JULY 2022

THE VALUATION PROFESSIONAL

YOUR INSIGHT JOURNAL

ICMAI REGISTERED VALUERS ORGANISATION

About ICMAI Registered Valuers Organisation

The Companies Act, 2013 brought into the light the concept of 'Registered Valuers' to regulate the practice of Valuation in India and to standardize the valuation in line with International Valuation Standards. Consequentially, The Ministry of Corporate Affairs (MCA) notified the provisions governing valuation by registered Valuers [section 247 of the Companies Act, 2013] and the Companies (Registered Valuers and Valuation) Rules, 2017, both came into effect from 18 October, 2017.

In view of the above, the Institute of Cost Accountants of India (Statutory body under an Act of Parliament) has promoted ICMAI Registered Valuers Organisation (ICMAI RVO), a section 8 company under Companies Act, 2013 on 23rd February 2018, which is recognised under Insolvency and Bankruptcy Board of India (IBBI) to conduct educational courses on Valuation for three different asset classes - Land & Building, Plant & Machinery and Securities or Financial Assets and to act as frontline regulator as Registered Valuers Organisation. ICMAI Registered Valuers Organisation is an Academic Member of International Valuation Standards Council.

INDEX

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

GOVERNING BOARD

CS (Dr.) Shyam Agrawal
Chairman

Mr. Rishabh Chand Lodha
Independent Director

Mr. Ajoy Kumar Deb
Independent Director

Mr. Arvind Kumar Jain
Independent Director

Mr. Manoj Misra
Independent Director

Mr. Vinod Somani
Independent Director

Mr. Deviinder Gupta
Independent Director

CMA P. Raju Iyer
Nominee Director

CMA Vijender Sharma
Nominee Director

CMA Biswarup Basu
Nominee Director

CMA Balwinder Singh
Nominee Director

CMA Chittaranjan Chattopadhyay
Nominee Director

Dr. S. K Gupta
Managing Director

FROM THE CHAIRMAN's DESK

CS (Dr.) Shyam Agarwal
Chairman
ICMAI Registered Valuers Organisation

Dear Reader

Value has different meanings to different people depending upon their opinions, or circumstances in which it applies. The valuation is the process of determining the current worth of a company. A business valuation includes an analysis of the company's management, its capital structure, its future earnings prospects, or the market value of its assets.

A business valuation requires a working knowledge of a variety of factors, and professional judgment and experience. This includes recognizing the purpose of the valuation, the value drivers impacting the subject company, and an understanding of industry, competitive and economic factors, as well as the selection and application of the appropriate valuation approaches and methods.

The valuation of a business or a business interest is often a complex process involving a number of considerations, ranging from defining the purpose of the valuation, the basis and premise of value used, the historical performance and future outlook for the subject of the valuation. While standard valuation approaches exist, the challenges lie in selecting the appropriate approaches developing the inputs, appropriately weighting the value conclusions, and making any adjustments, using judgement. While valuation appears to be entirely quantitative, the reality is that significant consideration is also given to all relevant qualitative factors, and that professional judgment is critical.

FROM THE PRESIDENT's DESK

CMA P. Raju Iyer
Nominee Director
ICMAI Registered Valuers Organisation

President
The Institute of Cost Accountant of India

The valuation is the process of determining the current worth of a company. A business valuation includes an analysis of the company's management, its capital structure, its future earnings prospects, or the market value of its assets. A company's historical financial statements cannot be used by themselves to determine the value of a business. Financial statements are prepared according to generally accepted accounting principles (GAAP). GAAP relies on the historical cost of assets or the price paid for them at the time of acquisition. Additionally, depreciation, amortization, and some other expenses are applied based on accounting rules not on economic realities.

Corporate valuations, whether of physical, financial or intangible assets owned by a company, play an important role in guiding decisions involving investment and risk. This holds for capital market decisions, corporate restructuring, mergers and amalgamations, formation of joint ventures and strategic alliances between the companies. Valuation of the company and its assets and undertaking in a credible manner, taking into account various aspects relating to it, with the application of well recognized and rational criteria is being perceived as increasingly important. Credible valuations allow decisions to be taken by the stakeholders in a company with confidence. At the same time, valuers also need to adhere to a proper code of professional conduct with an institutional mechanism for review and discipline in cases of misconduct.

FROM THE MD's DESK

Dr. S. K. Gupta
Managing Director
ICMAI Registered Valuers Organisation

The global M&A market has been in a lull with greater reticence by dealmakers to undertake largescale transformational deals since the midpoint of last year. Where deals are taking place, there is a preference to instead focus on safer bolt-on acquisitions and digestible plays in the middle markets. This strategy emanates in part from a desire to placate apprehensive investors. In a climate of suppressed growth and heightened uncertainty.

Valuation of Indian stock market at 22.5 times fiscal 2021-22 (FY22) earnings is too demanding, said analysts at Nomura in their 2021 Asia economic, currencies & equities mid-year outlook call. "Global investors are emotional and not rational. The traditional valuation parameters such as price-to-earnings ratio (PE) suggest that Indian equities are trading at 22.5x FY22 earnings, as compared to Japan (16.5x) and China (15x). The Budget for 2021-22 had set a disinvestment target of Rs 1.75 trillion. Of the Rs 1.75 trillion, Rs 1 trillion is to come from selling government stake in public sector banks and financial institutions. Rs 75,000 crore would come as CPSE disinvestment receipts.

Conventional valuation techniques take little account of the unexpected outcomes and uncertainties of real life. Real options are one method of tackling these problems in order to give a realistic view in practice rather than simply in the theoretical world. real options will in the future become the standard method of valuation and of evaluating the financial viability of ventures.

PROFESSIONAL DEVELOPMENT

ICMAI REGISTERED VALUERS' ORGANISATION

Registered Office
The Institute of Cost Accountants of India
4th Floor, CMA Bhawan 3, Institutional Area
Lodhi Road, New Delhi – 110003

www.rvoicmai.in

PROFESSIONAL DEVELOPMENT PROGRAMS

May '2022 to July '2022	
Date	**PD Programs**
1st May 2022	Valuation Bootcamp
02nd May 2022	Seminar on the Occasion of 5th Foundation Day ICMAI RVO
04th -05th -06th May-2022	Mastering Shades of Valuation
07th -08th May 2022	Workshop on Valuation
11th May 2022	Learning Session Emerging Business and Economic Environment
13th -14th May 2022	Master Class on Valuation
14th May 2022	Learning Session Current Trends of the Indian Economy with an objective lens
15th May 2022	Workshop on Valuation
19th -20th May 2022	Certificate Course in Valuation
22nd May 2022	Certificate Course in Valuation
24th -25th May 2022	Demystifying Valuation - Back to the Basics
29th May 2022	Specialized Certificate Course in Valuation
1st -2nd June 2022	Practical Aspects of Valuation
04th -5th June 2022	Certificate Course on Financial Modelling for Registered Valuers
04th-18th June 2022	Online Summer Bootcamp Certificate Course on Valuation from (Saturday-Sunday)
08th June 2022	Case Studies on Business Valuation
11th -12th June 2022	Master Class on Valuation
19th June 2022	National Conclave on Valuation of Start-Ups
22nd -23rd June 2022	Certificate course on Up Skilling for Professional Excellence
26th June 2022	National Conclave on MSMEs
29th -30th June & 1st July 2022	Professional Opportunities for Valuation Professionals
6th -7th -8th July 2022	Workshop on Valuation
09th - 10th July 2022	Master Class - Achieving a Cutting Edge in Valuation
25th June 2022	17th Online Mandatory COP Program by ICMAI RVO

PROFESSIONAL DEVELOPMENT PROGRAMS

50 Hours Training Programs

April '2022 to June '2022	
Date	**Programs**
13th -15th May 2022 & 19th -22nd May 2022	50 hours Valuation Course on Land & Building and Plant & Machinery
27th 29th May 2022 to 01st -04th June 2022	50 hours Valuation Course on Securities or Financial Assets
3rd to 5th & 9th -12th June 2022	50 hours Valuation Course on Securities or Financial Assets
3rd to 5th & 9th -12th June 2022	50 hours Valuation Course on Land & Building and Plant & Machinery

Upcoming Professional Development Programs

Date	PD Programs
15th -17th July 2022 & 21st -24th July 2022	50 hours Valuation Course on Land & Building and Plant & Machinery
29th July to 31st July & 04th August to 07th August 2022	50 hours Valuation Course on Securities or Financial Assets
30th July 2022	18th Online Mandatory COP Program by ICMAI RVO for RVs


Articles

VALUATIONS ARE TEMPORARY VALUES ARE FOR EVER

Dr. S. K. Gupta
Managing Director
ICMAI Registered Valuers Organization

Values really are one of the most important things of your company, it's who you are, it's why customers choose you. Build a great company which you would want to do business with yourself. If you get this right, your culture and values are right."

- Richard Branson

The Perspective

Business has become the most powerful institution on the planet. The dominant institution in any society needs to take responsibility towards its stakeholders. But business has not had such a tradition. This is a new role, not well understood or accepted. Built on the concept of capitalism and free enterprise from the beginning was the assumption that the actions of the companies, responding to market forces and guided by the "invisible hand" of Adam Smith, would somehow deliver desirable outcomes. But in the last decade of the twentieth century, it hasbecome clear that the "invisible hand" is faltering. So businessnow has to adopt a tradition it has never had throughout the entire history of capitalism: to share responsibility for creating and enhancing value for stakeholders. Every decision that is made, every action that is taken, must be viewed in light of thatresponsibility.

Valuations or values, which one is more important ? Too often company executives focus on hitting the numbers for the next quarter and winning at any cost. The focus on near-term 'valuables' at the extent of long-term 'values' can prevent companies from achieving long term sustainable growth to which they are striving. It's obvious that values are not necessarily associated with long-term thinking, nor are valuables necessarily connected to the short-term. However, in life and in business, when you focus on values and apply their associated principles to every aspect, you tend to concentrate on more long-term consequences. You have to be patient, especially in difficult economic times. But the patience pays off in the long run.

Meaning of Values

Organizational values are beliefs held by organizational members regarding the means and ends that organizations 'ought to' identify in the running of the enterprise. Values are something we hold dear, something that reflects an ideal or an ethic. Values are a broad tendency to prefer certain states of affairs over others. Values can be defined as broad preferences concerning appropriate courses of actions. Values are the standards that guide our conduct in an organization in a variety of settings. An organization's values might be thought of as a moral compass for its business practices. While circumstancesmay change, ideally values do not. Values have a dynamic nature in the sense that they can have various levels of worth at a specific point in an individual organizations life: they can besubdued and only surface in certain scenarios or may feature very strongly if the situation warrants it.

There are primarily three sets of values that guide individual and organizational behavior: "values for personal wellness, values for collective wellness and values for relational wellness". The literature also refers to various types of values. These include values such as: personal values (values that define who we are and how we act, that which makes us unique); relationship values (values that empower and care about others); organizational values (valuethat guide the perspective and actions of the organization); societal values (values of a specific community that dictate social conduct); human rights values (establishing shared values in diverse environment that is grounded on integral moral nature); and cultural values (group of people who have the same values about certain cultural aspects.

Values must further the mission of the enterprise

With such energy and enthusiasm devoted to corporate values it's astounding that they so often become nothing more than empty platitudes. After all, what's the point of spouting meaningless bromides that end up looking ridiculous . The problem as I see it is that values are often confused with beliefs. When you're sitting around a conference table, it's easy to build a consensus about broad virtues such as excellence, integrity and customer service. True values, on the other hand, are idiosyncratic. They represent choices that are directly related to a particular mission. So the best way to define values that willstick is to focus on choices rather than beliefs. Will you follow what your heart tells you or wait for the data to come in. And that's why an organization's values—or lack thereof—define it in a way that nothing else does. They determine how an enterprise will pursue its purpose.

Building a Values driven organization

Intangibles can represent as much as 65% to 85% of a company's valuation. One of the ways to improve company valuation is to focus on improving the culture. Whatever you focus on and measure gets done. Many of the organizations manage their values by measuring their performance annually against specific targets, such as reducing the number of potentially limiting values, reducing the level of cultural entropy, and increasing the number of matching current and desired culture values.

Communicating values

It is important to recognize that these values, these underlying beliefs, attitudes and behaviors aren't just words written in a company hand book, that gets dusted off when a new employee joins the organization. They need to be consistently communicated internally to ensure they are lived and breathed by everyone within the organization. Values are hard to teach, unlike skills and techniques, and if they are not shared by the people within your organization, there can be conflict and disconnect within your team. Communicating can be especially challenging in Multinational companies. It is important that everyone understands the expected behaviors of the organization and the principles against which decisions will be made. Values need to be articulated in a manner that transcends nationality - for example, the concepts of honesty andtrustworthiness are universally acknowledged. Nevertheless, it is important to recognize that cultural differences will influence how messages are heard and interpreted, and adjustments may need to be made in training, employee onboarding, and performance reviews.

Values are tough to live

Make no mistake: Living by stated corporate values is difficult. After all, it's much harder to be clear and unapologetic for what you stand for than to cave in to politically correct pressures. And for organizations trying to repair the damage caused by bad values programs, the work is even harder. Values can seta company apart from the competition by clarifying its identity and serving as a rallying point for employees. But coming up with strong values - and sticking to them - requires real guts. Indeed, an organization considering a values initiative must first come to terms with the fact that, when properly practiced, values inflict pain. They limit an organization's strategic and operational freedom and constrain the behavior of its people. They leave executives open to heavy criticism for even minor violations. And they demand constant vigilance. If you're not willing to accept the pain real values incur, don't bother going to the trouble of formulating a values statement. You'll be better off without one. But if you have the fortitude to see the effort through, you can learn some important lessons from the few companies thathave adopted meaningful corporate values.

Weave core values into everything

So let's say you've nailed down the right values. What now? If they're going to really hold in your organization, your core values need to be integrated into every employee-related process - hiring methods, performance management systems, criteria for promotions and rewards, and even dismissal policies. From the first interview to the last day of work, employees should be constantly reminded that core values form the basis for every decision the company makes. Given all the hard work that goes into developing and implementing a solid values system, most companies would probably prefer not to bother. And indeed they shouldn't, because poorly implemented values can poisona company's culture.

Values cost something

In an article in Harvard Business Review, management expert Patrick Lencioni writes that, "If you're not willing to acceptthe pain real values incur, don't bother going to the trouble of formulating a values statement." Make no mistake, values costsomething".

Leveraging value of 'Values' for Good Governance

The process of defining, measuring, and living values can be an excellent vehicle for improving organizational culture as - The process defines a shared set of beliefs and commitments to the way we want to behave and treat each other, The process guides decisions and emphasizes what's important to us as we change and improve the organization, values provide a common language to address unacceptable behaviors in a less threatening way, The process of defining, measuring and discussing values engage Board and employees in talking about what we want and how we can improve.

Companies thathave integrated their core values into their business plans have found that they can improve relations and effectively address the concerns of external stakeholders such as investors, financial and local communities, and the general public. Improved performance in these areas generates intangible assets, such as employee commitment and customer brand loyalty that leads to improved financial performance. The Board needs to proactively define the purpose of the company • Identify the values that should guide the company • Communicate company values and purpose to all stakeholders. Following are the key mantras for leveraging value of "Values" for good governance.

Conclusions

Organizational culture is the new frontier of competitive advantage. Company values should provide the framework which an organization engages with employees, customers, stakeholders – all of its audiences - and ultimately influences and shapes the company culture. There are a number of themes running through various company core values that place importance on things like 'team', 'excellence', 'integrity', 'ethics' and so on, and more often than not there will be an aspect that addresses corporate social responsibility and recognizes issues facing the wider community. By understanding the things that you value as a business, you can determine what direction you should take in everyday situations, but alsoduring times of uncertainty. For example, laying down best practice for things like recognizing and rewarding potential for your employees, to deciding whether to work with a client if their business practices seem slightly unethical but they have lots of budget to spend with you.

Businesses should remember that valuations are temporary, values are forever. Focus on doing good & stay grounded.

REFERENCES

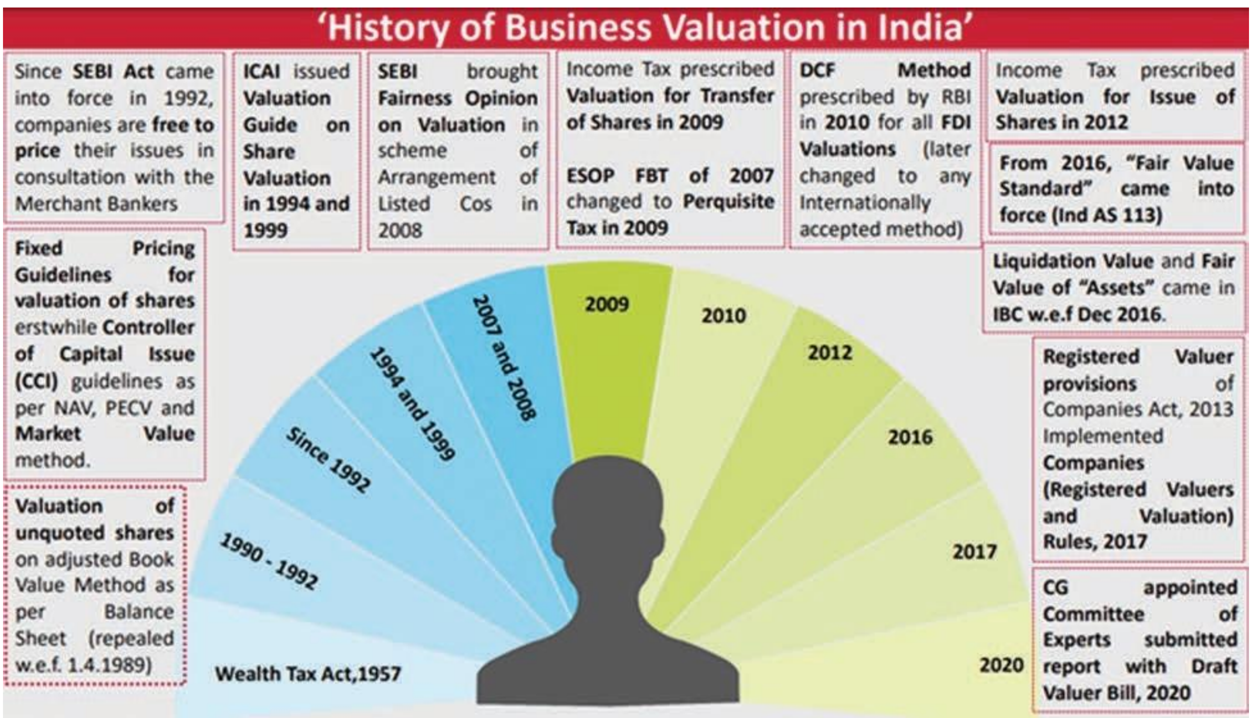
1. *Collins, J.C., Porras, J.I., 1994, Built to Last: Successful Habitsof Visionary Companies, Harper Collins Publishers: New York, NY, USA.*
2. *Deal, T E and Kennedy, (1982). Corporate Cultures: TheRites and Rituals of Corporate Life, Reading MA: Addison Wesley.*
3. *Edgeman, R.L., Scherer, F., 1999, Systemic Leadership Via Core Value Deployment, Leadership and Organization Development Journal, 20(2), 94-98.*
4. *Kabanoff, B and Daly, J (2002). "Espoused Values of Organizations," Australian Journal of Management, 27(Special Issue), 89-104.*
5. *Enz, C A (1988). "The Role of Value Congruency in Intra-Organizational Power," Administrative Science Quarterly, 33(2), 284-304.*
6. *McDonald, P and Gandz, J (1992). "Getting Value from SharedValues," Organizational Dynamics, 20(3), 64-77.*
7. *Martin, J and Siehl, C (1983). "Organizational Culture and Counterculture: An Uneasy Symbiosis," Organizational Dynamics, 12(2), 52-64.*

ANALYSIS OF DRAFT VALUERS BILL, 2020

Ishan Tulsian

[F.C.A, A.C.S, LL.B, Msc. in Applied Finance (Singapore), Dip. in INTT (ICAI), Registered Valuer SFA (IBBI), B.Com(H)]

1. A Draft Valuers Bill, 2020 has been drafted to establish a National Institute of Valuers (NIV) on basis of recommendations by a Committee of Experts constituted by the Ministry of Corporate Affairs (MCA) to examine the need for an institutional framework to regulate and develop valuation as a profession.
2. The Committee of Expert (CoE) constituted by Govt. of India (GoI) vide order No.12/9/2019-PI dated 30th August 2019, to prepare the report examining the need for an institutional framework for regulation and development of Valuation Professionals.
3. The Registered Valuer concept in India was the first time brought by the Companies Act, 2013 in formal manner. Though the valuer's concept was in existence earlier, the profession per se was not regulated by any parliamentary rules and regulations.
4. The proposed law creates a new regulator – National Institute for Valuers, to promote the development of, and to regulate the profession of valuers and market for valuation services and to protect the interests of users of valuation services in India.



Source: *Material from "Valuation, Valuation Standards and Valuation Profession" by FCA Swahney*

COMMITTEE OF EXPERTS' RECOMMENDATION

1. The CoE has recommended enactment of an exclusive statute to provide for the establishment of the National Institute of Valuers (Institute / NIV) to protect the interests of users of valuation services in India and to promote the development of, and to regulate the profession of Valuers and market for valuation services. The Institute shall register

and regulate Valuer Institutes, VPOs and Valuers.

2. Valuation should be developed as a discipline of knowledge such that Valuers are not only valuation professionals, but also the most valuable professionals.
3. For many practitioners of valuation, it is a part-time vocation, often as an extension of their primary profession, and moving ahead they should be full-time valuation practitioners just like doctors, CAs, etc.
4. Recommends centralized institutional framework for development and regulation of valuation profession in the Draft Valuers Bill, 2020 since Valuation profession is largely in the self-regulation mode today, except for 3000+ Valuers regulated under the Valuation Rules.
5. Protection of Valuers: Only the Institute should have authority to take action against a Valuer, after following due process. No court should take cognisance of any offence against a Valuer, save on a complaint made by the Institute or the Central Government.
6. Valuation Standards: The Institute should lay down valuation standards based on the recommendations of the Valuation Standards Committee. It shall be mandatory for Valuers to conduct valuation as per the valuation standards.
7. Presumption of bona fide: By definition, divergent views are possible in the field of valuation. If expressions of opinion on the value are lightly interdicted, it would be counterproductive to the objective of developing a vibrant market for the valuation services. Therefore, there should be a presumption of bona fide for the valuation conducted by a Valuer.
8. The framework should not be limited to valuations under the Companies Act and IBC, but should cover valuations under all other laws in a phased manner in due course.

VALUATION SERVICES

1. At present, the valuation practice of a Registered Valuer (RV) qualified under Insolvency and Bankruptcy Board of India (IBBI) pertain to mostly valuation services for requirements under the Companies Act, 2013 and that under Insolvency and Bankruptcy Code, 2016 and such RVs are regulated by the IBBI. However, valuation services required under several other acts, namely as mentioned hereunder, are being carried out by unregulated practitioners and the Draft Valuers Bill, 2020 aims at consolidating all such valuation services required under other acts to be carried out by the specified Registered Valuer (RV) and be regulated by the proposed new regulator – National Institute for Valuers (NIV).

2. “Valuation services” under the proposed law means the services relating to valuation of any asset or liability-

(a) which is required under the provisions of-

i. the Banking Regulation Act, 1949 (10 of 1949),
ii. the Securities Contacts (Regulation) Act, 1956 (42 of 1956),
iii. the Wealth Tax Act, 1957 (27 of 1957),
iv. the Income Tax Act, 1961 (43 of 1961),
v. the Securities Exchange Board of India Act, 1992 (15 of 1992),
vi. the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999),
vii. the Foreign Exchange Management Act, 1999 (42 of 1999),
viii. the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (54 of 2002),
ix. the Prevention of Money Laundering Act, 2002 (15 of 2003),
x. the Limited Liability Partnership Act, 2008 (6 of 2009),
xi. the Companies Act, 2013 (18 of 2013),
xii. the Pension Funds Regulatory and Development Authority Act, 2013 (23 of 2013),
xiii. the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (22 of 2015),
xiv. the Insolvency and Bankruptcy Code, 2016 (31 of 2016), or
xv. any other law, as may be prescribed.

(b) which arises from the needs of the market, as may be specified.

3. Understandably, this proposed act has covered 15 different acts for the purpose of valuation and on being notified in the Official Gazette, its scope of regulation and applicability shall have far reaching consequences over all types of Valuation services under such acts being carried out by only the qualified Registered Valuer as described under the proposed law over which the National Institute of Valuers (NIV) shall exercise regulation, inspection and exercise and recommend punishment, whenever required.

4. It is specified in the proposed law that Companies (Registered Valuers and Valuation) Rules, 2017 effectuated under Section 247 of the Companies Act, 2013 shall stand rescinded from such date appointed by the Central Government and related changes shall be made in the Companies Act, 2013

to bring it into effect.

OVERRIDING EFFECT OF THE PROPOSED BILL

On being passed in the Official Gazette, Valuers Act, 2020 shall have overriding effect on any other law in regard to any inconsistency existing between both the Acts.

VALUER

1. The "Valuer" means a valuer who is registered as such under section 50 and includes a 'valuation entity', 'associate valuer, 'fellow valuer' and 'honorary valuer. Section 48 classifies valuers in four classes of valuers, namely:

a. valuation entities- An entity can also be registered as a Valuer if majority of its partners or directors are Valuers

b. associate valuers- Shall be an associate valuer and on registration shall be entitled to prefix letters 'AV' to his name.

c. fellow valuer- Who has been in practice for at least five years shall be entitled to prefix the letters 'FV' to his name.

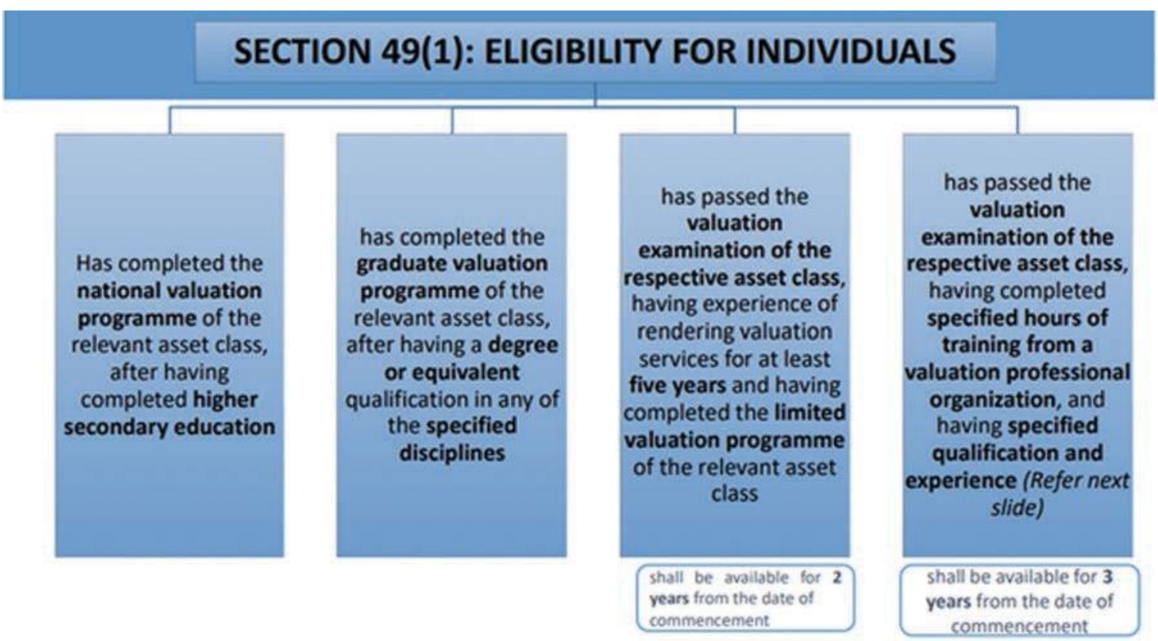
d. honorary valuer- On recognition of such extra-ordinary contribution to the valuation profession is entitled to use 'HV' to his name, but he shall not practice.

ASSET CLASSES

1. In the beginning, registration of Valuers should be available for three asset classes, such as land and building, plant and machinery and securities and financial assets.
2. Assets displaying similar characteristics will be grouped into closest class.
3. The National Institute of Valuers (NIV) shall be allowed to add / subtract an asset class as well as increase / decrease the scope of an asset class, with changing needs.
4. An individual can register as Valuer in all three classes, if he meet the eligibility criteria for all three classes.

REGISTRATION OF VALUERS

1. The registration of the valuers shall be asset class wise.
2. A valuer, who is registered under the Companies (Registered Valuers and Valuation) Rules, 2017 made under the Companies Act, 2013 (18 of 2013), as on the date of commencement of provisions of this Chapter, shall be deemed to be an associate valuer registered under this Act.
3. A person, who is eligible under the law and enrolled with a valuation professional organisation as a member, may make an application to the Institute for a certificate of registration as a valuer.
4. However, registration as valuer will not permit a person to start his practice as a valuer.
5. No person shall act as a valuer or hold out as a valuer except under, and in accordance with, a certificate of registration granted under this Act. A valuer shall not render valuation services except under, and in accordance with, the conditions of a certificate of practice granted under this Act.
6. The Bill recognizes four paths for becoming Valuer, two temporary and two permanent;



Source: *Material on Valuation of Corporates- Important Development by CA Sujal Shah*

SPECIFIED QUALIFICATION AND EXPERIENCE UNDER CLAUSE (D) OF SECTION 49(1) OF THE ACT

Asset Class	Qualification (obtained from a recognised Indian University or Deemed University, whether in India or abroad)	Post-qualification experience of valuation in the asset class
Plant & Machinery	Graduate in Mechanical, Electrical, Electronic and Communication, Electronic and Instrumentation, Production, Chemical, Textiles, Leather, Metallurgy, or Aeronautical Engineering, or Post-Graduate in above disciplines.	5 years
	Post-Graduate in Valuation of Plant and Machinery	3 years
Land & Building	Graduate in Civil Engineering, Architecture, Town Planning or Valuation Surveying or Post-Graduate in above disciplines	5 years
	Post-Graduate in Valuation of Land and Building or Real Estate Valuation	3 years
Financial Assets	Member of ICAI, ICSI, ICWAI, MBA, Post-Graduate Diploma in Business Management (specialisation in finance) or Post-Graduate in Finance	3 years

Source: *Material on Valuation of Corporates- Important Development by CA Sujal Shah*

7. No person shall act as a valuer without having a certificate of registration.
8. A valuer shall not render valuation services without holding Certificate of Practice (COP)
9. A valuer shall not be eligible to hold a certificate of practice, while he is in the employment of any person.
10. A whole-time directorship of a company registered as valuer entity shall not be considered as employment.
11. For now, Clause 51 of the Bill do not forbid, per se, to hold more than one certificate of practice at a time. In other words, Practicing CS, CA and CMA may continue their existing profession while practicing as a Valuer. Therefore, the person may continue the existing profession while working as a value.
12. However, moving ahead full time practice is expected after market matures, Valuer may have to choose which profession to follow, one may not simultaneously have COPs of other professions such as CA, CS, CMA etc.
13. No age limit prescribed like Insolvency Professionals, one can practice till he is of sound mind.

14. Valuers Entity (VE)

A Partnership firm, LLP or a Company, other than a subsidiary, can be registered as VE, if

a. its primary objective is to provide valuation services. The objective shall be considered primary where at least 50% of revenue is derived from valuation services.

b. not undergoing an insolvency resolution, liquidation or bankruptcy process;

c. majority of its partners/ directors are valuers having COP;

d. none of its partners/directors, is a partner/director of another VE

e. at least one of its partners/ directors, is a valuer of the asset class for which entity is seeking registration.

f. The partnership firm or company, and all its partners/ directors, who are valuers, shall be jointly and severally liable.

g. A partner/director shall not be liable where the acts of omission and commission were without his knowledge or he had exercised all due diligence to prevent the same.

TRANSITIONAL ARRANGEMENT

1. A valuer, who is registered under the Companies

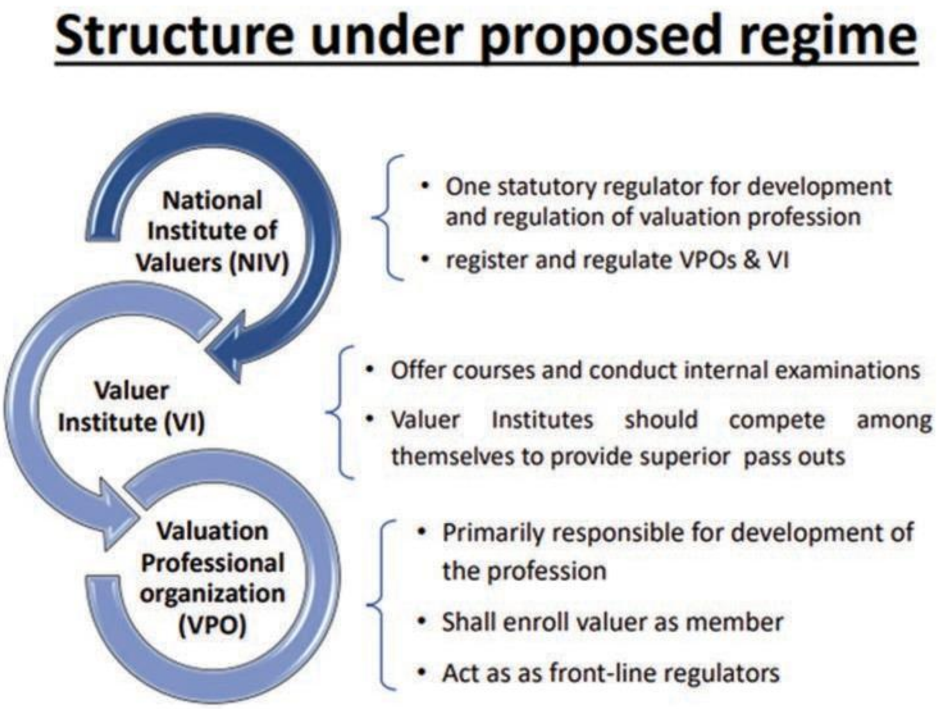
(Registered Valuers and Valuation) Rules, 2017, shall be deemed to be an associate valuer under this Act,

2. Valuer engaged in valuation services having qualification may seek registration within 3 years after clearing the exam and training.
3. Valuers engaged in valuation services and meeting eligibility norms under the valuation rules, except required qualifications may seek registration within 2 years.
4. Registered valuer organizations (RVO) recognized under the Valuation Rules shall become Valuation professional organization (VPO).
5. Principal Regulator IBBI has been discharging the function under the valuation rules, shall pass on the authority when the Institute (NIV) is established.

CONDUCT OF VALUATION

1. A valuer shall, while conducting a valuation or rendering valuation services, comply with the valuation standards as notified or modified by the Institute.
2. Until the valuation standards are notified or modified by the Institute, a valuer shall make valuations or render valuation services in accordance with –
    a. Internationally accepted valuation standards and guidelines; or
    b. Valuation standards and guidelines adopted by the valuation professional organisation of which he is a member. For Eg: A Chartered Accountant who is a Registered valuer may adhere to the ICAI Valuation Standards 2018 when preparing Valuation Reports.
3. A valuer shall conduct a valuation, render valuation services and prepare valuation reports in such form and manner as may be specified.
4. A valuer shall not outsource valuation services to another person, except to the extent and the manner, as may be specified. The expression "outsource" means the use of a third party to perform the services which have been sought by a client from the valuer. The services which are generally expected to be carried out by a valuer shall not be outsourced. The services which are generally not expected to be carried out by a valuer may be outsourced.
5. A valuer may seek the opinion or get valuation conducted by another valuer of an asset class, where the scope of valuation services includes a valuation of any asset or liability belonging to an asset class in respect of which he is not registered. He shall disclose the details of such opinion or valuation in his report and he and the other valuer, as the case may be, shall be jointly and severally responsible for such valuation.
6. Therefore, Valuer can get the opinion from the other valuer only when, that valuer is not dealing in same class of assets. Otherwise, the same may tantamount to outsourcing.
7. Where a valuer considers it necessary to get an opinion in relation to the rendition of valuation services, he may engage one or more experts for assistance, subject to making disclosures. An "expert" includes an engineer, a chartered accountant, a company secretary, a cost accountant and any other person who is authorised to issue a certificate in pursuance of any law for the time being in force, except a valuer registered under the provisions of this Act.
8. The valuer shall be deemed to be responsible for the opinion or valuation so received. However, the valuer shall not be deemed to be responsible if he proves that he had exercised due diligence.
9. A valuation report shall not carry a disclaimer or condition, which has potential to dilute the responsibility of the valuer under this Act or makes the valuation unsuitable for the purpose for which the valuation was conducted and the valuation report shall be admissible as expert evidence within the meaning of section 45 of the Evidence Act, 1872.
10. A valuer shall not conduct a valuation where he has any conflict of interest. Where a valuer comes to know of or discovers any conflict of interest while conducting a valuation, he shall immediately apprise the same to the stakeholders.
11. A valuer shall not charge a fee which is linked to the value of assets undervaluation or success of the relevant transaction.

STRUCTURE OF REGULATORY MECHANISM



Source: *Material on Draft Valuers Bill, 2020 by Karun Nagpal*

1. **NATIONAL INSTITUTE OF VALUERS**, a bureaucratic organization having a duty of the Institute to promote the development of, and to regulate the profession of valuers and market for valuation services, and to protect the interests of users of valuation services, by such measures as it thinks fit. This shall be the supreme body to regulate Valuers, VI, VPO, framing rules and regulation, syllabus, and overall monitoring.
2. NIV shall be governed by a council with the chairperson, eight elected members and representative of MCA/ MoF, RBI/SEBI/IBBI and three whole-time members of whom at least one shall be an administrative law member.
3. NIV will recognize universities/institutes / VPOs as valuer institutes on being satisfied with their credentials, and let them deliver courses strictly as per the prescribed norms and compete among themselves for excellence, and monitor and review their performance.
4. **COMMITTEE OF VALUERS**, a committee of NIV, consists of 20 valuer members to advise on any issue relating to the profession of valuers and market for valuation services.

   Valuation Standards Committee, a committee of NIV, shall recommend:

   a) valuation standards; and

   (b) valuation guidelines,

   to be used by valuers for valuation services.
5. Central Government will notify the Valuation Standard in consultation with a valuation standard committee comprising of representatives of MCA, RBI, IRDA, MoF, CBDT, CBIC, IBBI, SEBI, and PFRDA. No representative of VPO or ICSI/ICAI/ICoAI.
6. **VALUATION PROFESSIONAL ORGANISATION** shall-
   a. Promote the professional development of its members;
   b. Promote professional and ethical conduct amongst its members
   c Monitor the activities of its members to ensure compliance with this act, rules and regulations;
   d. Redress grievances of users against its members;
   e. Safeguard the rights, privileges and interests

of its members; any

f. Other functions as may be specified by the Institute (NIV)

7. **VALUER INSTITUTE** shall-

a. deliver educational courses in accordance with the syllabus and in the manner of delivery, as may be specified;

b. levy such fee from students undergoing educational courses as may be commensurate with its cost of delivery in a competitive market environment; and

c. endeavour to arrange financial support for deserving students who cannot afford the full cost of the educational course.

8. Currently, RVOs are also eligible to conduct educational courses, but under the bill, they will need to get registered as VI separately

PROFESSIONAL FEES

1. The Committee is of the view that there should be no constraints on fees.
2. Any fixed fee is prone to two problems, being as follows:
   - Fixed by the regulator may not be the market clearing price.
   - The minimum fee has the tendency to be the maximum fee and the maximum fee has the tendency to be the minimum fee for the market participants.
3. No two valuations are equal or two valuers are equal.
4. Therefore, no fees prescribed in the bill, left open for market to decide.

VALUATION REPORT

1. The valuation report should be signed by an individual valuer, same as in case of audit report signed by CAs.
2. In case of entity structure, Valuation reports shall be signed by a partner/director, who is a valuer of the relevant asset class.
3. Valuation report should covers all material relevant matters with more detailed reason and analysis.
4. Report should not carry disclaimers, which has potential to dilute the responsibility of valuers.
5. NIV will determine the extent of disclosure to be made in the valuation report.
6. Valuation report shall be admissible as expert evidence within the meaning of section 45 of the Evidence Act, 1872.

OFFENCES AND PENALTIES:

1. Two Schedules are proposed for professional misconduct of Valuers.
2. The First Schedule deals with deemed professional misconducts which are not severe but which may lead to penalty extending to Rs 2 Lakh or 3 times the amount of loss – Being higher of the two.
3. The Second Schedule deals with deemed professional misconducts which are more severe and which may lead to penalty extending to Rs 10 Lakh or 3 times the amount of loss – Being higher of the two.
4. Criminal complaint can be lodged against valuer for misconducts listed in the Second Schedule of the proposed draft.
5. If any person contravenes any of the provisions of this Act or the rules or regulations made thereunder for which no penalty or punishment is provided in this Act, such person shall be punishable with fine which shall not be less than one lakh rupees but which may extend to two crore rupees.
6. Notwithstanding anything in the Code of Criminal Procedure, 1973, offences under this Act shall be tried by the Special Court established under Chapter XXVIII of the Companies Act, 2013.
7. No Court shall take cognizance of any offence punishable under this Act, save on a complaint made by the Institute or the Central Government or any person authorised by the Central Government in this behalf.

DISCLAIMER: *The contents of this article are solely for informational purpose and for the reader's personal non-commercial use. It does not constitute professional advice or recommendation of firm. Neither the author nor firm and its affiliates accepts any liabilities for any loss or damage of any kind arising out of any information in this article nor for any actions taken in reliance thereon.*

VALUATION OF A TEA BAR IN A SMALL TOWN

CMA B Kumar

(M No. 25282)

It is a start. This start study involves valuation approach for a Tiny Tea Bar in a small pilgrimage town in South Tamil Nadu

The beverage essentials:

We are walking but our life is running. From time immemorial, we feel that our wheel of life cannot rotate without beverages. Coffee, Tea and other drinks have become part of our life. This implies that everyone is habituated with the drinks especially in morning and evening times. An average Indian drinks two cups of tea or coffee daily. The habit is so hard to give up for people. Even for one time if they do not have it, they feel the world is reverse revolving. Simply put, coffee or tea serves as a heart stimulant. A day commences, with tea or coffee. (Tea day). So , the study focuses on a tiny tea (drinking tea) manufactory.

Normally the business model of a Tea house is a Super revenue model when the shop runs near a Bus Stand or Railway Station or any other busy locations like market. In this article, we take up the study of a successful tea hut for case analysis and its value valuation. It is in the service industry. This small town is unique in the sense that people here have the habit of taking tea frequently and the shop will be busy during the whole day time and runs without any weekly holidays and no lunch break. There are two segments – line service and parcel service.

The Menu :

In the tea shop taken up for valuation the drinks offered are coffee, tea, milk tea and lemon tea. The milk tea what we refer here is diluted milk only. (where tea is added only in words). Ooty biscuits are also available and oil snacks are prepared only in the morning.

Suppliers :

The shop gets the supplies only from the local market. Tea Powder (Brooke Bond 3 roses), sugar, etc. from local suppliers, milk directly from the farm, water (for boiling) from the Municipal Corporation outlet.

To ensure quality and taste of the drinks at all times, quality materials only are procured. The shop is run with the policy that quality and taste are the heart and soul of their service to heartful patrons.

Premises:

The shop runs on a rented premises which measures 100 sq. Ft. (10 X 10) – Of course some front potion of the road is also occupied for keeping a sitting bench.

Decor and furniture:

Four plastic chairs, Tea preparing stall, a ceiling fan, an exhaust fan (which never runs), and a wooden bench outside occupying a part of the road are available.

Essential equipments:

The essential equipments are vessels for boiling milk, copper boiler for tea decoction, cloth filters, plastic pots for bringing water, Gas stove and cylinders for heating, etc.

Serving appliances:

Tea glasses, paper cups, ever silver glass set, etc. are provided for the line segment. For parcels , small poly bags are provided. Many people do not know that hot tea in a poly bag parcel may causes cancer but they are habituated to this and no awareness and any patrons cannot afford a flask.

Staff :

In this case the owners themselves (managed by twins) are engaged in the process of making tea and one assistant for parcel and cash collection and a helper for cleaning, serving and bringing water. The working hours start at 5.00 am and ends at 9.00 pm. (16 hours). At any particular point of time 10 patrons on an average will be around the shop for parcel or on line segment. In peak hours (morning and evening) around 20 patrons will be waiting to be served.

Skill Capital :

The owners were working in a nearby Coffee Bar earlier and learnt this skill and then started this shop. They started this shop before 6 months only. They maintain the same taste and quality like their previous shop. They have guts, self belief, determination and the ability to work round the clock without flagging. The shops motto is : "Your tongue, our taste".

The Process :

At any point of time, there will be four vessels having a capacity of 15 litres of farm milk (always diluted) will be heated in Gas Stove inside and milk will always be boiling in the vessel kept for preparation in the stall. For every 10 glasses of tea , 3 roses (no rose flavour) will be filled in from time to time to feel the freshness of flavour. Boiled milk will be ready in sufficient quantity in glasses and the tea decoction will be poured to make it to 150 ml of tea. In respect of coffee, they prepare only instant coffee and not filter coffee which is famous in Tamil Nadu. The taste is in the blend – that is the thick milk taste with tea flavour so that no one can outperform this shop.

The service :

The owners serve the patrons always with a smile so that the patrons smile (with taste ofcourse) after drinking. The employees identify each regular patron and then serve on first-come-first-served basis. They follow the 'feel of empathy' towards their patrons because many patrons are poor and they run their life with tea as their main wholesome food.

Pricing :

The shop charges Rs. 10 /- for all beverages and biscuits @ Rs. 5/-. For parcels, poly bag is free but for paper cups they charge Re. 1 per cup. Even after the recent price hike due to increase in pump price of petrol/diesel by all other tea shops (Rs. 12/ per cup), this shop has not upped the price for maintaining the No. of patrons. The shop's intention is every one should feel the taste of quality at a reasonable price.

Revenue :

The daily revenue on an average is calculated as below :

Sales quantity : 50 glasses per hour X 16 hours for line service = 800 Nos.

12 cups X 16 hours for parcel service = 192 Nos.

(parcel includes poly bags and paper cups)

So, roughly, we can take

800 cups X Rs. 10	=	8000
200 cups X Rs. 15(Parcel)	=	3000
200 cups X Re. 1 per cup (Poly bags free of cost)	=	200
Biscuits and oil snacks	=	800
Total Revenue		12000

Margin :

The fixed expenses incurred are wages to two assistants, one part time Master for oil snacks electricity charges, rent, etc. Variable expenses are procurement of materials, biscuits, materials for oil snacks, etc. Water is free from roadside corporation pipe and the same is filtered for tea preparation. Their practice of giving alms to poor people who are daily visitors works out to Rs 50/- approximately.

The Total cost works out to approximately Rs. 8500/- so as to give a net income of Rs. 3500/- per day.

Valuation Approach :

Net Income Approach :

Based on the Net income of the shop, the valuation can be :

Rs. 3500 X 365 days X 10 years (say) = 1,27,75,000/-

If we discount @ rate of 10 % for 10 years it may work out to approximately Rs. 1 Crore.

Net Assets Approach :

It is an asset-light business. So, in this case analysis, the net assets approach cannot be squarely applied because the shop has no own buildings (rented only), the vessels, gas cylinder, gas stoves, furniture, fan and the stall are not having much value to be treated as value @ worth. The main assets are the owners skilled hard work and the employees quality of service which are invaluable or atleast having a good goodwill.

Any other approaches to valuation of this type can be left to the imagination of the Readers. These tiny tea shops contribute substantially to the GDP of our Nation's economy because if no one consumes tea the tea processing industry cannot survive.

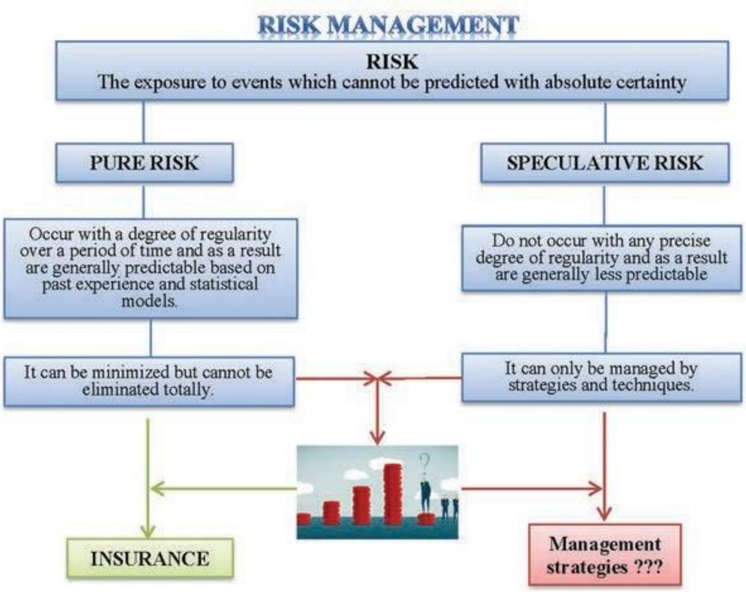
VALUATION FOR INSURANCE PURPOSES

Er. & Vr. K.Panneerchelvam
B.E (Mechanical), PG.Dip.SQC&OR
Registered Valuer –Plant & Machinery
Chartered Engineer
Insurance Surveyor & Loss Assessor

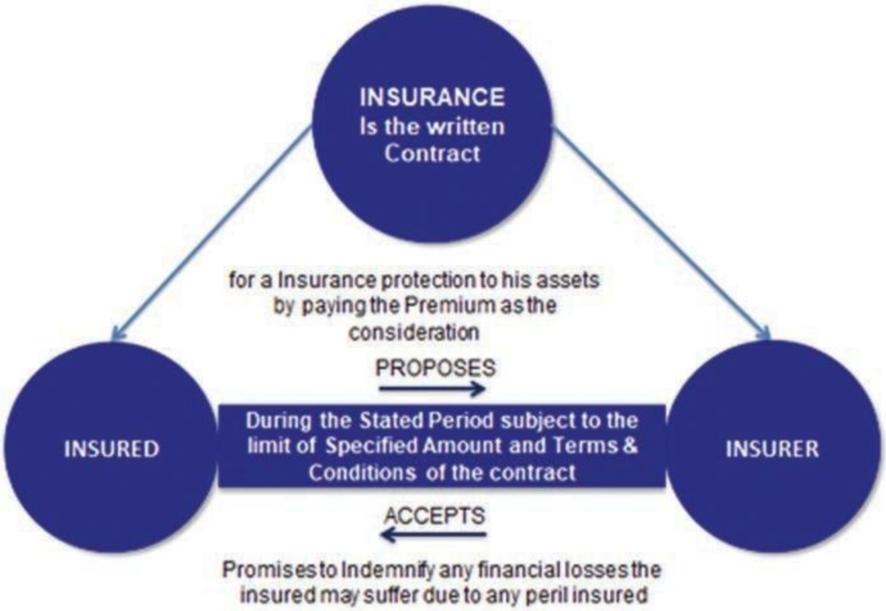
NO THING **RISK**

WITHOUT

NOTHING **RISK**



INSURANCE CONTRACT



TYPES OF ASSETS THAT COULD BE INSURED:

Buildings

- Residential
- Industrial,
- Commercial

Plant & Equipment

- Machineries, accessories etc.
- Utilities associated with industrial process- WTP, ETP, DG sets, Boiler house etc.
- Electrical Installation in the buildings
- Pipelines located in the manufacturing units

Others

- Furniture, Fixture and Fittings
- Contents in dwellings, shop, hotels etc.

Stocks

- Raw material, Stock in Process, Finished goods in factories and go downs etc.
- Stocks in open

INSURANCE COVERS LOSSES AGAINST:

A

1. Fire
2. Explosion / Implosion
3. Aircraft Damage
4. Lighting
5. Riots, Strike, Malicious Damage
6. Storm, Cyclone, Flood and Inundation
7. Impact Damage
8. Subsidence, Landslide, Rock slide
9. Bursting and/or overflowing of Water Tanks, Apparatus and Pipes
10. Missile testing operations
11. Leakage from Automatic Sprinkler Installations
12. Bush Fire

B

1. Project procurement & Execution
2. Machinery Breakdown
3. Contractors P&M
4. Civil Engineering contracts

C

1. Marine Cargo
2. Marine Hull

D

Loss of Profit

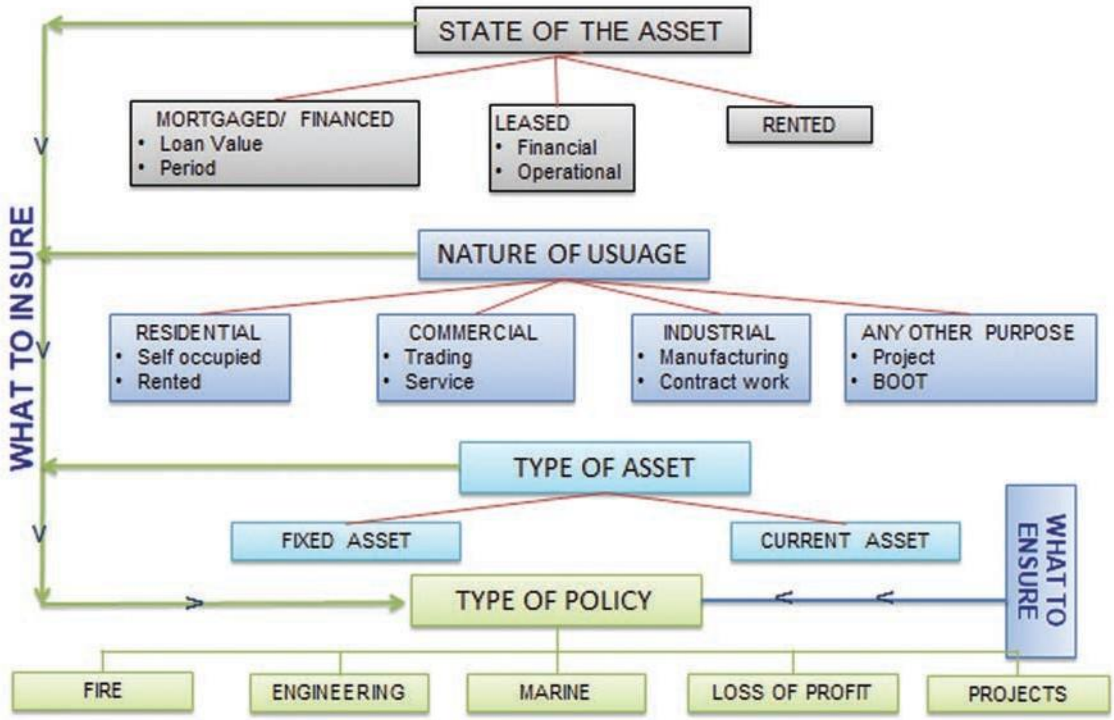
E

Burglary

F

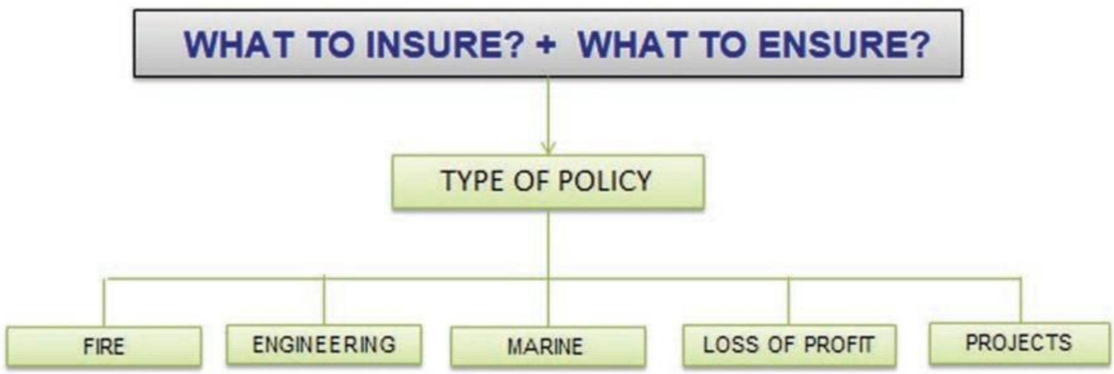
Motor

WHAT TO INSURE:



WHAT TO ENSURE:

- The insurance is to ensure protection against the financial losses that arises consequent up on the operation of the Potential Risks that the assets are exposed to.
- The assets are to be sufficiently covered taking into consideration of the general and specific exclusions stated in the policy / policies by means of Add on Covers , Clauses and
- Adequacy of Sum Insured



What is a FIXED ASSET?

- Is a long-term part of a property that is possessed and utilized in the generation of its revenue.
- Is not anticipated that it would be consumed into cash or sold in a current accounting year.
- Is not the property that an organisation sells to the customer

What is a CURRENT ASSET?

Is money or any other resource that will swing to cash within a year from the date it was included in the organisation's books of account.

If an organisation has a working cycle that is larger than one year, a resource that will turn to cash inside the length of its operation cycle is considered to be a current asset.

Is the asset that is manufactured and sold to the customer

What is a CONSUMABLE ASSET?

Assets which, through use over a short period of time, become obsolete, worn out or otherwise became in need of being replaced.

ASSET VALUATION FOR INSURANCE PURPOSE

The Purpose of Valuation for Insurance is to fix the Sum Insured in the policy on:

Indemnity Basis:

- The value here is related to the age, present condition and suitability for use of the asset and hence physical depreciation due of age and use is taken into account.
- If opted and In case of claim, there will be financial strain on the insured.

Reinstatement value basis:

- Reinstatement Cost for Insurance is the cost of replacing or reinstating on the same site, property / asset of the same kind or type but not superior to or more extensive than the insured property when new.
- No depreciation is applied and the settlement of claim is on "new for old" basis.
- If opted, the insured here will have least financial strain after a claim.

Agreed value:

Under special circumstances, policies are issued on agreed value also.

EX: residual value insurance

VALUATION OF BUILDING FOR INSURANCE PURPOSES:

1. Re instatement value Assessment (RIV):

- The assessment are to be on the basis of ***Total Loss or Constructive Total Loss***
- The usual requirement for a reinstatement cost assessment is that it is prepared on the basis of a '***day one reinstatement***'
- If the insurance is not to be written on a day one RIV basis, sufficient allowance for Increase in Sum Insured need to be considered assuming that a total loss occurs on the last day of insurance and that on that date it should be sufficient to pay for reinstatement allowing for all the time that might take and the delays that could occur.
- This assessment of the reinstatement period should take into account:

  a. the Redesign period,

  b. obtaining Statutory and Local Authority consents and

  c. the Construction period.
- Insurance policy provides provision to compensate for the increase in Sum insured during the policy period as on Add on cover in the form ***Escalation Clause.***
- Recommendations to be made in the report to the effect that the insured need to reassess the sum insured on a regular basis to compensate for the inflation effect and or significant alternations are made to the insured property.

Reinstatement Value of the whole property is to include:

- The cost of rebuilding the whole of the building in its present design and materials, to its existing shape and size, including basements, foundations and Compound Wall.
- Allowance for modifications to the design and specification required to comply with current Building Regulations and statutory requirements
- All external works and services such as drainage, manholes, water supply, electricity supply, boundary structures and out buildings .
- Allowances for

  a. demolition and debris removal b. Professional and statutory fees.
- GST and Other Taxes (?)

2. Market Value of the whole property is to include:

- The cost of rebuilding the whole of the building in its present design and materials, to its existing shape and size, including basements, foundations and Compound Wall.
- Allowance for modifications to the design and specification required to comply with current Building Regulations and statutory requirements

- All external works and services such as drainage, manholes, water supply, electricity supply, boundary structures and outbuildings (if required by the policy).
- Allowances for

  a. demolition and debris removal and b. professional and statutory fees.
- GST and Other Taxes (?)
- Allowances for application of Physical Depreciation for age and usage,

VALUATION OF PLANT & MACHINERY FOR INSURANCE PURPOSES

1. Facts to Factorize in the Reinstatement Value for P&M:

- Manufacturer stopping production of such machines or gone out of existence
- ***Technological improvements*** taking place in the machines resulting
  a. Higher output / productivity
  b. Lesser manpower requirement
  c. Lesser energy consumption and operating cost
  d. Additional range of function / compactness of machine, etc.

The machinery would have become *obsolete* due to:

a. Functional obsolescence - as against Improved and efficient new version of the

Older machine

b. Economic obsolescence:

External factors such as government planning & industrial policy, legal Environment, indigenous developments, etc. resulting in lesser or no demand for Products / machine.

- The current price of similar machine / plant is ***Available***
- The current price of similar machine / plant is ***Not Available***

2. When current price of similar machine is Available

- Allowances for Discounts on the Price when they are not indicated in the quote
- Allowances for Physical Depreciation, technological advancements
- Allowances for Dismantling and Debris removal Costs
- Allowances for Ordinary Cost of Freight, insurance, Installation and other associated cost incurred to Re instate.
- GST to be considered as per the insured GST status. (?)

3. When current price of similar machine is Not Available

- The appropriate replacement cost of the machine can be computed by applying suitable index factor to the Original Purchase Cost.
- Allowances for Physical Depreciation, technological advancements
- Allowances for Dismantling and Debris removal Costs
- Allowances for Ordinary Cost of Freight, insurance, Installation and other associated cost incurred to Re instate.
- GST to be considered as per the insured GST status. (?)

4. AGREED VALUE

- Insurers will be reluctant to give Reinstatement Coverage for the Plant & Machinery assets that have lived their lives as per the manufactures prescription and or with a NIL Net Book Value.
- But due to appropriate and timely maintenance, they may performing either to their original designed level or at a lesser level that may be sufficient for other sub levels of production practices.
- In such situation the Insurance is done on the residual value, which may be at 25% to 50% of the actual and the major maintenance Cost that have been capitalised in the books of accounts, the balance being treated as Depreciation.

ESTIMATION OF SUM INSURED FOR STOCKS

Valuations of stock for insurance (RIV – not applicable)

1. Raw material

- Raw materials are valued at Net Cost of Acquisition at which the raw material is
- available to the insured.

2. Stock in process (WIP)

- Stock in process is valued at – the maximum value of stock in process - the cost
- of raw materials, other inputs and processing cost at any given time.

3. Finished goods - Stored

- Net manufacturing cost including factory overheads
- Profit margin are not to be considered.

4. Finished goods- Invoiced and kept ready for dispatch

- Net manufacturing cost including factory overheads
- Packing Charges
- Profit margin not to be considered

In the Event of a Claim

- Onus of proof lies with the insured to establish the Adequacy of Sum Insured in the Policy.
- Hence it is desirable to have the assets valued by a qualified and trained valuation professionals that has the following advantages:
    1. Ensures that assessments are in accordance with good practice and sound Methodology providing the basis for adjusting the Sum Insured at initial as well as at subsequent renewals of the policy.
    2. Ensures avoidance of both Over Insurance which may result in payment of Unwanted excess premium as well as Under Insurance resulting in In-adequate compensation
    3. As measurements, details of construction, important information about machinery and installation and other critical details are recorded during the Appraisal, these could of greater use in substantiating the insured stand in the event of a claim
    4. Also it becomes a sound basis for negotiation of claims.

There cannot be "fit-all" approach for all eventualities and situation. Attempt has been made to highlight the valuation methodology in keeping with principle of indemnity.

VALUATION OF UNQUOTED SHARES

Ashwani Rastogi
(FCA., ACS., IP., RV., FAFD)

Understanding of Rule 11UA along with implication of Section 56(2)(viib)/56(2)(X)/50CA/195 and FEMA Pricing Guidelines

Valuation of Shares is not a science and hence determining the fair market value (FMV) of shares can be challenging particularly in case of unquoted equity shares. To deal with this, the Income-tax Department had prescribed a specific formula based on "Net Asset Value Approach" under rule 11UA of the Income Tax Rules, 1962. However, the said formula took into account the book value of the asset rather than current market value, or FMV.

Tax Department has also started sending notices to various Individual assessee for purchasing of shares on price lower than its fair Market Value ('FMV'). Difference between the Fair Market Value of Shares and Actual Consideration paid is treated as Income from Other Sources under Section 56 of the Income Tax Act and Taxed is levied at applicable rate. Accordingly, it is utmost important to obtain Valuation Report before entering into any such transactions.

Valuation of Shares for fresh issue and transfer of shares as per Rule 11UA of Income Tax Rules 1962: –

Particulars	Fresh Issue of Shares	Transfer of Shares
Method of Valuation	Either DCF or Intrinsic Value or any other method at the option of the Assessee	Intrinsic Value as defined in rules.
Relevant Section	Section 56(2)(viib) read with Rule 11UA(2) of Income Tax rules	Section 56(2)(x) read with Rule 11UA(1)(c) of Income Tax rules
Valuation report	By Merchant Banker only if DCF applied	Valuation can be done by anyone

Valuation of Shares for fresh issue of shares

As per Explanation to section 56(2)(viib), for issue of shares the Fair Market Value of shares shall be the value –

i. as may be determined in accordance with such method as may be prescribed; or

ii. as may be substantiated by the company to the satisfaction of the Assessing Officer, based on the value, on the date of issue of shares, of its assets, including intangible assets being goodwill, know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature,

whichever is higher

As per sub-rule 2 of rule 11UA of Income Tax Rules 1962, Fair market value of unquoted equity shares for the purposes of sub-clause (i) of clause (a) of Explanation to clause (viib) of sub-section (2) of section 56 shall be the value, on the valuation date, of such unquoted equity shares as determined in the following manner under clause (a) or clause (b), at the option of the assessee, namely: —

(a) the fair market value of unquoted equity shares = (A–L) × (PV), (PE)

where,

A= book value of the assets in the balance-sheet as reduced by any amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under the Income-tax Act and any amount shown in the balance-sheet as asset including the unamortized amount of deferred expenditure which does not represent the value of any asset;

L=book value of liabilities shown in the balance-sheet, but not including the following amounts, namely:

i. the paid-up capital in respect of equity shares;

ii. the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company;

iii. reserves and surplus, by

whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;

iv. any amount representing provision for taxation, other than amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under the Income-tax Act, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;

v. any amount representing provisions made for meeting l iabilities, other than ascertained liabilities;

vi. any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares;

PE= total amount of paid up equity share capital as shown in the balance sheet;

PV= the paid up value of such equity shares; or

(b) the fair market value of the unquoted equity shares determined by a merchant banker as per the Discounted Free Cash Flow method.

As can be seen, at the option of the assesse, the assesse can opt for fair market value as per the Discounted Free Cash Flow method in case the company is willing to raise funding at higher value vis-à-vis book value of company.

Valuation of Shares for transfer of shares

As per Explanation to Section 56(2)(x), Fair Market Value shall have the same meaning as assigned in Explanation to clause (vii). Further, as per Explanation to clause (vii), "fair market value" of a property, other than an immovable property, means the value determined in accordance with the method as may be prescribed.

As per sub-rule 1 (c) of rule 11UA of Income Tax Rules 1962, the fair market value of unquoted equity shares shall be the value, on the valuation date, of such unquoted equity shares as determined in the following manner, namely: —

the fair market value of unquoted equity shares =(A+B+C+D – L)×(PV)/(PE), where,

A= book value of all the assets (other than jewellery, artistic work, shares, securities and immovable property) in the balance-sheet as reduced by, —

i. any amount of income-tax paid, if any, less the amount of income-tax refund claimed, if any; and

ii. any amount shown as asset including the unamortized amount of deferred expenditure which does not represent the value of any asset;

B = the price which the jewellery and artistic work would fetch if sold in the open market on the basis of the valuation report obtained from a registered valuer;

C = fair market value of shares and securities as determined in the manner provided in this rule;

D = the value adopted or assessed or assessable by any authority of the Government for the purpose of payment of stamp duty in respect of the immovable property;

L= book value of liabilities shown in the balance sheet, but not including the following amounts, namely:

i. the paid-up capital in respect of equity shares;

ii. the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company;

iii. reserves and surplus, by whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;

iv. any amount representing provision for taxation, other than amount of income-tax paid, if any, less the amount of income-tax claimed as refund, if any, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;

v. any amount representing provisions made for meeting l iabilities, other than ascertained liabilities;

vi. any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares;

PV= the paid up value of such equity shares;

PE = total amount of paid up equity share capital as shown in the balance sheet

As can be seen, the fair market value of shares for transfer of shares will be as per intrinsic value of shares.

Further Explanation:-

B = the price that the jewellery and artistic work would fetch if sold in the open market on the basis of the valuation report obtained from a registered valuer;

C = FMV of shares and securities as determined according to this rule;

D = the value adopted or assessed or assessable by any authority of the government for the purpose of payment of stamp duty in respect of the immovable property;

L= book value of liabilities shown in the balance sheet, but not including the following amounts, namely:-

i. the paid-up capital in respect of equity shares;

ii. the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general meeting of the company;

iii. reserves and surplus, by whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;

iv. any amount representing provision for taxation, other than amount of income-tax paid, if any, less the amount of income-tax claimed as refund, if any, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;

v. any amount representing provisions made for meeting l iabilities, other than ascertained liabilities;

vi. any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares;

vii. PE = total amount of paid up equity share capital as shown in the balance-sheet;

viii. PV= the paid up value of such equity shares;

Rule 11UAA prescribes that for the purposes of section 50CA, the FMV of the share of a company other than a quoted share, shall be determined as provided in Rule 11UA (1)(c)(b)/(c), and that the reference to valuation date in the rule 11U and rule 11UA shall mean the **date on which such shares** are transferred.

Understanding the provisions of Section 56(2)(x)

Finance Act, 2017 inserted two new provisions under the Act – clause (x) under section 56(2) and section 50CA. The said sections were inserted to deal with a situation where the property, including unquoted shares, are being transacted for inadequate consideration much below the FMV of such property.

The Finance Act, 2017 had brought into force two major amendments in the Income Tax Act: - Insertion of clause (x) in section 56(2) to provide that receipt of money or specified property by any person for inadequate consideration or without consideration from any person shall be subject to tax. - Introduction of section 50CA to provide that where consideration for transfer of shares of a company other than a quoted share is less than the FMV of such a share, the FMV determined as per the Rules shall be deemed to be the full value of consideration for computing income under the head "capital gains."

While clause (x) under section 56(2) provided for taxability in the hands of the purchaser of property, including shares, the differential amount of consideration and FMV of such property, section 50CA of the Act, on the other hand, for the purposes of computing capital gains, seeks to substitute, in the hands of the seller of the property being the unquoted shares, the FMV of the such property in place of the amount of inadequate consideration.

Thus, in case of transaction involving transfer of unquoted shares, the aforesaid computational mechanism seeks to tax the same differential amount of consideration and FMV in hands of both tax payers i.e., the transferor and transferee.

Understanding the provisions of Section 50CA

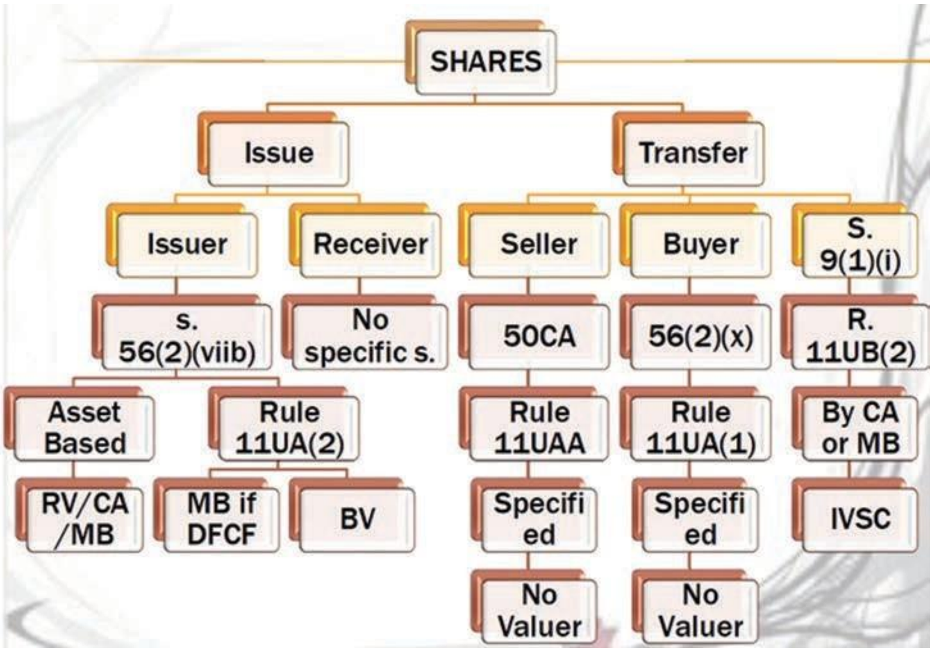
Prior to introduction of section 50CA, where shares were sold by the assessee for a consideration, which is not in conformity with the fair-market value of the shares, there was no mechanism available under the Act to substitute the full value of consideration as disclosed by the assessee by any other value, for the purposes of computation of capital gains. Section 50C dealt with transfer of capital asset being land or buildings or both, which is not applicable in case of shares. To plug this loophole section 50CA was introduced.

- Applicable to all assessee (Resident, Non-resident, Related and unrelated entity)
- Applies to all shares whether equity or preference.
- Unquoted Shares should be capital asset
- Not applicable with respect to gains from transfer of an interest in a partnership, trust where the property of such entities consists, directly or indirectly of immovable property
- May cover even some quoted shares based on the definition of "quoted share"
- Where unquoted equity shares are contributed by a partner to a firm, the question will arise whether the provisions of section 50CA would override section 45(3).
- Thus, FMV as per the formula method will be taken as full value of consideration, even if difference in FMV and the sale consideration is marginal.
- In case of sale consideration being less than FMV, the seller will be taxed under section 50CA on the ground that he has not declared true consideration.
- On the other hand, the buyer will be taxed under section 56(2)(x), on the ground that he has understated the purchase consideration.

Conclusion

The calculation of FMV of unquoted equity shares is based on adjusted Net Asset value Method with certain assets on FMV and remaining assets based on book value. Thus, now one will have to take into account the FMV of jewellery, artistic work, shares & securities and stamp duty value in case of immovable property.

Where value of unquoted equity shares are mainly derived from intangibles assets such as goodwill, trademark or other intangible assets, this approach of valuation will not reflect the true value of the shares of the company. To conclude, a company can use Discounted Free Cash Flow method for the purpose of Valuation of Fair market value of shares in case of fresh issue of shares and in case of transfer of shares a company can use intrinsic value for the purpose of Valuation of Fair market value of shares. Snap shot for Summary:-



Practical Example

1. In case of transfer of shares by Resident to Resident, should not be below FMV. Valuation required as on Transfer date.
2. In case of further issue of shares by Company to Residents, should not be below FMV. Valuation required u/s 60(1)(c) of Companies Act 2013 from RV.

   Issue of shares at premium wherein the provisions of section 56(2)(viib) is applicable, the tax authority is already empowered to consider the market Value of underlying assets including Intangible assets.
3. Practical application of Rule 11UA read with Section 56(2)(x)/ 50CA read with in case of non-resident, while withholding tax u/s 195

   In case of transfer of shares by NRI to Resident:-

   Suppose a non-resident seller transfers certain unquoted equity shares to a resident at Rs. 100 per share whereas the FMV of such share as per valuation method is Rs. 500 per share.

   Assuming that cost of share acquired by a non-resident is Rs. 50 per share, the capital gain would be Rs. 450 per share (Sale consideration deemed u/s 50CA is Rs. 500).

   In this respect, it is as resident payer shall withhold tax under section 195 on capital gain Rs. 450 after considering deeming provision for sale consideration u/s 50CA.

   Transfer of shares by foreign investors pursuant will be subject to FEMA pricing guidelines. i.e. Transfer Price of share shall not exceed the FMV certified by valuer. In our example Transfer price may be considered at Rs. 499/-.

   And Transfer of shares must be reported in Form FC-TRS to RBI
4. In case issue of shares to NRI, Issue of shares at premium wherein the provisions of section 56(2)(viib) is applicable, the tax authority is already empowered to consider the market Value of underlying assets including Intangible assets.

   Acquisition of shares by foreign investors pursuant to renunciation of rights by a resident will be subject to FEMA pricing guidelines. i.e. Issue Price of share shall not less the FMV certified by valuer. In our example Issue price may be considered at Rs. 501/-.

   Issue of shares must be reported in Form FC-GPR to RBI
5. In case issue of share for vesting of ESOP's, valuation is required from RV for the purpose of issue under Company Act. However if your company issuing shares to employee the same is treated as perquisites hence your company is liable for TDS u/s 192 based on value of option determined by valuer.

15. In case of Grant of ESOP for the purpose of compliance IND AS 109 Fair value need to be valued by RV for the purpose recognize employee cost.

OTHER READINGS

ICMAI REGISTERED VALUERS' ORGANISATION

Registered Office

The Institute of Cost Accountants of India

4th Floor, CMA Bhawan 3, Institutional Area

Lodhi Road, New Delhi – 110003

www.rvoicmai.in

PERSPECTIVES PAPER
DEFINING AND ESTIMATING SOCIAL VALUE (PART II)

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

By: Alexander Aronsohn and members of the IVSC's Social Value Working Group

The IVSC has issued this Perspectives Paper as the second in a series designed to initiate discussion and debate on the topic of Social Value. Share your thoughts and perspectives with us through LinkedIn.

Introduction

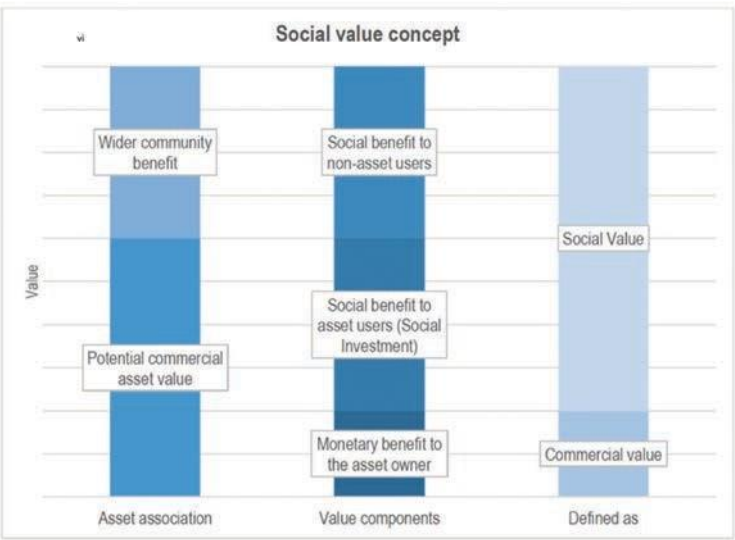
Further to the publication of the IVSC Perspective Paper on "Defining and Estimating Social Value" and the responses received from the questions attached to that paper, the IVSC Social Value working group has been working on a second perspective paper in the series to further explore many of the issues raised. This second paper in the series examines whether Social Value can be a basis of value, the difference between Social Value and the Social component of ESG, and whether the existing valuation principle of highest and best use can apply to Social Assets and Social Value.

Is Social Value a Basis of Value?

When we consider Social Value we are assessing the value accruing to users and non-users of the asset(s) in question, which is far broader than the providers of capital alone.

A number of respondents raised the question whether Social Value[1] should be considered a Basis of Value[2]. However, the concept of Social Value, does require a Basis or Bases of Value to be specified to convey, to a prospective user, the parameters used in the assessment of value, for example, from whose perspective Social Value has been assessed.

The Perspectives Paper identified a number of different components that fall within the Social Value concept or framework, some of which may meet the definitions of existing Bases of Value, such as Market Value, Fair Value, etc., however other elements may not fit within any existing Basis of Value. This is predominantly a function of the fact that Social Value is intended to capture elements of value from the perspective of non-owners, whereas value as its traditionally known typically only considers the benefits to the owner. (See diagram below).



[1] 'Social Value' includes the social benefits that flow to asset users (social investment) and the wider financial and nonfinancial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users - IVSC Perspectives Paper: Defining and Estimating "Social Value".

[2] Basis (bases) of Value: The fundamental premises on which the reported values are or will be based (in some jurisdictions also known as standard of value) – IVS Effective 31 January 2022.

The Working Group have also met with key stakeholders such as the International Public Sector Accounting Standards Board (IPSASB) who published an exposure draft on Measurement published in 2021. The object of this was to define "measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities." The paper examines "operational value", which is defined as the "value of an asset used to achieve the entity's service delivery objectives at the measurement date."

IPSASB are in the process of considering "current operational value" as an alternative basis of value to "fair value" for financial reporting of public sector assets. The Working Group noted some synergies between the two concepts as "the objective of a current operational value is to estimate the value of a non-financial asset in achieving the entity's service delivery objectives at the measurement date."

However, though there are some synergies between these terms the Working Group felt that the concept of current operational value was slightly more limited.

This is because the concept of Social alue can potentially be used to help users identify and (potentially) measure the positive (and negative) impacts on society of investments in all Assets, whilst acknowledging that it is likely to be most relevant to Social Assets. Some of these impacts are measurable in terms of their direct monetary impact (such as discounted medical services), while others are obviously nonmonetary in nature and may include more intangible elements such as social cohesion or wellbeing.

Because social benefits often flow principally to a community or asset users, rather than the asset owner, the Working Group has described these elements as Social Investment. For these reasons the Working Group believes that each of these elements should be considered in their own right, within the overall framework of Social Value. The Working Group therefore continues to hold the position that Social Value should be considered a valuation concept or framework in which a number of different Bases of Value and other elements play a part rather than a single Basis of Value.

The difference between Social Value and ESG

In the responses received from recent IVS consultations it was noted that there was some confusion between the difference between Social Value and the Social element of ESG, which can generally be seen as comprising the following components: -

- Community relations
- Conflict
- Customer satisfaction
- Data protection and privacy
- Development of human capital (health & education);
- Employee engagement
- Gender and diversity
- Health & safety
- Human rights
- Working conditions

In the previous perspectives paper on "Defining and Estimating Social Value" it was stated that "Social Value includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial benefits including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users."

In the previous perspectives paper on *"Defining and Estimating Social Value" it was stated that "Social Value includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial benefits including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users."*

Whereas ESG can be defined as "*the criteria that together establish the framework for assessing the impact of the sustainability and ethical practices of a company or asset(s) on its financial performance and operations.*" ESG comprises three pillars; environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society and world as a whole.

There is crossover between ESG and Social Value however the two concepts are separate. The social component of ESG can include elements of Social Value such as community relations, but viewed from the owner's perspective.

Social Value is about the contribution of the asset viewed from a non-owners perspective, in a broader context, such as the contribution made by community facilities or other Social Assets to the wider community.

The social component in ESG, when effectively managed, is generally value accretive or at the very least value preserving. For example, if a company does something within the social element of ESG, it may have a positive effect on the value of the company, or at the very least will restrict negative effects on the valuation through mitigation of future risks and liabilities. Moreover, the components within ESG are often interlinked and therefore the social component of ESG may also be linked to the quality of governance.

---

[3] International Public Sector Accounting Standards Board (IPSASB) exposure draft on Measurement, published in 2021:

https://www.ipsasb.org/publications/exposure-draft-ed-77-measurement

[4] Although it may be possible to ascribe a notional monetary measure of 'value' to some or all of these intangible elements.

Social Value can be seen as an amalgam of benefits that accrue to a range of stakeholders and the breadth of perspectives for Social Value is vast. An asset may have a different Social Value to different stakeholders and to quantify this the perspective will need to be clearly defined in the scope of work, basis or bases of value in the valuation assignment.

Moreover, when looking at the value components of Social Value, though the monetary benefit to the asset owner and the social benefit to asset users (Social Investment) will often form part of the potential asset value, in most markets the social benefit to non-asset users currently lies outside the valuation process despite being a component of Social Value. However, in some markets such as Australia, the Social Investment element is largely encompassed in a Fair Value context, when considering the valuation of Social Assets. Finally, whilst the concept of Social Value has relevance to both for-profit and not-for-profit-entities, it is largely related to public sector and charity assets held by entities with a not-for-profit focus (Social Assets).

Can the Highest and Best Use apply to Social Assets and Social Value?

In respect of Social Value, it can be inappropriate to use commercial highest and best use as defined and understood from a financial reporting and/or secured lending perspective. In the first Social Value perspectives paper we considered "highest and best use" in relation to land converted into a cemetery in an example:

"The permitted use of the land is subsequently amended to the specific public use as a cemetery. On one interpretation of highest and best use principles, this has the effect of materially diminishing the value of the land (from a commercial perspective), because those alternative uses are no longer permissible."

The "interpretation" of commercial highest and best use referred to in the example is the classical interpretation taken from the perspective of the asset owner. Such an interpretation is inappropriate when considering Social Value. This is perhaps obvious for governments, not-for-profit-entities and other social organisations who exist to serve a group other than their providers of capital, however the same applies when assessing the Social Value of a for-profit activity or organisation.

This point of view is also supported by some of the responses received following the previous IVS Social Value Perspectives Paper and as highlighted in the IPSASB Measurement Exposure Draft, where several respondents raised concerns in relation to the relevance of adopting the principle of highest and best use for public sector assets.

When considering Social Value, we must put aside the commercial interpretation of highest and best use as applied in financial statements for for- profit entities. In this instance, financial statements are prepared to show the financial position of a specific legal entity.

The definition of Market Value under General Standards IVS 104: Bases of Value, section 30.4 states:

The highest and best use is the use of an asset that maximises its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.

The first two sentences of this commonly used definition are agnostic to whom the benefits accrue. Maximising potential is a matter of perspective and will vary from party to party. Furthermore, we might readily anticipate that a non-owner, or non- profit motivated owner might have a different opinion of the best use to a profit-driven owner.

It is in the third sentence we consider from whose perspective; maximising potential is considered. A market participant will normally include all potential providers of capital, but not the non-owner users or non-users who may be impacted positively or negatively by the existence or operation of the asset(s). An example of this may be with the purchase of land for use as a cemetery, this may not apply.

In the case of Social Value, we have to determine the highest and best use from the perspective of a wider group as social value considers all elements of value from the perspective of non- owners, for example users and the local community. This brings us again to the importance of determining the Basis of Value used as the foundation for assessing the Social Value of an asset.

Perhaps the most important element of a Basis of Value for the assessment of Social Value is determining the stakeholders (e.g. users and non-users living within 20km) to be considered. This requires greater consideration than for a commercial basis of value as stakeholders are likely to significantly outnumber owners.

When considering highest and best use this raises two important questions:

1. Which population(s) should be considered in a highest and best use assessment?

2. How does one ascribe a value to the positive and negative impacts arising from the asset in question?

We address each of these in turn below.

Population Selection

The selection of the population can result in very different highest and best use determinations, as the examples below illustrate:

Example (i) Polluting chemicals plant

Town planners in City A have a choice. They have a plot of land that can be designated either for organic farming or developed into a chemicals plant. The chemicals plant would create more jobs and has offered to fund infrastructure improvements in the City. The chemicals company however has a track record of discharging its toxic waste into rivers. City B is directly downstream of City A.

Highest and best use likely varies significantly depending on the population considered. The negative impacts felt in City B from a chemicals plant may well outweigh the positive impacts in City A.

From City B's perspective an organic farm would be the better use. The result of a highest and best use assessment would be different if it only considered the population of City A versus both Cities together.

Example (ii) Global warming

A country has a choice between abolishing a project or supporting it for another 10 years. The project produces a vast amount of global warming gasses (CO_2, N_2O and CH_4) but is helping lift the population out of poverty.There are no other negative effects of the project.

From the perspective of everyone in the country and indeed the surrounding countries who would benefit from their wealthier neighbour there is a strong positive Social Value and no better use. However, globally the contribution to greenhouse gasses while minute for any one individual or population, in aggregate would cause the project to have a net negative Social Value. From a global perspective there are many better projects the country could pursue.

These two simplified examples illustrate the importance of careful selection of the population considered when assessing Social Value. The valuer should consider the various potential impacts arising from the asset and identify the potentially affected populations.

Impact Value

The second question, assuming the population(s) included in the assessment have been identified, gets to the heart of the question of highest and best use. In a commercial assessment of highest and best use "the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid" is likely to be a function of their expected returns on the asset.

As highlighted above when considering Social Value, only some of the impacts have a directly measurable monetary impact, such as improved healthcare outcomes arising from the introduction of a new healthcare facility or reduced transport costs arising from the introduction of a new rail link. Many, such as welfare improvements may have indirect benefits that are harder to quantify. Nonetheless the value attributable to all impacts must be determined in order to rank the net value of different potential uses, and hence identify the highest and best use.

Having regard to each of the above, in a Social Value context the highest and best use concept may need to be expanded or reframed.

The future of Social Value

In recent years the concept and quantification of Social Value has become prominent on the community agenda, particularly in developed and emerging markets, with increasing accountability of governments and charities when using public funds to construct and manage assets as trustees on their behalf. As the world continues to develop in a digital and increasingly connected world, this does not look like abating.

Whilst strategic project evaluation, capital allocation, prudent budgeting and timely auditing of capital expenditure are always under the microscope, so to is the expectation that trustees account for and accurately measure value associated with these assets on an ongoing basis. In many countries, this is now expected by the community and associated stakeholders to ensure that public funds are appropriately managed and periodic value measurement forms a key pillar of these asset management frameworks.

But along with this expectation is also the need for value measurement associated with Social Assets to be transparent, comparable and principles based, all of which requires the development of appropriate standards under which Social Value can be measured consistently across borders.

We hope that this series of perspectives papers has helped to provide an insight into the concepts, challenges and opportunities that Social Value presents. As always, the IVSC would be interested to hear any further thoughts on the topic, and the following series of questions may guide you in providing this feedback:

1. Do you think that the definition for Highest and Best Use within a Social Value context needs to be expanded or reframed, and if so, how would you revise the existing definition?

2. Should governments and charities be maintaining a Social Value balance sheet in addition to their traditional balance sheets?

3. Do you consider that the current discussions on ESG adequately addresses Social Value concepts in both a for-profit and not-for-profit world? If not, what would give this discussion more prominence and stimulus?

4. With the information that is presently available, is it possible in most situations to accurately quantify and measure Social Value? If yes how, and if not, what is missing?

The IVSC will continue to consider the topics in this article, and feedback outside our formal consultations is always welcome. You can share your thoughts with the Board or contribute to the discussion through the IVSC website or LinkedIn group page.

You can contact the authors through the IVSC at: contact@ivsc.org

START-UP VALUATIONS – A CRAFT OR SHOTS IN THE DARK?

Valuation methodologies and common approaches

"How do we value a start-up or so-called corporate teenagers?"

Before we address this question, let us first broadly outline the crucial challenges in valuing these young companies.

Key Challenges

As a result, many of the standard methods, such as the 'discounted cash flow' method, either do not work or yield unrealistic numbers leading to a deadlock.

What do the experts say?

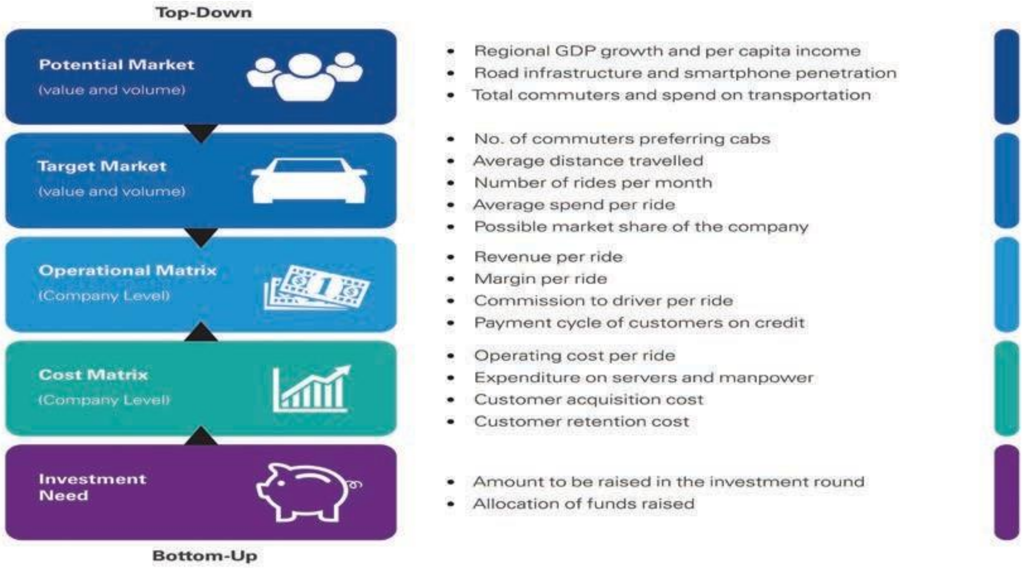
We examined various research papers and well- accepted standards issued by various sources (e.g. Prof. Damodaran) and institutes (including, AICPA and IPEV guidelines). In the ensuing paragraphs, we have summarised the central themes of such research papers, while addressing the possible tweaks to the traditional valuation methods in order to align them with our requirement.

Discounted Cash Flow method (DCF)

A. Estimating the cash flows:

When it comes to applying DCF for a start-up, one of the most challenging assumption is that of estimating the cash flows during forecast period.

There are two ways in which we can approach the estimation process: using top-down or bottom-up approach. Let us understand the same with the help of an example of the ride-sharing aggregator, Ola.



This technique serves as an effective tool to estimate cash flows, based on available market data and basic logical analogies. Further, one can benchmark key assumptions with the market and industry, which are easily available. However, this requires an in-depth understanding and knowledge of key drivers for the business.

The valuer can also conduct a scenario and sensitivity analysis, in order to achieve a reasonable level of assurance on the key revenue and cost drivers. In cases of extreme volatility, weights can be assigned to different scenarios to arrive at more realistic cash flows.

Another significant aspect to be considered is to evaluate the long-term margin of the business. One may impulsively say that a traditional brick-and-mortar store and an online marketplace will have significantly different margins. In the short-to-moderate term, this proposition is certainly apt given that both have different delivery models, and hence, the nature of expenses is bound to be different. But, can we guarantee this trend to last in the long run? Maybe not.

Both the models are essentially offering the same product/service. Hence, it is imperative to state that there will eventually be the need to be omnichannel to expect the margins to converge.

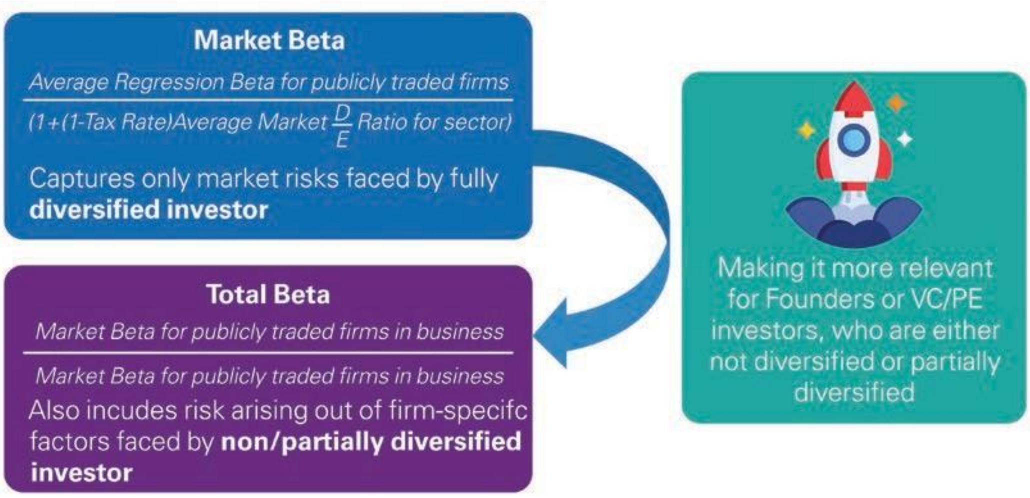
B. Discount Rates

The discount rate is the next critical component in conducting the valuation exercise. This is essentially the rate of return used to discount the forecasted cash flows to its present value. This metric is most commonly computed using the Capital Asset Pricing Model (CAPM) approach.

Since the discount rate is closely associated with the risk of the investment under consideration and profile of investors, the concept becomes highly relevant in case of a start-up. So how does one adjust this discount rate while valuing a start-up?

While we address this question, it is important to highlight that the CAPM approach makes an implicit assumption of the investor holding a diversified portfolio. Most of the start-ups are backed by either friends and family or sophisticated venture capital or private equity investors and none of them can be categorised as fully diversified investors.

This elicits an adjustment to the approach by fine-tuning the beta, which regresses the market to the business. The following graphic further elaborates about the said adjustment.



At the initial phase and low correlation with markets, the total beta will be much higher than the market beta, resulting in an uplift in the cost of equity to reflect a founder's rate of return. However, as a start-up climbs the growth ladder, it attracts investments from venture capitalists who tend to be slightly more diversified through their stake in multiple companies. Such investments portfolio will be more correlated with the market than an individual company, and the resulting total beta to a venture capitalist will be relatively lower. Eventually, upon maturing to a stable business with high correlation with market, market and total beta is expected to converge.

Typically, discount rates considered by venture capitalists are set high enough to capture both the perceived risk in the business and the likelihood of a possible failure. Here below is the usual highlighted range of discount rates based on lifecycle, considered by venture capitalists[13].

[13] Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Chal- lenges- by Prof. Aswath Damodaran (May 2009)

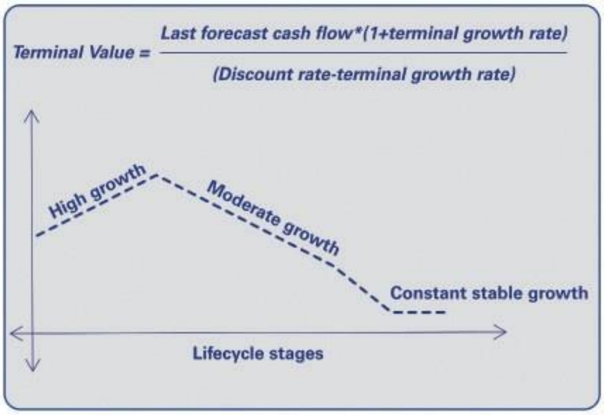
Stage of development	Typical discount rates
Start-up	50- 70%
First Stage	40-60%
Second Stage	35-50%
Bridge/IPO	25-35%

The ingrained survival risk keeps these discount rates way above their publicly listed peers. But as discussed in the previous section, a generic survival rate is not appropriate to be applied. Hence, these rates should be used with caution and after in-depth understanding of the business, its stage and comparison with the slabs mentioned above.

C. Terminal value

The final piece to the DCF puzzle is terminal value. An assumption that a business will continue to operate for the foreseeable future, or as a going concern is typically made. However, given the uncertainty with which a start-up lives, this assumption needs to be revisited and should be analysed in much deeper detail.

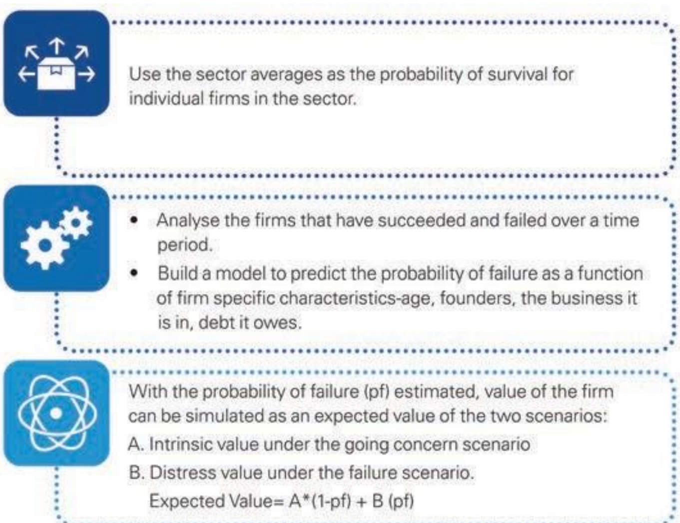
One of the most common methods is to extend the forecast period to account for multiple growth rates (multi-stage model), relevant to the stages of business captured until the business reaches the phase of constant growth (also called terminal growth).



A terminal growth rate is usually in line with the long-term rate of inflation, but not higher than the long term expected nominal GDP growth rate.

Another frequently used method involves arriving at the terminal value by using an exit multiple. The value is determined by multiplying the terminal year financial metric, say revenue, EBITDA or industry- specific metric by the exit multiple.

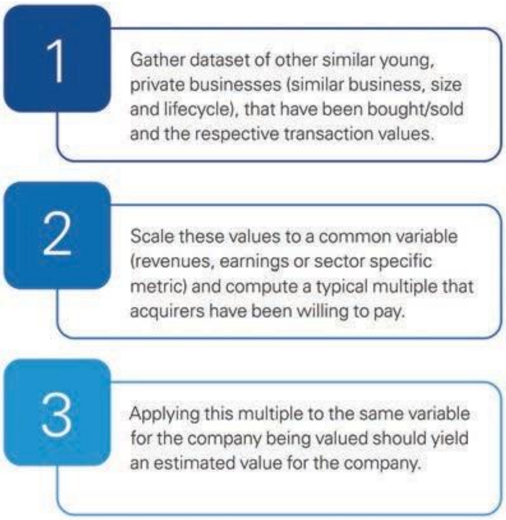
For the purpose of arriving at the exit value, a simple yet conservative assumption could be, that the business will be sold at the end of the forecast period and the realisable value of the assets accumulated over life is the terminal value. Let us also have a look at the possible ways of evaluating a start-up's survival for arriving at the terminal value.



A collective look at the pillars of a discounted cash flow method, makes it clear that there are significant adjustments to be factored while arriving at the value. From estimating the cash flows to arriving at the terminal value, a high-level of judgement and subjectivity is involved. Hence, this method is often not preferred as a primary method to value start-ups.

Private transaction multiples

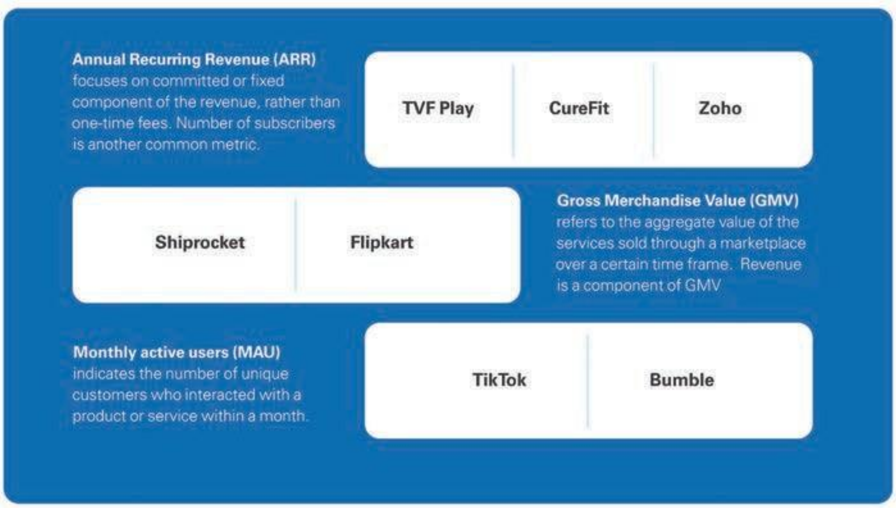
Since we are valuing a young, private business, it is only logical to look at what others have paid for similar businesses in the recent past. The usual steps to apply this method are as under:



One of the drawbacks of using the above transactions is that most of them are not at an arm's length price. Private business transactions are infrequent and reflect the fact that the same private business will not be bought and sold dozens of time during a period. There are multiple differences in accounting and operating standards across private companies, making the metrics incomparable at times.

To address the first issue, a valuer can always start with a large dataset of companies and collect all transaction data. This will then facilitate to screen the data for transactions that look suspicious (and are thus likely to fail the arm's length test). While this is highly dependent on the valuer's judgement, it offers a reasonable resolution. As a counter to the problem of wide differences in accounting and operating standards, one can focus on metrics such as revenue/sales, which have low or nil chances of being affected by changing accounting standards.

In addition to the traditional metrics, several industry specific variables are often used to value start-ups.



There can be several such variables based on the industry and peculiarity of the product/service offering of the start-up. Application of these EV multiples requires a high-level of judgement and knowledge of the relevant industry.

Public transaction multiple

While private company data is difficult to obtain, public company data is widely available. However, does this data hold the same utility as that of a private company?

This brings us to address a fundamental question – whether the young start-ups are comparable to a listed company? One may say that they belong to the same industry, meet the same customer needs, and are even dependent on similar macro-factors.

There are different facets of a start-up, and the most prominent and relevant one is the risk factor: the high probability of failure. This significantly differentiates a start-up from a listed company. Moreover, factors such as ill-liquidity and scale of operations further make this method unsuitable for valuing the start-up.

There are numerous methods suggested by experts and used exclusively to value start-ups. Let us evaluate each of these methods and understand if they are relevant in today's start-up ecosystem.

Valuation methods for start-ups

Below, we highlight various methods proposed by industry participants from around the world to value start-ups. For ease of understanding and suitability, we analyse the possible merits, demerits of each method and illustrate it with an example.

1. Berkus method

This method, developed by David Berkus, is meant to value companies in their pre-revenue stage, with a potential to reach USD20 mn in revenues in the next five years.

It is based on an assessment of five key success factors for building a business. The method assigns a value of up to USD0.5 mn based on the strength of each factor/element of risk.

Criteria	Max value allocated (USD mn)	Deciding criteria
Sound Idea (basic value)	0.5	Uniqueness and utility of the product/service
Prototype (technology risk)	0.5	Nature and complexity of the technology used
Quality Management Team (reducing execution risk)	0.5	Skills possessed by the management and their experience in similar sector
Strategic Relationship reducing market risk)	0.5	Supply chain strength and strategic partnerships
Product rollout and sales (reducing production risk)	0.5	Risk of production, inventory management, stock out and revenue generation
Total amount	2.5	

Illustration

Thunder Car Pvt Ltd	Max value allocated (USD mn)	Value allocated (USD mn)
Sound Idea (basic value)	0.50	0.50
Prototype (technology risk)	0.50	0.33
Quality Management Team (reducing execution risk)	0.50	0.27
Strategic Relationship reducing market risk)	0.50	0.29
Product rollout and sales (reducing production risk)	0.50	0.40
Company valuation	2.50	1.79

Merit

- Sets out basic fundable characteristics which have been widely regarded as key value drivers in a start-up.
- Suitable to value pre-revenue stage companies or where financial inputs are not available, and revenues are difficult to forecast.

Demerits

- Limited value attribution to an individual criterion. For instance, WhatsApp reached a bn-dollar valuation by faring in quality management team and ideation, while still not making any revenue.
- High level of judgement is involved in assigning value to the parameters.
- Puts a cap to the valuation (USD2.5 mn).

Some risk elements may be missing from the analysis.

- What is the level of competition in the sector of the target company?
- How significant is the opportunity for the investors considering funding this target company?
- How essential is the depth of intellectual property and market differentiation to the target company?

2. Scorecard valuation method

This method, developed by Bill Payne, focuses not only on the valuation of the recently funded pre-revenue start-ups, but also critically evaluates key factors that influence the valuation.

The valuation exercise can be brought down to four simple steps:

- Compute the average/median pre-money valuation of pre-revenue start-ups in the region and business sector of the target start-up
- Now, evaluate the weights to be allocated to the key drivers for the target start-up, using the following scorecard

Criteria	Weight
Strength of the management team	Up to 30%
Size of the opportunity	Up to 25%
Product/technology	Up to 5%
Competitive environment	Up to 10%
Marketing/sales channels/ partnerships	Up to 10%
Need for additional investment	Up to 5%
Other	Up to 5%

- The next step is to assign a factor to each of the above qualities by comparing them with the other funded start-ups (considered in the first step).

For instance, if the target start-up has a more experienced team than the other funded start-ups, a factor of 1.5 could be allocated.

- The final step is to calculate the sum of the factors adjusted with respective weights and subsequently multiply it with the average pre-money valuation as per the first step.

Illustration

Valuing Company 'Thunder Car Pvt Ltd'

Comparable company	Pre-money valuation (USD mn)
Thunder Lorry Pvt Ltd	289
Thunder Blunder Pvt Ltd	375
Thunder Pulley Pvt Ltd	313
Average (A)	326

Factor	Weight (A)	Factor (B)	(A*B)	Deciding criteria
Strength of management team	0.30	1.5	0.45	Skills possessed by the management
Size of opportunity	0.25	1.3	0.33	Scalability of the product/service and estimation of the potential market size
Product / Technology	0.15	1.8	0.27	Nature, complexity, utility of the technology
Competitive Environment	0.10	1.6	0.16	Density of the market and edge over competition
Marketing / Sales Channels Partnerships	0.10	0.7	0.07	Supply chain strength and strategic partnerships
Need for additional Investment	0.05	0.7	0.04	Chances of company going for a further round of funding
Others	0.05	1.0	0.05	Usual adjustment
Total (B)			1.36	
Valuation (A*B)	**(326*1.36)**		**443**	

Merits

- Considers qualitative aspects along with focusing on financial inputs from comparable companies.
- Flexible method as it enables a valuer to increase the total adjustment to a qualitative factor by making comparison with peers.
- Highly suitable for pre-revenue companies where minimal data points are available.

Demerits

- The scorecard elicits high-level of subjectivity as weights assigned to qualitative factors may significantly differ from case-to-case.
- High-level of judgment to assess the differentiating factor – that is, the level at which the target start-up is at an

advantage/ disadvantage to its peers.

However, we still feel this method covers both the market inputs and company specific characteristics, which is ideally likely to be among the best way to value any business. We understand subjectivity and viewpoint bias can impact the value using this method. However, for a pre-revenue company, this method appears to be the most suitable way to value.

3. Risk factor summation method

This method uses base-value of the comparable companies (using transaction multiples) for the valuation of the target start-up. Subsequently, this base-value is adjusted for 12 standard risk factors by comparing the target start-up with its peers in terms of the level of risk.

Like one would recall, this method is similar to the scorecard valuation method, the only difference being that the latter focuses more on qualitative adjustment factors (forming part of a scorecard), instead of identified risk factors.

The factors are:

- Management
- Stage of the business
- Legislation/Political risk
- Manufacturing risk
- Sales and marketing risk
- Funding/capital raising risk
- Competition risk
- Technology risk
- Litigation risk
- International risk
- Reputation risk
- Potential lucrative exit

Each element is assessed as follows:

Criteria	Weight
Very positive	+2
Positive	+1
Neutral	-
Negative	-1
Very negative	-2

The base-value is then adjusted positively by USD250,000 for every +1 (+USD500K for a +2) and negatively by USD250,000 for every -1 (-USD500,000 for a -2).

Illustration

Comparable company	Pre-money valuation (USD mn)
Thunder Lorry Pvt Ltd	289
Thunder Blunder Pvt Ltd	375
Thunder Pulley Pvt Ltd	313
Average (A)	326

Risk element	Factor assigned	Adjustment value (USD mn)
Management	2	0.50
Stage of business	-1	(0.25)
Legislation/Political risk	-2	(0.50)
Manufacturing risk	0	-
Sales and marketing risk	1	0.25
Funding/Capital raising risk	1	0.25
Competition risk	-1	(0.25)
Technology risk	-2	(0.50)
Litigation risk	2	0.50
International risk	2	0.50
Reputation risk	2	0.50
Potential lucrative exit	0	-
Total value adjustment (A)		1.00
Pre-money valuation (USD mn) (B)		326
Total valuation (A+B)		327

Merits

- Considers qualitative aspects along with focusing on financial input from comparable companies.
- Holistic evaluation of risk factors vis-a-vis comparable companies, making it much more informative than scorecard evaluation method.
- Highly suitable for pre-revenue companies where minimal data points are available.

Demerits

- High-level of subjectivity as allocation of weights (+1 or -1) assigned to risk factors may significantly differ from case to case.

- Attribution of +1 point to different risk factors may not be contributing the same amount of value to the business.

4. Gross profit X competitor's multiple method

As the name suggests, this method is simply a product of the gross profit of the target start-up and multiple derived from the comparable companies.

Gross profit is an indication of product market acceptance, company health, and market penetration. It is useful specifically in case of start-ups as most of them aren't profit optimised and consistently invest back into their business.

Illustration

Valuing Company 'Thunder Car Pvt Ltd'

Comparable company (Listed)	GP per share for LFY	GP per share for LFY-1	Average	Average MPS for LFY	Average MPS for LFY-1	Average	P/GP ratio
Surrender Car Ltd	19	22	21	90	110	100	4.9
Blunder Car Ltd	17	14	16	34	45	39.5	2.5
Splendor Car Ltd	21	28	25	34	17	25.5	1.0
Median							2.5

Particulars	USD mn
Gross profit for Thunder Car Pvt Ltd	4.0
Number of shares (In mn)	3.5
GP per share {In USD} {A}	1.2
Industry P/GP ratio (determined above) {B}	2.5x
Price per share {In USD} {A*B}	2.9
Number of shares (In mn)	3.5
Equity value of company	10.2

Merits

- Suitable for start-ups where financial data is difficult to forecast.
- Suitable to value start-ups incurring losses at the EBITDA / PAT level or the companies that can at least cover their variable costs.

Demerits

- Inconsistent method, as gross profit as an income belongs not only to the equity stakeholders, but also debt and preference stakeholders.
- This method can become misleading when costs are not appropriately categorized as cost of sale.
- Not suitable for start-ups operating in the services industry.

5. First Chicago Method

The First Chicago method is a hybrid approach that employs multiples to derive a terminal value and discounts future cash flows to arrive at the valuation. This method involves the evaluation of three possible valuation scenarios.

- "Best case" is based upon performance that exceeds expectations
- "Base case" is what the majority believes to be the future performance of the company
- "Worst case" forecasts company performance if many contingencies go off-track.

This method can be divided into the following steps:

- Projecting future cash flows in the above three scenarios. The best case can assume aggressive top-line growth coupled with higher than historical EBITDA margin. In the worst case, the thought process would work opposite.

- The final year's cash flows are multiplied by a comparable company multiple to project a terminal valuation for each scenario.
- Discount the cash flows using the required return and arrive at the valuation under each scenario.
- Assign probability weight to each of the scenarios. Now, by multiplying the individual values with respective probability weights, arrive at the final valuation.

Illustration

Valuing Company 'Thunder Car Pvt Ltd'

Forecast (USD mn)	2021	2022	2023	2024	2025	Terminal Value
Best case	460	529	608	700	805	6,436
Base case	440	484	532	586	644	5,154
Worst case	420	441	463	486	511	4,084

Other inputs:

- Comparable Company multiple = 8x (Can also be adjusted based on scenario)
- Required rate of return= 25 per cent

Risk element	Best (A)	Base (B)	Worst (C)
Equity value after adjustment (USD mn)	3,677	3,074	2,560
Probability of scenario	30%	50%	20%
Equity value (weighted average)	1,103	1,537	512
Total equity value (A+B+C) 3,152			

Merits

- By evaluating a range of outcomes, this method extensively accounts for the uncertainty involved in case of a start-up.
- High level of flexibility in terms of selection of method to compute values under each scenario.

Demerits

- High- level of judgement involved in assigning probability to different scenarios.
- To compute multiple scenarios, the valuer needs to have good level of industry knowledge and understanding of key value drivers.

6. 5x Your Raise Method

This method, devised by Ajay Anand (Founder, Rare Carat), focuses more on the funding raised from an investor for the purpose of conducting the valuation.

With a rule of thumb that investors will desire around 20 to 25 per cent return, the value can be simply computed by multiplying the funding raised by five.

Illustration

Valuing Company 'Thunder Car Pvt Ltd'

The company raises a funding of USD80 mn. The method estimates the company's value at 5x the funding, i.e. USD400 mn.

Merits

- Highly intuitive method (just multiply the last funding with five).
- Suitable for start-ups where financial data is difficult to forecast.

- Fails to consider qualitative aspects of the business (management team, product/service, competition)
- Does not analyse any financial metric (revenue, EBITDA) relevant to the start-up for the purpose of conducting the valuation
- Does not consider comparable companies or transactions for the purpose of benchmarking the value.

7. Venture Capital method

The venture capital method (VC Method) is one of the most common methods for computing the pre-money valuation of start-ups.

The valuation exercise is a simple three-step process:

- Derive the terminal value of the business in the final forecasted year. This is the most commonly computed by multiplying the projected financial metric (revenue/EBITDA/sector-specific) by the comparable companies' transaction multiple.
- The terminal value is then discounted by using the desired ROI of the investors.
- Finally, the present value as per the second step is reduced by the investment value to arrive at the pre- money valuation.

$$\text{Pre- Money Valuation} = \frac{\text{Terminal Value}}{(1+\text{ROI})^{\text{forecast years}}} - \text{Investment Value}$$

Illustration

Valuing Company 'Thunder Car Pvt Ltd'

Assumptions

Particulars	Value
Required rate of return for the investors {A}	20%
Exit year {B}	5
Projected revenue in year 5 (USD m)	500
Projected PAT in year 5	50
Industry average P/E ratio	20
Exist value (USD Million)- Ter- minal value {C}	1,000
Existing stake of founders (%)	100%
Funding required (USD Million) {D}	25
Existing number of shares held by founders (Million) {E}	2
Stake offered for fund raising	20%

Valuation workings

Particulars	Value
Present value of exit value (Post money valuation) {F=C/(1+A)^B}	402
Pre money valuation {G=F-D}	377
Stake for investor {H=D/F}	6%
Number of shares to be issued to investors (Million) {I=E/(1-H)*H}	0.13
MPS {D/I}	**188.44**

Merits

- Suitable for start-ups where key financial variables can be reasonably estimated

Demerits

- Fails to consider qualitative aspects of the business (management team, product/service, competition).
- Value is highly influenced by subjective assumptions on projected revenue/EBITDA and investor's required rate of return.

8. Valuation by stage method

The valuation by stage method is often used by angel investors to understand the broad range of a start-up's valuation. The stage of development acts as an intuitive indicator of the level of risk involved in the start-up, hence, directly impacting its valuation.

A valuation range can be determined by using the following:

Stage of development	Value assigned (USD)
Has an exciting business idea or plan	250,000-500,000
Has a strong management team to execute the plan	500,000 -1 mn
Has a final product or technology prototype	1 mn -2 mn
Has strategic alliance or partners, or signs of a customer base	2 mn-5 mn
Has clear signs of revenue growth and obvious pathway to profitability	>=5 mn

Start-ups with just a business plan will receive a small valuation, but that will substantially increase as developmental milestones are achieved.

Illustration

Stage of development	Check
Has an exciting business idea or plan	✓
Has a strong management team to execute the plan	✓
Has a final product or technology prototype	✓
Has strategic alliance or partners, or signs of a customer base	Partial
Has clear signs of revenue growth and obvious pathway to profitability	X

In this case, valuation should ideally translate between USD 2-5 mn

Merits

- Highly objective method as one can clearly determine the stage of development by conducting a simple analysis.
- Suitable for start-ups where financial data is difficult to forecast.
- Stage of development as a parameter to ascertain the level of risk has been widely accepted amongst the angel investors.

Demerits

- Generalises the range of valuation across different sectors.
- Does not analyse any financial metric (revenue, EBITDA) relevant to the start-up for the purpose of conducting the valuation.

9. Cost to Duplicate/Replacement Cost Method

This approach involves looking at the hard assets of a start-up and working out how much it would cost to replicate the start-up. The idea is that an investor wouldn't invest more than it would cost to duplicate the business.

For instance, if we wanted to find out the cost to duplicate a software business, we would look at the labour cost for programmers and the amount of programming time that has been used to design the software.

Illustration

Valuing Company 'Thunder Car Pvt Ltd'

Business Components	Value (USD mn)	Remarks
Tangible assets	200	Replacement value taken
Employee cost	95	Present value of employee cost
Working capital	27	For operational requirements
Total valuation	**322**	

Merits

- Considers a realistic approach of pooling all the resources needed to start a similar business.
- Factors the fair values (instead of historical values).
- Suitable for start-ups where financial data is difficult to forecast or the ones in the pre- revenue phase.

Demerits

- Not forward looking as it does not factor the potential value increase due to milestones to be achieved.
- Fails to factor intangible assets like brand value, reputation in the market.
- Computation of value derived through employees is based on several assumptions such as future salary cost, attrition rate, which brings in subjectivity.

10. Comparable Company Transaction Method

While this method is frequently applied in valuing a traditional well-established business, it also holds significant utility in determining the value of a start-up. It becomes effective only when a start-up has other comparable start- ups operating in the same market. Given the phase of their lifecycle, it is likely that these comparable start-ups attract VC/PE investment. Hence, the multiples in such transactions can be a useful benchmark to value the target start-up.

Illustration

Valuing Company 'Thunder Car Pvt Ltd'

Targets in Comparable transactions	Revenue growth (3 yr CAGR)	Average EBITDA Margins (3 years)	GMV (Latest in INR mn)
Thunder Car Pvt. Ltd	46%	29%	100
Storm Cars Pvt. Ltd	38%	28%	88
Car Zone Pvt. Ltd	49%	33%	76
Fast Cars Pvt. Ltd	45%	31%	120
Car X Pvt. Ltd	42%	35%	111

Detailed analysis of key metrics of comparable Start-ups

Targets in Comparable transactions	Enterprise Value (INR mn)	LTM Revenue (INR mn)	EV/ Revenue
Storm Cars Pvt. Ltd	350	77	4.55
Car Zone Pvt. Ltd	223	50	4.46
Fast Cars Pvt. Ltd	300	83	3.61
Car X Pvt. Ltd	490	79	6.20
Median			**4.50**

Computation of equity value of Thunder Car Pvt. Ltd

Particulars	INR mn
LTM revenue	377
Median EV/revenue multiple	4.50
Enterprise Value	**1,697**
Less: Debt	400
Add: Cash and cash equivalents	300
Add: Surplus assets	24
Equity Value	1,621

Merits

- Highly relevant in cases where the target has comparable start-ups operating in the market (with similar growth and margins).
- Traditionally backed method with lowest subjectivity.

Demerits

- Not relevant in cases where a start-up is operating in altogether different market (with no comparable companies or transactions).

11. Discounted cash flow method

The good old cash flow-based approach and sometimes termed as one of the few methods that lead us to the world of intrinsic value, is as useful to value a young business as it is to value a stable traditional business.

It is obvious that the method will not change. However, the assumptions, such as cash flow forecast, discount rate and terminal value will see substantial modifications. We have already discussed this at length in the receding sections and hence, at this point, we shift our focus on illustrating the same through an example.

Illustration

XYZ Limited, an e-commerce portal serving the lifestyle needs of senior citizens. The company has the following historical numbers and projections estimates (in INR mn)

Financial Profile ('000s)	FY 18 A	FY 19 A	FY 20 E	FY 21 E	FY 22 E	FY 23 E	FY 24 E	FY 25 E
Net Sales	21,600	55,200	88,000	202,400	404,800	728,400	1,165,800	1,632,200
Growth %		**156%**	**59%**	**130%**	**100%**	**80%**	**60%**	**40%**
EBITDA	(15,800)	(46,200)	(53,600)	(59,200)	(52,000)	(7,800)	78,400	140,600
Margin %	**-73%**	**-84%**	**-61%**	**-29%**	**-13%**	**-1%**	**7%**	**9%**

We have the following questions to address:

- When is the growth expected to stabilise?

- Can we support the long-term margin profile of about 9 per cent?
- Is the growth suggested by the business supportable?.

To answer these questions, we can perform the following assessment:

- Analyse the long-term expectations for the segment based on key industry metrics. This will help us out in establishing the life of cash flows and model to be considered (multi- stage or single stage)
- Examine the margin of retail players in the said geography and specifically those for senior citizens. This shall enable us to arrive at the long-term margin profile.
- Assess the time taken by similar businesses to reach similar level of revenue. This shall assist in assessing the achievability of the risk attached.
- How much cash is required basis the capital expenditure and working capital benchmarking of similar players? This will help us out in assessing the capital requirement and potential risk of failure.

Obviously, each firm has a different path and trajectory, but such analysis will help in understanding whether the forecasts are achievable and if not, will force one to think - does the management or the product have such differentiation to chart divergent growth.

Other forms of benchmarking can also serve to be useful:

- Expected population of senior citizens in the geography
- How many of them are expected to be tech savvy?
- By this, we can arrive at the potential target market
- Basis the numbers from the forecast, one can compute the implied market share and again, address the same question, whether the same appears to be attainable, basis the benchmark data available and product/ management profile.

Once the forecast is ready, we need to assess the discount rate to be factored. As previously discussed, basis the stage of the business and the riskiness of the forecast, the discount rate can be built up using modified CAPM. However, one needs to ensure that the discount rate captures the execution risk attached.

The remaining steps to this exercise are same as the original FCFF calculation and subsequently computing the value, which is relatively straight forward. The important aspect is to understand the difference in approach to arrive at the assumptions required to value a young business as compared to a traditional business.

Merits

- Detailed analysis of key value drivers gives reasonable confidence over the valuation range.
- Traditionally backed method with relatively lower subjectivity.

Demerits

- At times, forecasting can get complicated, especially when the start-up is operating in an altogether new market.

The Bottom Line

As pointed out by author in the field, Prof. Aswath Damodaran, the value of an asset and its pricing can be different. The determinants of value are very straight- forward, however, they are not easy to estimate. Whether we are valuing a start-up or a traditional business, the values are driven by expected cash flows, growth, and risk.

The determinants of price are purely demand and supply. While, the fundamentals of business do affect both, market mood and price momentum are also strong forces in pricing. In the world of start-up valuation, pricing an asset usually involves finding similar businesses that are priced in the market.

For example: a start-up that was transacted in January 2020, may have limited impact on cash flows and hence, on intrinsic value. However, the price can change significantly due to change in market mood post COVID-19.

Hence, it is important to understand if the method we are using will lead us to the value of the asset or the price of the asset. As one may observe, most of the methods discussed above require high-level of judgement and reasonable understanding of key levers that influence a start-up's valuation.

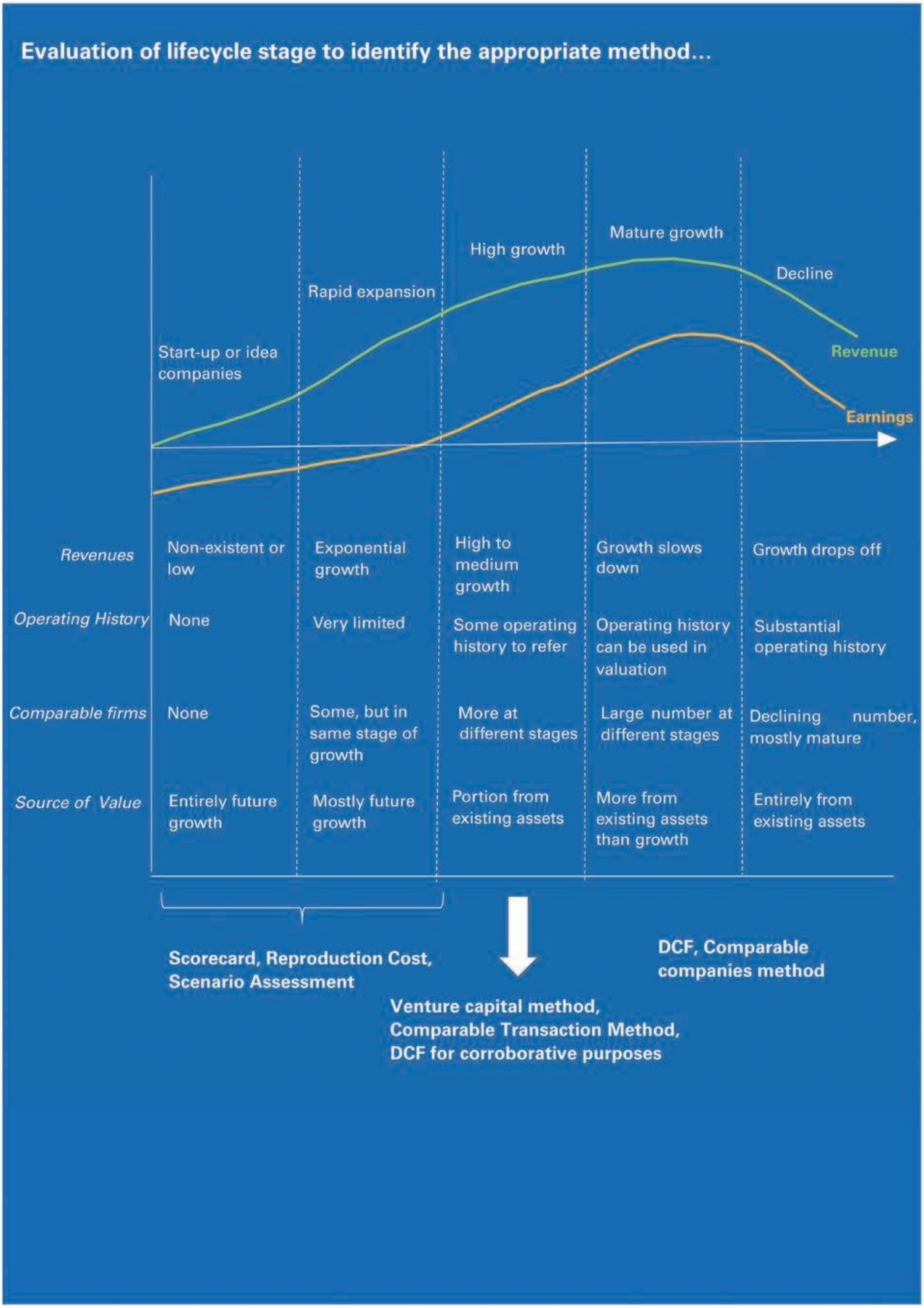
Hence, it is imperative to note that such valuation methods are still crude and do not clearly fit into a valuation method category. However, some of these methods, such as score card and reproduction cost, could be very helpful in doing pricing analysis in number of cases. With an in-depth review and discussion with industry/domain expert, an EV/

Multiple analysis and top down DCF can be used to support pricing conclusions to arrive at the value of the asset.

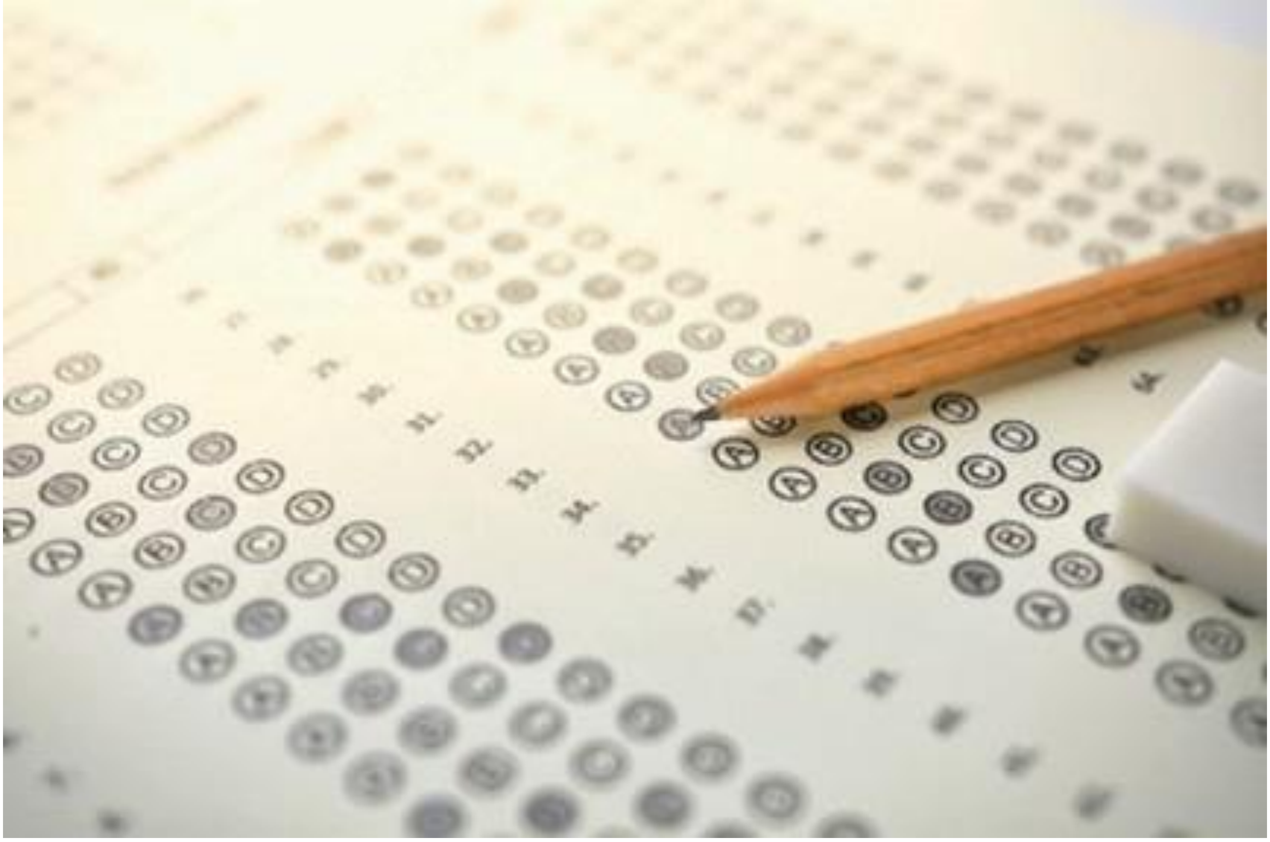
Start-up valuation is an evolving concept, and certainly with the growing innovation in the business models, modern and novel valuation methods are bound to emerge.

In the ensuing space, we have specifically categorised the methods discussed above into multiple categories and have classified them as per lifecycle stages.

Method	Key focus area	Type of Value	Judgement /Subjective	Supportable Evidence
Berkus Method	Allocation of weight (USD 0.5 mn) to five key success factors that contribute to value	-	High	Low
Scorecard Valuation Method	Adjusting comparable start-ups' valuation against differences in weighted qualitative metrics	Pricing valuation	High	Medium
Risk Factor Summation Method	Adjusting comparable start- up's valuation by assessing the level of risk of the target against its peers	-	High	Low
Gross profit X Competitor's Multiple Method	Multiplying comparable companies' P/GP multiple to target's gross profit.	-	High	Low
First Chicago Method	Weighted average (prob- ability) of three valuation scenarios using DCF and multiples approach	Pricing valuation	Medium	Medium
5x Your Raise Method	Follow rule of thumb by multiplying the funding amount by five	-	High	Low
Venture Capital Method	Valuation arrived at by re- ducing the present value of terminal (exit value) with the investment value	Pricing valuation	Medium	Medium
Valuation by Stage Method	Arriving at the valuation range by gauging the target against certain pre-defined milestones	-	High	Low
Cost to Duplicate/ Replacement Cost Method	Evaluating the hard assets of a start-up and working out how much it would cost to replicate the start-up	Pricing valuation	Medium	Low
Comparable Company Transaction Method	Multiplying the comparable start-up's recent transaction multiple with the respective target's metric	Pricing valuation	Medium	High
Discounted Cash flow Method	Usual discounting of forecasted cash flows by conducting a detailed benchmarking of projections against industry variables	Intrinsic value	Medium	High


Evaluation of lifecycle stage to identify the appropriate method...
Start-up or idea companies
Rapid expansion
High growth
Mature growth
Decline
Revenue
Earnings
Revenues
Non-existent or low
Exponential growth
High to medium growth
Growth slows down
Growth drops off
Operating History
None
Very limited
Some operating history to refer
Operating history can be used in valuation
Substantial operating history
Comparable firms
None
Some, but in same stage of growth
More at different stages
Large number at different stages
Declining number, mostly mature
Source of Value
Entirely future growth
Mostly future growth
Portion from existing assets
More from existing assets than growth
Entirely from existing assets
Scorecard, Reproduction Cost, Scenario Assessment
DCF, Comparable companies method
Venture capital method, Comparable Transaction Method, DCF for corroborative purposes

MULTIPLE CHOICE QUESTIONS



ICMAI REGISTERED VALUERS' ORGANISATION

Registered Office
The Institute of Cost Accountants of India
4th Floor, CMA Bhawan 3, Institutional Area
Lodhi Road, New Delhi – 110003

www.rvoicmai.in

MULTIPLE CHOICE QUESTIONS

MCQ FOR SFA

1. The expenditure in India is classified as capital and revenue. Which of the following is/are revenue expenditure ?
1. interest payments on debt
2. loans granted by central government
3. subsidies
a) 1 and 2 only
b) 1 and 3 only
c) 2 and 3 only
d) 1, 2 and 3

Ans)1 and 3 only

2. The difference between revenue deficit and grants for creation of capital assets is called
a) Revenue deficit
b) Fiscal deficit
c) Effective revenue deficit
d) Primary deficit

Ans) Effective revenue deficit

3. The difference between fiscal deficit and interest payment during the year is called
a) Revenue deficit
b) Fiscal deficit
c) Budget deficit
d) Primary deficit

Ans) Primary deficit

4. Which of the following may not be a part of projected Financial Statements?
a) Projected Income Statement
b) Projected TrialBalance
c) Projected Cash Flow Statement
d) Projected Balance Sheet.

Ans) Projected Trial Balance

5. Stock split is a form of
a) Dividend Payment
b) Bonus Issue
c) Financial restructuring
d) Dividend in kind

Ans) Financial restructuring

6. A preliminary prospectus is known as a
a) golden parachute.
b) red herring.
c) blue sky.
d) green shoe.

Ans) red herring.

7. First rating agency of India is
a) CRISIL
b) ICRA
c) SMERA
d) MOODY

Ans) CRISIL

8. The process of protecting oneself against future price changes by shifting some or all of the risk to someone else is called:
a) speculating
b) investing
c) hedging
d) gambling

Ans) hedging

9 Organised markets that enable new issues of equity and debt to be traded.
a) Secondary markets
b) Primary capital markets
c) BSE
d) NSE

Ans) Primary capital markets

10 DU PONT Analysis deals with:
a) Capital Budgeting
b) Analysis of Profits
c) Analysis of Current Assets
d) Analysis of Fixed Assets

Ans) Analysis of Profits

11 Process of Financial Planning ends with:
a) Comparison of Actual with Projected
b) Preparation of Actual Statements
c) Preparation of Projected Statements
d) Conveying that the projected figures may come true

Ans) Comparison of Actual with Projected

12 Operating leverage helps in analysis of:
a) Production Risk
b) Financing Risk
c) Business Risk
d) Credit Risk

Ans) Business Risk

13 Financial leverage arises because of:
a) Interest Cost
b) Variable Cost
c) Fixed cost of production
d) Manufacturing cost

Ans) Interest Cost

14 Who can initiate the Corporate Insolvency Resolution Process against the Corporate Debtor who commits a default?
a) Financial Creditor
b) Operational Creditor
c) Corporate Debtor
d) Financial Creditor, Operational Creditor or Corporate Debtor

Ans) Financial Creditor, Operational Creditor or Corporate Debtor

15 Who is a Financial Creditor under the Insolvency and Bankruptcy Code, 2016:
a) Any person to whom a financial

MULTIPLE CHOICE QUESTIONS

debt is owed and includes a person to whom such debt has been legally assigned or transferred to
b) Any person that has a claim on the services of a second party
c) Any person to whom a financial debt is owed
d) Any person who owes financial debt to another

Ans) Any person to whom a financial debt is owed and includes a person to whom such debt has been legally assigned or transferred to

16 Application for the Corporate Insolvency Resolution can be filed by financial creditor:
a) By itself
b) Jointly with other financial creditor
c) Both (a) and (b)
d) Jointly with Interim Resolution Professional

Ans) Both (a) and (b)

17 Under which of the following section, Financial Creditor can initiate the Corporate Insolvency Resolution:
a) Section 7
b) Section 8
c) Section 9
d) Section 10

Ans) Section 7

18 The Adjudicating Authority shall within .... days of the receipt of the application by the Financial Creditors, ascertain the existence of a default:
a) 7
b) 10
c) 14
d) 21

Ans)14

19 Which of the following date is considered as insolvency commencement date for Corporate Insolvency Resolution Process:
a) Date of default by the Corporate Debtor
b) Date of application to Adjudicating Authority
c) Date of admission of application by Adjudicating Authority
d) Date of appointment on Interim Resolution professional

Ans) Date of admission of application by Adjudicating Authority

20 The Adjudicating Authority shall communicate the order to the financial creditor and the corporate debtor within .... days of admission or rejection of application:
a) 7
b) 10
c) 14
d) 21

Ans)7

21 As defined in section 5(20) of the insolvency and bankruptcy code 2016, a person to whom an operational debt is owed is called:
a) Creditor
b) Operational Creditor
c) Loanee
d) Bankruptcy

Ans) Operational Credito

22 Under which of the following section, Operational Creditor can initiate the Corporate Insolvency Resolution:
a) Section 7
b) Section 8
c) Section 9
d) Section 10

Ans) Section 9

23 A demand notice means a notice served to the Corporate Debtor demanding repayment of which debt:
a) Financial Debt
b) Operational Debt
c) Secured Debt
d) All of the above

Ans) Operational Debt

24 Before rejecting the admission of an application for corporate insolvency resolution, the applicant will be given how many days to rectify the defects in the application:
a) 7
b) 10
c) 14
d) 21

Ans)7

25 Under which of the following section, Corporate Applicant can initiate the Corporate Insolvency Resolution:
a) Section 7
b) Section 8
c) Section 9
d) Section 10

Ans) Section 10

26 Extension of the period of corporate insolvency resolution process shall not be granted more than:
a) Once
b) Twice
c) Thrice
d) As the adjudicating authority may decide

Ans) Once

27 Who shall declare a moratorium?

MULTIPLE CHOICE QUESTIONS

a) Insolvency Professional
b) Insolvency Professional Agency
c) Adjudicating Authority
d) Insolvency and Bankruptcy Board of India

Ans) Adjudicating Authority

28 The Adjudicating Authority shall appoint an interim resolution professional within............ from the insolvency commencement date:
a) 10 days
b) 14 days
c) 21 days
d) 1 month

Ans)14 days

29 What is the term of appointment of interim resolution professional?
a) 30 days from date of appointment
b) 14 days from date of appointment
c) 21 days from date of appointment
d) 10 days from date of appointment

Ans)30 days from date of appointment

30 The Board shall within .... of the receipt of a reference from the Adjudicating Authority, recommend the name of an insolvency professional to the Adjudicating Authority against whom no disciplinary proceedings are pending:
a) 10 days
b) 14 days
c) 21 days
d) 1 month

Ans)10 days

31 Section......... of the insolvency and bankruptcy code, 2016 provides provision for constitution of a committee of creditors:
a) Section 14
b) Section 16
c) Section 20
d) Section 21

Ans) Section 21

32 Following the accounting concept of a business combination, a business combination occurs when a company acquires an equity interest in another entity and has_
a) at least 20% ownership in the entity
b) more than 50% ownership in the entity
c) 100% ownership in the entity.
d) control over the entity, irrespective of the percentage owned

Ans) control over the entity, irrespective of the percentage owned

33 Historically, much of the controversy concerning accounting requirements for business combinations involved the ________ method
a) purchase
b) pooling of interests
c) equity
d) acquisition

Ans) pooling of interests

34 When considering an acquisition, which of the following is NOT a method by which one company may gain control of another company?
a) Purchase of the majority of outstanding voting stock of the acquired company.
b) Purchase of all assets and liabilities of another company
c) Purchase the assets, but not necessarily the liabilities, of another company previously in bankruptcy
d) All of the above methods result in a company gaining control over another company

Ans) All of the above methods result in a company gaining control over another company

35 The criterion used when determining the acquisition date for a business combination is the date:
a) on which the consideration was paid by the acquirer
b) on which the consideration was received by the acquiree
c) control was achieved by the acquirer
d) on which specific assets are delivered to the acquirer

Ans) control was achieved by the acquirer

36 The fair value of liabilities acquired in a business combination are best measured using the:
a) liquidation value
b) market value
c) present value of future cash outflows
d) nominal value

Ans) present value of future cash outflows

37 Goodwill arising in a business combination is classified as_
a) an item in equity
b) an asset
c) a liability
d) an expense associated with the acquisition

Ans) an asset

38 Ind AS will apply to
a) both consolidated as well as standalone financials of the company.
b) Only consolidated financials
c) Only standalone financials
d) Optional

Ans) both consolidated as well as standalone financials of the company.

39 Which of the following qualities should an asset possess for it to qualify for recognition as an asset?
a) It should have physical existence
b) It should be within the entity's

MULTIPLE CHOICE QUESTIONS

control
c) It should always be separable i.e. realizable without selling the whole business
d) There should be a no probability of future economic benefit from it

Ans) It should be within the entity's control

40 Which of the following is not an intangible asset?
a) A patent
b) A trademark
c) An investment in marketable securities
d) copyright

Ans) An investment in marketable securities

41 Amortization of intangible Asset Such as Goodwill which has indefinite life is an example of accounting concept_
a) Conservatism Concept
b) Continuity Concept
c) Realisation Concept
d) Measurement Concept

Ans) Conservatism Concept

42 Liquidity is normally measured in terms of_
a) Terminal cost
b) Transaction cost
c) Total cost
d) Net Cost

Ans) Transaction cost

43 The complete absorption of one company by another,wherein the acquiring firm retains its identity and the acquired firm ceases to exist as a separate entity, is called a:
a) merger
b) consolidation
c) tender offer.
d) spinoff

Ans) merger

44 A firm that acquires another firm as part of its strategy to sell off assets, cut costs, and operate the remaining assets more efficiently is engaging in
a) a strategic acquisition
b) a financial acquisition
c) two-tier tender offer
d) shark repellent

Ans) a financial acquisition

45 What is the most likely reason that a firm (who is highly profitable) might consider acquiring a firm that has had large recent losses and will continue to have losses into the near future?
a) Hubris
b) White knight
c) Tax-loss usage
d) Increase assets

Ans) Tax-loss usage

46 Steps in determining the fair value of non-financial assets:Which of the following is NOT a valuation technique prescribed by IFRS 13?
a) the fair value approach
b) the income approach
c) the cost approach
d) the market approach

Ans) the fair value approach

47 Which one is covered in the Valuation report_
a) Proposed Transaction
b) Related party issue with the transactions
c) Share Holding Pattern
d) Valuation methodologies

Ans) Valuation methodologies

48 Under which approach present value is used:
a) Cost Approach
b) Income Approach
c) Hybrid Approach
d) None of the above

Ans) Income Approach

49 Quantitative forecasting techniques include:
a) Consumer surveys
b) Delphi method
c) Exponential smoothing
d) Manager opinions

Ans) Exponential smoothing

50 Which of the following provides better estimate of value in case of valuation of firms for takeovers?
a) Cash flows
b) Free cash flows
c) Future cash flows
d) Free cash flow to equity

Ans) Free cash flow to equity

51 The cash flow of the firm must be equal to:
a) cash flow to equity minus cash flow to debtholders.
b) cash flow to debtholders minus cash flow to equity
c) cash flow to governments plus cash flow to equity.
d) cash flow to equity plus cash flow to debtholders.

Ans) cash flow to equity plus cash flow to debtholders.

52 Free cash flow is:
a) without cost to the firm.
b) net income plus taxes.
c) an increase in net working capital.
d) cash that the firm is free to distribute to creditors and stockholders.

Ans) cash that the firm is free to distribute to creditors and stockholders.

53 Cash flow to stockholders is defined as:
a) interest payments
b) repurchases of equity less cash dividends paid plus new equity sold.
c) cash flow from financing less cash flow to creditors.

MULTIPLE CHOICE QUESTIONS

d) cash dividends plus repurchases of equity minus new equity financing.

Ans) cash dividends plus repurchases of equity minus new equity financing.

54 Identification of all cash flows associated with project gives value classified as_
a) net discounted value
b) net present value
c) net future value
d) net compounded value

Ans) net present value

55 Bonds issued by corporations for relatively longer term are classified as_
a) long term bonds
b) short term bonds
c) corporate bonds
d) Federal Reserve bonds

Ans) corporate bonds

56 As compared to publicly placed issues, privately placed bonds are issued for-
a) lower paid interest rates
b) higher paid interest rates
c) unregistered interest rates
d) registered interest rates

Ans) higher paid interest rates

57 Bonds that does not pay any interest rate are considered as_
a) interest free bond
b) zero coupon bond
c) price less coupon bond
d) useless price bonds

Ans) zero coupon bond

58 Funds transferred usually for a day between financial institutions are classified as_
a) federal funds
b) bankers
c) secured funds
d) debt funds

Ans) federal funds

59 Process of issuing treasury bills is classified as_
a) treasury trading auction
b) treasury fund auction
c) treasury bills auction
d) treasury bills transfer

Ans) treasury bills auction

60 Markets in which new securities are issued by corporations to raise funds are called_
a) primary markets
b) secondary markets
c) Gross markets
d) proceeds markets

Ans) primary markets

61 Which of the following marketable securities is the obligation of a commercial bank?
a) Commercial paper
b) Negotiable certificate of deposit
c) Repurchase agreement
d) T-bills

Ans) Negotiable certificate of deposit

62 Marketable securities are primarily_
a) short-term debt instruments
b) short-term equity securities.
c) long-term debt instruments.
d) long-term equity securities.

Ans) short-term debt instruments

63 Commercial paper issued with low interest rate thus commercial paper are categorized as_
a) payables rating
b) commercial rating
c) poor credit rating
d) better credit rating

Ans) better credit rating

64 Financial instrument such as commercial paper can be sold_
a) issued by commercial banks
b) directly
c) with brokers or dealers
d) functional buyers

Ans) directly

65 Who discounts the treasury bills?
a) RBI
b) Commercial banks
c) SEBI
d) Finance Ministry
Ans) RBI

66 Coupon rate of convertible bond is_
a) higher
b) lower
c) variable
d) stable

Ans) lower

67 Coupon payment is calculated with help of interest rate, then this rate considers as_
a) payment interest
b) par interest
c) coupon interest
d) Yearly interest rate

Ans) coupon interest

68 Coupon payment of bond which is fixed at time of issuance_
a) remains same
b) becomes stable
c) becomes change
d) becomes low

Ans) remains same

69 In equilibrium position, spread between foreign and domestic rate of interest must be equal to spread of_
a) domestic rates
b) forward and spot exchange rates
c) forward rate
d) spot rates

Ans) forward and spot exchange rates

MULTIPLE CHOICE QUESTIONS

70 Price of treasury notes and treasury bonds without including accrued interest is classified as_
a) clean price
b) full price
c) dirty price
d) accrued price

Ans) clean price

71 Call premium is added to face value of bond to calculate_
a) call price of bond
b) premium price of bond
c) call price of stock
d) discounted price of stock

Ans) call price of bond

72 Sum of purchase price and accrued interest on treasury bonds and notes is considered as_
a) Dirty price
b) Clean Price
c) Paid Price
d) Unpaid Price

Ans) Dirty price

73 If YTM increases_
a) Future value of cash flows goes down
b) Present value of cash flows goes up
c) Present value of cash flows goes down
d) Future value of cash flows goes up

Ans) Present value of cash flows goes down

74 _______________ is the price at which the bond is traded in the stock exchange_
a) Redemption value
b) Face value
c) Market value
d) Maturity value

Ans) Market value

75 Value of Options increases with
a) Volatility
b) Uncertainty
c) Relativity
d) Risk

Ans) Volatility

76 The distinction between an American Option and European Option is that_
a) Under American option can be exercised at any time while European option right can be exercised on a specific date.
b) Under American option can be exercised only on a specific date while European option right can beexercised on any date
c) Under both options right can be exercised only at a specific date
d) Under both options right can be exercised on any date.

Ans) Under American option can be exercised at any time while European option right can be exercised on a specific date.

77 Other things equal, the price of a stock call option is positively correlated with the following factors except
a) the exercise price.
b) the time to expiration.
c) the stock volatility.
d) the stock price

Ans) the exercise price.

78 The major distinction between futures and options arises from the phrase_
a) With obligation
b) Without obligation
c) With or without obligation as the case may be
d) Call & Put

Ans) With obligation

79 An American Option is one where the holder has the right to exercise_
a) On the expiration date
b) Before the expiration date
c) On or before the expiration date
d) On and before the expiration date

Ans) On or before the expiration date

80 Which of the following option is a common real option?
a) Wait option
b) Watch option
c) Wait or Watch option
d) Wait and Watch option

Ans) Wait and Watch option

81 If the value of the swap is +ve, it is an_
a) Asset
b) Liability
c) Income
d) Expense

Ans) Asset

82 Type of swaps in which fixed payments of interest are exchanged by two counterparties for floating payments ofinterest are called_
a) float-fixed swaps
b) interest rate swaps
c) indexed swaps
d) counter party swaps

Ans) interest rate swaps

83 A swap that is used to evade risk of exchange rate existsbecause of currency mismatching is classified as_
a) floating swaps
b) fixed swaps
c) currency swaps
d) notion swaps

Ans) currency swaps

84 In the light of Supreme Court decision in case of Duncans Industries Ltd vs. State of U.P. &Ors civil appeal NO. 5929 of 1997, when is the court reluctant to interfere with the findings of fact:
a) If it is based on relevant material

MULTIPLE CHOICE QUESTIONS

on record
b) If the method adopted by the relevant authority for the purpose of the valuation is based on relevant material
c) Both (a) and (b)
d) None of the above

Ans) Both (a) and (b)

85 In case of Duncans Industries Ltd vs. State of U.P. &Ors. civil appeal NO. 5929 of 1997, Supreme Court held that:
a) The question of valuation is basically a question of a fact
b) The Supreme Court is normally reluctant to interfere with the finding on such question of fact if it is based on relevant material on record
c) If the method adopted by the relevant authority for the purpose of valuation is based on relevant material then it will not interfere with such a finding of fact
d) All of the above

Ans) All of the above

Use the following information to answer Questions 86-90:
An analyst following Barlow Energy has compiled the following information in preparation for additional analysis she has to include in a report she has been asked to produce (data is in hundreds of millions of $):

Security Type	Market Value	Before-Tax Required Return
Preferred stock	$200	7.0%
Bonds	$600	7.5%
Common stock	$700	14.0%
Total	$1,500	

- Bonds are trading at par Preferred share dividends: $14
- Net income available to common: $125 Investment in working capital: $30 Investment in fixed capital: $100
- Net new borrowing: $40 Depreciation: $50
- Tax rate: 40%
- Long-term growth rate of FCFF: 4% Long-term growth rate of FCFE: 4% WACC: 9.27%

86 The current FCFF for Barlow Energy is closest to:
a)$36.
b)$62.
c)$86.
d)none of the above

Ans) $86

87 The total value of Barlow Energy using a single-stage FCFF model is *closest* to:
a)$894.40.
b)$1,631.88.
c)$1,697.15.
d)none of the above

Ans) $1,697.15.

88 The value of Barlow Energy's equity using a single-stage FCFF model is *closest* to:
a)$897.15.
b)$1,097.15.
c)$1,497.15.
d) none of the above

Ans) $897.15.

89 The current FCFE using the information for Barlow Energy is *closest* to:
a)$45.
b)$85.
c)$99.
d)none of the above

Ans) $85.

90 The value of Barlow Energy's equity using a single-stage model and the current FCFE is *closest* to:
a) $468.
b) $850.
c) $884.
d) none of the above

Ans) $884.

Use the following information to answer Questions 91-95

Jamie Johnson, Valuer, has been asked by her supervisor to evaluate the value of two stocks in the recreational vehicle industry, AAA Motorhomes (AAA) and Three Star Travelers (TST). Johnson compiled analyst information for the two companies in Table 1. The expected return on the market is 11%, and the risk-free rate is 4%. Johnson's supervisor has requested that Johnson focus on dividends

MULTIPLE CHOICE QUESTIONS

in estimating the value of the two firms.

TABLE 1	AAA	TST
Current Roe	0.30	0.22
Current EPS	$2.50	$4.60
Retention Ratio	0.40	0.30
Beta	1.2	0.9

TABLE 2	Risk Premiums	Factor Sensitivities	Factor Sensitivities
		AAA	TST
Confidence Risk	0.048	0.63	0.42
Time Horizon Risk	0.031	0.47	0.39
Inflation Risk	0.045	0.70	0.51
Business Cycle Risk	0.038	0.98	0.91
Market Timing Risk	–0.018	0.05	0.21

91 The sustainable growth rates for each firm are closest to:

AAA TST
a) 18.0% 6.6%
b) 12.0% 6.6%
c) 12.0% 15.4%
d)none of the above

Ans) 12.0% 6.6%

92 Johnson decides to start by estimating the value of the two stocks using the constant growth dividend discount model and estimating the required rate of returns using the capital asset pricing model (CAPM). Both firms are expected to grow at their sustainable growth rates. The estimated values are closest to:

AAA TST
a) $273.54 $92.77
b) $273.54 $48.57
c) $420.00 $92.77
d) none of the above

Ans) $420.00, $92.77

93 Johnson believes the estimate for TST using the constant dividend discount model (DDM) is appropriate. However, she believes that AAA is expected to grow at a higher rate of 20% for the next four years and then grow at a rate of 7% after that. Using the two-stage model, and CAPM for the required rate of return, the current value of AAA is closest to:

a) **$45.69.**
b)$58.00
c)$61.62.
d)none of the above

Ans) $45.69

94 After further consideration, Johnson feels the growth rates of AAA and TST are more likely to gradually decline over the next four years and therefore considers the H-model. She estimates TST growth will decline from current 15% to long-term 5% and AAA growth will decline from current 20% to long-term 7%. Johnson estimates the required rate of return for AAA and TST to be 15.3% and 12.6%, respectively. Johnson's estimated values of AAA and TST using the H-model are closest to:

AAA, TST
a) $15.35 $52.96
b) $24.04 $35.58
c) $24.04 $52.96
d)none of the above

Ans) $24.04 $52.96

95 Johnson's supervisor also requested a calculation of the justified leading P/E ratios for the two firms using a macroeconomic multifactor model based on the information in Table 2 (on the previous page) to estimate the required returns. Assuming that the earnings and dividends will grow at 5% for TST and 7% for AAA, the justified leading P/E ratios are closest to:

AAA TST
a) 11.11 12.87
b) 7.26 9.21
c) 11.89 13.21
d) none of the above

Ans) 7.26 9.21

Source : Judicial Pronouncements in Valuation, Published by Valuation Standards Board and ICAI Registered Valuers Organization, The Institute of Chartered Accountants of India

Case No. 1 Pr. Commissioner of Income Tax-2 Vs Cinestaan Entertainment Pvt. Ltd.
(DEL HC)(2021)

IN THE HIGH COURT OF DELHI
Appellant: Pr. Commissioner of Income Tax-2 Vs.
Respondent: Cinestaan Entertainment Pvt. Ltd.

ITA 1007/2019 and CM Appl. 54134/2019
Decided On: 01.03.2021

1. Brief Facts of the Case

M/s. Cinestaan Entertainment Pvt. Ltd. (Respondent) was incorporated on 19.09.2013 and was engaged in the business of entertainment. During the AY 2015-16, the Respondent allotted shares at a very high premium to various persons and filed return of income for the Assessment Year with Nil income.

Pursuant to notice under 143(2) of the Income Tax Act, 1961 (herein after referred to as ‘the Act’) along with the notice under Section 142(1), the Respondent filed a Valuation Report dated 15.12.2014.

Assessment Order was issued under Section 143(3) of the Act and the total income of the Respondent-Assessee was assessed as Rs. 90,95,46,200/-. The findings of the Assessing Officer (‘AO’) were as follows: -

i. No effort was made by the assessee for achieving the projections made in the Valuation Report as per Section 11UA of the Act. Assessee company had invested share capital and share premium received during the year in 0% debenture of associate companies. Hence, the projection made to issue the shares on premium as per Rule 11UA report is not justified with the actual working of the company.

ii. The assessee failed to provide any scientific basis for adopting the projections/estimated figure used in valuation.

iii. Assessee company booked a loss of Rs. 71,99,40,002/- in P&L A/c for the year ended 31st Mar 2017 on account of loss on sale of investment in unsecured compulsorily convertible debenture of Rs. 1000 each in M/s. Script Stories Media P. Ltd. Since, the investment was in zero percent debentures there was no scope of any income rather the transactions resulted in the loss of Rs. 71,99,40,002/-.

iv. Even in 2017-18, the assessee company kept raising share capital on premium and at the same time booked losses on account of sale of zero percent debentures which are in contradiction of each other. Hence, the premium taken by the assessee is not justified even on merits.

Aggrieved by the assessment order, the Respondent preferred an appeal before the Commissioner of Appeals [CIT (A)], who upheld the additions made by the AO.

The second appeal before the ITAT was allowed in favour of assessee and the order of the CIT (A) was set aside.

Revenue appealed against the aforementioned order on the grounds that the Ld. ITAT has erred in law and on facts in deleting the addition made u/s 56(2)(vii)(b) of the Income Tax Act, 1961, by ignoring the sound reasoning and detailed analysis of the AO that the Cash Flow projections considered in the Discounted Cash Flow Method by the assessee are nothing but paper plans that have no relation with the reality.

2. Key Observations and Decision of ITAT

- It is the prerogative of assessee as to how much capital is to be raised based on its long-term and short-term funding requirements for the purpose of running its business.
- Any businessman or entrepreneur visualise the business based on certain future projections and undertakes all kinds of risks. It is the risk factor alone that gives a higher return to a businessman and the Income Tax Department or Revenue Official cannot guide a businessman in which manner risk has to be undertaken. Such an approach of the revenue has been judicially frowned by the Hon’ble Apex Court on several occasions.
- At the time when valuation is made, it is based on reflections of the potential value of business at that particular time and also keeping in mind underline factors that may change over the period of time and thus, the value which is relevant today may not be relevant after a certain period of time.
- In DCF method, the value is based on estimated future projection and these projections are based on various factors and projections made by the management and the Valuer, like growth of the company, economic/market conditions, business conditions, expected demand and supply, cost of capital and host of other factors. These factors are considered based on some reasonable approach, and they cannot be evaluated purely based on arithmetical precision as value is always worked out based on approximation and catena of underline facts and assumptions.
- Section 56(2)(vii)(b) of the Income Tax Act,1961 is not applicable to genuine business transactions and the genuineness and creditworthiness of the strategic investors were not doubted by either the

AO or the CIT(A). In accordance with sub clause (i) of explanation, the Respondent- Assessee had an option to carry out a valuation and determine the fair market value (FMV) only on the Discounted Cash Flow method (DCF), which was appropriately followed by the Respondent-Assessee.

- The shares were issued based on the valuation received from the prescribed expert i.e., a Chartered Accountant who used the DCF method which is one of the methods stipulated under Section 56(2)(vii)(b) of the Income Tax Act, 1961 read with Rule 11UA(2)(b) of the Income Tax Rules, 1962.
- Section 56(2)(vii)(b) of the aforesaid Act is a deeming provision and one cannot expand the meaning of scope of any word while interpreting such deeming provision. There has to be some enabling provision under the Rule or the Act where Assessing Officer has been given a power to tinker with the Valuation Report obtained by an Independent Valuer as per the qualification given in the Rule 11U of the IT Rules, 1962. Rule 11UA(2) of the said Rules does not give any power to the Assessing Officer to examine or substitute his own value in place of the value determined or requires any satisfaction on the part of the Assessing Officer to tinker with such valuation.
- The shares have not been subscribed by any sister concern or closely related person, but by outside investors who are one of the top investors and businessmen of the country and if they have seen certain potential and accepted this valuation, then how AO or Ld. CIT(A) can question their wisdom.

3. Cases relied upon

- In the case of SA Builders and also in case of **CIT vs. Panipat Woollen and General Mills Company Ltd,** the Hon'ble Apex Court has held that Income Tax Department cannot sit in the armchair of businessman to decide what is profitable and how the business should be carried out. Commercial expediency has to be seen from the point of view of businessman.
- In the case of **Securities & Exchange Board of India & Ors.** [2015] [ABR 291] the Hon'ble Bombay High Court has held that:-
  - ➢ It is a well settled position of law with regard to the valuation that valuation is not an exact science and can never be done with arithmetic precision.
  - ➢ The attempt on the part of SEBI to challenge the valuation which is by its very nature based on projections by applying what is essentially a hindsight view that the performance did not match the projection is unknown to the law on valuations.
  - ➢ Valuation being an exercise required to be conducted at a particular point of time has of necessity to be carried out on the basis of whatever information is available on the date of the valuation and a projection of future revenue that Valuer may fairly make on the basis of such information.
- In the case of Rameshwaram Strong Glass Pvt. Ltd. Vs. ITO the learned ITAT has held that :-
  - ➢ DCF Method is essentially based on the projections (estimates) only and hence, these projections cannot be compared with the actuals to expect the same figures as were projected.
  - ➢ The Valuer has to make a forecast on the basis of some material but to estimate the exact figure is beyond its control.
- At the time of making a valuation for the purpose of determination of the fair market value, the past history may or may not be available in a given case and therefore, the other relevant factors may be considered.

4. Decision

- DCF methodology adopted by the Respondent is a well-recognized and well-accepted method. The Approach of Revenue that the performance did not match the projection slacks material foundation is irrational.
- Appellant-Revenue is unable to show that the assessee adopted a demonstrably wrong approach, or that the method of valuation was made on a wholly erroneous basis, or that it committed a mistake which goes to the root of the valuation process.
- Valuation is intrinsically based on projections which can be affected by various factors. We cannot lose sight of the fact that the Valuer makes forecast or approximation, based on potential value of business. However, the underline facts and assumptions can undergo change over a period of time.
- The Courts have repeatedly held that valuation is not an exact science, and therefore cannot be done with arithmetic precision. It is a technical and complex problem which can be appropriately left to the consideration and wisdom of experts in the field of accountancy, having regard to the imponderables

which enter the process of valuation of shares.

- The shares have not been subscribed by any sister concern or closely related person, but by outside investors. Indeed, if they have seen certain potential and accepted this valuation, then Appellant-Revenue cannot question their wisdom.
- The appeal was dismissed and the order of Ld. ITAT was upheld.

5. Key Take Away for Valuers from the above Case

i. DCF Method is essentially based on the projections (estimates) only and hence, Income Tax Authorities cannot adopt a hindsight view and compare these projections with the actuals to expect the same figures as were projected.

ii. The value which is relevant today may not be relevant after certain period of time. At the time when valuation is made, it is based on reflections of the potential value of business at that particular time and also depends upon various underlying factors that may change over the period of time.

iii. Courts have repeatedly held that valuation is not an exact science, and therefore cannot be done with arithmetic precision. It is a technical and complex problem which can be appropriately left to the consideration and wisdom of experts in the field of accountancy, having regard to the imponderables which enter the process of valuation of shares.

iv. In DCF method, the value is based on estimated future projection and these projections are based on various factors and projections made by the management and the Valuer, like growth of the company, economic/ market conditions, business conditions, expected demand and supply, cost of capital and host of other factors. These factors considered shall be based on some reasonable approach as they cannot be evaluated purely based on arithmetical precision.

v. Valuation, other than rule-based, is an estimation and hence, the forecasts and projection cannot match the actual performance. Valuation at two different dates cannot be same due to change in the various internal and external socio-economic factors that impact the concerned asset. However, a Valuer and Assessee both shall analyse the variance between the actual and projections and prepare a just and proper reason to justify their valuation assumptions to AO.

vi. Any Valuer when working on any projections and estimations works with some inherent limitations. A valuer can use various tools and analysis like regression analysis or trend analysis to limit risks of these assumptions and to determine the fairness of projections.

vii. A valuer shall maintain documentation which provides:

   a. sufficient and appropriate record of the basis of the Valuation Report; and

   b. evidence that the valuation assignment was planned and performed in accordance with the ICAI Valuation Standards, 2018 or other applicable Valuation Standards along with other applicable legal and regulatory requirements.

Case No. 2

Cadbury India Limited (BOM HC) (2014) -

Petition for reduction of Share Capital

IN THE HIGH COURT OF BOMBAY

Cadbury India Limited

Company Petition No. 1072 of 2009, Company Application No(s). 1332 of 2009, 71 and 120 of 2010

Decided On: 09.05.2014

1. Brief Facts of the Case

Cadbury India Ltd. was incorporated on 19th July 1948 under the name of Cadbury Fry (India) Pvt. Ltd. Cadbury India was a subsidiary of Cadbury Schweppes Overseas Limited which in turn was held by Cadbury Plc, UK. This was later taken over by Kraft Food Inc. Cadbury had a policy of operating globally only through wholly-owned subsidiaries; however, exceptions have had to be made only for compelling business reasons, foreign investment laws or foreign exchange restrictions. From 1948 to 1977 Cadbury India was a wholly-owned subsidiary of Cadbury Schweppes. In 1977, the policy of the Government then in power required Cadbury Schweppes to dilute its shareholding in Cadbury India from 100% to 60%. It was only then that Cadbury India ceased to be a wholly-owned subsidiary of Cadbury Schweppes.

Following economic liberalisation of 2002, FDI was allowed up to 100%. Thereafter, Cadbury Schweppes and another group company, i.e., Cadbury Mauritius Ltd. increased their collective holdings in Cadbury India to 90%, by making various open market offers, and public shareholding fell below 10%. Consequently, Cadbury India got de-listed from the stock exchanges. Over time, the shareholding of the Cadbury Group increased to about 97.58% through a series of open and buy back offers. The details of some of these are listed below.

Year of Buyback	Price per share	No. of shares bought Back
2002-2006	500	14,15,271
2006	750	13,52,605
2007	815	11,53,374
2008	950	10,20,300
2009	1030	11,16,168

2. Contentions/Allegation Raised

In 2009, only 2.4% of shares were held by public, CIL made an offer to these remaining minority shareholders at Rs. 1,340 per share, based on Valuation Reports of two reputed and independent Valuers. Against same petition was filed by the minority shareholders before the Bombay High Court on the contention that Cadbury India Ltd has been under-valued and they are being suppressed due to minority shareholding.

Observation/Decision of Court

Thereafter, an order was passed by the Hon'ble High Court appointing a third valuer as Independent Valuer. This valuation was to be as on the appointed date and based on the unaudited balance sheet as on 31st July 2009.

On the date of the petition, the issued share capital of Cadbury India Ltd. stood at Rs. 31,06,95,530 divided into 3,10,69,553 equity shares of Rs. 10/- each and the subscribed share capital was Rs. 31,06,70,400 divided into 3,10,67,040 equity shares of Rs. 10 each. The audited accounts of the Company for the year ending 31st December 2008, showing the financial position of the company was as follows:

Particulars	Rs in Mn
Net worth (share Capital & Reserves)	4,644.0
Secured Loans	320.2
Unsecured Loans	96.8
Fixed Assets (incl CWIP & Adv)	7,552.5
Investments	29.2
Current Assets Loan & Advances	5,818.8

Particulars	Rs in Mn
Current Liabilities & Provision	4,495.7
Net Current Assets	1,323.1
PBT 2008	2,018.9
PAT 2008	1,657.8

The Third Valuer submitted its Valuation Report on 20th May 2010 ("the first report") wherein it adopted the Comparable Companies Multiples ("CCM") method of valuation using Nestle, GSK & Britannia as the comparable companies, and returned a value of Rs. 1,743/- per fully paid-up equity share.

In the above reports, following were worth noting:

a. Valuer did not take into account any premium,

b. The PE multiple was arrived at considering factors like stock market trends, size and growth trends of comparable companies vis-à-vis CIL, market share of CIL in the chocolate segment.

c. The selected PE multiple was higher than the then prevailing PE multiples of BSE Sensex and BSE FMCG Index.

d. Nestle and Britannia both had factories located in tax benefit zone in Uttarakhand.

However, the minority shareholders opposed this report as well and produced their own valuation of Rs 2,500 per share and demanded that the valuation shall be done on DCF Method. This valuation of 2,500 was not based on any data or material pertaining to Cadbury India, but on the supposed market value of Nestle India Limited. The minority shareholders held that since on 19th January 2010, Nestle's shares were being traded at Rs. 2,542/- per share, Cadbury India's shares should be at least Rs. 2,500/-, for the two must be held to be "competitors". The court found the valuation approach completely untenable and further directed the Third Valuer to update its Valuation Report dated 20th May 2010 taking into account the valuation of the Company based on the Discounted Cash Flow ("DCF") method along with the CCM method.

Approach	Methodology	Used	Remarks
Market approach	Market Price method	No	• The shares of CIL were not listed on any stock exchange.
	Comparable Companies method	Yes	• This method was used considering that there were stocks of comparable companies like Nestle, GSK Consumer Healthcare and Britannia being traded on the Indian stock exchanges.
	Comparable Transactions method	No	• Method not used due to lack of availability of credible and complete data about the transactions in public domain.
Income approach	DCF method	Yes	• Initially, did not use this method as the financial projections were not provided. However, later with Court orders, CIL provided the same and the DCF method was used.

Cost approach	Net Asset Value	No	• CIL's business being a B2C business with huge brand recall, the value lied in the business operations and not the underlying assets of the Company. • Though there was value in the real estate owned by the company, however, all of these were being used for business operations.

The third Valuer performed valuation basis both the methods giving equal weightage to both and came up with a valuation of Rs. 2,014.5 per share. The basic assumptions considered in same were as under: -

a. CAGR of sales for next 10 years considered at 18.3% as against 14.5% of last 10 years.

b. Cost of Equity considered at 11%, wherein Rf = 7% and Rm = 15%; Beta Considered based on betas of comparable companies @ 0.50

c. Debt/Equity Ratio = 0, hence WACC = Cost of Equity

d. Terminal Growth Rate considered @ 6% based on comparison between future projections with past performance, and with the projections of comparable companies.

e. Income Tax considered flat at 33.33% assuming that Tax regimes are liable to change at short notice. Hence in long run a flat tax rate in a projection might, in fact, provide a very realistic and fairer value than something that is presently at a lower marginal rate.

f. Equal Weightage given to both CCM and DCF method to arrive at final valuation

The revised Valuation of Rs 2,014/- as well was challenged by the minority shareholders but the High Court, in a detailed judgment, agreed with third Valuers' approach and dismissed all objections raised against the Report.

3. Key **Learnings for Valuers** from **the above Case**

a. The Court held that "In order to decline sanction it must be shown that the valuation is ex-facie unreasonable and cannot be accepted on the face of it. The mere existence of other possible methods of valuation would not be sufficient to deny sanction to such a scheme. It was held that the assent of the court would be given if:

i. the scheme is not against the public interest;

ii. the scheme is fair and just; and

iii. the scheme does not unfairly discriminate against or prejudice a class of shareholders"

b. The sanctioning Court has no power or jurisdiction to exercise any appellate functions over the scheme as it is not a Valuer and it does not have the necessary skills or expertise. The sanctioning Court cannot substitute its own opinion for that of the shareholders. Its jurisdiction is peripheral and supervisory, not appellate. The Court is not "a carping critic, a hair-splitting expert, a meticulous accountant or a fastidious counsel; the effort is not to emphasize the loopholes, technical mistakes and accounting errors".

c. Valuation is not an exact science, it is always and only an estimation, a best-judgment assessment. All valuations proceed on assumptions and the fact that a particular estimation might not catch an objector's fancy is no ground to discredit it. To dislodge a valuation, it must be shown that those assumptions are such as could never have been made, and that they are so patently erroneous that the end result itself could not but be wrong, unfair and unreasonable.

d. The Court must not venture into the realm of convoluted analysis, extrapolation, and taking on itself an accounting burden that is no part of its remit or expertise, and no part of a statutory obligation.

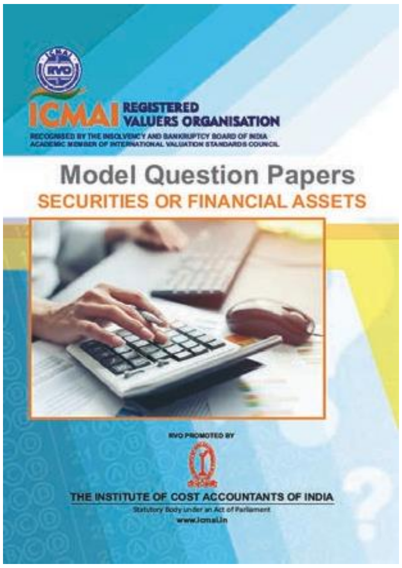
4. Decision of the Hon'ble High Court

The Hon'ble Bombay High Court held that the valuation of Rs. 2,014.50/- per fully paid-up equity share arrived at by the Court-appointed Valuer in its second (supplementary) report dated 29th July 2011 was accepted.

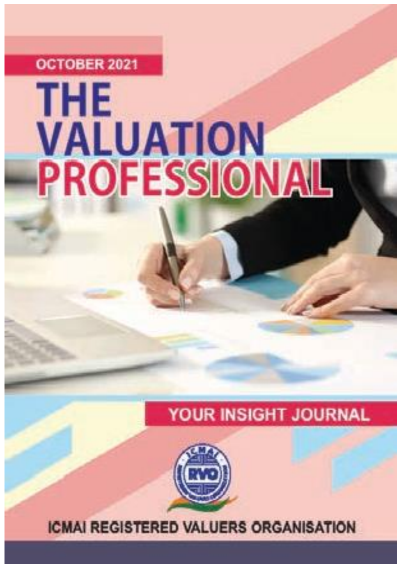
National Conclave on Valuation of Start-Ups on 19th June 2022

Summer Bootcamp Online Certificate Course in Valuation

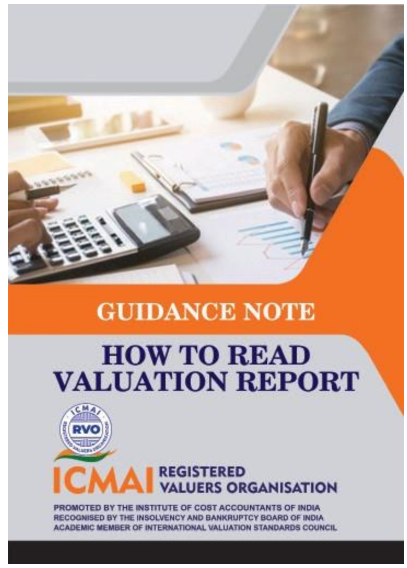
PUBLICATIONS



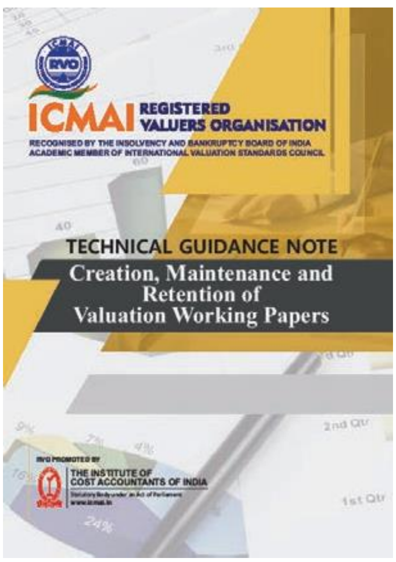
Model Question Papers
Securities or Financial Assets



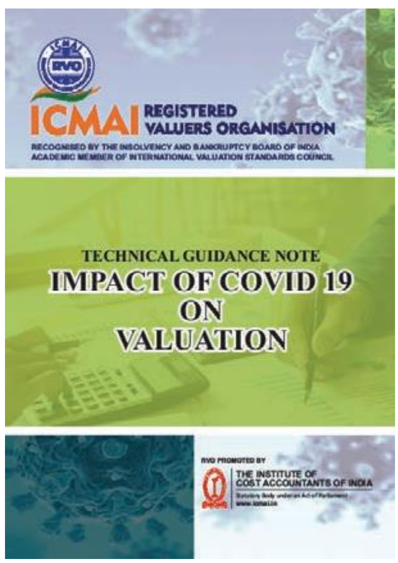
The Valuation Professional



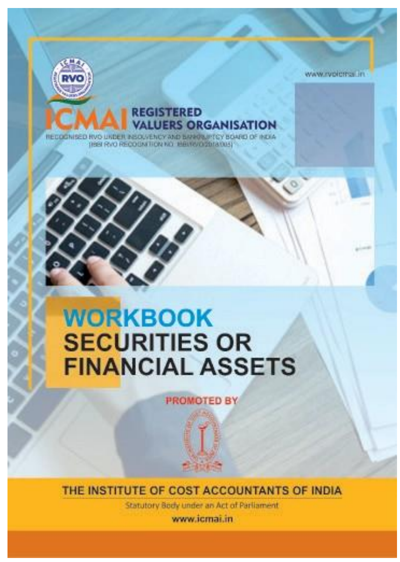
Guidance Note
How to Read Valuation Report



Technical Guidance Note
Creation Maintenance and
Retention of Valuation Working
Papers



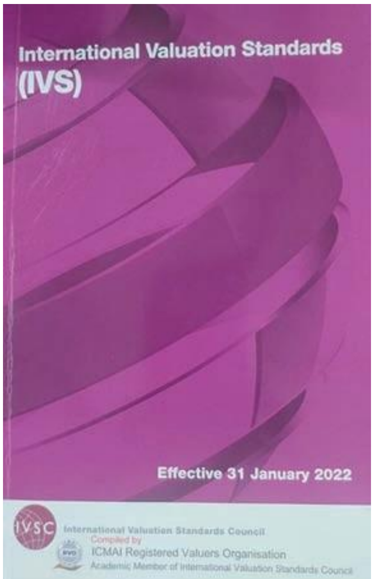
Technical Guidence Note
Impact of Covid 19
on Valuation



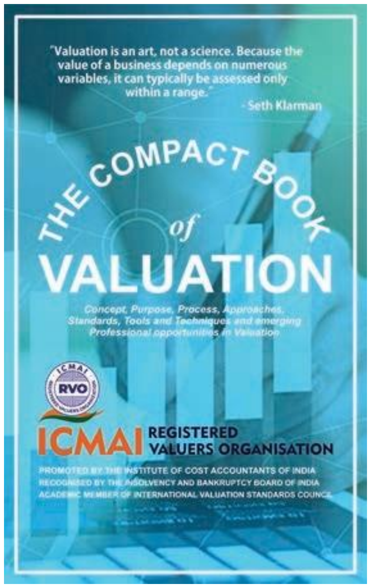
Work Book
Securities or Financial Assets

Link:- https://www.rvoicmai.in/publication/

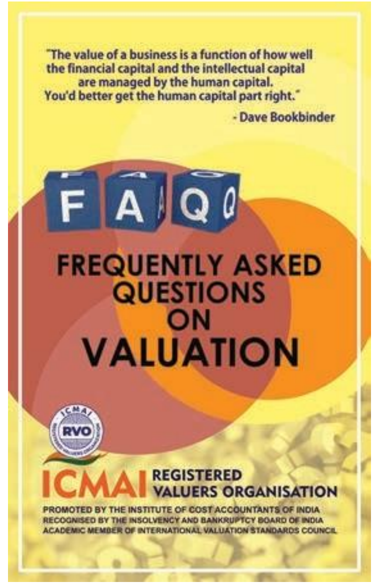
PUBLICATIONS



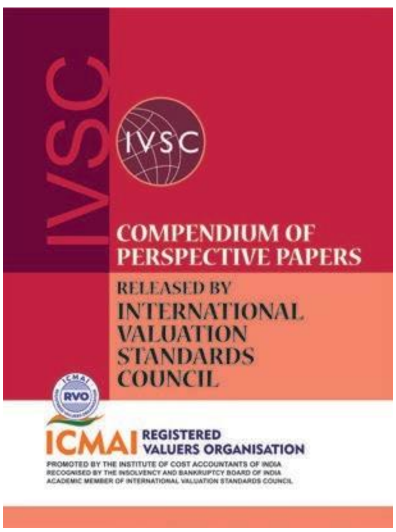
International Valuation Standards



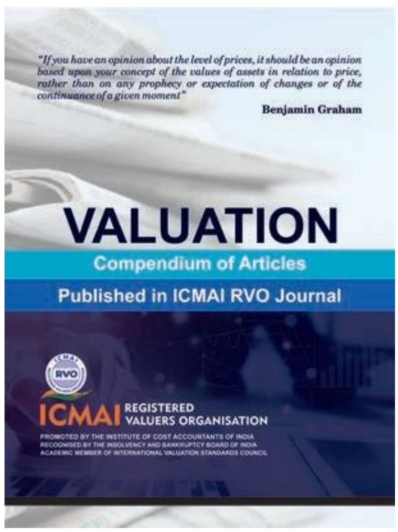
The Compact Book of
Valuation



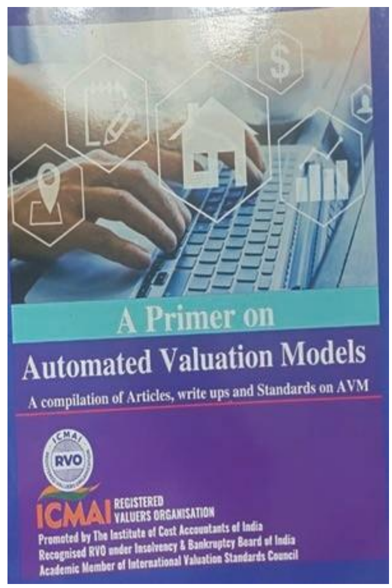
FAQ
Frequently Asked Questions on
Valuation



Compendium of
Perspective Papers



Compendium of Articles



Automated Valuation Models

Link:- https://www.rvoicmai.in/publication/

Ambassadors - ICMAI RVO

Sl. No.	Name of RV	E-mail	Place	Asset Class	CA/CMA/CS/MBA/ Engineer
1	Ajeesh R S Nair	ajeeshrsnair@gmail.com	THIRUVANANTHAPURAM , KERELA	Securities or Financial Assets	CMA
2	Alekha Charan Rout	acrout.carv@gmail.com	PUNE , MAHARASHTRA	Securities or Financial Assets	MBA
3	Amish Shashikant Mehta	mehta_amish@hotmail.com	MUMBAI , MAHARASHTRA	Securities or Financial Assets	CMA,CA
4	Amit Bhatia	caamit02@hotmail.com	YAMUNANAGAR , HARYANA	Securities or Financial Assets	CA
5	Amit Bindlish	amitbindlish@gmail.com	GURUGRAM , HARYANA	Securities or Financial Assets	CMA
6	Anil Xavier	anilxavier.v@gmail.com	ERNAKULAM , KERALA	Securities or Financial Assets	CMA,CS
7	Ankit Gupta	gupta.ankit2002@gmail.com	MUKERIAN , PUNJAB	Securities or Financial Assets	CMA
8	ASUTOSH DEBATA	ashutosh_debata@rediffmail.com	BHUBANESWAR , ORISSA	Securities or Financial Assets	CMA
9	Babu Lal Gurjar	cmablgurjar@gmail.com	JAIPUR , RAJASTHAN	Securities or Financial Assets	CMA
10	Debayan Patra	patra.debayan@gmail.com	KOLKATA , WEST BENGAL	Securities or Financial Assets	CA
11	Deepankar Sharma	charteredengineerbaddi@gmail.com	SOLAN , HIMACHAL PRADESH	Plant and Machinery	Engineer
12	Harikrishna R	harikrishnacvl@gmail.com	BANGALORE , KARNATAKA	Land and Building	Engineer
13	Jatin Mehra	jatinmehraassociates@gmail.com	AMRITSAR , PUNJAB	Securities or Financial Assets	CA
14	Krieshan Groverr	ca.krieshan@gmail.com	RAJPURA , PUNJAB	Securities or Financial Assets	CMA,CA,CS
15	MAHESH BANSAL	emmbee.consulting@gmail.com	LUDHIANA , PUNJAB	Securities or Financial Assets	CA
16	Maneesh Srivastava	MANEESHCS1@gmail.com	NOIDA , UTTAR PRADESH	Securities or Financial Assets	CS
17	Manisha Sanjay Agrawal	m_taiyal@yahoo.com	NAGPUR , MAHARASHTRA	Securities or Financial Assets	CMA
18	Mohamed Abubecker Sidhick M	masidhick.co@gmail.com	PALANI , TAMILNADU	Securities or Financial Assets	CMA,CA
19	Kapil Maheshwari	maheshwarikapil@gmail.com	GHAZIABAD , UTTAR PRADESH	Securities or Financial Assets	MBA
20	Krishna Kumar Mittal	mittalkrishna53@gmail.com	AGRA , UTTAR PRADESH	Securities or Financial Assets	CA
21	Nataraja Nanjundaiah	nnataraja491@gmail.com	BANGALORE , KARNATAKA	Securities or Financial Assets	CMA
22	NAVIN KHANDELWAL	navink25@yahoo.com	INDORE , MADHYA PRADESH	Securities or Financial Assets	CA
23	Nitin Goyal	canitin94@gmail.com	RAIPUR , CHHATTISGARH	Securities or Financial Assets	CMA,CA,CS
24	Padmakumar Achuthan Namboothiri	cma.padmakumar@gmail.com	KOTTAYAM , KERALA	Securities or Financial Assets	CMA
25	PRANAB KUMAR CHAKRABARTY	pranabchakrabartypkc@yahoo.com	HOWRAH , WEST BENGAL	Securities or Financial Assets	CMA

Ambassadors-ICMAI RVO

Sl. No.	Name of RV	E-mail	Place	Asset Class	CA/ CMA/ CS/ MBA/ Engineer
26	Pratik Kumar Gupta	pratikcivil06@gmail.com	JABALPUR , MADHYA PRADESH	Land and Building	Engineer
27	Priyanka Satynarayan Mundra	manihar8priyanka@gmail.com	SURAT , GUJARAT	Securities or Financial Assets	CMA,CA
28	Ramakrishna Kurra	kurraramakrishna@gmail.com	GUNTUR , ANDHRA PRADESH	Securities or Financial Assets	CMA
29	Saurabh Dasot	skd.manu@gmail.com	KOTA , RAJASTHAN	Land and Building	Engineer
30	Shailendra Kumar Paliwal	cmashailendra@hotmail.com	LUCKNOW , UTTAR PRADESH	Securities or Financial Assets	CMA
31	Shrikant Rajmogali Ippalpalli	shrikant.cma@gmail.com	SOLAPUR , MAHARASHTRA	Securities or Financial Assets	CMA
32	Siddhartha Mukhopadhyay	saptarshi2307@gmail.com	BILASPUR , CHHATTISGARH	Securities or Financial Assets	CMA
33	Sony Ahuja	cssonyahuja@gmail.com	COIMBATORE , TAMILNADU	Securities or Financial Assets	CS
34	Suresh Kumar Jain	sureshkumarjain.rv@gmail.com	VIJAYAWADA , ANDHRA PRADESH	Securities or Financial Assets	CA
35	Suresh Kumar Johar	johar_128@yahoo.com	AHMEDABAD , GUJARAT	Securities or Financial Assets	CMA,CA,CS
36	Venkata Naga Lavanya Kandala	31069lavanya@icmaim.in	HYDERABAD , TELANGANA	Securities or Financial Assets	CMA
37	Vishesh Unni Raghunathan	visheshunni@gmail.com	CHENNAI , TAMILNADU	Securities or Financial Assets	CMA,CA
38	VISHNU UPADHYAY	vishnu.upadhyay@gmail.com	FARIDABAD , HARYANA	Securities or Financial Assets	CMA
39	Yogesh Prabhudas Pathak	yogpath99@gmail.com	AHMEDABAD , GUJARAT	Land and Building	Engineer

OPPORTUNITIES FOR REGISTERED VALUERS

Companies Act, 2013

- Private placement of shares
- Issue of Share on Preferential basis
- Issue of Shares for consideration other than cash
- Issue of Sweat Equity Shares
- Non- cash transaction involving directors
- Merger and Amalgamations
- Demergers
- Scheme of compromise or arrangement with creditors/members
- Submission of report by company liquidator
- Purchase of minority shareholding

SEBI Regulations

- SEBI (Issue and listing of Securitised debt Instruments and Security receipts) Regulation,2008
- SEBI (Infrastructure Investment Trusts) Regulations, 2014
- SEBI (Real Estate Investment Trusts) Regulations,2014
- SEBI (Listing Obligations and Disclosure Requirements) Regulations,2015
- SEBI (Issue of capital and Disclosure requirements) regulations,2018
- SEBI(Appointment of Administrator and procedure for refunding to the investors) Regulations,2018

Insolvency and Bankruptcy Code 2016

- Determination of value of assets, realizable value, Fair value and liquidation value as the case may be

Income Tax Act, 1961

- Valuation Methodology for Issue of Unquoted Equity Shares – Rule 11UA(2)2 56(2)
- Issue of Unquoted Shares (Other Than Equity Shares) – Rule 11UA(1)(c)(c)
- Transfer of Shares and other Securities
- Valuation for Capital Gains
- Transfer Pricing – International Transactions between Associated Entities
- Indirect Transfer Pricing – Capital Gain arising to Non-Resident on transfer of shares of foreign company
- Valuation of Equity Shares held by the Minority share Holders.

Process for becoming Register Valuer

1. Meet eligibility requirements, qualification and experience prescribed under Rule 4 of the Companies (Registered Valuers and valuation) Rules, 2017
2. Seek enrolment as a valuer member of ICMAI RVO
3. Complete 50 Hours Educational Course
4. Register and pass computer based Examination conducted by IBBI
5. Submit required Form along with fee in favour of IBBI and supporting documents to ICMAI RVO
6. ICMAI RVO shall verify Form & other Requirements and forward the same along with its recommendation to IBBI
7. On receipt of Form along with recommendation of ICMAI RVO, fee and other documents, IBBI shall Process the application for registration
8. After registration with IBBI, take up COP training with ICMAI RVO
9. On completion of training ICMAI RVO shall issue a Certificate of Practice to the Registered Valuer
10. Valuation certificate can be issued only after obtaining Certificate of Practice

EDUCATIONAL QUALIFICATION & EXPERIENCE

FOR 50 HOURS EDUCATIONAL COURSE

Asset Class	Eligibility/ Qualification	Experience in specified discipline.
Plant and Machinery	(I} Graduate in Mechanical, Electrical, Electronic and Communication, Electronic and Instrumentation, Production, Chemical, Textiles, Leather, Metallurgy, or Aeronautical Engineering, or Graduate in Valuation of Plant and Machinery or equivalent; (ii) Post Graduate on above courses.	(i) Five years (ii) Three years
Land and Building	(i) Graduate in Civil Engineering, Architecture, or Town Planning or equivalent; (ii) Post Graduate on above courses and also in valuation of land and building or Real Estate Valuation (a two-year full time post-graduation course).	(i) Five years (ii) Three years
Securities or Financial Assets	(i) Member of Institute of Chartered Accountants of India, Member of Institute of Company Secretaries of India, Member of the Institute of Cost Accountants of India, Master of Business Administration or Post Graduate Diploma in Business Management (specialisation in finance). (ii) Post Graduate in Finance	Three years
Any other asset class along with corresponding qualifications and experience in accordance with rule 4 as may be specified by the Central Government. *Note: The eligibility qualification means qualification obtained from a recognized Indian University or equivalent Institute whether in I ndia or abroad.”.*		

PROCESS FOR IBBI EXAMINITION

a. The candidate may enroll for the examination on payment of the fee as prescribed by IBBI
b. Online examination with objective multiple-choice questions
c. The duration of the examination is 2 hours
d. Wrong answer attracts a negative mark of 25% of the assigned for the question
e. A candidate needs to secure 60% of marks for passing.

FORMAT AND FREQUENCY OF EXAMINATION

a. The examination is conducted online (computer-based in a proctored environment) with objective multiple-choice questions;
b. The examination centers are available at various locations across the country;
c. The examination is available on every working day;
d. A candidate may choose the time, the date and the Examination Centre of his choice for taking the Examination. For this purpose, he needs to enroll and register at https://certifications.nism.ac.in/nismaol/
e. A fee of Rs.1500 (One thousand five hundred rupees) is applicable on every enrolment;
f. The duration of the examination is 2 hours;
g. A candidate is required to answer all questions;
h. A wrong answer attracts a negative mark of 25% of the marks assigned for the question;
i. A candidate needs to secure 60 % of marks for passing;
j. A successful candidate is awarded a certificate by the Authority;
k. A candidate is issued a temporary mark sheet on submission of answer paper;
l. No workbook or study material is allowed or provided;
m. No electronic devices including mobile phones and smart watches are allowed; and
n. Use of only a non-memory-based calculator is permitted. Scientific Calculators (memory based or otherwise) are not allowed.

Insolvency and Bankruptcy Board of India
Limited Insolvency Examination Division
Valuation Examinations Division

No. EXAM-13016/1/2022-IBBI
Dated: 06th June 2022

CIRCULAR

To,
All Test Administrators
All Insolvency Professional Agencies
All Registered Valuer Organisations
All candidates registered in the examination system
(Through IBBI website)

Dear Sir/Madam

Subject: Improvement to the scheme of examinations - frequency of attempts in Limited Insolvency Examination/ Valuation Examinations

IBBI conducts the Limited Insolvency Examination (LIE) in pursuance to regulation 3 of the Insolvency and Bankruptcy Board of India (Insolvency Professionals) Regulations, 2016. The said Regulations *inter-alia* empowers IBBI to determine the syllabus, format and frequency of the examination, to be published at least three months before the examination.

2. IBBI, as the designated Authority, also conducts Valuation Examinations in terms of rule 5 of the Companies (Registered Valuers and Valuation) Rules, 2017(Valuation Rules). The said rule *inter-alia* empowers IBBI to determine the syllabus, format and frequency of the examination, to be published at least three months before the examination.

3. In order to bring in objectivity and improvements in the scheme of above examinations, it has been decided that frequency of attempt in an LIE or valuation examination, as the case may be, for every candidate, shall be determined after taking into account a cooling off period of 2-months between each consecutive attempts of such candidate, thereby making a total of 6 attempts in a period of 12 months.

4. You are, therefore, advised to implement/ follow the above requirements in LIE/ Valuation Examinations conducted/ attempted after expiry of the period of 3 months from the date of this circular.

5. This circular is being issued in exercise of the powers conferred under the provisions of section 196 of the Insolvency and Bankruptcy Code, 2016, Regulations made thereunder and the Valuation Rules.

Yours faithfully

Sd/-
Rajesh Tiwari
General Manager
Tel: 011 2346 2864
Email: trajesh.74@ibbi.gov.in

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

GUIDELINES FOR ARTICLES

The articles sent for publication in the journal "The Valuation Professional" should conform to the following parameters, which are crucial in selection of the article for publication:

- The article should be original, i.e. Not Published/ broadcasted/hosted elsewhere including any website.
- A declaration in this regard should be submitted to ICMAI-RVO in writing at the time of submission of article.
- The article should be topical and should discuss a matter of current interest to the professionals/readers.
- It should preferably expose the readers to new knowledge area and discuss a new or innovative idea that the professionals/readers should be aware of.
- The length of the article should not exceed 2500-3000 words.
- The article should also have an executive summary of around 100 words.
- The article should contain headings, which should be clear, short, catchy and interesting.
- The authors must provide the list of references, if any at the end of article.
- A brief profile of the author, e-mail ID, postal address and contact numbers and declaration regarding the originality of the article as mentioned above should be enclosed along with the article.
- In case the article is found not suitable for publication, the same shall be communicated to the members, by e-mail.

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

PROMOTED BY: THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Registered Office

The Institute of Cost Accountants of India

4th Floor, CMA Bhawan 3, Institutional Area, Lodhi Road, New Delhi – 110003

www.rvoicmai.in

Contact us

Telephone No. 120 2975515,120 2975516

Mobile No: 94114-69499 (Manager); 94579-54906 (Program Coordinator)

Email: manager@rvoicmai.in, coordinator.delhi@rvoicmai.in