

VR2023/07/103

19.07.2023

To,
The Board of Directors
The Federal Bank Ltd.

VALUATION ANALYSIS

I refer to my discussion held with your KMP's for carrying out the Valuation analysis for preferential issue of equity shares of M/s The Federal Bank Ltd. (the "Company"). In the following Paragraphs, I have summarized the Valuation analysis of the Company as on 19.07.2023 together with the description of methodologies used and limitation on my Scope of Work.

I. CONTEXT AND PURPOSE

Based on discussion with the management, I understand that the company requires further issue of capital for in connection with the future and operations. In this context, the management requires my assistance in determining the fair value of the company for preferential issue of equity shares.

II. CONDITIONS AND MAJOR ASSUMPTIONS

Conditions

The financial information about the company presented in this report is included solely for the purpose to arrive at value conclusion presented in this report, and it should not be used by anyone to obtain credit or for any other unintended purpose. Because of the limited purpose as mentioned in the report, it may be incomplete and may contain departures from generally accepted accounting principles prevailing in the country. I have not audited, reviewed, complied the financial statements and express no assurance on them. The financial information about the company presented in this report includes normalization. Adjustment made solely for the purpose to arrive at value conclusion presented in this report.



I acknowledge that I have no present or contemplated financial interest in the company. My fees for this valuation are based upon my normal billing rates, and not contingent upon the results or the value of the business or in any other manner. I have no responsibility to modify this report for events and circumstances occurring subsequent to the date of this report.

I have, however, used conceptually sound and generally accepted methods, principles and procedures of valuation in determining the value estimate included in this report. As the valuation analyst, by reason of performing this valuation and preparing this report, is not be required to give expert testimony nor to be in attendance in court or at any government hearing with reference to the matters contained herein, unless prior arrangements have been made with the analyst regarding such additional engagement.

Assumptions

The opinion given in this report is based on information provided by the management of the company and other sources as listed in the report. This information is assumed to be accurate and complete.

I have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances, or that the owner has good title to all the assets.

I have also assumed that the business will be operated prudently and that there are no unforeseen adverse changes in the economic conditions affecting the business, the market, or the industry. This report presumes that the management of the company will maintain the character and integrity of the Company through any sale, reorganization or reduction of any owner's/manager's participation in the existing activities of the company.

I have been informed by management that there are no environmental or toxic contamination problems, any significant law suits, or any other undisclosed contingent liabilities which may potentially affect the business.

BACKGROUND OF THE COMPANY

THE FEDERAL BANK LTD. ('the Company') (CIN: L65191KL1931PLC000368) was incorporated in the year 1931 and now having its registered office at Federal Towers, Aluva - 683 101, Ernakulam, Kerala and it is listed on stock exchanges.



Key Managerial Persons:

S.No	Name of KMP	Designation
1	Mr. Shyam Srinivasan	Managing Director & Chief Executive Officer
2	Mr. Harsh Dugar	Executive Director
3	Ms. Shalini Warriar	Executive Director
4	Mr. Venkatraman Venkateswaran	Chief Financial Officer
5	Mr. Samir P Rajdev	Company Secretary

III. VALUATION DATE

The analysis of the value of the company has been carried out as on 19th July, 2023.

IV. VALUATION STANDARDS

The Report has been prepared in compliance with the valuation Standards adopted by ICAI Registered valuers Organization and international Valuation standards.

V. VALUATION METHODOLOGY AND APPROACH

The standard of value used in the Analysis is “Fair Value”, which often defined as the price, in terms of cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act.

Valuation of a business is not an exact science and ultimately depends on upon what it is worth to a serious investor or buyer who may be prepared to pay as substantial goodwill. This Exercise may be carried out using various methodologies, the relative emphasis of each often varying with:

- Industry to which the Company belongs
- Past track record of the business and the ease with which the growth rate in cash flows to perpetuity can be estimated.
- Extent to which industry and comparable company information is available.

METHODOLOGY CONSIDERED FOR VALUATION ANALYSIS

The following is the summary with respect to use of methodology considered by us to calculate valuation of the Company.



1. Asset Approach

Net Asset Value Method ("NAV")

The value arrived at under this approach is based on the audited financial statements of the business and may be defined as Shareholders fund or Net Assets owned by the business. The balance sheet values are adjusted for any contingent liabilities that are likely to materialize.

The Net Asset value is generally used as the minimum break-up value for the transaction since the methodology ignores the future return the assets can produce and is calculated using historical accounting data that does not reflect how much the business is worth to someone who may buy it as a going concern.

I understand that the future outlook of the business of the company is entirely different from the present situation. Accordingly, the current NAV would not be reflective of its growth potential going forward and thus would not reveal the true business value of the company. Keeping the context and purpose of the report in the mind, I have considered this method in the analysis with a normal weightage (is 20%) due to the circumstances of uncertainty.

2. Market Approach

Comparable Company Market Multiple Method.

Under this methodology, market multiples of comparable listed companies are computed and applied to the business being valued in order to arrive at a multiple based valuation. The difficulty here is in the selection of comparable company since it is rate to find two or more companies with the same product portfolio, size, capital structure, business strategy, and profitability and accounting practices.

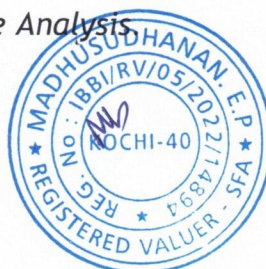
Whereas no publicly traded company provides an identical match to the operations of the given company, important information can be drawn from the way comparable enterprises are valued by public markets.

I have used this methodology by way of Price Earnings ratio in the Analysis as I understand that there are appropriate comparable listed companies in the sector to which the company belongs.

Comparable Transactions Multiple Method.

This approach is somewhat similar to the market multiples approach except that the Sales and EBITDA of the business being valued.

I have not considered this methodology in the Analysis



3. Income Approach

Discounted Free Cash Flow (DFCF) Methodology

The DFCF method expresses the present value of the business as a function of its future cash earnings capacity. This methodology works on the premise that the value of a business is measured in terms of future cash flow streams, discounted to the present time at an appropriate discount rate. The value of the firm is arrived at by estimating the Free Cash Flows (FCF) to Firm and discounting the same with Weighted Average cost of capital (WACC) (the average cost of all the capital used in the business, including debt and equity), plus a risk factor measured by beta, to arrive at the present value. Beta is an adjustment that uses historic stock market data to measure the sensitivity of the company's cash flow to market indices, for example, through business cycle.

The DFCF method using the FCF, values Company as an overall. This is estimated by forecasting the free cash flows available for the Company (which are derived on the basis of likely future earnings of the companies) and discounting these cash flows to their present value at the WACC. The DFCF methodology is considered to be the most appropriate basis for determining the earning capability of a business. It expresses the value of a business as a function of expected future cash earnings in present value terms.

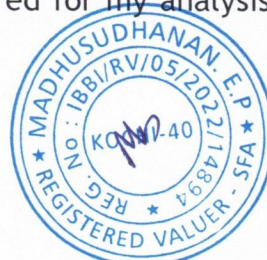
The DCF method is strong valuation tool, as it concentrates on cash generation potential of a business. This valuation method is based on the capability of a company to generate cash flows in future. The free cash flows are projected for a certain number of years and then discounted at a discount rate that reflects a company's cost of capital and the risk associated with the cash flows it generates. DCF analysis is based on mainly on the following steps:

- Projection of financial statements (Key value driving factors)
- Arrive at Profit after Tax and Adjust for non-cash costs.
- Ascertain Free Cash Flow of the firm.
- Use the Weighted Average cost of capital to discount the projected Free cash flows
- Determine Value of the Firm.

Keeping in mind the context and purpose of the report and the Company is an Listed entity with stock exchanges, I have used the DCF Method as it captures the growth potential of the business going forward. I have used this method to calculate the fair value of the equity of the company with lesser weightage (10% only), based on the financial projections prepared by the management of the company.

Free Cash Flows

I have been provided with the projected financial statements of the company for three Years, by the management, which I have considered for my analysis. This Include projected income



statement and projected balance sheet. Accordingly, the projected free cash flows to equity (“FCFE”) based on this financial statement is annexed to this report.

Terminal Value

The terminal value refers to the present value of the business as going concern beyond the period of projections up to infinity. This value is estimated by taking into account expected growth rates of the business in future, sustainable capital investments required for the business as well as the estimated growth rate of the industry and economy. Based on the dynamics of the sector and discussions, I have assumed the terminal growth rate of 15 % for the company beyond the projection period. The free cash flows of 4th year have been used to determine the terminal value.

Discount Factor

The discount factor considered for arriving at the present value of the free cash-flows to equity of the company is the cost of equity. The cost of equity computed using the capital Asset pricing Model (CAPM) using the formula Shown below.

$$r_E = r_f + \beta(r_m - r_f)$$

Where

- Risk free return (rf) : 7.13%
- Market Rate of return (rm) : 15.46%
- Measure of market risk (B) -beta has been assumed at 1.15
- Risk premium(Alpha) : 10%
- Based on the above parameters, cost of equity has been calculated at 28 %.
- Perpetual Growth rate is assumed to be 15%

VI. SOURCES OF INFORMATION

The analysis is based on a review of the business plan/informations of the company provided by the management and information relating to the industry and as available in the public domain. Specifically, the sources of information include:

- Discussion with management
- Provisional Balance Sheet of the Company
- Financial projection of the company for three Years as provided by the Management.
- Previous years financial records

In addition to the above, I have also obtained such other information and explanations which were considered relevant for the purpose of analysis.



VII. CAVEATS

- This Report has been issued on the specific request of 'M/s THE FEDERAL BANK LTD.' to ascertain the value of equity shares of the Company for the purpose of issue of equity shares. This Report is prepared exclusively for the above stated purpose and must not be copied, disclosed or circulated or referred to in correspondence or discussion with any other party.
- Based on my scope of work, the objective of this exercise is to arrive at the Business Valuation and Value attributable for Equity purposes, physical Investigation of the Company's claim to title of assets was neither required nor has been made and the Company's claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in accounts. Therefore, no responsibility is assumed for matter of legal nature.
- In Accordance with the customary approach adopted in Valuation exercise. I have summarized the Valuation Analysis of Equity Shares of the Company based on the information as was provided to us by the management of the Company both written, verbal and other publically available information. I do not assume any responsibility for the accuracy or reliability of such documents on which I have relied upon in forming my opinion.
- This Report does not look into the business/commercial reasons behind the transaction nor the likely benefits arising out of the same. In addition I express no opinion or recommendation, and the shareholders are expected to exercise their own discretion.
- I have no present or planned future interest in the Company and the fee for this Valuation analysis is not contingent upon the values reported herein. The Valuation Analysis contained herein is not intended to represent the value at any time other than the date that is specifically stated in this Report.
- The report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.
- In no circumstances shall the liability of a valuer, its partners, or employees, relating to the services provided in connection with the engagement set out in this Valuation report shall exceed the amount paid to such valuer in respect of the fees charged by it for these services.
- I have given opportunity to the management to read my report (without the conclusion) and they have given their consent that the facts mentioned in the report are true and correct.
- The scope of my work has been limited both in terms of the areas of the business and operations which I have reviewed and the extent to which I have reviewed them. There may be matters, other than those noted herein, which might be relevant in the context of the transaction and which a wider scope might uncover.
- My Valuation report should not be construed as investment advice; specifically, I do not express any opinion on the suitability or otherwise of entering the proposed transaction.

VIII. DISTRIBUTION OF REPORTS

The analysis is confidential and has been prepared exclusively for M/s THE FEDERAL BANK LTD. It should not be used, reproduced or circulated to any other person or any purpose



other than as mentioned above, in whole or in part, without the prior written consent of us. Such Consent will only be given after full consideration of the circumstances at the time.

The analysis in this report is based on the information provided by the management and such information as is obtained from market sources. However, my report is not advising anybody to take a buy or sell decision, for which specific opinion may be required from experts.

My work does not constitute an audit or certification of the historical financial statements. I cannot and do not express an opinion on the accuracy of any financial information referred to in this report. I have relied on the assumptions made by the management of the company. These assumptions require exercise of judgement and are subject to uncertainties.

Registered Valuer provides no assurance that the issue of shares can be completed successfully at or close to my recommended valuation within a particular timeframe. My valuation only aims to represent the likely price that is the minimum price for issue of shares.

IX. OPINION OF VALUE OF THE BUSINESS

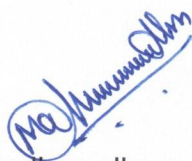
Based on my analysis as described in annexure 1, as described in the valuation report and subject to the assumptions presented herein, in my opinion the estimated Fair Value of THE FEDERAL BANK LTD. as on 19th July, 2023 is in the range of 131.56 per share on fully diluted basis for fully paid equity share with face value of Rs. 2/-each. I have no obligation to update this report or my conclusion of value for information that comes to my attention after the date of report.

The values so arrived at are subject to the matters enumerated in 'Disclaimer statement', 'Scope of Work & Limitation' and information provided to us and should be viewed in the light thereof.

I trust the above meets your requirements. Please feel free to contact as in case you require any additional information or calculations.

Yours Faithfully

UDIN: F010085E000641276



CS EP Madhusudhanan

Registered Valuer

IBBI/RV/05/2022/14894



Annexure 1

Method	Value	Weightage	WV
Net Asset Value	46.46	0.2	9.29
Market Value	155.73	0.7	109.01
Discount Cash Flow method	132.58	0.1	13.26
Fair Value			131.56


MADHUSUDHANAN. E.P
Registered Valuer - SFA
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