Prakash Adiga B FCA, DISA, RV(IBBI)
Registered Valuer (IBBI)

October 14, 2022

To
The Board of Directors
Ujjivan Financial Services Limited
Grape Garden, No. 27, 3rd A Cross,
18th Main, 6th Block, Koramangala
Bengaluru - 560095

Dear Sirs

Sub:- Recommendation of fair share exchange ratio for the proposed amalgamation of Ujjivan Financial Services Limited into and with Ujjivan Small Finance Bank Limited

I refer to the engagement letter of 1 October 2022, for a recommendation of a fair equity share exchange ratio for the proposed amalgamation of Ujjivan Financial Services Limited (hereinafter referred to as "UFSL") into and with Ujjivan Small Finance Bank Limited (hereinafter referred to as "USFB") (hereinafter referred to as "Proposed Amalgamation".

1 Background Information

Ujjivan Financial Services Limited was incorporated under the erstwhile Companies Act, 1956 in December 2004 with the initial objective of providing a full range of financial services to the economically active poor in urban areas who were not adequately served by financial institutions. UFSL received in-principle approval from the Reserve Bank of India ("**RBI**") on 7 October 2015, to set up a Small Finance Bank ("**SFB**") and floated its wholly-owned subsidiary Ujjivan Small Finance Bank Limited. UFSL transferred its business undertaking comprising its lending and financing business to USFB through a slump sale transaction on 01 February 2017, and USFB commenced its operations as a small finance bank on the same date.

After the transfer of business, as mandated by the RBI, UFSL got itself registered (registration number 02.00287) as a Core Investment Company (NBFC-ND-SI-CIC). Its main objects are to carry on the business of making investments in a group company in the form of securities and providing guarantees, etc. UFSL is a listed entity, and its equity shares are listed at both BSE and NSE.

USFB promoted by UFSL was incorporated in July 2016 under the Companies Act, 2013. USFB commenced its Banking operations on 01 February 2017 and is a 'scheduled bank' included in the Second Schedule to the Reserve Bank of India Act, 1934, and its equity shares are listed at both BSE and NSE.

As part of the conditions laid down in the license referenced License No. MUM:123 dated 11 November 2016, issued by the RBI to USFB and the Guidelines for Licensing of 'Small Finance Banks' in the Private Sector dated November 27, 2014 read with the Guidelines for 'on-tap' Licensing of Small

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Finance Banks in Private Sector dated December 5, 2019, the promoter of SFB was required to reduce its equity stake in SFB to 40%, then to 30%, and then to 26% within a period of 5 (five) years, 10 (ten) years and 12 (twelve) years respectively, from commencement of operations of SFB. Subsequently, certain recommendations including *inter alia* with respect to the dilution of promoter shareholding were made in a report dated November 20, 2020, by the Internal Working Group (IWG) which was constituted by the RBI to review the extant guidelines on ownership and corporate structure for Indian private sector banks. The RBI vide its press release dated November 26, 2021, has *inter alia* accepted IWG's recommendation with respect to dilution aspects of promoter shareholding in the private sector banks and clarified that the submission of a dilution schedule shall be mandatory.

The management of both companies are contemplating an amalgamation of UFSL with USFB on a downstream merger concept to *inter alia* meet the above-referred dilution requirements. The Board of Directors of UFSL (the Transferor Company) and USFB (the Transferee Company) have resolved that the amalgamation of the Transferor Company into and with the Transferee Company would be in the best interests of the Transferor Company, the Transferee Company and their respective shareholders, creditors, employees, and other stakeholders. A scheme of amalgamation has been finalised under sections 230-232 of the Companies Act, 2013 to form a single entity and to derive inter-alia, benefits of operational savings.

The 'Appointed Date' for the proposed amalgamation has been determined as April 1, 2023.

2 Scope and Purpose of this Valuation

The objective of this valuation is to recommend a fair exchange ratio for the Proposed Amalgamation. It is the UFSL management's decision to seek an advisory opinion to determine the share exchange ratio for the Proposed Amalgamation.

This valuation is done by CA. Prakash Adiga, a registered valuer, Bengaluru. Since this is a limited-scope valuation, no other experts were consulted in the process of valuation.

3 Sources of Information

I have used the following information in this exercise, which I acquired from management, their representatives, and/or gathered from the public domain.

- Annual Reports of UFSL
- Annual Reports of USFB
- Quoted Share Prices and traded volumes at NSE (up to the valuation date)
- Draft scheme of amalgamation
- Details of current business operations of both companies
- Details of ESOPs outstanding as on 31 March 2022, and 12 October 2022, for both companies.
- Details of contingent liabilities of both companies as on 30 June 2022.

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I have had discussions with the management and obtained information and explanations considered necessary for my exercise. To the extent relevant, information obtained from the management has been verified with the information available in the public domain. I have relied on the management representation in respect of other information made available to us. I provided the management, with a draft report (without value recommendations) to ensure factual inaccuracies are avoided.

4 Brief Background of the Companies

Key Historical Financial Information

UFSL

Particulars	*FY 2021-22*	*FY 2020-21*	*FY 2019-20*
Total Income Rs. Crores	6.75	8.44	21.24
Total Expenditure Rs. Crores	3.74	4.55	11.06
Net Profit before tax Rs. Crores	3.01	3.89	10.18
Net Profit Rs. Crores	2.17	2.93	8.81
EPS (Basic) Rs.	0.18	0.24	0.73

USFB

Particulars	*FY 2021-22*	*FY 2020-21*	*FY 2019-20*
Total Income Rs. Crores	3126.07	3116.89	3025.81
Total Expenditure Rs. Crores	3540.66	3108.59	2675.89
Net Profit Rs. Crores	(414.59)	8.30	349.92
EPS - Basic Rs.	(2.40)	0.05	2.19

Capital Structure & Shareholding Pattern (as on September 30, 2022)

UFSL

Equity share capital	*Rs. In Crores.*
Authorised Share capital:	
125,000,000 Equity Shares of ₹ 10 each	125.00
Issued and subscribed and fully paid-up capital comprises:	
121,678,094 Equity Shares of ₹10 each	121.68

Shareholding Pattern of UFSL:

- Promoter & Promoter Group --
- Public 100%
- Non-Promoter & Non-Public --

USFB

Share Capital	*Rs. In Crores.*
Authorised Share capital:	
2,300,000,000 Equity Shares of Rs.10 each	2,300

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Share Capital	*Rs. In Crores.*
200,000,000 11% Preference Shares (Perpetual Non-Cumulative Non-Convertible) of Rs.10 each	200
Issued and subscribed and fully paid-up capital comprises:	
1,954,504,681 Equity Shares of Rs.10 each	1,954.50
200,000,000 11% Preference Shares (Perpetual Non-Cumulative Non-Convertible) of Rs.10 each	200
Total	1,928.31

Shareholding Pattern of USFB:

- Promoter & Promoter Group 73.68%
- Public 26.32%
- Non-Promoter & Non-Public --

5 Valuation Date

The valuation date is 13 October 2022

6 Valuation Approaches

Fair value is defined as the price that would be received on the sale of an asset or payment made for transferring a liability in an orderly transaction between market participants as on the valuation date. In the Proposed Amalgamation, UFSL is amalgamating into and with USFB and hence UFSL is the Transferor company and USFB is the Transferee company. My objective is to identify the number of USFB shares that can be issued against each equity share of UFSL to the holders based on the fair values of the equity shares of USFB and UFSL as on the valuation date.

There are three main valuation approaches:
(a) Market approach.
(b) Income approach; and
(c) Asset-based approach.

Normally, these approaches may lead to different valuations and no single approach can be considered comprehensive and conclusive. The valuer uses his judgment in identifying one or more suitable approaches based on the facts of each case. It is customary to use values under more than one approach/method and the fair value is normally arrived at based on an average.

A market approach is a valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities, or a group of assets and liabilities, such as a business. Under the Market approach, there are three methods viz., Market Price Method, Comparable Companies Multiple (CCM) Method, and Comparable Transaction Multiple (CTM) Method.

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An income approach is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted, or capitalised) amount. This approach is preferred where the asset does not have any or fewer market comparable or comparable transactions. Under the Income Approach generally 'Discounted Free Cash Flow Method' or DCF Method is used.

An asset-based approach is a type of business valuation that focuses on a company's net asset value. An asset-based approach identifies a company's net assets by subtracting liabilities from assets. The asset-based valuation is often adjusted to calculate a company's net asset value based on the market value of its assets and liabilities.

7 Approaches and Methodology Adopted

Since the assets I am currently valuing are listed shares, market information is available and hence Income approach (DCF Method) has not been used in determining the value of both companies. Net Assets method is partially used in the case of UFSL. Shares of both UFSL and USFB are listed in the stock exchanges, Market Price Method (under Market Approach) is suitable and hence considered. Another Market Approach method viz., the CCM method is also used in the case of USFB only.

Under the Market Price method (considered for both companies), I have considered the traded price of the equity shares observed over a one-year period in the National Stock Exchange (NSE) where the trading volume of these shares was highest. Equity shares of both companies are traded on BSE and NSE. In the present case, the share price of both companies on the NSE has been considered, as the trading volumes are higher at NSE as compared to BSE. I have used the volume-weighted average price to reduce the impact of volatility at any point in time. The period immediately preceding one year is considered a reasonable period considering the market conditions. During the period before the one year, the markets were severely impacted due to the impact of the spread of the Covid-19 pandemic and such a period is an aberration for the purposes of valuation. Since the post-pandemic period was defined by a lot of uncertainties, a long duration of one year was considered appropriate under the circumstances.

Comparable Companies Multiple Method (considered for USFB), also known as Guideline Public Company Method, involves valuing an asset based on market multiples derived from prices of market comparable traded on the active market. For USFB, being in the small finance/ private sector banking, this method is suitable. The companies which have been compared belong to the same industry and are operating in the same geographic area with a similar line of business. A set of four companies having similar nature of business (small finance banks) have been considered and appropriate weights have been assigned after considering the size and composition of business activities.

The CCM methodology takes into account the comparable valuation of other similar financial services companies in the broader space while the market price methodology takes into account the trading history of the company for a reasonable period. Accordingly, I have assigned appropriate weights to the

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two valuation methodologies, i.e., the CCM and the Market Price methodology to value USFB which is a listed entity.

In view of not using Income approach-based valuation methods, I have not relied upon any projected information for the purpose of this valuation. Since the DCF method has not been used, there is no assumptions or calculation for the capitalization factor and the weighted average cost of capital (WACC).

For the NAV method (considered only for UFSL), UFSL holds shares of USFB as investments and in calculating the asset-based value these investments are taken at the value used for calculating the swap ratio viz., an average of the market price of the share (NSE-vwap over one year) and the comparable company multiples. No adjustments were made to the published financial information for the purposes of the valuation other than the value of USFB shares held as investments which are based on the average market price as narrated above. There have been no adjustments made based on valuations made by third parties.

Summary of Valuation Approaches/Methods Used:

- **For UFSL: Adjusted Net Assets Value Method under the Asset Approach and Market Price Method under the Market Approach.**

- **For UFSB: Market Price Method and Comparable Company Multiples Method under Market Approach.**

In the case of UFSL, I note that this is a non-operating investment company, and all its investments are in USFB. UFSL derives a substantial portion of its equity value through its holding in USFB. External liabilities are less than 0.1% of the total assets and USFB's shares constitute 93% of the total assets of UFSL at cost. Hence the most important input in the valuation of UFSL is the intrinsic value of UFSL's holding in UFSB where it holds 73.68% of the outstanding equity capital. Accordingly, the Net Asset Valuation Methodology which captures the value of the underlying assets should be given a much higher weightage wherein the valuation of USFB is considered through a combination of CCM and Market Price as mentioned in the above paragraph. I also note that UFSL is listed and its trading price on BSE and NSE should be factored in as one of the methodologies for valuing UFSL. Given that UFSL has no independent operations of its own, a lower weightage is more appropriate for the market price methodology as the see-through valuation is more meaningfully captured through the NAV methodology.

The fair value is determined by arriving at an average price after assigning weights to values indicated by different approaches. The fair exchange ratio is determined based on the proportion of the fair value of equity shares of USFB to UFSL. The table under the 'Conclusion' paragraph explains the calculation of the Fair-exchange ratio of the equity shares of USFB and UFSL.

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8 Basis of Fair Equity Share Swap Ratio

To arrive at a final valuation for the shares of each company, all the elements, and techniques discussed above must be taken into account before determining the basis of the fair equity share swap ratio for the proposed amalgamation. To make it easier to determine the fair equity share swap ratio, I took into account consistent weights and methodologies for the Companies. The fair equity share exchange ratio was calculated using a relative valuation that took into account the various approaches/methods previously described here, as well as various qualitative factors pertinent to each company, as well as the business dynamics and growth potential of the business while taking into account the main underlying assumptions and constraints of the valuation exercise.

I have determined that it is suitable to apply the proper weights to the results produced using each of the aforementioned methods.

The shares have been considered on a fully diluted basis by giving effect to the outstanding ESOPs which are in the money

In order to reach a consensus on the reasonable equity share swap ratio for the proposed amalgamation, the figures obtained have undergone the appropriate minor modification and rounding off.

9 Conclusion and Recommendation

Valuation Approach	*Valuation Method*	*Ujjivan Small Finance Bank*		*Ujjivan Financial Services*	
		Value Per Share (Rs.)	*Weight*	*Value Per Share (Rs.)*	*Weight*
Asset Approach	NAV Method[1]	NA	NA	314.51	80%
Income Approach	DCF Method[2]	NA	NA	NA	NA
Market Approach	Market Price	20.60	80%	152.09	20%
	CCM Method[3]	39.17	20%	NA	NA
Value Per Share		24.31		282.02	
Swap Ratio		**1**		**11.60**	

NA = Not Adopted/ Not Applicable

1. NAV Method under 'Asset Approach' has not been considered for Ujjivan Small Finance Bank since the net asset value does not reflect the intrinsic value of the business in a "going concern scenario"

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2. Discounted Cash Flow Method under the 'Income Approach' has not been considered as both companies are listed on the Stock Exchanges and information related to future profit and loss account, balance sheet, and cash flows is price sensitive and not made available to us.
3. CCM Method under the 'Market Approach' has not been considered for UFSL as it has no independent operations of its own and hence the parameters necessary for comparison are unique.

Based on the methodology adopted, the Fair Value per share of UFSL is determined as Rs. 282.02 (Rupees two hundred eighty-two and two paise only) as against that of USFB's Fair Value which is determined as Rs. 24.31 (Rupees Twenty-four and thirty-one paise only)

In view of this, I recommend a fair exchange ratio (swap ratio) of 1 : 11.6 i.e., 116 USFB equity shares for 10 equity shares of UFSL in the event of amalgamation of UFSL with USFB.

10 Disclosure of valuer Interest/Conflict if any

I am not associated with UFSL or USFB or its associates in any capacity such as auditors etc., and there are no sources of conflict and materials interests involved. Neither the valuer nor the members of the team working on the independent valuation have directly or indirectly, through the client, or otherwise shared any advisory perspective or have been influenced or undertaken to advocate a management position in determining the value.

11 Caveats, Limitations, and Disclaimers

Our report is subject to the limitations detailed hereinafter.

i. This report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein
ii. The report is based on the financial data provided to me by the management of the company and the company and its representatives warranted to me that the information supplied to me was complete and accurate to the best of their knowledge and that the financial information properly reflects the business conditions and operating results for the respective periods in accordance with generally accepted accounting principles. Public information, estimates, industry, and statistical information contained in this report have been obtained from sources considered to be reliable. My engagement for this valuation consulting work does not include any procedures designed to discover any defalcations or other irregularities, should any exist. My review of the affairs of the company and its books and account does not constitute an audit in accordance with Auditing Standards
iii. In rendering this report, I have not provided legal, regulatory, tax, accounting, or actuarial advice, and accordingly I do not assume any responsibility or liability in respect thereof.
iv. Any matters related to legal title and ownership are outside the purview and scope of this valuation exercise. Further, no legal advice regarding the title and ownership of the subject

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property has been obtained while conducting this valuation exercise. Valuation may be significantly influenced by adverse legal, title or ownership, and encumbrance issues.

v. This report is based on the information received from the sources mentioned herein and discussions with the representatives of both companies. I have assumed that no information has been withheld that could have influenced the purpose of our report.

vi. I have assumed and relied upon the truth, accuracy, and completeness of the information, data, and financial terms provided to me or used by me, I have assumed that the same is 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 misstated or incorrect or would not afford reasonable grounds upon which to base our report.

vii. This report and the conclusion of value arrived at herein are for the sole and specific purposes as noted herein. It may not be used for any other purpose or by any other party for any purpose. Furthermore, the report and conclusion of value are not intended and should not be construed by the reader to be investment advice in any manner whatsoever.

viii. Valuation 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 I 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 value on this business.

ix. Whilst all reasonable care has been taken to ensure that the factual statements in the report are accurate, neither I nor any of my partners, officers or employees shall in any way be liable or responsible either directly or indirectly for the contents stated herein. Accordingly, I make no representation or warranty, express or implied, in respect of the completeness, authenticity, or accuracy of such factual statements. I expressly disclaim any liabilities, which may arise based on the information used in this report. I am not liable to any party in relation to the issue of this report.

x. I owe a responsibility to only the Board of Directors of UFSL concerning the terms of the engagement letter and nobody else. I 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 UFSL. In no event shall I 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 involved, their directors, employees, or agents. In no circumstances shall the liability of a Valuer or his employees, relating to the services provided in connection with the engagement set out in this report shall exceed the fees paid to such Valuer in respect of the fees charged by it for these services.

xi. A draft of this report was shared with both companies, prior to the finalization of the report, (excluding the recommended fair equity share swap ratio) as part of our standard practice to make sure that factual inaccuracy/omissions are avoided in the report.

xii. No change of any item in this valuation report shall be made by anyone other than me and I shall have no responsibility for any such unauthorized change.

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xiii. The scope of work was an independent evaluation of data by me, and no due diligence exercise was carried out. The scope of my work has been limited both in terms of the areas of the business and operations which I have reviewed and the extent to which I have reviewed them.

xiv. The fee for this report is not contingent upon the values reported herein.

xv. I have no obligation to update this Report for events and circumstances occurring after the date of this Report

Yours faithfully,

PRAKASH ADIGA IBBI/RV/11780 REGISTERED VALUER

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Reg. No. IBBI/RV/03/2019/11780
Place: Bengaluru
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