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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.

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ICMAI REGISTERED VALUERS ORGANISATION
RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

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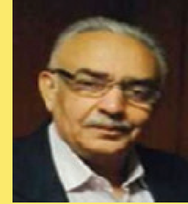
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FROM THE CHAIRMAN's DESK

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

During a pandemic where lives and livelihoods have been lost, where the economy has endured shocks of considerable sweep and scale, the most popular Indian stock index has doubled in value. Two factors underpin this seemingly counterintuitive rise: rising corporate profits, and a constant flush of capital chasing returns, including from new investors taking to the market in significant numbers.

There was a notable shift in the country's start-up environment in 2021, with several high-profile companies making their stock market debuts. These include food delivery app Zomato, payments giant Paytm and the parent company of online insurance aggregator Policy bazaar. More start-ups are in the IPO pipeline, including ride-hailing company Ola and Indian hotel chain Oyo. Indian tech start-ups also raised a record amount of capital from private equity and venture capital firms. Those investors pumped in $28.2 billion worth of tech investments this year across 779 deals, according to information provided by Asia private equity and venture capital intelligence provider, AVCJ. That marked a 200% jump in capital compared with the $9.4 billion invested last year.

The 2021 trend of internet driven companies has not ended. That trend will possibly continue going forward also. There are a whole bunch of new businesses which are getting listed as we speak. These are ready to come to the market in the next 12 to 18 months. I think this trend is going to continue and investors will get a whole bunch of new businesses to invest in.

FROM THE PRESIDENT's DESK

CMA P. Raju Iyer
Nominee Director
ICMAI Registered Valuers Organisation

President
The Institute of Cost Accountant of India

COVID 19 onslaught has continued since early 2020, albeit it has slowed in part this year due to wide-scale vaccine production and administration throughout the world, the threat of variants of the virus continues to loom large globally. The case in point is Omicron fear gripping the world. The year 2021 has proven to be a tough year across continents, with major concerns such as slowing down of the economy, rising unemployment, widening digital disparities, constricted logistic supply chains, over-strained medical infrastructure, dissatisfaction amongst youth, and increasing societal disintegration hurting one and all.

Businesses are facing rapidly changing environments due to the emergence of innovative technologies at a swift pace, the majority of which are disruptive in nature. Coupled with the wide range of obstacles, environmental, digital and geopolitical in nature such as supply chain disruptions, climate action failures, social divisions, digital inequities, and a complicated security concerns in Indian Ocean waters, all of these will have ramifications for businesses, potentially impeding their recovery and development in the long run. To successfully out manoeuvre the risks and prepare for the challenges, as well as to escape the clutches of simple survival, firms and enterprises must focus their whole attention on establishing resilience and agility.

FROM THE MD's DESK

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

Ever since the covid pandemic hit the world in February -March 2020, the global financial markets have seen many highs and lows, with several stocks crashing badly and turning in red. However, after many jolts in the financial markets, some industries, especially the healthcare and pharma sector, saw their share all-time-high, perhaps due to high consumers demand and stimulus packages announced by the respective governments.

Moving ahead now, 2022 will be a critical year in which the imbalances wrought by the pandemic will likely begin to resolve and the business cycle normalizes. According to a report by Morgan Stanley, the economic and market environment in 2022 will be decidedly reflationary, with higher economic growth and higher inflation, and eventually higher real interest rates—in short, a hotter and shorter business cycle.

Certainly, these trends suggest that investors need to be positioned not for a dearth of economic growth but an abundance of it. Higher growth and inflation will likely translate to higher nominal and real interest rates and a steepening of Treasury yield curves, with price/earnings multiples compressing in the more rate-sensitive sectors.

PROFESSIONAL DEVELOPMENT

ICMAI REGISTERED VALUERS' ORGANISATION

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PROFESSIONAL DEVELOPMENT PROGRAMS

November' 2021 to January' 2022	
Date	**PD Programs**
30th -31st October 2021	Certificate Course on International Valuation Standards
06th -07th November 2021	
05th -06th -7th November 2021	3 Days Learning Session on Case Studies
13th -14th November 2021	Certificate Course on Practical Aspects of Valuation Reports
16th November 2021	The Valuer of the Future: Challenges and Aspirations
17th to 19th Dec. 2021 & 23rd to 26th Dec. 2021	50 hours Valuation Course on securities or Financial Assets
20th 21st November 2021	Certificate Course on Technical and Soft Skills for Valuation Professionals
24th November 2021	Overview of Land, commercial property and equipment Valuation, and IVS."
27th -28th November 2021	Professional Development Program
04th -05th December 2021	Certificate Course Achieving Excellence in Valuation assignments
08th December 2021	Physical Program -Milestones Achieved Program in Association with IBBI
11th -12th December 2021	Certificate course on International Valuation Standard
16th December 2021	Valuation of the Intangible Assets
18th -19th December 2021	Valuation Skills Improvement Program
25th -26th December 2021	Valuation Skills Improvement Program for Valuation Professionals
30th December 2021	Master Class on Emerging challenges of Valuation in 2022
08th -09th January 2022	Workshop on Valuation Report
07th to 09th & 13th -16th January 2022	50 hours Valuation Course on Land & Building and Plant & Machinery

PROFESSIONAL DEVELOPMENT PROGRAMS

Upcoming Professional Development Programs

Date	PD Programs
15th -16th January 2022	Certificate Course on Tools for Data Analysis
22nd -23rd January 2022	Master Class

Articles

'VALUE LIES IN THE EYE OF THE BEHOLDER'

THE CASE OF INTERPLAY OF PRICE, VALUE, PERCEPTION

Dr. S K Gupta
Managing Director
ICMAI Registered Valuers Organization

The Perspective

Every consumer has a unique set of needs and resources, so no two consumers will place the same customer value on the same product or service. The highest-quality product or service does not always provide the highest customer value, since the benefit of each item is measured against the cost. Some consumers are willing to pay a high price for a quality product or a high level of service, but others will make the decision that the same benefits are not worth the price. "The value is always in the eye of the beholder. What is worthless to one person may be very important to someone else."

What is Value ?

Value is the 'worth' of a thing. It can also be defined as 'a bundle of benefits' expected from it. It can be tangible or intangible Value is defined as:

- The worth, desirability, or utility of a thing, or the qualities on which these depend
- Worth as estimated
- The amount for which a thing can be exchanged in the market
- Purchasing power e. Estimate the value of, appraise (professionally)

Value, like 'utility', has different connotations in different contexts, and may vary from person, place and time. It can range from a precise figure to something bordering on sentimental or emotional, or even the absurd.

Value Dimensions

Perhaps the most groundbreaking work on how to maximize value delivery to best customers comes from Dr. Noriaki Kano, a renowned Japanese professor and customer value thought leader. Dr. Kano developed the thinking that not all service and product performance is equal in the eyes of best customers. Some performance creates higher levels of loyalty than others. His research suggested there are three value levels that form a pyramid.

- At the lowest level in the value pyramid is basic value. This is least must-have performance. Failure to deliver these basic services will result in customer dissatisfaction, but doing them well will not increase loyalty, because customers perceive them as minimum requirements.
- At the middle level is expected value. These are the performance factors that the leading suppliers in an industry provide. As a market leader, a company must do these things to simply stay even with competition.
- At the highest level of the value pyramid is unanticipated value. FedEx was the first to offer online customer tracking via computer. Customers would track where the package was in transit and when the receiver accepted a delivery. At the time of its introduction, this was considered a major unanticipated service perk.

"People do not want quarter-inch drills. They want quarter-inch holes." Professor Emeritus Theodore Levitt, Harvard Business School

Buyers do not buy products or services; they buy the fulfilment of particular needs. This is surely a long-standing basis of value creation and communication. However what increasingly determines higher value goes beyond just fulfilment of needs (or call them desired outcomes). Buyer's preferences and perceptions rather play a more critical part, which decide which solution is of higher value. Focus on just fulfilling needs alone does not necessarily guarantee high value because there will always some competitors out there who can also fulfil those needs.

- Value is not just about price. Generally speaking, marketers have focused much of their energy and time on managing price, since upping the price can immediately increase profits. But customers are savvy and price is just one in an array of attributes that win their hearts. Focusing only on price is doomed to failure.
- Value shifts over time. What is seen valuable by a buyer today might not be as valuable in future. New alternatives become salient and previous ones cease to exist. We get used to what we

already have and start taking it for granted. Preferences become perceived needs and turn into even actual needs

- Consumer value is interactive By interactive, I mean that consumer value entails an interaction between some subject (a consumer or customer) and some object (a product)
- Consumer value is relativistic By relativistic, I mean that consumer value is (a) comparative (involving preferences among objects); (b) personal (varying across people); and (c) situational (specific to the context).
- Consumer value is an experience Finally, by experience, I mean that consumer value resides not in the product purchased, not in the brand chosen, not in the object possessed, but rather in the consumption experience(s) derived therefrom
- Value is self-oriented (for myself) when I prize some aspect of consumption selfishly or prudently for my own sake, for how I react to it, or for the effect it has on me
- Conversely, other-oriented value looks beyond the self to someone or something else, where my consumption experience or the product on which it depends is valued for their sake, for how they react to it, or for the effect it has on them.
- Extrinsic versus intrinsic value Extrinsic value pertains to a means-end relationship wherein consumption is prized for its functional, utilitarian, or banausic instrumentality in serving as a means to accomplishing some further purpose, aim, goal, or objective. By contrast, intrinsic value occurs when some consumption experience is appreciated as an end in itself—for its own sake—as self-justifying
- **Real** vs. *perceived* value. The value I talked about so far is similar to the concept of *real value* : total value that a product objectively offers to a customer, or the total value a customer could reap if using all functionality optimally. But counter to the name, things work a little differently in the *real* world.

Why different customers pay different price for a product

There are different types of consumers. Some see only the price tag, while others see what's beyond the tag. Not many realize the true value of something immediately. Often we have to put a product to a test to see it. But we must always know when to separate price and value. Warren Buffet said, "Price is what you pay. Value is what you get." The Difference Between Price and Value. Price can be understood as the money or amount to be paid, to get something. And value implies the utility of worth of the commodity of service for an individual. Price is the amount of money paid by the buyer to the seller in exchange for any product and service.

The most important distinction between price and value is the fact that price is arbitrary and value is fundamental. For example, consider a person selling gold bars for Rs.500 apiece. The price of those gold bars is, in this instance, Rs.500. It's an arbitrary amount chosen by the seller for reasons known only to them. Yet, in spite of the fact that those gold bars are priced at $5, their value is so much more. Some people fail to make the distinction between price and value and end up making dysfunctional decision.

Different people might end up offering / paying different amount for a product as their perception about the expected utility likely to be derived from the product might differ.

Conclusion

Product value refers to the benefits the product offers to the target customers. The overall value of a product is the degree to which it meets or exceeds customers' expectations. Product value directly affects product design and pricing strategy. Companies rely on the product value to prioritize, improve targeting, and brand messaging. Make creating value as the first priority and ensure that this priority always remains at the highest level. Other objectives of your business like numbers should be secondary to this. If you are unable to do so, look back again at your product and build value and keep doing it, numbers will flow by itself.

The secret to winning higher value-advantage is all about 'linking' in my view. It is an art which requires wearing the lens of your buyer stakeholders; understanding their preferences and perceptions; stay on top of dynamic shifts; crafting and linking features and benefits of your solution to those desirables going beyond just needs; and communicating them effectively. Absent the linkage, or presence of multiple degrees of separation, buyers will most likely view your solution as a commodity – where only thing so rightly matters is price. Only when providers know how buyers see value can they craft a targeted solution and help buyers see value of their solution clearly, and secure a value-advantage position in the eye of the buyers.

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VALUATION PROFESSION & SERVICES – A HISTORICAL PERSPECTIVE (WITH SPECIAL REFERENCE TO INDIA)

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Abstracts

'Valuation' is an essential service important to the Industry, Trade and Commerce. In short it is one of the most essential services to the economy of any country. The developed and developing nations of the world have realised the imperatives of independent valuation services and have recognised the need for the services of qualified and experienced valuation professionals. Many countries have set up or are in the process of setting up Professional Institutes of Valuation to build up the supply lines of valuation professionals. India is also on the verge of setting up such an Institute like ICAI, ICMAI, ICSI etc. for imparting in-depth education and training on Valuation and making full time valuation professionals. Recently a Committee of Experts appointed by the Ministry of Corporate Affairs, Government of India, has examined the need for an 'Institutional Framework for Regulation and Development of Valuation Professionals' and submitted its report (Draft Valuers' Bill, 2020) on 2nd April, 2020.

In this Article author has made an endeavour to highlight the historical perspective of valuation profession and services with special reference to India.

INTRODUCTION

A market economy needs valuation of assets to facilitate a variety of transactions. For example, the corporate insolvency resolution processed under the Insolvency and Bankruptcy Code, 2016 (Code) in India envisages estimation of fair value and liquidation value of the assets of the corporate debtor. These values serve as reference for evaluation of choices, including liquidation, and selection of the choice that decides the fate of the corporate debtor, and consequently of the stakeholders. A wrong valuation may liquidate an otherwise viable company, which may be disastrous for an economy. A banker determines the amount of loan that can be sanctioned against security of an asset. He may not have adequate protection, where he gives loan against the security of an asset whose value is overestimated or guarantee of a person whose net worth is overestimated. Some of the NPAs in the banking system are attributed to decisions based on such valuations. Several financial crises around the world are attributed to consequences of poor valuation. The examples are the "property crash" in UK in 1970s, "saving and loan" in USA and "Schneider affair" in Germany. The valuation profession, which provides authentic valuations to serve as reference for evaluation of choices and decision making, is an important profession in a market economy.

NEED FOR / IMPORTANCE OF VALUATION PROFESSION

The economic intermediaries take several financial decisions on the basis of an estimated value of an asset. They need value of an asset for *various purposes* such as:

a. Determination of the amount of loan that can be sanctioned against security of an asset or guarantee of a guarantor;

b. Levy of taxes like municipal tax, stamp duty, income-tax on capital gains;
c. Compensation for compulsory acquisition of property;
d. Assessment of loss and insurance premium;
e. Distribution of property among children / beneficiaries;
f. Reference or comparison in order to take an informed decision such as submitting or accepting a resolution plan in an insolvency proceeding etc.

The purpose of valuation gets defeated if the value is not authentic and genuine. As mentioned before, a banker may not have adequate protection, when he gives loan against the security of an asset whose value is overestimated or guarantee of a person whose net worth is overestimated. Most of the NPAs in the banking system are attributed to such inappropriate valuations. The regulating authority may unjustifiably give a ruling for liquidation of a company if it uses an inflated reference value for comparison with the value offered by resolution plans.

In market economies, property forms the basis of majority of financial decisions. An improper valuation of the property provides risk of financial exposure to a wide range of stakeholders. The decisions arising from use of inappropriate values, in addition to causing unfair gain or loss to parties, has the potential to distort market causing wrong allocation of resources thereby impinging economic growth in a market economy. Therefore, there is a need for a professional valuation.

Let us now discuss historical perspectives of valuation services.

HISTORICAL PERSPECTIVES OF VALUATION SERVICES

Valuations are an essential part of most reporting and business decisions and play a crucial role in many assets & proprieties related decisions. In fact, the evolution of valuation profession is attributed to the development of property markets. Internationally, the demand for the professionalisation of valuers include: (i) valuation induced financial crisis or the determination to avoid such a crisis; (ii) the move towards market economies; and (iii) property tax reforms. Further, several financial crises around the world have attributed to consequences of poor valuation.

It has been observed that after every financial crisis the focus has been shifted to valuation profession and efforts have been made to increase its accuracy and reliability. For example, pursuant to the "property crash" in UK in 1970s, the RICS published Red Book for setting out standards of valuation and professional conduct expected of valuers. In response to the "saving and loan" crisis in USA in late-1980s, the Government created a mechanism for uniform appraisal standards and licensing of valuers in each State. Further, the role of valuation profession was also highlighted in the global financial crisis of 2008.

VALUATION PROFESSION – A GLOBAL INITIATIVE

There are different models of valuation exercise followed by different countries. Traditionally, most of them have self regulation in which a few competing VPOs have regulated their members. However, most have shifted to some kind of statutory regulations.

In the USA the **Appraisal Sub-Committee (ASC)** created under the Financial Institutions Reform, Recovery, and Enforcement Act, 1989 (FIRREA) acts as the principal regulator and the State Agencies act as the frontline regulators having disciplinary rights. **The Appraisal Foundation (TAF)** establishes uniform appraisal standards through **Appraisal Standards Board (ASB)** and minimum appraiser qualification through **Appraiser Qualifications Board (AQB)**. TAF is a member association of VPOs, who mostly cater to developmental needs of the profession, though it is not necessary for an appraiser to be a member of a VPO.

The FIRREA provides appraiser regulatory system in the US. It authorises TAF, a private non-profit organisation, as the source of appraisal standards and qualifications. TAF sets the standards and qualifications for real estate appraisers as well as qualifications for personal property appraisers and provides voluntary guidance on recognised valuation methods and techniques for all valuation professionals. It advances the profession by ensuring that appraisals are independent, consistent, and objective. It has two independent Boards viz. (a) AQB that establishes minimum appraiser qualification criteria to be followed by the appraisers and the States in their respective regulatory programmes; and (b) ASB that establishes uniform appraisal standards known as Uniform Standards of Professional Appraisal Practice (USPAP).

The FIRREA authorises States to establish appraiser regulatory programmes to ensure effective supervision of certified and licensed appraisers eligible to perform appraisals for federally related transactions. The **Appraisal Sub-Committee (ASC),** an independent executive branch federal government agency, within the Federal Financial Institutions Examination Council (FFIEC), provides oversight to the appraiser regulatory system. It monitors and reviews the practices, procedures, activities, and organisational structure of The Appraisal Foundation. It consists of designees of the head of the Federal financial institutions regulatory agencies and is headed by a chairperson elected by the Council.

The **Association of Appraiser Regulatory Officials (AARO)**, a non-profit organisation, facilitates communication between regulators and others involved with the appraisal profession.

An individual, who satisfies the requirements for state certification in a State, meets minimum criteria for certification issued by AQB and has passed a suitable examination administered by the State (consistent and equivalent to the Uniform State Certification Examination issued or endorsed by the AQB) is eligible for certification and licensing (Certified or licensed appraiser). Only such certified or licensed appraiser is authorised to undertake appraisal for federally related transactions. Complaints against such certified or licensed appraisers are reported to State Agencies for necessary disposal under information to the referrer or complainant.

Incorporated by the Royal Charter in 1881, **Royal Institution of Chartered Surveyors (RICS)** is probably the oldest, largest and the most respected professional body of valuers. It has a membership of about 1.3 lakh, providing valuation services in the area of real estate across the World, including India. It promotes and enforces international standards in valuation management and development of land, real estate, construction and infrastructure. It monitors, guides and assists members and firms to comply with the rules, regulations and ethical standards. It reviews and investigates complaints and, wherever appropriate, takes disciplinary action in cases where members and/or regulated firms become deficient of what is expected of them, to protect the public interest or to uphold standards. The consequences of the disciplinary action range from warnings to expulsions or cancellation of registration of the members. It provides advice and guidance to members and firms in order to help meet regulatory requirements, and subsequently to manage risk effectively in their operations.

The Governing Council of the RICS performs the functions as management of the Royal Charter obligations and sets the top-level directions and strategy. It is supported by the two key sub-divisions: *(a) Management Board* which assists in the management of operational activities and is responsible for the day to day performance and delivery of the business plan; and *(b) Regulatory Board* which defines strategy and policies, oversees operational delivery and ensures that RICS's approach to regulation.

VALUATION STANDARDS

Two sets of standards, namely, **International Valuation Standards (IVS)** issued by the International Valuation Standards Council (IVSC), and the **Royal Institution of Chartered Surveyors (RICS) Red Book**, command great respect among the stakeholders. In addition, there are standards issued by national valuation professional organisations for their members. IVS comprises five 'General Standards' and six 'Asset-specific Standards'. The *General Standards* contain standards applicable to valuation of all asset classes, covering scope of work, investigations and compliance, bases of value, valuation approaches and methods, and reporting. The *Asset-specific Standards* include requirements related to specific types of asset valuation, including background information on the characteristics of each asset type that influence value and additional asset-specific requirements regarding common valuation approaches and methods used. These cover businesses and business interests, intangible assets, plant and equipment, real property interests, development property and financial instruments. IVS allows flexibility to meet national requirements. Some countries have adopted IVS as national standards, and some have adopted IVS with amendments to meet the requirements of national legislations. Professional organisations have adopted parts or all IVS for their members in many countries.

RICS Red Book adopts and applies IVS. The standards comprise three forms: *(a) Professional Standards* on ethics and conduct, *(b) Technical Standards* on common definitions and conventions, *(c) Performance or Delivery Standards* on analysis and objectivity of judgement. RICS also allows departures to meet local statutory or regulatory requirements.

RICS Valuation Standards – Global and India issued in May 2011 provides four India-specific guidance notes: *(a) valuation for financial statements, (b) valuation for secured lending, (c) valuation for development land in India, and (d) valuation for tax purposes in India*. It is understood that RICS is working on a national supplement to Red Book for India for valuations undertaken subject to Indian jurisdiction.

ANCIENT HISTORY OF VALUATION PROFESSION IN INDIA

The valuation profession has a long, evolving history in India. An authentic discourse of its history is probably not available. It appears that laws existing prior to independence provided for valuation of properties, especially the laws concerning land acquisition for granting compensation. **The Land Acquisition Act, 1894** provided that the 'market value' of the land would be considered while determining compensation. The valuation tables prepared by Miram (1928) hold relevance till today and are utilised by the valuers. In his book, Parks (1942) noted that India then had thousands of so-called valuation experts. But there was no pool of dedicated professionals

performing only valuation profession. The professionals of different streams performed valuations in niche areas. In the absence of any Act to regulate valuer's profession, anybody connected with civil construction, used to designate himself as a valuer and did valuation work of land, building and plant and machinery. The different legal regimes, acting as separate islands, used to recognise valuation professionals according to their self-prescribed eligibility criterion.

EVOLUTION OF INSTITUTIONAL FRAMEWORK IN INDIA

While several committees have recommended regulation of the profession, but the fact remains that regulation and development of the profession were never dealt holistically. Till recently, there was no comprehensive institutional framework to provide legitimacy to the valuation profession. There was no provision for holding the valuation professionals accountable for their services. Several attempts made to provide an institutional framework in the past did not work out as all stakeholders could not be taken on board.

Let us now discuss about the attempts made in India to provide institutional framework to the valuation profession.

Expert Group, 2003

The then Ministry of Finance and Company Affairs constituted an **Expert Group** under chairmanship of Mr. Shardul S. Shroff in 2003 to suggest guidelines on valuation of shares in connection with amalgamation, merger, demerger, acquisition, buy-back, etc. of shares and / or restructuring of capital of companies. The Expert Group noted that the norms of valuation processes would enhance the credibility of Indian corporates and Indian capital markets as an extended principle of corporate governance. It recommended mandatory and directory provisions for valuation in certain circumstances.

It made the following *key recommendations*:

a. Department of Company Affairs (DCA) should be the sole regulator for valuers and valuation related issues as the scope of valuation concerns both listed and unlisted companies.

b. Valuers need to be licensed and regulated. The Central Government should publish a Register of RVs from 1st May, 2003 specifying particulars of valuers in practice and valuers who have passed the entrance examination conducted by the DCA for registration and licensing. The Central Government may make rules or regulations for registering firms or companies as RVs. At least two persons associated with the firm / company proposing to be registered as valuer and who are partners, directors or employees are RVs or valuers in practice, may be recognised by the DCA.

c. RVs shall strictly adhere to the Code of Conduct and the companies owe a duty to an independent valuer to be fair and to provide accurate information about the company.

d. The Central Government should prescribe rules/ regulations/ procedure for proceedings against valuers for breach of licensing conditions, code of conduct, or other applicable rules and regulations or provisions of the Act as may be applicable to valuers. The licensing and registration authority shall carry a condition that the valuer shall submit to the regulatory and disciplinary authority/jurisdiction of DCA. The RV will be subject to civil and/or criminal liability in case of mis-conduct or other wrong.

e. Considering the competing claims for a full disclosure versus business confidentiality consideration, two kinds of reports should be prepared: *(i) summarised valuation report* that sets out certain essential features of the final report and is made available for inspection, and *(ii) detailed valuation report* that covers all material relevant matters and more detailed reason and analysis which have been masked in the summarised valuation report for confidentiality considerations.

f. The chairman of the Audit Committee should appoint the valuer. He is required to verify whether the valuer has an advisory mandate and has past association with the company management. He shall verify the independence of the valuer to ensure independent valuation.

g. There should be a two-tier review mechanism for complaints. The complaints should be referred to a Screening Committee comprising of valuers not in active practice. Where the Screening Committee forms a prima-facie opinion (no personal hearing allowed) that the complaint merits examination, it shall forward the same for review by the Peer Review Committee, comprising RVs who are undertaking or have undertaken mandatory valuations.

Expert Committee on Company

Law, 2005

The Expert Committee on Company Law, headed by Dr. J. J. Irani, recommended to MCA, in the year 2005 that:

a. There should be recognition of principle of valuation of shares through an independent valuer whenever company causes an exercise of merger/ restructuring to safeguard minority interests.

b. The independent valuer should be appointed by the Audit Committee where such a Committee is mandated or by the Board in other cases. The shareholders should have the right to approach the Court / Tribunal if they perceive the process to be unfair.

c. The valuation of the shares of companies involved in schemes of mergers should be mandatory.

d. In case of unlisted public companies, preferential allotment should be made subject to valuation by an independent valuer.

e. The law should specifically provide that a public company shall not allot shares as fully or partly paid-up other than in cash, unless the consideration is independently valued by a valuer appointed by the company in consultation with the allottee and the valuation is made known to the allottee and the concerned regulator.

The Companies Bill, 2008

The Companies Bill, 2008 provided that:

a. where valuation is required to be made in respect of any property, stocks, shares, debentures, securities, goodwill or net worth of a company or its assets, it shall be valued by a RV appointed by the Audit Committee or in its absence by the Board of Directors of that company.

b. The Central Government shall maintain a register of valuers where it shall enter the names and addresses of persons registered as valuers. A person who is a CA, CMA, or CS or possesses the prescribed qualification can apply to the Central Government for being registered as a valuer. However, no company or body corporate should be eligible to be registered as a valuer.

c. A RV shall not charge at a rate exceeding the rate as may be prescribed. It anticipated fit and proper requirement by requiring a RV or the applicant for registration to furnish particulars of cases where he is sentenced to a term of imprisonment for any offence or found guilty of misconduct in his professional capacity by an association or institute, immediately after such conviction or finding to the Central Government, which could remove the name of any person from the register of valuers.

Draft Valuation Professionals Bill, 2008

Simultaneously, with the provisions proposed in the Companies Bill, 2008, the Central Government drafted **Valuation Professionals Bill, 2008**, which provided for the constitution of the Council of Valuation Professionals *inter alia* for development, regulation, certification of qualification and quality of the valuation professionals engaged in providing valuation services. It envisaged a two-tier statutory self-regulated model with the Council as the principal regulator and Recognised Institutes (RIs) as the frontline regulators. The Council was empowered to recognise institutes, who would work as Self-Regulatory Organisations (SROs) as well as educational institutions. A person after completing the curriculum and training with a RI and having a certificate of practice (CoP) would practise as a Certified Valuation Professional (CVP).

The Companies Bill, 2009

The Companies Bill, 2008 was re-introduced as the Companies Bill, 2009 along with the provisions relating to valuers. The Bill was referred to the **Standing Committee on Finance (SCF),** which in its Twenty-First Report (SCF, 2009) recommended that firms or body corporates having professionals such as chartered accountants, company secretaries, etc. as well, may be registered as valuers. It also recommended that the prescription of having only RVs as partners in a partnership firm may be dispensed with to include other professionals such as CAs, CSs, etc. as partners.

The Companies Act, 2013

Considering the large amendments proposed by the SCF, and suggestions of the stakeholders, the Companies Bill, 2009 was withdrawn and was re-introduced as the Companies Bill, 2011. Clause 247 of the said Bill provided for valuation by a valuer in accordance with the Rules as may be prescribed. The Bill was also considered by the SCF. Subsequently, this Bill became the **Companies Act, 2013.** Section 247 (2) of the Companies Act, 2013 mandates that a valuer shall:

a. make an impartial, true and fair valuation of any assets;

b. exercise due diligence while performing the functions as valuer;

c. make the valuation in accordance with the Valuation Rules; and

d. shall not undertake valuation

of any assets in which he has a direct or indirect interest or becomes so interested at any time during or after the valuation of assets.

Report of the Companies Law Committee, 2016

The Companies Law Committee, 2016 (MCA, 2016), known as Mr. Tapan Ray Committee, felt that the provisions of section 247 have far reaching ramifications and the Government may decide on the framework after taking into account views of all stakeholders. It also felt that a valuer ought to be disqualified for valuing any asset, if he had any interest in such an asset, at any time during three years prior to his appointment, and three years after his cessation as a valuer.

The Companies (Removal of Difficulties) Second Order, 2017

A practical problem was noticed that there were several different organisations dealing with various distinct groups of assets, such as land and building, machinery and equipment, having separate set of valuers for valuation. Unless these different organisations are recognised, it would be difficult to ensure the required level of regulation for the valuers by registering them directly with the Central Government. The Order amended Section 247 to provide that valuations required under the Companies Act, 2013 shall be undertaken by a person, who, having necessary qualifications and experience, and being a valuer member of a RVO, is registered as a valuer with the Authority.

The Companies (Amendment) Act, 2017

Section 247 of the Companies Act, 2013 prohibited a RV from undertaking valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during or after the valuation of assets. The Amendment Act prohibited a RV from undertaking valuation of any asset in which he has direct or indirect interest or becomes so interested at any time during three years prior to his appointment as valuer or three years after valuation of assets was conducted by him.

The Companies (Registered Valuers and Valuation) Rules, 2017

The **Companies (Registered Valuers and Valuation) Rules, 2017 (Valuation Rules)** made under the Companies Act, 2013 provide a centralised institutional framework for development and regulation of valuation profession. But its jurisdiction is limited to valuations required under the Insolvency and Bankruptcy Code 2016 (Code) and the Companies Act, 2013. It provides two-tier regulatory architecture in which IBBI has been designated as principal regulator and multiple competing Registered Valuers Organisations (RVOs) act as front-line regulators.

The Valuation Rules, inter alia, provide for:

a. registration of valuers, who may be individuals or partnership firms or companies, with IBBI for conduct of valuation of different classes of assets under the Companies Act, 2013;

b. recognition of Registered Valuers Organisations (RVOs) to enroll valuer members, enforce a code of conduct on them, and conduct training and educational courses for its members; and

c. mechanism for notification and modification of valuation standards based on the recommendations of the committee to advise on valuation matters.

Draft Valuers' Bill, 2020

Recently a **Committee of Experts** appointed by the Ministry of Corporate Affairs, Government of India, headed by Dr. M. S. Sahoo, has examined the need for an 'Institutional Framework for Regulation and Development of Valuation Professionals' and submitted its report along with a **Draft Valuers' Bill, 2020**, on 2nd April, 2020. It has recommended the least disruptive, modern and robust, institutional framework that learns from the experience of valuation profession in India and abroad, and of other professions in India, while addressing the concerns of today and tomorrow, and ensuring respectability for valuation professionals and accountability for valuation services.

Valuation Profession – India Initiative

As mentioned earlier, the valuation profession has a long history in India, about a century. It has been primarily driven by users of valuations services. Different statutes such as Banking, Securities, Tax, Company, Insolvency laws - all require valuation for various reasons. The users generally focussed on *demand side* like, what needs to be valued, who can render valuation services and the manner of conducting valuation etc. They never focussed on *supply side* of valuation services. The self regulating VPOs have generally tried to build expertise to meet the needs of users.

Though there was demand for valuation service for long, yet the process of institutionalisation of the profession started only after independence. **The Institution of Surveyors (IOS)** came up in 1950 with the primary objective of advancing and regulating the science of various disciplines of surveying, including valuation surveying. It provides for multiple categories of membership, including associate members, members and fellows. Presently, it has a membership of about 12,000 members, including

student members. It conducts examinations and grants degree in the courses on valuation surveying. In 1975, the Ministry of Education & Social Welfare recognised the final/ direct final examination of the IOS in the branch of valuation surveying for the purposes of recruitment to superior posts and services under the Central Government in the appropriate field. IOS is managed by the Council of corporate members and is assisted by a few committees and sub-committees. It has laid down a code of professional conduct of its corporate members and stipulates scale of professional charges for quantity surveying and valuation.

Further, in 1968, **Institution of Valuers (IOV)** came up as a society of valuers with branches at many places across India. It has three types of members, namely, honorary members, corporate members (Fellows and Associates) and non-corporate members (Licentiates and Students). It provides for a Code of Conduct for members and prescribes scale of fees to be charged for valuation and proforma for valuation reports. It is governed by an elected Council.

In 1999, **The Practicing Valuers Association (India) (PVAI)** came up as a society of valuers and others interested in valuation profession. It offers multiple types of memberships, for individuals as well as corporates. It provides for the principles of valuation practice and code of ethics of its members. It considers practices such as contracting for or acceptance of any contingent fee, advocacy, advertising and soliciting as unethical and unprofessional.

Other major functional valuers' Associations/Organisations are the **Institution of Government Approved Valuers, Indian Institution of Valuers** and **Centre for Valuation Studies, Research and Training.**

Valuation Standards in India

The Valuation Rules mandate that a RV shall, while conducting a valuation, comply with the valuation standards as notified or modified by the Central Government. Until the valuation standards are notified or modified by the Central Government, a valuer shall make valuations as per (a) internationally accepted valuation standards; or (b) valuation standards adopted by any RVO. Rule 18 of the Valuation Rules enables the Central Government to notify and modify, from time to time, the valuation standards based on the recommendations of the committee.

Rule 19 of the Valuation Rules empowers the Central Government to constitute a committee to make recommendations on formulation and laying down of valuation standards and policies for compliance by companies and RVs. On April 23, 2018 The Central Government constituted a Committee to advise on valuation matters under Prof. R. Narayanaswamy. While the committee is developing standards, the ICAI laid down valuation standards for use by Chartered Accountants to ensure uniformity in approach and quality of valuation output. These valuation standards, as stated by the ICAI, are effective for valuations reports issued on or after July 1, 2018 till valuation standards are notified by the Central Government under the Valuation Rules.

Conclusion

Valuations are an essential part of the most reporting and business decisions and play a crucial role in many assets & properties related decisions. It has been observed that after every financial crisis the focus has been shifted to valuation profession and efforts have been made to increase its accuracy and reliability. There are different models of valuation exercise followed by different countries. Traditionally, most of them have self regulation in which a few competing VPOs have regulated their members. However, most have shifted to some kind of statutory regulations.

Two sets of standards, namely, International Valuation Standards (IVS) issued by the International Valuation Standards Council (IVSC), and the Royal Institution of Chartered Surveyors (RICS) Red Book, command great respect among the stakeholders. In addition, there are standards issued by national VPOs for their members. Several countries have also prescribed their own standards.

India is a large and growing, market economy. It needs a variety of institutions, including valuation profession, to ensure sustainable growth. There is a need for high quality valuation professionals for efficient financial markets and allocation of resources in the economy. There is an urgent need for a comprehensive statutory institutional framework for regulation and development of valuation profession in India. The framework should engender world class valuers for all asset classes and cater to the need for all kinds of valuation services required under any law or by the market on its own. The institutional framework must protect the interest of the society and serve public interest rather than the interests of the profession. It must be statutory. Valuation is an independent profession and it needs to be developed for making full-time valuation professionals.

Abbreviation:

AARO: The Association of Appraiser Regulatory Officials (USA)

AQB: Appraiser Qualifications Board (USA)

ASB: Appraisal Standards Board (USA)

ASC: Appraisal Sub-Committee

COP: Certificate of Practice

CVP: Certified Valuation

Professional

DCA: Department of Company Affairs, GOI

FFIEC: Federal Financial Institutions Examination Council (USA)

FIRREA: Financial Institutions Reform, Recovery and Enforcement Act, 1989 (USA)

IBC: Insolvency and Bankruptcy Code, 2016

IBBI: Insolvency and Bankruptcy Board of India

IOS: Institution of Surveyors (1950)

IOV: Institution of Valuers (1968)

IVS: International Valuation Standards

IVSC: International Valuation Standard Council

MCA: Ministry of Corporate Affairs, GOI

PVAI: Practicing Valuers Association (India), 1999

RI: Recognised Institute

RICS: Royal Institution of Chartered Surveyors, (1881) (UK)

RV: Registered Valuers

RVO: Registered Valuers Organisation

SCF: Standing Committee on Finance, GOI

SRO: Self-Regulatory Organisation

TAF: The Appraisal Foundation (USA)

USPAP: Uniform Standards of Professional Appraisal Practice (USA)

VPO: Valuation Profession Organisation

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ARTICLE

SYNTHESIS OF EQUITY VALUATION APPROACHES – A MATHEMATICAL EXPOSITION IN LEMMAS

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Abstracts

Central to the corporate form of organisation is the instrument of ownership, viz., the equity share. Valuation approaches that have evolved over the years may appear disparate and across disciplines such as accounting, corporate finance and statistics, but in reality, blend into a harmonious whole. Using lemmas, this paper exposits the extant valuation approaches to demonstrate their applicability in a variety of application areas.

Background and Scope

Valuation of equity shares is multi-disciplinary, drawing from the fields of accounting, corporate finance, financial markets and statistics. Besides, the legal-regulatory framework also imposes boundaries. Under such an environment, an array of valuation approaches that evolve over time, are available, distilling the wisdom of theoreticians and practitioners. Some illustrious contributors to the field include Benjamin Graham (1934), John Burr Williams (1938), Philip Fisher (1957), Myron Gordon (1959), William Sharpe (1964) and James Tobin (1977). Some of these university teachers and academicians were also practitioners of repute. The question of conflict between various valuation approaches are explored this paper, and presented as a unified whole. Hence, this paper is titled as a Synthesis of Equity Valuation Approaches. A harmonious relationship exists between the various valuation approaches, mathematically expressed as a series of 28 lemmas in this paper. The paper ends by demonstrating the applications of these lemmas under the extant legal-regulatory framework in India.

Organisation of Contents

I. Historical Background
II. Financial Statements and Valuation
III. Corporate Finance and Valuation
IV. Legal-Regulatory Framework and Valuation
V. Concluding Remarks

I. Historical Background

James Watt's invention of the steam engine is said to have set in motion the industrial revolution. Financial writers say that no less significant is a parallel development in the world of finance – the invention of the corporate (company) form or organisation. A corporate body is like a railway train, with passengers intermittently getting in and out at different points in time, each passenger travelling different distances for different slices of time, each having paid a different price for a ticket (based on distance, facilities, urgency, peak-hour/slack hour, in-season/off-season, direct purchase/travel agent assisted, etc.). Prices fluctuations range between exorbitant to bargain levels, relatable to a customer, and there seems to be a customer available at every price level. Such differential and fluctuating prices are found to be acceptable in the ordinary walk of daily life. A 'right' price is contextual to the purpose at hand, and most human minds develop a heuristic (short-cut accept/reject criteria) to arrive at a decision, rather than an elaborate thesis. Such heuristic may be out of past experience, inertia, reflex, intuition, behavioural traits, borrowed wisdom or a combination of the above. This quest for fine-tuning the process of finding the 'right' price involves weighing various factors and considerations is valuation. Valuation is a journey, not a destination, in a dynamic, ever-changing environment.

The corporate body itself is like a permanently moving train, where investors get in and out at various points in time, hence it is possible to comprehend that each pays a different price, based on some value perception. The term corporate is derived from the Latin word *'corper'* which means body. The British East India Company is generally credited as being the first company in the world, scale and sophistication was imparted through the Dutch East India Company *(Verringde Oostindische Compagnie,* or VOC) in 1602, headquartered in [1]. Under its initial arrangement, subscriptions were open to all common people across the six counties in the Netherlands. Subscribers were issued participatory certificates *(action)* in exchange for their monies invested in the company, and their names were entered in the ledger in the company's account books. The period of the venture was understood as 10 years, in which ships, loading and repair facilities were to be created for Indo-European merchandise trading. After 6 years, fabulous dividends were paid. By the end of the 10th year, the life of the venture was extended by a further 10 years, totalling a life of 20 years. At the end of the 15th year, some initial investors wished to exit, whereas some others wished to enter. A tent was pitched outside the company office building where agents of prospective buyers and sellers of participatory certificates could negotiate their exchanges. This became a permanent arrangement, leading to the creation of the first stock exchange in the world, i.e. Amsterdam Stock Exchange. As the company approached its 20th year of existence, it amended its constitution for a perpetual life.

The early successes of the East India Companies and others gave rise to other clones. **Kindelberger** [2] graphically explains how the Mississippi Company attracted and fleeced investors with improbable stories. The craze for tulips led to the tulip-mania craze, driving up market prices of the bulb to levels higher than a small plot of land. A similar mania swept across the universe of company shares: the South Seas Company attracted, among others, a certain Sir Isaac Newton, who supposedly bought shares at £8, sold at £21, purchased again at £1200 and was left holding them when the price crashed to below£ 8 pounds. Having bitterly experienced prices exacerbated by herd mentality, Newton is said to have exclaimed: I can calculate the motions of heavenly bodies, but fail to understand the madness of the human mind. This tryst with behavioural finance is also reflected in **Mackay** [3]. The field of Behavioural Finance, is after all, not new.

Mathematically, we state that:

Price (P) of a share is $0 < P < \infty$ …(1)

Price P is range bound by 0 on the lower and infinity on the upper sides respectively.

II. Financial Statements and Valuation

Benjamin Graham is said to have founded the field of securities valuation, and taught the subject at Columbia University, using numbers and devoid of emotion. He is the founder of the Quantitative school of investing. He is counter-balanced by **Philip Fisher** who taught the subject at Stanford University, and developed a framework for identifying characteristics of outstanding companies. He is the founder of the Qualitative school of investing. Thus, valuation is objective *and* subjective.

Progress from equation (1) above is owed to Graham [4], who leapfrogged from the state of the art, primarily price speculation, prevailing in the pre-1934 period. First and foremost, Graham differentiated between speculation and investment: an investment operation is one which, based on thorough analysis, promises safety of principal and satisfactory return. Second, Graham made a distinction between Price and Value. Price is the amount at which a share is trading and Value may mean different things to different people with different investment horizons and objectives (viz. minority investor, controlling investor). In the short run, the market is a voting machine (Pricing) but in the long run, the market is a weighing machine (Valuation), according to Graham [5].

Valuation insights from Graham are summarised in the paragraphs below.

$P = V$ or $P \neq V$ …(2)

If $P < V$, buy; If $P > V$, sell …(3)

Determining the proximity of Price to Value may be gauged from financial statements, in the following manner:

P/E = Price/EPS or EPS X P/E = P …(4)

Where P/E is the earnings multiple and EPS is the Earnings Per Share. Price can be imputed from an acceptable limit of P/E multiple, say, 10 to 12 times. Graham's protégé, **Warren Buffet**, opined that for exceptional companies, a P/E multiple of 15 to 18 or even is acceptable. This is on account of an insight from **Jim Slater**, who observed that, in the P/E multiple, numerator P is updated on a daily basis, whereas the audited EPS is available only once in a year. For this reason, the unaudited EPS of the latest 4 quarters are aggregated for the denominator (Trailing Twelve Month or TTM) EPS. Jim Slater introduced a novel twist of placing a multiplicative factor next to the current EPS, to indicate the possible EPS growth. Thus, for a share Priced at Rs.50, whose current EPS is 5, the P/E multiple would be 10 times. If the EPS is expected to grow by 25% over current levels, the revised P/E multiple according to Slater would read as

50/5*1.25 = 50/6.25 = 8 times, which reveals that the stock is less expensive, after considering the earnings growth prospects. Thus,

PE(G) ratio or PE with Growth ratio = P/(E*G) …(5)

Where G, the percentage growth rate is expressed as is expressed as (1+g), 0 < g < 1.00

Considering the foregoing, Warren Buffet raised his threshold level of acceptable P/E to 18 or even higher, provided he has conviction in the earnings growth. Learning from Philip Fisher [6] (who pioneered the growth investing style by visiting companies with outstanding characteristics) , Buffet made it a point to conduct detailed company visits and meet with managements, in order to make better estimates and identify outstanding companies, which merit a higher P/E multiple. It is also more insightful to look at P/E multiples of a company dynamically, over a period of time, to gauge market reactions to its performance, and also perform inter-firm comparisons. Within the same industry, some company shares get into leading or sectoral Market Index calculations, and, since financial institutions include them in their basket-buying, the enjoy a higher P/E multiple compared to their industry peers. A lower P/E multiple will be applied to the EPS of unlisted entities in a share valuation. Generally, the downward adjustment could be 30% of the P/E of its listed counterpart.

Peter Lynch [7] did an intelligent classification of P/Es across types of companies:

Slow Growth	Stalwart	Fast Growth	Cyclical	Turnaround	Asset Play
Low P/E	High P/E	V. High P/E	Up/Down P/E	EPS in decimal	High P/E

From the above, we understand that cement, for example may be a cyclical industry with 3 adverse years followed by 3 favourable years. Accordingly, its P/E multiple will swing from low to high and back to low every 3 years. In case of a Turnaround, the EPS would have moved from negative or zero to positive territory, and in decimals (below Rupee 1), hence the P/E ratio may appear to be very high (e.g. 50/0.50) = 100 times. The EPS may normalise in the subsequent year(s) for a more meaningful P/E. Asset Plays are companies whose operations are at a low or defunct level, but more valued on account of the real estate content. Thus, even with low EPS, Asset Plays enjoy a high share Price, hence the P/E seems to be high. Mumbai's textile mills-turned-real estate businesses are examples of Asset Plays.

The P/E multiple is also used by Venture Capital and Private Equity investors to time their divestments (exists). The exit prices are estimated on the basis of the EPS of the 4th or 5th year of full operations of the investee companies. The price so derived is targeted at 6 to 7 times their investments done at face value. Such a target is known as 6x or 7x returns in Venture Capital parlance.

P/E multiples of highly leveraged companies need to be guarded against. Consider the following:

EPS = PAT/(Number of Shares) …(6)

Since P/E is a derived from EPS and EPS itself is derived, Highly leveraged entities offset the use of equities with large amounts of debt leading to a lesser 'Number of Shares'. With a narrower capital base, their EPS is high, leading to a lower P/E multiple, giving an appearance of cheapness. The best example is Indian Public Sector Banks, which appear cheap due to P/E multiples in single digits. However, banks, by definition are leveraged entities, hence the equity base is narrow, providing a narrow base to the denominator for calculating the EPS. With a high EPS, which, in turn is a derived number, the P/E multiple appears low. Hence, for financial and entities, a better measure is the Price/Book Value ratio of P/B ratio as given by Graham.

P/B = Price/Book Value …(7)

The Book Value is commonly defined as the Net Worth Per Share, arrived as (Share Capital + Reserves)/ Number of Shares. Alternately, it is the (Total Assets – External Liabilities)/Number of Shares. It is a useful ratio for evaluating banks and financial entities, since most of their assets are interest or yield bearing securities and loan contracts, which are also subjected to regulatory bad loan provisioning. When the market senses that the provisioning is inadequate or behind requirements, the market price of such bank shares are punished to below book value levels, leading to P/B < 1 in such cases. In the case of industrial entities, P/B does not make much since due to the presence of a large quantum of depreciable fixed assets which are likely to be replaced in future by entirely new processes (e.g. 3-D printing, outsourcing).

James Tobin [8] came up with another relative measure, viz., called the Tobin's Q measure:

Tobin's Q = Market Capitalisation/Replacement Value of Company Assets …(8)

Where Market Capitalisation is the Number of Shares Issued X Market Price per Share. Higher the ratio, greater the market perception of the future prospects of the company. As mentioned in the case of the P/B ratio, replacement value is difficult to assess, since a large quantum of depreciable fixed assets are likely to be replaced in future by entirely new processes (e.g. 3-D printing, outsourcing).

The drawbacks of the P/E multiple, particularly leverage, tax structure, financial charges etc., has

given rise to a simpler and more widely used metric:

EV/EBITDA = Enterprise Value/Earnings Before Interest, Tax, Depreciation & Amortisation …(9)

Where, Enterprise Value = Market Value of Shares + Market Value of Debt – Cash & Bank Balances

By a corollary, (Market Value of Shares + Market Value of Debt) is the total market capitalisation of the company, whereas Cash and Bank Balances are Non-Entrepreneurial Assets, being undeployed cash. Alternatively, (Market Value of Debt – Cash & Bank Balances) represent *Net* Debt.

EV is what it costs to buy out the entire company. We notice from Equation (6) as to how high debt can mar the EPS and thereby contaminate the P/E multiple. For this reason, in M&A transactions, EV/EBITDA multiples are in vogue these days, to avoid the capital-structure and leverage-related problems arising from P/E. For more versatile application, the EV/EBITDA multiples of listed companies can be used to value unlisted companies or segments or divisions of listed companies.

III. Corporate Finance and Valuation

The foundations of investment valuation were laid by **John Burr Williams** [9] in his theory of investment value. Anchoring valuation to cash flows, he famously said:

"A cow for her milk, a hen for her eggs, bees for honey, orchards for fruit, and stocks for the dividend"

A long-term investor seeks to own an asset for its *income*, rather than its *price*. The holder of a share expects regular cash dividends over time. Thus, the Price of a share should be:

$P_0 = D_1/(1+r)^1 + D_2/(1+r)^2 + D_3/(1+r)^3 + \ldots + D_\infty/(1+r)^\infty$ …(10)

Where P is the Price at time 0, D = Dividend Per Share = DPS is the dividend per share at time t and r is the opportunity rate of return.

One may argue that there is a continuing relationship between EPS and DPS, i.e. EPS (–) Retained Earnings Per Share (REPS) = DPS. By considering DPS in the valuation equation (10) and not EPS, is there information loss in the valuation model? Williams then applied one of the laws analogous to the laws of physics: the Law of Conservation of Value.

Consider:

EPS – REPS = DPS …(11)

If retained earnings are justifiably and reasonably well deployed, they will result in higher dividends in subsequent years. Thus, $REPS_1$ may boost DPS_2 and subsequent dividends, and $REPS_2$ may boost DPS_3 and subsequent dividends, and so on and so forth. Overall, there being no leakage of income flowing to the shareholder, the Law of Conservation of Value was sought to be proven by Williams. Thus, there is no information loss in equation (10), famously known as the Dividend Discount Model (DDM). This model proved to be the building block for modern valuation techniques. Before that, a discussion on how **Myron J Gordon** [10] developed upon William's DDM in the following manner:

From equation (10), we get

$P_0 = D_1/(1+r)^1 + D_2/(1+r)^2 + D_3/(1+r)^3 + \ldots + D_\infty/(1+r)^\infty$

This is a perpetuity. But the sum of this infinite series is finite, due to the discounting effect (Time Value of Money)

$P_0 = D_1/(1+r)^1 + P_1/(1+r)^1$ …(12)

Value of $P_1 = \Sigma D_t/(1+r)^t$ (t ranges from 2 to ∞) is analogous to $P_0 = \Sigma D_t/(1+r)^t$ (t ranges from 1 to ∞)

Introducing a constant dividend growth rate 'g' for dividend smoothing, we infer that dividend each year grows in compound factor by a factor of (1+g) over the previous year,

$P_0 = D_1/(1+r) + P_0(1+g)/(1+r)$ (Since $P_1 = P_0(1+g)$ …(13)

$P_0 = (D_1 + P_0 + P_0 \cdot g)/(1+r)$ …(14)

Solving and simplifying, we get

$P_0 = D_1/(r-g)$ …(15)

Equation (15) represents the famous Gordon Growth Model (GGM), where the capitalised value of P gets enhanced when dividend grows at a constant rate, since the market perceives this as a signal of dividend growth certainty. The utility and versatility of this model is that the initial cash flow estimate enables the computation of value of a perpetual stream of cash flows.

The importance of dividends, in contemporary times, is evident in conglomerates such as Tatas, where dividends from a cash-cow like Tata Consultancy Services (TCS) are used to support other companies in the group. So also, the Vedanta Group, where the potential dividend streams from Cairn and Hindustan Zinc are found credible enough for placing as collateral, for a loan to the promoters, to buy-out minority shareholders of Vedanta Limited for a delisting.

Modern valuation approaches substitute perpetual dividend flows with Free Cash Flows to the Firm (FCFF) for a versatile and robust valuation model.

FCFF = PAT + Depreciation + Interest – Net Annual Additions to Current Assets & Fixed Assets …(16)

Depreciation is a non-cash charge; interest is a

financial charge and is factored into the denominator, i.e. the discount rate. Net Investment

$V_F = FCFF_1/(1+r)^1 + FCFF_2/(1+r)^2 + FCFF_3/(1+r)_3 +\ldots+ FCFF_\infty/(1+r)^\infty$ (analogous to equation 10) …(17)

Where V_F is the Value of the Firm, the summation of Discounted FCFF to perpetuity. Here, the discount rate r in the denominator is the Weighted Average Cost of Capital (WACC) of equity (E) and debt (D). A corporate is like a cash generating machine, wherein incremental capital can be generated through Debt, contracted through interest rate r_D and Equity is raised or generated/retained based on expectations of returns of the equity-holders r_E.

$r_{WACC} = r_E\ E + r_D\ D(1 - t)$ …(18)

Debt is compensated with interest which is tax-deductible, factored into variable 't'.

If the growth rate of FCFF is a constant, FCFF from the 4th year onward can be condensed to its 'Terminal Value' as

$FCFF_{(Terminal\ Value)} = [(FCFF_3)*(1+g)/(r-g)]/(1+r_{WACC})^3$ …(19)

Note that 'g' appears twice in the above expression. The two g's need not necessarily coincide. The first 'g' used in the multiplier of the FCFF is the cash earnings growth rate, whereas the second 'g' appearing in the expression (r-g) is the constant dividend growth rate.

FCFF(1+g) represents the increment over the prior year's FCFF. Factor (r-g) is the capitalisation rate for converting this constant cash flow to a Sum. $1/(1+r)^3$ is the factor used to discount the value of this Sum back to the present value. This is resubstituted into Equation (17) thus

$V_F = FCFF_1/(1+r_{WACC})^1 + FCFF_2/(1+r_{WACC})^2 + FCFF_3/(1+r_{WACC})_3 + [(FCFF_3)*(1+g)/(r-g)]/(1+r_{WACC})^3$ …(20)

$V_F = V_E + V_D$ …(21)

Where V_E = Value of the Equity and V_D = Value of the Debt, the subcomponents.

$V_E = V_F - V_D$ …(22)

$P = V_E/(\text{Number of Shares})$

Now, recalling equation (18) as

$r_{WACC} = r_E\ E + r_D\ D(1 - t)$

There is a need to explain r_E. For this, **William Sharpe's** [11] Capital Asset Pricing Model (CAPM) is brought into use, thus:

$r_E = r_F + (r_M - r_F)\beta_E$ …(23)

Wherein r_F is the risk-free rate of return is the interest paid on long-term Government Securities (G-Sec), r_M is the return from the market (i.e. index market-representative equities) and beta or β_E is the sensitivity of the equity share price to the market index. In the case of listed securities, calculations of beta are possible or available through data-feeds. In the case of unlisted companies, where beta cannot be calculated, the valuation model is EV/EBITDA as per equation (9).

Valuation of Start-ups pose a challenge. In the absence of profits in the foreseeable future, EPS is non-existent, hence P/E multiples are not feasible. Serial entrepreneurs set up ventures for eventual sales to more established players in same or related sectors with backward of forward linkages. The P/E multiple stands modified thus:

$S - C = EBITDA$ …(24)

Where S = Sales, C = Operating Expenses. In a company such as a web portal or an entity owning a telecom license, the acquiring company is interested primarily in market share. For example, a large telecom company acquiring a smaller telecom company with spectrum license in a particular circle will have its own beaming equipment. Hence, acquisition of the company is primarily acquisition of market share, with zero incremental operating costs. Therefore,

Since $C = 0$, $S = EBITDA$ …(25)

Thus, the EV/EBITDA ratio translates to EV/Sales. Assuming zero debt in the investee companies, this becomes Market Capitalisation/Sales or Price/Sales also known as the P/S ratio. Thus,

EV/EBITDA = EV/Sales = (P)*(Number of Shares)/(Sales)*(Number of Shares) = P/S …(26)

In entities where there is considerable real estate content, as also where costs have to be reimbursed (as in start-ups), or where a brownfield acquisition saves project implementation time for the acquirer, replacement value comes in handy. A Registered Valuer will need to certify the replacement value.

Acquisitions in E-Commerce such as Flipkart, Snapdeal etc., are envisaged in such a framework. The purchase consideration compensates the serial entrepreneur with a reasonable return on investment over and above the expenses incurred or the 'cash burn' as it is called in Start-up parlance. Alternatively, developing further from equation (25):

Costs + Compensation to Entrepreneurs = Annual Compensation to Entrepreneurs ~ Sales = S …(27)

S * Years of Compensation = Replacement Value estimate …(28)

This is not conceptually different from the P/S ratio stated in equation (26)

IV. Legal-Regulatory Framework and Valuation

Under the Indian legal-regulatory, the valuation framework is bounded by the following constraints:

- Companies Act, 2013
- Foreign Exchange Management Act, 1999 (FEMA)
- Income Tax Act, 1961
- SEBI (Substantial Acquisition of Shares & Takeover) Regulations (SAST) and SEBI (Issue of Capital & Disclosure Requirements) Regulations (ICDR)
- Accounting Standards

Statute	Valuation Implication
Companies Act	Valuation reports are required under Compromises & Arrangements (S.230, S.231), Mergers & Amalgamations (S.232), Acquisition of Minority Shareholder's Shares (S.236), Valuation of Assets on Liquidation (S.281)
FEMA	Applicable in issue of shares in unlisted companies to non-residents, including Asset Reconstruction Companies (ARCs). Valuation as per internationally acceptable pricing methodology, arms' length basis
Income Tax Act	Unquoted shares are to be valued on the basis of Net Asset Value i.e., (Book Value of Moveable Depreciable Assets + Registered Valuer Certified Value of Jewellery & Artefacts + Fair Value of Investments in Shares + Government Authority Certified Value of Immoveable Property – External Liabilities)/Number of Shares, per S.50CA, S.56(2), S.295 and read with Rule 11UA
SEBI Regulations	Reg. (2)(d) of the SAST prescribes one of the valuation methods as the Volume Weighted Average Market Price (VWAMP) of 60 trading days preceding an open-offer announcement. Reg. 164 of ICDR states the minimum price for preferential issue of shares as latest 2 weeks' Volume Weighted Average Market Price (VWAMP). Reg. 165: In case of infrequently traded shares, the minimum price shall be based on Book Value, comparative P/E multiples or 'such parameters customary for valuation
Accounting Standard	IndAS 113 refers to a hierarchical choice of valuation techniques, viz., Quoted Prices, Quoted Prices of Similar Assets, Unobservable Inputs

It is noticeable from the above table that the lemmas stated from equations (1) to (28) find application under various statutes, covering a variety of situations.

It follows that the highest weight is to be given to observable inputs. Equity markets are treated as giant laboratory, based on the Law of Large Numbers. Buffet has stated this as "none of us is smarter than all of us", an endorsement of collective wisdom. Put in another way, Buffet also opined that "the market knows something that the auditors do not know". This is evident in the low P/E and P/B multiples of PSU banks in India, especially those suspected of under-provisioning for bad loans. Hence, the sanctity of Quoted Prices or Market Prices = P.

The difficulty arises in valuation of shares of unlisted companies or segments of companies. In such cases, P/E multiples or EV/EBITDA multiples are derived from similar listed companies are imputed on the EPS or EBITDA companies to be valued. A downward adjustment of up to 33% [12] in the derived prices may be made after applying the multiples of listed companies to the EPS or EBITDA of the unlisted entities. Finally, where there is no EPS or EBITDA due to losses or start-up stage, P/S or Replacement Values may be resorted to. Book Values (or Net Asset Values) are the last choice of valuation approach.

Concluding Remarks

From an era of speculation, the world progressed to investment-oriented valuation, with Graham setting a milestone and Fisher adding qualitative factors. Graham, who taught at Columbia University and Fisher who taught at Stanford University founded the discipline of securities valuation. Refinements were brought in by Buffet and Lynch. Burr Williams, who taught at Wisconsin-Madison, set up a solid Corporate Finance framework, built upon by Sharpe with the CAPM. From accounting and financial statements to discounted cash flows, discount rates, market trends and statutory prescriptions, valuation has acquired multi-disciplinary hues.

This paper integrates the various approaches parsimoniously in a series of lemmas to prove that the various approaches, though disparate in appearance, are unified in one harmonious whole. They lend themselves to various conceivable situations covered under the statutes. The approaches also embrace the valuation of new-age business entities such as start-ups.

This paper adds to the extant literature as a useful reference point for application in practical situations.

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INFLUENCE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS ON VALUATIONS UNDER ANY SITUATIONS INCLUDING M & A

CA RV IP Sanjay H. Shah

We keep hearing of Corporate failures, but unlike financial failures we hear due to mismanagement or fraud or negligence, we have failures on account of faulty products.

Few years ago we heard about the European Car manufacturers were under fire for admitting thatdefective devices were installed in their manufactured vehicles and they misguided the emissions tests authorities. This 'Diesel gate' also raised a number of questions about the management practices of these companies. The companies encountered recalls of amajority of their vehicles, leading to exorbitant levels of additional costs. Consequently, these car manufacturers also experienced significant decline intheir market capitalization.

For the mergers and acquisitions (M&A) community, the goal of creating enduringand sustainable value has always been about finding the right balance between risk and return. Now it is getting more complex. Thetransformational move to embrace environmental, social and corporate governance (ESG) is having a dramaticimpactonhow M&Aisconducted.

For any M & A, the board consider the situation of long term sustainability as a duty of care for theacquisition and accordingly the targets are valued. . It's simply an imperative for the deals they pursue.Board of Directors do this for their shareholders because they expect it, but it will also yield a positive IRR is an investment proposition that should be measured over long term. Thus a right Valuation considering the ESG factors is relevant. Nowadays, S & P 500 companies mentioning ESG on earnings calls, which specify the Corporate valuations relevance to these factors.

Investors and corporate directors are also challenging their M&A teams to consider targets that advance the organization's pursuit of long term sustainability and would not like any Valuations withoutconsidering ESG.

The direction of travel is clear: ESG issues are taking a more prominent place in the boardroom as arule, including in the context of acquisitions. The ESG literacy at various levels of companies has undoubtedly increased, the pressure from institutional investors is significant and well known, but there are alsopressures dealmakers need to consider.

Dealmakers generally looks at a ESG deal's impact on profit and positioning within the supply chain, an area where more scientific analysis is needed to Value the Company.

It is observed that deal teams increasingly using financial metricsto assign values to ESG factors. Forexample, teams will apply implied prices on (1) green house gas emissions (2) increased insurance costs from operations in climate-sensitive areas (3) enhanced demand for goods with positive environmentalor social characteristics; and the value of enhanced employee retention and productivity.

The next generation wants to work for companies, buy from companies, and invest incompanies that embrace ESG. This is where the economic demand is going M & A needs to align with this reality.

A growing market of providers of ESG data services, facilitated by technological innovations such as AI and machine learning,presents a host of benefits that go beyond ethical or reputational concerns. Analyzing ESG data and information through the M & A process allows for better comparability across companies, improved identification of opportunities and increased transparency between the companies and other stakeholders. we are entering an era where companies will not want to do business with a firm that does not have high ESG standards.

On the other hand expects we will start to see more 'stranded assets' that can't be sold because oftheir negative ESG standing. Some companies will beleft behind, in a cycle of declining valuation withstrained capital availability.

The situation also highlighted the failure of **Valuation** models of investors and analysts to capturethe full range of risks posed by environmental, social and governance (ESG) factors. Valuation models are typically based on the most commonly used valuation method – the discounted cash flow (DCF) method. Under this method the free cash flows(FCF) of a company are often forecasted until perpetuity.

These cash flows are discounted with a rate equivalent to the expected cost of capital (reflectiveof the risk related tothese cash flows) consisting of both a cost of equity and cost of debt taking into account a target capital structure but the relative risk arising out of ESG factors failure are absent and has significant impact.

Cash flow drivers analysed to perform business valuations typically are expected sales growth,development of profitability and capital investments. Historically, these cash flow drivers were oftendetermined only from a direct financial/economic point of view. For example, salesgrowth was assessed in relation to expected industry growth, development of product/ services line, marketpenetration, market share, etc. Profitability margins were also considered based on various factorssuch as forecastsbased on expected development of cost of production, supply chain relations

andexchange rate fluctuations.

Investment levels were also determined based on the required levels of asset base to grow andsustain sales growth in the future, etc. Based on these assessments, management of companies prepared the budgets and long-term forecasts. Factors which are outside the Company but ESG hasconsiderable impact on the company's successor failure.

ESG factors in cash flows or discount rate?

Cash flows and discount rate calculations required to perform business valuations, as it is imperative for investors and management of businesses to assess the value drivers of businesses with not just a financial lens but also with an ESG lens.

Often investors and management attempt to include ESG-related risks in the discount rate by including premia(in case of high ESG risks). Although this approach is considered to be morepractical, my opinion is to recommend including cash flow adjustments related to ESG risks in an explicit manner. This approach would create visibility related to theimpact of an ESG factor that is considered material.

How to incorporate ESG in cash flows?

Below we present some examples of how cash flow driverscould be determined by incorporating an ESG perspective:

- With regard to the **Environment** of the ESG lens, Task force on Climate Related Financial Disclosure recommends two scenarios. As per their analysis one way of reflecting **additional risk** associated with climate change or severe weather events in the future. For example, beverage companies could assess the impact of the shortage/ excess of water on the costs and investments related to water utilization. Another such example that couldbe applicable for many companies is the introduction of carbon points and its pricing that will lead to Valuations.
- With regard to the **Social** factors of the ESG lens, the impact on revenues and cost-relatedcash flows due to employee unrest in industries such as the garment industry or steel sectors or construction known for poor labour conditions and health and safety issues, is an example of capturing the impact of poor social measures. In such circumstances, additional costs could be incurred to satisfy the compensation or safety-related concernsof the workforce or product sales of companies could plummet due to the damagingimpact of these kinds of news.
- With regard to the **Governance** of the ESG lens, the impact on cash flows in the form of fines/increased taxation imposed by regulatory authorities due to weak governance policiesof companies, could be an example of internalising the likelihood of governance-related factors. For example, in case of Google, higher taxes were imposed by the European Commission due to their perceived unethical business practices . Thus, while valuing tech companies, the imposition of fines or higher taxes could be considered as a negative cash flow impact in case it is concluded that not enough measures have been taken by techcompanies to mitigate the concerns of regulatory authorities. Indian Companies havingcross border dealing may face situation of taxation in the transfer pricing assessment or change in policies.
- By presenting the adjustments in the above manner, management and investors would avoid ambiguity surrounding the positive/negative impact of ESG-related issues on the future cash flows of the company which would also facilitate focusingon the relevant material ESG issues concerning the company.
- **How to incorporate ESG in discount rate?** While applying ESG adjustments to cash flows, care should also be taken that there is no double-counting of the risks (and opportunities) inthe discount rate. For example, if a company belongs to an industry which in general is impacted by ESG factors such as the automotive industry (due to the influx of hybrid andelectric vehicle competitors) or the non-availability of the key component ,it could be arguedthat the industry beta (a measure of risk) partly includes this ESG risk. In this case, one would need to be careful while applying additional downward adjustments to the cash flows due tothe negative E impact as it could be partly captured in the industry beta. Accordingly, incorporating additional premia or discounts in the discount rate should be carefully considered
- in conjunction with industry- and company-specific characteristics and the ESG adjustments in the cash flows

How to attempt to circumvent the subjectivity of ESG?

Given the potential subjective nature of the assessment ofthe materiality and application of ESG- related adjustments on the cash flows and the discount rate, these adjustmentscould also be applied in varying degrees under different scenarios, wherein each scenario would reflect the impact of a particular material ESG factor on the business. The final valuation outcome could be a weighted- scenario outcome wherein probabilities and weightings (based on materiality) are attached to the various ESG scenarios based on materiality. Materiality of ESG factors can be determined not only based on internal assessments of companies, but also based on looking into the social media feedsof companies, to understand the market sentiment of ESG risks and opportunities associated with companies. Many standard guidelines are typically considered in relation to the assessment of the materiality of ESG factors in relation to a company in a specific industry. The assessment of the weighted average valuation outcomes could be enhanced by the usage of new technological tools such as big data, artificial intelligence and predictive forecasting tools using smart algorithms.

In the end, business valuation outcomes are a reflection of the story line of the financial figures that serve as input for these valuations. Given the new and expanding view on risks and opportunities associated with businesses, viewing the development of industry and market forces not just with a financial lens but also with an ESG-lens, and incorporating them in the cash flows and discount-rate analysis, is a need of the hour.

LIVING BY TEST OF FIRE: REGISTERED VALUER

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Synopsis

This article examines the legal provisions prescribed for development of valuation profession in a fair and orderly manner. Law has prescribed a high level of integrity on the part of Registered Valuer with professional competence, independence, confidentiality and disclosure of interest. Compliance with legal provisions is living by test of fire and any deviation or slippage would be disastrous to the practitioner. The article underscores the need that the valuer has to undertake risk mitigation measures to avoid unpleasant situations while remaining focused on valuation assignments.

1. Introduction

Valuation has emerged as a separate field of study, specialization and practice. It evolved over certain principles, techniques, methods and approaches of valuation by applying certain skill sets of financial modelling, mathematical and arithmetical excellence. Valuer has to emerge as a fine craftsman to give solutions for different purposes - acquisition, mergers, amalgamation, litigation, taxation, etc. Increasing needs of business and complexities of intangible assets and start-up companies demand high level of expertise on the part of valuer.

2. Valuation – a profession

When a field of study achieves a level of specialization, it is but natural to expect a separate code of conduct for its practitioners. Chapter XVII is inserted in the Companies Act, 2013 to provide specific provisions for valuation. Under Section 247 of the Act, a person having prescribed qualification and experience, registered as a valuer is authorized to undertake valuation of property, stocks, shares, debentures, securities, networth, goodwill or liabilities of a company. He exercises due diligence and makes an impartial, true and fair valuation confirming to the rules and standards.

3. Independent Valuer

This being an emerging field of specialization demanding high levels of professionalism, law has prescribed that the valuer has to be independent person without any direct or indirect interest in the affairs of his client not only for past three years but also for next three years. Probably, this is one of the highest level of contour lines drawn by law to ensure that valuer maintains high level of independence during and after valuation assignment.

4. Companies (Registered Valuers and Valuation) Rules, 2017

Companies (Registered Valuers and Valuation) Rules, 2017 prescribe eligibility criteria, qualification and experience, conditions of registration and recognition of registered valuers and registered valuers organisations. These Rules have prescribed Model Code of Conduct for Registered Valuers, Governance Structure and Model bye-laws for Registered Valuers Organizations (RVOs).

A perusal of these Model Code of Conduct and Bye-laws of the RVOs would indicate that the law is expecting high level of integrity, professional competence, independence, confidentiality and disclosure of interest from Registered Valuer. IBBI is the authority to ensure that the valuer is a fit and proper person and meets certain criteria, like competence, financial solvency character, reputation, integrity, nil conviction and restraint orders. The

authority may take into account some additional criteria to consider him fit and proper person.

5. Duties of Valuer

Being a member of RVO, valuer acts in good faith in discharge of his duties. He discharges his functions with utmost integrity and objectivity, upholding highest standards of professional competence and professional ethics. He remains independent, impartial and maintains confidentiality of information and continuously upgrades his professional expertise.

6. Test of Fire at the Threshold

Before joining this profession, a valuer has to pass through series of tests - test of competency, knowledge, skills, honesty, integrity and independence. He has to remain so throughout the pursuance of the profession of valuation. Virtually, he has to walk the tight rope. A small slippage could be disastrous.

Valuer has to declare that he has not been convicted for six months punishment or not punished for an offence of moral turpitude and a period of five years has not elapsed from the date of expiry of the punishment.

The test of fire continues to rage against the valuer. He has to declare that he has not been levied a penalty under Section 271J of Income Tax Act, 1961 and time limit of filing appeal has expired or five years have not elapsed after levy of penalty confirmed by Income Tax Appellate Tribunal.

These provisions are applicable to the valuer at the very threshold of entering the valuation profession. When such stringent provisions are made at the entry level, why it is confined only to the profession of valuers, is a question worth asking. It should apply to all entrants of parliament, assemblies, municipalities, panchayats, courts, hospitals, universities and public institutions in order to have a level of parity with other professions and public service. It appears, valuer has been singled-out.

7. Test of Fire: During Practice

Having met all the eligibility criteria, qualification and experience criteria and also registration criteria, valuer is registered as a Registered Valuer on the recommendation of RVO. It necessarily entails that he confirms to the bye-laws of the RVO. His performance is under constant watch of the RVO. He has to regularly submit the information about ongoing and concluded engagements in the manner and format specified by the RVO at least two times in a year. Probably no other profession is subject to such high degree of scrutiny. Yet another straw on the camel's back is peer review wherein the RVO team members can demand explanation from the valuer on the judgement call taken by him while valuing any assignment. Peer review by itself may be good for development and learning. However, when used with mischievous inclination, it may result into questioning his competency, integrity and objectivity.

8. Grievances and Disciplinary Proceedings

Valuation is essentially a great exercise in judgement. While considering all the factors impacting a particular assignment, valuer will exercise great deal of judgement. It is quite possible that the same assignment by another valuer would give totally different conclusion. Any party upset by valuation report may make a grievance or complaint to the RVO or authority.

Inspite of complying with such high level of conduct and ethics, there is a possibility of someone else finding fault with his judgement and raise an alarm or put up a grievance or complaint.

Grievance Committee would examine all the aspects and may make a reference to Disciplinary Committee of the RVO. Valuer will be subject to rigours of show cause notice and conduct of disciplinary proceedings. This may result into different kinds of outcome ranging from mere admonishment to suspension to expulsion to imposition of monetary penalty and costs. Valuer will have to put up a great deal of justification to justify the judgement call that he had taken while drafting the valuation report. This is an onerous thing which as a professional he has to undergo to justify his report. If he succeeds at this stage, it is fine. Otherwise, disciplinary order would be passed against him and he would have to undergo another rigour of filing appeal before appellate panel.

9. Harshest Punishment

The Disciplinary Committee is authorized to pass an order for expulsion of a valuer if it finds that he is punishable with imprisonment for a term of six months or an offence of moral turpitude or if it finds that the valuer has violated the law, rules, regulations and guidelines. It would render him not a fit and proper person to continue acting as a registered valuer.

To rub further salt into the wounds of the valuer, the order passed by the Disciplinary Committee would be placed on the website of the RVO within 7 days for general information. This is quite a humiliating provision, which destroys the privacy of the valuer. Even if he wins the case at appellate level, the damage done by this website publication leaves its

scars permanently on the career of the valuer. This is the harshest provision in the law.

10. Penal Provisions Galore

As if the above rigours were not enough, the law has further made stringent provisions against the valuer.

Section 247 of the Companies Act, 2013, provides that if a valuer contravenes its provisions, he shall be punishable with a fine ranging between Rs. 25,000 and 1,00,000. If the valuer has contravened the provisions with the intention to defraud the company or its members, he is liable to imprisonment upto 1 year and fine ranging between Rs.1 lakh and Rs. 5 lakh. Further he shall be liable to give refund of remuneration received by him to the company and also pay for the damages to the company or to any other person for loss arising out of incorrect or misleading statements in the report.

Chapter VI of Companies (Registered Valuers and Valuation) Rules 2017 has prescribed that the valuer shall be punishable in accordance with Section 469 (3) of the Companies Act for contravention of these Rules. Further it states that the person shall be liable under Section 448 of the Act for false statement or omitting a material fact. This is equated with an element of fraud under Section 447.

Under Section 469 (3) of the Companies Act, contravention of the above Rules shall be punishable with fine upto Rs. 5000 and with further fine of Rs. 500 per day. This is a punishment which may be considered as mild punishment.

Harsh punishment is prescribed under Section 447 of the Companies Act for an element of fraud involving Rs. 10 lakh or more or one percent of turnover, whichever is less. It prescribes imprisonment of a term not less than six months which may extend upto 10 years and a fine which shall not be less than the amount involved in the fraud and it may extend to three times the amount involved in the fraud. Proviso is made for punishment of not less than three years for the fraud which involves public interest. However, if the fraud involved less than Rs. 10 lakh, he shall be subject to imprisonment upto five years or fine upto Rs. 50 lakh or both.

11. Risk Mitigation

While carrying out any valuation assignment, valuer has to take all possible steps to mitigate the risks which he faces in view of the penal provisions in the law. Before taking up any valuation assignment, he should do background testing of his client and its key managerial personnel to find their integrity, honesty and business ethics. It is better to avoid valuation assignments of companies managed by men of doubtful integrity. During the course of valuation, valuer should draw careful conclusions based on the documentary evidence and oral/ written statements of the management. High degree of skepticism may be warranted in certain cases. In all such assignments, the saving grace is documentation and record keeping. He should maintain written contemporaneous records, reasons for taking decision duly supported by information and evidence. He should maintain all working papers for minimum 3 years or longer period till conclusion of proceedings in appellate forum. Valuer should consider taking up some insurance policy to protect himself from unexpected liabilities or unintended slippage. Proverbially, as Caesar's wife should be above board, valuer also should be above board. He should be not only honest to the core but also should be seen so. He should avoid gifts and hospitality, not accept any payments other than written contract. As a matter of fact, valuer has to live by test of fire each day of his profession. His immaculate behavior and conduct without a single slippage is what is most expected in the eyes of law.

Reference:

1. *Companies Act, 2013*
2. *Companies (Registered Valuers and Valuation) Rules, 2017*

CIRP OF VIDEOCON INDUSTRIES LIMITED: A VALUATION PERSPECTIVE

CS Anuradha Gupta
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Synopsis

Registered valuers have been casted with massive responsibility of valuing an asset based on which a number of decisions are taken by various stakeholders. At the same time they also act in fiduciary capacity and are entrusted with the responsibility of maintaining the confidentiality of the information in the entire process. This article talks about the recent observation made by the Adjudicating authority on the confidentiality issue in a much talked about case of Videocon Industries Limited.

The Perspective

In the journey of more than 5 years since inception, the Insolvency and Bankruptcy Code 2016 has witnessed a number of landmark cases and judgments, right from the Swiss Ribbon case which established the authority of the Code to Innovative Industries vs ICICI Bank Limited, Macquarie Bank Limited vs Shilpi Cables Technologies, Binani Cements, Jaypee etc. The latest addition to the list is Videocon Industries Limited which has set again a new milestone in the journey of Insolvency Laws in India.

Brief background of Videocon Industries Limited – Rise and Fall

Videocon Industries Limited is an Indian Multinational Conglomerate headquartered in Mumbai with manufacturing units in India and abroad. The company was promoted by Nandlal M Dhoot and his sons in the year 1985.

The company's main business activities included home appliances, consumer electronics, and later diversified to DTH, power, and oil exploration. The diversification of the business led to borrowing for the company which led the company into a debt trap.

Also, the FIR registered by the CBI due to irregularities in loan sanctioned by ICICI Bank was another setback for the company along with the whopping loss in the 2G spectrum scam after its licenses were revoked by the Supreme Court. The company fell into a deep financial crisis and the investment of the group in the telecom sector turned to be a disaster

Insolvency proceedings against Videocon Industries Limited

Videocon was finally admitted to the NCLT for insolvency proceedings in 2018. The total claims among the different Videocon Group companies totaled a massive Rs.88000 Crore. The court decided to consolidate the companies and initiate a combined trial.

Top Lenders

Name	Amount in crores
SBI	10978.58
IDBI	9561
CENTRAL BANK OF INDIA	5063
BANK OF BARODA	33524
ICICI BANK	3318
UNION BANK OF INDIA	3201.5
PUNJAB NATIONAL BANK	2823.4
TOTAL - the top lenders	38470

Settlement scheme by the Promoters

The promoters- Dhoot family submitted a settlement scheme desiring the same to be accepted under section 12A of the code which was rejected by the Committee of Creditors

Resolution plan proposed by the Twin Star Technologies

Billionaire Anil Agarwal's Twin-Star Technologies had offered Rs.2962 crores to takeover Videocon Industries against the admitted claims of Rs.64838 crores

Twin Star Technologies offered Rs.2,962 crore for 13 group firms of Videocon. These included Videocon Industries, Videocon Telecom, Evans Fraser & Co, Millennium Appliances India, Applicomp, Electroworld Digital Solutions, Techno Kart India, Techno Electronics, Century Appliances, Value Industries, PE Electronics, CE India and Sky Appliances.

The salient features of the Resolution Plan was as under

- Upfront cash payment of Rs.200 crore to financial creditors.
- Non-convertible debentures of Rs.2,700 crore to financial creditors, carrying a coupon of 6.65% per annum.
- Post implementation of the resolution plan, the assenting financial creditors will receive 8% of equity holding in the new entity, on a post money fully diluted basis.
- Workmen and employees will get approximately Rs.52 crore as upfront cash payment from the funds infused by the resolution applicant
- Operational creditors will get Rs.10 crore as upfront cash payment from the funds infused by the resolution applicant. The amount will be distributed proportionately between operational and statutory dues.

Analysis of the plan

Category	Claim admitted	Resolution plan allotment	% recovery
Secured financial creditor	58522	2884.28	4.88
Unsecured Financial Creditor	3250.72	15.72	0.45
Operational Creditor	3000	60.2	0.72
Total	64938.63	2962.02	4.15

The above allotment implied that

- assenting secured financial creditors would get only 4.89%,
- dissenting secured financial creditors would get only 4.56%,
- assenting unsecured financial creditors would get only very meagre amount of 0.62%,
- dissenting unsecured financial creditors would get "nil/zero" amount and
- operational creditors would also get a very meagre amount of only 0.72%.

The plan also envisaged that

- Shares of Videocon Industries Ltd. and Value Industries Ltd. will be delisted from the stock exchanges.
- Financial creditors to hold 8% equity in Videocon Industries against their admitted debt.
- 11 Videocon Group companies — Applicomp, CE India, Century Appliances, Electroworld Digital Solutions, Evans Fraser & Co, Millennium Appliances, PE Electronics, SKY Appliances, Techno Electronics, Techno Kart, Value Industries — will be merged into Videocon Industries Ltd.
- Financial creditors to hold in trust the investment of Videocon Industries and
- Videocon Telecom Ltd. in its subsidiary companies, associate companies and joint venture business.
- Infusion of funds by Videocon Industries into Videocon Telecom.
- VIL will hold 100% share capital of the telecom entity

The aforesaid plan was placed before the meeting of Committee of Creditors in December 2020 and was duly approved . Some of the smaller lenders like Bank of Maharashtra, IFCI, Morgan Securities, SIDBI and ABG Shipyard dissented.

The plan was presented for approval to NCLT and was approved by NCLT in June 2021 with certain observations. In its 47-page-long judgement, NCLT while approving Twin Star Technologies Rs.2962 crore bid had observed that creditors of debt Ridden Videocon Industries Limited will be taking nearly 96% haircut to their loans and the bidder is paying nothing . Also the Adjudicating authority expressed its concern over the confidentiality issues in the process .

The amount to the operational creditor was also termed sarcastically as " Hair cut or tonsure, Total Shave ." due to 99.28 % haircut offered to Operational creditors

Objection to the approved Resolution Plan

An appeal against the said order approving the Resolution plan was filed in July 2021 in NCLAT by

- Bank of Maharashtra and
- IFCI Limited and SIDBI

The reason cited was that the amount was very close to liquidation value and a part of the payment to the dissenting creditors was through Non Convertible Debentures which was against the order of SC which say that payment to dissenting shareholders should be done in cash only

The promoter of the company Mr Venugopal Dhoot also filed an application to the NCLAT to set aside the order of the NCLT and consider Rs.31789 crores settlement scheme

submitted by him

An appeal was also filed by the DOT objecting the said Resolution Plan saying that defaulting telecom firms should not be permitted to take the veil of Corporate Insolvency Resolution Process to absolve themselves from any liability. (approximately 131 Bank guarantees from SBI to the tune of Rs.881.92 crores had been secured for the telecom business by a group company of Videocon)

The proceedings were stayed by the NCLAT initially and a status quo was ordered to be maintained .

SBI, on behalf of assenting creditors of Videocon, which represents 94.98 percent voting made a U turn and filed an application before NCLAT requesting to remand back the matter to the COC for reconsideration and allow fresh process of inviting bids

On 5th January 2022 , NCLAT passed an order whereby it:

1. Set aside the NCLT order after observing that the approval of the Resolution Plan was not in accordance with IBC 2016
2. Quashed the " approval of Resolution plan by the COC as well as adjudicating authority NCLT.
3. Matter remitted back to COC.

Issues relating to valuation and observation by the Adjudicating authority

- Liquidation value – Rs.2568.13cr
- Fair value – Rs.4069.95cr
- Bid value by twin star- Rs.2962.02cr

The registered valuers have valued the assets of the 13 companies of Videocon group, having varied business interests ranging from oil and gas assets, consumer electronics and home appliances, telecom services, digital solutions, real estate and electronics retail chain.

NCLT has raised doubts over "confidentiality" of the liquidation valuation of the assets of Videocon Industries and its 12 group companies during the insolvency process. The tribunal has asked the Insolvency and Bankruptcy Board of India (IBBI) "to examine this issue in depth" to ensure that the confidentiality clause is followed without any compromise.

Part of the said order reads as under

"9. The registered valuers have valued the assets of the 13 companies situated throughout the country and the 13 companies have varied business interests, products, segments viz oil and gas assets, Consumer Electronics and Home Appliances such as manufacturing Air NCLT Mumbai Bench, Court No. II IA No. 196 of 2021 in CP (IB) No. 02/MB/2018 Page 35 of 47 Conditioners, Refrigerators, LED/ LCD TVs, Washing Machines, Air Coolers, providing Telecom Services, digital solutions, Real Estate, Electronic Retail Chain, Owner of Two Premium Brands etc. Surprisingly the Resolution Applicant also valued all the assets and liabilities of all the 13 companies and arrived at almost the same value of the registered valuers. As per the CIRP Regulations the Liquidation Value and Fair Market Value is kept as confidential and informed to the COC members only at the time of finalizing the resolution plan and even in the present case the resolution bids are opened in the 15th CoC meeting held on 02.09.2020 wherein Liquidation Value and Fair Market Value was informed to the members of CoC. Therefore, even if the confidentiality clause is in existence, in view of the facts and circumstances as discussed above a doubt arises upon the confidentiality clause being in real time use therefore, we request IBBI to examine this issue in depth so as to ensure the confidentiality clause is followed unscruplesly, without any compromise in letter and spirit by all the concerned parties, entities connected in the CIRP. If not IBBI can frame appropriate regulations, safeguards there by the maximization of value of the assets of the Corporate Debtor(s) would further increase which in turn will benefit all the stakeholders. Since IBC is a nascent code we feel "this type of input may be useful to the IBBI as well as to the Government to frame appropriate Regulations, Rules, etc.

The tribunal also suggested IBBI to frame "appropriate regulations, safeguards" for maximization of value of the assets of the Corporate Debtors', which in turn will benefit all stakeholders

Conclusion

The above case is a classic example that demonstrates the need for interference of the Adjudicating authority even in the commercial wisdom of the COC and takes necessary steps to ensure the achievement of GEM objectives of the Code which are – **G**oing concern, **E**mployment, and **M**aximization of Value of Assets.

At the same time, it is an eye-opener and warning bell for the professionals like Registered Valuers to be more cautious in their duty not only as professionals but also as trustees of the confidential information they acquire and generate in the process. Huge responsibilities have been cast on the shoulder of the Registered Valuer to keep up the intent of the statute and dignity of the profession since a number of commercial decisions are based on valuation reports generated by us Adherence to the code of conduct, the By-Laws of the RVO s and IBBI needs to properly abide by, in order to give full glory to this profession which in future will be one of the most cherished professions of the country.

FREQUENTLY ASKED QUESTIONS ON VALUATION

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FREQUENTLY ASKED QUESTIONS ON VALUATION

FAQs ON VALUATION REPORT

1. What do you mean by "Valuation Reports"?

A valuation report is a communication to the client containing the conclusion of value or the calculated value of the subject interest. It should include a thorough assessment of the company by the valuer.

2. What is the objective of the Valuation Report?

The objective of a valuation report is to present the result of findings of a comprehensive appraisal of and revealing a user-specific value for, one or more items.

3. What are the main qualitative characteristics of Valuation Report?

The main characteristics of a valuation report are the following:

• Understandability - An essential quality of the underlying information

provided in the valuation report is that it must be readily understandable by the intended users. However, information about complex matters that should be included in the valuation report because of its relevance to the economic decision-making needs of users should not be excluded merely on the ground that it may be too difficult for certain users to understand.

• Relevance - To be useful, the underlying information in a valuation report must be relevant to the decision-making needs of the intended users. Information provided in the valuation report has the quality of relevance when it influences the economic and other decisions of users.

• Materiality - Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic, which information must have, if it is to be useful.

• Reliability - To be useful, the underlying information in a valuation report must be reliable. Information has the quality of reliability when it is free from material errors and bias and can be relied upon by users to represent faithfully that which, it either purports to represent or could reasonably be expected to represent.

• Faithful representation – It has three characteristics, namely, errorfree, neutrality and completeness. Sometimes the information in the valuation report is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but may arise due to inherent difficulties either in identifying the appropriate method, approaches or techniques to be applied in valuation.

• Substance over form - If the underlying information of valuation report represents faithfully the value, that it purports to represent, it is necessary that they are evaluated in valuation assignment in accordance with their substance and economic reality and not merely by their legal form. The substance of transactions such as acquisition or disposal of assets is not necessarily consistent with that which is apparent from their legal or contrived form

• Neutrality - To be reliable, the information contained in the valuation report must be neutral, that is, free from bias. The valuation reports are not considered neutral if, by the selection or presentation of information, the reports influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

• Prudence - Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty. The preparers of the valuation report do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur.

• Completeness - To be reliable, the underlying information in the valuation report must be complete within the bounds of materiality and cost. Any omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

4. State the types of Valuation Reports that are prepared by the valuer.

For a valuation engagement, the determination as to whether to prepare a detailed report or a summary report is based on the level of reporting agreed to by the valuer and the client. It should give a fair and realistic view regarding valuation. Valuation report may be of two types:-

• Summary report: It gives limited analysis for valuation based on market research and used normally in case of sale of shares in the business.

• Detailed report (Comprehensive valuation): Very detailed report due to extensive documentation.

**5. What are the minimum requirements, a valuer shall state in the valuation report as per Companies (Registered Valuers

FREQUENTLY ASKED QUESTIONS ON VALUATION

and Valuation) Rules, 2017?

As per Rule 8 (3) of the Companies (Registered Valuers and Valuation) Rules, 2017, the valuer shall, in his report, state the following:-

(a) background information of the asset being valued;

(b) purpose of valuation and appointing authority;

(c) identity of the valuer and any other experts involved in the valuation;

(d) disclosure of valuer's interest or conflict, if any;

(e) date of appointment, valuation date and date of report;

(f) inspections and/or investigations undertaken;

(g) nature and sources of the information used or relied upon;

(h) procedures adopted in carrying out the valuation and Valuation Standards followed;

(i) restrictions on use of the report, if any;

(j) major factors that were taken into account during the valuation;

(k) conclusion; and

(l) caveats, limitations and disclaimers to the extent they explain or elucidate the limitations faced by valuer, which shall not be for the purpose of limiting his responsibility for the valuation report.

6. What are the assumptions and limitations to be considered in a Valuation Report?

An Illustrative list of assumptions and limiting conditions are given here below:

• Valuation report is considered valid for the valuation date only.

• All the statements given and presented represent the true and fair view.

• Opinions, conclusions, decisions represented by a valuer in terms of valuation are unbiased and fair.

• There is no personal interest in the assets, property, intangibles, intellectual rights etc., valued by a valuer.

• Statement that "we have relied on the information provided by the Management for the purpose of valuation.

• Public information and industry and statistical information have been obtained from sources believed to be reliable. However, no representation is made as to the accuracy or completeness of such information and has performed no procedures to corroborate the information.

• Do not provide assurance on the achievability of the results forecasted by [ABC Company] because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.

• If an intangible asset is not able to generate benefits for the firm/ company and the benefits cannot be measured reliably then it is treated as expenditure and not an asset.

• Legal background, financial aspects and tax matters regarding business valuation.

• Description of principles used in business valuation.

7. Under what circumstances, the valuer obtains management representation letter from the client?

The valuation analyst can obtain a management representation letter from the client to obtain evidence about the following:

• That management acknowledges its responsibility for the appropriateness of data and information provided by them.

• That there are no contingent liabilities other than those disclosed to the valuer

• They have disclosed all material facts to the valuer about which they are aware

• The financial position and operating results for the forecast period are based on the expected future conditions and to the best of knowledge and belief of the management,

• Any other relevant matter as per the judgement of the valuer.

INTERNATIONAL VALUATION STANDARDS COUNCIL (IVSC)

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VALUATION: AN EVOLVING LANDSCAPE

By: David Larsen
Managing Director, Alternative Asset Advisory, Duff & Phelps, A Kroll Business, and member of the IVSC Standards Review Board

Srividya Gopal
Managing Director and Southeast Asia Leader, Valuation Advisory, Duff & Phelps, A Kroll Business

James Gavin
Managing Director, Real Estate Advisory Group, Duff & Phelps, A Kroll Business, and member of the IVSC Tangible Assets Standards Board

How has the COVID-19 pandemic affected your valuation business? How have client needs evolved during this period?

David: Valuation, especially with respect to hard-to-value or illiquid investments, requires the application of informed professional judgement. The COVID-19 pandemic has increased the need to utilize experienced, informed judgement when considering valuation inputs, market participant perspectives and valuation conclusions.

Having a robust valuation process that can be applied consistently while considering current market conditions is critical in providing reliable and transparent valuation conclusions. The COVID-19 pandemic has demonstrated the need for consistency and rigorous judgment for all valuation specialists. Our business has grown strongly as clients continue to invest in individual debt and equity positions and expand the types and complexities of structures that include illiquid investments.

Srividya: In my experience in Southeast Asia and the wider APAC region, the COVID-19 pandemic has resulted in significant changes to macro-economic factors and the business fundamentals of corporates and funds and their investment portfolio. In the first few months of 2020, there were several transactions that were cancelled or renegotiated due to the pandemic. While the interest in transactions has bounced back as corporates and funds start getting used to the new normal of deal-making, evaluation, due diligence and structuring, the uncertainties around global economic recovery are still very significant.

Since the pandemic started, there have been considerable impairment write-offs, more for some sectors than others. The value of portfolio investments for several alternative investment funds has dwindled, and several credit investments have gone into distress or non-performing status. There have been more bankruptcies, higher levels of M&A/investment disputes and longer timelines for fund exits.

On the other hand, there has been ample supply of capital in the market because of fewer opportunities to invest and quantitative easing and other policy measures, which may be leading to a speculative rise in prices, not necessarily supported by fundamentals.

All these developments and the impact of the pandemic have required corporate managers, investors, boards of directors and other stakeholders to make critical decisions on the valuation of businesses, assets and liabilities. The importance of valuation has increased significantly, as has the need for experienced and qualified valuation professionals.

James: Srividya's observations relating to the impact of COVID-19 largely encompass what I am seeing from a tangible assets perspective. An additional challenge for tangible assets is that we often rely on physical site inspections to best understand the assets we value. As a result of COVID-19, these opportunities were severely limited, if not altogether eliminated. With greater vaccination rates, we see this trend reversing.

There has also been a material increase in transactions that have allowed those of us dealing heavily with real property to see the impact of the pandemic on values, and this information continues to surface daily.

> ***Over the past two decades, as capital deployed by the alternative asset industry has dramatically increased, the need to institutionalize valuation practices and processes has expanded.***

Alternative Asset Advisory is a big component of your service offering; how has this sector evolved in recent years, and what are some of the valuation challenges associated with the growth in alternative investment?

David: Over the past two decades, as capital deployed by the alternative asset industry has dramatically increased,

the need to institutionalize valuation practices and processes has expanded. Fund managers are increasingly being more rigorous in exercising judgment and applying applicable guidelines, such as The International Private Equity and Venture Capital Valuation (IPEV) and the American Institute of Certified Public Accountants (AICPA) PE/VC Valuation Guides. Investors need, and regulators increasingly require, fair value estimates to be transparent and conceptually sound. Most alternative investment managers have improved their valuation processes; some are still improving.

One of the outcomes of the pandemic appears to be a greater corporate and political focus on ESG. What is your firm doing in this area? How will valuation expertise play a role in the future ESG agenda?

David: A key factor with respect to ESG is to measure the impact of ESG initiatives reliably and consistently. This includes demonstrating that ESG initiatives deliver investment returns in line with a manager's fiduciary duty to maximize performance in the context of the mandate from their limited partners. We are continuing to build our capabilities to soundly measure the impact of ESG initiatives from not only a qualitative perspective but also, importantly, from a quantitative perspective.

You're in the process of rebranding as Kroll, what can you tell us about this, and what it means for the business and your clients?

David: As Duff & Phelps has grown and acquired businesses over the past two decades, we have found ourselves with a number of strong global brands. Strategically, we decided to rebrand under one common name, Kroll, the world's premier provider of services and digital products related to valuation, governance, risk and transparency.

Duff & Phelps is known in the market as a leading provider of independent valuation services; now going to market as Kroll, we have the same team, the same expertise and a continued commitment to provide exceptional service to our clients. The Duff & Phelps brand will transition fully to Kroll over the remainder of 2021.

Since Duff & Phelps was founded in 1932, we have added more than 30 complementary companies to our portfolio, including Kroll as part of our 2018 acquisition. This hashelped us become the global leader we are today, with nearly 5,000 professionals in 30 countries and territories around the world serving over 60% of Fortune 100 companies.

United under the Kroll brand, we are better positioned to deliver a seamless experience across our suite of services. We will continue to be the leading independent valuation services provider, using proprietary data and analytics to help clients measure, monitor and maximize value.

How does Kroll see the importance of International Valuation Standards underpinning the evolving profession; why is it more important than ever to have robust valuation professionalism?

Srividya: The effects of the pandemic have made the role of valuation even more pertinent in today's world. I believe that a key takeaway from the pandemic is an emphasis on the broader adoption of existing standards and qualifications.

The biggest message for all of us is that business cycles are getting shorter and shorter, disruptions will continue and volatility is a given. We have clearly witnessed this in the past two decades. While what we are facing today due to the pandemic is unprecedented, we have had a few economic, trade-related or geopolitical events that have started in a specific country or region, and over a short time, impacted the rest of the globe, given the nature of the wired and interconnected world that we live in today.

We must accept that valuations will be dynamic in today's world and have to be based on the best available information as of the measurement date. Hence, we need to emphasize best practices, governance and transparency. That is where standards and qualifications play a huge role.

That gives rise to the need to have and follow common global standards like International Valuation Standards (IVS) as well as additional guidance from organizations like IPEV and other leading bodies. Additionally, valuation professional organizations (VPOs) lay out standards to uphold ethics, competency and continuing development. The qualifications play a critical role here. It is important for boards and stakeholders to ensure they engage professionals with appropriate qualification from a reputable VPO or organization that places utmost weight on adhering to global standards and continuing professional development and that upholds the quality of the profession.

As a global business, how do you manage the discrepancies within accounting and valuation standards in different parts of the world? Do you find that stakeholders are generally familiar with the differences in standards frameworks and do these differences create challenges?

Srividya: As a global business, we are committed to following global standards, guidance andinternational best practices. Due to significant efforts put in by the community at large over the last several years, great strides have been made to align global standards in different areas. For example, most countries in APAC and EMEA have aligned with International Financial Reporting Standards (IFRS). The U.S. generally

accepted accounting principles (U.S. GAAP) and IFRS have also unified most requirements as it relates to, for example, fair value measurements and business combinations. IVS have become more accepted across the world. In addition to standards, technical guidance provided by organizations like IPEV, AICPA, The Royal Institution of Chartered Surveyors (RICS) or The Appraisal Foundation are referred to by many valuers and users globally. Most standards today are principles-based, as they should be, rather than rules-based. There will always be a certain level of interpretation and judgement involved, but that is necessary, which is why experience and qualifications become critical.

Having said that, we continue to see certain challenges arising broadly from two kinds of discrepancies. First, sometimes users of valuations (for example, corporate managers) are not aware of recent professional developments, and they continue to use legacy practices set up over a decade ago in the name of consistency. Second, sometimes regulators or national bodies, in the interest of localizing their standards, end up significantly amending global standards, ultimately diluting the very core and purpose of those standards. The first issue is easier to change by creating awareness for the latest best practices. The second one is a larger challenge and gets into a debate of whether global standards suit local requirements, where opinions significantly differ. This again requires collective initiative among global standard setters, institutions, the investor community and valuation professionals to drive an alignment of thinking.

How has the perception of valuation changed in the boardroom over the last decade? How is valuation information being used today?

Srividya: I have been in this professional space for over two decades. At that time, while there was a significant amount of theoretical valuation knowledge available from books, there were no common valuation standards. Even if there were standards available in some pockets of the world, there was limited awareness for them in other parts. A lot of it was left to the judgement of the valuer or what a valuer could learn from best practices in their limited circles.

There were none or very rudimentary databases, and a significant amount of time was spent collating information from stock market pages, physical newspaper copies and other similar sources. These made a valuer's task extremely challenging and stifling. It is a great advantage that we have extensive standards, guidance and emphasis on governance in today's investment and valuation world, in addition to significant depth and breadth of information and inputs available.

From a boardroom perspective, there is certainly a lot more awareness of the need for independent valuations or fairness opinions, either at the time of the transaction or for subsequent reporting to investors and other stakeholders, both purposes being equally important.

The boardroom thought process is also driven by the requirements from the regulators and investors. For example, the stock exchange and financial services regulators mandate some of these requirements either directly or sometimes indirectly through significant scrutiny and enforcement actions. For alternative investment funds, limited partners are acutely aware that they need to report all assets on a common basis that being fair value; otherwise, there could be a misallocation of assets or erroneous strategic investment decisions being made.

Having said that, I believe a lot still needs to be done to create awareness in boardrooms, with institutions, regulators and the larger stakeholder community of the need to continue to apply common valuation standards, global best practices, professional standards and the right qualification for professionals performing valuations. We need a continued and collective effort between standard setters, institutions and valuers to highlight the importance of standards and qualifications, enhancing good governance.

Duff & Phelps is a sponsor of the IVSC and contributes towards efforts to advance valuation through internationally accepted standards and high levels of professionalism. Why are these imperatives important, and how does the marketplace ultimately benefit?

David: High-quality, globally accepted standards improve the relevance and reliability of valuation estimates. Users of valuation information for numerous purposes, which include but are not limited to financial reporting, taxation, prudential regulation, asset allocation, investment decisions, etc., require consistency, comparability and transparency.

Uniform high-quality valuation standards provide a framework that enhances the ability of investors, regulators and other interested parties to improve their decisions and actions.

Uniform high-quality valuation standards provide a framework that enhances the ability of investors, regulators and other interested parties to improve their decisions and actions.

James: We understand the importance of having a seat at the table in developing and implementing valuation standards. Our valuation experts span the

globe. We experience transaction activity that involves cross-border assets and enterprises subject to various reporting and compliance requirements and have the benefit of being in the frontlines of a myriad of valuation issues. We find that consistency in valuation standards is essential.

You recently co-hosted a valuation webinar series with the IVSC exploring a range of topical issues; what were some of the salient themes that emerged, and what topics do you think preparers and users of valuation information will be keen to see on future agendas?

Srividya: IVSC and Duff & Phelps, A Kroll Business, recently co-hosted a series of webinars on various current valuation topics relevant to valuers and stakeholders around the globe. We had significant interest from preparers and users of valuations on many of these topics, including the outlook in this post-pandemic world, valuing alternative investments and valuation considerations in treatment of operating leases for financial reporting. There were also topics that will impact valuation metrics, assumptions and disclosures in the present and future such as the impact of ESG on valuation and IBOR reforms.

While valuation was at the core of these topics, valuation can never be looked at in isolation, and hence several experts from different facets of the profession, including regulators, investors, auditors, former ministers, development finance institutions and more, joined the panels to provide a well-rounded perspective. For example, the webinar, The Post-Pandemic Economic Environment and its Impact on Valuation, discussed a range of topics, including how governments have responded to the crisis, their emphasis on fiscal measures, geopolitics and the shifting role of large economies, factors influencing investment strategy, challenges and considerations for valuers, and the need for international cooperation.

Another hot topic is the impact of ESG on measuring stakeholder value creation, which has been of significant interest to governments, regulators, international bodies, investors, valuers and the larger community. As such, the subject of one of the webinars was, Putting Value at the Core of ESG, which brought out several interesting viewpoints and connected with some of the aspects discussed in the two recently published IVSC Perspective Papers on ESG.

Perspectives Paper: Time to get Tangible about Intangible Assets
Part 1: The Case for Realigning Reporting Standards with Modern Value Creation

By: Kevin Prall, Business Valuation Technical Director with contributions from the Business Valuation Standards Board

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.

Unrecognised Intangible Asset

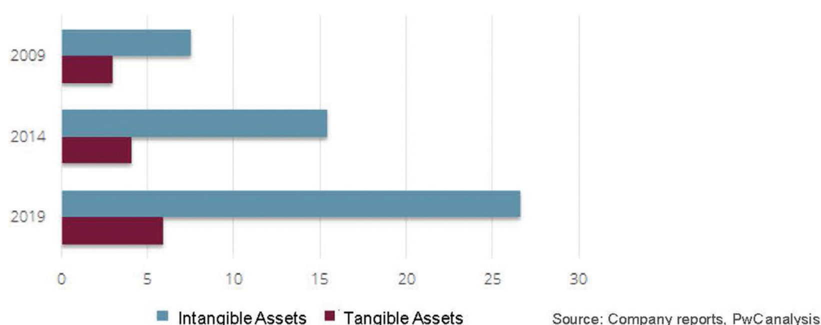
Intangible assets have long been the engine for value creation in the world's developed economies. The investment in intangible assets, both internally generated and through acquisition, is critical to an enterprises' capital allocation process. Similarly, investors' ability to identify those enterprises best able to translate such investments into long-term returns is equally as critical.

Despite the importance of intangible assets to the capital markets, only a small percentage are recognised on balance sheets, typically via acquisition from a third-party transaction.

Many have noted this severe disconnect between market values and book values (i.e., the unidentified intangible asset value[1]).

Per *The unbalanced balance sheet: Making intangibles count*, the unrecorded intangible asset value has grown exponentially from 2009 to 2019.

Value of Tangible vs Intangible Assets at S&P 500 Companies (US$ trn)

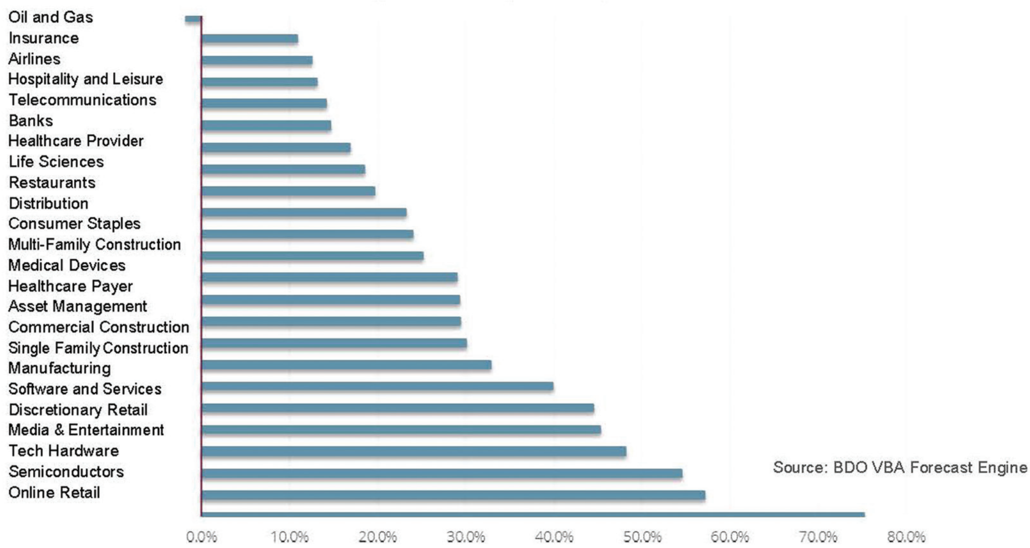


The authors state that "The increasing business focus on intangibles may exacerbate the potential disconnect between financial reporting and investing in the future." Examining data from 2020 and 2021 supports this suspicion.

Beginning in 2020, the pandemic acted to further accelerate this long-standing trend, particularly for those industries most reliant on intangible value creation, as it has fundamentally changed how people live and work. To show the acceleration of the trend in 2020 and 2021, the below graph analyses over 400 companies across 24 discrete industries and displays the change in Total Enterprise Value (TEV) from February 2020 to May 2021.

[1] For purposes of this paper, we have assumed that substantially all of the market premium over book value is due to unrecognised intangible assets. However, we do note that a smaller portion of the premium is often attributed to tangible assets, as many of the depreciation regimes around the world allow or require book depreciation which outpaces actual economic depreciation.

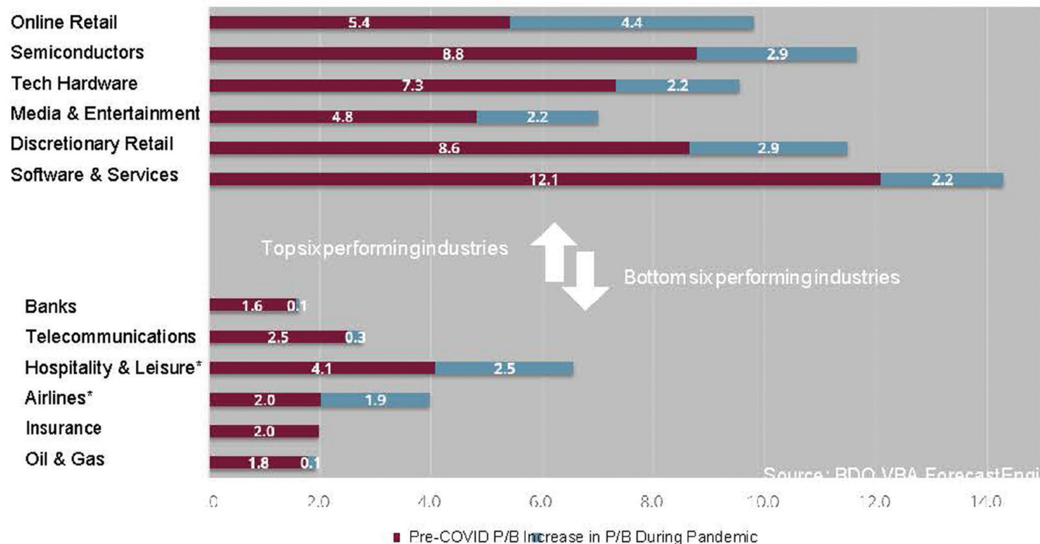
% Change TEV February 2020 - May 2021



While TEV increased for 23 of the 24 industries, those with the greatest gains tend to rely most on intangible value creation.

To confirm this observation, the below graph displays the price to book value for the top six TEV performing industries and the bottom six TEV performing industries.

Industry Average Price to Book Value



As you can see, there is a strong correlation between price to book and change in TEV since the beginning of the pandemic. The top six industries had an average price to book of 7.8 prior to the pandemic, versus an average price to book of 2.3 for the bottom six. Through May 2021, rising stock prices for the intangible driven enterprises caused the average price to book to rise to 10.6, an increase of 2.8. Alternatively, those that rely more heavily on tangible assets and capital that appear on the balance sheet only increased from 2.3 to 3.1, an increase of 0.8. This confirms that the pandemic has further exacerbated the disparity between market values and book values for those industries most reliant on brands, technology, and human capital for value creation.

The Impact of Unrecognised Assets

The general lack of balance sheet recognition has ripple effects through the financial statements. In the income statement, immediate expensing ignores the matching

principle that governs nearly all other enterprise activities. In reaction, many companies choose to communicate various Non-GAAP measures that adjust for such activity. Additionally, failure to recognise internally generated intangibles means that such investments are largely excluded from the governance, financial reporting, and auditing ecosystems. Therefore, such investments are less likely to have corresponding disclosures or be included in the management discussion and analysis (MD&A), and thus less likely to receive scrutiny auditors or be visible to investors.

There are also practical implications for specific accounting standards, none more obvious than the disconnect between acquired intangible assets and certain internally developed intangible assets. This disconnect permeates through the impairment testing processes as well, as acquired goodwill and intangibles can be shielded from impairment write downs by internally developed goodwill and intangibles that are not reflected on the balance sheet.[2]

All told, such limitations have caused many to question the relevance of financial statements in the modern economy.[3] For example, in *The End of Accounting and the Path Forward for Investors and Managers* the authors, Baruch Lev and Feng Gu, examined the explanatory power of reported earnings and book value for market value between 1950 and 2013. Lev and Gu found that the R (i.e., the explanatory power of reported earnings and book value on market value) declined from approximately 90% to 50% over the period.[4] More recent evidence from the pandemic would only suggest the trend has continued and perhaps accelerated.[5]

Given this decline in the relevance of financial statements, investors have begun to look for key information from other sources. One such area to which investors are flocking for additional information to assess value creation and preservation is ESG factors. In *A Framework to Assess ESG Value Creation*, we discussed the strong linkage between ESG considerations and internally generated intangible assets. However, there exist huge disparities in how ESG factors are disclosed and how such information is ultimately incorporated into ESG ratings. The below comparison from BDO's *The Path Ahead... Recovery Picks Up Steam*, shows the correlations between six different ESG ratings providers for over 400 companies from 24 different industries. [6]

%	MSCI	S&P	Sustainalytics	CDP	ISS	Bloomberg
MSCI		35.7	35.1	16.3	33.0	37.1
S&P	35.7		64.5	35.0	13.9	74.4
Sustainalytics	35.1	64.5		29.3	21.7	58.4
CDP	16.3	35.0	29.3		7.0	44.1
ISS	33.0	13.9	21.7	7.0		21.3
Bloomberg	37.1	74.4	58.4	44.1	21.3	

Source: BDO VBA Forecast Engine

These disparities suggest that the ESG ratings, as they stand today, are unable to consistently convey the value creation and preservation opportunities of an enterprise. Rather, we believe the issue requires a standardised principle- based framework incorporated into the current accounting frameworks.

The good news is that others seem to be coming to the same conclusions, and there is renewed momentum in this area on multiple fronts. Recently the new Chair of the IASB noted:

The biggest challenge I see is to remain relevant in an ever-changing environment. ... I am thinking of mega trends such as sustainability, and climate change in particular, as well as the rise of self-generated intellectual property and its non-addressal in the accounts, to name but a few. These and further issues are challenges to our work, but they are at the same time opportunities if we are willing to address them with our eyes wide open.[7]

The IVSC Boards have concluded that the best way to aid the public discussion is by publishing a multi-part article series to explore certain fundamental questions in this area aiming to inform financial statement preparers, reviewers, and users, and aid the capital market.

*Hospitality & Leisure and Airlines increases in P/E are largely due to the reductions in book value, as significant asset write downs and retirements occurred during the pandemic.

[2]For further details, see: IVSC Perspectives Paper, Information Value of the Current Impairment Test

[3]Invitation to Comment (ITC) Identifiable Intangible Assets and Subsequent Accounting for Goodwill - CFA Institute Response, January 2020. See also: Accounting Today, Cost versus value: Is GAAP obsolete? December 2020

[4]The End of Accounting and the Path Forward for Investors and Managers, Wiley, June 2016

[5]BDO, Forecast Engine Industry Impact Study, Issue 1: The Path Ahead, pages 23-25

[6]BDO, Forecast Engine Industry Impact Study, Issue 4: The Path Ahead... Recovery Picks Up Steam, pages 23-29

Key Questions to be Answered

The limitation of current accounting standards to convey value creation and preservation activities is largely because the prevailing value creation strategies that existed when the standards were enacted decades ago, have evolved. As many current business models have evolved over decades, namely, to rely more heavily on intangible assets at the expense of tangible, the standards and the economics have become misaligned. This article series looks to contribute to realigning accounting and reporting standards with the value creation and preservation strategies utilised in modern business models. To do this, we plan to explore key questions that must be addressed, including:

- What should be the goal for an enhanced intangible asset framework? Is the goal to better identify value creation activities for future cash flow estimates, the ability to more accurately measure ROI akin to economic value-added (EVA) principles, and/or the ability to better assess managements' stewardship of capital?
- What are the intangibles that could be subject to an enhanced intangible asset framework and what investments/costs result in their creation?
- Should an enhanced intangible asset framework be based on 1) enhanced disclosures,[8] 2) capitalisation, or 3) value creation concepts and measurement? These three options present a clear trade-off between operability and information value, but all three present a multitude of questions that require examination:
  - ➢ If disclosures prove to be the most practical first step, how can one ensure disclosures are robust and value-added?
  - ➢ If capitalisation is a viable approach, what costs would warrant capitalisation to which assets? Are certain assets better tested through impairment rather than amortised? If amortised, over what period would it be appropriate?
  - ➢ If value creation considerations are feasible, given that benefits derived from intangible assets are often not correlated with cost, is there a practical means to recognise the value created rather than cost invested?

Next Steps

We plan to help answer these pressing questions through a series of articles to follow. In our next article we will explore:

1. The primary categories of internally developed intangible assets
2. Those operating activities that give rise to each type of asset
3. How such assets generate value for an enterprise.

These insights will inform our third article where we plan to offer the beginnings of a framework to lay out:

1. Which outflows are best kept as expenses and which would be better classified as investments
2. For investments, which could be better addressed via disclosures and which are candidates for capitalisation
3. For those investments which are capitalised, for which is it more appropriate to record at cost and for which may it be possible to consider value indications
4. The potential life for amortisation and impairment purposes.

We will leverage expansive data analysis to help understand and convey the magnitude of such activities, as well as provide insights on the potential impact of any proposed framework. In addition, we plan to conduct stakeholder outreach and welcome feedback at any stage in this process.

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The IVSC would be interested to hear your feedback on the subject discussed in this paper. Specifically, in relation to the following questions:

1. Do you believe a more aligned framework for the recognition and/or disclosure of internally generated intangible assets should be pursued?
2. Do you have any suggestions for our upcoming papers for the Board to consider?
3. Do you believe that ESG ratings, and other sources, can partially address this issue?
4. Do you agree that the economic shifts from the pandemic have further increased the need to address this topic?

[7] https://www.ifrs.org/news-and-events/news/2021/07/meet-the-new-iasb-chair-andreas-barckow/

[8] For purposes of this articles, "disclosures" may include both qualitative information and/or quantitative information (e.g., additional segmentation and detail within the P&L)

MULTIPLE CHOICE QUESTIONS

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MULTIPLE CHOICE QUESTIONS

MCQ for SFA

1.Twin deficit in a economy means
a) high current account deficit and high fiscal deficit.
b) high capital account deficit and high fiscal deficit.
c) high current account deficit and high capital account deficit.
d) high budget deficit and high fiscal deficit.

Ans) high current account deficit and high fiscal deficit.

2. Govt. taxing and spending policies are called:
a) Monetary policy
b) Commercial policy
c) Fiscal policy
d) Finance policy

Ans) Fiscal policy

3. With reference to deficit financing, monetized deficit is the part that is financed through
a) borrowings from public sector scheduled commercial banks
b) external commercial borrowings
c) borrowings from RBI
d) borrowings from private sector

Ans) borrowings from RBI

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 market

10. Which of the following is termed as Liquidity Decision?
a) Raising funds
b) Investing funds in assets
c) Distributing returns earned from the assets to shareholders
d) Balancing cash inflows and outflows

Ans) Balancing cash inflows and outflows

11. Which of the following is included in short term assets:
a) Raw Material
b) Debtor
c) Cash
d) All of the above

Ans) All of the above

12. Financing Decision determines:
a) Fixed Assets
b) Equity
c) Current Assets
d) Mixed Finance

Ans) Mixed Finance

13. Two alternative expected returns are compared with the help of:
a) Coefficient of standard
b) Coefficient of variation
c) Coefficient of return
d) Coefficient of deviation

Ans) Coefficient of variation

14. The charging section of the income under the head capital gains is:
a) Section 15
b) Section 17
c) Section 45
d) Section 22

Ans) Section 45

15. Mohan received a watch worth Rs 60,000 from his cousin grandfather (brother of his grandfather). What will be the taxable amount?
a) Nil
b) Rs 10,000
c) Rs 60,000
d) Rs 50,000

Ans) Nil

16. Loss due to fire of hired machinery is:
a) Capital Loss
b) Revenue Loss
c) Capital Expenditure
d) None of the above

Ans) Capital Loss

MULTIPLE CHOICE QUESTIONS

17. Embezzlement of cash by a cashier is:
a) A revenue loss
b) A capital loss
c) A casual loss
d) None of the above

Ans) A revenue loss

18. Perquisites to employees are covered in the Income Tax Act 1961 under
a) Sec 2a
b) Sec 17b
c) Sec 28a
d) Sec 36c

Ans) Sec 17b

19. Which of the following gifts is taxable?
a) Gift in kind from relatives
b) Gift from wife
c) Gift from son
d) Gift from office college

Ans) Gift from office college

20. Municipal taxes are deductible on .... :
a) Accrual basis
b) Due basis
c) Payment basis
d) Not allowed
Ans) Payment basis

21. In case of individuals, the exempted limit of income for assessment year 2017-18 is:
a) 250000
b) 210000
c) 200000
d) 150000

Ans) 250000

22. Bad debts allowed earlier and recovered later on is:
a) Business income
b) Non business income
c) Exempted income
d) Income from other resources

Ans) Business income

23. Income from sale of rural agricultural land is:
a) Taxable capital gain
b) Exempted capital gain
c) Taxable income
d) None of the above

Ans) Exempted capital gain

24. Salary under section 17(1) of the Income Tax Act, 1961, does not include:
a) Wages
b) Pension
c) Interest
d) Gratuity

Ans) Interest

25. Unabsorbed depreciation can be carried forward for:
a) Any number of years
b) 8 years
c) 4 years
d) 7 years

Ans) Any number of years

26. When did the Insolvency and Bankruptcy Code 2016 receive the President's assent?
a) 5th August 2016
b) 28th May 2016
c) 5th May 2016
d) 15th June 2016

Ans) 28th May 2016

27. The Insolvency and Bankruptcy Code, 2016 is applicable to corporates if the default is?
a) 1 lakh or more
b) Above 1 lakh
c) 5 lakh
d) 5 lakh or more

Ans) 1 lakh or more

28. The term related party is defined in .... of the Insolvency and Bankruptcy Code, 2016:
a) Section 5 (22)
b) Section 5 (23)
c) Section 5 (24)
d) Section 5 (25)

Ans) Section 5 (24)

29. Who can initiate the Corporate Insolvency Resolution Process under the Insolvency and Bankruptcy Code, 2016:
a) Financial Creditor
b) Operational Creditor
c) Corporate Creditor
d) All of the above

Ans) All of the above

30. Which of the following does not fall under financial asset:
a) A mortgage, charge, hypothecation or pledge of movable property
b) Any right or interest in the security, whether full or part underlying such debt or receivables
c) Any financial assistance
d) Prepaid expenses undertaken with respect to a movable or immovable property

Ans) Prepaid expenses undertaken with respect to a movable or immovable property

31. Financial assets permit all of the following except ____________.
a) elimination of risk
b) separation of ownership and control
c) allocation of risk
d) consumption timing

Ans) elimination of risk

32. Which of the following does not fall under financial asset:
a) technologies
b) patents
c) intellectual properties
d) bonds

Ans) bonds

33. Which of the following intangibles is/ are prohibited from being recognised as an asset?
a) Home grown goodwill
b) Separately acquired intangible
c) Internally generated intangibles & Home grown goodwill
d) Goodwill acquired as part of an on-going business

MULTIPLE CHOICE QUESTIONS

Ans) Internally generated intangibles & Home grown goodwill

34. A business merger differs from a business consolidation because_
a) a merger dissolves all but one of the prior entities, but a consolidation dissolves all of the prior entities.
b) a consolidation dissolves all but one of the prior entities, but a merger dissolves all of the prior entities.
c) a merger is created when two entities join, but a consolidation is created when more than two entities join.
d) a consolidation is created when two entities join, but a merger is created when more than two entities join.

Ans) a merger dissolves all but one of the prior entities, but a consolidation dissolves all of the prior entities.

35. As an appraiser and in order to avoid bias in valuation, you would normally use_
a) One approach
b) Two different approaches
c) Better approach
d) Best approach

Ans) Two different approaches

36. Valuation done under Enterprise Model (DCF) and Economic Profit Model lead to identical results?
a) The Statement is True
b) The Statement is False
c) The Statement is conflicting as they are not used in valuation models
d) One cannot comment

Ans) The Statement is True

37. When valuing equity of high-growth companies, the bulk of the value will come from the_
a) Market value
b) Intrinsic value
c) Terminal value
d) Fair value

Ans) Terminal value

38. The difference between going concern value and liquidation value at the valuation date refers to:
a) Adjusted Book Value Method
b) Arbitrage Pricing Theory
c) Absolute risk
d) Asset based approach

Ans) Absolute risk

39. what are the types of Valuation Reports?
a) Comprehensive Valuation & Report Estimate Valuation Report
b) Comprehensive Valuation Report & Calculation Valuation Report
c) Calculation Valuation Report & Estimate Valuation Report
d) Calculation Valuation Report , Estimate Valuation Report & Comprehensive Valuation Report

Ans) Calculation Valuation Report , Estimate Valuation Report & Comprehensive Valuation Report

40. Comprehensive Valuation Report_
a) Based on a comprehensive review and analysis of the business, its industry and all other relevant factors,
b) Based on limited review, analysis and corroboration of relevant information,
c) Based on minimal review and analysis and little or no corroboration of relevant information.
d) Generally set out in a brief Valuation Report.

Ans) Based on a comprehensive review and analysis of the business, its industry and all other relevant factors,

41. Which of the following valuation methods is based on "Going concern concept_
a) Market value method
b) Book value method
c) Liquidation method
d) Salvage value method

Ans) Book value method

42. Who shall bear the cost of proving the claims under the liquidation process:
a) Claimant
b) Liquidator
c) Corporate Debtor
d) Creditors

Ans) Claimant

43. Which of the following reports is the liquidator required to prepare and submit under the liquidation process:
a) Preliminary Report or Progress Report
b) Preliminary Report and Progress Report
c) Preliminary Report and Annual Report
d) Sale Memorandum and Asset Report

Ans) Preliminary Report an Progress Report

44. Is liquidator fee part of the liquidation cost of corporate debtor_
a) Yes, liquidator fee is part of the liquidation cost of corporate debtor
b) No, liquidator fee is not a part of the liquidation cost of the corporate debtor
c) Depends on the agreement between liquidator and corporate debtor
d) Depends on the agreement between the financial creditors and liquidator

Ans) Yes, liquidator fee is part of the liquidation cost of corporate debtor

45. The key sources of value (earning an excess return) for a company can be attributed primarily to ____________
a) Competitive advantage and access to capital
b) Quality management and industry attractiveness
c) Access to capitals and quality management
d) Industry attractiveness and competitive advantage

Ans) Industry attractiveness and

MULTIPLE CHOICE QUESTIONS

competitive advantage

46. Which of the following procedure you would adopt while valuing nascent high-growth company?
a) Start backward
b) Start backward and work out the future
c) Start from future
d) Start from future and work backward

Ans) Start from future and work backward

47. Which of the following is the first and most important step when forecasting future financial statements?
a) Estimate the levels of investment in current and fixed assets
b) Determine the rate of interest that will be required for borrowed funds
c) Project the firm's sales revenues for the planning period
d) Determine the depreciation expense levels

Ans) Project the firm's sales revenues for the planning eriod

48. A commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity means:
a) Business Ownership Interest
b) Business Enterprise
c) Business Valuation
d) Business

Ans) Business Enterprise

49. A strategy to develop capabilities in company value chain is called_
a) Value resource
b) Substitute resource
c) Strategic resource
d) Resource modelling

Ans) Strategic resource

50. Monetizing an idea to make money with some method of operations is known to be_
a) Strategy
b) Scope
c) Business model
d) Business system

Ans) Business model

51. A tool to identify operational areas where competencies and capabilities exist is known to be_
a) Value proposition
b) Value chain
c) Profitability
d) Logistic margin

Ans) Value chain

52. A sustainable business model requires investment for_
a) Innovation & Human resources
b) Productivity & Innovation
c) Only Human resources
d) Innovation, Human resources & Productivity

Ans) Innovation, Human resources & Productivity

53. Level of strategy that uses capabilities and competencies for competitive advantage, is said to be at the_
a) Model level
b) Operational level
c) Corporate level
d) Competitive level

Ans) Competitive level

54. Quantitative components of a business model includes revenue sources, profitability and_
a) Cost
b) times
c) Quality
d) Efficiency

Ans) Cost

55. Which pricing model provides no guidance concerning the determination of the risk premium on factor portfolios?
a) The CAPM
b) The multifactor APT
c) Both the CAPM and the multifactor APT
d) Neither the CAPM nor the multifactor APT

Ans) The multifactor APT

56. An arbitrage opportunity exists if an investor can construct a __________ investment portfolio that will yield a sure profit.
a) positive
b) negative
c) zero
d) positive & zero

Ans) zero

57. Which of the following equation better represents value of intangible asset?
a) Intangible asset value = amortizable identified asset value – non-amortizable identified asset value + goodwill
b) Intangible asset value = amortizable identified asset value + non-amortizable identified asset value + goodwill
c) Intangible asset value = amortizable identified asset value – non-amortizable identified asset value - goodwill
d) Intangible asset value = amortizable identified asset value + non-amortizable identified asset value - goodwill

Ans) Intangible asset value = amortizable identified asset value + non-amortizable identified asset value + goodwill

58. Which of the following assets is not an intangible asset?
a) Patent
b) Brand name
c) Inventory
d) Goodwill

Ans) Inventory

59. The value of a franchise is directly related to the capacity to generate_
a) Returns
b) Normal returns

MULTIPLE CHOICE QUESTIONS

c) Excess returns
d) Not related to returns alone

Ans) Excess returns

60. Which of the following method, you would consider appropriate while valuing the intangible assets?
a) Multiple
b) relative
c) consistent
d) exclusive

Ans) relative

61. Which of the following intangibles is the only one which may be capitalised, at least initially, though (i) it is not separable (ii) there is no active market in it and (iii) flow of economic benefit from it is not probable?
a) Government granted intangible
b) Separately acquired brand
c) Home grown goodwill
d) Goodwill acquired with a business

Ans) Goodwill acquired with a business

62. Which of the following is not a reason for a company to expand through a combination, rather than by building new facilities?
a) A combination might provide cost advantages
b) A combination might provide fewer operating delays
c) A combination might provide easier access to intangible assets.
d) A combination might provide an opportunity to invest in a company without having to take responsibility for its financial results

Ans) A combination might provide an opportunity to invest in a company without having to take responsibility for its financial results

63. When accounting for a business combination any future costs associated with restructuring of an entity_
a) should be estimated and included as part of the acquisition cost
b) should be provided for as part of the cost of the combination
c) should be capitalised and amortised across the restructuring period
d) should be recognised only when the acquiree has an existing liability for restructuring

Ans) should be recognised only when the acquiree has an existing liability for restructuring

64. Allocation of available funds in various types funds are balancing risk & return is called …………
a) Portfolio diversification
b) Investment
c) Gambling
d) Checking

Ans) Portfolio diversification

65 …………………….. Is a trust that pools the savings of a number of investors.
a) Financial derivatives
b) Mutual fund
c) Swaps
d) Real estate

Ans) Mutual fund

66. An insurer uses balanced scorecards as a strategic management tool. The main purpose of this is to_
a) calculate insurance premiums.
b) calculate its financial strength.
c) measure performance
d) reduce its costs.

Ans) measure performance

67. Which department within an insurance company will primarily be responsible for analysing potential mergers and acquisitions?
a) Finance.
b) Internal audit.
c) Investment.
d) Strategy.

Ans) Strategy.

68. When reserving for claims under long-tail insurance classes, the amounts can be discounted to allow for
a) Corporation Tax
b) cost savings
c) investment income.
d) market risk.

Ans) investment income.

69. Which financial ratio gives an indication of an insurer's underwriting year performance?
a) Claims ratio.
b) Combined ratio
c) Credit turnover ratio.
d) Current ratio.

Ans) Combined ratio

70. Which type of activity in the Standard and Poor's insurance ratings frame work is most likely to be classified as a modifier?
a) Committee voting.
b) Enterprise risk management.
c) Gearing ratio analysis.
d) Industry and country risk.

Ans) Enterprise risk management.

71. Who arranges for a credit rating agency to produce a financial security rating on an insurance company?
a) External auditors.
b) The Government.
c) The insurance company
d) The regulator

Ans) The insurance company

72. An insurer intends to assess its position via a use test, to comply with proposed changes in regulations. This forms part of the rules relating to
a) capital adequacy.
b) . claims reserves.
c) internal audit
d) risk tolerance.

Ans) capital adequacy.

73. How will the recent acquisition of the subsidiary be shown on the insurer's cash flow statement?

MULTIPLE CHOICE QUESTIONS

a) As a cash inflow from financing activities.
b) As a cash inflow from investment activities
c) As a cash outflow from financing activities
d) As a cash outflow from investment activities

Ans) As a cash outflow from investment activities

74. The use of claims development tables provides valuable information about the_
a) ability to charge higher prices.
b) level of unrealised gains and losses.
c) nature of breaches of internal controls
d) prior estimates of outstanding amounts.

Ans) prior estimates of outstanding amounts.

75. The change in the combined ratio is most likely to indicate that the insurer has_
a) increased its administration expenses.
b) increased its long-term borrowing.
c) improved its investment returns.
d) improved its underwriting results.

Ans) improved its underwriting results.

76. The result of the recent liquidity calculation indicates that since last year the insurer's liquidity has_
a) become more volatile
b) worsened.
c) improved.
d) been unaffected.

Ans) improved.

77. In Swift Formulations Private Ltd., In. re (2004 121 Comp Case 27 (Punjab and Haryana), held that:
a) Where the shareholders of two companies in their collective wisdom had accepted the share exchange ratio worked out by experts and if mistake was pointed out, then it was not for the court to interfere with the decision of shareholders
b) Where the shareholders of two companies in their collective wisdom had not accepted the share exchange ratio worked out by experts and if mistake was pointed out, then it was not for the court to interfere with the decision of the shareholders
c) Where the shareholders of two companies in their collective wisdom had accepted the share exchange ratio worked out by experts and if no mistake was pointed out, then it was not for the court to interfere with the decision of shareholders
d) None of the above

Ans) Where the shareholders of two companies in their collective wisdom had accepted the share exchange ratio worked out by experts and if no mistake was pointed out, then it was not for the court to interfere with the decision of shareholders

78. In Gulmohar Finance Limited, In.re., (1995) 5 SCL 207 (Del) Delhi High Court held that:
a) Valuation and exchange ratio can be accepted if the shareholders, creditors and liquidation etc., have approved the scheme, even when Central Government has raised objections to exchange ratio
b) Valuation and exchange ratio can be accepted if the shareholders, creditors and liquidation etc., have not approved the scheme, even when the Central Government has not raised objections to exchange ratio
c) Valuation and exchange ratio can be accepted if the shareholders, creditors and liquidation etc., have approved the scheme, even when Central Government has not raised objections to exchange ratio
d) None of the above

Ans) Valuation and exchange ratio can be accepted if the shareholders, creditors and liquidation etc., have approved the scheme, even when Central Government has raised objections to exchange ratio

79. No person shall practice as a registered valuer without obtaining a:
a) Certificate of practice
b) Certificate of recognition
c) Certificate of registration
d) Certificate of association

Ans) Certificate of registration

80. A person shall not be eligible to be a registered valuer if he:
a) Is not a valuer member of a registered valuers organisation
b) Is a minor
c) Is not a discharged bankrupt
d) All of the above

Ans) All of the above
Use the following information to answer Questions 81-82
Sally Curten, Valuer, has gathered the following information on Jameston Fiber Optics, Inc., (JFOI) and industry norms

Selected Financial Data for JFOI (in millions)

Total sales:	$2,044	(fiscal year 2016)
Total assets:	$1,875	(FYE 2015)
Net income:	$322	(fiscal year 2016)
Total debt:	$1,465	(FYE 2015)

MULTIPLE CHOICE QUESTIONS

Industry ratios:	Net profit margin	= 15.7%
	Total asset turnover	= 1.1
	Return on equity	= 40.5%

81.The return on equity for JFOI is closest to:
a)17.2%.
b)37.4%.
c)78.5%.
d)none of the above

Ans) 78.5%.

82.Using DuPont analysis, Curten determines that the most influential factor(s) that management used to increase the ROE for JFOI compared to the industry is:
a) asset efficiency.
b) profitability.
c) leverage.
d)none of the above

Ans) leverage.

Use the following information to answer Questions 83-90

Gianna Peters is an investment analyst who focuses on dividend-paying stocks. Peters uses a discounted cash flow (DCF) approach to stock selection. She is meeting with her staff to evaluate portfolio holdings based on a bottom-up screening of stocks listed in the United State and Canada. Peters and her staff begin by reviewing the characteristics of the following portfolio candidates.

Company ABC

A Canadian company in the consumer staples sector with a required rate of return of 7.35%. Recent media reports suggest that ABC might be a takeover candidate. Peters and her team estimate that if the incumbent Canadian prime minister's party retains its power, the company's current annual dividend of C$0.65 per share will grow 12% a year for the next four years and then stabilize at a 3.5% growth rate a year indefinitely. However, if a new government takes office in Canada, then the team estimates that ABC will likely not experience the elevated 12% short-run growth because of new regulatory and tax changes, and instead will grow by 3.5% indefinitely.

Company XYZ

A mid-sized US company in the utilities sector with a required rate of return of 10%. Peters and her team believe that because of a recent restructuring, the company is unlikely to pay dividends for the next three years. However, the team expects XYZ to pay an annual dividend of US$1.72 per share beginning four years from now. Thereafter, the dividend is expected to grow indefinitely at 4% even though the current price implies a growth rate of 6% during this same period.

Company JZY

A large US company in the telecom sector with a required rate of return of 8%. The stock is currently trading at US$32.76 per share with an implied earnings growth rate of 5.3%. Peters believes that because JZY is mature and has a stable capital structure, the company will grow at its sustainable growth rate. Over the past 10 years, the company's return on equity (ROE) has averaged 8.17% and its payout ratio has averaged 40%. Recently, the company paid an annual dividend of US$0.84 per share.

Peters asks a newly hired analyst, Kurt Thomas, to comment on the evaluation approach for these three stocks. Thomas makes the following statements:

1. A free cash flow valuation model would not be appropriate to evaluate Company ABC if the firm becomes a takeover candidate.

2. A dividend discount model cannot be applied to Company XYZ if dividends are suspended for a few years.

3. A dividend discount model is suitable for evaluating the stock of Company JZY because of the historically consistent payout ratio.

Peters then asks the team to examine the growth opportunities of three Canadian stocks currently held in the portfolio. These stocks are listed in Exhibit 1. Peters believes that the stocks are fairly valued.

Exhibit 1 Selected Stock Characteristics

Stock	Required Rate of Return	Next Year's Forecasted EPS (C$)	Current Price per Share (C$)

MULTIPLE CHOICE QUESTIONS

ABTD	10.5%	7.30	80.00
BKKQ	8.0%	2.12	39.00
CPMN	12.0%	1.90	27.39

83.Which of the following statements made by Thomas is *correct*?

a)Statement 1

b)Statement 2

c)Statement 3

d)none of the above

Ans) Statement 3

84.Assuming the incumbent government retains office in Canada, Peters and her team estimate that the current value of Company ABC stock would be closest to:

a)C$22.18.

b)C$23.60.

c)C$25.30.

d)none of the above

Ans) C$23.60.

85.Assuming a new government takes office in Canada, Peters and her team estimate that the current intrinsic value of Company ABC would be closest to:

a)C$9.15.

b)C$16.88.

c)C$17.47.

d)none of the above

Ans) C$17.47.

86.Assume that a new government takes office in Canada. If Peters and her team use the Gordon growth model and assume that Company ABC stock is fairly valued, then which of the following would most likely be true?

a)The total return of ABC stock will be 10.85%.

b)The dividend yield of ABC stock will be 3.85%.

c)The stock price of ABC will grow at 7.35% annually.

d)none of the above

Ans) The dividend yield of ABC stock will be 3.85%.

87.If the team uses the dividend discount model, the current intrinsic value of Company XYZ stock would be closest to:

a)US$19.58.

b)US$20.36.

c)US$21.54.

d)none of the above

Ans) US$21.54.

88.The dividend growth rate implied in the stock price of Company XYZ suggests that XYZ's stock price is most likely:

a)undervalued.

b)fairly valued.

c)overvalued.

d)need more information to answer

Ans) overvalued.

89.Based on the relationship between the implied growth rate and the sustainable growth rate, Peters' team should conclude that Company JZY's stock price is most likely:

a)undervalued.

b)fairly valued.

c)overvalued.

d)need more information to answer

Ans) overvalued.

90.Based on Exhibit 1, the growth component of the leading P/E is largest for:

a)ABTD.

b)BKKQ.

c)CPMN.

d)need more information to answer

Ans) CPMN.

Case 1 – Vikram Capital

The following information relates to Questions 1–8 Vikram Capital is a rapidly growing US investment firm.

The Vikram Capital research team is responsible for identifying undervalued and overvalued publicly traded equities that have a market capitalization greater than $500 million. Due to the rapid growth of assets under management, Vikram Capital recently hired a new analyst, Jaikishan, to support the research process. At the new analyst orientation meeting, the director of research made the following statements about equity valuation at Vikram:

Statement 1 “Analysts at Vikram Capital seek to identify mispricing, relying on price eventually converging to intrinsic value. However, convergence of the market price to an analyst’s estimate of intrinsic value may not happen within the portfolio manager’s investment time horizon. So, besides evidence of mispricing, analysts should look for the presence of a particular market or corporate event— that is, a catalyst—that will cause the marketplace to re- evaluate the subject firm’s prospects.”

Statement 2 “An active investment manager attempts to capture positive alpha. But mispricing of assets is not directly observable. It is therefore important that you understand the possible sources of perceived mispricing.”

Statement 3 “For its distressed securities fund, Vikram Capital screens its investable universe of securities for companies in financial distress.”

Statement 4 “For its core equity fund, Vikram Capital selects financially sound companies that are expected to generate significant positive free cash flow from core business operations within a multiyear forecast horizon.”

Statement 5 “Vikram Capital’s research process requires analysts to evaluate the reasonableness of the expectations implied by the market price by comparing the market’s implied expectations to his or her own expectations.”

After the orientation meeting, the director of research asks Jaikishan to evaluate three companies that are retailers of men’s clothing: Diamond Co., Renaissance Clothing, and Deluxe Men’s Wear. Jaikishan starts his analysis by evaluating the characteristics of the men’s retail clothing industry. He finds few barriers to new retail entrants, high intra-industry rivalry among retailers, low product substitution costs for customers and a large number of wholesale clothing suppliers. While conducting his analysis, Jaikishan discovers that Renaissance Clothing included three non- recurring items in their most recent earnings release: a positive litigation settlement, a one-time tax credit, and the gain on the sale of a non- operating asset.

To estimate each firm’s intrinsic value, Jaikishan applies appropriate discount rates to each firm’s estimated free cash flows over a ten-year time horizon and to the estimated value of the firm at the end of the ten-year horizon. Manisha, a junior technology analyst at Vikram, asks the director of research for advice as to which valuation model to use for VEGA, a fast growing semiconductor company that is rapidly gaining market share. The director of research states that “the valuation model selected must be consistent with the characteristics of the company being valued.” Manisha tells the director of research that VEGA is not expected to be profitable for several more years. According to management guidance, when the company turns profitable, it will invest in new product development; as a result, it does not expect to initiate a dividend for an extended period of time. Manisha also notes that she expects that certain larger competitors will become interested in acquiring VEGA because of its excellent growth prospects. The director of research advises Manisha to consider that in her valuation.

1. Based on Statement 2, which of the following sources of perceived mispricing do active investment managers attempt to identify? The difference between:
   a. Intrinsic value and market price.
   b. Estimated intrinsic value and market price.
   c. Intrinsic value and estimated intrinsic value.

2. With respect to Statements 3 and 4, which of the following measures of value would the distressed securities fund’s analyst consider that a core equity fund analyst might ignore?
   a. Fair value
   b. Liquidation value
   c. Fair market value

3. With respect to Statement 4, which measure of value is most relevant for the analyst of the fund described?
   a. Liquidation value
   b. Investment value
   c. Going- concern value

4. According to Statement 5, analysts are expected to use valuation concepts and models to:
   a. Value private businesses.
   b. Render fairness opinions.
   c. Extract market expectations.

5. Based on Jaikishan’s industry analysis, which of the following characteristics of men’s retail clothing retailing would positively affect its profitability? That industry’s:
   a. Entry costs.
   b. Substitution costs.

c. Number of suppliers.

6. Which of the following statements about the reported earnings of Renaissance Clothing is most accurate? Relative to sustainable earnings, reported earnings are likely:

a. Unbiased.
b. Upward biased.
c. Downward biased.

7. Which valuation model is Jaikishan applying in his analysis of the retailers?

a. Relative value
b. Absolute value
c. Sum- of- the- parts

8. Which valuation model would the director of research most likely recommend Lee use to estimate the value of VEGA?

a. Free cash flow
b. Dividend discount
c. P/E relative valuation

Case 1 – Vikram Capital [Solutions]:

1) A is correct. The difference between the true (real) but unobservable intrinsic value and the observed market price contributes to the abnormal return or alpha which is the concern of active investment managers.
2) B is correct. The measure of value the distressed securities fund's analyst would consider that the core equity fund analyst might ignore is liquidation value. The liquidation value of a company is its value if it were dissolved and its assets sold individually.
3) C is correct. For its core equity fund, Vikram Capital screens its investable universe of securities for well-capitalized companies that are expected to generate significant future free cash flow from core business operations. The concern with future free cash flows implies that going- concern value is relevant.
4) C is correct. Market prices reflect the expectations of investors about the future performance of companies. The analyst can evaluate the reasonableness of the expectations implied by the market price by comparing the market's implied expectations to his own expectations. This process assumes a valuation model, as discussed in the text.
5) C is correct. The men's retail clothing industry is characterized by a large number of wholesale clothing suppliers. When many suppliers of the products needed by industry participants exist, competition among suppliers should limit their ability to raise input prices. Thus the large number of suppliers is a factor that should positively affect industry profitability.
6) B is correct. The effects of favorable nonrecurring events in reported earnings would tend to bias reported earnings upward relative to sustainable earnings because non- recurring items are by definition not expected to repeat. Renaissance Clothing included three non-recurring items in their most recent earnings release that all led to higher earnings for the current period: a positive litigation settlement, a one- time tax credit, and the gain on the sale of a nonoperating asset.
7) B is correct. An absolute valuation model is a model that specifies an asset's intrinsic value. The most important type of absolute equity valuation models are present value models (also referred to as discounted cash flow models) and the model described by Jaikishan is of that type.
8) A is correct. The broad criteria for model selection are that a valuation model be consistent with the characteristics of the company being valued, appropriate given the availability and quality of the data and consistent with the purpose of the valuation. VEGA currently has negative earnings, making the use of P/E relative valuation difficult if not impossible. As VEGA does not pay a dividend and is not expected to for the foreseeable future; this would make the application of a dividend discount model problematic. However, the lack of a dividend would not be an obstacle to free cash flow valuation. Furthermore, the director of research has advised that the possibility that competitors may seek to acquire VEGA be taken in to account in valuing VEGA. The reading states that free cash flow valuation can be appropriate in such circumstances. Thus, the director of research would be most likely to recommend free cash flow valuation

Case 2 – Abhishek Battoo

Abishek Battoo is a valuer for a Professional Valuation Services Company. The company does independent valuation for actively traded listed companies. Battoo is responsible for conducting valuation for Company A and Company B. The appropriate valuation model for each company was chosen based on the following characteristics of each company:
Company A is an employment services firm with no debt and has fixed assets consisting primarily of computers, servers, and commercially available software. Many of the assets are intangible, including human capital. The company has a history of occasionally paying a special cash dividend.
Company B operates in three unrelated industries with differing rates of growth: tobacco (60% of earnings),

shipbuilding (30% of earnings), and aerospace consulting (10% of earnings). The company pays a regular dividend that is solely derived from the earnings produced by the tobacco division.

Battoo considers the following development in making any necessary adjustments to the models before completing the valuation:

Company B has finalized the terms to acquire 70% of the outstanding shares of Company X, an actively traded tobacco company, in an all- stock deal.

Battoo assigns value to each of the companies and provides a rationale the same. The director of Valuation asks Battoo: "How did you arrive at these values? Describe how you used a top- down approach."

Battoo replies, "I arrived at my valuations through my due diligence process. I have studied all of the public disclosure documents; I have participated in the company conference calls, being careful with my questions in such a public forum; and I have studied the dynamics of the underlying industries. The valuation models are robust and use an extensive set of company- specific quantitative and qualitative inputs."

1. Based on Company A's characteristics, which of the following absolute valuation models is most appropriate for valuing that company?

a. Asset or Cost based
b. Dividend discount
c. Free cash flow to the firm

2. Based on Company B's characteristics, which of the following valuation models is most appropriate for valuing that company?

a. Asset or Cost based
b. Sum of the parts
c. Dividend discount

3. Which of the following is most likely to be appropriate to consider in Company B's valuation of Company X?

a. Blockage factor
b. Control premium
c. Lack of marketability discount

4. Based on Battoo's response to the Director of Valuation, Battoo's process could have been more consistent:

a. Incorporating additional micro- level inputs into her valuation models.
b. Evaluating the impact of general economic conditions on each company.
c. Asking more probing questions during publicly available company conference calls

Cash 2 – Abhishek Battoo [Solutions].

1) C is correct. The free cash flow to the firm model is the most appropriate of the choices because it can be used whether the company has significant marketable assets or consistently pays a cash dividend. Much of Company A's assets are intangible and although the company has a history of paying a dividend, it has been only occasionally and in the form of a special dividend (i.e., not a consistent cash dividend).

2) B is correct. Sum of Parts Valuation would be consistent with the characteristics of the company. Company B is a conglomerate operating in three unrelated industries with significantly different expected revenue growth rates. The sum-of-the-parts valuation model sums the estimated values of each of the company's businesses as if each business were an independent going concern. Sum-of-the-parts analysis is most useful when valuing a company with segments in different industries that have different valuation characteristics.

3) B is correct. A control premium may be reflected in the value of a stock investment that would give an investor a controlling position. Company B acquired 70% of the outstanding stock of Company X; more than 50% is considered a controlling ownership position.

4) B is correct. A top- down forecasting approach moves from macroeconomic forecasts to industry forecasts and then to individual company and asset forecasts. Valuers are expected to understand the general economic conditions before finalizing a research report and making a recommendation. According to Battoo's response, he did not comment on the general economic conditions and such considerations would be consistent with the firm's policy of using a top- down approach.

Case 3 Herby Asset Management

Jai Prakash is the primary portfolio manager of the global equities portfolio at Herby Asset Management. Tina Kapoor, a recently hired valuation analyst, has been assigned to Prakash to assist him with the portfolio. Prakash recently sold shares of Cap- Gemini, Inc. from the portfolio. Prakash tasks Kapoor with assessing the return performance of Cap- Gemini, with specific trade information provided in Exhibit 1.

Exhibit 1 Cap- Gemini, Inc. Trade Details
1 Cap- Gemini shares were purchased for Rs 20.75 per share.
2 At the time of purchase, research by Prakash suggested that Cap- Gemini shares were expected to sell for Rs 29.00 per share at the end of a 3- year holding period.

3 At the time of purchase, the required return for Cap- Gemini based upon the capital asset pricing model (CAPM) was estimated to be 12.6% on an annual basis.
4 Exactly 3 years after the purchase date, the shares were sold for Rs 30.05 per share.
5 No dividends were paid by Cap- Gemini over the 3- year holding period.

Prakash explains to Kapoor that, at the time of purchase, the CAPM used to estimate a required return for Cap- Gemini incorporated an unadjusted historical equity risk premium estimate for the Indian equity market. Prakash notes that the Indian equities market has experienced a meaningful string of favourable inflation and productivity surprises in the past. She asks Kapoor whether the historical equity risk premium should have been adjusted before estimating the required return for Cap- Gemini. For another perspective on the reward to bearing risk, Prakash asks Kapoor to calculate a forward-looking equity risk premium for the Indian equity market using data on the BSE index in Exhibit 2.

Exhibit 2 BSE Index Data
Dividend yield, based on year- ahead aggregate forecasted dividends 1.2%
Consensus long- term earnings growth rate 4%
20- year Indian government bond yield 3%

Prakash is now considering adding shares of TCS, to the portfolio. Prakash asks Kapoor to calculate TCS's weighted average cost of capital using the CAPM with the information provided in Exhibit 3.

Exhibit 3 TCS
Pre-tax cost of debt 4.9%
Long- term debt as a percent of total capital, at market value 25%
Marginal tax rate 30%
TCS beta 2.00
Estimated equity risk premium 5.5%
Risk- free rate 3.0%

Lastly, Prakash asks Kapoor to evaluate Tara Industries, a privately owned Indian company that may initiate a public stock offering. Kapoor decides to adapt CAPM to estimate the required return on equity for Tara Industries. Kapoor identifies a publicly traded peer company with an estimated beta of 1.09 that is much larger but otherwise similar to Tara Industries. Tara Industries is funded 49% by debt while the publicly traded peer company is funded 60% by debt.

1 Based upon Exhibit 1, the expected three- year holding period return for CapGemini Inc. at the time of purchase was closest to:
A 39.76%.
B 42.76%.
C 44.82%.

2 Based upon Exhibit 1, the realized three- year holding period return for CapGemini Inc. was closest to:
A 39.76%.
B 42.76%.
C 44.82%.

3 Based on the historical record of surprises in inflation and productivity, the historical equity risk premium for the Indian equity market, if it is used as an estimate of the forward- looking equity risk premium, should most likely be:
A left unchanged.
B adjusted upward.
C adjusted downward.

4 Based on Exhibit 2, the forward- looking estimate for the Indian equity risk premium is closest to:
A 2.2%.
B 5.8%.
C 8.2%.

5 Based on Exhibit 3, and assuming interest on debt is tax- deductible, the weighted average cost of capital (WACC) for TCS is closest to:
A 10.87%.
B 11.36%.
C 13.61%.

6 The estimate of beta for Tara Industries is closest to:
A 0.44.
B 0.85.
C 0.89.

7 A potential weakness of Kapoor's approach to estimating the required return on equity for Tara Industries is that the return estimate:
A does not include a size premium.
B may overstate potential returns over the long- term.
C does not consider systematic risk arising from the economics of the industry.

Case 3 – Herby Asset Management [Solutions]

1) A is correct. This is the expected 3- year holding period return, calculated as: 3- year expected return = (V0 – P0)/ P0 = (Rs 29.00 – Rs 20.75)/Rs 20.75 = 39.76%.
2) C is correct. The realized holding period return (note that no dividends were paid during the 3- year holding period) is 44.82%. Specifically, the realized 3- year holding period is calculated as calculated as: 3- year realized return = (PH – P0)/(P0) = (30.05 – 20.75)/20.75 = 44.82%.
3) C is correct. A string of favorable inflation and productivity surprises may result in a series of high returns that increase the historical mean estimate of the equity risk premium. To mitigate that concern, the analyst may adjust the historical estimate downward based on an independent forward- looking estimate.
4) A is correct. Given the data presented, the equity risk premium can be estimated as: Equity risk premium = dividend yield on the index based on year- ahead aggregate forecasted dividends and aggregate market value + consensus long- term earnings growth rate – current long- term government bond yield. The equity risk premium = 1.2% + 4.0% – 3.0% = 2.2%.
5) B is correct. The weighted average cost of capital is taking the sum product of each component of capital multiplied by the component's after- tax cost. First, estimate the cost of equity using the CAPM: Cost of equity = Risk- free rate + [Equity Risk Premium × Beta] Cost of equity = 3.0% + [5.5% × 2.00] = 14% Now, calculate TCS's WACC:

	Equity	Debt	WACC
Weight	0.75	0.25	
After Tax Cost	14%	(1 – 0.30) × 4.9%	
Weight × After Tax Cost	10.5%	+0.8575% =	11.36%

6) B is correct. The steps to estimating a beta for a non- traded company are: Step 1 Select the comparable benchmark Step 2 Estimate benchmark's beta Step 3 Unlever the benchmark's beta Step 4 Lever the beta to reflect the subject company's financial leverage The beta of the benchmark peer company data is given as 1.09. Next, this beta needs to be unlevered, calculated as:
7) A is correct. Kapoor intends to estimate a required return on equity using a modified CAPM approach. Tara Industries is stated to be smaller than the chosen proxy benchmark being used and there is no size premium adjustment in the CAPM framework; the framework adjusts the beta for leverage differences but this does not adjust for firm size differences. The build- up method may be more appropriate as it includes the equity risk premium and one or more additional premia, often based on factors such as size and perceived company specific risk.

Case 4 - Omni Fund

Omni Fund, a Indian-based globally diversified equity mutual fund, is consideringadding Sarvo Energy Ltd. to its portfolio. Sarvo is an independent upstream oil and gas company headquartered in Delhi. It is one of the largest oil and gas companies in India and has operations in several countries. Dev Anand, ananalyst at the mutual fund, has been assigned the task of estimating a fair value of Sarvo. Anand is aware of several approaches that could be used for this purpose. After carefully considering the characteristics of the company and its competitors, hebelieves the company will have extraordinary growth for the next few years andnormal growth thereafter. So, he has concluded that a two-stage FCFF model is the most appropriate for valuing the stock.
The Free Cash Flows to the firm during 2006, 2007, and 2008 have been Rs 114, Rs 150, and Rs 175, respectively. These imply a growth rate of 31.57 percent in 2007 and 16.66 percent in 2008. Anand believes that the growth rate will be 14 percent in the next year. He has estimated that the first stage will include the next eight years.
Anand is using the CAPM to estimate the required return on equity for Sarvo.He has estimated that the beta of Sarvo, as measured against the BSE Index is 0.84. The Indian risk-freerate, as measured by the annual yield on the 10-year government bond, is 4.1 percent. The equity risk premium for the Indian market is estimated at 5.5 percent. Based onthese data, Anand has estimated that the required return on Sarvo stock is 0.041 +0.84 (0.055) = 0.0872 or 8.72 percent. Anand is doing the analysis in January 2009and the stock price at that time is Rs 2500.
Anand realizes that even within the two-stage FCFF model, there could be some variations in the approach. He would like to explore how these variations affect the valuationof the stock. Specifically, he wants to estimate the value of the stock for each of the following approaches separately.

I. The growth rate will be 14 percent throughout the first stage of eight years. The growth rate thereafter will be 7 percent.
II. Instead of using the estimated stable growth rate of 7 percent in the second stage, Anand wants to use his estimate that eight years later Austen's stockwill be worth 17 times its share price.
III. In contrast to the first approach above in which the growth rate declines abruptly from 14 percent in the eighth year to 7 percent in the ninth, the growth rate would decline linearly from 14 percent in the first year to 7 percentin the ninth

1 What is the terminal value of the stock based on the first approach?
A Rs17652.25
B Rs31063.48
C Rs33091.57

2 In the first approach, what proportion of the total value of the stock is represented by the value of second stage?
A 0.10.
B 0.52.
C 0.90.

3 What is the terminal value of the stock based on the second approach?
A Rs 41000
B Rs 42500
C Rs 46000.

4 What is the current value of the stock based on the second approach?
A Rs 23516.05
B Rs 17065.09
C Rs 28029.11

5 Based on the third approach (the H-model), the stock is:
A undervalued.
B fairly valued.
C overvalued.

6 Dev Anand is wondering what the consequences would be if the duration of the first stage was assumed to be 11 years instead of 8, with all the other assumptions/ estimates remaining the same. Considering this change, which of the following is true?
A In the second approach, the proportion of the total value of the stock represented by the second stage would not change.
B The total value estimated using the third approach would increase.
C Using this new assumption and the first approach will lead Anand to conclude that the stock is overvalued

Case 4 – Omni Fund [Solution]:

1) B is correct. The following table provides the calculations needed to compute the value of the stock using the first approach, including the calculations for the terminal value V8. As the table shows, the terminal value V8 = Rs 31.0550.

Time		Value	Calculation	FCFF(t)	PV of FCFF
	1	Fcff 1	175 *1.14	199.5	183.4988962
	2	Fcff 2	175 *(1.14)^2	227.43	192.4105424
	3	Fcff 3	175 *(1.14)^3	259.2702	201.7549838
	4	Fcff 4	175 *(1.14)^4	295.568028	211.5532391
	5	Fcff 5	175 *(1.14)^5	336.9475519	221.8273478
	6	Fcff 6	175 *(1.14)^6	384.1202092	232.6004199
	7	Fcff 7	175 *(1.14)^7	437.8970385	243.8966875
	8	Fcff 8	175 *(1.14)^8	499.2026239	255.7415598
	8	Fcff 8	{175 *(1.14)^8*(1.07)}/(0.0872-0.07)	31055.00814	15909.48413
Total					17652.7678

2) C is correct. As shown in the above table, the value of the second stage = PV of V8 = Rs 15909.5. The total value is Rs17652.8. As a proportion, the second stage represents 15909.5/17652.8 = 0.90 of the total value
3) B is correct. 17 * 2500 = 42500

4)A is correct. As computed earlier, V8 = 17*2500 = RS 42500. PV of V8 = 42500/1.0872^8 = 21772.754
From the table with the calculation details for the solution to Problem 22, Sum of PV of FCFF 1 through FCFF 8 = 1743.3
So, the value of stock V0 = 21772.754 + 1743.3 = Rs 23516.05.

5) C is correct. Using the H-model
V0 = {FCFF0(1+gL) + FCFF0*H*(gs-gL)}/r-gL
where
FCFF0 = 175
r = 0.0872
H = 4
gS = 0.14
gL = 0.07
The market price is Rs 2500, which is greater than Rs 3375. So, the stock is overvalued in the market.
6)B is correct. If the extraordinary growth rate of 14 percent is expected to continue for a longer duration, the stock's value would increase. Choice A is false because

given that the first stage is longer (11 years instead of 8), the terminal value is being calculated at a later point in time. So, its present value would be smaller. Moreover, the first stage has more years and contributes more to the total value. Overall, the proportion contributed by the second stage would be smaller. Choice C is false because the intrinsic value of the stock would be
higher and the appropriate conclusion would be that the stock would be under- valued to a greater extent based on the first approach

Case 5 Gita Parekh

Gita Parekh focuses on dividend-paying stocks. Parekh uses a discounted cash flow (DCF) approach to stock selection. She is meeting with her staff to evaluate portfolio holdings based on a bottom-up screening of stocks listed in India. Parekh and her staff begin by reviewing the characteristics of the following portfolio candidates.

Company ABC
A Indian company in the consumer staples sector with a required rate of return of 7.35%. Recent media reports suggest that ABC might be a takeover candidate. Parekh and her team estimate that if the incumbent Indian prime minister's party retains its power, the company's current annual FCFF of Rs 65 per share will grow 12% a year for the next four years and then stabilize at a 3.5% growth rate a year indefinitely. However, if a new government takes office in India, then the team estimates that ABC will likely not experience the elevated 12% short-run growth because of new regulatory and tax changes, and instead will grow by 3.5% indefinitely.

Company XYZ
A mid-sized company in the utilities sector with a required rate of return of 10. The team Forecasts XYZ to have an annual FCFF of Rs 172 per share beginning four years from now. Thereafter, the dividend is expected to grow indefinitely at 4% even though the current price implies a growth rate of 6% during this same period.

Company JZY
A large Indian company in the telecom sector with a required rate of return of 8%. The stock is currently trading at Rs 3276 per share with an implied earnings growth rate of 5.3%. Parekh believes that because JZY is mature and has a stable capital structure, the company will grow at its sustainable growth rate. Over the past 10 years, the company's return on equity (ROE) has averaged 8.17% and its pay-out ratio has averaged 40%. Recently, the company's FCFF is Rs 84 per share.

Parekh asks a newly hired analyst, Karan Khanna, to comment on the evaluation approach for these three stocks. Khanna makes the following statements:
1 A free cash flow valuation model would not be appropriate to evaluate Company ABC if the firm becomes a takeover candidate.
2 A dividend discount model cannot be applied to Company XYZ if dividends are suspended for a few years.
3 A dividend discount model is suitable for evaluating the stock of Company JZY because of the historically consistent payout ratio.
Parekh then asks the team to examine the growth opportunities of three Canadian stocks currently held in the portfolio. These stocks are listed in Exhibit 1. Parekh believes that the stocks are fairly valued.

Exhibit 1 Selected Stock Characteristics

Stock	Required Rate of Return	Next Year's Forecasted EPS (Rs)	Current Price per Share (Rs)
ABTD	10.5%	7.30	80.00
BKKQ	8.0%	2.12	39.00
CPMN	12.0%	1.90	27.39

1 Which of the following statements made by Khanna is correct?
A Statement 1
B Statement 2
C Statement 3

2 Assuming the incumbent government retains office in India, Parekh and her team estimate that the current value of Company ABC stock would be closest to:
A Rs 2218.
B Rs 2360.
C Rs 2530.

3 Assuming a new government takes office in India, Parekh and her team estimate that the current intrinsic value of Company ABC would be closest to:
A Rs 915.39
B Rs 1688.54
C Rs 1747.40

4 If the team uses the dividend discount model, the current intrinsic value of Company XYZ stock would be closest to:
A Rs 19.58.
B Rs 20.36.
C Rs 21.54.

5 The dividend growth rate implied in the stock price of Company XYZ suggests that XYZ's stock price is most likely:
A undervalued.
B fairly valued.
C overvalued.

6 Based on the relationship between the implied growth rate and the sustainable growth rate, Parekh' team should conclude that Company JZY's stock price is most likely:
A undervalued.
B fairly valued.
C overvalued.

7 Based on Exhibit 1, the stock with the largest present value of growth opportunities (PVGO) is:
A ABTD.
B BKKQ.
C CPMN.

8 Based on Exhibit 1, the growth component of the leading P/E is largest for:
A ABTD.
B BKKQ.
C CPMN.

Cash 5 – Gita Parekh [Solution]:

1) C is correct. A dividend discount model is especially uful when dividend policy bears an understandable and consistent relationship to the company's profitability. The relatively consistent dividend payout ratio suggests Company JZY would be a suitable candidate for a dividend discount model.

2) B is correct. The value of ABC stock can be computed as follows:
Given: Dividend (D0) = Rs 0.65, Return (r) = 7.35%, Short-term growth (gS) = 12% for 4 years, Long-term growth (gL) = 3.5% thereafter.
Then:
FCFF 1 = $FCFF_0 (1 + g_S)^1$ = 65(1.12) = 72.80
FCFF 2 = $FCFF_0 (1 + g_S)^2$ = $65(1.12)^2$ =81.54
FCFF 3 = $FCFF_0 (1 + g_S)^3$ = $65(1.12)^3$ =91.32
FCFF 4 = $FCFF_0 (1 + g_S)^4$ = $65(1.12)^4$ =102.28
P 4 = $[FCFF_4 (1 + g_L)]/(r – g_L)$ = $[FCFF_4 (1.035)]$/(0.0735 – 0.035) =2749.57.
V0 = FCFF 1/(1 + r)1 + …. + $FCFF_4 / (1 + r)^4 + P_4/(1 + r)^4$.
V0 = [72.80/(1.0735)1] + $[81.54/(1.0735)^2]$ +[91.32/ $(1.0735)^3]$ + $[102.28/(1.0735)^4]$ + $[2749.60/(1.0735)^4]$
= Rs 2359.86 (rounded to Rs2360).

3) C is correct. The value of ABC would be calculated using the Gordon growth model as follows:
V0 = [D0(1 + g)]/(r – g) = [65 (1.035)]/(0.0735 – 0.035) = Rs1747.40

4) C is correct. The current value of XYZ stock would be calculated as follows:
V0 = $[P_3/(1 + r)^3]$, where P3 = $D_4/(r – g)$.
Given D4 = 1.72, r = 10%, and g = 4%,
V0 = [1.72/(0.10 – 0.04)]/(1.10)3 = Rs 21.54.

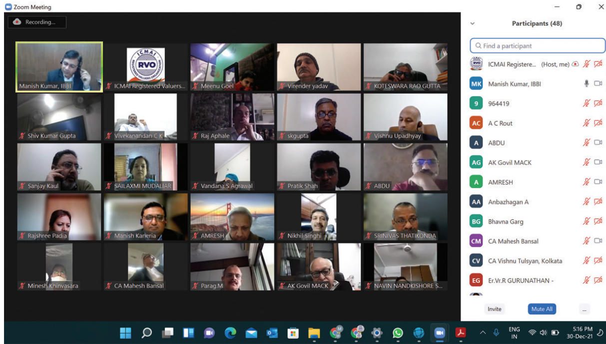
5) C is correct. The dividend growth rate implied in the stock price of XYZ (i.e., 6%) is greater than the growth rate assumed by the analyst (i.e., 4%), suggesting that XYZ is overvalued

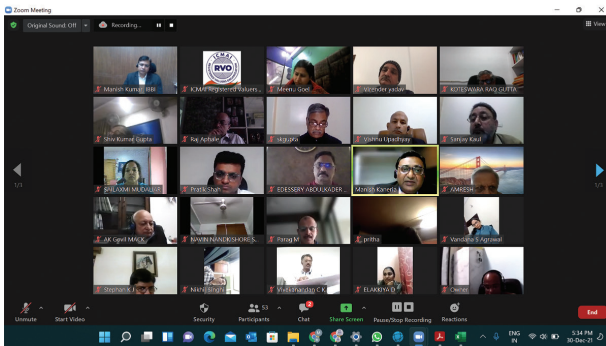
6)C is correct. The sustainable growth rate of JZY stock = g = Retention ratio × ROE = 0.60 × 0.0817 = 4.9%. JZY stock's implied growth rate of 5.3% is higher than the sustainable growth rate of 4.9%. Consequently, the stock is overvalued that is, the intrinsic value of the stock will be less than its current market price.
The current intrinsic value of JZY stock is as follows:
V0 = [D0(1 + g)]/(r – g)
= [84 (1.0490)]/(0.08 – 0.0490)
= Rs 2842.45 < Rs 3276.

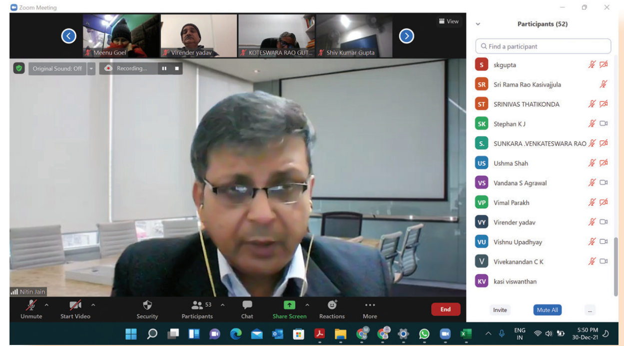
7)B is correct. BKKQ has the largest PVGO, which is calculated as follows: PVGO (ABTD) = P0 – E1/r = 80.00 – [7.30/0.105] = Rs 10.48,
PVGO (BKKQ) = P0 – E1/r = 39.00 – [2.12/0.08] = C$12.50, PVGO (CPMN) = P0 – E1/r = 27.39 – [1.90/0.12] = Rs 11.56,
where P0 is the current price per share, E1 is the forecasted earnings per share, and r is the required rate of return.

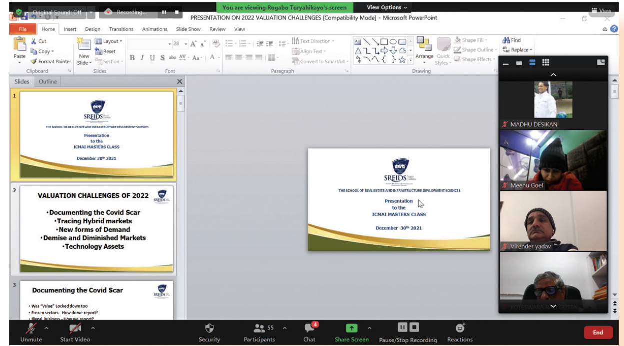
8)C is correct. The leading P/E is calculated as follows:
P0/E1 = [1/r] + [PVGO/E1],
where, 1/r captures the no-growth component of P/E and PVGO/E1 captures the growth component of the P/E.
PVGO is computed as follows:
PVGO (ABTD) = P0 – E1/r = 80.00 – [7.30/0.105] = C$10.48, PVGO (BKKQ) = P0 – E1/r = 39.00 – [2.12/0.08] = Rs 12.50, PVGO (CPMN) = P0 – E1/r = 27.39 – [1.90/0.12] = Rs 11.56,
where, P0 is the current price per share, E1 is the forecasted earnings per share, and r is the required rate of return.
The growth component of the P/E for each stock [PVGO/ E1] is: ABTD: 10.48/7.30 = 1.44×
BKKQ: 12.50/2.12 = 5.90× CPMN: 11.56/1.90 = 6.08×

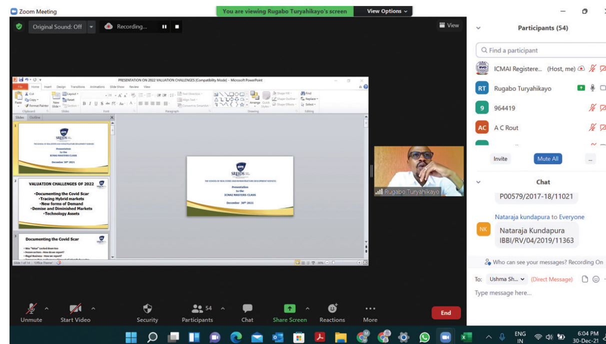
Master Class on Emerging Challenges of Valuation in 2022 Organised on 30th December 2021











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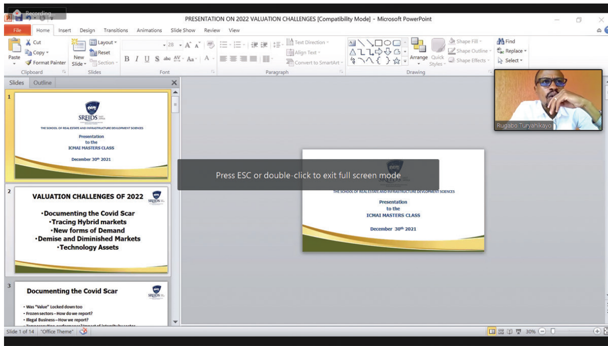
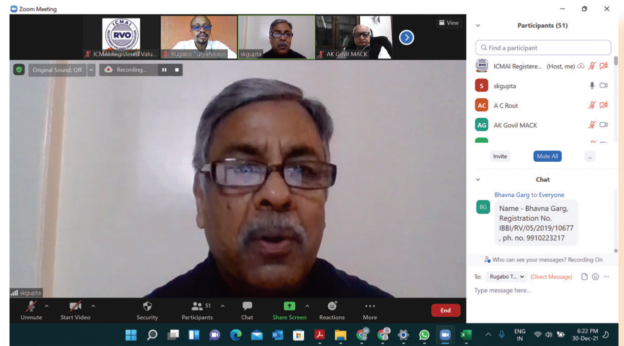
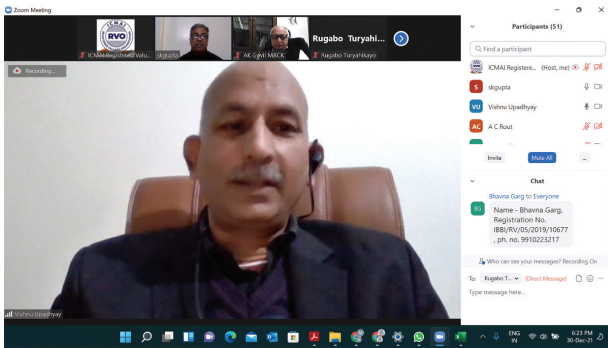
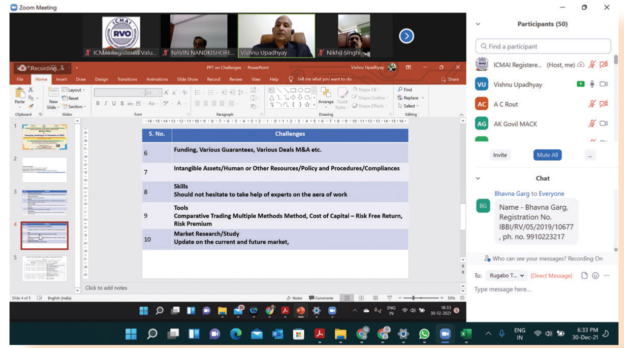
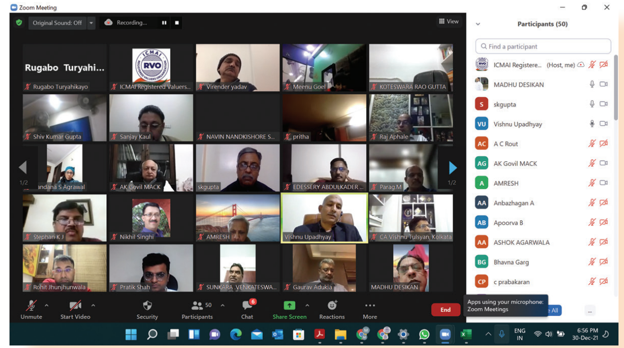
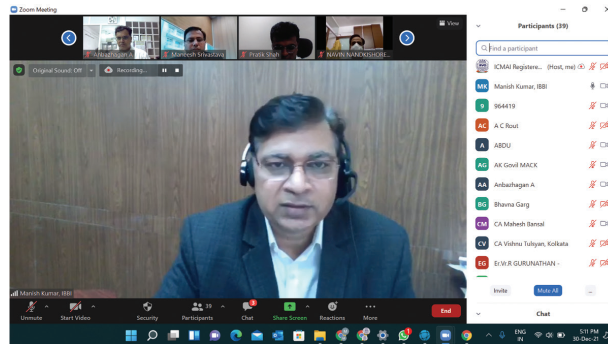




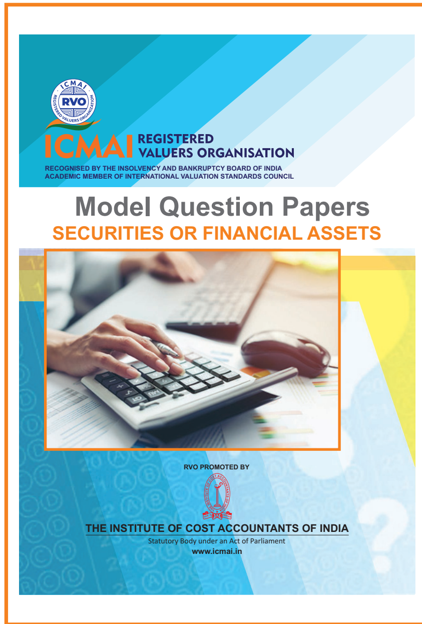




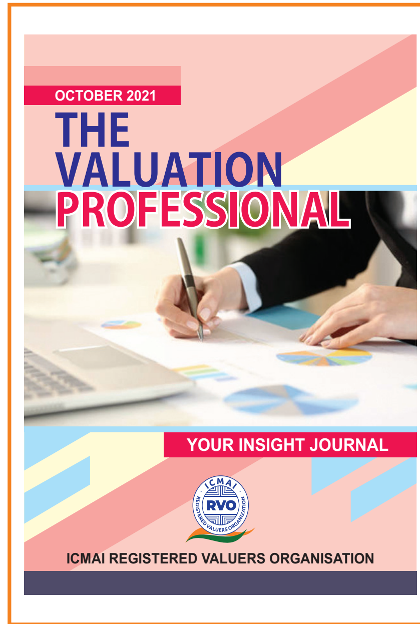




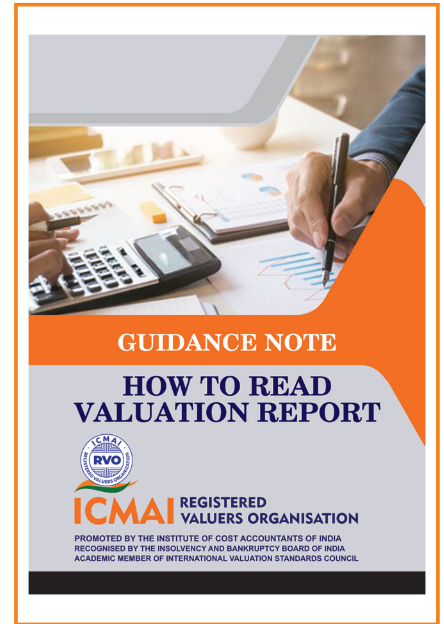
PUBLICATIONS



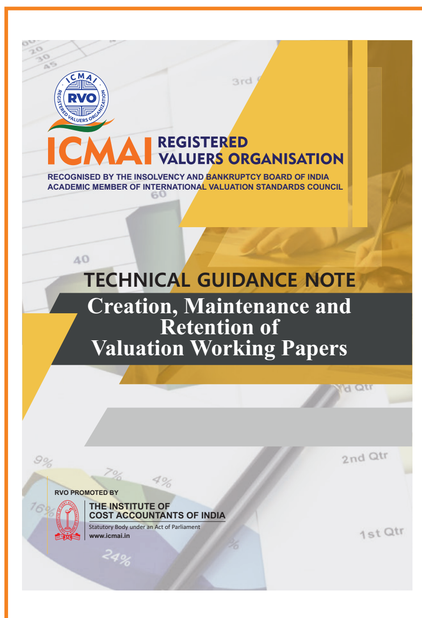
Model Question Papers for SFA



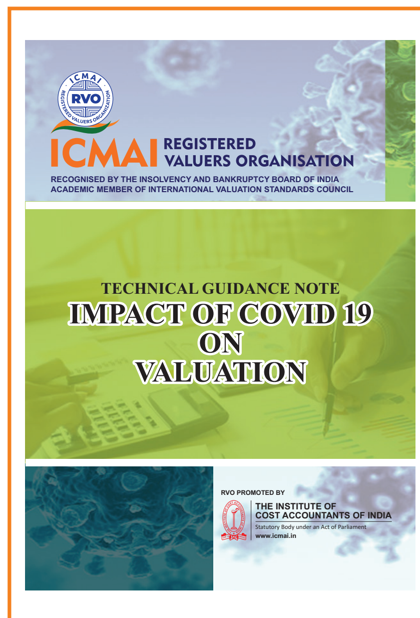
Monthly Journal



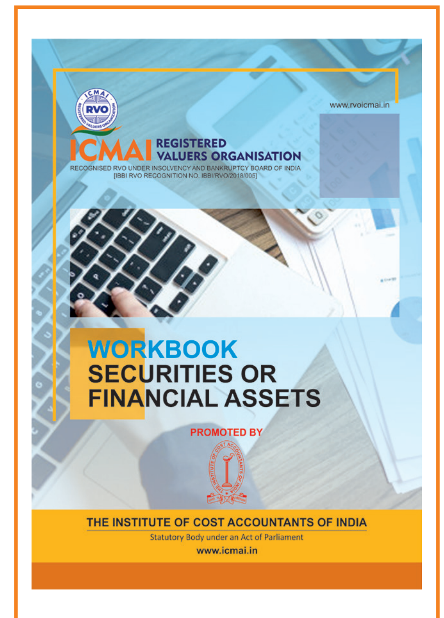
Guidance Note How to Read Valuation Report



Technical Guidence Note Creation ,Maintenance and Retention of Valuation Working Papers



Technical Guidence Note Impact of Covid 19 On Valuation



Work Book for Securities or Financial Assets

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

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ICMAI REGISTERED VALUERS ORGANISATION

Azadi Ka Amrit Mahotsav

To
The Management
Academic Institutions

Subject: A Unique opportunity to facilitate enhancement of Faculty and Students Professional potential

About ICMAI RVO

Registered Valuers Organization of the Institute of Cost Accountants of India (ICMAI RVO) is a section 8 company promoted by the Institute of Cost Accountants of India (Statutory Body set up by an Act of Parliament), Recognized by the Insolvency and Bankruptcy Board of India. The ICMAI RVO is engaged in teaching and training in the valuation domain including facilitating development of Valuation ecosystem in the country. ICMAI RVO is an Academic Member of International Valuation Standards Council UK and is also associated with Valuation professionals located in different countries.

Importance and employment potential of Valuation

Valuation is a key aspect of Business and economic environment. Valuation of Businesses is required over different phases of the life cycle of a company viz. Start Up, Growth, Maturity, Decline. Valuation is also mandated under various Acts, Laws, Rules and Regulations such as SEBI, Income Tax, Wealth Tax, FEMA. Valuation is also required for various accounting and legal purposes. There are huge employment opportunities in valuation domain in the business world.

ICMAI RVO Resources

ICMAI RVO possesses adequate resources viz. Study Material, Published Books, Faculty comprising of Valuation practitioners to provide comprehensive inputs / support in teaching, training, research and publications in the domain of Valuation.

Proposal to associate with Academic Institutions

ICMAI RVO is contemplating to associate with Academic Institutions for providing academic and professional support to the faculty and students to expand their knowledge and employment potential in Valuation domain thru the following offerings:

- Organize short term learning sessions for the Faculty in Valuation Domain
- Organize short term learning sessions for the Students in Valuation Domain
- Provide faculty support for teaching course in Valuation with industry orientation
- Organize seminars / conferences jointly on various facets of Valuation
- Contribute articles in the publications of the Academic Institution
- The Faculty and Students can contribute articles in the Journal of ICMAI RVO
- Offer / arrange Internship for the students
- Facilitate placement of students in Valuation related avenues
- Joint Publications focusing on Valuation
- Carry out Joint research in various dimensions of Valuation
- Faculty and students can get discount for attending professional development programs, seminars and Conferences organized by ICMAI RVO
- Provide Faculty an opportunity to deliver lectures in various programs being organized by ICMAI RVO
- Provide Access to Publications of International Valuation Standards Council

Way Forward
In view of the resources and expertise in Valuation possessed by ICMAI RVO it is requested to kindly consider mutually beneficial joint association.

We would be happy to provide any further information as may be required and look forward to your kind consideration to the proposal and the way forward.

Dr. S K Gupta
Managing Director
ICMAI RVO
9810162341
md@rvoicmai.in

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
- Mergers and Aquisions
- Demergers
- Scheme of compromise or arrangement with creditors/ member
- Submission of report by company liquidator
- Purchase of minority shareholding

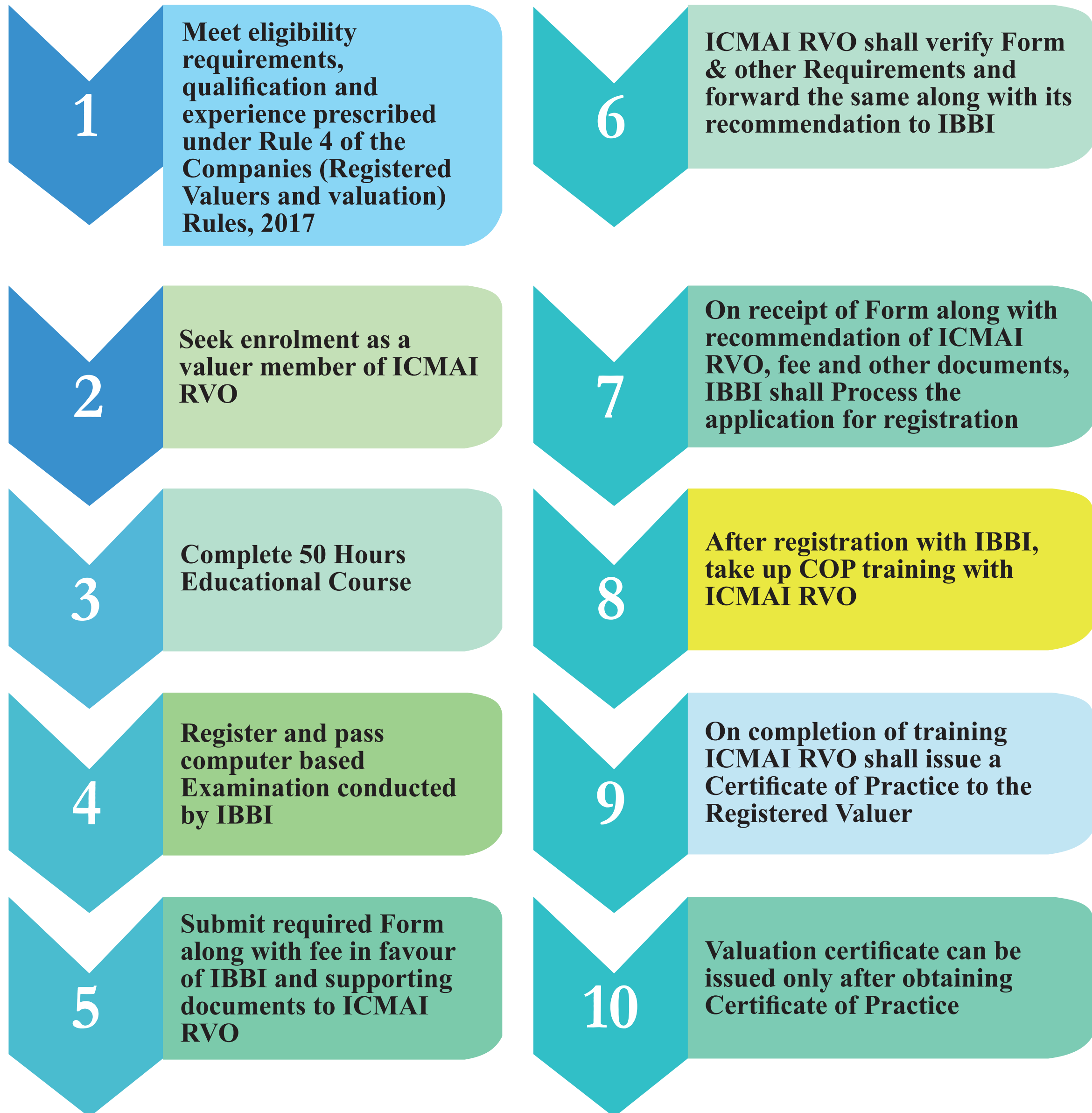
SEBI Regulations

- 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

PROCESS FOR BECOMING REGISTERED VALUER



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.

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.

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