HDFC BANK
We understand your world

HDFC Bank Limited
Capital Market,
Commodity Markets and Banks Group,
Zenith House, 2nd Flr, K.K.Road,
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Mumbai - 400034, Tel: - 39760000
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July 14, 2022

1. **Securities Exchange Board of India**
   Corporation Finance Department
   Plot No.C4-A, 'G' Block
   Bandra-Kurla Complex, Bandra (East),
   Mumbai – 400 051
   Kind Attn: Shri Rajesh Anand Gujjar, GM (rajeshg@sebi.gov.in), Ms. Vandana Joglekar, DGM (vandanaj@sebi.gov.in)

2. **Securities Exchange Board of India**
   Corporation Finance Investigation Department
   Plot No.C4-A, 'G' Block
   Bandra-Kurla Complex, Bandra (East),
   Mumbai – 400 051
   Kind Attn: Shri Nagendraa Parakh, Executive Director (nparakh@sebi.gov.in)

Dear Sir,

Re: **Draft Red Herring Prospectus dated March 31, 2022 filed by KFin Technologies Limited for an Offer for Sale by its Promoter Selling Shareholder**
And
Undated letter addressed by KFin Technologies Limited in response to our letter dated May 11, 2022 addressed to your good office (received on May 18, 2022)

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1. We refer to our letter dated May 11, 2022 addressed to you ("**May 11 Letter**") in respect of the Draft Red Herring Prospectus dated March 31, 2022 ("**DRHP**") filed by KFin Technologies Limited ("**KFin**" or "**Company**") for an Initial Public Offering comprising of an Offer for Sale of its Equity Shares aggregating up to Rs. 24,000 million ("**Offer for Sale**") by its Promoter Selling Shareholder i.e., General Atlantic Singapore Fund PTE. Ltd. ("**General Atlantic**"). KFin has to our May 11 Letter vide an undated letter received by us on May 18, 2022 ("**KFin Response**"). For ease of reference, a copy of the KFin Response is enclosed.

2. The KFin Response is deliberately vague and evasive and fails to effectively deal with the issues raised by us in the May 11 Letter. In fact, the KFin Response makes it even clearer that the DRHP is designed to sidestep and gloss over serious problems that surround KFin and its promoters. First, such failure to make a full, frank and accurate disclosure amounts to violation of the disclosure requirements prescribed under Regulation 24 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("**ICDR Regulations**") and applicable provisions. Secondly, such non-disclosure gives a façade of normalcy and creates a false impression in the minds of the public about the proposed Offer for Sale. The material facts and circumstances involving the Company, if actually disclosed, would present a far more realistic, albeit sobering, picture of the Company. Thus, the objective of this suppression and/or failure to make full and frank disclosures in the DRHP appears to be to

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Regd. Office: HDFC Bank Ltd., HDFC Bank House, Senapati Bapat Marg, Lower Parel (West), Mumbai - 400 013
Corporate Identity No.: L65920MH1994PLC080618

give the Promoter Selling Shareholder a swift and easy exit from the Company at an attractive valuation without allowing the subscribers/investors to make a fully informed decision. Given the seriousness of the issues involved, and particularly keeping in mind the past experience of the scam involving the Karvy Group / CP Group, we believe that this is a fit case for the regulator to intervene and carry out an in-depth investigation into the matter before the DRHP is finalised or RHP is approved.

3. Background of the Karvy Scam and its connection to KFin

a. The Company i.e., KFin was originally part of the Karvy Group that is controlled by C. Parthasarathy, his family members and affiliated entities ("**CP Group**"). The CP Group through an entity called Karvy Stock Broking Limited ("**KSBL**") has been accused of large scale misutilisation of client funds and securities, transfer of client funds to group companies and non-reporting of demat accounts to the exchanges/SEBI, all of which amounted to criminal offences as well as violation of several extant regulations framed by SEBI. The CP Group is also accused of committing fraud on several lenders including our bank. The total value of the scam is in the region of Rs.2000 crore. Given the gravity of the scam and its impact on investors and financial institutions, the matter is under investigation by several law enforcement agencies including the Serious Fraud Investigation Office ("**SFIO**"), Directorate of Enforcement ("**ED**") and Economic Offences Wing of various state police authorities. The investigation by the agencies has revealed that funds were diverted to group companies of the Karvy Group including Karvy Data Management Services Ltd. ("**KDMSL**") and Karvy Realty India Services Ltd. ("**KRISL**")

b. The DRHP seek to create an impression that KFin is disconnected from the Karvy Group and CP Group. However, in reality KFin continued to have several dealings with the CP Group just before the scam was unearthed in 2019 and even thereafter, and continues to have connections to the CP Group even today. This is of particular concern since the CP Group members were originally the promoters of KFin and C. Parthasarathy was the Managing Director of KFin. The following facts in this regard are worth noting:

i. In August, 2019, the National Stock Exchange ("**NSE**") carried out an investigation into KSBL. On November 22, 2019, based on NSE's report, the SEBI passed an Ex-Parte Ad-Interim Order against KSBL. In between this time, on October 18, 2019, KFin executed a buy-back of shares from C. Parthasarathy HUF, C. Parthasarathy, Adhiraj Parthasarathy and Rajat Parthasarathy for a sum of Rs.1027.37 crore. While the DRHP has sought to pass this off as a routine related party transaction, it is highly suspicious that such a transaction was executed while an investigation was on going and just before the passing of SEBI's Ex-Parte Ad-Interim Order.

ii. On May 28, 2021, KFin appears to have entered into a Subscription Agreement with Adhiraj Parthasarathy, C. Parthasarathy and Rajat Parthasarathy pursuant to which Adhiraj Parthasarathy was allotted 1000 redeemable preference shares having face value of Rs.200 each. The preference shares are redeemable after October 25, 2023 for a redemption premium of Rs.34 crore. If not redeemed by October 25, 2023, KFin is liable to pay dividend at a higher dividend rate of 7%

p.a. which escalates every year by 200 bps up to 13%. There is no explanation in the DRHP as why such preference shares were issued to a member of the CP Group after discovery of the scam. This is directly contrary to KFin's claim in the DRHP that it has taken "*several steps to separate the Company and the CP Group*".

iii. The DRHP also makes stray reference to a Rs.30 crore indemnity claim made by KFin that has been adjusted as part of the redemption premium for the aforesaid preference shares. However, no details have been furnished as to the person against whom the indemnity claim was made, the reasons for making such claim, the total value of the indemnity claim and whether it is still being pursued.

iv. The CP Group members continue to be shown as significant shareholders in KFin even today. While the ED's order of attachment in respect of these shares is dated March 8, 2022, the fact is that the CP Group was shown as a shareholder between 2019 and 2022 even after the scam broke out.

v. The DRHP also indicates that there are related party transactions with KDMSL, which is one of the CP Group entities that the investigating agencies have found were used by the CP Group to divert funds.

4. The above facts indicate the close linkages between the CP Group and KFin even after the Karvy scam broke out and warrant an investigation by the regulator. Moreover, these connections run contrary to the Company's suggestion in the DRHP that the Company has taken "*several steps to separate the Company and the CP Group*" and that CP Group companies should not be considered as group companies of KFin.

4.1. <u>Pledge of KFin Shares to HDFC Bank and suppression of legal proceedings in relation thereto</u>

a. In our May 11 Letter, we had pointed out the pledge in favour of the Bank how the Bank has become a significant stakeholder in the Company with a charge over 14% of the equity share capital of the Company and a vested right to be a shareholder. We had also pointed out that several key actions in respect of KFin had been taken without our approval. We had also demonstrated how the KFin Shares are the subject matter of Commercial Suit No. 210 of 2020 before the Hon'ble Bombay High Court and interim orders passed by the Hon'ble Court.

b. The KFin Response has sought to explain its non-disclosure of the litigation on the KFin Shares and our interest in the Company primarily on the following grounds: (i) that the Company is not a party to the proceedings and hence, the litigation is not material; and (ii) HDFC Bank is not a shareholder of the Company. This is highly misleading for multiple reasons:

i. The litigation and the orders passed therein directly apply to the shares of the Company. Given that the DRHP is for an Offer for Sale of the Company's shares and the Bank is likely to be one of the single largest stakeholders in the Company after the Offer for Sale, disclosure of the pledge and the litigation is undoubtedly material.

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ii. Vide its letter dated December 12, 2019, the Company has written to NSDL raising contentions regarding the shares that are the subject matter of the Suit. Given that the Company has itself chosen to enter into the said dispute, the Company can hardly contend that the dispute is not a material litigation.

iii. The KFin Response also makes a highly misleading and contradictory statement that the pledge is "*void-ab-initio*". This contradicts the Shareholding Pattern set out in the DRHP which specifically shows that 14.12% of the KFin Shares are pledged. The DRHP also vaguely states that the "*...KFin Subject Shares are subjected to an encumbrance in favour of certain lenders of the CP Group.*" However, the DRHP deliberately suppresses the fact that the entire block of 14.12% of KFin Shares is pledged in our favour to avoid drawing attention to the fact that we are a significant shareholder in the Company.

iv. Lastly, the preferential allotment and attempt to push through the Offer for Sale while there is an on-going litigation affecting 14.12% of the shares of the Company is a highly unfair and illegal strategy adopted by the Company to circumvent the orders of the Hon'ble High Court and severely prejudice our Bank's rights and interests in the KFin Shares.

c. In view of the above, we would submit that the responses given in the KFin Response fail to address the issues raised by us in respect of the pledge of the KFin Shares, the effect of the same on the status of approvals required for allotment of shares to other investors and shareholder approval for the Offer for Sale. Furthermore, the vague and incomplete nature of disclosures in this regard violates Regulation 24 of the ICDR Regulations which mandates all material disclosures to be made in the DRHP. As set out in the May 11 Letter, the information suppressed from the DRHP has a direct impact on the Company. Such information is vital for the investors to make an informed decision before subscribing to shares in the IPO. The Company's failure to make all material disclosure is not only in violation of the applicable regulations but is also against the spirit of the ICDR Regulations mandating such disclosure for investor awareness.

4.2. <u>Discrepancies in valuation of Equity Shares</u>

Our May 11 Letter points out discrepancies in the valuation of the Equity Shares of the Company and the impact it can potentially have on the investors. The KFin Response does not dispute the contentions raised by us. Instead, it merely claims that the Offer Price will be finalised in accordance with the ICDR Regulations in due course. The Company however does not dispute that the Offer Price is likely to be at a substantial premium to the price at which shares were issued to shareholders barely 6 months prior to the DRHP. Pertinently. the Promoters of the Company acquired KFin's shares at Rs.120.30 per equity share in July, 2021 whereas Kotak Mahindra Bank Limited acquired the shares at Rs. 185.35 per share in November 2021. There is no explanation provided in the DRHP for increase in the valuation of shares. Assuming that the Offer for Sale achieves the highest available valuation, the shares of the Company will be offered for a substantial premium without any exceptional circumstances to warrant such increase in the valuation. Given that there has been no significant change in circumstances warranting a sudden spike in valuation, it is therefore

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necessary for SEBI to inquire into this aspect to ensure that investors are not short changed by inflated valuations.

4.3. Suppression of other legal proceedings

a. We have already pointed out how the legal proceedings relating to the KFin Shares pledged to us has been completely suppressed from the DRHP despite such litigation being material in nature.

b. In addition, our May 11 Letter also points out other material litigation that has been suppressed. The KFin Response merely seeks to justify the non-disclosure on the basis that it is in line with its board policy on materiality. This explanation is completely untenable. We would like to point out that disclosures in the DRHP are to be made in compliance of the ICDR Regulations and other applicable rules and regulations. A board policy on materiality cannot override the ICDR Regulations, which is the statutory code that governs disclosures. As per Regulation 24 of the ICDR Regulations, the Company is required to disclose "*all pending litigations and material developments*" in respect of the Company. As set out above, the subject matter of Commercial Suit No. 210 of 2020 filed before the Hon'ble Bombay High Court are the shares of the Company aggregating to 14.12% of the total shareholding. The outcome of this suit would make HDFC Bank one of the single largest shareholders of the Company after the Offer for Sale is executed. It is inconceivable how such information can possibly be considered non-material by the Company or its Board. Similarly, the proceedings before the Hon'ble Debt Recovery Tribunal, Hyderabad ("**DRT Proceedings**") and the orders passed therein are also material developments in respect of the Company.

c. As regards Criminal Case no. RC.3.(E)/2006/BS/&FC/Mumbai filed in respect of the initial public offer of shares of YES Bank Limited and proceedings in respect of PMLA prosecution complaint no. 2 of 2012 and supplementary complaint no. 4 of 2013, the Company has failed to provide any justification or make a true and complete disclosure of the said proceedings. As pointed out in the May 11 Letter, the Company has not provided details of the Company's involvement in the matter or the orders passed therein. It is submitted that the said proceedings may have a significant impact on the Company including criminal implications. Accordingly, the details of the said proceedings are material to the Company and therefore ought to have been disclosed in the DRHP. Once again, the KFin Response has attempted to explain this by merely making a bald statement that adequate disclosures have been made in the DRHP. Such intentional withholding of information in respect of the said criminal proceedings are in violation of the applicable regulations and run contrary to the intent of ICDR Regulations warranting a true and complete disclosure of the pending litigations and material developments in respect of the Company.

4.4. Illegal restrictive covenants contained in the Articles of Association of the Company

a. As set out in our May 11 Letter, the Company was converted into a public limited company on January 8, 2022. Despite this, the Articles of Association of the Company continue to have several restrictive covenants on transferability of shares, which is plainly illegal and violative of the Companies Act, 2013 ("**Companies Act**"). The KFin Response does not deny this and seeks to justify the illegality by contending that the

restrictive covenants will fall away upon "*final listing and trading approvals from stock exchanges*". This is completely untenable and amounts to a direct contravention of company law.

b. We would like to point out that under the provisions of company law, the hallmark of a public company is that its shares must be freely transferable and cannot be subject to any restrictions on transferability. This is codified under Section 58(2) of the Companies Act. Thus, the Articles of Association of a public company are prohibited from including any such restrictions on transferability and any such restrictions contained in the Articles are considered as void under Section 6 of the Companies Act, 2013. This principle has been reiterated by various courts in several landmark decisions on company law.

c. In the present case, it is inconceivable as to how the Company can justify the continuation of patently illegal restrictions on transferability in its Articles of Association even after conversion into a public company. The explanation sought to be furnished in the KFin Response and reference to listing and trading approvals from the stock exchanges has absolutely no basis in law. In fact, there is nothing in the Companies Act that exempts a public company from complying with Section 58(2) merely because it is contemplating an Offer for Sale. It appears that the Company and its Selling Promoter Shareholder are keen to retain illegal Articles for their own self-serving purposes to retain control over the shareholding pattern until the Selling Promoter Shareholder is given a convenient exit from the Company through the Offer for Sale. We would urge you to examine this issue in greater detail as a company proposing an Offer for Sale cannot be permitted to carry on with an *ex-facie* illegality in its constitutional documents or brazenly declare that it would continue with such illegality till the Offer for Sale is completed and shares are listed.

4.5. As regards the Company's contention in the KFin Response that the bank was aware of the Offer for Sale and had pitched to be associated with it is completely misleading. First, an entirely separate department of the bank is involved in making pitches for being associated with IPOs/OFSs. Secondly and more importantly, at the time of reaching out to the Company for the IPO, the bank had no knowledge of the contents of the DRHP or the gross irregularities and misleading statements contained therein or the large scale suppression of material information. Assuming without admitting, had the Bank been provided with the DRHP at that stage, we would have certainly not associated ourselves with the IPO in any manner.

5. We would also like to point out that on an overall perusal of the DRHP it appears that there are several irregularities in the corporate governance of the Company. For instance, the financial statements of the Company reveal that the Company has taken a Deferred Tax charge of Rs. 129.64 crore and as a result, the Company has suffered loss of Rs. 64.51 crore for the financial year ended March 31, 2021. However, no satisfactory explanation for the same has been provided either in the DRHP or the Financial Statements.

6. In view of the above, we would like to reiterate that there the DRHP suffers from several major violations, including a failure to make appropriate disclosures, which is in direct violation of the ICDR. This is especially disconcerting as the Company was formerly

controlled by the Karvy Group / CP Group and the Company continues to have dealings with the CP Group. The manner in which the Company has sought to respond to the issues by way of the KFin Response clearly suggests that the Company's primary agenda is to provide a quick exit to the Selling Promoter Shareholder at all costs without any regard for statutory and regulatory compliance or investor interests. The Offer for Sale, if permitted on the basis of such a DRHP, will lead to investors being misled into subscribing without full knowledge or disclosure of the relevant facts. While the Selling Promoter Shareholder will generate a handsome profit due to unrealistic valuations, the unwitting subscribers to the issue will bear the brunt as and when the true facts and circumstances of the Company become public. Moreover, such conduct is directly and prejudicially affecting our interest as a large and significant stakeholder in the Company.

7. Given the recent spate of allegations of failure of regulatory oversight in the Karvy scam and other matters involving brokers, it is of utmost importance that your good office carries out a thorough investigation into the affairs of the Company and the proposed Offer for Sale to ensure investor interests are duly protected. The Bank would be happy to provide all necessary information and cooperation to the extent possible as may be required by you in this regard.

Yours truly,
For HDFC Bank Limited

HDFC BANK LTD.

Authorised Signatory

CC:

1. **ICICI Securities Limited**
   ICICI Venture House,
   Appasaheb Marathe Marg, Prabhadevi,
   Mumbai – 400025, Maharashtra, India
   Kind Attn: Sumit Singh/Nidhi Wangnoo (kfintech.ipo@icicisecurities.com)

2. **Kotak Mahindra Capital Company Limited**
   27BKC, 1st Floor, Plot No. C – 27
   "G" Block, Bandra Kurla Complex
   Bandra (East), Mumbai – 400 051
   Kind Attn.: Ganesh Rane (kfintech.ipo@kotak.com)

3. **J.P. Morgan India Private Limited**
   J.P. Morgan Tower
   Off. CST Road, Kalina, Santacruz East,
   Mumbai – 400098
   Kind Attn: Govind Khetan (kfintech_ipo@jpmorgan.com)

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4. **IIFL Securities Limited**
   10th Floor, IIFL Centre, Kamala City
   Senapati Bapat Marg
   Lower Parel (W), Mumbai- 400013,
   Kind Attn.: Dhruv Bhagwat/ Manish Jain (kfintech.ipo@iiflcap.com)

5. **Jefferies India Private Limited**
   42/43, 2 North Avenue,
   Maker Maxity
   Bandra-Kurla Complex (BKC)
   Bandra (East), Mumbai 400 051
   Kind Attn.: Aman Puri (kfintech.ipo@jefferies.com)

6. **Bigshare Services Private Limited**
   1st Floor, Bharat Tin Works Building Opp. Oasis,
   Makwana Road, Marol, Andheri East
   Mumbai – 400 059
   Kind Attn.: Jibu John (kfintechipo@bigshareonline.com)

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[WITHOUT PREJUDICE]

July 21, 2022

To,
HDFC Bank Limited
Capital Market,
Commodity Market and Banks Group,
Zenith House, 2nd Floor, K.K. Road.
Opp. Race course, Mahalaxmi,
Mumbai- 400034.

Ref: **1. Complaint filed by HDFC Bank Limited ("Bank") before the Securities and Exchange Board of India ("SEBI") by way of letter dated May 11, 2022 and sent by way of an e-mail dated May 13, 2022 ("Complaint"); and**

2. Response, by KFin Technologies Limited ("Company"), to the Complaint through an e-mail dated May 18, 2022 ("KFin Response") addressed to the Bank.

Sub: **Draft Red Herring Prospectus dated March 31, 2022 filed by the Company for an Offer comprising of an Offer for Sale by its Promoter Selling Shareholder ("DRHP")**

Dear Sir / Madam,

This is with reference to the Complaint and the KFin Response, in response to which the Bank has replied, by way of its letter dated July 14, 2022 ("**Bank Response**"), a copy of which has been filed with SEBI.

At the outset, we vehemently deny all the allegations made in the Bank Response and reiterate our responses submitted by way of the KFin Response. Specifically, your generic claims that (a) the KFin Response is deliberately vague, evasive and fails to effectively deal with the issues raised in the Complaint; and (b) the DRHP does not make full, frank and complete disclosure in violation of the provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("**SEBI ICDR Regulations**"), and the resultant conclusions to such alleged non-disclosure are denied on account of being completely baseless and unsubstantiated.

As you would be aware, in terms of the SEBI ICDR Regulations, the DRHP has been filed with SEBI for its observations, and we will comply with such observations. As regards your claims of this being a fit case for regulatory inspection and investigation, it is pertinent to note that the DRHP was filed with SEBI on April 1, 2022, and was, consequently, available for public comments for a period of 21 days, as required under SEBI ICDR Regulations. Despite this time frame to comment on the DRHP, the Bank failed to provide its comments, and is now making false and baseless allegations by way of the Compliant and the Bank Response.

We had, by way of the KFin Response, given a specific point-wise response to the allegations in your Complaint, which, we believed, appropriately addressed each of the allegations raised in your Complaint. We are now, similarly, providing a specific point-wise response to the allegations raised in your Bank Response. We believe that the present response is self-explanatory and sufficient, as far as the Bank Response is concerned, and we wish to reiterate that, in our view, we have adhered to all applicable laws and appropriate disclosure regulations of SEBI with respect to the DRHP. It is neither our intention to mislead, nor have we misled, any person on any facts which have been included in the

DRHP. We deny the statements, submissions, allegations and contentions set forth in the Bank Response which is contrary to, and / or inconsistent with, what is stated herein and traversed in seriatim:

A. <u>Dis-associating our Company from C Parthasarathy, his family members and affiliated entities ("CP Group")</u>

(1) Under paragraph 3(b) and 4 of the Bank Response, it is alleged that the DRHP seeks to create an impression that our Company is disconnected from the Karvy Group and CP Group, and that our Company continues to have dealings with the CP group, on the basis of the following claims:

(i) Under paragraph 3(b)(i) - it is alleged that the buyback of equity shares by our Company on October 18, 2019 from C. Parthasarathy HUF, C. Parthasarathy, Adhiraj Parthasarathy and Rajat Parthasarathy, while sought to be passed off in the DRHP as a routine related party transaction, is highly suspicious as it was undertaken just prior to an *ex-parte* ad interim order by SEBI against KSBL, in respect of an investigation carried out by NSE against KSBL;

(ii) Under paragraph 3(b)(ii) - it is alleged that the DRHP provides no explanation as to why 1,000 redeemable preference shares having face value of INR 200 each were issued to a member of the CP Group after discovery of the scam, and that the issuance of redeemable preference shares is directly contrary to our Company's claim in the DRHP that it has taken several steps to separate the Company and the CP Group.

(iii) Under paragraph 3(b)(iii) - it is alleged that in respect of the INR 30 crore indemnity claim made by our Company, which has been adjusted as part of the redemption premium, inadequate details have been furnished in the DRHP.

(iv) Under paragraph 3(b)(iv) - it is alleged that the CP Group members continue to be shown as significant shareholders in the Company. While the Enforcement Directorate's order of attachment in respect of these shares is dated March 8, 2022, the fact is that the CP Group was shown as a shareholder between 2019 and 2022 even after the scam broke out.

(v) Under paragraph 3(b)(v) - it is alleged that the DRHP also indicates that there are related party transactions with Karvy Data Management Services Limited ("**KDMSL**"), which is one of the CP Group entities that the investigating agencies have found were used by the CP Group to divert funds.

<u>Response of the Company</u>

(2) At the outset, our Company denies having any association to the Karvy Group and the CP Group. Further, we believe that the attendant risks associated with the CP Group have been adequately disclosed in risk factor nos. 11 and 16, beginning on page nos. 37 and 41 of the DRHP. Nevertheless, our point-wise response to the allegations made under paragraph 3(b) (including paragraphs 3(b)(i), 3(b)(ii), 3(b)(iii), 3(b)(iv) and 3(b)(v)), and paragraph 4 is as follows:

(i) *<u>Buyback of Equity Shares held by C. Parthasarathy HUF, C. Parthasarathy, Adhiraj Parthasarathy and Rajat Parthasarathy</u>*

The buyback of Equity Shares was undertaken during FY 2020 in accordance with applicable law, by way of which Equity Shares of all of the shareholders of the Company as on the applicable record date (i.e. September 27, 2019), including Compar Estates and Agencies Private Limited, Parthasarathy Comandur HUF, C. Parthasarathy, Adhiraj

Parthasarathy and Rajat Parthasarathy, were bought back in accordance with applicable laws. Consequently, the requisite disclosure has been included in the section '*Capital Structure*' on page 81 - 82 of the DRHP. A mere buyback of Equity Shares does not associate our Company with the CP Group, specifically considering that the buyback was undertaken from all its shareholders (including its promoter *i.e.,* GASF) and not just from a particular set of shareholders. Further, this buyback was undertaken as an independent commercial transaction amongst the Company and its shareholders, with no connection whatsoever with the *ex-parte* ad interim order by SEBI against KSBL, in respect of an investigation carried out by NSE against KSBL. Moreover, the Company could not have ascertained the outcome of these proceedings involving KSBL, considering that it was not a party to such proceedings. Accordingly, the allegation that the buyback was suspicious as the same was made just prior to the aforementioned SEBI order against KSBL, is entirely baseless and has no substance.

(ii) *Issuance of non-convertible redeemable preference shares and indemnity claim to be deducted from the redemption amount*

Our Company has made the requisite disclosures in relation to the non-convertible redeemable preference shares issued to Adhiraj Parthasarathy and the indemnity claim, as required under applicable law, in the sections, "*Capital Structure*" (on page 82 - 83 of the DRHP) and "*Financial Information*" (on page 313 of the DRHP) of the DRHP. Mere issuance of non-convertible redeemable preference shares to Adhiraj Parthasarathy does not, in any way, provide CP Group any controlling interest or management rights in the Company, nor does it deem our Company to be associated with the CP Group. In fact, as provided in the section "*Financial Information*" on page 313 of the DRHP, the non-convertible redeemable preference shares were issued to Adhiraj Parthasarathy as consideration for termination of certain rights of the CP Group available pursuant to the then existing Shareholders' Agreement dated August 3, 2017.

For ease of reference, the relevant extract of the rationale for issuance of non-convertible redeemable preference shares, as disclosed in the section "*Financial Information*" on page 313 of the DRHP is reproduced below:

"...Pursuant to a subscription agreement dated 28 May 2021 between the Company and certain individuals, who were minority shareholders of the Company at such time, with regard to termination of rights of such shareholders and Permitted Assignees (other than such shareholders), in terms of the said agreement, who were also shareholders of the Company, under the then existing Shareholders Agreement dated 3 August 2017 (as amended pursuant to a supplemental agreement dated 3 April 2020), the Company was obligated for an amount of INR 1,640.00 million. The net amount payable after recovering, in terms of the said agreement, an indemnity of INR 300.00 million is INR 1,340.00 million payable after a period of two years i.e. on or after 25 October 2023. The Company has issued Redeemable Preference Shares carrying maturity amount of INR 1,340.00 million (INR 1,640.00 million offset by INR 300.00 million) through agreement dated 28 May 2021..."

Further, disclosure pertaining to the deduction on redemption premium on account of the indemnity claim by the Company has been made in the section "*Capital Structure*" on page 83 of the DRHP. The extract of the said disclosure is provided hereunder:

"*... Redemption: These preference shares shall be redeemed by our Company in accordance with their terms and applicable law, upon payment by our Company of the redemption*

premium of ₹ 1,340,000,001 (after deduction of any applicable taxes), which takes into consideration a deduction of ₹ 300,000,000 that has been made towards an indemnity claim made by the Company. These preference shares shall be redeemed on or after October 25, 2023. Our Company also has the right, exercisable at its sole option, to buy back these preference shares instead of redeeming the same.
…"

(iii) *Disclosure of CP Group members as shareholders of the Company*

The details of the capital structure and shareholding pattern of the Company are in the section, "*Capital Structure*", beginning on page no. 80 of the DRHP. Given that Compar Estates and Agencies Private Limited, C. Parthasarathy – HUF, C. Parthasarathy and Rajat Parthasarathy continue to collectively hold Equity Shares of our Company, they have been disclosed as shareholders of our Company.

(iv) *Related party transactions with KDMSL*

Our Company has not had any related party transactions with KDMSL after FY 2020 and KDMSL ceased to be a related party of our Company from November 23, 2019. The details and nature of the related party transactions are disclosed in the section on "*Offer Document Summary – Related Party Transactions*" (on page 25 -26 of the DRHP), and "*Financial Information*" (on page 329 of the DRHP) of the DRHP, wherein it is clearly mentioned that the related party transactions with KDMSL were in the nature of (i) rent expenses, (ii) professional charges, (iii) fee from investor services, and (iv) reimbursement of expenses. The nature of the foregoing transactions does not, in any manner, prove that the Company is currently associated with the CP Group. Further, the quantum of such related party transactions was immaterial.

The allegations set out in paragraphs 3 and 4 of the Bank Response do not, in any way, take away from our claim in the DRHP that we took several actions to separate our Company and the CP Group, starting from November 2019, and the fact that our brand and reputation could be damaged on account of any perceived association. Please refer to risk factor no. 16 on page no. 41 of the DRHP in this regard. The relevant extract of Risk Factor 16, as on Page 41 of the DRHP, is reproduced hereunder:

"*… In an NSE report dated November 22, 2019, non-compliances were observed with respect to the pledging and/or misuse of client securities by KSBL, an entity controlled by the CP Group, which resulted in SEBI orders dated November 19 and November 29, 2019, respectively, against KSBL. Although we took several actions to separate the Company and CP Group, starting November 2019, with the resignation of Mr. C. Parthasarathy as a non-executive director of the board of the Company and the change of name of the Company to emphasize that the Company is not a part of the Karvy group and the separation from the Karvy group (in terms of IT and administrative linkages) was completed in March 2021, the continued regulatory actions on CP Group, and the residual ownership of the CP Group aggregating to 14.12% in our Company may continue to affect the reputation of our Company, resulting in significant impact on our business and prospects.*

…"

B. Pledge of Equity Shares of the Company with the Bank and the Disclosure in respect thereof

It is alleged under paragraph 4.1(b)(iii) and paragraph 4.1(c) of the Bank Response that the Bank is a significant shareholder of the Company, and that the DRHP suppresses that 14.12% of the Equity Shares of the Company are pledged in favour of the Bank. Further, it is alleged that the following disclosure "*...KFin Subject Shares are subjected to an encumbrance in favour of certain lenders of the CP Group..*" is vague and does not highlight that 14.12% of the Equity Shares of the Company are pledged in favour of the Bank. It is also alleged under paragraph 4.1(b)(iv) that the preferential allotment and attempt to push through the Offer for Sale during the pendency of ongoing litigation is a highly unfair and illegal strategy adopted by our Company to circumvent the orders of the Bombay High Court and prejudice the Bank's rights and interest in the KFin Subject Shares.

Furthermore, under paragraph 4.1(c) of the Bank Response it is alleged that the disclosures made in the DRHP, in respect of the Pledge are incomplete and in violation of Regulation 24 of the SEBI ICDR Regulations and that the KFin Response does not address the issues raised in respect of the pledge of the KFin Subject Shares, and the effect of the same on (i) the status of approvals required for allotment of shares to other investors; and (ii) the shareholders' approval for the Offer for Sale.

Response of the Company

Please refer to our response in paragraph A of the KFin Response, which we would like to reiterate, *i.e.,* since the Articles of Association of the Company prohibits creation of a charge by CP Group over the equity shares held by them, such an encumbrance created by the Bank is *void-ab*-initio. Further, even though a specific disclosure pertaining to the encumbrance on the Pledged Shares held by CP Shareholders is not required under SEBI ICDR Regulations, the same is made in the section titled "*Risk Factors*" under Risk Factor No. 11 on page 38 of the DRHP. Relevant extract of Risk Factor No. 11 is reproduced hereunder:

"...In addition to the above, the KFin Subject Shares have been subjected to a provisional attachment pursuant to a provisional attachment order bearing Order No. 6, dated March 8, 2022, issued by the ED ("Attachment Order", and, collectively with the Freezing Order, "ED Orders"), further to which, these KFin Subject Shares cannot be transferred, disposed, parted with, or otherwise dealt with in any manner, whatsoever, until or unless specifically permitted to do so by the ED.

Additionally, we understand that the KFin Subject Shares are subjected to an encumbrance in favour of certain lenders of the Restricted Shareholders (collectively, "Lenders").

..."

Further, the shareholding pattern of the Company, as disclosed on page 86 of the DRHP, also discloses the total number of equity shares of the Company which are pledged or otherwise encumbered.

With respect to the allegations made under paragraph 4.1(b)(iii) and paragraph 4.1(c) of the Bank Response, we would like to highlight that the Company was never a party to the agreements, if any, executed for creating a pledge on the Pledged Shares. As a result, the Company was unable to disclose specific details of the encumbrances created over Pledged Shares. As highlighted

above, even in the absence of there being a specific requirement to disclose such encumbrance on Pledged Shares, our Company has, based on the limited information available with it, endeavoured to make all relevant disclosures in the DRHP to highlight the fact of there being an encumbrance on the KFin Subject Shares (as defined in the DRHP). We accordingly state that no information, disclosure of which is mandated under the SEBI ICDR Regulations, has been supressed in the DRHP.

Further, in response to the allegations made under paragraph 4.1(b)(iv) and paragraph 4.1(c) of the Bank Response, we would like to draw your attention to paragraph A of the KFin Response, wherein we have clarified that the Bank was never a shareholder of the Company, and that there was no legal requirement under the Companies Act, 2013 or any applicable law to take its consent for either making a preferential allotment to KMBL or undertaking the Offer.

C. **Discrepancies in valuation of Equity Shares**

Under paragraph 4.2 of the Bank Response, the Bank has again alleged that the valuation at which the Equity Shares are proposed to be offered as a part of the Offer for Sale is inflated, and that the DRHP does not provide any explanation for the increase in the valuation of the Equity Shares from July 2021, when Equity Shares were acquired by GASF, to November 2021, when Equity Shares were acquired by KMBL.

Response of the Company

Please refer to our response in paragraph B of the KFin Response, which we would like to reiterate, *i.e.*, the Offer will be undertaken in accordance with the book building process, as stipulated under the SEBI ICDR Regulations and the Offer Price will be finalised in accordance with the SEBI ICDR Regulations in due course. Further, the Offer will be undertaken in compliance with applicable law, and all requisite disclosures have been, and will be, duly made in the Offer documents. In this regard, in order for all potential investors to be cognizant of the basis for the offer price, disclosures in compliance with the SEBI ICDR Regulations have been, and will be, made in the "*Basis for Offer Price*" section. Further, the inherent risks associated with making an investment in the Offer have been, and will be, included in the '*Risk Factors*' in the Offer Documents, in accordance with the SEBI ICDR Regulations. As previously stated in the KFin Response, the allegation that the valuation of the Equity Shares to be offered in the Offer is inflated is devoid of any permit, primarily on the ground that the Offer Price per Equity Share has not been crystalized and/or disclosed at this stage.

Further, we vehemently deny that the preferential allotment made to KMBL in November 2021 was at an incorrect valuation. The valuations for the purchase of shares by General Atlantic Singapore KFT Pte Ltd.("**GASKFT**") in July 2021 and the preferential allotment to KMBL in November 2021 were undertaken in compliance with applicable law. Further, there is no legal requirement to disclose any justification for the difference in valuation between two transactions. Consequently, the allegation of the Bank that the value of the Equity Shares is inflated is illicit, erroneous and is devoid of any merit.

We fail to understand how such alleged attractive valuation can be of a concern for the Bank whose contention on the other hand is that post the Offer it can potentially be the largest shareholder of the Company (if matters concerning the Pledged Shares are decided in Bank's favour).

D. Suppression of Legal Proceedings

Under paragraph 4.1(b)(i) of the Bank Response, it is alleged that the orders passed in the CS Matter apply to the shares of the Company, and that given that the Offer is an offer for sale, and the Bank is allegedly likely to be one of the largest stakeholder of the Company, the disclsoure of the CS Matter is material.

Under paragraph 4.3 of the Bank Response, it is alleged that (i) as per Regulation 24 of SEBI ICDR Regulations, the Company is required to disclose '*all pending litigations and material developments*' in respect of the Company, and, accordingly, disclosure in respect of the DRT Matter and the CB Matter should have been disclosed in the DRHP; and (ii) incomplete disclosures, in respect of the Yes Bank Matter, have been made in the DRHP.

Response of the Company

Please refer to our response in paragraph C of the KFin Response, which we would like to reiterate. We would like to, once again, draw your attention to Part A of Schedule VI of SEBI ICDR Regulations, which mandates that:

- pending litigation involving an issuer, its directors, promoters and subsidiaries (collectively "**Relevant Parties**") are required to be disclosed in an offer document; and

- disclosure of civil litigation is required to be in accordance with the materiality policy adopted by the board of directors of an issuer.

Given that none of the Relevant Parties are a party to the CS Matter and the DRT Matter, these proceedings have not been disclosed in the DRHP.

In view of the above, we deny that our Company has suppressed the disclosure of legal proceedings relating to the Equity Shares of the Company over which allegedly the Bank has a charge and confirm that adequate disclosures in relation to pending litigation have been made in the DRHP as per the SEBI ICDR Regulations.

Additionally, in respect of the allegation pertaining to the disclosure of the YES Bank Matter and PMLA Matter, as highlighted in KFin Response, we deny that the material information has not been disclosed in the DRHP and confirm that adequate disclosures, along with the current status of the proceedings, have been made (i) in the section titled "*Outstanding Litigation and Material Developments*" on page 402 of the DRHP; and (ii) section titled "*Risk Factors*" under Risk Factor No. 10 on page 37 of the DRHP, in accordance with the SEBI ICDR Regulations. Also, updates, if any, in these matters since the date of the DRHP till the date of RHP shall be reflected in the RHP.

For ease of reference, the disclosure made in the DRHP, with respect to the Yes Bank Matter and PMLA Matter is extracted hereunder:

"*The Central Bureau of Investigation, Bank Securities and Fraud Cell ("CBI"), registered criminal case no. RC.3.(E)/2006/BS/&FC/Mumbai under relevant section of the IPC including Sections 120-B and 420, the Prevention of Corruption Act, 1988 ("PC Act") and the Companies Act, 1956 against KCL, KCPL and several other entities ("Criminal Case") on October 30, 2007. The Criminal Case was registered on the basis of a complaint made by R. Ravichandran, the then chief general manager of SEBI, alleging fraud committed in the initial public offer of shares of*

YES Bank Limited. Amongst other things, it was alleged that (i) KCL, being a depository participant, opened demat accounts in the name of fictitious persons by flouting KYC norms, (ii) KCPL, as a registrar to the above-mentioned initial public offer, failed to weed out multiple / fictitious applications, allotted equity shares to such fictitious persons and, further, issued common refund orders in respect of fictitious applications made by few of the accused, and KSBL knowingly collected applications to subscribe to the public offering in the name of fictitious persons. It was further alleged that the accused had entered into a criminal conspiracy to illegally corner shares meant for retail individual investors. Our Company has filed a discharge application dated August 10, 2021 before the court of Special Judge for CBI cases, Greater Bombay ("Special Judge") to discharge proceedings against our Company. The CBI has filed an application on November 9, 2021 before the Special Judge to dismiss the discharge application filed by us. The matter is currently pending.

….

The Deputy Director, Directorate of Enforcement, filed PMLA prosecution complaint no. 2 of 2012 and supplementary complaint no. 4 of 2013 against KCL, KCPL, KSBL ("Karvy Group") and several other persons including employees of KCL, KCPL and KSBL, before the Court of Designated Judge under the Prevention of Money Laundering Act, 2002, Honourable Special Court under PMLA at Mumbai ("Court of Designated Judge"), on August 29, 2013, alleging money laundering under Section 3 of the Prevention of Money Laundering Act, 2002 ("PMLA Act"). Amongst other things, it was alleged that the Karvy Group opened demat accounts in the name of fictitious persons on the basis of fictitious bank accounts and by flouting KYC norms, amassed a large number of equity shares reserved for retail individual investors, failed to verify the genuineness of the identity of the persons opening the demat accounts, failed to weed out multiple / fictitious applications (on the basis of common addresses), allotted equity shares to such fictitious persons and further issued common refund orders in respect of fictitious applications made by few of the accused. It was further alleged that the Karvy Group had financed certain applications made for equity shares of the respective companies during their initial public offerings and gained a huge profit in the guise of interest and processing charges. It was alleged that the offences of money laundering by the entities in this matter under Section 3 of the PMLA Act were punishable under Section 4 of the PMLA Act. Our Company filed a discharge application dated August 6, 2021 before the court of Special Judge for PMLA at Sessions Court, Greater Bombay ("Special Judge") to discharge proceedings against the Company. The Assistant Director, Enforcement Directorate, has filed an application on August 13, 2021 before the Special Judge to dismiss the discharge application filed by our Company. The matter is currently pending."

E. <u>Restrictive Covenants Contained in the Articles of Association of the Company</u>

Under Paragraph 4.4 of the Bank Response, it is alleged that the Articles of Company continue to have transferability restrictions, which are violative of Section 58(2) of the Companies Act, and the articles are accordingly void under Section 6 of the Companies Act.

<u>Response of the Company</u>

Please refer to our response in paragraph C of the KFin Response, which we would like to reiterate. The Articles of Association of the Company comprises two parts, Part A and Part B, which co-exist. However, Part A (including all schedules) shall stand automatically terminated from the date of receipt of final listing and trading approvals from the stock exchanges on which the Equity Shares are proposed to be listed, following an initial public offering of the Equity Shares without any further action by the Company or its shareholders. Part B shall continue to be in effect from the date of receipt of the above-mentioned final listing and trading approvals.

Part A of the Articles of the Association of the Company contains certain transfer restrictions on the equity shares of the Company, which, as required under applicable law, cease from the date of receipt of final listing and trading approvals from the stock exchanges on which the Equity Shares are proposed to be listed. Consequently, the Articles of Association of the Company are not in contravention of applicable law.

Further, we would like to draw your attention to the proviso to Section 58 (2) of the Companies Act, which provides that '*any contract or arrangement between two or more persons in respect of transfer of securities shall be enforceable as a contract*'. Accordingly, as per Section 58 (2) of the Companies Act, it is clear that transferability restrictions can subsist even in public companies, provided that such restrictions are enshrined under a contract and agreed between the parties to such contract. To reiterate, Part A of the Articles of the Association of the Company which contains certain transfer restrictions on the equity shares of the Company, shall cease from the date of receipt of final listing and trading approvals from the stock exchanges on which the Equity Shares are proposed to be listed. Accordingly, the allegation that the Articles of Association of the Company are violative of the Companies Act is illicit, baseless and devoid of merit.

F. With reference to the allegations set out in paragraph 5 of the Bank Response, these are denied on account being completely baseless and unsubstantiated. The Company is in compliance with the applicable corporate governance requirements under Companies Act and other applicable law. Further, the requisite explanation in relation to the loss incurred during FY 2021 is disclosed on page 388 of the DRHP, in the section, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

G. To conclude, and, more specifically, to address the misplaced facts set out in paragraph 6 of the Bank Response, the Bank, never was and till date is not a shareholder of the Company, and the Promoter Selling Shareholder is offering a part of its shareholding in the Offer, and will continue to be our Promoter and one of our shareholders post completion of the Offer.

Based on the KFin Response and the above, we believe all repetitive, incremental and residual allegations and contentions of the Bank are duly addressed and accordingly we once again call upon the Bank to withdraw / retract the Complaint and the Bank Response, immediately, with intimation to SEBI.

All capitalized terms used herein and not specifically defined have the same meaning as ascribed to such terms in the DRHP and the KFin Response.

Thanking you,

For KFin Technologies Limited

Alpana

Alpana Kundu
Company Secretary and Compliance Officer

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