Series - 10

Valuation: VCM ATQs "Valuation of Startups"

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

Series-10

Valuation: VCM ATQs
"Valuation of Startups"

Valuation Standards Board
The Institute of Chartered Accountants of India

Preamble

Valuation Standards Board of ICAI (VSB) had organised a live Virtual CPE Meeting(VCM) on the topic- "Valuation of Startups" on 25th July, 2021. The details of the VCM are as under:

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, Registered Valuer

Director: Shri Rakesh Sehgal, Director, ICAI

Secretary: CA. Sarika Singhal, Deputy Secretary, ICAI

The Webcast received an overwhelming response and was attended by more than 1800 viewers. The said webcast can be viewed again at https://live.icai.org/vsb/vcm/25072021/

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

We would also like to mention that the Valuation Standards Board has brought out many publications and Concept papers that may be referred for guidance and reference. All the below publications are available on the Committee link at the 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, V and VI
- 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
- Valuation: VCM ATQ's – Series - I, II, III, IV, V and VI

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

Valuation Standards Board
New Delhi
31st August, 2021

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A Brief Note on Valuation of Startups

1. Introduction

In August 2015, the Hon'ble Prime Minister, Shri Narendra Modi, announced the launch of the national flagship initiative – Startup India, with a mandate to promote and encourage young entrepreneurs of our country. He envisioned the aim of the initiative to transform India into a Startup nation, "a country of job creators instead of job seekers".

The value of a newly formed business is often required for bringing in investments either by way of debt or equity funding. There are some peculiarities involved in the valuation of a Startup business arising from the fact that there is no historical data available on the basis of which future projections can be drawn.

In the initial stage of business, products are generally untested and do not have an established market. Operations of firms are at a small level with no operating history and no comparable firms. The value of a Startup rests entirely on its future growth potential, which, in many cases is based on an untested idea and may not have been based on an adequate sampling of consumer behaviour or anticipated consumer behaviour. The estimates of future growth are also often based upon assessments of the competence, drive, and self-belief of, at times, very highly qualified and intelligent managers and their capacity to convert a promising idea into commercial success.

2. Basic Definition of Startup

An entity shall be considered as a Startup: (Source: https://www.startupindia.gov.in)

i. Upto a period of ten years from the date of incorporation/ registration, if it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India.

ii. Turnover of the entity for any of the financial years since incorporation/registration has not exceeded one hundred crore rupees.

iii. Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

Provided that an entity formed by splitting up or reconstruction of an existing business shall not be considered a 'Startup'.

Explanation-

An entity shall cease to be a Startup on completion of ten years from the date of its incorporation/ registration or if its turnover for any previous year exceeds one hundred crore rupees.

3. Stages of Funding

i) Stage 1 : Seed Funding

Generally, from Promoter's Close Groups or From Startup India Seed Fund Scheme (SISFS)

ii) Stage 2 : Growth/Expansion Funding

From Angel Investor / Venture Capital / Private Equity

- Round A
- Round B

Or From Debt

iii) Stage 3 : Exit Funding

- IPO
- M & A

4. Venture Capital Investors (VCs) and Valuation

Investors particularly venture capitalists (VCs) add value to Startups in a lot of ways :

a. **Stakeholder Management:** Investors manage the company board and leadership to facilitate smooth operations of the Startup. In addition, their functional experience and domain knowledge of working and investing with Startups imparts vision and direction to the company.

b. **Raising Funds:** Investors are the best guides for the Startup to raise subsequent rounds of funding on the basis of stage, maturity, sector focus etc., and aid in networking and connection for the founders to pitch their business to other investors.

c. **Recruiting Talent:** Sourcing high-quality and best-fit human capital is critical for Startups, especially when it comes to recruiting senior executives to manage and drive business goals. VCs with their extensive network, can help bridge the talent gap by recruiting the right set of people at the right time.

d. **Marketing:** VCs assist with the marketing strategy for your product/service.

e. **M&A Activity:** VCs have their eyes and ears open to merger and acquisition opportunities in the local entrepreneurial ecosystem to enable greater value addition to the business through inorganic growth.

f. **Organizational Restructuring:** As a young Startup matures to an established company, VCs help with the right organizational structuring -and introduce processes to increase capital efficiency, lower costs and scale efficiently.

5. Stage of Development of Product Development Companies

Start-up can be analysed as per its stage of development.

Particulars	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Revenue	No History	No History	No History	Some	Enhancing	Established History
Expenses	Limited	Significant	Significant	Significant	Established History	Established History
Profitability	Losses	Losses	Losses	Losses	Breakeven/ Profit	Established History
Management Team	Incomplete	Expanding	Complete	Complete	Complete	Complete
Product Development	Some	Some but not yet at Beta Testing	Beta Testing	Started Executing Orders	Continued Executing Orders	On-going

Particulars	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Financing Sources	Angels/ Early VCs	VCs	VCs/ Strategic Investors	Mezzanine Financing/ Bridge Loans/ Last round by VCs/ Strategic Investors	Strategic Investors/ IPO	Out of own Profits

A valuer shall write a commentary on each of the stage identification pointers and conclude the stage of the development of the entity under valuation. Such analysis often supports 'DCF based number estimated' to be a fair value. This exercise can also help a valuer, judge the qualitative fairness of his valuation. For example, if valuer concludes an entity to be in Stage 2, then he needs to document a timeline expected by himself and the management of the company to reach stage 5 when breakeven can be achieved.

Traditionally, management has been undertaking a breakeven point as early as the 2nd year of establishment. Valuers should not accept such a claim on the face of a management representation letter unless it is logically tenable.

Valuers are suggested to frame their questions based on the following representative points:

- Understand the original business plan
- Has proof of concept been achieved?
- Has Beta Test been carried? What is the outcome?
- Whether company possesses related regulatory approvals for manufacturing (important in terms of pharma companies)?
- Who are key customers?
- How entity secures raw material, equipment, or workforce?
- Has the company started shipping orders?
- What is the profitability of the company?

Apart from above, valuer is suggested to write a commentary on observations related to following:

- State of Industry & Economy – while the valuer writes content under this chapter, he should not refer to study made by any institute unless he has bought that study/ research and possess legal right to reproduce the result in his valuation report.
- Management and BoD
- Marketplace & Major Competitors
- Barriers to Entry
- Competitive Forces
- Intangible Right/ Propriety Right in technology
- Human Resource
- Customer and Supplier/ Vendor characteristics
- Strategic Relationship with key customers/ suppliers
- Major Investors

6. DCF – The better approach for Startup Valuation

Step I – Estimation of Cash Flows

One of the first steps is to estimate the cash flows. Instead of just projecting the revenue and the profitability of the firm, one needs to get into details of the business and estimate the revenue and corresponding operational expenses. Then it is required to identify reinvestment required to achieve targeted revenue and profitability. This can be done by comparing capital available and cost estimated to be incurred. The difference between the latter and the former is the additional capital/ reinvestment requirement.

One other important factor to consider is what should be the period of projection? Sometimes it is difficult to project for immediate years given the uncertainty around the startup, then projecting later years would be all the more difficult. There is no correct answer to this, and the valuer has to take a call depending on his comfort with the forecast period. However, the forecast period should be of such duration that the firm captures significant market share and the future growth post the forecast period should be stable and not exponential. This would mean a forecast period of around 5 to 10 years.

Step II – Estimation of Discount Rates

Typically, start-ups may not raise debt funding in absence of collateral security, hence, 'Equity' might be the only source of financing. Cost of Equity is a combination of Equity Risk Premium, Entity Specific Beta, and Risk-Free Rate of Return related to currency in which entity generates cash flow.

Though many perform levering and unlevering of beta to make beta more specific to entity, they often fail to further adjust it for absence of investor's diversification.

a) Cost of Equity = Risk Free Rate + Equity Risk Premium x Beta + Country Risk Premium
b) Equity Risk Premium = Market Rate of Return – Risk Free Rate
c) Risk Free Rate = 10 Year Government Bond Rate – Country Risk Premium

Instead of 10 years, the valuer may choose to consider a differently maturing bond, however, it is accepted practice to use 10-year bond rate which co-exists with cash flow estimation of 5 or 10 years.

Step III - Calculation of Beta

The Valuer may observe beta of multiple listed entities across the globe (2-year beta can be used and need not restrict to particular region) from similar industry (i.e., the industry of company undervaluation) and then calculate simple average of all Year Betas and Unlever it, using Average Debt and Average Market Capitalistion of companies.

Levered Beta = Unlevered Beta x (1 + Average Debt/ Average Market Capitalisation)
Thus, Unlevered Beta = Simple Average of Regression Betas / (1 + Average Debt/ Average Market Capitalisation)

If 'Equity' is the only source of funding, unlevered beta calculated above can be treated as entity-specific beta before adjustment for diversification of investor.

The Sole-owner of a start-up usually represents that individual who has put in all eggs into one basket i.e., his all/ substantial investments are represented by his start-up and hence he is least diversified. Similarly, early-stage VCs possess a portfolio of investments that are less diversified. Hence, both sole-owner and early-stage VCs are less diversified investors.

Subsequent rounds' VC investors are comparatively better diversified but still less diversified than investors who invest in IPO/ Listing.

We can identify Correlation between entities in the industry of the startup with the market (i.e., all listed entities). Total Beta (i.e., Beta along with market risk of less diversified investor) can be calculated as Levered Beta Calculated above divided by Correlation between Entities in Industry and the Entire Market.

Total Beta = Levered Beta/ Correlation (Industry of Startup and Market)

Thus, revised Cost of Equity = Risk-Free Rate + Total Beta (Equity Risk Premium) + Country Risk Premium.

Step IV - Estimating Terminal Value

There are 3 possibilities –

1. Company will flourish and continue as a going concern in perpetuity (Scenario 1)
2. Company will flourish and continue as a going concern for a limited period (Scenario 2)
3. Company is a failure and goes into distress sale (Scenario 3)

Terminal Value in case of Scenario 1 is calculated as expected annual cash flow divided by Cost of Capital minus Growth Rate.

Terminal Value = Free Cash Flow of nth Year (1+ Growth rate after nth Year) / (Cost of Capital – Growth rate after nth Year)

Terminal Value in case of Scenario 2 is an estimation of cash flows from nth year to end of limited period (say 5 years after nth year). It is better in such a case to plot cash flows for all years including 5 years subsequent to 'n' years.

Terminal Value in case of Scenario 3 is the salvage value of assets at the end of the expected life of the Startup. If valuers can't reasonably estimate this value, they should presume it to be 'nil' in case of service-based start-ups where the asset base is insignificant.

However, for those start-ups where significant asset base is represented by immovable property, it is suggested to appoint IBBI Registered Valuer from such asset class to identify the distress/liquidation value of such immovable properties and consider such value into your valuation model. Valuers should avoid arbitrary assumptions such as 'distress value is presumed to be 35% of book value/ market value.'

Step V - Adjustment for Probability of Failure

Expected Value = Value as a Going Concern x (1- Probability of Failure) + Distress Sale x Probability of Failure.

7. Nuances of Multiple Based Valuation

Venture Capital Investors (VCs) often value newly born companies on a 'multiple' of proposed/ existing 'revenue/ EBITDA'. This approach is flawed in a sense that it applies constant multiples to all entities with different characteristics but with similar Revenue/ EBITDA. This approach completely ignores the fact that 'most of the Startups' don't survive and this risk of failure is not at all built in the model. Multiple is usually calculated on the basis of data of matured companies without alteration/ adjustment to make it specific to Startups.

8. Embedded Rights and Valuation Modelling

Funding can be achieved by the issuance of various types of securities such as equity or debt.

However, most investments in Startup are received in the form of 'Preferred Stock'.
Following are common mistakes made by valuers:

1. Treating preferred stock on fully dilutive basis i.e., assuming it to be equity
2. Treating preferred stock as a debt

Preferred stock carries a preferential right in liquidation. Thus, it definitely cannot be treated as equity even if it is fully convertible at the option of investor.

Following types of rights in various investments made by VCs, or strategic investors have been observed:

(i) Cumulative Preference Dividends
(ii) Non-Cumulative Preference Dividends
(iii) Non-Participating Liquidation Preference

(iv) Participating Liquidation Preference
(v) Mandatory Redemption
(vi) Conversion in Fixed Number of Equity Shares
(vii) Conversion in Variable Number of Equity Shares
(viii) Anti-Dilution Right
(ix) Voting Rights
(x) Protective Provisions
(xi) Right to Board Composition
(xii) Drag Along
(xiii) Right to participate in future rounds
(xiv) Right of First Refusal
(xv) Right of Tag Along

Out of the various rights observed above, valuation model shall be customized for first 8 rights. Valuation model may not need specific adjustment to account for rights from 9 to 15. Customization to valuation model (for rights from point 1 to point 8) is a matter of professional expertise / advanced knowledge and is not dealt in this concept paper.

9. Measurements Specific to Internet Companies

Measurements	Valuer's Consideration
Number of Visitors/ Month	Visitors reflect the reach of the Internet Based Company. Companies can use 'google analytics tool' to identify: 1. No. of Visitors/ Month 2. No. of New Visitors/ Month 3. % of New Users 4. Bounce Rate 5. Length of Visitor Session Analysing the above data can help the valuer verify claims of the management related to commercial acceptance and stage of maturity of the company.
Customer Conversion Rate	Data from the above matrix can be compared with an actual number of orders received in a month/ week to verify customer conversion rate.

Measurements	Valuer's Consideration
	With a decent history, customer conversion rate can be applied on to expected number of visitors over projected period (suggested not to be more than 3 years) to substantiate the projected revenue.
Average Revenue/ Order Average Revenue/ Customer	Once revenue is substantiated, valuer can verify current value of average revenue per order or per customer and projected values of such averages to check reasonability of projection.
Monthly Recurring Revenue	Product based companies may earn recurring monthly revenue (e.g., Microsoft earns recurring monthly revenue for Office 365 subscription). E-commerce companies such as Netflix use this matrix to estimate their fair values.
Customer Acquisition Cost	Marketing cost is one of the significant costs of internet-based companies. Valuer is suggested to analyse historical data along with growing or declining pattern of number of customers to establish a judgement on future projections of the management. If current customer acquisition cost is more than revenue per customer, then valuer must understand and elaborate on expected growth in revenue vis-a-vis current and expected marketing cost.
Churn Rate	This means the rate of customers entity lost to the total number of customers. A Valuer can tabulate current, new, and closing number of customers to identify number of lost customers. For example, if an entity has 100 customers at the beginning of year 3, it adds 20 more customers during year 3, however, customers at the end of year 3 are 110, then churn rate is (100 + 20 – 110) / 100 = 10%. Historical identification of churn rate can help valuer establish stage of a life cycle of the company.
Burn Rate	It is cash lost vis-à-vis cash balance. Burn rate = Total Cash Balance / Cash Expense during the month.

Measurements	Valuer's Consideration
	In the early stages of the enterprise, valuer can use burn rate to identify 'time of survival' with existing cash and 'time of additional investment' to maintain current/ projected burn rate.

Answer to Questions raised during the Virtual CPE Meeting Series "Sundays with Valuation Experts" on the topic "Valuation of Startups" held on 25th July, 2021

S. No	Question	Answer
1.	Which of the valuation methods are most commonly used for Startup valuation?	The ICAI Valuation Standard 103 explains in detail the three valuation approaches used, which are Market approach, Cost approach and Income Approach and it further have prescribed various methods within these approaches that are used for the purpose of valuation. The two most appropriate methods of valuing a Startup company are the income approach and the market comparable approach. Income approach is sometimes limited because of the uncertainty of the future success of the company, much less its revenues, expenses, and cash flow. The market comparable approach, however, is also often limited because there are usually few truly comparable publicly traded companies for a new or very young company. However, it is preferable to use Income Approach assuming entity-specific cash flows can be estimated after due adjustments related to various entity-specific risks.
2.	What should be the criteria for choosing the valuation method for Startup?	Business model, availability of profits, access to capital are some of the key factors that needs to be considered in choosing the method of valuation for a Startup. ICAI Valuation Standard 103 specifies that the valuation approaches and methods shall be

S. No	Question	Answer
		selected in a manner that would maximise the use of relevant observable inputs and minimise the use of unobservable inputs. 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.
3.	Is it appropriate to use the book value of debt as a fair value in calculating the fair value of equity?	The book value may be less relevant to the market conditions today. The book value or issue price of the debt instrument is as per the market conditions prevalent at the time of issue. Hence, it is recommended to re-evaluate the market price of debt as of the date of valuation for calculating the fair value of equity. In case of Startups, it is seen that most of the debt instruments are hybrid in nature and hence it is essential to carve out the equity and debt portion of the instrument first. The cash flow attributable to the debt instrument can then be discounted using the appropriate market interest rate for debt to determine the debt value. One shall also ensure to reduce the equity portion in respect of these hybrid instruments along with the debt value from the total enterprise value to arrive at the equity value attributable purely to the true equity holders. Hence, the total enterprise value comprises the debt portion of the debt instrument, equity portion of the debt instrument and equity value of the equity shareholders.

S. No	Question	Answer
4.	How should a Valuer assign value to a Startup company when there is no revenue?	The companies with no revenue or losses cannot use the multiple of profit or EBITDA method as it will lead to a negative valuation. Hence, these companies are valued on the basis of estimated future cash flows being discounted to present value. The break-even point is to be estimated, and the 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. The explicit period for such cases is normally not restricted to 5 years and can go up beyond it to say 10 years too. Further, majority of the value in these cases comes from the perpetuity value and not from the foreseeable future. Hence, to compensate for this risk a higher discounting rate is used to reflect the higher probability of failure, or the higher uncertainty associated with the same or by the use of certainty factor or both. Also, the Growth rate plays an important role in the valuation of perpetuity(terminal) value and shall be determined 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.

S. No	Question	Answer
5.	Whether a Startup company in a booming industry needs to be assigned higher valuation, even if there is no history of profit?	The industry in which an entity operates has an indirect impact on the value of the company. Higher the growth potential of the industry higher is the chances of growth of an entity. Some growth can further be attributable if entity proves capabilities to be a leader by capturing a higher share of the market in future. This higher growth (at revenue level) may translate into a higher cash flow for the company generating positive cash flows at an earlier duration and hence higher valuation. Apart from the inherent cashflows, market participant's perception also drives the price. If investors are bullish on technologically driven innovative business models, they are ready to pay a significantly higher price than what is perceived to be the value under fundamental analysis.
6.	Should market value of debt be presented from the perspective of market participant in the debt market or from the perspective of market participant in the equity market?	It shall be presented from the perspective of an equity investor.
7.	How to use Zero-Coupon bonds in assessing market values of debt?	Valuer can use the yield curve on zero coupon bonds as a discount rate in debt valuation.
8.	Whether valuation techniques we usually use are also applicable to value stakes in partnership firms and LLPs?	The valuation of the entity is not based on the type or form of the entity. It is based on the future profit generation capacity of the entity.

S. No	Question	Answer
		Hence, different techniques need not be used for valuing the partnerships or LLPs. However, the investors may be more likely to invest in companies and in LLPs as limited liability partners than in general partnerships due to the risk of unlimited liability. Thus, companies and LLPs may get higher valuations than general partnerships due to other factors which are non-financial in nature, and which don't require a change in the method of valuation.
9.	How do you treat employee options issued but unvested?	The first question that needs to be answered is whether the options are cash settled or equity settled. If the options are cash settled then the estimation shall be done for how much cash is to be paid, when the vesting period is over and when the options will be exercised. Hence, the valuation is not sensitive to the overall amount, but it is sensitive to time. If the options are equity settled, we consider the exercise price which will be received by the company in the form of cash as well as the number of options that is expected to be exercised. Moreover, valuation of complex ESOPs cannot be done by the Black Scholes Model. The complex

S. No	Question	Answer
		ESOPs need to be valued by Latice model or Monte-Carlo simulation. Kindly also refer to the VCM on ESOP Valuation – Model and Issues held on 18th July 2021. The VCM can be viewed at the below link:- https://live.icai.org/vsb/vcm/18072021/
10.	How do you approach complex capital structures while valuing minority stakes?	First, identify the enterprise value. Second, allocate enterprise value onto Debt, Equity, and various other instruments by using an appropriate method for example – one can use hierarchy in liquidation preference and various breakouts for such allocation. Minority stake in a particular security can then be valued after proper consideration of discount for lack of control.
11.	How does discount rates change when you estimate fair value on the basis of probability weighted average?	Discount rates don't change but weights are allocated.
12.	How do you analyze volatility?	The volatility in the market is measured by calculating the beta of the market in which the company operates. The beta of the company will be used to calculate the cost of equity of the company. The cost of equity will impact the WACC of the company, which is nothing, but the discount rate used in discounting the future cash flows of the entity.
13.	How non-marketability of unlisted securities is analyzed?	The concept of DLOM is to be applied. Some of the models which could be used for determining DLOM are as under:

S. No	Question	Answer
		1. Restricted stock and private placement studies 2. Initial Public Offering studies 3. Synthetic bid-ask spreads 4. Protective put method of David Chaffe 5. Average strike put option of John Finnerty
14.	How to consider future funding rounds in current valuation?	Future funding can be considered as the cash inflow for that year.
15.	For how long the valuation is relevant?	Valuation Report will always give valuation as on the valuation date and can be referred as required. Valuation is always appropriate as of the valuation date and the longer the time gap, the more inappropriate the value might be as of current date in view of changed circumstances in the company/market etc.
16.	What are critical areas that a valuer must address in his valuation while valuing early-stage companies?	Kindly refer to the Brief Note on Startup Valuation included in this booklet earlier.
17.	What factors are used to perform a sensitivity analysis?	Sensitivity analysis is a financial model that determines how final valuation is affected based on changes in input variables like, discount rate, growth rate, market multiples etc. It is a way to predict by how much % the final valuation will change if there is a percent movement in any one variable. Thus, a range of final outcome can be ascertained over a range of particular variable which is most uncertain in the given circumstances and by studying same most decision can be taken for determining the most optimum business value.

S. No	Question	Answer
		Hence, a valuer shall perform sensitivity analysis on critical inputs such as growth rates, price per unit, discount rate etc.
18.	What are the key assumptions under Market Approach and how do you evaluate them?	In Market Approach value is determined by comparing the subject company or assets with its peers in the same industry of the same size and region. Most Valuations in stock markets are market based and are based on the premise of efficient markets and supply & demand. It relies upon market information and implicitly embodies current market consensus about assumptions such as the discount rate and growth rate. Hence, it reflects the current mood of the market.
19.	How to do you calculate entity-specific risk (i.e., alpha)?	Alpha or the entity-specific risk needs to be added in the market specific risk so as to reflect the company specific risk in the discount rate to be used. For calculating alpha analyze various risk factors of a company in comparison with the risk associated with a matured company. The valuer can allocate an additional discount rate for each of these risk factors like the camel rating is done for the banks.
20.	When Startup represents a combination of few industries, how do you calculate beta?	For determining the beta of an unlisted company following steps are followed: • Identify list of comparable listed companies and obtain their betas • Betas can be obtained from databases, newspapers and websites or even it can be

S. No	Question	Answer
		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. Hence, in case of presence in multiple industries a valuer shall identify the comparable listed companies that represents the diverse nature of the industry appropriately.
21.	How do you value a loss-making Startup backed by innovation?	Kindly refer to answer to the Question no. 4 above. A valuer can also use Option Pricing Model and identify outcome in various scenarios such as successful outcomes, failure outcomes, delays, etc.
22.	How do you analyze lifecycle of a company?	Lifecycle of a company can be analysed by performing historical company analysis and comparative company analysis.
23.	How do you create a risk matrix and report it in the valuation report?	Identify the critical risks specific to the company under valuation and write a commentary on the same. Kindly also refer to Chapter 3 – "Critical Business Analyses and key tools used for same" of the Educational 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
24.	Can a Startup that has no revenue initially be valued on the basis of its financial model/idea by forecasting profits and if so, what would be the methodology?	Normally a company cannot be valued on the basis of an idea that is not implemented, as an idea alone has no value. However, if there is an underlying intangible asset that has been formed due to the R&D efforts of the company then a valuer can value the intangible as the value of the company, provided the revenue from the intangible asset can be forecasted reliably. Moreover, we cannot register (patent) an idea which makes it even riskier to value the company on the basis of just an idea. Even Ind (AS) 38 and AS 9 do not allow recognition of an asset as an intangible unless there is a probability of future economic benefit arising out of same to the company.
25.	How to value a Startup which is into losses for the last two years but has good potential to grow in future? Is it justified to value a Startup on future growth prospects, disregarding the current profitability?	Yes, one may use the future growth and future profitability as a basis to value the Startup provided there is a reasonable basis that the company will achieve estimated revenue and profitability in a reasonable amount of time. The risk of investing in a startup that is in losses or has no revenue today but has huge potential in the future may be offset by use of a lower certainty factor or a higher discount rate or a combination of both.
26.	What are the major issues faced by a valuer in Startup Valuation?	Some of the major issues faced in startup valuation are:- 1) How to identify the growth? 2) How to be dispassionate about the product?

S. No	Question	Answer
		3) How to convince the company about a lower value or the investor of a higher value than initially anticipated? 4) How to Identify an appropriate discount rate suitable to cover all the uncertainties? 5) Unavailability of comparable firms.
27.	What procedure shall be followed for providing funds to Startup as MSME?	The valuation of the company is done on the basis of the expected future cash flows that the entity will generate and not on the basis of whether the entity is registered as an MSME or not. However, many countries provide special exemptions and privileges to the MSME industries and if the entity has taken or intends to take the benefits of the same, then the impact of these benefits on the valuation of the entity needs to be analysed. Moreover, these benefits may seize to exist once, the company doesn't qualify as an MSME and hence, the valuer has to take into consideration when the entity will seize to be qualified as an MSME.
28.	What valuation method is to be followed if the Startup has stopped midway after getting Government Grants?	The valuation of the company is done on the basis of the expected future cash flows the entity will generate. The Startups may receive government grants in the life span of its operations and the same is accounted for as per AS-12 or IndAS-20. AS-12 and Ind AS-20 give the manner in which government grants need to be accounted for. Hence, the valuer needs to check if the

S. No	Question	Answer
		government grants have become refundable and if yes whether the same has been refunded and accounted for properly. If yes, no effect is to be given as the cash flows will be after the government has been refunded. However, if the grant has not been refunded yet the valuer has to adjust the same by reducing the cash flow to the extent the grant has become refundable.
29.	Is it a correct method to arrive at Pre-money valuation by reducing Investor funding from Post-money Value arrived using DCF method? Investor Funded amounts invested is already reduced either via Working Capital Changes or a Fixed Asset investment, won't it lead to dual deduction?	Yes, the method described in the question is right. The post-money valuation of the company is the valuation of the company as on today after receiving the intended funding. Hence, if we deduct the money received today from the post-money valuation then the resultant figure is the pre-money valuation of the company. The reduction via the fixed asset investment or working capital changes lead to a nullifying impact as though the amount is adjusted for through fixed asset investment or working capital changes at the same time the fixed asset so purchased or the current asset generated increases the value of the assets owned by the company.
30.	For a Startup valuation, is it essential that only eligible Startups will qualify for the same? The Income Tax Department invariably compares the projections with the actual performance of the company, how to deal with this?	The designation of the company as a Startup by the government doesn’t hamper the valuation of the startups as the only advantage that the designated companies get are income tax sops and/or access to the incubation centers. Hence, they may be able to achieve higher growth and profitability in a shorter duration of

S. No	Question	Answer
		time but that doesn't hamper the valuators from valuing the companies not designated by the Government as Startups as such.
31.	Kindly discuss taxation on sale of an equity if investment is made by a non-angel investor (relative / friends)	Kindly refer to the VCM on the topic **"Is DCF the only method for valuation of shares under Income-tax Act"** held on 6th June 2021. The VCM can be viewed at the below link:- https://live.icai.org/vsb/vcm/06062021/
32.	For valuation date under 11UA, will it be the latest audited financial data or the date of valuation?	**For Unlisted Company** **- For issue of shares** – It must be Audited B/S (including the notes) as drawn up on valuation date; or where the B/S on the valuation date is not drawn: B/S (including the notes) drawn up as on a date immediately preceding the valuation date which has been approved & adopted in AGM can be used. **- For transfer of shares**– Audited B/S along with the notes is compulsorily required as on the date of Transfer of shares. This is the legal position under Income Tax laws. However, pragmatically, assessees do use the previous year ended balance sheet where audited balance sheet as on the date of transfer and if there is not likely to be any significant value implications, tax authorities may not raise an issue around this. However, to reiterate, the legal position is that the computation should be based on the audited balance sheet as on the date of transfer.

S. No	Question	Answer
33.	Can a pharma company with undeveloped products be termed a Startup?	Anything that is under development or new to the industry can be called and valued as a Startup. Parent company does not define whether the company or product under valuation can be said to be a Startup or not. Hence, a pharma company with an undeveloped or under-development product can be termed as a Startup.
34.	Can a Chartered Accountant do share valuation as per the Income Tax for enhancement of capital as well as for transfer of shares?	For Transfer of Shares under Income Tax Act, anyone can value, the buyers and sellers can themself undertake valuation as no certificate required. However, for valuation of securities other than equity shares, valuation is required by an **accountant or a merchant banker.** For Issue of Equity Shares under the Income Tax Act valuation is required under certain conditions specifically when issue is above the face value. Multiple methods are prescribed in the Act at the choice of assessee. However, in case DCF method is used only then it is compulsory that a merchant banker can only undertake valuation. For valuation of securities other than equity shares valuation is required by an **accountant or a merchant banker.**
35.	How to ascertain the discount rate used to value Startups?	It shall depend on the methods used by the valuer. However, the discounting rate used for valuation of Startups is generally higher than

S. No	Question	Answer
		average so as to compensate for the higher risk involved in investing in a Startup. A valuer can make use of the Capital Asset Pricing Model (CAPM) to ascertain the discount rate. For understanding CAPM model, kindly refer to Educational Material on ÏCAI Valuation Standard 103 – Valuation Approaches and Methods as issued by the Valuation Standards Board of ICAI and ICAI RVO and available at https://resource.cdn.icai.org/63029vsb51000.pdf
36.	Can you mention how ESOP value is measured in case of Startups?	The first question that needs to be answered is whether the options are cash settled or equity settled. If the options are cash settled then the estimation shall be done for how much cash is to be paid, when the vesting period is over and when the options will be exercised. Hence, the valuation is not sensitive to the overall amount, but it is sensitive to the time. If the options are equity settled, we consider the exercise price which will be received by the company in the form of cash as well as the number of options that is expected to be exercised. Moreover, the valuation if complex ESOPs cannot be done by the Black Scholes Model. The complex

S. No	Question	Answer
		ESOPs need to be valued by Latice model or Monte-Carlo simulation. Kindly also refer to the VCM on ESOP Valuation – Model and Issues held on 18th July 2021. The VCM can be viewed at the below link:- https://live.icai.org/vsb/vcm/18072021/
37.	Is there a fundamental difference in valuing a Startup for an IPO or investment by an investor?	The size and operation of the company should be taken onto account while calculating the value of the Startup. The basics and the method of valuation of a company at the time of pre-IPO, at the time of IPO or post IPO have to remain the same provided all other conditions remain the same.
38.	Can you mention how ESOP value is measured in case of Startups?	The first question that needs to be answered is whether the options are cash settled or equity settled. If the options are cash settled then the estimation shall be done for how much cash is to be paid, when the vesting period is over and when the options will be exercised. Hence, the valuation is not sensitive to the overall amount, but it is sensitive to the time. If the options are equity settled, we consider the exercise price which will be received by the company in the form of cash as well as the number of options that is expected to be exercised.

S. No	Question	Answer
		Moreover, the valuation if complex ESOPs cannot be done by the Black Scholes Model. The complex ESOPs need to be valued by Latice model or Monte-Carlo simulation. Kindly also refer to the VCM on ESOP Valuation – Model and Issues held on 18th July 2021. The VCM can be viewed at the below link: - https://live.icai.org/vsb/vcm/18072021/
39.	How to segregate the debt portion and equity portion in the 0.001% preference shares a. where conversion rights are bestowed and b. where there is no conversion but only redemption after 20 years	Kindly refer Ind AS 32 – Financial Instruments: Presentation, which provides the way the debt and equity portion of the instrument issued by an entity can be segregated. The debt component in simple words is the discounted present value of the cash flow that the entity will pay while repaying the said instrument. The discount rate is the market interest rate of the instrument under valuation. On the other hand, the equity value is the difference between the face value of the instrument and the value of the debt portion in the instrument.
40.	How can we disintegrate between debt portion and equity portion out of instruments like preference shares with very low preference dividend rate?	Kindly refer Ind AS 32 – Financial Instruments: Presentation, it provides the way the debt and equity portion of the instrument issued by an entity can be segregated. The debt component in simple words is the discounted present value of the cash flow that the entity will pay while repaying the said instrument.

S. No	Question	Answer
		The discount rate is the market interest rate of the instrument under valuation. On the other hand, the equity value is the difference between the face value of the instrument and the value of the debt portion in the instrument.
41.	In case of Startups many a time compulsorily/optionally convertible debentures [CCDs/OCDs] or compulsorily/optionally convertible preference shares [CCPS/OCPS] are issued. There are various scenarios built for its conversion e.g., if turnover or gross receipts are X then enterprise value is 100 if Turnover or gross receipts are less than Y, then enterprises is 60. In such scenarios how to value these CCD/OCD/CCPS/OCPS?	Under such scenarios, a valuer can perform scenario-based valuation and Monte-Carlo simulation.
42.	How to compute beta for CAPM?	Beta represents the volatility of the Industry in which the company works with respect to the volatility in the share market. There can be 2 types of scenarios viz direct co-relation or an inverse co-relation between the graph of the market and the graph of the entity being valued. For guidance on beta computation kindly refer to Educational Material on ÏCAI Valuation Standard 103 – Valuation Approaches and Methods as issued by Valuation Standards Board of ICAI and ICAI RVO and available at

S. No	Question	Answer
		https://resource.cdn.icai.org/63029vsb51000.pdf
43.	How do we value an entity like Swiggy?	Valuing a company like Swiggy will be easier now as the comparable data of a listed company in similar business (Zomato) is easily available. However, the basics of valuing the company will remain the same. Cash flows need to be projected and discounted at the appropriate rate and the peculiarities like the unit economics should be considered while valuing the company. Moreover, the business model of Swiggy needs to be looked at in isolation as well in comparison to its competitors to highlight the differences between the operations of both the company.
44.	What is the impact of issue price of latest investment (less than 6 months) on valuation arrived at using DCF Method on valuation date?	If a company has issued equity shares very recently then the market multiple methods is used for valuation as against the DCF method. So, if the company has issued equity shares very recently (within 6 months) say at Rs 20 then for the current issue we have a valuation base of an identical instrument that can be used to value the current issue of the company provided there has been no major change in the business environment both external and internal.
45.	At present Zomato is a loss-making company, but still, it is getting high valuation in spite of probability that All India Restauration Associations are looking forward to building up their own app?	The value of Zomato is mainly based on the future expected cash flows of the company and not on the fact that Zomato is a loss-making company.

S. No	Question	Answer
		Valuations are mainly done based on the prospects and on the basis of TTM (Trailing Twelve Months). The speed at which the Indian economy is growing is fast thus, leading to a sharp rise in the discretionary spending power of the consumers in India which gives companies like Zomato a huge advantage. However, in the opinion of several valuers and market experts, Zomato is currently overvalued due to the excess demand for its shares in the market and hence it may see a correction once the demand stabilizes, and the company is valued on the basis of business fundamentals and not demand and supply in the market.
46.	In case of discounted cash flow how to arrive at the terminal growth rate? Is there any basis to arrive at a growth rate or is it an assumed rate depending upon each business?	The three major inputs for determining the growth rate of a company are a) the GDP growth of the country; b) the zero-coupon yield rate; c) inflation in the market in which the company is operating. Lowest of the three can be used as a conservative estimate of the growth rate of the company. The reason for using the conservative approach is that we are looking beyond five years which makes the cash flows as well as the market condition uncertain as well as unforeseeable. The reason for using zero-coupon bond is the yield rate can be calculated for the next X number

S. No	Question	Answer
		of years for the industry which is different from the X-year Government coupon bond. Factors that a valuer may consider while determining the terminal growth rate are: • whether the level of operations beyond explicit forecast period are expected to be significantly different from the level projected in the last year of the explicit forecast period or only a normal growth is expected; • capacity utilisation at the end of explicit forecast period; • functional currency in which the projections have been prepared; • market share; • product life cycle; • geographic location of the asset; • type of cash flows; • residual life of the asset at the end of the explicit forecast period; • capital investment required to support the assumed growth rate; • whether there is future growth potential for the asset beyond the explicit forecast period, or whether the asset is deteriorating in nature; and • for cyclical assets, the terminal value should consider the cyclical nature of the asset.
47.	Should we take a different discount rate for Perpetuity Value considering significantly higher risk? If yes, how to adjust?	The capital structure plays an important role in deciding the discount rate along with the underlying risk. The change in capital structure will lead to a change in the level of risk and thus,

S. No	Question	Answer
		alter the expectations of the shareholders. This will automatically lead to an adjustment in the discount rate that is being used by the valuer to discount the free cash flows. Hence, the valuer may have to use different discounting rates for every year and not just for the perpetuity value calculations. e.g., Higher the debt used by the company higher the risk thus higher the expectations which lead to a higher discounting rate used by the valuer.
48.	What are your views on valuation of Startups based on Revenue Multiples? Is this a good method especially when cash flows are difficult to forecast?	The principles of Startup valuation are the same as the principles for valuation of an established company and the methods used for the purpose of valuation of both are also the same. Hence, provided the company has achieved a positive and sustainable revenue as well as demonstrated the power to sustain profits in the foreseeable future the valuation of the Startups can be done on the basis of the revenue model. However, use of revenue multiple method is dependent on the availability of the comparable companies' data. Also, use of revenue multiple method just on the grounds that the future cash flows are difficult to project under DCF isn't justified. The DCF method is a much better and sophisticated method when compared to the revenue multiple method.
49.	Should we allocate a risk premium or provide a higher discount rate	The risk premium of the market or the company need not be separately accounted for as the

S. No	Question	Answer
	when valuing Startups? if yes, what are the factors affecting the premium?	CAPM (Capital Asset Pricing Model) incorporates the risk premium into the cost of equity. Thus, adjusting for the risk premium by increasing the discounting rate will lead to double adjustment as the cost of equity is one of the important parameters for calculating Weighted Average Cost of Capital, which is nothing, but the discount rate used to calculate the value of the company.
50.	Can a company be called a Startup even after 5 years of incorporation?	Whether a company is a Startup or not is based on various factors. Few of these factors are revenue, business model, time for which the business is operational etc. Hence, the mere existence of a company for X number of years cannot be a basis for it to be disqualified from being called a Startup. Provided other indicators allow the company to qualify as a Startup.
51.	How to deal with negative cash flows in the initial years while valuing a Startup?	The valuer needs to analyze the reasons for the negative cash flows as well as the duration for which the company is generating negative cash flows. The valuer needs to project the future cash flows as well give due importance to the trailing twelve months cash flow. If the company is expected to generate negative cash flows for a long period in the future as well, then the risk of investing in the company increases which needs to be adjusted for by using a higher factor of failure or higher discounting rates or a combination of both.
52.	Terminal valuation has embedded in itself the value of intangibles which got created in the first 5 years of the	Yes, the perpetuity value normally contributes to the majority of the value of the Startup as of today. However, the mere existence of an

S. No	Question	Answer
	forecasted horizon. So, saying that Perpetuity Value is 90% of total value is risky, is not correct, perhaps. Your View	intangible asset cannot be a ground for the valuation of the company and hence, the actual cash flows that the company will realize from the said tangible asset have to be given their due importance. Thus, the statement that around 90 percent of the value of the Startup comes from the perpetuity cash flow and hence, the investment is risky is correct as the actual realization of profits in the form of cash flow will be realized in the later stage of the company.
53.	How do companies like Zomato (which has huge losses since inception) arrive at the IPO price band? What is the valuation method that they rely upon?	Provided that the idea is not driven by an intangible asset formed due to the R&D of the company, normally the company cannot be valued on the basis of an idea as idea not implemented isn't worth much. However, if there is an underlying intangible asset that has been formed due to the R&D efforts of the company then the value of the intangible is considered as the value of the company provided the revenue from the intangible asset can be forecasted reliably. Moreover, we cannot register (patent) an idea which makes it even more risky to value the company on the basis of just an idea. Even Ind(AS) 38 and AS 9 do not allow recognition of an asset as an intangible unless there is a probability of future economic benefit arising out of same to the company.

S. No	Question	Answer
54.	Is there any book or course from where I can learn about valuation more appropriately?	Process for becoming a registered valuer may be referred from the FAQs available at ICAI RVO's Website https://icairvo.in/ Publications issued by Valuation Standards Board can be accessed at ICAI.org at the below link https://www.icai.org/post/publications-valuation-standards-board
55.	In today's scenario, the word Zomato is hitting the headlines. What is your thought in the entire process?	The value of Zomato is mainly based on the future expected cash flows of the company and not on the fact that Zomato is a loss-making company. Valuations are mainly done based on the prospects and on the basis of TTM (Trailing Twelve Months). The speed at which the Indian economy is growing is fast thus, leading to a sharp rise in the discretionary spending power of the consumers in India which gives companies like Zomato a huge advantage. However, in opinion of several valuers and market experts, Zomato is currently overvalued due to the excess demand for its shares in the market and hence it may see a correction once the demand stabilizes, and the company is valued on the basis of business fundamentals and not demand and supply in the market.
56.	In DCF analysis, how to adjust the cash flow projections exaggerated by the Startups?	The valuers need to keep a level of independence while valuing any entity. The valuer should try to find the fair value of the entity based on the

S. No	Question	Answer
		realistic cash flow projections. The valuer may calculate the value of the entity on the basis of the realistic cash flows as well as the exaggerated cash flows presented by the entity and present both the sets in front of the entity and try to reason with the entity through the last decision is of the entity and not the valuer. The best the valuer can do is disclose that the valuation is based on the projected cash flows as given by the entity and that the fair value may differ from the said figure.
57.	Startups have a probability failure which is considered by analysing/creating various scenarios. Does Monte Carlo simulation of Best- and worst-case scenario fits the bill for checking out the probabilities of failure?	Yes, Monte Carlo Simulation can be used and in this case we can use the triangular distribution. A lot of statistical distributions can be used depending on the entity and its cash flows as well as the method used for valuing the entity.
58.	For a Startup, besides Cash Flow, other metrics can perhaps be used to value. Say, in the case of an e-commerce, GMV or User base can be the basis used in conjunction with relative valuation.	The cash flow of an entity forms the basis of the valuation of any entity as the investor is investing into the entity to earn profits in form of cash profits and not in the form of net profit of the entity which has many non-cash items like depreciation and amortization. However, other parameters like the user base or unit economies do play a vital role in valuing the company. E.g.- Zomato looks like an over-priced entity based solely on DCF analysis. However, when we try to add other factors like user base and positive unit economies then the valuation of the company seems to be fair and not over-priced.

S. No	Question	Answer
59.	At what level in the valuation exercise should a valuer be cautious for validating the DCF numbers with their certainty and achievability? Please guide.	A valuer can perform historical analysis and ratio analysis to test the reasonability of projections considered in DCF Method.
60.	It has been observed that most of the Startups have negative results and the promotors keep funding it. So, what are the principles to be kept in mind while valuing Startups?	The valuation of any entity is based on the future cash flows that the company is estimated to generate and not on the basis of past cash flows or profits. Hence, the negative cash flows generated by the company in the past do not hamper the valuation of the company provided the company has the capacity to generate enough cash to offset the initial losses as well as give a reasonable return to the investors including the promoters of the company. However, it is important to note that companies that have already achieved positive cash flows and/ or positive profits do command a higher valuation as they reduce the risk for the investor.
61.	If it is seen that the value based on 5 years projections is 20-30% of the total value and the Perpetuity Value is 70%, is it better to expand the projected period from 5 years to 10 years so that percentage of perpetual valuation reduces?	Yes, the perpetuity value normally contributes the majority of the value of the startup as of today. The number of years to be used to calculate the value of the entity is not governed by any law or regulation. Hence, the valuer is allowed to use a duration of more than 5 years. However, it is important to consider that higher the duration considered, lower is the accuracy of the forecasted cash flows. Hence, the valuer has to take due precautions while valuing the

S. No	Question	Answer
		company over cash flows for a long duration of period.
62.	In case of low success probability, of say 5%, in case of Startups, does it make sense to apply this success probability % in DCF valuation method? If yes, how do we apply it in a valuation model?	The low success probability can be adjusted for by calculating the pessimistic, the most likely and optimistic valuation of the company and taking the weighted average of the three values based on the probability of the scenarios likely to happen. So, if the company has a very low probability of success (e.g., 5 percent) then the optimistic scenario will automatically get a lower weightage while calculating the value of the company.
63.	Is there any thumb rule to validate the growth rate from Risk-Free Rate perspective? Say if Rf is 6% can the Growth rate "g" be a number higher than 6%?	The three major inputs for determining the growth rate of a company are a) the GDP growth of the country; b) the zero-coupon yield rate; c) inflation in the market in which the company is operating. Lowest of the three can be used as a conservative estimate of the growth rate of the company. Provided the lowest of the three is higher than risk-free rate of return the company can use a rate that is higher than the risk-free rate of the market. (However, if the risk-free rate is considered as the bond rate, then the growth rate of the entity cannot be higher than the risk-free rate as we consider the lower of the risk-free rate, GDP rate and the industry specific inflation rate)

S. No	Question	Answer
64.	What average growth rate should be considered for Startups after 5 years period?	The three major inputs for determining the growth rate of a company are a) the GDP growth of the country; b) the zero-coupon yield rate; c) inflation in the market in which the company is operating. Lowest of the three can be used as a conservative estimate of the growth rate of the company. The reason for using the conservative approach is that we are looking beyond five years which makes the cash flows as well as the market condition uncertain as well as unforeseeable. The reason for using zero-coupon bond is the yield rate can be calculated for the next X number of years for the industry which is different from the X-year Government coupon bond.
65.	For a Startup being funded by 100% equity, can we discount the cash flow based on the cost of equity? If yes, what is the very logic behind it because the cost of equity is the investor's expected return? So, when the expected return increases, value of the company decreases. If not cost of equity what else can be the discounting factor?	When we value the company, we discount the forecasted cash flows on the basis of the cost of capital. So, if the company is funded only by equity, the cash flows attributable to that capital i.e., the equity capital must be discounted at the cost of equity, and it cannot be replaced by the bond rate or any other rate. The rate (cost of equity) should rather be calculated on the basis of various models available like the CAPM model. However, if you are valuing the company as a VC investor then you may use the rate of return expected by the

S. No	Question	Answer
		investor as the discounting rate provided his expected rate is higher than the cost of equity.
66.	Zomato being the first Indian unicorn Startup going for IPO was valued at around Rs 60000 crores before IPO and after IPO listing its value went beyond Rs 1,00,000 crores. Being a loss-making company how such valuations are justified and whether such high valuations are only marketing strategies?	The value of Zomato is mainly based on the future expected cash flows of the company and not on the fact that Zomato is a loss-making company. Valuations are done based on the future prospects and on the basis of TTM (Trailing Twelve Months). The Indian economy is growing at a fast pace leading to a sharp rise in the discretionary spending power of the consumers in India which gives companies like Zomato a huge advantage. However, even after considering all the above factors, Zomato is currently being overvalued due to the excess demand for its shares and we may see a correction once the demand stabilizes, and the company is valued based on business fundamentals and not demand and supply in the secondary market. Zomato looks like an over-priced entity based solely on DCF analysis, however, when we try to add other factors like user base and positive unit economies the valuation of the company seems to be fair and not over-priced.
67.	DCF valuation of shares can be done by a Merchant Banker, in India but the number of Merchant Bankers are very less, so how Pvt Ltd Cos (specially Startups) can afford to	For Transfer of Shares under the Income Tax Act anyone can value, the buyers and sellers can themselves undertake valuation as no certificate required.

S. No	Question	Answer
	appoint Merchant Bankers and how to find right Valuer?	However, for valuation of securities other than equity shares, valuation is required by an **accountant or a merchant banker** For Issue of Equity Shares under the Income Tax Act valuation is required under certain conditions specifically when issue is above the face value. Multiple methods are prescribed in the Act at the choice of assessee. However, in case DCF method is used only then it is compulsory that a merchant banker can only undertake valuation. For valuation of securities other than equity shares valuation is required by an **accountant or a merchant banker.**
68.	What can be the source of data for industry level inflation rate?	The industry level inflation rates are available in many databases. Some of the sources are the world economic forum, IMF, or the finance ministry of the government of the country in which the entity is operating.
69.	Kindly suggest some good books on corporate valuation?	Publications issued by Valuation Standards Board can be accessed at ICAI.org at the below link https://www.icai.org/post/publications-valuation-standards-board
70.	To what extent the valuer is expected to understand the nuances of emerging technologies and how will they be able to assess the certainty/viability of business model etc?	A valuer is expected to have knowledge of the nuances of emerging technologies and the effectiveness of the business model of the entity. If the valuer doesn’t have the requisite knowledge, then the valuer can seek help of a subject matter expert or completely disengage from the said engagement.

S. No	Question	Answer
		Moreover, if the Valuer uses the work of a subject matter expert, then a disclosure regarding the same needs to be given in the valuation report.
71.	Please discuss the formula used for terminal value determination. With some numerical examples that will be easy to understand.	Please refer 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 the Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63029vsb51000.pdf
72.	WeWork RHP was upfront rejected by SEC and the major ground for rejection was that valuation done mismatched with business parameters like PE ratio, and Companies losses were heavy and hence the TTM (Trailing Twelve Months), and forecasted value didn't align. The question is how Zomato or Paytm IPOS business valuation shall be seen from the perspective of SEBI?	The major reason for the rejection of RHP of WeWork was that the pandemic has largely impacted the revenue model of the company. On the other side with restaurants been made open only for the purposes of home delivery the volume of business enjoyed by Zomato has increased on a large scale. The question though remains is whether Zomato will be able to sustain the growth rate in the long-term. Speaking from the perspective of a SEBI will not be correct.
73.	Can you please explain the Perpetuity Value? How is that estimated and calculated?	The perpetuity value is the present value of the cash amount that the person will receive every year for an infinite number of years. When the business is in the maturity stage and the growth rate of the enterprise is negligible the company is said to receive the same amount every year till it

S. No	Question	Answer
		ceases to exist. This amount when discounted to its present value is called as the perpetuity value of the company. The perpetuity value plays an important role in the valuation of the Startup as majority of the cash is generated by the perpetuity value of the entity. Please refer 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 https://resource.cdn.icai.org/63029vsb51000.pdf
74.	How to adjust discount rate for risk premium? Is there any formula or guidance given in any standard for same?	We do the same by identifying the company-specific risk premium.
75.	Is EBITDA the best method for relative valuation for corporate entities? How does it compare with PEG method?	EBITDA is one of the methods used for relative valuation. The context and entity specific information may end up concluding the said method to be the best method. However, the valuer should not attach a tag of "best method" to any method as a general rule as each method has its own set of advantages and disadvantages varying from case to case.
76.	If the Startup has not registered for any patent will that have an impact on its valuation?	Valuation of an entity is done on the basis of the future cash flows that the business is expected to generate and not solely on the presence of the patent or any other proprietary technology.

S. No	Question	Answer
		Hence, if the entity has the ability to generate cash flows in the foreseeable future, then the non-existence of a patent or the ineligibility to register for the same doesn't lead to a lower or negative valuation. However, at the same time we need to understand that the existence of a registered patent that will generate future economic benefit to the Entity does give the entity a higher valuation as it lowers the risk and hence the discount rate.
77.	What is the definition of a Startup? Is OLA considered to be a Startup that is more than 10 years old? Is Flipkart considered to be a Startup that is now almost 10 years old company and has huge capital base, was Zomato a Startup?	The company being a Startup or not is based on various factors. Few of the factors are revenue, business model, time for which the business is operational. Hence, mere existence of the company for X number of years cannot be a basis for the company to be disqualified from being called a Startup provided other indicators allow the company to qualify as a Startup. Hence, the mere fact that Ola and Flipkart are existing in the market for more than 10 years is not sufficient evidence to conclude that they cannot qualify as a Startup.
78.	How the valuation will be impacted in case of ongoing litigation?	The ongoing litigation may lead to a significant cash outflow in the future years which may impact the cash flow generating capacity of the entity in the long or the short term. In the worst-case scenarios, the resulting cash outflow due to

S. No	Question	Answer
		the litigation may impact the going concern assumption of the business too. Thus, the valuer should properly analyze the status of the litigation and the probability of the cash outflow and its impact on cash generating capacity of the business. The governing accounting standards are AS-29 and AS-1.
79.	What are the opinions of various experts on the valuation of Zomato done by Mr. Ashwath Damodaran vis-a-vis share price on listing?	Price is higher than fair value. Considering the publicly available information the price is over-estimated.
80.	Valuation depends upon accounting data, which makes valuation dubious since accounting data is mostly manipulated and not so reliable. Does that mean that market value is more reliable, although it is based on perception?	The valuer must consider the following aspects while choosing the approach and method to be used for Valuation:- 1) The valuation approaches and methods shall be selected in a manner which would maximize the use of relevant observable inputs and minimize the use of unobservable inputs 2) The key factors that a valuer needs to consider while selecting an approach are as under • Nature of asset to be valued • Availability of adequate inputs or information and its reliability • strength and weakness of each valuation approach and method • Valuation approach/method considered by market participants • Purpose/ base of valuation.

S. No	Question	Answer
		Hence, to conclude that accounting data is dubious and hence market values need to be considered is wrong.
81.	How to value an Intellectual Property in a SAAS based/AI based Startup?	The SAAS startups are also valued on the basis of the entity's capacity to generate sustainable positive cash flows in the foreseeable future. However, while valuing SAAS the intellectual properties owned, and other intangible assets owned by the entity need to be properly valued and added to the discounted cash flow of the company to arrive at the value of the entity. Kindly refer 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 The Educational Material gives detailed guidelines with practical examples on Business Valuation and also contains a chapter on Startup Valuation.
82.	Most of idea-based Startups assumes their revenue share based on market share available to them. How is this perceived?	One cannot simply assume that it will fetch revenue by acquiring a particular percentage of market share. The ability to fetch commercial and financial leadership needs to be analyzed by the valuer.
83.	Many Startup companies are fixing the value of their shares and back calculating their cash flow. How to justify their assumptions?	The value so determined is not a fair valuation and such assumptions shall not be justified. ICAI Valuation Standards 2018 clearly state that a valuer is expected to exercise Professional Skepticism in all his Valuation Assignments.

S. No	Question	Answer
		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- Scope of Work, Analyses and evaluation 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."*
84.	In which stage the investors look for the survival of Startups in the market. 1. early growth stage 2. pre-startup stage 3. post-startup stage	Survival of the Startup is based on the ability of the business to generate positive cash flow in the lowest possible duration. The capacity of the promoters and investors to fund the Startup before it reaches break-even also needs to be considered to decide whether the business will be able to survive in the long term. Hence, the ability of the entity to survive in the long term needs to be looked at every stage of the life cycle of the startup and not at any particular stage, as only the Startups that survive

S. No	Question	Answer
		will be able to generate the returns for the investors in the long term.
85.	How a unique idea can be valued?	Ideas cannot be valued but actions can be valued.
86.	How to value a Startup which is creating disruption in the market and depends upon regulatory changes for growth like Hemp Medicine, E-pharma etc?	We use option valuation to value technologically disruptive companies. Also, such startups have lots of value in their intangibles and can be valued based on same.
87.	Is the value derived from DCF on a post-money basis?	Yes, the valuation derived from the DCF method is a post-money valuation as the future cash flows are estimated on the assumptions that the company has received the requisite funding and has used the same for its intended purposes. If the valuer needs to arrive at the pre-money value, he has to deduct the funding received from the post-money valuation.
88.	What is the Logic behind valuation methods like sales to market capitalization?	These are relative valuations. If comparable company is valued at 'x' times of its revenue, then there is a possibility that the entity is being valued using this method. (Subject to adjustment for dissimilarities.)
89.	How is the risk evaluation done?	The risk premium of the market or the company need not be separately accounted for as the CAPM (Capital Asset Pricing Model) incorporates the risk premium into the cost of equity. Thus, adjusting for the risk premium by increasing the discounting rate will lead to double adjustment as the cost of equity is one of the important parameters for calculating WACC

S. No	Question	Answer
		which is nothing, but the discounting rate used to calculate the value of the company.
90.	How do you calculate industry-specific beta for niche industry and industry specific risk premium?	Beta represents the volatility of Industry in which the company works with respect to the volatility in the share market. There can be 2 types of scenarios viz direct co-relation or an inverse co-relation between the graph of the market and the graph of the entity being valued. For guidance on beta computation kindly refer to Educational Material on ÏCAI Valuation Standard 103 – Valuation Approaches and Methods as issued by the Valuation Standards Board of ICAI and ICAI RVO and available at https://resource.cdn.icai.org/63029vsb51000.pdf
91.	How is the exercise amount calculated for ESOPs in case of Startups?	The first question that needs to be answered is whether the options are cash settled or equity settled. If the options are cash settled then the estimation shall be done for how much cash is to be paid, when the vesting period is over and when the options will be exercised. Hence, the valuation is not sensitive to the overall amount, but it is sensitive to the time. If the options are equity settled, we consider the exercise price which will be received by the company in the form of cash as well as the number of options that are expected to be exercised.

S. No	Question	Answer
		Moreover, the valuation of complex ESOPs cannot be done by the Black Scholes Model. The complex ESOPs need to be valued by Latice model or Monte-Carlo simulation. Kindly also refer to the VCM on ESOP Valuation – Model and Issues held on 18th July 2021. The VCM can be viewed at the below link:- https://live.icai.org/vsb/vcm/18072021/
92.	What is the popular method in use by Private Equity players to value the Indian Startups?	Some of the methods most commonly used are the DCF method, Revenue multiple, EBITDA multiple.
93.	Whether ESOP valuation to be reduced from the total valuation for investment?	Yes, ESOP value needs to be reduced from the total enterprise value for the purpose of investment.
94.	Are there any ball-park numbers for Revenue that could drive the promoter's decision whether to look at Private Equity or Venture Capital funding vs consider a small IPO (from a market perspective also)?	There is no common yardstick to drive such critical decisions.
95.	What is the difference between the fundamentals used for IPO valuation and valuation from an Investor's point of view?	The valuation is based on the ability of the entity to generate positive cash flows in the foreseeable future as well as the ability to generate the accounting profits. The valuation of the company is not based on who is the investor and what is the type of issue. However, the investor who is investing in the pre-IPO cycle may ask for a lower valuation as there's no readily available market to sell the shares and generate cash if the investor wishes for the same

S. No	Question	Answer
		and hence discount for lack of marketability can be applied.
96.	Kindly share your view about the valuation of the crypto currency where the value is currently low, but the future value is promising. What are the credentials to be considered in valuation?	The valuation of crypto currency is done on the same basis as gold. It is not valued through the intrinsic value calculations, but the demand & supply of cryptocurrencies decides the price.
97.	How can a Startup involved in marketing/delivery of organic produce (vegetables, fruits, other Agri Commodities etc) be valued?	The basics of valuation do not change as per the business of the entity. Every business is valued based on its capacity to generate future sustainable positive cash flows in the foreseeable future. However, inputs like the growth rate and the viability of the business do depend upon the business and the business model of the entity. Hence, each type of business needs to be valued as per the uniqueness of that entity and its business model.
98.	ZOMATO shall not have profitability for next 5 years/10 years. How do we value ZOMATO?	Zomato is on the path of cash positive unit economies and for unicorns the future is estimated beyond 5 years. The payback period is longer and sustainable cash flows are expected beyond a decade.
99.	Zomato started 13 years ago, until how many years it will be called a Startup, till established?	The company being a Startup or not is based on various factors. Few of the factors are revenue, business model, time for which the business is operational. Hence, mere existence of the company for X number of years cannot be a basis for the company to be disqualified from being called as

S. No	Question	Answer
		a Startup provided other indicators allow the company to qualify as a Startup.
100.	The ability of the management/promoter is extremely relevant for a startup but how a valuer can foresee that while valuing a Startup today?	The track record of the management based on their earlier entity can give a good indication of the ability of the management. If the same is not available, the valuer needs to hold discussion with the management and draw a judgement regarding their ability. Another method that the valuer can use is comparing the performance of the entity with its comparable competitor as well as the entire industry to draw conclusions about the ability of the management to lead and drive the company towards the intended goal.
101.	Valuation for Startups with negative cashflow is a complex process, so investors shall be cautious while investing in such firms. What kind of precautionary analysis shall they undertake before investing?	Kindly refer to 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 The Educational Material gives detailed guidelines with practical examples on Business Valuation and also contains a chapter on Startup Valuation.
102.	Which method should a valuer use for valuation of a Startup business which is just one year old?	DCF method cannot be used as it will be difficult to predict the future cash flows of the company. In such cases, Comparable companies/transaction methods under market approach can be used. The results from the various approaches can be tested for reasonability of value concluded.

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103.	How to determine the alpha or company specific risk premium?	Analyze various risk factors of a company in comparison with risk associated with a matured company. The valuer can allocate additional discount rate for each of these risk factors like the camel rating is done for the banks.
104.	For multiple valuations, where can we find the best set of comparable multiples? Is there any free service?	There is no free service that offers relevant, current and qualitative data basis. The comparable data need to be analyzed and identified by the valuer themselves.
105.	A company existing for 3-4 years has achieved a revenue of around 5 crores and is trying to pitch that they have developed the platform and capability to raise revenue to 50cr in next 3-4 years. How can a valuer judge the viability of these projections as a professional, if called on by a prospective investor for due diligence?	Technical competencies may not mean the commercial viability or success of the product. Further internal capability also needs to be assessed. So, a valuer can use management techniques such as Porter's five forces, SWAT analysis, Competitor analysis, the trend by the competitors, technological updates, upgrades and fundamental shift in the behavior to analyze the assumptions of the management. Valuer must not justify the assumptions made by the management, but he must analyze the reasonability of these assumptions. Kindly also refer to Chapter 3 – "Critical Business Analyses and key tools used for same" of the Educational 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
106.	What factors are to be considered for valuing the new generation loss making companies with future potential?	Startups are valued on the basis of its ability to generate future sustainable positive cash flows and not on the basis of the current losses sustained by the company. Few tools that can be used are sensitivity analysis, what-if scenarios along with the DCF analysis.
107.	What is the discount rate we need to consider for DCF in case of B2C business?	The discount rate to be considered is the Weighted Average Cost of Capital (WACC) of the company. The WACC is calculated by determining the cost of each source of capital that the entity has used and then taking a weighted average of the same with the weights being assigned based on the proportion of each source in the capital structure of the company.
108.	Does the valuation get impacted if the key personnel is changed/ left/newly appointed? If yes how to value it?	Yes, valuation does get impacted.
109.	Kindly discuss Risk premium that must be considered generally for all industries in the current market situation?	A valuer needs to assess the beta (Volatility) and the risk of the market as well as the entity specific risk (alpha). The current market situation due to COVID-19 as well as the slowdown in many major growing economies like the China and India, has led to increased risk due to the uncertainty in the market. Hence, this may force the valuer to have a higher value of all the above-mentioned parameters for the majority of the industries. However, for sectors like pharma, the risk of doing business has reduced due to the CIVID-19 situation, and

S. No	Question	Answer
		hence, they may entail a lower beta and market risk.
110.	Where can we find the industry specific growth rate for calculating Perpetuity Value?	The three major inputs for determining the growth rate of a company are a) the GDP growth of the country; b) the zero-coupon yield rate; c) inflation in the market in which the company is operating. Lowest of the three can be used as a conservative estimate of the growth rate of the company. The reason for using the conservative approach is that we are looking beyond five years which makes the cash flows as well as the market condition uncertain as well as unforeseeable. The reason for using zero-coupon bond is the yield rate can be calculated for the next X number of years for the industry which is different from the X-year Government coupon bond.
111.	Valuation is determined by the valuer or by the investor? In my experience, the valuation of startups in the first round is influenced by terms and conditions of the angel investor rather than by the standard valuation methodology like DCF. As a company or a valuer how do we manage this?	The value of the entity is determined by its capacity to generate sustainable positive cash flows. The terms and conditions as incorporated by the investor do impact the valuation of company at the earlier stages of its life cycle due to the dependency of the company on external funding. However, as the company starts to grow and generate cash for the investors the underlying business model and the ability of the entity to generate sustainable positive cash flows in the future take the center stage as the dependency of the entity on external funding

S. No	Question	Answer
		reduces and the number of investors willing to invest in the company increases. When the company becomes a publicly listed company the underlying economics and demand and supply of the share of the entity, determine its value.
112.	How to track inflation in a particular industry?	The industry level inflation rates are available in many databases. Some of the sources are the world economic forum, IMF, or the finance ministry of the government of the country in which the entity is operating.
113.	Time and again the speaker kept on referring to statistical tools like Monte Carlo Simulation. How and from where one can learn more about these tools?	These are high end valuation models and initially you need a grip on statistics. One may also require knowledge of some specialized tools. Usually, those who have completed master's in finance from top 10 Universities of the world have undergone a specialized training in using such high-end resources.
114.	In case the company uses a new line of business in future projections, shall a valuer consider that in his valuation?	The new line of business operations will impact the overall future sustainable positive cash flows as well as the risk profile of the company. Hence, it will impact the overall value of the company and thus should be considered for the purpose of valuation of the entity.
115.	How to adjust the DCF value in cases where fresh equity is proposed to be injected in year three?	The future cash inflow through new cash injection needs to be added in the overall cash flow analysis in the year in which the same has been raised. Also, the capital structure of the company will change due to the fresh influx of cash. Thus, the weighted average cost of capital which is the discounting rate will also change. This will lead to

S. No	Question	Answer
		a change in the discounting rate from the year in which a fresh issue has been made.
116.	Kindly throw some light on the valuation of a sole proprietorship?	The valuation of a sole proprietorship is done on the same basis as the company valuation. However, the success or failure of the sole proprietorship rests on the ability of the owner of the entity, hence his capability plays an important role in the valuation of the entity. Moreover, if the sole proprietorship gets converted into a general partnership to raise external funds the risk of unlimited liability needs to be considered while valuing the entity.
117.	The speaker has mentioned about changing capital structure, but if we are using FCFE, only Ke matters and how does capital change impact Ke. Change in the structure is accounted for in FCFE already, so would this alone not suffice?	The Ke or the cost of capital depends upon the risk that equity shareholders (Owners) are taking, and the return expected by the investors from the investor. If the company uses a high degree of leverage, the return on investment may improve due to the lower interest rate and the tax shield available on the interest expenditure. However, the risk of investing in the entity also increases at an exponential level as the free cash flows available for equity shareholders reduces and the financial risk of the entity increases. Thus, to say that the capital structure of the entity doesn't impact the Ke of the entity is wrong and the capital structure will need to be considered while valuing the company even when using the FCFE.
118.	In case of Startups, if g% during explicit forecast (7 yrs.) is around 30	The three options given is one of the tools to find growth. However, growth needs to be analyzed

S. No	Question	Answer
	% YOY basis, will it be correct to use lower of GDP, Inflation, Coupon rate of merely say 4 to 5% or higher rate is justified?	in terms of growth due to price and growth due to volume. Growth due to price is typically a perception of market. Growth due to volume, however, can be entity specific.
119.	How safe is it to invest in the forthcoming IPOs which are highly valued in investors view? Whether any checks and balances are available to restrict valuation and offer price keeping in view safety of retail investors?	The IPO may overvalue or undervalue the company as the IPO subscription is dominated by the short-term investors i.e., traders who are largely impacted by the demand and supply of the shares in the market. However, in the long run, the fundamental of the company starts to dominate the value of the shares as the initial hype starts to fade away. The people who are interested in investing in the shares of the company may calculate the value of the company based on the projections given by the management in the prospectus of the company.
120.	How to factor consumer sentiments of two different countries in valuation involving multiple countries?	The consumer sentiments impact the capacity of the entity to generate sustainable positive cash flows in future. Higher the positive consumer sentiments better are the growth potential and hence higher free cash flows. If an entity operates in two different markets having different consumer sentiments, the valuer needs to calculate the expected future cash flows of the two markets independently and add the two to find the future cash flows of the company. The future cash flows of the company can be discounted at WACC to arrive at the value of the company.

S. No	Question	Answer
121.	How is a SaaS startup valued?	The SAAS startups are also valued on the basis of the entity's capacity to generate sustainable positive cash flows in the foreseeable future. However, while valuing SAAS the intellectual properties owned, and other intangible assets owned by the entity need to be properly valued and added to the discounted cash flow of the company to arrive at the value of the entity.
122.	Can we use Mr. Ashwath Damodaran's Database as data inputs for Valuation?	Yes, you can use the database. However, valuer needs to disclose the source of the data as well as test the applicability of any data source originating from 3rd parties in his valuation report.
123.	How safe is it to invest in G. Secs., Bonds Debt Instruments in case of falling Yields? What is your view on falling yields in near future and what is the RBI's role in this regard and its effect on Primary Dealers in G. Sec. Bonds?	G-secs continues to be one of the safest investment options available. As part of monetary policy, RBI's ultimate objective is to work on inflation. In doing so, the demand and supply for fixed income securities will result in some yields. Presently, due to COVID the yield on debt securities is below average. In the short-term the yield may remain at a lower level. In the mid-term yield is expected to be matched with the historical averages.
124.	Shouldn't the valuation also consider the first mover advantage?	The first mover advantage may help the entity to generate higher revenues than the competitors in the short run provided the market reception of the product is good and not delayed. If the entity still enjoys the same, this will be reflected in the future cash flows which will be higher than the

S. No	Question	Answer
		competitors. Higher Cash Flows will help the entity to achieve break-even at an earlier stage. However, since these advantages are already reflected in the higher future cash flows, hence, the first mover advantage need not be considered separately while valuing the company.
125.	If a valuer has overvalued and someone invested based on such valuation, can the investor sue the valuer?	Valuer must abide itself in valuing an asset by following the valuation standards issued by the ICAI. If the standards are followed then valuer will not be held guilty for negligence, and we can reasonably conclude that valuation carried in compliance of the valuation standard is a fair valuation.
126.	How valuation can be done if investor return is variable to revenue share. What will be the cost of capital in such a scenario?	If the return to the investor is dependent on the revenue generated by the entity the valuer must calculate the growth rate of the revenue and the probability that the company will be able to sustain this growth rate over the foreseeable future. These two factors also need to be incorporated while calculating the WACC (cost of capital).
127.	Do we need to back ourselves with evidence for assumptions made in Finance model? How far can we rely on management decisions?	The management's decisions and forecast should be checked for reasonability and only reasonable assumptions can be accepted. Further, the valuer is not expected to make assumptions on behalf of the management. However, valuers can make assumptions that are required for building up the valuation model. In doing so, each assumption should be data driven. All assumptions should be analyzed in terms of

S. No	Question	Answer
		level-1, level-2 and level-3 inputs defied as per IND(AS) 113. The valuer is expected to increase the use of level-1 (observable) inputs and reduce the use of level-3 (non-observable) inputs. 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 other means as may be applicable and available to that effect."*
128.	How do you factor in the effect of good management of the company in its valuations?	The good and able management will be able to grow the company at a faster growth rate than the competitors in the market. This will lead to higher future positive cash flows available for distribution to the investor. This will also reduce the risk and increase the return of the shareholders. However, both these advantages are already reflected in the value of the company due to higher cash flow and lower WACC (Rate used for discounting of cash flows). Hence, the effect of good management need not be factored separately into the value of the entity.
129.	How is the probability of failure factored-in valuation?	Probability of failure and probability of success, both should be used to identify the weighted average value of the Startup.

S. No	Question	Answer
		(value of Startup = Probability of failure * value in case of failure + probability of success * value in case of success
130.	In case of Startup what is the deprecation method used i.e., WDV or SLM? Why and which is beneficial for them?	The depreciation method should be decided on the basis of the actual usage of an asset. For detailed guidance you may refer to AS 10 or Ind AS 16- Property Plant and Equipment.
131.	Should we use period factor to adjust the discount rate? The normal discounted cash flow assumes all cash flows arise exactly at the end of the year.	Yes, you may assume the cash flows accruing at the middle of the year.
132.	Who is the valuer for Zomato?	Valuation for IPOs are done by merchant bankers and the listing price is ultimately a function of demand and supply in the market.
133.	What can be said for failed technology ventures like Blackberry, Nokia, which suddenly became unsustainable?	The business model on which companies like Blackberry and Nokia were based became outdated due to new products launched by competitors like Apple. Moreover, the company's denial of the disruption caused by the launch of iPhone further derailed the company from the track of long-term sustainability and profitability which lead to the ultimate failure of these ventures. Companies need to be agile and shall analyze the risk and opportunities of the new business models launched by the competitors as well as the market in general.
134.	How do you discount for businesses which might crop up in future grabbing market share by copying	The number of competitors is lower in the initial stages of the life cycle of the maker of the disruptive product, but the same starts to

S. No	Question	Answer
	the model used by the disruptive business, which might be unique in the initial stages?"	increase as the market matures over the years. This leads to both loss of market share (compensated by an increase in the size of the market) as well as reduction of growth rate. However, as the market starts to mature the risk in investing in the entity also starts to decrease and the company is expected to generate sustainable positive cash flows which give desirable return to the company. Thus, as the number of competitors increases the growth rate of the company decreases as well as the risk is expected to reduce. Thus, the valuer has to consider the impact of both risk and growth rate while valuing the entity.
135.	Is it possible that the valuation of one IT company can differ in the United States and in India?	The consumer sentiments impact the capacity of the entity to generate sustainable positive cash flows in future. Higher the positive consumer sentiments better are the growth potential and hence higher free cash flows. If an entity operates in two different markets having different consumer sentiments, the valuer needs to calculate the expected future cash flows of the two markets independently and add the two to find the future cash flows of the company. The future cash flows of the company can be discounted at WACC to arrive at the value of the company. Thus, the underlying economics working in the country of business may impact the value of the

S. No	Question	Answer
		entity. Hence, the company may command a different value in two different markets depending on the customer sentiments as well as shareholder's risk outlook and profile.

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