JBPR VALUATION ADVISORS LLP

Fair Equity Share Exchange Ratio in relation to the Scheme of Amalgamation between Ujjivan Small Finance Bank Limited and Ujjivan Financial Services Limited

October 2022

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Ref: Engagement letter dated 3rd October 2022

Date: 14th October 2022

To,

The Board of Directors,
Ujjivan Small Finance Bank Limited,
Grape Garden, No. 27, 3rd "A" Cross,
18th Main, 6th Block, Koramangala,
Bengaluru-560 095

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, JBPR Valuation Advisors LLP ('**JBPR Val**' or '**We**' or '**Us**'), have been appointed by Ujjivan Small Finance Bank Limited ('**the Client**' or '**USFB**' or '**Transferee Company**') vide letter dated October 03, 2022, to recommend the fair equity share exchange ratio for Amalgamation of Ujjivan Financial Services Limited ('**UFSL**' or '**Transferor Company**') into and with Ujjivan Small Finance Bank Limited on a going concern basis as per the Proposed Scheme of Amalgamation between UFSL and USFB and their respective shareholders and creditors 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**").

UFSL and USFB shall be collectively referred to 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 a 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 a 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.

JBPR VALUATION ADVISORS LLP

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

For JBPR Valuation Advisors LLP

IBBI Regn No.: IBBI/RV-E/05/2021/150

JBPR Valuation Advisors LLP Regn. No.: IBBI/RV-E/05/2021/150 Bengaluru RVE-Securities or Financial Assets

K. R. Shenoy

Name: Ranjan Kadandale Shenoy

Designation: Partner

IBBI Regn No.: IBBI/RV/05/2020/13617

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Encl: As Above

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1. Brief Background of the Companies

Ujjivan Small Finance Bank Limited

1.1. Ujjivan Small Finance Bank Limited (CIN: L65110KA2016PLC142162) was incorporated on 04 July 2016 as a wholly-owned subsidiary of Ujjivan Financial Services Limited (UFSL). The registered office of USFB is located at Grape Garden, No. 27, 3rd "A" Cross, 18th Main 6th Block, Koramangala, Bengaluru – 560 095.

1.2. USFB was granted a licence to carry out operations as a Small Finance Bank ("**SFB**") on 11th November 2016 (License number MUM: 123).

1.3. Pursuant to the grant of license to USFB and on completion of the relevant regulatory requirements by USFB, UFSL transferred its business undertaking to USFB and effective 01 February 2017, USFB is operating as SFB engaged in the retail banking business with a focus on Micro Banking, Affordable Housing, Micro & Small Enterprises and other assets by providing financing solutions to the individuals and sectors that are underserved by the formal financing channels. USFB provides a comprehensive banking and digital platform for all.

1.4. The equity shares of USFB are listed on the National Stock Exchange of India Limited ('NSE') (Symbol: UJJIVANSFB) & BSE Limited ('BSE') (Ticker Symbol: 542904) since 12 December 2019. NSE and BSE shall be collectively referred to as 'Stock Exchanges'.

1.5. The authorized share capital and the issued, subscribed, called up and fully paid-up capital of USFB, as on Sep 30, 2022, was as follows:

Particulars	**INR Crores**
Authorized Share Capital	2,500.00
2,300,000,000 Equity Shares of ₹ 10/- each	*2,300.00*
200,000,000 11% Preference Shares (Non-Cumulative, Non-Convertible, Perpetual) of ₹ 10/- each	*200.00*
Issued, Subscribed, Called up & Fully Paid up Capital	2,154.50
1,954,504,681 Equity Shares of ₹ 10/- each	*1,954.50*
200,000,000 11% Preference Shares (Non-Cumulative, Non-Convertible, Perpetual) of ₹ 10/- each	*200.00*

1.6. The details of ESOPs granted as on Oct 12, 2022 are given below:

Exercise Price (in ₹)	**No. of Vested Options**	**No. of Unvested Options**
35.00	13,052,081	8,523,759
30.75	13,033	52,133
19.70	33,137	132,548
19.95	Nil	22,476,652
16.60	Nil	115,025

16.70	Nil	80,685
19.05	Nil	101,094
Total	**13,098,251**	**31,481,896**

1.7. The summarised shareholding pattern of USFB as on Sep 30, 2022, is as follows:

Shareholder Category	No. of Equity Shares	% Holding
Promoter & Promoter Group (UFSL)	1,440,036,800	73.68
Mutual Funds	30,916,442	1.58
Alternative Investment Funds	47,381,454	2.42
Insurance Companies	99,326,040	5.08
Foreign Portfolio Investors	63,589,877	3.25
Individuals	252,066,646	12.90
Others	21,187,422	1.08
Total	**1,954,504,681**	**100.00**

1.8. UFSL currently holds 73.68% of the equity shares of USFB. As such, UFSL is the holding company of USFB as defined u/s 2(46) of the Companies Act, 2013, UFSL is the promoter of USFB 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.

Ujjivan Financial Services Limited

1.9. Ujjivan Financial Services Limited ('UFSL') (CIN: L65999KA2004PLC035329) was incorporated on December 28, 2004, under the provisions of the Companies Act, 1956. The registered office of UFSL is located at Grape Garden, No.27, 3rd 'A' Cross 18th Main 6th Block, Koramangala, Bengaluru – 560 095.

1.10. Historically UFSL carried out its operations primarily as a Micro Finance Institution. In 2015, UFSL got in-principle approval to set up a SFB by the RBI.

1.11. UFSL was listed on Stock Exchanges on May 10, 2016 (NSE: UJJIVAN & BSE: 539874).

1.12. Post transfer of UFSL's business undertaking to USFB, USFB commenced its banking operation effective Feb 01, 2017.

1.13. On Oct 10, 2017 UFSL got converted into an NBFC-Core Investment Company. UFSL is currently a non-operating holding company of USFB.

1.14. The authorized share capital and the issued, subscribed, called up and fully paid-up capital of UFSL, as on Sep 30, 2022, was as follows:

Particulars	INR Crores
Authorized Share Capital	
125,000,000 Equity Shares of ₹ 10/- each	125.00
Issued, Subscribed, Called up & Fully Paid up Capital	
121,678,094 Equity Shares of ₹ 10/- each	121.68

1.15. Details of ESOPs for UFSL - granted, vested but unexercised as on Oct 12, 2022 are given below:

Particulars	No. of Options	Exercise Price (in ₹)
Vested but Unexercised stock options	830,253	385.05

1.16. The summarised shareholding pattern of UFSL as on Sep 30, 2022, is as follows:

Shareholder Category	No. of Equity Shares	% Holding
Alternative Investment Funds	1,071,104	0.88
Foreign Portfolio Investors	37,286,419	30.64
Insurance Companies	474,888	0.39
Other Institutions	11,642,798	9.57
Individual share capital up to ₹ 2 Lacs	54,526,920	44.81
NBFCs registered with the RBI	6,400	0.01
Others	16,669,565	13.70
Total	**121,678,094**	**100.00**

2. Purpose of Valuation

2.1. 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 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.

2.2. We understand from the management of the Companies that the Proposed Scheme of Amalgamation seeks to achieve compliance with the dilution requirements as mentioned under 2.1. above in a manner that is in the best interests of and without being prejudicial to UFSL, USFB, the shareholders of UFSL or any other stakeholders.

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

2.3.1. Part IV of the Proposed Scheme: Amalgamation of UFSL with USFB and as consideration for the Amalgamation, the equity shareholders of UFSL will be issued ordinary equity shares of USFB.

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

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

2.6. The appointed date for the proposed Scheme is April 01, 2023, or such other date as determined by the board of USFB to comply with the approvals/directions from the Appropriate Authority.

3. Terms of Engagement

<u>Context and Purpose</u>

3.1. JBPR Val has been appointed to determine the fair equity share exchange ratio for the Proposed Scheme of Amalgamation as mentioned in para 2.5 of this Report. This Valuation Exercise and Valuation Report are solely for the purpose mentioned in the Report.

<u>Restricted Audience</u>

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 sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and applicable provisions and circular assured by the 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 on 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 USFB and intended only for their sole use and information only. To the extent mandatorily required under applicable laws of India, this report may be 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, or 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 JBPR 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 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 bankers 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 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 upon 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 has 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 validation exercise.

4.4. The scope of this 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 a 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 are 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.

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.

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.

4.11. 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 misstated or incorrect or would not afford reasonable grounds upon which to base our Report.

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

4.13. 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 herein, which may occur subsequent to the date of our Report or by virtue of the fact that the details provided to us are incorrect or inaccurate.

4.14. 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.

4.15. Our scope is limited to the recommendation of a 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 the Proposed Scheme of Amalgamation.

4.16. 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 a 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.

4.17. 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 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 the sole responsibility of the investors of the companies, and we don't express an opinion on the suitability or otherwise entering into any financial or other transactions with the Companies.

4.18. 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 single indisputable 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.

4.19. Whilst all reasonable care has been taken to ensure that the factual statements in the report are accurate, neither we 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 on the information used in this Report.

4.20. We owe a 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 common damages cost or expenses arising in any way from fraudulent acts, misrepresentations or wilful default on the 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 cost, 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.

4.21. 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 any third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose.

4.22. 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.

4.23. 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 set 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).

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 the public domain:

5.1.1. Detailed business profile and information of current business operations of the Companies;

5.1.2. Audited financial statements of the Companies for the year ended March 31, 2022;

5.1.3. Details of ESOPs outstanding as on Oct 12, 2022 for both Companies;

5.1.4. Details of contingent liabilities of both Companies as on Jun 30, 2022;

5.1.5. Relevant data and information provided to us by the management and representatives of the Client either in written or oral form or in the form of soft copy and information available in the public domain;

5.1.6. Information provided by leading database sources (proprietary database is subscribed by us or our network firm), market research reports and other published data (including Stock Exchanges); and

5.1.7. 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. The 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 the Companies has informed us that there would be no significant variation between the draft Scheme and the final Scheme approved and submitted to the relevant authorities.

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:

6.1.1. Requested and received financial information;

6.1.2. Obtained data available in the public domain;

6.1.3. Undertook industry analysis such as researching publicly available market data including economic factors and industry trends that may impact the valuation;

6.1.4. Detailed analysis of Comparable Companies for the business similar to the Companies;

6.1.5. Discussions (over calls/emails/conferences) with the management of the Companies to understand the business and fundamental factors;

6.1.6. Selection of valuation methodology/(ies) as per internationally accepted valuation methodologies;

6.1.7. Determined the fair equity share exchange ratio based on the selected methodology.

6.1.8. 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 a significant impact on our valuation exercise, and therefore, this Report.

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

6.3. We understand that UFSL has appointed CA Prakash Adiga B (Hereinafter referred to as "the other Valuer") for determining the share exchange ratio.

6.4. As stated earlier, our scope is to undertake a 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 the valuation approach with the Other Valuer and arrive at a consensus on the Fair Share Exchange ratio.

6.5. Whilst We have independently carried out the valuation of the Companies for recommending the Fair Share Exchange ratio, appropriate averaging and rounding off in values have been carried out to arrive at a consensus on the Fair Share Exchange ratio.

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 the 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, 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 the methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgement, and 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 JBPR Val he's enrolled with ICMAI RVO, which has recommended to follow International Valuation Standards ('**IVS**') for undertaking valuation and accordingly, we have considered the International Valuation Standards assured by the International Valuation Standards Council ('IVSC') in carrying out the valuation exercise.

7.4. The report date is the valuation date ('Valuation Date'). For the valuation exercise, market parameters have been considered up to and including October 13, 2022.

7.5. There are three generally accepted approaches to valuation:

7.5.1. "Asset"/" Cost" Approach

7.5.2. "Income" Approach

7.5.3. "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 / Net Asset Value Method</u>

The summation method, also referred to as the underlying asset method or NAV 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 cases where the asset base dominates earnings capability.

Income Approach

The Income Approach is widely used for valuation under the '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.

<u>Discounted Cash Flow Method</u>

Under the Discounted Cash Flow ('DCF') method, the value of the undertaking is based on expected cash flows for the 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 perpetuity value thereafter. Free cash flows represent the cash available for distribution to both the owners and creditors of the business.

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

The perpetuity (terminal) value is calculated based on the business's potential for future 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 the value of debt, if any (net of cash and cash equivalents) to arrive at the value to the owners of the business. The surplus assets / non-operating assets are also adjusted.

In the case of free cash flow to equity, the cash available for distribution to owners of the business it's 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 the case of listed companies and comparable companies trading all transaction multiples for unlisted companies. The Market Approach generally reflects the investors' perception about the true worth of the company.

i. Market Price Method

Under this method, the market price of 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 the 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 assets 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 an evaluation method where one will be comparing recent market transactions in order to gauge the current valuation of the 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 by years and informed sellers, incorporate all factors relevant to valuation.

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 USFB and UFSL. We have considered the following respective methods for the valuation:

USFB

8.2. In the present case, the equity shares of USFB 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 the valuation of USFB. The volume-weighted average share price observed on NSE for USFB over the last 90 trading days (from 6th June 2022 till 13th October 2022) has been considered as one of the methods for determining value under the market price methodology.

Comparable Companies Multiple ('CCM') method has also been used for determining and arriving at the fair value of USFB since there are comparable companies operating in a similar segment in India. We have selected comparable companies and assigned weights to each of the comparable companies based on the nature of the portfolio, loan book size, growth, profitability etc., in comparison with USFB to arrive at the weighted average of the multiples.

Further, due to the paucity of comparable transactions, the 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 the merger than the values arrived at on the net asset basis being of limited relevance. Therefore, we have not considered the 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 the CCM method, the net worth of USFB is already taken into consideration.

For the purpose of valuing USFB, we have used both the CCM and the Market price methodology with equal weightage as this is an operating company. 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 of time.

Further, discounted cash flow method under the income approach has not been considered as USFB is a listed entity, and the management has not provided us with the information related to future profit and loss account, balance sheet and cashflows being price sensitive.

UFSL

8.3. In the present case, the shares of UFSL are listed on BSE and NSE, and there are regular transactions in their equity shares with reasonable volumes on both Stock Exchanges. Hence, the Market Price method under the Market Approach has been considered as one of the methods for the valuation of UFSL. The volume Weighted average share price observed on NSE for UFSL over the last 90 trading days (from 6th June 2022 till 13th October 2022) has been considered for determining value under the market price methodology.

CCM and CTM methods are 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, UFSL is a holding company and its value is derived from the underlying assets, i.e., investments in UFSL subsidiaries. Accordingly, we have used the Summation method/ NAV method under the Asset/Cost approach for the valuation of UFSL, wherein the fair value of UFSL subsidiaries has been considered to arrive at the fair value of UFSL under the summation method.

UFSL is a pure Holding company. 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 USFB, where it holds 73.68% of the outstanding capital. Accordingly, the Net Asset Valuation Methodology has been given a higher weightage wherein the valuation of USFB is considered through a combination of CCM and Market Price as mentioned in Paragraph 8.2 above.

Further, Discounted Cash Flow method under the income approach has not been considered as UFSL does not have any business operations and its value is derived from the investments in its subsidiaries.

Summary of the valuation approach considered:

Name of the Company	Methods Adopted
USFB	Market Price Method CCM method
UFSL	Market Price Method Summation Method / NAV Method

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 the 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 has 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 potential of the business, 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.

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

10. Major factors that were considered during the valuation

10.1. The equity shares of both Companies are listed on the Stock Exchanges;

10.2. Key operating/financial parameters of USFB;

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

10.4. ESOPs granted by Companies which have an Exercise Price below the current market price

10.5. Discussions with the management of the companies.

10.6. Non-Convertible Preference Shares of USFB held by UFSL will be extinguished post the merger.

11. Conclusion

11.1. In the ultimate analysis, allocation 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, the 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.

11.2. As discussed earlier, we have used the market price method and Comparable Companies Multiple method for the valuation of USFB and the Market Price method and Summation method / NAV method for the valuation of UFSL and arrived at the recommended fair equity share exchange ratio for Amalgamation of UFSL with USFB as follows:

Valuation Approach	Valuation Method	UFSL		USFB	
		Value per share (INR)	**Weights**	**Value per share (INR)**	**Weights**
Asset Approach[i]	Summation Method / NAV Method	258.29	0.55	NA	NA
Market Approach[ii]	MP method	188.70	0.45	21.95	0.5
Market Approach[iii]	CCM method	NA	NA	17.17	0.5
Income Approach	DCF method	NA	NA	NA	NA
Relative Value per share		**226.97**		**19.56**	
Share Exchange Ratio (Rounded off)		10		116	

11.3. To arrive at the consensus on the fair equity swap exchange ratio for the proposed amalgamation, suitable minor adjustments / rounding off has been done.

11.4. Following is the recommended fair equity share exchange ratio for Amalgamation:

116 equity shares of Ujjivan Small Finance Bank Limited (of INR 10/- each fully paid up) for every 10 equity shares held in Ujjivan Financial Services (of INR 10/- each fully paid up).

[i] Summation method under Cost Approach has been considered for UFSL since it is a holding company and its value is derived from the underlying assets. The same is not considered for USFB since its value is derived from the future earnings potential. Since the underlying predominantly includes shares of listed subsidiary company, we have used both Market Price method and CCM method to value the underlying asset end assigned appropriate weights to the values derived from both the methods. Other assets and liabilities are considered at book value.

[ii] UFSL and USFB are listed on BSE and NSE. Hence, we have considered market price method for valuing both companies.

[iii] We have used CCM method for valuation of USFB based on comparable companies operating in similar business segment. CTM method is not used for valuation of USFB due to paucity of Comparable transactions in private space. CCM and CTM method is not considered for UFSL since the value is derived from its asset base rather than its earning potential.

For JBPR Valuation Advisors LLP

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