# Fair Equity Share Exchange Ratio in relation to the 'Scheme of Amalgamation'

March 2022

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Ref. No.: MG/Mar21-133/2022

March 21, 2022

To,

The Board of Directors
**Equitas Small Finance Bank Ltd**
410A, 4th Floor, Phase II,
Spencer Plaza, No. 769,
Mount Road, Anna Salai,
Chennai - 600 002

Dear Sir(s)/ Madam(s),

**Sub: Recommendation of Fair Equity Share Exchange Ratio in relation to the Proposed Scheme of Amalgamation (as defined below)**

We, BDO Valuation Advisory LLP **('BDO Val' or 'We' or 'Us')**, have been appointed by Equitas Small Finance Bank Limited **('the Client'** or **'ESFBL'** or **'Transferee Company')** vide letter dated March 11, 2022 bearing reference number MG/Mar111/2022 to recommend the fair equity share exchange ratio for Amalgamation of Equitas Holdings Limited **('EHL'** or **'Transferor Company'**) with Equitas Small Finance Bank Limited on a going concern basis, as per the Proposed Scheme of Amalgamation between EHL and ESFBL and their respective shareholders under sections 230 to 232 of the Companies Act, 2013 (**'the Act'**) and other applicable provisions of the Act and the Rules made thereunder **("the Proposed Scheme").**

EHL and ESFBL shall be collectively referred as ('**Companies**').

We are pleased to present herewith our report (**'Report'**) on the same. We have determined the fair equity share exchange ratio for the Proposed Scheme as at the Report date **('Valuation Date').**

A summary of the analysis is presented in the accompanying Report, as well as description of the methodology and procedure we used, and the factors we considered in formulating our opinion.

We believe that our analysis must be considered as a whole. Selecting portion of our analysis or the factors we considered, without considering all factors and analysis together could create a misleading view of the process underlying the valuation conclusions. The preparation of valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.

This letter should be read in conjunction with the attached report.

For BDO Valuation Advisory LLP
IBBI Regn No.: IBBI/RV-E/02/2019/103

MANDAR VIKAS GADKARI
Digitally signed by MANDAR VIKAS GADKARI
Date: 2022.03.21 09:42:38 +05'30'

BDO VALUATION ADVISORY LLP

Name: Mandar Vikas Gadkari
Designation: Partner
IBBI Regn No.: IBBI/RV/06/2018/10500

Encl: As Above

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## 1. Brief Background of the Companies

Equitas Small Finance Bank Limited ('ESFBL')

1.1. Equitas Small Finance Bank Limited (CIN: U65191TN1993PLC025280) was incorporated on June 21, 1993 under the provisions of Companies Act 1956. The registered office of ESFBL is located at 4th Floor, Phase II, Spencer Plaza, No. 769, Mount Road, Anna Salai, Chennai - 600 002

1.2. The Reserve Bank of India **('RBI')** has issued small finance bank license to ESFBL on June 30, 2016 under Section 22 (1) of the Banking Regulation Act, 1949 to carry on the business of Small Finance Bank **('SFB')** in India.

1.3. Pursuant to the small finance bank license received by ESFBL from the RBI, ESFBL is operating as a small finance bank engaged in retail banking business with focus on micro finance, commercial vehicle finance, home finance, loan against-property finance, corporate finance, and providing financing solutions for individuals and micro and small enterprises (MSEs) that are underserved by formal financing channels while providing a comprehensive banking and digital platform for all.

1.4. The ordinary equity shares of ESFBL are listed on National Stock Exchange of India Limited ('**NSE**') & BSE Limited ('**BSE**'). NSE and BSE shall be collectively referred as '**Stock Exchanges**'.

1.5. The authorised share capital and the issued, subscribed and fully paid-up share capital of ESFBL, as on February 21, 2022 was as follows:

| Particulars | INR Mn |
|---|---|
| Authorised Share Capital<br>1,70,00,00,000 equity shares of INR 10/- each | 17,000.0 |
| **Total** | **17,000.0** |
| Issued, Subscribed & Fully Paid-up Share Capital<br>1,25,13,91,363 equity shares of INR 10/- each | 12,513.9 |
| **Total** | **12,513.9** |

1.6. The above shareholding is after considering the allotment of shares to Qualified Institutional Buyers ("**QIB**") as per the announcement made on the Stock Exchanges on February 19, 2022.

1.7. Further, ESFBL has allotted 6,36,292 equity shares to the option grantees who have exercised their Employee Stock Options as per the announcement made on the Stock Exchanges on March 08, 2022.

1.8. The authorised share capital and the issued, subscribed and fully paid-up share capital of ESFBL, as on the date of this Report considering the above ESOP allotment is as follows:

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| Particulars | INR Mn |
|---|---|
| Authorised Share Capital<br>1,70,00,00,000 equity shares of INR 10/- each | 17,000.0 |
| **Total** | **17,000.0** |
| Issued, Subscribed & Fully Paid-up Share Capital<br>1,25,20,27,655 equity shares of INR 10/- each | 12,520.3 |
| **Total** | **12,520.3** |

1.9. As per information provided by the management of ESFBL, 3,82,44,735 employee stock options are granted by ESFBL and outstanding under the ESFB Employees Stock Option Scheme **("ESOP")** Scheme as on the date of this Report, the exercise of which may result in further increase in the issued and paid-up share capital of ESFBL. Of the above, 3,24,00,758 employee stock options of ESFBL have been considered for the purpose of dilution of equity, in the share swap valuation in this Report, taking into account the exercise price of these options as on the Valuation Date.

1.10. The summarized shareholding pattern of ESFBL as on the date of this Report is as follows:

| Shareholder Category | No. of Equity Shares | % Holding |
|---|---|---|
| I. Promoter and Promoter Group | 93,39,43,363 | 74.59% |
| II. Public | 31,80,84,292 | 25.41% |
| **Total** | **1,25,20,27,655** | **100.00%** |

1.11. EHL currently holds 74.59% of the equity shares of ESFBL. Consequently, ESFBL is a subsidiary of EHL. EHL is the promoter of ESFBL as defined in Regulation 2(1)(oo) of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018 ('**SEBI ICDR Regulations**') and also in accordance with the RBI guidelines for Licensing of 'Small Finance Banks' in the Private Sector dated November 27, 2014.

Equitas Holdings Limited ('EHL')

1.12. Equitas Holdings Limited (CIN: L65100TN2007PLC064069) was incorporated on June 22, 2007 under the provisions of Companies Act 1956. The registered office of EHL is located at 410A, 4th Floor, Phase II, Spencer Plaza, No. 769, Mount Road, Anna Salai, Chennai 600 002.

1.13. Subsequent to initial public offer of EHL and to meet the licensing requirements for setting up a small finance bank, EHL was registered with the RBI as a non-deposit taking Systemically Important Core Investment Company vide certificate number N-07.00822 dated September 1, 2016.

1.14. EHL is the holding Company of its subsidiaries ESFBL and Equitas Technologies Private Limited (collectively, the '**EHL Subsidiaries**').

1.15. The ordinary equity shares of EHL are listed on NSE and BSE.

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1.16. The authorised share capital and the issued, subscribed and fully paid-up share capital of EHL, as on December 31, 2021, was as follows:

| Particulars | INR Mn |
|---|---|
| Authorised Share Capital | |
| 44,00,00,000 equity shares of INR 10/- each | 4,400.0 |
| 1,00,00,000 Compulsorily Convertible Preference Shares of INR 10/- each | 100.0 |
| **Total** | **4,500.0** |
| Issued, Subscribed & Fully Paid-up Share Capital | |
| 34,17,90,115 equity shares of INR 10/- each | 3,417.9 |
| **Total** | **3,417.9** |

1.17. 100% of the shares of EHL are held by Public shareholders.

1.18. As per information provided by the management of EHL, 63,002 employee stock options are granted by EHL and outstanding under the EHL ESOP Scheme as on the date of this Report, the exercise of which may result in further increase in the issued and paid-up share capital of EHL. Of the above, 9,819 employee stock options of EHL have been considered for the purpose of diluting of equity, in the share swap valuation in this Report, taking into account the exercise price of these options as on the Valuation Date. We have been informed by the management and representatives of EHL that there has been no change in the above share capital of EHL from December 31, 2021 till the date of issuance of this Report.

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## 2. Purpose of Valuation

2.1. As part of the conditions laid down in the small finance bank license referenced License No. MUM: 119 dated June 30, 2016 issued by the RBI and the Guidelines for Licensing of 'Small Finance Banks' in the Private Sector dated November 27, 2014, the RBI had directed that:

- The equity shares of ESFBL should be listed on recognized stock exchange(s) in India within a time period of 3 (three) years from the date the net worth of ESFBL reaches INR 500 crores (i.e., by September 04, 2019, since ESFBL commenced banking operations with a net worth of more than INR 500 crores); and
- If the promoter of ESFBL, i.e., EHL holds more than 40% (forty percent) of equity shares in ESFBL, then EHL should reduce its stake in ESFBL to 40% (forty percent) within a period of 5 (five) years from the date of commencement of business of the bank (i.e., up to September 04, 2021).

2.2. The directive of the RBI as mentioned in the first part of 2.1 above was complied by ESFBL by way of Initial Public Offering **('IPO')** and shares were listed on the Stock Exchanges on November 2, 2020.

2.3. We understand from the management of the Companies that the Proposed Scheme of Amalgamation seeks to achieve compliance by EHL with the directive of the RBI as mentioned under the second part of 2.1 above in a manner that is in the best interests of and without being prejudicial to EHL, ESFBL, the shareholders of EHL or any other stakeholders.

2.4. Further, we understand that the Board of the Companies had earlier, in its meeting dated July 26, 2021 adopted a Scheme of Arrangement for the merger of EHL into ESFBL ("**Old Scheme**") in accordance with applicable provisions of laws. We further understand that post the said meeting, ESFBL, has raised fresh capital as stated in clause 1.6 above and accordingly the stake of EHL in ESFBL has reduced from 81.75% in July 2021 to 74.59% as on the current date.

2.5. In light of the above, we have been informed that the Board of the Companies now propose to withdraw the erstwhile aforesaid Old Scheme and adopt the Proposed Scheme.

2.6. We understand that following is proposed in the Proposed Scheme:

- Part IV of the Proposed Scheme: Amalgamation of EHL with ESFBL and as consideration for the Amalgamation, the equity shareholders of EHL will be issued ordinary equity shares of ESFBL.

2.7. Companies under the Proposed Scheme and their respective shareholders will comply with the provisions of section 230 to 232 and other relevant provisions of the Act along with the applicable provisions of Securities and Exchange Board of India ('**SEBI**').

2.8. In this regard, we have been appointed to undertake the valuation to recommend the fair equity share exchange ratio for Amalgamation of EHL with ESFBL as per the Proposed Scheme.

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2.9. The Appointed Date for the Scheme is Effective Date (as defined in the Proposed Scheme) or such other date as determined by the Board of ESFBL to comply with the approvals/ directions from the Appropriate Authority or such other date as the National Company Law Tribunal ("**NCLT**") may direct.

## 3. Terms of Engagement

**Context and Purpose**

3.1. BDO Val has been appointed to determine the fair equity share exchange ratio for the Proposed Scheme of Amalgamation as mentioned in para 2.8 of this Report. This valuation exercise and Valuation Report are solely for the purpose mentioned in the Report.

**Restricted Audience**

3.2. This Report and the information contained herein are absolutely confidential and are intended for the use of the Client only for submitting to the statutory authorities for compliance under section sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and applicable provisions and circular issued by Securities and Exchange Board of India ('**SEBI**') applicable to the Proposed Scheme. The results of our valuation analysis and our Report cannot be used or relied by the Companies for any other purpose or by any other party for any purpose whatsoever.

3.3. This Report will be placed before the Board of Directors of ESFBL and intended only for their sole use and information only. To the extent mandatorily required under applicable laws of India, this Report maybe produced before judicial, regulatory or government authorities, in connection with the Proposed Scheme of Amalgamation. We are not responsible to any other person or party, for any decision of such person or party based on this Report. Any person or party intending to provide finance/ invest in the shares/ business of the Companies or their holding companies, subsidiaries, associates, joint ventures shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision. If any person/ party (other than the Client) chooses to place reliance upon any matters included in the Report, they shall do so at their own risk and without recourse to BDO Val.

3.4. It is hereby notified that usage, reproduction, distribution, circulation, copying or otherwise quoting of this Report or any part thereof, except for the purpose as set out earlier in this Report, without our prior written consent, is not permitted, unless there is a statutory or a regulatory requirement to do so.

3.5. Without limiting the foregoing, we understand that the Client may be required to share this Report with regulatory or judicial authorities including stock exchanges, SEBI, Regional Director, Registrar of Companies, National Company Law Tribunal, professional advisors of the Client including merchant banker providing fairness opinion on the fair equity share exchange ratio, in connection with the Proposed Scheme ('**Permitted Recipients**'). We hereby give consent to such disclosure of this Report, on the basis that we owe responsibility only to the Client that has engaged us, under

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the terms of the engagement, and no other person; and that, to the fullest extent permitted by law, we accept no responsibility or liability to any other party, in connection with this Report. It is clarified that reference to this Report in any document and/or filing with Permitted Recipients, in connection with the Proposed Scheme, shall not be deemed to be an acceptance by us of any responsibility or liability to any person/ party other than the Client.

## 4. Caveats, Limitations and Disclaimers

4.1. This Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

4.2. This Report, its contents, and the analysis herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement, (ii) the Report date and (iii) based on the data detailed in the section - Sources of Information. The management of the Companies have represented that the business activities of the Companies have been carried out in the normal and ordinary course till the Report date and that no material changes are expected in their respective operations and financial position to occur up to the Report date.

4.3. We were provided with sufficient information and time to make our opinion for this valuation exercise. However, our opinion may change if any material information is not disclosed / hidden from us during our valuation exercise.

4.4. The scope of the assignment did not include performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information that was used during the course of the work. Accordingly, we express no audit opinion or any other form of assurance on this information on behalf of the Companies. The assignment did not involve us to conduct the financial or technical feasibility study. We have not done any independent technical valuation or appraisal or due diligence or legal title search of the assets or liabilities of the Companies and have considered them at the value as disclosed by the Companies in their regulatory filings or in submissions, oral or written, made to us.

4.5. Further, this valuation Report is based on the extant regulatory environment and the financial, economic, monetary and business/market conditions, and the information made available to us or used by us up to the date hereof, which are dynamic in nature and may change in future, thereby impacting the valuation of the Companies. Subsequent developments in the aforementioned conditions may affect this Report and the assumptions made in preparing this Report and we shall not be obliged to update, review or reaffirm this Report if the information provided to us changes. Further events occurring after the date hereof may affect this Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Report.

4.6. We have no present or planned future interest in the Companies or any of their group entities.

4.7. The recommendation contained herein is not intended to represent value at any time other than the Valuation Date.

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4.8. This Report is subject to the laws of India.

4.9. The fee for this engagement is not contingent upon the outcome of the Report.

4.10. In rendering this Report, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof.

4.11. This Report is based on the information received from the sources mentioned herein and discussions with the representatives of the Companies. We have assumed that no information has been withheld that could have influenced the purpose of our Report.

4.12. We have assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us or used by us, we have assumed that the same are not misleading and do not assume or accept any liability or responsibility for any independent verification of such information or any independent technical valuation or appraisal of any of the assets, operations or liabilities of the Companies. Nothing has come to our knowledge to indicate that the material provided to us was mis-stated or incorrect or would not afford reasonable grounds upon which to base our Report.

4.13. For the present valuation exercise, we have also relied upon information available in the public domain; however, the accuracy and timeliness of the same has not been independently verified by us.

4.14. In addition, we do not take any responsibility for any changes in the information used by us to arrive at our conclusion as set out here in which may occur subsequent to the date of our Report or by virtue of fact that the details provided to us are incorrect or inaccurate.

4.15. We have arrived at a relative value based on our analysis. Any transaction price may however be significantly different and would depend on the negotiating ability and motivations of the respective buyers and sellers in the transaction.

4.16. Our scope is limited to recommendation of fair equity share exchange ratio. The Report should not be construed as, our opinion or certifying the compliance of the Proposed Scheme of Amalgamation with the provisions of any law including the Companies Act 2013, Foreign Exchange Management Act, 1999, taxation related laws, capital market related laws, any accounting, taxation or legal implications or issues arising from Proposed Scheme of Amalgamation.

4.17. The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all their areas of operation unless otherwise stated and that the Companies will be managed in competent and responsible manner. Further, except as specifically stated to the contrary, this Report has given no consideration to matters of legal nature, including issues of legal title and compliance with local laws, litigation and other contingent liabilities that are not recorded in the financial statements of the Companies.

4.18. This Report does not look into the business/commercial reasons behind the Proposed Scheme of Amalgamation nor the likely benefits arising out of the same. Similarly, it does not address the

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relative merits of the Proposed Scheme of Amalgamation as compared with any other alternative business transaction or any other alternatives, whether or not such alternatives could be achieved or are available. The assessment of commercial and investment merits in the Companies is sole responsibility of the investors of the Companies and we don't express opinion on the suitability or otherwise of entering into any financial or other transactions with the Companies.

4.19. Valuation and determination of a fair equity share exchange ratio is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value. While we have provided an assessment of the value based on an analysis of information available to us and within the scope of our engagement, others may place a different opinion.

4.20. Whilst all reasonable care has been taken to ensure that the factual statements in the Report are accurate, neither us, nor any of our partners, officers or employees shall in any way be liable or responsible either directly or indirectly for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such factual statements. We expressly disclaim any and all liabilities, which may arise based upon the information used in this Report.

4.21. We owe responsibility to only the Board of Directors of the Client and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other party to the Companies. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Companies, their directors, employees or agents. In the particular circumstances of this case, our liability, if any (in contract or under statute or otherwise) for any economic loss or damage arising out of or in connection with this engagement, howsoever the loss or damage caused, shall be limited to the amount of fees actually received by us from the Client as laid out in the engagement letter, for such valuation work.

4.22. We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion. This Report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose.

4.23. This Report does not in any manner address the prices at which equity shares of the Companies will trade following the announcement and/or implementation of the Proposed Scheme and we express no opinion or recommendation as to how the shareholders of the Companies should vote at the shareholders' meeting(s) to be held in connection with the Proposed Scheme.

4.24. The recommendation(s) rendered in this report only represent our recommendation(s) based upon information furnished by the Companies (or its representatives) and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors).

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## 5. Sources of Information

5.1. For the purpose of undertaking this valuation exercise, we have relied on the following sources of information provided by the management and representatives of the Companies/ available in public domain:

- Detailed business profile and information of current business operations of the Companies;
- Audited financial statements of the Companies for the year ended March 31, 2021;
- Limited Review financial statements of the Companies for the period ended September 30, 2021;
- Limited Review Income Statement of the Companies for the period ended December 31, 2021;
- Investor Presentation of ESFBL for the quarter ended December 31, 2021;
- Unaudited Condensed Interim Balance Sheet of ESFBL as on December 31, 2021
- Details of ESOPs outstanding as on the date of this Report for EHL and ESFBL;
- Details of contingent liabilities of EHL and ESFBL as on February 2022;
- Relevant data and information provided to us by the management and representatives of the Client either in written or oral form or in form of soft copy and information available in public domain;
- Information provided by leading database sources (proprietary databases subscribed by us or our network firm), market research reports and other published data (including the Stock Exchanges); and
- Draft of Proposed Scheme of Amalgamation.

5.2. We have also obtained the explanations, information and representations, which we believed were reasonably necessary and relevant for our exercise from the Management of the Companies. Client has been provided with the opportunity to review the draft Report (excluding the recommended Fair Equity Share Exchange Ratio) as part of our standard practice to make sure that factual inaccuracies/ omissions are avoided in our final Report.

5.3. The management of Companies has informed us that there would be no significant variation between the draft Scheme and the final scheme approved and submitted with the relevant authorities.

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## 6. Procedures Adopted

6.1. Procedures used in our analysis included such substantive steps as we considered necessary under the circumstances, including but not limited to the following:

- Requested and received financial information;
- Obtained data available in public domain;
- Undertook industry analysis such as researching publicly available market data including economic factors and industry trends that may impact the valuation;
- Detailed analysis of Comparable Companies for the business similar to the Companies;
- Discussions (over call/emails/conferences) with the management of the Companies to understand the business and fundamental factors;
- Selection of valuation methodology/(ies) as per internationally accepted valuation methodologies;
- Determined the fair equity share exchange ratio based on the selected methodology.

For the purpose of arriving at the valuation of the Companies we have considered the valuation base as 'Fair Value' and the premise of value is 'Going Concern Value'. Any change in the valuation base, or the premise could have significant impact on our valuation exercise, and therefore, this report.

6.2. Client has informed us that IIFL Securities Limited has been appointed to provide fairness opinion on the recommended Fair Equity Share Exchange Ratio for the purpose of aforementioned Proposed Scheme of Amalgamation. Further at the request of the Client, we have had discussions with the Fairness Opinion provider on the valuation approach adopted and assumptions made by us.

6.3. We understand that EHL has appointed Raghuraman Krishna Iyer (here in after referred to as "the other Valuer") for determining share exchange ratio.

6.4. As stated earlier, our scope is to undertake relative (and not absolute) valuation of the equity shares of the Companies and recommend fair share exchange ratio for the amalgamation as per the Proposed Scheme. We have also been instructed by the Client to discuss valuation approach with the other Valuer and arrive at consensus on the fair Share Exchange Ratio.

6.5. While we have independently carried out the valuation of the Companies for recommending the fair share exchange ratio, appropriate averaging and round off in values have been carried to arrive at consensus on the fair share exchange ratio.

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## 7. Valuation Approaches

7.1. It is pertinent to note that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, and prospects, financial and otherwise, of the companies/businesses, and other factors which generally influence the valuation of the companies, its businesses and assets.

7.2. The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, analysis of businesses, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

7.3. It may be noted that BDO Val is enrolled with IOV Registered Valuers Foundation, which has recommended to follow International Valuation Standards ("IVS") for undertaking valuation and accordingly we have considered the International Valuation Standards issued by International Valuation Standards Council ('IVSC') in carrying out the valuation exercise.

7.4. The Report Date is the valuation date ('**Valuation Date**'). For valuation exercise, market parameters have been considered up to and including March 17, 2022.

7.5. There are three generally accepted approaches to valuation:

(a) "Asset" / "Cost" Approach

(b) "Income" Approach

(c) "Market" Approach

Within these three basic approaches, several methods may be used to estimate the value. An overview of these approaches is as follows:

### Asset / Cost Approach

**<u>Summation Method</u>**

The summation method, also referred to as the underlying asset method, is typically used for investment companies or other types of assets or entities for which value is primarily a factor of the values of their holdings.

This valuation approach is mainly used in case where the assets base dominates earnings capability.

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## Income Approach

The income approach is widely used for valuation under "Going Concern" basis. It focuses on the income generated by the company in the past as well as its future earning capability. The Discounted Cash Flow Method under the income approach seeks to arrive at a valuation based on the strength of future cash flows.

### Discounted Cash Flow Method

Under the Discounted Cash Flow (**'DCF'**) method, the value of the undertaking is based on expected 'cash flows for future, discounted at a rate, which reflects the expected returns and the risks associated with the cash flows as against its accounting profits. The value of the undertaking is determined as the present value of its future free cash flows.

Free cash flows are discounted for the explicit forecast period and the perpetuity value thereafter. Free cash flows represent the cash available for distribution to both, the owners and creditors of the business.

Discount rate is the Weighted Average Cost of Capital (**'WACC'**), based on an optimal vis-à-vis actual capital structure. It is appropriate rate of discount to calculate the present value of future cash flows as it considers equity-debt risk and also debt-equity ratio of the firm.

The perpetuity (terminal) value is calculated based on the business's potential for further growth beyond the explicit forecast period. The "constant growth model" is applied, which implies an expected constant level of growth (for perpetuity) in the cash flows over the last year of the forecast period.

The discounting factor (rate of discounting the future cash flows) reflects not only the time value of money, but also the risk associated with the business's future operations.

The Business/Enterprise Value so derived, is further reduced by value of debt, if any, (net of cash and cash equivalents) to arrive at value to the owners of business. The surplus assets / non-operating assets are also adjusted.

In case of free cash flows to equity, the cash available for distribution to owners of the business is discounted at the Cost of Equity and the value so arrived is the Equity Value before surplus/ non-operating assets. The surplus assets / non-operating assets are further added to arrive at the Equity Value.

## Market Approach

Under the Market approach, the valuation is based on the market value of the company in case of listed companies and comparable companies trading or transaction multiples for unlisted companies. The Market approach generally reflects the investors' perception about the true worth of the company.

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### i. Market Price Method

Under the Market Price Method **('MP Method)** , the market price of an equity shares of the company as quoted on a recognized stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the trading. The market value reflects the investors' perception about the true worth of the company.

### ii. Comparable Companies Multiple Method

Under the Comparable Companies Multiple ('**CCM**') method, the value is determined on the basis of multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

To the value of the business so arrived, adjustments need to be made for the value of contingent assets/liabilities, surplus Asset and dues payable to preference shareholders, if any, in order to arrive at the value for equity shareholders.

### iii. Comparable Transactions Multiple Method

Under the Comparable Transactions Multiple ('**CTM**') method, the value of a company can be estimated by analyzing the prices paid by purchasers of similar companies under similar circumstances. This is a valuation method where one will be comparing recent market transactions in order to gauge current valuation of target company. Relevant multiples have to be chosen carefully and adjusted for differences between the circumstances. This valuation approach is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation.

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## 8. Conclusion on Valuation Approach

8.1. In order to consider reasonable methods for the valuation exercise, we have referred to the International Valuation Standards and the specific information/explanations available of ESFBL and EHL. We have considered the following respective methods for the valuation:

ESFBL

8.2. In the present case, the shares of ESFBL are listed on BSE and NSE and there are regular transactions in their equity shares with reasonable volumes on NSE. Hence Market Price Method under the Market Approach has been considered for valuation of ESFBL. The volume weighted average share price observed on NSE for ESFBL over a reasonable period has been considered for determining value under the market price methodology.

Comparable Companies Multiple Method ("CCM") is also used for determining and arriving at the fair value of ESFBL, since there are comparable companies operating in a similar segment in India. We have selected comparable companies and the multiples based on loan book size, growth, profitability etc. in comparison with ESFBL. Further, due to paucity of comparable transactions, CTM method has not been considered.

In a going concern scenario and for an operating entity, the earning power, as reflected under the Income and Market approaches, is of greater importance to the basis of merger, than the values arrived at on the net asset basis being of limited relevance. Therefore, we have not considered Asset / Cost approach for valuation since the asset / cost approach does not reflect the intrinsic value of the business operations in a "going concern scenario". However while undertaking valuation using CCM method, the net worth of ESFBL is already taken into consideration.

Further, Discounted Cash Flow Method under the Income Approach has not been considered as ESFBL is a listed entity and the management has not provided us the information related to future profit and loss account, balance sheet and cash flows being price sensitive.

EHL

8.3. In the present case, the shares of EHL are listed on BSE and NSE and there are regular transactions in their equity shares with reasonable volumes on BSE and NSE. Hence Market Price Method under the Market Approach has been considered for valuation of EHL. The volume weighted average share price observed on NSE for EHL over a reasonable period has been considered for determining value under the market price methodology.

CCM and CTM method is not considered since the value is derived from its asset base rather than its earning potential and comparable companies and transactions with similar characteristics are not available.

Further, EHL is a holding company and its value is derived from the underlying assets i.e. Investments in EHL Subsidiaries. Accordingly, we have used Summation method under asset/cost

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approach for valuation of EHL wherein the fair value of EHL Subsidiaries has been considered to arrive at the fair value of EHL under the summation method.

Further, Discounted Cash Flow Method under the Income Approach has not been considered as EHL does not have any business operations and its value is derived from the investments in EHL Subsidiaries.

**Summary of Valuation Approaches Considered:**

| Name of the Companies | Methods Adopted |
|---|---|
| ESFBL | Market Price Method<br>CCM Method |
| EHL | Market Price Method<br>Summation Method |

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## 9. Basis of Fair Equity Share Exchange Ratio

9.1. The basis of the fair equity share exchange ratio for the Proposed Scheme would have to be determined after taking into consideration all the factors and methods mentioned hereinabove and to arrive at a final value for the shares of each company. It is, however, important to note that in doing so, we are not attempting to arrive at the absolute values of the Companies, but at their relative values to facilitate the determination of the fair equity share exchange ratio.

9.2. We have independently applied methods discussed above, as considered appropriate, and arrived at their assessment of value per share of the Companies. To arrive at the consensus on the fair equity share exchange ratio for the Proposed Scheme, rounding off have been done in the values.

9.3. The fair equity share exchange ratio has been arrived at on the basis of a relative valuation based on the various approaches/methods explained herein earlier and various qualitative factors relevant to each Company and the business dynamics and growth potentials of the businesses, having regard to information base, key underlying assumptions and limitations. For this purpose, we have assigned appropriate weights to the values arrived at under each approach/method.

## 10. Major factors that were considered during the valuation

10.1. The equity shares of ESFBL and EHL are listed on the Stock Exchanges;

10.2. Key operating/ financial parameters of ESFBL;

10.3. Nature of operation of EHL and its underlying investments;

10.4. Impact of capital raise from QIB in ESFBL has been considered in the valuation;

10.5. ESOPs issued by the Companies have been considered in the valuation for share dilution;

10.6. EHL has transferred the investment properties in its books to Equitas Development Initiatives Trust without consideration, in order to comply with the provision of the Banking Regulation Act, 1949; and

10.7. Discussion with the management of the Companies.

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## 11. Conclusion

11.1. In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments etc. which are not evident from the face of the balance sheets, but which will strongly influence the worth of a share. This concept is also recognized in judicial decisions. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Honorable Supreme Court of India in the case reported in 176 ITR 417 as under:

*"If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible".*

11.2. As discussed earlier, we have used Market Price method and Comparable Companies Multiple method for valuation of ESFBL and Market Price method and Summation method for valuation of EHL and arrived at the recommended fair equity share exchange ratio for amalgamation of EHL with ESFBL as follows:

| Valuation Approach | Valuation Method | EHL | | ESFBL | |
|---|---|---|---|---|---|
| | | Value Per Share (INR) | Weights | Value Per Share (INR) | Weights |
| **Cost Approach**[1] | Summation Method | 152.67 | 50% | NA | NA |
| **Market Approach**[2] | MP Method | 115.61 | 50% | 58.22 | 50% |
| **Market Approach**[3] | CCM Method | NA | NA | 58.19 | 50% |
| **Income Approach**[4] | DCF Method | NA | NA | NA | NA |
| **Value Per Share** | | **134.14** | | **58.21** | |
| **Share Exchange Ratio (Rounded Off)** | | **100** | | **231** | |

*NA means Not Adopted / Not Applicable.*

1. *Summation Method under Cost Approach has been considered for EHL since it is a holding company and its value is derived from the underlying assets. The same is not considered for ESFBL since its value is derived from the future earnings potential.*
2. *ESFBL and EHL are listed on BSE and NSE. Hence, we have considered market price method for valuing ESFBL and EHL.*
3. *We have used CCM Method for valuation of ESFBL based on comparable companies operating in similar business segment. CTM Method is not used for valuation of ESFBL due to paucity of comparable transactions in private space. CCM and CTM method is not considered for EHL since the value is derived from its asset base rather than its earning potential.*
4. *DCF Method has not been considered for ESFBL and EHL as they are listed entities and the managements have not provided us the information related to future profit and loss account, balance sheet and cash flows being price sensitive. In addition, since EHL derived its value from its asset base DCF Method is not applicable.*

11.3. Following is the recommended Fair Equity Share Exchange Ratio for Amalgamation:

*231 equity shares of Equitas Small Finance Bank Limited (of INR 10/- each fully paid up) for every 100 equity shares held in Equitas Holdings Limited (of INR 10/- each fully paid up).*

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Equitas Small Finance Bank

Date: March 25, 2022

The General Manager,
Department of Corporate Services,
BSE Limited,
P.J. Towers, Dalal Street,
Mumbai – 400 001.

Dear Sir/Madam,

**Sub: Declaration**

We hereby certify that no material event impacting the valuation has occurred during the intervening period of filing the scheme documents with the Stock exchange and the period under consideration for valuation.

Yours truly
For **Equitas Small Finance Bank Limited**

**Sampathkumar K R**
**Company Secretary**

EQUITAS SMALL FINANCE BANK LTD. Chennai 600 002.

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