

Proxy Advisory Report

PNB Housing Finance Limited

COMPANY INFORMATION	MEETING DETAILS	E-VOTING DETAILS
BSE CODE: 540173 NSE SYMBOL: PNBHOUSING ISIN: INE572E01012 Industry: Housing Finance Email: investor.services@pnbhousing.com Phone: +91 11 2373 6857 Registered Office: 9 th Floor, Antriksh Bhawan, 22 K G Marg, New Delhi - 110 001	Meeting Type: EGM Meeting Date: 22 nd June, 2021 at 3:00 PM Venue: Video Conference / Other Audio-Visual Means (OAVM) Notice Date: 31 st May, 2021 Notice: Click here Annual Report: FY 19-20 SES PA Report (Last AGM): Report Addendum	e-Voting Platform: NSDL Cutoff Date: 15 th June, 2021 E-voting Start: 18 th June, 2021 E-voting End: 21 st June, 2021

TABLE 1 - AGENDA ITEMS AND RECOMMENDATIONS

S. No.	Resolution	Type	SES Observation [#]	Rec.	Rationale
1	Issue of securities of the company on a preferential basis to various investors	S	NC GC FC	AGAINST	Unfair Transaction, against public shareholders and PNB / Ultra Vires to AoA
2	Amendment of Articles of Association of the Company	S	LC GC	AGAINST	Linked to resolution #1.
3	Appointment of Mr. Hardayal Prasad as Managing Director & Chief Executive Officer of the company	O	LC	FOR	No major concern identified.
4	Appointment of Mr. Neeraj Madan Vyas as a Non-Executive Director	O	LC	FOR	No concern identified.
5	Appointment of Mr. Sudarshan Sen as an Independent Director	O	LC	FOR	No concern identified.
6	Appointment of Mr. Kapil Modi as a Non-Executive Nominee director	O	LC	FOR	No concern identified.
7	Re-appointment of Mr. Chandrasekaran Ramakrishnan as an Independent Director	S	NC GC	AGAINST	Re-appointment not in accordance with law.
8	Appointment of Mr. Rajneesh Karnatak as Non-Executive Nominee Director	O	LC	FOR	No concern identified.
9	Re-appointment of Mr. Nilesh S Vikamsey as an Independent Director	S	NC GC	AGAINST	Re-appointment not in accordance with law.
10	Appointment of Ms. Gita Nayyar as an Independent Director	O	LC	FOR	No concern identified.

O - Ordinary Resolution; S - Special Resolution, Rec. - Recommendation

LC - Legally Compliant, NC - Legally Non-Compliant, FC - Fairness Concern, TC - Disclosures & Transparency Concern, GC - Governance Concern


RESEARCH ANALYST: VARUN KRISHNAN | RAJORSHI PALIT

CONFLICT DISCLOSURE: SES - NO CONFLICT | ANALYST - NO CONFLICT

INTERACTION WITH THE COMPANY - COPY OF AOA SOUGHT FROM THE COMPANY



KEY ISSUES


 The proposed preferential issue is against the interest of public shareholders and also shareholders of PNB and Exchequer. ([Read more](#)) Following concerns are being raised by SES:

- Why PNB has willingly surrendered its control, without extracting fair compensation?
- Was rights issue a better proposition? Has PNB sacrificed ₹ 2000+ crores?
- 85% shareholder part of the deal only public left out
- A non-transparent and inexplicable change of mind.
- Independent Directors Affiliation- does it impede Independence?
- Pricing - A convenient refuge under ICDR
- Deceptive objective of the Issue
- Speculative Disclosure by the Company
- Why Rights issue is a better option?
- Why and How Carlyle was not in Control till now?
- The Resolution is ultra vires AoA of PNB HFC
- Why Ares SSG & General Atlantic are issued shares?

Is there a need to amend Preferential offer Regulations?

Such abusive and unfair transaction brings to the fore misuse by few corporates of SEBI ICDR provisions in respect of Preferential offer. Following changes are needed

- Board to justify why they feel price is fair? A SEBI formula driven price is minimum price. The Board must justify as to why floor price is fair. It must advise shareholders factors it has considered.
- How and why allottees were chosen? How the company is going to benefit by allotting to a new allottee vs allotting to existing shareholders
- Leaving aside small preferential offers, an offer like this which is substantial both in terms of amount as well as number of shares issued and could have been done as Rights Issue, The Board must give cogent reasons.
- Although SES has reservations on utility of valuation reports, given history of valuation reports, yet SES agrees that it serves as an additional check post. For any preferential offer valuation report must be mandated.
- Both at board level and at shareholder vote level there is an inherent conflict. All interested parties put together decide to reward themselves. Should all the interested directors refrain from participating in board meetings where any issue where they are conflicted is discussed? A nominee director regardless of personal interest is interested party. Similarly, at shareholder vote level, in line with regulations/ provision related to merger demerger etc, a party receiving shares (interested party) shall not participate in shareholders vote.

 The re-appointment of Mr. Chandrasekaran Ramakrishnan and Mr. Nilesh S Vikamsey as IDs is not in compliance with law ([Read more](#))

SES Proxy Advisory (PA) Guideline Note circulation on 24th Feb 2021

SES circulated its PA Guideline Note to all Listed Companies under SES Coverage (including the Company) on 24th February, 2021, relating to re-appointment of IDs on the Board without seeking prior shareholders' approval. [Click here](#) to view the Note.



COMPANY BACKGROUND

COMPANY OVERVIEW

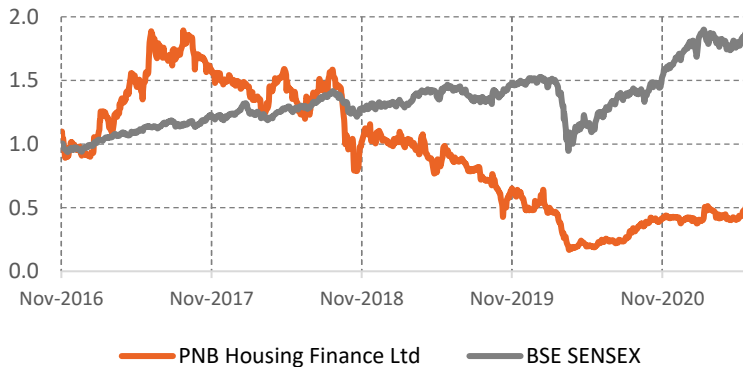
PNB Housing Finance Ltd (PNBHFL) is a registered housing finance company with National Housing Bank (NHB). They provide housing loans to individuals and corporate bodies for construction, purchase, repair and upgradation of houses. It also provides loans for commercial space, loan against property and loan for purchase of residential plots.

MARKET DATA (As on 3rd June, 2021)

Price ₹	693.20
52 Weeks High/Low	630.20/175.90
M Cap (₹ Cr.)	11,664.35

Source: BSE

Stock Price Trend



Source: Capitaline

NUMBER OF SUBSIDIARIES, ASSOCIATE COMPANIES AND JOINT VENTURES (AS ON 31ST MARCH, 2020)

SUBSIDIARIES	ASSOCIATES	JOINT VENTURES
2	0	0

Source: Form MGT-9

FINANCIAL INDICATORS (STANDALONE)

(In ₹ Crores)	2019	2020 [^]	2021 [^]
Net Worth	7,435.01	7,997.77	8,923.03
Total Asset	83,750.24	78,929.73	71,392.20
Total Debt	29,604.94	32,328.12	29,746.34
Loans & Advances	74,327.47	66,668.68	60,687.37
Trade Receivable	26.74	5.84	15.03
Operating Revenue	7,480.86	8,478.32	7,565.20
Total Revenue	7,484.60	8,485.92	7,583.98
Operating Profits	6,772.06	6,758.34	6,326.17
Net Profits	1,081.38	682.31	925.22
NPM (%)	14.46	8.05	12.23
EPS (₹)	64.22	40.55	54.98
Face Value per share (₹)	10.00	10.00	10.00
P/E Ratio*			12.61
P/B Ratio*			1.31

Source: Capitaline | Kindly [Click here](#) to view list of abbreviations and formulas used in above table. *Based on Market Price as on 3rd June 2021.

[^] Extracted from Financial Statements as mentioned in Corporate Announcements

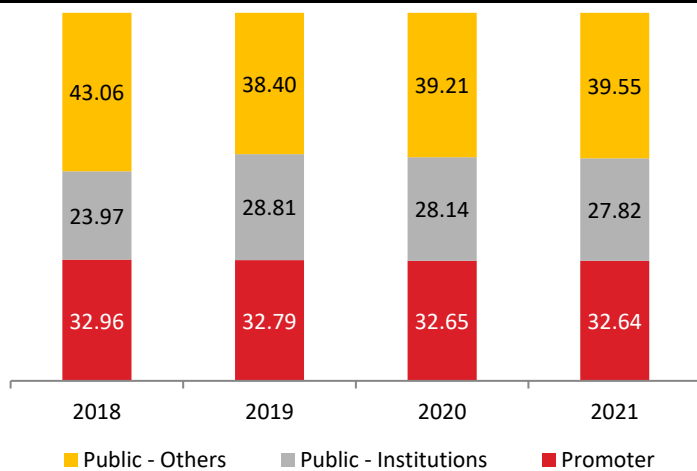
PEER COMPARISON

Indiabulls Housing Finance Ltd [^]
15,522.21
83,472.27
29,558.67
54,472.75
3.10
8,654.64
8,752.79
7,692.88
1,058.46
12.23
23.71
2.00
9.65
0.68



OWNERSHIP STRUCTURE

SHAREHOLDING PATTERN (%) (MARCH)



Source- Capitaline

MAJOR PUBLIC SHAREHOLDERS (MAR' 21)

Quality Investment Holdings	32.21%
Investment Opportunities V Pte Ltd	9.92%
General Atlantic Singapore Fund	9.86%
Franklin India Taxshield	1.60%

DISCUSSION (1st April, 2020 to 31st March, 2021)

Shares at the start of period: 16,81,86,908

New Shares issued: 81,215 shares issued under ESOP Scheme

Shares at the end of period: 16,82,68,123

CHANGE IN SHAREHOLDING:

CATEGORY	% CHANGES	REASONS
Promoter	(-) 0.01%	Issue of ESOPs
Institution	(-) 0.32%	
Public	(+) 0.34%	

Pledge: The Promoters have not pledged or encumbered any part of their shareholding.

MAJOR PROMOTER SHAREHOLDERS (MAR' 21)

Punjab National Bank	32.64%

INSTITUTION SHAREHOLDING VS FREE FLOAT

Particulars	MAR' 20	MAR' 21
Total Shares	16.82	16.83
Promoter Shares	5.49	5.49
Non-Promoter Non-Public	-	-
Free Float (FF)	11.33	11.34
Public Institution	4.73	4.68
Institution vs FF	41.75%	41.27%
SES Institutional Grade	C	C

No. of shares in Crore

Explanation: Generally, it is expected that a higher Institutional shareholding would result in better Corporate Governance Practices due to stewardship activities of investors. To analyse the entry and exit of Institutional shareholders in a Company and to capture such triggers, SES has come up with Institutional grading criteria as given in the table. The grading criteria provides a higher grade in case the percentage of Institutional shareholding vs free float is higher and vice versa.

Institutional Holding	GRADE*
More than 75%	A
>50% to 75%	B
>25% to 50%	C
0% to 25%	D

*Percentage is proportion of Public Institutional shareholding vs Free float. Free Float is total shareholding reduced by Promoter and Non-Promoter Non-Public shareholding.



BOARD OF DIRECTORS

BOARD PROFILE

Director	R e c.	Age	M/W	Expertise	Classification		[1] Tenure (Associ- -ation) in Year	Attendance for FY 19-20		[2] Directorship			Committee Membership			Pay FY 19-20 (₹ Lakh)	
					Company	SES		Board	AGM	TD	PD	LD	Overall		Company		
													[3] Member (Chair)	AC	NRC		RMC
NON-EXECUTIVE NON-INDEPENDENT DIRECTORS																	
CH S S Mallikarjuna Rao		59	M	BNK	NEDP(C)(R)(N)	NEDP(C)(R)(N)	2	3/3	NA	5	5	1	1(0)		M	M	0.00
Sunil Kaul		61	M	BNK	NED(R)(N)	NED(R)(N)	6	8/8	Yes	2	2	2	3(0)		M	M	7.10
Rajneesh Karnatak	✓	50	M	BNK	NEDP(R)(N)	NEDP(R)(N)	0	NA	NA	2	2	1	0(0)				NA
Kapil Modi	✓	36	M	BNK	NED(R)(N)	NED(R)(N)	1	NA	NA	3	2	1	1(0)				NA
Neeraj Madan Vyas	✓	62	M	BNK	NED(R)	NED(R)	2	8/8	Yes	1	1	1	0(0)				7.60
INDEPENDENT DIRECTORS																	
Nilesh S Vikamsey	✗	56	M	Audit	ID	ID	5	8/8	Yes	8	8	6	9(3)	C	M		28.20
Gita Nayyar	✓	57	W	FIN	ID	ID	0	NA	NA	5	5	3	3(0)				NA
Chandrasekaran Ramakrishnan	✗	63	M	IT	ID	ID	6	8/8	Yes	7	6	3	1(0)		C		27.90
Ashwani Kumar Gupta		66	M	FIN	ID	ID	4	8/8	Yes	9	3	2	3(2)				32.70
Sudarshan Sen	✓	61	M	BNK	ID	ID	1	NA	NA	2	2	2	3()	M			NA
Tejendra Mohan Bhasin		65	M	BNK	ID	ID	1	NA	NA	7	6	5	3(0)	M			NA
EXECUTIVE DIRECTOR																	
Hardayal Prasad	✓	60	M	BNK	MD	MD	1	NA	NA	2	2	1	1(0)			M	NA

BOARD SUMMARY

CRITERIA	Age		Women		ID Classification		ID		Attendance		Time Commitments		
	ED	NED	WD	WID	Company	SES	Tenure	Association	Board	AGM	LD	Member	Chair
	>70	>75					>10 years		<50%	No	>7	>10	>5
No. of Directors	0	0	1	1	6	6	0	0	0	0	0	0	0
Percentage	0%	0%	9%	9%	50%	50%	0%	0%	0%	0%	0%	0%	0%

Items deserving attention due to governance or contentious issues.

[1] Figures in bracket indicate total association of the Director with the Company/ Group

[2] Directorship as per MCA website as on 14th July, 2020

[3] Committee memberships include committee chairmanships (Includes only Audit Committee and SRC) (As on 31st March, 2021)

Note: Directorships, committee membership and committee chairmanship include such positions in PNB Housing Finance Limited

Expertise: BNK-Banking, IT- Information Technology, FIN- Finance

Kindly [Click here](#) to view list of abbreviations.

BOARD CHANGES (Since 1st April, 2020)

Director	Company Classification	Appointment Date	Cessation Date	Association	Age	Pay (₹ Lakh)	Reason for cessation
APPOINTMENTS							
Hardayal Prasad	ED	10 th Aug, 2020	-	1	60		-
Sudarshan Sen	ID	1 st Oct, 2020	-	1	61		-
Kapil Modi	NEDP	1 st Oct, 2020	-	1	36		-
Rajneesh Karnatak	NEDP	19 th Jan, 2021	-	0	50		-
Gita Nayyar	ID	29 th May, 2021	-	0	57		-
EXITS							
Sanjaya Gupta	ED	25 th Jun, 2010	4 th May, 2020	10	58	292.07	Completion of Term
Shital Kumar Jain	ID	9 th Dec, 2009	9 th Aug, 2020	11	81	28.60	Completion of Term
Shubhalakshmi Aamod Panse	ID	7 th Jul, 2017	5 th Jan, 2021	3	67	29.20	Director in Competitor Company



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

Gourav Vallabh	ID	22th Apr, 2016	21 st Apr, 2021	5	43	27.90	Completion of Term
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Nominee Directors- Mr. CH S.S Mallikarjuna Rao and Mr. Rajneesh Karnatak are Nominee Directors of Punjab National Bank (Promoter Company). Mr. Sunil Kaul and Mr. Kapil Modi are Nominee Directors of Quality Investment Holdings (Carlyle Group Company). Post the preferential issue, Carlyle Group will become a Promoter and thus Mr. Kapil and Mr. Sunil will be designated as Promoter Nominee Directors.



RESOLUTION ANALYSIS

RESOLUTION 1: PREFERENTIAL ISSUE OF EQUITY SHARES AND WARRANTS

Approval for issue of securities.

AGAINST

SES RATIONALE

Unfair Transaction, against public shareholders and PNB. Ultra Vires to AoA.

SES ANALYSIS

DETAILS OF THE PROPOSED ISSUE

Securities to be issued: 8.21 lakhs equity shares and 2.05 lacs warrants.

Proposed allottees:

1. Pluto Investments S.à r.l. ('Pluto') (Carlyle Group)
2. Salisbury Investments Private Limited (Person acting in concert with Carlyle Group) ('SIPL')
3. General Atlantic Singapore Fund FII Pte Ltd
4. Alpha Investments V Pte. Limited

Size of the issue: ₹ 4,000 crores (₹ 3,200 crores through equity shares and ₹ 800 by way of Warrants)

Price of the issue: ₹ 390 per equity share / warrant

OBJECTIVE OF THE PROPOSED ISSUE

The key objective of raising capital is to augment **capital adequacy**, **reduce gearing** and **accelerate growth** with a focus on retail housing including self-employed and affordable housing loans.

PAST EQUITY ISSUES

No equity issue except equity shares issued under the Employee Stock Option Plan of the Company during past 3 years.

OTHER DISCLOSURES

Change in control: Yes, control will change from sole PNB (as Promoter) to joint control with Carlyle Group and PAC ('the Acquirer') and PNB (Promoter). Please see Table A below.

Lock-in period: As per provisions of SEBI ICDR

Timeline for allotment: 15 days from the date of shareholders' approval

Certification from statutory auditors: Obtained

Shareholders' Rights: Equity shares shall rank pari passu with existing equity shares

Directors' interests: None of the current Promoters, Directors or Key Managerial Personnel of the Company or their relatives are, in any way, concerned or interested, financially or otherwise, in the Special Resolution set out at Item No. 1 of the EGM Notice except: (a) to the extent of their respective shareholding in the Company; and (b) Pluto Investments S.à r.l. (a Proposed Allottee) belongs to the group of entities doing business globally as "The Carlyle Group", to which QIH also belongs (please refer to Paragraph XII above), and **Mr. Sunil Kaul and Mr. Kapil Modi are nominees of The Carlyle Group** on the board of directors of the Company.

Buyback or capital reduction in past: No


DILUTION TO SHAREHOLDING (Fully diluted basis)

Table A: Pre and Post shareholding Pattern					
Shareholder	Existing		Party To Decision	Post-allotment	
	#	%		#	%
DECISION MAKERS					
PNB	5,49,14,840	32.64%	YES	5,49,14,840	20.28%
Carlyle (Acquirer)					
Existing Carlyle Entity (Affiliate)					
QIH	5,41,92,300	32.21%	YES	5,41,92,300	20.01%
Proposed Carlyle Entity & PAC					
Pluto				8,16,66,666	30.15%
SIPL (PAC)	-	-		6,41,025	0.24%
Others					
Ares SSG	1,66,87,956	9.92%	YES	2,69,44,366	9.95%
General Atlantic	1,65,93,240	9.86%	YES	2,65,93,240	9.82%
Total Participators	14,23,88,336	84.63%		19,14,14,831	90.45%
LEFT OUT					
Franklin	26,92,140	1.60%	Left Out	26,92,140	0.99%
Public Misc	1,08,33,449	6.44%	Left Out	1,08,33,449	4.00%
Public Retail	1,23,54,198	7.34%	Left Out	1,23,54,198	4.56%
TOTAL LEFT OUT	2,58,79,787	15.38%	Left Out	2,58,79,787	9.55%
Total Shares	16,82,68,123	100%		27,08,32,224	100%

*QIH is a Public Shareholder. However, it is an Affiliate of Carlyle Group, therefore, it will become part of Promoter Group post Acquisition by Carlyle.

Dilution: In absolute terms existing retail shareholders are getting diluted by 5.83%, in relative terms there is a dilution of almost **34%** to the shareholders who are left out.

SES VIEW
Background of the transaction:

The Company is seeking shareholders' approval to issue equity shares and warrants as under:

Table B: Proposed Allotees				
Shareholders	Equity Shares	Share Warrant	Total (Equity + Warrants)	Amount (in ₹ Crores)
Pluto (Carlyle Group)*	6,53,33,333	1,63,33,333	8,16,66,666	3,185
SIPL (PAC with Carlyle Group)*	5,12,820	1,28,205	6,41,025	25
General Atlantic Singapore Fund	80,00,000	20,00,000	1,00,00,000	390
Alpha Investments V Pte (Ares SSG)	82,05,128	20,51,282	1,02,56,410	400
Total	8,20,51,281	2,05,12,820	10,25,64,101	4,000
*will be Joint Promoters with ~50% stake (diluted basis) with PNB holding another 20%.				

- ₹ 3,200 crores by way of equity shares
- ₹ 800 crores through warrants. 25% that is ₹ 200 crores shall be paid upfront and the remaining ₹ 600 crores shall be paid at the time of exercise of warrants.
- Warrants may be exercised within a maximum period of 18 months from the date of allotment.

Impact of the Proposed Deal:

- Carlyle Group will hold 50%+ in the Company.
- Will become major shareholder and promoter along with its PACs including Aditya Puri, Ex CEO of HDFC Bank Ltd.
- PNB will be reduced to smaller partner with ~20% stake.



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

Trigger for open offer:

The above transaction has triggered an Open Offer under the provision of SEBI Takeover Code. Carlyle Group have already provided a public announcement in relation to the Open Offer. ([weblink](#))

- 7,07,93,011 equity shares are proposed to be acquired at ₹ 403.22/- per share.

Open offer, a mere formality:

- SES is of the view that Open offer is a mere formality given the present market price. It is highly unlikely that any shareholder would tender their shares.

SES Concerns and issues:

On face of it, SES finds this deal

- Unfair to public shareholders of the Company
- Shareholders of PNB since PNB as controlling shareholder of the Company has blown away the value.

Reasons for SES view are enumerated in detail:

A. Why PNB has willingly surrendered its control, without extracting fair compensation?

Re-rating of the Company due to change in management?

- Presently the Company is bracketed as PSU as PNB, a Govt. entity is the Promoter.
- PSUs historically for millions of reasons have attracted a PE multiple which is quite low compared to private sector peers across all sectors.

Table below gives PE ratios of Housing Finance Companies (HFCs):

Table C: HFC P/E Ratios			
Govt.	P/E Ratio	Private	P/E Ratio
LIC Housing	5.64	HDFC Ltd	24.38
Can Fin	16.01	IB Housing Finance	9.45
GIC Housing	4.04	Aavas Financiers	62.88
PNB HFC	7.97		

Further, it may be noted that as on 28th May 2021 and as per NSE website:

- Nifty PSE Index trades at a multiple of **8.4x** its earnings; and
- Nifty 50 Index commands a multiple of **28.9x** its earnings.

Post announcement market price has reacted favourably and PE is trying to catch up with its private sector counter parts.

At this stage first question is needed to be asked is, whether PNB as a shareholder was not aware of the PE differentials?

Or whether the Board which includes all the great financial minds not aware of this?

Or was it that since majority of board members, except PNB, which voluntarily gave up its claim and value, represented the beneficiaries of this largesse preferred silence and watched unfair treatment to shareholders?

What role did IDs play? Could they not see injustice to minority? They played ball with majority to the detriment of minority.

One can argue that Govt. / PNB may not have additional money to be infused into the Company, due to the already stressed financial condition of Govt. resources in fighting the pandemic. However, lack of funds cannot be equated with lack of fairness or wisdom. Did no one in the board understand value of control premium?

This makes us move to next issue.

B. Was rights issue a better proposition? And has PNB sacrificed ~₹ 2000+ crores?



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SES is of the opinion that Rights issue is a fair and better option. In this case, as shown in Table A, shareholders owning close to 85% shares, either decided to take preferential offer or voluntarily gave their rights/ sacrificed (i.e. PNB). The people in control ignored existence of minority- in SES view this is biggest failure of the Board.

SES is of the view that Rights Issue is best method of capital raising unless it is for a strategic reason. In this case 85% are decision makers or participant in capital raising, what harm it would have caused if 100% of shareholders were offered Rights?

The only harm would be as PNB would not have been allowed to gift away control to Carlyle without a premium. In rights issue, the Company would have got same amount of capital, but Carlyle would not have been able to increase equity, unless PNB would renounce its right entitlement to Carlyle at market related price, as presently Rights Renunciation / Entitlement are traded in transparent manner in market. Therefore, Preferential offer vs Right issue simply means transfer of control/ majority stake in company in a non-transparent manner for consideration, which is either zero or not in public domain.

Is this how PNB values its rights? Or How PNB protects itself and its shareholder. **The most relevant question is “Did PNB Board approve this and how and why?” and did PNB disclose this price sensitive information?**

While all calculations of potential loss would be hypothetical, yet assuming same number of shares were issued as Rights, Rights issue would be in ratio of 6.1 shares for every 10 shares held. PNB would get approx. 3.35 crore shares as rights entitlement. Even at current rate of Rs 840/ share, Rights Entitlement gives a diff of Rs 450/ Share. Which results in a loss of Rs 1,500 Crore approximately.

Since one does not know what will be stable price, what would be total loss cannot be calculated.

However, if the Control is with Carlyle, then upon rerating its PE will be much higher than current PE of 8 but lower than HDFC PE of 24.38. It is anybody's guess.

However, what is apparent is that the Board in its wisdom for reasons best known to them, has chosen not to provide an opportunity to minority to subscribe.

C. 85% shareholder part of the deal, only public left out

Even the Institutional shareholders realised this re-rating phenomenon, have participated in the preferential issue to insulate their dilution in shareholding. Major stakeholders of the Company presently are as follows:

Table D: Participation of all Major shareholders			
Name of Major Shareholders	Participated in Pref. Issue	Current % of shareholding	Proposed % of shareholding
PNB	No	33%	20%
Carlyle & PAC	Yes	32%	50%
General Atlantic	Yes	10%	10%
Ares SSG*	Yes	10%	10%
Franklin Templeton (FT)	No	1.6%	1%
Public Retail	No	7.3%	4.6%

Table D clearly depicts that almost every major shareholder to the exclusion of FT, PNB and Public Retails have participated in the preferential issue.

- One does not know whether offer was made to FT to participate in the preferential issue or not?
- It is not practical to make preferential issue to Public Retails, therefore, SES vociferously bats for Rights Issue, as already discussed above.
- From the investor presentation and call

transcript, it appears that PNB has intentionally decided to not participate in the preferential issue.

- The question is why Carlyle? Is it because they are already an investor? Or they voted in their favour because of presence of Carlyle on the board.
- Why PNB eager to let go control?
- A campaign is being made on social media, why it is rerating? Carlyle was already on Board, institutional investors had more than 50% already, so what big deal.

Does this mean that Carlyle and others are investing money at ₹ 400/ share in a belief that share price will remain ₹ 400 and they are here for charity and social service to shore up liquidity of the Company and improve CRAR?



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- If Carlyle had no intention to control and become promoter, why it is putting its neck out? Why not let preferential offer be made to many other PE investors, who would be willing at this price?
- Carlyle was already holding 32% and two seats on Board. What is the big deal if they hold now 52%? Why they are promoter now and why not earlier?

D. A non-transparent and inexplicable change of mind – PNB, not to dilute its stake below 26%

Press release dated 23rd January, 2020 ([weblink](#)) made a categorical statement that PNB will not dilute its stake in the Company below 26%. and without any warning or explanation PNB is doing just opposite. Bringing down stake to below 26%? Why? Was this change of mind not a price sensitive issue?

Similarly, there was an affirmative statement made in the same press release with respect to usage of brand PNB. This has also been revised on 25th May, 2021. ([Click here](#))

Has PNB Board cleared this?

Who has decided to revise the undertaking if the PNB Board has not met?

E. Independent Directors Affiliation – does it impede Independence?

SES believes that independence is a personal trait and independence cannot be measured. Yet many a times affiliation can create doubts, which may not be true. SES has however attempted to find affiliation of board members, based on data in public domain.

The Board of the Company comprise of 13 directors including 7 IDs and 4 nominee directors. While, SES was going through the profile of all the directors, research revealed affiliation of Mr. Nilesh S Vikamsey, ID on the Board of the Company with Companies where Carlyle has its investments.

S. No	Listed Directorships of Mr. Nilesh Vikamsey (past ~5 years)	Carlyle Connection
1	PNB Housing Finance Ltd	Yes
2	Gati Ltd	No
3	Thomas Cook (India) Ltd	Bids were made
4	Navneet Education Ltd	No
5	IIFL Wealth Management Ltd	Invested in IIFL Group, now exited
6	IIFL Finance Ltd	Invested in IIFL Group, now exited
7	SBI Card and Payment Services Ltd	Yes
8	SBI Life Insurance Company	Yes
9	The Federal Bank Ltd	No
10	IIFL Securities Ltd	Invested in IIFL Group, now exited

It reveals that in 7 out of the 10 Companies in which he was associated, Carlyle was / is an investor, including Thomas Cook where Carlyle did attempt to acquire stake.

While, it could be a pure coincidence and may not be any compliance issue, however, coincidence is there. Yet based on coincidence alone SES cannot conclude anything except raising antenna of readers.

F. Pricing- A convenient refuge under ICDR

Preferential issue pricing formula under ICDR is akin to an amnesty scheme for unfair treatment to shareholders and favour chosen few. While SES is strong votary of market related pricing as SES believes that market is best judge of price. However, there is a caveat “in the given circumstances”. Therefore, market efficiently prices a company under given situation. But as soon as situation changes, market dynamics adjusts and arrive at a new price which in opinion of market is fair. In case of PNB HFC same is being witnessed. The market is no longer treating it as a PSU, but as a PE controlled entity.

Are board members of PNB Housing as well as PNB oblivious of simple logic or they chose to turn their eyes or are not capable of such analysis?

The most important point is, SEBI ICDR tells you what is minimum price, it doesn't tie hands of the Company to increase the issue price. And the next question the board must answer **is did they think that price is fair?**



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

Book Value: While book value is not a very efficient method of valuation, yet it gives certain indication of intrinsic value and a lot depends on asset quality. In a housing finance company, with NPAs provided for and where loan books can also be sold, book value is an important valuation metric. Book value of PNB HFC share is ₹ 540 and it was quoting at discount to book value prior to deal announcement.

Housing Finance Companies	CRAR (%)	Price / BV
LIC Housing (2020)	13.89%	1.29x
Can Fin	25.63%	2.80x
GIC Housing (2020)	17.11%	0.58x
HDFC Ltd	22.20%	2.95x
IB Housing Finance	30.70%	0.64x
Aavas Financiers	54.50%	7.53x
PNB Housing	18.70%	0.83x

Only IB housing, GIC, & PNB were quoting at discount to book value.

Can Fin although a PSU was also quoting at premium to book value.

Why did the Board agree to price preferential offer at discount to book value?

G. Deceptive objective of the Issue

The objective stated by the Company in the Notice states that:

*“The Key objective of raising capital is to **augment capital adequacy, reduce gearing and accelerate growth** with a focus on retail housing including self-employed and affordable housing loans”*

The above statement is too generic for a fund-raising activity to the tune of ₹ 4,000 crores. To give perspective, Market Cap of the Company prior to this announcement was ~7,200 crores. The Company has proposed to raise capital almost 55% of its existing size.

What is the Company going to do with such money?

The Capital Adequacy Ratio sits comfortable at 18.7% and the performance also is not indicating any dire need of funds.

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
AUM (in ₹ Cr)	41,491	62,252	84,722	83,346	74,469
CRAR (in ₹ Cr)	21.62%	16.67%	13.98%	17.98%	18.73%
AUM @ 14% CRAR	59,802	69,183	78,961	99,904	92,987
Net Profits (in ₹ Cr)	524	829	1,081	682	925

Also, the Company has been making decent profits since its listing in FY 2016-17.

CRAR is comfortable at 18.7% against RBI mandate of 14% and can sustain a growth of 20-25% in AUM from current position, ignoring profits. If one includes profits

AUM growth higher than 20% can be sustained. Therefore, there is no tearing hurry to raise capital in 15 days.

H. Speculative Disclosure by the Company

Page No. 2 of the Investor Presentation states that *Mr. Aditya Puri is **expected to be nominated** to the Board by Carlyle in due course*. Now, the question is that can a Board give such a statement? And since when Boards have started mind reading?

The term used is “*expected to be*” which is a speculative statement to be made and that too coming from the Board. Is such a statement not amounting to fuelling speculation in the market regarding Board appointment?

I. Why Right issue is a better option:

SES is of the opinion that Rights Issue is a better option as

- Right issue would treat all shareholders at par, here only 15% shareholders are denied any say.
- Shareholder in control i.e. PNB voluntarily gave up its rights without encashing it.
- Rights issue would be equally fast as no shareholders’ approval required.
- SEBI has even done away with minimum 90% subscription clause.
- PNB would have retained its value by renouncing shares at market driven price.
- Would have been fair to all.

Answers must be sought by shareholders from the Board in this regard.

J. Why and How Carlyle was not in Control till now?

- Carlyle had two board members on Board of PNB HFC



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

- Had 32% equity?
- Then why it was not in control and promoter till now with having same rights as held by PNB?

K. The Resolution is ultra vires AoA of PNB HFC

SES is of the opinion that the proposed resolution is not in accordance with provision of AoA of the Company and ultra vires. Article 19 of AoA states as under

(1) Where at any time, it is proposed to increase the subscribed capital of the Company by allotment of further shares either out of unissued capital or increased share capital, then:

(a) Such further shares shall be offered to the persons who, at the date of the offer, are holders of the equity shares of the Company, in proportion, as nearly as circumstances admit, to the capital paid up on those shares at that date;

.....

*(2) Notwithstanding anything contained in sub-clause (1) hereof, the further shares aforesaid may be offered to any persons (whether or not those persons include the persons referred to in clause (a) of sub-clause (1) hereof) if authorized by special resolution either for cash or for consideration other than cash, **if the price of such shares is determined by the valuation of a registered valuer.***

The Articles clearly provide that

- either the Company must make Rights Issue, or
- if it is not making Rights Issue it must issue shares at a price which has been determined by a Registered Valuer
- The Company has not determined price by valuation by registered valuer

SES is of the opinion that the valuation provided by the Registered valuer or that of SEBI ICDR, whichever is higher should be the minimum issue price. While, there is disclosure of pricing as per SEBI ICDR in the notice, there is no mention of the price obtained from the Valuer and the valuation report.

Hence, AoA appear to have been violated in proposed resolution

L. Why Ares SSG & General Atlantic are issued shares?

The Resolution proposes to issue shares to following entities as well, who together are holding amongst them 19.78% shares.

Institutions	# of Equity	%
Ares SSG	1,66,87,956	9.92%
General Atlantic	1,65,93,240	9.86%

An innocuous question could be why include them also, why not take their shares as well? Why show consideration to them and not to other public shareholders. The clue probably is in quantum of their shareholding as well as requirement of special resolution.

These entities have 19.78% voting power and if they were not given shares in preferential offer, they may have opposed the issue. To bring them on board, it appears that they are being accommodated.

Given that retail does not participate fully in the voting, out of around 92% non-retail, full participation in voting would require 23% against vote to defeat resolution, with their 19.78% and other institutions not getting accommodated, defeat was certain. Now even if all non-accommodated in preferential offer vote against, still against vote will be 15% max, hence resolution sails through.

The next question is why they are not PAC also?

Conclusion

SES is of the opinion that the entire transaction is unfair from the point of view of public shareholders and shareholders of PNB. SES is of the opinion that the Board of both PNB and the Company have collectively, failed minority shareholders and the Exchequer.



RESOLUTION 2: AMENDMENT TO ARTICLES OF ASSOCIATION

Approval for amendment to Articles of Association (AoA) of the Company.

AGAINST

SES RATIONALE

Governance concern: Proposal is linked with resolution #1.

SES ANALYSIS

COMPANY'S JUSTIFICATION (as stated in the Notice)

The Company has executed an amendment agreement dated May 24, 2021 to the brand license agreement dated December 9, 2009 entered between the Company and Punjab National Bank, inter alia, in relation to use of the brand PNB by the Company. Pursuant to such amendment agreement and the share subscription agreement executed between the Company and Pluto Investments S.à r.l. in relation to issue of Subscription Shares and Subscription Share Warrants to the Proposed Allottees on a preferential basis, certain amendments are required to the Company's articles of association, as mentioned in the proposed resolution. Accordingly, the Board of the Company in their meeting held on May 31, 2021 has approved amendments to the Articles of Association of the Company as specified in the special resolution, subject to the approval of the shareholders in a general meeting. Such amendments to the Articles of Association shall be **effective subject to completion of the proposed preferential issue of securities by the Company to Pluto Investments S.à r.l. ("Investor") in terms of the Share Subscription Agreement to be executed on May 31, 2021 between the Company and the Investor.**

AMENDMENT TO ARTICLES OF ASSOCIATION

(a) the insertion of New Article 86A in the Articles of Association of the Company as follows:

"86A. Right to nominate directors

Any promoter of the Company, or a person who has licensed its brand name to the Company, shall be entitled to nominate a maximum of 2 (two) directors on the Board (including any right to nominate directors under Article 86 of these Articles of Association), subject to such person owning at least 20% (twenty percent) of the share capital of the Company."

(b) Article 110 of the Articles of Association of the Company shall be replaced with the following Article:

"The Board shall appoint the chairperson of the Board." by the following "No later than January 1, 2022, the post of the chairperson of the Board shall be held by any Director nominated to act as the chairperson of the Board, provided that such Director is a nominee director of a shareholder which (together with its Affiliates) holds at least 40% (forty percent) of the share capital of the Company on a fully diluted basis. For the purpose of this Article, (x) "Affiliates": (i) means"

SES VIEW

The proposed amendment to AoA of the Company is linked with the revised Royalty agreement approved by the Board with PNB and also the proposed preferential issue to be undertaken under resolution #1.

- Article 86A entitles licensor of the brand name to nominate 2 directors on the Board of the Company, subject to such licensor holding minimum 20% stake. [Click here](#) to view the revised agreement.
- Article 110 authorises shareholders holding more than 40% of shareholding in the Company to nominate the Chairperson of the Board.

The amendment has two hidden or indirect messages, in the present context:

- PNB, will have to lend its Brand even if it has no directors on board, else 20% shareholding clause would not be required. This clearly indicates that if PNB stake comes down below 20% it will have no director nominee.
- There is only one entity holding 40% shares, hence chairman is to be nominated by Carlyle. The question is why make round about amendments, why not state simply the same.



Meeting Type: EGM

Meeting Date: 22nd June, 2021

Since, the provision in AoA are linked with shareholding of an investor / Promoter without naming any particular investor, therefore, no concern has been identified. However, since the resolution is linked with resolution #1, therefore, SES is raising concern.



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

RESOLUTION 3: APPOINTMENT OF EXECUTIVE DIRECTOR

Appointment of Mr. Hardayal Prasad as Managing Director and Chief Executive Officer of the Company.

FOR

SES RATIONALE

Compliant with law, no major governance concern.

SES ANALYSIS

DIRECTOR'S PROFILE

Hardayal Prasad

Age: 60 years

Full time positions: Managing Director of PNB Housing Finance Ltd

Education: MSc. Chemistry, CAIIB

Functional Area: Banking

Past Experience (As per Notice): "He has held multiple leadership positions at State Bank of India including Chief General Manager, LHO Hyderabad; General Manager, LHO Mumbai and Vice President (Trade & Systems), Los Angeles Agency USA among others. He was the MD & CEO of SBI Cards."

Committee positions in the Company: SRC(M), CSRC(M), RMC(M)

Retirement by rotation: Non-Retiring

Director Category (As per SES): Non-Promoter

Date of original Appointment: 10th August, 2020

Total Association (Including Group): 10 months

Proposed approval: Appointment as Managing Director & CEO of the Company

PAST REMUNERATION OF THE DIRECTOR

In ₹ Crore	FY 20-21
Executive Director	Total Pay
Hardayal Prasad	1.26

DIRECTORS' TIME COMMITMENTS

Name	Full time role/ executive position	Directorships			Total Committee	
		Total	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	7	7 [#] /3*	10	5
SES Limit	1**	20	5	5 [#] /3*	6	3
Hardayal Prasad	1	2	1	0	1	0

Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies

If Director is Non-Executive Director across all listed entities. | * If Director is Executive Director in any listed entity

DIRECTORS' PERFORMANCE

Attendance Record	BM FY 20-21
SES Benchmark	At least 75%
Hardayal Prasad	4

The Company has mentioned the number of meetings attended by the director, however, total number of meetings held during his tenure is not disclosed, therefore, SES is unable to assess his attendance performance.



REMUNERATION PACKAGE OF HARDAYAL PRASAD

Component	Proposed Remuneration	Comments
Basic Pay	Proposed Salary: ₹ 1.91 crores Annual increment: On the recommendation of NRC and Board of Directors	Increase in remuneration: NA
Perquisites/ Allowances	All perquisites/allowances clearly defined: No , it is stated in the Notice "Leave and other benefits/ allowances :As per the policies of the Company." Total perquisites/allowances: Not Disclosed	Cap placed on perquisites/allowances: No
Variable Pay	Performance linked bonus of 1.40 crores for FY 20-21 Minimum ₹ 1.12 crores as performance linked variable pay for the duration served in FY 20-21 5.5 lakhs ESOPs were granted at ₹ 261.15 per option with vesting phase-wise vesting over 3 years Remainder Tenure- "Performance bonus and annual increments will be paid/ decided in accordance with the applicable policies of the Company and on the recommendation of the Nomination and Remuneration Committee and approval of the Board of Directors of the Company"	Performance criteria disclosed: None Cap placed on variable pay: No
Notice Period	90 days	
Severance Pay	Not Disclosed	
Minimum Remuneration	Above remuneration paid as minimum remuneration	Within limits prescribed: Yes Includes variable pay: Yes

SES VIEW

The Company is seeking shareholders' approval for appointment of Mr. Hardayal Prasad as MD & CEO for a period of three years w.e.f 10th August 2020 to 9th August 2023.

Shareholders' may note that-

- There is no concern with respect to the profile and time commitments of Mr. Hardayal Prasad.
- The Company has not provided separate limits for perquisite and other components of remuneration. The Company statement in this regard is mentioned below-

"The total remuneration inclusive of the perquisites as defined under the Income-tax Act, 1961 and reimbursement of any direct taxes, shall not exceed the limits specified in Section 197, 198 and Schedule V of the Act and the Listing Regulations."

- It is observed that the Company intends to grant a minimum performance bonus to Mr. Hardayal Prasad for FY 20-21 amounting to ₹ 1.12 crores which is approximately 58.9% of the fixed pay of ₹ 1.91 crores. SES is of the opinion that the payment of guaranteed bonus removes the link between directors' performance and remuneration. However, since the bonus relates to prior year, and is a one-off instance, SES is not raising any concern in this regard.
- The Company has not placed a cap on the variable pay for the remainder of tenure i.e. FY 21-22 to FY 22-23. As per Notice, the performance bonus for the period will be as per NRC recommendation and board policies. However, since the Company's past remuneration practice has been fair, no concern is being raised.

In the light of above observations, SES is not raising any concern on the resolution.



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

RESOLUTION 4, 6 & 8: APPOINTMENT OF NON-EXECUTIVE DIRECTORS

#4: Appointment of Mr. Neeraj Madan Vyas as a Non-Executive Director.

FOR

#6: Appointment of Mr. Kapil Modi as a Non-Executive Nominee Director.

FOR

#8: Appointment of Mr. Rajneesh Karnatak as a Non-Executive Nominee Director.

FOR
SES RATIONALE
#4, #6 & #8: Compliant with law. No concern identified.

SES ANALYSIS
DIRECTOR'S PROFILE
Neeraj Madan Vyas
Age: 63 years

Full time positions: None

Education: B.Sc. (Chemistry) & M.Sc. (Organic Chemistry)

Functional Area: Banking

Past Experience (As per Notice): "He retired from his position as Deputy Managing Director and Chief Operating Officer (COO) of State Bank of India (SBI). He was a Director on the board of the erstwhile associate banks; State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala & State Bank of Travancore. For a short span of 4 months he was Managing Director & CEO of the Company."

Committee positions in the Company: None

Retirement by rotation: Retiring

Director Category (As per SES): Non-Promoter

Date of original Appointment: 15th April, 2019

Total Association (Including Group): 2 years

Proposed approval: Appointment as Non-Executive Director of the Company

Kapil Modi
Age: 36 years

Full time positions: Executive Director of Carlyle India Advisors Pvt Ltd

Education: B.Tech, Post Graduate in Management, CFA, LLM

Functional Area: Investment Advisory

Past Experience (As per Notice): "He is an experienced Investment Advisor and Director in Carlyle India team. He has been a part of the investment team for c. \$1.7bn of investments by Carlyle in India over the last 12 years."

Committee positions in the Company: None

Retirement by rotation: Retiring

Director Category (As per SES): Nominee of Quality Investment Holdings (Carlyle Group Company)

Date of original Appointment: 1st October, 2020

Total Association (Including Group): 8 months

Proposed approval: Appointment as Non-Executive Nominee Director of the Company


Rajneesh Karnatak
Age: 50 years

Full time positions: None

Education: M.Com , CAIIB

Functional Area: Banking

Past Experience (As per Notice): "Mr. Rajneesh Karnatak is an experienced banker who is currently Chief General Manager at Punjab National Bank with more than 26 years' experience in erstwhile Oriental Bank of Commerce."

Committee positions in the Company: RMC(M)

Retirement by rotation: Retiring

Director Category (As per SES): Promoter Director ((Due to association with Punjab National Bank (Promoter Company))

Date of original Appointment: 19th January, 2021

Total Association (Including Group): 5 months

Proposed approval: Appointment as Non-Executive Nominee Director of the Company

DIRECTORS' TIME COMMITMENTS

Name	Full time role/ executive position	Directorships			Total Committee	
		Total	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	7	7 [#] /3 [*]	10	5
SES Limit	1 ^{**}	20	5	5 [#] /3 [*]	6	3
Neeraj Madan Vyas	0	1	1	0	0	0
Kapil Modi	1	3	1	0	0	0
Rajneesh Karnatak	0	2	1	0	0	0

Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies

If Director is Non-Executive Director across all listed entities. | * If Director is Executive Director in any listed entity

DIRECTORS' PERFORMANCE

Attendance Record	BM Last year
SES Benchmark	At least 50%
Neeraj Madan Vyas	8
Kapil Modi	3
Rajneesh Karnatak	1

The Company has mentioned the number of meetings attended by the directors, however, total number of meetings held during their tenure is not disclosed, therefore, SES is unable to assess their attendance performance.

SES VIEW

#4: The Company is seeking shareholders' approval for appointment of Mr. Neeraj Madan Vyas as Non-Executive Director liable to retire by rotation.

Shareholders may note that-

- Mr. Neeraj Madan Vyas was first appointed on the board as an Independent Director on 15th April 2019 for a period of five years. Thereafter, he resigned as an ID w.e.f 28th April 2020 and was appointed as an Interim MD & CEO on the same day viz 28th April, for a period of eight months. Consequently, he stepped down from the position on 10th August 2020. Now the Company is seeking approval for his appointment in this EGM for his appointment as Non-Executive Director w.e.f 1st September 2020.
- He was paid ₹ 65.22 lakhs for his role as Interim MD & CEO and ₹ 16.50 lakhs as Non-Executive Director in FY 20-21.
- There is no concern with respect to his profile and time commitments.



Meeting Type: EGM

Meeting Date: 22nd June, 2021

No concern has been identified.

#6 & #8: The Company is seeking shareholders' approval for appointment of Mr. Kapil Modi as a Non-Executive Director (Nominee of Quality Investment Holdings, Carlyle Group) and Mr. Rajneesh Karnatak (Nominee Director of Punjab National Bank) liable to retire by rotation.

There is no concern with respect to their profile and time commitments of both the directors.



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

RESOLUTION 5, 7, 9 & 10: APPOINTMENT & REAPPOINTMENT OF INDEPENDENT DIRECTORS

#5: Appointment of Mr. Sudarshan Sen as an Independent Director.	FOR
#7: Re-appointment of Mr. Chandrasekaran Ramakrishnan as an Independent Director.	AGAINST
#9: Re-appointment of Mr. Nilesh S Vikamsey as an Independent Director.	AGAINST
#10: Appointment of Ms. Gita Nayyar as an Independent Director.	FOR

SES RATIONALE

#5: Compliant with law. No concern identified.

#7 & #9: No concern over merit of Mr. Chandrasekaran Ramakrishnan and Mr. Nilesh S Vikamsey, however appointment not in accordance with law.

#10: No Governance Concern: Appointment in compliance with law.

SES ANALYSIS
DIRECTOR'S PROFILE
Sudarshan Sen

Age: 62 years

Full time positions: None

Education: Masters' in Mathematics, MBA

Functional Area: Banking, Ex-Regulator

Past Experience (As per Notice): "Mr. Sen retired from the Reserve Bank of India as Executive Director in charge of regulation of banks and non-banking financial companies".

Committee positions in the Company: A(M), CSRC(M)

Date of original Appointment: 1st October 2020

Total Association (Including Group): 8 months

Proposed approval: Appointment as an Independent Director

Chandrasekaran Ramakrishnan

Age: 63 years

Full time positions: None

Education: B.E. (Hons) degree and MBA

Functional Area: IT

Past Experience (As per SES): "Mr. Chandrasekaran is an IT expert and was one of the professional co-founders of Cognizant India (Cognizant) in 1994. He retired as Executive Vice Chairman of Cognizant.

Committee positions in the Company: NRC(C), CSRC(M)

Date of original Appointment: 7th October, 2015

Total Association (Including Group): 6 years

Proposed approval: Reappointment as an Independent Director



Nilesh S Vikamsey
Age: 57 years

Full time positions: None

Education: B.com, CA, Diploma (Information System Audit)

Functional Area: Audit

Past Experience (As per Notice): "Mr. Vikamsey is a senior partner at Khimji Kunverji & Co. LLP, Chartered Accountants, Mumbai since 1985. He is past President of Institute of Chartered Accountants of India".

Committee positions in the Company: AC(C), NRC(M)

Date of original Appointment: 22nd April, 2016

Total Association (Including Group): 5 years

Proposed approval: Reappointment as an Independent Director

Gita Nayyar
Age: 57 years

Full time positions: None

Education: B.A. Economics (Hons), MBA

Functional Area: Finance

Past Experience: "Ms. Gita Nayyar is a finance professional with over 30 years of global leadership experience with MNC banks/ VC funds and Corporates. Presently serves as an Independent director on the Board of Taj-SATS, (a Tata group, SATS joint Venture), Transport Corporation of India, Oriental Hotels Ltd and Glenmark Life Sciences Private Limited".

Committee positions in the Company: None

Date of original Appointment: 29th May, 2021

Total Association (Including Group): Less than a month

Proposed approval: Appointment as an Independent Director

DIRECTORS' INDEPENDENCE

Name	Current tenure/ association	Directorships at group companies	Relationships with the Company	Shareholding / ESOPs	Remuneration (FY 20-21) ₹ Lakhs)	Current SES Classification
Sudarshan Sen	8 months	None	None	0	1.90	INDEPENDENT
Chandrasekaran Ramakrishnan	6	None	None	0	18.70	INDEPENDENT
Nilesh S Vikamsey	5	None	None	0	17.80	INDEPENDENT
Gita Nayyar	Less than 1 month	None	None	5814	NA	INDEPENDENT

DIRECTORS' TIME COMMITMENTS

Name	Full time role/ executive position	Directorships			Total Committee	
		Total	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	7	7[#]/3*	10	5
SES Limit	1**	20	5	5[#]/3*	6	3
Sudarshan Sen	0	2	2	2	3	0
Chandrasekaran Ramakrishnan	0	7	3	1	1	0
Nilesh S Vikamsey	0	8	6	1	9	3
Gita Nayyar	0	5	3	3	3	0

Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies # If Director is Non-Executive Director across all listed entities. | * If Director is Executive Director in any listed entity



DIRECTORS' PERFORMANCE

Attendance Record	BM (FY 20-21)
SES Benchmark	At least 75%
Sudarshan Sen	2
Chandrasekaran Ramakrishnan	9
Nilesh S Vikamsey	9
Gita Nayyar	Nil

The Company has mentioned the number of meetings attended by the directors, however, total number of meetings held during their tenure is not disclosed, therefore, SES is unable to assess their attendance performance.

SES VIEW

#5: The Company is seeking shareholders' approval for appointment of Mr. Sudarshan Sen for a period of five as Independent Director not liable to retire by rotation w.e.f 1st October 2020 to 30th September 2025.

Additional Expertise / Skills added to the Board IQ	
Director Name	Additional Expertise / Skills
Mr. Sudarshan Sen	Banking, Ex-Regulator

Mr. Sen has a vast experience in banking and administration being associated with RBI as its ex-regulator. Considering his expertise, his presence on the Board may be an additional advantage for the

Company. There is no concern with respect to his time commitments.

No concern has been identified.

#7 & #9: The Company is seeking shareholders' approval for re-appointment of Mr. Chandrasekaran Ramakrishnan and Mr. Nilesh S Vikamsey as Independent Directors not liable to retire by rotation, for a period of five years w.e.f 7th October 2020 to 6th October 2025 and 22nd April 2021- 21st April 2021, respectively.

Shareholders may note that-

- Mr. Chandrasekaran Ramakrishnan and Mr. Nilesh S Vikamsey were appointed as Independent Directors of the Company for their first term of five years on 7th October 2015 and 22nd April 2016 respectively. Their first term already ended on 6th October 2020 and 21st April 2021 respectively.

The provision relating to re-appointment of IDs on the Board under Section 149(10) of the Companies Act 2013 states that:

*Subject to the provisions of section 152, an independent director shall hold office for a term up to five consecutive years on the Board of a company, but **shall be eligible for reappointment** on passing of a **special resolution by the company** and disclosure of such appointment in the Board's report.*

- The above provision sets out the eligibility of an ID for being re-appointed on the Board of a Company. In other words, unless a special resolution is passed by shareholders in general meeting, an existing ID who is serving first term as ID under section 149 of the Act is not eligible for re-appointment.
- In the current case, the term of Mr. Chandrasekaran Ramakrishnan and Mr. Nilesh S Vikamsey already ended on 6th October 2020 and 21st April 2021 respectively, therefore, they have ceased to be directors of the Company unless re-appointed on the Board. Since, the eligibility of re-appointment is special resolution by shareholders, therefore, such approval should have been obtained on or before 6th October 2020 and 21st April 2021 respectively.
- Further, it may be noted that, Guidance Note on Independent Directors issued by the Institute of Companies Secretaries of India (ICSI), has also addressed the issue regarding re-appointment of Independent Directors.**
- Relevant extract of the Guidance Note is reproduced herein below for immediate reference:

*"If the shareholders' approval by **special resolution for his reappointment for second term is not taken as on the last date of the first term**, then such Independent Director cannot be re-appointed by Board as an Additional Director for second term, as he does not possess the eligibility to get reappointed for second term and hence, he ceases to be a director at the end of his first term."*



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

- In view of the above, SES is of the opinion that the Board of directors of the Company do not have power to re-appoint Mr. Chandrasekaran Ramakrishnan and Mr. Nilesh S Vikamsey as IDs for a second term.
- It may be noted that Mr. Nilesh S Vikamsey is Member in 9 Audit/Stakeholder Relationship Committees out of which he is Chairman in 3 of them. SES considers 6 Committee Memberships and 3 Committee Memberships as reasonable. Therefore, as per SES his time commitments are excessive. However, no concern in this regard.
- There is no concern with respect to time commitments of Mr. Chandrasekaran Ramakrishnan.

SES is of the opinion that the re-appointment of both the directors is not in accordance with the law. Power to re-appoint IDs rests with the shareholders, and the Board cannot re-appoint them. In view of the above non-compliance, SES is raising concern.

#10: The Company is seeking shareholders' approval for appointment of Ms. Gita Nayyar as an Independent Director not liable to retire by rotation for a period of 3 years w.e.f 29th May 2021 to 28th May 2024.

Additional Expertise / Skills added to the Board IQ	
Director Name	Additional Expertise / Skills
Ms. Gita Nayyar	Finance

Ms. Nayyar brings in over 30 years of experience in finance with her association with MNC Banks and Venture Capital Funds. Apart from PNB Housing, currently she serves as ID in Taj-SATS, Transport Corporation of India, Oriental Hotels Ltd and Glenmark Life Sciences Private Limited. Considering her expertise, her presence on the Board may be an additional advantage for the Company.

There is no concern with respect to his time commitments.



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

Disclaimer Sources

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

Analyst Certification

The Analyst(s) involved in development of this Report certify that no part 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. The concerned Research Analyst(s) and Director(s) do not have any pecuniary relationship with the Reported Company, except that they may be holding miniscule shares in the Company which does not impact their independence in respect of this Report.

SES may be a shareholder in the Company holding equity shares as disclosed on its [website](#). The objective of SES' investment is solely to obtain Shareholders' communications from the Company as a shareholder.

CAUTIONARY STATEMENT

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. SES opinion is based on SES's interpretation of law and governance benchmarks, which may differ from opinion/ benchmarks of other analysts or practitioners. Further, SES analysis is recommendatory in nature and reflects how SES would have voted if it was a shareholder. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

Disclaimer

While SES has made every effort, and has exercised due skill, care and diligence in compiling this report based on publicly available information, it neither guarantees its accuracy, completeness or usefulness, nor assumes any liability whatsoever for any consequence from its use. This report does not have any approval, express or implied, from any authority, nor is it required to have such approval. The users are strongly advised to exercise due diligence while using this report.

This report in no manner constitutes an offer, solicitation or advice to buy or sell securities, nor solicits votes or proxies on behalf of any party. SES, which is a not-for-profit Initiative or its staff, has no financial interest in the companies covered in this report except what is disclosed on its website. The report is released in India and SES has ensured that it is in accordance with Indian laws. Person resident outside India shall ensure that laws in their country are not violated while using this report; SES shall not be responsible for any such violation.

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

Concern terminology

NC – Compliance Concern: The Company has not met statutory compliance requirements

FC – Fairness Concern: 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

GC – Governance Concern: 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.

TC - Disclosures & Transparency Concern: 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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 Proxy Advisory
 Corporate Governance Scores & Research
 ESG Scores & Research
 Stakeholders' Education

Proxy Advisory Report (Addendum)

PNB Housing Finance Limited

COMPANY INFORMATION	MEETING DETAILS	E-VOTING DETAILS
BSE CODE: 540173 NSE SYMBOL: PNBHOUSING ISIN: INE572E01012 Industry: Housing Finance Email: investor.services@pnbhousing.com Phone: +91 11 2373 6857 Registered Office: 9 th Floor, Antriksh Bhawan, 22 K G Marg, New Delhi - 110 001	Meeting Type: EGM Meeting Date: 22 nd June, 2021 at 3:00 PM Venue: Video Conference / Other Audio-Visual Means (OAVM) Notice Date: 31 st May, 2021 Notice: Click here Annual Report: FY 19-20 SES PA Report : Report	e-Voting Platform: NSDL Cutoff Date: 15 th June, 2021 E-voting Start: 18 th June, 2021 E-voting End: 21 st June, 2021 Research Analysts: Varun Krishnan Rajorshi Palit

This Addendum is based on email dated 8th June & 9th June 2021 sent by PNB Housing Finance Limited ('the Company', 'PNBHFL') w.r.t to Proxy Advisory Report ('PA Report') dated 6th June 2021 issued by SES in relation to its ensuing Extraordinary General Meeting ('EGM') of the Company having e-voting deadline 21st June 2021.

There is no change in any of SES recommendation.

BACKGROUND

SES as a policy had emailed its PA Report on 6th June 2021 in respect of the EGM of the Company.

Post release of PA Report, SES received an email from the Company providing its view point on 8th June, which is reproduced in Annexure I in *blue text* along with the SES Response. Further, SES had requested copy of the Company for the Valuation Report obtained by it, which the Company sent to SES on 9th June, which is reproduced in *Violet Text* in Annexure II.

It may be noted that the email of the Company dated 8th June 2021 (as per SES policy framed to comply with SEBI Circular dated 3rd August, 2020 [SEBI/HO/IMD/DF1/CIR/P/2020/147](#)) has already been forwarded to SES clients as it is, without any inputs from SES on the same day.

This Addendum provides appropriate responses (including on the 9th June email by Company) of SES, wherever required.

COMPANY EMAIL DATED 8TH JUNE 2021 (*BLUE / VIOLET INK*) AND SES COMMENTS (*BLACK INK*)

Observations made on Resolution No. 1 and 2: Preferential issue of equity shares and warrants and Amendment to Articles of Association

Company Position:

PNB Housing was planning to raise capital for last 2 years. The first capital raise resolution was passed by the Board of the Company on 30th July 2019. PNB in July 2020, issued a release that their Board has approved to participate in the Capital raise plan of the Company. However, they did not get the regulatory approval which they informed the Company on 19th Feb 2021.

- PNB Housing has analysed all the options to raise capital including Rights issue. PNB did not get the approval to infuse capital in the Company and hence the Company opted for other options to raise capital as the Company did not believe that



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undertaking a rights issue was a feasible option for such fund raise without PNB participation. On potential loss due to not taking up its rights entitlement, the report calculates the valuation on the basis of current share price post full impact of capital raise announcement made by the Company. Moreover, the one year average price (from 28 May, 2020 to 28 May, 2021 - before fund raise was announced) was INR 332/share.

SES Comment: SES fails to understand as to what is the relationship of historical attempts at capital raising with the compulsion to issue shares at floor price. The Company is trying to convince that price at which shares are proposed to be issued is fair price. SES reiterates that pre-announcement price would not be a fair price since the market valued PNBHFL akin to a PSU, therefore, it is not indicative of real value that has been reflected in price behaviour post announcement. The Company wants investors to believe that even with book value per share of ~₹ 530, the proposed issue price is fair although book value indicates that the intrinsic value is quite higher than the issue price. If one observes P/E or P/BV ratio of private Housing Finance Companies ('HFC'), this can easily be spotted.

Further, if PNB as 32% holder was not willing to put in money, it could have made rights issue, sacrificing its right entitlement, it would have resulted in a fair situation for all shareholders, the dilution of PNB holding would have been shared proportionally by all shareholders except PNB and there would have been no requirement for Open Offer. Still a better option would have been to renounce its right either for a price determined on stock exchange where such entitlements are traded or could have shown benevolence towards retail shareholders increasing their entitlement out of its quota at option of shareholders.

- PNB after understanding the need of capital to the Company, applied for the regulatory approval of RBI. However, PNB did not receive the approval, therefore could not participate. The need for sustainable growth and to keep the valuation of the Company unaffected, the Board approved the Company to raise capital after considering that PNB cannot participate.
- Post capital raise, PNB will not cede its control as it will continue to be the promoter and significant shareholder, will continue to have the right to nominate 2 directors (the amendment to the Article is a part of forthcoming EGM) to the Board of the Company and will continue to provide brand support to the Company. The shareholding %age of PNB in PNB Housing will reduce with the transaction on an increased capital base however, its existing number of shares remains the same.

SES Comment: In the opinion of SES, the fact that PNB has not ceded control is **technically / legally incorrect** for following reasons:

- Carlyle along with PAC would hold >50% stake in the Company, which gives them controlling power, in terms of voting rights as per SEBI Takeover Code.
- PNB would have ~20% stake and would be reduced to a smaller partner.
- Carlyle and PNB both have power to nominate 2 directors on the Board, however, the post of Chairperson shall be nominated by Carlyle.
- Since, the Chairperson shall have the casting vote (Article 109(b) of PNBHFL) in case of a tie, Carlyle is effective controlling the Board also.

Therefore, Carlyle has control not only by way of equity, but also on Board matters. It is surprising that the Company is advancing a logic that its holding in terms of number of shares will remain same. It would be interesting to ask, how their number of shares held could have been reduced?

- Capital infusion was critical and various rating agencies and research houses have raised this the need for capital in their reports. Over last two years, the rating agencies have downgraded the rating of the Company from AA+ (Stable) to AA (Negative) with one of the key concern as capital raise.
- The key objective to raise capital is to augment its capital adequacy, reduce leverage and accelerate growth. Further the capital raise provides enough capital buffer to strengthen the Company's balance sheet to face any potential stress from second or subsequent Covid waves.

SES Comment: SES has not disputed capital raising activity of the Company, however, what SES is questioning is the method and quantum of Capital sought to be raised? The Company is proposing to raise capital which is 45% of its current Net Worth.

Interestingly, proposed issue of capital puts Carlyle just above 50% stake. Is it a co-incident that the Company required exactly such amount of capital, which perfectly fits Carlyle with majority share?

Is change in control result of issue of capital or issue of capital is resulting in change in control, is a very pertinent question? In both cases, the objective disclosed in the Notice fails to provide adequate rationale.



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- Carlyle has the right to appoint two nominee directors on the Board and they mentioned to the Board of the Company about their intention to bring Mr. Puri on the Board of the Company in due course.

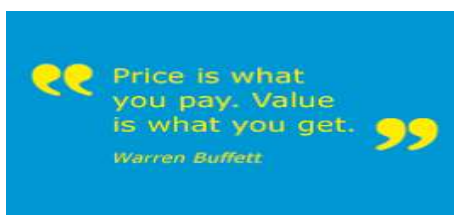
SES Comment: Yes, QIH (an affiliate of Carlyle) has right to appoint 2 nominee directors, however, both the nominees are already on the Board. Therefore, announcing matters which have not yet crystallised, is speculative in nature and may put undue influence over shareholders decision making.

Let's recall that in Jan 2020, the Company made a statement that PNB stake will not be reduced below 26%, based on facts best known to the Board members. However, completely opposite is transpiring now.

- Article 19 of Article of Association of PNB Housing is drafted in line with section 62 of the Companies Act, 2013. The Article is common for both listed and unlisted entities. However, Section 62 when read with Rule 13 (1) of the Companies Act under section 62, the proviso states that *"the price of shares to be issued on a preferential basis by a listed company shall not be required to be determined by the valuation report of a registered valuer."* Further, for listed entities, SEBI under ICDR (Issue of Capital and Disclosure Requirements) provides for the minimum price of the equity shares. The Company calculated the floor price as prescribed by SEBI and the issue price of INR 390/share is above the floor price of Rs. 384.6/- per share. The Company as a prudent measure has also taken a valuation report from an independent CA firm basis the relevant regulations and guidelines. Hence, the Company has followed all the regulatory compliances to determine the issue price.

SES Comments: SES rejects this argument outright, as explained below.

Price and value are two different terms and fairness is best explained in terms of following three figures. First explains present position, low price but high value, second explains concept of price and value and last explains an ideal situation where fairness is seen. In fact, SEBI as a regulator strives to ensure that ideal situation as depicted in third figure is achieved. Arguments of Company are demolished bit by bit in following explanation



SEBI ICDR PROVIDES FOR FLOOR PRICE (NOT ISSUE PRICE)

It may be noted that the provisions in SEBI ICDR require computation of floor price based on previous period's market price. However, it is nowhere mandated that only such price shall be the issue price. And it nowhere states that it is a **VALUATION**.

In the extant case, SES is of the opinion that shelter cannot be taken under SEBI ICDR pricing guidelines stating that ₹ 384.6 is the fair value for a Company having ₹ 520 book value. SEBI ICDR indicates past prices at which the stock was traded and need not necessarily indicate the value.

ULTRA VIRES ISSUE OF SECURITIES

SES understands that floor price in case of a Listed Company is determined by provisions of SEBI ICDR. Therefore, Valuation Report is not required in terms of law. However, issue price is decided by the Board. Floor price is only one of the guiding principle, in determining the issue price. Does the Company want investors to believe that Board does not deliberate and apply its mind and is incapable of differentiating between floor price, intrinsic price and valuation?

Price is extremely dynamic and short-term phenomena, whereas value is long term and more stable. And if the Board of the Company is of the view that floor price is the only factor, in that case, why conduct board meetings and discuss when the price is pre-decided and can be worked out by anyone using a calculator?

The Company wants SES to believe that AoA of Company have no meaning. However, it may be note that Articles of Association (AoA) are internal regulations of a Company and these are binding on the Company unless contrary to the law. Section 5 of the Companies Act, 2013 states that:



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5. (1) The articles of a company shall contain the **regulations for management of the company**.

While, the law does not mandate obtaining valuation report for determining value of share in case of listed company, but it does not prohibit valuation report, therefore, the clause 19 of the AoA is not contrary to the law, therefore, effective in full force and will override any other law.

Moreover, even the resolution text proposed to be passed also states that:

“RESOLVED THAT pursuant to (v) the enabling provisions of the Memorandum of Association and Articles of Association of the Company, as amended;-----”

Therefore, if Company believes that AoA are not binding then why taking shelter under AoA. In fact, no Resolution can be passed, no Board meeting can be held if the same is not in accordance with AoA.

Enabling provisions in AoA are reproduced hereinbelow:

Article 4 Share under the control of Board

*Subject to the provisions of the Act and **these Articles**, the **Shares in the capital of the Company shall be under the control of the Directors who may issue**, allot or otherwise dispose*

Finally, Article 19(2) does mandate obtaining valuation from a Registered Valuer. Extract is reproduced hereinbelow:

*Notwithstanding anything contained in sub-clause (1) hereof, the further shares aforesaid may be offered to any -----, if the price of such shares is **determined by the valuation of a registered valuer**.*

Therefore, SES reiterates that the Company cannot undertake any issue other than Rights Issue, unless valuation of price of the share is determined by valuation of a registered valuer. In response to SES mail, the Company had sent a report calling it a valuation report, which in opinion of SES does not qualify or meet requirements of a valuation report. ([Click here](#) to read SES Comments on the Valuation Report obtained by the Company).

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Observations made on Resolution No 7 & 9 of Notice of EGM dated June 22, 2021 seeking approval of shareholders

Company Position:

In terms of provisions of Section 149(10) & (11) of the Companies Act, 2013 read with SEBI (LODR), an independent director can hold office for a term upto 5 consecutive years but shall be eligible for reappointment on passing of special resolution by the Company.

- Accordingly, on the recommendation of the Nomination and Remuneration Committee, the Board of Directors of the Company has reappointed Mr R Chandrasekaran and Mr Nilesh Vikamsey for a second term effective from October 07, 2020 and April 22, 2021 subject to the approval of shareholders.
- The board has proposed the re-appointment of both the independent Directors in the forthcoming EGM called on June 22, 2021 for seeking approval of shareholders by passing a special resolution. The Board can appoint a director subject to approval of the shareholders by a special resolution passed at the general meeting. Therefore, the board has reappointed Mr. Chandrasekaran and Mr. Vikamsey as Independent Directors for second term of 5 years, subject to approval of shareholders by passing special resolution.

SES Comments: It may be noted that:

- Board appointment subject to shareholder's approval; and
- Eligibility of IDs for reappointment on passing of special resolution;**

are separate matters. While, under (i) Board can initiate appointment of a directors and later obtain shareholders approval, however in case of (ii), unless the IDs is eligible, Board cannot re-appoint.

Guidance Note on Independent Directors issued by the Institute of Companies Secretaries of India (ICSI), has also articulated the same in its Note.

The relevant extract is mentioned below-

*"If the shareholders' approval by **special resolution for his reappointment for second term is not taken as on the last date of the first term**, then such Independent Director cannot be re-appointed by Board as an Additional Director for second term, as he does not possess the eligibility to get reappointed for second term and hence, he ceases to be a director at the end of his first term."*

Although, the Guidance Note by ICSI is not legally binding on Companies, however, the Company may consider opinion of the ICSI as well.

- Companies Act, 2013 has not mentioned about prior approval of shareholders for reappointment and after appointment by the board of directors' approval of the shareholders is taken. This practice has been followed by the following companies for reappointment of their Independent Directors on the board wherein the board of directors have first reappointed the Independent Directors, which is subject to the approval of shareholders.

S. No	Name of the Company	Name of the Director	Date of expiry of first term	Effective date for Second Term (board approval)	Date of Shareholders approval
1	Wipro Limited	Dr Patrick	March 31, 2021	April 01, 2021	April 15, 2021
2	HDFC Bank limited	Malay Patel	March 29, 2020	March 30, 2020	July 18, 2020
3	Reliance General Insurance Company Limited	Chhaya Virani	September 27, 2020	September 28, 2020	December 20, 2020
4	HDFC Limited	Naseer Munjee	July 19, 2019	July 20, 2019	August 02, 2019
5	Bharti Airtel Limited	Craig Edward	April 28, 2018	April 29, 2018	August 08, 2018
6	Bajaj Finserv Limited	Gita Piramal	July 15, 2019	July 16, 2019	July 25, 2019
7	Mahindra Logistics Limited	Ajay Mehta	March 26, 2018	March 27, 2018	August 02, 2018
8	Kotak Mahindra Bank	Prakash Apte	March 17, 2019	March 18, 2019	July 22, 2019

Please feel free to contact us for any further information/clarification.



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SES Comments: With respect to the term prior approval missing, please note that the word 'eligible' itself intends to mean pre-requisite or pre-condition. Therefore, eligibility cannot be ratified at a later date.

SES is aware that various Companies are following different practices, however, SES view on re-appointment as already articulated above and also through SES Proxy Note (#1/2021) is applied consistently to all Companies.

SES circulated the Note to all Listed Companies under SES Coverage (including the Company) on 24th February, 2021. [Click here](#) to view the Note.

Until 19th Feb 2021, even SES was not taking a negative view on the same, however, post deliberation has come to conclusion that as already 6 years have passed since the law came into force and one cannot take a shelter under transitory period or teething troubles.

SES COMMENTS ON COMPANY EMAIL DATED 9TH JUNE 2021

Post PNBHFL email dated 8th June, SES requested the Company to share the Valuation Report so obtained. The Company has subsequently shared the Report obtained from B R Maheswari and Co LLP, terming it as "Valuation Report" which can be accessed by [clicking here](#).

SES is of the opinion that the 'Report' cannot be termed as a 'Report' satisfying requirement of AoA (19(2))

The AoA requires **Valuation Report** by a **Registered Valuer**

Are B R Maheswari and Co LLP, Registered Valuers?

The Valuation Report has been signed by a partner of B R Maheswari and Co LLP, Chartered Accountants. The document does not state whether B R Maheswari and Co LLP is a Registered Valuers in terms of law that is Section 247 of the Companies Act, 2013?

The Company in its email dated 9th June 2021 has carefully avoided calling them as Registered Valuer but has stated **Independent CA**. Therefore, unless contrary is proved, it appears that B R Maheswari and Co LLP is not a Registered Valuer.

Is the Report a valuation Report?

The report under Annexure I spells out the floor price in accordance with SEBI ICDR Regulations. No where it states value of share proposed to be issued. As discussed elsewhere floor price calculation does not require skills expected from a registered valuer.

It is very important to note that floor price means the minimum price, and may not be indicative of the underlying value of the business / Company.

The next question, does the Report meets ICAI valuation standards 2018? (<https://resource.cdn.icai.org/51432vsb41162.pdf>). The obvious answer is NO. The company is trying to palm off Floor price calculation report as a valuation report.

As a result, SES maintains that the Board has decided on issue price without seeking Valuation Report as required under Article 19(2) of AoA, hence the decision and proposed issue is ultra vires to the AoA.

DOCUMENTS SOUGHT FROM COMPANY

Existing AoA: [Click here](#) to view

Proposed amendment to AoA: [Click here](#) to view

Report: [Click here](#) to view (referred to as Valuation Report by Company)



COMPANY EMAIL DATED 8TH JUNE, 2021

Dear SES Team,

Thank you for your report and below mail. Please find below the Company's position on various observations raised in your report wrt EGM Notice resolution No. 1, 2, 7 and 9.

Observations made on Resolution No. 1 and 2: Preferential issue of equity shares and warrants and Amendment to Articles of Association

Company Position:

PNB Housing was planning to raise capital for last 2 years. The first capital raise resolution was passed by the Board of the Company on 30th July 2019. PNB in July 2020, issued a release that their Board has approved to participate in the Capital raise plan of the Company. However, they did not get the regulatory approval which they informed the Company on 19th Feb 2021.

- PNB Housing has analysed all the options to raise capital including Rights issue. PNB did not get the approval to infuse capital in the Company and hence the Company opted for other options to raise capital. On potential loss due to not taking up its rights entitlement, the report calculates the valuation on the basis of current share price post full impact of capital raise announcement made by the Company. Moreover, the last one-year average price from the relevant date (21st May 2021) is INR 315.97/share.
- PNB after understanding the need of capital to the Company, applied for the regulatory approval of RBI. However, PNB did not receive the approval, therefore could not participate. The need for sustainable growth and to keep the valuation of the Company unaffected, the Board approved the Company to raise capital after considering that PNB cannot participate.
- Post capital raise, PNB will not cede its control as it will continue to be the promoter of the Company and provider of its brand PNB. The shareholding %age of PNB in PNB Housing will reduce with the transaction on an increased capital base however, its existing number of shares remains the same.
- Capital infusion was critical and various rating agencies and research houses have raised this the need for capital in their reports. Over last two years, the rating agencies have downgraded the rating of the Company from AA+ (Stable) to AA (Negative) with one of the key concern as capital raise.
- The key objective to raise capital is to augment its capital adequacy, reduce leverage and accelerate growth. Further the capital raise provides enough capital buffer to strengthen the Company's balance sheet to face any potential stress from second or subsequent Covid waves.
- Carlyle has the right to appoint two nominee directors on the Board and they mentioned to the Board of the Company about their intention to bring Mr. Puri on the Board of the Company in due course.
- Article 19 of Article of Association of PNB Housing is drafted in line with section 62 of the Companies Act, 2013. The Article is common for both listed and unlisted entities. However, Section 62 when read with Rule 13 (1) of the Companies Act under section 62, the proviso states that "the price of shares to be issued on a preferential basis by a listed company shall not be required to be determined by the valuation report of a registered valuer." Further, for listed entities, SEBI under ICDR (Issue of Capital and Disclosure Requirements) provides for the minimum price of the equity shares. The Company calculated the floor price as prescribed by SEBI and the issue price of INR 390/share is above the floor price of Rs. 384.6/- per share. The Company as a prudent measure has also taken a valuation report from an independent CA firm basis the relevant regulations and guidelines. Hence, the Company has followed all the regulatory compliances to determine the issue price.

Observations made on Resolution No 7 & 9 of Notice of EGM dated June 22, 2021 seeking approval of shareholders

Company Position:



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

- In terms of provisions of Section 149(10) & (11) of the Companies Act, 2013 read with SEBI (LODR), an independent director can hold office for a term upto 5 consecutive years but shall be eligible for reappointment on passing of special resolution by the Company.*
- Accordingly, on the recommendation of the Nomination and Remuneration Committee, the Board of Directors of the Company has reappointed Mr R Chandrasekaran and Mr Nilesh Vikamsey for a second term effective from October 07, 2020 and April 22, 2021 subject to the approval of shareholders.*
- The board has proposed the re-appointment of both the independent Directors in the forthcoming EGM called on June 22, 2021 for seeking approval of shareholders by passing a special resolution. The Board can appoint a director subject to approval of the shareholders by a special resolution passed at the general meeting. Therefore, the board has reappointed Mr. Chandrasekaran and Mr. Vikamsey as Independent Directors for second term of 5 years, subject to approval of shareholders by passing special resolution.*
- Companies Act, 2013 has not mentioned about prior approval of shareholders for reappointment and after appointment by the board of directors' approval of the shareholders is taken. This practice has been followed by the following companies for reappointment of their Independent Directors on the board wherein the board of directors have first reappointed the Independent Directors, which is subject to the approval of shareholders.*

S. No	Name of the Company	Name of the Director	Date of expiry of first term	Effective date for Second Term (board approval)	Date of Shareholders approval
1	Wipro Limited	Dr Patrick	March 31, 2021	April 01, 2021	April 15, 2021
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7	Mahindra Logistics Limited	Ajay Mehta	March 26, 2018	March 27, 2018	August 02, 2018
8	Kotak Mahindra Bank	Prakash Apte	March 17, 2019	March 18, 2019	July 22, 2019

Please feel free to contact us for any further information/clarification.

Regards,

Xxxx

PROXY ADVISORY REPORT | FOR LIMITED CIRCULATION



COMPANY EMAIL DATED 9TH JUNE, 2021

Dear xxxxx,

Please find attached the valuation report mentioned in our mail below. Also added few points in blue for your consideration.

Observations made on Resolution No. 1 and 2: Preferential issue of equity shares and warrants and Amendment to Articles of Association

Company Position:

- PNB Housing was planning to raise capital for last 2 years. The first capital raise resolution was passed by the Board of the Company on 30th July 2019. PNB in July 2020, issued a release that their Board has approved to participate in the Capital raise plan of the Company. However, they did not get the regulatory approval which they informed the Company on 19th Feb 2021.
- PNB Housing has analysed all the options to raise capital including Rights issue. PNB did not get the approval to infuse capital in the Company and hence the Company opted for other options to raise capital as the Company did not believe that undertaking a rights issue was a feasible option for such fund raise without PNB participation. On potential loss due to not taking up its rights entitlement, the report calculates the valuation on the basis of current share price post full impact of capital raise announcement made by the Company. Moreover, the one year average price (from 28 May, 2020 to 28 May, 2021 - before fund raise was announced) was INR 332/share.
- PNB after understanding the need of capital to the Company, applied for the regulatory approval of RBI. However, PNB did not receive the approval, therefore could not participate. The need for sustainable growth and to keep the valuation of the Company unaffected, the Board approved the Company to raise capital after considering that PNB cannot participate.
- Post capital raise, PNB will not cede its control as it will continue to be the promoter and significant shareholder, will continue to have the right to nominate 2 directors (the amendment to the Article is a part of forthcoming EGM) to the Board of the Company and will continue to provide brand support to the Company. The shareholding %age of PNB in PNB Housing will reduce with the transaction on an increased capital base however, its existing number of shares remains the same.



Meeting Type: EGM

 Meeting Date: 22nd June, 2021

Disclaimer Sources

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

Analyst Certification

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Concern terminology

NC – Compliance Concern: The Company has not met statutory compliance requirements

FC – Fairness Concern: 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

GC – Governance Concern: 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.

TC - Disclosures & Transparency Concern: 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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