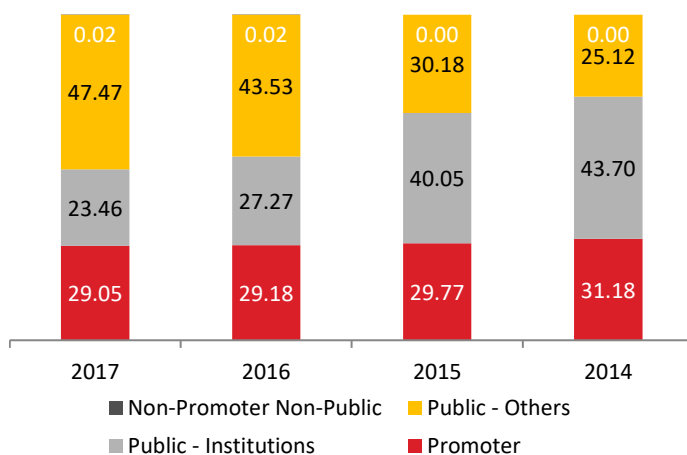
TABLE 5: MAJOR PUBLIC SHAREHOLDERS (MAR' 17)

Fih Mauritius Investments Ltd	26.62%
Hwic Asia Fund Class A Shares	8.78%
Bharat H Parajia	4.84%
Bank Muscat India Fund	3.96%
Wf Asian Reconnaissance Fund Limited	2.08%

TABLE 6: MAJOR PROMOTERS (MAR' 17)

Nirmal Bhanwarlal Jain	16.12%
Venkataraman Rajamani	6.26%
Madhu N Jain	5.35%

SHAREHOLDING PATTERN (%) (MARCH)



Graph 1: Yearly Shareholding Pattern

Data Source: BSE

DISCUSSION (1ST APRIL, 2016 TO MARCH, 2017)

Shares at the start of period: 31,65,36,853

New Shares issued: 13,71,340

Shares at the end of period: 31,79,08,193

The Company issued 13,71,340 equity shares of to eligible employees under ESOP scheme.

The promoter shareholding decreased from 29.18% to 29.05% due to issue of equity shares under ESOP.

The shareholding of public institution increased from 43.53% to 47.47% and that of public others decreased from 27.27% to 23.46%.

The promoters have not pledged any shares.



RESOLUTION ANALYSIS**RESOLUTION 1: SCHEME OF ARRANGEMENT**

Approval of Scheme of Arrangement between IIFL Holdings Limited (“IHL” or “Demerge Company”) and 5Paisa Capital Limited (“5PCL” or “Resulting Company”) and their respective Shareholders and related matter thereto.

SES RECOMMENDATION

The Company proposes to transfer its '5Paisa Digital Undertaking' to 5Paisa Capital Limited, a wholly owned subsidiary of the Company for non-monetary consideration by way of shares in the ratio of 1:25. As the sale of business is to a wholly owned subsidiary company, which will be listed post transfer of undertaking and shareholding pattern of Resulting Company will represent mirror image of Demerged Company, SES does not find any major governance related issue. Therefore, SES recommends that shareholders vote **FOR** the Resolution.

SES RATIONALE

Compliant with law. No major concern identified

THE SCHEME**KEY STEPS IN THE SCHEME**

1. The Scheme provides for demerger and transfer of '5Paisa Digital Undertaking' as a going concern basis in 5PCL from IHL.

“5Paisa Digital Undertaking” consist of entire business undertaking of IHL relating to set-up of 5Paisa digital business which includes development/ maintenance of technology application for online trading through trading terminal and mobile application, source code of mobile application, domain name (5Paisa.com), software rights, brand (5Paisa) establishment, protection and support, Infrastructure and facilities services etc. along with all related assets, investments in 5PCL, liabilities, employees, technology, software.

2. Upon the Scheme being effective, 5PCL shall issue shares in the ratio of 1 fully paid up New Equity Share of ₹ 10 each for every 25 fully paid up equity shares of ₹ 2 each held in IHL

3. Presently, IHL is listed on BSE and NSE and 5PCL is a wholly owned Subsidiary of IHL.

4. Post the Scheme, the equity shares of the Resulting Company, held by the Demerged Company on the Effective Date shall be cancelled

Nature of Business:

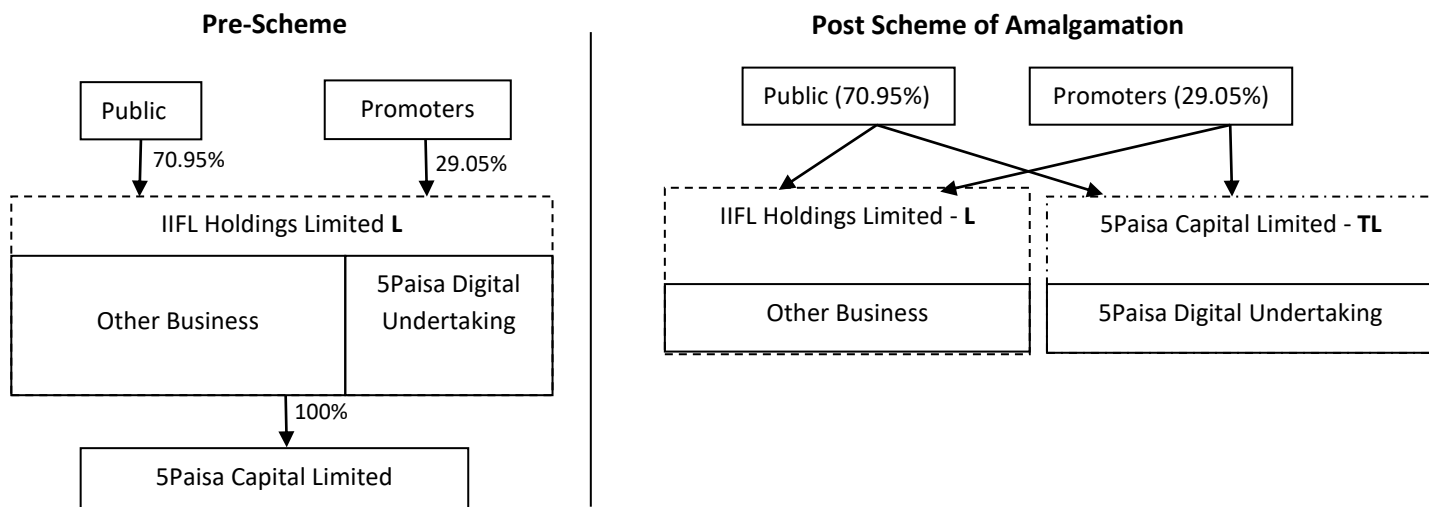
IHL: The company is engaged in Merchant Banking, Investment Advisory, investment in Subsidiaries and other financial services.

5PCL: The company is engaged in trading of securities in National Stock Exchange of India Limited & BSE Limited, Depository Participant of CDSL and providing a wider basket of financial services including mutual fund distribution registered with AMFI, bonds and debentures etc.

5. The New Equity Shares to be issued by 5PCL to the members of IHL pursuant to the Scheme will be listed on BSE and NSE.



Graphical presentation of the Scheme of Arrangement and demerger



L - Listed. TL- To be listed.

RATIONALE FOR THE SCHEME (AS STATED BY THE COMPANY)

Both the companies under this Scheme of Arrangement are part of IIFL Group ('the Group'). The Group business consists of Financial Services, Financing, Housing Finance, Capital Market Services, Merchant Banking, Investment Advisory, Insurance Broking, Distribution of Financial Products, Wealth Management & Asset Management Services and 5Paisa Digital Business which are carried out either by itself or through each of the subsidiaries of IHL.

IHL is engaged in Merchant Banking, Investment Advisory services including holding investments in subsidiaries. Besides the aforesaid, IHL has also over a period of time engaged in and has invested in setup of 5Paisa Digital Business which includes development/ maintenance of technology application for online trading through trading terminal and mobile application, source code of mobile application, domain name (5Paisa.com), software rights, brand i.e. 5Paisa establishment, protection and support, Infrastructure and facilities services etc.

5PCL is engaged in providing an online technology platform through internet terminals and mobile apps for trading of securities in National Stock Exchange of India Limited & BSE Limited, Depository Participant of CDSL, AMFI, and providing a wider basket of financial services including distribution of mutual fund bonds and debentures etc. The digital way of doing trading in securities is emerging as a new segment with potential to achieve critical mass and grow exponentially in near future with the spread of internet and mobile penetration as also 3G/4G telecommunication and data services throughout the Country. 5paisa will acquire, service and grow the new emerging DIY (Do-it-yourself) customer segment who prefer least cost for various financial products. Their service providers operate with cutting edge technology with minimal physical infrastructure and manpower. Such organizations require a different structure and culture. This proposition will not only enhance business focus but will also enable investors to invest seamlessly from anywhere on their own. Keeping in view the above, the Board has decided to demerge 5Paisa Digital Undertaking from IHL to seize the opportunity of such new DIY customer segment.

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THE SCHEME OF ARRANGEMENT

Valuation / Fairness Opinion	Valuation Report: SSPA & Co., Chartered Accountants, dated 30 th September, 2016 (Annexure 'B' to the Notice on page 31) Fairness Report: Keynote Corporate Services Ltd, dated 30 th September, 2016 (Annexure 'E' to the Notice on page 48)
Transfer of Assets/ Liabilities	All properties and assets, whether moveable or immovable, including all rights (whether freehold, leasehold or license), title, interest, cash and bank balances, covenant and undertakings of IHL and all debts, borrowings, obligations and liabilities pertaining to 5Paisa Digital Undertaking
Remaining Business	All the undertakings, businesses, activities, operations and investments of IHL other than the 5Paisa Digital Undertaking
Type of Transaction	Demerge

CHANGE IN SHAREHOLDING PATTERN

Shareholding pattern of IHL				
Category	Pre-Demerge		Post-Demerge	
	shares	% shareholding	shares	% shareholding
Promoter group	9,23,61,432	29.05	9,23,61,432	29.05
Public	22,55,46,761	70.95	22,55,46,761	70.95
Public (Institutional)	7,48,63,194	23.54	7,48,63,194	23.54
Other Public	15,06,08,567	47.39	15,06,08,567	47.39
Shares held by Employee Trust	75,000	0.02	75,000	0.02
Total	31,79,08,193	100	31,79,08,193	100

Shareholding pattern of 5PCL				
Category	Pre-Demerge		Post-Demerge	
	shares	% shareholding	shares	% shareholding
Promoter group	1,77,16,500	100.00	36,94,457	29.05
Public	-	-	22,55,46,761	70.95
Public (Institutional)	-	-	29,94,527	23.54
Other Public	-	-	60,24,343	47.38
Shares held by Employee Trust	-	-	3,000	0.02
Total	1,77,16,500	100.00	31,79,08,193	100

Note: Based on share Allocation ratio of 1:25, the percentage shareholding of 5PCL will be a mirror shareholding pattern of IHL after the scheme of arrangement becomes effective.

CHANGE IN CAPITAL STRUCTURE

Share Capital Structure of IHL				
(Equity Shares of ₹ 2/- each)	Pre-Demerge		Post-Demerge	
	Shares	₹	Shares	₹
Authorized Share Capital	60,00,00,000	120.00	60,00,00,000	120.00
Issued	31,79,08,193	63.58	31,79,08,193	63.58



Share Capital Structure of 5PCL				
(Equity Shares of ₹ 10/- each)	Pre-Demerge		Post-Demerge	
	Shares	₹	Shares	₹
Authorized Share Capital	1,80,00,000	18.00	1,80,00,000	18.00
Issued	1,77,16,500	17.71	1,27,16,327	12.72

COMPANY'S DECLARATIONS

Complaints/investigations against the Company: None

Approval from Stock Exchange: Observation letter from BSE and NSE conveying their no objection for filing the scheme with the Hon'ble Tribunal on February 27, 2017 and March 02, 2017 respectively is disclosed in the Notice Annexure 'C' (Page - 35).

CONFLICT OF INTERESTS

Common Directors: None (See table below)

Directors' Shareholdings: Directors shareholding of IHL and of 5PCL in both the companies as on 24th March, 2017 are as follows.

Name of Directors	Directorship in IHL	Directorship in 5PCL	Shares held in IHL	Shares held in 5PCL
Mr. Nirmal Jain	✓		5,12,52,000	-
Mr. Venkataraman Rajamani	✓		1,99,09,432	-
Mr. Arun Kumar Purwar	✓		1,00,000	-
Mr. Nilesh Shivji Vikamsey	✓		1,65,000	-
Mr. Subbaraman Narayan	✓		Nil	-
Mr. Chandran Ponnaiah Ratnaswami	✓		Nil	-
Ms. Geeta Mathur	✓		Nil	-
Mr. Kranti Sinha	✓		1,15,000	-
Mr. R. Mohan		✓	-	1
Mr. Narendra Jain		✓	-	1
Mr. Prakarsh Gagdani		✓	-	Nil

* Mr. R. Mohan and Mr. Narendra Jain hold one equity shares each as a nominee of IIFL Holdings Limited.

SES ANALYSIS OF THE SCHEME

As per SEBI [Circular CIR/CFD/CMD/16/2015](#) dated 30th November, 2015, the proposed scheme of arrangement is exempted from the requirement of Valuation and Fairness Opinion Report under Regulation 4 (d) of the said Circular. The Company has provided Valuation Report and Fairness Opinion which does not justify the proposed share exchange ratio. However, in the present case as the valuation does not matter as the Resultant Company will list its shares and it will represent mirror image of Demerged Company, therefore, SES is not raising concern over valuation issue.



DISCLAIMER**Sources**

Only publicly available data has been used while making the report. Our data sources include: BSE, NSE, SEBI, Capitaline, Moneycontrol, Businessweek, Reuters, Annual Reports, IPO Documents and Company Website.

Analyst Certification

The analysts involved in development of this report certify that no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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All disputes subject to jurisdiction of High Court of Bombay, Mumbai.

Concern terminology

C - Compliance: The Company has not met statutory compliance requirements

F - Fairness: The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

G - Governance: SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

T - Disclosures & Transparency: The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

Company Information

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