Recommendation of Fair Equity Share Exchange Ratio
As
consideration for the Proposed Amalgamation of Edelweiss Retail Finance Limited ('ERFL') ('Transferor Company')
With
ECL Finance Limited ('ECL')
('Transferee Company')
And
their respective shareholders

Valuation Date: 31st March 2024
Report Date : 30th May 2024

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IBBI Registration No.: IBBI/RV/06/2019/10708
ICAI RVO Membership No.: ICAIRVO/06/RV-P00113/2018-19
PAN: AAEPR3560Q

BHAVESH M. RATHOD
RV REGN. No. IBBI / RV / 06 / 2019 / 10708 (Securities or Financial Assets)
REGISTERED VALUER

To,
The Board of Directors,
Edelweiss Retail Finance Limited ('ERFL')
Ground Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla(W) Mumbai, Maharashtra - 400 070

To,
The Board of Directors,
ECL Finance Limited ('ECL')
5th Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla (W), Mumbai, Maharashtra - 400 070

Sub: Recommendation of fair equity share exchange ratio as consideration for the proposed amalgamation of Edelweiss Retail Finance Limited ('ERFL') ("Transferor Company") with ECL Finance Limited ('ECL') ("Transferee Company") and their respective shareholders

We understand that the management of ERFL and ECL are contemplating a scheme of amalgamation under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**"), and Rules framed there under, whereby it is proposed to amalgamate ERFL with ECL, on a going concern basis (**"Scheme"**) with Appointed Date as of 01st October 2024.

With respect to the subject as mentioned above, we are writing to confirm our understanding of the scope of services and related terms for engagement of Bhavesh M Rathod, Registered Valuer - Securities or Financial Assets, for recommendation of share exchange ratio for the proposed merger of Edelweiss Retail Finance Limited (herein after referred to as "Transferor Company" or "ERFL") with ECL Finance Limited (herein after referred to as "Transferee Company" or "ECL").

ERFL and ECL are jointly referred to as 'Clients' and 'Companies'.

As per Regulation 59A of SEBI (Listing Obligations and Disclosure Requirements) regulations, 2015 (as amended) read with circular No. SEBI/HO/DDHS/PoD1/P/CIR/2023/108 dated 29th July 2022 and updated as on 30th June 2023, debt listed entities are required to submit a valuation report from a Registered Valuer in case of entering into a scheme amalgamation of Edelweiss Retail Finance Limited (herein after referred to as "Transferor Company" or "ERFL") with ECL Finance Limited (herein after referred to as "Transferee Company" or "ECL") on a going concern basis in the manner provided for in the Scheme ('Valuation Purpose'). The Valuation date is 31st March 2024 (Valuation Date).

Based on our valuation analysis, we recommend share exchange ratio as below:

1,124 (One thousand One hundred and twenty-four) fully paid-up Equity Shares of ECL of Re. 1 each for every 100 (Hundred) Equity Shares of Re. 10/- each to be issued to shareholders of ERFL

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This report is structured under the following broad heads:

- Background
- Information Sources
- Valuation Standards followed and Procedure adopted for Valuation
- Valuation Approached and Methodologies
- Scope Limitation and Disclaimers
- Share Issuance Ratio and Conclusion

BACKGROUND

ECL Finance Limited ('ECL')

ECL was incorporated on 18th July, 2005 with CIN U65990MH2005PLC154854 under the Companies Act, 1956. ECL has its registered office at 5th Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla(W) Mumbai, Maharashtra – 400 070.

ECL business Comprises following segments:

- **Micro, small and medium enterprise ('MSME') Finance**: Under this segment the Company provides loans to MSMEs. Management plans to increase the size of the loan book in this segment in the long run.
- **Mortgage Finance**: Under this segment the Company provides loan against property and loan against shares. Management plans to reduce the size of the loan book in this segment to zero by the [year ended 31 March 2026], as part of the change in long term strategy of the Company.

  We understand that the Management is in the process of implementing a change in the long-term strategy of the Company, whereby the Wholesale Finance and Mortgage Finance business is expected to be significantly reduced over the next [2-3] years and the Management expects to increase the MSME Finance business multi-folds in the long run. The Management has envisaged various measures and plans to enable this strategy change in the medium and long-term, which are at different stages of implementation. As part of the long-term strategy, it is also envisaged that the loan portfolio of Edelweiss Retail Finance Limited ('ERFL') will be moved to ECL, which will run a combined book including ERFL loan portfolio.

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The shareholding pattern of ECL as of 24th May 2024 is as under:

Sr.no.	Particulars	Number of shares held	% shareholding
1	Edel Finance Company Limited (EFCL)	2,138,216,650	99.99%
2	Retail Shareholders	50,000	Negligible
3	Ecap Equities Limited	1,000	Negligible
	Total	**2,138,267,650**	**100.00%**
	CCD Diluted	561,890,162	
	Total diluted Shares	**2,700,157,812**	

Edelweiss Retail Finance Limited ('ERFL')

ERFL was incorporated on 18th February 1997, bearing CIN U67120MH1997PLC285490 and having its registered office at Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla(W) Mumbai, Maharashtra – 400 070.

Edelweiss Retail Finance Limited ('ERFL'), is a NBFC engaged in advancing loans to the wholesale and the retail customers. The wholesale segment includes term loans provided to real estate developers and structured finance provided to companies in diversified industries. The retail segment includes loans to MSME and mortgage finance.

The shareholding pattern of ERFL as of 24th May 2024 is as under:

Sr.no	Name of Shareholders	Number of shares held	% shareholding
1	Edelcap Securities Ltd	30,258,333	70.45%
2	Ecap Equities Ltd	9,691,667	22.57%
3	Edel Finance Company Limited	3,000,000	6.98%
	Total	**42,950,000**	**100.00%**

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INFORMATION SOURCES

We have relied on the following sources of information and documents provided to us by the management:

- Audited financial statements of ECL for the year ended on 31st March 2024
- Audited financial statements of ERFL for the year ended on 31st March 2024
- Draft Scheme
- Latest shareholding details of ERFL and ECL as on 24th May 2024
- Our regular discussions with management representatives of the Companies.

We have also relied on published and secondary sources of data whether or not made available by the Companies.

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VALUATION STANDARDS FOLLOWED AND PROCEDURES ADOPTED FOR VALUATION

- We have performed the valuation analysis, to the extent possible, in accordance with ICAI Valuation Standards, 2018 (**"IVS"**) issued by the Institute of Chartered Accountants of India. IVS 301 on Business Valuation deals with valuation of a business or business ownership interest (i.e., it includes valuation of equity shares).
- In connection with this exercise, we have adopted the following procedures to carry out the valuation analysis:
  - Requested and received relevant data from the management
  - Discussions with the management on understanding of the businesses of the companies - business and fundamental factors that affect their earning capacity including historical performance, future plans and prospects, etc.
  - Obtained and analyzed data made available to us as well as in public domain, as considered relevant by us
  - Selection of valuation approach and valuation methodology/ (ies), in accordance with IVS, as considered appropriate and relevant by us
  - Determination of values of the equity shares of the companies, as relevant
  - Preparation and issuance of this valuation report

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VALUATION APPROACHES AND METHODOLOGIES

- As per the Scheme, the face value of shares of ECL is INR 1/- per equity share. In accordance with IVS, to arrive at the fair share exchange ratio, it is required to determine the fair value of equity shares of ERFL and the fair value of equity shares of ECL. These values are to be determined on a per share basis and are independently without considering the Proposed Transaction. The values are then to be assessed on a relative basis to determine the share exchange ratio.
- For the purpose of valuation, it is necessary to select an appropriate basis of valuation amongst the various valuation techniques. It is universally recognized that valuation is not an exact science and that estimating values necessarily involves selecting a method or approach that is suitable for the purpose. The application of any particular method of valuation depends upon various factors including the size of company, nature of its business and purpose of valuation. Further, the concept of valuation is all about the price at which a transaction takes place i.e., the price at which the seller is willing to sell, and the buyer is willing to buy. Accordingly, a fair and reasonable approach for valuing the shares of the company implies using a combination of these methods.
- IVS 301 read with IVS 103 specifies that generally the following three approaches for valuation of business / business ownership interest are used:
    - Cost Approach
    - Market Approach
    - Income Approach

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Cost Approach – Net Asset Value ("NAV") method

- The value under the cost approach is determined based on the underlying value of the assets which could be on book value basis, replacement cost basis or on the basis of realizable value. Under the NAV method, total value of the business is based either on net asset value or realizable value or replacement cost basis. Adjusted NAV method determines the value of the business by replacing the book value of the assets with their fair values, to the extent applicable. NAV methodology is most applicable for the business where the value lies in the underlying assets and not the ongoing operations of the business.
- We have considered Adjusted NAV method to determine the value of shares of ECL and ERFL as the Companies have recorded certain immovable assets (land, building, etc.), and / investments, which are generally appreciating in nature. However, we understand that this method may reflect the true earning potential of the business and assigned 50% weightage to the value arrived using this method. Therefore, we considered the cost approach to determine the value of equity shares of ERFL with ECL.

Income Approach – Discounted Cash Flows ("DCF") method

- Under the Income Approach, business is valued by converting maintainable or future amount of cash flows to a single current amount either through discounting or capitalization. DCF Method seeks to arrive at the value of the business based on its future cash flows generating capability and the risks associated with the said cash flows. FCFF or free cash flows to the firm (**"FCFF"**) represents the cash available for distribution to both the owners and the creditors of the business. The risk-adjusted discount rate or Weighted Average Cost of Capital is applied to free cash flows in the explicit period and that in perpetuity. The adjustments pertaining to debt, surplus/non-operating assets including investments, cash & bank balance and contingent assets/liabilities and other liabilities, as relevant, are required to be made in order to arrive at the value for equity shareholders. The total value for the equity shareholders so arrived is then to be divided by the number of equity shares to arrive at the value per equity share of the company.
- The Management is in the process of implementing a change in the long-term strategy of the Company, whereby the Wholesale Finance business has been discontinued with effect from 1 January 2024. The MSME Finance business is expected to increase multi-folds in the long run. The management has also devised a plan to allocate funds from the wholesale reduction to Treasury function. The Management has envisaged various measures and strategies to enable this strategy change in the medium and long-term, which are at different stages of implementation.

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- While we have been provided with the Short-term Management Projections, we have not been provided with the detailed forecast of ECL's expected performance beyond the current financial year. Given that ECL is in the midst of a long-term strategy change and detailed medium to long term forecasts are not available, we have not adopted the Income Approach in our analysis.

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Market Approach – Market Price method

- Under the Market Price method, the market price of an equity shares as quoted on a recognized stock exchange is normally considered as the value of the equity shares of that company, where such quotations are arising from the shares being regularly and frequently traded. Generally, market value is reflective of the investors' perception about the actual worth of the company. However, in certain situations, the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in case of amalgamation, where the value of shares of one company is required to be evaluated against the value of shares of another company, the volume of shares traded and available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.
- We understand that the equity shares of the Companies are not listed on any recognized stock exchange in India. We have therefore not used the Market Price method to determine the value of equity shares of the Companies.

Market Approach – Comparable Companies' Multiple ("CCM") method

- Under CCM Method, the value of shares of the subject company is determined on the basis of multiples derived from valuations of comparable companies. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances. The CCM Method arrives at the value of the company by using multiples derived from 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. The relevant multiples need to be chosen carefully and adjusted for differences, such as growth potential, past track record, size, company dynamics, etc.
- We have adopted the CCM method under the Market Approach for the valuation of the Companies. We understand from the management that the listed comparable companies have a multiple much higher than the listed group company multiple (i.e. of Edelweiss Financial Services Limited). We have considered the multiple determined and assigned 50% weightage to the value arrived using this method for the said Valuation Purpose.

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Rationale for CCM Multiple

We understand that the Management is in the process of implementing a change in the long-term strategy of the Company, whereby the Wholesale Finance and Mortgage Finance business is expected to be significantly reduced over the next [2-3] years and the MSME Finance business is expected to increase multi-folds in the long run. The Management has envisaged various measures and strategies to enable this strategy change in the medium and long-term, which are at different stages of implementation. The long-term strategy plans imply uncertainties involved around the shift of business segments. We also understand that ERFL will eventually merge into ECL;

Considering that ECL business will grow and ERFL has been running down its business, we have applied relevant and appropriate discount to the multiple of Edelweiss Financial Services Limited, and the discounted multiple has been applied to the net worth of the Company.

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SCOPE LIMITATIONS AND DISCLAIMERS

- Valuation analysis and results are specific to the purpose of valuation mentioned in this report as per agreed terms of our engagement. It may not be valid for any other purpose or as at any other date.
- We owe responsibility only to the management of the Companies that has retained us and to nobody else. We do not accept any liability to any third party in relation to the issue of this valuation report. Our valuation report cannot be used for any other purpose. This report has been prepared for the Management of the Companies solely for the purpose of the Proposed Transaction envisaged in the Scheme and for submission to any regulatory / statutory authority as may be required under any law. This report should not be used for any other purpose.
- Our analysis is based on the market conditions and the regulatory environment that currently exists. However, changes to the same in the future could impact the company and the industry it operates in, which may impact our valuation analysis.
- Neither we nor any of our affiliates are responsible for updating this report because of events or transactions occurring subsequent to the date of this report.
- We have considered and relied on the information provided to us by the management of the Companies, including financial information, significant transactions and events occurring subsequent to the balance sheet date. We understand that the information provided to us and the representations made to us (whether verbal or written) are reliable and adequate. We have derived our conclusions and recommendation from the information so provided and we are thus reliant on the given information to be complete and accurate in every significant aspect. We are made to believe that the management of the Companies have informed us about all material transactions, events or any other relevant factors which are likely to have an impact on our valuation recommendation.
- In the ultimate analysis, valuation will have to capture the exercise of judicious discretion by the Valuer and judgment taking into account all the relevant factors. There will always be several factors which are not evident from the face of the financial statements, but which will strongly influence the worth of a share. Examples of such factors include quality and integrity of the management, capital adequacy, asset quality, earnings, liquidity, size, present and prospective competition, yield on comparable securities and market sentiment, etc. This concept is also recognized in judicial decisions.
- This report does not look into the business / commercial reasons behind the Proposed Transaction. We have no present or planned future interest in either of the Companies and the fee for this certificate is not contingent upon the values reported therein. Our valuation analysis should not be construed as an investment advice. We do not express any opinion on the suitability of or otherwise of entering into any transaction with the Companies.

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SHARE ISSUANCE RATIO AND CONCLUSION

- The basis of share exchange ratio would have to be determined after taking into consideration all the factors and methods mentioned in this report. Though different values have been arrived at under each of the above methods, for the purposes of recommending the fair exchange ratio of equity shares it is necessary to arrive at a final value for each of the Companies' shares. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of the Companies, but at their relative values to facilitate the determination of the fair equity share exchange ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each approach / method.
- The fair equity share exchange ratio has been arrived on the basis of a relative equity valuation of the Companies that is based on various approaches / methods explained herein earlier, various qualitative factors relevant to each company, the business dynamics, growth potential of the businesses of the Companies, having regard to information base, key underlying assumptions and limitations. We have independently applied methods discussed above, as considered appropriate, i.e., adjusted NAV method and CCM method for the Companies and arrived at the assessment of the value per equity share of ECL and ERFL.

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- In light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined hereinabove referred to earlier in this report for the Proposed Transaction and upon the proposed scheme becoming effective, in our opinion, we recommend fair equity share exchange ratio for the amalgamation of ERFL with ECL as below:

Share Exchange Ratio

Valuation approach	ECL Finance Limited		Edelweiss Retail Finance Limited	
	Value per equity share (INR)	Weight (%)	Value per equity share (INR)	Weight (%)
Asset approach - NAV method	10.87	50.00%	128.31	50.00%
Income approach - DCF method	NA	0.00%	NA	0.00%
Market approach - CCM method	11.96	50.00%	128.31	50.00%
Relative value per share	**11.41**		**128.31**	
Share Exchange Ratio	**11.24**			
Fair share exchange ratio	**1,124 equity shares of ECL for every 100 equity shares of ERFL**			

1,124 (One thousand One hundred and twenty-four) fully paid-up Equity Shares of ECL of Re. 1 each for every 100 (Hundred) Equity Shares of Re. 10/- each to be issued to shareholders of ERFL

Yours faithfully

BHAVESH M. RATHOD
RV REGN. No. IBBI / RV / 06 / 2019 / 10708 (Securities or Financial Assets)
REGISTERED VALUER

Bhavesh M Rathod
Chartered Accountants
M No: 119158
Registered Valuer - Securities or Financial Assets
(Reg No: IBBI/RV/06/2019/10708)
Date: 30th May 2024
Place: Mumbai

ICAI UDIN: 24119158BKAEYJ8511