VALUATION: VCM ATQS
"IS DCF THE MOST POPULAR METHOD FOR VALUATION - U/COMPANIES ACT ?"

VALUATION STANDARDS BOARD
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up under an Act of Parliament)
New Delhi

Series-2

Valuation: VCM ATQs
"Is DCF the most popular method for valuation - U/Companies Act?"

Valuation Standards Board
The Institute of Chartered Accountants of India

Preamble

Valuation Standards Board of ICAI (VSB) had organised a live webcast on the topic- "Is DCF the most popular method for valuation - U/Companies Act? on 30th May, 2021. The details of the webcast are:

President ICAI:	CA. Nihar N. Jambusaria
Vice President ICAI:	CA. Debashis Mitra
Address by:	CA. Anil Bhandari, Chairman, VSB, ICAI CA. M. P. Vijay Kumar, Vice- Chairman, VSB, ICAI
Speaker:	CA. Parag Kulkarni
Director:	Shri Rakesh Sehgal, Director, ICAI
Secretary:	CA. Sarika Singhal, Deputy Secretary, ICAI

The Webcast received overwhelming response and was attended by more than 9000 viewers. The said webcast can be viewed again at https://live.icai.org/vsb/vcm/30052021/

There were many questions raised during the webcast. We have prepared answers to the questions (ATQs) raised during the webcast, which do not require application of valuation practices and principles. Also, repetitive questions and questions not related to subject matter have not be answered.

We would also like to mention that the Valuation Standards Board has brought many publications and the Concept papers that may be referred for guidance and reference. All the below publications are available on the Committee link at ICAI website i.e., www.icai.org

- ICAI Valuation Standards 2018
- Educational Material on ICAI Valuation Standard 103 - Valuation Approaches and

Methods

- Educational Material on ICAI Valuation Standard 301- Business Valuation
- Valuation: Professionals' Insight- Series- I, II, III, IV and V
- Answers to the Questions raised during the Live Webcast on "Valuation and Valuation Standards Compliance and other aspects under various Laws"
- Technical Guide on Valuation
- Frequently Asked Questions on Valuation
- Concept Paper on findings of Peer Review of Valuation Reports
- Concept Paper on All About Fair Value
- Sample Engagement Letter for accepting Valuation assignment

The answers have been given for reference purposes. Detailed analysis may be done, and other material may be referred.

Valuation Standards Board
New Delhi
30th June 2021

Valuations with Discounted Cash Flow Method- Under The Companies Act, 2013”

Valuation requirements under The Companies Act, 2013

The concept of valuation by a "registered valuer" under Indian law was introduced for the first time vide Section 247 of Chapter VXII of the Companies Act, 2013 for matters requiring valuation under the said act.

Section 247 of the Companies Act provides that "where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other asset or net worth of a company or its liabilities under the provisions of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner and on such terms and conditions as maybe prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company".

Accordingly, the Ministry of Corporate Affairs introduced the Companies (Registered Valuers and Valuation) Rules, 2017 ("Rules") which provide for the eligibility conditions, registration requirements etc. for Registered Valuers. The Rules also provide that the Insolvency and Bankruptcy Board of India ("IBBI") established under the Insolvency and Bankruptcy Code, 2016 be the "regulating authority" of a "registered valuer".

Consequently, valuation by a registered valuer became mandatory for valuations undertaken under the Companies Act’ 2013.

Provisions of the Companies Act, 2013 requiring Valuation by Registered Valuers

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	Valuation is required to be done by whom

1.	**Chapter II-** Incorporation of Companies	**Section 8(4)- Formation of companies with charitable objects, etc** **Conversion of Section 8 company to any other company**	**Rule 21 – Conversion of Section 8 company to any other company** Copy of valuation report by a registered valuer about the market value of assets is required in case of filing of INC-18 by a company under Rule 21 of the Companies (Incorporation) Rules to convert a section 8 Company to any other kind of company.	**Registered Valuer**
2.	**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).	**Registered Valuer**

3.	**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.	**Registered Valuer**
4.	**Chapter IV-** Issue of Shares / convertible securities on	**Section 62 (1) (c) - Further issue of share capital.**	**Rule 13 (1)- Issue of shares on preferential basis**	**Registered Valuer** **(However in case of a listed**

	preferential basis by unlisted company for cash or for consideration other than cash	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.	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.	**company, the price of shares to be issued on a preferential basis shall not be required to be determined by the valuation report of a registered valuer)**
5.	**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.-**	**Registered Valuer in case where shares of a company are not listed on a recognised stock exchange**

			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;	
6.	**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;	**Registered Valuer**
7.	**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	**Registered Valuer**

			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.	
8.	**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;	**-**	**Registered Valuer**
9.	**Chapter XII-** Non cash	**Section 192 (2) Restriction on**	-	**Registered Valuer**

	transactions with Directors for acquiring assets from the company	**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.		
10.	**Chapter XV-** In case of any scheme of corporate debt restructuring	**Section 230 (2) (c) (v)** any scheme of corporate debt restructuring consented to by not less than seventy-five per cent. of the secured creditors in value, including	-	**Registered Valuer**

		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.		
11.	**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:—	-	**Expert in Valuation of Shares**

		(d) the report of the expert with regard to valuation, if any;		
12.	**Chapter XV-** Exit for dissenting shareholder of transferor company	**Section 232 (3) (h) (B)** where the transferor company is a listed company and the transferee company is an unlisted company,— the transferee company shall remain an unlisted company until it becomes a listed company; 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;		
13.	**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	-	**Registered Valuer**

14.		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.		
14.	**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	-	**Registered Valuer**

		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.		
15.	**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,	-	**Registered Valuer**

		held by the company: Provided that the valuation of the assets shall be obtained from registered valuers for this purpose.		
16.	**Chapter III** The Companies (Issue of Global Depository Receipts) Rules, 2014		**Rule 4 (5)- Conditions for issue of Depository Receipts** (5) The company shall appoint a merchant banker or a practising chartered accountant or a practising cost accountant or a practising company secretary to oversee all the compliances relating to issue of depository receipts and the compliance report taken from such merchant banker or practising chartered accountant or practising cost accountant or practising company	**Merchant banker/ Practising CA/CS/Cost Accountant**

			secretary, as the case may be, shall be placed at the meeting of the Board of Directors of the company or of the committee of the Board of directors authorised by the Board in this regard to be held immediately after closure of all formalities of the issue of depository receipts:	
17.	**Schedule III-**	**Division I** **Title deeds of Immovable Properties not held in name of the Company** Where the Company has revalued its Property, Plant and Equipment, the company shall disclose as to whether the revaluation is based on		**Registered Valuer**

		the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.		
18.	**Schedule III-**	**Division II and III** **Title deeds of Immovable Properties not held in name of the Company** The company shall disclose as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) is based on the valuation by a registered valuer as defined under rule 2 of		**Registered Valuer**

		Companies (Registered Valuers and Valuation) Rules, 2017. Where the Company has revalued its Property, Plant and Equipment (including Right-of-Use Assets), the company shall disclose as to whether the revaluation is based on valuation by a Registered Valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017. Where the Company has revalued its Intangible assets, the company shall disclose as to whether the		

		revaluation is based on valuation by a Registered Valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.		

Valuation Standards, approaches and methodologies.

As per definition "Valuation standards" means the standards on valuation referred to in rule 18 of the Companies (Registered Valuers and Valuation) Rules, 2017. Rule 18 prescribes that 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.

The Rules provide that till Valuation Standards as per rule 18 are being notified a valuer shall make valuations as per-

i. internationally accepted valuation standards;
ii. valuation standards adopted by any Registered Valuers Organisation.

ICAI Valuation Standards 2018

The Institute of Chartered Accountants of India (ICAI), recognising the need to have the consistent, uniform and transparent valuation policies and harmonise the diverse practices in use in India, constituted the Valuation Standards Board (VSB) which has notified 8 valuation standards so far:-

i. Ind VS 101, Definitions
ii. Ind VS 102, Valuation Bases

iii. Ind VS 103, Valuation Approaches and Methods
iv. Ind VS 201, Scope of Work, Analyses and Evaluation
v. Ind VS 202, Reporting and Documentation
vi. Ind VS 301, Business Valuation
vii. Ind VS 302, Intangible Assets
viii. Ind VS 303, Financial Instruments.

ICAI RVO has adopted the same till valuation standards under Rule-18 are issued by IBBI.

Valuation Premise and Valuation Method

ICAI VAS 102- Valuation Bases requires the valuer to first choose the valuation premise basis the need to the valuation assignment. Once the valuation premise is ascertained, the valuer then moves to the question of deciding which method of valuation to opt for.

VS 103- Valuation Approaches and Methods

This Standard defines approaches and methods for valuing an asset. The three main approaches of valuation as provided by VS 103 are- market approach, income approach and cost approach. Discounted Cash Flow method of valuation comes under the Income Approach.

Discounted Cash Flow (DCM) Method

Income approach is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted or capitalised) amount. The fair value measurement is determined based on the value indicated by current market expectations about those future amounts. This approach involves discounting future amounts (cash flows/income/cost savings) to a single present value.

The DCF method values the asset by discounting the cash flows expected to be generated by the asset for the explicit forecast period and also the perpetuity value (or terminal value) in case of assets with indefinite life. The DCF method is one of the most common methods for valuing various assets such as shares, businesses, real estate projects, debt instruments, etc.

This method involves discounting of future cash flows expected to be generated by an asset over its life using an appropriate discount rate to arrive at the present value.

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

i. where the asset does not have any market comparable or comparable transaction;
ii. where the asset has fewer relevant market comparables; or
iii. where the asset is an income producing asset for which the future cash flows are available and can reasonably be projected.

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

i. Consider the projections to determine the future cash flows expected to be generated by the asset;
ii. analyse the projections and its underlying assumptions to assess the reasonableness of the cash flows;
iii. 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
iv. free cash flows to firm; determine the discount rate and growth rate beyond explicit forecast period; and
v. 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. In case of the DCF method, projected cash flows reflect the benefits of control and accordingly the value of asset arrived under this method is not to be grossed up for control premium. A valuer shall use his professional judgement while applying the DLOM / DLOC. It may include adjustments for discount for the marketability of the interest being valued or whether the interest being valued is non-controlling interest in the business.

The following are important inputs for the DCF method

a) Cash flows;
b) Discount Rate; and
c) Terminal Value

Cash Flows

In most cases, the projections shall comprise the statement of profit & loss, balance sheet, cash flow statement, along with the underlying key assumptions. However, in certain cases, if balance sheet and cash flow statement are not available, details of future capital expenditure and working capital requirements may also suffice. The projections reflect the accrual based accounting income and expenses.

A valuer shall by employing procedures such as ratio analysis, trend analysis to determine historical trends, gather necessary information to assess risks inherent in the achievability of the projections. The length of the period of projections (explicit forecast period) shall be determined based on the following factors:

i. Nature of the asset- where the business is of cyclical nature, explicit forecast period should ordinarily consider one entire cycle (for example cement business).
ii. 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).
iii. Sufficient period- The forecast period should have a length of time that is sufficient for the asset to achieve stable levels of operating performance.
iv. Reliable data- The data that are used for projecting the cash flows, should be reliable.

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

i. 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.
ii. 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. Asset value is independent of the manner of finance, hence, FCFF is most commonly used to arrive at an asset value. However, the value of an asset is independent of the manner in which it is financed.

Discount Rate

Discount Rate is the return expected by a market participant from a particular investment and shall reflect not only the time value of money but also the risk inherent in the asset being valued as well as the risk inherent in achieving the future cash flows.

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

i. cost of equity;
ii. weighted average cost of capital;
iii. Internal Rate of Return ('IRR');
iv. cost of debt; or
v. yield.

Different methods are used for determining the discount rate. The most commonly used methods are as follows:

i. Capital Asset Pricing Model (CAPM) for determining the cost of equity.
ii. Weighted Average Cost of Capital (WACC) is the combination of cost of equity and cost of debt weighted for their relative funding in the asset.
iii. Build-up method (generally used only in absence of market inputs).

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

i. type of asset being valued such as example debt, preference shares, business, real estate, intangibles, etc.;
ii. 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;
iii. geographic location of the asset;
iv. currency in which the projections have been prepared;
v. type of cash flows;
vi. risk in achieving the projected cash flows;
vii. cash flows used for the projections as FCFE needs to be discounted by Cost of Equity whereas FCFF to be discounted using WACC;
viii. discount the cash flows in the functional currency using a discount rate appropriate for that functional currency; and

ix. 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.

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. 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.

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

(a) Gordon (Constant) Growth Model;

(b) Variable Growth Model;

(c) Exit Multiple; and

(d) Salvage / Liquidation value

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Answers to the Questions (ATQs) raised during the Virtual CPE Meeting Series "Sundays with Valuation Experts" on the topic "Is DCF the most popular method for valuation U/Companies Act?" held on 30th May, 2021

S. No	Question	Answer
1.	How can we use DCF for multiple businesses?	Multiple business would mean multiple industries. Hence, a Sum of the Parts (SOTP) approach would be ideal with each business being valued separately and then being aggregated. A valuer needs to determine discount rate for each business separately as Beta will vary for each industry. A valuer shall never consider a joint or an average Beta for all. Capital deployed for each segment shall also be determined independently. Hence, levered beta for each segment shall be used in identifying cost of capital (or discount rate) related to that segment. Cash flows of each segment shall also be identified separately.
2.	Kindly elaborate the concept of terminal cash flow under DCF Method?	Please refer Educational Material on ÏCAI Valuation Standard 103 – Valuation Approaches and Methods as issued by Valuation Standards Board of ICAI and ICAI RVO available at 63029vsb51000.pdf (icai.org)
3.	Why is DCF used as a compulsory tool	As per ICAI Valuation Standard 103- DCF

S. No	Question	Answer
	for valuation and also as the most adaptable method in valuation?	Method is one of the methods under Income Approach. It is the most popular method with the valuers owing to its intrinsic nature, but it shall not be assumed that it is the compulsory method of valuation for all valuation assignments. DCF has its own merits and demerits and is not a compulsory tool. Another reason why DCF is so popular is the fact that it generally requires lesser amount of research as against other methods such as comparable methods, as herein the initial projections are provided by the clients and to which a valuer applies professional skepticism. Please note that ICAI Valuation Standards place the onus on the valuers to identify the most suitable method of valuation under any assignment. 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.
4.	DCF is based on certain assumption and the success of these assumption is also an assumption, then why is it called prudent method of valuation?	Under DCF a valuer shall necessarily:- • Analyse the assumptions. • test reasonableness of assumptions in context of historical records and current market conditions. • Mere estimations without substantiation

S. No	Question	Answer
		do not facilitate independent valuation of fair value. Any valuer when working on any projections and estimations, works with some inherent limitations. A valuer can use various tools and analysis like regression analysis or trend analysis to limit risks of these assumptions and to determine the fairness of projections. IVSC have recently issued an exposure draft on IVS -500 (Financial Instruments) which includes a new concept on proportionality. It explains that the risk and the potential efforts required by a valuer to mitigate that risk are directly proportional. Higher the risk higher is the level of efforts.
5.	Softwares are now available for valuation, but qualitative review is absent in many, kindly share your view?	Software is mere a tool. One can use such software for any statistical analysis. However, it is not recommended to use software that directly quotes conclusion of value i.e., fair value. As a valuer, in your peer review, you are expected to document and explain the methodology. Use of software means standardization of process and inputs. Also, in many cases, it could cull data from databases appropriately and provide quickly and comprehensively. However, client specific adjustments may not be achieved in case software is rigid. Hence, use of

S. No	Question	Answer
		valuation software should be appropriately tempered with judgement.
6.	What is the methodology and the type of Valuer (RV/ Merchant banker/CA) prescribed under various acts/ laws in India: Companies act/ IT act/ FEMA? There seems to be varied opinions and interpretations. Kindly clarify?	Please refer Frequently Asked Questions on Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/54846vs bfaq.pdf
7.	What are the various Methods of valuations for unlisted companies?	ICAI Valuation Standard 103- specifies various approaches and methods of valuation. It mentions that the valuer needs to select the most appropriate approach or method very responsibly as there is no single approach or method that is best suited in every situation. 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 key factors that a valuer needs to consider while selecting an approach are as also mentioned therein.
8.	Under the Companies Act, you are required to have a valuation report of registered valuer. But under Income Tax Act, if the valuation is carried out under DCF, the report should be necessarily from a merchant banker. How to reconcile the two valuations?	Both the Registered Valuer and Merchant Banker should perform independent valuation. Further, Representations have been submitted to various Regulatory Authorities for mandating valuation under various

S. No	Question	Answer
	How to address the clients cost issue?	regimes by a Registered Valuer and to bring about uniformity in valuation.
9.	When IRR (internal rate of Return) is determined manually, that is by Interpolation method, if the lower range and higher range are wide apart then we do not get the exact IRR rate. The lower and upper range must be close to get exact answer. Then How do we decide on such range manually? (I know that we can do it by excel in minutes)	Please use Microsoft excel to identify IRR. Also note that IRR should not be used as a discounting factor. IRR is not an input. Discounting rate shall be independently calculated (for example by using CAPM approach).
10.	In case projection of free cash flow is difficult, can other methods of valuation of shares of Startup company be used like 1st Chicago method or Berkus method, instead of DCF method?	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. Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
11.	If market information is not available for Company, can we take beta as 1 with specific note in report? Please note that Industry is also new.	No, generally Beta shall not be assumed as 1 without any analysis or back-up workings. Also, for reasons if CAPM model cannot be computed, as provided, it is possible to use Build Up Method (generally used only in absence of market inputs).

S. No	Question	Answer
12.	1. EBIT Add: Depreciation Less Tax, Changes in Capex , Increase of WC = Free Cash Flow . 2. Apply DCF to arrive at Present Value of Equity = Post Money Valuation Less Investor Funding = Pre-Money Valuation 3. Is it Correct Method of Arriving at Pre-Money Value. 4. See Method of arriving Pre-Money Value without deducting Investor Money.	Total Fair Value (-) Money considered as an infusion into capital = Pre-money valuation
13.	For rights issue by Pvt Co, at what value shares should be issued, face value or FMV?	Neither is compulsory.
14.	Right issue need not be at valuation price?	As per Companies Act, in case of rights issue valuation is not mandatory. As per Income Tax Act, if shares are issued on premium, then only valuation is mandatory, else it might be considered as Income of the Company.
15.	How long is a valuation report valid for a Company?	Valuation reports are valid forever for Value as on Valuation Date. Valuation Report will always give valuation as on the valuation date and can be referred as required. Further, under IBC 2016 cases, it is now a concluded position that a valuation report is valid for 6 months, but this is not applicable

S. No	Question	Answer
		for any other Act specifically. However, considering that the valuation is as of a valuation date, as time elapses, the valuation obtained may become more and more inappropriate as of such current date.
16.	Whether valuation is required for buy back of shares?	Yes, under Income Tax Act (Rule 40BB) and maybe under FEMA if non-resident shareholders are involved. Under The Companies Act, 2013, there is no mandated requirement for valuation for a buy back. However, governance processes may desire to have the same on record.
17.	For purposes of section 56(2)(viib), valuation report is required from a CA (Registered valuer as per companies act) or from merchant valuer.	Under Section 56(2) (viib) read with Rule 11UA of Income Tax Act, valuation report is required from a Merchant Banker, if DCF based valuation is to be adopted for determining the premium. If the premium is determined using the book value method, the same need not be computed by a merchant banker.
18.	Whether valuation is required during an Investment from Investor?	Yes, for issue of shares under section 62(10)(c).
19.	In case of start-up where we are not able to apply the three approaches, we apply specific start up method. Please guide whether it is allowed as per ICAI Valuation Standard and what note can be added in the Valuation Report?	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at

S. No	Question	Answer
		https://resource.cdn.icai.org/63123vsb51074.pdf
20.	What is the most appropriate method to value a company under the given COVID situation, as the market may react in a very different way compared to what the company thinks?	You can refer to our webinar to understand how to capture impact of Covid-19 in valuation. Available at http://ecpl.live/icai/19042020/ You can also refer Valuation Professionals' Insight Series IV, which has multiple articles on this. It is available at https://resource.cdn.icai.org/63123vsb51074.pdf
21.	In a Private Limited Co., some of the shareholders wants to get out and offer their shares to other shareholders. The Co. holds immovable properties like land and buildings and running business of sale and service of motor buses. How to do valuation of shares for this transaction?	The value of the company needs to be determined considering the value of the business computed on an acceptable method and approach. Valuation for the given purpose and the surplus land and buildings shall be considered at their fair market values to arrive at the value of the entity.
22.	Are the ICAI valuation standards the authoritative document to be followed in valuation process, or the certified valuers are at liberty to adopt any of the methods based on their choice and circumstances? How judgement should be made for the best of the methods?	i. For valuation reports under Companies Act (Section 247): ICAI-RVO adopted standards and hence the ICAI Valuation Standards are mandatory for the members enrolled with ICAI RVO. ii. For all other valuation reports – It is recommendatory initially from 1st July 2018 for chartered accountants however will become mandatory once it is notified by The Ministry of Corporate Affairs

S. No	Question	Answer
23.	In recent covid scenarios, is DCF method suitable to deploy for valuation?	Yes, but along with it a valuer may use Monte Carlo Simulation for multiple scenarios. Please watch webinar to understand how to capture impact of Covid-19 in valuation. Available at http://ecpl.live/icai/19042020/ You can also refer to Valuation Professionals' Insight Series IV, which has multiple articles on this. It is available at https://resource.cdn.icai.org/63123vsb51074.pdf
24.	What are your views on impacts of the IBBI circular regarding lesser use of disclaimers?	IBBI guidelines are essentially bringing out the need that disclaimers shall not be for the purpose of limiting valuer's responsibility for the valuation report or to make the valuation unsuitable for the purpose for which it was conducted.
25.	If valuer use more than 2 methods (e.g., DCF , comparable methods) and there are significant variances in valuation from both, whether median formula will suffice , please share your views.	• Logically, gap should not be significant in case different methods are applied to value a same asset. Often significantly differing values are calculated on account of mismatching assumptions under different methods. • It is important to align assumptions or implied assumptions under all methods. Doing so, will naturally bring parity among values derived from multiple methods. • Average Median can be used only in case the difference is not Material.

S. No	Question	Answer
		• Wherever there are material differences between the methods, appropriateness of the approach and methods of valuation as well as the assumptions need to be revisited by the valuer to either end of reconciling the differences to a reasonable gap or to discard some method(s) as inappropriate.
26.	Could you throw some light on valuation of startups? How justified are the methods being used and do you think they are appropriate?	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
27.	What is the premise of value? What is the difference b/w valuation base and premise of value?	As per ICAI Valuation Standard 102 • Valuation Premise: 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. Examples of valuation premise are (a) highest and best use (b) going concern value (c) as is where is value (d) orderly liquidation and (e) forced transaction. • Valuation base: Valuation base means the indication of the type of value being used in an engagement. Different valuation bases may lead to

S. No	Question	Answer
		different conclusions of value. Therefore, it is important for the valuer to identify the bases of value pertinent to the engagement. Examples are (a) Fair value (b) Participant specific value (c) Liquidation value.
28.	In case of conflict, which standards will prevail - ICAI Valuation Standards or International Valuation Standards?	ICAI Valuation Standards will prevail for following:- i. For valuation reports under Companies Act (Section 247): ICAI-RVO adopted standards and hence the ICAI Valuation Standards are mandatory for the members enrolled with ICAI RVO. ii. For all other valuation reports – It is recommendatory from 1st July 2018 for chartered accountants however will become mandatory once be notified by The Ministry of Corporate Affairs.
29.	Can we do weighted average of value arrived from comparable price/ transaction method and DCF method?	• First, you should not get material difference in values under multiple methods. • If your values are significantly different, you need to bring parity in assumptions made under various methods. • You can use 'calibration technique' to reconcile and narrow down the differences. • Valuers should not arbitrarily attach a weight to calculate weighted average value of various methods. • Instead, he should choose a method that most reflects fair value of a

S. No	Question	Answer
		company. Such value shall be concluded to be fair value. Other values to be discarded without capturing them with any assigned weights. • If valuation under multiple methods is within reasonable range, weights can be assigned. Higher weight shall be assigned to conclusion from that method which reflects inherent strengths of the business under valuation. For example, company having margins higher than peer shall be valued with high weight to EBITDA multiple and lower weight to Revenue Multiple.
30.	In DCF method valuation, we take data from the client mentioning all projections, growth rate, cost of capital etc., but in case of new company management presents all the data to arrive at the desired valuation. The valuation report is issued based on these data. Now if company makes some default and does not achieve the required projection, then in this case are valuers liable or not?	ICAI Valuation Standard 201- clearly spells out *"The judgments made by the valuer during the course of assignment, including the sufficiency of the data made available to meet the purpose of the valuation, must be adequately supported."* *"The valuer shall carry out relevant analyses and evaluations through discussions, inspections, survey, calculations and such other means as may be applicable and available to that effect."* ICAI Valuation Standards 2018 also states

S. No	Question	Answer
		that a valuer is expected to exercise Professional Skepticism in all his Valuation Assignments. An attitude of professional skepticism means the *valuer* makes a critical assessment, with a questioning mind, of the validity of information obtained and is alert to information that contradicts or brings into question the reliability of documents or representations by the responsible party. Consequently, valuer needs to critically evaluate reasonableness of management developed prospective financial statements.
31.	Rule 12 of prospectus and allotment rules specify valuation report to be attached in PAS3 when Securities are issued for consideration other than cash. Will right issue be covered by this?	Yes, if the rights issue is made for consideration other than cash.
32.	Is it mandate to corroborate the value under one approach with the second?	As a best practice, the values under the different approaches adopted should not be at a significant variance from each other. If the initial workings are not meeting this criterion, the Valuer should revisit his or her analysis before concluding. However, it is not a mandate under ICAI Valuation Standards but a best practice.
33.	If valuation of shares of company which only has investment in	No. Such valuation shall be carried by specific asset class of registered valuer with

S. No	Question	Answer
	immovable properties must be done by net assets value, then immovable properties are to be valued at FMV? Can a chartered accountant do this valuation?	IBBI.
34.	Whether result of DCF method can be tested with actual data later? For e.g.: DCF valuation done in 2017 (with projection of 2018,2019,2020,2021 so on) and now in 2021 we want to retest DCF valuation done in 2017 with actual numbers of 2018 & 2019, can it be done?	It is not required legally but yes; one can always retest the assumptions made initially and determine the reasons for deviation for future. For any future engagement, historical deviation becomes a reason to question reasonableness of the projections.
35.	Are Non-CA RVOs mandated to use valuation standards?	i. For valuation reports under Companies Act (Section 247): ICAI-RVO adopted standards and hence the ICAI Valuation Standards are mandatory for the members enrolled with ICAI RVO. ii. For all other valuation reports – It is recommendatory initially from 1st July 2018 for chartered accountants however will become mandatory once notified by The Ministry of Corporate Affairs
36.	Companies on a reporting date are required to do impairment testing for assets like premises and IT equipment in service industry. How to determine recoverable value of mentioned assets?	Please refer Ind AS 36 which explains the concept of 'Recoverable value.'
37.	What is the acceptable difference that as a valuer we can have under	As a best practice, the values under the different approaches adopted should not be

S. No	Question	Answer
	different methods say income vs market?	at a significant variance from each other. If the initial workings are not meeting this criterion, the Valuer should revisit his or her analysis before concluding. There is no standard measure for acceptable difference. You need to look at it from the perspective of 'materiality'. Accordingly, this may be considered.
38.	If an Indian company transfers its 100% shares to foreign company, then which method should be used for valuation of Indian Co?	You can use any/all method prescribed under valuation standards. The valuer needs to evaluate and determine the appropriate approach and method as prescribed in the valuation standards
39.	DCF is best applicable only to going concern entities, technological enabled, start-ups service oriented, which have potential of future earnings in a growth manner. Can we say so? How are valuations impacted under DCF methods under force majeure like COVID conditions, natural calamities etc.	Valuers can use Monte Carlo Simulation along with DCF for multiple scenarios during unprecedented times. Please watch webinar to understand how to capture impact of Covid-19 in valuation. Available at http://ecpl.live/icai/19042020/ You can also refer to Valuation Professionals' Insight Series IV, which has multiple articles on this. It is available at https://resource.cdn.icai.org/63123vsb51074.pdf
40.	Whether listed company are required to undertake valuation on quarterly	A valuer can undertake annual valuation however same shall be backed with complete

S. No	Question	Answer
	basis, or they may go for annual valuation? Which may be acceptable to Auditor?	data either monthly or quarterly, clearly depicting the seasonal impact and assumptions considered on a quarterly basis. For derivative financial instruments, remeasurement is required at the end of each reporting period. Hence, for listed companies, fair valuation is required for each quarter.
41.	How to identify whether we should go for DCF for Equity (DCFE) or DCF for Firm (DCFF)?	It will depend upon the type of value that a valuer needs to determine i.e., Equity Value or Enterprise Value. However, Equity value can be determined using either of these approaches but the final value under both shall be the same. In case there are material debts in the company the free cash flow for equity becomes trickier and hence a valuer shall first determine the enterprise value using the Free cash flow for firm and thereafter reduce value of debt from it to arrive at equity value. In either method Value of equity shall always remain same.
42.	How many years of projections should be considered for DCF Method?	The length of the period of projections (explicit forecast period) shall be determined based on the following factors: i. Nature of the asset- where the business is of cyclical nature, explicit forecast period should ordinarily consider one entire cycle (for example cement business).

S. No	Question	Answer
		ii. 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). iii. Sufficient period- The forecast period should have a length of time that is sufficient for the asset to achieve stable levels of operating performance. iv. Reliable data- The data that are used for projecting the cash flows, should be reliable cash flow projections should reasonably capture the growth prospects and earnings capability of a company. Ind AS 36 suggests not to use period beyond 5 years for impairment testing.
43.	In case of valuation of equity share, using DCF Method for right issue, whether we need to consider the proceeds of right issue as cash inflows? In many cases it is seen that the valuer does not consider proceed of right issue as cash inflows in projections.	If the valuation is being done for the purpose of pricing the rights issue, as the valuation is a pre-money valuation, the inflow from the rights issue should not be considered. However, if the purpose is to identify the share value post the rights issue (which may be done at any price and is not legally required to be done on a valuation), then it would be appropriate to consider the inflow of funds from the rights issue and the number of equity shares post such rights issue to determine the per share equity value post the rights issue.
44.	How effective is DCF method in case of	Yes, DCF is effective even with negative cash

S. No	Question	Answer
	negative cash flow?	flows. E.g. - Most of the Big Start-ups like TESLA has higher burn outs and initially for couple of years negative cash flow that does not means that DCF cannot be used for these companies. The break-even point is estimated, and valuer needs to ascertain how the negative margins will turn 0 and thereafter positive and ultimately when will it become sustainable with low growth rate. Accordingly, the explicit period shall be considered and estimations shall be developed appropriately. Stress testing and scenario-based modelling could also be performed along with sensitivity analysis to check the confidence level of the fair value identified.
45.	Sometimes there is a wide gap between market approach and DCF approach inherently because DCF takes a long-term view. This was especially apparent last year when markets were down and a market approach would have rendered very low values, whereas DCF would result in much higher values. How to get comfortable with this difference when management asks to take a long-term	Valuer can go ahead and use DCF value in this case provided it is favorable. However, a valuer needs to do research and identify why the comparable price under market approach were significantly lower. One of the reasons can be the nature of multiple used under Market Approach. A multiple based on EBIDTA will be closer to the DCF Value, while a Revenue multiple

S. No	Question	Answer
	view?	might generate a depressed value. And the reason being though the top line may be same, but the efficiency achieved represented in margins will not be captured herein. DCF is based on margins so try using Cash Profit/Operating Profit/EBIDTA multiple instead of revenue multiple.
46.	A newly incorporated entity wishes to issue equity shares through Private Placement and provides us with the 'Project Report' for the purpose of valuation. What measure do we need to take to reduce the risk with respect to the feasibility as there is no historic data available?	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
47.	Please check the value under DCF with market approach and if the value is closer to market are the assumption prudent?	Yes, if the value has been independently derived under both the methods and there is no material difference.
48.	Terminal Value is very tricky, how to check and define the Terminal Value? Is there any uniform method to arrive at Terminal Value?	Please refer to ICAI Valuation Standard 103- Valuation Approaches and Methods as it discusses terminal value in detail. (Para 74-83) You can also refer to Educational Material on ÏCAI Valuation Standard 103 – Valuation Approaches and Methods as issued by Valuation Standards Board of ICAI and ICAI RVO available at

S. No	Question	Answer
		63029vsb51000.pdf (icai.org)
49.	What are the sources where data for private valuations are available? Like the valuation for startups.	Deal data is available with many private database providers. You can check online.
50.	While calculating Terminal value how to decide whether Gordon growth model should be used or Exit multiple should be used? Also does the terminal value calculation varies basis the investor i.e., a Private Equity investor or strategic investor?	Gordon Growth Model or Perpetual growth model assumes that a business has an infinite life and a stable growth rate of cash flows. Terminal value is derived mathematically by dividing the perpetuity cash flows (cash flows which are expected to grow at a stable pace) with the discount rate as reduced by the stable growth rate. Terminal Value(n) = Expected FCF(n+1) / (Discount Rate – Expected Growth Rate) Exit Multiple - The estimation of terminal value under this method involves application of market multiple (EV/EBITDA, EV/Sales, etc.) to the perpetuity earnings/ income. This method undercuts the notion of intrinsic value, which is what DCF method is designed to measure. The multiple that is used to estimate the terminal value comes from looking at what peer group companies are trading in the market. Although this approach is comparatively very simple but since multiple has a huge impact on valuation hence it is extremely critical how it is being obtained. Hence for a going concern company wherein

S. No	Question	Answer
		we see a constant growth Gordons Growth Model shall be used. In case there is some uncertainty around the growth rate and is not constant then exit multiple can be used. In case it is not a going concern then the salvage value/liquidation value approach can be used.
51.	In the current techno era, products lifeline determination is a big problem. A company based on a single or a very few products may lose the market because of technology development. How to address this problem and include amount spent on R&D in valuation?	Sometimes we use option modelling for pharma related technological development. For others, scenario-based modelling which captures probability of failure can be used.
52.	Are there instances where value as per valuation is subsequently changed due to negotiations and agreement? Is value needed to be restated legally? and if so, the valuation shall be done by another or same valuer?	Logically, valuer should not have issued report unless required by law. Law does not require any report unless transaction is concluded. Thus, the need for report arises only once transaction is concluded. If valuer has issued a report before conclusion of transaction. It may be difficult to revise value with fundamentally different assumptions under new valuation to conclude transaction value to be fair value. There is high probability that his first valuation was subject to errors as transaction value is fundamentally different from his

S. No	Question	Answer
		previously concluded value.
53.	For valuation of company out of India under DCF method, we have taken cost of equity of said country. Do we need to add country risk factor, or is it already covered when we take local cost of equity?	If the cost of equity has been considered correctly for the said country, then you need not add the country risk premium again.
54.	Whether we can consider that Valuation is more of an art than science?	The question is very subjective, and the opinion varies from person to person. It is essentially a balance between the two.
55.	In case of start-ups, does the valuations carried out be revalued seeing the market fluctuations and its impacts?	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
56.	When we say that we need to obtain report from a Registered Valuer while implementing an ESOP plan (as per Companies Rules), so what we are trying to say is that the offer price / exercise price cannot be simply the face value of the equity share and the same needs to be determined on some basis by a RV?	As per the Companies Act, 2013, ESOP could be issued with exercise price being equal to the face value or any other value as may be determined and approved. At the time of grant, valuation of unlisted equity shares is required to determine the fair value of the equity share and the value of the options (using Black Scholes model etc.,) for accounting the cost of the options as employee compensation cost.
57.	Please talk about the importance of sensitivity in a COVID scenario –	Please watch webinar to understand how to capture impact of Covid-19 in valuation. Available at

S. No	Question	Answer
	a) how does it vary from industry to industry? b) how reliable are the information available in the public domain?	http://ecpl.live/icai/19042020/ You can also refer to Valuation Professionals' Insight Series IV, which has multiple articles on this. It is available at https://resource.cdn.icai.org/63123vsb51074.pdf
58.	Valuation will differs depending on the number of years of projections considered. So can we say DCF method is not perfect and altogether subject to negotiations between the buyer and seller?	No, it cannot be said. The explicit period under DCF methodology shall be determined by a valuer keeping following factors in mind. i. Nature of the asset- where the business is of cyclical nature, explicit forecast period should ordinarily consider one entire cycle (for example cement business). ii. 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). iii. Sufficient period- The forecast period should have a length of time that is sufficient for the asset to achieve stable levels of operating performance. iv. Reliable data- The data that are used for projecting the cash flows, should be reliable cash flow projections should reasonably capture the growth prospects and earnings capability of a company. Further, a valuer shall never conclude an assignment basis the negotiations between

S. No	Question	Answer
		the valuer and seller as that will be considered as professional negligence ICAI Valuation Standard 201- clearly spells out *"The judgments made by the valuer during the course of assignment, including the sufficiency of the data made available to meet the purpose of the valuation, must be adequately supported."* *"The valuer shall carry out relevant analyses and evaluations through discussions, inspections, survey, calculations and such other means as may be applicable and available to that effect."*
59.	DCF may not be practical in case of government orders due to tendering, kindly share your view?	Valuer should not decide the practicability based on government orders. Historical trend and general economic outlook can facilitate DCF method. Orders in hand can substantiate projections. Without orders in hand and insignificant historical records, projections are subject to serious deficiencies. In such case, probability of failure shall be considered.
60.	How to determine the discounting factor? What are the guiding factors towards it?	Please refer to Education Material on ICAI Valuation Standard 103- Valuation Approaches and Methods as issued by Valuation Standards Board of ICAI and ICAI RVO available at:-

S. No	Question	Answer
		https://resource.cdn.icai.org/63029vsb51000.pdf
61.	We cannot rely on the report of a valuer under "Depending on the Work of an Expert" as per Auditing Standards? Kindly clarify?	Auditor can rely on the work done by Valuer as an expert provided, he shall also use his professional judgement while doing so.
62.	The company wants to diversify into a new venture, it raises debt capital. Is it good to do DCF valuation under such scenario or any other method shall be adopted?	The actual choice of approach and method needs to consider various factors and yes – DCF method could also be considered if all the other factors also favor using this method.
63.	How is valuation done for start-ups. Is DCF method used here?	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
64.	What will happen if during audit. Statutory Auditor is not convinced with the Valuation Approach adopted? Should the statutory auditor accept the valuation report as it is or is he required to given specific note in his audit report / notes to the accounts etc.?	A Statutory Auditor shall not blindly rely upon the work of a valuer, it is his responsibility to verify the report using his professional judgement as well. In case he is not convinced he can take it up with management and if not resolved can specify same in his Audit Report.
65.	In respect of startup companies, we see valuations jump from 1xto 2x and 3x and to 4x in a matter of a year or two and these companies also raise funds basis these valuations. How	Identify the value driver. It can be hits on website, likes on social media, acquisition of new customers (may be with free/ penetration strategy)

S. No	Question	Answer
	does the value change so quickly in a year? Is it that the projections (assuming it is done on DCF method) change in a matter of months?	
66.	When challenging the reasonableness of the various assumptions, are there top 5 things that a professional can look for to understand what has gone wrong / fatal flaws?	Check margins, revenue growth, perform peer comparisons, identify reinvestment rate etc.
67.	a) How to bring about conservative principles under DCF? The entire process of DCF is based on assumptions? b) How to make sure the assumptions are under the prudent principle?	ICAI Valuation Standards 2018 clearly states that a valuer is expected to exercise Professional Skepticism in all his Valuation Assignments. An attitude of professional skepticism means the *valuer* makes a critical assessment, with a questioning mind, of the validity of information obtained and is alert to information that contradicts or brings into question the reliability of documents or representations by the responsible party. Further, ICAI Valuation Standard 201- clearly spells out: *"The judgments made by the valuer during the course of assignment, including the sufficiency of the data made available to meet the purpose of the valuation, must be adequately supported."* *"The valuer shall carry out relevant analyses and evaluations through discussions, inspections, survey, calculations and such*

S. No	Question	Answer
		other means as may be applicable and available to that effect."
68.	Is it fair to say that certain standard review methodology of the assumptions, particularly the growth model and earnings model, by industry, will be a great way to help the members?	You can use standard financial ratio analysis (typically used by investors or bankers) • Solvency Ratios • Liquidity Ratios • Profitability Ratios etc.
69.	In the light of the current pandemic situation prevailing for more than one year, how as a valuer you can take these situations into the DCF valuation?	Please watch webinar to understand how to capture impact of Covid-19 in valuation. Available at http://ecpl.live/icai/19042020/ Please also refer to Valuation Professionals' Insight Series IV, which has multiple articles on this. It is available at https://resource.cdn.icai.org/63123vsb51074.pdf
70.	Can CCPS be considered as equity for valuation under NAV method of valuation under IT Act?	No
71.	How to do valuation of corporate guarantees? Process, mindset etc. please discuss.	It can be done by identifying potential cash flow and timing of cash flow. It needs to be further adjusted for probability of cash flow.
72.	Is DCF providing pre-money or post-money valuation?	It generally provides pre-money valuation as typically the further infusion of equity is not considered in the DCF computations as an inflow.
73.	For newly launched startups, DCF calculation leads substantially higher value. How to deal with such situations?	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

S. No	Question	Answer
		inputs. Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
74.	5% bonds Rs.100 1. Under Indian GAPP Balance Sheet liability of Rs.100 2. Under IndAS Balance Sheet liability Rs.95, rest Rs.5 in Other Equity What amount to reduce from NPV to reflect Value for equity shareholders?	Rs. 95 for certification under Ind AS Rs. 100 for certification under AS
75.	What is the responsibility of a Statutory Auditor if he finds during the audit of 3-4 years (considered for valuation in DCF method) that the basis / numbers at which valuations was done does not match materially with the actual numbers?	Auditor has all rights to question the valuation. Auditor should verify reasonableness of assumption and correctness of process followed by the valuer.
76.	If Co. wants to issue 8% cumulative redeemable preference share, then can they apply DCF method? If yes how to justify deriving fair value of Pref. Share?	The choice of method and approach will depend on case to case. One needs to consider the financial position of the company, potential for the growth in future, likely scenarios and probability of liquidation to determine the value of the preference shares.
77.	DCF method typically values the entire	A valuer can refer to ICAI Valuation Standard

S. No	Question	Answer
	cashflow of the business, and includes the values of the brand, customer relationships, customer contracts, etc. However, at times, we are required to value these intangible assets separately, and in this context, how would you split the valuation of the business between these components?	302- Intangible Asset and ICAI Valuation Standard 301- Business Valuation for it. Further, it is a good sanity check practice to undertake valuation of both Intangibles and the Business Value separately, to clearly spell out how much out of the business value is attributable towards Intangibles Asset. There is a high possibility of over valuing an intangible asset and this will ensure that there is a comparative check on the valuation. Intangible assets are riskier in comparison to tangible assets and hence the discount rate considered for Business value shall be higher than the discount rate considered for Intangible Asset.
78.	Market return and Risk-free rate must belong to the same industry we are valuing. So please throw some light on Alpha?	Alpha is used in the Build-Up method and generally represents the industry risk and the company specific risk. In the CAPM model also some people consider Alpha where it reflects the company specific risk to be adjusted.
79.	Please share guidance on measurement of beta of unlisted company/private company, and reference in Valuations Standards for practically measuring the same?	• Identify list of comparable listed companies and obtain their betas • Betas can be obtained from databases, newspapers and websites or even it can be calculated using slope function of any spreadsheet like MS Excel.

S. No	Question	Answer
		• Un-lever these betas using debt equity ratio and tax rate of respective companies. • Calculate average of above betas • Re-lever above beta with debt equity ratio and tax rate of unlisted company.
80.	In case of valuation of unquoted shares, selection of beta becomes a challenge. Can you explain what adjustments shall be made to beta of a quoted shares to arrive at a beta that can be used for valuation of unquoted shares?	• Identify list of comparable listed companies and obtain their betas • Betas can be obtained from databases, newspapers and websites or even it can be calculated using slope function of any spreadsheet like MS Excel. • Un-lever these betas using debt equity ratio and tax rate of respective companies. • Calculate average of above betas • Re-lever above beta with debt equity ratio and tax rate of unlisted company.
81.	In case of valuation of technical know-how and patents both, we want to use relief from royalty method under income approach for valuation of intangible assets. a) How do we distribute the value between both the assets under this method? b) How can we ascertain what is the contribution of each asset to valuation?	Value one asset at a time and then overall match the weighted average return on assets (WARA) with the WACC and the individual asset values arrived at. This may at times require some iterative working as the assets and returns thereon may be interlinked.
82.	While determining market return , can you please clarify what is the period to be considered for estimation?	Generally, longer period the considered to evaluate the market return, better it is. With market data being available for a long period

S. No	Question	Answer
		of time, 10–15 years returns could be considered as more appropriate.
83.	How to calculate beta?	Kindly refer to pages 26-30 of Educational Material on ÏCAI Valuation Standard 103 – Valuation Approaches and Methods as issued by Valuation Standards Board of ICAI and ICAI RVO. It is available at: 63029vsb51000.pdf (icai.org)
84.	While doing SFA valuation of holding company, how should a valuer deal with the situation where financial statements of a wholly owned subsidiary are not available for last 5-6 years?	Valuer should not perform a valuation in absence of critical data. Logically a wholly owned subsidiary is controlled by the parent i.e., appointing entity of the valuer. If parent cannot give the data of its subsidiary, obviously, its management has intention not to share fair information with the valuer. In such scenarios, valuers must resign for the engagement. Otherwise, valuer will be guilty of professional negligence. However, there could be other reasons such as where the subsidiary has become defunct long back and this has led to the lack of records for the subsidiary etc., Accordingly, the reasons and its ramifications should be considered in each case of valuation appropriately.
85.	Which period Beta should be taken?	A reasonably long period gives a better idea of beta. Generally, at least 36 Months to 60 months if available could be considered reasonable.
86.	When we review financial forecast of	In a DCF - FCFF computation, generally this

S. No	Question	Answer
	our client, we see negative cash flow in subsequent years. Management states they shall borrow. Are we required to reduce present value of this borrowing while calculating value for equity shareholder holders?	gets adjusted in terms of the negative cashflows considered in earlier periods while in the DCF - FCFE computation, this gets adjusted by factoring the debt receipt in the earlier year as well as the repayments and the interest cost as outflow in the subsequent years.
87.	How to determine beta for start-ups, as comparable are not available? Further, is it fair to use cost of capital in the range of 50-70 percent as investors expect very high returns from start-ups? If not, how to estimate the cost of capital?	Where directly comparable companies from the listed space is not identifiable, could consider selecting comparable companies based on similar risk profile. In exceptional cases where market inputs are not available, the build-up method could be used as an alternative.
88.	Please share list/sites for database sources for beta valuation.	1) Bloomberg 2) Capital IQ
89.	What kind of companies are taken for beta calculation? Is it ones with similar kind of objective and similar kind of operation?	A valuer shall consider the factors in identifying the following comparables: • Industry to which the asset belongs; • Geographic area of operations; • Similar line of business, or similar economic forces that affect the asset being valued; • 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.
90.	When company is unlisted how risk of	Discount for Lack of marketability can be

S. No	Question	Answer
	Illiquidity is measured?	determined using multiple well-established methods, some of them are as under:- i. Restricted stock and private placement studies ii. Initial Public Offering studies iii. Synthetic bid-ask spreads iv. Protective put method of David Chaffe v. Average strike put option of John Finnerty
91.	How to find Beta for a startup where there are no similar companies listed in India/foreign?	Where directly comparable companies from the listed space is not identifiable, could consider selecting comparable companies based on similar risk profile. In exceptional cases where market inputs are not available, the build-up method could be used as an alternative.
92.	In private service company, what beta can be taken?	• Identify list of comparable listed companies and obtain their betas • Betas can be obtained from databases, newspapers and websites or even it can be calculated using slope function of any spreadsheet like MS Excel. • Un-lever these betas using debt equity ratio and tax rate of respective companies. • Calculate average of above betas • Re-lever above beta with debt equity ratio and tax rate of unlisted company.
93.	If a director of a registered valuer entity is a chartered accountant, is he required to generate UDIN while issuing signed report under registered valuer entity?	Yes, UDIN is necessary irrespective of membership of registered valuers organisation, if member is practicing Chartered Accountant under ICAI certificate of Practice in India.

S. No	Question	Answer
94.	Could you please repeat the names of databases again?	Bloomberg Terminal, Capital IQ and Market Intelligence
95.	How to derive Average Beta? Just simple average of Beta of all such Companies or some weightage to be given based on the size of each Company?	Beta measures the market specific risk and simple average of these can be considered for multiple companies in the industry, however, after these are un-levered for the individual company's debt: equity structure.
96.	In market comparison method how can adjustment be made for speculations?	Uncertainties can be reduced with scenario-based modelling.
97.	For Beta, if only similar foreign companies (non-Indian Co) are listed, how to discount the beta in context of different economy? Which additional parameters needs to be considered?	Generally, one can use any global company for evaluation of beta, as it essentially is identified in relation to the market as a whole.
98.	For start-up valuation, do we need to calculate all methods for arriving at the value?	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. Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
99.	Can you please throw some light on valuation of startups company which	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI

S. No	Question	Answer
	has no revenue and are looking for angel investment?	Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
100.	Can you guide us what are the requirements for valuation while issuing equity shares to promoters and their relatives by a small private limited company having turnover less than 100 crore and paid-up capital less than 2 crore?	Please refer Section 62 of Companies Act, 2013
101.	Can we, freshers, get guidance on valuation as a specialization? Specifically in terms of learning and getting assignments?	For guidance with respect to becoming a registered valuer, you may refer to the FAQs available at ICAI RCO's Website https://icairvo.in/
102.	How to value equity share when there are convertibles which is based on next equity round of institutional funding?	Identify value on fully convertible basis.
103.	How can one become a registered valuer and what is the scope for a Chartered Accountant in this area?	Process for becoming a registered valuer may be referred from the FAQs available at ICAI RCO's Website https://icairvo.in/
104.	In recent days, some shares are quoted in the markets at a very high price despite high valuations. What may be the reason?	High demand is what drives the price.
105.	How to value Transfer of Technology (TOT)? and what valuation approach	It is an Intangible Asset Valuation, and you can refer to ICAI Valuation Standard- 302 to

S. No	Question	Answer
	to be adopted?	understand the various methods and approaches that can be undertaken.
106.	A Chartered Accountant, who is a government, approved valuer under Wealth Tax Act and is also a panel valuer for stock, shares and goodwill. Is he at par with merchant banker for income tax valuations?	No
107.	Can a statutory auditor rely upon the valuation certificate certified by other Chartered Accountant which is prepared basis average price under two different methods (other than DCF). The certificate is for the purpose of preferential issue of shares.	Firstly, the valuation for companies' act is required to be done by a RV. Assuming the other CA is an RV, further, as per ICAI Valuation Standard 201 Scope of Work, Analyses and Evaluation While Relying upon the work of another expert • 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 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

S. No	Question	Answer
		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.
108.	What is the rule which mandates the requirement of valuation report for Rights Issue? Also, is there a requirement of valuation report for issue of ESOPs?	For Rights Issue Under Companies Act kindly refer to Sec 62(1)(a) . There is no mandatory requirement for a valuation report in case of rights issues under Companies Act. However, if the shares are issued at a premium, there may be a requirement for valuation under Income Tax Act to justify the premium u/s 56 (2) (viib) For ESOPS: Under Companies Act - Sec 62(1)(b) of Companies Act, 2013 and Rule 12 of the Companies (Share Capital and Debentures) Rules, 2014, there is no mandatory requirement for valuation. If issued as sweat equity shares, these shall

S. No	Question	Answer
		be valued at a price determined by a registered valuer as the fair price giving justification for such valuation. ESOP issue may require valuation from the perspective of accounting for the same. Under Income Tax Act - In a case where, on the date of vesting of the option, the share in the company is not listed on a recognized stock exchange, the fair market value shall be value of the share as determined by a Merchant Banker
109.	Under FEMA, an independent CA is required to Value the Shares for FDI. Can the Statutory Auditor do the valuation or a CA other than the Statutory auditor should do the valuation.	Suggested independent CA to carry the valuation. This is also because S.144 prohibits valuations services to be undertaken by the statutory auditor.
110.	Can a valuation report be prepared for buy back of shares, also used for other purpose?	No. As valuation report for a particular purpose might be based on assumptions suitable for it only and hence the value so arrived at might not be suitable for the other purpose.
111.	Is it mandatory to do valuation based on audited financial or same can be done based on management certified as financials for valuation date such as 15th of Dec are not available.	A Valuer can use the management certified financial in case audited financial are not available, but he should not rely upon same blindly. ICAI Valuation Standard 201- clearly spells out

S. No	Question	Answer
		"The judgments made by the valuer during the course of assignment, including the sufficiency of the data made available to meet the purpose of the valuation, must be adequately supported." *"The valuer shall carry out relevant analyses and evaluations through discussions, inspections, survey, calculations and such other means as may be applicable and available to that effect."* However, it should be noted that valuation for section 56 technically requires use of audited financials for transfers being effected.
112.	Can we give discount for Covid -19 pandemic? if yes how much is the right discount?	Please watch webinar to understand how to capture impact of Covid-19 in valuation. Available http://ecpl.live/icai/19042020/ You can also refer to Valuation Professionals' Insight Series IV, which has multiple articles on this. It is available at https://resource.cdn.icai.org/63123vsb51074.pdf
113.	Whether Registered Valuer must do inventory valuation under IBC?	Yes, a Registered Valuer must do Inventory Valuation along with Physical Verification Kindly refer to Regulation 35(1)(a) under CIRP Regulations which says *35. (1) Fair value and liquidation value shall be determined in the following manner:-*

S. No	Question	Answer
		(a) the two registered valuers appointed under regulation 27 shall submit to the resolution professional an estimate of the fair value and of the liquidation value computed in accordance with internationally accepted valuation standards, after physical verification of the inventory and fixed assets of the corporate debtor.
114.	Stock market is continuously in upward trend and Sensex is likely to touch 200000 in next 10 years, then can we use future beta for valuation ?	No, Beta is the sensitivity of the stock or asset to the market and is hence based on historical data.
115.	In DCF, WACC of company under valuation is considered or Average WACC of industry is considered?	WACC of Company under valuation shall always be considered. The capital structure will vary between company and industry.
116.	Can a valuer sign the valuation report if he is also a statutory auditor (keeping in mind Sec 247, code of ethics)?	No
117.	Do we need valuation for renunciation of rights by shareholders and further allotment of shares to the investors in whose favor the renunciation has been made under FEMA and Companies Act	Rights issue per se does not require a valuation where the price offered to the nonresident shareholder is the same as to the resident shareholders. However, where renunciation in favour of a non-resident is involved, the value of the renunciation right needs to be computed for FEMA purposes and thus a valuation of the renunciation right is required to be carried out. Valuation is not required under companies

S. No	Question	Answer
		act for rights issue.
118.	Does a CA who is a member of another RVO , other than ICAI, must follow ICAI Valuation Standards?	If RV is registered with other RVO, the Standards adopted by that RVO shall be applicable to them under Companies Act.
119.	As an Investor or Shareholder, can I ask the company to provide me the valuation reports?	No
120.	How do we take into consideration "Uncertainty in future" in Valuation?	In projections multiple scenarios can be created for different probable events that can take place in future. Monte Carlo simulation can be used for same. Tools like RiskPro and crystal ball can be used for Monte Carlo simulations to quantify uncertainty over huge number of scenarios.
121.	How to make interpretation/ assumption about macro-economic conditions, level of competitions and technological redundancy, demand-supply dynamics etc.	This can be learnt by taking valuation course / CEP seminars on the appropriate topics. One can as also refer to books and seminars by other entities.
122.	In DCF method of valuation, if the explicit horizon period is 5 years and growth is presumed to be 3%. Should the free cash flows considered in the 6th year be around 3% ? otherwise, mathematically it would be wrong to calculate Terminal value by dividing a number by 3%	Yes, 6th years' cashflows should be inclusive of growth rate.
123.	What are the factors we need to consider while looking at financials of company for valuation?	A valuer shall analyze the following financial information of the underlying business: • historical financial information (including annual and interim financial statements and key financial statement

S. No	Question	Answer
		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 • information on previous valuations with the purpose and the reports • ongoing litigations, disputes and evaluation thereof • details of management's response to the inquiry regarding: ✓ advantageous or disadvantageous contracts; ✓ contingent or off-balance-sheet assets or liabilities;

S. No	Question	Answer
		✓ surplus/ non-operating assets; ✓ non- recurring and non-operating income and expenses. A valuer shall read and evaluate the information to determine that it is reasonable for the purposes of the engagement.
124.	A company having 35 Cr. capital has a huge loss and eroded 90% of the capital on account of accumulated losses. If shares are transferred between the shareholders at book value of the company, whether valuation is required or not?	Share transfer requires valuation as envisaged under Sections 50CA and 56 (2) (x) of the Income Tax Act and under FEMA if there is non-resident involved in the transaction.
125.	Can CA who is registered valuer with ICAI RVO, value immovable properties if it is mandatory for arriving at value of shares of company? If no who should do valuation of immovable properties?	No. Such valuation shall be carried by Registered Valuer of specific asset class.
126.	In DCF method, generally the Growth rate cannot exceed the GDP growth rate of the country. In the present scenario, the growth projected for India is exceptional at over 10% - How do we address this in valuation workings? as the Growth rate would marginalise after 2/ 3 years.	Use sustainable growth rate.
127.	What is the difference between adjustment and discounts?	Discounts are a part of adjustments and by definition reduces the value of an assets, like discount for lack of marketability. While an adjustment in addition to discount also includes premiums like Control premium,

S. No	Question	Answer
		Synergy etc.
128.	Whether UDIN is required for a practicing CA who is also a RV with some other professional body other than ICAI ?	Yes, UDIN is necessary irrespective of membership of Registered Valuers Organisation if member is practicing Chartered Accountant under ICAI certificate of Practice in India.
129.	Management got the valuation report from Merchant Banker and raised funds basis that report. After 10 months management again wants to raise the funds, can management use the earlier report or he should take new one from Merchant banker?	New report can be used, as valuation is always appropriate as of the valuation date and the longer the time gap, the more inappropriate the value might be as of a current date in view of changed circumstances in the company / market etc. Further, there has been a material event of actual fund raise post the previous valuation.
130.	For Valuation of ESOP can we use 3-month-old Equity share valuation?	Needs to be considered based on facts and circumstances of each case.
131.	While using these comparable multiple valuations is it possible to use various multiples with respective weights allotted? if yes, how are these weights decided?	Yes, weights can be assigned to different comparables multiples. Weights can be decided basis best applicability of a multiple in a given situation. For e.g.: while EBITDA is the closest proxy in the P&L for cash flow from operations it can be impacted in case of significant accounting policy difference and in such case a price to book value Multiple or a Revenue multiple can be preferred.
132.	When DCF valuation is higher than the market valuation, then the buyer may be interested in buying the shares from the market. Is it true?	Ideally yes, but lots of external factors might impact market price in future too.

S. No	Question	Answer
133.	Comparable multiples - should it be discounted for liquidity given that market comparable are minority and liquid and subject company is majority and illiquid. If yes, how about control premium?	Yes, the value arrived based on Comparable multiple shall be adjusted for Discount for lack of Marketability or even for Control premium in case the situation demands.
134.	Internationally data are available for market multipliers for various market segments. Is any data available in India, industry wise?	Yes. Some of the databases provide this information.
135.	Under Rule 11 UA, it is optional to the assessee to get valuation from Merchant Banker or a Chartered Accountant, where only Merchant Banker can use DCF not Chartered Accountant. So, looking at small MSE companies, if assessee want valuation report from CA/ RV how can he use DCF?	As per Income Tax Act an Assesses will necessarily have to obtain valuation from a Merchant Banker only for Valuation under DCF Method. Rule 11 UA clearly specifies the methodology that needs to be adopted by a valuer for different types of assets. Even within the asset class of shares and securities different methodology has been prescribed depending upon the nature of Security.
136.	What are the standards regarding selection of discount rate?	Kindly Refer to ICAI Valuation Standard 102 – Valuation Approaches and Methods. Under Income approach and further Discounted Cash Flow Method it is captured.
137.	As you said equity value are same in both cases, FCFF and FCFE. It is always same or in some cases it may be differ? If yes than in what cases?	Theoretically, it should be the same if all assumptions are same.
138.	Can you please guide on beta for startup valuation where there is no comparison.	Beta can be based on comparable companies based on similar risk profiles.

S. No	Question	Answer
139.	Valuations are done for various purposes like valuation for income tax purpose, companies act purpose, investor purpose. In these situation does the valuation methodology is decided based on the purpose too?	Yes, the methodology to be adopted are at times clearly spelt out in Law and in that case, it cannot be overridden. Further, in Preface to the ICAI Valuation Standards it has been clearly stated that "The Valuation Standards by their very nature cannot and do not override the local regulations which govern the preparation of valuation report in the country. However, the government may determine the extent of disclosure to be made in the valuation report."
140.	In the case of companies under CIRP, the Terminal Value becomes tricky as there will be number of issues attributable to the prospective resolution applicants. Kindly share your view	Valuation standard helps to identify liquidation value under forced scenarios.
141.	Is Blue Mouse Trap Method used for valuation? Can you share any instances.	Please refer to the ICAI valuation Standards for the approach and methodology for valuation.
142.	How do we compute the cost of equity if the company earns revenue from 5 to 6 different countries; how to calculate Rf, Equity Risk Premium, Alpha ?	In case of multiple revenue streams, a valuer needs to ascertain the cash flow, capital structure and discount rate for each stream separately. It is like valuing five different companies and then adding them all up to determine total value of the company.
143.	How the valuation approach changes in case of start up from Seed stage to Series A, Series B etc.	In case of start-ups, one need to understand the feature that the underlying instruments at different stages of funding have. Usually, the seed capital funding happens with the

S. No	Question	Answer
		common stock and as the startup moves into series funding various other features gets added like Voting rights, liquidation preference and many other economic and non-economic features which makes these stocks categorically different from common stocks. Hence the value attributable to these will vary from the value attributable to the common stocks.
144.	There is a startup innovating a product for defense under a confidential project, it does not have existing product or market. Which method should be considered for valuation?	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
145.	Please share your thoughts on the cash flow convention, mid of the year cash flows vs end or beginning. Are there any specific cases using different conventions?	Mid-year is a better practice to adopt, though it is not uncommon that end of the year convention is used by valuers.
146.	How do you get comfortable with an exit multiple in future that the management is using?	We verify that multiple with reference to peer company multiples.
147.	If we have CCDs with company and we have considered same in diluted equity shares, should we consider interest cost on CCD in FCFF calculation while using DCF Equity Model?	Interest cost should not be considered under FCFF approach.

S. No	Question	Answer
148.	How can we evaluate the assumptions/estimates in case of new business models of start-ups?	Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
149.	How can we value the management expertise and competence under the Comparable Method as promoters/founder's competence will be different for different entities specially for start-ups?	One person can make a a–lot–of difference! and can also impact valuation of a company immensely any such person are key persons. For e.g.: Resignation of Steve Jobs as CEO of Apple Inc saw the price dropping immediately by 5% in Aug 2011. An adjustment for Key person premium can be made if it can be established that the competence of the founders or promoters are well known basis their past success and achievements. And the extent of impact they make on the company under valuation.
150.	At the initial stage for data base can we use Aswath Damodaran data base?	Yes, to the extent it is applicable. For example, if valuation date is 8th of March and Aswath's database is of 31st December, then such data is irrelevant for valuation as of 8th March.
151.	Which inflation rate shall be considered while valuing Asset Retirement Obligation?	Industry specific.
152.	Is small company risk also required to be added for calculating the Cost of Equity? If yes, what is the approach	Yes. You can use 'Company Specific Risk Premium'.

S. No	Question	Answer
	and basis?	
153.	Can unutilized real idle assets be excluded from valuation?	This refers to the assets of the company which are not actively held in the use for the business, for instance, there could be land held by the company which is not in the use of the business or there could be investments held by the company. These are surplus assets and are not considered in the cash flow projections. Any income / expenditure related to the same are also not considered in the business cash flow projections. The fair value of these assets is added to the enterprise value arrived at using DCF valuation.
154.	In case the acquisition is based purely on PTR - Past Track Record since the company is having accumulated losses, what would be the right approach to value the company	In case the Going Concern for the company is questionable then the best approach will be Cost Approach.
155.	Are there any kind of software available for valuation?	There are software products available for DCF valuation / multiple based valuations / Black Scholes etc., but these cannot be applied right away and need to be tempered with judgement by a valuer.
156.	For arriving at post-money Valuation, whether we need to consider Investor Funding?	Yes
157.	Can we average the valuations done using Net Asset Value and DCF methods to arrive at final value?	Yes, a weighted average value can be used but following need to be remembered. • First, you should not get material difference in values under multiple

S. No	Question	Answer
		methods. • If your values are significantly different, you need to bring parity in assumptions made under various methods. • Valuers should not arbitrarily attach a weight to calculate weighted average value of various methods. Instead, he should choose a method that most reflects fair value of a company. Such value shall be concluded to be fair value. Other values to be discarded without capturing them with any assigned weights.
158.	How do you value NBFC using DCF?	It is valued the same way we value other companies. However, as money is the key to the valuation, NBFC valuations using DCF are ideally prepared based on projections using present capital levels without considering additional capital infusions in the future years.
159.	What are your views on using calibration while determining valuation of startups when there has been a recent transaction in the said startup?	Yes, one could do that.

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