SSPA & CO.	Ernst & Young Merchant Banking Services LLP
Chartered Accountants Registered Valuer Registration No. IBBI/RV-E/06/2020/126	Registered Valuer Registration No. IBBI/RV-E/05/2021/155
1st Floor, "Arjun" Plot No. 6A, V.P. Road, Andheri (West), Mumbai – 400 058.	14th Floor, The Ruby, 29, Senapati Bapat Marg, Dadar (West), Mumbai – 400 028.

Dated: 28 March 2023

To,

The Audit Committee and The Board of Directors,	**The Audit Committee and The Board of Directors,**
Tata Capital Limited 11th Floor, Tower A, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai – 400 013.	**Tata Cleantech Capital Limited** 11th Floor, Tower A, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai – 400 013.

Sub: <u>Recommendation of fair equity share exchange ratio for the proposed Merger of Tata Cleantech Capital Limited into Tata Capital Limited</u>

Dear Sir / Madam,

We refer to our respective engagement letters dated 01 February 2023 of SSPA & CO., Chartered Accountants, ("SSPA") and dated 16 February 2023 of Ernst & Young Merchant Banking Services LLP ("EY"), whereby SSPA and EY are appointed by Tata Capital Limited ("Tata Capital" or "TCL") and Tata Cleantech Capital Limited ("Tata Cleantech" or "TCCL") respectively for recommendation of fair equity share exchange ratio for the proposed merger of TCCL into TCL ("Proposed Merger").

TCCL and TCL are hereinafter jointly referred to as "Companies" or "Clients" or "Valuation Subjects".

SSPA and EY are hereinafter jointly referred to as "Valuers" or "we" or "us" in this report.

The fair equity share exchange ratio for this report refers to number of equity shares of TCL which would be issued to the equity shareholders of TCCL pursuant to the Proposed Merger.

Our deliverable for this engagement would be a fair equity share exchange ratio report of number of equity shares of TCL which would be issued to the equity shareholders of TCCL pursuant to the Proposed Merger ("Fair Equity Share Exchange Ratio Report" or "Report"). For the purpose of this Report, we have considered the Valuation Date as 24 March 2023 ("Valuation Date").

COMPANIES' BACKGROUND, SCOPE AND PURPOSE OF THIS REPORT

TCL is a holding company which holds investments in its subsidiaries which are mainly engaged in lending. TCL is a subsidiary of Tata Sons Private Limited and is registered with the Reserve Bank of India ("RBI") as a Systemically Important Non-Deposit Accepting Core Investment Company ("CIC"). TCL and its subsidiaries are engaged in lending and offering a wide array of products/services in financial services sector.

As on Valuation Date, TCL has the following material subsidiaries:

Tata Capital Financial Services Limited ("TCFSL") is a wholly owned subsidiary of TCL and is a Systemically Important Non-Deposit taking Non-Banking Financial Company ("NBFC-ND-SI"), holding a Certificate of Registration dated November 4, 2011, from the RBI. TCFSL's main areas of business include retail finance, SME and commercial finance.

Tata Capital Housing Finance Limited ("Tata Housing" or "TCHFL"), is a wholly owned subsidiary of TCL and is registered as a Housing Finance Company with the National Housing Bank ("NHB") to carry on housing finance activities. TCHFL primarily offers Home Loans and Affordable Housing Loans. TCHFL also provides Loans Against Property and Loans to Developers for constructing Residential and Commercial premises.

TCCL is a joint venture between TCL and International Finance Corporation ("IFC"), Washington D.C., USA, with equity holding in the ratio of 80.50:19.50. TCCL is registered with RBI as a NBFC-ND-SI. TCCL engages in the business of providing cash flow based finance and advisory services for projects in Renewable Energy, Energy Efficiency, Waste Management, Water Management, and other Infrastructure Projects. TCCL has been registered with the RBI as an Infrastructure Finance Company since October 15, 2015.

We understand that the management of the Companies (hereinafter referred to as "the Management") are contemplating merger of TCCL with TCL through a Scheme of Arrangement under the provisions of Sections 230-232 read with Section 66 and the other applicable provisions of the Companies Act, 2013 and Rules made there under ("Proposed Merger").

As per the scheme of arrangement, pursuant to Proposed Merger, the Undertaking of the TCCL (comprising of its business including various tangible and intangible assets) will get transferred and vested into TCL.

In this connection, the Audit Committee / Board of Directors of TCL and TCCL have appointed SSPA and EY respectively, Registered Valuers, to submit a joint valuation report recommending a Fair Equity Share Exchange Ratio, for issue of TCL's equity shares to the equity shareholders of TCCL for the Proposed Merger.

We understand that the appointed date for the Proposed Merger as per the draft scheme shall be opening business hours of 1 April 2023 or such other later date as the Board may decide..

The scope of our services is to conduct a relative (and not absolute) valuation of equity shares of the Valuation Subjects and report a Fair Equity Share Exchange Ratio for the Proposed Merger in accordance with internationally accepted valuation standards / ICAI Valuation Standards 2018 issued by the Institute of Chartered Accountants of India as applicable.

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The Valuers have been appointed severally and not jointly and accordingly owe responsibility to the respective company that has engaged them, under the terms of their respective engagement. The Valuers have worked independently in their analysis. The Valuers have independently arrived at different values per share of the Valuation Subjects. However, to arrive at the consensus on the Fair Equity Share Exchange Ratio for the Proposed Merger, appropriate minor adjustments, rounding off has been done in the values arrived at by the Valuers.

We have been provided with the Unaudited limited reviewed financials of TCL, TCCL, TCFSL, TCHFL and Tata AutoComp Systems Limited ("TACO") for 9 months ended 31 December 2022. We have taken into consideration the current market parameters in our analysis and have made adjustments for additional facts made known to us till the date of our Report. The Management has informed us that there are no unusual/abnormal events in the Companies materially impacting their operating/financial performance till the Report date. Further, we have been informed that all material information impacting the Valuation Subjects have been disclosed to us.

We have relied on the above while arriving at the fair equity share exchange ratio for the Proposed Merger.

We have been informed that till the Proposed Merger becomes effective, neither Companies would declare any substantial dividends other than in the ordinary course of business.

We have been informed that, in the event that either of the Companies restructure their equity share capital by way of share split/consolidation/issue of bonus shares before the Proposed Merger becomes effective, the issue of shares pursuant to the fair equity share exchange ratio recommended in this Report shall be adjusted accordingly to take into account the effect of any such corporate actions.

This Report is our deliverable for the above engagement.

This Report is subject to the scope, assumptions, qualifications, exclusions, limitations, and disclaimers detailed hereinafter. As such, the Report is to be read in totality and not in parts.

SOURCES OF INFORMATION

In connection with this exercise, we have received/obtained the following information about the Valuation Subjects from the Management:

- Audited financial statements for the year ended 31 March 2022, 31 March 2021 and 31 March 2020 for TCL, TCFSL, TCHFL and TCCL.
- Audited financial statements for the year ended 31 March 2022 and 31 March 2021 for TACO.
- Unaudited limited reviewed financials for nine months ended 31 December 2022 for TCL, TCFSL, TCHFL and TCCL.
- Unaudited limited reviewed financials for nine months ended 31 December 2021 for TCL, TCFSL, TCHFL and TCCL.
- Unaudited financials for nine months ended 31 December 2022 and nine months ended 31 December 2021 for TACO.
- Financial projections of TCFSL, TCHFL and TCCL for the period from 1 January 2023 to 31 March 2025.
- Other relevant information and documents for the purpose of this engagement.

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During the discussions with the Management, we have also obtained explanations, information, and representations, which we believed were reasonably necessary and relevant for our exercise. The Clients have 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 inaccuracy/omissions are avoided in our Report.

PROCEDURES ADOPTED AND VALUATION METHODS FOLLOWED

In connection with this exercise, we have adopted the following procedures to carry out the valuation:

- Requested and received financial and qualitative information
- Used data available in public domain related to the Companies and its peers
- Discussions (physical/over call) with the Management to understand the business and fundamental factors that affect its earning-generating capability including strengths, weaknesses, opportunity and threats analysis, historical financial performance, and business plan.
- Undertook Industry Analysis:
    - Research publicly available market data including economic factors and industry trends that may impact the valuation
    - Analysis of key trends and valuation multiples of comparable companies/comparable transactions using: Proprietary databases subscribed by us or our network firms
- Selection of internationally accepted valuation methodology/(ies) as considered appropriate by us.
- Arriving at valuation of Valuation Subjects in order to determine the fair equity share exchange ratio for the Proposed Merger

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SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

This Report is subject to the limitations detailed in respective engagement letters. As such, the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

The recommendation contained herein is not intended to represent value at any time other than Report date. We have no obligation to update this Report.

This Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the Report Date; (iii) Audited financial statements of TCL, TCFSL, TCHFL, TCCL and TACO for financial year ended 31 March 2022 (v) Unaudited limited reviewed financials of TCL, TCFSL, TCHFL and TCCL for nine months ended 31 December 2022, (vi) Unaudited financials of TACO for nine months ended 31 December 2022, and (vii) other information obtained by us from time to time. We have been informed that the business activities of TCL, TCFSL, TCHFL, TCCL, TACO and other investee companies have been carried out in the normal and ordinary course between 31 December 2022 (other than equity capital subscription via rights issue in TCL for INR 5,938 Mn, TCFSL for INR 4,000 Mn and TCHFL for INR 5,000 Mn between 15 March 2023 to 23 March 2023) and the Report date and that no material changes have occurred in their respective operations and financial position TCL, TCFSL, TCHFL, TCCL, TACO and other investee companies between 31 December 2022, other than rights issue and the Report date.

Valuation analysis and results are specific to the purpose of valuation and as per the agreed terms of the respective engagements. It may not be valid for any other purpose or as of any other date. Also, it may not be valid if done on behalf of any other entity.

A valuation of this nature is necessarily based on the prevailing stock market, financial, economic, and other conditions in general and industry trends in particular as in effect on and the information made available to us as of, the date hereof. This Report is issued on the understanding that the Management has drawn our attention to all the matters, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the fair equity share exchange ratio for the Proposed Merger. 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.

The recommendation rendered in this Report only represent our recommendation based upon information furnished by the Companies and gathered from public domain (and analysis thereon) and the said recommendation shall be considered to be in the nature of non-binding advice. Our recommendation should not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors.

In the course of the valuation, we were provided with both written and verbal information, including market, financial and operating data. In accordance with the terms of our respective engagements, we have carried out relevant analyses and evaluations through discussions, calculations and such other means, as may be applicable and available, we have assumed and relied upon, without independently verifying (i) the accuracy

Ernst & Young Merchant Banking Services LLP IBBI/RV-E/05/2021/155 REGISTERED VALUER CHARTERED ACCOUNTANTS of the information that was publicly available, sourced from subscribed databases and formed a substantial basis for this Report and (ii) the accuracy of information made available to us by the Companies. While information obtained from the public domain or external sources have not been verified for authenticity, accuracy or completeness, we have obtained information, as far as possible, from sources generally considered to be reliable. We assume no responsibility for such information. Our valuation does not constitute as an audit or review in accordance with the auditing standards applicable in India, accounting / financial / commercial / legal / tax / environmental due diligence or forensic / investigation services and does not include verification or validation work. In accordance with the terms of our engagement / appointment letters and in accordance with the customary approach adopted in valuation exercises, we have not audited, reviewed, certified, carried out a due diligence, or otherwise investigated the historical financials / financial information or individual assets or liabilities, provided to us regarding the Companies / subsidiary / associates / joint ventures / investee companies. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in such historical financials / financial statements. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusion is based on the assumptions and information given by / on behalf of the Companies. The Management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis / results.

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. This Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not disclosed in the audited / unaudited balance sheets of the Companies / subsidiary / associates / joint ventures / investee companies, if any. No investigation of Companies' (or their investee companies) claim to title of assets has been made for the purpose of this Report and Companies' (or their investee companies) claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature. Our conclusion of value assumes that the assets and liabilities of the Valuation Subjects, reflected in their respective latest balance sheets remain intact as of the Report date.

This Report has been prepared for the purposes stated herein and should not be relied upon for any other purpose. Clients are the only authorized user of this report and is restricted for the purpose indicated in the engagement letter. This restriction does not preclude the Clients from providing a copy of the report to third-party advisors whose review would be consistent with the intended use. We do not take any responsibility for the unauthorized use of this report. 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 Clients or Companies, their directors, employees or agents. The Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared.

We do not provide assurance on the achievability of the results forecast by the Management/owners as events and circumstances do not occur as expected; differences between actual and expected results may be material. We express no opinion as to how closely the actual results will correspond to those projected/forecast as the achievement of the forecast results is dependent on actions, plans and assumptions of the Management.

We have not carried out any physical verification of the assets and liabilities of the Valuation Subjects and take no responsibility for the identification of such assets and liabilities.

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This Report does not look into the business/commercial reasons behind the proposed transaction nor the likely benefits arising out of it. Similarly, it does not address the relative merits of the proposed transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

The valuation analysis and result are governed by concept of materiality.

The fee for the engagement is not contingent upon the results reported.

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 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.

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.

This Report is subject to the laws of India.

Neither the Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed Scheme of Arrangement, without our prior written consent. In addition, we express no opinion or recommendation as to how the shareholders of either company should vote at any shareholders' meeting(s) to be held in connection with the Proposed Merger.

Disclosure of RV Interest or Conflict, if any and other affirmative statements

We do not have any financial interest in the Clients, nor do we have any conflict of interest in carrying out this valuation.

Further, the information provided by the Management have been appropriately reviewed in carrying out the valuation. Sufficient time and information was provided to us to carry out the valuation.

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SHAREHOLDING PATTERN

TCL

The issued and subscribed equity share capital of TCL as of 31 December 2022 is INR 35,161.68 million consisting of 3,516,167,744 equity shares of face value of INR 10 each.
As on 23 March 2023, TCL issued additional shares of 43,952,097 equity shares of face value of INR 10 each, via rights issue at a share price of INR 135.1. Post the said rights issue, the issued and subscribed equity share capital as on 27 March 2023 is INR 35,601.20 million consisting of 3,560,119,841 equity shares.

The shareholding pattern is as follows:

Shareholding Pattern as on 27 March 2023	No. of Shares	% Shareholding
Promoter & Group (Tata Sons & Group)	3,458,139,706	97.14%
Other minority shareholders	101,980,135	2.86%
Grand Total	**3,560,119,841**	**100.0%**

Source: Management

TCCL

The issued and subscribed equity share capital of TCCL as of 31 December 2022 is INR 4,592.9 million consisting of 459,285,639 equity shares of face value of INR 10 each. The shareholding pattern is as follows:

Shareholding Pattern as on 27 March 2023	No. of Shares	% Shareholding
Promoter & Group (TCL)	369,724,940	80.50%
International Finance Corporation	89,560,699	19.50%
Grand Total	**459,285,639**	**100.0%**

Source: Management

APPROACH FOR RECOMMENDATION OF FAIR EQUITY SHARE EXCHANGE RATIO

The Proposed Merger contemplates the merger of TCCL into TCL. Arriving at the fair equity share exchange ratio for the Proposed Merger of TCCL into TCL would require determining the relative value of equity shares of TCCL and TCL. These values are to be determined independently, but on a relative basis for the Valuation Subjects, without considering the effect of the Proposed Merger.

Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for mergers and our reasonable judgment, in an independent and bona fide manner.

The Valuation Approach adopted by SSPA and EY is given in Annexure 1A and 1B respectively (Annexure 1A and 1B together referred to as Annexures).

BASIS OF FAIR EQUITY SHARE EXCHANGE RATIO

The basis of the merger of TCCL into TCL would have to be determined after taking into consideration all the factors and methods mentioned hereinabove. Though different values have been arrived at under each of

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the above methods, for the purposes of recommending the fair equity share exchange ratio of equity shares it is necessary to arrive at a final value for each Valuation Subject. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of the Valuation Subjects, but at their relative values to facilitate the determination of the fair equity share exchange ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each approaches / methods.

The fair equity share exchange ratio has been arrived at on the basis of a relative equity valuation of Valuation Subjects 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 of the Valuation Subjects, having regard to information base, key underlying assumptions and limitations.

In the ultimate analysis, valuation will have to be arrived at by the exercise of judicious discretion by us and judgments taking into account all the relevant factors. There will always be several factors, e.g. quality of the management, present and prospective competition, yield on comparable securities and market sentiment, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. The determination of exchange ratio is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. This concept is also recognized in judicial decisions. There is, therefore, no indisputable single exchange ratio.

While we have provided our recommendation of the Fair Equity Share Exchange Ratio based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the Fair Equity Share Exchange Ratio. The final responsibility for the determination of the exchange ratio at which the Proposed Merger shall take place will be with the Board of Directors of the respective Companies who should take into account other factors such as their own assessment of the Proposed Merger and input of other advisors.

We have independently applied methods discussed in the Annexures, as considered appropriate, and arrived at the value per share of the Companies. To arrive at the consensus on the fair equity share exchange ratio for the Proposed Merger, suitable minor adjustments / rounding off have been done.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, we recommend the following fair equity share exchange ratio:

For the Proposed Merger of TCCL into TCL:

4 (Four) equity shares of TCL of INR 10/- each fully paid up for every 5 (Five) equity shares of TCCL of INR 10/- each fully paid up.

It should be noted that we have not examined any other matter including economic rationale for the Proposed Transaction per se or accounting, legal or tax matters involved in the Proposed Transaction.

Respectfully submitted, **SSPA & Co.** **Chartered Accountants** ICAI Firm Registration No: 128851W IBBI Registered Valuer No.: IBBI/RV-E/06/2020/126 Parag S. Ved SSPA & Co. REGISTERED VALUER CHARTERED ACCOUNTANTS **Parag Ved** Partner ICAI Membership No. 102432 Registered Valuer No.: IBBI/RV/06/2018/10092 UDIN: 23102432BGUAJH3980 Place: Mumbai Date: 28 March 2023	Respectfully submitted, **Ernst & Young Merchant Banking Services LLP** Registered Valuer Registration No. IBBI/RV-E/05/2021/155 Ernst & Young Merchant Banking Services LLP IBBI/RV-E/05/2021/155 **Parag Mehta** Partner EYMBS/RV/2023/054 Place: Mumbai Date: 28 March 2023

Annexure 1A- Approach to Valuation – SSPA

For the purpose of valuation, generally following approaches can be considered, viz,

(a) the 'Cost' approach;

(b) the 'Market' approach; and

(c) the 'Income' approach

Each of the aforesaid approaches proceeds on different fundamental assumptions which have greater or lesser relevance and at times even no relevance, to a given situation. Thus, the approach to be adopted for a particular valuation exercise must be judiciously chosen.

Cost Approach

The Cost Approach reflects the amount that would be required currently to replace the service capacity of an asset; often referred to as current replacement cost. In the present case, the business of TCL and of TCCL are intended to be continued on a 'going concern basis' and there is no intention to dispose-off the assets, therefore the Cost Approach is not adopted for the present valuation exercise.

Market Approach

Market Price Method

In the present case, the equity shares of both TCL and TCCL are not listed on any recognised stock exchange. Therefore, Market Price Method cannot be considered for valuation of equity shares of the Companies in the present case.

Comparable Companies Multiple Method

Under CCM method, the value of equity shares of companies is determined by using multiples derived from valuations of comparable 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. In the present case, standalone TCL business has been valued based on EV/EBITDA multiple of comparable listed companies and TCFSL, TCHFL and TCCL have been valued based on the Price to Book Value Multiple of comparable listed companies to arrive their respective equity values.

Income Approach

Under Income Approach, equity shares of TCL, TCFSL, TCHFL and TCCL are valued using Discounted Cash Flow ('DCF') Method.

Under DCF method, the projected free cash flows to equity are discounted at the cost of equity. Cost of equity represents the rate of return on investment that is required by the equity shareholders. The sum of the discounted value of such free cash flows and discounted terminal value is the value of the business. Appropriate adjustments have been made for value of other assets and liabilities and contingent liabilities, after considering tax impact wherever applicable.

The value as arrived above is divided by the outstanding number of equity shares to arrive at the value per equity share of TCL, TCFSL, TCHFL and TCCL.

Recommendation of Fair Equity Share Exchange Ratio:

Our exercise is to work out relative value of equity shares of TCL and of TCCL to facilitate the determination of a ratio of exchange. For this purpose, it is necessary to give appropriate weightage to the values arrived at under each approach.

As mentioned above, we have considered a combination of Market Approach and Income Approach for arriving at the relative value per equity share of TCL and of TCCL. The values under each of the approaches is given in the table below:

Valuation Approach	TCCL (A)		TCL (B)	
	Value per Share (INR)	Weights	Value per Share (INR)	Weights
Asset Approach*	NA	NA	NA	NA
Income Approach	113.31	50%	142.22	50%
Market Approach	112.60	50%	139.58	50%
Relative Value per Equity Share	**112.96**		**140.90**	
Fair Equity Share Exchange Ratio (A:B) (Rounded off)	**1.25 : 1**			

NA = Not Applied / Not Applicable
**Since, the business of TCL and TCCL are both intended to be continued on a 'going concern basis' and there is no intention to dispose off the assets, therefore the Asset (Cost) Approach is not adopted for the present valuation exercise.*

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Annexure 1B- Approach to Valuation – EY

There are primarily three approaches in valuation (viz., Cost Approach, Market Approach and Income Approach). For any valuation, all the approaches may not be relevant and therefore will not give a fair estimate of value. Hence, the approach most suitable for that specific business / company must be applied in the valuation exercise, based on the experience and common practices adopted by valuers.

According to IVS 104 "Fair Value is the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have adapted internationally accepted valuation standards and approaches in delivering our valuation conclusion. There are several principal valuation approaches under International Valuation Standard of which we have considered only those approaches to the extent, it is applicable and relevant.

The various approaches generally adopted in valuation are as under:

1. Income Approach: Discounted Cash Flow Method
2. Market Approach: Comparable Companies Market Multiple Method, Comparable Transactions Method and Market Price Method
3. Asset Approach: Net Asset Value Method

We have used the Income Approach (i.e. Discounted Cash Flow ["DCF"] Method) and Market Approach (i.e. Comparable Companies' Market Multiples ["CCM"] Method) for valuation for TCCL. TCL derives its significant value from its operating subsidiaries and other investments and does not have any other significant business operations at standalone entity level. Accordingly, to value TCL we have used Asset Approach (i.e. Net Asset Value [NAV] method) adjusted for fair value of operating subsidiaries and other investments estimated as follows:

(i) TCFSL, TCHFL and TCCL (which contribute majority of the value of TCL) using Income Approach (i.e. DCF Method) and Market Approach (i.e. CCM Method)
(ii) Tata AutoComp Systems Ltd ("TACO"), investment of TCL, based on price of recent transaction in the company.
(iii) Other insignificant investments have been valued using Cost Approach, Market Approach and at fair value recorded in the respective financial statements.

Income Approach - DCF method: Under the DCF method the projected free cash flows to the equity are discounted at the cost of equity. The sum of the discounted value of such free cash flows is the value of the equity. Such DCF analysis involves determining the following:

- *Estimating future free cash flows to equity:*

Free cash flows are the cash flows expected to be generated by the company that are available to equity providers.

- *Appropriate discount rate to be applied to cash flows i.e. the cost of equity:*

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to the equity shareholders. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

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We have used Discounted Cash Flow method for valuation of TCFSL, TCHFL and TCCL based on the business plan for the Valuation Subjects provided to us.

Market Approach - Market Price (MP) method: Under this method, the value of shares of a company is determined by taking the average of the market capitalization of the equity shares of such companies as quoted on a recognized stock exchange over reasonable periods of time where such quotations are arising from the shares being regularly and freely traded in an active market, subject to the element of speculative support that may be inbuilt in the market price.

As the equity shares of TCL and TCCL are not listed on any of the stock exchanges, Market Price method is not used for valuation of TCL and TCCL.

Market Approach - CCM method: Under this method, one attempts to measure the value of the shares / business of a company by applying the derived market multiple based on market quotations of comparable public / listed companies, in an active market, possessing attributes similar to the business of such company - to the relevant financial parameter of the company / business. This valuation is based on the principle that such 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. In the present valuation analysis, we have considered CCM method for arriving the value of TCFSL, TCHFL and TCCL.

Cost Approach – Net Asset Value (NAV) method: Under this approach, the net asset value method is considered, which is based on the underlying net assets and liabilities. In the present valuation analysis, as explained earlier, we have considered NAV method (adjusted for fair value of investment as explained above) for arriving the value per equity share of TCL.

Fair Valuation:

We have arrived at the fair value of equity shares of TCL and TCCL by applying equal weights to the value derived under Income Approach and Market Approach.

The computation of fair equity share exchange ratio for Merger of TCCL into TCL by EY is tabulated below:

Valuation Approach			**TCL (A)**		**TCCL (B)**	
			Value per Share (INR)	**Weight**	**Value per Share (INR)**	**Weight**
Asset Approach - NAV method	Value per share (INR)	Weight	134.1	100%*	NA	NA
Underlying significant investments using DCF method	138.2	50%*				
Underlying significant investments using CCM method	130.1	50%*				
Income Approach – DCF method			NA	NA	107.7	50%
Market Approach - CCM method			NA	NA	106.1	50%
Relative Value per Share			**134.1**		**106.9**	
Fair Equity Share Exchange Ratio (A/B) (Rounded)			**1.25**			

* Majority of TCL's value is driven from TCFSL, TCHFL and TCCL which are valued using DCF method and CCM method and TCL, on standalone basis, does not have any other significant business operations. TACO, investment of TCL, is valued based on recent transaction price. Other investments are valued using cost approach, market approach and at fair value recorded in the respective financial statements, the total value of which is less than 10% to the total value of TCL. It may be noted that we have assigned 100% weight to NAV method however the fair value of underlying subsidiaries/investments, which has been considered to arrive at the NAV of TCL, is significantly based on DCF method and CCM method as presented in the table above.