RELIANCE CAPITAL

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December 28, 2020

To,
Shri Ajay Tyagi,
Chairman
Securities Exchange Board of India
SEBI Bhavan, Plot No.C4-A, 'G' Block
Bandra-Kurla Complex, Bandra (East)
Mumbai – 400051

Dear Sir,

Subject: Prime Focus Ltd. (BSE Scrip Code: 532748, NSE Symbol: PFOCUS)

We enclose herewith a copy of the letter addressed by Reliance Media Works Financial Services Private Limited. The contents of letter are self-explanatory *inter alia* requesting SEBI to take immediate action by exercise of powers under 11A of the SEBI Act, 1992. We request SEBI to order a thorough investigation in this matter and immediately prevent / restrain Credit Suisse from selling the Prime Focus Shares as the sale of equity shares of Prime Focus Limited below the intrinsic value would be illegal, in breach of fiduciary duties, and will be substantially prejudicial to the stakeholders of the Company including its 8 lakh shareholders and lenders (including LIC of India, GIC, New India Assurance, EPFO, Army Group Insurance Fund, MSEB Provident Fund).

Request you to please take the same on record for necessary action.

Thanking you,

Yours faithfully,
For Reliance Capital Limited



Atul Tandon
Company Secretary and Compliance Officer

Encl.: As Above.

CC:

1. **BSE Limited**
   Phiroze Jeejeebhoy Towers,
   Dalal Street, Fort,
   Mumbai 400 001
   BSE Scrip Code: 500111

2. **National Stock Exchange of India Limited**
   Exchange Plaza, 5th Floor, Plot No. C/1,
   G Block, Bandra Kurla Complex,
   Bandra (East), Mumbai 400 051
   NSE Scrip Symbol: RELCAPITAL

RELIANCE MEDIAWORKS FINANCIAL SERVICES PRIVATE LIMITED

Regd Office: Communication Centre, Film City Complex, Goregaon East, Mumbai 400 065.
CIN: U74999MH2017PTC292285

December 28, 2020

To,
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Chairman
Securities Exchange Board of India
SEBI Bhavan, Plot No.C4-A, 'G' Block
Bandra-Kurla Complex, Bandra (East)
Mumbai – 400051

Dear Sir,

Subject: **Open Offer announced by Promoters of Prime Focus pursuant to transaction with Credit Suisse - Complete abuse of SEBI Takeover Regulations and other provisions of law**

Transaction is done in a private and clandestine manner - involving deals between two foreign entities - a colorable device to defeat the provisions of SEBI Takeover Regulations & defraud public shareholders

Credit Suisse admittedly is in control of 33.12% shares of Prime Focus - failed to make mandatory open offer

Open offer by Prime Focus Promoters is a ploy to enrich themselves – an 'Open Loot' at the cost of public shareholders

Prime Focus Shares are "Not Frequently Traded" - Offer Price cannot be less than the 'fair Valuation' of Shares in terms of Regulation 8(2)(e) of SEBI Takeover Regulations

Offer Price of Rs. 44.15 per Share is not even one-third of the true valuation of Prime Focus Shares of Rs. 150

SPA and open offer (including significantly low offer price) is severely prejudicial to the interests of public shareholders

<u>SEBI needs to conduct thorough investigation in the matter and take immediate action:</u>

- **To stop the said colorable transactions by exercise of powers under Section 11A of the SEBI Act, 1992, pending full investigation.**

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- **To direct Credit Suisse to make an open offer to public shareholders of Prime Focus at fair valuation of shares;**

- **To restrain Promoters of Prime Focus from proceeding with the purchase transaction and the open offer, till Credit Suisse completes the first open offer**

- **To direct independent valuation of Prime Focus Shares to arrive at the true value of Prime Focus Shares for separate mandatory open Offers by Credit Suisse and the Promoters**

- **To take strict action against Keynote Financial Services Limited, Manager to the Offer, having failed in its statutory duty**

Dear Sir,

This has reference to the Public Announcement dated December 24, 2020 made by Malhotra Family, the Promoters of Prime Focus Limited (**Prime Focus**), for acquisition of 26% voting share capital from the Public Shareholders, at a price of Rs. 44.15 per Share.

In this connection, we wish to make the following submissions:

1. **Background – Transaction in a private and clandestine manner involving two foreign entities Several colorable transactions involving,**

   The transaction attracting the Prime Focus open offer obligation has been done in a private and clandestine manner between two foreign entities, evidently to hide the true facts and deprive minority shareholders of the fair exit price.

   Specific attention is invited to the following:

   1.1 Just prior to the Public Announcement, a series of colorable transactions were entered into by Promoters involving various foreign entities including Mauritius based entities of the Promoters:

      1.1.1 On 18th December 2020, the Promoters of Prime Focus namely Mr. Namit Malhotra/Naresh Malhotra/Monsoon Studio Private Limited entered into a financing agreement with foreign entity Novator Capital, for creating an encumbrance over 10.46 crore shares held by the promoter group. This transaction was disclosed to Stock Exchanges on 22nd December 2020;

      1.1.2 On December 23, 2020, Monsoon Studio Private Limited, an Indian Promoter Group entity (**Monsoon**) sold the "encumbered" shares to a Mauritius based, purportedly a promoter entity, namely A2R holdings. Thus, encumbered shares were sold by Monsoon to A2R Holdings.

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1.1.3 On December 24, 2020 a Share Purchase Agreement (**SPA**), was entered into by Credit Suisse (acting through IDBI Trusteeship Services Limited) with the Promoters of Prime Focus, to sell 33.12% shares at Rs. 44.15 per Share.

1.1.4 The Public Announcement states that Credit Suisse holds such shares pursuant to invocation of a pledge which was purportedly created by Reliance Mediaworks Financial Services Private Limited;

1.1.5 It is inconceivable that Credit Suisse as lender should privately sell significant shareholding in a listed company in such a manner and at such a price which is close to an eight year low, without even running an open and transparent valuation and sale process to be able to get the best offer.

1. Credit Suisse admittedly has acquired and is in control of 33.12% shares of Prime Focus – SPA is colorable device to defeat the SEBI provisions requiring mandatory open offer by Credit Suisse

1.1 Attention is invited to para 2 of the Public Announcement, which provides details of the Share Purchase Agreement (SPA) between the Promoters of Prime Focus as the Acquirers and Credit Suisse (acting through IDBI Trusteeship Services Limited) as the Seller, which has triggered the open offer. The said para is reproduced below:

> *2.1 The Acquirer has entered into a share purchase agreement, dated December 24, 2020 (the "SPA"), wherein the Acquirer has agreed to* ***acquire 10,49,39,361 (Ten Crore Forty Nine Lakh Thirty Nine Thousand Three Hundred and Sixty One) Equity Shares of the Target Company, representing 33.12% of the Expanded Voting Share Capital ("Sale Shares"), from the Seller****, in 2 (two) tranches, at INR 44.15 (Rupees Forty Four and Fifteen paisa) per Sale Share, subject to, and in accordance with the terms of the SPA. For details of the Sale Shares held in the name of the Seller, and also the Sale Shares held under a pledge by the Seller, as on the date of this PA, please see Paragraph 4 below.*
>
> *2.2. IDBI is registered as a debenture trustee with the Securities and Exchange Board of India under the relevant provisions of the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993, as amended (bearing registration number IND000000460), and is acting in its capacity as the debenture trustee* ***for the benefit of and on the instructions of Credit Suisse, for the purpose of the SPA****.*

1.2 It may kindly be noted that in terms of the Share Purchase Agreement, (SPA) Credit Suisse (acting through IDBI Trusteeship Services Limited) has agreed to sell 33.12% shares of Prime Focus to the Promoters of Prime Focus;

1.3 Evidently, a person can enter into a binding contract for sale of shares only if it has directly or indirectly acquired or is in control of the said shares. In the instant case, Credit Suisse's own stand as mentioned in the Public Announcement is that Credit Suisse can sell a aggregate of 33.12% Shareholding of Prime Focus by virtue of invocation of the pledge of 23.14% Shares and rights as pledgee for 9.99% Shares.

1.4 The above SPA clearly demonstrate that Credit Suisse has acquired or is in control of the said 33.12% shares of Prime Focus, to be able to sell the same to the Promoters of Prime Focus.

1.5 Regulation 3(1) of the SEBI Takeover Regulations provides as under:

> "No acquirer shall acquire shares or voting rights in a target company which taken together with shares or voting rights, if any, held by him and by persons acting in concert with him in such target company, entitle them to exercise twenty-five per cent or more of the voting rights in such target company unless the acquirer makes a public announcement of an open offer for acquiring shares of such target company in accordance with these regulations."

1.6 Thus Credit Suisse, admittedly having acquired control of 33.12% shares of Prime Focus, was required to make the mandatory open offer in terms of said Regulation 3(1) of the SEBI Takeover Regulations. However, Credit Suisse has failed to make such open offer, giving mandatory exit opportunity to public shareholders of Prime Focus.

1.7 Considering the intrinsic value of Prime Focus Shares as of November 28, 2019 (when Credit Suisse invoked the said Shares) of approximately Rs. 150, including interest thereon for more than one year, **the offer price for the open offer to be made by Credit Suisse shall not be less than Rs. 170 per Share**. Without prejudice to the above, even as per the volume weighted average market price of Price Focus Shares along with interest thereon the open offer price cannot be less than Rs. 77 per Share;

1.8 The said SPA between Promoters of Prime Focus and Credit Suisse is therefore nothing but a colorable device to facilitate Credit Suisse avoiding making the mandatory open offer and thereby defeating the provisions of Regulation 3(1) of the SEBI Takeover Regulations

1.9 Further, the agreement to sell the valuable Shares of Prime Focus at a drastically undervalued price of Rs. 44.15 per Share itself is an abuse of the purported rights of the Credit Suisse as lender.

1.10 Therefore, SEBI needs to take immediate steps to order a thorough investigation in this matter. Pending such investigation SEBI needs to prevent / restrain Credit Suisse from selling the said Shares to the Promoters of Prime Focus or taking any further step in pursuance of the SPA.



2. **Prime Focus Shares are "Not Frequently Traded"**

Admittedly, Prime Focus Shares are not frequently traded within the meaning of Regulation 2(1)(j) of the Takeover Regulations. In this regard attention is invited to the para 1.2 of the Public Announcement made by Prime the Promoters of Prime Focus, which is reproduced below:

> ***"1.2 Offer Price/Offer Consideration:***
>
> *The Open Offer is made at a price of INR 44.15 (Rupees Forty Four and Fifteen paisa) per Offer Share ("Offer Price"). **The Equity Shares of the Target Company are not frequently traded within the meaning of Regulation 2(1)(j) of the SEBI (SAST) Regulations**, and the Offer Price has been determined in accordance with the provisions of Regulation 8(2) of the SEBI (SAST) Regulations. Assuming full acceptance of the Offer, the aggregate consideration payable to the Public Shareholders in accordance with the SEBI (SAST) Regulations will be INR 3,63,66,81,680.90 (Three Hundred Sixty Three Crore Sixty Six Lakh Eighty One Thousand Six Hundred Eighty and Ninety Paisa)."*

3. **Minimum Offer Price in relation to infrequently traded shares cannot be less than the intrinsic value of Shares**

Regulation 8 of the Takeover Regulation, stipulates that the open offer for acquiring shares under regulation 3, regulation 4, regulation 5 or regulation 6 **shall be made at a price not lower than the price determined in accordance with sub-regulation (2) or sub-regulation (3), as the case may be.**

Para (e) of Regulation 8(2) of the Takeover Regulations prescribes the minimum offer price in relation to shares which are not frequently traded shares, as under:

> ***Regulation 8(2)(e)***
>
> *"where the shares are not frequently traded, the price determined by the acquirer and the manager to the open offer taking into account **valuation parameters including, book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies**;"*

4. **Intrinsic valuation of Prime Focus Shares is significantly higher - 300% of the price offered under open offer**

The open offer price of Rs 44.15 is significantly below the intrinsic price of Prime Focus Shares, as is evident from the following facts:

4.1 One of the material subsidiary of Prime Focus, "DNEG Plc" itself has a valuation of GBP 700 mn - reflecting embedded value of Prime Focus of over Rs. 150 per Share

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4.1.1 Prime Focus operates through a London based material subsidiary namely DNEG Plc (DNEG).

4.1.2 DNEG is one of the world's leading visual effects, animation and stereo conversion companies for feature film and television, with studios in London, Vancouver, Mumbai, Los Angeles, Chennai, Montréal, Chandigarh, Hyderabad, and Goa.

4.1.3 As per recent media reports, DNEG has been valued at GBP 700mn (USD 915mn). DNEG has been working with JPMorgan Chase & Co on potential sale of its stake at the said valuation. Given below are website links of such media reports:

https://www.analyzemarkets.com/en/intelligence/uk-s-visual-effects-firm-dneg-hires-adviser-to-explore-sale-of-a-stake-in-over-usd-mn-deal

https://www.bloomberg.com/news/articles/2020-08-13/film-effects-firm-dneg-said-to-mull-stake-sale-after-shelved-ipo

4.1.4 It is also pertinent to note that just last year on October 15, 2019, DNEG had filed registration documents for an IPO to be listed on London Stock Exchange. The bankers to the IPO were Morgan Stanley and Deutsche Bank. The IPO had been priced at GBP 666 million (US$ 875 mn). DENG withdrew IPO at the last minute due to market uncertainties owing to BREXIT issues.

4.1.5 The above proposed IPO valuation also reflected Prime Focus embedded valuation of Rs. 150 per Share.

4.1.6 Thus, leave alone the true value of Prime Focus, the value of its subsidiary DNEG itself results into an embedded valuation of each Prime Focus Share at Rs. 150 per Share.

4.2 Just 20 months ago, Promoters themselves had valued Prime Focus Share at Rs. 106 – subscribed its preferential issue

4.2.1 Pursuant to the special resolution passed by the shareholders of the Company at its Extra-Ordinary General Meeting held on January 5, 2018 (**EGM**), Prime Focus had made a preferential issue. The Board of Directors of Prime Focus at its meeting held on February 14, 2018 had issued and allotted 3,11,32,076 warrants, convertible into equity shares, **at a price of Rs. 106/- per share to Monsoon Studio Private Limited (promoter) and Mr. Anshul Doshi (non-promoter), on a preferential basis**.

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4.2.2 Specific attention is invited to para III on page 7 of the Notice issued by Prime Focus convening the said EGM, signifying the Promoters commitment to price of Prime Focus Shares, is reproduced below:

> ***"The proposal of the promoters, directors or key management personnel to subscribe to the offer:***
>
> *The preferential issue of Warrants is being made to: (i) Monsoon Studio Private Limited, a member of the Promoter and Promoter Group of the Company; and (ii) Mr. Anshul Doshi, who is an employee of Prime Focus International Services UK Limited, a subsidiary of the Company. Mr. Anshul Doshi does not belong to the promoter and promoter group of the Company."*

4.2.3 Thus, Open Offer price of Rs. 44.15 per Share is not even one-third of the true value of Prime Focus Shares

4.3 Prime Focus continues to have robust financials and business operations - reflecting strong intrinsic valuation

4.3.1 Financials and operations of Prime Focus continue to remain robust, despite ongoing Corona pandemic, as is also evident from the latest Investor presentation (dated November 2020) for the half year ended September 30, 2020. The said Investor Presentation is posted by Prime Focus on its website and can be accessed with below link.

http://www.primefocus.com/sites/default/files/pdf/2020_21/Q2FY21_Investor_Update_4.pdf

4.3.2 Prime Focus Investor Presentation itself confirms its strong financial position as under:

a. Strong YoY Revenue Growth

FY ended March 31	Rs. Cr	12% CAGR
2020	3013	↑
2019	2645	
2018	2314	
2017	2178	
2016	1906	

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b. **Strong YoY Growth in EBIDTA Margin**

FY ended March 31	Rs. Cr	17% CAGR
2020	617 (20.5%)	↑
2019	537 (20.3%)	
2018	544 (23.7%)	
2017	501 (23.0%)	
2016	326 (17.1%)	

c. **Strong YoY Growth in Operating Profit**

FY ended March 31	Rs. Cr	30% CAGR
2020	440	↑
2019	353	
2018	372	
2017	348	
2016	154	

d. **Prime Focus has strong leadership position in its all three operating verticals:**

- Creative Services - World's No. 1 independent Tier 1 player;
- Technology Services - Pioneer & leader in cloud solutions for M&E industry;
- India Films and Media Services – Dominant position

e. **Even during H1 FY 21, Prime Focus had resilient performance despite COVID19 disruptions**

- EBIDTA of Rs. 370 crore;
- EBITDA up 27% YoY
- Rebound in EBITDA Margins – at ~38%
- PAT positive – Prime Focus continues to be PAT positive for 3 rd Quarter in a Row with PAT for Q2FY21 at Rs. 1.4cr
- Stable Revenues despite COVID Headwinds

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- Strong execution pipeline of projects in Film VFX, TV/OTT and Animation backed by credible studios led to limited COVID disruption on the revenue front.

- Won high value contracts even during challenging times

- Continue to deliver work on marquee projects

4.3.3 Thus, continued strong financial of Prime Focus confirms that there no reason why its Open Offer Price should be as low as Rs. 44.15 per share, which is not even one third of its realistic valuation

5. Conclusion

5.1 Open Offer announced by the Promoters of Prime Focus, pursuant to transaction with Credit Suisse is complete abuse of SEBI Takeover Regulations.

5.2 Credit Suisse admittedly is in control of 33.12% shares of Prime Focus and is obliged to make the mandatory open offer in terms of SEBI Takeover Regulations.

5.3 SPA between Malhotra family and Credit Suisse is a colorable device to defeat the provisions of SEBI Takeover Regulations.

5.4 Open offer by Prime Focus Promoters is an attempt to destroy shareholder value. Open offer at a such a low price is a ploy by the Promoters to enrich themselves at the cost of public shareholders of Prime Focus

5.5 Prime Focus Shares are "Not Frequently Traded" - Offer Price cannot be less than the 'fair Valuation' of Shares in terms of Regulation 8(2)(e) of SEBI Takeover Regulations

5.6 Offer Price of Rs. 44.15 per Share is not even one-third of the true valuation of Prime Focus Shares of Rs. 150

5.7 SPA and open offer (including significantly low offer price) is severely prejudicial to the interests of public shareholders;

5.8 Keynote Financial Services Limited, Manager to the Offer has failed in its statutory duty to ensure compliance with the provisions of SEBI Takeover Regulations and act in a fair and transparent manner, in the interests of all stakeholders

6. Request

In view of the above and in order to protect the interests of public shareholders of Prime Focus, SEBI needs to take immediate action by exercise of powers under 11A of the SEBI

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Act, 1992 to stop the said colorable devices. SEBI needs to order a thorough investigation in this matter.

Pending such investigation SEBI needs to take immediate action to:

a. **Prevent / restrain Credit Suisse from selling the said Prime Focus Shares or taking any further step in pursuance of the SPA.**

b. **Direct the appointment of independent valuers to carry out fair valuation of Prime Focus Shares;**

c. **Direct Credit Suisse to make an open offer to public shareholders of Prime Focus at fair valuation of shares;**

d. **Restrain Promoters of Prime Focus from proceeding with either the purchase transaction or the open offer, till Credit Suisse completes the first open offer as that contravention has to be first corrected and will directly impact determination of price in the open market and affect the public shareholders.**

e. **Require the Promoters of Prime Focus to revise the Open Offer Price as per the fair valuation arrived at by the independent valuers;**

f. **Take strict action against Keynote Financial Services Limited, Manager to the Offer, which has failed in performing its statutory duty**

For **Reliance MediaWorks Financial Services Private Limited**

Basant Varma
Director

Reliance MediaWorks Financial Services Pvt. Ltd. Mumbai

CC :

1. **BSE Limited**
   Phiroze Jeejeebhoy Towers,
   Dalal Street, Fort,
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   BSE Scrip Code: 500111

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   Exchange Plaza, 5th Floor, Plot No. C/1,
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   NSE Scrip Symbol: RELCAPITAL

3. **Reliance Capital Limited**
   Reliance Centre, Ground Floor,
   19, Walchand Hirachand Marg,
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