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VALUATION

&

FAIR SHARE EXCHANGE RATIO REPORT

OF

ORDINARY EQUITY SHARES

&

CLASS "A" ORDINARY EQUITY SHARES

(FINANCIAL INSTRUMENT)

OF

ARMAN FINANCIAL SERVICES LIMITED

IN THE MATTER OF

ARRANGEMENT

FOR

REORGANIZATION

OF

EQUITY SHARE CAPITAL

BY CONSOLIDATION OF EQUITY SHARES OF DIFFERENT CLASSES

Prepared By:

S V Pujara & Co.

Chartered Accountants

411, Business Centre, Patthar Kuva,

Relief Road, Ahmedabad, Gujarat - 380001

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I. APPOINTING AUTHORITY AND OBJECTIVE

We M/s. S V Pujara& Co, Chartered Accountants, (FRN 108205W) Ahmedabad, Valuer, having office at 411, Business Centre, Patthar Kuva, Relief Road, Ahemdabad, Gujarat - 380001, have been engaged on 1st August 2018 by Arman Financial Services Limited (hereinafter referred to as "ARMAN"), to carry out valuation of 12,04,474 (Twelve Lakh Four Thousand Four Hundred and Seventy Four) "A" Ordinary Equity Shares (hereinafter referred to as "DVR") of Arman and issue Fair Share Exchange Ratio Report.

The objective of engagement is to carry out an independent assessment of the Swap/Exchange Ratio for the proposed scheme for reorganization of the Arman's Equity Share Capital by consolidation of equity shares of different classes i.e. Ordinary Equity and Class "A" Ordinary Equity Shares by way of issuing fresh Ordinary Equity to the Specified Shareholder, holding 100% Class 'A' Equity in accordance with the provisions of Section 230 read with 66 of the Companies Act, 2013.

The Scheme of arrangement, between Arman and its shareholders, is subject to approval by National Company Law Tribunal, Ahmedabad (herein after referred as the "NCLT").

As informed, with a view to retaining the resources in the Arman on a permanent basis, the Arman proposes a Scheme where it intends to avoid utilization of free reserve in order to extinguish DVR Capital.
As informed, the scheme of consolidation will lead to following benefits after it is approved by the "NCLT".

1) Increase in the market capitalization of the Company. Due to absence of appropriate laws and guidelines for treatment of unlisted portion of the equity share capital (with differential rights), neither the stock exchanges, nor the potential investors take into account the value of Class 'A' Equity while determining the market valuation of the Arman.

2) Increase in dividend rights and book value per share of the holders of the Ordinary Equity.

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II. KEY ELEMENTS OF VALUATION EXERCISE

1) Possible consolidation of Ordinary Equity and Class "A" Ordinary Equity Shares of Arman.
2) The parties to the transaction are the Arman and holders of Ordinary Equity and Class "A" Ordinary Equity Shares.
3) The Valuation is carried out on the basis of information and documents collected till 11th September, 2018 and thereby 11th September, 2018 is to be construed as Valuation date.

III. VALUATION BASE

We have selected combination of following as valuation base which are appropriate for the intended purpose of the valuation.

1) Fair value

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.

2) Participant specific value

Participant specific value is the estimated value of an asset or liability considering specific advantages or disadvantages of either of the owner or identified acquirer or identified participants.

IV. PROFILE OF CLIENT

1) Name

Arman Financial Services Limited is a public limited company incorporated on November 26, 1992 under the Companies Act, 1956 (now repealed and replaced by the Companies Act, 2013) having CIN: L55910GJ1992PLC018623 and PAN AABCA3165E.

2) Registered office

502-503, Sakar III, Opposite Old High Court, Off: Ashram Road, Ahmedabad - 380014 Gujarat, India (official email address finance@armanindia.com).

3) Board of Directors

As onsigning date, the Company has following Directors and Key Managerial Personnel:

Name, DIN and Address	Designation	Shareholding as a % of the Total Ordinary

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		Equity*
Directors of the Company		
Alok Prasad (DIN No. 00080225) 144, Vista Villas, Opposite Unitech Cyber Park, Sector 46 Gurgaon 122001 (Haryana).	Chairman & Independent Director	Nil
Jayendrabhai B. Patel (DIN No. 00011814) 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	Vice Chairman and Managing Director	5.02%
Aalok J. Patel (DIN No. 02482747) 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	Executive Director	4.31%
Kaushikbhai D. Shah (DIN No. 00024305) 25, Akashneem Bungalows, Vastrapur, Ahmedabad (Gujarat)	Independent Director	Nil
Ritaben J. Patel (DIN No. 00011818) 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	Director (Woman)	5.16%
Aakash J. Patel (DIN No. 02778878) 61, Sycamore ST Belmont Boston 02478 US.	Director (Promoter)	4.85%
Ramakant Dinanath Nagpal (DIN No. 0073205) B1/901 Delhi State, NEF CG Plot No 1, Sector 19, Dwarka, New Delhi 110075 (Delhi).	Independent Director	Nil
Mridul Arora (DIN No. 03579584) Villa 793, Phase-3 Adarsh Palm Retreat, Bellandur Bengaluru 560103 (Karnataka).	Nominee Director	Nil
Key Managerial Personnel		
Jayendrabhai B. Patel (DIN No. 00011814) 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	Vice Chairman and Managing Director	5.02%
Vivek Arun Modi 18/ 19, Manavashram Society, Gopal Pura Mod Tonk Road, Jaipur 301 001 (Rajasthan).	Chief Financial Officer	0.0004%

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Jaimish Govindbhai Patel 412/ 2306, G.H.B. BH. Navarang Flats, Bapunagar, Ahmedabad 380 024 (Gujarat).	Compliance Officer	0.01%
Aalok J. Patel (DIN No. 02482747) 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	Executive Director	4.31%

4) Main object

The Company, along with its subsidiaries, provide financial services including, two-wheeler finance, micro-enterprise loans and group-based microfinance. The Company is also registered with the Reserve Bank of India as a Non-Banking Financial Company.

5) Share Capital structure:

As on signing date, the capital structure of the Company is as follows:

Authorized Capital	Amount in Rs.
1,12,50,000 Ordinary Equity Shares of Rs 10/- each	11,25,00,000
37,50,000 Class 'A' Ordinary Equity Shares of Rs. 10/- each*	3,75,00,000
Total	**15,00,00,000**
Issued, Subscribed and Paid-Up Capital	
57,47,824 Ordinary Equity Shares of Rs 10/- each	5,74,78,240
12,04,474 Class 'A' Ordinary Equity Shares of Rs. 10/- each*	1,20,44,740
Total	**6,95,22,980/-**

** Class 'A' Equity holders possess inferior rights as to voting and 1,00,000 (one lakh) shares together carry one voting rights.*

i. The Company has outstanding stock options, the exercise of which may result in an increase in the issued and paid-up share capital of the Company.

ii. 16,66,667 CCDs allotted to SAIF Partners India V Limited on April 12, 2018, shall be converted into a maximum of 18,90,417 Ordinary Equity, any time within 18 months from the date of allotment. On conversion of the said CCDs, the Company's share capital structure may change. The CCDs can be converted in the following manner:

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a) 16,66,667 Ordinary Equity of the Company to be issued upon the conversion of face value of the CCDs; and,

b) up to a maximum of 2,23,750 Ordinary Equity of the Company to be issued at the option of the holder of the CCDs, upon the conversion of the aggregate accrued but unpaid coupon (net of withholding taxes in India and interest paid in cash) on such CCDs.

6) Shareholding

As on signing date, the Company has 10 (ten) Promoters. The following are the relevant details with reference to the Promoters of the Company:

Name and Address	Shareholding as a % of the Total Ordinary Equity	Shareholding as a % of the Total Class 'A' Equity
Aakash Jayendra Patel 61, Sycamore ST, Belmont Boston 02478, United States of America (MA, USA).	4.85%	Nil
Aalok Jayendra Patel 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	4.31%	Nil
Amit Rajnikant Manakiwala 4, Matangi Society, Ellisbridge Ahmedabad 380 006 (Gujarat).	0.23%	Nil
Himani Amit Manakiwala 4, Matangi Society, Ellisbridge, Ahmedabad 380 006(Gujarat).	0.53%	Nil
Jayendra Bhailal Patel-HUF 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	3.41%	Nil
Jayendrabhai Bhailalbhai Patel 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	5.02%	Nil
Maulik Amit Manakiwala 4, Matangi Society, Ellisbridge Ahmedabad 380 006 (Gujarat).	0.01%	Nil
Namra Holdings & Consultancy Services LLP*	2.88%	100%

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Ground Floor, Pushpak Building, Opp. Kama Hotel Khanpur, Ahmedabad 380001		
Ritaben Jayendrabhai Patel 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	5.16%	Nil
Sajni Aalok Patel 29, Sujan Bunglows, Shreyas Tekra, Ambawadi, Ahmedabad 380 015 (Gujarat).	0.72%	Nil
TOTAL	**27.13%**	**100%**

**Mr. Jayendrabhai Patel and Mr. Aalok Patel are Designated Partners and Ms. Ritaben Jayendrabhai Patel is a partner at Namra Holdings & Consultancy Services LLP.*

V. SOURCE OF INFORMATION RELIED UPON

We relied upon the following information made available to us by the Arman for the purpose of this valuation:

a) Memorandum and Articles of Association

b) Audited Accounts for the Financial Year ended on March 31, 2016, March 31, 2017, March 31, 2018 and June 30, 2018.

c) Shareholding Pattern.

d) Compliance documents maintained under the Companies Act, Income Tax, GST and SEBI- LODR provisions.

e) Such other information and explanations as may be required by us and provided by the management.

f) We have also placed reliance on the verbal explanations and information given to us by the directors, Senior Executives and professionals of the Arman.

g) Website of BSE Limited, Motilal Oswal and caclubindia.com for market data and related articles.

VI. BACKGROUND INFORMATION OF ASSETS BEING VALUED

a) Ordinary Equity Shares of Rs 10/- each to be issued on preferential basis as a part of restructuring of capital

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Valuation standards as prescribed by ICAI, effective from 01/07/2018 shall not be applicable to the issue of Ordinary Equity Shares of Rs 10/- each as the valuation base is prescribed by SEBI Regulations.

Regulatory Advisory

i. As provided under rule 13 (1), of the Companies (Share Capital & Debentures) Rules, 2014, reproduced hereunder, the price of shares to be issued on a preferential basis by a listed company shall not be required to be determined by the valuation report of a registered valuer.

13 (1) For the purposes of clause (*c*) of sub-section (1) of section 62, if authorized by a special resolution passed in a general meeting, shares may be issued by any company in any manner whatsoever including by way of a preferential offer, to any persons whether or not those persons include the persons referred to in clause (*a*) or clause (*b*) of sub-section (1) of section 62 and such issue on preferential basis should also comply with conditions laid down in section 42 of the Act:

Provided *further* that the price of shares to be issued on a preferential basis by a listed company shall not be required to be determined by the valuation report of a registered valuer.

ii. Since the preferential offer of shares is to be made by listed company, the Ordinary Equity shall be valued as per the pricing norms prescribed under Regulation 164 of the SEBI-ICDR Regulations, being higher of the following:

"(a) The average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognized stock exchange during the twenty-six weeks preceding the relevant date; or

(b) The average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognized stock exchange during the two weeks preceding the relevant date."

In the present case, the Ordinary Equity Shares of Arman is listed on BSE Limited & National Stock Exchange of India Limited, value per share is to be determined by following pricing provisions of the ICDR Regulations and hence its valuation is not part of this report.

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b) Class 'A' Ordinary Equity Shares of Rs 10/- each to be consolidated as a part of restructuring of capital

Though the Arman is listed on BSE Limited & National Stock Exchange of India Limited, Class 'A' Ordinary Equity Shares of Rs 10/- each to be consolidated are not listed and hence this valuation report.

EVOLUTION

i. **November 20, 2011**

The shareholders passed a resolution by voting on postal ballot sanctioning, *inter alia*, for increase in authorised share capital in the form of 37,50,000 shares with differential rights, referred as, '**Class 'A' Equity** and raising of additional capital by issue of 13,58,130 Ordinary Equity and 12,75,760 Compulsorily Convertible Debentures ("**CCDs**").

ii. **April 16, 2012**

The Allotment Committee passed a resolution to allot the following securities to RIF:

13,58,129 Ordinary Equity, amounting to 24.99% of the total voting rights and 12,75,760 CCDs.

iii. **July 22, 2013**

RIF exercised the conversion option attached with the CCDs:

71,286 Ordinary Equity and 12,04,474 Class 'A' Equity

The conversion price for both options was same.

iv. **October 15, 2013**

The Allotment Committee passed a resolution to allot the following securities to RIF:

12,04,474 Class 'A' Equity, amounting to 0.0002% of the total voting rights of the Company.

While the freshly issued Ordinary Equity was listed on BSE Limited, the Class 'A' Equity remained unlisted.

v. **July 15, 2016**

The 12,04,474 Class 'A' Equity held by RIF were transferred to one of the Promoter group entity of the Arman.

VII. APPROACH TO VALUATION

Valuation of the equity shares is not an exact science and ultimately depends upon what it is worth to a serious investor or buyer who may

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be even prepared to pay for controlling interest. The appropriateness of a valuation approach for determining the value of an asset would depend on valuation bases and premises.

We have used valuation techniques that enable us to form an opinion to estimate the price at which an orderly transaction to sell the financial instrument would take place between market participants at the valuation date under the market conditions existing on that valuation date. This exercise was carried out based on the generally accepted methodologies, the relative emphasis of each often varying with factors such as:

i. Nature of the asset to be valued,

ii. Availability of adequate input and its reliability,

iii. control environment under which the entity and the instrument operates

iv. Strength and weakness of each valuation of approach and

v. Method considered by market participants

The results of this exercise could vary significantly depending upon the basis used, the specific circumstances and professional judgment of the valuer.

As a valuer, we may consider adopting one distinct valuation approach/method or multiple valuation approaches/methods as may be appropriate to derive a reliable value. The valuation approaches and methods, selected in a manner which would maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The ICAI Valuation Standard 103 provides guidance for following three main valuation approaches: (a) Market approach; (b) Income approach; and (c) Cost approach.

i. Income Approach

Some of the common valuation methods under income approach are as follows: (a) Discounted Cash Flow (DCF) Method; (b) Relief from Royalty (RFR) Method; (c) Multi-Period Excess Earnings Method (MEEM); (d) With and Without Method (WWM); and (e) Option pricing models such as Black-Scholes-Merton formula or binomial (lattice) model.
We have discarded this approach from our exercise.

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ii. Cost Approach

Cost approach or Asset 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).
From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility. The usage of this method is of more predominance in valuation of non-financial assets.
We have discarded this approach from our exercise.

iii. Market Approach

In market approach, the value of the financial instrument is determined by considering traded prices of such instrument in an active market; or prices and other relevant information generated by market transactions involving identical or comparable (similar) assets.

Although, there is no recent transaction either in the asset or in the market comparables; we applied the market approach in respect to the asset to be valued as comparable or identical assets traded in the active market *i.e.* BSE Limited & National Stock Exchange of India Limited.

The following valuation methods are commonly used under the market approach: (a) Market Price Method; (b) Comparable Companies Multiple (CCM) Method; and (c) Comparable Transaction Multiple (CTM) Method.

We have considered the traded DVR price of Tata Motors, Future Enterprises, Jain Irrigation and Stampede Capital(here in after referred as "Market Securities") on BSE Limited over a period 2011 to September, 2018 while valuing underlying asset.

Since the trading volume has no impact on valuation exercise, the trading volume of "Market Securities" on National Stock Exchange of India Limited, although the highest, is ignored.

We have used average of difference (expressed in percentage) between open, high and low price of normal

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equity and DVR of "Market Securities" over a period of 2011 to September, 2018 to reduce the impact of volatility or any one time event in the "Market Securities".

The price to be paid for acquisition of controlling stake is also considered in valuation exercise.

We have not come across comparable transaction appropriate to the underlying asset to be valued.

The application of financial metrics such as Earnings before Interest, Tax, Depreciation and Amortization (EBITDA), Profit After Tax (PAT), Sales, Book Value of assets, etc of "Market Securities" is not part of this valuation exercise.

VIII. VALUATION

a) Legal Framework of Differential Voting Rights (DVR) shares

i. DVR shares are different from ordinary shares in a way that they offer lower voting rights compared to ordinary shares. This ideally should make sense for the small and retail shareholders as they normally do not participate in the voting process. These DVR shares are therefore very useful for companies that want to raise money in the market without diluting effective control of the company. The holders of the equity shares with differential rights enjoy all other rights such as bonus shares, rights shares etc., which the holders of ordinary equity shares are entitled to.

ii. SEBI issued guidelines in 2009 prohibiting any company from issuing differential shares with the voting rights or the dividend rights higher than ordinary shareholders. This was a setback for DVRs as additional dividend entitlement for DVRs was not longer possible.

iii. Section 43 of the Companies Act 2013, empowers a company limited by shares to have equity share capital with differential rights as to dividend, voting or otherwise in accordance with rule 4 of the Companies (Share Capital and Debentures) Rules, 2014, which inter alia, states that the company shall not convert its existing equity share capital with voting rights into equity share capital carrying differential voting rights and vice versa.

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iv. Under the Companies (Share Capital and Debentures) Rules, 2014, the shares with differential rights cannot exceed:

   I. twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time.

   II. the company should have a consistent track record of distributable profits for the preceding three years of such issue.

   III. A company should also not have been penalized by any sectoral regulators such as SEBI, RBI, etc.

v. Section 48 of the Companies Act 2013 states, inter alia, that the rights attached to the shares of any class may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class.

b) <u>History of DVR issue in India</u>

i. The first DVR shares were issued by Tata Motors in 2008 which was later followed up by other companies like Gujarat NRE Coke, Future Enterprises, Jain Irrigation and Stampede Capital. However, this has had limited appeal and shareholders of many other companies have refused the lure of DVR shares.

ii. The Jain Irrigation DVR and Stampede Capital, unlike the Tata Motors DVR, were issued as a bonus issue to existing shareholders.

iii. Tata motor and Future Enterprises who have issued DVR shares — which have no or limited voting rights and so are issued at a discount to the ordinary shares. Their aim is to prevent dilution of promoters' powers and hostile takeovers.

c) Performance of DVR share Vs. Regular share

We have considered the traded price observed over a reasonable period while valuing underlying assets which are traded in the active market and since the underlying asset is traded in more than one active market i.e. on BSE Limited and National Stock Exchange

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of India Limited, we have used average price over a 2011 to 2018. We considered multiple averages to reduce the impact of volatility in the underlying asset.

We have identified following market comparables for valuing an underlying asset based on multiples derived from prices of BSE Limited.

- Tata Motors DVR
- Future Enterprise DVR
- Jain Irrigation DVR
- Gujarat NRE Coke DVR
- Stampede Capital DVR

i. Return

I. Tata Motors DVR pay 5 % additional dividend compared to ordinary shares whereas the voting rights that they enjoy is just 10 % of what ordinary shareholders enjoy. The higher dividend payout makes the DVR a lot more attractive in terms of dividend yields.

II. Future Enterprise DVR pay 2 % additional dividend compared to ordinary shares whereas the voting rights that they enjoy is 75 % of what ordinary shareholders enjoy.

III. Jain Irrigation pays no additional dividend whereas the voting right that they enjoy is just 10 % of what ordinary shareholders enjoy.

IV. Since the listing of DVR shares, ordinary shares of Tata Motors Limited have given a return of approximately 763%, whereas its DVR shares have only returned 185%. (Source: Research paper of SKP Capital Services Limited)

V. Over the last 5 years the stocks of Tata Motors and Tata DVR have almost performed in tandem. But while the Tata Motors DVR stock has given a total return of 24.43 %, the Tata Motors stock has returned 29.45 %.(Source: Article on website of Motilal Oswal Investment Services)

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ii. Price discount

I. Historically, the discount between the ordinary shares and DVR shares has been between 22- 51%.

II. In the four years period from 2013 to 2016, pricing discount of Tata Motors' DVR has been reduced from 52% to 22% reflecting higher investor interest. Thereafter, range increased to 45%.

III. In the four years period from 2013 to 2016, Jain Irrigation, pricing discount has been reduced from 50% to 25%, Future Retail trade data discount in the range of 51% to 10% to ordinary shares, the biggest dip in discount.

IV. The debt-laden Gujarat NRE Coke also saw the gap between DVR and ordinary shares close from 59 % on March 31, 2014, to 18 % inApril 2017.

iii. Traded Volume

I. The average of traded volume of no of shares and no of trades for Tata Motors DVR shares was 76% lower compared to ordinary shares.

II. Future Enterprises and Jain Irrigation DVR's average of traded volume of no of shares and no of trades was 97% as compared to ordinary shares.

iv. Price and volume difference reflect adjustments for 'Control Premium.

d) Global Scenario

In a comparative study of voting premiums across 661 companies in 18 countries, it was found that the median value of control block votes varies widely across the countries, ranging from less than 1% in the US to 25% or greater in France, Italy, Korea, and Australia. Lease, McConnell, and Mikkelson (1983) found that voting shares in the United States trade, on average, at a relatively small premium of 5- 10% over non-voting shares. They also found extended periods where the voting share premium disappeared or voting shares traded at a discount to non- voting shares.

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Figure 3

Script	CMP Primary	CMP Secondary	Discount (%)
Alphabet Inc.[12]	1,129.19	1,115.65	1.12
Berkshire Hathaway Inc.[13]	282,040.01	279,975.00 (186.65*1500)	0.73
Under Armour Inc.[14]	22.07	20.75	5.98

CMP = Current Market Price (in USD) as on 29 June, 2018

The legal environment is the key factor in explaining differences across countries and the voting premium is smaller in countries with better legal protection for minority and non-voting stockholders and larger for countries without such protection. Only recently, with the increase in dual-class structures in the technology sector worldwide, Singapore and Hong Kong have allowed companies with dual-class share structures to list on their respective stock exchanges. (Source: Research paper of SKP Capital Services Limited)

IX. CONCLUSION

The underlying asset was issued to non promoter at a price uniform to normal equity at the time to issue and valuation of liquidity i.e. Discount for Lack of Marketability (DLOM) was ignored.

I. The proposed transaction would not result into change in management and control which result in the value of changing management at a firm. The expected value of control is the product of the probability of control changing the value of changing management at a firm.

II. The voting right premium is an extension of the expected value of control and that estimating that value should allow us to quantify the premium.

III. The mean discount of "Market Securities" DVR over normal equity for period 2018 works out 25 %. (41+1+34=76/3=25.33)

IV. The empirical findings on the voting share premium in markets to arrive at a reasonable value for voting rights.

Name of Company**	Mean (2011 to 2018)	Weights*	Multiple

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Tata Motors	40.45%	3	121.35
Future Enterprise	25.00%	2	050.00
Jain Irrigation	42.33%	1	042.33
Reasonable Discount(Premium)			35.61

Note:

* Weightage have been given on the basis of reputation and trading volumes of each company.

** The data of Stampede Capital are not considered for above evaluation looking to their meager volume of DVR and duration of their issue.

APPLICATION OF DISCOUNT TO DVR SHARES

We recommend fair value per "A" Ordinary Equity Shares (DVR Shares) of Arman as 65% of the value of the Ordinary Equity, to be valued as per the pricing norms prescribed under Regulation 164 of the SEBI ICDR Regulations. The discount represents Discount for Lack of Marketability and Discount for Lack of Voting Right.

1) Relative Value per share:

Value per "A" Ordinary Equity Shares (DVR Shares) as 65% of the value the Ordinary Equity, to be valued as per the pricing norms prescribed under Regulation 164 of the SEBI ICDR Regulations.

2) Consolidation formula

65 (sixty five) Ordinary Equity of Rs 10/- each against 100 (one hundred) "A" Ordinary Equity Shares (DVR Shares).

It may be noted that the Stock Exchanges have issued a circular to the Listed Companies (BSE Circular LIST/COMP/02/2017-18 dated May 29, 2017) as advised by SEBI, laying down the format in which the valuation report shall display workings, relative fair value per share for share exchange ratio. The disclosure in the format suggested by the stock exchange as under is not applicable:

Particulars		
	Value per share	**Weight**
Net Asset Value Method	0	0
Discounted Cash Flow Method	0	0
Market Price Method	35% discount to the relevant value of Ordinary Equity	100%

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X. DISCLOSURE OF INTEREST

Neither our employees nor the partners have any financial interest in Arman. The fee for the report is not contingent upon the results reported.

XI. LIMITATIONS AND DISCLAIMER

The scope of the report does not include detailed corroborative examination of the financial assertions and representation of management. However, although our work was not designed to verify the accuracy or reliability of any information given to us, a prima-facie review has been performed by us of the information obtained by us to achieve the following:

a. Assess the reliability and internal consistency of management information.

b. Substantiate various assumptions by the appropriate use of evidences and research.

c. The information contained herein and our report is absolutely confidential. It is intended only for the sole use and information of the company and only in connection with the proposed consolidation as aforesaid including for the purpose of obtaining regulatory approvals for the proposed consolidation. We are not responsible to any other person/party for any decision of such person of party based on this report.

d. Any person intending to invest in shares/business of the company shall do so after seeking their own professional advice and carrying out their own due diligence procedures to ensure that they are making an informed decision.

Nothing in this report should be taken to imply that we have conducted any detailed procedure, audits or investigation in an attempt to verify or confirm any of the information given to us.

Our valuation is subject to the following Limitations / Exclusions:

i. As much the report is to be read in totality and not in parts in conjunction with the relevant documents referred to therein.

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ii. Our work does not constitute an audit or certification of the historical financial statements including the working results of the companies referred to in this report. Accordingly, we are unable to and do not express an opinion on the accuracy of any financial information referred to in this report.

iii. We have considered circumstances existing at the valuation date and events occurring up to the valuation date.

iv. Valuation analysis and results are specific to the purpose of valuation and valuation date mentioned in the report is as agreed as per term of our engagement. It may not be valid if done on the behalf of any other entity.

v. This report is issued on the understanding that the Arman has drawn our attention to all material information, which they are aware of concerning their financial positions and any other matter, which may have impact on our opinion, on the fair value, including any significant changes that have taken place or are likely to take place in the financial position, subsequent to last audited balance sheet. We have no responsibility to update this report for events and circumstances occurring after the valuation date of this report.

vi. In the course of the valuation, we are provided with both written and verbal information. We have however, evaluated the information provided to us through broad inquiry, analysis and review (but have not carded out a due diligence or audit of the company for the purpose of this engagement). Our conclusion is based on the information given by/on behalf of the Arman. However, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such statements.

vii. The valuations worked out are indicative and may differ substantially from actual transactions.

viii. All the workings for valuation worked out are rounded off to the nearest rupee in lakh.

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ix. It is hereby notified that any reproduction, copying or otherwise quoting of this report or any part thereof, except in connection with proposed arrangement as aforesaid, can be done only with our prior permission in writing.

For, S V Pujara& Co.
Chartered Accountants
FRN 108205W

Place: Ahmedabad
Date: 30.09.2018

S. V. Puj

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CA Shailesh V. Pujara
Partner
M.No. 030846

ANNEXURE-I

MARKET DATA BSE LIMITED

TATA MOTORS DVR

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2011	797.50	802.10	80.20	86.65	34537568	373099	11253336504
2012	88.40	189.90	86.10	173.70	122094064	1074521	18414248291
2013	175.15	210.30	121.40	192.30	43280497	496294	7094708444
2014	192.50	391.20	168.50	335.35	41737663	1133683	12574475914
2015	335.50	385.40	201.00	282.95	42611218	929862	11697462584
2016	289.50	377.90	209.00	299.15	50859978	593176	15659249192
2017	296.15	346.00	208.05	244.80	49543211	426960	13063150024
2018	244.85	261.80	133.60	146.85	39064228	301994	7141939530

TATA MOTORS EQUITY

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2011	1321.00	1334.30	137.65	178.40	262994707	4075552	111000000000
2012	182.00	320.60	178.65	312.40	398301867	4393244	102000000000
2013	314.65	405.00	252.10	376.40	235101431	3199890	74810162429
2014	378.10	550.80	331.05	496.10	113199502	2569527	50571503705
2015	492.60	612.05	279.15	382.40	210282114	2865379	83678186530
2016	393.80	598.60	266.00	471.35	192223510	2486775	84536751430
2017	474.95	553.00	357.95	431.20	275074524	1741890	122000000000
2018	432.20	443.55	243.25	275.55	143265579	1343795	44958309574

DIFFERRENCE IN PRICE PERCENTAGE

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover
2011	39.63	39.89	41.74	51.43	86.87	90.85	89.86
2012	51.43	40.77	51.81	44.40	69.35	75.54	81.95
2013	44.33	48.07	51.84	48.91	81.59	84.49	90.52
2014	49.09	28.98	49.10	32.40	63.13	55.88	75.14
2015	31.89	37.03	28.00	26.01	79.74	67.55	86.02
2016	26.49	36.87	21.43	36.53	73.54	76.15	81.48
2017	37.65	37.43	41.88	43.23	81.99	75.49	89.29
2018	43.35	40.98	45.08	46.71	72.73	77.53	84.11

AVERAGE OF DIFFERENCE PERCENTAGE	40.48	38.75	41.36	41.20	76.12	75.43	84.80
AVERAGE %			40.45			78.78	

NOTE

PRICE DISCOUNT RANGE IN PERCENTAGE

LOW 21.43 IN 2016

HIGH 51.84 IN 2013

40.98 IN 2018

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ANNEXURE-II

MARKET DATA BSE LIMITED

FUTURE ENTERPRISE DVR

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2011	317.80	319.80	79.90	81.95	1904348	10564	319349656
2012	80.00	199.00	76.05	179.10	2805834	50197	382887279
2013	179.50	189.55	31.00	38.15	1729918	19528	184873872
2014	38.50	84.85	28.60	57.90	1623547	13314	75437669
2015	53.50	144.10	44.30	122.00	2079943	16405	148006644
2016	120.50	138.00	12.80	16.50	4266734	9180	285318562
2017	16.40	57.80	16.10	49.05	4174701	18696	142495208
2018	48.10	50.60	32.00	45.45	769524	5416	31562820

FUTURE ENTERPRISE EQUITY

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2011	371.30	386.35	125.35	128.80	73831859	1344940	14866205542
2012	130.75	260.25	125.30	257.15	270981320	3400344	49380592348
2013	259.00	275.75	63.30	77.65	199658901	2151786	24657528384
2014	77.90	147.85	74.20	104.95	143042588	1830032	15142440095
2015	105.00	172.85	87.30	154.00	83061304	789472	9868837084
2016	149.20	156.40	14.20	16.70	44714091	226547	1835925438
2017	16.85	62.05	16.60	48.40	86237512	283996	3529062168
2018	48.75	51.00	33.60	47.70	87658602	98356	3512247973

DIFFERRENCE IN PRICE PERCENTAGE

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover
2011	14.41	17.23	36.26	36.37	97.42	99.21	97.85
2012	38.81	23.54	39.31	30.35	98.96	98.52	99.22
2013	30.69	31.26	51.03	50.87	99.13	99.09	99.25
2014	50.58	42.61	61.46	44.83	98.86	99.27	99.50
2015	49.05	16.63	49.26	20.78	97.50	97.92	98.50
2016	19.24	11.76	9.86	1.20	90.46	95.95	84.46
2017	2.67	6.85	3.01	-1.34	95.16	93.42	95.96
2018	1.33	0.78	4.76	4.72	99.12	94.49	99.10

AVERAGE OF DIFFERENCE PERCENTAGE

	25.85	18.83	31.87	23.47	97.08	97.24	96.73
AVERAGE %			25.00			97.01	

NOTE

PRICE DISCOUNT RANGE IN PERCENTAGE

LOW -1.34 IN 2017

HIGH 61.46 IN 2014

0.78 IN 2018

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ANNEXURE-III

MARKET DATA BSE LIMITED

JAIN IRRIGATION DVR

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2011	95.50	95.50	32.30	35.65	997361	10494	48800533
2012	35.10	61.80	30.95	37.40	6562537	46507	279021557
2013	37.60	43.90	22.80	33.00	2259821	16747	75879600
2014	33.60	91.90	27.05	51.30	7417412	85374	417171232
2015	50.25	55.80	33.20	43.05	4550211	47253	196726418
2016	45.10	63.00	35.20	58.55	5383482	38954	262259876
2017	59.05	79.50	56.00	77.05	5051842	45685	342351285
2018	77.05	99.95	47.15	55.95	5013030	37100	391813379

JAIN IRRIGATION EQUITY

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2011	213.45	234.00	74.60	86.80	121533001	1501148	19622734077
2012	88.00	121.60	59.50	75.05	218731620	1535587	17694704367
2013	75.90	86.40	46.10	72.60	118273072	782826	7534643600
2014	73.30	133.45	56.45	69.90	149079510	1819835	13605479977
2015	69.85	79.00	50.55	65.75	114181671	803309	7597859015
2016	69.80	109.25	47.00	88.10	178032922	728929	13699828403
2017	88.15	132.90	82.80	125.80	173510439	629983	18164222722
2018	126.35	150.40	71.75	85.55	164462970	565231	17878703746

DIFFERRENCE IN PRICE PERCENTAGE

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover
2011	55.26	59.19	56.70	58.93	99.18	99.30	99.75
2012	60.11	49.18	47.98	50.17	97.00	96.97	98.42
2013	50.46	49.19	50.54	54.55	98.09	97.86	98.99
2014	54.16	31.14	52.08	26.61	95.02	95.31	96.93
2015	28.06	29.37	34.32	34.52	96.01	94.12	97.41
2016	35.39	42.33	25.11	33.54	96.98	94.66	98.09
2017	33.01	40.18	32.37	38.75	97.09	92.75	98.12
2018	39.02	33.54	34.29	34.60	96.95	93.44	97.81

AVERAGE OF DIFFERENCE PERCENTAGE	44.43	41.76	41.67	41.46	97.04	95.55	98.19
AVERAGE %			42.33			96.93	

NOTE

PRICE DISCOUNT RANGE IN PERCENTAGE

LOW 25.11 IN 2016

HIGH 60.11 IN 2012

33.54 IN 2018

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ANNEXURE-IV

MARKET DATA BSE LIMITED

STMPADE CAPITAL DVR

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2017	5.80	6.04	2.63	4.86	737630	435	3542574
2018	5.10	10.87	1.61	1.61	6809309	2928	51889616

STMPADE CAPITAL EQUITY

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2017	26.25	29.75	4.95	10.56	198751726	106592	3292243406
2018	11.08	19.10	2.39	3.02	62516004	25827	793765446

DIFFERRENCE IN PRICE PERCENTAGE

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover
2017	77.90	79.70	46.87	53.98	99.63	99.59	99.89
2018	53.97	43.09	32.64	46.69	89.11	88.66	93.46

AVERAGE OF DIFFERENCE PERCENTAGE

	65.94	61.39	39.75	50.33	94.37	94.13	96.68
AVERAGE %			54.35			95.06	

NOTE

PRICE DISCOUNT RANGE IN PERCENTAGE

LOW 32.64 IN 2016

HIGH 79.70 IN 2012

32.64 IN 2018

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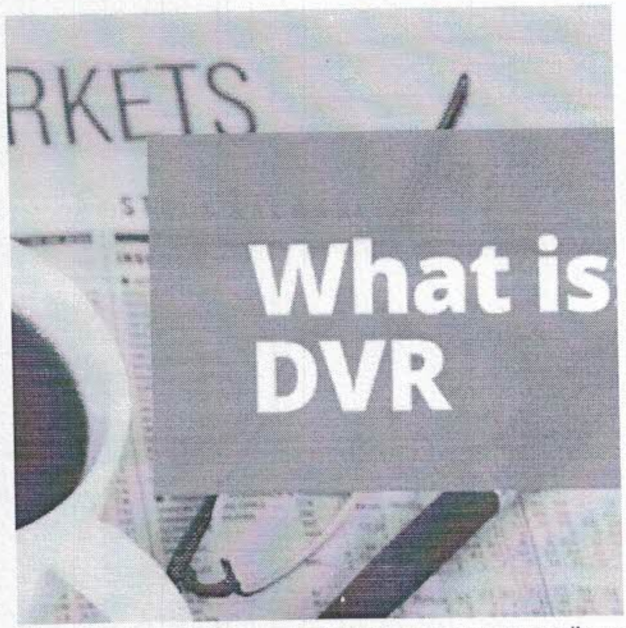
Home (/index.aspx) > Article (/share-market-education/new-to-market.aspx)

Difference between Ordinary Shares and DVR shares..



The first DVR shares were issue by Tata Motors in 2008 which was later followed up by other companies like Gujarat NRE Coke, Future Enterprises and Jain Irrigation. However, this has had limited appeal and many other companies have refused the lure of DVR shares. So what exactly do we understand by DVR shares? What are the characteristics of DVR shares in India? Why are DVR shares in India still limited to just 4 stocks? What is the precise difference between ordinary shares and DVR shares?

Differential Voting Rights (DVR) shares are shares that are permitted to be issued with differential voting and differential dividend rights. DVR shares are different from ordinary shares in two distinct ways. Firstly, they offer lower voting rights compared to ordinary shares. These DVR shares are therefore very useful for companies that want to raise money in the market without diluting effective control of the company. Secondly, to compensate for the lower voting rights, these DVR shares are paid a dividend premium of 10-20 %. This ideally should make sense for the small and retail shareholders as they normally do not participate in the voting process. Giving away part of their voting rights for higher dividends is a good ploy for these shareholders. Additionally, since DVRs have always quoted at a discount of 30-40 % in the Indian context, the higher dividend payout makes the DVR a lot more attractive in terms of dividend yields. For example, in 2009 the Tata Motors DVR was quoting at a dividend yield of 4.5 %, which is extremely attractive from an investor 's point of view.

Tata Motors versus Tata Motors DVR - How they performed?

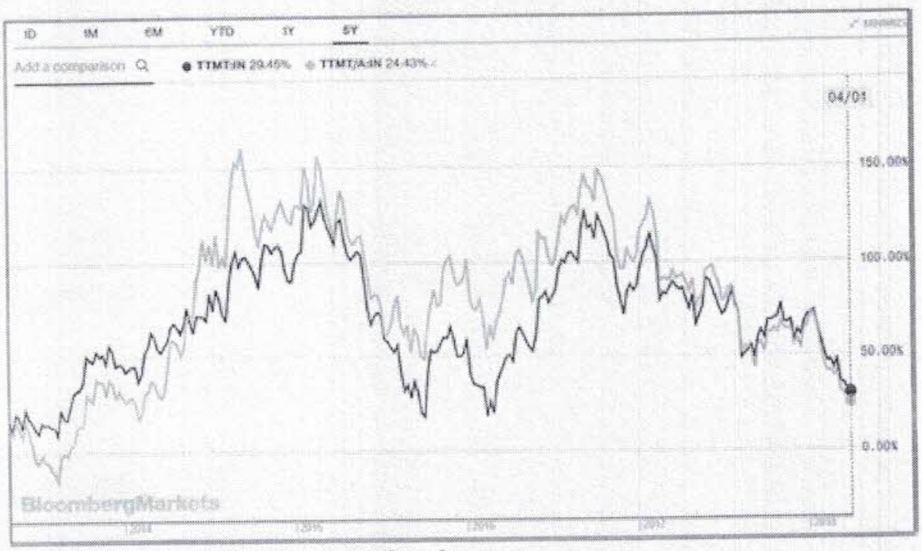


Chart Source: Bloomberg

Over the last 5 years the stocks of Tata Motors and Tata DVR have almost performed in tandem. But while the Tata Motors DVR stock has given a total return of 24.43 %, the Tata Motors stock has returned 29.45 %. During the same period, the DVR discount over the ordinary share has expanded to 42 % as against 35 % discount at the time of the issue of Tata Motors DVRs back in

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2008. This is largely because the DVR is paid 5 % additional dividend compared to ordinary shares whereas the voting rights that they enjoy is just 10 % of what ordinary shareholders enjoy. That explains the discount on the DVR and also the reason there is limited demand for the DVRs. Like in the US, Indian companies also need to make their DVRs more attractive to shareholders.

Jain Irrigation versus Jain Irrigation DVR - How they performed?

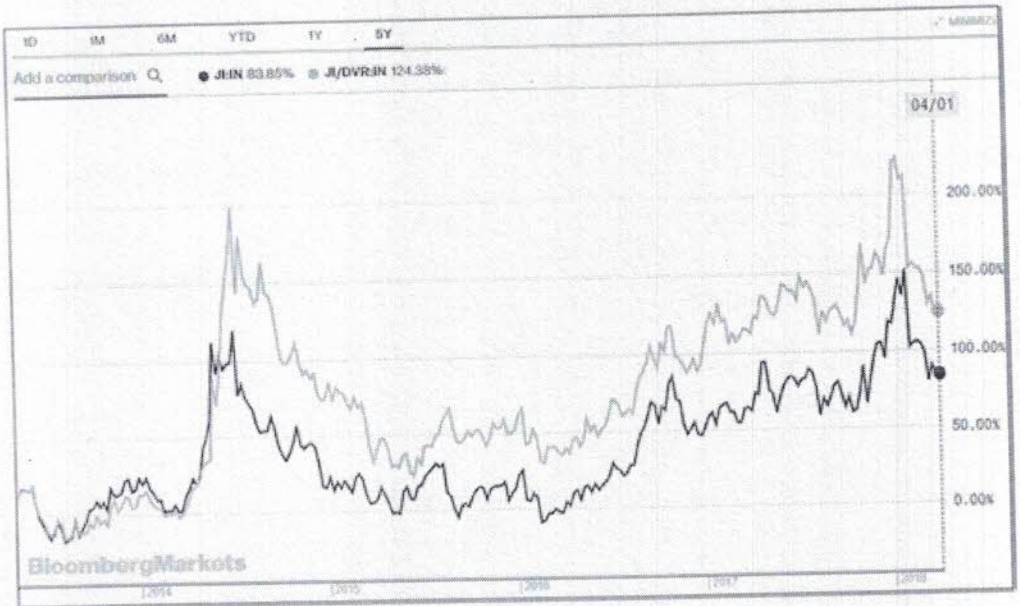

Chart Source: Bloomberg

The Jain Irrigation DVR, unlike the Tata Motors DVR, was not issued as a rights issue but as a bonus issue to existing shareholders of Jain Irrigation DVR shares. That could possibly explain why the Jain Irrigation DVR has outperformed the Jain Irrigation stock over the last 5 years despite having just 10 % voting rights like in the case of Tata Motors. However, like in the case of Tata Motors, the DVR discount in case of Jain Irrigation also continues to be around 40 %, exactly where it was in 2011 when the DVR bonus shares were first issued.

Why have DVRs not taken off in a big way in India?

The fact that only four companies came out with DVRs, in the last 10 years shows that the product has not really appealed to shareholders and to promoters alike. What are the reasons for this lack of interest in DVRs as an instrument?

- The first and foremost reason is the dividend advantage. Take the case of Tata Motors. The dividend advantage is just 5 %. That means that if the ordinary shareholders are paid a rupee dividend of Rs.20, the DVR holders get a dividend of Rs.21. While this advantage gets more pronounced in dividend yield terms, most investors are not too sure if that is a good enough deal to give up 90 % voting rights.
- Liquidity in DVRs has not been too good. While the Tata Motors DVR did see a build-up in volumes after its inclusion in the Nifty, other DVRs have had tough time building trading interest in the stock. That makes it hard to get institutional investors interested in the DVRs, who are anyways unhappy about the loss of voting power.
- SEBI had issued guidelines in 2009 prohibiting any company from issuing differential shares with the voting rights or the dividend rights higher than ordinary shareholders. This was a setback for DVRs as additional dividend entitlement for DVRs was not longer possible.
- Markets, especially institutional investors, have not been too happy with the way management tussles have played out in blue chip companies like Tata group companies and at Infosys They would still prefer the safety of voting rights to protect themselves.

DVR may be a good concept but unless they are able allow flexible structuring of DVRs like in the US case; this product is likely to find it difficult to take off in a big way

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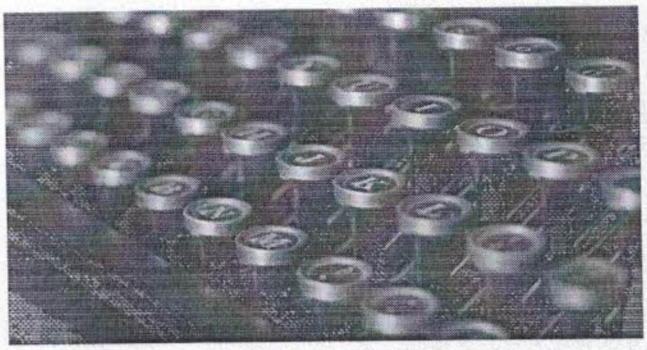
https://www.caclubindia.com/articles/peculiar-case-of-differential-voting-right-shares-in-india-33778.asp

Peculiar case of Differential Voting Right Shares in India



Introduction

To summarise in a few words, DVR shares are merely the same shares of a company, having, mutatis mutandis, all the rights and privileges that are vested in the ordinary shares of the Company, except as to voting and in some cases, dividends.

The Difference

In India, a company can only issue DVR, a.k.a. Differential Voting Rights, shares that offer fewer voting rights than ordinary shares of the same company. The holders of the equity shares with differential rights enjoy all other rights such as bonus shares, rights shares etc., which the holders of ordinary equity shares are entitled to.

Figure 1

Script	Differential Voting Rights	Differential Dividends
Tata Motors Limited	One Vote for every 10 DVR Equity Shares	5% higher than the rate of dividend declared on ordinary Shares
Jain Irrigation Systems Limited	One Vote for every 10 DVR Equity Shares	Same as Ordinary shares
Future Enterprises Limited	Three Votes for every Four DVR Equity Shares	2% higher than the rate of dividend declared on ordinary Shares[2]

Historically, the discount between the ordinary shares and DVR shares of public limited companies in India has been between 35- 45%. However, as shown in figure 2, this discount has narrowed considerably for Future Enterprises Limited in recent times.

Figure 2

Script	CMP Ordinary Share	CMP DVR Share	Discount (%)
Tata Motors Limited	270.75	161.85	40.22
Jain Irrigation Systems Limited	86.85	53.50	38.40
Future Enterprises Limited	37.40	36.70	1.87

CMP - Current Market Price (in INR) as on 27 June, 2018

Returns

Since the listing of DVR shares, ordinary shares of Tata Motors Limited have given a return of approximately 763%, whereas its DVR shares have only returned 185%. Similarly, for Jain Irrigation Systems Limited, the ordinary shares have returned -32.96% whereas the DVR shares have yielded 2.6%.

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Ideally, the movement in the two shares, i.e. ordinary share and DVR share, should mirror each other. However in India, on an average, only 63.83% of the returns of DVR shares is explained by returns of the ordinary shares. In the US, returns of Alphabet Inc's Class A stock explains 98.14% of the returns of the Class C stock, where Alphabet Inc's Class A share has gained 2027% and its class C share has given a return on 2002%

A possible explanation for this mismatch is that the DVR stocks of Indian listed public companies are not understood and tracked by Investors.

Legal Framework

The regulatory environment in India requires fulfillment of certain strict requirements, with a high bar for corporate governance, to issue shares with differential voting rights.

For instance, under the 2014 rules, the shares with differential rights cannot exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time. Similarly, to issue DVR shares, the company should have a consistent track record of distributable profits for the preceding three years of such issue. A company should also not have been penalised by any sectoral regulators such as SEBI, RBI, etc.

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Moreover, various provisions of the Companies Act 2013 protect the rights of shareholders belonging to a different class. For instance, Section 48 states, inter alia, that the rights attached to the shares of any class may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class. Therefore, it can be inferred that the shareholders of the DVR shares, in effect, have an absolute vote in cases where any of the rights of such shareholders are varied.

Valuation

If the primary reason for the voting share premium is the expected value of control, in general, there are two ways by which we can value DVR shares. First, we can use the empirical findings on the voting share premium in markets and arrive at a reasonable value for voting rights. Second, it can be said that the voting right premium is an extension of the expected value of control and that estimating that value should allow us to quantify the premium.

The expected value of control is the product of the probability of control changing the value of changing management at a firm:

Expected value of control = Probability of management changing * Value of management change

Where, Value of management change = Optimal firm value-Status quo value

As regards difference in voting rights, Damodran (2008) states that:

- The difference between voting and non-voting shares should go to zero if there is no chance of changing management/control
- Other things remaining equal, voting shares should trade at a larger premium on nonvoting shares at badly managed firms than well-managed firms
- Any event that illustrates the power of voting shares relative to non-voting shares is likely to affect the premium at which all voting shares trade
- Other things remaining equal, the smaller the number of voting shares relative to nonvoting shares, the higher the premium on voting shares should be

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According to Nenova (2003), the value of control-block votes is expected to decrease with the strictness of the legal environment. In particular, such strictness includes better general investor protection, higher quality of law enforcement, and stricter takeover laws.

Global Scenario

In a comparative study of voting premiums across 661 companies in 18 countries, it was found that the median value of control block votes varies widely across the countries, ranging from less than 1% in the US to 25% or greater in France, Italy, Korea, and Australia.

Lease, McConnell, and Mikkelson (1983) found that voting shares in the United States trade, on average, at a relatively small premium of 5- 10% over non-voting shares. They also found extended periods where the voting share premium disappeared or voting shares traded at a discount to non- voting shares.

Figure 3

Script	CMP Primary	CMP Secondary	Discount (%)
Alphabet Inc.[12]	1,129.19	1,115.65	1.12
Berkshire Hathaway Inc.[13]	282,040.01	279,975.00 (186.65*1500)	0.73
Under Armour Inc.[14]	22.07	20.75	5.98

CMP = Current Market Price (in USD) as on 29 June, 2018

The legal environment is the key factor in explaining differences across countries and the voting premium is smaller in countries with better legal protection for minority and non-voting stockholders and larger for countries without such protection.

Only recently, with the increase in dual-class structures in the technology sector worldwide, Singapore and Hong Kong have allowed companies with dual-class share structures to list on their respective stock exchanges.

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Conclusion

The regulatory framework in India protects the rights of the dual class shareholders, as well as the minority shares. For example, in the United States, Berkshire Hathaway Inc. Class A equity shareholders can convert their shares into class B equity shares, having fewer voting rights. However, under the Indian Law, a company cannot convert its existing equity share capital with voting rights into equity share capital carrying differential voting rights and vice versa.

Considering the strict corporate governance requirements for Companies to list dual-class shares in India and the various laws protecting the rights of DVR shareholders against hostility, it can be argued that the discount of 35- 45% for DVR shares is a bit excessive. This might be partly explained by the fact that these shares are not understood and tracked by Investors, and that we might see the discount narrowing once there is more awareness about the features of such shares in the market.

Disclaimer: The views expressed here are solely those of the author in his private capacity and do not in any way represent the views of SKI Capital Services Limited. The research is not intended to be an investment recommendation. The author has financial interest in the Indian entities mentioned in this report.

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