



EY

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25 April 2019

The Board of Directors
Tata Steel Limited
Bombay House
24 Homi Mody Street
Fort, Mumbai – 400 001

TRUE COPY
TATA STEEL LIMITED

(PARVATHEESAM. K.)
COMPANY SECRETARY &
CHIEF LEGAL OFFICER (CORPORATE & COMPLIANCE)

Sub: Fairness opinion on the fair exchange ratio recommended by Vikrant Jain, Chartered Accountant for proposed merger of Tata Steel BSL Limited and Barnnipal Steel Limited into Tata Steel Limited

Dear Sirs/Madam,

We refer to the engagement letter dated 12 April 2019 with Ernst & Young Merchant Banking Services LLP (hereinafter referred to as "we" or "EY" or "us"), wherein Tata Steel Limited (hereinafter referred to as "you" or "Client" or "TSL") has requested us to provide a fairness opinion on equity swap ratio recommended by Vikrant Jain, Chartered Accountant ("Independent Valuer") as at 25 April 2019 ("Valuation Date") for the proposed merger of Tata Steel BSL Limited ("TSBSL") and Barnnipal Steel Limited ("BNPL") into Tata Steel Limited (together TSL, TSBSL and BNPL are referred to as "Companies")

SCOPE AND PURPOSE OF THIS REPORT

We understand that the Board of Directors of the Companies are evaluating the merger of BNPL and TSBSL into TSL ("Proposed Transaction"), under a Scheme of Amalgamation, under Section 230 to 232 and other applicable provisions of the Companies Act, 2013. As a consideration for this Proposed Transaction, equity shareholders of TSBSL & BNPL would be issued equity shares of TSL in lieu of their shareholding in TSBSL & BNPL respectively.



In this connection, the Client has engaged EY to provide fairness opinion on equity swap ratio proposed by Vikrant Jain, Chartered Accountant for the Proposed Transaction.

This fairness opinion report ("Report") is our deliverable in respect of the above engagement.

This 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.

This Report has been issued only for the purpose of facilitating the Proposed Transaction and should not be used for any other purpose.

SOURCES OF INFORMATION

In connection with this exercise, we have received the following information from the management of TSL ("Management") / obtained from public domain:

- Draft and Final report from the Vikrant Jain, Chartered Account, Independent Valuer titled "Recommendation of the fair equity share exchange ratio for proposed merger of Tata Steel BSL Limited and Barnipal Steel Limited into Tata Steel Limited" dated 25 April 2019
- Draft Scheme of Arrangement for the Proposed Transaction
- Annual report for years ended 31 March 2014 to 31 March 2018 for TSL and TSBSL
- Shareholding pattern as at 31 March 2019;
- Unaudited financial statements of the Companies for 9 months ended 31 December 2018
- Audited financial statements of TSBSL for year ended 31 March 2019
- Details of contingent liabilities as at 31 March 2019 and confirmation that there is no material change in contingent liabilities from 31 March 2019 till Report date;
- Financial forecast for TSBSL. These include forecasts of profit and loss account, working capital and capex along with the underlying assumptions;
- Background information provided through emails or during discussions.

We have also obtained further explanations and information considered reasonably necessary for our exercise, from the Management.





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PROCEDURES ADOPTED

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

- Requested and received financial and qualitative information
- Obtained data available in public domain
- Discussions (physical/over call) with the Management to:
 - Understand the business and fundamental factors that affect its earning-generating capability including strengths, weaknesses, opportunity and threats analysis and historical financial performance of the Companies
- Undertook Industry Analysis:
 - Research publicly available market data including economic factors and industry trends that may impact the valuation
 - Analysis of key trends and valuation multiples of comparable companies/comparable transactions using:
 - Proprietary databases subscribed by us
- Selection of internationally accepted valuation methodology/(ies) as considered appropriate by us
- We have had discussions with Vikrant Jain, Chartered Accountant, on such matters we believed were necessary or appropriate for the purpose of issuing this opinion

STATEMENT OF LIMITING CONDITIONS

Provision of fairness opinions and consideration of the issues described herein are areas of our regular valuation 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.

The fairness opinion contained herein is not intended to represent fairness opinion at any time other than Report date. We have no obligation to update this Report.

This Report, its contents and the results herein are specific to (i) the purpose of fairness opinion agreed as per the terms of our engagement; (ii) the Report Date and (iii) are based on the unaudited financial statements of the TSL and BNPL as at 31 December 2018 / audited financials of TSBSL as at 31 March 2019. We have been informed that the business activities of the Companies have been carried out in the normal and ordinary course between



31 December 2018 / 31 March 2019 and the Report date and that no material changes have occurred in their respective operations and financial position between 31 December 2018 / 31 March 2019 and the Report date.

A fairness opinion 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 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 fairness opinion rendered in this Report only represent our opinion based upon information furnished by the Management and other sources and the said opinion shall be considered to be in the nature of non-binding advice. Our fairness opinion will however not be for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors.

Providing fairness opinion 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. In the ultimate analysis, our opinion will have to be tempered by the exercise of judicious discretion and judgment taking into accounts all the relevant factors. There is, therefore, no indisputable single equity share exchange ratio. While we have provided our fairness opinion on the equity share exchange ratio based recommended by the Independent Valuer on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the equity share exchange ratio of the equity shares of TSL and BNPL & TSL and TSBSL. The final responsibility for the determination of the equity share exchange ratio at which the Proposed Merger shall take place will be with the Board of Directors of the Companies who should take into account other factors such as their own assessment of the Proposed Merger and input of other advisors.

We have assumed that the merger will be consummated on the terms set forth in the Scheme Document and that the final version of the Scheme Document will not change in any material respect from the draft version we have reviewed for the purpose of this opinion.

In the course of the engagement, we were provided with both written and verbal information, including market, financial and operating data as detailed in the section - Sources of Information.

We have not independently audited or otherwise verified the financial information provided to us. 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



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to explanations and information sought from the Client, we have been given to understand by the Management that they have not omitted any relevant and material factors about the Companies and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusion is based on the information given by/on behalf of the Companies. The Management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our fairness opinion.

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations, and that the Companies will be managed in a competent and responsible manner. Further, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not disclosed in the audited/unaudited balance sheet of the Companies. Our fairness opinion assumes that the assets and liabilities of the Companies, reflected in their respective latest balance sheets remain intact as of the Report date.

The Report does not address the relative merits of the Proposed Merger as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

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

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

This Report is subject to the laws of India.

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



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BACKGROUND

Tata Steel Limited

TSL manufactures and distributes steel products in India and internationally. The equity shares of TSL are listed on National Stock Exchange of India Limited ("NSE") and BSE Limited ("BSE"). For the financial year ended 31 March 2018, TSL reported consolidated revenues from operations of INR 1,330 billion and consolidated profit after tax of INR 178 billion.

The shareholding pattern is as follows:

Shareholding Pattern as on 31 March 2019	No of Shares	% Shareholding
Promoter & Group	398,823,600	33.12%
Public – Institutions	525,662,833	43.66%
Public – Non Institutions & Government	279,639,952	23.22%
Grand Total	1,204,126,385*	100.0%

Source: BSE filings

*Shareholding pattern is based on combined no: of shares including both fully paid up shares (1,126,489,680 shares of INR 10 each fully paid up) and partly paid up shares (77,636,705 shares INR 2.5 each paid up)

Tata Steel BSL Limited

TSBSL is an integrated primary steel producer with steel-making capacity of 5.60 MTPA and secondary steel capacity of 2.11 MTPA. The company was formerly known as Bhushan Steel Limited and changed its name to Tata Steel BSL Limited on acquisition by TSL. The equity shares of TSBSL are listed on NSE and BSE. For the financial year ended 31 March 2019, TSBSL reported consolidated revenues from operations of INR 209 billion and consolidated net profit of INR 17 billion.

The shareholding pattern is as follows:

Shareholding Pattern as on 31 March 2019	No of Shares	% Shareholding
Promoter & Group	794,428,986	72.7%
Public – Institutions	119,612,654	10.9%
Public – Non Institutions	179,398,128	16.4%
Grand Total	1,093,439,768	100.0%

Source: BSE filings



By



Bamnipal Steel Limited

BNPL is a wholly owned subsidiary of TSL which had been set-up to acquire stake in erstwhile Bhushan Steel Limited under the Corporate Insolvency Resolution Process ("CIRP") of the Insolvency and Bankruptcy Code 2016 ("IBC"). BNPL has no operations as on the date of Report.

The issued and subscribed equity share capital of BNPL as at 31 March 2019 is INR 2,588.96 million consisting of 258,895,798 equity shares of face value of INR 10 each. The shareholding pattern is as follows:

Sr. No	Name of shareholder	No. of shares	% of shareholding
1	Tata Steel Limited	258,895,792	100.0
2	Pooja Maru (Nominee of Tata Steel Limited)	1	0.0
3	Harsha Kedia (Nominee of Tata Steel Limited)	1	0.0
4	Melisa Alva (Nominee of Tata Steel Limited)	1	0.0
5	Oindrilla Ghosh (Nominee of Tata Steel Limited)	1	0.0
6	Anita Jaggie Kalyani (Nominee of Tata Steel Limited)	1	0.0
7	Parvatheesam Kanchinadham (Nominee of Tata Steel Limited)	1	0.0
GRAND TOTAL		258,895,798	100.0

Source: Management of TSL



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APPROACH - BASIS OF DETERMINATION OF THE EQUITY SWAP RATIO FOR THE PROPOSED TRANSACTION

The Independent Valuer has recommended the following equity swap ratio for the Proposed Transaction:

- 1 (ONE) equity share of INR 10/- each fully paid up of TSL for every 15 (FIFTEEN) equity shares of TSBSL of INR 2/- each fully paid up.
- As BNPL is a wholly owned subsidiary of TSL, the equity shares of BNPL stands cancelled on the date of merger.

OUR COMMENT ON THE INDEPENDENT VALUER'S REPORT

Based on our independent calculation and on consideration of all the relevant factors and circumstances, we believe that the equity swap ratio as recommended by the Independent Valuer, as stated above in our opinion is fair to the equity shareholders of TSL.

It should be noted that we have examined only the fairness of the equity swap ratio for the Proposed Transaction only for the Board of Directors/shareholders of TSL and have not examined any other matter including economic rationale of the transfer per se or accounting and tax matters involved in the Proposed Transaction.

Respectfully submitted,

Ernst & Young Merchant Banking Services LLP



Navin Vohra
Partner

