



VORA & ASSOCIATES

CHARTERED ACCOUNTANTS

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Ref: MAV:18/TML:1040

February 13, 2018

To

Board of Directors

Tata Motors Limited
Bombay House
24, Homi Mody Street
Mumbai - 400 001
India

Sub: Valuation of Defence Division of Tata Motors Limited

Dear Sirs,

We refer to our engagement letter dated 30 January 2018 and subsequent discussions we had with you, whereby Tata Motors Limited ('TML' or 'the Company') has requested Vora & Associates ('Valuer' or 'we' or 'us') to carry out valuation of the defence business of TML ('TMLD') as at 31 December 2017.

SCOPE AND PURPOSE OF THIS REPORT

TML, part of the Tata Group, is primarily engaged in the manufacture and sale of all types of commercial and passenger vehicles with operations in over 175 countries. The Company *inter-alia* manufactures and sells passenger cars, utility vehicles, light commercial vehicles, medium and heavy commercial vehicles and defence vehicles.

TML's securities are listed on the Bombay Stock Exchange Ltd. ('BSE') and National Stock Exchange of India Ltd. ('NSE'). Further, the American Depositary Shares ('ADSs') are listed on the New York Stock Exchange ('NYSE') while Global Depositary Shares ('GDSs') are listed on the Luxembourg Stock Exchange and also traded on the London Stock Exchange.

TMLD is primarily engaged in the manufacture of infantry combat vehicles and light armored multi-role vehicles. The existing business of TMLD mainly comprises of passenger and commercial vehicles supplied to the Indian armed forces, and exports. The cabin and chassis of such vehicles is produced by TML using the existing production facilities at its plants, while value added components and modifications are outsourced to external vendors. TMLD is also bidding for various specialized defence projects, which are expected to materialize in future. Design, development and production for such defence projects is expected to be specialized, with only limited dependence on TML's existing facilities.

We understand that the management of TML ('Management') is evaluating a proposal for sale of TMLD on a slump sale basis pursuant to a proposed Scheme of Arrangement under Sections 230 - 232 of the Companies Act 2013 ('Proposed Transaction'). For the aforesaid purpose, TML has requested us to submit a report setting out the enterprise value of TMLD ('Valuation'), as at 31 December 2017 ('Valuation Date').





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As agreed with you, we have presented the Valuation at enterprise level and accordingly, no adjustment for debt and cash has been carried out.

We have been provided with summarised historical financial information on TMLD upto 31 December 2017. Our analysis does not factor impact of any event which is unusual or not in the normal course of business. We have relied on the above while carrying out the Valuation.

This report ('Report') is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such, the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

SOURCES OF INFORMATION

In connection with this exercise, we have used the following information received from the Management and / or gathered from public domain:

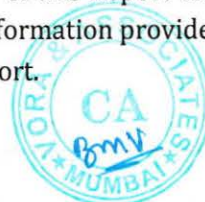
- Summarised financial information on TMLD relating to net asset values of various projects as on 31 December 2017. We understand that separate divisional financial statements are not prepared;
- High-level projected financial information for TMLD, provided to us by the Management as its best estimates as to the expected operating performance ('Management Projections'). This consists of projected profit and loss statement for the existing value added segment of TMLD for the period FY18 to FY22, and high level revenue estimates with respect to the specialised defence projects that are to be transferred. We understand that detailed financial projections are not available, due to no clear visibility on volume, timing of projects, margins, development and capital expenditure needed for implementation, etc. Projected balance sheets were also not available;
- Interviews and correspondence with the Management;
- Secondary research and market data on comparable companies and information on recent transactions, to the extent readily available; and
- Such other analysis, reviews and enquiries, as we considered relevant.

TML has been provided with the opportunity to review the draft report (excluding the recommended value) as part of our standard practice to make sure that factual inaccuracies / omissions are avoided in our final report.

SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

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 date of this Report and (iii) financial information relating to TMLD as at 31 December 2017, and other information provided by the Management on key events after 31 December 2017 till the date of the Report.





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The Management has represented that the business activities of TMLD have been carried out in the normal and ordinary course between 31 December 2017 and the Report date and that no material adverse change has occurred in the division's operations and financial position between 31 December 2017 and the Report date.

An analysis 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. Events and transactions 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.

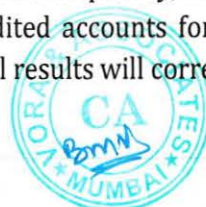
The ultimate analysis will have to be tempered by the exercise of judicious discretion by the Valuer and judgment taking into account all the relevant factors. There will always be several factors, e.g. management capability, present and prospective competition, yield on comparable securities, market sentiment, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share/ business. This concept is also recognised in judicial decisions.

The recommendation(s) rendered in this Report only represent our recommendation(s) based upon information furnished by TML (or its executives/ representatives) and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice (our recommendation will however not be used for advising anybody to take a buy or sell decision, for which specific opinion needs to be taken from expert advisors). We have no obligation to update this Report.

The Value Analysis is required solely for non-financial reporting purposes and would not be used to determine the carrying value of the relevant assets/ (liability) in any financial statement that the Valuer would be auditing.

Valuation is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgement. There is, therefore, no single undisputed value. While we have provided our recommendation of the Valuation based on the information available to us and within the scope of our engagement, others may have a different opinion. The final responsibility for value at which the Proposed Transaction shall take place will be with the Board of Directors of TML, who should take into account other factors such as their own assessment of the proposed Transaction and input of other advisors.

Valuation is based on estimates of future financial performance or opinions that represent reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, that events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by the prospective financial analysis will vary from these estimates, and the variations may be material. Consequently, this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results will correspond to the results projected.





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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 engagement, we have assumed and relied upon, without independent verification, (i) the accuracy of the information that was publicly available and was considered as part of our analysis for this Report and (ii) the accuracy of information made available to us by TML. In accordance with our work order and in accordance with the customary approach adopted in valuation exercises, we have not audited, reviewed or otherwise investigated the historical financial information provided to us. We have not independently investigated or otherwise verified the data provided by TML. 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 the financial statements. Also, with respect to explanations and information sought from TML, we have been given to understand by the Management that they have not omitted any relevant and material factors about TMLD. Our conclusions are based on the assumptions and information given by / on behalf of TML and reliance on public information. The Management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis / results. Accordingly, we assume no responsibility for any errors in the information furnished by TML and their impact on the Report. Nothing has come to our attention to indicate that the information provided was materially / incorrect or would not afford reasonable grounds upon which to base the Report.

The Report assumes that TML complies fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the business of TMLD will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this Valuation 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 as part of the financial information relating to TMLD. Our conclusion of value assumes that the capital employed for TMLD, as prepared and presented by the Management, remains intact as of the Report date.

Our scope of work did not include checking the adequacy of the financial information relating to TMLD, and this is the responsibility of the Management and we have assumed such information to be correct.

We are not advisors with respect to accounting, legal, tax and regulatory matters for the Proposed Transaction. This Report does not look into the business / commercial reasons behind the Proposed Transaction nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the Proposed Transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

No investigation of TML / TMLD's claim to title of assets has been made for the purpose of this Report and TML / TMLD's claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets (the Management represented that there are no borrowings specific to TMLD). Therefore, no responsibility is assumed for matters of a legal nature.

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





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We owe responsibility to only the Board of Directors of TML that has appointed us under the terms of our engagement letter, and nobody else. 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 advisor to TML. 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 TML, its directors, employees or agents. Unless specifically agreed, in no circumstances shall the liability of the Valuer, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in this Report, exceed the amount paid to the Valuer in respect of the fees charged by it for these services.

We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion on the Valuation. This Report is not a substitute for the third party's own due diligence / appraisal / enquiries / independent advice that the third party should undertake for his purpose.

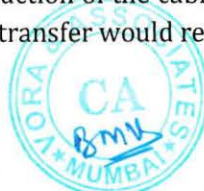
This Valuation Report is subject to the laws of India.

Neither the Valuation 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 Scheme, without our prior written consent except for disclosures to be made to relevant regulatory authorities including Registrar of Companies and National Company Law Tribunal and other judicial, regulatory or government authorities, in connection with the Transaction. In addition, this Report does not in any manner address the prices at which equity shares of TML may trade following announcement of the Proposed Transaction and we express no opinion or recommendation as to how the shareholders of TML should vote at any shareholders' meeting(s) to be held in connection with the Proposed Transaction.

APPROACH & METHODOLOGY

It should be understood that the valuation of any company / business or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of TML. Further, this Valuation will fluctuate with lapse of time, changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of TMLD, and other factors which generally influence the valuation of companies and their assets.

The Scheme contemplates the transfer of TMLD on a slump sale basis, comprising of the value added segment of the existing business, as well as the specialized defence projects excluding the Futuristic Infantry Combat Vehicle ('FICV') project, for which TML is one of the shortlisted bidders. Following completion of the Proposed Transaction, production of the cabin and chassis would be subcontracted to TML on transfer pricing compliant terms. The transfer would require determining the fair value of TMLD on the above basis.





The Scheme contemplates the transfer of TMLD on a slump sale basis, comprising of the value added segment of the existing business, as well as the specialized defence projects.

The following are commonly used and accepted methods for determining the valuation of a company / business:

1. Market Approach
 - a. Market Price method
 - b. Comparable Companies Quoted Multiples method
 - c. Comparable Companies Transaction Multiples method
2. Income Approach – Discounted Cash Flows method
3. Asset Approach – Net Asset Value method

1. Market Approach

a. Market Price Method

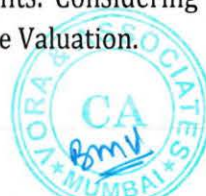
The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share, especially where the market values are fluctuating in a volatile capital market. Further, in the case of an amalgamation, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

TMLD, being a division, does not have equity shares listed on any recognised stock exchange in India. Accordingly, the Market Price Method has not been adopted for the Valuation.

b. Comparable Companies' Quoted Multiple ('CCM') Method

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

TMLD primarily caters to specific needs of the Indian Defence Sector and are currently at various stages of development. While there are certain listed companies in India whose operations include supply of equipment and solutions in the defence sector, most of these companies are large in size and have established and diversified operations. The existing value added segment of TMLD is small, and also not profitable. Further, the specialized defence projects are yet to commence and there is limited visibility in terms of revenue and profits. Considering the aforementioned, we have not adopted the CCM approach for the purpose of the Valuation.





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c. Comparable Companies' Transaction Multiple ('CTM') Method

Under this method, value of the equity shares of a company / business is arrived at by using multiples derived from valuations in comparable companies, as manifest through transaction valuations. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

There have been limited transactions in the Indian defense sector in the recent past. Further, transaction multiples may include acquirer-specific considerations such as synergy benefits, control premium and minority adjustments, on which sufficient information may not be available in the public domain. Accordingly, the CTM approach has not been adopted for the purpose of the Valuation.

2. Income Approach - Discounted Cash Flows ('DCF') Method

Under the DCF method, the projected free cash flows to the equity shareholders are discounted at the cost of equity. The sum of the discounted value of such free cash flows is the value of the firm.

Management has provided us with high-level projected revenues and operating margins for the existing value added segment, and estimated revenues for the specialized defence projects which are at an early stage. However, there is no clear visibility on orders, and related capital expenditure would depend on the size and timing of the orders. Further, at this stage the Company does not have estimates regarding operating margins of the specialized defence projects which are at early stage of development. Management has represented that given the limited visibility with respect to future projects, detailed financial projections are not available. Accordingly, the DCF method has not been adopted for the purpose of the Valuation.

3. Asset Approach - Net Asset Value ('NAV') Method

Asset Approach indicates the value by adjusting the asset and liability balances on the balance sheet. Asset approach is usually based on the summation of individual piecemeal values of the underlying assets less value of the liabilities.

Management has provided us with capital employed for TMLD, which principally comprises of the intangible assets relating to the specialized defence projects. Management represented that tangible assets are minor, considering that the value added operations are outsourced and that specialized defence projects are at an early stage of development. Management further represented that there are no liabilities specifically identified with TMLD. Accordingly, capital employed equals the net asset value as on the Valuation Date.

Considering the early stage of operations and limited visibility of future profitability, we have adopted the NAV method for the Valuation.





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Valuation

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a Valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and *bona fide* manner based on our previous experience of assignments of a similar nature. The basis of the Proposed Transaction would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove.

The Valuation is based on the methodologies explained herein earlier and various qualitative factors relevant to TMLD, including the business dynamics and growth potential of the division, having regard to information made available by Management and/ or in the public domain, key underlying assumptions and limitations.

We, as considered appropriate, have independently applied methodologies discussed above and arrived at the assessment of value of TMLD.

Based on the above, and information and explanations provided to us, the enterprise value of TMLD as at 31 December 2017 works out to **INR 2,092.7 million**.

Kindly refer Annexure 1 for the details of Valuation of TMLD and the Valuation methodologies adopted.

Respectfully submitted,

For VORA & ASSOCIATES
CHARTERED ACCOUNTANTS
(ICAI Firm Reg. No.: 111612W)



BHAKTI M. VORA
PARTNER

(Membership No.: 148837)



PLACE: MUMBAI

DATED: **13 FEB 2018**



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Annexure - 1: Valuation of TMLD and the Valuation methodologies adopted

		INR million
Valuation Approach	Project	Business Value
Net Asset Value	Applied	2,092.7
Comparable Companies' Quoted Multiple	Not Applied	- ^
Comparable Companies' Transaction Multiple	Not Applied	- ^^
Discounted Cash Flow	Not Applied	- ^^
Total		2,092.7
Conclusion		2,092.7

^ CCM method has not been considered as most of listed comparable companies are very large in size and have diversified operations. The division is currently loss making and moreover, Management has limited visibility on future revenues and margins.

^^ CTM method has not been considered as there have been limited transactions in the Indian defense sector in the recent past. Further, transaction multiples may include acquirer-specific considerations such as synergy benefits, control premium and minority adjustments, on which sufficient information may not be available in the public domain.

^^ Discounted Cash Flow method has not been considered in the absence of financial projections.

