

Chitale & Associates

Chartered Accountants

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November 10, 2014

The Board of Directors

HDB Financial Services Limited (HDB)

Ground Floor, Madhusudan Mills Compound,
Pandurang Budhkar Marg,
Lower Parel, Mumbai, 400013

The Board of Directors

Atlas Documentary Facilitators Company Private Limited (ADFC)

26-A, Narayan Properties,
Titanic Building, 3rd Floor,
Chandivali, Farm Road,
Off. Saki Vihar Road,
Sakinaka, Andheri (East), Mumbai 400072

The Board of Directors

HBL Global Private Limited (HBL)

Kamala Mills Compound,
Lower Parel, Mumbai 400013.

Project: Report on Share Exchange Ratio on merger of ADFC & HBL into HDB

As a sequel to our engagement vide letter dated October 7, 2014 for the captioned project, attached is our Report on Share Exchange Ratio dated November 10, 2014

Yours truly

for Chitale & Associates



Encl: As above

**Report on Share Exchange Ratio
on merger of
Atlas Documentary Facilitators Company Private Limited
&
HBL Global Private Limited
into
HDB Financial Services Limited**

10 November 2014

Notice to the Reader

- We have been given to understand that the Atlas Documentary Facilitators Company Private Limited ("**ADFC**"), and HBL Global Private Limited ("**HBL**") and HDB Financial Services Limited ("**HDB**") propose to effect a merger, such that HBL and ADFC would merge into HDB ("**Merger**"). In this regard, Chitale & Associates ("**C&A**") have been appointed by ADFC, HBL & HDB as their Advisor to carry out an independent valuation of the three companies and determine the share exchange ratio for the purpose of merger ("**Valuation**").
- The merger outlined above is part of a corporate restructuring activity that the management of the companies intend to implement for the benefit of shareholders and other stakeholders of the respective companies, by consolidating their operations under one company and achieving greater managerial and operational efficiency, enhanced growth prospect, reduced administrative cost, and improved scalability.
- This report ("**Report**") on share entitlement & exchange ratio ("**Exchange Ratio**") is based on the projections, assumptions and other information provided by the managements of ADFC, HBL and HDB.
- This Report is prepared exclusively for the benefit and internal use of the ADFC, HBL and HDB and must not be copied, disclosed or circulated or referred to in correspondence or discussion with any party other than the Management of ADFC, HBL and HDB ("**the Management**"). Neither this Report nor its content may be used for any other purpose without the prior written consent of C&A. This Report has a limited scope as specified in it.

Strictly Confidential

- Neither C&A, nor affiliated partnerships or bodies corporate, nor the directors, shareholders, managers, partners, employees or agents of any of them, makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information, based on which the valuation is carried out. All such parties and entities expressly disclaim any and all liability for, or based on or relating to any such information contained in, or errors in or omissions from, the valuation or based on or relating to the recipient's use of the valuation.
- The Report in which this notice is incorporated does not constitute an offer or invitation to any section of the public to subscribe for or purchase any securities in, or assets or liabilities of ADFC, HBL and HDB their subsidiaries/ joint venture companies, if any. This notice forms an integral part of the Report.
- In the particular circumstances of this case, our liability to ADFC, HBL and HDB (in contract or tort or under statute or otherwise) respectively for any economic loss or damage suffered arising out of or in connection with this engagement, however the loss or damage is caused, including our negligence but not our gross negligence and willful default, shall be limited to the amount of one times our fees actually received by us.
- Further, ADFC, HBL and HDB respectively agrees to indemnify and hold harmless C&A, its directors, partners, shareholders, manager, employees and agents from and against any and all costs, expenses, losses, claims, demands, actions, suits or proceedings paid, incurred or suffered by or made or initiated against them or any of them by any third party arising out of or in connection with this engagement, except to the extent that any such costs, expenses, claims, demands, actions, suits or proceedings arise from our willful default.

Glossary

ADFC - Atlas Documentary Facilitators Company Private Limited

C&A - Chitale & Associates

HBL - HBL Global Private Limited

HDB - HDB Financial Services Limited

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1. Introduction

Terms of engagement

- Chitale & Associates has been appointed by ADFC, HBL and HDB to undertake the Valuation of shares of ADFC, HBL and HDB as on the end of business on 31 October 2014 ("**Valuation Date**") and determine the share exchange ratio for the purpose of Merger of ADFC and HBL into HDB.

- The Merger outlined above is part of a corporate restructuring activity that the management of the companies intend to implement for the benefit of shareholders and other stakeholders of the respective companies, by consolidating their operations under one company and achieving greater managerial and operational efficiency, enhanced growth prospect, reduced administrative cost, and improved scalability.

- It is clarified that the determining the fair equity shares entitlement and exchange ratio involves relative valuation of the entities, and the purpose of the Valuation is not to arrive at the fair valuation of any entity on a standalone basis for a share sale or purchase transaction, and our approach is based on this premise.

Scope and limitations

- This Report is prepared on the basis of the sources of information listed below:
 - draft Scheme of Merger of ADFC and HBL into HDB ("**Scheme**")
 - Past financials of ADFC, HBL and HDB for the period of three years i.e. FY 2011-12, FY 2012-13 and 2013-14;
 - Information and assumptions provided by the management of ADFC, HBL and HDB regarding the businesses of their companies;

- Information provided and representations made by the management of ADFC, HBL and HDB regarding developments between 1st April 2014 and the date of this Report affecting the valuation of ADFC, HBL and HDB;
 - Business plans and/or financial projections and analysis of ADFC, HBL and HDB made with reliable degree of confidence were made available to us by the managements of ADFC, HBL and HDB respectively;
 - Other publicly available business and financial information, and market information considered by us to be relevant for the Valuation;
 - Discussions with management of ADFC, HBL and HDB.
- We have assumed and relied upon, without independent verification, the accuracy and completeness of all information including financial projections and analysis of ADFC, HBL and HDB and their respective businesses that was provided or otherwise made available to us by ADFC, HBL and HDB for the purposes of this Report. We have relied upon, without independent verification, the assurances of the management of ADFC, HBL and HDB that they are not aware of any relevant information that has been omitted or that remains undisclosed to us that would make the information or data examined by, provided to, reviewed by, or discussed with, us inaccurate or misleading in any respect or that would otherwise be relevant in arriving at our Valuation. We do not assume any responsibility with respect to such information and data. With respect to financial and other information and data relating to ADFC, HBL and HDB provided to or otherwise reviewed by or discussed with us, we have been advised by the management of ADFC, HBL and HDB that such information and data were reasonably prepared on bases reflecting the best currently available data and judgments of, in case of ADFC, HBL and HDB, the management of ADFC, HBL and HDB respectively.
- We have not conducted any due diligence and express no opinion and accordingly accept no responsibility with respect to or for such information or the realisability of the financial projections of due diligence, or the assumptions on which it is based. We have not reviewed any books and records of due diligence. We have not assumed any obligation to conduct, nor have we

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conducted any physical inspection or title verification of the properties or facilities ADFC, HBL and HDB and neither express any opinion with respect thereto nor accept any responsibility thereof. We have not made any independent valuation or appraisal of the assets or liabilities of ADFC, HBL and HDB nor have we been furnished with any such appraisals. We have not reviewed any internal management information statements or any non public reports, and instead, with your consent, have relied upon information that was provided or otherwise made available to us by ADFC, HBL and HDB for the purposes of this Report. For our analysis, we have relied on published and secondary sources of data, whether or not made available by the managements of ADFC, HBL and HDB. We have not independently verified the accuracy or appropriateness of the same. Our valuation is based on the market conditions and the regulatory environment that currently exist. However, changes to the same in the future could impact ADFC, HBL and/or HDB and the industry in which they operate, which may impact our valuation.

➤ We have assumed and relied upon, without independent verification, with your consent, that the Merger will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party approvals (including approvals of all classes of shareholders and creditors of ADFC, HBL and HDB), consents and releases for the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on ADFC, HBL and HDB or the contemplated benefits of the Merger. We have further assumed that such approvals, consents and releases will be duly obtained, as required, pursuant to applicable laws and contractual obligations, without any delays. Representatives of ADFC, HBL and HDB have advised us, and we further have assumed, that the final terms of the scheme of merger will not vary from those set forth in the draft reviewed by us. Further, we have assumed that there will not be any adverse rulings or proceedings whatsoever (whether of any court, regulatory body or otherwise) arising out of or in relation to the merger as contemplated.

➤ Our Valuation does not address, and we have not assessed, any legal, regulatory, taxation or accounting matters, as to which we understand that ADFC, HBL and HDB have obtained such advice as it deemed necessary from qualified professionals. Without

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prejudice to the generality of the foregoing, we have also assumed that the Merger will not result in any adverse effect on ADFC, HBL and HDB or its business, whether under tax or other laws or under the terms of any license or approval. We also have assumed, with your consent, that all transfers under the Scheme will be treated as a tax-free reorganization for ADFC, HBL and HDB for Indian income tax purposes. We have not provided any opinion on the tax implications of the Merger.

- Our opinion is restricted to the determination of the Exchange Ratio. And, our opinion does not address any matters otherwise than as expressly stated herein, including but not limited to matters such as corporate governance matters, shareholder rights or any other equitable considerations. We have also not opined on the fairness of any terms and conditions of the Scheme other than the Exchange Ratio. Further, we have neither opined nor advised on the viability or legality of the proposed structure, mechanics and terms and conditions of the Scheme. We have not provided any opinion whatsoever as to any scenario where only some (and not all) parts of the Scheme take effect (including on account of non-receipt of governmental approvals). Our opinion is not intended to be and does not constitute a recommendation to any shareholder, creditor or other person of ADFC, HBL and HDB as to how such shareholder, creditor or other person should vote or act on any matters relating to the proposed Scheme.

- We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of ADFC, HBL or HDB nor have we made any physical inspection of the properties or assets of ADFC, HBL or HDB. We express no opinion as to the solvency or fair value of ADFC, HBL and HDB under any laws, nor is this opinion to be treated as a valuation of their respective shares under any applicable law. We have undertaken no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which ADFC, HBL and HDB may be a party or is or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which ADFC, HBL and HDB is or may be a party or is or may be subject. A valuation estimate for any transaction does

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not necessarily suggest that a market exists for the transaction. We were not requested to, and we did not, participate in the negotiation or structuring of the proposed Scheme. We express no view as to, and our opinion does not address, the underlying business decision of ADFC, HBL and HDB to effect the Merger, the relative merits of the Merger as compared to any alternative business strategies that may exist for ADFC, HBL and HDB, or the effect of any other transaction in which ADFC, HBL and HDB might engage. We have not provided any advice or services in connection with the Scheme, other than the delivery of this opinion. Our opinion is necessarily based upon information available to us, and financial, market and other conditions and circumstances existing, as of the date hereof.

➤ Our opinion expressed herein is provided solely for the use and benefit of the Board of Directors of ADFC, HBL and HDB, and may not be used by any other person for any other purpose. Except as otherwise agreed by us with ADFC, HBL and HDB in writing, this opinion shall not be disclosed in any manner or for any purpose, nor shall any public reference to us or this opinion be made, by or on behalf of ADFC, HBL and HDB without our prior written consent, except that a copy of this opinion may be included in its entirety in any filing ADFC, HBL and HDB is required to make with the Reserve Bank of India or with or to any regulatory or judicial authority in connection with the Merger if such inclusion is required by applicable law. By reason of delivering this opinion, neither C&A, nor its partners, directors, manager, employees or agents are required to give expert testimony nor are required to be in attendance in any court or at any governmental or regulatory hearing with reference to the matter dealt with in this opinion, unless prior arrangement has been made with C&A in that regard as an additional engagement.

➤ We accept no responsibility to any person other than ADFC, HBL and HDB in relation to the contents of this Report even if it is disclosed to such person with our consent. It is understood that subsequent developments, including in relation to any contingent liabilities, may affect this Report, and we do not have any obligation to update, revise or reaffirm this Report/opinion.

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- We acknowledge that we have no present or contemplated financial interest in the companies. We have been retained by ADFC, HBL and HDB to act as advisor to the Board of Directors of ADFC, HBL and HDB with respect to this opinion and will receive a fee for our services in connection with the delivery of this opinion. Our fee for our services will be payable on delivery of this opinion and is not contingent on the successful completion of the Merger. In addition, ADFC, HBL and HDB have agreed to reimburse certain of our expenses and to indemnify us against certain liabilities arising out of our engagement. We and our affiliates in the past may have provided services to ADFC, HBL and HDB and its subsidiaries unrelated to the proposed Merger, for which services we and such affiliates have received professional fees. In addition, we and our affiliates may maintain professional relationships with ADFC, HBL and HDB, its subsidiaries and their respective affiliates.

2. Background of Atlas Documentary Facilitators Company Private Limited ("ADFC")

Overview:

- Atlas Documentary Facilitators Company Private Limited ("**ADFC**") is an associate company of HDFC Bank Ltd. ("**HDFC Bank**"). ADFC was set up in the year 1998 to provide processing support to HDFC Bank in the areas of Retail Liabilities, Retail Assets, Credit Cards processing, Cheque Clearing, Cash Management Service, Depository Services etc. where large volume transaction processing capability was required with knowledge gained over more than 15 years of experience.
- ADFC has developed sturdy processes and resources to manage huge transactional volume for the Bank in an almost error free environment.

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- ADFC has obtained ISO Quality certification for some of the major processes which are migrated from HDFC Bank. Documentation in the form of Desktop Manuals with agreed SLA and TATs are in place and get reviewed periodically for quality improvement.
- ADFC, apart from being a captive processing arm of HDFC Bank, ADFC is also actively providing processing services to a leading mortgage service provider and a leader in the general insurance industry.
- The paid-up share capital of ADFC as on 31st March 2014 is as follows:
 - 4,50,180 equity shares of Rs.10/- each fully paid up are held in the following ratios

Name of the Shareholders	Shareholding (% of Issued Capital)
HDFC Bank Ltd.	28.99%
HDB Employees Welfare Trust	14.99%
ADFC Employee Welfare Trust	25.49%
Other	30.53%
Total	100.00%

- The management of ADFC has confirmed that there is no change in the capital structure as above between 31 March 2014 and the Valuation Date.

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3. Background of HBL Global Private Limited ("HBL")

Overview:

- HBL Global Private Limited ("HBL") is a subsidiary company of ADFC incorporated on 29th November 2000. HBL is in the business of providing specialized services relating to marketing and promotion of the various financial products which includes various retail asset products of the bank. It has entered into an agreement with HDFC Bank to provide the aforesaid services. At present, HBL is operating in different states in India at more than 600 locations. The major financial products marketed by HBL includes
 - Credit Cards
 - Vehicle loans
 - Personal loans
 - Merchant Establishment
 - Loan against shares
 - Home loans
 - Other retail products
- The paid-up share capital of HBL as on the 31st March 2014 is as follows:
 - 10,200 equity shares of Rs. 10/- each fully paid up are held in the following ratios

Name of the Shareholders	Shareholding (% of Issued Capital)
ADFC	98.00%
Others	2.00%
Total	100.00%

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- The management of HBL has confirmed that there is no change in the capital structure as above between 31 March 2014 and the Valuation Date.

4. **Background of HDB Financial Services Limited ("HDB")**

Overview:

- HDB Financial Services Limited ("**HDB**") is a subsidiary company of HDFC Bank and is registered with the Reserve Bank of India as a Systemically Important Non-Deposit Taking NBFC ("**NBFC-ND-SI**") since December 2007 and its operations involves mainly following:
 - **Loans:** The HDB offers a range of loan products both in the secured and unsecured categories that fulfills the financial needs of its target segments.
 - **Fee based products:** HDB is a corporate agent of HDFC Standard Life Insurance Company Ltd. and HDFC Ergo General Insurance Company Ltd. HDB sells life and general insurance bundled with its loan as a value-add as well as standalone product.
 - **BPO Services business:** HDB has a contract with HDFC Bank to run collection call centers and collect overdue from borrowers. HDB has set up call centers across the country with a capacity of over 2600 seats. These centers provide collection services for the entire gamut of retail lending products of HDFC Bank. HDB offers end to end collection services in over 400 locations through its calling and field support teams.
- The paid-up share capital of HDB as on the 31st March, 2014 is as follows:
 - 51,37,50,219 equity shares of Rs.10/- each fully paid up are held in the following ratios

Name of the Shareholders	Shareholding (% of Issued Capital)
HDFC Bank Ltd.	97.32%
Others	2.68%
Total	100.00%

- We have been given to understand that the BoD of HDB has at its meeting held on 16 October 2014 approved issue of 18,53,00,000 equity shares of face value of Rs.10/- each at an issue price of Rs.65/- per share on rights basis to its existing shareholders ("Rights Issue").

5. Valuation Approach and Methodology

- Given the character of business of the companies under Valuation, we have adopted the following valuation approach which, we believe, provides the most appropriate, fair and reasonable basis for determination of share exchange ratio for merger of ADFC and HBL into HDB:
- In determining the valuation of ADFC and HBL both of which are engaged in providing processing services primarily to one client, namely, HDFC Bank Limited, a combination of Earnings Based Method and Net Asset Value Method was considered appropriate. In determining the earnings multiple for valuation of ADFC and HBL under the Earnings Based Method, we considered the earnings multiple of certain BPO companies whose shares are listed on NSE or BSE, and to which we made such adjustments as we considered appropriate having regard to the differential characteristics of the business of ADFC and HBL such as, low financial and business risk due to single client exclusive service provider relationship, low earnings growth potential, etc. The chosen earnings multiple was applied to the average projected post-tax earnings of HBL and

ADFC respectively for FY 2014-15 to FY 2016-17. Taking cognizance of dependence of ADFC and HBL on a single client (HDFC Bank) largely serviced at the client's locations/premises without any significant independent infrastructure of their own, the reduced projected profitability of ADFC and HBL, and the significant difference between the net worth of ADFC and HBL and their valuation under Earnings Based Method, we considered it appropriate to determine the valuation of ADFC and HBL based on average of the valuation under Earnings Based Method and Net Asset Value Method. Additionally, in case of ADFC, the value of its 98% equity stake in HBL was included in determining the valuation of ADFC. Accordingly, ADFC being one of the shareholders of HBL itself is proposing to merge with HDB under the Scheme, the value of those shares have been factored into while arriving at the swap ratio for shareholders of ADFC.

- In determining the valuation of HDB, an NBFC-ND-SI deriving its value principally from its leveraged lending business and insurance products bundled into its loan products, Net Asset Value Based Method using an appropriate Price to Book multiple was considered appropriate. In determining the appropriate Price to Book multiple to be applied to the Book Value per share of HDB, we considered the Price to Book multiple of certain NBFCs whose shares are listed on NSE or BSE and which derive their value principally from their leveraged lending business to non-corporate sector, and to which Price to Book multiples, we made such adjustments as we considered appropriate having regard to the relative differences in key influencing parameters such as, return on equity, type of lending portfolio, net interest margin, debt equity ratio, size of asset book and growth thereof, etc. We have not attributed a separate value to the BPO services (collection services) business of HDB given its relatively modest influence on the overall valuation of HDB, and have treated the value of this business as subsumed in the valuation of HDB determined under the Net Asset Value Based Method.

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Valuation Results

- Based on our analysis and determination applying the valuation approach and methodologies outlined above, subject to the assumption above, the following valuations emerged:

Name of the Company	Company Valuation (Rs. in millions)	No. of outstanding fully paid up equity shares	Value per share (Rs.)
ADFC	492.22	4,50,180	1,093.38
HBL	66.87	10,200	6,556.18
HDB	36,059.76	51,59,01,919*	69.90

6. Recommended Exchange Ratio

Based on the valuation results set out above determined by employing the valuation approach and methodology outlined above, we recommend the following share exchange ratio:

- 156 equity shares of Rs.10/- each of HDB for every 10 equity shares of Rs.10/- each of ADFC.
- 938 equity shares of Rs.10/- each of HDB for every 10 equity shares of Rs.10/- each of HBL.

7. Recommended Exchange Ratio if HDB Completes Rights Issue before Merger:

We have been given to understand that the BOD of HDB has at its meeting held on 16 October 2014 approved issue of 18,53,00,000 equity shares of face value of Rs.10/- each at an issue price of Rs.65/- per share on rights basis to its existing shareholders ("Rights Issue"). If this Rights Issue is completed and equity shares allotted pursuant thereto prior to the record date fixed for allotment of shares of HDB to the shareholders of ADFC and HBL pursuant to their Merger under the Scheme, based on our analysis and determination applying the valuation approach and methodologies outlined above, subject to the assumption above, the following valuations emerged:

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Name of the Company	Company Valuation (Rs. in millions)	No. of outstanding fully paid up equity shares	Value per share (Rs.)
ADFC	492.22	4,50,180	1,093.38
HBL	66.87	10,200	6,556.18
HDB	48,104.26†	70,12,01,919†*	68.60

it the above referred Rights Issue is completed and equity shares allotted pursuant thereto prior to the record date fixed for allotment of shares of HDB to the shareholders of ADFC and HBL pursuant to their Merger under the Scheme, based on the valuation results set out above determined by employing the valuation approach and methodology outlined above, our recommendation of share exchange ratio would stand revised as set out below:

- 159 equity shares of Rs.10/- each of HDB for every 10 equity shares of Rs.10/- each of ADFC.
- 956 equity shares of Rs.10/- each of HDB for every 10 equity shares of Rs.10/- each of HBL.

Mumbai, 10 November, 2014

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† includes Rs.12,044.50 million being the amount received by HDB towards share capital and share premium on completion of above referred Rights Issue of 18,53,00,000 equity shares of face value of Rs.10/- each at an issue price of Rs.65/- each.

* Includes 21,51,700 equity shares reserved for ESOS.