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Exposure Draft
of
ICAI Valuation Standard 301
Business Valuation



Issued by Insolvency, Bankruptcy and Valuation Standards Board

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up under an Act of Parliament)

Exposure Draft

ICAI Valuation Standard 301 *Business Valuation*

Following is the Exposure Draft of the ICAI Valuation Standard 301 Business Valuation issued by the Insolvency, Bankruptcy and Valuation Standards Board of the Institute of Chartered Accountants of India, for comments.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, to be received not later than ***22nd November 2026.***

1. *Electronically: Click on* ***https://forms.gle/SVXjHd2BBaXyPhAi7*** *to submit comments online. (Preferred method)*
2. *Email: Comments can be sent to* ***commentsvsb@icai.in***
3. *Postal: Secretary, Insolvency, Bankruptcy and Valuation Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, A- 29, Sector- 62, Noida - 201309.*

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to ivsb@icai.in.

Draft

ICAI Valuation Standard- 301
Business Valuation

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*(The ICAI Valuation Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. (This ICAI Valuation Standard should be read in the context of Framework for the Preparation of Valuation Report in accordance with ICAI Valuation Standards)*

Objective

1. The objective of this Standard is to establish principles and requirements for the valuation of a business or business interest, including an interest in a business represented by securities. The Standard sets out requirements for the selection and application of valuation approaches and methods and for arriving at and supporting a valuation conclusion.

2. The Standard is intended to provide guidance to business *valuers* who perform business valuation or business ownership interests valuation engagements and aims at providing:

   (a) consistency in business valuation practice;

   (b) transparency in valuation reasoning;

   (c) reliability and credibility of valuation conclusions;

   (d) appropriate use of professional judgement;

   (e) appropriate selection and application of valuation approaches and methods;

   (f) adequate consideration of business and economic fundamentals;

   (g) appropriate consideration of risk and uncertainty;

(h) adequate documentation of significant assumptions and judgements;

3. Business valuation is both analytical and judgemental. The purpose of this Standard is therefore not to prescribe a single formula for determining value but to establish a disciplined framework within which the valuer shall exercise professional judgement.

4. A valuation conclusion represents an estimate of value as at a specified valuation date. It shall not be represented as a guarantee of the price that may ultimately be realised.

5. The objective of this Standard is to establish uniform concepts, principles, practices and procedures for *valuers* performing valuation services.

6. Valuations of businesses, business ownership interests may be performed for a wide variety of purposes including the following:

   (a) valuation of financial transactions such as acquisitions, mergers, leveraged buyouts, initial public offerings, employee stock ownership plans and other share-based plans, partner and shareholder buy-ins or buy-outs, and stock redemptions;

   (b) valuation for dispute resolution and/ or litigation/pending litigation relating to matters such as marital dissolution, bankruptcy, contractual disputes, owner disputes, dissenting shareholder and minority ownership oppression cases, employment disputes, etc;

   (c) valuation for compliance oriented engagements, for example:

      (i) financial reporting, such as purchase price allocations, impairment testing, fair value of assets etc; and

      (ii) matters such as corporate reorganisations etc.

   (d) valuation for other purposes like the valuation for planning, internal use by the owners etc;

   (e) valuation under Insolvency and Bankruptcy Code.

7. This Standard provides a broad framework of generally accepted principles, theories and procedures.

8. **The principles enunciated in this Standard shall be applied in conjunction with the principles prescribed and contained in the *Framework for the Preparation of Valuation Report in accordance with ICAI Valuation Standards*.**

Scope

9. A *valuer* shall follow all applicable requirements of this Standard in the valuation of a business.

10. The valuer shall determine the extent to which this Standard is applicable having regard to the purpose, basis of value, subject interest and applicable law.

11. This Standard describes the basic principles which govern the *valuer's* professional responsibilities and which shall be complied with whenever an engagement to estimate value is carried out.

12. Where a requirement of this Standard is inconsistent with an applicable law, regulation, rule, direction of a governmental or regulatory authority, or order of a Court, the applicable legal or regulatory requirement shall prevail to the extent of such inconsistency. The remaining requirements of this Standard shall continue to apply. A *valuer* shall not apply such provisions of this Standard, where such requirement of this Standard is inconsistent with

   (i) the requirements prescribed under; or

   (j) valuation procedures specified by any law, regulations, rules or directions of any government or regulatory authority, or Court order.

In such cases, the *valuer* shall follow the requirements prescribed by any law, regulations, rules or directions of any government or regulatory authority, or Court order.

In an assignment under the Insolvency and Bankruptcy Code, 2016, the valuer shall specifically comply with the valuation standards, regulations, circulars and guidelines prescribed by IBBI.

Significant Elements

13. **Business Valuation is the act or process of determining the value of a business enterprise or ownership interest therein.**

14. A *valuer* shall apply valuation approaches and valuation methods, as described in ICAI Valuation Standard 103 *Valuation Approaches and Methods*, and also use his professional judgment which is an essential component of estimating value.

15. When valuing a business or business ownership interest, a *valuer* may express either an exact number or a range of values. There could be different benchmarks at which the estimate of value of an entity could be expressed by the *Valuer*. For example:

    (a) Enterprise Value: Enterprise Value generally represents the value attributable to all providers of capital in the operating business. The relationship between enterprise value and equity value shall be determined having regard to the capital structure, debt and debt-like items, non-controlling interests, preference capital, cash and non-operating assets or liabilities, and the manner in which such items are reflected in the valuation methodology.

    (b) Equity Value: Equity Value is the value of the enterprise attributable to equity shareholders.

Valuation Methodology

16. In performing a valuation assignment, a *valuer* shall establish:

    (a) client;

    (b) subject;

    (c) subject interest;

    (d) purpose;

    (e) intended use;

    (f) intended users;

    (g) valuation date;

    (h) scope;

    (i) applicable legal requirements; and

    (j) identify the applicable basis (or bases) of value and premise of value;

    (k) analyse the asset to be valued and collect the necessary information;

    (l) identify the adjustments to the financial and non-financial information for the valuation;

    (m) consider and apply appropriate valuation approaches and methods;

    (n) arrive at a value or a range of values; and

    (o) identify the subsequent events, if any

Premise of the Value

17. **Premise of value describes the assumed circumstances in which the subject asset, liability, business or business interest is used or realised for the purpose of the valuation.**

18. The premise shall always reflect the facts and circumstances underlying each valuation engagement.

19. Determining the enterprise value depends upon the situation in which the business is valued, i.e, the events likely to happen to the business as contemplated at the valuation date.

20. Premises of value are explained in detail in ICAI Valuation Standard 102 *Valuation Bases.*

Analysis of asset to be valued

21. The analysis of the asset to be valued shall assist the *valuer* in considering, evaluating, and applying the various valuation approaches and methods to the valuation engagement.

22. The nature and extent of the information required to perform the analysis shall depend on the following:

    (a) nature of the asset to be valued;

    (b) scope and purpose of the valuation engagement;

    (c) the valuation date;

    (d) the intended use of the valuation;

    (e) the applicable ICAI Valuation Standard*;*

    (f) the applicable premise of value;

    (g) assumptions and limiting conditions; and

    (h) applicable governmental regulations or regulations prescribed by other regulators or other professional standards;

23. In analysing the asset to be valued, the *valuer* shall gather, analyse and adjust the relevant information necessary to perform a valuation, appropriate to the nature or type of the engagement. Such information shall include:

    (a) non-financial information;

    (b) ownership details such as

    i. voting rights;
    ii. dividend rights;
    iii. liquidation rights;
    iv. transferability;
    v. conversion rights;
    vi. redemption rights;
    vii. pre-emption rights;
    viii. anti-dilution provisions;
    ix. restrictions;
    x. options;
    xi. warrants; and
    xii. other contractual rights.

    where the subject of valuation is an ownership interest, the valuer shall consider the economic and control rights, preferences and restrictions attaching to that interest. A proportionate allocation of the

value of the business may not be appropriate where such rights, preferences or restrictions materially differ between classes or holders.;

(c) historical financial information such as revenue, profitability, margins, cash flows, working capital, capital expenditure, taxes, debt, returns on capital etc.

The relevance of historical results to prospective performance shall be critically assessed. Where future expectations differ materially from historical experience, the valuer shall understand and document the reasons for the difference. Adjustments may include:

i. non-recurring, non-operating income;
ii. non-recurring expenses;
iii. unusual compensation;
iv. related-party transactions;
v. abnormal working capital;
vi. discontinued operations;
vii. restructuring costs;
viii. unusual tax effects;

The valuer shall assess whether material information relied upon is sufficiently relevant and reliable for the valuation, considering its source, consistency, currency, completeness and susceptibility to bias or error. Sources may include:

i. audited financial statements;
ii. management accounts;
iii. tax records;
iv. budgets;
v. contracts;
vi. market data;
vii. industry data; etc

The valuer shall critically evaluate prospective financial information, having regard, as relevant, to internal consistency between revenue, profitability, working capital, capital expenditure, depreciation, taxation, financing and reinvestment; historical forecasting accuracy; industry and economic expectations; available capacity; market growth; pricing and margins; competitive position; and the terms and availability of finance.

(d) The detailed guidance in this respect is laid down in ICAI Valuation Standard 201 *Scope of Work, Analyses and Evaluation.*

24. Information available after the valuation date shall be considered only in accordance with the applicable principles relating to subsequent events. The valuer shall distinguish information that:

a. existed or was reasonably knowable as at the valuation date; and

b. arose after the valuation date.

25. The valuer shall identify the principal value drivers. The valuer shall distinguish between historical value drivers and those expected to drive future value.

26. The valuer shall consider relevant industry and economic conditions:

(a) macroeconomic conditions;
(b) industry growth;

(c) inflation;
(d) interest rates;
(e) foreign exchange;
(f) commodity prices;
(g) regulation;
(h) competition such as
- market share;
- barriers to entry;
- pricing power;
- competitive advantage;
- customer concentration;
- supplier concentration;
- substitutes;
- technological disruption;
- sustainability of competitive advantages

(i) technological change;
(j) environmental factors;
(k) other relevant conditions

27. A *valuer* shall read and evaluate the information to determine the reasonableness of information.

28. Even though the above-mentioned procedure is presented in a manner that suggests a sequential valuation process, valuations involve an ongoing process of gathering, updating, and analysing information. Accordingly, the sequence of the requirements and guidance in this Standard may be implemented differently at the option of the *valuer*.

29. If the historical financial statements of the business to be valued are not considered to be reflective of its future business performance, the *valuer* should understand the rationale for the same and document the same.

30. The conditions, rights and obligations of ownership right are usually mentioned in the legal document such as articles of association, bye-laws, shareholders agreement, partnership agreements, etc of the asset to be valued. These documents may consider certain restrictions or give certain benefits for ownership rights for certain groups of stakeholders. A *valuer* shall consider and incorporate the same in the valuation of the ownership interest of the business.

31. The type, availability, and significance of such information may vary with the asset to be valued.

Adjustment to information from Financial Statements

32. Adjustment shall be made to information available from the historical financial statements, if appropriate, to reflect the appropriate asset value, income, cash flows and/or benefit stream, as applicable, to be consistent with the valuation method(s) selected by the *valuer*.

33. Financial information adjusted to be analysed include those of the underlying company and any entities used as comparable entities to the extent available in public domain.

34. Adjustments to financial information are modifications to reported financial information which is relevant and significant to the valuation process. Adjustments may be appropriate for the following reasons, amongst others:

(a) to present financial data of the underlying and comparable companies on a consistent basis;

(b) to adjust revenues and expenses to levels that are reasonably representative of continuing operations;

(c) to adjust for non-operating/non-recurring assets and liabilities, and any revenues and expenses

related to the non-operating items.

35. Adjustments to the financial information are made for the sole purpose of assisting the *valuer* in reaching a value.

Valuation Approaches and Methods

36. Generally, the following three main valuation approaches are adopted to perform the business valuation in correlation with the valuation approaches and methodologies prescribed under ICAI Valuation Standard 103 *Valuation Approaches and Methods*:

    (a) Market approach;

    (b) Income approach; and

    (c) Cost approach.

37. A *valuer* shall select and apply appropriate valuation approaches, methods and procedures to the extent relevant for the engagement.

38. The valuer shall document approaches considered but not applied where their exclusion is material.

39. Where more than one approach or method is used, the resulting indications shall be analysed and reconciled having regard to their relative relevance and reliability; a simple or mechanical average should not ordinarily be used.

40. The requirements of this Standard shall be followed consistently in addition to the requirements as contained in ICAI Valuation Standard 103 while selecting and applying the valuation approach.

Market approach

41. **Under the market approach, value is estimated by reference to market evidence concerning transactions in, or quoted prices of, the subject business or suitably comparable businesses, business interests or securities.**

42. Some of the common methodologies under the market approach include the following:

    (a) Market Price Method;

    (b) Comparable Companies Multiple Method;

    (c) Comparable Transaction Multiple Method;

    (d) Price of Recent Transactions;

    (e) Price of Recent Investment.

Comparable Companies Multiple Method

43. This method is appropriate only where listed businesses can be identified whose economic and operating characteristics provide a reasonable basis for comparison with the subject business in selecting comparable listed companies the valuer shall among other things consider the following aspects to establish comparability:

    i. Nature of business
    ii. size;
    iii. growth;
    iv. profitability;
    v. leverage;
    vi. geography;
    vii. regulatory exposure; and

viii. other relevant characteristics.

The valuer shall disclose the principal reasons for selecting the comparables. Outliers shall be investigated rather than automatically discarded.

44. The key steps to be followed by the valuer under comparable companies multiple method are as follows:

(a) identify publicly traded comparable companies in similar business with actively traded equity shares considering the key parameters listed in para 43 above for establishing comparability,

(b) identify multiples appropriate for valuation of the business,

(c) make necessary adjustments, if any, to the relevant multiples to reflect differences between the subject business and the publicly-traded comparables,

(d) ordinarily assessing a representative group of comparable listed businesses rather than place undue reliance on one company.

(e) apply the adjusted valuation multiples to the business interest being valued, and

(f) the valuer may apply appropriate weights to the values computed under different valuation multiples.

Comparable Transaction Multiple Method

45. The Comparable Transaction Multiple Method estimates the value of a business by reference to valuation multiples observed in transactions involving businesses that are identical or sufficiently similar to the business being valued.

46. In applying this method, the valuer should undertake a comparative analysis of the subject business and the businesses involved in the comparable transactions. Where material differences exist, appropriate adjustments should be considered to the transaction multiples or other relevant valuation parameters so as to reflect such differences. The adjusted valuation multiples are thereafter applied to the relevant financial or operating metrics of the subject business.

47. In selecting comparable transactions, the valuer should, inter alia, consider the following factors:

(a) Evidence from multiple comparable transactions is generally more reliable than reliance on a single transaction or event.

(b) Transactions involving businesses that are identical or closely comparable to the subject business ordinarily provide more relevant valuation evidence than transactions requiring significant adjustments.

(c) Transactions occurring closer to the valuation date are generally more representative of prevailing market conditions than older transactions, particularly where market conditions are volatile or have materially changed.

(d) For most bases of value, the comparable transactions should preferably be undertaken on an arm's-length basis between unrelated parties.

(e) Sufficient information regarding the transaction and the comparable business should be available to enable the valuer to understand the transaction, assess its comparability and evaluate the relevance of the valuation multiples or other transaction evidence.

(f) Information relating to comparable transactions should be obtained from reliable and credible sources.

(g) Completed transactions generally provide more persuasive valuation evidence than announced, proposed or intended transactions.

48. The valuer should analyse material differences between the comparable transactions and the subject business and, where appropriate, make suitable adjustments. Such differences may include, but are not limited to:

(a) differences in material characteristics of the businesses or assets, including age, scale, size, specifications, product or service mix and operating profile;

(b) differences in the size and scale of operations;

(c) differences in the size and nature of the ownership interest transferred, including whether the transaction relates to a minority, significant minority, controlling or majority interest;

(d) restrictions affecting the subject business, the comparable business or the ownership interest being transferred;

(e) geographical differences, including the location of operations and the markets in which the businesses operate, together with differences in the economic, regulatory and industry environment;

(f) differences in profitability, margins, operating efficiency, earnings capacity, historical performance and expected growth prospects; and

(g) differences in ownership characteristics, including the legal form of ownership, rights attaching to the interest and the percentage ownership represented by the transaction.

49. The valuer should exercise professional judgement in determining whether the identified differences are sufficiently significant to warrant adjustments and whether such adjustments can be reasonably and reliably quantified.

Price of Recent Transactions

50. The Price of Recent Transactions Method considers the price observed in a recent transaction involving shares, securities, business interests or other ownership interests in the same entity being valued, provided the transaction was undertaken on an arm's-length basis between willing market participants.

51. The price observed in a recent transaction should not ordinarily be regarded as a default or standalone basis for determining fair value. Rather, it may serve as a relevant reference point or calibration input for other appropriate valuation techniques, including the market approach, Income Approach or scenario-based valuation methods. At each valuation date, fair value should be determined using valuation techniques appropriate to the facts and circumstances. A recent transaction price may be used as a starting point where it is considered representative of fair value as at the transaction date.

52. In assessing the relevance of a recent transaction, the valuer should consider whether the transaction was an orderly transaction, undertaken under normal market conditions and not arising from a forced sale, distressed circumstances or other conditions that may have influenced the transaction price. The transaction should ordinarily be between willing and knowledgeable market participants acting independently.

53. Where a recent transaction price is used as a reference point, the valuer should evaluate whether events or changes occurring between the transaction date and the valuation date indicate a change in fair value. Such assessment should include, inter alia:

(a) changes in the financial performance, financial position or prospects of the entity;

(b) changes in industry, economic, regulatory or capital-market conditions;

(c) changes in valuation multiples or other relevant market parameters;

(d) changes in the business model, operations, strategy or risk profile of the entity;

(e) subsequent financing rounds or transactions involving the entity;

(f) changes in the rights, preferences, restrictions or other terms attached to the investment; and

(g) any other entity-specific or market-related developments that may have a material impact on value.

Where such changes are significant, appropriate adjustments should be made, or an alternative valuation technique should be applied, to estimate fair value as at the valuation date.

Income Approach

54. **Income approach is the valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e. discounted or capitalised) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.**

55. Some of the common methodologies under the Income approach for business valuation include the following:

(a) DCF Method

(b) Capitalization of earnings Method

(c) Capitalization of Cashflows Method

56. When applying the DCF method, the valuer shall evaluate and analyse:

(a) the type of cash flow used (FCFF or FCFE);

(b) the prospective financial information (PFI) used,

(c) historical performance, including trends in revenue, operating margins, working capital, capital expenditure;

(d) the explicit forecast period;

(e) projected working capital requirements;

(f) projected capital expenditure;

(g) depreciation and amortisation;

(h) taxation;

(i) the discount rate;

(j) the terminal value;

(k) debt and debt-like items; and

(l) non-operating assets and liabilities, including surplus cash and investments that are not reflected in the cash flows.

Forecast Period

57. The explicit forecast period shall be long enough for the business to reach a steady state in growth, margins and reinvestment. The explicit forecast period shall be appropriate to the characteristics and expected development of the business and should extend sufficiently to permit the business, where applicable, to reach a reasonably sustainable operating state.

Prospective Financial Information (PFI)

58. The valuer shall assess whether the PFI is reasonable, having regard to:

- historical performance;
- the outlook for the industry and the economy;
- installed and planned capacity; and
- the availability of funding.

Where the valuer adjusts the PFI or relies on it despite reservations, the valuer shall document this and give the reasons.

Scenarios

59. A single cash flow scenario may be used to value a business. Where the amount or timing of future cash flows is significantly uncertain, the valuer should consider multi-scenario, probability-weighted or simulation models. Risks incorporated into probability-weighted or otherwise risk-adjusted cash flows shall not be separately reflected in the discount rate where doing so would result in double counting.

Consistency of cash flows and discount rate

60. The valuer shall ensure that the cash flows and the discount rate are consistent with each other in terms of:

(a) Nominal or real terms: nominal cash flows are discounted at a nominal rate, and real cash flows at a real rate.

(b) Tax basis: pre-tax cash flows are discounted at a pre-tax rate, and post-tax cash flows at a post-tax rate.

(c) Currency: cash flows and discount rates shall be prepared on a consistent currency basis. Where projected cash flows are translated between currencies, the methodology adopted shall appropriately reflect exchange-rate expectations and the economic assumptions underlying the relevant cash flows and discount rates.

(d) Inflation: the inflation assumptions built into revenue, costs and the discount rate are the same.

(e) Risk: each risk to be reflected either in the cash flows or in the discount rate.

(f) Capital structure: FCFF is discounted at the weighted average cost of capital (WACC), and FCFE at the cost of equity.

Growth, Reinvestment and Return on Capital

61. The valuer shall assess whether projected growth, both in the forecast period and in the terminal period, is supported by matching reinvestment and the expected return on capital. Sustainable growth is a function of

the reinvestment rate and the return on new invested capital. The valuer shall justify and document any of the following:

- growth assumed without matching reinvestment; or
- a return on capital that stays above the cost of capital without a sustainable, identifiable competitive advantage.

Terminal Value

62. The terminal value represents the value of cash flows beyond the explicit forecast period. It may be estimated using:

- the perpetuity growth (capitalisation) method; or
- the exit multiple method.

63. The terminal year cash flow shall be normalised. In particular, capital expenditure, depreciation and working capital shall be consistent with the assumed terminal growth rate.

64. The terminal growth assumption shall be sustainable over the period contemplated and consistent with the business's long-term economic prospects, relevant markets, inflation assumptions and the currency and nominal/real basis of the cash flows.

Free cash flow to firm (FCFF)

65. FCFF is the cash flow available to all providers of capital. It is measured after operating expenses, taxes on operating profit, capital expenditure and investment in working capital, and before any debt servicing.

66. FCFF shall be discounted at the WACC, or at another rate appropriate to those cash flows. The WACC shall:

- be based on capital structure appropriate to the applicable basis of value, having regard to market evidence, the business's sustainable financing profile and the capital structure contemplated in the cash flows; and
- reflect the tax benefit of interest in the post-tax cost of debt, not in the cash flows.

67. Where the capital structure is expected to change materially, the valuer shall consider whether a constant WACC is still appropriate. If it is not, the valuer shall use period-specific rates or the adjusted present value approach.

68. In deriving equity value from enterprise value, the valuer shall identify debt, debt-like and other non-operating items requiring adjustment and ensure consistency with the cash flows, discount rate and enterprise-value measure adopted. Items shall not be added or deducted where their effect is already reflected elsewhere in the valuation.

Free cash Flow to Equity (FCFE)

69. FCFE is the cash flow available to equity holders. It is measured after taking account of interest, scheduled debt repayments and expected net borrowing, together with other cash flows attributable to equity holder. In projecting FCFE, the valuer shall consider:

a) existing debt and its repayment schedule;
b) new borrowings, and whether the resulting leverage can be sustained given the entity's borrowing capacity;
c) interest cost and its tax effect; and

d) any need for equity infusion, and the resulting dilution.

70. FCFE shall be discounted at a cost of equity that reflects the financial leverage implied by the projected capital structure. Where leverage changes materially over the forecast period, the cost of equity shall be adjusted accordingly.

71. Non-operating assets and liabilities that are not reflected in FCFE shall be added or deducted separately.

Capitalisation Methods

72. A capitalisation method may be used where:

(a) earnings or cash flows are relatively stable or are expected to grow at a constant rate;

(b) future growth is reasonably predictable and sustainable; and

(c) a maintainable level of earnings or cash flow reasonably reflects future economic benefits.

73. Maintainable earnings or cash flows shall be normalised for:

(a) non-recurring, extraordinary and non-operating items; and
(b) related-party transactions that are not at arm's length

74. A capitalisation method would ordinarily be inappropriate where significant changes in operations, growth, margins or capital structure are expected. In such circumstances, the valuer shall consider a multi-period income method or another valuation method appropriate to the facts and available information.

Cost Approach

75. The cost approach is ordinarily of limited application in valuing a going business but may be appropriate, depending on the circumstances, for an early-stage business where reliable income or market evidence is unavailable, an investment or holding entity, or where asset realisation is more relevant than continued operation.

76. The following are the commonly used valuation methods under the cost approach:

(a) Replacement Cost Method;

(b) Reproduction Cost Method; and

(c) Adjusted Net Asset Method, where appropriate.

Value under Liquidation

77. Liquidation value is the amount that will be realised on sale of an asset or a group of assets when an actual/hypothetical termination of the business is contemplated/assumed.

78. Where a liquidation basis or premise is applicable, the valuer shall identify the assumed circumstances of realisation, including whether disposal is orderly or subject to a constrained sale period, and estimate the amounts realisable consistently with those assumptions.

79. In the event of valuation of ownership interest under the premise of liquidation, it may be relevant to consider the realisable values of assets of the entity after considering transaction costs.

80. Liabilities could be considered at their settlement values.

Rule of Thumb or Benchmark Value

81. A rule-of-thumb or industry benchmark may be used as a reasonableness check or supplementary indicator where there is evidence that such benchmark is relevant to the subject business and is recognised by market participants

82. Rule of thumb may provide insight into the value of a business or business ownership interest. Some of the examples of rule of thumb or benchmark valuation would be value based on transaction multiples for capacity or turnover. It shall not be used as the only method to determine the value of the asset to be valued.

83. Value indications derived from the use of rules of thumb method shall not be given substantial weight unless they are supported by other valuation methods and it can be established that knowledgeable buyers and sellers place substantial reliance on them.

84. A valuer shall set forth in the report the rationale and support for the valuation methods used.

Consideration of Capital Structure of the business

85. A business is usually financed by a combination of investments such as equity interests, debt (including redeemable preference shares) and quasi equity instruments. Certain engagements may require the valuer to allocate the enterprise value of the business into (a) value allocable to equity and (b) value allocable to debt. In deriving the above allocation, the valuer should give due consideration to the capital structure of the business including the terms of instruments used to finance the business. Equity value may be derived from enterprise value after appropriate adjustments for financing and other items not represented in the enterprise value, with due regard to the rights of each class of capital and avoidance of double counting.

86. Where the assignment concerns a particular class of capital, the valuer shall consider how the economic value of the business is attributable among the relevant instruments, taking account of their contractual terms, priority, participation features, conversion or redemption provisions and other rights affecting value.

Value

87. Value is an estimate of a business or business ownership interest, arrived at by applying the valuation procedures appropriate for a valuation engagement and using professional judgment as to the value or range of values based on those procedures.

88. The conclusion of value shall be consistent with the applicable basis of value, valuation date, purpose and intended use, and shall reflect information relevant to circumstances existing or reasonably knowable at the valuation date, subject to the Standard governing subsequent events. In arriving at the value, the valuer shall:

    (a) assess the reliability of the results under the different methods and if considered reliable and relevant, assign weights to value indications reached on the basis of various methods;

    (b) the selection of and reliance on appropriate methods and procedures depends on the judgment of the valuer and not on any prescribed formula. One or more approaches may not be relevant to a particular situation, and more than one method under an approach may be relevant;

    (c) the valuer must use informed judgment when determining the relative weight to be accorded to indications of value reached on the basis of various methods, or whether an indication of value from a single method shall be conclusive. In any case, the valuer shall provide the rationale for the selection or weighting of the method or methods relied on in reaching the conclusion;

    (d) in assessing the relative importance of indications of the value determined under each method, or whether an indication of value from a single method shall be the value, the valuer shall consider

factors such as:

(e) the applicable premise of value;

(f) the purpose and intended use of the valuation;

(g) whether the underlying business is an operating company, a real estate or investment holding company, or a company with substantial non-operating or excess assets;

(h) the quality and reliability of data underlying the value;

(i) such other factors that in the opinion of the valuer, are appropriate for consideration.

Artificial Intelligence and Technology

89. Scope This section applies where a valuer uses artificial intelligence, machine learning, automated valuation models, databases or other technology-based tools ("technology") at any stage of a valuation. Technology materially contributes to a valuation where its use could reasonably affect the data, inputs, assumptions, method, conclusion of value or content of the report.

90. Professional responsibility Using technology does not relieve the valuer of professional responsibility for the valuation, its compliance with these Standards, or the conclusion of value.

91. Professional judgement A valuer shall not adopt or rely on an output from technology without first applying professional judgement and professional scepticism to it. Before relying on the technology, the valuer shall be satisfied that it is fit for its intended use. The valuer shall also understand how it operates well enough to assess whether its outputs are reasonable.

92. Documentation Where technology materially contributes to a valuation, the valuer shall document: (a) the technology used, (b) the purpose and extent of its use; (c) the data inputs and assumptions supplied to, or generated by, the technology; (d) the procedures used to validate its outputs; (e) its known limitations; (f) the material outputs relied upon; and (g) the consideration given to bias and reliability.

93. Disclosure The valuer shall disclose any proposed material use of technology in the scope of work. Any material use of technology shall also be disclosed in the valuation report, including what it was used for and how its outputs were validated.

94. Confidentiality and data protection When using technology, the valuer shall protect client confidentiality and comply with applicable data protection law and contractual obligations. In particular, the valuer shall not enter confidential client information into any technology without adequate safeguards.

Effective Date

95. ICAI Valuation Standard 301 Business Valuation, shall be applied for the valuation reports issued on or after _____.