VALUATION: VCM ATQS

"VALUATION REPORTS- DO'S AND DON'TS - TO WHAT EXTENT ARE THEY FOLLOWED ?"

VALUATION STANDARDS BOARD
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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Valuation: VCM ATQs "Valuation Reports- Do's and Don'ts- To what extent are they followed?"

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 "Valuation Reports- Do's and Don'ts- To what extent are they followed?" held on 20th June 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. Sujal Shah
Director:	Shri Rakesh Sehgal, Director, ICAI
Secretary:	CA. Sarika Singhal, Deputy Secretary, ICAI

The Webcast received overwhelming response and was attended by more than 2200 viewers. The said webcast can be viewed again at https://live.icai.org/vsb/vcm/20062021/

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

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Valuation Reports- Do's and Don'ts

Introduction

In general, valuation is required in the context of the following:

a) Consummation of certain transactions like acquisition, disposal, merger, amalgamation;
b) Internal decision making/Corporate Governance;
c) Regulatory Compliance: Companies Act, SEBI Regulations, Income Tax, Wealth Tax, FEMA, etc.
d) Fund Mobilisation - both equity and debt;
e) Disputes (within and outside the courts);
f) Borrowing and lending decisions; and
g) Insolvency and Bankruptcy proceedings.

Rule 10 read with section 247 of the Companies Act, 2013 (Act) require that a RV shall conduct valuations required under the Act. The Insolvency and Bankruptcy Code (Code) read with the regulations mandates that the valuations required under the Code or any of the regulations made thereunder shall be conducted by a registered valuer.

A Valuation report is a report prepared by the registered valuer for the purpose of arriving at the fair value of the asset under valuation on the date of reporting, for the pre-determined purpose and scope mutually agreed upon between the Registered valuer and the intended users of the report. It is important to understand that valuation report is the first document that a valuer presents to the intended user and if it is not properly written it may not do justice to the immense professional work undertaken by him to complete the assignment.

A good business valuation is not only about determining an accurate and reasonable value, but also about being able to defend it if needed with a clear and concise explanation supporting the conclusions. A detailed and fully reasoned valuation report should be prepared in every case of valuation done in respect of both mandatory and discretionary valuation, where an RV is appointed.

The Companies (Registered Valuers and Valuation) Rules, 2017 and the ICAI Valuation Standards clearly spells out the minimum requirements for a valuation report. The following aspects need to be considered during the preparation of a valuation report.

Contents of Valuation Report

Considering the interests of stakeholders and the need for transparency and principles of good corporate governance, the under noted matters should compulsorily be covered in the Valuation Report, in a clear, unambiguous and non-misleading manner, consistent with the need to maintain confidentiality:

a) Background Information of the asset being valued;
b) Purpose of valuation and appointing authority;
c) Bases of Value;
d) Premise of Value;
e) Identity of the RV and any other experts involved in the valuation;
f) Intended Users of the Valuation;
g) Disclosure of RV interest or conflict, if any;
h) Date of appointment, valuation date and date of report;
i) Inspections and /or investigations undertaken;
j) Business interest, ownership characteristics;
k) Nature and sources of information;
l) Significant Assumptions, if any;
m) Procedures adopted in carrying out the valuation and valuation standards followed;
n) Restrictions on use of report, if any;
o) Major factors that were taken into account during valuation;
p) Conclusion; and
q) Caveats, limitations and disclaimers

A few salient points associated with each of these basic components of a valuation report are as follows:

Background information

The aim is to provide the unfamiliar and familiar reader alike, with the particulars of the company, business, assets/liabilities that form the subject of the valuation with as much context as required to gain an accurate understanding of the assignment. Transaction details, summary of historical financials, capital structure, identification of pertinent facts such as related party issues, changes in shareholding pattern, impact of restructuring or proposed transaction etc. typically form part of this section.

Purpose of Valuation and Appointing Authority

The context and purpose of the valuation and the appointing authority commissioning the exercise must be clearly stated e.g., the Management's decision to seek an advisory opinion should be disclosed, or the Audit Committee's decision to appoint or the appointment of an independent valuer itself should be disclosed. As part of this section of the report, valuers should also state the "premise of value".

Identity of the valuer and any other experts involved

Identity of the Valuer (with his registration number) as well as the organization performing the valuation and other team members/external experts consulted in the process of valuation should be disclosed.

Disclosure of Valuer Interest/Conflict, if any

This section of the report is key in ensuring transparency and as such valuers should clearly disclose any facts that are relevant and may lead to a conflict or perceived conflict of interest while performing the analysis. As such, the valuer should disclose in his/her report, possible sources of conflict and material interests, including association or proposed association/with the company, its associates, the counter party to the transaction or its associates, in the form of auditor, lead advisor or in any other capacity, together with the nature of the fee arrangements for the valuation services undertaken.

Date of appointment, valuation date and date of the report

Valuation assignments are performed as of a particular point in time. As such, clearly stating the Valuation Date i.e., the date as of which the valuation analysis has been performed is very important. Furthermore, the date of the appointment of the valuer as we well as the date on which the report has been issued should also be included. Furthermore, the Report should also mention the timeline associated with the validity of the report and/or within which the user must accept or reject the report.

Sources of information

Principal sources of information that form the basis of the valuation report should be clearly listed. This typically includes information such as company financials and projections that are provided by management as well as other sources such as analyst reports, publicly available sources of data example: NSE, BSE web sites, frequently used third party databases such as Bloomberg, Capitaline, CapitalIQ etc. Valuation professionals should make the effort to accurately state which sources have been relied upon and to what extent such information been incorporated into the valuation.

Procedures adopted in carrying out a valuation

Procedures adopted in carrying out a valuation may vary with circumstances, nature and purpose of valuation as well as information and time available. The principal procedures adopted by the valuer in carrying out the valuation should be set out in the report. Such procedures may typically include:

- Review and analysis of Historical and Projected Financials;
- Industry and SWOT Analysis;
- Comparison with similar transactions and other similar listed companies;
- Discussions with Management;
- Review of principal agreements/documents etc.
- Site visit (external, internal or both) or desktop valuation.
- Assignment specific assumptions must be explicitly stated i.e. in case of a desktop valuation a valuer must state that the basis of the report is photographs provided, documents provided and secondary research only.
- Process of site identification, i.e., self-identified or with the help of clients representative or client itself.

A valuer's report should also include an affirmative statement that information provided and assumptions used by Management/Others in developing projections have been appropriately reviewed, enquiries made regarding the basis of key assumptions in context of the historical performance of the business being valued and comparable industry/economy indicators. An affirmative statement on adequacy of information and time for carrying out the valuations should also be included.

It is important to note that such affirmative statements shall not negate the professional liability for expertise applied in determining value and if the degree of inadequacy of information is severe, fundamental questions and information as assessed by the valuer as key for the valuation needs to be disclosed.

Valuation Methodology

The valuation methodology adopted by the valuer, which includes various methods under the Income, Market and Cost Approaches has to be disclosed. The rationale and appropriateness for the adoption of a particular valuation methodology or combination of methods in the context of the valuation of a business or asset should be clearly justified. The report should disclose the rationale for exclusion of a valuation methodology.

Major factors influencing the Valuation

Key material factors including inter alia the size or number of the corporate assets or shares, their materiality or significance, minority or majority holding and changes on account of the transaction, any impacts on controlling interest, diminution or augmentation therein and marketability or lack thereof; prevailing market conditions and government policy in the specified industry should be described in the report. Here it will be relevant to mention that disclosure of projected financial information should be done taking into consideration aspects of confidentiality, regulatory requirements, purpose of valuation, potential of misuse by users and competitors.

Conclusion

The report must contain a clear statement of the value ascribed, including the Valuation Date, the Premise of Value, the valuation methods relied upon and appropriate weightage placed on each.

Caveats, Limitations and Disclaimers

These should be clearly stated, often in a separate section of the report and serve to inform the reader of the caveats associated with the valuation and help them assess the impact of these clauses on the credibility and reliability of the report. For example, in the preparation of a valuation report, the valuer should not disclaim liability for their expertise or duty of care. However, an independent valuer will prepare the report based on information and records provided by management. The independent valuer can disclaim the reliability of management provided projections and may disagree with the projections if they are conjectural or fantastic or bordering on the unreal. An independent valuer has the right to demand relevant information and basis of the projections before commenting thereon.

The Insolvency and Bankruptcy Board of India (Use of Caveats, Limitations, and Disclaimers in Valuation Reports) Guidelines, 2020 provides for Caveats, limitations and disclaimers as follows:

i. Caveats are warnings or cautions to the client/user of services.

ii. Limitation is a restriction on the scope of the RV"s work including inspection or investigation of the data available for analysis that may be present and known to the RV at the outset of the valuation engagement or that may arise during the course of a valuation assignment.

iii. A disclaimer is a statement intended to specify or delimit the scope of rights and obligations that may be exercised and enforced by parties in a legally recognized relationship. It is a statement denying responsibility intended to prevent civil liability arising for particular acts or omissions.

iv. While caveat, limitations and disclaimers have different connotation, in the context of a valuation, the clauses may get used in an interchangeable manner as limitation or a disclaimed by a RV could be caveat for the user of the report. Hence it is imperative that the users of the report are familiarized about the same to enable them to assess the impact of the disclaimer/caveat/limitation on the credibility and reliability of the report.

v. Any caveats, limiting condition or other disclaimers to the report must be clearly stated with appropriate specificity.

vi. In the preparation of a valuation report, the RV shall not disclaim liability for his expertise or deny his duty of "due care". However, it is recognized that a RV, shall prepare the valuation report of the company based on information and records concerned as provided by the management. The management remains liable for the correctness and veracity thereof. However, significant inputs provided to the RV by the management/owners should be considered, investigated and /or corroborated. In cases where credibility of information supplied cannot be supported, consideration should be given as to whether or how such information is used.

vii. The RV does not make or calibrate the projections but factors his response and the valuation assessment on the reliability and credibility of the information. The various projections of business growth, profitability, and cash flows etc, which are used in the valuation report are the company"s estimates. The RV should consider the reliability and credibility of projections after testing the assumptions made by the management / owners / company in given market conditions and after sufficient inspection, enquiry, computation and analysis. The extent of evidence requires professional judgements and RV has to ensure that it is adequate for the purpose of valuation. The RV may disagree with the projections if they are conjectural or bordering on the unreal and accordingly make necessary modifications.

viii. A RV has the right to demand relevant information and basis of the projections before commenting thereon. It is the duty of the entity being valued to be fair and to provide accurate information about the subject asset.

ix. In a valuation report, the RV can state that the assumptions are statements of fact provided by the company and not generated by the RV. This warning statement is necessary as data provided by the company is often construed be a part of the valuation report. Notwithstanding this, the RV has to carry out sufficient inspection, enquiry, computations and analysis to ensure that valuation is properly supported.

x. All valuations are to be carried out in sufficient detail to comply with the requirements of "due care". However, it can be reasonably expected that circumstances may place certain limitations regarding access to information or the time available. Hence, one has to recognize limitations of time and context in valuations, as it cannot constrain business need and flexibility.

xi. Keeping in view business needs and circumstances and, in the interest of transparency, any significant concerns regarding the justification, the information or the time available to complete the valuation be stated in the valuation report, together with appropriate explanation and implications.

xii. The effort, diligence and level of expertise applied by the relevant Registered valuer, need to be stated in the valuation report.

Summary of findings of the peer review of valuation reports conducted by ICAI RVO

A peer review workshop was organised by ICAI Registered Valuers Organisation in association with Insolvency and Bankruptcy Board of India (IBBI) to share findings of Peer Review for the three Asset Classes, i.e., Financial or Securities Assets Class, Land and Building and Plant and Machinery as per Companies (Registered Valuers and Valuation) Rules, 2017 through videoconference.

ICAI RVO also published a detailed Concept Paper which is available at the link: **https://icairvo.in/documents/Concept%20Paper1.pdf**

Summary of findings during the peer review of valuation reports are provided below for the purpose of setting a reference point towards Don't's of the valuation report.

1. Scope of work being vague and requisite details were found missing.
2. Appointing Authority appointing the Valuer is not mentioned.
3. Report mentions that the valuer takes no responsibility for the data presented in the report.
4. Valuation Standards used not specifically mentioned in the Report.
5. Absence of supporting evidence and analysis
6. General lack of understanding around concepts and definitions.
7. Adherence/Compliance with Valuation Standards is unclear
8. Structure and formatting of the report is not as per the guidance Rule 8(3) by IBBI, very poorly structured report with haphazard format through out
9. Valuation Report only mentions 'The fee for the engagement is not contingent upon the results reported.' It does not specifically cover independence or conflict of interest ~ perhaps covered in the Engagement Letter.
10. Important definitions to be mentioned in the report.
11. There is no specific fees structure given for Reviewer like other profession. Extent of bearing the fees may determine with the discussion with IBBI and other RVOs.
12. Date of appointment not mentioned in the Valuation Report. Valuation Date is also not mentioned in the Valuation Report (It is only implicit that the Report Date is the Valuation

Date).

13. Nature and sources of the information used or relied upon is mentioned in the Valuation Report. An important information used is the financial projections. However, the same has not been included in the sources of information.
14. Limitations in the form of non-availability of projections have been addressed by ignoring the income approach for valuing one of the companies. Some more justification on the same would be helpful.
15. Limiting Conditions that directly affect the Valuation are not clearly mentioned.
16. For Valuation Approach- Management Certified Projections have been used by the Valuers. Valuer has explained the Approach and drawn necessary reference to the technical/guidance material in his report. However, it will be good if the valuer provides guidance/information on:
    - procedures performed by the Valuer especially w.r.t Management projections;
    - Why certain methodologies have not been considered;
    - Current state of Operations of the Company; and
    - Financials as at the Valuation Date.
17. Also, the Valuer has considered full year cash flows for FY 2019-20 while the Valuation Date is February 15, 2020.
18. All the valuers have mentioned their identification along with IBBI Registration Number but in many cases COP Number is not mentioned. The significance of COP is important as membership no. does not signify the fact if the valuer has Certificate of Practice.
19. Eligibility of Valuer – In many cases, valuer in their report have not specifically mentioned their eligibility as a valuer as per Rule 3 of Companies (Registered Valuers and Valuation) Rules, 2017.
20. The purpose of valuation is not clearly mentioned.
21. Valuers have not clearly mentioned face value of assets while identifying the instrument.
22. The extent of Investigation undertaking, including the limitation on that investigation set out in the scope of work shall be disclosed.
23. It is observed that in many valuation reports although the valuer has performed due diligence the same is not separately described and discussed in detail.
24. The Premise, Assumption and any special Assumption were not mentioned under separate heading.
25. The report must have an Executive Summary.
26. UDIN to be there for signing the report just like ICAI.
27. There are number of typing errors in the report.

28. Apparent mistakes w.r.t calculation has been observed, such as while applying DCF method, discounted for full year instead of 80 days.
29. Intended User of the Report is not mentioned, though in most of the cases the intended user of report is the company itself, however in case there is any other user the same is generally not mentioned.
30. It is observed that the valuers have described the valuation approach or approaches used in their valuation report but didn't mention the reasoning for adoption of a particular approach (es).
31. When using DCF method, a disclaimer whether projections used were solely provided by Management OR were rationalized subsequently with reasons thereof were found missing in the report.
32. Reasons to justify extent of Liquidation Discount applied not recorded.
33. Some RPs insist on recording Realizable value instead of Liquidation Value.
34. The letters of engagement of some of the IP's are an issue. Some IP's letters are just few sentences while others have too many details.
35. Details about Inspections / Investigations done are still an issue. Many people consider following just one approach / one method is enough. They are being advised to look into additional options too.
36. No declaration on restriction on use, distribution and publication of report
37. Methodology considered for lease hold property not properly reflects the methodology of leasehold valuation. Appropriate and suitable methodology has not been used.
38. No comment on material uncertainty in relation to valuation has been made.
39. No proper mentioned of Limitation, Caveat etc
40. While reviewing Plant & Machinery Valuation Report's certain deficiencies were observed such as:
    - Use of stamping;
    - Erroneous report headings;
    - Non-mentioning of investigations conducted;
    - Non mentioning of technical specifications of some machines for Valuation
41. While reviewing Land & Building Valuation Report's certain deficiencies were observed such as:
    - Lack of evidence for market survey of prices.
    - Non authentication of physical measurements.
42. While reviewing Securities and Financial Valuation Report's certain deficiencies were observed such as:

- Due weightage not given to Covid crisis.
- Steady growth of business presumed during Pandemic.
- Non-inclusion of intangible related to IT enabled services.
- Not indicated the method of valuing subsidiaries & adopting tangible asset valuation straight from the book of accounts.

43. Practice Issues faced:
    - Appointment of Single Valuer (representing one class of asset) as an umbrella valuation engagement involving valuations under other classes of asset.
    - Fair Value of Financial Assets (ICDs, Receivables etc.) of companies under Insolvency/ resolution plan.
    - Liquidation Value – How misused for lower bids under bankruptcy/ insolvency auctions?
    - Importance of rationale in valuer’s report

Recommendations by ICAI RVO to be incorporated in the Valuation Report

1. Valuation report mentions that since, the projections are price sensitive information, the income approach has not been used. However, the fact that the valuer has been appointed to perform valuation of the company and he is bound by the confidentiality agreement which the company may have entered with the valuer should not deter the valuer from using financial projections. Valuer should have provided a cogent rationale for not using the projections.
2. Valuer has indicated the how he has worked out the discount rate. However, the justification of the discount rate needs strengthening considering the stage of operations, comparable used is provided.

3. Explicit declaration regarding compliance with the Valuation Standards followed in valuation (VS issued by ICAI RVO or any other VS) is required to be mentioned However, the same has not been mentioned in the valuation reports

4. COP Number should be mentioned in the report.

5. Eligibility of registered valuer clause satisfying Rule 3 of The Companies (Registered Valuer and Valuation) Rules 2017 must be mentioned.

6. While mentioning the purpose of valuation, it is advised that Valuers should reproduce the section, because the user might not be aware of the sections and the related provisions.

7. Valuers should identify the instrument with separate heading. It will be useful in cases where there are number of instrument with different class.

8. The Valuer must mention the extent of examination and verification made in respect of the information on which his valuation is based on. In case any public data is used, the source must be clearly stated with the extent of examination performed by valuer

9. Under NAV method valuers must mention the details of Tangible Assets, Non-Current Assets, Current Assets and Liabilities rather than classifying them under broad heads. This will enable user to understand the nature of Assets or liabilities under broad heads.

10. An executive summary to give a quick glance to user to understand the valuation report shall be provided, it shall include the mythology used, the value which is arrived, important dates, valuation standard followed and purpose of valuation etc.

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Answers to the Questions (ATQs) raised during Virtual CPE Meeting of Series "Sundays with Valuation Experts" on the topic "Valuation Reports- Do's and Don'ts- To what extent are they followed?" held on 20th June, 2021.

S. No	Questions	Response
1.	It may look like as a general topic, but Valuation Report is the outcome of very complex analytical exercise undertaken by a Valuer during Valuation. Share five most important points to be taken care while preparing a Valuation Report.	First and foremost, it is important to understand that valuation report is the first document that a valuer presents to the intended user and if it is not properly written it may not do justice to the immense professional work undertaken by him to complete the assignment. Further, valuer needs to understand that valuation is an opinion and not certification and hence it is advised to use following wordings in conclusion para: - "In our opinion the fair value……." as valuation is very subjective and different valuer may have different view. The Companies (Registered Valuers and Valuation) Rules, 2017 and the ICAI Valuation Standards clearly spells out the minimum requirements for a valuation report. In speaker's opinion, amongst them the following are the five most important points to be taken care while preparing a Valuation report: 1) Scope or purpose of the Assignment; 2) Date of valuation; 3) Valuation methodology and approach used to arrive at value; 4) Restrictions on usage for the valuation report and major assumptions shall be reiterated in the conclusion paragraph;

S. No	Questions	Response
		5) Caveats, Disclaimers and Limitation in the valuation report;
2.	Based on your experience please explain Do's and Don'ts while preparing a Valuation report?	**For Do's –** Refer to minimum requirements for valuation report as specified under The Companies (Registered Valuers and Valuation) Rules, 2017 and the ICAI Valuation Standard 202 - on Valuation Report and Documentation. In addition to these any other additional points considered essential by the valuer can be included. **For Don'ts –** First and foremost a valuer shall never do copy-paste from other valuation reports for general language. Secondly, negligence like arithmetical inaccuracy or mismatch in dates shall be completely avoided. Kindly also refer to the "Concept Paper on findings of Peer Review of Valuation Reports" issued by ICAI RVO and Valuation Standards Board in 2020 and 2021. Both the documents are available at:- https://icairvo.in/concept-papers.aspx
3.	Whether a Valuation Report should be completely in line with the Scope of the work, or a Valuer can extend the scope by himself with a view to explain certain points?	For extension or modification of scope as defined in engagement letter, a valuer should ideally get the same documented in writing by issuing a supplementary engagement letter.
4.	The intended user of the valuation report generally does not have the benefit of management interviews, meetings and site visits; however, it	A valuer shall disclose crux of all important management discussions and site visits in his valuation report and build it up as a story to help the users understand the flow of information and

S. No	Questions	Response
	is suggested that a valuer shall write his report like a story so that the users can better understand his report and link between value and assumptions. Kindly suggest some tips and tricks on how a valuer can achieve the same.	his stands and views behind various assumptions considered in arriving at the final value.
5.	A valuer signs a non-disclosure agreement with his clients and under same he must ensure confidentiality of the information available to him. However, valuers often misunderstand it and do not disclose sufficient information for readers to replicate the basic analysis. Kindly share how can a valuer overcome this dilemma in writing a Valuation Report?	Content of the valuation report should bring clarity and brevity in terms of conclusion of value. Information necessary to interpret the background and the logic of process do not generally breach the confidentiality clause. Sufficiency of the information is critical and necessary for a reader of valuation report to understand fairness of the value in a context. Further, this would also essentially depend on the purpose of the report, in cases where the valuation report is meant to be disclosed in the public domain and where disclosure of critical information could be detrimental to the Company, the valuer could always issue a summary report backed by a detailed one which is shared on a limited basis and is made available for any statutory authorities / peer reviewers etc.
6.	In case there is material uncertainty for the valuation arrived, how can a valuer report it as a disclaimer or limitation without diluting his responsibilities?	A material uncertainty can arise on account of changes in various internal and external factors affecting the business of an entity. For e.g.: a regulatory change can significantly impact a telecom company as the industry is highly susceptible to it.

S. No	Questions	Response
		In case of material uncertainty, a valuer can continue to value the business on going concern principle and disclose in his conclusion para that while arriving at given value on going concern principle the following material uncertainty was there which has not been considered but can impact this value significantly.
7.	What are the various sources of information available to a valuer and how shall he disclose the same in his report?	Valuer shall draw the attention of the readers to all the data sources, both internal and external, that he has relied upon post necessary analysis and review to arrive at the final value.
8.	How to do valuation of ESOP rights of employees in an unlisted company?	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. For Income Tax purposes, ESOP is taxable as a perquisite at the time of exercise. At the time of exercise, there is a need to obtain a valuation by a merchant banker for the purpose of determining the perquisite value.
9.	Please explain how to draft a Valuation Report for textile industry?	Kindly refer to the ICAI Valuation Standard 103 on Valuation approaches and methods and ICAI Valuation Standard 202 on Reporting and documentation.

S. No	Questions	Response
10.	Does a valuer need to value the liabilities in case of valuation under IBC? If yes, which method/approach shall be adopted and what are the key points to be kept in mind regarding this?	Regulation 35 of CIRP clearly specifies that a valuer is required to determine both fair value and liquidation value under IBC. And in determining same he for sure needs to value the liabilities as well.
11.	How to do valuation of assets under Covid-19 situation?	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
12.	What is the maximum time gap between the date of conducting valuation and date of valuation report?	There is no standard, but it shall be as near as possible to reduce the impact of subsequent events.
13.	Can a Registered Valuer do backdated valuation? If yes, what is the time limit for making such report from the valuation date?	Valuation date can be current or past. However, report date cannot be past. There may be reasons for a genuine need for valuation to be undertaken as of a past date. The valuer can undertake such reports but may have to clearly bring out as to how he has factored changes in the economic / political / legal / technological and other aspects in the time from the valuation date which is in the past and the current report issue date (valuation report date) For example, valuer can perform a valuation of an asset as of 1st April 2015 (i.e., transition date of Ind

S. No	Questions	Response
		AS for Phase I companies) for compliance for Ind AS for its first-time adoption in the financial statements for the period ending 31st March, 2017. The report date can be post 31st March 2017 but before date of signing of financial statements.
14.	What precautions are to be taken in valuation of immovable property for certifying net-worth of an individual. Can valuation be done, including the money paid, over and above the registered Stamp Value?	a) This is in the realm of Valuers under L&B asset class b) Yes, it can be done with proper justification, But, under Income Tax Act for valuation of property, Stamp duty value adopted or assessed or assessable by any authority of the Government in respect of the immovable property shall only be considered.
15.	Can valuer restrict the distribution of valuation report?	Yes he can, depending upon the intended users of the report which further depends upon the purpose of valuation. For e.g., in case of M&A the valuation reports are generally published on regulators website itself, so cannot be restricted by the valuer.
16.	For getting admission in a professional institute abroad for further higher studies, Chartered Accountant Certification on net-worth of his family is required. What should be the basis for valuation of ancestral property (Immovable)?	This is in the realm of Valuers under L&B asset class to get a valuation of the property. One approach could be to use the Stamp duty value adopted or assessed or assessable by any authority of the Government in respect of the immovable property. This information may be available in many cases from the guideline values published by the Government from time to time.
17.	Request you to please explain importance of "Valuation Date", "Report Date".	Valuation date is the specific date at which the valuer estimates the value of the underlying asset. Report date refers to the date on which the valuation report has been issued by the valuer.

S. No	Questions	Response
		Value is identified as at a particular date. Hence, valuation date is critical for passing judgements to the value. Report date is important from the compliance perspective. Logically, report date cannot be prior to valuation date. Para 39 of ICAI Valuation Standard 201 states that generally, a valuer would consider only circumstances existing at the valuation date and events occurring up to the valuation date. However, events and circumstances occurring subsequent to the valuation date, may be relevant to the valuation depending upon, inter alia, the basis, premise and purpose of valuation. Hence the valuer should apply its professional judgement, to consider any of such circumstances / events which are relevant for the valuation. Such circumstances / events could be relating to, but not limited to, the asset being valued, comparables and valuation parameters used. In the event such circumstances / events are considered by the valuer the same should be explicitly disclosed in the valuation report.
18.	ESOP scheme specifies that exercise would be based on valuation of company done basis financial statements prior to 6 months of resignation. As a valuer what shall be done?	ESOP valuation for accounting is required to be done at the time of issue of grants itself. If the exercise price is not fixed but is linked to certain future events, then a valuer is expected to build scenarios, use high-end techniques such as regression analysis, trend analysis, and Monte Carlo Simulations for estimating the future value under various scenarios simulated.

S. No	Questions	Response
19.	How the Enterprise Value is being calculated? Does this method have some acceptability by any statutory authorities? Ultimately, it is the willing Buyer and Willing Seller who determines the final value? The Valuation and Taxation are two different aspects, what is your opinion?	Enterprise Value is the value attributable to the equity shareholders plus the value of debt and debt like items, minority interest, preference share less the amount of non-operating cash and cash equivalents. It can also be formulated as: Enterprise Value = Free Cash Flow to the Firm (“FCFF”)/ Weighted Average Cost of Capital. A valuer shall never conclude an assignment basis the negotiations between the valuer and seller as that will be considered as professional negligence. Further, fair value of a business may be different from the transaction price of the business as it depends on the negotiation between buyer and seller. Yes, Valuation and taxation are different aspects but there is lots of interplay between both.
20.	Can a statutory auditor issue valuation reports to its auditee clients?	No. Section 144 prohibits the same.
21.	How substantial reduction in future profits shall be considered in share valuations?	The valuation is essentially a reflection of the future potential of the entity and if there is projection of reduced profits in the future and these projections are properly reviewed and found reasonable, then the valuation could be undertaken using such projections which would have its impact on the valuation. Management can build the prospective financial information considering such reduction in profits. Valuer needs to analyse and evaluate reasonability of reducing profits. Critical area to evaluate are

S. No	Questions	Response
		terminal value on the basis of negative growth rate. Moreover, valuer shall explain applicability of 'going concern' principle inspite of reducing profitability. Valuer is encouraged to articulate on sustainability of business in his valuation report.
22.	a. Kindly elaborate FDI in LLP and how is such valuation report different from valuation reports for FDI in company? b. In LLP valuations the inflows from abroad should be against fixed capital or should be against current capital? c. Will the inflows be distributed amongst the other partners? 4. Also what points from tax standpoint for FDI in LLP. Does 56(2)(x) apply? 5. Will there be any issue from the new 45(4)	In case of company a valuer determines value per share while in case of LLP he values the entire LLP as a whole. Further, as in the case of LLP, it is more of a fresh infusion of capital and reconstitution of partnership, there is no transfer and thus 56 (2)(x) will not apply. In terms of credit to the partner's account, the same could be effected based on the individual LLP agreement and how it deals with the same. Section 45 (4) has been introduced long back and essentially this provides taxation to be applied on assets which are transferred through partnerships at say book values.
23.	In case of demerger scheme, suppose valuation was done in August 2019 of both companies and board approved/ accepted the scheme in August 2019. However, due to the bench strength of NCLT and due to Covid hearing was adjourned for long, and now valuations would have changed drastically.	In case of demerger "the appointed date" as fixed by the board is critical and valuation is also done as on the appointed date. It is normally not changed by Courts/NCLT. However, there are instances in the past wherein court has questioned the users whether the valuation will change significantly in case of change in appointment date.

S. No	Questions	Response
	Is it required to revalue both the companies and arrive at fresh swap ratio for this demerger?	
24.	If valuation is an opinion, then why courts are taking it as sacrosanct? Specially in case of forced exit of minority shareholders? Refer to the case of Cadbury, where there was large variation between valuation done by two valuers and court appointed valuers. Does it not give blanket authority to the valuers to justify any figure claiming it is just an opinion?	Any Valuation Report first goes to the board of the company for approval and thereafter it is filed with the regulators. It will be incorrect to say that courts consider it sacrosanct as there has been many cases wherein judiciary and regulators have asked for justifications against a valuation report and even at times have asked other valuers to undertake an independent valuation to understand if the valuation is grossly unfair or not. Even in Cadbury case it was held that *"in order to decline sanction it must be shown that the valuation is ex-facie unreasonable. The mere existence of other possible methods of valuation would not be sufficient to deny sanction to such a scheme. It was held that the assent of the court would be given if: (1) the scheme is not against the public interest; (2) the scheme is fair and just; and (3) the scheme does not unfairly discriminate against or prejudice a class of shareholders"*
25.	In case of valuation of any business where buyer and seller belong to same group of family and highly dependent on valuation report, which valuation strategy shall be more appropriate, Fair Value or Market Value?	Th choice of the valuation base, say fair value or participant specific value would depend on various factors in each case. Further, the premise of value could also be on the basis of Highest and the Best Use, going concern or as is where is basis based on each case.

S. No	Questions	Response
26.	Whether Value Added Measures such as Economic Value Added (EVA), Market Value Added (MVA) and Shareholder Value Analysis (SVA) form part of Valuation Report?	Not necessarily. These measures are not minimum content requirements. However, they can be added for better understanding. The contents of the valuation report are determined by the purpose of the valuation and the relevance of various analysis; accordingly, these may be relevant in certain valuation engagements.
27.	Drivers of valuation for seller is typically very different from the valuation of a buyer. Please stress on this point as this is what results in a negotiation and price discovery.	Participant specific value may be affected by factors such as synergy, control premium etc., thus leading to a different perception of value from the buyer’s side and seller’s side.
28.	Independent report essentially requires appointing authority to be different from the persons whose financials or valuation has been undertaken. Kindly share view	Once the National Institute of Valuers is established as proposed in Draft Valuers Bill 2020 this mechanism can be introduced where the appointing authority is different. This mechanism is not there for valuation as of now, but as per Companies Act 2013 Registered Valuer shall be appointed by the audit committee or in its absence by the Board of Directors of that company.
29.	In addition to scope, methodology, date, caveats and disclaimer whether workings shall be given in the report or merely a result can be mentioned?	Workings must become an integral part of the report. Additionally, valuer shall explain in his report the process and methodology adopted to arrive at the value. Also please refer to the ICAI Valuation Standards and the Companies (Registered Valuers and Valuation) Rules, 2017, to draw guidance on the matters to be covered in the valuation report.

S. No	Questions	Response
30.	For a Private Limited Company how should a Chartered Accountant convince himself about a particular value and how should he/she convince the client about the value? Since many times clients are expecting much higher value than the reported value, based on deals of listed companies.	The whole process of valuation should flow in a sequence reflecting the appropriate choices / judgements made by the valuer which then should be reflective of a due process. As the valuer is expected to be able to justify the process of valuation and how the valuation has been derived in respect of each of his engagements, in case of any peer review also, it is obvious that he should have adequate material to similarly communicate appropriately with the client. Value 'rationale' can be achieved with logic based on trends, patterns, availability of funds etc.
31.	What is a right way to value unicorn companies? Despite continuous losses why are these Unicorn's commanding huge valuation?	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
32.	Please provide the link where all the reports are uploaded.	For listed companies valuation report issued in case of merger/demerger is available in NSE & BSE website under filing section under schemes.

S. No	Questions	Response
		Under Companies Act, where there is a filing requirement, copies would be available along with the relevant form filed by the company.
33.	Can standard format be prepared in order to avoid cut and paste and certainly with application of mind is definitely required along with it	A broad outline may be maintained for different kinds of valuation engagements frequently handled by the valuer. However, the detailed contents of the report would significantly vary depending upon each case's uniqueness.
34.	Can you please enlighten us about various valuation courses available to start with and which is the best?	For guidance with respect to becoming a registered valuer, you may refer to the FAQs available at ICAI RCO's Website https://icairvo.in/
35.	Where is this Valuation reports Peer review available?	"Concept Paper on findings of Peer Review of Valuation Reports" issued by ICAI RVO and Valuation Standards Board in 2020 and 2021 are available at: - https://icairvo.in/concept-papers.aspx
36.	When the valuer finds that there is an error in the report, should he re-issue the report with the correction?	Yes
37.	As a Chartered Accountant we have the habit of starting auditing while doing valuation, please explain the difference and how to put a break to this practice?	As the work of Valuer involves an analysis of financial information and accounting records, his engagement does not include an audit in accordance with generally accepted auditing standards of the clients existing business records. Accordingly, a valuer expresses no audit opinion or any other form of assurance on this information.

S. No	Questions	Response
		However, a valuer should consider the reliability and credibility of projections after testing the assumptions made by the management / owners / company in given market conditions and after sufficient inspection, enquiry, computation and analysis. The extent of evidence requires professional judgements and valuer must ensure that it is adequate for the purpose of valuation. The valuer may disagree with the projections if they are conjectural or bordering on the unreal and accordingly make necessary modifications. Generally, the valuer may anlayse and accordingly require a revisit of the projections by the management and also in some cases may factor a risk adjustment in the discount rate etc., for his assessment of achievability of the projected results.
38.	How intangibles, like vast experience of promoters of the company, be valued by a venture fund, while investing into share of a newly incorporated company? In this case promoters are well established name in their field.	One person can make 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.

S. No	Questions	Response
39.	When we are doing a price discovery of an asset for a client for strategic decision making, what basis of valuation should be used: fair value or participant specific value? Should this be discussed with client?	In such engagements, as it is more an advisory role and there may not be a need to issue a report for a value or even a range of values, it may be appropriate to probably evaluate the fair value to give an idea of a base and the participant specific value to provide the benefit that could be there for the buyer and provide a range for his to undertake negotiation of the transaction.
40.	Can there be a substantial gap in the date of valuation and issue of shares? Please enlighten us with any pointers to be considered.	It needs to be borne in mind that the valuation is as of a date and could vary over a period. The longer the time duration, it is more likely to be at a larger variance. Further, the reasonable timeframe will also be affected by occurrences between the valuation date and the present date when the issue of share is being effected. Hence there should not be a substantial gap between two dates. Valuation is fair as at the valuation date.
41.	Value should remain the same which should be nearer to actual and should not change according to scope. Kindly share view	The purpose of valuation significantly impacts the final value arrived at and the whole approach and methodology of valuation needs to be driven by the purpose of the valuation. Hence the valuation need not be the same, independent of the purpose of the valuation.
42.	FEMA requires only Chartered Accountant or Merchant Banker to certify the valuation report. Companies Act requires to get it valued by a Registered Valuer. Can a Registered Valuer sign two reports one in capacity of Registered Valuer and one in the	A single report will be sufficient if a professional is both Chartered Accountant and a registered valuer. He needs to disclose the membership details of both in the same report.

S. No	Questions	Response
	capacity of CA? Also, RBI is rejecting reports of Registered Valuer in FCGPR, kindly share your view.	
43.	In case of conflict the purpose and scope, whether engagement scope would prevail?	Where there is a conflict in the purpose of valuation and the engagement scope, there is a need for the valuer and the client to have discussions to revise the engagement scope to be in line with the purpose of valuation.
44.	As per the provisions of Income Tax, we need the valuation to done by a Merchant Banker for finding the FMV as per Rule 11 UA. But, as per the provisions of Companies Act, for issuing shares, valuation needs to be done by a Registered Valuer, and we are also not permitted to issue shares at a price less than the value found by RV. So, is not there a conflict of these provisions provided in the Income Tax Act and Companies Act.	Such situation arises only when a company issues shares and chooses to ascertain Fair Market Value based on DCF method under Rule 11UA(2). In such cases, a company necessarily need to appoint both registered valuer and a merchant banker. It has also been seen that company appoints a person who is both a merchant banker and a registered valuer. However, the difference between the two values derived at by merchant banker and registered valuer should not be substantial, as valuation date is same for both. However please note that there is no such restriction to issue share at a price less than the value found by the registered valuer.
45.	When issuing report under Rule 11UA, where mechanical formula to be followed, do we have to issue the report as per ICAI valuation Standards 2018	The valuation 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:

S. No	Questions	Response
		"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."
46.	As mentioned by you earlier, the scope of engagement can identify the purpose of the valuation assignment. In addition to the valuation given, if the valuer is aware that the valuation could be used in other ways such as submitting to court, etc., is it advisable to include disclaimers such as "this report is NOT intended for ....purpose?	The report's usage could be restricted specifically in writing with the client so long as it meets the engagement objectives.
47.	Purpose of valuation is needed to be mentioned at each point of valuation report?	No. It needs to be brought out in the valuation report at the appropriate place.
48.	What can be justified variation between one valuation report and another? and how do we justify Cadbury case where there was significant variation between company appointed valuers and court appointed valuers?	There is no such standard acceptable/justified variation range. A valuation report is based on several assumptions and same can vary from one report to other. However, keeping all the assumptions constant the variation between the two reports shall not be material.
49.	Can a Valuer be sued by a third party for having suffered losses by relying on his report? If assumptions do not come true due	Firstly, a valuer needs to perform valuation with due care. If valuer ensures that there is no professional negligence, liability does not accrue to him.

S. No	Questions	Response
	to circumstances beyond control are their professional liability on valuer? Is insurance available for valuers to protect against such risks?	Further, Valuers must ensure that they restrict the distribution and the liability only to specific parties. Professional indemnity insurance is being provided by various insurance companies and could be appropriately considered.
50.	How to determine the value of shares of an unlisted company as on 31.03.2001 and how to take the benefit of indexation for capital gain calculation purpose?	For the valuation approach and methodology, refer to the guidance available in the ICAI Valuation Standards. Indexation benefit is more from taxation aspect and is not directly affecting the fair value of the share as on the given date.
51.	If the valuer has done sensitivity analysis to have a feel of the range, should it be revealed as a matter of fact and if revealed, can it be taken as a caveat if somebody challenges the point value given in the report?	It shall be kept as part of the working papers.
52.	For certain business, growth /expansion primarily depends on size of investment inflow and therefore, promoters of company also change business projections depending on investor they are approaching and considering. Valuation of company also significantly varies under these circumstances, so can we issue multiple valuation reports for the same company depending on multiple business projections given	All the projection shared must be linked with the board approved budget by a valuer. The annual budget will be drawn based on the probable investments and hence shall form a stable base for projections. However, under the given scenario in case there is significant variation in investment size, then the valuation is bound to change. If this is an instance happening before valuation report signing date, then a valuer should consider the same in his report and disclose it in his report as well.

S. No	Questions	Response
	by management linked to investment size?	
53.	To what extent limitation, disclaimers should be put across in the valuation reports? like during field assessment we come across the fact that a property is disputed, and management is not able to assess the impact at that point of time.	Please refer to the guidelines issued by IBBI in this regard. Generally, such issues must be highlighted, and it must also be explained as to how the same has been considered in the valuation.
54.	Is it prudent in some cases where the key variables to valuations are in a state of flux or oscillation, to give a best case/ worst case scenario or to give a Valuation and a xx% / -xx%, based on the respective scenarios	The ICAI Valuation Standards itself envisages valuation to be presented as a range. However, the range cannot be significantly wide to not meet the objective of the engagement. Further, valuer can also undertake sensitivity analysis in such situations.
55.	In case of minority shareholding valuation, sometimes the shareholder does not have access to AOP/ LRP and other cashflow information which might affect valuation. How to capture that uncertainty in our valuation report?	The choice of the valuation approach and method is also constrained by the availability of reliable information. Shareholder has access to historical annual records of the company. Valuer can perform the engagement with such limited data set. Valuer is expected not only to put disclaimers but perform sensitivity analysis for critical inputs. Based on the guidance available in regard to the valuation approach and methodology in the ICAI Valuation Standards, this may be approached, and appropriate method selected on that basis.

S. No	Questions	Response
56.	Can client ask for working papers / calculation to understand the valuation methodology?	Yes, they can. But it remains the property of the valuer.
57.	Can Valuer give additional information in his report for the benefit of stakeholders beyond the assigned purpose and scope, if he got them from reliable source?	As per para 35 of ICAI Valuation Standard 202 on Valuation Report and Documentation *"In addition to the minimum contents as given above, if the valuer believes that certain additional information will be useful to the user for a better understanding of the valuation, the valuer may include such additional information in the valuation report."*
58.	Chartered Accountants are expected to value asset class SFAs, but what about Land and Building, and Plant and Machinery?	Kindly refer Companies (Registered Valuers and Valuation) Rules, 2017
59.	With regards to IBC valuation, as per CIRP regulations it is only for asset valuation not liabilities for determining enterprise value, please clarify.	Regulation 35 of CIRP clearly specifies that a valuer is required to determine both fair value and liquidation value under IBC. And in determining same he for sure needs to value the liabilities as well.
60.	Valuation was requested in the month of June 21 by management for valuation date 31.03.19. Should valuer use hindsight in projection'?	Para 39 of ICAI Valuation Standard 201 states that generally, a valuer would consider only circumstances existing at the valuation date and events occurring up to the valuation date. However, events and circumstances occurring subsequent to the valuation date, may be relevant to the valuation depending upon, inter alia, the basis, premise and purpose of valuation. Hence the valuer should apply its professional judgement, to consider any of such circumstances / events which are relevant for the valuation. Such circumstances / events could be relating to, but not limited to, the asset being valued, comparables and valuation

S. No	Questions	Response
		parameters used. In the event such circumstances / events are considered by the valuer the same should be explicitly disclosed in the valuation report.
61.	Whether provision of section 56(2)(viib) of Income tax act read with rule 11UA for valuation of shares are applicable for (i) share warrants when issued (ii) when these warrants are converted into equity shares in next year. Whether it is mandatory to get the valuation report as per DCF method. Can valuation by CCM or other method be used to substantiate share valuation.	This is not a well settled matter under Income Tax Act. Subject to this overarching position, the interpretation of the present statute could be as under: At the time of issue of warrants, as it is only an option which is being issued, there is no taxability at that point of time. If the issue price is lower than the FMV (as per Section 11UA), then the difference could be taxed in the hands of the shareholder u/s 56(2)(x). Alternatively, as some case laws have held that warrant is an asset, the conversion into shares may be treated as capital gains. Share Premium on conversion of warrants – applicability of 56(2)(viib) needs to be considered as if the premium is not justified, the same could be subjected to tax. If the company is a DPIIT registered start up having exemption from section 56 (2) (viib), then this may not apply.
62.	Why MCA does not accept Valuation Report prepared by a Chartered Accountant for company share value?	With the introduction of Companies (Registered Valuers and Valuation) Rules, 2017, only a registered valuer can be appointed as a valuer under Companies Act 2013.

S. No	Questions	Response
		However, a Chartered Accountant can become a registered valuer under the asset class "Securities and Financial Asset".
63.	Can we do start up valuation under DCF based on future projections when they have negative cash flow at present?	Yes, DCF is effective even with negative cash 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 mean 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.
64.	In case of listed company which is in distress but is having a distress plan can we use Market Price and DCF and assign a probability?	Prima facie yes, as prospective financial information needs to be accordingly prepared by management. Valuer can analyse reasonability of recovery plan reflected in projections before concluding on the fair value. Further, selection of valuation approach and method would have to be determine based on a case-to-case basis with full facts and in line with the ICAI Valuation Standard in this regard.

S. No	Questions	Response
65.	If management does not give any capex projections, can we use revenue to capex ratio of past as capex for forecasting?	Such simplistic arithmetical approach may not be appropriate always. For instance, if the projections envisage a huge growth in revenue, the capex requirement may be completely different. So, the projections will have to be discussed with the management / client and appropriate inputs taken for the same.
66.	How do you compute Industry beta & Industry cost of capital?	You can 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 63029vsb51000.pdf (icai.org) Computation of Beta and Cost of capital has been discussed in detail therein.
67.	What is the leeway for a buyer of a business to pay a premium over and above the valuation report without being called in for questioning by authorities / shareholders?	Under the Companies Act, 2013, issue of shares (if a preferential issue) is to be at the price determined by a valuation report. Under Income Tax Act, if the premium (charged on a resident) is in excess of the Fair Market Value computed, such excess premium is taxable as income from other sources in the hands of the company. Under FEMA, if the issue is being made to a foreign shareholder, then the price must be at or above the valuation.
68.	Is there any difference between an "opinion" and an "estimate"?	Estimate is developed by the management, while its analysis is performed by valuer to opine a fair value.

S. No	Questions	Response
		But often these terms are used interchangeably and have not been specifically defined under valuation standards. However, broadly, Estimate is to compute using certain assumptions and an opinion involves use of judgements and evaluating options when multiple options are involved. For instance, the adjusted book value computation under Rule 11UA could be an estimate. While the share exchange ratio computed by using multiple methods would be an opinion.
69.	As just discussed, Flipkart, Paytm today in loss /Negative cashflow have been valued much higher than other positive cashflow companies having good track record? How?	Kindly refer to Answer to the Question No 63 above.
70.	What shall be the Valuation of land held as inventory by a private limited co.? That land is in use for joint development with another builder.	Valuation method and approach would depend on the purpose of the engagement and also considering each particular situation. In the instant case, if the purpose is to arrive at the value which can derived from the land through the joint development project the valuation approach would be different from the other extreme, where the land is to be sold now cancelling the joint development arrangement.
71.	If there is negative cash flow in the financial projections in the first 4 years out of 5 years projection, then should we continue with 5 years projections taking 5th years	The explicit period for which projections are drawn up depends on when the stable operational level is likely to be reached. If that is not likely to be reached in the 5^{th} year, then it may be more appropriate to get a longer period projection drawn up.

S. No	Questions	Response
	protection as terminal value or should we extend our projections?	
72.	What is the scope in the field of Transaction Opinion and Valuations for young Chartered Accountants in India?	Please refer to the ICAI RVO website which provides a lot of information for those looking for a career in valuation. Transaction advisory would continue to grow with complex transactions and hence will offer many opportunities.
73.	Kindly explain key factors to be considered in Valuation report for power-loom industry	Kindly refer to the ICAI Valuation Standard 103 on Valuation approaches and methods and ICAI Valuation Standard 202 on Reporting and documentation.
74.	How come Flipkart was valued at 1 billion USD when there was a negative cash flow and still investors poured money?	It is difficult to narrate the factors considered by the investor to arrive at 1 billion valuations for Flipkart. However, as discussed in question 63 above, a negative cash flow today does not mean zero value today. Typically for a start-up there can be several value drivers like hits on website, likes on social media, acquisition of new customers (may be with free/ penetration strategy) subscriber base etc. You can refer to chapter "Valuation of Start-Up Companies" in Educational 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

S. No	Questions	Response
75.	Where can we find valuation reports	For listed companies valuation report issued in case of merger/demerger is available in NSE & BSE website under filing section under schemes.
76.	a. In an unlisted company, Fair Market Value for purposes of ESOP valuation can be determined by a Registered Valuer or not? b. Can such valuation be done on say, 20th June 2021 for a date say, 31st August, 2020?	As this is for the purpose of accounting the ESOP costs for the Company, this can be done by a registered valuer and yes, if the report was not taken earlier, the valuation could be carried out in June'21 with the valuation date being in Aug'20.
77.	The Valuation Report needs to be signed only after receipt of the signed MRL i.e., Management Representation Letter. But in some cases, the client takes long time to send the signed MRL, do we need to keep shifting the Report date and continue to revise our valuation basis any subsequent events from Valuation date to Report date?	Ideally yes as Management Representation Date should be a date prior to report date. But the best practice would be to get the MRL in time so that the Report date need not be shifted.
78.	Can we use these reports to predict future of a company for investment purpose?	Yes, you can.
79.	What should be the time gap between the date of MRL i.e., Management Representation Letter and Report Date? When the company under valuation and the company appointing the valuer is different, who should send the MRL confirming the data used in valuation?	No standards have been prescribed for the time gap between MRL date and the valuation report, though ideally it shall be small such that there is not likely to be any material event between these two dates which could affect the valuation. In case there had been any material event between the MRL date and at the date of finalizing the valuation report, the valuer could seek additional

S. No	Questions	Response
		information and representation to revise the report appropriately before issuance. MRL should be send by appointing authority.
80.	In delisting valuations, whether DCF is mandatory?	No.
81.	From where can we download valuation reports for private limited company?	Under Companies Act, where there is a filing requirement, copies would be available along with the relevant form filed by the company.
82.	Some banks are taking two independent valuation report and arriving at average valuation. Is it correct?	That is the bank's choice for their internal purpose, as per their internal procedures. Average value from two different reports may not be a fair value under ICAI Valuation Standards in case of huge gaps in the value.

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