SUGGESTED SOLUTION

CA FINAL N'19

SUBJECT- FINANCIAL SERVICES N CAPITAL MARKETS

Test Code - FNJ 7295

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

Answers to Case Study One

1.1 Please fill up the Schedule of activities in following format:

S. No.	Activity	Date
1.	Date of the Board meeting held to approve the proposal for Buy-back of Equity Shares	24th January 2018
2.	Date of declaration of the result of the postal ballot through which the Shareholders approval for the Buy-back was sought	12th March 2018
3.	Last date upto which publication of Public Announcement for the Buy-back is allowed	14th March 2018
4.	Last date of extinguishment of Equity Shares Certificates bought back	30th May 2018

Note: Please don't reproduce the above table just mention the dates against each Serial No.

1.2 Determine the Buy-back price (rounded-off to 100) and Buy Back size if Board decides the following criteria:

(i)	A premium of 78.96% over the volume weighted average price of the Equity Shares on BSE for 3 months preceding the date of intimation to consider the proposal of the Buy-back Offer in the board meeting; (1.7896 x Rs. 1,899.50)	Rs. 3,399.35
(ii)	A premium of 35.24% over the volume weighted average price of the Equity Shares on BSE for 2 weeks preceding the date of intimation to consider the proposal of the Buy-back Offer in the board meeting; (1.3524 x Rs. 2,514.05)	Rs. 3,400.00
(iii)	A premium of 28.77% over the closing market price of the Equity Shares on BSE as on the date of intimation to consider the proposal of Buy-back Offer in the Board Meeting. (1.2877 x Rs. 2,640.40)	Rs. 3,400.04
(iv)	5.92 times of the book value per Equity Share of the Company $\left(\frac{\text{Rs. }36{,}814.44\text{ lakhs}}{64{,}14{,}228}\times 5.92\right)$	Rs. 3,397.78
	Rounded off to 100 Buy-back Price Per Share	**Rs. 3,400.00**

1.3

Particulars	**Adjusted Values Rs. crores**
Equity Shares (Rs. 40 crore x 3881.30/ 2000)	77.6260
Cash in hand	2.4600
Bonds and debentures not listed	1.6000
Bonds and debentures listed	16.000
Dividends accrued	1.6000
Fixed income securities	9.0000
Sub total assets (A)	108.2860

Less: Liabilities	
Amount payable on shares	12.6400
Expenditure accrued	1.5000
Sub total liabilities (B)	14.1400
Net Assets Value (A) – (B)	94.146
No. of units	40,00,000
Net Assets Value per unit (Rs. 94.146 crore / 40,00,000)	Rs. 235.365

No. of Units to be pledged

Amount of Buyback (Rs. 3400 x 250000)	Rs. 85 crore
25 per cent of the consideration payable as per Regulation 10	Rs. 21.25 crore
Gross amount after considering margin $\frac{\text{Rs. } 21.25 \text{ crore}}{1 - 0.1076}$	Rs. 23.812192 crore
No. of Units to kept as Security (Rs. 23.812192 crore/ Rs. 235.365)	10,11,713.37 units

1.4 As per the SEBI Buyback Regulation 'small shareholder' means a shareholder of a listed company, who holds shares or other specified securities whose market value, on the basis of closing price of shares or other specified securities, on the recognised stock exchange in which highest trading volume in respect of such security, as on record date is not more than two lakh rupee;

Accordingly, all equity shareholders holding (Rs. 2,00,000/ Rs. 2,740.60) 72.98 shares rounded off to72 shares. Hence, equity shareholder holding not more than 72 (seventy-two) shares shall be classified as 'Small Shareholders'.

1.5 As per SEBI Buyback Regulation fifteen percent of the number of securities which the company proposes to buy back or number of securities entitled as per their shareholding, whichever is higher, shall be reserved for small shareholders.

Accordingly, higher of following two figures shall be reserved for Small Shareholders

15% of Buyback Quantity (15% of 2,50,000)	37,500 shares
Equity shares as per their shareholding: $\left(\frac{4,41,820}{64,14,228} \times 2,50,000\right)$	17,220 shares

Since higher of above two values is 37,500 shares and same shall be reserved for Small Shareholders and balance left for the shareholder other than Small Shareholders is 2,12,500. The ratio for Buyback shall be:

1.	For Small Shareholders (37,500 : 4,41,820)	0.08488 : 1
2.	For other than Small Shareholders (2,12,500 : 59,72,408)	0.03558 : 1

1.6 In order to ensure that the same shareholder with multiple demat accounts/ folios do not receive a higher entitlement under the Reserved Category, the Company will club together the Equity Shares held by such shareholders with a common PAN for determining the category (Reserved or General) and entitlement under the Buy-back Offer. In case of joint shareholding, the Company will club together the Equity Shares held in cases where the sequence of the PANs of the joint shareholders is identical. In case of Eligible Shareholders holding Equity Shares in physical form, where the sequence of PANs is identical and where the PANs of all joint shareholders are not available, the Companywill check the sequence of the names of the joint shareholders and club together the Equity Shares held in such cases where the sequence of the PANs and name of joint shareholders are identical. The shareholding of institutional investors like mutual funds, pension funds / trusts, insurance companies, etc. with a common PAN will not be clubbed together for determining the category and will be considered separately where these Equity Shares are held for different schemes and have a different demat account nomenclature based on information prepared by the Registrar as per the shareholder records received from the Depositories.

Note: Candidates can also give other suggestions at their own.

1.7 As per the SEBI Regulations the company shall not raise further capital for a period of one year from the closure of buy-back offer, except in discharge of its subsisting obligations.

1.8 Yes, Promoters can tender up their holdings for the buy-back.

1.9 Assuming that response to Buy-back is 100% (full acceptance) from other Eligible category shareholders in proportion to their respective entitlement fill up the blank figures in the following table.

Parameters	Pre Buyback	Post Buyback
Net Worth (Rs. Lac)	36,814.44	28,314.44
Return on Net Worth (%)	14.87	19.33
EPS (Rs.)	85.38	88.84
Book Value Per Share (Rs.)	Rs. 573.95	Rs. 459.35
PE Multiple	20.52*	19.72

* Based on Price of Rs. 1,752 per Equity Share.

1.10 No. of Shares Bought Back from Promoter's Category

From Promoters (4276958 – 800) x 0.03558	1,52,147
From other shareholders (2,50,000 -1,52,147)	97,853
	2,50,000

Or 2,50,000 – 800 = 2,49,200

Accordingly Post Buy-back the Capital Structure and Shareholding pattern shall be as follows:

Category of Shareholder	**Pre Buy-back**		**Post Buy-back**	
	Number of Shares	**% to existing Equity Share capital**	**Number of Shares**	**% to post Buy-back Equity Share capital**
Promoters and Members of Promoter Group	42,76,958	66.68	41,24,811	66.91%
Foreign Investors (including Non-Resident Indians, FIIs and Foreign Mutual Funds)	21,354	0.33	63,16,375	33.09%

Financial Institutions / Banks & Mutual Funds promoted by Banks / Institutions	1,81,262	2.83		
Others (Public, Public Bodies Corporate, etc.)	19,34,654 *	30.16		
Total	**64,14,228**	**100.00**	**61,64,228**	**100.00**

1.11 In recent time buy-back of shares by the companies gained popularity as a preferred method of returning cash to shareholders in tax effective manner especially after introduction of 10% additional tax on dividend income with effect from April 2017.

Most Buybacks were done through the Tender Routes allowing promoters to tender their shares as well.

From the given data it can be seen that comparing to current prices with buyback prices while promoter might have been benefitted the companies not so. From the given data, it can be seen after comparing the current prices with buy-back prices promoters might have been benefitted while the company might not.

While EPS might have been improved (due to decreased number of shares outstanding), the companies have not outperformed due to which the market may not have responded in a positive manner.

1.12 (d)

1.13 (a)

1.14 (b)

1.15 (b)

1.16 (d)

1.17 (d)

1.18 (b)

1.19 (b)

1.20 (d)

1.21 (c)

Answers to Case Study Two

PART - I

3.1 The provisions of the SEBI (ICDR) Regulations (amended 2017) are applicable to the issue. The issue will be defined as an Initial Public Offer, being issued to the public for the first time (Definition 2(p) of the said regulations). The issuer will be Recoverhealth Ltd. (RH). Reachout Ltd. will have to be named as promoter in the offer document, since it is not automatically a promoter, not having control over the issuer, viz. Recoverhealth or Recovereasy, as per 2(za) of the Regulation.

Process

(i) RH will appoint a lead merchant banker and in consultation with this merchant banker

(MB), appoint other intermediaries who are registered with the Board (SEBI). (Regulation 5).

(ii) RH, through MB, will file with the Board draft offer document.

(iii) RH will keep a security deposit of Rs. 1.5 crores or 1 % of the amount of securities offered to the public with the stock exchanges.

(iv) RH will issue only through the book built process since it has been in business only for two years and therefore file the Red Herring prospectus.

(v) RH will have to determine the price band consisting of a floor price (lower limit) and the ceiling (upper limit), the gap not being more than 20% of the floor price.

(vi) Reachout Ltd., being promoter to the issue, will have to subscribe to at least 20% of the post issue capital, which means at least 3 crore shares plus the 20% that was the share capital prior to public issue issue which is 20% of 8 crores, i.e. 16 lacs shares i.e. Rs. 31 .6 crores, will be the face value of its holding post the issue in Recoverhealth Ltd.

(vii) It is possible for it to restrict its investment to 15% provided there are others who will fund the 5% to satisfy the promoter's holding to be at 20%. Locking period will apply to all the persons named as promoters in the offer document.

3.2 The steps involved and the regulations applicable [SEBI (ICDR) Regulations, 2009 is applicable] in formulating a plan for the alliance and growth of Minimedicals Ltd. into a listed company if it goes for a public issue are as follows:

(i) The issuer (Minimedicals Ltd.) shall appoint one or more merchant bankers, who shall also appoint other intermediaries, in consultation with the lead merchant banker, to carry out the obligations relating to the issue. [Regulation 5(1)]

A draft offer document, has to be filed with the Board (SEBI) through the lead merchant banker, at least thirty days prior to registering the prospectus, red herring prospectus or shelf prospectus with the Registrar of Companies or filing the letter of offer with the designated stock exchange, as the case may be. [Regulation 6(1)]

(ii) The issuer shall deposit, before the opening of subscription list, and keep deposited with the stock exchange(s), an amount calculated at the rate of one per cent of the amount of securities offered for subscription to the public. [Regulation 7(1)]

(iii) Certain documents have to be filed with the Board by the merchant bankers as enumerated in [Regulation 8].

(iv) The draft offer document filed with the Board has to be made public. [Regulation 9(1)]

(v) A copy of the Memorandum and Articles of Association of the company has to be sent to the Stock Exchanges where the shares are to be listed, for approval.

(vi) The promoters shall contribute not less than 20% of the post issue capital which should be locked in for a period of 3 years.

(vii) The issuer in consultation with the Merchant Banker on the basis of market demand decides the price of the issue.

If Reachout Ltd. and the founder members would like to retain control and not go public on the issue, they can do so, but there are certain conditions:

(i) 106W, Chapter XC of SEBI (ICDR) Regulations will be applicable.

(ii) Minimedicals, being a bio-technology product/service provider, will be covered under 106Y of the above chapter and

(iii) At least 25% of its prelisting capital should be held by qualified institutional buyers (QIB), as defined in 2(zd), i.e. Rs. 1.25 crore of the existing capital plus 25 crore of the new capital should be held by QIB.

(iv) Under 106Z, Minimedicals will file a draft information document with the Board (SEBI) along with a stipulated fee.

(v) It shall obtain the in-principle approval from the stock exchange on which it proposes to get listed
– 106 Z(4).

(vi) No single person shall hold 25% or more of the post issue share capital. Hence, Reach out Ltd. should restrict its subscription to just less than 25% of the share capital.

(vii) There will be a lock in period of 6 months from the date of listing.

(viii) The founder members could also invest upto 49% (other than Reachout Ltd. and QIB) so that they also retain their importance subject to a single person not investing 25% or more.

3.3 As given in the question itself, Reachout Ltd. is not interested in partnership as an entity. Therefore, it would take the team of Testearly and make it Testearly Ltd. a Public Limited Company. The first phase of expansion would be to go in for an equity capital of Rs. 10 crores.

Therefore, it would be feasible for Testearly to be formed as a public company and go for public listing under the Small and Medium Enterprises (SME) route. The reason is that regulation 106M(1) of Chapter XB of SEBI ICDR Regulations 2009 provides that an issuer whose post-issue face value capital does not exceed ten crore rupees shall issue its specified securities in accordance with the provisions of this Chapter.

Moreover, the public limited company will not be required to satisfy the profit route for issue and hence will have to issue by the book built method only. Other conditions which were applicable in case of minimedicals will apply.

3.1 The appropriate strategies by which Reachout Ltd. could invest in the application interface to be designed by the engineers are discussed as below:

(i) The form of investment by Reachout Ltd. could be a Private Equity (PE), whereby the required amount can be brought in by Reachout Ltd.

(ii) It could be through private placement, thereby negotiating prices between the parties privately, without having to register with SEBI.

(iii) Membership could be more than seven to ensure that it is a public limited company as desired by Reachout Ltd., so that Companies Act applies to the entity called Testearly Ltd.

(iv) However, there will be no obligation under the SEBI Act or other stock exchange regulations.

(v) On subsequent growth of this company, listing and other matters can be worked out.

PART – II

3.5 (d)

3.6 (a) or (c)

3.7 (a)

3.8 (d)

3.9 (b)

3.10 (a)

3.11 (d)

3.12 (b)

3.13 (c)

3.14 (a)

Answers to Case Study Three

(1.1) (D)

(1.2) (D)

(1.3) (B)

(1.4) (A)

(1.5) (C)

(1.6) (B)

(1.7) (C)

(1.8) (D) OR (A)

(1.9) (C)

(1.10) (C)

(1.11) Report to the Director, CRISIL

(a) Assessment of Risks

The various types of risks of HRS Ltd. and their assessments have been briefly discussed in the following paragraphs:

(i) **Business Risk –** The Company is banking its hopes on clients to be generated by a single app provider. Though the provider of the app has been successful in the small car segment, it is not certain whether it will succeed with truck operators since most of them may be illiterate and unable to use smart phones necessary for the App.

(ii) **Strategic Risk** – This is high in this business development. Many drivers delegate their duties to someone else. If they are going to be tracked by GPS, they may not switch on their phones and take refuge under the pretext of non-connectivity. They may have to skip rests and may be given stringent targets of travel, which they may try to achieve by driving without sleeping which may lead to accidents. Driver's and the small transport operators' electronic and mobile skills may not runon par with App provider and chances of a huge flop may be highlighted.

(iii) **Solvency, Liquidity and Default Risk –** Although the Debt Equity ratio of HRS Ltd. is in accordance with industry line i.e. 5 :1, it is still quite high. The company has further proposed an issue of Rs. 500 crore which will be utilized for redeeming an earlier issue of debentures. This may lead to default risk if the company fails to pay the interest and the principal amount.

However, due to concessional rates being prevalent in the micro finance segment from the SME companies and this market being tapped from such consumers, there is likely to be stiff competition and transfers of loans to the micro segment.

Further, for the year ended 31st March, 2018, current liabilities of the company are more than its current assets. It means that the company has got a tight liquidity position. This is a red flag which the company has to manage wisely.

(iv) **Operating Risk**- The Company has installed GPS System for providing information to delivery destination and origin of loading for better inventory management and production process. This will reduce the company's operating risk to a large extent.

Moreover, the company has made an arrangement for a backup under which if the existing app provider fails, the large number of vehicles financed would be managed by another app provider. Thus, the company has managed it's operating risk well.

(v) **Legal Risk**–It has been mentioned in the case study itself that there have been no negative pointers under any law on the company or its directors or management. So, it seems that the company has managed its legal risk well.

(vi) **Compliance Risk–**The Company has fulfilled all the conditions under the various regulations for the proposed debenture issue which is an indication that the company has managed it's compliance risk well.

Moreover, with Traffic Rules by drivers, GST rules for transit of goods by the owners of goods in transit and the truck owners (borrowers), HRS's control on the location of assets hypothecated to it and traceability of borrowers and consequent disclosure compliances by HRS itself are at stake if things do not operate smoothly. There may be also be increase in compliance costs by ensuring that insurance of not only the assets but also third party insurances are in place and the progress of claims and detention of vehicles resulting in non-utilization may have an adverse effect in repayment of the borrowings.

(vii) **Reputation Risk –**The Company has also managed it's reputation risk well as there have been no adverse publicity in any media about any internal mismanagement or controversy.

(b) Note on appropriate rating and consideration of CAMEL criteria

The most appropriate rating would be Moderate Safety.

Consideration of CAMEL criteria

(i) **Capital** – For the year ended 31st March, 2018, the Company's reserves and surplus is Rs. 120610 lakhs as compared to its share capital which is Rs. 3270 lakh. The company has a proposed borrowing i.e. debenture issue of Rs. 500 crore. However, company's debt-equity ratio of 5:1 is already highinspite of the fact it is in accordance with industry standards. And, the proposed debenture may affect its solvency position.

(ii) **Assets** – The proposed issue will not lead to any major asset expansion as most of the amount raised will be utilized for redemption of old debt. And, company's fixed assets comprising of property, plant and equipment showed a sudden decline from the year 2017 to 2018. However, intangible assets have increased. Further, company's non-current investments are manifesting a steep increase due to upsurge in company financing of vehicles.

Moreover, the company is accepting deposits from the public and hence is an NBFC PD and is also a systematically important NBFC with asset base crossing Rs. 500 crore. It has to comply with the RBI's capital adequacy ratios and other similar to banking requirements of returns and compliances, thereby monitored on par with a bank.

(iii) **Management** – The company is professionally managed and has had qualified persons of repute heading the respective operations and the middle level managers are also carefully chosen to be able to manage the country wide operations and to take decisions quickly and efficiently.

(iv) **Earnings –** Company's revenue has been steadily increasing which is giving an indication that it will be able to service its debts properly. However, it also depends upon the company liquidity position.

(v) **Liquidity –** The Company's liquidity position is tight. This is manifested in company's declining cash position especially its current assets which is reducing steeply in comparison to its current liabilities.

Thus, I would recommend an investment grade rating to this security as Moderate Safety and put the company on watch for any possible revision since the new line of financing can either be very successful or a total failure.

(1.12) INTRODUCTION:

PUBLIC ISSUE BY HRS LIMITED "COMPANY OR ISSUER OF 5,00,000 9.5% SECURED REDEEMABLE NON-CONVERTIBLE DEBENTURE OF FACE VALUE OF RS. 1000 EACH AT PAR ("NCD"), FOR AN AMOUNT AGGREGATING UP TO RS.500 CRORES. THIS ISSUE IS BEING MADE PURSUANT TO THE PROVISIONS OF SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE AND LISTING OF DEBT SECURITIES) REGULATIONS, 2008 AS AMENDED (THE "DEBT REGULATIONS"). THE COMPANIES ACT 2013 AND THE RULES MADE THEREUNDER AS AMENDED AND TO THE EXTENT NOTIFIED.

CREDIT RATING

The NCDs proposed to be issued under this Issue have been rated 'CRISIL AA+/Stable' by CRISIL for an amount of up to Rs. 500 Crores vide its letter dated September 8th 2018 and 'IND AA+: Outlook Stable' by India Ratings and Research for an amount of up to Rs. 500 crores vide its letter dated June 8, 2018. The rating of the NCDs by CRISIL and Ind ia Rating and Research indicate that instruments with this rating are considered to have high degree of safety regarding the timely servicing of financial obligations and carry very low credit risk. The ratings provided by CRISIL and/or India Ratings and Research may be suspended, withdrawn or revised at any time by the assigning rating agency and should be evaluated independently of any other rating. These ratings are not a recommendation to buy, sell or hold securities and investors should take their own decision. Please refer to Annexure A for the rationale for the above ratings.

LISTING

The NCDs offered through this Draft Prospectus are proposed to be listed on the BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE"). Our company has obtained an 'in-principle' approval for the Issue from the BSE vide their letter dated… and from the NSE vide their letter dated…. For the purposes of the Issue, BSE shall be the Designated Stock Exchange.

An application has been made to the NSE and the BSE for permission to deal in and for an official quotation of our NCDs. BSE has been appointed as the Designated Stock Exchange. If permissions to deal in and for an official quotation of our NCDs are not granted by NSE and/or BSE, our Company will forthwith repay, without interest, all moneys received from the Applicants in pursuance of their Draft Prospectus.

Our Company shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within 12 Working days from the date of closure of the relevant Issue.

For the avoidance of doubt, it is hereby clarified that in the event of non-subscriptions to any one or more of the Series, such NCDs with Series shall not be listed.

MINIMUM SUBSCRIPTION

In terms of the Debt Regulations for an issuer undertaking a public issue for debt securities the minimum subscription for a public issue of debt securities shall be 75% of the Issue. If our Company does not receive the minimum subscription of 75% of the Issue (as specified in the relevant) as specified in Prospects within the prescribed time lines under Companies Act and any rules thereto, the entire subscription amount shall be refunded to the Applicants within 12 Days from the date of closure of the Issue. In the event there is a delay by the issuer in making the aforesaid refund, our Company will pay interest at the rate of 15% per annum for the delayed period.

Under Section 39(3) of the Companies Act, 2013 and read with Rule 11(2) of the Companies (Prospectus and Allotment of Securities) Rule 2014 if the stated minimum subscription amount is not received within the specified period, the application money received is to be credited only to the bank account from which the subscription was remitted. To the extent possible, where the required information for making such refunds is available with our Company and/or Registrar, refunds will be made to the account prescribed. However, where our Company and/or Registrar does not have the necessary information for making such refunds, our Company and/or Registrar will follow the guidelines prescribed by SEBI in this regard including its circular (bearing CIR/IMD/DF-1/20/2012) dated July 27, 2012.

GENERAL RISKS

For taking an investment decision, investors must rely on their own examination of the issuer and the issue, including the risk involved. Specific attention of the investors is invited to the portion of the prospectus titled “Risk Factors” and “Material Developments”. This draft prospectus has not been and will not be approved by any regulatory authority in India, including the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Registrar of Companies or any stock exchange in India.

Issuer Details:

Issuer	**HRS Ltd**
Type of Instrument	Secured Redeemable Non-Convertible Debentures

Mode of Issue	Public Issue
Insurance Mode	Physical and Demat
Call Option	Nil
Put Option	Nil
Coupon Rate	9.5%
Default Interest Rate	Delay in allotment, refunds, listing dematerialised credit, execution of debenture trust deed, payment of interest, redemption of principal amount beyond the time limits prescribed under applicable statutory and/ or regulatory requirements at such rates as stipulated/ prescribed under applicable laws.
Tenor	5 years
Redemption Date/MaturityDate	15th January 2024
Face Value	Rs.1000 per NCD
Issue Price	Rs.1000 per NCD
Redemption Premium/ Discount	Nil: Redemption is at par
Market Lot	One NCD
Pay-in-date	Application Date. The entire issue price is payable on application
Trading Mode	Dematerialised form only
Issue Opening Date	15th January 2019
Issue Closing Date	17th January 2019
Record Date	Fifteen days prior to the interest payment date and redemption date
Interest Payment Dates	30th June and 30th December every year
Securities and Asset Cover	The principal amount of the NCDs to be issued along with the interest due on the outstanding shall be secured by way of exclusive charge on specific immovable property. Our company will create appropriate security(byway of mortgage) in favour of the Debenture Trustee of the

	NCD holders on the assets adequate to ensure 100% asset cover for the NCDs (along with interest due thereon).

OBJECTS OF THE ISSUE

75% of the net proceeds: Not less than 75% is to be used to fund the redemption of debentures issued earlier. The debentures are due for redemption in 12 months' time. Until then the company reserves the right to keep the amounts of the issue in Government securities to earn income.

25% of the net proceeds: Not more than 25% for any other general corporate purpose.

REGULATORS OF THE COMPANY

The company is a Non-Banking Financial Company accepting deposits as is evident from its activities of asset financing and acceptance of deposits. Hence it is governed by RBI regarding capital adequacy norms (of 15%) and periodic reporting. Since its net worth is more than 500 crores, it is a Systemically Important NBFC and classified as an AFC (Asset Financ ing Company).

Being a company, it is also regulated by the Companies Act 2013 for operational and procedural monitoring. Having its shares and debenture listed, it is also subject to SEBI Regulations regarding issue compliances and listing obligations.

DEBT EQUITY RATIO

	Pre – Issue	**Post Issue**
Total Debt	471000	521000
Equity Shareholder's Fund	123880	123880
Debt/Equity Ratio	3.80	4.20

Potential benefits of the proposed new unit of business are as follows:

(i) Under the new proposal, vehicles financed will be hypothecated to HRS by the entrepreneur who is the principal borrower, fully guaranteed by the app provider. So, if the principle borrower fails to make the payment to HRS Ltd., the app provider will step in and make good the loss.

(ii) The used vehicle will also be handed over to another entrepreneur attached to him. Thus, only the repossessed vehicles will form the used vehicle financing segment.

(iii) Agreements are proposed to be drafted with conditions for repossession within one month of default and redeployment of such vehicles for earning money, by continuing to be hired.

(iv) The Company has installed GPS System for providing information to delivery destination and origin of loading for better inventory management and production process.

(v) The company has made an arrangement for a backup under which if the existing app provider fails, the large number of vehicles financed would be managed by another app provider.