FREQUENTLY ASKED QUESTIONS ON VALUATION

Valuation Standards Board ICAI
and
ICAI Registered Valuers Organisation
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Frequently Asked Questions
on
Valuation

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Message

As you all know that ICAI Registered Valuers Organisation is committed towards development of the valuation profession for the Asset Class-Securities or Financial Assets.

The role of the valuation professionals has become dynamic and they are required to sharpen their skills and perform their duties with due diligence and to abide by the Code of Conduct prescribed by ICAI Registered Valuers Organisation.

ICAI Registered Valuers Organisation in this direction is taking steps for guiding and helping the professionals alongwith the Valuation Standards Board of ICAI.

I congratulate the Valuation Standards Board of ICAI and ICAI Registered Valuers Organisation (ICAI RVO) for coming together to bring out the publication on 'Frequently Asked Questions on Valuation' to accomplish the common vision of encouraging the Valuation profession.

I am extremely happy for all the joint initiatives taken by the Institute of Chartered Accountants of India with ICAI RVO. I would like to appreciate the dedicated efforts of CA. M. P. Vijay Kumar, Chairman, Valuation Standards Board (VSB) of ICAI and to the members of the Board of ICAI RVO, Shri I. Y. R Krishna Rao, Shri Samir Kumar Barua, Shri Ashok Haldia and Shri Biswamohan Mahapatra for this joint endeavour. I would sincerely thank CA. Naveen N. D. Gupta, CA. Prafulla P. Chhajed, CA. Nilesh S. Vikamsey and CA. Dhinal A. Shah – the Directors of ICAI RVO, in encouraging all the initiatives.

I commend the sincere efforts put in by CA. Sarika Singhal, Ms S. Rita and Ms. Seema Jangid for preparing the publication.

I am confident that this publication will held in resolving many of the questions that the valuers may have in their mind.

Justice Anil R. Dave (Retd.)
Chairman,
ICAI Registered Valuers Organisation

Date: 10.01.2019

Place: New Delhi

Foreword

Valuation of a business requires understanding and analysis of various complex factors and has a major impact on all type of businesses whether big or small.

As we all know that the valuation assignment is distinctive and there are no uniform practices that are being adopted by the valuers in carrying valuation. So, tailoring a valuation about the most suitable and appropriate procedures to be relevant to each assignment is somewhat a very technical issue.

There are questions and queries in the minds of valuers on the understanding of Companies (Registered Valuers and Valuation) Rules, 2017, suitability and application of method of valuation etc. The Institute has been continuously undertaking several initiatives to support the newly regulated valuation profession as well as to create awareness amongst all related stakeholders for giving more clarity.

I congratulate the Valuation Standards Board and ICAI Registered Valuers Organisation to bring out the publication “Frequently Asked Questions on Valuation”, with the aim to provide answers to some practical issues being faced by stakeholders.

I appreciate the efforts put in by entire Valuation Standards Board and especially by CA. M. P. Vijay Kumar, Chairman, Valuation Standards Board and CA. Dhinal A. Shah, Vice- Chairman, Valuation Standards Board for initiating this publication.

I am sure that this publication would be immensely useful for the members and other interested stakeholders.

CA. Naveen N.D. Gupta
President ICAI
Director ICAI RVO

Date: 10.01.2019

Place: New Delhi

Preface

The Valuation as a practice and as a profession is being regulated now to improve Corporate Governance and better transparency in the corporate sector which is imperative to infuse confidence amongst investors in Indian market and abroad.

There is always a saying that Valuation is neither a pure Art nor a pure science but a perfect combination of both." In the valuation process, Valuer values the organization by using technology, applying specific methods of valuation (which can be termed as part of Science) and his own experience in taking various assumptions i.e. an Art.

To facilitate the understanding of nuisances of valuation, the Valuation Standards Board of the Institute of Chartered Accountants of India and ICAI Registered Valuers Organisation decided to bring out a publication on the Frequently Asked Questions on Valuation.

The publication has been designed in a question and answer format to assist our members and other stakeholders to enable them to have conceptual clarity on the various Valuation aspects. This publication comprehensively covers questions that are being asked while undertaking Valuation of Securities or Financial assets.

In this connection we take this opportunity in thanking the President of ICAI and Director ICAI RVO, CA. Naveen N. D. Gupta and Vice President and Director ICAI RVO CA. Prafulla P. Chhajed for their moral support and encouragement in bringing out the publication.

We would like to take this opportunity to convey our sincere thanks and gratitude towards the Board of ICAI RVO comprising of Hon'ble Mr. Justice Anil R. Dave (Retd.), Chairman of the Board and other Directors, Shri I.Y.R Krishna Rao, Shri Biswamohan Mahapatra, Shri Ashok Haldia, CA. Nilesh S. Vikamsey, Immediate Past President, ICAI for taking this joint initiative and bring out a publication to resolve queries that are in the minds of valuers.

We appreciate all Members of the Valuation Standards Board, Co-opted members and Special Invitees for their support and guidance in bringing out this publication.

We extend our appreciation to CA. Sarika Singhal, Ms. S. Rita and Ms. Seema Jangid for their efforts in preparing and bringing out this publication.

We are of firm belief that this publication will be of great help in understanding the aspects of valuation and in the practical implementation of the same.

CA. M. P. Vijay Kumar
Chairman
Valuation Standards Board, ICAI

CA. Dhinal A. Shah
Vice Chairman
Valuation Standards Board, ICAI

Date: 10.01.2019
Place: New Delhi

Contents

Chapter 1

Registered Valuer Concept as per Section 247 of the Companies Act 2013 and Rules thereunder

1. Who shall be termed as a valuer?

"Valuer" means a person registered with the authority in accordance with Companies (Registered Valuers and Valuation) Rules, 2017 and the term "registered valuer" shall be construed accordingly.

2. Who is the authority for administering the Registered Valuers?

The Central Government has delegated its powers and functions under Section 247 of the Companies Act, 2013 to the Insolvency and Bankruptcy Board of India (IBBI) and specified the IBBI as the Authority under the Companies (Registered Valuers and Valuation) Rules, 2017.

3. Which Section of the Companies Act, 2013 mandates valuation by a Registered Valuer?

Section 247 of the Companies Act, 2013 read with Companies (Registered Valuers and Valuation) Rules, 2017 mandates valuation under the provisions of the Companies Act, 2013 by a Registered Valuer.

4. When the provisions of Section 247 of the Companies Act, 2013 became applicable?

The provisions of Section 247 of the Companies Act, 2013 came into effect from 18^{th} October, 2017.

5. When the provisions of Companies (Registered Valuers and Valuation) Rules, 2017 became applicable?

The provisions of Companies (Registered Valuers and Valuation) Rules, 2017 came into effect from 18^{th} October, 2017

6. What kind of valuations a Registered Valuer can undertake as per Section 247 of the Companies Act, 2013?

Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer and being a member of an Organisation recognised, in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

7. Who can appoint a Registered Valuer for Valuation under the Companies Act, 2013?

A Registered Valuer can be appointed by the audit committee.

8. In case a company does not have an audit committee, who can appoint a Registered Valuer for Valuation under the Companies Act, 2013?

In the absence of the audit committee, a Registered can be appointed by the Board of Directors of that company.

9. Whether the commencement of Section 247 of the Companies Act 2013 and the Companies (Registered Valuers and Valuation) Rules, 2017 affect the conduct of valuation under any other law?

No, it has been clarified that conduct of valuation under any other law other than the Companies Act 2013 or Companies (Registered Valuers and Valuation) Rules, 2017 by any person shall not be affected by virtue of coming into effect of these rules.

10. What are the duties of a Registered Valuer as per Section 247 of the Companies Act, 2013?

The valuer appointed under Section 247 shall—

- make an impartial, true and fair valuation of any assets which may be required to be valued;
- exercise due diligence while performing the functions as valuer;
- make the valuation in accordance with such rules as may be prescribed; and
- not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during a

period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him.

11. What are the qualifications and experience required to register as a Registered Valuer for securities class or financial assets?

An individual shall have the following qualifications and experience to be eligible for registration under Companies (Registered Valuers and Valuation) Rules, 2017:

- Chartered Accountant, Cost Accountant, Company Secretary, MBA/ PGDBM in Finance and an individual having post-graduate degree in finance and
- Having at least three years' experience after possessing qualification as mentioned above.

12. Who is eligible to be a Registered Valuer?

A person shall be eligible to be registered valuer, if he -

(a) is a valuer member of a registered valuers organisation;

Explanation.— For the purposes of this clause, "a valuer member" is a member of a registered valuers organisation who possesses the requisite educational qualifications and experience for being registered as a valuer;

(b) is recommended by the registered valuers organisation of which he is a valuer member for registration as a valuer;

(c) has passed the valuation examination within three years preceding the date of making an application for registration;

(d) possesses the qualifications and experience as specified in the rules;

(e) is not a minor;

(f) has not been declared to be of unsound mind;

(g) is not an undischarged bankrupt, or has not applied to be adjudicated as a bankrupt;

(h) is a person resident in India;

Explanation.— For the purposes of these rules 'person resident in India' shall have the same meaning as defined in clause (v) of

Section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999) as far as it is applicable to an individual;

(i) has not been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence:

Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be registered;

(j) has not been levied a penalty under Section 271J of Income-tax Act, 1961 (43 of 1961) and time limit for filing appeal before Commissioner of Income-tax (Appeals) or Income-tax Appellate Tribunal, as the case may be has expired, or such penalty has been confirmed by Income-tax Appellate Tribunal, and five years have not elapsed after levy of such penalty; and

(k) is a fit and proper person:

Explanation.— For determining whether an individual is a fit and proper person under these rules, the authority may take account of any relevant consideration, including but not limited to the following criteria-

(a) Integrity, reputation and character,

(b) Absence of convictions and restraint orders, and

(c) Competence and financial solvency.

No partnership entity or company shall be eligible to be a registered valuer if:

(a) it has been set up for objects other than for rendering professional or financial services, including valuation services and that in the case of a company, it is a subsidiary, joint venture or associate of another company or body corporate;

(b) it is undergoing an insolvency resolution or is an undischarged bankrupt;

(c) all the partners or directors, as the case may be, are not ineligible under clauses (c), (d), (e), (f), (g), (h), (i), (j) and (k) above;

(d) three or all the partners or directors, whichever is lower, of the partnership entity or company, as the case may be, are not registered Valuers; or

(e) None of its partners or directors, as the case may be, is a registered valuer for the asset class, for the valuation of which it seeks to be a registered valuer.

13. What are the other requirements to register as a registered valuer?

Subject to meeting other requirements, an individual is eligible to be a registered valuer, if he

- is a fit and proper person.
- has the necessary qualification and experience,
- is a valuer member of an RVO,
- has completed a recognised educational course as a member of an RVO,
- has passed the valuation examination conducted by the IBBI, and
- is recommended by the RVO for registration as a valuer.

14. What is the Code of Conduct for Registered Valuers?

As per Rule 7 (g) and Rule 12 (2) (d) of the Companies (Registered Valuers and Valuation) Rules, 2017, the Registered Valuers are required to follow the Code of Conduct available at: http://www.icairvo.in/laws-policies/code-conduct/

15. Whether it is mandatory to undertake Educational Course by an RVO?

Yes as per Rule 5 (1) of the Companies (Registered Valuers and Valuation) Rule, 2017, it is mandatory to undertake Educational Course in the specified class.

16. What is the process to be followed to become a Valuer member?

An individual has to first enroll as a valuer member with Registered Valuers Organisation and complete 50 hours Educational Course conducted by the RVO.

On completion of the Course and receiving a certificate of participation, the valuer member has to clear examination conducted by IBBI.

After clearing examination, valuer member to enroll with RVO and to make an application to the Authority in Form A of the Annexure II of the Companies (Registered Valuers and Valuation) Rules, 2017.

Details are available at www.icairvo.in

17. Under what circumstances, the Authority can issue show cause notice to a valuer?

As per Rule 17 (1) of Chapter IV of Companies (Registered Valuers and Valuation) Rules, 2017, based on the findings of an inspection or investigation, or on material otherwise available on record, if the Board is of prima facie opinion that sufficient cause exists, it can issue a show cause to the valuer.

18. What can happen if the Authority refuses to grant a Certificate?

If, after considering an application made under Rule 6 of Companies (Registered Valuers and Valuation) Rules, 2017, the Board is of the *prima facie* opinion that registration ought not be granted, it shall communicate the reasons for forming such an opinion and give the applicant an opportunity to explain why his application should be accepted, within fifteen days of the receipt of the communication from the Authority, to enable it to form a final opinion.

19. Within what time period, the Authority shall communicate its decision about its rejection or acceptance of an application?

After considering the explanation, if any, given by the applicant, the Authority shall communicate its decision to-

- accept the application, along with the certificate of registration, or
- reject the application by an order, giving reasons thereof, within thirty days of receipt of the explanation.

20. What are the conditions for grant of a certificate of registration to a valuer to carry on the activities of a registered valuer?

The Certificate of Registration is granted by the IBBI in Form C of Annexure II of Companies (Registered Valuers and Valuation) Rules,

2017. The conditions for issuing a Certificate of Registration to valuer are as follows:

- At all times the applicant possess the eligibility and qualification and experience criteria as specified under the Rules.
- At all times the applicant complies with the provisions of the Companies Act, the rules and the Bye-laws or internal regulations, as the case may be, of the organisation.
- He shall not in his capacity as a registered valuer, conduct valuation of the assets or class(es) of assets other than those for which he/it has been registered by the authority.
- He should take prior permission of the authority for shifting his/ its membership from one registered Valuers organisation to another.
- He should take adequate steps for redressal of grievances.
- He shall maintain records of each assignment undertaken by him for at least three years from the completion of such assignment.
- He should comply with the Code of Conduct (available at the link: https://www.icairvo.in/model-code-of-conduct-for-registered-Valuers/) of the ICAI RVO.
- He should comply with such other conditions as may be imposed by the authority.

21. What is the process to be followed when the registered valuer temporarily surrenders his certificate?

Rule 9 of the Companies (Registered Valuers and Valuation) Rules, 2017 provides as under:

- A registered valuer may temporarily surrender his registration certificate in accordance with the bye-laws or regulations, as the case may be, of the registered valuers organisation and on such surrender, the valuer shall inform the authority for taking such information on record.
- A registered valuers organisation shall inform the authority if any valuer member has temporarily surrendered his/its membership or revived his/ its membership after the temporary surrender, not later than seven days from approval of the application for temporary surrender or revival, as the case may be.

- Every registered valuers organisation shall place, on its website, in a searchable format, the names and other details of its valuer members who have surrendered or revived their memberships.

22. What shall be the duties of registered valuer as per Model Code of Conduct of Registered Valuers?

The duties of registered valuer as per Model Code of Conduct of Registered Valuers are as follows:

Integrity and Fairness

- A valuer shall, in the conduct of his/its business, follow high standards of integrity and fairness in all his/its dealings with his/its clients and other valuers.
- A valuer shall maintain integrity by being honest, straightforward, and forthright in all professional relationships.
- A valuer shall endeavour to ensure that he/it provides true and adequate information and shall not misrepresent any facts or situations.
- A valuer shall refrain from being involved in any action that would bring disrepute to the profession.
- A valuer shall keep public interest foremost while rendering his services.

Professional Competence and Due Care

- A valuer shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.
- A valuer shall carry out professional services in accordance with the relevant technical and professional standards that may be specified from time to time
- A valuer shall continuously maintain professional knowledge and skill to provide competent professional service based on up-to-date developments in practice, prevailing regulations/guidelines and techniques.
- In the preparation of a valuation report, the valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assumptions are based on

statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer.

- A valuer shall not carry out any instruction of the client insofar as they are incompatible with the requirements of integrity, objectivity and independence.
- A valuer shall clearly state to his client the services that he would be competent to provide and the services for which he would be relying on other valuers or professionals or for which the client can have a separate arrangement with other valuers.

Independence and Disclosure of Interest

- A valuer shall act with objectivity in his/its professional dealings by ensuring that his/its decisions are made without any bias, conflict of interest, coercion, or undue the influence of any party, whether directly connected to the valuation assignment or not.
- A valuer shall not take up an assignment if he/it or any of his/its relatives or associates is/are not independent in terms of association to the company.
- A valuer shall maintain complete independence in his/its professional relationships and shall conduct the valuation independent of external influences.
- A valuer shall, wherever necessary disclose to the clients, possible sources of conflicts of duties and interests, while providing unbiased services.
- A valuer shall not deal in securities of any subject company after any time when he/it first becomes aware of the possibility of his/its association with the valuation, and in accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 or till the time the valuation report becomes public, whichever is earlier.
- A valuer shall not indulge in “mandate snatching” or offering “convenience valuations” in order to cater to a company’s or client’s needs.
- As an independent valuer, the valuer shall not charge any ‘success’ fee.

- In any fairness opinion or independent expert opinion submitted by a valuer, if there has been a prior engagement in an unconnected transaction, the valuer shall declare the association with the company during the last five years.

Confidentiality

- A valuer shall not use or divulge to other clients or any other party any confidential information about the subject company, which has come to his/its knowledge without proper and specific authority or unless there is a legal or professional right or duty to disclose.

Information Management

- A valuer shall ensure that he/ it maintains written contemporaneous records for any decision taken, the reasons for taking the decision, and the information and evidence in support of such decision. This shall be maintained so as to sufficiently enable a reasonable person to take a view on the appropriateness of his/its decisions and actions.
- A valuer shall appear, co-operate and be available for inspections and investigations carried out by the authority, any person authorised by the authority, the registered valuers organisation with which he/it is registered or any other statutory regulatory body.
- A valuer shall provide all information and records as may be required by the authority, the Tribunal, Appellate Tribunal, the registered valuers organisation with which he/it is registered, or any other statutory regulatory body.
- A valuer, while respecting the confidentiality of information acquired during the course of performing professional services, shall maintain proper working papers for a period of three years or such longer period as required in its contract for a specific valuation, for production before a regulatory authority or for a peer review. In the event of a pending case before the Tribunal or Appellate Tribunal, the record shall be maintained till the disposal of the case.

Gifts and hospitality

- A valuer or his/its relative shall not accept gifts or hospitality which undermines or affects his independence as a valuer.

Explanation.— For the purposes of this Rules, the term 'relative' shall have the same meaning as defined in clause (77) of Section 2 of the Companies Act, 2013 (18 of 2013).

- A valuer shall not offer gifts or hospitality or financial or any other advantage to a public servant or any other person with a view to obtain or retain work for himself/ itself, or to obtain or retain an advantage in the conduct of profession for himself/ itself.

Remuneration and Costs.

- A valuer shall provide services for remuneration which is charged in a transparent manner, is a reasonable reflection of the work necessarily and properly undertaken, and is not inconsistent with the applicable rules.
- A valuer shall not accept any fees or charges other than those which are disclosed in a written contract with the person to whom he would be rendering service.

Occupation, employability and restrictions.

- A valuer shall refrain from accepting too many assignments, if he/it is unlikely to be able to devote adequate time to each of his/ its assignments.
- A valuer shall not conduct business, which in the opinion of the authority or the registered valuer organisation discredits the profession.

23. Under what circumstances, a certificate of registration or recognition be cancelled or suspended?

In accordance with Rule 15 of the Companies (Registered Valuers and Valuation) Rules, 2017, the Authority may cancel or suspend the registration of a valuer or recognition of a registered valuers organisation for violation of the provisions of the Companies Act, 2013. However, any other law may allow him to perform the valuation.

24. If the certificate of registration or recognition has been cancelled or suspended by the authority under the Companies Act, 2013, whether a Registered Valuer can perform valuation under any law?

Yes, any other law may allow a registered valuer to perform valuation, in case certificate of registration or recognition has been cancelled or suspended by the authority under the Companies Act, 2013.

25. Whether it has been mandated by any Regulator that the valuation is required to be undertaken by a registered valuer registered under the Companies Act 2013 and Rules made thereunder?

Yes, it has been mandated by the Insolvency and Bankruptcy Board of India that every valuation required under the Insolvency and Bankruptcy Code, 2016 or any of the regulations made thereunder is required to be conducted by a 'registered valuer', that is, a valuer registered with the IBBI under the Companies (Registered Valuers and Valuation) Rules, 2017. It has been directed that with effect from 1st February, 2019, no insolvency professional shall appoint a person other than a registered valuer to conduct any valuation under the Code or any of the regulations made thereunder.

26. Enumerate the requirement of Valuation by a registered valuer under various provisions of the Companies Act 2013.

The Companies Act 2013 prescribes Valuation by a registered valuer under the following Sections:

- Section 62 (c) – Issue of shares on rights basis
- Section 192 (2) – Non cash transactions with Directors
- Section 230 – Compromise or arrangement with creditors and members
- Section 236 – Purchase of minority shareholding
- Section 247- Registered Valuer
- Section 260- Valuation in respect of Shares and Assets to arrive at the Reserve Price for Company Administrator
- Section 281- Valuing assets for submission of the report by Company Liquidator
- Section 305- Report on Assets for declaration of solvency in case of the proposal to wind up voluntarily
- Section 319- Valuing interest of any dissenting member under Power of Company Liquidator to accept shares etc., as consideration for sale of the property of the company

27. Enumerate the requirement of Valuation by a registered valuer under various provisions of the Companies Act 2013.

The requirements of Valuation under various provisions of the Companies Act 2013 and Rules thereunder and appointment of Registered Valuer are as follows:

S. No	Purpose	Section	Rule
1.	**Chapter III-** Allotment of Securities for consideration other than Cash	**39 (4)- Allotment of Securities by company**	**Rule 12 (5)- Return of Allotment** A report of a registered valuer in respect of valuation of the consideration shall also be attached along with the contract as mentioned in sub-rule (3) and sub-rule (4).
2.	**Chapter IV-** Issue of sweat equity shares	**Section 54 (1)- Issue of Sweat Equity Shares**	**Rule 8 - Issue of Sweat Equity Shares** 8 (6) The sweat equity shares to be issued shall be valued at a price determined by a registered valuer as the fair price giving justification for such valuation. 8 (7) The valuation of intellectual property rights or of know how or value additions for which sweat equity shares are to be issued, shall be carried out by a registered valuer, who shall provide a proper

			report addressed to the Board of directors with justification for such valuation.
3.	**Chapter IV-** Issue of Shares / convertible securities on preferential basis by unlisted company for cash or for consideration other than cash	**Section 62 (1) (c) - Further issue of share capital.** to any persons, if it is authorised by a special resolution, whether or not those persons include the persons referred to in clause (*a*) or clause (*b*), either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to such conditions as may be prescribed.	**Rule 13 (1)- Issue of shares on preferential basis** Provided further that the price of shares to be issued on a preferential basis by a listed company shall not be required to be determined by the valuation report of a registered valuer.
4.	**Chapter IV-** Issue of shares on preferential basis.-	**Section 67 (3) (b)- Restrictions on purchase by company or giving of loans by it for purchase of its shares**	**Rule 16 (1) (c) - Provision of money by company for purchase of its own shares by employees or by trustees for the benefit of employees.-** where shares of a company are not listed on a recognized stock exchange, the

			valuation at which shares are to be purchased shall be made by a registered valuer;
5.	**Chapter V-** Acceptance of Deposits Valuation of bonds where secured by charge of any assets	**Section 73- Prohibition on acceptance of deposits from public**	**Rule 2 (ix) -** Provided that if such bonds or debentures are secured by the charge of any assets referred to in Schedule III of the Act, excluding intangible assets, the amount of such bonds or debentures shall not exceed the market value of such assets as assessed by a registered valuer;
6.	**Chapter V-** Acceptance of Deposits	**Section 73 (2)- Prohibition on acceptance of deposits from public**	**Rule 6 – Creation of Security** Provided that in the case of deposits which are secured by the charge on the assets referred to in Schedule III of the Act excluding intangible assets, the amount of such deposits and the interest payable thereon shall not exceed the market value of such assets as assessed by a

			registered valuer.
7.	**Chapter V-** Terms of Reference of Audit Committee	**Section 177 (4) (vi)** Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, *inter alia,* include,— valuation of undertakings or assets of the company, wherever it is necessary;	**-**
8.	**Chapter XII-** Non cash transactions with Directors for acquiring assets from the company	**Section 192 (2) Restriction on non-cash transactions involving directors.** The notice for approval of the resolution by the company or holding company in general meeting under sub-section (*1*) shall include the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer.	-
9.	**Chapter XV-** In case of any scheme of corporate debt	**Section 230 (2) (c) (v)** any scheme of corporate debt restructuring	-

	restructuring	consented to by not less than seventy-five per cent. of the secured creditors in value, including a valuation report in respect of the shares and the property and all assets, tangible and intangible, movable and immovable, of the company by a registered valuer.	
10.	**Chapter XV-** For valuation including swap ratio, in case of any scheme for the reconstruction of the company or companies involving merger/ amalgamation or demerger, copy of valuer report to be accompanied	**Section 232 (2) (d)** **Merger and amalgamation of companies.** Where an order has been made by the Tribunal under sub-section (*1*), merging companies or the companies in respect of which a division is proposed, shall also be required to circulate the following for the meeting so ordered by the Tribunal, namely:— (d) the report of the expert with regard to valuation, if any;	-
11.	**Chapter XV-** Exit for dissenting shareholder of	**Section 232 (3) (h) (B)** where the transferor company is a listed	-

	transferor company	company and the transferee company is an unlisted company,— (*A*) the transferee company shall remain an unlisted company until it becomes a listed company; (*B*) if shareholders of the transferor company decide to opt out of the transferee company, provision shall be made for payment of the value of shares held by them and other benefits in accordance with a pre-determined price formula or after a valuation is made, and the arrangements under this provision may be made by the Tribunal: Provided that the amount of payment or valuation under this clause for any share shall not be less than what has been specified by the Securities and Exchange Board under any regulations framed by it;	

12.	**Chapter XV-** Purchase of minority shareholding	**Section 236 (2)** The acquirer, person or group of persons under sub-section (*1*) shall offer to the minority shareholders of the company for buying the equity shares held by such shareholders at a price determined on the basis of valuation by a registered valuer in accordance with such rules as may be prescribed.	-
13.	**Chapter XVII-** Responsibilities of Registered Valuers	**Section 247 Valuation by Registered Valuer** Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner, on	-

		such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.	
14.	**Chapter XX-** Submission of report by Company Liquidator in case of winding up Order by NCLT	**Section 281 (1) (a)** the nature and details of the assets of the company including their location and value, stating separately the cash balance in hand and in the bank, if any, and the negotiable securities, if any, held by the company: Provided that the valuation of the assets shall be obtained from registered valuers for this purpose.	-

28. Enumerate the requirement of Valuation by a registered valuer under various provisions of the Insolvency and Bankruptcy Code, 2016.

The requirements of Valuation under various provisions of the Insolvency and Bankruptcy Code, 2016 and Regulations thereunder and appointment of Registered Valuer are as follows:

S. No.	**Section/ Regulation**	**Brief description**	**Requirement**
1.	Regulation 27 of IBBI	Appointment of registered valuers	The Insolvency Resolution professional (IRP) shall

	(Insolvency Resolution Process for Corporate Persons) Regulations 2016		within 7 days of his appointment, appoint two registered valuers to determine the fair value and liquidation value of the corporate debtor in accordance with regulation 35
2.	Regulation 35 of IBBI (Insolvency Resolution Process for Corporate Persons) Regulations 2016	Liquidation value	The 2 registered valuers appointed under Regulation 27 shall submit to the IRP, an estimate of the fair value and liquidation value. If in the opinion of the IRP, the 2 estimates are significantly different, he may appoint another registered valuer who shall submit an estimate in the same manner. The average of the 2 closest estimates shall be considered the fair value and liquidation value
3.	Regulation 3 (2) of IBBI (Voluntary Liquidation Process) Regulations 2016 Section 59(3)	Initiation of voluntary liquidation	Where a corporate person intends to liquidate itself voluntarily, the declaration shall be accompanied by the report of the valuation of assets of the corporate person, prepared by a registered valuer.
4.	Regulation 38 (1) of IBBI (Voluntary Liquidation Process) Regulations 2016	Final report prior to dissolution	The liquidator shall prepare a sale statement of assets showing the value realized lesser than the value assigned by the registered valuer

5.	Section 46	Valuation of avoidable transactions	The adjudicating authority may require an independent expert to assess evidence relating to the value of the transactions.

29. Enumerate the requirement of Valuation under SEBI – SEBI (Listing Obligations and Disclosure Requirement) Regulations 2015 (LODR), SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR), SEBI (Employee Stock Option Scheme) Regulations, 2014 (ESOP).

The requirements of Valuation under various under SEBI – SEBI (Listing Obligations and Disclosure Requirement) Regulations 2015 (LODR), SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR), SEBI (Employee Stock Option Scheme) Regulations, 2014 (ESOP) are as follows:

S. No	Regulations	Brief description	Requirement
1.	SEBI delisting regulations - 23	Rights of public shareholders in case of compulsory delisting	Where equity shares are delisted by a recognized stock exchange, the stock exchange shall appoint an independent valuer or valuers who shall determine the fair value of the delisted equity shares; from out of its panel of expert valuers.
2.	SEBI ICDR - 70	Preferential issue – conversion of debt into equity under strategic debt restructuring scheme	Conversion price shall be certified by two independent qualified valuers.
3.	SEBI ICDR – 73	Disclosures – consideration other	Where specified securities are issued on a

		than cash	preferential basis for consideration other than cash, the valuation of assets in consideration for which the equity shares are issued shall be done by an independent qualified valuer, which shall be submitted to the recognized stock exchange where the equity shares are listed; provided that if the stock exchange is not satisfied with the appropriateness of the valuation, it may get the valuation done by any other valuer
4.	SEBI ICDR annexure to the due diligence certificate	Revaluation certificate	Revaluation certificate of the issuing company's assets given by an approved valuer
5.	SEBI LODR Part C – regulation 18(3)	Role of audit committee	Valuation of undertakings or assets of the listed entity, wherever it is necessary
6.	SEBI SAST regulations – regulation 8	Offer price	The open offer for acquiring shares under regulations 3, 4, 5 or 6 shall be determined in accordance with sub-clause (2) or (3). (2)(e) where the shares are not frequently traded, the price determined by the acquirer and manager

			to the open offer taking into account valuation parameters including, book value, comparable trading multiples and such other parameters as are customary for valuation of shares of such companies; or the per share value computed under sub-reg (5). (16) For the purposes of clause (e) of sub-reg (2) and sub-reg (4), the Board may, require valuation of the shares by an independent merchant banker or an independent CA.
7.	SEBI issue of sweat equity regulations – regulation 6(4)	Valuation of IP	The value of the IP or technical know-how to be received from the employee, along with the valuation report to be attached to the notice to shareholders for approval of sweat equity shares

30. Enumerate the requirement of Valuation as per Reserve Bank of India – Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Fixed Income Money Market and Derivatives Association of India (FIMMDA)

The requirements of Valuation as per Reserve Bank of India – Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Fixed Income Money Market and Derivatives Association of India (FIMMDA) are as follows:

S. No.	Section/ Circular/ Notification	Brief description	Requirement
1.	FIMMDA/FIMCIR/2017-18/034 dated 31/3/18	Guidelines for valuation of instruments: Valuation of traded (non-SLR)/ non-traded bonds (non-SLR), bonds with call and put options; bonds not rated by rating agency but corresponding rated bond of issuer exists	Methodology is prescribed by FIMMDA, e.g., corporate bond spread matrix methodology is outlined; Bonds / debentures having special features such as floating rate bonds (non SLR), MIBOR linked bonds, Bonds with floor and cap, staggered redemption bonds, perpetual bonds, coupon bearing and non-coupon bearing deep discount bonds, CD/CP, bonds with call and put options, Discom bonds issued under FRP and UDAY bonds, tax free bonds, security receipts/pass through certificates issued by reconstruction company, priority sector PTC, Basel 3 compliant AT1

			Perpetual Bonds, Bonds issued as a part of restructuring an advance, preference shares, convertible debentures, priority sector bonds, securitized paper, unrated govt guaranteed non-SLR bonds, valuation of bonds issued by NBFC now banks, valuation of SWAPS,
2.	RBI Master circular – Prudential norms for classification, valuation, and operation of investment portfolio by banks dated July 1, 2015	Valuation of government securities, valuation of non-SLR bonds,	Central government securities, state government securities, treasury bills, floating rate bonds (CG), inflation indexed bonds, Other SLR bonds / securities, special securities issued by GOI, etc
3.	RBI Master Circular – Operational Guidelines to Primary Dealers dated July 1, 2015	Valuation of government securities	As above

4.	RBI	Valuation of shares of foreign company	Investment by way of remittance from India in existing company, valuation of shares of the company outside India shall be made, where the investment is more than USD 5 mn by a MB or by an IB registered outside India, in other cases by a CA or CPA
5.	RBI	Valuation of shares of foreign company acquired through SWAP	Valuation of shares of the company outside India shall be carried out by a MB or IB
6.	RBI – scheme for issue of FCCB and ordinary shares (through Dep receipt mechanism) 1993	Valuation of shares of foreign company acquired against ADR/GDR	Valuation to be made by an IB, or based on the current market capitalization of the company
7.	RBI	Acquisition of shares of foreign company through approval route	Investment by way of remittance from India in existing company, valuation of shares of the company outside India shall be made, where the

			investment is more than USD 5 mn by a MB or by an IB registered outside India, in other cases by a CA or CPA
8.	RBI	Transfer by way of sale of shares of a JV/WOS outside India, not involving write off	Value to be certified by a CA or CPA
9.	RBI guidelines issued as on Sept 1, 2016	Sale of stressed assets by banks	Banks should have a clear policy for valuation of assets proposed to be sold and whether they will rely on internal or external valuation; in case of exposures beyond INR 50 cr, banks shall obtain 2 valuation reports; however, discount rate to be used will be spelt out by the bank's policy,

31. Enumerate the requirements of Valuation as per Income Tax Act, 1961

The requirements of Valuation under various provisions of the Income Tax Act 1961 are as follows:

S. No.	Section/ Rule	Brief description	requirement
1.	56 – rule 11UA	Valuation of unlisted shares; jewellery, works of art;	Rule 11UA specifies a formula or valuation by a merchant banker using DCF method
2.	28(via)	Profits and gains from conversion of inventory into capital assets	Rule 11UAB
3.	56(2)(x)	Any person receives any property without consideration or for inadequate consideration	Mainly Rule 11UA to compute taxable amount
4.	50CA	Special provision for full value of consideration for transfer of shares other than quoted shares	Fair market value is the full value of consideration, where shares are transferred at less than fair market value

32. Can a complaint be filed against a registered valuer or registered valuer organisation?

A complaint may be filed against a registered valuer or registered valuers organization before the authority, in person or by post or courier along with a non-refundable fees of rupees one thousand in favor of the authority and the authority shall examine the complaint and take such necessary action as it deems fit.

Provided that in case of a complaint against a registered valuer, who is a partner of a partnership entity or director of a company, the authority may refer the complaint to the relevant registered valuers organization and such organization shall handle the complaint in accordance with its bye laws.

Chapter 2

Registered Valuers Organisation

1. **Which of the Organsiations can be recognised as registered valuers organisations?**

   An organisation that meets the following conditions may be recognised as a registered valuers organisation for valuation of a specific asset class or asset classes if —

   - it has been registered under section 25 of the Companies Act, 1956 (1 of 1956) or section 8 of the Companies Act, 2013 (18 of 2013) with the sole object of dealing with matters relating to regulation of valuers of an asset class or asset classes and has in its bye laws the requirements specified in Annexure-III;
   - It is a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession;
   - an organisation registered as a society under the Societies Registration Act, 1860 (21 of 1860) or any relevant state law which shall convert into or register itself as a company under section 8 of the Companies Act, 2013 (18 of 2013), and include in its bye laws all the requirements specified in the Rules, within two years from the date of commencement of these rules , i.e., two years since 18.10.2017
   - an organisation set up as a trust governed by the Indian Trust Act, 1882 (2 of 1882) which shall convert into or register itself as a company under section 8 of the Companies Act, 2013 (18 of 2013), and include in its bye laws all the requirements specified in the Rules, within two years from the date of commencement of these rules, i.e., two years since 18.10.2017

2. **What are the Eligibility criteria for a registered valuers organisation to be registered with IBBI?**

   The organisation eligible to be recognised as Registered Valuers Organsiation shall be recognised if it –

   - conducts educational courses in valuation, in accordance with the syllabus determined by the authority for individuals who may be its valuers members, and delivered in class room or through distance education modules and which includes practical training;

- grants membership or certificate of practice to individuals, who possess the qualifications and experience as specified in rules, in respect of valuation of asset class for which it is recognised as a registered valuers organisation ;
- conducts training for the individual members before a certificate of practice is issued to them;
- lays down and enforces a code of conduct for valuers who are its members;
- provides for continuing education of individuals who are its members;
- monitors and reviews the functioning, including quality of service, of valuers who are its members; and
- has a mechanism to address grievances and conduct disciplinary proceedings against valuers who are its members.

3. What are the requirements for filing an Application by an Organsiation to be recognised as a Registered Valuers Organisation?

An eligible organisation which meets the specified conditions to be recognised as a registered valuers organisation may make an application for recognition for asset class or classes to the insolvency and Bankruptcy Board of India (IBBI) in Form-D of the Annexure-II along with a non refundable application fee of rupees one lakh in favour of IBBI.

- The authority shall examine the application, and may grant twenty-one days to the applicant to remove the deficiencies, if any, in the application.
- The authority may require the applicant to submit additional documents or clarification within twenty-one days.
- The authority may require the applicant to appear, within twenty-one days, before the Authority through its authorised representative for explanation or clarifications required for processing the application.

- If the authority is satisfied, after such scrutiny, inspection or inquiry as it deems necessary that the applicant is eligible under these rules, it may grant a certificate of recognition as a registered valuers organisation in Form-E of Annexure-II.
- If, after considering an application made under sub-rule (1), the authority is of the prima facie opinion that recognition ought not to be granted, it shall communicate the reasons for forming such an opinion within forty-five days of receipt of the application, excluding the time given by it for removing the deficiencies, presenting additional documents or clarifications, or appearing through authorised representative, as the case may be.
- The applicant shall submit an explanation as to why its application should be accepted within fifteen days of the receipt of the communication, to enable the authority to form a final opinion.
- After considering the explanation, if any, given by the applicant, the authority shall either - (a) accept the application and grant the certificate of recognition; or (b) reject the application by an order, giving reasons thereof.
- The authority shall communicate its decision to the applicant within thirty days of receipt of explanation.

4. What are the conditions on which the recognition of Registered Valuers Organization shall be subjected?

The recognition granted to an RVO shall be subject to the conditions that the registered valuers organisation shall-

- at all times continue to satisfy the eligibility requirements specified;
- maintain a register of members who are registered valuers, which shall be publicly available;
- admits only individuals who possess the educational qualifications and experience requirements, as members;
- make such reports to the authority as may be required by it;
- comply with any directions, including with regard to course to be conducted by valuation organisation, issued by the authority;

- be converted or registered as company under section 8 of the Act, with governance structure and bye laws specified in Annexure-III, within a period of two years from the date of commencement of these rules shall have the governance structure and incorporate in its bye laws the requirements specified in Annexure-III within one year of commencement of these rules if it is an organisation;
- display on its website, the status and specified details of every registered valuer being its valuer members including action being taken against him; and
- comply with such other conditions as may be specified by the authority.

5. What shall be the Governing Structure of a Registered Valuers Organisation?

No person shall be eligible to be recognised as a registered valuers organisation unless it is a company registered under section 8 of the Companies Act, 2013 with share capital, and –

- its sole object is to carry on the functions of a registered valuers organisation under the Companies Act, 2013;
- it is not under the control of person(s) resident outside India,
- not more than forty-nine per cent. of its share capital is held, directly or indirectly, by persons resident outside India; and
- it is not a subsidiary of a body corporate through more than one layer: Explanation: "layer" in relation to a body corporate means its subsidiary;
- itself, its promoters, its directors and persons holding more than ten percent of its share capital are fit and proper persons.

6. Whether a Registered Valuers Organisation is required to have bye laws?

Yes, a registered valuers organisation is required to have bye-laws.

- The registered valuers organisation shall submit to the authority its bye-laws along with the application for its registration as a registered valuers organisation.
- The bye-laws shall provide for all matters specified in the model

bye-laws in Part II of Companies (Registered valuers and Valuation) Rules, 2017.

- The bye-laws shall at all times be consistent with the model bye-laws.
- The registered valuers organisation shall publish its bye-laws, the composition of all committees formed, and all policies created under the bye-laws on its website.

7. Whether a Registered Valuers Organisation can amend its bye laws?

Yes, The Governing Board of a Registered Valuers Organisation may amend the bye-laws.

8. What is the procedure to amend bye laws of a Registered Valuers Organisation?

The procedure to amend bye laws of a Registered Valuers Organisation is as follows:

- The Governing Board of a registered Valuers Organisation may amend the bye-laws by a resolution passed by votes in favour being not less than three times the number of the votes, if any, cast against the resolution, by the directors.
- A resolution passed shall be filed with the authority within seven days from the date of its passing, for its approval.
- The amendments to the bye-laws shall come into effect on the seventh day of the receipt of the approval, unless otherwise specified by the authority.
- The registered valuers organisation shall file a printed copy of the amended bye-laws with the authority within fifteen days from the date when such amendment is made effective.

9. What shall be the Composition of the Governing Board of a Registered Valuers Organisation?

The composition of the Governing Board of a Registered Valuers Organisation is as follows:

- The Governing Board shall have a minimum of 3 directors as the majority shall be independent directors.

- More than half of the directors shall be persons resident in India at the time of their appointment, and at all times during their tenure as directors.
- Not more than one fourth of the directors shall be registered valuers.
- More than half of the directors shall be independent directors at the time of their appointment, and at all times during their tenure as directors:

Provided that no meeting of the Governing Board shall be held without the presence of at least one independent director

10. Who can be an Independent director?

An independent director shall be an individual –

- who has expertise in the field of finance, law, management or valuation;
- who is not a registered valuer;
- who is not a shareholder of the registered valuers organisation; and
- who fulfils the requirements under sub-section (6) of section 149 of the Companies Act, 2013.

11. What shall be the Objective of Registered Valuers Organization (RVO)?

The Organisation shall carry on the functions of the registered valuers organisation under the Companies (Registered Valuers and Valuation) Rules, 2017, and functions incidental thereto.

The Organisation shall not carry on any function other than those specified above or which is inconsistent with the discharge of its functions as a registered valuers organisation.

12. What shall be the Duties of Registered Valuers Organization (RVO)?

The Organisation shall maintain high ethical and professional standards in the regulation of its members. The Organisation shall –

- ensure compliance with the Companies Act, 2013 and rules, regulations and guidelines issued thereunder governing the conduct of registered valuers organisation and registered valuers;

- employ fair, reasonable, just, and non-discriminatory practices for the enrolment and regulation of its members;
- be accountable to the authority in relation to all bye-laws and directions issued to its members;
- develop the profession of registered valuers;
- promote continuous professional development of its members;
- continuously improve upon its internal regulations and guidelines to ensure that high standards of professional and ethical conduct are maintained by its members; and
- provide information about its activities to the authority.

13. What shall be the Committees to be formed by Registered Valuers Organization (RVO)?

Following are the Committees to be formed by Registered Valuers Organization (RVO):

- Advisory Committee of Members.
- One or more Membership Committee(s) consisting of such members as it deems fit;
- Monitoring Committee consisting of such members as it deems fit;
- One or more Grievance Redressal Committee(s), with not less than three members;
- One or more Disciplinary Committee(s) consisting of at least one member nominated by the authority.

14. What shall be the Terms of Reference of the Advisory Committee formed by a Registered Valuers Organization (RVO)?

The Governing Board may form an Advisory Committee of members of the Organisation to advise it on any matters pertaining to-

- the development of the profession;
- standards of professional and ethical conduct; and
- best practices in respect of Valuation.

The Advisory Committee may meet at such places and times as the Governing Board may provide.

15. What is ICAI Registered Valuers Organization (RVO)?

The ICAI Registered Valuers Organization (RVO) is a Section 8 company formed by the Institute of Chartered Accountants of India (ICAI) to enrol and regulate registered valuers as its members in accordance with the Companies (Registered Valuers and Valuation) Rules, 2017 and matters incidental thereto.

16. Name the various Assets classes that have been recognised by IBBI.

Various Assets classes that have been recognised by IBBI are as follows:

- Plant and Machinery
- Land and Building
- Securities or Financial Assets

17. Who has recognized ICAI Registered Valuers Organization (RVO) and for which class?

ICAI Registered Valuers Organization (RVO) has been recognized by the Insolvency and Bankruptcy Board of India (IBBI) for the Asset Class "Securities or Financial Assets".

18. What is the objective of the ICAI Registered Valuers Organization (RVO)?

The primary objective of the ICAI RVO is to enrol, educate and train members to enable them to carry out activities for the effective valuation procedures and methods, develop the profession of Registered Valuers, promote continuous professional development of valuation professionals, establish and promote high standards of practice and professional conduct.

Chapter 3

Introducing Valuation

1. What is termed as "Value" under the Valuation process?

As per ICAI Valuation Standards 2018 adopted by ICAI RVO, the term "value" is defined as follows:

A value is an estimate of the value of a business or business ownership interests, 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.

2. How is 'value' and 'price' distinguished to value an asset?

Value of an asset depends on many factors including the investor, the structure, the marketplace, and the approach and sometimes the ultimate selling price can be greater than the value.

The term 'price' indicates the amount at which particular asset is bought or sold in an open market in a particular transaction. The term 'value' indicates the worth of that asset in normal circumstances or the amount at which it should be exchanged.

The price may be understood as "the amount of money or other consideration asked for or given in exchange for something else". The price is, therefore, an outcome of a transaction whereas the value may not necessarily require the existence of a transaction. The value exists even in some assets which may not be generating cash flows today but can generate in the future on the happening of some event/s.

3. What is the equity value?

Equity Value is the value of the business attributable to equity shareholders. It can also be formulated as:

Equity value = Market capitalization

Add: fair value of all stock options (in the money and out of the money)

Add: Value of convertible securities in excess of what the same securities would be valued without the conversion attribute

4. Explain the term "enterprise value".

Enterprise Value is the value attributable to the equity shareholders plus the value of debt and debt like items, minority interest, preference share less the amount of non-operating cash and cash equivalents. It can also be formulated as:

Enterprise value = Common equity at equity value

+ Debt at market value

+ Minority Interest at market value, if any

- Short term and long term investments

- Associate company at market value, if any

+ Preference capital at book value

- Cash and cash-equivalents.

5. Differentiate between Equity Value and Enterprise Value.

Equity value is the total value of all outstanding stock of the company whereas enterprise value is the total net worth of a company net of cash and debt.

Equity value is calculated by multiplying price of a single share of stock with the number of shares outstanding whereas enterprise value is calculated after deducting cash, investments and debt from equity value.

6. What do you understand by the term "Fair Market Value"?

The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having a reasonable knowledge of relevant facts.

7. What are the major components of the Fair Market Value?

Major components of the Fair Market Value are as follows:

- **Cash equivalent price -** price at which a transaction could be expected to take place under conditions existing at the valuation date.
- **Hypothetical willing and able buyer and seller –** a market which consists of all potential buyers and sellers of

business/property which indicates the amount that they are ready to pay for a business.

- **Arm's length in an open and unrestricted market** – a market where price could be determined only for unrelated parties with no specific motive influenced by any buyer.
- **No compulsion:** this contemplates that neither the buyer and nor the seller is under any compulsion.
- **Reasonable knowledge of facts:** reasonable knowledge is an average knowledge before a transaction is concluded and not a specific knowledge which might come after collecting adequate information and deeper scrutiny of the facts.

8. Define Fair Value as per Ind AS.

Ind AS-113 on Fair Value Measurement defines 'Fair Value' as "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

9. Explain Rule of Thumb or Benchmark Value.

- Rule of thumb or benchmark indicator is used as a reasonable check against the values determined by the use of other valuation approaches in a valuation engagement.
- 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.
- 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.
- A *valuer* shall set forth in the report the rationale and support for the valuation methods used.

10. What is the Fair Value hierarchy for inputs in relation to Valuation?

In order to have consistency and comparability in fair value measurements, Ind AS-113 establishes a Fair Value hierarchy that categorises valuation related inputs into three levels, namely:

- **Level 1 input -** These inputs are quoted prices (unadjusted) in active markets for identical assets/liabilities that the entity can access at the measurement date. As a quoted price in an active market provides the most reliable evidence of Fair Value, it should be utilized to measure Fair Value whenever available. Common examples of Level 1 inputs include listed equity securities and open ended mutual funds with daily published net asset values.

- **Level 2 inputs -** These inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical/similar assets or liabilities in markets that are not active; (iii) inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, and implied volatilities; and (iv)market-corroborated inputs. Adjustments to Level 2 inputs vary depending on factors specific to the asset or liability, including (i) condition or location of the asset; (ii) the extent to which inputs relate to items that are comparable to the asset or liability; and(iii) the volume or level of activity in the markets within which the inputs are observed.

- **Level 3 inputs -** These inputs are unobservable inputs for assets/liabilities. Unobservable inputs are used to measure Fair Value to the extent that relevant observable inputs are not available. The unobservable inputs should reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. An entity should develop unobservable inputs using the best information available. In developing unobservable inputs, an entity may begin with its own data, but it should adjust the data to ensure consistency with a market participant's viewpoint. Common examples of Level 3 inputs include management's business forecasts utilized in a discounted cash flow model.

11. Whether Fair Value is the same as Fair Market Value?

Fair value is usually synonymous to fair market value except in certain circumstances where characteristics of an asset translate into a special asset value for the party(ies) involved.

12. What do you understand by the term Participants Specific Value?

"Participant specific value" is the estimated value of an asset or liability considering specific advantages or disadvantages of either of the owner or identified acquirer or identified participants.

Participant specific value may be measured for an existing owner or for an identified acquirer or for a transaction between two identified parties and consider factors which are specific to such party(ies) and which may not be applicable to market participants in general. For example:

(a) participant specific value for a potential acquirer in connection with acquisition of a manufacturing facility will consider aspects such as location specific advantage or synergies which may not be available to market participants in general.

(b) participant specific value for transfer of 2% stake by a minority shareholder to a shareholder holding 49% stake will consider aspects such as minority discount and control premium

13. What are the factors to be taken into consideration to determine the "Participants Specific Value"?

The factors to be taken into consideration to determine the" Participants Specific Value" are as follows:-

- the respective economic needs and abilities of the parties to the transaction or event
- risk aversion or tolerance
- the motivation of the parties
- business strategies and business plans
- synergies and relationships

- strengths and weaknesses of the target business
- form of the organization of the target business
- estimates of future cash flows or earnings
- tax advantages
- synergy to other products
- other strategic advantages

14. What is Market Value?

Market Value is the valuation bases which is generally used in property valuation.

"Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." This excludes any element of special value –for example financing, sale, leaseback arrangements, special concessions and considerations available from a specific party have to be disregarded.

15. What do you mean by 'valuation'?

Valuation is the process of estimating the fair value of a financial asset or liability of the business or an individual which is required for investment analysis, capital budgeting, merger and acquisition transactions, financial reporting, taxable events to determine the proper tax liability, and in litigation.

16. What do you understand by the term "business valuation"?

In common parlance, business valuation is about estimating the worth or value of the business. It is a process of arriving at the worth of a business given the information available, assumptions and limiting conditions as on the valuation date.

According to the definition in *The International Glossary of Business Valuation Terms*, business valuation is the act or process of determining the value of a business, business ownership interest, security, or intangible asset".

17. What are "off balance sheet" items?

Off-balance sheet (OBS) items are assets or liabilities that do not appear on a company's balance sheet. Although not recorded on the balance sheet, they are still assets and liabilities of the company. Off-balance sheet items are typically those not owned by or are a direct obligation of the company. It is necessary for the valuer to value the off balance sheet items to arrive at a fair value of the business as a whole.

For example, when loans are securitized and sold off as investments, the secured debt is often kept off the bank's books. An operating lease is one of the most common off-balance items.

18. What is economic value added?

EVA is an estimate of the amount by which earnings exceed or fall short of the required rate of return for shareholders or lenders at comparable risk. It determines the value created for the shareholders of a company.

19. State by means of various examples where EVA can be used.

EVA is used for following purposes:

- Performance management
- Determination of bonuses.
- Communication with shareholders and investors.
- Capital budgeting.
- Corporate valuation.
- Analysis of equities.

20. What are the best methods adopted in valuing a business enterprise?

The methods for valuing a business are as follows:

- Market approach
- Income approach
- Cost approach

21. Explain the Market approach.

The market approach is a valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.

22. What do you mean by the Income approach under Valuation?

The Income Approach indicates the value of a business based on the value of the cash flows that a business is expected to generate in future. This approach is appropriate in most going concern situations as the worth of a business is generally a function of its ability to earn income/cash flow and to provide an appropriate return on investment.

The Income Approach includes a number of methods, such as Discounted Cash Flow (DCF) Method, Relief from Royalty (RFR) Method, Multi-Period Excess Earnings Method (MEEM), With and Without Method (WWM) and Option pricing models such as Black-Scholes -Merton formula or binomial (lattice) model.

23. What do you mean by the Cost Approach?

It is a valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). In certain situations, historical cost of the asset may be considered by the valuer where it has been prescribed by the applicable regulations/law/guidelines or is appropriate considering the nature of the asset.

24. What are the key lessons of value creation?

Following are the five key lessons for value creation:

- In the real market, the value can be created for the shareholders only by earning a return on the invested capital (or capital employed) greater than the opportunity cost of capital.
- The more the funds of business invested at a return above the cost of capital, the more can be the value created (i.e. growth creates more value to the shareholders as long as the return on capital exceeds the weighted average cost of capital).
- Select business strategies, which maximize the present value of expected cash flows or economic benefits.
- The value of a company's shares in the stock market equals the intrinsic value of the share based on the markets' expectations of future performance of the company, but the market expectations

of future performance of company may not be an unbiased estimate of performance.

- The returns that shareholders want to earn depend primarily on the changes in their expectations more than the actual performance of the company.

Valuation assignment is unique and therefore there is no standard path in terms of the way a valuer approaches the service needs of his/her client. Therefore tailoring a valuer about the most suitable and appropriate procedures relevant to each assignment is somewhat a very technical issue.

25. What are the purposes essential in the process of Valuation?

An important concept in valuation is that value often depends on the intended purpose of the valuation; therefore, the same business often has different values depending on the purpose of valuation. Nonetheless, placing the right value on a particular business and in helping the achievement of financial goals, which is necessary for a number of reasons, is the ultimate purpose of valuation.

The process of Valuation may be essential for any of the following purposes:

- To sell business at the Fair Market Value
- To provide a lender with Fair Market Value information for a business loan
- To plan for a merger, acquisition or stock offering
- For admission or retirement of a partner in a business
- For transfer of the business into a trust or create a succession plan
- To determine the value of assets and liabilities for a divorce settlement
- To assist attorneys in litigation
- For settlement of an insurance claim
- For dispute resolution in cases where damages must be determined for the lost value of a business, such as breach of

contract, patent infringement, franchise disputes, antitrust suits, eminent domain, lender liability, and dissenting stockholder suits.

- For set up an Employee Stock Ownership Plan (ESOP), etc.

26. What is an Intangible Asset?

An intangible asset is an identifiable non-monetary asset without physical substance.

27. Mention some examples where Valuation needs to be done for intangible assets and intellectual property.

There are following cases where property/assets need to be valued:

• **Acquisitions**	particularly where a significant portion of the value of the acquisition is not intangible assets. There is often a requirement that financial statements properly reflect assets acquired – tangible or intangible
• **Bankruptcy**	where claims may be made as to the significant value of intangibles
• **Tax Assessments**	covering a range of taxation considerations including capital gains tax, stamp duty etc.
• **Financing**	where intellectual property can be used as loan collateral or as the basis for a financing structure
• **Income Tax**	where the foreign subsidiaries of parent companies gain income using intellectual property of the parent
• **Infringement Lawsuits**	where value must be attributed as a result of infringement of intellectual property
• **Joint Ventures**	where contributions to the venture may be a mix of tangible and intangible assets
• **Licensing Arrangements**	where the relationship between existing intangibles and future income is determined
• **Marital Dissolutions**	where businesses that are part of marital property often possess proprietary intangible assets
• **Property Taxes**	where there can be confusion between the

	relative contributions of real property value and intangible asset value
• **Management Support and Presentation**	enabling an assessment of a company's return on assets and the performance of management, strengthening balance sheet presentations and advising shareholders of the financial position of the company including "hidden" assets.

28. What are the key areas where Valuation plays a resourceful role?

The role of the valuation is that it provides both buyer and seller to start with negotiation. A number of people think that the role of valuation is restricted to buying- selling of property or business. Mentioned below are certain key areas where valuation plays a key role:

- Sell-side and buy-side mandate
- Going public-IPO
- Private placement of securities
- Going private-LBO and MBO
- Corporate restructuring and turnaround
- Secured lending including project finance
- Securitization and other debt instruments
- Implementation of Basel II
- Financial derivatives
- Portfolio management – Mutual fund, Hedge funds and professional investors
- Long-term and medium term investment decisions - M&A, takeovers, divestiture, disinvestment, capital budgeting , private equity investment, venture capital investments, strategic investors, financial investors and others
- Profit distribution decision- dividend distribution and buy back of shares
- Borrowing decisions

- Financial risk management decisions
- Court case related valuation
- Tax-related valuation including Transfer Pricing
- Development projects valuation
- Intangibles
- Financial reporting valuation
- Equity research area
- Forensic accounting and financial fraud investigation
- Divorce
- Dissolution of a firm, partner buyout and admission
- Insurance product valuation
- Corporate planning
- Property valuation
- Value based performance measurement
- Credit rating
- Fairness and solvency opinion
- Charitable donation.

29. Name the major areas in which Valuation plays an important role?

Major areas in which Valuation plays an important role are as follows:

- **Valuation in Acquisition Analysis** – where the value of the firm going to be taken over is analysed.
- **Valuation in Corporate Finance** – where business plans to expand, it plays a significant role while approaching foreign investors, venture capitalist and/or private equity investors for more capital.
- **Valuation for Legal and Tax Purposes** – it is done majorly for private business.

30. Explain the relevance of valuation in Acquisition Analysis.

Valuation plays a significant role in acquisition analysis as the price at which acquisition takes place, depends on the value of the firm going to be taken over. The bidding firm or buyer has to come out with a fair value for the target firm before making a bid, and the target firm has to determine a reasonable value for itself before deciding to accept or reject the offer of the buyer.

There are some factors like the following which should be considered in takeover valuation:

First, there is synergy, the increase in value that will arise because of the fact that the combined firm would be able to accomplish many more things that the individual firms could not. The effects of synergy on the combined value of the two firms (target plus bidding firm) have to be considered before a decision is made on the bid.

Second, the value of control, which measures the effects on the value of the combined firm, due to control on the management of the business, which may result in better management and style of working. The value of control after the restructuring of the target firm will have to be taken into account for deciding a fair price. This is of particular concern in hostile takeovers.

31. Explain the relevance of valuation in Corporate Finance.

There is a role of valuation at each and every stage of life cycle of the firm. For small private businesses which plan to expand the business, valuation plays a key role when they approach foreign investors, venture capitalist and/or private equity investors for more capital.

The share of a firm that a new investor will demand in exchange for a capital infusion in business will depend upon the value of the firm, which they estimate for the firm.

As the companies get larger and decide to go public, the price of share for public issue depends on the value of the firm, which may be in accordance with the law or regulations prevailing in the country. Decisions on where to invest the funds raised, how much to borrow from banks and other institutions and how much to return to the owners will be, are affected by valuation.

32. Explain the relevance of Valuation for Legal and Tax Purposes.

Most of the valuation of the business, especially of private companies, are done for legal or tax reasons. Some of the instances may be as follows:

- a partnership has to be valued, whenever a new partner is taken on or an old one retires.
- businesses that are jointly owned have to be valued when the owners decide to break up.
- divorce proceedings when couples engaged in business break up.
- valuation of net worth of an individual, when applying for a VISA.

While the principles of valuation may not be different when valuing a business for legal proceedings, the objective often becomes providing a valuation that the court will accept rather than the right valuation.

33. Explain the relevance of valuation in Portfolio Management.

Valuation plays a significant role in portfolio management for fundamental analysts and a peripheral role for technical analysts.

There are following different investment philosophies and the roles played by valuation in each one of them:

- **Fundamental Analysts**: Fundamental analysts believe that the true value of the firm is in its financial characteristics like growth prospects of the business, risk attached to business and cash flows. Any deviation from this true value (or intrinsic value) is a sign that a stock is under or overvalued. Their perspective of investment is generally long-term and the assumptions underlying it are that:
    - the relationship between the market value of the stock and the underlying financial parameters can be measured;
    - the relationship is stable over the period of time;
    - deviations from the relationship would be corrected in a reasonable time period;
    - fundamental analyst includes both value and growth investors. Value investors are primarily interested in assets/stock in place and acquiring them at less than their fair or true value. Growth investors, on the other hand, are much more focused on valuing growth of the assets and buying those assets at a discount.
- **Activist Investors:** Activist investors invest in the businesses that have poor management and use their equity holdings and technology to push for change in the management style of the company. They do not have more focus on what is the company's worth today but their

focus is what its value would be if it will be managed well. How the valuation skills help them in this pursuit? To begin with, these investors have to ensure that there is some hidden/additional value that can be generated by changing the management style. They then have to consider the effects of changing the management style on the value of the business; this will require an understanding of how value will change as a firm changes its significant business policies like investment, financing and dividend policies. As a consequence, they have to understand the businesses of the firm as well as the interplay between corporate finance decisions and value of the business. Activist investors generally concentrate on a few businesses they understand well and attempt to acquire undervalued firms.

- **Chartists:** Chartists believe that prices are driven more by investor psychology and less by underlying financial variables. The information available from trading measures like -- price movements, trading volume and short sales -- give an indication of investor's psychology and future price movements of the stock. The assumption here is that prices move in predictable pattern as in past and that the normal investor in the market is driven more by emotion rather than by rational analysis. While valuation does not play much of a role in charting, there are ways in which an enterprising chartist can incorporate it into the analysis. For instance, valuation can be used to determine support and resistance lines on price charts.

- **Information Traders:** Price moves on the basis of information about the business in the market. Information traders attempt to trade in advance on the basis of new information or shortly after it is revealed to financial markets. In other words, we can say that information traders gain profit on the basis of information which is yet to come into the market. The underlying assumption (It is fact of the market) is that these traders have access to information announcements and gauge the market reaction to them better than the average investor or retail investor in the market.

  The focus of information trader is on the relationship between information and changes in market price of the stock, rather than on value, *per se*. Thus an information trader may buy an 'overvalued' firm if he believes that the future information announcement is going to cause the market price of the stock to go up further because it contains better than expected news. If a relationship can be found between how undervalued or overvalued a company is, and how its market price of stock reacts to new information, then valuation could play a significant role in investing for an information trader.

34. What are the factors that affect the valuation of a business?

The factors that affect valuation of a business are as follows:

- **Value is specific in Point of time**

  Value is determined at a specific point of time e.g. as on 31st March, 2019. Businesses always remain in the state of change as a result of various economic, political, geographical, or strategic factors like acquisitions or sale of business segments or changes in product lines, management, financing arrangements, market conditions, general and business-specific economic conditions, industry and competitive conditions and so on.

  Hence, it would be difficult or even impossible at times to change the value with the change in each factor. So, valuation is done on a particular day and time or it can be said that the value is time specific.

- **Value principally depends on the ability of the business to generate discretionary cash flow**

  Discretionary cash flow can be determined as cash flow from operations of the business less income taxes thereon, net trade working capital requirements, and capital investment requirements net of the related income tax shield (Discounted Cash flow technique). Hence, more the cash generation by the business, more will be the value of the business.

- **Value also depends greatly on the market forces**

  The market rate of return is affected by the following market forces:

  - General economic conditions, particularly short and long term borrowing rates. Short term borrowing rates tend to influence activity level, whereas anticipated long-term borrowing rates tend to influence required rate of return;

  - Quality and type of purchasers in the market and the motivations, level of risk awareness and investment philosophy of each. This in return affects the value of property/assets/business.

Frequently Asked Questions on Valuation

- **Principle of Risk and Return**

  In valuation, the risk and return principle simply suggests that risks need to be adequately factored. In theory, risk can be factored in two ways – either in cash flows (Certainty equivalent method) or in the discount rate (Risk Adjusted Discount Rate method). The RADR method is widely used in practice. Simply, it can be concluded that more return is demanded for more risk and there should be a reasoned adjustment for the risk in the valuation.

- **Principle of Reasonableness and Reconciliation of Value**

  In valuation, a large number of uncertainties are dealt with and these principles simply refer to reviewing the reasonableness of assumptions about uncertainties and reconciling the values obtained under different approaches. In fact, reconciliation exercise would help to correct some unrealistic assumptions. Valuation of a business involves taking significant responsibility.

  This makes it crucial to check the valuation for -

  (i) inconsistency in judgments and assumptions

  (ii) conceptual flaws

  (iii) projection modelling and formula errors

  A valuation without reasonable check and reconciliation exercise is not complete and would be difficult to defend.

  A sound valuation will be based upon all the relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate influence.

- **Value is influenced by Underlying Net Tangible Assets.**

  In general, the existence of higher underlying net tangible asset value [measured in terms of both value in use (i.e. going concern value) and liquidation value] support a higher value, all other things being equal.

- **Value is influenced by Liquidity**

  As a general rule the greater the liquidity of a business interest, defined in terms of the number of prospective buyers and sellers, the greater will be the value of the business interest. All other things being equal, greater liquidity decreases risk, which in turn leads to higher value.

In an open market transaction, the seller typically maximizes proceeds by pursuing as many prospective purchasers as possible as opposed to notifying only one or a few possibly interested parties.

- **The Value of Minority Interest is less than the Value of a Controlling Interest**

  In general, the value of a controlling interest in a business may have a greater value per share than does a minority-interest in the same business when each is viewed in isolation, subject to anything specially mentioned in shareholders' agreement or by any legislation.

35. What are the components to be kept in mind by the valuer before accepting any proposal for valuation of business?

Before accepting any proposal for the valuation of business, the valuer must keep the following aspects in mind:-

- Purpose of engagement
- Profile and expectations of the client.
- Valuation Base
- Premise of value
- Information about Industry, Economy and Company.
- Application of discounts and premium.

36. What are factors to be taken care of by the Valuer before accepting the engagement?

Following factors must be identified before accepting the engagement of valuation:

- Subject and interest to be valued
- Scope of work
- Date of valuation
- Valuation Bases
- Purpose of valuation
- Premise of value
- Assumption, Limiting conditions and scope limitations
- Nature of Business

- Knowledge of the Industry
- Sources of information available
- Governing laws and Regulations

37. What are the requirements that a Valuer needs to follow to carry out a Valuation procedure?

Valuer should keep a few things in mind before proceeding with the Valuation process, namely-

- False and misleading information must not be there.
- Valuer must exercise due professional care in the performance of services and obtain adequate documentation.
- Ethical rules and standards should be followed
- Valuer must maintain a high degree of integrity, knowledge and competency regarding valuation.
- Valuer shall exercise due diligence and exercise independent professional judgement.
- Disclosure must be there by a valuer regarding conflict of interest and duty.
- Valuer must maintain an adequate internal code of conduct for proper valuation.
- Consistency in services provided to client.
- Strict vigilance of funds and investments of corporate
- Considerations of cost benefit analysis
- Methods of valuation must be examined in depth for the test of appropriateness.
- Confidential information must not be disclosed to any other person unless it is required or permitted by Standard or Law.
- Transparency must be there in the valuation report.

38. What are the documents demanded by a Valuation Analyst for valuing a financial asset?

The quantity, type, and content of documentation required is solely on the discretion of the Valuer Analyst which indicates –

- Information gathered and analyzed to obtain an understanding of matters that may affect the value of the subject interest.
- Assumptions and limiting conditions.
- Any restriction or limitation on the scope of the valuation analyst's work or the data available for analysis.
- Basis for using any valuation assumption during the valuation engagement.
- Valuation approaches and methods considered.
- Valuation approaches and methods used including the rationale and support for their use.
- If applicable, information relating to subsequent events considered by the valuation analyst.
- For any rule of thumb used in the valuation, source(s) of data used, and how the rule of thumb was applied.
- Other documentation considered relevant to the engagement by the valuation analyst.

The valuation analyst should retain the documentation for a period of three years as per the Companies (Registered Valuers and Valuation) Rules, 2017, for a period of eight years as per ICAI Valuation Standards 2018 and the Companies Act 2013 or for the time period specified by any other law to meet the needs of applicable legal, regulatory, or other professional requirements for records retention.

39. Specify the reporting guidelines that should be followed during the valuation process.

Valuation should be done in a time bound manner including the impact of changes due to the globalisation of economy. Valuation of assets should be at a fair market value in accordance with standards. If a difference arises due to various types of regulations or due to value assessed by valuer then it should be explained and quantified. Reporting must be done within the period specified by the board and if no such period is specified then it must be done within a reasonable time. Following points must be considered while reporting:

- Identity of acquirer.
- Terms of appointment of merchant banker if any.

- Future plans.
- Purpose.
- Changes in control and procedures if any.
- Borrowing cost including (interest rates, discount and premiums, amortization cost, finance charges, exchange rate differences etc.)
- Risk
- Growth
- Changes in laws and regulations
- Changes in technology
- Returns
- Earning prospects
- Fair market value
- Market competition
- Acquisitions of shares inter se promoters.

40. Explain the valuation process.

The valuation process can be divided into 3 distinct steps, as illustrated below:

STEP 1: Get a better understanding of the past work such as

- Information Collection/Data Research
- Industry and Economy Analysis
- Business Analysis/Historical Analysis:
  - ✓ Understanding the business
  - ✓ Understanding the Regulatory framework for the industry
  - ✓ Understanding the value drivers
  - ✓ Accounting analysis
  - ✓ Accounting policy review
  - ✓ Length of financial history

  - ✓ Adjustments to financial statements
  - ✓ Assets and liability analysis including contingent assets and liabilities
  - ✓ Income and expenses analysis
  - ✓ Financial analysis
- Ratio analysis
- Trend Analysis
- Cash flow analysis
- Strategy Analysis
- Company Risk Analysis

STEP 2: Forecasting the future

- Structured forecasting
- Income statement forecasts
- Balance sheet forecasts
- Cash flow forecasts

STEP 3: Valuation

- Making Assumptions
- Determining Cost of Capital/Discounting Rate
- Use of Valuation models
  - ✓ Income Approach
  - ✓ Market Approach
  - ✓ Cost Approach
- Arriving at Final Value
- Preparation of Valuation Report

41. What are the key aspects in accounting analysis that should be taken care of, for valuing the firm by the analyst?

When there are large potential distortions, accounting analysis can add considerable value. Accounting analysis is an important step in the process of analyzing corporate financial reports. Sound accounting analysis improves the reliability of conclusions from financial analysis. There are six key aspects of accounting analysis.

- **Evaluation of accounting values -** The analyst should identify the key accounting policies and estimates that the firm uses to measure its critical success factors and risk. As a result, it influences the company's profits or asset base, if overestimated/ underestimated, it will distort the financial position.

- **Flexibility** – The analysts evaluate the degree of flexibility available to managers in selecting accounting policies and estimates related to the firm's key success factors, given the accounting rules and conventions. The relevance of accounting data for understanding a company's business is severely impacted by the degree of flexibility available to managers in choosing accounting policies and estimates and how this flexibility is exercised by managers.

- **Accounting discretion –** The analysts assess and understand whether the managers have used their accounting discretion to give a realistic view of the affairs of the company or hide its true performance.

- **Understandability of financial statements -** The adequacy and quality of a firm's disclosures about its business activities and their economic consequences are assessed. This would enable the analyst to assess the quality of accounting and use its financial statements to understand the true business economics.

- **Identifying accounting policies and transactions -** The analyst should identify questionable accounting policies/ transactions needing further investigation with considerable variations from past years' figures, unusual transactions, changes in accounting treatment etc.

- **Removal of Distortions** – The analysts remove all distortions where the accounts do not reflect a true state of affairs and restate accounting numbers. The purpose is to remove any noise and bias introduced by the accounting rules and management decisions.

42. What are the tools used for financial analysis?

The two most commonly used financial tools for Financial Analysis are as follows:

- **Ratio Analysis -** Ratio analysis is a very important tool to understand the business of the firm as it provides an in-depth insight into the financial strength of the business under valuation. It focuses on evaluating a firm's product market performance and financial policies while cash flow analysis focuses on a firm's liquidity and financial flexibility.
- **Cash flow analysis –** It is the study of the cycle of business' cash inflows and outflows, with the objective of maintaining adequate cash flow for the business, and to provide the basis for cash flow management. It involves examining the components of the business that affect cash flow, such as accounts receivable, inventory, accounts payable, and credit terms.

43. Explain the various types of cash flow measures that are used to analyse financial health.

Various types of cash flow measures that are used to analyse financial health are enumerated below:

- **Interest Coverage** - Interest coverage, the amount of earnings available to pay interest expense, measures the company's financial cushion. It provides a sense of how far operating profits would be sufficient for the company for servicing its debts. It is generally measured as EBITDA divided by interest expense and required preferred dividends.
- **Debt/ Total Investor Funds** – It measures the company's reliance on debt capital to evaluate its financial health. It is measured as total interest-bearing debt to total investor funds, expressed both at book values and at market values.
- **Investment rate -** It is the ratio of investment to available funds. This can either be expressed on a net basis or gross basis. In either case, this measure tells whether the company is consuming more funds than it is generating (investment rate greater than one) or generating extra cash flow that can be paid to investors as interest expense, dividends, debt reductions, share repurchases, and so on.

- **Dividend Payout ratio** – It is the total of common dividends divided by income available to common shareholders. A company's financial situation can be better understood by analyzing the payout ratio in relation to the investment rate. If the company has a high dividend payout ratio and an investment rate greater than one, then it must be borrowing money to fund negative free cash flow, to pay interest, and to pay dividends. An analyst needs to evaluate how sustainable this is. On the other hand, a company with positive free cash flow and low dividend payout is probably paying down debt. If sustained, this company might be passing up the tax benefits of debt.

44. Enumerate the List of Information Required for Valuation.

An illustrative list of documents in relation to the company being valued has been given below. It is required for the purpose of valuation assignment and acts as a guide regarding the contents which can be included in any Information Requisition Letter. This is not a standard letter and should be structured according to the needs of the valuation analyst.

- What is the Valuation Date?
- History (Financial as well as Operational) of the organization, the business and key developments during its life.
- Organizational Structure
- Detailed shareholding pattern for the company, including cross-holdings, showing all shareholders/categories holding 1% and above shares.
- Audited financial statements in respect of the business for the past three years including notes to accounts, Audit Reports and other Report, if any.
- Projections for the business of the company for the next seven years along with the details and logic underlying the assumptions that have been considered in this regard.
- Details of all debts, borrowings and other financial obligations with banks, financial institutions etc., along with the interest rates, repayment schedules, tenure etc.
- Audited/Provisional Financial Statements as on the valuation date.

- List of companies (whether listed or unlisted) which can be considered as comparable/ competitors to the business of the company.
- Any available industry reports and previous valuation reports.
- Detailed capital structure of the company including convertible securities and maturity date thereof.
- Segment wise revenue break-up by key markets; key customers with details on gross margins.
- Details of customer contracts.
- List of key customers with details; projected revenues from the existing customers over the next three years with customer-wise break-up (based on both existing contracts and expected contracts).
- Composition of accounts receivables (including ageing analysis) and existing provision policy for doubtful accounts receivables and provision for bad and doubtful receivables.
- Details of market size for the business and country-wise competitors.
- Details of other income, if any and identification of any one off/non-recurring item.
- Details of major expenses incurred – repairs & maintenance, software & technology, advertising & promotion, etc.
- Details of significant capitalizations.
- Details of any IPRs, Goodwill acquired as well self generated, software products, patents.
- Details of any valuations of fixed assets (tangible and intangible), if any.
- List of investments and valuations conducted, if any.
- Details of all contingent liabilities and obligations.
- Copies of shareholder agreements, if any, including details of any outstanding options, details of any non-competent agreements, if any.

- Details of outstanding warrants with exercise options/schedule, if any.
- List and brief details of all associate companies, joint ventures & subsidiaries.
- Details of contract employment, if any (including on consultancy basis).
- Details of employee stock option plans, if any.
- Status of taxes, both direct & indirect and details incentives available/availed of, if any.
- Placement document/investor presentation if the company is listed.
- Other information as may be considered important and necessary for the purpose of valuation analysis.

45. What does 'Due Diligence' mean?

It is a very common and popular term in the corporate world in relation to corporate restructuring, merger & acquisition, joint venture, spin-offs, amalgamations, etc. Due diligence is one of the key elements in all these types of transactions because of the fact that the transactions are being done between two unrelated parties, who don't have a deep understanding about the business which they are going to take over or merge with. The purpose of due diligence exercise is to assist the purchaser or the investor in finding out all the facts and figures about the business he is going to acquire or invest prior to completion of the transaction.

46. Explain the various types of due diligence that are followed as a discipline for businesses.

Various types of due diligence that are followed as a discipline for businesses are as follows:

- **Commercial or operational due diligence:** It is generally performed by the concerned acquirer enterprise and involves an evaluation from a commercial, strategic or operational perspective. For example, whether the proposed merger would create operational synergies.
- **Financial due diligence:** It commences after a price has been agreed for the business. The principal objective of financial due

diligence is usually to look behind the veil of initial information provided by the company and to assess the benefits and costs of the proposed acquisition/merger by inquiring into all relevant aspects of the past, present and future of the business to be acquired/merged with.

- **Tax due diligence:** This is conducted by the tax authorities or on their behalf by any professional to ensure whether the company is adhering to the tax provisions or not.
- **Information system due diligence:** This is to assess the accuracy and completeness of Information systems of the company.
- **Legal due diligence:** It is to find out whether or not the company is complying with the legal provisions. For example, whether the company is filing annual returns or not, whether necessary board resolutions are being passed or not, whether the minute's book is being maintained and updated or not.

47. What is the effect of due diligence on Valuation?

Due diligence depicts clear and transparent business facts based on definite and a foolproof statement. To enhance the value of the business, the management of the company may have overvalued the assets or there may be some hidden liabilities of the business. The objective of due diligence process is to look specifically for any such hidden liabilities or overvalued assets.

48. Specify the areas that interest the Valuation Analyst during due diligence.

Due diligence provides useful information to protect the interest of business. It needs a dynamic team of employees, integration of management philosophy, installation of an accounting system and creation of monthly financial reporting. For the purpose of due diligence, relevant areas of concern in business include:

- Intellectual property.
- Real and personal property
- Insurance coverage
- Employee benefits

- International transactions
- To ensure, that the claims, about the business are correct.
- Past business, financial performance accounts.
- Forecasted financial performance of the business.
- Valuation of property and other assets.
- Legal and tax compliance.
- Major customer contracts.
- Environmental deals.

49. Give a few examples of hidden liabilities.

Few examples of hidden liabilities are as follows:

- The company may not show any show cause notice which have not matured into demands, as contingent liabilities
- Letter of comfort given to banks and financial institutions, which are not disclosed in the financial statements of the company as they are not guarantees.
- Long pending sales tax/income tax assessment
- Future lease liabilities
- Environmental problems/third party claims
- Product and/or other liability claims, warranty liabilities, liquidity damages etc.
- Huge labour claims under negotiation

50. Give a few examples of overvalued assets.

- Uncollected and/ or uncollectible receivables
- Intangibles having no value
- Group company balances under reconciliation
- Litigated assets
- Investment carrying a very low rate of income
- Deferred revenue expenditures
- Obsolete, slow moving or non moving stock valued above net realisable value

- Obsolete or under used plant and machinery
- Capitalisation of expenditure which is in the nature of revenue

51. What are options?

Options are financial instruments that convey the right, but not the obligation, to engage in a future transaction on some underlying security at a pre negotiated price.

52. What are the components of option price?

(i) Intrinsic Value - The intrinsic value of an option is the economic value of the option if it is exercised immediately, except that if there is no positive economic value that will result from exercising it immediately, then the intrinsic value is zero. The intrinsic value of a call option is the difference between the current price of the underlying and the exercise price if positive; it is otherwise zero. For example, if the exercise price for a call option is Rs. 60 and the current asset price is Rs. 67, the intrinsic value is Rs.7. That is, an option buyer exercising the option and simultaneously selling the underlying asset would realize Rs. 67 from the sale of the underlying, which would be covered by acquiring the underlying from the option writer for Rs. 60, thereby netting Rs. 7 gain.

(ii) Time premium - The time premium of an option is the amount by which the option price exceeds its intrinsic value. For example, if the price of a call option with an exercise price of Rs. 60 is Rs. 9 when the current price of the underlying is Rs. 65, the time premium of this option is Rs. 4 (Rs. 9 minus its intrinsic value of Rs. 5). Had the current price of the underlying been Rs. 50 instead of Rs. 65 then the time premium of this option would be the entire Rs. 9 because the option has no intrinsic value.

53. What are the various option pricing models?

(i) Binomial Model – It is a discrete-time model for pricing option in which it is assumed that price change in the underlying asset occurs only after a regular time interval. It involves constructing a tree which represents different possible paths that the price of the underlying asset might follow. Option valuation using this method is, a three step process as under :

(a) The price tree generation

(b) The option value is calculated at each node.

(c) Progressive calculation of option value at each earlier node is done.

(d) The value derived at the first node gives the value of the option.

(ii) Black Scholes Model – This model was designed to value European options, which were dividend-protected. Thus, neither the possibility of early exercise nor the payment of dividend affects the value of options in this model to value European options, which were dividend-protected. Thus, neither the possibility of early exercise nor the payment of dividend affects the value of options in this model.

54. What do you understand by cost of capital?

Cost of capital of a firm is the minimum rate of return which the firm must earn on its investments in order to satisfy the expectations of the investors or shareholders who provide funds to the firm and also to maintain its market value and attract fresh funds. If their investments are expected to earn a return below their cost of capital, investors would not invest their funds.

55. What are the characteristics of cost of capital?

Characteristics of cost of capital are:

(i) Variation - Cost of capital is dependent on the expectation of the fund providers, which may vary between person to person, in turn cost of capital vary even for the same amount of investment in the same asset.

(ii) Principle of substitution - Cost of capital is based on this principle where an investor will prefer investment in a more attractive alternative.

(iii) Market driven - It is the competitive rate of return available in the market on the comparable investment, which is greatly affected by various market forces like inflation, GDP, Interest Rates etc.

(iv) Forward looking - Cost of capital represents investor's expectations. Actual historical performance is relevant to an estimate of the cost of capital only to the extent that there is a reason to believe that historical performance is representative of future performance.

(v) **Risk Relevance** - Cost of capital for a given investment may be above or below the overall cost of capital of the firm, depending on the relevant risks of the given investment.

(vi) **Market value is considered over book value** - Cost of capital is based on the expected financial performance relative to market prices. For example, the yield to maturity in the bond quotation is based on the market price of the bond and not on the face value of bond.

(vii) **Nominal terms are considered** - The cost of capital is usually stated in nominal terms meaning that it includes the effect of expected inflation.

56. What are the factors that affect the cost of capital?

The factors the affect the cost of capital are:

(i) **The real risk free rate of return –** It is the absolute minimum rate that an investor should require. It depends on the real growth rate of the investor's home economy because capital invested should grow at least as fast as the economy. The investor expects in exchange for letting someone else use their money on risk less basis.

(ii) **Expected inflation -** Investors are interested in real rates of return that will allow them to increase their rate of consumption. Therefore, if investors expect a given rate of inflation, they should increase their required nominal risk-free rate of return (*NRFR*) to reflect any expected inflation.

(iii) **Risk** – It refers to the uncertainty about how much and when expected cash inflow will receive. This can be further divided into four types of risks such as:

(a) **Business risk** – The risk associated with the operations of the business which suggests the investment in a company would be beneficial or not.

(b) **Market risk** – The risk associated with the change in economic factors like inflation, GDP etc.

(c) **Interest rate risk** - The risk of decreased net profit of the business due to higher financing cost. This further helps us to ascertain whether dropping interest rates eventually allow the refinancing of debt if a company is held for a longer period of time.

(d) **Liquidity risk** – The risk to identify the market for selling a business.

Hence, it can be concluded that higher the risk , higher the cost of capital, because of the fact that higher risk will result into higher return expectation of the fund providers form the investment, which will turn into higher cost of capital.

57. How is the valuation of intangible assets done?

Intangible assets do not have any physical substance but they generate economic benefits and contribute to the success of a business. Intangible assets include patents, copyrights, trademarks, software, goodwill etc.

Following are the various methods to evaluate intangible assets:

- **Cost Approach – Replacement cost of intangible asset**

  This method is used to value an intangible asset. It is based upon the current costs that would be incurred to replace the asset with a comparable utility. This approach does not take into account the economic benefits of the intangible asset.

- **Income approach – Income from intangible asset**

  This is a method where the earnings from the intangible asset can be measured with reasonable certainty. The most common method in the income approach is the discounted cash flow technique. The present value of future cash flows adjusted for the benefits on account of tax savings can be used for valuation of intangible assets.

- **Cost savings from intangible assets**

  Under this approach, any cost which would otherwise be payable but for the ownership of intangible asset would be added to the value of intangible asset. For example, any license fee payable for use of copyright could be avoided if the company owns the copyright. Such cost savings would add to the value of the intangible asset.

- **Excess earnings method**

  It can be used to estimate the value of intangibles. In this method, the total value of business is equal to the value of net tangible assets plus the value of excess earnings attributable to the intangibles.

- **Comparable method**

  In this method, the value of the intangible is calculated according to the value of any comparable intangible which is recently bought or sold by any comparable company in the recent period.

58. How a firm which is in financial distress is to be valued?

A firm which is in financial distress can be distinguished by the following indicators:

- Negative earnings and cash flows
- Inability to meet debt payments
- No dividends and high debt/equity ratios.

There are two possible criteria under these circumstances:

- **Firm has the potential to revive itself so it can be valued by the following means:**

  ✓ **Firm is valued rather than equity** - In such cases, it is advisable to value the firm based upon free cash flows before debt payments rather than valuing the firm based on negative free cash flows to equity.

  ✓ **Normalized or average earnings are used** - This approach suggests that in the case of firms with negative earnings, average earnings based upon a period when the earnings were healthier can be used for analysis. The approach assumes that the firm will revert back to health in the near future.

  ✓ **Estimate detailed cash flows for a transition period -** The transition period refers to the period over which a distressed firm makes the shift from negative earnings (distress) to financial health. The accuracy of the value obtained from the analysis would be contingent to the assumptions made about the probability of the transition from distress to healthy, the length of the transition period, and projections during the transition period.

- **Firm does not have the potential to revive itself so it can be valued by the following means:**
  - ✓ **Liquidation value is to be used -** The liquidation value of a firm is the aggregate of the value of all the assets of the firm that the assets would command if sold at market prices, net of transactions and legal costs. The value of equity can be obtained by subtracting the value of the outstanding debt from the asset value.

    Value of equity = Liquidation value of assets – Outstanding debt
  - ✓ **Option pricing models –** When liquidation approach fails, then this approach is followed which suggests **e**quity in heavily leveraged firms, where the value of the assets is lower than the face value of the debt, can be viewed as out-of-the-money call options on the underlying firms and can be valued as such.

59. How is a firm valued for buy/sell agreements?

Valuation of a business in case of a buy and sell agreement is dependent on the terms mutually agreed between the parties and specified in the agreement. For the majority of these kinds of agreements, the first approach is an arbitrary formula and the other commits the parties to utilise a fair market value. Where the agreement refers to use fair market value, such a value is sought to be determined and arrived at by an independent party being an appraiser. There are however, troublesome situations when the buy and sell agreement does not refer to utilizing a professional valuation, but rather tries to accomplish the same result through application of some predetermined formula. A point worth noting is that there is no single formula or approach that is going to be fair to both sides of an agreement. The two common formulas used are:

(i) Stock will be purchased at book value, based on the latest audited balance sheet.

(ii) Stock will be purchased at 'x' times EBITDA, based on the latest audited financial statement.

In both cases, the formula is applied to audited financial statements. This means that at a minimum the figures to be used for the purpose of valuation have been reviewed by an independent professional and the statements were prepared in accordance with the generally accepted accounting practice.

At last, it can be said that valuation in case of buying and sell agreement should be done according to the formula or approach given in the agreement itself. If there is no formula given, discounted cash flow valuation is the best approach considering the facts given in the original agreement.

Chapter 4

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, error-free, 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 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.

Chapter 5

ICAI Valuation Standards 2018

1. **Whether a Valuer is required to comply with Valuation Standards while conducting a valuation?**

   As per Rule 8 of Companies (Registered Valuers and Valuation) Rules, 2017, the registered valuer shall, while conducting a valuation, comply with the Valuation Standards as notified or modified under rule 18:

   Provided that until the Valuation Standards are notified or modified by the Central Government, a valuer shall make valuations as per-

   (a) Internationally accepted Valuation Standards;

   (b) Valuation Standards adopted by any registered Valuers organisation.

2. **Whether any Indian Valuation Standards have been framed?**

   Yes, the Valuation Standards issued by the Institute of Chartered Accountants of India in June 2018.

3. **Whether ICAI Registered Valuers Organisation has adopted any Valuation Standards?**

   Yes, the Valuation Standards as issued by the Institute of Chartered Accountants of India have been adopted by the ICAI RVO. A valuer enrolled with ICAI Registered Valuers Organisation shall comply with ICAI Valuation Standards 2018.

4. **What is the scope of applicability of ICAI Valuation Standards?**

   The ICAI Valuation Standards, 2018 have been made applicable by ICAI for ICAI members for all valuation engagements on a mandatory basis under the Companies Act 2013.

   In respect of Valuation engagements under other Statutes like Income Tax, SEBI, FEMA etc, it will be on a recommendatory basis for the members of the ICAI. These Valuation Standards are effective for the valuation reports issued on or after 1st July, 2018.

5. Whether a valuer is required to comply with the Valuation Standards adopted and issued by ICAI RVO?

Yes, as per Rule 8 of Companies (Registered Valuers and Valuation) Rules, 2017, the registered valuer shall, while conducting a valuation, comply with the Valuation Standards as notified or modified under Rule 18 of the said Rules. Since ICAI RVO has adopted the Valuation Standards as issued by ICAI, members of ICAI RVO are required to comply with ICAI Valuation Standards 2018.

6. What are the requirements stipulated by the ICAI Valuation Standards 2018 for the valuers?

The requirements that are stipulated by the ICAI Valuation Standards 2018 for the valuers are as follows:

- **Independence**

  The appraiser must not act in favor of the client or any other party.

- **Fees be not contingent on the appraised value**

  Fees based upon, for example, as a percentage of the value of the business is unethical and is not allowed.

- **All limiting conditions be explicitly stated**

  The reader must be informed of all assumptions which are made for the purpose of valuation. For example, if a lawsuit is pending against a business, the valuation must explicitly state that the impact of the outcome of the lawsuit will have an unknown effect on the value, and what assumptions about the outcome have or have not been made.

- **All persons participating in the valuation be disclosed**

  All professionals participating in a valuation report must sign it and must have certification of their independence, fee arrangements, and other factors.

- **All information sources be stated**

  Readers must be able to replicate valuation reports for themselves. Therefore, all sources used in compiling the report must be stated.

- **Minimum requirements for contents of reports**

  The precise minimum requirements vary from society to society, but roughly they include the purpose and scope of the assignment, the standard of value and specific valuation date being employed, an identification of the specific interest being evaluated, the relevant state and federal laws that govern the entity being valued, the scope of the procedures employed during valuation, the nature and history of the business, the historical financial information on the business, a thorough financial analysis of the business comparing the business' performance with industry trends, an overview of the industry in which the business operates and the impact of market conditions on the business, and the current investment climate.

7. What are the fundamental ethical principles that Valuers are required to observe?

The fundamental ethical principles that all valuers are required to observe are:

- **Integrity and Fairness -** The valuer should be straightforward and honest in all professional and business relationships and maintain the highest standards and integrity and fairness.
- **Objectivity -** The valuer should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- **Professional Competence and Due Care -** The valuer should maintain professional knowledge and skill at the level required to ensure that an intended user receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical standards and code of conduct.
- **Confidentiality -** The valuer should respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for his personal advantage or third parties.
- **Professional Behavior -** The valuer should comply with relevant

laws and regulations and avoid any conduct that may bring disrepute to the profession.

8. What are the key elements of a Valuation Exercise?

The key elements of a valuation exercise are:

(a) an actual/ possible transaction;

(b) valuation date; and

(c) the parties (actual or likely) to the transaction.

9. What is a Valuation Date?

Valuation date is the specific date at which the valuer estimates the value of the underlying asset.

10. What does a valuation date determine in respect of valuation?

The valuation date determines what information can be considered in a valuation. Usually, information which is not available at the valuation date is not considered for the purpose of valuation.

11. What are the factors that a valuer shall keep in mind while performing a valuation assignment?

In performing a valuation assignment, a valuer shall:

(a) define the premise of the value;

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

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

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

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

(f) identify the subsequent events, if any

12. What does a Valuation engagement cover?

The valuation engagement covers:

- arriving at an estimate of / providing an opinion of value;
- fairness opinion which involves opining on the fairness of the

price at which a transaction has taken place or on the fairness of the value conclusion of another valuer;

- valuation review, where the work of another *valuer* is reviewed. As part of a valuation review, the reviewer may perform certain valuation procedures and/or providing an opinion of value.

13. What are the factors that a valuer shall keep on mind while arriving at a value?

In arriving at the value, the *valuer* shall:

(a) assess the reliability of the results under the different approaches and 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:

(i) the applicable premise of value;

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

(iii) 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;

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

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

14. What do you mean by Valuation Base?

Valuation base means the indication of the type of value being used in an engagement. Different valuation bases may lead to different conclusions of value. Therefore, it is important for the *valuer* to identify the bases of value pertinent to the engagement.

15. How many types of Valuation Bases, ICAI Valuation Standards define?

ICAI Valuation Standard defines the following three valuation bases:

(a) Fair value;

(b) Participant specific value; and

(c) Liquidation value

16. On what elements the Valuation Exercise and selection of valuation bases depend?

The valuation exercise and selection of valuation bases depend on but not limited to, the following:

(a) nature of the asset to be valued;

(b) scope and purpose of the valuation engagement;

(c) valuation date/ measurement date;

(d) intended purpose of the valuation;

(e) applicable standard of value;

(f) applicable premise of value;

(g) assumptions and limiting conditions; and

(h) applicable governmental regulations

17. What do you understand by the term "Premise of Value"?

It refers to the conditions and circumstances how an asset is deployed. The premise of value represents the general concept under which standard of value falls.

18. Whether a valuer can adopt multiple premises of value?

Yes, in some situations a single premise of value may be adopted while in some situations multiple premises of value may also be adopted.

19. Enumerate the common premises of value.

Some common premises of value are as follows:

i. **Highest and best use -** It takes into account the following-

- a use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property);
- a use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property);
- a use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

ii. **Going concern value -** It is the value of a business enterprise that is expected to continue to operate in the future.

iii. **As is where value is –** It will consider the existing use of the asset which may or may not be its highest and best use.

iv. **Orderly liquidation -** An orderly liquidation refers to the realizable value of an asset in the event of liquidation after allowing appropriate marketing efforts and a reasonable period of time to market the asset on an as-is, where-is basis.

v. **Forced transaction -** Forced transaction is a transaction where a seller is under constraints to sell an asset without appropriate marketing period or effort to market such asset.

20. Explain how the highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset?

The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:

- the highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., a business).
  - ✓ if the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e. its complementary assets and the associated liabilities) would be available to market participants;
  - ✓ liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets;
  - ✓ assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.
- the highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

21. Where the highest and best use is different from the existing use, what needs to be considered for determination of value based on highest and best use?

Where the highest and best use is different from the existing use, costs, to be incurred, if any for conversion of an asset to its highest and best use need to be considered for determination of value based on highest and best use.

22. What do you mean by Synergies?

Synergies is a concept which indicates that the combining effect of two or more assets or group of assets and liabilities or two or more entities in terms of their value and benefits will be or is likely to be, greater than that of their individual values on a standalone basis.

Synergy is a term that is most commonly used in the context of mergers and acquisitions.

23. Explain how does synergy result?

Synergy results from incremental benefits that accrue to the acquirer on account of economies of scale or other post-acquisition factors, such as realisation of increased discretionary cash flow (as a result of the combinations of two or more business operations over and above the aggregate discretionary cash flow of the two business viewed separately), or reduced risk in attaining same when two businesses combine.

24. What kind of Synergies is considered in arriving at a Fair Value?

Fair value will consider synergies which are available to market participants in general,

25. What kind of Synergies is considered in arriving at Participants Specific Value?

Participant Specific Value will consider synergies which may be specifically available only to the concerned participant(s).

26. Define Transaction Costs.

Transaction costs are the costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset that is directly attributable to the disposal of the asset or transfer of liability and which meet both the following criteria:

- they result directly from and are essential to that transaction;
- they would not have been incurred by the entity, had the decision to sell the asset or transfer the liability not been made.

27. Whether any adjustment of taxes can be made to the Transaction Costs?

No adjustment will be made for any taxes payable by either party as a direct result of the transaction.

28. Whether Transaction Costs are characteristics of an asset or a liability?

Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ on the terms of the transaction.

29. Mention the Valuation approaches stated under the ICAI Valuation Standard – 103.

The ICAI Valuation Standard 103 provides guidance for following three main valuation approaches:

- Market approach;
- Income approach;
- Cost approach.

30. Explain the factors that a valuer shall consider while determining the appropriateness of a specific valuation approach and method?

Some of the key factors that a *valuer* shall consider while determining the appropriateness of a specific valuation approach and method are:

- nature of asset to be valued;
- availability of adequate inputs or information and its reliability;
- strengths and weakness of each valuation approach and method; and
- valuation approach/method considered by market participants.

31. Whether a valuer can adopt multiple approaches or methods?

A valuer may consider adopting one distinct valuation approach/method or multiple valuation approaches/methods as may be appropriate to derive a reliable value. When evaluating a value resulting from the use of multiple valuation approaches/methods, a valuer shall consider the reasonableness of the range of values. If the values under different approaches and/or methods significantly differ from each other, it would not be appropriate to derive the final value merely by weightages accorded to differing values. The valuer shall consider key factors to determine whether the chosen approaches and methodologies are appropriate or not.

The valuation approaches and methods shall be selected in a manner which would maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The price information gathered from an active market is generally considered to be a strong indicator of value.

32. Specify the cases where an adopted valuation technique can be changed.

The various cases where an adopted valuation technique can be changed are mentioned below:-

- Change in terms or regulations governing the instrument;
- New markets development;
- New information becomes available;
- Information previously used is no longer available;
- Valuation techniques improvement; or
- Market conditions change.

33. Give some instances where a valuer applies the market approach.

The following are some of the instances where a *valuer* applies the market approach:

(a) where the asset to be valued or a comparable or identical asset is traded in the active market;

(b) there is a recent, orderly transaction in the asset to be valued; or

(c) there are recent comparable orderly transactions in identical or comparable asset(s) and information for the same is available and reliable.

34. Give some instances where a valuer may consider using other valuation approaches instead of Market approach or in combination with Market approach.

In some instances, a valuer may consider using other valuation approaches instead of Market approach or in combination with Market approach, such as:

(a) where the asset has fewer identical or comparable assets (market comparable);

(b) the asset to be valued or its market comparables are not traded in the active market;

(c) sufficient information on the comparable transaction(s) is not available;

(d) there is no recent transaction either in the asset or in the market comparables; or

(e) there are material differences between the asset to be valued and the market comparables, which require significant adjustments.

35. What are the benefits of using market approach for valuations?

The market approach is widespread, especially in equity research reports and acquisition valuations. It is so because of the following reasons:

- It is easy to use, simple to comprehend and is hence, less time consuming and easily understood by users.
- It incorporates information from other valuations in a simple way and provides consistency in the valuation process by ensuring that valuation is in line with other comparative valuations.
- It relies upon market information and implicitly embodies current market consensus about assumptions such as the discount rate and growth rate. Hence, it reflects the current mood of the market.

36. What are the limitations of using the market approach for valuations?

The market approach suffers from a number of limitations:

- Relative valuation is as good as the valuation of the comparable companies and suffers from the volatility of the market. For example, in case the market is overvaluing comparable companies, the relative valuation will also lead to overstatement of value.
- Identifying comparable companies with similar growth rates, business composition, stage and business risks is a difficult task and finding a perfect match is extremely challenging. Adjusting the multiples for company-specific information is subjective and, thus, debatable.

- Differences in accounting policies related to revenue-recognition, depreciation, etc., though adjustable to a certain extent, can result in a distorted valuation.
- The market approach or relative valuation is more commonly applied to historical data and can result in the undervaluation of a company with significant future potential or benefit that may arise due to beneficial circumstances such as market expansion.

37. What do you mean by Comparable Companies Multiple Method?

Comparable Companies Multiple Method, also known as Guideline Public Company Method, involves valuing an asset based on market multiples derived from prices of market comparables traded on active market.

38. Explain the major steps involved in deriving a value using Comparable Companies Multiple Method (CCM).

The following are the major steps in deriving a value using the CCM method:

(a) identify the market comparables;

(b) select and calculate the market multiples of the identified market comparables;

(c) compare the asset to be valued with the market comparables to understand material differences; and make necessary adjustments to the market multiple to account for such differences, if any;

(d) apply the adjusted market multiple to the relevant parameter of the asset to be valued to arrive at the value of such asset; and

(e) if value of the asset is derived by using market multiples based on different metrics/parameters, the *valuer* shall consider the reasonableness of the range of values.

39. What are the factors that a valuer shall consider while identifying and selecting the market comparables?

While identifying and selecting the market comparables, a valuer shall consider the factors such as-

(a) industry to which the asset belongs;

(b) geographic area of operations;

(c) similar line of business, or similar economic forces that affect the asset being valued; or

(d) other parameters such as size (for example - revenue, assets, etc.), stage of life-cycle of the asset, profitability, diversification, etc.

This list is not an exhaustive list, there may be certain other factors which a valuer shall consider while identifying and selecting the market comparables.

40. How the market multiples are generally computed?

The market multiples are generally computed on the basis of following inputs:

(a) trading prices of market comparables in an active market; and

(b) financial metrics such as Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), Profit After Tax (PAT), Sales, Book Value of assets, etc.

If market participants are using market multiple based on non-financial metrics for valuing an asset, such multiples may also be considered by the valuer in addition to market multiple based on the financial metrics. For example, Enterprise Value (EV) / Tower in case of tower telecom companies, EV/Tonne in case of cement industry, etc.

A valuer shall preferably use several market comparables rather than relying on a single comparable. A valuer shall exercise judgement while selecting the multiple in case where the market multiple computed for each comparable is significantly different from the other.

41. Enumerate some of the differences between the asset to be valued and market comparable that the *valuer* may consider while making adjustments to the market multiple.

The following are some of the differences between the asset to be valued and market comparable that the *valuer* may consider while making adjustments to the market multiple:

(a) size of the asset;

(b) geographic location;

(c) profitability;

(d) stage of life-cycle of the asset;

(e) diversification;

(f) historical and expected growth; or

(g) management profile.

42. What do you mean by Comparable Transaction Multiple (CTM) Method?

Comparable Transaction Multiple Method, also known as 'Guideline Transaction Method' involves valuing an asset based on transaction multiples derived from prices paid in transactions of asset to be valued /market comparables (comparable transactions).

43. What does the price paid in comparable transactions generally include?

The price paid in comparable transactions generally includes control premium, except where transaction involves acquisition of non-controlling/minority stake.

44. Explain the major steps involved in deriving a value using Comparable Transaction Method (CTM).

The following are the major steps in deriving a value using the CTM method:

(a) identify comparable transaction appropriate to the asset to be valued;

(b) select and calculate the transaction multiples from the identified comparable transaction;

(c) compare the asset to be valued with the market comparables and make necessary adjustments to the transaction multiple to account where differences, if any existed;

(d) apply the adjusted transaction multiple to the relevant parameter of the asset to be valued to arrive at the value of such asset; and

(e) if valuation of the asset is derived by using transaction multiples based on different metrics or parameters, the *valuer* shall consider the reasonableness of the range of values and exercise judgement in determining a final value.

45. What are the factors that a valuer shall consider while identifying and selecting the market comparables?

While identifying and selecting the comparable transaction, a *valuer* may consider the factors such as-

(a) transactions that have been consummated closer to the valuation date are generally more representative of the market conditions prevailing during that time;

(b) the selected comparable is an orderly transaction;

(c) availability of sufficient information on the transactions to enable the *valuer* to reasonably understand the market comparable and derive the transaction multiple; or

(d) availability of information on transaction from reliable sources such as regulatory filings, industry magazines, Merger & Acquisition databases, etc.

46. How the transaction multiples are generally computed?

The transaction multiples are generally computed based on the following two inputs:

(a) price paid in the comparable transaction; and

(b) financial metrics such as EBITDA, PAT, Sales, Book Value, etc of the market comparable.

Even multiples based on non-financial metrics such as EV per room for hotels, EV/Bed for hospitals) can be considered.

A *valuer* shall preferably use multiple comparable transactions of recent past rather than relying on a single transaction.

47. Enumerate some of the differences between the asset to be valued and comparable transaction that the *valuer* may consider while making adjustments to the transaction multiple.

The following are some of the differences between the asset to be valued and comparable transaction that the *valuer* may consider while making adjustments to the transaction multiple:

(a) size of the asset;

(b) geographic location;

(c) profitability;

(d) stage of life-cycle of the asset;'

(e) diversification;

(f) historical and expected growth;

(g) management profile such as private ownership vs. public sector undertaking; or

(h) conditions if any governing the comparable transaction such as deferred payment of consideration contingent on achievement of certain milestones).

48. What are the factors considered by the Valuer in order to determine the discount rate under the ICAI Valuation Standard – 103, Valuation approaches and methods?

A valuer may consider the following factors while determining the discount rate:

- type of asset being valued such as example debt, preference shares, business, real estate, intangibles, etc.;
- life of the asset such as the risk-free rate used for determining the cost of equity in the CAPM model differs for an asset with a one-year life vs an indefinite life;
- geographic location of the asset;
- currency in which the projections have been prepared;
- type of cash flows;
- risk in achieving the projected cash flows;
- cash flows used for the projections as FCFE needs to be discounted by Cost of Equity whereas FCFF to be discounted using WACC;
- discount the cash flows in the functional currency using a discount rate appropriate for that functional currency; and
- pre-tax cash flows need to be discounted by pre-tax discount rate and post-tax cash flows to be discounted by post-tax discount rate;

49. Give some instances where a valuer applies the income approach.

The following are some of the instances where a *valuer* may apply the income approach:

(a) where the asset does not have any market comparable or comparable transaction;

(b) where the asset has fewer relevant market comparables; or

(c) where the asset is an income producing asset for which the future cash flows are available and can reasonably be projected.

50. Give some instances where a valuer may consider using other valuation approaches instead of Income approach or in combination with Income approach.

In some instances, a valuer may consider using other valuation approaches instead of income approach or in combination with income approach, such as, where –

(a) the asset has not yet started generating income or cash flows, e.g., projects under development;

(b) there is significant uncertainty on the amount and timing of income/future cash flows, e.g., start-up companies; or

(c) the client does not have access to the information relating to the asset being valued, e.g., minority shareholder may not have access to projections/budgets or growth expectations specific to the business.

51. State the different methods under Income approach.

Different methods under Income approach are explained below:

- **Relief from royalty method** - RFR Method is a method in which the value of the asset is estimated based on the present value of royalty payments saved by owning the asset instead of taking it on lease. It is generally adopted for valuing intangible assets that are subject to licensing, such as trademarks, patents, brands, etc.

- **With and without method** – In this method, the value of the intangible asset to be valued is equal to the present value of the difference between the projected cash flows over the remaining useful life of the asset under the following two scenarios:

  - ✓ Business with all assets in place including the intangible asset to be valued; and
  - ✓ Business with all assets in place except the intangible asset to be valued.

- **Multi-Period Excess Earnings Method** – It is generally used for valuing intangible asset that is leading or the most significant intangible asset out of the group of intangible assets being valued. The value under this method is equal to the present value of the incremental after-tax cash flows (‘excess earnings’) attributable to the intangible asset to be valued over its remaining useful life.

52. How is Market approach different from Income approach?

Income approach incorporates company-specific estimates to arrive at the firm’s intrinsic value while the market approach relies on relative valuation to arrive at the value of a business, based upon how similar assets are priced in the market.

53. Explain the Discounted Cash Flow method.

The discounted cash flow method indicates the fair value of a business based on the value of cash flows that the business is expected to generate in future. This method involves the estimation of post-tax cash flows for the projected period, after taking into account the business’s requirement of reinvestment in terms of capital expenditure and incremental working capital. These cash flows are then discounted at a cost of capital that reflects the risks of the business and the capital structure of the entity.

54. Explain the process followed under the Discounted Cash Flow technique.

The process followed under the Discounted Cash Flow technique is given below:

- Operating results and free cash flows of the business over the forecast period is estimated.
- The exit multiple and / or growth rate in perpetuity of the business at the end of the estimated period is predicted.
- In order to determine the appropriate discount rate range, company’s weighted average cost of capital is estimated.

- The projected free cash flows and terminal value of the business/firm is discounted to the present to determine a range of values.
- The resulting valuation for all the assets and liabilities that have not been accounted for in the cash flow projections are adjusted.

55. Explain the major steps involved in deriving a value using DCF method.

The following are the major steps in deriving a value using the DCF method:

(a) Consider the projections to determine the future cash flows expected to be generated by the asset;

(b) analyse the projections and its underlying assumptions to assess the reasonableness of the cash flows;

(c) choose the most appropriate type of cash flows for the asset, *viz*., pre-tax or post-tax cash flows, free cash flows to equity or free cash flows to firm;

(d) determine the discount rate and growth rate beyond explicit forecast period; and

(e) apply the discount rate to arrive at the present value of the explicit period cash flows and for arriving at the terminal value.

While using the DCF method, it may also be necessary to make adjustments to the valuation to reflect matters that are not captured in either the cash flow forecasts or the discount rate adopted.

56. What are the merits of using Discounted Cash Flow method?

Discounted Cash Flow is the most commonly used valuation technique, and is widely accepted by valuers because of its intrinsic merits, some of which are as follows:

- Theoretically, it is a very sound model because it is based upon expected future cash flows that will determine an investor's actual return.
- It is based on expectations of performance specific to the business, and is not influenced by short-term market conditions or non-economic indicators.

- It is not as vulnerable to accounting conventions like depreciation, inventory valuation in comparison with the other techniques/approaches since it is based on cash flows rather than accounting profits.
- It is appropriate for valuing green-field or start-up projects, as these projects have little or no asset base or earnings which render the cost approach (net asset value) or the market approach (application of market multiples) inappropriate. However, it is important that valuation must recognize the additional risks in such a case (e.g. project execution risk, lack of past track record, etc.) by using an appropriate discount rate.

57. What are the short comings of using discounted cash flow method?

Although the discounted cash flow method is widely used for valuation because of its inherent benefits, it still has its share of drawbacks such as the following:-

- It is only as good as its input assumptions. Following the "garbage in, garbage out" principle, if the inputs - cash flow projections, discount rate, and terminal value - are wide off the mark, then the value generated by using this model would not reflect the fair value.
- It does not take into account several other factors, such as investment risk associated with opportunity cost, i.e. investments that could return greater cash flow yields would add an unrealized element of risk, unforeseen variations in future cash flow, and other non-financial factors.

58. What are the factors on which length of the period of projections is based under the ICAI Valuation Standards?

The length of the period of projections (explicit forecast period) shall be determined based on the following factors:

- **Nature of the asset-** where the business is of cyclical nature, explicit forecast period should ordinarily consider one entire cycle (for example cement business).
- **Life of the asset-** In case of asset with definite life, explicit period should be for the entire life of the asset (for example, debt instruments, Build Operate Transfer (BOT) road projects).

- **Sufficient period-** The forecast period should have a length of time that is sufficient for the asset to achieve stable levels of operating performance.
- **Reliable data-** The data that are used for projecting the cash flows, should be reliable.

59. State the cash flows used for projections as per the ICAI Valuation Standards?

The following are the cash flows which are used for the projections:

- **Free Cash Flows to Firm (FCFF):** FCFF refers to cash flows that are available to all the providers of capital, i.e. equity shareholders, preference shareholders and lenders. Therefore, cash flows required to service lenders and preference shareholders such as interest, dividend, repayment of principal amount and even additional fund raising are not considered in the calculation of FCFF.
- **Free Cash Flows to Equity (FCFE):** FCFE refers to cash flows available to equity shareholders and therefore, cash flows after interest, dividend to preference shareholders, principal repayment and additional funds raised from lenders / preference shareholders are considered.

60. What are the commonly used discount rates?

The following discount rates are most commonly used depending upon the type of the asset:

(a) cost of equity;

(b) weighted average cost of capital;

(c) Internal Rate of Return ('IRR');

(d) cost of debt; or

(e) yield.

61. What are the factors a valuer may consider while determining the discount rate?

A valuer may consider the following factors while determining the discount rate:

- type of asset being valued such as example debt, preference shares, business, real estate, intangibles, etc.;

- life of the asset such as the risk-free rate used for determining the cost of equity in the CAPM model differs for an asset with a one-year life *vs* an indefinite life;
- geographic location of the asset;
- currency in which the projections have been prepared;
- type of cash flows;
- risk in achieving the projected cash flows;
- cash flows used for the projections as FCFE needs to be discounted by Cost of Equity whereas FCFF to be discounted using WACC;
- discount the cash flows in the functional currency using a discount rate appropriate for that functional currency; and
- pre-tax cash flows need to be discounted by pre-tax discount rate and post-tax cash flows to be discounted by post-tax discount rate;

A valuer shall include where appropriate risk adjustments that a market participant shall expect as compensation for uncertainty inherent in the cash flows.

62. What is Terminal Value?

Terminal value represents the present value at the end of explicit forecast period of all subsequent cash flows to the end of the life of the asset or into perpetuity if the asset has an indefinite life.

63. How to calculate Terminal Value in case of indefinite or very long useful life of the asset?

In case of assets having indefinite or very long useful life, it is not practical to project the cash flows for such indefinite or long periods. Therefore, the valuer needs to determine the terminal value to capture the value of the asset at the end of explicit forecast period.

64. What are different methods for estimating the terminal value?

There are different methods for estimating the terminal value. The commonly used methods are:

- Gordon (Constant) Growth Model;

- Variable Growth Model;
- Exit Multiple; and
- Salvage / Liquidation value

65. What are the factors a valuer may consider while determining the terminal growth rate?

Some of the factors that a valuer may consider while determining the terminal growth rate:

(a) whether the level of operations beyond explicit forecast period is expected to be significantly different from the level projected in the last year of the explicit forecast period or only a normal growth is expected;

(b) capacity utilisation at the end of explicit forecast period;

(c) functional currency in which the projections have been prepared;

(d) market share;

(e) product life cycle;

(f) geographic location of the asset;

(g) type of cash flows;

(h) residual life of the asset at the end of the explicit forecast period;

(i) capital investment required to support the assumed growth rate;

(j) whether there is future growth potential for the asset beyond the explicit forecast period, or whether the asset is deteriorating in nature; and

(k) for cyclical assets, the terminal value should consider the cyclical nature of the asset.

66. Define the process under the Relief from Royalty (RFR) Method?

The major steps adopted in determining the value from this method are as follows:-

- The projected income statement is obtained associated with the intangible asset to be valued over the remaining useful life of the said asset from the client or the target.
- The projected income statement and its underlying assumptions to assess the reasonableness are analyzed.

- The appropriate royalty rate based on market-based royalty rates for similar intangible assets or using the profit split method is selected.
- The costs associated with maintaining licensing arrangements for the intangible asset from the resultant royalty savings are deducted.
- The selected royalty rate to the future income attributable to the said asset is applied.
- The appropriate marginal tax rate or such other appropriate tax rate to arrive at an after-tax royalty saving is used.
- The after-tax royalty savings is discounted to arrive at the present value using an appropriate discount rate.
- Tax amortization benefit, if appropriate, should be added to the overall value of the asset.

67. Define the process under the Multi-Period Excess Earnings Method (MEEM) Method?

The major steps adopted in determining the value from this method are as follows:-

- The projections are obtained for the entity or the combined asset group over the remaining useful life of the said intangible asset to be valued from the client or the target to determine the future after-tax cash flows expected to be generated;
- The projections are analyzed and their underlying assumption to assess the reasonableness of the cash flows.
- Contributory Asset Charges (CAC) or economic rents to be reduced from the total net after-tax cash flows projected for the entity/combined asset group to obtain the incremental after-tax cash flows attributable to the intangible asset to be valued.
- The CAC represent the charges for the use of an asset or group of assets (e.g., working capital, fixed assets, assembled workforce, other intangibles) based on their respective fair values and should be considered for all assets, excluding goodwill, that contribute to the realization of cash flows for the intangible asset to be valued.

- The incremental after-tax cash flows attributable to the intangible asset to be valued is discounted to arrive at the present value using an appropriate discount rate.
- Tax amortization benefit, if appropriate.

68. Define the process under the With and Without Method (WWM) Method?

The major steps adopted in determining the value from this method are as follows:-

- The cash flow projections are obtained for the business over the remaining useful life of the said asset to be valued.
- The projections are analyzed and their underlying assumption to assess the reasonableness of the cash flows.
- The difference between the projected cash flows under two scenarios are discounted to arrive at the present value using an appropriate discount rate.
- Tax amortization benefit, if appropriate.

69. Give some instances where a valuer applies the cost approach.

Examples of situations where a *valuer* applies the cost approach are:

(a) an asset can be quickly recreated with substantially the same utility as the asset to be valued;

(b) in case where liquidation value is to be determined; or

(c) income approach and/or market approach cannot be used.

70. Give some instances where a valuer may consider using other valuation approaches instead of cost approach or in combination with cost approach.

In some instances, the *valuer* may consider using other valuation approaches in combination with cost approach, such as:

(a) the asset has not yet started generating income / cash flows (directly or indirectly);

(b) an asset of substantially the same utility as the asset to be valued can be created but there are regulatory or legal restrictions and involves significant time for recreation; or

(c) the asset was recently created.

71. Differentiate between Replacement Cost Method and Reproduction Cost Method?

Replacement Cost Method involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence.

During the process of deriving the value, it estimates the costs that will be incurred by a market participant for creating an asset with comparable utility as that of the asset to be valued.

Reproduction Cost Method involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.

During the process of deriving the value, it estimates the costs that will be incurred by a market participant for creating a replica of the asset to be valued.

72. Mention the common types of Obsolescence under the Cost approach under Valuation approaches and methods standard.

The following are common types of obsolescence-

- Physical obsolescence represents the loss in value on account of decreased usefulness of the asset as the useful life expires.
- Functional (technological) obsolescence represents the loss in value on account of new technological developments; whereby the asset to be valued becomes inefficient due to availability of more efficient replacement assets.
- Economic (external) obsolescence represents the loss in value on account of decreased usefulness of the asset caused by external economic factors such as change in environmental or other regulations, excess supply, high interest rates, etc.

73. Explain the major steps involved in deriving a value using the Replacement Cost method.

The following are the major steps in deriving a value using the Replacement Cost method:

(a) estimate the costs that will be incurred by a market participant for creating an asset with comparable utility as that of the asset to be valued;

(b) assess whether there is any loss on account of physical, functional or economic obsolescence in the asset to be valued; and

(c) adjust the obsolescence value, if any as determined under (b) above from the total costs estimated under (a) above, to arrive at the value of the asset to be valued.

74. Explain the major steps involved in deriving a value using the Reproduction Cost method.

The following are the major steps in deriving a value using the Reproduction Cost method:

(a) estimate the costs that will be incurred by a market participant for creating a replica of the asset to be valued;

(b) assess whether there is any loss of value on account of physical, functional or economic obsolescence in the asset to be valued; and

(c) adjust the obsolescence value, if any as determined under (b) above from the total costs estimated under (a) above, to arrive at the value of the asset to be valued.

75. What does Obsolescence include?

The physical properties of the new asset may or may not be similar to the one under valuation, but the former asset should bear comparable utility. Obsolescence includes physical deterioration, functional (technological) and economic obsolescence. The term obsolescence connotes a wider meaning than the term depreciation adopted for financial reporting or tax purposes.

76. What are the essentials of an engagement letter that is required to be mentioned as per ICAI Valuation Standard – 201?

The engagement letter shall at the minimum include:

- details of the client;
- details of any other user/s of the valuation report apart from the client, if any;
- details of the valuer;
- purpose of the valuation;

- identification of the subject matter of valuation;
- valuation date;
- basis and premise of valuation;
- responsibilities of the client and the valuer;
- confidentiality obligations of the client and the valuer;
- scope/ limitations;
- fees ;
- details of third party expert, if any, and their scope of work, scope limitations, and responsibilities.

77. Under what circumstances the valuer shall withdraw from the assignment.

In case the *valuer* is unable to agree to any change in the terms of engagement and/or is not permitted to continue as per the original terms, he should withdraw from the engagement and should consider whether there is an obligation, contractual or otherwise, to report the circumstances necessitating the withdrawal to the client.

78. What are the types of information a valuer shall analyse while undertaking valuation of an asset as per ICAI Valuation Standard – 201?

The valuer shall analyse the information which shall include:

i. Non-financial information

A valuer shall obtain sufficient non-financial information to enable him to understand the underlying business, such as

- nature, background, and history of the business;
- facilities;
- organizational structure;
- management team (which may include officers, directors, and key employees);
- classes of equity ownership interests and rights attached thereto;
- products or services, or both;
- capital markets providing relevant information; e.g., relevant

public stock market information and relevant merger and acquisition information;

- prior transactions involving the subject business, or involving interests in, the securities of, or intangible assets in the subject business;
- economic environment;
- geographical markets;
- industry markets;
- key customers and suppliers;
- competition;
- business risks;
- future outlook for the business;
- strategy and future plans;
- governmental or regulatory environment;
- legal status of the asset being valued.

ii. Ownership details

A valuer shall obtain ownership information regarding the asset to be valued to enable him to:

- Determine the type of ownership interest being valued and ascertain whether that interest exhibits control characteristics;
- Analyze the different ownership interests of other owners and assess the potential effect on the value of the asset;
- Understand the classes of equity ownership interests and rights attached thereto;
- Understand other matters that may affect the value of the subject interest.

iii. Financial information

A valuer shall obtain, where applicable and available, financial information on the underlying business such as:

- historical financial information (including annual and interim financial statements and key financial statement ratios and statistics) for an appropriate number of years;

- prospective financial information (for example, budgets, forecasts, and projections)- in the absence of which the valuer could consider information on future developments or course of the business;
- comparative summaries of financial statements or information covering a relevant time period;
- comparative common size financial statements for the subject entity for an appropriate number of years;
- comparative common size industry financial information for a relevant time period;
- income tax returns for an appropriate number of years;
- Information on compensation for owners including benefits and personal expenses.

iv. General information.

A valuer shall gather and analyze the relevant general information which may affect the business directly or indirectly and/or which are deemed relevant by the valuer.

79. What is a Subsequent Event?

The valuation date is the specific date at which the valuation analyst estimates the value of the subject interest and concludes on his or her estimation of value.

An event that occurs subsequent to the valuation date could affect the value; such an occurrence is referred to as a subsequent event. Subsequent events are indicative of conditions that were not known or could not be known at the valuation date, including conditions that arose subsequent to the valuation date.

80. Explain whether the Events subsequent to the valuation date may be considered for arriving at a value?

Events subsequent to the valuation date should not be taken into consideration when valuing business interests, except when at least one of the following conditions is true:

- The subsequent events were reasonably foreseeable as of the valuation date.

- The subsequent events are relevant to the valuation, and appropriate adjustments are made to take into account the differences between the facts and circumstances on the valuation date and the date of such subsequent events.
- The subsequent events are not used to arrive at the valuation, but only as a means to confirm the value already arrived at.
- Subsequent events may be evidence of value rather than as something that affects value.

81. Whether a valuer can rely on the work of experts?

A valuer can rely on the work of experts subject to the followings:

- A valuer shall evaluate the skills, qualification, and experience of the other expert in relation to the subject matter of his valuation.
- A valuer must determine that the expert has sufficient resources to perform the work in a specified time frame and also explore the relationship which shall not give rise to the conflict of interest.
- If the work of any third party expert is to be relied upon in the valuation assignment, the description of such services to be provided by the third party expert and the extent of reliance placed by the valuer on the expert's work shall be documented in the engagement letter. The engagement letter should document that the third party expert is solely responsible for their scope of work, assumptions and conclusions.
- A valuer shall specifically disclose the nature of work done and give sufficient disclosure about reliance placed by him on the work of the third party expert in the valuation report.
- As per Clause 9 of the Model Code of Conduct of Companies (Registered Valuers and Valuation) Rules, 2017, it has been provided that in the preparation of a valuation report, the valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer.

82. What are the minimum requirements as specified in ICAI Valuation Standards for documentation?

A valuer shall ensure that the documentation is maintained in a form that is sufficient to enable another professional having no connection with the engagement or a reviewer appointed by any relevant professional body, to review the valuation process and conclusions.

The information received and relied upon, as well as analyses thereon differ for every valuation engagement, However, the following documents/information/analyses shall, at the minimum, be documented:

(a) engagement or appointment letter which appoints the *valuer* to undertake the valuation;

(b) tabulation of data obtained during the course of valuation;

(c) workings undertaken to arrive at the value;

(d) copies of relevant circulars, extracts of legal provisions;

(e) the base/s, approach/es, and method/s, or a combination thereof, used to arrive at the value;

(f) assumptions, a change in which, may materially affect the value;

(g) a copy of the signed valuation report issued; and

(h) management/client representation letter or such communication received, if any.

83. Explain treatment of non-operating assets and inter-company investments.

Apart from operating assets, entities hold non-operating assets. Such assets should be valued based on their realisable values net of costs and outgoes and added to the value arrived under the various approaches to derive the value for ownership interest.

Inter-company adjustments or substantial cross holdings between companies in the business valuations should be considered at fair value.

84. What is the difference between the monetary asset and non-monetary assets?

A monetary asset is one where assets to be received are in fixed or determinable amounts of money whereas a non-monetary asset whose value can change over time in response to economic conditions and assets to be received are not in fixed or determinable amounts of money.

85. Whether an intangible asset grants any right to its owner?

An intangible asset grants economic rights or benefits to its owner and can be identified and differentiated primarily on the basis of its ownership and utility. Intangible assets lack physical properties and represent legal rights developed or acquired by an owner.

86. Give some examples of Intangible Assets.

Common examples of items of intangible assets are computer software, patents, copyrights, trademark, brands, motion picture films, customer lists/contracts, mortgage servicing rights, franchises, marketing rights, non-competition agreements, internet domain names, distribution network, literary works/musical works, telecom licenses, gaming platforms, trade design, licensing arrangements, royalty agreements, employment contracts, trade secrets, processes, designs, formulae, etc. Intangible assets may be transferable, i.e. intangible assets can be bought, sold, rented, etc.

87. In what circumstances an intangible asset is identifiable?

An intangible asset is identifiable if it either:

(a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

88. Give some examples of the areas where intangible assets are required to be valued.

Certain areas where intangible assets are required to be valued are as follows:

(b) purchase price allocation for accounting and financial reporting under Ind AS 103 *Business Combination;*

(c) impairment testing under Ind AS 36 *Impairment of Assets;*

(d) transfer pricing when an intangible asset is being transferred/licensed in/out between geographies/companies;

(e) taxation by way of a purchase price allocation for claiming tax deductions when a business is transferred by a slump sale;

(f) transaction (merger & acquisition) when the subject is the intangible itself, such as a brand/telecom license or for carrying out a pre-deal purchase price allocation to assess the impact of the deal on financials;

(g) financing, when an intangible is used as collateral;

(h) litigation, when there has been a breach of contract/right and the compensation has to be determined;

(i) bankruptcy / restructuring, etc;

(j) insurance, such as determining the personal worth of a celebrity/football franchise/cricket franchise; or

(k) issuance of sweat equity shares which are generally issued against technical knowhow/ technical expertise/intellectual property.

89. Define Goodwill.

Goodwill is defined as an asset representing the future economic benefits arising from a business, business interest or a group of assets, which has not been separately recognised in another asset.

Goodwill is the difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities. In other words, goodwill is the residual amount after ascribing values to identified intangible assets, other assets and liabilities. Goodwill can be transferable or non-transferable.

90. What are the broad categories in which Intangible Assets can be classified?

Intangible assets can generally be classified under the following broad categories (not intended to be exhaustive):

(a) Customer-based intangible assets;

(b) Marketing-based intangible assets;

(c) Contract-based intangible assets;

(d) Technology-based intangible assets; or

(e) Artistic-based intangible assets.

91. Define Customer-based intangible assets and give some examples.

Customer-based intangible assets are created with an entity establishing relationships with its customers in the due course of its business. Such intangibles may be contractual or non-contractual. The examples of customer-based intangible assets are:

(a) customer contracts;

(b) customer relationships;

(c) order backlog; or

(d) customer lists.

92. Define Marketing-based intangible assets and give some examples.

Marketing-based intangible assets are created with the evolvement of a business and such intangibles are also used for further growth of the business through marketing. The examples of marketing-based intangible assets are:

(a) trademark;

(b) brand;

(c) trade name;

(d) internet domain name; or

(e) trade design.

93. Define Contract-based intangible assets and give some examples.

Contract-based intangible assets are created from rights arising from contracts in a business. The examples of contract-based intangible assets are:

(a) lease agreements;

(b) non-compete agreements;

(c) licensing agreements;

(d) royalty agreements; or

(e) employment contracts.

94. Define Technology-based intangible assets and give some examples.

Technology-based intangibles are those intangible assets that create propriety knowledge. The examples of contract-based intangible assets are:

(a) patents;

(b) know-how;

(c) trade secrets;

(d) copyrights;

(e) processes;

(f) software;

(g) designs; or

(h) formulae.

95. Define Artistic-based intangible assets and give some examples.

Artistic-based intangible assets are created from the benefit arising from artistic works. The examples of contract-based intangible assets are:

(a) films and music;

(b) books;

(c) plays; or

(d) copyright (non-contractual).

96. What are the significant considerations that shall be made while valuing an intangible asset?

The following other significant considerations shall be made for the valuation of intangible assets:

(a) to determine the purpose and objective of the overall valuation assignment;

(b) to consider the legal rights of the intangible asset to be valued, for example, a registered trademark may have a higher value as compared to an unregistered trademark. However, an unpatented technology (as not in public domain) may have a higher value than a patented technology;

(c) to evaluate the highest and best use considerations;

(d) to assess the history and development of the intangible asset; or

(e) to consider any specific laws or regulations guiding the intangible asset valuation in the country, for example, royalty payments in India are regulated.

97. What are the discount rates used under the Valuation of the Intangible assets?

The following discount rates are most commonly used:

- weighted average cost of capital (WACC) of the company or market participants;
- cost of equity for the company using the intangible assets or the participants;
- cost of debt having maturity similar to the economic life of the intangible asset to be valued;
- risk-free interest rates which have a maturity similar to the economic life of the intangible asset to be valued; or
- internal rate of return of the transaction for the particular intangible asset.

98. Define Price/Valuation multiples/Capitalisation rates method under market approach for valuation of intangible assets.

This method considers certain multiples/ capitalisation rates to arrive at the valuation of a comparable intangible asset. The multiples shall be adjusted appropriately to factor in any differences between the intangible asset to be valued and comparable intangible asset.

99. Define Guideline Pricing method under market approach for valuation of intangible assets.

This method determines the value of an intangible asset by considering the price paid in an orderly transaction for a comparable intangible asset (called as the guideline intangible asset which is similar to the intangible asset to be valued).

However, in most instances, it may be difficult to obtain reliable data in the form of a public transaction, valuation multiple or a guideline intangible asset.

100. Explain Relief from Royalty method under Income approach as per ICAI Valuation Standard 302?

Under *relief-from-royalty-method*, the value of an intangible asset is determined by estimating the value of total costs saved that would have otherwise been paid by the user as royalty payments, if had been taken on lease from another party. Alternatively, it could also indicate the value of an intangible asset that could have fetched cash flows in the form of royalty payments, had it been leased to a third party. Any associated costs expected to be incurred by the licensee needs to be adjusted from the forecasted revenues.

101. What are the major steps used in deriving a value using Relief from Royalty method under Income approach as per ICAI Valuation Standard 302?

The following are the major steps in the RFR method:

- obtain the projected income statement associated with the intangible asset to be valued over the remaining useful life of the said asset. The value of the intangible asset to be valued is determined by first considering projections (of royalty income adjusted with associated expenses like maintenance or marketing) relevant to the intangible asset to be valued for its estimated useful life. Forecasted revenue is royalty computed as a percentage of revenue using an appropriate royalty rate.
- analyze the projected income statement and its underlying assumptions to assess the reasonableness.
- select the appropriate royalty rate based on market-based royalty rates for similar intangible assets: An appropriate royalty rate (which can be based on royalty rates of similar transactions or can be determined using the profit-split method).
- apply the selected royalty rate to the future income attributable to the said asset: The selected royalty rate is then applied to the cash flows so determined. Royalty rate should consider the features of the intangible asset to be valued relevant to the profit

attributable to the intangible asset to be valued or the observed transactions to determine the royalty rate. Other factors that should be considered to determine the royalty rate are the significance of the intangible asset to be valued to its owner and the expected economic life of the intangible asset with any risks relating to obsolescence.

- use the appropriate marginal tax rate or such other appropriate tax rate to arrive at an after-tax royalty savings.
- discount the after-tax royalty savings to arrive at the present value using an appropriate discount rate: The value of the intangible asset to be valued is the present value of the after-tax cash flows so computed by using an appropriate risk-adjusted discount rate.
- Tax amortization benefit (TAB), if appropriate considering nature of the asset and purpose of the engagement, should be added to the overall value of the intangible asset.

102. How the value of intangible assets is computed using With-and-without method under Income approach as per ICAI Valuation Standard 302?

The value of an intangible asset using the With and Without Method (WWM) is computed by comparing the below-mentioned scenarios in which the business:

- utilizes the intangible asset to be valued ('With' scenario); and
- does not utilize the intangible asset to be valued ('Without' scenario).

It should be noted that all other factors relating to valuation should remain constant.

103. In which scenarios, the value of intangible assets under with-and-without method is equal to the present value of the difference between the projected cash flows over the remaining useful life of an asset as per ICAI Valuation Standard 302?

Under the following scenarios, the value of intangible assets to be valued is equal to the present value of the difference between the projected cash flows over the remaining useful life of the asset

- business with all assets in place including the intangible asset to be valued; and

- business with all assets in place except the intangible asset to be valued.

104. What are the major steps used in deriving the value using WWM method as per ICAI Valuation Standard 302?

The following are the major steps in deriving a value using the WWM :

- obtain the projections comprising revenue, expenses, working capital and capital expenditure under the following two scenarios:
  - (i) with scenario; and
  - (ii) without scenario.
- discounted the projections obtained under two scenarios to present value using an appropriate discount rate;
- difference between present value of cash flows under two scenarios is considered to be the value of the intangible asset. The difference so computed can also be probability-weighted depending on the likelihood of competition expected to affect the cash flows; and
- Tax amortization benefit (TAB) can be appropriately built and added to the overall value of the intangible asset.

105. What are the major steps in deriving a value using MEEM Method under Income approach as per ICAI Valuation Standard 302?

The following are the major steps in deriving a value using the MEEM:

- obtain the projections for the entity or the combined asset group over the remaining useful life of the said intangible asset to be valued from the client or the target to determine the future after-tax cash flows expected to be generated;
- analyze the projections and its underlying assumptions to assess the reasonableness of the cash flows;
- Contributory Asset Charges (CAC) or economic rents to be reduced from the total net after-tax cash flows projected for the entity/combined asset group to obtain the incremental after-tax cash flows attributable to the intangible asset to be valued;
- the CAC represent the charges for the use of an asset or group of assets (e.g., working capital, fixed assets, assembled

workforce, other intangibles) based on their respective fair values and should be considered for all assets, excluding goodwill, that contribute to the realization of cash flows for the intangible asset to be valued;

- discount the incremental after-tax cash flows attributable to the intangible asset to be valued to arrive at the present value using an appropriate discount rate; and
- Tax amortization benefit (TAB) can be appropriately built and added to the overall value of the intangible asset.

106. What are contributory Assets?

Contributory assets are assets that assist/support the intangible asset to be valued to generate cash flows and are used in combination with the intangible asset to be valued.

Contributory asset charge (CAC) is widely used by the *valuers* and refers to the return on assets supporting the cash flow generation of the intangible asset to be valued. Contributory assets could be in the form of working capital, fixed assets, assembled workforce and any other intangible asset so considered and valued. An appropriate rate of return on each asset needs to be determined and shall be applied to the revenues to arrive at the CAC. The rate of return will depend on the nature of asset and is considered on post-tax basis.

107. What is Greenfield method?

The basic assumption for valuation using the Greenfield method is that the intangible asset to be valued is the only asset with all other tangible or intangible assets being created, leased or acquired. Instead of the contributory asset charge generally deducted from the cash flows, a valuer is required to subtract replacement cost of the asset that is required to be built or bought.

The Greenfield method is usually used to value franchise agreements and certain licenses.

108. What are the major steps used in deriving a value using the Greenfield method as per ICAI Valuation Standard 302?

The following are the major steps in deriving a value using the Greenfield method:

(a) prepare cash flow projections with the premise that the intangible is the only asset in the business;

(b) project the related revenues, expenses, working capital and capital;

(c) project the amount and timing of expenditure relating to acquisition, creation or rentals of other assets required by the intangible asset to be valued;

(d) compute the present value of the net cash flows using an appropriate discount rate; and

(e) Tax amortisation benefit (TAB) can be appropriately built and added to the overall value of the intangible asset.

109. What is Distributor Method?

This is a variation of MEEM and is adopted for valuation of customer-based intangible assets when MEEM is applied to value another intangible asset (considered to be more significant). The fundamental assumption used in this method is that cash flows of each segment of a particular business are expected to generate profits.

110. What are the major steps used in deriving a value using Distributor method as per ICAI Valuation Standard 302?

The following are the major steps in deriving a value using the distributor method:

- prepare revenue and expenses projections of existing customers relationships along with relevant attrition;
- determine profit margins of distributors who are comparable to the subject business and apply the same to the cash flows projected;
- determine the support of distributor contributory assets like working capital, fixed assets, workforce, etc;
- determine excess earnings after considering the contributory asset charges;
- compute the present value of cash flows using an appropriate discount rate; and

- calculate tax amortization benefit, if appropriate and applicable, and add it to the value of the intangible asset to be valued.

111. What is adjusted present value?

It is the net present value of a project if financed solely by ownership equity and other financial instruments plus the present value of all the benefits of financing.

112. What is the method for calculating the APV?

The first step in calculating an APV is to calculate a base NPV using the cost of equity as the discount rate. This may be the same as the company's cost of equity. In some cases, it may be necessary to recalculate it by estimating a Beta and using CAPM.

After the calculation of base NPV, the NPV of each set of cash flows is calculated that results from financing. These can be discounted either at the cost of debt or at a higher rate that reflects uncertainties about the tax effects.

Then, the NPV of the tax effects is then added to the base NPV. Along with it, if there are other effects of financing, then these are also added or subtracted, and the end result is the APV.

113. What are the various Valuation techniques that are used by the Valuer under the ICAI Valuation Standard – 303 for Financial Instruments?

The Valuer shall keep the following points in mind before valuing a property/asset

- He shall use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure the value, maximizing the use of relevant observable inputs and accordingly minimizing the use of unobservable inputs.
- He shall use valuation techniques that enable him to form an opinion to estimate the price at which an orderly transaction to sell the financial instrument would take place between market participants at the valuation date under the market conditions existing on that valuation date. Valuation techniques differ in their application based on the three approaches mentioned in paragraphs 16-29 or sometimes even a combination thereof.

- He may choose basis of either a single valuation technique or a combination of multiple valuation techniques to perform the valuation. If multiple valuation techniques are used to measure the value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. Appropriate weightage can be provided to the outcome derived from the deployment of multiple valuation techniques. A valuation of financial instrument measurement is the point within that range that is most representative of value in the circumstances.

114. What is present value?

Present value is an integral tool used in the income approach to link future amounts (e.g., cash flows or values) to a present amount using a discount rate.

115. What elements are used in valuation of financial instruments using a present value technique from the perspective of market participants as per ICAI Valuation Standard 303?

Following elements are used in valuation of financial instruments using a present value approach from the perspective of market participants at the valuation date:

- an estimate of future cash flows for the asset or liability being measured;
- expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows;
- the time value of money, represented by the rate on risk-free security that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e. a risk-free interest rate);
- the price for bearing the uncertainty inherent in the cash flows (ie, a risk premium); and
- other factors that market participants would take into account in the circumstances.

Chapter 6

Financial Ratios

1. What are the types of financial ratios most commonly used in the financial analysis and valuation of business?

There are mainly four types of common ratios that are used to analyse a business such as:

- **Liquidity Ratios –** It measures the ability of a business to meet the short term obligations.
- **Activity Ratios –** It helps in the assessment of efficiency of manager's actions.
- **Valuation & Growth Ratios –** These two measure the growth of a business and check its sustainability.

2. How the liquidity of firm or business is to be measured?

Liquidity can be measured by evaluation the following three ratios:

- **Current Ratio –** It measures the company's ability to pay its short-term liabilities from short-term assets. Also, formulated as:

  = Current Assets / Current Liabilities

- **Quick Ratio –** It is also known as *acid test,* which measures the company's ability to pay off its short-term obligations from current assets, excluding inventories. Also, formulated as:

  = (Current assets - inventory) / Current liabilities

- **Cash Ratio –** It measures the extent to which current obligations can be paid from cash or near cash assets. Also, formulated as:

  = (Cash and cash equivalents) / Current liabilities

3. Explain the ratios covered under the Profitability Ratio.

The ratios covered under the Profitability Ratio are:

- **Gross Profit Margin –** It is the margin available to cover other expenses beyond cost of goods sold. Also, formulated as:

  = (Sales - cost of goods sold) / net sales

- **Operating Margin –** It is known as profit from operations which is available to cover interest costs, taxes and dividends. Also, formulated as:

  = Operating Income / net sales

- **Return On Investment** – It is known as return on assets. Also, formulated as:

  = Net profit after taxes / total assets

- **Return on Equity –** It is the rate of return on the book value of the stockholders' investment which is also formulated as:

  = Net profit after taxes / stockholders' equity

4. How are the Management Efficiency Ratios evaluated?

The Management Efficiency Ratios are evaluated as follows:

- **Net Profit Margin -** It shows how much after tax profit (net income) is generated by each Rupee of sales.

  = Net profit after taxes / net sales

- **Fixed Asset Turnover -** It measures the utilization of the company's fixed assets.

  = Sales / fixed assets

  Typically, fixed assets are a combination of tangible assets (property, plants and equipment), intangible assets (trademarks, goodwill) and investments in subsidiaries.

- **Accounts Receivable Turnover -** It is the number of times that accounts are cycled during the period.

  = Sales / Accounts Receivable (average)

- **Average Collection Period -** Average length of time that a company must wait to collect a sale after making it, i.e the average number of days to receive a payment greatly vary from one sector of activity to another, or from a country to another.

5. How can the Leverage Ratios be measured?

The Leverage ratios can be measured as follows:

- **Debt to Asset Ratio -** It measures the extent to which borrowed funds have been used to finance the acquisition of assets.

  = Total debt / assets

- **Long-term Debt to Capital Structure -** It measures the long-term component of the capital structure.

  = Long-term liabilities / stockholders' equity

- **Times Interest Earned -** It is also known as *coverage ratio,* it indicates the ability of the company to meet its interest costs.

  = Operating Profit / interest charges

- **Leverage -** It measures the extent to which assets are financed with debt. The higher the leverage of a company, the greater the sensitivity of its profit to variations in sales volume.

  = Assets / stockholders' equity

6. What do you understand by Valuation and Growth Ratios?

The Valuation and Growth Ratios are

Earnings Per Share - After tax earnings generated for each share of common stock.

= (Net profit after taxes - preferred stock dividends) / number of shares

Price/Earnings Ratio - It shows how much an investor is willing to pay for each dollar of earnings given the actual market price.

= Market price per share / earnings per share

Dividend Payout Ratio - It is the percentage of profit that is paid out as dividend.

= dividends per share / earnings per share

Index of Sustainable Growth - Developed by Robert L. Higgins, this index helps to determine the level of growth of sales beyond which external capital will be needed. In other words, when planning for a specific growth in sales, one must be aware of whether external financing will be needed.

Bankruptcy Index - Developed by Edward I. Altman on a sample of 66 manufacturing companies, it is a formula used to predict a company's likelihood of going bankrupt. The Z-score is reputed for becoming more accurate as a firm nears bankruptcy. As a general rule, a score below 1.81 is dangerous while a score above 2.99 is comfortable.

Chapter 7

Penal Provisions

1. What is the punishment for contravening the provisions of Section 247 of Companies Act, 2013?

If a valuer contravenes the provisions of Section 247 or the Rules made thereunder, the valuer shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees:

Provided that if the valuer has contravened such provisions with the intention to defraud the company or its members, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

Where a valuer has been convicted under Section 247 (3), he shall be liable to—

- refund the remuneration received by him to the company; and
- pay for damages to the company or to any other person for loss arising out of incorrect or misleading statements of particulars made in his report.

2. What is the punishment for contravening the provisions of Companies (Registered Valuers and Valuation) Rules, 2017?

Without prejudice to any other liabilities, where a person contravenes any of the provision of these rules he shall be punishable in accordance with sub-section (3) of Section 469 of the Act.

3. What is the punishment for making false statement as per Companies (Registered Valuers and Valuation) Rules, 2017?

Without prejudice to any other liabilities, where a person contravenes any of the provision of Companies (Registered Valuers and Valuation) Rules, 2017, he shall be punishable in accordance with sub-section (3) of Section 469 of the Act.

Section 469 (3) provides that any rule made under Section 469 (1) may provide that a contravention thereof shall be punishable with fine which may extend to five thousand rupees and where the contravention is a continuing one, with a further fine which may extend to five hundred rupees for every day after the first during which such contravention continues.

Chapter 8

Important Judicial Pronouncements in Valuation

1. What are the key takeaways in the case of Miheer H. Mafatlal Vs. Mafatlal Industries Ltd. (1997) 1 SCC 579?

- According to the mentioned case law, the Court considered the fact that that before formulating the proposed Scheme of Compromise and Amalgamation, an expert opinion was obtained by the respondent-company as well as the transferor-company on whose Board of Directors appellant himself was a member.
- The Court further suggests that since valuation of shares is a complex problem so it should be appropriately left to the consideration of experts in the field of accountancy i.e. Chartered Accountants
- The valuer considering all the relevant aspects and obviously keeping in view the accounting principles underlying the valuation of shares suggested the exchange ratio at 5:2 which was found acceptable both by the Board of Directors of the respondent-company as well as the Board of Directors of the transferor-company and was later objected by the director of transferor company who earlier gave green signal to the Scheme.
- The counsel of appellate suggests that the proper exchange ratio would be one share of transferee-company to six shares of transferor-company. It is difficult to appreciate this contention of the appellant. It has to be kept in view that appellant never bothered to personally remain present in the meeting of equity shareholders for pointing out the unfairness of this exchange ratio.
- The Supreme Court finally concluded that 'Once the exchange ratio of the shares of the transferee company to be allotted to the shareholders of the transferor company has been worked out by a recognized firm of chartered accountants who are experts in the field of valuation and if no mistake can be pointed out in the

said valuation, it is not for the court to substitute its exchange ratio, especially when the same has been accepted without demur by the overwhelming majority of the shareholders of the two companies.

2. **What are the key takeaways in the case of Dinesh Vrajlal Lakhani vs. Parke Davis (India) Ltd. [2005] 124 Comp Case 728 (Bom)?**

- Under this case law, a few of the shareholders of the transferor company opposed the Scheme of Amalgamation. According to them, swap ratio proposed in the Scheme of Amalgamation was unfair and against the interest of a minority of shareholders of the transferor. Also, the Chairman of the Company rejected the resolution for amendment in the swap ratio.

- The Learned Judge held that while considering a Scheme of Amalgamation, the Court does not exercise an appellate jurisdiction, but a jurisdiction founded on fairness. The Court would not interfere with the swap ratio adopted on the advice of an expert unless it was contrary to law. The Learned Judge held that it was not the case before him that the swap ratio was contrary to law or that the experts who submitted the valuation report were not independent.

3. **What are the key takeaways in the case of Brooke Bond Lipton India Ltd. [1999] 98 Comp Cas 496 (Cal)?**

- In accordance with the specified case law, under the scheme of Amalgamation in consideration of the transfer and vesting of the undertaking of the transferor-company in the transferee-company, the transferee-company shall issue 9 equity shares to every shareholders of the transferor company for every 20 shares held by them.

- The sanction or approval of the appropriate authorities concerned was obtained in respect of any of the matters in respect of which such sanction or approval is required.

- The Supreme Court clarified, "Once the exchange ratio of the shares of the transferee-company to be allotted to the shareholders of the transferor-company has been worked out by a recognized firm of chartered accountants who are experts in the field of valuation and if no mistake can be pointed out in the said valuation, it is not for the court to substitute its exchange ratio, especially when the same has been accepted without demur by the overwhelming majority of the shareholders of the two companies or to say that the shareholders in their collective wisdom should not have accepted the said exchange ratio on the ground that it will be detrimental to their interest."

- It was further held that "if the ratio of exchange has been fixed by an experienced and reputed firm of chartered accountants, then in the absence of any charge of fraud against them, the court will accept such valuation and ratio of exchange,"
- Hence, no charge made or established in instant case

4. What are the key takeaways in the case of Hindustan Lever Employees' Union Vs. Hindustan lever Limited?

- According to the given case, share exchange ratio has been determined by combining the three methods by well reputed valuer of chartered accountant firm and a director of TOMCO (Tata Oils Mills co.).
- Following factors have to be taken into account while determining the share exchange ratio-The stock exchange prices of shares of two companies, Dividend presently paid on the shares of the company, relevant growth prospects of two company, the cover (ratio of after tax earnings to dividends paid during the year)for the present dividend of two company. the relative gearing of the shares of two company, the value of net assets of two company, voting strength in the merged enterprise of the shareholders, past history of prices of two companies.
- It was held that "the exchange ratio determines cannot be considered as mala fide merely on the fact that the share exchange ratio is calculated through combination of three well known methods i.e net worth, market value and earning method.
- It was further held that "A financial institution holding 41% of shares of the transferor company did not find any fault in the valuation of share, the court should not interfere with such valuation.

5. What are the key takeaways in the case of Dr. Mrs. Renuka datla Vs. Solve Pharmaceuticals B.V & Ors.?

- In the given Case, shares held by petitioner in 2 companies were to be purchased by Solvay Pharmaceuticals and Mr. Vasant kumar.
- A chartered accountant had to evaluate the Intrinsic worth of both the companies as a going concern and value the shares 4.91% shares held by petitioner by following the standard and generally accepted method of valuation.
- The valuer considered 3 methods namely Asset base, earning base and market base.
- Discounted cash flow (DCF) was not applied in the absence of independent Projections and the projection provided by parties substantially differing.
- It was held that "If the valuer had applied the standard method of valuation, considering the matters from all appropriate angle, his valuation could not be challenged on the ground of being vitiated by fundamental error.
- It was further held that "If a valuer has not added control premium in intrinsic value and the same has not been specifically mentioned in the terms of settlement, the treatment done by valuer will be considered as correct.
- Further DCF method has not been considered by valuer due to unavailability of independent projections. In respect of projections, the valuer has chosen the best possible method by capitalizing past earning and also considering maintainable profits.

6. What are the key takeaways in the case of G.L Sultania and Another Vs. Securities and exchange Board of India?

- According to the mentioned case law, Appellant claimed that SEBI as well as merchant banker have not valued the shares of target company under the "takeover code" and the Board had taken all the necessary precaution to safeguard the interest of shareholders to ensure payment of best price for the shares sold by them
- Learned counsel of appellant has provided valuation report of two chartered accountant before the Board, valued the shares of target company at Rs.590/- per share and Rs. 480/- per share.

The Board have rejected the report of these valuers as the shares were valued at abnormally high price with a vast difference of Rs. 182/- per share.

- On the contrary, Board appointed its own valuer to value the shares of target company and ultimately report of valuer appointed by board have been accepted by acquirer.
- The court held that "Board committed no error in accepting the report Patni & co. and Board has acted in a reasonalble manner. Unless, it is shown to the court that some well accepted principle of valuation has been departed from without any reason or that the approach adopted is erroneous, the court cannot interfere with the valuation of an expert.

Hence, Board has exercised its discretion wisely.

7. What is the Revenue Ruling 59-60(of USA)?

The Revenue Ruling, Published in 1959, (Internal Revenue Service, Revenue Ruling 59-60, 1959-1 C.B. 237) is one of the earliest exposition in business valuation. The purpose of the Ruling is to outline general approaches, methods and factors to be considered while valuing shares of closely held companies or shares of companies whose market quotations are not available or scarcely available. Even though the Ruling was delivered for estate tax, gift tax and income tax, its principles are considered for valuation of any business and the eight factors which must be considered in the valuation are given below:

- The nature of the business and the history of the enterprise from its inception.
- The economic outlook in general and the condition and outlook of the specific industry in particular.
- The book value of the stock and financial condition of the business.
- The earning and the dividend-paying capacity of the company
- Whether or not the enterprise has goodwill or other intangible value.
- Sales of the stock and the size of the block of stock to be valued.

Frequently Asked Questions on Valuation

- The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

Appendix 'A'

Section 247-Valuation by Registered Valuers

(*1*) Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer and being a member of an organisation recognised, in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

(*2*) The valuer appointed under sub-section (*1*) shall,—

(*a*) make an impartial, true and fair valuation of any assets which may be required to be valued;

(*b*) exercise due diligence while performing the functions as valuer;

(*c*) make the valuation in accordance with such rules as may be prescribed; and

(*d*) not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during a period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him.

(*3*) If a valuer contravenes the provisions of this section or the rules made thereunder, the valuer shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees:

Provided that if the valuer has contravened such provisions with the intention to defraud the company or its members, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

(*4*) Where a valuer has been convicted under sub-section (*3*), he shall be liable to—

(*i*) refund the remuneration received by him to the company; and

(*ii*) pay for damages to the company or to any other person for loss arising out of incorrect or misleading statements of particulars made in his report.

Appendix 'B'

The Companies (Registered Valuers and Valuation) Rules, 2017[1]

In exercise of the powers conferred by section 247 read with sections 458, 459 and 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules, namely:-

CHAPTER I

PRELIMINARY

1. [2]**[Short title, commencement and application].—** (1) These rules may be called the Companies (Registered Valuers and Valuation) Rules, 2017.

   (2) They shall come into force on the date of their publication in the Official Gazette.

   [3]**[**(3) These rules shall apply for valuation in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities under the provision of the Act or these rules.

   Explanation – It is hereby clarified that conduct of valuation under any other law than the Act or these rules by any person shall not be affected by virtue of coming into effect of these rules.**]**

2. **Definitions.—**(1) In these rules, unless the context otherwise require —

   (a) "Act" means the Companies Act, 2013 (18 of 2013);

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[1] Published in the Gazette of India, Extra., Part II, Sec.3, No. 1316 (E), dated 18th Oct., 2017.
[2] Subs. by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018. Before substitution, it stood as under:
"Short title and commencement"
[3] Inserted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018.

(b) "authority" means an authority specified by the Central Government under section 458 of the Companies Act, 2013 to perform the functions under these rules;

(c) "asset class" means a distinct group of assets, such as land and building, machinery and equipment, displaying similar characteristics, that can be classified and requires separate set of valuers for valuation;

(d) "certificate of recognition" means the certificate of recognition granted to a registered valuers organisation under sub-rule (5) of rule 13 and the term "recognition" shall be construed accordingly;

(e) "certificate of registration" means the certificate of registration granted to a valuer under sub-rule (6) of rule 6 and the term "registration" shall be construed accordingly;

(f) "partnership entity" means a partnership firm registered under the Indian Partnership

(g) Act, 1932 (9 of 1932) or a limited liability partnership registered under the Limited Liability Partnership Act, 2008 (6 of 2009);

(h) "Annexure" means an annexure to these rules;

(i) "registered valuers organisation" means a registered valuers organisation recognised under sub-rule (5) of rule 13;

(j) "Valuation Standards" means the standards on valuation referred to in rule 18; and

(k) "valuer" means a person registered with the authority in accordance with these rules and the term "registered valuer" shall be construed accordingly.

(2) Words and expressions used but not defined in these rules, and defined in the Act or in the Companies (Specification of Definitions Details) Rules, 2014, shall have the same meanings respectively assigned to them in the Act or in the said rules.

CHAPTER II

ELIGIBILITY, QUALIFICATIONS AND REGISTRATION OF VALUERS

3. **Eligibility for registered valuers.—**(1) A person shall be eligible to be a registered valuer if he-

(a) is a valuer member of a registered valuers organisation;

Explanation.— For the purposes of this clause, "a valuer member" is a member registered valuers organisation who possesses the requisite educational qualifications and experience for being registered as a valuer;

(b) is recommended by the registered valuers organisation of which he is a valuer member for registration as a valuer;

(c) has passed the valuation examination under rule 5 within three years preceding the date of making an application for registration under rule 6;

(d) possesses the qualifications and experience as specified in rule 4;

(e) is not a minor;

(f) has not been declared to be of unsound mind;

(g) is not an undischarged bankrupt, or has not applied to be adjudicated as a bankrupt;

(h) is a person resident in India;

Explanation.— For the purposes of these rules 'person resident in India' shall have the same meaning as defined in clause (v) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999) as far as it is applicable to an individual;

(i) has not been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence:

Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be registered;

(j) has not been levied a penalty under section 271J of Income-tax Act, 1961 (43 of 1961) and time limit for filing appeal before Commissioner of Income-tax (Appeals) or Income-tax Appellate Tribunal, as the case may be has expired, or such penalty has been confirmed by Income-tax Appellate Tribunal, and five years have not elapsed after levy of such penalty; and

(k) is a fit and proper person:

Explanation.— For determining whether an individual is a fit and proper person under these rules, the authority may take account of any relevant consideration, including but not limited to the following criteria-

(i) integrity, reputation and character,

(ii) absence of convictions and restraint orders, and

(iii) competence and financial solvency.

(2) No partnership entity or company shall be eligible to be a registered valuer if-

(a) it has been set up for objects other than for rendering professional or financial services, including valuation services and that in the case of a company, it is [4][***] a subsidiary, joint venture or associate of another company or body corporate;

(b) it is undergoing an insolvency resolution or is an undischarged bankrupt;

(c) all the partners or directors, as the case may be, are not ineligible under clauses (c), (d), (e), [5](f), (g), (h), (i), (j) and (k) of sub-rule (1);

(d) three or all the partners or directors, whichever is lower, of the partnership entity or company, as the case may be, are not registered valuers; or

(e) none of its partners or directors, as the case may be, is a registered valuer for the asset class, for the valuation of which it seeks to be a registered valuer.

4. **Qualifications and experience.-** An individual shall have the following qualifications and experience to be eligible for registration under rule 3, namely:-

(a) post-graduate degree or post-graduate diploma, in the specified

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[4] Inserted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018.
"not"

[5] Inserted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018.

discipline, from a University or Institute established, recognised or incorporated by law in India and at least three years of experience in the specified discipline thereafter; or

(b) a Bachelor's degree or equivalent, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least five years of experience in the specified discipline thereafter; or

(c) membership of a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession with at least three years' experience after such membership [6][***].

Explanation-I.— For the purposes of this clause the 'specified discipline' shall mean the specific discipline which is relevant for valuation of an asset class for which the registration as a valuer or recognition as a registered valuers organisation is sought under these rules.

Explanation-II.— Qualifying education and experience [7][***] for various asset classes, is given in an indicative manner in **Annexure–IV** of these rules.

[8][Explanation III – for the purposes of this rule and Annexure IV, 'equivalent' shall mean professional and technical qualifications which are recognised by the Ministry of Human Resources and Development as equivalent to professional and technical degree.]

5. Valuation Examination.—(1) The authority shall, either on its own or through a designated agency, conduct valuation examination for one or more asset classes, for individuals, who possess the qualifications and experience as specified in rule 4, and have completed their educational courses as member of a registered valuers organisation, to test their

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[6] Omitted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018. Before omission, it stood as under:
"and having qualification mentioned at clause (a) or (b)"

[7] Omitted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018. Before omission, it stood as under:
"and examination or training".

[8]Inserted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018.

professional knowledge, skills, values and ethics in respect of valuation:

Provided that the authority may recognise an educational course conducted by a registered valuers organisation before its recognition as adequate for the purpose of appearing for valuation examination:

Provided also that the authority may recognise an examination conducted as part of a master's or post graduate degree course conducted by a University which is equivalent to the valuation examination.

(2) The authority shall determine the syllabus for various valuation specific subjects or assets classes for the valuation examination on the recommendation of one or more Committee of experts constituted by the authority in this regard.

(3) The syllabus, format and frequency of the valuation examination, including qualifying marks, shall be published on the website of the authority at least three months before the examination.

(4) An individual who passes the valuation examination, shall receive acknowledgement of passing the examination.

An individual may appear for the valuation examination any number of times.

6. Application for certificate of registration. (1) An individual eligible for registration as a registered valuer under rule 3 may make an application to the authority in **Form-A** of **Annexure-II** along with a non-refundable application fee of five thousand rupees in favour of the authority.

(2) A partnership entity or company eligible for registration as a registered valuer under rule 3 may make an application to the authority in **Form-B** of **Annexure-II** along with a non-refundable application fee of ten thousand rupees in favour of the authority.

(3) The authority shall examine the application, and may grant twenty one days to the applicant to remove the deficiencies, if any, in the application.

(4) The authority may require the applicant to submit additional documents or clarification within twenty- one days.

(5) The authority may require the applicant to appear, within twenty

one days, before the authority in person, or through its authorised representative for explanation or clarifications required for processing the application.

(6) If the authority is satisfied, after such scrutiny, inspection or inquiry as it deems necessary, that the applicant is eligible under these rules, it may grant a certificate of registration to the applicant to carry on the activities of a registered valuer for the relevant asset class or classes in **Form-C** of the **Annexure-II** within sixty days of receipt of the application, excluding the time given by the authority for presenting additional documents, information or clarification, or appearing in person, as the case may be.

(7) If, after considering an application made under this rule, the authority is of the *prima facie* opinion that the registration ought not be granted, it shall communicate the reasons for forming such an opinion within forty-five days of receipt of the application, excluding the time given by it for removing the deficiencies, presenting additional documents or clarifications, or appearing in person, as the case may be.

(8) The applicant shall submit an explanation as to why his/its application should be accepted within fifteen days of the receipt of the communication under sub-rule (7), to enable the authority to form a final opinion.

(9) After considering the explanation, if any, given by the applicant under sub-rule (8), the authority shall either -

(a) accept the application and grant the certificate of registration; or

(b) reject the application by an order, giving reasons thereof.

(10) The authority shall communicate its decision to the applicant within thirty days of receipt of explanation.

7. **Conditions of Registration.-** The registration granted under rule 6 shall be subject to the conditions that the valuer shall –

(a) at all times possess the eligibility and qualification and experience criteria as specified under rule 3 and rule 4;

(b) at all times comply with the provisions of the Act , these rules and the Bye-laws or internal regulations, as the case may be, of the respective registered valuers organisation;

(c) in his capacity as a registered valuer, not conduct valuation of the assets or class(es) of assets other than for which he/it has been registered by the authority;

(d) take prior permission of the authority for shifting his/ its membership from one registered valuers organisation to another;

(e) take adequate steps for redressal of grievances;

(f) maintain records of each assignment undertaken by him for at least three years from the completion of such assignment;

(g) comply with the Code of Conduct (as per **Annexure-I** of these rules) of the registered valuers organisation of which he is a member;

(h) in case a partnership entity or company is the registered valuer, allow only the partner or director who is a registered valuer for the asset class(es) that is being valued to sign and act on behalf of it;

(i) in case a partnership entity or company is the registered valuer, it shall disclose to the company concerned, the extent of capital employed or contributed in the partnership entity or the company by the partner or director, as the case may be, who would sign and act in respect of relevant valuation assignment for the company;

(j) in case a partnership entity is the registered valuer, be liable jointly and severally along with the partner who signs and acts in respect of a valuation assignment on behalf of the partnership entity;

(k) in case a company is the registered valuer, be liable alongwith director who signs and acts in respect of a valuation assignment on behalf of the company;

(l) in case a partnership entity or company is the registered valuer, immediately inform the authority on the removal of a partner or director, as the case may be, who is a registered valuer along with detailed reasons for such removal; and

(m) comply with such other conditions as may be imposed by the authority.

8. **Conduct of Valuation.—**(1) The registered valuer shall, while conducting a valuation, comply with the Valuation Standards as notified or modified under rule 18:

Provided that until the Valuation Standards are notified or modified by the Central Government, a valuer shall make valuations as per-

(a) internationally accepted Valuation Standards;

(b) Valuation Standards adopted by any registered valuers organisation.

(2) The registered valuer may obtain inputs for his valuation report or get a separate valuation for an asset class conducted from another registered valuer, in which case he shall fully disclose the details of the inputs and the particulars etc. of the other registered valuer in his report and the liabilities against the resultant valuation, irrespective of the nature of inputs or valuation by the other registered valuer, shall remain of the first mentioned registered valuer.

(3) 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 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.

9. Temporary surrender.—(1) A registered valuer may temporarily surrender his registration certificate in accordance with the bye-laws or regulations, as the case may be, of the registered valuers organisation and on such surrender, the valuer shall inform the authority for taking such information on record.

(2) A registered valuers organisation shall inform the authority if any valuer member has temporarily surrendered his/its membership or revived his/ its membership after temporary surrender, not later than seven days from approval of the application for temporary surrender or revival, as the case may be.

(3) Every registered valuers organisation shall place, on its website, in a searchable format, the names and other details of its valuers members who have surrendered or revived their memberships.

10. Functions of a Valuer.— A valuer shall conduct valuation required under the Act as per these rules [9][***].

11. Transitional Arrangement.–Any person who may be rendering valuation services under the Act, on the date of commencement of these rules, may continue to render valuation services without a certificate of registration under these rules upto [10][31st January, 2019]:

Provided that if a company has appointed any valuer before such date and the valuation or any part of it has not been completed before [11][31st January, 2019], the valuer shall complete such valuation or such part within three months thereafter.

[12][***]

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[9] Omitted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018. Before omission, it stood as under:
"and he may conduct valuation as per these rules if required under any other law or by any other regulatory authority".

[10] Subs. by the Companies (Registered Valuers and Valuation) Third Amendment Rules, 2018, rule 2 (w.e.f. 25-09-2018).

[11] Ibid.

[12] Omitted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018. Before omission, it stood as under:

CHAPTER III

RECOGNITION OF REGISTERED VALUERS ORGANISATIONS

12. Eligibility for registered valuers organisations.– (1) An organisation that meets requirements under sub-rule (2) may be recognised as a registered valuers organisation for valuation of a specific asset class or asset classes if—

(i) it has been registered under section 25 of the Companies Act, 1956 (1 of 1956) or section 8 of the Companies Act, 2013 (18 of 2013) with the sole object of dealing with matters relating to regulation of valuers of an asset class or asset classes and has in its bye laws the requirements specified in Annexure-III;

(ii) [13][It is a professional institute] established by an Act of Parliament enacted for the purpose of regulation of a profession;

Provided that, subject to sub-rule (3), the following organisations may also be recognised as a registered valuers organisation for valuation of a specific asset class or asset classes, namely:-

(a) an organisation registered as a society under the Societies Registration Act, 1860 (21 of 1860) or any relevant state law, or;

(b) an organisation set up as a trust governed by the Indian Trust Act, 1882 (2 of 1882).

(2) The organisation referred to in sub-rule (1) shall be recognised if it –

(a) conducts educational courses in valuation, in accordance with the syllabus determined by the authority, under rule 5, for individuals who may be its valuers members, and

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"*Explanation.*— It is hereby clarified that conduct of valuation by any person under any law other than the Act, or these rules shall not be effected by virtue of coming into effect of these rules unless the relevant other laws or other regulatory bodies require valuation by such person in accordance with these rules in which case these rules shall apply for such valuation also from the date specified under the laws or by the regulatory bodies."

[13] Substituted by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018. Before substitution, it stood as under: "a professional institute".

delivered in class room or through distance education modules and which includes practical training;

(b) grants membership or certificate of practice to individuals, who possess the qualifications and experience as specified in rule 4, in respect of valuation of asset class for which it is recognised as a registered valuers organisation ;

(c) conducts training for the individual members before a certificate of practice is issued to them;

(d) lays down and enforces a code of conduct for valuers who are its members, which includes all the provisions specified in **Annexure-I**;

(e) provides for continuing education of individuals who are its members;

(f) monitors and reviews the functioning, including quality of service, of valuers who are its members; and

(g) has a mechanism to address grievances and conduct disciplinary proceedings against valuers who are its members.

(3) A registered valuers organisation, being an entity under proviso to sub-rule (1), shall convert into or register itself as a company under section 8 of the Companies Act, 2013 (18 of 2013), and include in its bye laws the requirements specified in **Annexure- III**, within one year from the date of commencement of these rules.

13. Application for recognition.— (1) An eligible organisation which meets the conditions specified in rule 12 may make an application for recognition as a registered valuers organisation for asset class or classes to the authority in **Form-D** of the **Annexure-II** along with a non-refundable application fee of rupees one lakh in favour of the authority.

(2) The authority shall examine the application, and may grant twenty-one days to the applicant to remove the deficiencies, if any, in the application.

(3) The authority may require the applicant to submit additional documents or clarification within twenty-one days.

(4) The authority may require the applicant to appear, within twenty-

one days, before the Authority through its authorised representative for explanation or clarifications required for processing the application.

(5) If the authority is satisfied, after such scrutiny, inspection or inquiry as it deems necessary that the applicant is eligible under these rules, it may grant a certificate of recognition as a registered valuers organisation in **Form-E** of **Annexure-II.**

(6) If, after considering an application made under sub-rule (1), the authority is of the *prima facie* opinion that recognition ought not to be granted, it shall communicate the reasons for forming such an opinion within forty-five days of receipt of the application, excluding the time given by it for removing the deficiencies, presenting additional documents or clarifications, or appearing through authorised representative, as the case may be.

(7) The applicant shall submit an explanation as to why its application should be accepted within fifteen days of the receipt of the communication under sub- rule (6), to enable the authority to form a final opinion.

(8) After considering the explanation, if any, given by the applicant under sub-rule (7), the authority shall either -

(a) accept the application and grant the certificate of recognition; or

(b) reject the application by an order, giving reasons thereof.

(9) The authority shall communicate its decision to the applicant within thirty days of receipt of explanation.

14. Conditions of Recognition.-The recognition granted under rule 13 shall be subject to the conditions that the registered valuers organisation shall-

(a) at all times continue to satisfy the eligibility requirements specified under rule 12;

(b) maintain a register of members who are registered valuers, which shall be publicly available;

(c) admits only individuals who possess the educational qualifications and experience requirements, in accordance with rule 4 and as specified in its recognition certificate, as members;

(d) make such reports to the authority as may be required by it;

(e) comply with any directions, including with regard to course to be conducted by valuation organisation under clause (a) of sub-rule (2) of rule 12, issued by the authority;

(f) be converted or registered as company under section 8 of the Act, with governance structure and bye laws specified in **Annexure-III**, within a period of [14][two years] from the date of commencement of these rules if it is an organisation referred to in proviso to sub-rule (1) of rule 12;

(g) shall have the governance structure and incorporate in its bye laws the requirements specified in **Annexure-III** within one year of commencement of these rules if it is an organisation referred to in clause (i) of sub-rule (1) of rule 12 and existing on the date of commencement of these rules;

(h) display on its website, the status and specified details of every registered valuer being its valuer members including action under rule 17 being taken against him; and

(i) comply with such other conditions as may be specified by authority.

CHAPTER IV
CANCELLATION OR SUSPENSION OF CERTIFICATE OF REGISTRATION OR RECOGNITION

15. Cancellation or suspension of certificate of registration or recognition.—The authority may cancel or suspend the registration of a valuer or recognition of a registered valuers organisation for violation of the provisions of the Act, any other law allowing him to perform valuation, these rules or any condition of registration or recognition, as the case may be in the manner specified in rule 17.

16. Complaint against a registered valuer or registered valuers organisation.–A complaint may be filed against a registered valuer or registered valuers organisation before the authority in person or by post or courier along with a non-refundable fees of rupees one thousand in favour of the authority and the authority shall examine the complaint and take such necessary action as it deems fit:

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[14] Subs. by the Companies (Registered Valuers and Valuation) Third Amendment Rules, 2018, rule 3 (w.e.f. 25-09-2018).

Provided that in case of a complaint against a registered valuer, who is a partner of a partnership entity or director of a company, the authority may refer the complaint to the relevant registered valuers organisation and such organisation shall handle the complaint in accordance with its bye laws.

17. Procedure to be followed for cancellation or suspension of registration or recognition certificate.– (1) Based on the findings of an inspection or investigation, or a complaint received or on material otherwise available on record, if the authorised officer is of the *prima facie* opinion that sufficient cause exists to cancel or suspend the registration of a valuer or cancel or suspend the recognition of a registered valuers organisation, it shall issue a show-cause notice to the valuer or registered valuers organisation:\

Provided that in case of an organisation referred to in clause (ii) of sub-rule (1) of rule 12 which has been granted recognition, the authorised officer shall, instead of carrying out inspection or investigation, seek the information required from the registered valuers organisation within the time specified therein and in the case of a default, give one more opportunity to provide the information within specified time failing which or in the absence of sufficient or satisfactory information provided, either initiate the process under this rule or refer the matter to the Central Government for appropriate directions.

(2) The show-cause notice shall be in writing and shall state-

(a) the provisions of the Act and rules under which it has been issued;

(b) the details of the alleged facts;

(c) the details of the evidence in support of the alleged facts;

(d) the provisions of the Act or rules or certificate of registration or recognition allegedly violated, or the manner in which the public interest has allegedly been affected;

(e) the actions or directions that the authority proposes to take or issue if the allegations are established;

(f) the manner in which the person is required to respond to the show-cause notice;

(g) consequences of failure to respond to the show-cause notice within the given time; and

(h) procedure to be followed for disposal of the show-cause notice.

(3) The show-cause notice shall be served in the following manner by-

(a) sending it to the valuer or registered valuers organisation at its registered address by registered post with acknowledgment due; or

(b) an appropriate electronic means to the email address provided by the valuer or registered valuers organisation to the authority.

(4) The authorised officer shall dispose of the show-cause notice by reasoned order in adherence to the principles of natural justice.

(5) The order in disposal of a show-cause notice may provide for-

(a) no action;

(b) warning; or

(c) suspension or cancellation of the registration or recognition; or

(d) change in any one or more partner or director or the governing board of the registered valuers organisation.

(6) An order passed under sub-rule (5) cancelling the recognition of a registered valuers organisation, shall specify the time within which its members may take membership of another registered valuers organisation recognised for valuation of relevant asset class without prejudice to their registration.

(7) The order passed under sub-rule (5) shall be issued to the concerned person immediately, and published on the website of the authority.

(8) The order passed under sub-rule (5) shall not become effective until thirty days have elapsed from the date of issue of the order unless stated otherwise.

(9) Any person aggrieved by an order of the authorised officer under sub-rule (5) may prefer an appeal before the authority.

Explanation.— For the purposes of this rule, the authorised officer shall be an officer as may be specified by the authority.

CHAPTER V

VALUATION STANDARDS

18. Valuation Standards.–The Central Government shall notify and may modify (from time to time) the Valuation Standards on the recommendations of the Committee set up under rule 19.

19. Committee to advise on valuation matters.–(1) The Central Government may constitute a Committee to be known as "Committee to advise on valuation matters" to make recommendations on formulation and laying down of Valuation Standards and policies for compliance by companies and registered valuers.

(2) The Committee shall comprise of-

(a) a Chairperson who shall be a person of eminence and well versed in valuation, accountancy, finance, business administration, business law, corporate law, economics;

(b) one member nominated by the Ministry of Corporate Affairs;

(c) one member nominated by the Insolvency and Bankruptcy Board of India;

(d) one member nominated by the Legislative Department;

(e) up to four members nominated by Central Government representing authorities which are allowing valuations by registered valuers;

(f) up to four members who are representatives of registered valuers organisations, nominated by Central Government.

(g) Up to two members to represent industry and other stakeholder nominated by the Central Government in consultation with the authority;

(h) [15]**[**Presidents of, the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India, the Institute of Cost Accountants of India as ex-officio members.**]**

(3) The Chairperson and Members of the Committee shall have a tenure of three years and they shall not have more than two tenures.

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[15] Inserted by the Companies (Registered Valuers and Valuation) Second Amendment Rules, 2018, (w.e.f. 14-06-2018).

CHAPTER VI

MISCELLANEOUS

20. **Punishment for contravention.–**Without prejudice to any other liabilities where a person contravenes any of the provision of these rules he shall be punishable in accordance with sub-section (3) of section 469 of the Act.

21. **Punishment for false statement.—**If in any report, certificate or other document required by, or for, the purposes of any of the provisions of the Act or the rules made thereunder or these rules, any person makes a statement,—

(a) which is false in any material particulars, knowing it to be false; or

(b) which omits any material fact, knowing it to be material,

he shall be liable under section 448 of the Act.

ANNEXURE-I

MODEL CODE OF CONDUCT FOR REGISTERED VALUERS

[See clause (g) of rule 7 and clause (d) of sub-rule (2) of rule 12]

Integrity and Fairness

1. A valuer shall, in the conduct of his/its business, follow high standards of integrity and fairness in all his/its dealings with his/its clients and other valuers.
2. A valuer shall maintain integrity by being honest, straightforward, and forthright in all professional relationships.
3. A valuer shall endeavour to ensure that he/it provides true and adequate information and shall not misrepresent any facts or situations.
4. A valuer shall refrain from being involved in any action that would bring disrepute to the profession.
5. A valuer shall keep public interest foremost while delivering his services.

Professional Competence and Due Care

6. A valuer shall render at all times high standards of service, exercise

due diligence, ensure proper care and exercise independent professional judgment.

7. A valuer shall carry out professional services in accordance with the relevant technical and professional standards that may be specified from time to time

8. A valuer shall continuously maintain professional knowledge and skill to provide competent professional service based on up-to-date developments in practice, prevailing regulations/guidelines and techniques.

9. In the preparation of a valuation report, the valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer.

10. A valuer shall not carry out any instruction of the client insofar as they are incompatible with the requirements of integrity, objectivity and independence.

11. A valuer shall clearly state to his client the services that he would be competent to provide and the services for which he would be relying on other valuers or professionals or for which the client can have a separate arrangement with other valuers.

Independence and Disclosure of Interest

12. A valuer shall act with objectivity in his/its professional dealings by ensuring that his/its decisions are made without the presence of any bias, conflict of interest, coercion, or undue influence of any party, whether directly connected to the valuation assignment or not.

13. A valuer shall not take up an assignment if he/it or any of his/its relatives or associates is not independent in terms of association to the company.

14. A valuer shall maintain complete independence in his/its professional relationships and shall conduct the valuation independent of external influences.

15. A valuer shall wherever necessary disclose to the clients, possible sources of conflicts of duties and interests, while providing unbiased services.

16. A valuer shall not deal in securities of any subject company after any time when he/it first becomes aware of the possibility of his/its association with the valuation, and in accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 or till the time the valuation report becomes public, whichever is earlier.

17. A valuer shall not indulge in “mandate snatching” or offering “convenience valuations” in order to cater to a company or client’s needs.

18. As an independent valuer, the valuer shall not charge success fee.

19. In any fairness opinion or independent expert opinion submitted by a valuer, if there has been a prior engagement in an unconnected transaction, the valuer shall declare the association with the company during the last five years.

Confidentiality

20. A valuer shall not use or divulge to other clients or any other party any confidential information about the subject company, which has come to his/its knowledge without proper and specific authority or unless there is a legal or professional right or duty to disclose.

Information Management

21. A valuer shall ensure that he/ it maintains written contemporaneous records for any decision taken, the reasons for taking the decision, and the information and evidence in support of such decision. This shall be maintained so as to sufficiently enable a reasonable person to take a view on the appropriateness of his/its decisions and actions.

22. A valuer shall appear, co-operate and be available for inspections and investigations carried out by the authority, any person authorised by the authority, the registered valuers organisation with which he/it is registered or any other statutory regulatory body.

23. A valuer shall provide all information and records as may be required by the authority, the Tribunal, Appellate Tribunal, the registered valuers organisation with which he/it is registered, or any other statutory regulatory body.

24. A valuer while respecting the confidentiality of information acquired during the course of performing professional services, shall maintain

proper working papers for a period of three years or such longer period as required in its contract for a specific valuation, for production before a regulatory authority or for a peer review. In the event of a pending case before the Tribunal or Appellate Tribunal, the record shall be maintained till the disposal of the case.

Gifts and hospitality.

25. A valuer or his/its relative shall not accept gifts or hospitality which undermines or affects his independence as a valuer.

    Explanation.— For the purposes of this code the term 'relative' shall have the same meaning as defined in clause (77) of Section 2 of the Companies Act, 2013 (18 of 2013).

26. A valuer shall not offer gifts or hospitality or a financial or any other advantage to a public servant or any other person with a view to obtain or retain work for himself/ itself, or to obtain or retain an advantage in the conduct of profession for himself/ itself.

Remuneration and Costs.

27. A valuer shall provide services for remuneration which is charged in a transparent manner, is a reasonable reflection of the work necessarily and properly undertaken, and is not inconsistent with the applicable rules.

28. A valuer shall not accept any fees or charges other than those which are disclosed in a written contract with the person to whom he would be rendering service.

Occupation, employability and restrictions.

29. A valuer shall refrain from accepting too many assignments, if he/it is unlikely to be able to devote adequate time to each of his/ its assignments.

30. A valuer shall not conduct business which in the opinion of the authority or the registered valuer organisation discredits the profession.

ANNEXURE-II

FORM-A

[See sub-rule (1) of rule 6)]

Application for registration as a valuer by an individual

To

The Authority

[Insert address]

From

[Name and address]

Subject: Application for registration as a valuer

Sir/Madam,

I, having been enrolled as a member with the (please write the name of the Registered valuers organisation), hereby apply for registration as a valuer under section 247 of the Companies Act, 2013 read with sub-rule (1) of rule 6 of the Companies (Registered Valuers and Valuation) Rules, 2017 for the following class(es) of assets:-

(a)________

(b)________

My details are as under:

A. PERSONAL DETAILS

1. Title (Mr/Mrs/Ms):
2. Name:
3. Father's Name:
4. Mother's Name:
5. Date of Birth:
6. PAN No.:
7. AADHAAR No.:
8. Passport No.:
9. Address for Correspondence:

10. Permanent Address:
11. E-Mail Address
12. Mobile No:

B. EDUCATIONAL, PROFESSIONAL AND VALUATION EXAMINATION QUALIFICATIONS

1. Educational Qualifications

[Please provide educational qualifications from Bachelor's degree onwards]

Educational Qualification	Year of Passing	Marks (Per Cent.)	Grade/Class	University /College	Remarks, if any

2. Professional Qualifications [excluding valuation specific courses]

Professional Qualification [excluding valuation specific education/courses]	Institute/ Professional Body	Membership No. (if applicable)	Date of enrolment	Remarks, if any

3 (a) Details of valuation examination passed

Date of examination	Asset class, if any	Marks secured	Percentage

3(b) Valuation Qualifications

Valuation specific qualification/course	Recognised Registered Valuers Organisation		Asset class	Membership No. in Registered Valuers Organisation	Remarks, if any
	Name	Recognition No			

C. WORK EXPERIENCE

1. Are you presently in practice / employment? (Yes or No)
2. Number of years in practice or of work experience in the relevant profession or in valuation (in years and months):
3. If in practice, address for professional correspondence:
4. Number of years in employment (in years and months)
5. Experience Details

Sl. No.	From Date	To Date	Employment/ Practice	If employed, Name of Employer and Designation	If in practice, experience in the relevant profession/ valuation	Area of work

D. REGISTERED VALUERS ORGANISATION

1. Please give details of the registered valuers organisation of which you are a member.
2. Please state your membership number.

E. ADDITIONAL INFORMATION

1. Have you ever been convicted for an offence? Yes or No

   If yes, please give details.

2. Are any criminal proceedings pending against you? (Yes or No)

   If yes, please give details.

3. Have you ever been declared as an undischarged bankrupt, or applied to be adjudged as Bankrupt? (Yes or No)

   If yes, please give details.

4. Please provide any additional information that may be relevant for your application.

F. ATTACHMENTS

1. Copy of proof of residence.
2. Copies of documents in support of educational qualifications, professional qualifications and Registered Valuation Examination qualifications.
3. Copies of documents demonstrating practice or work experience for the relevant period.
4. Copies of certificate of employment by the relevant employer(s), specifying the period of such employment.
5. Income Tax Returns for the last three years.
6. Copy of proof of membership with a registered valuers organisation.
7. Passport-size photo.
8. Evidence of deposit/ payment of five thousand rupees.

G. AFFIRMATIONS

1. Copies of documents, as listed in section F of this application form have been attached/ uploaded. The documents attached/ uploaded are ……

   I undertake to furnish any additional information as and when called for.

2. I am not disqualified from being registered as a valuer under the Companies (Registered Valuers and Valuation) Rules, 2017.

3. This application and the information furnished by me along with this application is true and complete. If found false or misleading at any stage, my registration shall be summarily cancelled.

   I hereby undertake to comply with the requirements of the Companies Act, 2013, the rules made thereunder, the directions given by the authority, and the bye-laws, directions and guidelines issued or the resolutions passed in accordance with the bye-laws by the registered valuers organisation with which I am enrolled.

4. The applicable fee has been paid.

Name and Signature of applicant

Place:

Date:

VERIFICATION BY THE REGISTERED VALUERS ORGANISATION

We have verified the above details submitted by … who is our member with membership no. … and confirm these to be true and correct.

We recommend registration of … as a valuer.

(Name and Signature)

Authorised Representative of the Registered Valuers Organisation

Seal of the Registered Valuers Organisation

Place:

Date:

FORM-B

(See sub-rule (2) of rule 6)

Application for registration as a valuer by a partnership entity/Company

To

The Authority,

[Insert address]

From

[Name and address]

Subject: Application for registration as a valuer

Sir/Madam,

I, being a partner/director (strike off whichever is not applicable), being duly authorised for the purpose by the partnership entity/company through a resolution/deed (strike out whichever is not applicable) apply on behalf of [name and address of applicant partnership entity/company], and on behalf of its partners/directors, for registration as a valuer under section 247 of the Companies Act, 2013 read with sub-rule (2) of rule 6 of the Companies (Registered Valuers and Valuation) Rules, 2017 for the following class(es) of assets :-

(a) ___________

___________The details are as under:

1. DETAILS OF THE PARTNERSHIP ENTITY/COMPANY

1. Name:
2. Registration Number/ LLP Number/CIN Number:
3. PAN No.:
4. Address for Correspondence or registered office:
5. Permanent Address:
6. E-Mail Address
7. Telephone No.:
8. Others:

2. PERSONAL DETAILS OF EACH PARTNER/DIRECTOR

Title (Mr/Mrs/Ms):

1. Name:
2. Father's Name:
3. Mother's Name:
4. Date of Birth:
5. PAN No.:
6. AADHAAR No.:
7. Passport No.:
8. Address for Correspondence:
9. Permanent Address:
10. E-Mail Address
11. Mobile No.:
12. Others:

3. EDUCATIONAL, PROFESSIONAL AND VALUATION EXAMINATION QUALIFICATIONS OF PARTNERS/ DIRECTORS

1. Educational Qualifications

[Please provide educational qualifications from Bachelor's degree onwards for each partner/director]

Educational Qualification	Year of Passing	Marks (Per Cent.)	Grade/ Class	University/College	Remarks, if any

2. Professional Qualifications for each partner/director

Professional Qualification	Institute/ Professional Body	Membership No. (if applicable)	Date of enrolment	Remarks, if any

3. (a) Details of valuation examination passed (for all partners/directors who are registered valuers)

Date of examination	Asset class, if any	Marks secured	Percentage

3.(b) Valuation Qualifications (for all partners/directors who are registered valuers)

Valuation specific qualification/course	Recognised Registered Valuers Organisation		Asset class	Membership No. in Registered Valuers Organisation	Remarks, if any
	Name	Recognition			
		No			

4. REGISTERED VALUERS ORGANISATION

1. Please give me details of the registered valuers organisation of which you are a member. Please state your membership number.

2. Please give details of the registered valuers organisations of which your partners are members. Please state your membership number.

5. ADITIONAL INFORMATION

1. Have you or any of your partners/directors ever been convicted for an offence? (Yes or No)

   If yes, please give details.

2. Are any criminal proceedings pending against you or your partners/directors? (Yes or No)

   If yes, please give details.

3. Are you any of your partners/directors undischarged bankrupt, or have applied to be adjudged as a bankrupt? (Yes or No)

If yes, please give details.

4. Please provide any additional information that may be relevant for your application.

6. ATTACHMENTS

1. Copy of proof of residence of itself and its partners/directors.
2. Copies of documents in support of educational qualifications, professional qualifications and valuation qualifications of partners/directors.
3. Financial statements/Income Tax Returns for the last three years.
4. Copy of proof of membership with a registered valuers organisation.
5. Passport-size photo.
6. Evidence of deposit/payment of ten thousand rupees.

7. AFFIRMATIONS

1. Copies of documents, as listed in section F of this application form have been attached/ uploaded. The documents attached/ uploaded are ……

   I undertake to furnish any additional information as and when called for.

2. I am not disqualified from being registered as a valuer under the Companies (Registered Valuers and Valuation) Rules, 2017.
3. This application and the information furnished by me along with this application is true and complete. If found false or misleading at any stage, the registration of the applicant shall be summarily cancelled.
4. I hereby undertake that the partnership entity/company and its partners/directors shall comply with the requirements of the Companies Act, 2013, the rules made thereunder, the directions given by the authority, and the bye-laws, directions and guidelines issued or the resolutions passed in accordance with the bye-laws by the registered valuers organisation with which I am enrolled.
5. The applicable fee has been paid.

Place: Name and Signature of Applicant's representative

Date:

VERIFICATION BY THE REGISTERED VALUERS ORGANISATION

We have verified the above details submitted by … who is our member with membership no. … and confirm these to be true and correct. We recommend registration of … as a valuer.

(Name and Signature)

Authorised Representative of the Registered Valuers Organisation

Seal of the Registered Valuers Organisation

Place:

Date:

FORM-C

(See sub-rule (6) of rule 6)

CERTIFICATE OF REGISTRATION

VALUER REGISTRATION NO.

1. In exercise of the powers conferred by Section 247 of the Companies Act, 2013 read with sub-rule (6) of rule 6 of the Companies (Registered Valuers and Valuation) Rules, 2017 the Authority hereby grants a certificate of registration to [*insert name*], to act as a valuer in respect of [*insert asset class*] in accordance with these rules.
2. This certificate shall be valid from [*insert start date*].

Date : (Name and Designation)

Place : For the behalf of the Authority

APPENDIX FORM-D

(See sub-rule (1) of rule 13)

APPLICATION FOR RECOGNITION

To

The Authority

[*Insert address*]

From

[*Name and address*]

Subject: Application for grant of certificate of recognition as a registered valuers organisation

Madam/Sir,

1. I, being duly authorised for the purpose, hereby apply on behalf of [*name and address of the applicant*] for grant of certificate of recognition as a registered valuers organisation in respect of the following class(es) of assets:

   (a)

   (b)

   and enclose a copy of the board resolution authorising me to make this application and correspond with the authority in this respect.

2. Copies of the articles of association, memorandum of association, trust-deed, bye-laws and code of conduct, as applicable, of the applicant are enclosed.

3. I, on behalf of [*insert name*], affirm that the applicant is eligible to be recognised as a registered valuers organisation for the abovementioned class(es) of assets.

4. I, on behalf of[*insert name*], hereby affirm that-

   (a) all information contained in this application is true and correct in all material aspects,

   (b) no material information relevant for the purpose of this application has been suppressed, and

   (c) recognition granted in pursuance of this application may be cancelled summarily if any information submitted is found to be false or misleading in material respects at any stage.

5. If granted recognition, I, on behalf of [*insert name*], undertake to comply with the requirements of the Act, the rules, directions or guidelines issued by the authority, and such other conditions and terms as may be contained in the certificate of recognition or be specified or imposed by the authority subsequently, including the requirement to convert into a company registered under section 8 of the Companies Act, 2013 within the required period, if applicable.

Yours faithfully, Authorised Signatory

(Name)

(Designation)

Date :

Place :

APPENDIX TO FORM-D

PART

GENERAL

1. Name of the applicant.
2. Address of registered office and principal place of business of the applicant.
3. Corporate Identification Number (CIN)/ PAN/ Other Identification Number.
4. Name, designation and contact details of the person authorised to make this application and correspond with the authority in this respect.

PART II

STRUCTURE AND GOVERNANCE

1. Please provide brief details of the applicant's-
   - (i) form of establishment
   - (ii) ownership structure
   - (iii) governance structure

PART III

MEMBERSHIP AND EXAMINATION

1. Please provide brief details of the

   (i) number of members who practice valuation and are already registered with the applicant

   (ii) specific discipline (in terms of rule 4):

   (iii) other criteria/ qualifications for and manner of registration with the applicant

   Note: In case of organisations referred to in clause (ii) of sub-rule (1) of rule 12, in lieu of information at (i), they may provide brief details of the number of members who have passed the valuation specific course conducted by the organisation.

2. Please provide brief details of any examination conducted for registration of members with the applicant.

3. Please provide brief details of the requirements of continuous education of the applicant's members.

PART IV

CODE OF CONDUCT

1. Please state if the Code of Conduct of the applicant is in compliance with the Companies (Registered Valuers and Valuation) Rules, 2017.

2. Please specify the clause number of the provisions of the Code of Conduct which are in addition to the provisions of the model Code of Conduct specified in the Companies (Registered Valuers and Valuation) Rules, 2017 (if any).

PART V

MONITORING AND DISCIPLINE

1. Please provide details mechanisms employed by the applicant to monitor its members.

2. Please provide details of mechanisms employed by the applicant to redress grievances against its members and itself.

3. Please provide details of disciplinary mechanisms employed by the applicant.

4. Please provide any other details you consider relevant in support of the application.

Authorised Signatory.

(Name)

Designation)

Date :

Place:

FORM-E

(See sub-rule (5) of rule 13)

CERTIFICATE OF RECOGNITION REGISTERED VALUERS ORGANISATION RECOGNITION NO.

1. In exercise of the powers conferred by sub-rule (5) of rule 13 of the Companies (Registered Valuers and Valuation) Rules, 2017 the Registration hereby grants a certificate recognising *[insert name],* as a registered valuers organisation for the valuation of *[insert class(es) of assets]*.

   Conditions of Recognition

2. [Insert Name] shall admit as members who possess the educational qualifications and experience as specified herein under:
3. Conditions as laid down in rule 14 [give in detail]
4. This certificate of recognition shall be valid from *[insert start date]*.

(Name and Designation)

For and on behalf of the Authority

Date:

Place :

ANNEXURE - III

(See sub-rule (3) of rule 12 and clauses (f) and (g) of rule 14)

Governance Structure and Model Bye Laws for registered valuers organisation Part I

1. Governance Structure

No person shall be eligible to be recognised as an registered valuers organisation unless it is a company registered under section 8 of the Companies Act, 2013 with share capital, and –

(a) its sole object is to carry on the functions of a registered valuers organisation under the Companies Act, 2013;

(b) it is not under the control of person(s) resident outside India,

(c) not more than forty-nine per cent. of its share capital is held, directly or indirectly, by persons resident outside India; and

(d) it is not a subsidiary of a body corporate through more than one layer:

Explanation: "layer" in relation to a body corporate means its subsidiary;

(e) itself, its promoters, its directors and persons holding more than ten percent. of its share capital are fit and proper persons.

2. REGISTERED VALUERS ORGANISATION TO HAVE BYE-LAWS

(1) The registered valuers organisation shall submit to the authority its bye-laws along with the application for its registration as a registered valuers organisation.

(2) The bye-laws shall provide for all matters specified in the model bye-laws in Part II.

(3) The bye-laws shall at all times be consistent with the model bye-laws.

(4) The registered valuers organisation shall publish its bye-laws, the composition of all committees formed, and all policies created under the bye-laws on its website.

3. AMENDMENT OF BYE-LAWS

(1) The Governing Board may amend the bye-laws by a resolution

passed by votes in favour being not less than three times the number of the votes, if any, cast against the resolution, by the directors.

(2) A resolution passed in accordance with sub-bye law (1) shall be filed with the authority within seven days from the date of its passing, for its approval.

(3) The amendments to the bye-laws shall come into effect on the seventh day of the receipt of the approval, unless otherwise specified by the authority.

(4) The registered valuers organisation shall file a printed copy of the amended bye-laws with the authority within fifteen days from the date when such amendment is made effective.

4. Composition of the Governing Board.

1. The Governing Board shall have a minimum of ____ [Insert number] directors.

2. More than half of the directors shall be persons resident in India at the time of their appointment, and at all times during their tenure as directors.

3. Not more than one fourth of the directors shall be registered valuers.

4. More than half of the directors shall be independent directors at the time of their appointment, and at all times during their tenure as directors:

   Provided that no meeting of the Governing Board shall be held without the presence of at least one independent director.

5. An independent director shall be an individual –

   (a) who has expertise in the field of finance, law, management or valuation;

   (b) who is not a registered valuer;

   (c) who is not a shareholder of the registered valuers organisation; and

   (d) who fulfils the requirements under sub-section (6) of section 149 of the Companies Act, 2013.

6. The directors shall elect an independent director as the Chairperson of the Governing Board.

   Explanation - For the purposes of bye laws, any fraction contained in

   (a) 'more than half' shall be rounded off to the next higher number; and

   (b) not more than one- fourth' shall be rounded down to the next lower number.

PART II

MODEL BYE-LAWS OF A REGISTERED VALUERS ORGANISATION

A. GENERAL

1. The name of the registered valuers organisation is "____" (hereinafter referred to as the 'Organisation').

2. The 'Organisation' is registered as a company under section 8 of the Companies Act, 2013 (18 of 2013) with its registered office situated at ______ *[provide full address]*.

3. These bye-laws may not be amended, except in accordance with this Annexure.

B. DEFINITIONS

4. (1) In these bye-laws, unless the context otherwise requires –

   (a) "certificate of membership" means the certificate of membership of the Organisation granted under bye-law 10;

   (b) "Act" means the Companies Act, 2013 (18 of 2013);

   (c) "Governing Board" means the Board of Directors or Board of the Organisation as defined under clause (10) of section 2 of Companies Act, 2013 (18 of 2013);

   (d) "relative" shall have the same meaning as assigned to it in clause (77) of section 2 of the Companies Act, 2013 (18 of 2013);

   (2) Unless the context otherwise requires, words and expressions used and not defined in these bye-laws shall have the meanings assigned to them in the Companies Act, 2013 (18 of 2013).

C. OBJECTIVES

5. (1) The Organisation shall carry on the functions of the registered valuers organisation under the Companies (Registered Valuers and Valuation) Rules, 2017, and functions incidental thereto.

(2) The Organisation shall not carry on any function other than those specified in sub-clause (1), or which is inconsistent with the discharge of its functions as a registered valuers organisation.

D. DUTIES OF THE ORGANISATION

6. (1) The Organisation shall maintain high ethical and professional standards in the regulation of its members.

(2) The Organisation shall -

(a) ensure compliance with the Companies Act, 2013 and rules, regulations and guidelines issued thereunder governing the conduct of registered valuers organisation and registered valuers;

(b) employ fair, reasonable, just, and non-discriminatory practices for the enrolment and regulation of its members;

(c) be accountable to the authority in relation to all bye-laws and directions issued to its members;

(d) develop the profession of registered valuers;

(e) promote continuous professional development of its members;

(f) continuously improve upon its internal regulations and guidelines to ensure that high standards of professional and ethical conduct are maintained by its members; and

(g) provide information about its activities to the authority.

E. COMMITTEES OF THE ORGANISATION

Advisory Committee of Members.

7. (1) The Governing Board may form an Advisory Committee of members of the Organisation to advise it on any matters pertaining to-the development of the profession;

(a) standards of professional and ethical conduct; and

(b) best practices in respect of Valuation.

(2) The Advisory Committee may meet at such places and times as the Governing Board may provide.

Other Committees of the Organisation.

8. (1) The Governing Board shall constitute-

(a) one or more Membership Committee(s) consisting of such members as it deems fit;

(b) a Monitoring Committee consisting of such members as it deems fit;

(c) one or more Grievance Redressal Committee(s), with not less than three members;

(d) one or more Disciplinary Committee(s) consisting of at least one member nominated by the authority.

(2) The Chairperson of each of these Committees shall be an independent director of the Organisation.

F. MEMBERSHIP

Eligibility for Enrolment.

9. No individual shall be enrolled as a member if he is not eligible to be registered as a registered valuer with the authority:

Provided that the Governing Board may provide additional eligibility requirements for enrolment:

Provided further that such additional requirements shall not discriminate on the grounds of religion, race, caste, gender, place of birth or professional affiliation.

Process of Enrolment as Member.

10. (1) An individual may apply for enrolment as a member by submitting an application in such form, in such manner and with such fees as may be specified by the Organisation.

(2) The Organisation shall examine the application in accordance with the applicable provisions of the rules, regulations and guidelines thereunder.

(3) On examination of the application, the Organisation shall give an

opportunity to the applicant to remove the deficiencies, if any, in the application.

(4) The Organisation may require an applicant to submit additional documents, information or clarification that it deems fit, within reasonable time.

(5) The Organisation may reject an application if the applicant does not satisfy the criteria for enrolment or does not remove the deficiencies or submit additional documents or information to its satisfaction, for reasons recorded in writing.

(6) The rejection of the application shall be communicated to the applicant stating the reasons for such rejection, within thirty days of the receipt of the application, excluding the time given for removing the deficiencies or presenting additional documents or clarification by the Organisation, as the case may be.

(7) The acceptance of the application shall be communicated to the applicant, along with a certificate of membership.

(8) An applicant aggrieved of a decision rejecting his application may appeal to the Membership Committee of the Organisation within thirty days from the receipt of such decision.

(9) The Membership Committee shall pass an order disposing of the appeal in the manner it deems expedient, within thirty days of the receipt of the appeal.

Membership Fee.

11. The Organisation may require the members to pay a fixed sum of money as its annual membership fee.

Register of Members.

12. (1) The Organisation shall maintain a register of its professional members, containing their-

(a) name;

(b) proof of identity;

(c) contact details;

(d) address;

(e) date of enrolment and membership number;

(f) date of registration with the authority and registration number;

(g) details of grievances pending against him with the Organisation;

(h) details of disciplinary proceedings pending against him with the Organisation; and

(i) details of orders passed against him by the authority or Disciplinary Committee of the Organisation.

(2) The records relating to a member shall be made available for inspection to-

(a) the authority,

(b) any other person who has obtained the consent of the member for such inspection.

G. DUTIES OF MEMBERS

13. (1) In the performance of his functions, a member shall-

(a) act in good faith in discharge of his duties as a registered valuer;

(b) discharge his functions with utmost integrity and objectivity;

(c) be independent and impartial;

(d) discharge his functions with the highest standards of professional competence and professional ethics;

(e) continuously upgrade his professional expertise;

(f) comply with applicable laws in the performance of his functions; and

(g) maintain confidentiality of information obtained in the course of his professional activities unless required to disclose such information by law.

14. The Organisation shall have a Code of Conduct that shall be consistent with, and that shall provide for all matters in the Code of Conduct as specified in the Annexure-I.

H. MONITORING OF MEMBERS

15. The Organisation shall have a Monitoring Policy to monitor the professional activities and conduct of members for their adherence to

the provisions of the Act, rules, regulations and guidelines issued thereunder, these bye-laws, the Code of Conduct and directions given by the Governing Board.

16. A member shall submit information about ongoing and concluded engagements as a registered valuer, in the manner and format specified by the Organisation, at least twice a year stating inter alia, the date of assignment, date of completion and reference number of valuation assignment and valuation report.

17. The Monitoring Committee shall review the information and records submitted by the members in accordance with the Monitoring Policy.

18. The Monitoring Policy shall provide for the following -

    (a) the frequency of monitoring;

    (b) the manner and format of submission or collection of information and records of the members, including by way of inspection;

    (c) the obligations of members to comply with the Monitoring Policy;

    (d) the use, analysis and storage of information and records;

    (e) evaluation of performance of members; and

    (f) any other matters that may be specified by the Governing Board.

    19. The Monitoring Policy shall –

    (a) have due regard for the privacy of members,

    (b) provide for confidentiality of information received, except when disclosure of information is required by the authority or by law, and

    (c) be non-discriminatory.

20. The Organisation shall submit a report to the authority in the manner specified by the authority with information collected during monitoring, including information pertaining to -

    (a) the details of the appointments made under the Act/these Rules,

    (b) the transactions conducted with stakeholders during the period of his appointment;

    (c) the transactions conducted with third parties during the period of his appointment; and

    (d) the outcome of each appointment.

I. GRIEVANCE REDRESSAL MECHANISM

21. (1) The Organisation shall have a Grievance Redressal Policy providing the procedure for receiving, processing, redressing and disclosing grievances against the Organisation or any member of the Organisation by-

    (a) any member of the Organisation;

    (b) any person who has engaged the services of the concerned members of the Organisation; or

    (c) any other person or class of persons as may be provided by the Governing Board.

    (2) The Grievance Redressal Committee, after examining the grievance, may-

    (a) dismiss the grievance if it is devoid of merit; or

    (b) initiate a mediation between parties for redressal of grievance.

    (3) The Grievance Redressal Committee shall refer the matter to the Disciplinary Committee, wherever the grievance warrants disciplinary action.

22. The Grievance Redressal Policy shall provide for-

    (a) the format and manner for filing grievances;

    (b) maximum time and format for acknowledging receipt of a grievance;

    (c) maximum time for the disposal of the grievance by way of dismissal, reference to the Disciplinary Committee or the initiation of mediation;

    (d) details of the mediation mechanism

    (e) provision of a report of the grievance and mediation proceedings to the parties to the grievance upon dismissal or resolution of the grievance;

    (f) action to be taken in case of malicious or false complaints;

    (g) maintenance of a register of grievances made and resolutions arrived at; and

    (h) periodic review of the Grievance Redressal Mechanism.

J. DISCIPLINARY PROCEEDINGS

23. The Organisation may initiate disciplinary proceedings by issuing a show-cause notice against members-

(a) based on a reference made by the Grievances Redressal Committee;

(b) based on monitoring of members;

(c) following the directions given by the authority or any court of law; or

(d) *suo moto*, based on any information received by it.

24. (1) The Organisation shall have a Disciplinary Policy, which shall provide for the following -

(a) the manner in which the Disciplinary Committee may ascertain facts;

(b) the issue of show-cause notice based on the facts;

(c) disposal of show-cause notice by a reasoned order, following principles of natural justice;

(d) timelines for different stages of disposal of show cause notice; and

(e) rights and obligations of the parties to the proceedings.

(2) The orders that may be passed by the Disciplinary Committee shall include-

(a) expulsion of the member;

(b) suspension of the member for a certain period of time;

(c) admonishment of the member;

(d) imposition of monetary penalty;

(e) reference of the matter to the authority, which may include, in appropriate cases, recommendation of the amount of restitution or compensation that may be enforced by the authority; and

(f) directions relating to costs.

(3) The Disciplinary Committee may pass an order for expulsion of a member if it has found that the member has committed-

(a) an offence under any law for the time being in force, punishable with imprisonment for a term exceeding six months, or an offence involving moral turpitude;

(b) a gross violation of the Act, rules, regulations and guidelines issued thereunder, bye-laws or directions given by the Governing Board which renders him not a fit and proper person to continue acting as a registered valuer.

(4) Any order passed by the Disciplinary Committee shall be placed on the website of the Organisation within seven days from passing of the said order, with one copy each being provided to each of the parties to the proceeding.

(5) Monetary penalty received by the Organisation under the orders of the Disciplinary Committee shall be used for the professional development.

25. (1) The Governing Board shall constitute an Appellate Panel consisting of one independent director of the Organisation, one member each from amongst the persons of eminence having experience in the field of law and field of valuation, and one member nominated by the authority.

(2) Any person aggrieved of an order of the Disciplinary Committee may prefer an appeal before the Appellate Panel within thirty days from the receipt of a copy of the final order.

(3) The Appellate Panel shall dispose of the appeal in the manner it deems expedient, within thirty days of the receipt of the appeal.

K. XI. SURRENDER OF MEMBERSHIP AND EXPULSION FROM MEMBERSHIP

Temporary Surrender of Membership.

26. (1) A member shall make an application for temporary surrender of his membership of the Organisation at least thirty days before he-

(a) becomes a person not resident in India;

(b) takes up employment; or

(c) starts any business, except as specifically permitted under the Code of Conduct;

and upon acceptance of such temporary surrender and on completion of thirty days from the date of application for temporary surrender, the name of the member shall be temporarily struck from the registers of the Organisation, and the same shall be intimated to the authority.

(2) No application for temporarily surrender of membership of the Organisation shall be accepted if -

(a) there is a grievance or disciplinary proceeding pending against the member before the Organisation or the authority, and he has not given an undertaking to cooperate in such proceeding; or

(b) the member has been appointed as a registered valuer for a process under the Companies Act, 2013, and the appointment of another registered valuer may be detrimental to such process.

(3) A member may make an application to revive his temporarily surrendered membership when the conditions for temporary surrender as provided in sub-clause (1) cease to be applicable, and upon acceptance of the application for revival, the name of the member shall be re-inserted in the register of the Organisation, and the same shall be intimated to the authority.

Surrender of Membership

27. (1) A member who wishes to surrender his membership of the Organisation may do so by submitting an application for surrender of his membership.

(2) Upon acceptance of such surrender of his membership, and completion of thirty days from the date of such acceptance, the name of the member shall be struck from the registers of the Organisation, and the same shall be intimated to the authority.

28. Any fee that is due to the Organisation from a member surrendering his membership shall be cleared prior to his name being struck from the registers of the Organisation.

29. The Organisation may refuse to accept the surrender of membership by any member if-

(a) there is any grievance or disciplinary proceeding pending against the member before the Organisation or the authority; or

(b) the member has been appointed as a registered valuer process under the Companies Act, 2013, and the appointment of another registered valuer may be detrimental to such process.

Expulsion from Membership

30. A member shall be expelled by the Organisation-

(a) if he becomes ineligible to be enrolled under bye-law 9;

(b) on expiry of thirty days from the order of the Disciplinary Committee, unless set aside or stayed by the Appellate Panel;

(c) upon non-payment of membership fee despite at least two notices served in writing;

(d) upon the cancellation of his certificate of registration by the authority;

(e) upon the order of any court of law.

[16][ANNEXURE-IV]

Eligibility qualification and Experience for Registration as Valuer

(See Explanation II to rule 4)

Asset Class	Eligibility Qualifications	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;	(i) Five Years
	(ii) Post Graduate on above courses.	(ii) Three years
Land and Building	(i) Graduate in Civil Engineering, Architecture, or Town Planning or equivalent;	(i) Five years
	(ii) Post Graduate on above courses and also in valuation of land and building or Real Estate Valuation (a	(ii) Three years.

[16] Subs. by the Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, w.e.f. 13-11-2018.

	two-year full time post-graduation course)	
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 recognised Indian University or equivalent whether in India or abroad.

Appendix 'C'

A Sample Valuation Report

CONTENTS

VALUATION ANALYSIS

We refer to our Engagement Letter dated …….confirming our appointment as independent valuers of XXX PVT. LTD (the "Company"). In the following paragraphs, we have summarized our Valuation Analysis (the "Analysis") of the business of the Company as informed by the Management and detailed herein, together with the description of the methodologies used and limitations on our scope of work.

(I) CONTEXT AND PURPOSE

Based on discussion with the Management, we understand that the Company's promoters are evaluating the possibility of divesting their stake in the Company. In this context, the Management requires our assistance in determining the fair value of equity of the Company.

(II) CONDITIONS AND MAJOR ASSUMPTIONS

Conditions

The historical financial information about the company presented in this report is included solely for the purpose to arrive at value conclusion presented in this report, and it should not be used by anyone to obtain credit or for any other unintended purpose. Because of the limited purpose as mentioned in the report, it may be incomplete and may contain departures from generally accepted accounting principles prevailing in the country. We have not audited, reviewed, or compiled the Financial Statements and express no assurance on them. The financial information about the company presented in this report includes normalization adjustments made solely for the purpose to arrive at value conclusions presented in this report. Normalization adjustments as reported are hypothetical in nature and are not intended to present restated historical financial results or forecasts of the future.

Readers of this report should be aware that business valuation is based on future earnings potential that may or may not be materialized. Any financial projections e.g. projected balance sheet, projected profit and loss account, Projected Cash flow Statement as presented in this report are included solely to assist in the development of the value conclusion. The actual results may vary from the projections given, and the variations may be material, which may change the overall value.

This report is only to be used in its entirety, and for the purpose stated in the report. No third parties should rely on the information or data contained in this report without the advice of their lawyer, attorney or accountant.

We acknowledge that we have no present or contemplated financial interest in the Company. Our fees for this valuation are based upon our normal billing rates, and not contingent upon the results or the value of the business or in any other manner. We have no responsibility to modify this report for events and circumstances occurring subsequent to the date of this report.

We have, however, used conceptually sound and generally accepted methods, principles and procedures of valuation in determining the value estimate included in this report. The valuation analyst, by reason of performing this valuation and preparing this report, is not to be required to give expert testimony nor to be in attendance in court or at any government hearing with reference to the matters contained herein, unless prior arrangements have been made with the analyst regarding such additional engagement.

Assumptions

The opinion of value given in this report is based on information provided in part by the management of the Company and other sources as listed in the report. This information is assumed to be accurate and complete.

Frequently Asked Questions on Valuation

We have relied upon the representations contained in the public and other documents in our possession concerning the value and useful condition of all investments in securities or partnership interests, and any other assets or liabilities except as specifically stated to the contrary in this report.

We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances, or that the owner has good title to all the assets.

We have also assumed that the business will be operated prudently and that there are no unforeseen adverse changes in the economic conditions affecting the business, the market, or the industry. This report presumes that the management of the Company will maintain the character and integrity of the Company through any sale, reorganization or reduction of any owner's/manager's participation in the existing activities of the Company.

We have been informed by management that there are no environmental or toxic contamination problems, any significant lawsuits, or any other undisclosed contingent liabilities which may potentially affect the business, except as may be disclosed elsewhere in this report. We have assumed that no costs or expenses will be incurred in connection with such liabilities, except as explicitly stated in this report.

Background of the company

The Company is engaged in the business of …………….. Headquartered in ………, the Company was incorporated in ……...

We understand that the Company provides engineering advisory services in the following areas:

- …………
- …………
- …………

More Information about the company may be given regarding:

- Products of the company
- Facilities to the company
- Market available
- Industry in which company is engaged
- Major competitors and level of competition

- Staff
- Management
- Shareholders
- Future Outlook of the company

We understand that as per the Audited Financial Statements for the Financial year …….., Company recorded an annual turnover of Rs ………and an EBITDA of ………for the same period.

B. VALUATION DATE

The Analysis of the Fair Value of the equity of the Company has been carried out as on ………..

C. VALUATION STANDARDS

The Report has been prepared in compliance with the Valuation Standards issued by the Institute of Chartered Accountants of India and adopted by ICAI Registered Valuers Organisation.

D. VALUATION METHODOLOGY AND APPROACH

The standard of value used in the Analysis is “Fair Value”, which is often defined as the price, in terms of cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act.

Valuation of a business is not an exact science and ultimately depends upon what it is worth to a serious investor or buyer who may be prepared to pay substantial goodwill. This exercise may be carried out using various methodologies, the relative emphasis of each often varying with:

- whether the entity is listed on a stock exchange
- industry to which the Company belongs
- past track record of the business and the ease with which the growth rate in cash flows to perpetuity can be estimated
- extent to which industry and comparable company information are available.

The results of this exercise could vary significantly depending upon the basis used, the specific circumstances and professional judgment of the valuer. In respect of going concerns, certain valuation techniques have evolved over time and are commonly in vogue. These can be broadly categorised as follows:

1. Cost Approach:

The value arrived at under this approach is based on the audited financial statements of the business and may be defined as Shareholders' Funds or Net Assets owned by the business. The balance sheet values are adjusted for any contingent liabilities that are likely to materialise.

The Net Asset Value is generally used as the minimum break-up value for the transaction since this methodology ignores the future return the assets can produce and is calculated using historical accounting data that does not reflect how much the business is worth to someone who may buy it as a going concern.

We understand that the business of the Company is not capital intensive. Accordingly, the current NAV would not be reflective of its growth potential going forward and thus would not reveal the true business value of the Company. Hence, keeping the context and purpose of the Report in mind, we have not used this method in the Analysis.

2. Market Approach:

Comparable Company Market Multiple Method

Under this methodology, market multiples of comparable listed companies are computed and applied to the business being valued in order to arrive at a multiple based valuation. The difficulty here is in the selection of a comparable company since it is rare to find two or more companies with the same product portfolio, size, capital structure, business strategy, profitability and accounting practices.

Whereas no publicly traded company provides an identical match to the operations of a given company, important information can be drawn from the way comparable enterprises are valued by public markets.

We have not used this methodology in the Analysis as we understand that there are no comparable listed companies in the sector to which the Company belongs.

Comparable Transactions Multiple Method

This approach is somewhat similar to the market multiples approach except that the sales and EBITDA multiples of reported transactions in the same industry in the recent past are applied to the sales and EBITDA of the business being valued.

We have not considered this methodology in the Analysis as we understand that there are no comparable Indian transactions in the sector to which the Company belongs.

3. Income Approach:

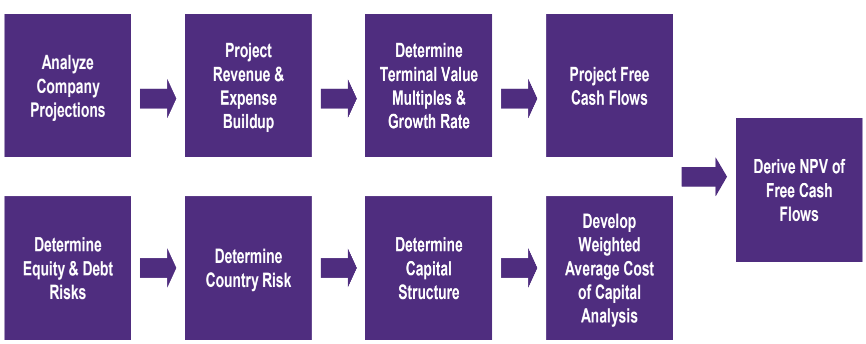
Maintainable Profit Method (Discounted Cash Flows –"DCF")

DCF uses the future free cash flows of the company discounted by the firm's weighted average cost of capital (the average cost of all the capital used in the business, including debt and equity), plus a risk factor measured by beta, to arrive at the present value.

Beta is an adjustment that uses historic stock market data to measure the sensitivity of the company's cash flow to market indices, for example, through business cycles.

The DCF method is a strong valuation tool, as it concentrates on cash generation potential of a business. This valuation method is based on the capability of a company to generate cash flows in the future. The free cash flows are projected for a certain number of years and then discounted at a discount rate that reflects a company's cost of capital and the risk associated with the cash flows it generates. DCF analysis is based mainly on the following elements:

- Projection of financial statements (key value driving factors)
- The cost of capital to discount the projected cash flows



Keeping in mind the context and purpose of the Report, we have used

the DCF method as it captures the growth potential of the business going forward. We have used this method to calculate the fair value of equity of the Company based on the financial projections prepared by the Management of the Company.

Free Cash Flows

We have been provided with the projected financial statements of the Company for … years ending ………….by the Management, which we have considered for our Analysis. These include projected income statement and projected balance sheet. Accordingly, the projected free cash flows to equity ("FCFE") based on these financial statements is set out below:

…………………..

…………………..

…………………..

Terminal Value

The terminal value refers to the present value of the business as a going concern beyond the period of projections up to infinity. This value is estimated by taking into account expected growth rates of the business in future, sustainable capital investments required for the business as well as the estimated growth rate of the industry and economy. Based on dynamics of the sector and discussions with the Management, we have assumed a terminal growth rate of ….% for the Company beyond the projection period. The cash flows of ………..have been used to determine the terminal value. Based on these assumptions, the terminal value has been calculated at………...

Using these cash flows and a discount rate of ...%, we estimate the **equity value of the Company at Rs ……….** after adding cash on hand of Rs …….as on the valuation date.

Discount Factor

The Discount Factor considered for arriving at the present value of the free cash-flows to equity of the Company is the cost of equity. The cost of equity is computed using the Capital Asset Pricing Model (CAPM) using the formula shown below.

$$r_E = r_f + \beta(r_m - r_f)$$

Where,

rf = Risk free rate;

rm =Market return;

β = Sensitivity of the index to the market/ Measure of Market Risk

- Risk free return (rf) – yield on the NSE zero coupon - 10 year bond as on ………………..– …..%
- Market rate of return (rm) - Cumulative average return on the BSE since inception till ………..is …..%
- Measure of market risk (β)- beta has been assumed at …

Based on the above parameters, the cost of equity has been calculated at …% after adjusting for an illiquidity and size risk premium of …%.

E. SOURCES OF INFORMATION

The Analysis is based on a review of the business plan of the Company provided by the Management and information relating to the engineering consultancy services sector as available in the public domain. Specifically, the sources of information include:

- Discussions with the Management
- Company brochure and website
- Financial projections of the Company for ……years ending …………..as provided by the Management
- Audited financial statements for ………………..and …………
- Yield on 10 years zero coupon Government Securities from the National Stock Exchange website (www.nseindia.com)
- Market return on the BSE Sensex from the Stock Exchange, Mumbai website (www.bseindia.com)

In addition to the above, we have also obtained such other information and explanations which were considered relevant for the purpose of the Analysis.

F. CAVEATS

Provision of valuation recommendations and considerations of the issues described herein are areas of our regular corporate advisory practice. The services do not represent accounting, assurance, financial due diligence review, consulting, transfer pricing or domestic/international tax-related services that may otherwise be provided by us.

Our review of the affairs of the Company and their books and account does not constitute an audit in accordance with Auditing Standards. We have relied on explanations and information provided by the Management of the Company and accepted the information provided to us as accurate and complete in all respects. Although, we have reviewed such data for consistency and reasonableness, we have not independently investigated or otherwise verified the data provided. Nothing has come to our attention to indicate that the information provided had material mis-statements or would not afford reasonable grounds upon which to base the Report.

The report is based on the financial projections provided to us by the management of the company and thus the responsibility for forecasts and the assumptions on which they are based is solely that of the Management of the Company and we do not provide any confirmation or assurance on the achievability of these projections. It must be emphasized that profit forecasts necessarily depend upon subjective judgement. Similarly we have relied on data from external sources. These sources are considered to be reliable and therefore, we assume no liability for the accuracy of the data. We have assumed that the business continues normally without any disruptions due to statutory or other external/internal occurrences.

The valuation worksheets prepared for the exercise are proprietary to ABC Valuer and cannot be shared. Any clarifications on the workings will be provided on request, prior to finalizing the Report, as per the terms of our engagement.

The scope of our work has been limited both in terms of the areas of the business and operations which we have reviewed and the extent to which we have reviewed them.

The Valuation Analysis contained herein represents the value only on the date that is specifically stated in this Report. This Report is issued on the understanding that the Management of the Company has drawn our attention to all matters of which they are aware, which may have an impact on our Report up to the date of signature. We have no responsibility to update this Report for events and circumstances occurring after the date of this Report.

We have no present or planned future interest in the Company and the fee for this Report is not contingent upon the values reported herein.

Our Valuation Analysis should not be construed as investment advice;

specifically, we do not express any opinion on the suitability or otherwise of entering into any transaction with the Company.

G. DISTRIBUTION OF REPORT

The Analysis is confidential and has been prepared exclusively for XXX. It should not be used, reproduced or circulated to any other person or for any purpose other than as mentioned above, in whole or in part, without the prior written consent of ABC Valuer. Such consent will only be given after full consideration of the circumstances at the time. However, we do understand that the Report will be shared with the Buyers of the Company.

H. OPINION OF VALUE OF THE BUSINESS

Based on the Analysis of the Business of the Company, in our assessment, the fair value as at ………………is as follows:

Equity Value Range: Rs ……to Rs ……….

We trust the above meets your requirements. Please feel free to contact us in case you require any additional information or clarifications.

Yours faithfully

ABC Valuer

Appendix 'D'

A Sample Engagement Letter

[The following letter is for use as a guide to the Valuer and will need to be varied according to individual requirements and circumstances relevant to the engagement.]

The Board of Directors

XXX Private Limited

Address

Date

For the kind attention of: Mr A– Managing Director

Dear Sirs

BUSINESS VALUATION ANALYSIS

With reference to our recent discussions to value the company XXX Private Limited, we are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

1. INTRODUCTION

Based on discussions with the Management, we understand that the Company is engaged in the …………… [Business of the company]. Headquartered in the ……..and XXX is a ……years old company.

2. SCOPE OF WORK

Based on discussions with the Management, we understand that the promoters of the Company are evaluating the possibility of selling their stake in XXX. In this context, you require our assistance to carry out the Valuation of the Company.

Valuation of a company is not an exact science and ultimately depends upon what it is worth to a serious investor or buyer who for his or her own reasons may be prepared to pay substantial goodwill.

This exercise may be carried out using various methodologies, the relative emphasis of each often varying with:

i) industry to which the company belongs

ii) ease with which the growth rate in cash flows to perpetuity can be estimated

iii) extent to which industry and comparable company information is available

iv) Need for an independent fixed asset valuation/ revaluation.

Having arrived at an assessment of fair value, some adjustments that are typically considered in such an exercise are:

i) Whether there is change of control and therefore a control premium is justified for a particular purchaser, if any.

ii) Whether the shares are marketable and frequently traded or there is a case for discounting on account of illiquidity, if applicable.

Our assessment of the valuation of the Company will be on the basic assumption of a going concern entity and would be based on some or all of these popular methodologies:

Income Approach

The Income Approach indicates the value of a business based on the value of the cash flows that a business is expected to generate in future. This approach is appropriate in most going concern situations as the worth of a business is generally a function of its ability to earn income/cash flow and to provide an appropriate return on investment.

Market Approach

Compared to the Income Approach that incorporates company-specific estimates to arrive at the firm's intrinsic value, the Market Approach relies on relative valuation to arrive at the value of a business, based upon how similar assets are priced in the market.

The Market Approach provides a reasonable basis for valuation and is relatively a quick approach in its application, but it suffers from a number of limitations

Cost Approach

Valuation on Net Assets is computed by taking the net value of a business's assets, subtracting therefrom the amount of the liabilities and preferred shareholders' claims and dividing the remainder among the equity shareholders according to their individual rights.

It is generally used as the minimum break-up value for the transaction since this methodology ignores the future return the assets can produce and is calculated using historical accounting data that does not reflect how much the business is worth to someone who may buy it as a going concern.

Maintainable Profit Method or Discounted Cash Flows Method ('DCF')

DCF uses the future free cash flows of the company discounted by the firm's weighted average cost of capital (the average cost of all the capital used in the business, including debt and equity), plus a risk factor measured by beta. Beta is an adjustment that uses historic data to measure the sensitivity of the company's cash flow, for example, through business cycles. This means that companies in highly cyclical businesses will have a high beta to reflect the volatile nature of their cash flow. The DCF method is a strong valuation tool, as it concentrates on cash generation potential of a business.

Comparable Company Market Multiple

Under this methodology, market multiples of comparable listed companies are computed and applied to the Company being valued to arrive at a multiple based valuation. The difficulty here is in the selection of a comparable company, since it is rare to find two or more companies with the same product portfolio, size, capital structure, business strategy, profitability and accounting practices.

Price/Earnings multiple

This is a popular method due to its simplicity. However, it has limited acceptability due to the results being influenced by differences in accounting methods (i.e. treatment of intangible assets) or an artificially boosted PE ratio due to an atypical drop in earnings. Earnings before interest, depreciation and tax is usually preferred over net earnings in order to even out differences caused by capital structure, tax benefits, etc.

Market Cap/Sales Multiple

This method is sometimes used to value the SME sector by multiplying a year's gross/net profit or sales by a certain number, determined as the appropriate multiple for the type of business. This approach particularly with the small and medium sized business has little or no scientific methodology behind it, as it assumes automatically that what has gone before will continue in the future.

Industry Valuation Benchmarks

A number of industries have industry-specific valuation benchmarks such as 'EV per MW' for power generation companies, 'EV per subscriber' for telecom companies, etc. which can be applied as rule of thumb for business valuation. Other industries where long term contracts are a key feature, multiples of revenues can be used as a valuation benchmark. These industry norms are based on the assumption that investors are willing to pay for turnover or market share and that the normal profitability of businesses in the industry does not vary much. This methodology is more useful as a sense-check of values produced using other methodologies.

As a result of the work set out above, should you wish us to act for you in any other aspects concerning the future strategy of the Company, or adopt any other method of valuation we would be pleased to discuss your requirements. Clearly, any additional work will be the subject of a separate fee arrangement.

Please note that the Services described above do not constitute an audit of the books and records of the Company under the Companies Act. Further, in carrying out our work we shall rely upon the information and clarifications provided to us by the Management of the Company. We will not accept any responsibility for the accuracy or authenticity of the records or information provided to us.

3. DURATION OF THE ASSIGNMENT

Based on our initial estimate of the time required to complete our engagement fieldwork relating to scope of work detailed in this letter, we expect to deliver our draft report within ………… days of commencement of fieldwork. Fieldwork would be commenced after receiving your confirmation to start the work and after receiving the basic information relating to the Company. The final report shall be issued subsequent to clearance of your comments on the draft report.

4. CONFIDENTIALITY

Our report will be addressed to XXX. We stress that our reports and letters are confidential and prepared for the addressees only. They should not be used, reproduced or circulated for any other purpose, whether in whole or in part without our prior written consent, which consent will only be given after full consideration of the circumstances at the time.

6. FEES

Our fees will be based on the degree of skill involved, the seniority of the staff engaged and the time necessarily occupied on the work. Our fees will be paid by XXX as and when due and it will be due as follows:

- XX% on acceptance of this engagement letter
- XX% on submission of draft report

The fee for the engagement would include:

- INR XXXX (Indian Rupees XXXX only) plus taxes as applicable for the Valuation Analysis of the Company. This fee does not include any other services such as post valuation follow up, negotiation, valuation justification, updating and other support services for the valuation engagement. Such services can be taken up separately based on mutually agreeable terms.
- In case of any unforeseen event or circumstances arise which require us to do more work, it would be charged in addition of above as may be decided in writing.
- In addition, expenses incurred directly in connection with the assignment would be reimbursable.

Please note that payment is due on submission of our invoice. Invoices outstanding for more than X days post the invoice date shall attract a simple interest of XX% per month.

7. TERMINATION

After commencement of engagement and before the final report is issued, if at any stage the assignment is called off by the company, then the company will be liable to pay a compensation of …% of the fee quoted above or …………*(Some another basis), whichever is higher.*

8. LIMITATION OF LIABILITY

Our liability in respect of this assignment will be limited to that part of any loss suffered which is proportional to our responsibility or due to negligence at our part and at no time shall exceed the fee that we have received from this assignment.

9. ADDITIONAL TERMS AND CONDITIONS OF ENGAGEMENT

The additional terms and conditions included in *ANNEXURE 1* to this letter apply to this engagement as if they were set out in this letter. They should be read and understood in conjunction with this letter as they form an important and integral part of the overall terms of engagement.

10. ACCEPTANCE OF TERMS

We would be grateful if you would confirm our understanding of your instructions and your agreement to the terms of this letter, including those contained in *Appendix I*, by signing and returning the enclosed copy of this letter.

We are keen to work with you and look forward to your confirmation. Meanwhile, please feel free to contact us for any clarifications.

Yours faithfully

ABC VALUER

____

For and on behalf of **XXX Private Limited**

Terms of engagement acknowledged and agreed by**-**

NAME.................................. DESIGNATION..................................

SIGNATURE .... DATE..................................

ANNEXURE I: ADDITIONAL TERMS AND CONDITIONS OF ENGAGEMENT

These additional terms and conditions of engagement should be read together with the accompanying engagement letter from ABC Valuer which identifies the engagement to which they relate (the 'engagement letter').

1. VERIFICATION OF RESPONSIBILITIES

1.1 The scope of our work is as set out in the engagement letter above. We will provide the services set out in the scope with reasonable skill and care, in accordance with the professional standard expected of us, and in a timely manner. We will not normally verify or check any information provided to us by you or by others on your behalf, and you acknowledge that we shall be entitled to rely on such information when performing our obligations under this engagement as it is not designed to investigate nor interrogate for fraud and/or dishonesty (actual or possible) and is not costed accordingly.

1.2 Our review of the affairs of the Company will not constitute an audit in accordance with Auditing Standards and we will carry out no verification work. Consequently we will not express an opinion on the financial statements and management accounts, which we may discuss in our reports, except where required by statute or regulations.

1.3 In relation to all our work for you, it is the responsibility of your staff to provide us with complete, accurate, timely and relevant information and to carry out any other obligations required to be undertaken by you or others under your control. In addition, you agree to keep us informed of any material developments relating to the business or operations which may have a bearing on our engagement.

2. LIMITATION OF LIABILITY

2.1 The aggregate liability of our firm, its partners, agents and employees or any of them (together referred to in this and subsequent clauses as the "Firm") for damage shall be limited to the fee that we have received from this assignment, as set out in our engagement letter.

2.2 For the purposes of this engagement letter "damage" shall mean the aggregate of all losses or damages (including interest thereon if any) and costs suffered or incurred, directly or indirectly, by the addressee of this letter ("Addressee") under or in connection with this engagement including as a result of breach of contract, breach of statutory duty, tort (including negligence), or other act or omission by the Firm but excluding any such losses, damages or costs arising from the fraud or dishonesty of the Firm or in respect of liabilities which cannot lawfully be limited or excluded.

2.3 Subject always to the aggregate limit of liability specified in paragraph 2.1 above, the liability of the Firm to the addressee of this letter (the "Addressee") in connection to this engagement shall be limited to the proportion of the total damage which may justly and equitably be attributed to the Firm, after taking into account contributory negligence (if any) of the Addressee.

2.4 Adressee shall hold harmless the Firm, its directors and employees free from all actions, claims, proceedings, losses, damages, costs and expenses, whatsoever and however caused, incurred, sustained or arising, which Firm, its directors and employees may suffer, arising from, or in connection with, the provision of the services. This provision shall survive the termination of the engagement for any reason.

3. OWNERSHIP OF BOOKS AND PAPERS

3.1 All documents in whatever form, paper, electronic or otherwise such as (for example, but without being an exhaustive list) working papers, letters (including without limitation e-mails), memoranda, file notes of meetings and telephone calls, draft computations and returns etc and copies of other original documents which we create or which we receive either as principal or in our own right or as agent for you belong to ABC Valuer. For the avoidance of doubt, we do not assert such ownership rights to documents such as, for example, title documents, original invoices and other original primary accounting records, tax deduction certificates etc belonging to you, but we may retain possession of them by exercising a lien because our fees remain outstanding after becoming due for payment.

3.2 The valuation worksheets prepared for the exercise are proprietary to ABC Valuer and cannot be shared. Any clarifications on the workings will be provided on request, prior to finalising the report, as per the terms of our engagement.

4. CONFIDENTIALITY

1.1 Where we receive confidential information, our only obligation is to take such steps as we in good faith think fit to preserve such confidential information from unauthorized disclosure or other misuse both during and after termination of this engagement. If, despite taking such steps, we disclose without authorization or otherwise misuse the confidential information, causing you loss, we shall be liable to you in accordance with law but subject to the other terms of the engagement. Subject to our duty of confidentiality, you agree we may act for your competitors or for other clients, whose interests are or may be opposed to yours.

We will not be prevented from disclosing confidential information:

a) which is or becomes public knowledge other than by way of breach of an obligation of confidentiality;

b) which is or becomes known from other sources without restriction on disclosure; or

c) which is required to be disclosed by law or any professional or regulatory obligation.

6. OUR SERVICE

1.1 If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the services you are receiving, please let us know by contacting our ………………, Mr B. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. If we have given you a less than satisfactory service, we undertake to do everything reasonable to put it right.

8. GOVERNING LAW

8.1 These terms of business shall be governed by and construed in accordance with the laws of India and any dispute arising out of this engagement or these terms shall be subject to the exclusive jurisdiction of Indian courts.

Appendix E

Illustrative List of Assumptions and Limiting Conditions

A list of assumptions and limiting conditions under which the engagement was performed must form a crucial part of the valuation report or calculation report. This appendix includes an illustrative list of assumptions and limiting conditions that may apply to business valuation.

Illustrative List of Assumptions and Limiting Conditions

1. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation and may not be used out of the context presented herein.

2. Public information, estimates, industry and statistical information contained in this report have been obtained from sources considered to be reliable. However, we independently did not verify such information and make no representation as to the accuracy or completeness of such information obtained from or provided by such sources.

3. The company and its representatives warranted to us that the information supplied to us was complete and accurate to the best of their knowledge and that the financial information properly reflects the business conditions and operating results for the respective periods in accordance with generally accepted accounting principles. Information supplied to us has been accepted as correct without any further verification. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

4. Financial information of the subject company is included solely to assist in the development of a value conclusion presented in this report and should not be used to obtain credit or for other purpose. Because of the limited purpose of the information presented, it may be incomplete and contain departures from generally accepted accounting principles. We have not audited, reviewed or compiled this information and express no assurance on it.

5. We do not provide assurance on the achievability of the results forecasted by the client 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.

6. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

7. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it nor may it be used for any purpose by anyone other than those enumerated in this report without the written consent of the [Valuation Firm]. This report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein.

8. The report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of [Valuation Firm], based on information furnished to them by the client and other sources.

9. Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of [*Valuation Firm*].

10. This valuation reflects facts and conditions existing or reasonable foreseeable at the valuation date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

11. The analyst, by reason of this valuation, is not required to give further consultation, testimony, or be in attendance in court with reference to

the property in question unless arrangements have been previously made.

12. Our engagement for this valuation consulting work does not include any procedures designed to discover any defalcations or other irregularities, should any exist.

13. [*Valuation Firm*] is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, are encouraged to obtain a professional environmental assessment. [*Valuation Firm*] does not conduct or provide environmental assessments and has not performed one for the subject property.

14. [*Valuation Firm*] has not determined independently whether the client is subject to any present or future liability relating to environmental matters nor the scope of any such liabilities. [*Valuation Firm*]'s valuation takes no such liabilities into account, except as they have been reported to [*Valuation Firm*] by the client or by an environmental consultant working for the client.

15. No change of any item in this valuation/conclusion report shall be made by anyone other than [*Valuation Firm*], and we shall have no responsibility for any such unauthorized change.

16. It is assumed that there is full compliance with all applicable central, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the report.

17. If prospective financial information approved by management has been used in our work, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions.

18. We have conducted interviews with the current management of the client concerning the past, present, and prospective operating results of the company. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate,

investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report.

19. We have made no investigation of title to property, and assume that the owner's claim to the property is valid. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

Appendix 'F'

A Sample Management Representation Letter

[The following letter is for use as a general guide to the valuers. Representation by management will vary from one entity to another, and from one year to the next. Therefore, this letter is not intended to be a standard letter and should be adapted in the light of individual requirements and circumstances.]

[Please insert your Company's letter head here]

Name and Address of Valuer

Date

Dear Sirs

This is with regard to the valuation of XXX Private Limited ("XXX" or the "Company") as at …………….. ("Valuation Date")

We understand that for your valuation exercise, you are relying on the following representations which we made to you and which, by way of this letter, we are confirming to you to be correct and complete in all material aspects to the best of our knowledge and belief:

1. In relation to the financial forecasts for XXX provided to you in ………, covering the period …………to …………., it is confirmed, to the best of our knowledge and belief:

   (i) The financial position and operating results for the forecast period reflect the best judgement of the Management, based on expected future market conditions and the likely course of action to be taken by XXX, as at the Valuation Date.

   (ii) Accounting principles used in the preparation of the forecast data are consistent with those used in the historical financial statements of the Company.

   (iii) The unaudited results for …….., audited financial statements of ………, along with the projections have been provided for the Company.

(iv) We have consistently applied our key assumptions during the forecast period and have not omitted any factors that may be relevant.

(v) We confirm that there have been no significant changes and developments in the operations of XXX after the date of last audited financial statements i.e. the period …………till the date of this confirmation letter which has not been incorporated in the un audited financials or the projections provided.

(vi) We confirm that the information we have provided you on the recent valuation of the Company is based on the exercise that has been carried out by the external advisors of the Company for our internal evaluation. According to this report, the total enterprise value range of the Company is estimated between Rs ….. to …….

(vii) We confirm that the target debt equity ratio of the Company going forward would be ….. based on the assumption that the Company would grow in size and operations and would require more debt in its capital structure to fund its assets.

2. As at Valuation Date, the Company had good title to all assets recorded in the respective accounts, and these assets were free from hypothecation, liens and encumbrances.

3. There are no contingent liabilities, unusual contractual obligations, substantial commitments or any surplus non-operating assets for XXX, which would materially affect the financial statements used by you in preparation of the valuation.

4. We confirm that all our replies to your queries either via correspondences or management meetings on the earnings capacity and operating outlook for the Company reflect our judgment, as at Valuation Date, regarding the future profitability of the business after taking into account industry and operating conditions.

5. All documents, records and information relevant to your review of the financial outlook have been disclosed to you and are complete and accurate in relation to the valuation of the Company as at Valuation Date.

6. We confirm that it is the current intention to run the business operation as a going concern.

Appendix F : A Sample Management Representation Letter

By this letter of representation, we confirm that, to the best of our knowledge, we are not aware of any material Mis-Statement of fact or any other information that should be disclosed in your preparation of valuation. We agree that we shall indemnify and hold harmless your firm and employees from any claims by parties for whom the valuation is prepared arising out of any material Mis-Statement or omission in any material or information supplied by us.

Yours faithfully

____

Name:

Title:

Date: