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Date: 4 February 2023

To,
Mr. Sudhanshu Jain,
IDFC First Bank Limited
IDFC First Bank Tower, The Square,
C-61, G Block, Bandra Kurla Complex, Bandra East,
Mumbai – 400 051.

Sub: Fair valuation of equity shares of IDFC First Bank Limited proposed to be issued on a preferential basis in accordance with SEBI regulations.

Dear Sir / Madam,

We refer to our engagement letter dated 3 February 2023 whereby Ernst & Young Merchant Banking Services LLP is appointed by IDFC First Bank Limited for fair valuation of its equity shares in connection with the proposed issuance of the same on a preferential basis (“Proposed Transaction”) for the purpose of compliance with Regulation 166A of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2022 (“SEBI Regulations”) in connection with the Proposed Transaction (“Purpose”).

IDFC First Bank Limited hereinafter is also referred to as “IDFC First Bank” or “Company” or “Client”.

Ernst & Young Merchant Banking Services LLP hereinafter is also referred to as “EY” or “Valuer” or “Registered Valuer” or “we” or “us” in this report.

For the purpose of this report (“Report”), we have considered the Valuation Date as 3 February 2023 (“Valuation Date”).

For the purpose of this valuation, the basis of value is ‘Fair Value’ and the valuation is based on ‘Going Concern’ premise.

SCOPE AND PURPOSE OF THIS REPORT

IDFC First Bank Limited provides various banking, and financial products and services to corporates, individuals, multi-national companies, SMEs/entrepreneurs, financial institutions, and the government in India. IDFC First Bank Limited was incorporated in 2014 and is based in Mumbai, India. The equity shares of IDFC First Bank are listed on BSE Limited (“BSE”) and National Stock Exchange of India (“NSE”). For the 9 months ended 31 December 2022, IDFC First Bank reported total income of INR 193,729 million and profit after tax of INR 16,688 million on a consolidated basis.



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We understand that the management of IDFC First Bank (hereinafter referred to as “the Management”) is contemplating issue of equity shares on a preferential basis.

In this connection, IDFC First Bank has appointed EY to provide a fair value of equity shares as on the Valuation Date for the purpose of compliance with SEBI Regulations. We commenced our work on 2nd February 2023.

The scope of our services is to conduct fair valuation of equity shares of IDFC First Bank for the Proposed Transaction in accordance with internationally accepted valuation standards.

We have been provided with the provisional consolidated balance sheet of IDFC First Bank as on 31 December 2022. We have taken into consideration the current market parameters in our analysis and have made adjustments for additional facts made known to us till the Valuation Date. The Management has informed us that there are no other unusual/abnormal events in IDFC First Bank materially impacting its operating/financial performance after 31 December 2022 till the Report date. Further, we have been informed that all material information impacting IDFC First Bank have been disclosed to us.

We have relied on the above while arriving at the fair value of equity shares of IDFC First Bank.

This Report is our deliverable for the above engagement.

This Report is subject to the scope, assumptions, qualifications, exclusions, limitations and disclaimers detailed hereinafter. As such, the Report is to be read in totality and not in parts.

SOURCES OF INFORMATION

In connection with this exercise, we have received/obtained the following information about the Company from the Management:

- Annual Reports of IDFC First Bank for the year ended 31 March 2022 and earlier years.
- Provisional consolidated balance sheet of IDFC First Bank as on 31 December 2022.
- Latest available research reports on IDFC First Bank
- Details of ESOPs outstanding along with their exercise prices
- Other relevant information and documents for the purpose of this engagement.

Projections of IDFC First Bank were not provided to us for the purpose of valuation. As discussed with the Management we have considered forecast based on analyst estimates.

During the discussions with the Management, we have also obtained explanations, information and representations, which we believed were reasonably necessary and relevant for our exercise. The Client has been provided with the opportunity to review the draft report as part of our standard practice to make sure that factual inaccuracy/omissions are avoided in our Report.



PROCEDURES ADOPTED

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

- Requested and received financial and qualitative information
- Used data available in public domain related to IDFC First Bank and its peers
- Discussions over call with the Management to:
 - Understand the business and fundamental factors that affect its earning-generating capability and historical financial performance
- Undertook Industry Analysis:
 - Research publicly available market data including economic factors and industry trends that may impact the valuation
 - Analysis of key trends and valuation multiples of comparable companies using proprietary databases subscribed by us or our network firms
- Selection of well accepted valuation methodology/(ies) as considered appropriate by us
- Arriving at fair valuation of equity shares of IDFC First Bank

SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

This Report is subject to the limitations detailed in our engagement letter. As such, the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein and in the context of the purpose for which it is made.

This Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the Report Date; (iii) Provisional consolidated balance sheet of IDFC First Bank as on 31 December 2022; (iv) other information obtained by us from time to time. We have been informed that the business activities of IDFC First Bank have been carried out in the normal and ordinary course between 31 December 2022 and the Report date, and that no material changes have occurred in its operations/balance sheet between 31 December 2022 and the Report date.

Valuation analysis and results are specific to the purpose of valuation and as per the agreed terms of the engagement. It may not be valid for any other purpose or as of any other date. Also, it may not be valid if done on behalf of any other entity.

A valuation of this nature is necessarily based on the prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on and the information made available to us as of, the date hereof. This Report is issued on the understanding that the Management has drawn our attention to all the matters, which they are aware of concerning the financial position of Company and any other matter, which may have an impact on our opinion, on the fair value of equity share for the Proposed Transaction. Events occurring after the date hereof may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.



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In the course of the valuation, we were provided with both written and verbal information, including market, financial and operating data. In accordance with the terms of our respective engagements, we have carried out relevant analysis and evaluations through discussions, calculations and such other means, as may be applicable and available, we have assumed and relied upon, without independently verifying (i) the accuracy of the information that was publicly available, sourced from subscribed databases and formed a substantial basis for this Report and (ii) the accuracy of information made available to us by the Company. While information obtained from the public domain or external sources have not been verified for authenticity, accuracy or completeness, we have obtained information, as far as possible, from sources generally considered to be reliable. We assume no responsibility for such information. Our valuation does not constitute as an audit or review in accordance with the auditing standards applicable in India, accounting / financial / commercial / legal / tax / environmental due diligence or forensic / investigation services and does not include verification or validation work. In accordance with the terms of our engagement / appointment letters and in accordance with the customary approach adopted in valuation exercises, we have not audited, reviewed, certified, carried out a due diligence, or otherwise investigated the historical financials / financial information or individual assets or liabilities, provided to us regarding the Company / subsidiary. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in such historical financials / financial statements. Also, with respect to explanations and information sought from the Company, we have been given to understand by the Company that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusion is based on the assumptions and information given by / on behalf of the Company. The Management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis / results.

The Report assumes that the Company complies fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Company will be managed in a competent and responsible manner. This Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not disclosed in the audited / limited reviewed financials of the Company / subsidiary if any. No investigation of Company's claim to title of assets has been made for the purpose of this Report and Company's claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature. Our conclusion of value assumes that the assets and liabilities of the Company, reflected in their respective latest balance sheets remain intact as of the Report date.

As discussed with the Management we have considered forecast based on analyst estimates. We do not provide assurance on the achievability of the results forecast by the analysts as events and circumstances do not occur as expected; differences between actual and expected results may be material. We express no opinion as to how closely the actual results will correspond to those projected/forecast as the achievement of the forecast results is dependent on actions, plans and assumptions of the analysts.

This Report has been prepared for the purposes stated herein and should not be relied upon for any other purpose. Client is the only authorized user of this report and is restricted for the purpose indicated in the engagement letter. This restriction does not preclude the Client from providing a copy of the report to third-party advisors whose review would be consistent with the intended use. We do not take any responsibility for the unauthorized use of this report. In no event shall we be liable for any loss, damages, cost or expenses



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arising in any way from fraudulent acts, misrepresentations or willful default on part of the Client or Company, their directors, employees or agents. The Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared.

We have not carried out any physical verification of the assets and liabilities of the Company and take no responsibility for the identification of such assets and liabilities.

The valuation analysis and result are governed by concept of materiality.

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

We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other to the Company. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Company, their directors, employees or agents.

This Report is subject to the laws of India.

Neither the Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the Proposed Transaction, without our prior written consent. In addition, this report does not in any manner address the prices at which equity shares of the Company will trade following announcement of the Proposed Transaction and we express no opinion or recommendation as to how the shareholders of the Company should vote at any shareholders' meeting(s) to be held in connection with the Proposed Transaction.

Disclosure of Registered Valuer's Interest or Conflict, if any and other affirmative statements

We do not have any financial interest in the Client, nor do we have any conflict of interest in carrying out this valuation.

Further, the information provided by the Management have been appropriately reviewed in carrying out the valuation. Sufficient time and information were provided to us to carry out the valuation.

SHAREHOLDING PATTERN

The issued and subscribed equity share capital of IDFC First Bank as of 31 December 2022 is INR 62,366.9 million consisting of 6,236,692,992 equity shares of face value of INR 10 each.

| Shareholding Pattern as on 31 December 2022 | No. of Shares | % Shareholding |
|---|----------------------|----------------|
| IDFC Financial Holding Company Limited | 2,268,937,489 | 36.38% |
| Others | 3,967,755,503 | 63.62% |
| Grand Total | 6,236,692,992 | 100.0% |

Source: Management

In addition to above, IDFC First Bank has granted Employee Stock Options (“ESOPs”) out of which 255,844,801 ESOPs are outstanding as at 31 December 2022.



BASIS OF FAIR VALUE OF EQUITY SHARES

The fair value of equity shares has been arrived based on the various approaches / methods explained below and various qualitative factors relevant to the Company and the business dynamics and growth potentials of the business of the Company, having regard to information base, key underlying assumptions and limitations.

There are primarily three approaches in valuation (viz., Asset Approach, Income Approach and Market Approach). For any valuation, all the approaches may not be relevant and therefore will not give a fair estimate of value. Hence, the approach most suitable for that specific business / company must be applied in the valuation exercise, based on the experience and common practices adopted by valuers.

According to IVS 104 “Fair Value is the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We have adapted internationally accepted valuation standards and approaches in delivering our valuation conclusion. There are several principal valuation approaches under International Valuation Standard of which we have considered only those approaches to the extent, it is applicable and relevant.

The various approaches generally adopted in valuation are as under:

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

We have considered the Income Approach (i.e., Discounted Cash Flow (DCF) Method) and Market Approach (i.e., Market Price Method and Comparable Companies’ Multiples (CCM) Method) for valuation of IDFC First Bank.

Asset Approach – Net Asset Value (NAV) method: Under this approach, the net asset value method is considered, which is based on the underlying net assets and liabilities. In the present valuation analysis, we have not considered NAV method as it does not capture the earning capacity of the business and hence NAV would not be representative of fair value.

Income Approach - Discounted Cash Flow (DCF) method: Under the DCF method the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm. Such DCF analysis involves determining the following:

- *Estimating future free cash flows:*

Free cash flows are the cash flows expected to be generated by the company that are available to the providers of the company’s capital – both debt and equity.

- *Appropriate discount rate to be applied to cash flows i.e., the cost of capital:*



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This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

We have considered Discounted Cash Flow method based on the forecasts provided by various analysts in their research reports. However, we have not given any weight to value arrived as per DCF method as (i) we were not provided with the financial projections by IDFC First Bank and (ii) the value arrived based on forecasts provided by various analysts in their research reports is lower than the value arrived as per Market approach – Market Price method.

Market Approach - Market Price (MP) method: Under this method, the value of shares of a company is determined by taking the average of the market capitalization of the equity shares of such companies as quoted on a recognized stock exchange over reasonable periods of time where such quotations are arising from the shares being regularly and freely traded in an active market, subject to the element of speculative support that may be inbuilt in the market price.

The equity shares of IDFC First Bank are listed on the BSE Limited and National Stock Exchange of India Limited and are traded frequently.

As per regulations 164 (1) of SEBI regulations as applicable to IDFC First Bank, the market price of equity shares for the current Proposed Transaction shall be higher of the following:

“If the equity shares of the issuer have been listed on a recognised stock exchange for a period of 90 trading days or more as on the relevant date, the price of the equity shares to be allotted pursuant to the preferential issue shall be not less than higher of the following:

- a. the 90 trading days volume weighted average price of the related equity shares quoted on the recognised stock exchange preceding the relevant date; or*
- b. the 10 trading days volume weighted average prices of the related equity shares quoted on a recognised stock exchange preceding the relevant date.”*

Considering the above, we have computed prices as per above under the Market Price method.

Market Approach - Comparable Companies’ Quoted Multiples (CCM) method: Under this method, one attempts to measure the value of the shares / business of a company by applying the derived market multiple based on market quotations of comparable public / listed companies, in an active market, possessing attributes similar to the business of such company - to the relevant financial parameter of the company / business. This valuation is based on the principle that such market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances. In the present valuation analysis, we have considered CCM method (using Price/Book Multiple) for arriving the value per equity share of IDFC First Bank. However, we have not given any weight to value arrived as per CCM method as the value arrived is lower than the value arrived as per Market approach – Market Price method.



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In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove and the purpose of valuation, we have given 100% weight to 10 trading days volume weighted average prices to estimate the value of equity shares of IDFC First Bank.

The computation of fair value per equity share for the Proposed Transaction of IDFC First Bank is tabulated below:

| Valuation Approach | Value per Share (INR) | Weights |
|--|-----------------------|---------|
| Income Approach | | |
| - Discounted Cash flow method | 53.53 | - |
| Market Approach | | |
| - Market Price method – 90 trading days VWAP as at 3 February 2023 (Being the preceding day of the Relevant Date i.e., 6 February 2023 as informed to us by IDFC First Bank) | 57.14 | - |
| - Market Price method – 10 trading days VWAP as at 3 February 2023 (Being the preceding day of the Relevant Date i.e., 6 February 2023 as informed to us by IDFC First Bank) | 58.18 | 100% |
| - Comparable Companies' Quoted Multiples method | 56.12 | - |
| Fair Value per Share | 58.18 | |

CONCLUSION

Accordingly, equity value of IDFC First Bank is estimated to be INR 58.18 per equity share of INR 10/- each fully paid up.

It should be noted that we have not examined any other matter including economic rationale for the Proposed Transaction per se or accounting, legal or tax matters involved in the Proposed Transaction.

Respectfully submitted,
Ernst & Young Merchant Banking Services LLP
Registered Valuer
Registration No. IBBI/RV-E/05/2021/155



Parag Mehta
Partner
EYMBS/RV/2023/42
Place: Mumbai
Date: 4 February 2023

