



30 January, 2019

The Board of Directors
Equitas Small Finance Bank Limited ("Company")
410A, 4th Floor, Phase II
Spencer Plaza, No. 769
Mount Road, Anna Salai
Chennai 600002

Dear Members of the Board:

I. ENGAGEMENT

We understand that the Board of Directors of Equitas Small Finance Bank Limited ("**ESFBL**") is considering a restructuring of its shareholding through a Scheme of Arrangement ("**Scheme**") under Section 230 read with Section 52 and other applicable provisions of the Companies Act, 2013. Under the Scheme, ESFBL shall be issuing equity shares to shareholders of Equitas Holdings Limited (EHL). The equity shares of EHL are already listed on the BSE Limited and the National Stock Exchange of India Limited. ESFBL shall also be making an application to the Exchanges and SEBI for listing the equity shares of ESFBL on the BSE Limited and National Stock Exchange of India Limited.

The terms and conditions of the proposed issuance of shares by ESFBL are more fully set out in draft scheme document shared with us ("**Draft Scheme Document**"), the final version of which will be filed by the aforementioned companies with the appropriate authorities.

We understand that the share issuance ratio for shares of ESFBL to the shareholders of EHL have been arrived at basis the financial results of EHL and ESFBL as on 31 March 2018. We further understand that valuation of both ESFBL and EHL have been detailed in the valuation report dated 30 January 2019 prepared by C. Ramasamy & B. Srinivasan (the "**Valuer**"), who have been appointed for this exercise by ESFBL.

In connection with the aforesaid engagement letter dated 03 December 2018, we are submitting our opinion ("**Opinion**"), as to the fairness of the share issuance ratio as detailed in the Draft Scheme Document and valuation report and the valuation of ESFBL and EHL as proposed by the Valuer, from a financial point of view. We have not undertaken a valuation of the businesses of ESFBL and EHL. Further, we have not independently checked or verified the assumptions made by the Valuer. Based on our perusal of the valuation report dated 30th January, 2019 and the Draft Scheme Document, including any assumptions and caveats mentioned therein, we understand that 2.6137 shares of ESFBL of Rs. 10 each will be issued to the shareholders of EHL for every 1 share of EHL of Rs. 10 each held by the shareholders of EHL.

The rationale for the Scheme as shared with us by the ESFBL management is based inter-alia on the following benefits:

1. Compliance with the conditions laid down by RBI in relation to the shareholding of ESFBL thereby ensuring continuity of the business of ESFBL
2. Providing shareholders of EHL with direct shareholding in ESFBL thereby helping them unlock value to their investments in the business of ESFBL, which is currently held through EHL
3. Listing of shares of ESFBL on the BSE and the NSE thereby providing liquidity to the shares of ESFBL
4. Increases in the transparency and disclosures relating to the business of ESFBL which would provide the shareholders of EHL better insight into the status of the business, thus resulting in their ability to make better decisions in relation to business of ESFBL
5. Ensuring that there is no dilution of value to public shareholders of EHL in the process of issuance of Scheme Shares in accordance with this Scheme and subsequent listing of the equity shares of ESFBL



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II. BACKGROUND

EQUITAS HOLDINGS LIMITED

Equitas Holdings Limited was incorporated on 22nd June, 2007 at Chennai under the name UPDB Micro Finance Private Limited. The registered office of EHL is located at 410A, 4th Floor, Phase II, Spencer Plaza, No. 769, Mount Road, Anna Salai, Chennai 600002. As of 01st September, 2016, EHL has been registered with the RBI as a non-deposit taking Systemically Important Core Investment Company. EHL made an initial public offer of its shares pursuant to which its shares were listed on the BSE and the NSE with effect from April 21, 2016. EHL is also classified as the promoter of Equitas Small Finance Bank Limited, which is currently a wholly owned subsidiary of EHL.

EQUITAS SMALL FINANCE BANK LIMITED

Equitas Small Finance Bank Limited was incorporated on June 21, 1993 under the Companies Act, 1956 as V.A.P Finance Private Limited. The registered office of ESFBL is located at 410A, 4th Floor, Phase II, Spencer Plaza, No. 769, Mount Road, Anna Salai, Chennai - 600002. ESFBL received a small finance bank license on 30th June 2016, pursuant to which ESFBL is operating as a small finance bank engaged in retail banking business with focus on micro-finance, commercial vehicle finance, home finance, loan against-property finance, corporate finance, and providing financing solutions for individuals and micro and small enterprises (MSEs) that are underserved by formal financing channels while providing a comprehensive banking and digital platform for all. It is currently a wholly owned subsidiary of Equitas Holdings Limited.

III. KEY FEATURES OF THE SCHEME OF AMALGAMATION

The key features of the Scheme provided to us through Draft Scheme Document are as under:

1. The Scheme provides for issuance of 892,062,982 shares (Scheme Shares) by ESFBL, for no cash consideration, to the shareholders of Equitas Holdings Limited, as on the Record Date, in the ratio 2.6137 shares of ESFBL for every share of EHL held by the shareholders (Share Issuance Ratio). The ratio shall however be updated for any interim exercise of stock options and shall be calculated as Scheme Shares / Total no. of fully paid-up equity shares of EHL as on the Record Date
2. Upon the Scheme becoming effective, the amount standing to the credit of the securities premium account, the revenue and other reserves and the profit and loss account of ESFBL shall be reduced by an amount equal to the aggregate face value of the Scheme Shares
3. The Appointed Date or the Effective Date shall be the date on which certified copies of the NCLT order sanctioning the Scheme is filed with the Register of Companies, Chennai

We have relied upon the Draft Scheme Document and taken the abovementioned key features of the Scheme (together with the other facts and assumptions set forth herein) into account while determining the meaning of "fairness", from a financial point of view, for the purposes of this Opinion.

IV. LIMITATION OF SCOPE AND REVIEW

Our Opinion and analysis is limited to the extent of review of the valuation report by the Valuer and the Draft Scheme Document. In connection with the Opinion, we have:

- i. Reviewed the Draft Scheme Document and the valuation report by the Valuer dated 30th January, 2019
- ii. Reviewed the audited financials for EHL and ESFBL for the year ended March 31, 2018 and the unaudited 6 month financials for the six month period ended September 30, 2018
- iii. Held discussions with the Valuer, in relation to the approach taken to valuation and the details of the various methodologies utilised by them in preparing the valuation report and recommendations



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- iv. Sought various clarifications with the respective senior management teams of EHL and ESFBL
- v. Reviewed historical stock prices and trading volumes of EHL on the BSE Limited (“BSE”) and the National Stock Exchange of India Limited (“NSE”)

This Opinion is intended only for the sole use and information of ESFBL, and in connection with the Scheme, including for the purpose of obtaining judicial and regulatory approvals for the Scheme. We are not responsible in any way to any person/ party/ statutory authority for any decision of such person or party or authority based on this Opinion. Any person/ party intending to provide finance or invest in the shares/ business of either ESFBL and/or EHL or their subsidiaries/joint ventures/associates shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision.

It is hereby notified that any reproduction, copying or otherwise quoting of this Opinion or any part thereof, other than in connection with the Scheme as aforesaid can be done only with our prior permission in writing. We acknowledge that this Opinion will be shared to the extent as may be required, with the relevant National Company Law Tribunal, stock exchanges, advisors of ESFBL in relation to the Scheme, as well as with the statutory authorities.

We have assumed and relied upon the accuracy and completeness of all information and documents provided to us, data publicly available or otherwise reviewed by or discussed by the management with us. We have relied upon the EHL and ESFBL management’s assurances that they are not aware of any facts or circumstances that would make such information or data inaccurate or misleading in any respect.

We have not carried out any due diligence or independent verification or validation of any information to establish its accuracy or sufficiency. We have not conducted any independent valuation or appraisal of any of the assets or liabilities of the ESFBL or EHL or their respective subsidiaries/affiliates. In particular, we do not express any opinion as to the value of any asset of ESFBL, EHL and or their respective subsidiaries/affiliates, whether at current prices or in the future. No investigation of the respective Company's claim to title of assets has been made for the purpose of the exercise and the companies' claim to such rights has been assumed to be fully valid. We assume no responsibility whatsoever for matters of a legal nature. Further, we have not evaluated solvency or fair value of the ESFBL or EHL under any law relating to bankruptcy, insolvency or a similar matter.

Our analysis and results are also specific to the financial position as of September 30, 2018 and based on information as at January 30, 2019. An exercise of this nature involves consideration of various factors. This Opinion is issued on the understanding that ESFBL and EHL have drawn our attention to all the matters, which they are aware of concerning the financial position of ESFBL and/or EHL, their businesses, and any other matter, which may have an impact on our Opinion, including any significant changes that have taken place or are likely to take place in the financial position of the Companies or their businesses. We have no responsibility to update this Opinion for events and circumstances occurring after the date of this Opinion.

One should note that valuation is not an exact science and that estimating values necessarily involves selecting a method or approach that is suitable for the purpose. Moreover, in this case where shares of the ESFBL are being issued to the shareholders of EHL, it is not dependent on the valuations (absolute or relative) of ESFBL and/or EHL.

We have assumed, that the Scheme will be in compliance with all applicable laws and other requirements and will be implemented on the terms described in the Draft Scheme Document, without any waiver or modification of any material terms or conditions, and that in the course of obtaining the necessary regulatory or third party approvals for the Scheme, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on ESFBL, EHL or its relevant subsidiaries/affiliates and their respective shareholders. We have





assumed, at the directions of the ESFBL, that the final Scheme will not differ in any material respect from the Draft Scheme Document. We understand from the Company's management that the Scheme will be given effect to in totality and not in parts.

We express no view or opinion as to any terms or other aspects of the Scheme. We express no opinion or view with respect to the financial implications of the merger for any stakeholders, including creditors of the Company.

The Opinion provided by us should not be construed as a legal opinion on the Scheme filed under section 230 read along with Section 52 of the Companies Act, 2013 or with the provisions of any applicable laws.

We express no view as to, and our Opinion does not address, the underlying business decision of ESFBL to effect the Scheme, the relative merits of the proposed arrangement/restructuring as compared to any other alternative business strategy, the effect of Scheme on ESFBL or EHL or their affiliates, including, without limitation, possible implications on ownership structure, listing format, capital structure or trading price of the EHL and ESFBL shares post completion of the proposed Scheme. EHL and ESFBL remain solely responsible for the commercial assumptions on the basis of which it agrees to proceed with the Scheme of Arrangement. Our Opinion is necessarily based only upon information as referred to in this letter.

We do not express any Opinion as to any tax or other consequences that might arise from the Scheme on ESFBL or EHL and/or their subsidiaries/affiliates, and their respective shareholders, nor does our Opinion address any legal, tax, regulatory (including all SEBI regulations) or accounting matters. We have undertaken no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims, governmental investigation or other contingent liabilities to which ESFBL or EHL or their subsidiaries/affiliates, are or may be a party.

Our Opinion is necessarily based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us as of January 30, 2019. It should be understood that subsequent developments may affect this Opinion and we assume no responsibility for updating or revising our Opinion based on circumstances or events occurring after the date hereof.

Our Opinion also does not address any matters otherwise than as expressly stated herein, including but not limited to matters such as corporate governance, shareholders rights or any other equitable considerations.

We may have in the past provided, and may currently or in the future provide, investment banking services to ESFBL and EHL and their affiliates that are unrelated to the Scheme, for which services we have received customary fees. Our engagement as a provider of a fairness opinion is independent of our other business relationships, which we may have with ESFBL or EHL and/or their subsidiaries or their respective affiliates.

In addition, in the ordinary course of their respective businesses, affiliates of IIFL Holdings Limited may invest in securities of ESFBL or EHL and/or its subsidiaries or group companies/affiliates/parent company or for their own accounts and for the accounts of their customers subject to compliance of SEBI (Prohibition of Insider Trading) Regulations and, accordingly, may at any time hold a position in such securities. Our engagement and the Opinion expressed herein are solely for the benefit of the Board of Directors of the ESFBL (in their capacity as such) in connection with its consideration of the Scheme and for none other. Delivery of our Opinion does not create any fiduciary, equitable or contractual duties on IIFL Holdings Limited (including, without limitation, any duty of trust or confidence). Further, our Opinion is being provided only for the limited purpose of complying with the SEBI regulations and the requirement of the stock exchanges on which the Company is listed, and for no other purpose.

Neither IIFL Holdings Limited, nor its affiliates, partners, directors, shareholders, managers, employees or



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agents of any of them, makes any representation or warranty, express or implied, as to the information and documents provided to us, based on which the Opinion has been issued. All such parties and entities expressly disclaim any and all liability for this assignment.

On the basis of our professional skills, our understanding of the business, related to the industry, market survey, we have arrived at the Opinion. Neither IIFL nor any individual signing or associated with this Opinion shall be required by reason of this Opinion to give any testimony or appear in any court or other legal proceedings.

The Company has agreed to indemnify IIFL against liabilities arising out of or in connection with the services rendered and to be rendered by IIFL under the Engagement Letter.

Both ESFBL and EHL understand and acknowledge that there exists no conflict of interest or any potential conflict of interest with respect to the contents of this Opinion or the appointment of IIFL by ESFBL for issuing this Opinion in relation to the Scheme. Further, IIFL shall in no way be liable to ESFBL or EHL or any third party for any conflict of interest or any potential conflict of interest that may arise pursuant to the issuance of this Opinion.

Both ESFBL and EHL has been provided with the opportunity to review the draft Opinion as part of our standard practice to make sure that factual inaccuracy or omissions are avoided in our final Opinion.

The fee for our services is not contingent upon the results of the Scheme. This document is subject to the laws of India.

Our Opinion is not intended to and does not constitute a recommendation to any shareholder as to how such holder should vote or act in connection with the Scheme or any matter related thereto.

The Opinion is addressed to the Board of Directors of the Company. The Opinion shall not, otherwise than as permitted or as required as per the SEBI Circulars dated March 10, 2017 CFD/DIL3/CIR/2017/21 and January 03, 2018 CFD/DIL3/CIR/2018/2 ("SEBI Circulars") be disclosed or referred to publicly or to any other third party without IIFL's prior written consent. However, the Company may provide a copy of the Opinion if requested/ called upon by any regulatory authorities of India subject to the Company promptly intimating IIFL in writing upon receipt of such request from the regulatory authority. If this is used by any person other than to whom it is addressed or for any purpose other than the purpose stated hereinabove, we shall not be liable in any manner whatsoever, whether in contract or tort or otherwise including for any indirect, consequential, punitive, special or incidental liability to any party in connection with sharing/reference/disclosure of the Opinion as above.

V. CONCLUSION

Based on and subject to the foregoing, we are of the opinion that the share issuance ratio is fair to the shareholders from a financial point of view. Further the valuation of EHL and ESFBL as detailed by the Valuer is fair.

Yours sincerely

Pinak Rudra Bhattacharyya



For IIFL Holdings Limited
Pinak Rudra Bhattacharyya
Senior Vice President – Head Corporate Finance
30 January, 2019

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