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Dated: 4 June 2024

To,

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.

Sub: Recommendation of fair equity share and NCD exchange ratio for the Proposed Amalgamation of Tata Motors Finance Limited into Tata Capital Limited

Dear Sir / Madam,

We refer to our engagement letter dated 3 June 2024 of Ernst & Young Merchant Banking Services LLP ("EY" or "we"), whereby EY is appointed by Tata Capital Limited ("Tata Capital" or "TCL") for the recommendation of fair equity share and NCD exchange ratio for the Proposed Amalgamation of Tata Motors Finance Limited ("TMFL") into TCL ("Proposed Amalgamation").

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

The fair equity share and NCD exchange ratio for this report refers to number of equity shares and NCD of TCL which would be issued to the equity shareholders and NCD holders of TMFL, respectively, pursuant to the Proposed Amalgamation.

Our deliverable for this engagement would be a fair equity share and NCD exchange ratio report for the Proposed Amalgamation ("Report").

For the purpose of this Report, we have considered the Valuation Date as 31 May 2024 ("Valuation Date").

For the purpose of this valuation, the valuation is based on 'Going Concern' premise.

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SCOPE AND PURPOSE OF THIS REPORT

TCL is the financial services company of the Tata Group and a subsidiary of Tata Sons Private Limited. It is a non-banking financial company operating as an NBFC-ICC and is *inter-alia* carrying on the business of lending, leasing, factoring, hire purchase and financing.

TMFL is a fully owned subsidiary of TMF Holdings Limited (TMFHL). TMFL is carrying on the business of (a) granting loans and facilities for, *inter-alia*, financing the purchase of (i) new vehicles manufactured by Tata Motors Limited ("TML") and its group companies and (ii) pre-owned vehicles including refinancing existing vehicle finance loans; and (b) granting of loans and advances to transporters, dealers and vendors of TML including the provision of working capital facilities, invoice discounting facilities and factoring facilities.

We understand that the management of the Companies (hereinafter referred to as "the Management") are contemplating amalgamation of TMFL with TCL through a Scheme of Arrangement under the provisions of Sections 230-232 read with Sections 52 and 66 and the other applicable provisions of the Companies Act, 2013 and Rules made there under ("Proposed Transaction").

In this connection, the Audit Committee / Board of Directors of TCL have appointed EY, Registered Valuer, to submit a valuation report recommending a fair equity share and NCD exchange ratio for issue of TCL's equity shares and NCD to the equity shareholders and NCD holders of TMFL, respectively, pursuant to the Proposed Amalgamation, to be placed before the Audit Committee/ Board of Directors of the Company.

We understand that the appointed date for the Proposed Amalgamation as per the draft scheme shall be opening of business hours of 1 April 2024.

The scope of our services is to conduct a relative (and not absolute) valuation of equity shares and NCD of the Valuation Subjects and report a fair equity share and NCD exchange ratio for the Proposed Amalgamation in accordance with internationally accepted valuation standards.

We have been provided with the audited financials of TCL and TMFL for the year ended 31 March 2024. We have taken into consideration the current market parameters in our analysis and have appropriately made adjustments for additional facts made known to us till the date of our Report. Further, we have been informed that all material information impacting the Valuation Subjects have been disclosed to us.

We have been informed by TCL that TMFL has also appointed independent valuer ("Other Valuer") for the Proposed Amalgamation. EY and the Other Valuer (jointly referred as "Valuers") have been appointed severally and not jointly and have worked independently in their analysis. Further, upon conclusion of our work and prior to issue of the report, we have discussed our methodology, approach and findings with the Other Valuer and have arrived at a consensus on the Fair equity share and NCD exchange Ratio, after making appropriate minor adjustments/ rounding off.

We have been informed by the management that:

a) In the event that either of the Companies restructure their equity share capital by way of share split / consolidation / issue of bonus shares/ any other capital infusion at a price other than Fair Value before the Proposed Amalgamation becomes effective, the issue of shares pursuant to the fair equity share and NCD exchange ratio recommended in this Report shall be adjusted accordingly to take into account the effect of any such corporate actions;
b) till the Proposed Amalgamation becomes effective, neither Companies would declare any substantial dividends other than in the ordinary course of business; and

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c) there are no unusual/abnormal events in the Companies materially impacting their operations/financial position after 31 March 2024 till the Report date.

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

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:

- Draft Scheme of Arrangement for the Proposed Amalgamation.
- Audited consolidated financial statements for the year ended 31 March 2024 for TCL.
- Audited financial statements for the year ended 31 March 2024 for TMFL.
- Consolidated financial projections of TCL and financial projections of TMFL for the period from 1 April 2024 to 31 March 2027.
- Number of equity shares of the Companies as on the Valuation Date on a fully diluted basis.
- Details of Non-convertible debentures and perpetual debentures of TMFL
- Other relevant information and documents for the purpose of this engagement.

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 Companies have been provided with the opportunity to review the draft report (excluding the recommended fair equity share and NCD 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, and clarifications regarding past financial performance of the Companies.
- Considered 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 and historical financial performance of the Companies, as available in public domain.
  - Understand the assumptions and the basis of key assumption used by the management of the Companies in developing the projections.
- Undertook Industry Analysis:
  - Researched publicly available market data including economic factors and industry trends that may impact the valuation
  - Analysed of key trends and valuation multiples of comparable companies/comparable transactions using: Proprietary databases subscribed by us or our network firms
  - Analysed and compared yield to maturity ("YTM") of the listed NCD's of TMFL and TCL along with YTM of listed debentures of other companies with similar ratings

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- Selection of internationally accepted valuation methodology/(ies) as considered appropriate by us, in accordance with the International Valuation standards (effective January 31, 2022) published by the International Valuation Standards Council.
- Arrived at relative valuation of Valuation Subjects in order to determine the fair equity share and NCD exchange ratio for the Proposed Amalgamation

SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

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 user to which this valuation is addressed should read the basis upon which the valuation has been done and be aware of the potential for later variations in value due to factors that are unforeseen at the Valuation Date. Due to possible changes in market forces and circumstances, this valuation Report can only be regarded as relevant as at the Valuation Date.

This Report has been prepared for the purposes stated herein and should not be relied upon for any other purpose. Our Client are the only authorized users of this report and use of the report is restricted for the purpose indicated in our engagement letter. This restriction does not preclude the Client 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.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the Client's existing business records. Accordingly, we express no audit opinion or any other form of assurance on this information.

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) Draft Scheme of Arrangement for the Proposed Amalgamation; (iv) Audited consolidated financial statements of TCL for financial year ended 31 March 2024, (v) Audited financial statements of TMFL for financial year ended 31 March 2024, (vi) Details of non-convertible debentures and perpetual debentures of TMFL and TCL, and (vii) other information obtained by us from time to time. We have been informed that the business activities of TCL and TMFL have been carried out in the normal and ordinary course between 31 March 2024 and the Report date and that no material changes have occurred in their respective operations and financial position of TCL and TMFL between 31 March 2024 and the Report date.

An analysis of such 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. 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.

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 Client or Companies, their directors, employees or agents.

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The Client/owners and their management/representatives warranted to us that the information they supplied was complete, accurate and true and correct to the best of their knowledge. We have relied upon the representations of the Client, their management and other third parties, if any, concerning the financial data, operational data and other information, except as specifically stated to the contrary in the Report. We shall not be liable for any loss, damages, cost or expenses arising from fraudulent acts, misrepresentations, or willful default on part of the companies, their directors, employee or agents.

EY is not aware of any contingency, commitment or material issue which could materially affect the Companies' economic environment and future performance and therefore, the valuation of the Companies.

We do not provide assurance on the achievability of the results forecast by the Management 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 Management.

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. Further, as specifically stated to the contrary, 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, if any provided to us.

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

It has been assumed that the required and relevant policies and practices have been adopted by the Companies and would be continued in the future.

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

The actual equity share exchange ratio may be higher or lower than our recommendation depending upon the circumstances of the transaction, the nature of the business. The knowledge, negotiating ability and motivation of the buyers and sellers will also affect the exchange ratio achieved. Accordingly, our recommended fair equity share and NCD exchange ratio will not necessarily be the equity share exchange ratio at which actual transaction will take place.

We have also relied on data from external sources to conclude the valuation. These sources are believed to be reliable and therefore, we assume no liability for the truth or accuracy of any data, opinions or estimates furnished by others that have been used in this analysis. Where we have relied on data, opinions or estimates from external sources, reasonable care has been taken to ensure that such data has been correctly extracted from those sources and /or reproduced in its proper form and context.

Any person/ party intending to provide finance/ invest in the shares / businesses of the companies/ their holding companies/ subsidiaries/ joint ventures/ associates/ investee/ group companies, if any, 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 us.

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EY will owe the responsibility only to the Client that has appointed us under the terms of engagement letter. We will not be liable for any losses, claims, damages, or liabilities arising out of the actions taken, omissions or advice given by any other person.

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

We do not have any financial interest in the Client, 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.

SHAREHOLDING PATTERN

TCL

The issued and subscribed equity share capital of TCL as of 31 May 2024 is INR 37,464.07 million consisting of 3,746,407,148 equity shares of face value of INR 10 each. The shareholding pattern is as follows:

Shareholding Pattern as on 31 May 2024	No. of Shares	% Shareholding
Promoter & Group (Tata Sons & Group)	3,569,700,650	95.28%
TCL Employee Welfare Trust	43,223,455	1.15%
Other minority shareholders	133,483,043	3.56%
Grand Total	**3,746,407,148**	**100.0%**

Source: Management

TMFL

The issued and subscribed equity share capital of TMFL as of 31 May 2024 is INR 49,693.9 million consisting of 496,939,176 equity shares of face value of INR 100 each. TMFL is a wholly owned subsidiary of TMF Holdings Limited.

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(i) APPROACH FOR RECOMMENDATION OF FAIR EQUITY SHARE EXCHANGE RATIO

The Proposed Amalgamation contemplates the amalgamation of TMFL into TCL. Arriving at the fair equity share exchange ratio for the Proposed Amalgamation of TMFL into TCL would require determining the relative value of equity shares of TMFL 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 Amalgamation.

We have followed the International Valuation Standards ("IVS") for carrying out our valuation analysis and delivering our valuation conclusion. There are primarily three approaches in valuation (viz., Cost/Asset 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.

We have adopted a definition of Market Value as given in IVS 104: "Market 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".

The Fair Value referred in the Report is same as Market Value as defined above.

We have considered 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. Cost/Asset Approach: Net Asset Value method
2. Income Approach: Discounted Cash Flows (DCF) method
3. Market Approach: Comparable Companies' Market Multiple (CCM) method, Comparable Transactions' Multiple (CTM) method and Market Price method

We have used the Income Approach (i.e., DCF method) and Market Approach (i.e., CCM method) and for valuation of both the Valuation Subjects.

Fair valuation of the Valuation Subjects factors various intangible assets whether or not recorded in the financials of the respective Valuation Subjects.

Cost/ Asset Approach – Net Asset Value (NAV) method: Under this approach, the net asset value method is based on the underlying net assets and liabilities. Cost approach is not considered suitable since it does not capture the earnings potential or value of intangibles in the business. Hence, in the present valuation analysis, we have not considered NAV method.

Income Approach – Discounted Cash Flow (DCF) method: Under the DCF method the projected free cash flows to the equity shareholders 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 to equity are the cash flows expected to be generated by the company that are available to equity providers.

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- *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.

We have used Discounted Cash Flow method for valuation of TCL and TMFL based on the business plans provided to us by the Management.

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.

The equity shares of Valuation Subjects are not listed on any recognized stock exchange. Accordingly, the Market Price method has not been considered.

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 Price/Book ("P/B") multiple for arriving at the value of the Valuation Subjects.

BASIS OF FAIR EQUITY SHARE EXCHANGE RATIO

The basis of the amalgamation of TMFL 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 the above methods, for the purposes of recommending the fair equity share exchange ratio it is necessary to arrive at a final value for each Valuation Subject. 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.

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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 Amalgamation 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 Amalgamation and input of other advisors.

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Fair Valuation:

We have arrived at the fair value of equity shares of TCL and TMFL by applying equal weights to the value derived under Income Approach and Market Approach (CCM method).

The computation of fair equity share exchange ratio for the Proposed Amalgamation of TMFL into TCL is tabulated below:

Valuation Approach	**TCL (A)**		**TMFL (B)**	
	Value per Share of TCL (INR)	**Weight**	**Value per Share of TMFL (INR)**	**Weight**
Cost/Asset Approach (i)*	NA	NA	NA	NA
Income Approach – DCF method (ii)	240.4	50%	79.4	50%
Market Approach - CCM method (iii)	212.3	50%	87.4	50%
Relative Value per Share (Weighted Average of (ii) and (iii))	**226.4**		**83.4**	
Fair equity share exchange ratio (B/A) (Rounded)	**0.37**			

** We have not considered Asset approach i.e. NAV method as it does not capture the earning capacity of the business and hence NAV method would not be representative of fair value of Valuation Subjects.*

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 Amalgamation of TMFL into TCL:

37 (Thirty seven) equity shares of TCL of INR 10/- each fully paid up for every 100 (One hundred) equity shares of TMFL of INR 100/- each fully paid up.

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(ii) APPROACH FOR RECOMMENDATION OF NCD EXCHANGE RATIO

- TMFL has outstanding NCDs of INR 58,474 mn as at 31 March 2024.

- As per the draft scheme of arrangement pertaining to the NCDs of TMFL:

  "The Scheme envisages that the holders of NCDs of the Amalgamating Company will become holders of NCDs of the Amalgamated Company at exactly the same terms, including the coupon rate, tenure, redemption price, quantum, and nature of security, ISIN, respectively. Therefore, the Scheme will not have any adverse impact on the holders of the NCDs and thus adequately safeguards interests of the holders of the NCDs"

- Based on the yield data available on the National Stock Exchange of India Limited and BSE Limited for the Listed NCDs of TMFL and TCL, we observe that the overall average yield of the Listed NCDs of TMFL and overall average yield of the Listed NCDs of TCL are not materially different.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, for the respective series of NCDs, we recommend the fair NCD exchange ratio of:

For every 1 (One) NCD of TMFL 1 (One) NCD of TCL of equivalent face and paid-up value, coupon rate, tenure, redemption price and quantum and nature of security offered etc.

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,
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/2024-25/037

Place: Mumbai
Date: 4 June 2024