

**ESOP Exchange Ratio
in relation to ESOPs
to be issued by Mahindra & Mahindra Limited**

May 2021

Ref: LM/May28-21/2021

May 28, 2021

To,
The Board of Directors
Mahindra & Mahindra Limited
Gateway Building, Apollo Bunder,
Fort, Mumbai 400 001.

To,
The Board of Directors
Mahindra Electric Mobility Limited
Mahindra Towers, Dr. G. M. Bhosale Marg,
P. K. Kurne Chowk,
Worli, Mumbai 400 018.

Dear Sir(s)/Madam(s),

Sub: ESOP Exchange Ratio in relation to the proposed issue of Employee Stock Option ("M&M ESOPs") by Mahindra & Mahindra Limited ("M&M Ltd") to Employee Stock Option ("ESOP") holders of Mahindra Electric Mobility Limited ("MEML") in accordance with the Scheme of Merger by Absorption of MEML into M&M

We, BDO Valuation Advisory LLP ("BDO Val" or "We" or "Us"), have been appointed vide letter dated April 26, 2021 bearing reference number LM/Apr261/2021 ("Engagement Letter") and addendum to Engagement Letter dated May 3, 2021 bearing reference number LM/May31/2021, to recommend the fair exchange ratio ("ESOP Exchange Ratio") for the proposed issue of Employee Stock Option ("M&M ESOPs") to the Employee Stock Option ("ESOP") holders of Mahindra Electric Mobility Limited ("MEML") by Mahindra & Mahindra Limited ("M&M Ltd") (together referred to as "Clients" or "Companies") on a going concern basis ("Proposed Transaction"), as per the Proposed Scheme of Merger by Absorption of MEML with M&M Ltd pursuant to provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("Proposed Scheme").

We hereby confirm that we have no present or planned future interest in the Company, except to the extent of our appointment as a registered valuer for this Report.

Find enclosed the Report providing our opinion on the fair equity exchange ratio as at May 28, 2021 ("Valuation Date") for the Proposed Transaction. A summary of the analysis is presented in the accompanying report, as well as description of the methodology and procedure used, and the factors considered in formulating the opinion. In addition, listed the sources of information used in this Report and the scope of work in the course of the assignment, noting any limitations on the assignment. This Report is subject to the attached exclusions & limitations and to all terms and conditions in the engagement letter for this assignment.

We believe that our analysis must be considered as a whole. Selecting portions of our analysis or the factors we considered, without considering all factors and analysis together could create a misleading view of the process underlying the valuation conclusions. The preparation of a valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.





This Report should be read in conjunction with our Registered Valuer's Report titled 'Fair Equity Share Exchange Ratio in relation to the 'Scheme of Merger by Absorption'' dated May 28, 2021 bearing the reference number LM/May28-20/2021 ("**Merger Report**").

This letter should be read in conjunction with the attached report.

Regards,

For BDO Valuation Advisory LLP
IBBI Regn No.: IBBI/RV-E/02/2019/103



Lata R. Gujar More
Partner
Regn No.: IBBI/RV/06/2018/10488

Encl: As above

Table of Contents

Sr. No.	Particulars	Page No.
1	Brief Background of the Companies	5
2	Purpose of Valuation	7
3	Exclusions & Limitations	8
4	Sources of Information	11
5	Procedures Adopted for the purpose of valuation	12
6	Annexure	13



1. Brief Background of the Companies

Mahindra & Mahindra Limited ("M&M Ltd")

- 1.1. M&M Ltd (CIN: L65990MH1945PLC004558) is an Indian multinational corporation headquartered in Mumbai, Maharashtra, India. It was established in 1945 as Muhammad & Mahindra Limited and later renamed as Mahindra and Mahindra Limited. It is the flagship company of Mahindra group ("Group"), an Indian conglomerate. The Group operates in various segments including Trucks & Buses, Two Wheelers, Vehicle & Equipment Finance, Aerospace, Aftermarket, Agri industry, Automotive, Boats, Clean energy, Construction equipment, Consulting, Defence, Farm Equipment, Hospitality, Information Technology, Insurance Broking, Logistics, Power Backup, Real Estate & Infrastructure, Retail, Rural Housing Finance and Steel.
- 1.2. M&M Ltd brands its products as "Mahindra" and is engaged in the manufacturing of SUVs, saloon cars, pickups, lightweight commercial vehicles, heavyweight commercial vehicles, two-wheeled motorcycles, and tractors. M&M Ltd also manufactures agricultural implements, internal combustion engines, industrial petrol engines, spare parts, machine tools, etc.
- 1.3. The ordinary equity shares of M&M Ltd are listed on National Stock Exchange of India Limited ("NSE") & BSE Limited ("BSE"). The Global Depository Receipts (GDRs) of M&M Ltd are listed on the Luxembourg Stock Exchange and are also admitted for trading on International Order Book (IOB) of the London Stock Exchange.
- 1.4. The issued, subscribed and paid-up share capital of M&M Ltd as on March 31, 2021 was INR 6,216.0 Mn divided into 1,24,31,92,544 ordinary equity shares of INR 5/- each.
- 1.5. The summarized shareholding pattern of M&M Ltd as on March 31, 2021 is as follows:

Shareholder Category	No. of Equity Shares	% Holding
I. Promoter and Promoter Group	23,48,24,018	18.89%
II. Public	92,28,24,820	74.23%
III. Non-Promoter-Non Public	8,55,43,706	6.88%
Total	1,24,31,92,544	100.00%

- 1.6. The management of M&M Ltd has informed that under Employees Stock Option Scheme - 2010 of M&M Ltd, Employee Stock Options ("M&M ESOPs") have been issued to its employees at an exercise price of INR 5/- each. Under the same scheme, ESOPs of M&M Ltd are proposed to be issued in exchange of options available under MEML's Employees Stock Option Scheme - 2017 ("ESOP") to ESOP holders.

Mahindra Electric Mobility Limited ("MEML")

- 1.7. MEML (CIN: U34101MH1996PLC325507) operates as an automotive company. MEML designs, develops, and manufactures electric powertrains, motor controllers, systems integration, and electric vehicles. MEML is engaged in the business of manufacturing, assembling and selling of



electric vehicles and components for electric vehicles and is a step-down subsidiary of M&M Ltd.

- 1.8. Mahindra Vehicle Manufacturers Limited which is a 100% subsidiary of M&M Ltd, holds 99.35% stake (35,60,82,447 equity shares) in MEML as on March 31, 2021, which is currently in the process of being merged with M&M Ltd.
- 1.9. The issued, subscribed and paid-up share capital of MEML is INR 3,584.2 Mn divided into 35,84,16,345 equity shares of Rs. 10 each as on March 31, 2021.
- 1.10. MEML has granted options to its eligible employees under the MEML Employee Stock Option 2017 ("ESOP") which was issued with an exercise price of INR 24.90, INR 25.17 and INR 25.91 respectively. Currently ESOPs outstanding stood at 8,646,944 as at May 12, 2021 held as under:

Sr No.	Exercise Price	Options Outstanding
1	INR 24.90	7,406,959
2	INR 25.17	1,071,624
3	INR 25.91	168,361
Total		8,646,944



2. Purpose of Valuation

- 2.1. As per the Proposed Scheme, M&M Ltd shall issue M&M ESOPs in exchange of the ESOPs held by ESOP holders of MEML. The proposed recommended exchange ratio as mentioned in Merger Report, cannot be directly applied because of difference in exercise price. Therefore, we have been appointed to recommend ESOP Exchange Ratio i.e. number of M&M ESOPs to be issued to existing eligible ESOP holders of MEML (**“Proposed Transaction”**).
- 2.2. Further, Companies under the Proposed Scheme and their respective shareholders will comply with the provisions of section 230 to 232 and other relevant provisions of the Companies Act, 2013, along with the applicable provisions of Securities and Exchange Board of India (“SEBI”) - if any.
- 2.3. In this regard, we have been appointed to undertake the valuation as on May 28, 2021 to recommend the fair exchange ratio for the Proposed Transaction. (**“Purpose”**).



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3. Exclusions and Limitations

- 3.1. Our report is subject to the limitations detailed hereinafter. This report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.
- 3.2. The scope of work is restricted to recommendation of ESOP exchange ratio in accordance with the Proposed Scheme.
- 3.3. This report, its contents, and the analysis herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement, (ii) the Report date and (iii) are based on the audited financial statements of MEML as at March 31, 2021. The management of the Companies have represented that the business activities of the Companies have been carried out in the normal and ordinary course till the Report date and that no material changes are expected in their respective operations and financial position to occur post March 31, 2021 and the Report date.
- 3.4. This report and the information contained herein are absolutely confidential and are intended for the use of management and representatives of the Companies for providing select information and only in connection with the purpose mentioned above or for sharing with shareholders, creditors, Regional Directors, Registrar of Companies, SEBI (including disclosures required under the SEBI Regulations on the Companies' website), Stock Exchanges, National Company Law Tribunal and office of other regulatory or statutory authorities as may be required to give effect to the Proposed Scheme. It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person except to whom it is issued without our written consent. In the event, the companies or their management or their representatives intend to extend the use of this report beyond the purpose mentioned earlier in the report, with or without our consent, we will not accept any responsibility to any other party to whom this report may be shown or who may acquire a copy of the report.
- 3.5. The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information that was provided and used by us during the course of our work. The assignment did not involve us to conduct the financial or technical feasibility study. We have not done any independent technical valuation or appraisal or due diligence or legal title search of the assets or liabilities of the Companies or any of its subsidiaries or associated companies and have considered them at the value as disclosed by the Companies in their regulatory filings or in submissions, oral or written, made to us.
- 3.6. In rendering this report, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof.
- 3.7. Any matters related to legal title and ownership are outside the purview and scope of this valuation exercise. Further, no legal advice regarding the title and ownership of the subject

property has been obtained while conducting this valuation exercise. Valuation may be significantly influenced by adverse legal, title or ownership, encumbrance issues.

- 3.8. This report is based on the information received from the sources mentioned herein and discussions with the representatives of the Companies. We have assumed that no information has been withheld that could have influenced the purpose of our report.
- 3.9. We have assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us or used by us, we have assumed that the same are not misleading and do not assume or accept any liability or responsibility for any independent verification of such information or any independent technical valuation or appraisal of any of the assets, operations or liabilities of the companies. Nothing has come to our knowledge to indicate that the material provided to us was mis-stated or incorrect or would not afford reasonable grounds upon which to base our report.
- 3.10. During the course of our work, we have relied upon the certain opinion documents made available by the management and representatives of the Companies. Though we have reviewed it, we have not independently verified the same. As these opinions/assumptions require the exercise of judgment and are subject to uncertainties, there can be no assurance that these assumptions are accurate.
- 3.11. For the present valuation exercise, we have also relied upon information available in the public domain; however, the accuracy and timeliness of the same has not been independently verified by us.
- 3.12. In addition, we do not take any responsibility for any changes in the information used by us to arrive at our conclusion as set out here in which may occur subsequent to the date of our report or by virtue of fact that the details provided to us are incorrect or inaccurate.
- 3.13. Further, this report is necessarily based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to, the date hereof. Subsequent developments in the aforementioned conditions may affect this report and the assumptions made in preparing this report and we shall not be obliged to update, revise or reaffirm this report if the information provided to us changes.
- 3.14. Our scope is limited to the purposes stated hereinabove. The Report should not be construed as, our opinion or certifying the compliance of the Proposed Scheme with the provisions of any law including the Companies Act 2013, taxation related laws, capital market related laws, any accounting, taxation or legal implications or issues arising from the Proposed Scheme.
- 3.15. Whilst all reasonable care has been taken to ensure that the factual statements in the report are accurate, neither us, nor any of our partners, officers or employees shall in any way be liable or responsible either directly or indirectly for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such factual statements. We expressly disclaim any and all

liabilities, which may arise based upon the information used in this report. We are not liable to any party in relation to the issue of this report.

- 3.16. BDO Val owes responsibility to only the Boards of Directors of MEML and M&M Ltd; with reference to terms of 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 to the Clients. 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. In no circumstances shall the liability of a Valuer, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in this Report shall exceed the amount paid to such Valuer in respect of the fees charged by it for these services.
- 3.17. This Report does not look into the business/commercial reasons behind the Proposed Scheme nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the Proposed Scheme as compared with any other alternative business transaction or any other alternatives, whether or not such alternatives could be achieved or are available.
- 3.18. Further this Report does not in any manner address the prices at which the equity shares of the Companies will trade following the announcement of the Scheme and we express no opinion or recommendation as to how the shareholders of the Companies should vote at any shareholders' meeting to be held in connection with the Proposed Scheme.
- 3.19. The recommendation(s) rendered in this report only represent our recommendation(s) based upon information furnished by the Clients (or its 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 buy or sell decision, for which specific opinion needs to be taken from expert advisors). We have no obligation to update this report.
- 3.20. Further, after declaration of Covid-19 as a pandemic by World Health Organization and consequent imposition of lockdown in India has caused a widespread disruption in businesses as well as on financial markets in India and globally alike. Our assumptions for the valuation is surrounded by these unprecedented uncertainty across all the industries and sectors including the time period over which these circumstances could prevail. The valuation assumptions, the underlying projections and the outcome of the valuation analysis could materially change as a result of the continued or increased uncertainty around the prevalence of Covid-19 circumstances and hence a reliance on our valuation must be placed considering these unprecedented circumstances.



4. Sources of Information

4.1. For the purpose of undertaking this valuation exercise, in addition to the data and sources of information mentioned in the Merger Report, we have relied on the following sources of information provided by the Management and representatives of the Clients:

- Exercise price of M&M ESOPs proposed to be issued by M&M Ltd; and
- Other relevant data and information provided to us, whether in oral or physical form or in soft copy, and discussions with the representatives of the Clients.



5. Procedures Adopted for the purpose of Valuation

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

- 5.1. To arrive at the ESOP Exchange Ratio in accordance with the Proposed Scheme, following steps have been undertaken:
- 5.2. Step 1: As mentioned in the letter attached to this Report, this Report should be read in conjunction with our Registered Valuer's Report titled 'Fair Equity Share Exchange Ratio in relation to the 'Scheme of Merger by Absorption'' dated May 28, 2021 bearing reference number LM/May28-20/2021 ("**Merger Report**")
- 5.3. Based on the Merger Report, we have derived the fair value per share of M&M Ltd and MEML of INR 796.64 and INR 38.19 respectively for recommending the share exchange ratio.
- 5.4. Step 2: We understand from the Management of MEML that ESOPs issued by MEML ("**MEML ESOPs**") has exercise price of INR 24.90, INR 25.17 and INR 25.91 respectively.
- 5.5. Step 3: Based on above, for simplicity of calculation we have considered an ESOP holder holding 1 MEML ESOPs, the benefit to be received upon exercising the ESOPs on May 28, 2021 ("**benefit on exercising the MEML ESOPs on May 28, 2021**"), computed as the difference between fair value of 1 shares of MEML and exercise price of 1 MEML ESOPs, shall be as follows:

Sr no.	Fair Value per share of MEML	Exercise Price for MEML ESOPs (INR)	Benefit on exercising 1 MEML ESOP (INR)
	(A)	(B)	(C = A - B)
1	38.19	24.90	13.29
2	38.19	25.17	13.02
3	38.19	25.91	12.28

- 5.6. Step 4: We have then arrived at the benefit to the holder of 1 ESOP of M&M Ltd on May 28, 2021 ("**benefit on exercising M&M ESOPs on May 28, 2021**") of INR 791.64 arrived at by reducing the exercise price per M&M ESOP of INR 5.0 from the fair value per share of M&M Ltd i.e. INR 796.64.
- 5.7. Step 5: In order to arrive at the fair exchange ratio resulting in the same amount of benefit to the MEML ESOP holders, pursuant to the issue of ESOPs of M&M Ltd, we have divided the benefit on exercising the MEML ESOPs on May 28, 2021 with the benefit on exercising M&M ESOPs on May 28, 2021 and rounded up the resultant ratio of M&M ESOPs for every 10,000 MEML ESOPs. (Refer Annexure I)
- 5.8. Based on above, fair share exchange for each tranche is arrived as below:

Sr no.	Exercise Price for MEML ESOPs (INR)	Ratio of M&M ESOPs per 10,000 MEML ESOPs
1	24.90	168
2	25.17	165
3	25.91	156



Annexure 1 - Fair Exchange Report Workings

Sr no.	Fair Value per share of MEML (A)	Exercise Price for MEML ESOPs (INR) (B)	Benefit on exercising 1 MEML ESOP (INR) (C = A - B)	Benefit on exercising 1 M&M ESOP (D = Fair Value per share of M&M Ltd - Exercise Price per M&M ESOP)	Ratio of M&M ESOPs per 10,000 ESOPs ("Fair Exchange Ratio") (E= ROUNDUP(((C*10000)/D),0))
1	38.19	24.90	13.29	791.64	168
2	38.19	25.17	13.02	791.64	165
3	38.19	25.91	12.28	791.64	156

