24/02/2025

The Board of Directors,
Hero Fincorp Limited,
CIN: U74899DL1991PLC046774
34, Community Centre,
Basant Lok Vasant Vihar,
New Delhi 110057

Opinion on Fair Value of Equity Shares of "Hero Fincorp Limited" (The Company)

Dear Sirs,

I, Naveen Singal, Partner Resonate Valutech LLP (Registered Valuer Entity - IBBI/RV-E/06/2024/209), thank you for our appointment on 24/01/2025 to provide fair valuation of equity shares of **Hero Fincorp Limited** (hereinafter referred to as 'Company' or 'Client' or 'HFL') as on 31/12/2024 (The Valuation Date).

In the following paragraphs, we have summarized the valuation analysis of the company as on the Valuation Date together with the description of the purpose, methodologies used and limitations on our scope of work in accordance with the Valuation Standards issued by the Institute of Chartered Accountants of India read alongwith International Valuation Standards 2025 (IVS) issued by International Valuation Standards Council (IVSC). This report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein. We are pleased to present herewith our report on the same.

1. Purpose and scope of Valuation

We have been informed that the company proposes to issue equity shares under section 62(1)(c) and such other provisions of the Companies Act, 2013, read with Rules framed there under and accordingly appointed us to give opinion on the fair value of equity shares.

2. Summary of Opinion

The company is not listed on any stock exchange. We have determined the fair value of the equity shares based on the Discounted Cash Flow (DCF) Method. Based on DCF, on our analysis and subject to the assumption, exclusions and limitations, **the fair value of per Equity Share is Rs. 1,400 per share (Rupees One Thousand Four Hundred only).**

Our report and the Information contained herein is absolutely confidential and is intended for the use of the Board of Directors of the company, its audit committee, auditors and regulatory bodies for providing select information and only in connection with the purpose as set out above, including for the purpose of obtaining requisite approvals. It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person except to whom it is issued. We are responsible to the client only and will not accept any responsibility to any other party to whom this report may be shown or who may acquire a copy of the report, with or without our written consent. This is specific to the user, purpose and date of valuation report and we do not take any responsibility to update the same for the future events occurring after the date of valuation. Further, we are not responsible to any other person / party for any decision of such person / party based on this report.

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3. Sources of Information

For the purpose of undertaking this valuation exercise, we have analyzed and relied on the following sources of information from the management of PCMCIPL:

- Consolidated Unaudited Financial Statements for the period ended 31/12/2024.
- Consolidated Audited Financial Statements for the year ended 31/03/2024.
- Consolidated Yearly Projected Financial Statements upto the year ended 31/03/2029.
- Relevant data and information provided to us either in written or oral form or in form of soft copy;
- Discussions with the management.

Additionally, we have relied upon the information (industry as well as company specific) available on various public domain. The information used, if any, has been specified at the relevant places in the report.

The Client has been provided with the opportunity to review the draft report as a part of the standard practice to make sure that factual inaccuracies / omissions are avoided in the final report.

4. Identity of Valuer and other expert involved

Resonate Valutech LLP is a registered valuer entity (having IBBI registration number – IBBI/RV-E/06/2024/209 and ICAI RVO registration number – ICAIRVO/06/RVE-03/2023-2024) for the asset classes of Securities or Financial Assets (SFA) and Land & Building (L&B). It has the following designated partners who have contributed capital in the ratio of 80:20 –

1. Naveen Singal
   - *Chartered Accountant (ICAI Membership number 090263)*
   - Registered Valuer under Companies Act, 2013 for SFA Class
   - IBBI registration number: IBBI/RV/06/2019/10662
   - ICAIRVO registration number: ICAIRVO/06/RV-P00090/2018-19
2. Vipan Kumar
   - Architect (Council of Architects Membership no. CA/89/12627)
   - Registered Valuer under Companies Act, 2013 for L&B Class
   - IBBI registration number: IBBI/RV/06/2019/11215
   - ICAIRVO registration number: ICAIRVO/06/RV-P051/2023-2024

This Valuation assignment has been performed by **Mr. Naveen Singal**.

Other Expert Involved - No other asset class valuation expert is involved.

5. Disclosure of valuer interest/conflict, if any:

We have no present or prospective contemplated financial interest in the company and we have no personal interest with respect to the Promoters & Board of Directors of the company. We have no bias/prejudice with respect to any matter that is the subject of the valuation report or to the parties involved with this engagement.

Our professional fees for this valuation is not contingent upon the results or the value of the business or in any other manner.

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6. Caveats, Limitations and Disclaimers (CLDs)

Our report is subject to the CLDs detailed hereinafter. This report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

- Our report and the information contained herein is absolutely confidential and is for the use of the Client/Board of Director of the company, its audit committee, auditors, advisors/consultants and regulatory bodies for providing select information and only in connection with the specific purpose and date as set out above. It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person. The valuation is not provided with a view to facilitate issue of rights/bonus shares.
- We are responsible to the Client only and will not accept any responsibility to any other party to whom this report may be shown or who may acquire a copy of the report, with or without our written consent. In the event, the Client or its management or its representatives or consultant etc intend to extend the use of this report beyond the purpose mentioned earlier in the report, with or without our consent, we will not accept any responsibility to any party.
- This report is based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to the date hereof. Subsequent developments in the said aforementioned conditions may affect this report and the assumptions made in preparing this report and we do not any responsibility to update, revise or reaffirm this report for the future events occurring after the date of valuation.
- Valuation is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value. While we have provided an assessment of the value based on an analysis of information made available to us and within the scope of our engagement, others including regulatory authorities may place a different value on this; in which case we cannot be held responsible.
- The report neither looked into the business / commercial reasons behind the transaction nor the likely impacts arising out of the same. Further, it does not analyze whether any other alternatives exist to achieve the objectives of the transaction.
- Any person/party intending to provide finance/investment in the shares/business of the company shall do so after seeking their own professional advice and after carrying their own due diligence procedures to ensure that they are making an informed decision. Our analysis does not represent a fairness opinion.
- The valuation is based on our analysis. Any transaction price may be significantly different depending on the negotiating ability and motivations of the parties involved in the transaction.
- We are, pursuant to this engagement, neither required to perform any management functions for the company / client nor make any decisions on company / clients' behalf. The company / client is responsible for making management decisions, including accepting responsibility for the results. We have neither provided legal, regulatory, tax, accounting, actuarial or other advice nor any assurance to the compliances thereof. Accordingly, we do not assume any responsibility or liability in this respect.
- Our assignment did not involve performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information provided to and used by us during the course of our work. The engagement is not subject to any auditing or assurance standards and consequently no conclusions intended to convey assurance is expressed by this report.
- The assignment did not involve us to conduct the financial or technical feasibility or due diligence study. We have not done any independent technical valuation or testing/appraisal/due diligence of any of the assets, operations or liabilities of the company or any of its subsidiaries or associated companies. We have not verified the authenticity, legality or completeness of agreements entered into with any parties or the title deeds of the various assets owned by the Client.
- We have neither carried out revaluation of the assets nor physical verification of the assets /facilities of the company for the valuation opinion.
- As per the terms of our engagement and as represented by the client, we have assumed and relied upon the truth, accuracy and completeness of the information, data and financial information / projections, if any, written as well as oral, 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

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such information with actual records maintained by the Company / Client or any regulatory authority or any other external party.

- The Management has represented that between the last audited financial statements till the date of issue of the report date, the business activities of the companies continue to be carried out in the normal and ordinary course and that no significant change has occurred in the operations and financial positions of the companies. Further, all material matters / information have been disclosed to us that could impact the valuation.
- We have relied upon the arithmetical accuracy/logical consistency of the projections, if any, provided to us and cannot be held responsible for the same. We have evaluated the reasonableness of the projections; if any; prepared by the Management and had discussions with the management to understand the basis and assumptions for the preparation of the projections. On our broad checking and queries, nothing has come to our knowledge to indicate that the information provided to us was misstated or incorrect or would not afford reasonable grounds upon which to base our report.
- The assumptions used in their preparation, if any, are based on the Management's expectation of both the most likely set of future business events and circumstances and the Management's course of action related to them. Those assumptions had not been independently verified by us. As these assumptions require the exercise of judgment and are subject to uncertainties, our analysis therefore, does not and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relates to future, actual results are likely to be different from the projections because events and circumstances do not occur as expected/ also they get impacted by changes in social, economic, fiscal as well as government policies and the difference may be material.
- We have relied upon information available in the public domain. The accuracy of the same has not been independently verified by us. 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 correct extraction and /or reproduction in its proper form and context from those sources.
- Since the management of the company have not advised us otherwise and barring the issues disclosed in the audited financials, we assume that there is full compliance of all applicable Central, State & other laws and regulations. Further, unless 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, litigations and other contingent liabilities that are not recorded/reflected in the balance sheet provided to us.
- It is assumed that all licenses, permits and other legislative authority from any government or private organization have been / will be obtained and can be renewed.
- Although we have exerted considerable diligence and applied our best efforts in carrying out the work, immaterial anomalies, if any, may arise. We are confident that our overall conclusion would still fall within a materially consistent conclusion.
- In no event, we shall be liable for any loss, damage, cost, or expenses arising in any way from fraudulent acts, misrepresentations, or willful default on part of the client or the company, their directors, employees or agents etc. Further, we shall be kept indemnified and held harmless from any claims in such eventuality.
- In the particular circumstances of this case, our liability (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 caused, shall be proportional to our responsibility / negligence, after taking into account contributory responsibility / negligence of the Client / Company including its representatives, officers etc and at no time shall exceed 25% of the assignment fees received.
- We, by reasons of this report, are not and will not be required to give testimony in any court. If any appearance is required, we may agree to appear & give the necessary clarification, provided the fees for each appearance (including out of pocket expense) is determined in writing before the appearance. The valuation report is subject to the laws of India. Any dispute arising out of this report or engagement shall be subject to the exclusive jurisdiction of Delhi NCR courts.

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7. Company Background and Business Environment

Hero FinCorp Limited is a public company domiciled in India and incorporated under the provisions of the Companies Act, 1956 on December 16, 1991. The Company is registered as a Non-Banking Financial (Non deposit accepting) Company, engaged in the business of financing, leasing, bill discounting and related financial services, with the Reserve Bank of India (Registration No. 14.00266). The address of the Company's registered office is 34, Community Centre, Basant Lok, Vasant Vihar, New Delhi -110057.

The company is holding company of Hero Housing Finance Limited.

8. Existing Capital Structure and Financials of the Company

- The Authorized Share Capital as on 31/12/2024: Rs. 300 crores consist of 30,00,00,020 crores Equity Shares of Rs. 10 each.
- The Issued and Paid-up Capital as on 31/12/2024: Rs. 127.41 crores consist of 12,74,12,759 Equity Shares of Rs. 10 each.

Equity Shareholders holding more than 5% shares in the Company as on 31/12/2024

Particulars	31-12-2024	
Equity Shares	No. of Shares	% of Holding
Hero Motocorp Limited	5,24,31,893	41.15%
Bahadhur Chand Investments Private Limited	2,58,96,764	20.22%
Brijmohan Lal OM Prakash - Partnership Firm	1,21,21,886	9.51%
Otter Limited	1,28,82,170	10.11%
Others (Public Holdings - Individuals / HUFs)	75,99,035	5.97%

Diluted Equity Shares as on 31/12/2024

Particulars	Number of Shares
Issued Shares	12,74,12,759
Outstanding ESOPs (in money)	23,87,779
Diluted Equity Shares	12,98,00,538

A summary unaudited profit and loss statement for the period ended 31/01/2025 and audited profit and loss statement for the year ended 31/03/2024 is given below:

INR in Crs.

Particulars	31-12-2024	31-03-2024
Income:		
Revenue from Operations	7,330.52	8,290.90
Other Income	54.63	68.82
Total Revenue	**7,385.15**	**8,359.72**
Expenses:		
Finance costs	2,835.66	3,097.36
Net Loss on Fair Value Changes	231.19	338.52
Impairment Allowance on Financial Instruments	2,192.99	1,722.39
Employee Benefits Expenses	541.41	692.71
Depreciation and Amortisation Expense	67.59	65.96
Other Expenses	1,341.26	1,482.23
Total Expenses	**7,210.10**	**7,399.17**
Profit / (Loss) before tax	175.05	960.55
Tax Expense:		
Current Tax	191.14	307.46
Earlier Years Tax	-	-
Deferred Tax	-85.17	16.04
Profit after tax	69.08	637.05

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A summary of unaudited balance sheet as on 31/12/2024 and audited balance sheet as on 31/03/2024 is given below:

INR in Crs.

Particulars	31-12-2024	31-03-2024
Equity		
Equity Share Capital	127.41	127.31
Other Equity	5,608.53	5,638.66
Non-Controlling Interests	6.75	6.06
Non Financial Liabilities		
Current Tax Liabilities (Net)	65.57	40.85
Provisions	69.39	69.86
Other Non Financial Liabilities	51.13	74.87
Financial Liabilities		
Trade Payables	642.46	439.00
Debt Securities	6,615.19	6,703.72
Borrowings	39,708.03	35,840.39
Subordinated Liabilities	4,795.49	3,625.37
Lease Liabilities	126.08	127.24
Other Financial Liabilities	427.88	511.33
Total Equity and Liabilities	**58,243.90**	**53,204.66**
Assets		
Non Financial Assets		
Property, Plant & Equipments	164.81	181.00
Intangible Assets	56.66	27.17
Intangible Assets Under Developments	24.13	0.75
Right-of Use Assets	118.18	118.27
Capital Work-in-Progress	0.77	-
Current Tax Assets (Net)	163.18	155.54
Deferred Tax Assets (Net)	454.34	369.02
Other Non Financial Assets	165.87	87.98
Financial Assets		
Derivative Financial Instruments	289.03	133.72
Trade Receivables	33.01	4.92
Loans	53,390.54	49,880.47
Investments	2,537.93	1,895.96
Cash & Cash Equivalents	522.00	157.85
Other Financial Assets	323.45	192.01
Total Assets	**58,243.90**	**53,204.66**

9. Valuation Standard Adopted

We have used "ICAI Valuation Standards" (ICAI VS) issued by the Institute of Chartered Accountants of India. We referred specifically the following Valuation Standards:

a. ICAI Valuation Standard 101 – Definitions (ICAI VS 101)
b. ICAI Valuation Standard 102 - Valuation Bases (ICAI VS 102)
c. ICAI Valuation Standard 103 – Valuation Approaches and Methods (ICAI VS 103)
d. ICAI Valuation Standard 201 - Scope of Work, Analyses and Evaluation (ICAI VS 201)
e. ICAI Valuation Standard 202 - Reporting and Documentation (ICAI VS 202)
f. ICAI Valuation Standard 301 - Business Valuation (ICAI VS 301)
g. ICAI Valuation Standard 303 – Financial Instruments (ICAI VS 303)

We have also referred to IVS issued by IVSC.

10. Premises of value

The premise of the value determination is on 'as is where is', going concern basis and the enterprise value so determined is of a company expected to continue to operate in future.

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As per **ICAI Valuation Standard 101** of ICAI Valuation Standards 2018 –

As-is-where-is basis will consider the existing use of the asset which may or may not be its highest and best use.

Going concern value is the value of a business enterprise that is expected to continue to operate in the future.

11. Declaration of adequacy of information and time

Information provided and assumptions used by management/others in developing projections have been appropriately reviewed, enquiries made regarding basis of key assumptions in context of business being valued and the industry economy. We have got appropriate information for the underlying valuation assignment. Further, we got appropriate time for carrying out the valuation.

12. Procedures adopted in carrying out the Valuation

- Receipt of proposal for valuation,
- Discussion with the management and acceptance of the proposal.
- Receipt of intimation about appointment
- Requisition of the information
- Receipt of information
- Review / analysis of the information as outlined in Para 3 of the report.
- Discussions on the said information with the client for clarifications / explanations.
- Determining valuations approach, techniques, and methods in compliance with applicable standards considering the industry / company / Economy analysis
- Valuation synthesis & revisiting the assumptions and decision made;
- Report preparation and its validation.
- Discussion with the client and finalisation of the report

13. Valuation Approach

As per **ICAI Valuation Standard 101** of ICAI Valuation Standards 2018 – **Fair Value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

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 industry performance and general business and economic conditions, many of which are beyond the control of the Client / Company. In addition, the valuation will fluctuate with changes in prevailing market conditions, and prospects, financial and other factors which generally influence the valuation of companies and their assets. 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 / range of value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

The following are three generally accepted approaches to valuation:

A. Cost approach
B. Market approach
C. Income approach

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A. Cost Approach

Cost approach is a valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The following are the most commonly used valuation methods under the Cost approach:

a. Replacement Cost Method

Replacement Cost Method, also known as 'Depreciated Replacement Cost Method' involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence.

b. Reproduction Cost Method

Reproduction Cost Method involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.

Examples of situations where the cost approach are applied:

a. An asset can be quickly recreated with substantially the same utility as the asset to be valued;
b. In case where liquidation value is to be determined; or
c. Income approach and/or market approach cannot be used.

c. Underlying Asset Approach

Underlying Asset Approach involves valuing the underlying investments in other companies / assets of those companies.

This basis has to be used for valuation for certain specific purposes, e.g., special provisions of various tax laws. It may be appropriate to value shares on asset basis under many other circumstances, the more important of which are mentioned below:

a. In cases where there is paucity of information about profits that would serve as a basis of valuing shares, such as:

I. In case of new companies whose accounts do not serve as a guide to future profits.

II. Where a company has been trading at a loss and there are no prospects of earning any profit in the foreseeable future.

III. In case of companies where there is no reliable evidence of future profits due to:

- Profound fluctuations in business, or
- Disruption in business.

b. Other circumstances, such as, when it is intended to liquidate the company and to realize the assets and distribute the net proceeds among shareholders.

c. This Cost Method can also be utilized in valuing holding company's real estate companies and investment holding companies etc.

In certain situations, historical cost of the asset may be considered, where it has been prescribed by the applicable regulations / law / guidelines or is appropriate considering the nature of the asset.

In the present case, we are informed that there is no intention to liquidate the company and to realize the assets and distribute the net proceeds among shareholders. Hence, net asset method / cost approach has not been applied in the present case for arriving at fair value.

B. Market Approach

Under the Market approach, the valuation is based on the market value of the company in case of listed companies and comparable companies trading or transaction multiples for unlisted companies. The Market approach generally reflects the investors' perception about the true worth of the company.

a. Market Price ("MP") Method

Under the "Market" Approach, the market price of an equity share 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 shares being regularly and freely traded.

The same cannot be applied in present case as the Company in question is not listed.

b. Comparable Companies Multiples ("CCM") Method

The value is determined on the basis of multiples derived from valuations of comparable companies, as manifested in the stock market valuations of listed companies. This valuation is based on 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.

Basis our discussion with the management and search on screener & moneycontrol.com, we have applied this approach.

c. Comparable Transactions Multiples ("CTM") Method

Under the CTM Method, the value is determined on the basis of multiples derived from valuations of similar transactions in the industry. Relevant multiples have to be chosen carefully and adjusted for differences between the circumstances. Few of such multiples are Enterprise Value/EBITDA (i.e. Earnings before Interest, Tax, Depreciation and Amortization) multiple, Enterprise Value/Revenue multiple.

This valuation is based on the principle of transactions taking place in the market between informed buyers and informed sellers, incorporating all factors relevant to valuation. While using transaction multiples, adjustment need to be made for difference in circumstances, business volume/margins etc. in order to arrive at the enterprise value for the company.

We have not used CTM Method due to lack of information in the public domain on comparable transactions.

C. Income Approach

The income approach is widely used for valuation under "Going Concern" basis. The income approach provides an estimate of the present value of the future monetary benefits expected to flow to the owners of the business plus / minus certain assets and liabilities. Discounted Cash Flow (DCF) method is widely used method under this approach.

DCF method requires the projection of the cash flows that the business is expected to generate. These cash flows are then converted to their present value by means of discounting its free cash flows for the explicit forecast period and the perpetuity value thereafter, using a rate of return that accounts for the time value of money and the appropriate degree of risk in the investment. In summary, the important inputs for the DCF method are Cash flows, Discount rate and Terminal value.

1. **Cash flows**

The following are the cash flows which are used for the projections:

(a) **Free Cash Flows to Firm (FCFF):** FCFF refers to cash flows that are available to all the providers of capital, i.e., equity & preference shareholders and lenders. Therefore, cash flows required to service lenders and preference shareholders such as interest, dividend, repayment of principal amount and even additional fund-raising are not considered in the calculation of FCFF.

(b) **Free Cash Flows to Equity (FCFE):** FCFE refers to cash flows available to equity shareholders and therefore, cash flows after interest, dividend to preference shareholders, principal repayment and additional funds raised from lenders/preference shareholders are considered.

2. **Discount Rate**

Discount Rate is the return expected by a market participant from a particular investment and shall reflect not only the time value of money but also the risk inherent in the asset being valued as well as the risk inherent in achieving the future cash flows. In discounting,

- **FCFF**: the appropriate discount rate is the weighted average cost of capital, which results in the enterprise value of the Company.
- **FCFE**: the appropriate discount rate is the cost of equity, which results in the equity value of the Company.

Cost of Equity
For the estimation of the cost of equity, the capital asset pricing model ("CAPM") is applied. According to the CAPM, cost of equity consists of a risk-free interest rate and risk premium. The risk premium is calculated by multiplying the market risk premium by the beta-factor, an entity specific measure of the systematic risk of an equity investment in an entity and Company Specific Risk Premium (CSRP).

Cost of Equity (Ke) = Rf + (Rm – Rf)*ß + CSRP

- Rf : Risk free rate of return
- Rm : Return on diversified market portfolio
- Rm - Rf : Market risk premium
- ß : Systematic risk factor associated with the industry i.e. Beta.
- CSRP : Company Specific Risk Premium

Rf is considered basis YTM on long-term risk-free central government securities based on yield of India 10-Year Government Bond. We have considered the risk-free rate of 6.76% as on 31/12/2024. This has been reduced by the country default spread of 2.18% basis NYU data.
(Source: https://in.investing.com/rates-bonds/india-10-year-bond-yield)
(Source: https://pages.stern.nyu.edu/~adamodar/)

Rm is calculated based on the normal long-term return from the Indian stock market basis Sensex CAGR return.

Market Risk Premium is calculated based on the difference between the expected return on a market portfolio and risk free rate. We have considered the risk premium of 7.26%.
(Source: https://pages.stern.nyu.edu/~adamodar/)

Beta is a measure of volatility, or systematic risk of the return on a particular security / industry to the return on a market portfolio. We have considered the levered Beta of 1.10 for NBFC (Refer Annexure-1).

CSRP is the risk premium associated with the level of unsystematic risk inherent in a particular private company for risks related to achievability of forecasts, start-up, relatively smaller size, concentration etc. It is a subjective adjustment made by the valuation analyst based on the knowledge and understanding gathered about the company during the valuation process. Ke has been considered after adding company specific risk premium of 1.50%. The additional risk premium added to the cost of equity (Ke) on account of following -

- Established nature of the company
- Unique nature of business of the entity
- Uncertainty in achieving expected results
- Relative size and concentration of business
- Competitive business environment

3. **Terminal value**

It represents the present value at the end of explicit forecast period of all subsequent cash flows to the end of the life of the asset or into perpetuity if the asset has an indefinite life. The different methods for estimating the terminal value are –

a. Gordon (Constant) Growth Model
b. Variable Growth Model
c. Exit Multiple

This value is estimated by taking into account expected growth rates of the business in future, sustainable capital investment required for the business, the estimated growth rate of the industry, the economy including GDP / risk free rate, company performance and in discussions with the management of the company.

In the present case and as discussed with the management of the company, the terminal value has been computed basis P/B multiple of 2.31 of comparable companies adjusted for illiquidity, size, growth etc. (Refer Anneuxre-1).

The Value (aggregate of the present value of explicit period and terminal period cash flows) so derived, is further adjusted for:

- Estimated value of Contingent Liabilities likely to get crystallized (management estimate)
- Cash & Bank balances
- Surplus assets like land not in use
- Value of non-trade Investments, if any
- Preference shareholders liability, if any
- Illiquidity Discount in case of unlisted shares

Practical difficulties for DCF

- Forecasting future cash flows is not easy/objective in many cases (due to industry/ company factors).
- Finding appropriate beta in Indian market conditions may not be a wholly objective exercise.

We have considered the Discounted Cash Flow (DCF) Method under Income Approach for valuation of the company; basis projections provided by the company. Since the company is financing company, we have applied Free Cash Flow for shareholders and not enterprise valuation. Consequently, we have applied cost of equity to discount the cash flows.

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14. Conclusion on Valuation Approach

Based on the information and explanations available, we have considered the Discounted Cash Flow (DCF) Method under Income Approach and Comparable Companies Multiples (CCM) for valuation of the company. We have arrived at the valuation of equity shares as follows:

Particulars	INR (Crs.)
Basis Income Approach:	
NPV of Cash Flow	21,561.21
Add: Outstanding ESOPs * / Call money	173.50
Equity Value	*21,734.71*
Basis CCM:	
Net worth as on 31/12/2024	*8,559.39*
P/BV Multiple	*2.31*
*Equity Value without Outstanding ESOPs * / Call money*	*19,780.75*
*Add: Outstanding ESOPs * / Call money*	*173.50*
Equity Value	*19,954.25*
Weighted Equity & CCPS Value **	**21,111.55**
Less: CCPS value as on 31/12/2024	2,816.70
Value for Equity	**18,294.85**
Diluted Equity Shares (In Cr)	12.98
Fair Value per Equity Share (INR)	**1,400**

* ESOPs which are in money.

** Income Approach 65% and CCM 35% weightage

15. Key Assumptions and DCF valuation Analysis

a) The following assumptions have been applied while arriving at Discounted Cash Flow:

- Income Tax: As per the projections provided by the management i.e 25.168%.
- Cash flows discounted basis the mid-year assumption i.e. cash flows will arise at the middle of the year to which they relate.
- Comparable Company Multiples: Refer Annexure 1
- Cost of capital: Refer Annexure 2

b) **DCF Valuation Analysis**

Amounts in INR Crs.

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Terminal Year
Inflows of Funds						
Profit after Tax	418.59	1,291.53	2,058.84	2,735.68	3,264.39	
Add: Loans Drawn	1,111.68	8,654.26	11,453.80	10,958.86	10,404.10	
Total Inflow of funds	**1,530.27**	**9,945.79**	**13,512.64**	**13,694.54**	**13,668.49**	
Outflows of Funds						
Loan given and Change in Investments	2,998.49	11,755.32	13,585.57	13,655.67	13,531.44	
Changes in Working Capital	-1,207.35	-288.57	-337.10	-341.10	-342.76	
Capex	-62.34	61.51	70.44	71.15	69.45	
Total Outflow of funds	**1,728.80**	**11,528.25**	**13,318.91**	**13,385.72**	**13,258.14**	
Net Cash Flows	**-198.52**	**-1,582.47**	**193.73**	**308.83**	**410.35**	
Discount rate(%)	14.06%	14.06%	14.06%	14.06%	14.06%	
Present value factor-Mid year discounting	0.98	0.91	0.79	0.70	0.61	0.61
Present Value Debt free cash flow	**-195.29**	**-1,433.83**	**153.90**	**215.10**	**250.59**	
Net Worth as on 31/03/2029 adjusted for future value of already share capital introduced						15,993.11
Perpetuity Multiple basis P/B ratio						2.31
Terminal Value						**36,960.07**
Present Value of Terminal Value						**22,570.73**
Present Value of Explicit Period						-1,009.52
Equity Value without considering ESOPs						**21,561.21**

* FY 2024-25: 3 months Projections and FY 2025-29: 12 months Projections

RESONATE VALUTECH LLP * IBBI/RV-E/06/2024/209 * REGISTERED VALUER ENTITY

16. Acknowledgements

We would like to acknowledge and thank the company and its representatives for their co-operation and support to enable us to execute the assignment.

Please do let know if you require any clarification / additional information.

Thanking you,

For Resonate Valutech LLP
Registered Valuer Entity
(IBBI/RV-E/06/2024/209)

RESONATE VALUTECH LLP * IBBI/RV-E/06/2024/209 * REGISTERED VALUER ENTITY

Signature:
Naveen Singal
(Partner)
FCA, PGDM
IBBI Registration No.: IBBI/RV/06/2019/10662
Place: Gurgaon
Date: 24/02/2025
UDIN: 25090263BMIYFJ8348

Annexure-1

Comparable Companies Multiple

Company	Date	Share price	Market Cap (Rs. Cr)	P/B	P/E	Beta	Considered in Valuation
L&T Finance Limited	29-01-2025	146.16	36,443.00	1.50	14.20	1.49	Yes
Shriram Finance Limited	29-01-2025	553.00	1,04,134.00	1.99	12.80	1.62	Yes
Mahindra and Mahindra Financial Services Limited	29-01-2025	270.00	33,379.00	1.66	13.50	1.20	Yes
Cholamandalam Investment and Finance Co Ltd	29-01-2025	1,293.00	1,08,945.00	5.08	28.30	1.16	Yes
Muthoot Finance Limited	29-01-2025	2,216.00	88,983.00	3.47	20.20	0.87	Yes
Sundaram Finance Limited	29-01-2025	4,409.00	48,953.00	3.92	30.50	0.93	Yes
Poonawalla Fincorp Limited	29-01-2025	315.00	24,518.00	3.04	58.70	0.84	No
MAS Financial Services Limited	29-01-2025	261.00	4,739.00	1.96	15.90	0.44	No
Indostar Capital Finance Limited	29-01-2025	247.00	3,374.00	1.00	44.80	1.10	Yes
Aditya Birla Capital Limited	29-01-2025	177.00	46,036.00	1.60	12.40	1.52	No
Fedbank Financial Services Limited	29-01-2025	93.20	3,465.00	1.45	15.70	0.67	Yes
Bajaj Finance Limited	29-01-2025	7,295.00	4,51,546.00	5.20	29.40	1.18	No
Total Average				2.57	26.52	1.10	
After considering discount for illiquidity, size, growth rate etc				2.31	22.54	1.10	

Source: https://www.screener.in/
https://www.moneycontrol.com/india/stockpricequote/finance-investments/

Annexure-2

Cost of Capital

Data used for Cost of Equity calculation

Input Used	Data	Comments
Indian Government Bond Rate	6.76%	10 Year Indian Government Bond Yield rate as on 31/12/2024*
Country Default Spread	2.18%	Country Default Spread of India by Damodaran**
Riskfree Rate	4.58%	India Govt. Bond Yield minus Country Default Spread
Risk Premium	7.26%	Equity Risk Premium of India from Damodaran**
Beta	1.10	Refer- Annexure-2 - Comparable Companies Multiples
Cost of equity	12.56%	Risk free rate + (beta * (market return - risk free rate))
Co. Specific Risk	1.5%	Depends upon judgement and skepticism. Added to adjusted cost of equity.
Total cost of equity	14.06%	

*Source: https://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data

**Source: https://pages.stern.nyu.edu/~adamodar/

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KRA & CO.
Chartered Accountants
☎ 011 - 47082855
Fax: 011 - 47082855
H -1/208, Garg Tower, Netaji Subhash Place, Pitampura, New Delhi -110034

24/02/2025

The Board of Directors,
Hero Fincorp Limited,
CIN: U74899DL1991PLC046774
34, Community Centre,
Basant Lok Vasant Vihar,
New Delhi 110057

Opinion on Fair Value of Equity Shares of "Hero Fincorp Limited" (The Company)

Dear Sirs,

I, Naveen Singal, Partner - KRA & Co, Chartered Accountants, thank you for our appointment on 24/01/2025 to provide fair valuation of equity shares of Hero Fincorp Limited (hereinafter referred to as 'Company' or 'Client' or 'HFL') as on 31/12/2024 (The Valuation Date).

In the following paragraphs, we have summarized the valuation analysis of the company as on the Valuation Date together with the description of the purpose, methodologies used and limitations on our scope of work in accordance with International Valuation Standards 2025 (IVS) issued by International Valuation Standards Council (IVSC) read alongwith the Valuation Standards issued by the Institute of Chartered Accountants of India. This report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein. We are pleased to present herewith our report on the same.

1. Purpose, Scope and Bases of Valuation

We have been informed that the company proposes to issue equity shares and accordingly appointed us to give opinion on the fair value of equity shares in accordance with requirement of Pricing Guidelines of RBI Master circular RBI/FED/2017-18/60, FED Master Direction No. 11/2017-18 dated Jan 4, 2018 updated on Jan 12,2018, Apr 06, 2018, Dec 19, 2018, March 08,2019 and March 17, 2022.

2. Summary of Opinion

The company is not listed on any stock exchange. We have determined the fair value of the equity shares based on the Discounted Cash Flow (DCF) Method. Based on DCF, on our analysis and subject to the assumption, exclusions and limitations, **the fair value of per Equity Share is Rs. 1,400 per share (Rupees One Thousand Four Hundred only).**

Our report and the Information contained herein is absolutely confidential and is intended for the use of the Board of Directors of the company, its audit committee, auditors and regulatory bodies for providing select information and only in connection with the purpose as set out above, including for the purpose of obtaining requisite approvals. It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person except to whom it is issued. We are responsible to the client only and will not accept any responsibility to any other party to whom this report may be shown or who may acquire a copy of the report, with or without our written consent. This is specific to the user, purpose and date of valuation report and we do not take any responsibility to update the same for the future events occurring after the date of valuation. Further, we are not responsible to any other person / party for any decision of such person / party based on this report.

3. Sources of Information

For the purpose of undertaking this valuation exercise, we have analysed and relied on the following sources of information from the management of the Company:

- Consolidated Unaudited Financial Statements for the period ended 31/12/2024.
- Consolidated Audited Financial Statements for the year ended 31/03/2024.
- Consolidated Yearly Projected Financial Statements upto the year ended 31/03/2029.
- Relevant data and information provided to us either in written or oral form or in form of soft copy.
- Discussions with the management

Additionally, we have relied upon the information (industry as well as company specific) available on various public domain. The information used, if any, has been specified at the relevant places in the report.

The Client has been provided with the opportunity to review the draft report as a part of the standard practice to make sure that factual inaccuracies / omissions are avoided in the final report.

4. Identity of Valuer and other expert involved

Naveen Singal

- Chartered Accountant (ICAI Membership number 090263)
- Registered Valuer under Companies Act, 2013 for SFA Class
- IBBI registration number: IBBI/RV/06/2019/10662
- ICAIRVO registration number: ICAIRVO/06/RV-P00090/2018-19

Other Expert Involved - No other asset class valuation expert is involved.

5. Disclosure of valuer interest/conflict, if any

We have no present or prospective contemplated financial interest in HFL and we have no personal interest with respect to the Promoters & Board of Directors of HFL. We have no bias/prejudice with respect to any matter that is the subject of the valuation report or to the parties involved with this engagement. Our professional fees for this valuation is not contingent upon the results or the value of the business or in any other manner.

6. Caveats, Limitations and Disclaimers

Our report is subject to the CLDs detailed hereinafter. This report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

- Our report and the information contained herein is absolutely confidential and is for the use of the Client/Board of Director of the company, its audit committee, auditors, advisors/consultants and regulatory bodies for providing select information and only in connection with the specific purpose and date as set out above. It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person. The valuation is not provided with a view to facilitate issue of rights/bonus shares.
- We are responsible to the Client only and will not accept any responsibility to any other party to whom this report may be shown or who may acquire a copy of the report, with or without our written consent. In the event, the Client or its management or its representatives or consultant etc intend to extend the use of this report beyond the purpose mentioned earlier in the report, with or without our consent, we will not accept any responsibility to any party.
- This report is based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to the date hereof. Subsequent

developments in the said aforementioned conditions may affect this report and the assumptions made in preparing this report and we do not any responsibility to update, revise or reaffirm this report for the future events occurring after the date of valuation.

- Valuation is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value. While we have provided an assessment of the value based on an analysis of information made available to us and within the scope of our engagement, others including regulatory authorities may place a different value on this; in which case we cannot be held responsible.
- The report neither looked into the business / commercial reasons behind the transaction nor the likely impacts arising out of the same. Further, it does not analyze whether any other alternatives exist to achieve the objectives of the transaction.
- Any person/party intending to provide finance/investment in the shares/business of the company shall do so after seeking their own professional advice and after carrying their own due diligence procedures to ensure that they are making an informed decision. Our analysis does not represent a fairness opinion.
- The valuation is based on our analysis. Any transaction price may be significantly different depending on the negotiating ability and motivations of the parties involved in the transaction.
- We are, pursuant to this engagement, neither required to perform any management functions for the company / client nor make any decisions on company / clients' behalf. The company / client is responsible for making management decisions, including accepting responsibility for the results. We have neither provided legal, regulatory, tax, accounting, actuarial or other advice nor any assurance to the compliances thereof. Accordingly, we do not assume any responsibility or liability in this respect.
- Our assignment did not involve performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information provided to and used by us during the course of our work. The engagement is not subject to any auditing or assurance standards and consequently no conclusions intended to convey assurance is expressed by this report.
- The assignment did not involve us to conduct the financial or technical feasibility or due diligence study. We have not done any independent technical valuation or testing/appraisal/due diligence of any of the assets, operations or liabilities of the company or any of its subsidiaries or associated companies. We have not verified the authenticity, legality or completeness of agreements entered into with any parties or the title deeds of the various assets owned by the Client.
- We have neither carried out revaluation of the assets nor physical verification of the assets /facilities of the company for the valuation opinion.
- As per the terms of our engagement and as represented by the client, we have assumed and relied upon the truth, accuracy and completeness of the information, data and financial information / projections, if any, written as well as oral, 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 with actual records maintained by the Company / Client or any regulatory authority or any other external party.
- The Management has represented that between the last financial statements till the date of issue of the report date, the business activities of the companies continue to be carried out in the normal and ordinary course and that no significant change has occurred in the operations and financial positions of the companies. Further, all material matters / information have been disclosed to us that could impact the valuation.
- We have relied upon the arithmetical accuracy/logical consistency of the projections, if any, provided to us and cannot be held responsible for the same. We have evaluated the reasonableness of the projections; if any; prepared by the Management and had discussions with the management to understand the basis and assumptions for the preparation of the projections. On our broad checking and queries, nothing has come to our knowledge to indicate that the information provided

to us was misstated or incorrect or would not afford reasonable grounds upon which to base our report.

- The assumptions used in their preparation, if any, are based on the Management's expectation of both the most likely set of future business events and circumstances and the Management's course of action related to them. Those assumptions had not been independently verified by us. As these assumptions require the exercise of judgment and are subject to uncertainties, our analysis therefore, does not and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relates to future, actual results are likely to be different from the projections because events and circumstances do not occur as expected/ also they get impacted by changes in social, economic, fiscal as well as government policies and the difference may be material.
- We have relied upon information available in the public domain. The accuracy of the same has not been independently verified by us. 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 correct extraction and /or reproduction in its proper form and context from those sources.
- Since the management of the companies have not advised us otherwise and barring the issues disclosed in the audited financials, we assume that there is full compliance of all applicable Central, State & other laws and regulations. Further, unless 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, litigations and other contingent liabilities that are not recorded/reflected in the balance sheet provided to us.
- It is assumed that all licenses, permits and other legislative authority from any government or private organization have been / will be obtained and can be renewed.
- Although we have exerted considerable diligence and applied our best efforts in carrying out the work, immaterial anomalies, if any, may arise. We are confident that our overall conclusion would still fall within a materially consistent conclusion.
- In no event, we shall be liable for any loss, damage, cost, or expenses arising in any way from fraudulent acts, misrepresentations, or willful default on part of the client or the company, their directors, employees or agents etc. Further, we shall be kept indemnified and held harmless from any claims in such eventuality.
- In the particular circumstances of this case, our liability (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 caused, shall be proportional to our responsibility / negligence, after taking into account contributory responsibility / negligence of the Client / Company including its representatives, officers etc and at no time shall exceed 25% of the assignment fees received.
- We, by reasons of this report, are not and will not be required to give testimony in any court. If any appearance is required, we may agree to appear & give the necessary clarification, provided the fees for each appearance (including out of pocket expense) is determined in writing before the appearance. The valuation report is subject to the laws of India. Any dispute arising out of this report or engagement shall be subject to the exclusive jurisdiction of Delhi NCR courts.

7. Company Background and Business Environment

Hero FinCorp Limited is a public company domiciled in India and incorporated under the provisions of the Companies Act, 1956 on December 16, 1991. The Company is registered as a Non-Banking Financial (Non deposit accepting) Company, engaged in the business of financing, leasing, bill discounting and related financial services, with the Reserve Bank of India (Registration No. 14.00266). The address of the Company's registered office is 34, Community Centre, Basant Lok, Vasant Vihar, New Delhi -110057.

The company is holding company of Hero Housing Finance Limited.

8. Existing Capital Structure and Financials of the Company

- The Authorized Share Capital as on 31/12/2024: Rs. 300 crores consist of 30,00,00,020 crores Equity Shares of Rs. 10 each.
- The Issued and Paid-up Capital as on 31/12/2024: Rs. 127.41 crores consist of 12,74,12,759 Equity Shares of Rs. 10 each.

Equity Shareholders holding more than 5% shares in the Company as on 31/12/2024

Particulars	31-12-2024	
Equity Shares	No. of Shares	% of Holding
Hero Motocorp Limited	5,24,31,893	41.15%
Bahadhur Chand Investments Private Limited	2,58,96,764	20.22%
Brijmohan Lal OM Prakash - Partnership Firm	1,21,21,886	9.51%
Otter Limited	1,28,82,170	10.11%
Others (Public Holdings - Individuals / HUFs)	75,99,035	5.97%

Diluted Equity Shares as on 31/12/2024

Particulars	Number of Shares
Issued Shares	12,74,12,759
Outstanding ESOPs (in money)	23,87,779
Diluted Equity Shares	**12,98,00,538**

A summary unaudited profit and loss statement for the period ended 31/01/2025 and audited profit and loss statement for the year ended 31/03/2024 is given below:

INR in Crs.

Particulars	31-12-2024	31-03-2024
Income:		
Revenue from Operations	7,330.52	8,290.90
Other Income	54.63	68.82
Total Revenue	**7,385.15**	**8,359.72**
Expenses:		
Finance costs	2,835.66	3,097.36
Net Loss on Fair Value Changes	231.19	338.52
Impairment Allowance on Financial Instruments	2,192.99	1,722.39
Employee Benefits Expenses	541.41	692.71
Depreciation and Amortisation Expense	67.59	65.96
Other Expenses	1,341.26	1,482.23
Total Expenses	**7,210.10**	**7,399.17**
Profit / (Loss) before tax	**175.05**	**960.55**
Tax Expense:		
Current Tax	191.14	307.46
Earlier Years Tax	-	-
Deferred Tax	-85.17	16.04
Profit after tax	**69.08**	**637.05**

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A summary of unaudited balance sheet as on 31/12/2024 and audited balance sheet as on 31/03/2024 is given below:

INR in Crs.

Particulars	31-12-2024	31-03-2024
Equity		
Equity Share Capital	127.41	127.31
Other Equity	5,608.53	5,638.66
Non-Controlling Interests	6.75	6.06
Non Financial Liabilities		
Current Tax Liabilities (Net)	65.57	40.85
Provisions	69.39	69.86
Other Non Financial Liabilities	51.13	74.87
Financial Liabilities		
Trade Payables	642.46	439.00
Debt Securities	6,615.19	6,703.72
Borrowings	39,708.03	35,840.39
Subordinated Liabilities	4,795.49	3,625.37
Lease Liabilities	126.08	127.24
Other Financial Liabilities	427.88	511.33
Total Equity and Liabilities	**58,243.90**	**53,204.66**
Assets		
Non Financial Assets		
Property, Plant & Equipments	164.81	181.00
Intangible Assets	56.66	27.17
Intangible Assets Under Developments	24.13	0.75
Right-of Use Assets	118.18	118.27
Capital Work-in-Progress	0.77	-
Current Tax Assets (Net)	163.18	155.54
Deferred Tax Assets (Net)	454.34	369.02
Other Non Financial Assets	165.87	87.98
Financial Assets		
Derivative Financial Instruments	289.03	133.72
Trade Receivables	33.01	4.92
Loans	53,390.54	49,880.47
Investments	2,537.93	1,895.96
Cash & Cash Equivalents	522.00	157.85
Other Financial Assets	323.45	192.01
Total Assets	**58,243.90**	**53,204.66**

9. Valuation Standards Adopted

We have referred the International Valuation Standards 2025 (IVS) issued by International Valuation Standards Council (IVSC) read alongwith the Valuation Standards issued by the Institute of Chartered Accountants of India.

10. Premises of value

The premise of the value determination is Current Use / Existing Use.

Current Use / Existing Use is the current way of an asset, liability or group of assets and / or liabilities is used. The current use may be, but is not necessarily, also the highest and best use.

11. Declaration of adequacy of information and time

Information provided and assumptions used by management/others in developing projections have been appropriately reviewed, enquiries made regarding basis of key assumptions in context of business being valued and the industry/economy; and all the information seems adequate at the time of carrying out the valuation. Further, we got appropriate time for carrying out the valuation.

12. Procedure followed for the Valuation

- Receipt of proposal for valuation,
- Discussion with the management and acceptance of the proposal.
- Receipt of intimation about appointment
- Requisition of the information
- Receipt of information
- Review / analysis of the information as outlined in Para 3 of the report.
- Discussions on the said information with the client for clarifications / explanations.
- Determining valuations approach, techniques, and methods in compliance with applicable standards considering the industry / company / Economy analysis
- Valuation synthesis & revisiting the assumptions and decision made;
- Report preparation and its validation.
- Discussion with the client and finalisation of the report

13. Valuation Approach

As per **IFRS 13** of **International Financial Reporting Standards - Fair Value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 industry performance and general business and economic conditions, many of which are beyond the control of the Client / Company. In addition, the valuation will fluctuate with changes in prevailing market conditions, and prospects, financial and other factors which generally influence the valuation of companies and their assets. 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 / range of value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

The following are three generally accepted approaches to valuation:

A. Cost approach
B. Market approach
C. Income approach

A. Cost Approach

Cost approach is a valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The following are the most commonly used valuation methods under the Cost approach.

a. <u>Replacement Cost Method</u>

Replacement Cost Method, also known as 'Depreciated Replacement Cost Method' involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence.

b. <u>Reproduction Cost Method</u>

Reproduction Cost Method involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.

Examples of situations where the cost approach are applied:

a. An asset can be quickly recreated with substantially the same utility as the asset to be valued;

b. In case where liquidation value is to be determined; or

c. Income approach and/or market approach cannot be used.

c. <u>Underlying Asset Approach</u>

Underlying Asset Approach involves valuing the underlying investments in other companies / assets of those companies.

This basis has to be used for valuation for certain specific purposes, e.g., special provisions of various tax laws. It may be appropriate to value shares on asset basis under many other circumstances, the more important of which are mentioned below:

a. In cases where there is paucity of information about profits that would serve as a basis of valuing shares, such as:
    I. In case of new companies whose accounts do not serve as a guide to future profits.
    II. Where a company has been trading at a loss and there are no prospects of earning any profit in the foreseeable future.
    III. In case of companies where there is no reliable evidence of future profits due to:
        - Profound fluctuations in business, or
        - Disruption in business.
b. Other circumstances, such as, when it is intended to liquidate the company and to realize the assets and distribute the net proceeds among shareholders.
c. This Cost Method can also be utilized in valuing holding company's real estate companies and investment holding companies etc.

In certain situations, historical cost of the asset may be considered, where it has been prescribed by the applicable regulations/law/guidelines or is appropriate considering the nature of the asset.

In the present case, we are informed that there is no intention to liquidate the company and to realize the assets and distribute the net proceeds among shareholders. Hence, net asset method / cost approach has not been applied in the present case for arriving at fair value.

KRA & CO. FRN 020266N

B. Market Approach

Under the Market approach, the valuation is based on the market value of the company in case of listed companies and comparable companies trading or transaction multiples for unlisted companies. The Market approach generally reflects the investors' perception about the true worth of the company.

a. Market Price ("MP") Method

Under the "Market" Approach, the market price of an equity share 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 shares being regularly and freely traded.

The same cannot be applied in present case as the Company in question is not listed.

b. Comparable Companies Multiples ("CCM") Method

The value is determined on the basis of multiples derived from valuations of comparable companies, as manifested in the stock market valuations of listed companies. This valuation is based on 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.

Basis our discussion with the management and search on screener & moneycontrol.com, we have applied this approach.

c. Comparable Transactions Multiples ("CTM") Method

Under the CTM Method, the value is determined on the basis of multiples derived from valuations of similar transactions in the industry. Relevant multiples have to be chosen carefully and adjusted for differences between the circumstances. Few of such multiples are Enterprise Value/EBITDA (i.e. Earnings before Interest, Tax, Depreciation and Amortization) multiple, Enterprise Value/Revenue multiple.

This valuation is based on the principle of transactions taking place in the market between informed buyers and informed sellers, incorporating all factors relevant to valuation. While using transaction multiples, adjustment need to be made for difference in circumstances, business volume/margins etc. in order to arrive at the enterprise value for the company.

We have not used CTM Method due to lack of information in the public domain on comparable transactions.

C. Income Approach

The income approach is widely used for valuation under "Going Concern" basis. The income approach provides an estimate of the present value of the future monetary benefits expected to flow to the owners of the business plus / minus certain assets and liabilities. Discounted Cash Flow (DCF) method is widely used method under this approach.

DCF method requires the projection of the cash flows that the business is expected to generate. These cash flows are then converted to their present value by means of discounting its free cash flows for the explicit forecast period and the perpetuity value thereafter, using a rate of return that accounts for the time value of money and the appropriate degree of risk in the investment. In summary, the important inputs for the DCF method are Cash flows, Discount rate and Terminal value.

1. **Cash flows**

The following are the cash flows which are used for the projections:

(a) **Free Cash Flows to Firm (FCFF):** FCFF refers to cash flows that are available to all the providers of capital, i.e., equity & preference shareholders and lenders. Therefore, cash flows required to service lenders and preference shareholders such as interest, dividend, repayment of principal amount and even additional fund-raising are not considered in the calculation of FCFF.

(b) **Free Cash Flows to Equity (FCFE):** FCFE refers to cash flows available to equity shareholders and therefore, cash flows after interest, dividend to preference shareholders, principal repayment and additional funds raised from lenders/preference shareholders are considered.

2. **Discount Rate**

Discount Rate is the return expected by a market participant from a particular investment and shall reflect not only the time value of money but also the risk inherent in the asset being valued as well as the risk inherent in achieving the future cash flows. In discounting,

- **FCFF**: the appropriate discount rate is the weighted average cost of capital, which results in the enterprise value of the Company.
- **FCFE**: the appropriate discount rate is the cost of equity, which results in the equity value of the Company.

Cost of Equity

For the estimation of the cost of equity, the capital asset pricing model ("CAPM") is applied. According to the CAPM, cost of equity consists of a risk-free interest rate and risk premium. The risk premium is calculated by multiplying the market risk premium by the beta-factor, an entity specific measure of the systematic risk of an equity investment in an entity and Company Specific Risk Premium (CSRP).

Cost of Equity (Ke) = Rf + (Rm – Rf)*ß + CSRP

- Rf : Risk free rate of return
- Rm : Return on diversified market portfolio
- Rm - Rf : Market risk premium
- ß : Systematic risk factor associated with the industry i.e. Beta.
- CSRP : Company Specific Risk Premium

Rf is considered basis YTM on long-term risk-free central government securities based on yield of India 10-Year Government Bond. We have considered the risk-free rate of 6.76% as on 31/12/2024. This has been reduced by the country default spread of 2.18% basis NYU data.
(Source: https://in.investing.com/rates-bonds/india-10-year-bond-yield)
(Source: https://pages.stern.nyu.edu/~adamodar/)

Rm is calculated based on the normal long-term return from the Indian stock market basis Sensex CAGR return.

Market Risk Premium is calculated based on the difference between the expected return on a market portfolio and risk free rate. We have considered the risk premium of 7.26%.
(Source: https://pages.stern.nyu.edu/~adamodar/)

Beta is a measure of volatility, or systematic risk of the return on a particular security / industry to the return on a market portfolio. We have considered the levered Beta of 1.10 for NBFC (Refer Annexure-1).

CSRP is the risk premium associated with the level of unsystematic risk inherent in a particular private company for risks related to achievability of forecasts, start-up, relatively smaller size, concentration etc. It is a subjective adjustment made by the valuation analyst based on the knowledge and understanding gathered about the company during the valuation process. Cost of Equity (Ke) has been considered after adding company specific risk premium of 1.50%. The additional risk premium added to the cost of equity on account of following –

- Unique nature of business of entity
- Business plan of the underlying business
- Uncertainty in achieving expected results
- Relative size and concentration of business
- Illiquidity of the financial instruments
- Competitive business environment

3. **Terminal value**

It represents the present value at the end of explicit forecast period of all subsequent cash flows to the end of the life of the asset or into perpetuity if the asset has an indefinite life. The different methods for estimating the terminal value are -

a. Gordon (Constant) Growth Model
b. Variable Growth Model
c. Exit Multiple

This value is estimated by taking into account expected growth rates of the business in future, sustainable capital investment required for the business, the estimated growth rate of the industry, the economy including GDP / risk free rate, company performance and in discussions with the management of the company.

In the present case and as discussed with the management of the company, the terminal value has been computed basis P/B multiple of 2.31 of comparable companies adjusted for illiquidity, size, growth etc. (Refer Anneuxre-1).

The Value (aggregate of the present value of explicit period and terminal period cash flows) so derived, is further adjusted for:

- Estimated value of Contingent Liabilities likely to get crystallized (management estimate)
- Cash & Bank balances
- Surplus assets like land not in use
- Value of non-trade Investments, if any
- Preference shareholders liability, if any
- Illiquidity discount in case of unlisted shares

Practical difficulties for DCF

- Forecasting future cash flows is not easy / objective in many cases (due to industry / Company factors)
- Finding appropriate beta in Indian market conditions may not be a wholly objective exercise.

We have considered the Discounted Cash Flow (DCF) Method under Income Approach for valuation of the company; basis projections provided by the company. Since the company is financing company, we have applied Free Cash Flow for shareholders and not enterprise valuation. Consequently, we have applied cost of equity to discount the cash flows.

14. Conclusion on Valuation Approach

Based on the information and explanations available, we have considered the Discounted Cash Flow (DCF) Method under Income Approach and Comparable Companies Multiples (CCM) for valuation of the company. We have arrived at the valuation of equity shares as follows:

Particulars	INR (Crs.)
Basis Income Approach:	
NPV of Cash Flow	21,561.21
Add: Outstanding ESOPs * / Call money	173.50
Equity Value	*21,734.71*
Basis CCM:	
Net worth as on 31/12/2024	*8,559.39*
P/BV Multiple	*2.31*
*Equity Value without Outstanding ESOPs * / Call money*	*19,780.75*
*Add: Outstanding ESOPs * / Call money*	*173.50*
Equity Value	*19,954.25*
Weighted Equity & CCPS Value **	**21,111.55**
Less: CCPS value as on 31/12/2024	2,816.70
Value for Equity	**18,294.85**
Diluted Equity Shares (In Cr)	12.98
Fair Value per Equity Share (INR)	**1,400.00**

* ESOPs which are in money.

** Income Approach 65% and CCM 35% weightage

15. DCF Analysis and Key Assumptions

a) DCF Analysis

Amounts in INR Crs.

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Terminal Year
Inflows of Funds						
Profit after Tax	418.59	1,291.53	2,058.84	2,735.68	3,264.39	
Add: Loans Drawn	1,111.68	8,654.26	11,453.80	10,958.86	10,404.10	
Total Inflow of funds	**1,530.27**	**9,945.79**	**13,512.64**	**13,694.54**	**13,668.49**	
Outflows of Funds						
Loan given and Change in Investments	2,998.49	11,755.32	13,585.57	13,655.67	13,531.44	
Changes in Working Capital	-1,207.35	-288.57	-337.10	-341.10	-342.76	
Capex	-62.34	61.51	70.44	71.15	69.45	
Total Outflow of funds	**1,728.80**	**11,528.25**	**13,318.91**	**13,385.72**	**13,258.14**	
Net Cash Flows	**-198.52**	**-1,582.47**	**193.73**	**308.83**	**410.35**	
Discount rate(%)	14.06%	14.06%	14.06%	14.06%	14.06%	
Present value factor-Mid year discounting	0.98	0.91	0.79	0.70	0.61	0.61
Present Value Debt free cash flow	**-195.29**	**-1,433.83**	**153.90**	**215.10**	**250.59**	
Net Worth as on 31/03/2029 adjusted for future value of already share capital introduced						15,993.11
Perpetuity Multiple basis P/B ratio						2.31
Terminal Value						**36,960.07**
Present Value of Terminal Value						**22,570.73**
Present Value of Explicit Period						-1,009.52
Equity Value without considering ESOPs						**21,561.21**

* FY 2024-25: 3 months Projections and FY 2025-29: 12 months Projections

b) The following assumptions have been applied while arriving at Discounted Cash Flow:

- Income Tax: As per the projections provided by the management i.e 25.168%.
- Cash flows discounted basis the mid-year assumption i.e. cash flows will arise at the middle of the year to which they relate.
- Comparable Company Multiples: Refer Annexure 1
- Cost of capital: Refer Annexure 2

16. Acknowledgements

We would like to acknowledge and thank the company and its representatives for their co-operation and support to enable us to execute the assignment.

Please do let us know if you require any clarification / additional information.

Thanking you,

for KRA & Co.
FRN: 020266N

Signature:
Naveen Singal
(Partner)
M. No. 090263
Place: Gurgaon
Date: 24/02/2025
UDIN: 25090263BMJYFM5296

Annexure 1

Comparable Companies Multiple

Company	Date	Share price	Market Cap (Rs. Cr)	P/B	P/E	Beta	Considered in Valuation
L&T Finance Limited	29-01-2025	146.16	36,443.00	1.50	14.20	1.49	Yes
Shriram Finance Limited	29-01-2025	553.00	1,04,134.00	1.99	12.80	1.62	Yes
Mahindra and Mahindra Financial Services Limited	29-01-2025	270.00	33,379.00	1.66	13.50	1.20	Yes
Cholamandalam Investment and Finance Co Ltd	29-01-2025	1,293.00	1,08,945.00	5.08	28.30	1.16	Yes
Muthoot Finance Limited	29-01-2025	2,216.00	88,983.00	3.47	20.20	0.87	Yes
Sundaram Finance Limited	29-01-2025	4,409.00	48,953.00	3.92	30.50	0.93	Yes
Poonawalla Fincorp Limited	29-01-2025	315.00	24,518.00	3.04	58.70	0.84	No
MAS Financial Services Limited	29-01-2025	261.00	4,739.00	1.96	15.90	0.44	No
Indostar Capital Finance Limited	29-01-2025	247.00	3,374.00	1.00	44.80	1.10	Yes
Aditya Birla Capital Limited	29-01-2025	177.00	46,036.00	1.60	12.40	1.52	No
Fedbank Financial Services Limited	29-01-2025	93.20	3,465.00	1.45	15.70	0.67	Yes
Bajaj Finance Limited	29-01-2025	7,295.00	4,51,546.00	5.20	29.40	1.18	No
Total Average				2.57	26.52	1.10	
After considering discount for illiquidity, size, growth rate etc				2.31	22.54	1.10	

Source: https://www.screener.in/
https://www.moneycontrol.com/india/stockpricequote/finance-investments/

Annexure-2

Cost of Capital

Data used for Cost of Equity calculation

Input Used	Data	Comments
Indian Government Bond Rate	6.76%	10 Year Indian Government Bond Yield rate as on 31/12/2024*
Country Default Spread	2.18%	Country Default Spread of India by Damodaran**
Riskfree Rate	4.58%	India Govt. Bond Yield minus Country Default Spread
Risk Premium	7.26%	Equity Risk Premium of India from Damodaran**
Beta	1.10	Refer- Annexure-2 - Comparable Companies Multiples
Cost of equity	12.56%	Risk free rate + (beta * (market return - risk free rate))
Co. Specific Risk	1.5%	Depends upon judgement and skepticism. Added to adjusted cost of equity.
Total cost of equity	14.06%	

*Source: https://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data

**Source: https://pages.stern.nyu.edu/~adamodar/

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