

**STRICTLY PRIVATE AND CONFIDENTIAL**

31<sup>st</sup> July 2020

<b>Tata Motors Limited</b> Attn: The Audit Committee / Board of Directors Bombay House, 24, Homi Mody Street, Fort, Mumbai – 400 001	<b>TML Business Analytics Services Limited</b> Attn: The Audit Committee / Board of Directors Floor 3, 4, Plot-18, Nanavati Mahalaya Mudhana Shetty Marg, BSE, Fort Mumbai – 400 001
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Dear Sirs/Madam,

**Sub:Recommendation of consideration (discharged in the form of equity shares) for the proposed transfer of Passenger Vehicle Undertaking of Tata Motors Limited into TML Business Analytics Services Limited**

This has reference to the engagement letter dt. 25<sup>th</sup> July 2020 entered into between **Vikrant Jain** (“Registered Valuer” or “I” or “Me”) and **Tata Motors Limited** (“TML”) and **TML Business Analytics Services Limited** (“TBASL”) (hereinafter collectively referred as “Companies” or “Clients” or “You”) and thereafter discussions that I had with the Clients from time to time in connection with determination of fair value of Passenger Vehicle Undertaking of TML.

**SCOPE AND PURPOSE OF THIS REPORT**

I have been informed by the Clients that TML is contemplating to transfer its Passenger Vehicle Undertaking (“PV Undertaking”) into TBASL (an indirect subsidiary of TML) as a going concern on a slump sale basis through a scheme of arrangement under the provisions of Sections 230–232 of the Companies Act, 2013 and other applicable provisions of the Companies Act, 2013 (“Proposed Transaction”). The consideration is to be discharged by way of issue of equity shares of TBASL to TML. This will not affect shareholding at TML. In this regard, I have been approached for recommending the consideration (to be discharged in the form of equity shares) for the Proposed Transaction and accordingly to provide a report thereof (“Valuation Report”). The said scheme of arrangement also involves reduction of the securities premium account of TML with a corresponding adjustment to accumulated losses without any cash outflow or financial outlay.

This report and the information contained herein are absolutely confidential. It is intended only for the sole use and information of the Board of Directors of the Companies / Committee of the Board and only for the purpose mentioned above. I understand that the Companies may be required to submit this report to regulatory authorities / shareholders, under applicable laws, in connection with the Proposed Transaction. I hereby consent to such disclosure of this report, on the basis that I owe responsibility to only the Companies that has engaged me and no other person; and that to the fullest extent permitted by law, I accept no responsibility or liability to the shareholders of the Companies or any other party, in connection with this report. The results of the valuation and my report will not be permitted to be used or relied by the Companies for any other purpose or any other party for any other purpose whatsoever. I am not responsible to any other person / party for any decision of such person / party based on my report. Any person / party intending to provide finance / invest in the business / shares of the Companies / its holding company / associates / JVs, 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. It is hereby notified that reproduction, copying or otherwise



quoting of my report or any part thereof, except for the purpose as set out earlier in this report is not permitted. The scope of my services is to conduct fair valuation of Passenger Vehicle Undertaking of TML as per the applicable provisions of Companies Act 2013, and in accordance with generally accepted International Valuation Standards.

## SOURCE OF INFORMATION

The valuation analysis is undertaken on the basis of the following information relating to the PV Undertaking of TML, furnished to me by the Clients and information available in public domain:

- Unaudited carved out financial statements for PV Undertaking for years ended 31<sup>st</sup> March 2018 to 31<sup>st</sup> March 2020;
- Unaudited carved out financial statements for PV Undertaking for the quarter ended 30<sup>th</sup> June 2020;
- Financial projections of PV Undertaking for the next 5 years (FY21-FY25) along with underlying assumptions;
- Draft Scheme of Arrangement under section 230-232 of the Companies Act, 2013;
- Other relevant details pertaining to the past and present activities, future plans and prospects and other relevant information and data available in public domain;

## SCOPE LIMITATIONS

My report is subject to the scope limitations detailed in engagement letter dt. 25<sup>th</sup> July 2020. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein. The valuation date considered is 27<sup>th</sup> July 2020.

No investigation of Client's claims to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed 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.

My work does not constitute an audit, due diligence certification or review of the historical financial statements and projections of PV Undertaking of TML referred to in this report. The Management of TML has carved out financial statements for PV Undertaking for quarter ended 30<sup>th</sup> June 2020 on best efforts basis for deriving historical Net Asset Value. Accordingly, I am unable to and do not express an opinion on the accuracy of any financial information referred to in this report.

Valuation analysis and results are also specific to the date of the report. A valuation of this nature involves consideration of various factors including those impacted by prevailing industry trends. This report is issued on the understanding that the Company has drawn attention to all the matters, which it is aware of concerning the financial position of the business and any other matters pertaining to PV Undertaking of TML, which may have an impact on my analysis, on the value of the business, including any significant changes that have taken place or are likely to take place in the financial position of the Companies. I have no responsibility to update this report for events and circumstances occurring after the date of this report.

In the course of the valuation, I have been provided with both written and verbal information, including financial and operating data. I have evaluated the information provided to me by management of TML through broad inquiry and analysis (but have not carried out a due diligence or audit or review for the purpose of this engagement, nor have I independently investigated or otherwise verified the data provided). I have been given to understand by the



management of TML that it has not omitted any relevant and material factors. Accordingly, I do not express any opinion or offer any form of assurance regarding the accuracy and completeness of the information / data provided to me. I assume no responsibility for any errors in the above information furnished by and their impact on the present exercise.

I express no opinion on the achievability of the forecasts relating to the PV Undertaking of TML given to me and are the responsibility of the management of TML. The assumptions used in their preparation, as I have been explained, are based on the present expectation of both – the most likely set of future business events and circumstances and its management's course of action related to them. It is usually the case that some events and circumstances do not occur as expected or which are not anticipated. Therefore, actual results during the forecast period may differ from the forecast and such differences may be material.

My report is not and nor should it be construed as my opining or certifying the compliance with the provisions of any law/standards including Company, Securities Market, Foreign Exchange regulatory, accounting and taxation laws / standards or as regards any legal, accounting or taxation implications or issues. The fee for the said valuation analysis and this report is not contingent upon the results reported.

#### **BACKGROUND OF THE COMPANIES**

TATA MOTORS LIMITED ("TML"), is a public limited company incorporated under the laws of India and having its registered office at Bombay House, 24, Homi Mody Street, Mumbai – 400 001 and its equity shares are listed on the National Stock Exchange ("NSE") and Bombay Stock Exchange ("BSE") and American Depository Receipts are listed on the New York Stock Exchange. TML is engaged in the business of designing, development, manufacturing and sale of a wide range of commercial, passenger and electric vehicles and parts thereof within India and abroad.

#### **Shareholding pattern of TML as on 30<sup>th</sup> June 2020**

<b>Shareholding Pattern (Ordinary shares)</b>	<b>No of Shares</b>	<b>% Shareholding</b>
Promoter & Group	1,309,551,138	42.4%
Public – Institutions	895,832,775	29.0%
Public – Non-Institutions	883,589,981	28.6%
<b>Grand Total</b>	<b>3,088,973,894</b>	<b>100.0%</b>

<b>Shareholding Pattern ('A' Ordinary shares)</b>	<b>No of Shares</b>	<b>% Shareholding</b>
Promoter & Group	27,214,068	5.4%
Public – Institutions	331,127,450	65.1%
Public – Non-Institutions	150,161,378	29.5%
<b>Grand Total</b>	<b>508,502,896</b>	<b>100.0%</b>

Source: BSE

TML BUSINESS ANALYTICS SERVICES LIMITED ("TBASL") is a public limited company incorporated under the laws of India and having its registered office at 3<sup>rd</sup> Floor, Plot-18, Nanavati Mahalaya, Mudhana Shetty Marg, Fort, Mumbai – 400 001. TBASL is a wholly owned subsidiary of TML Business Services Limited. TML directly and indirectly, holds 100% equity interest in TML Business Services Limited and TBASL. Presently, no business is being carried out by TBASL.



## APPROACH TO VALUATION ENGAGEMENT

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

- Discussion with the management to understand the business and fundamental factors that affect its earning-generating capability including strength, weaknesses, opportunity and threats analysis and historical financial performance of PV Undertaking of TML
- Analysis of information shared by the management
- Undertook discussion with Chartered Accountant firm appointed by the Companies and aligned results
- Analysis of information related to PV Undertaking of TML and its peers as available in public domain
- Selection of appropriate internationally accepted valuation methodology/(ies) after deliberation

## VALUATION METHODOLOGY AND APPROACH

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 / undertaking 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".

I have adopted internationally accepted valuation standards & approaches in delivering my valuation conclusion. There are several Principal Valuation approaches under International Valuation Standard of which I have considered only those approaches to the extent, it is applicable and relevant.

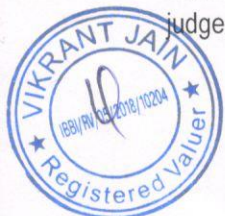
The various approaches generally adopted in valuation are as under:

1. **Asset Approach:** Net Asset Value Method
2. **Market Approach:** Comparable Companies Market Multiple Method
3. **Income Approach:** Discounted Cash Flow Method

The valuation could fluctuate with passage of time, changes in prevailing market conditions and prospects, industry performance and general business and economic conditions, financials and otherwise, of the Company, and other factors which generally influence the valuation of the companies and their assets.

I have relied on the judgement of the management as regards contingent and other liabilities.

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 purpose, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. The choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature, regulatory guideline and my reasonable judgement, in an independent and bona fide manner based on my previous experience of assignments.



The Valuation methodologies as may be applicable which have been used to arrive at the value attributable to the PV Undertaking are discussed hereunder:

### **Net Asset Value (NAV) Method:**

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. The Net Asset Value ignores the future return the assets can produce and is calculated using historical accounting data that does not reflect how much the business is worth to someone who may buy or invest in the business as a going concern.

The net asset value of the business based on the value of its net assets is of relatively limited relevance as compared to its value based on its potential earning capacity. The management of TML has provided unaudited carved out financials for the PV Undertaking as on 30th June 2020 on best effort basis for deriving out historical Net Asset Value.

In the present case, NAV method is not been considered as the most appropriate method and the same has been given "zero" percent weightage and has been kept in the background.

### **Comparable Companies Market Multiple ("CCM") Method:**

Under this method, the equity value attributable to PV Undertaking is arrived at by using multiples derived from valuations of comparable companies, as manifested 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..

### **Discounted Cash Flow ("DCF") Method:**

Under the DCF method the projected free cash flows to the Undertaking is discounted at the weighted average cost of capital. The sum of the discounted value of such free cashflows is the value of the firm. The discounted cash flow method is a modern valuation method that relates the value of an asset to the present value of the expected future cash flows on those assets. I have considered DCF method for valuation, based on the future cash flow as projected for the PV Undertaking of TML.



## CONCLUSION

The fair basis of valuation of PV Undertaking of TML would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove.

In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgement 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 valuation. This concept is also recognized in various judicial decisions.

The scheme of arrangement also includes capital reduction involving writing down the securities premium account of TML in part with a corresponding adjustment to the accumulated losses. There will be no cash outflow or financial impact due to this. Accordingly, the capital reduction does not impact the value of the PV Undertaking.

The Computation of consideration for slump sale of PV Undertaking into TBASL is as under:

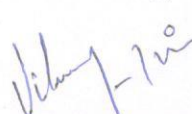
Valuation Approach	PV Undertaking		TBASL	
	Value (INR crores)	Weight	Value (INR/share)	Weight
Asset Approach – Net asset value method	8,590	0%	NA	
Income Approach – Discounted Cashflow Method	9,044	50%	NA	
Market Approach – Comparable Companies' Multiples Method	9,790	50%	NA	
<b>Value</b>	<b>9,417</b>		<b>10.0 per share</b>	

TBASL is a newly incorporated entity with no business operations at present. Hence, none of the valuation approaches mentioned above are relevant and the fair value per share would be the par value, i.e. ₹ 10/- per share. Further, since this is not a case of merger / demerger, consideration is being paid to TML and not to the shareholders of TML. Hence there is no share entitlement ratio being computed.

In the light of the above and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove referred to earlier in this report, in my opinion, the **Fair Value of PV Undertaking of TML works out to ₹ 9,417 Crores, to be settled by issuance of 941.7 crore equity shares of TBASL of INR 10/- each fully paid up.**

Report Submitted

Thanking you,  
Yours faithfully,

  
CA Vikrant Jain  
Registered Valuer  
Reg No: IBBI/RV/05/2018/10204

