VALUATION OF FINANCIAL ASSETS

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1. We advise clients in the following areas:

- Valuation of Business / Firm
- Valuation of Intangibles such patents, copyrights, technical knowhow, franchise agreements, Goodwill etc.
- Valuation of Shares, Preference Shares, Debentures under Companies Act, Foreign Direct Investments, etc.
- Valuation for Swap Shares in case of Amalgamation
- Valuation for Start-ups
- Valuation for Brands, Intellectual Property
- Valuation in case of Take Over of Companies
- Valuation of Shares for Transfer Pricing under Income Tax
- Calculation of Fair Value as per IND-AS / IFRS/ Accounting Standards
- Valuation under Mergers and Demerger
- Valuation under Insolvency and bankruptcy (ABC)

2. Details required from Clients

Full Audited Financials - including Profit & Loss Account & Balance Sheets with schedules, Notes on Accounts, Report of the Directors and Auditors' Report.

Estimated Profit & Loss Account & Balance Sheets with schedules for the Current Year and Projections for the next five years

A: Valuation requirements under Companies Act, 2013

Sl. no	Section/Rule	Particulars	Details
1	62(1)C	Valuation report for Further Issue of Shares	If any company plans to issue new shares (including a rights issue to existing shareholders or to employees under employees' stock options), the price of such shares should be determined by the valuation report of a Registered Valuer
2	192(2)	Valuation of Assets Involved in the Arrangement of Non-cash transactions involving Directors	In case of sale or purchase of any asset involving a company and the directors of the company (or its holding, subsidiary or associate company) or a person connected with the Director for consideration other than cash, the value of the assets has to be calculated by a Registered Valuer
3	230(2)(c)(v)	Valuation of shares, property, and assets of the Company under a scheme of Corporate Debt Restructuring	In case of a compromise or arrangement between members (such as in mergers or amalgamations) or with creditors (such as in corporate debt restructuring), a valuation report in respect of shares, property or assets, tangible and intangible, movable and immovable of the

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			company, or a swap ratio report by a Registered Valuer is required. In the case of mergers, the directors are also required to circulate a report to members specifying, inter alia, any
4	230(3)	Valuation report along with Notice of creditors/shareholders meeting –Under scheme of compromise/Arrangement	In case of a compromise or arrangement between members (such as in mergers or amalgamations) or with creditors, a valuation report in respect of shares, property or assets, tangible and intangible, movable and immovable of the company, or a swap ratio report by a Registered Valuer is required.
5	232(2(d)	The report of the expert with regard to valuation, if any, would be circulated for meeting of creditors/Members	Same as above
6	232(3)(h)	The Valuation report to be made by the tribunal for exit opportunity to the shareholders of transferor Company –Under the scheme of Compromise/Arrangement in case the Transferor company is Listed Company and the Transferee-company is an unlisted Company	Same as above
7	236(2)	Valuation of equity shares held by the Minority Share Holders	In case an acquirer or person acting in concert with the acquirer acquire 90% or more of the equity capital in a company, they can offer to the minority shareholder (or the

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			minority shareholder can offer to the acquirer) to acquire the minority shareholding at a valuation determined by the Registered Valuer.
8	281(1)	Valuing assets for submission of report by liquidator	A valuation of assets of the company prepared by the Registered Valuer is required in case of winding up, voluntarily or otherwise.
9	305(2)(d)	Declaration of insolvency in case of proposal to wind up voluntarily	Where a proposal for voluntary winding up has been made by a company, a declaration must be made by the board of directors that the Company has no debt or whether it will be able to pay its debt in full from the proceeds of assets sold in voluntary winding up. The declaration made must be accompanied by, among other things, a valuation report prepared by registered valuer of the assets of the company.
10	319(3)(b)	Power of Company Liquidator to accept shares etc, as consideration for sale of property of the Company	Any member of the transferor company who did not vote in favour of the special resolution and expresses his dissent therefrom in writing addressed to the Company Liquidator, and left at the registered office of the company within seven days after the passing of the resolution, may require the liquidator to purchase his

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			interest at a price to be determined by agreement or the registered valuer.
11	Rule 2 of (Acceptance of deposit) Rules,2014 Companies	Exclusions from Deposits	As per the rule, deposit includes any receipt by way of deposit or loan or in any other form by a company but does not include, among other things, money raised by issue of debentures secured by a charge on company's assets. The amount of such debentures shall not exceed the market value of the assets as determined by a registered valuer.
12	Rule 8 of Companies (Share capital and Debentures) Rules, 2014	Issue of Sweat Equity Shares	This rule applies to all companies except listed companies issuing sweat equity shares to its directors or employees. The rule prescribes that the sweat equity shares shall be issued at a price determined by a registered valuer as the fair price giving justification for such valuation. Also, the value of the intellectual property or know-how or any other value additions, for which the sweat equity shares have been issued to its directors or employees shall be determined by a valuation report of a registered valuer. If the sweat equity shares are issued for a non-cash consideration, the value of such non-cash consideration shall be based on a valuation report

Sl. no	Section/Rule	Particulars	Details
			by a registered valuer. Additionally, if the sweat equity shares are issued pursuant to acquisition of an asset, the value of such asset shall also be determined based on a valuation report by a registered valuer.

B: Valuation Requirements under SEBI Regulations

Sr No.	SEBI Regulation	Particulars
1	SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018	158(6)(b). Conversion price of debt, as part of a debt restructuring scheme shall be certified by two independent valuers. 163(3). Where the specified securities are issued on a preferential basis for consideration other than cash, the valuation of the assets in consideration for which the equity shares are issued shall be done by an independent valuer, which shall be submitted to the stock exchanges where the equity shares of the issuer are listed: Provided that if the stock exchange(s) is not satisfied with the appropriateness of the valuation, it may get the valuation done by any other valuer and for this purpose it may seek any information, as deemed necessary, from the issuer. 165. Where the shares of an issuer are not frequently traded, the price determined by the issuer shall take into account the valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies: Provided that the issuer shall submit a certificate stating that the issuer is in compliance of this regulation, obtained from an independent valuer to the stock exchange where the equity shares of the issuer are listed.
2	SEBI (Listing Obligations and Disclosure	87C(1)(ii). An issuer whose security receipts are listed on a stock exchange shall ensure that the valuation is

Sr No.	SEBI Regulation	Particulars
	Requirements) Regulations, 2015	conducted by an independent valuer
3	SEBI (Appointment of Administrator and Procedure for refunding to the Investors) Regulations 2018	7(2)(b). the Administrator shall engage the services of a registered valuer to evaluate the properties of defaulter that are attached by the Recovery Officer and for submission of a certified valuation reporting accordance with the guidelines issued by the Board. 8(1). The Administrator shall undertake the process of the sale of properties after conducting an independent valuation of such properties by a registered valuer.
4	SEBI (Real Estate Investment Trust) Regulations, 2014	21(4). A full valuation shall be conducted by the valuer at least once in every financial year: Provided that such full valuation shall be conducted at the end of the financial year ending March 31st within three months from the end of such year. 21(5). A half-yearly valuation of the REIT assets shall be conducted by the valuer for the half-year ending on September 30 for incorporating any key changes in the previous six months and such half-yearly valuation report shall be prepared within forty-five days from the date of the end of such half year.
5	SEBI (Infrastructure Investment Trusts) Regulations, 2014	21(4). A full valuation shall be conducted by the valuer not less than once in every financial year: Provided that such full valuation shall be conducted at the end of the financial year ending March 31st within two months from the date of end of such year. 21(5). A half yearly valuation of the assets of the InvIT shall be conducted by the valuer for the half-year ending September 30th for a publicly offered InvIT for incorporating any key changes in the previous six months and such half yearly valuation report shall be prepared within one month from the date of end of such half year.
6	SEBI (Issue and Listing of Securitized Debt Instruments and Security Receipts) Regulations, 2008.	38G(1)(a). An issuer whose security receipts are listed on a recognized stock exchange shall ensure that the valuation is conducted by an independent valuer

C: Valuation Requirement under Insolvency & Bankruptcy Code 2016

S. No	Regulation	Particulars	Details
1	2(1)(m)	Definitions	"Registered Valuer" means a person registered as such in accordance with the Companies Act, 2013 (18 of 2013) and rules made thereunder.
1	27	Appointment of Registered Valuers	The IRP shall within seven days of his appointment, appoint two registered valuers to determine the liquidation value of the corporate debtor in accordance with Regulation 35

D. Contents of Valuation Reports

Each Registered Valuer shall be following international accepted valuation standards or Valuation Standards issued by respective RVO. In India, so far only ICAI has issued Valuation Standards.

Each valuation report should have following contents:

(a) Background information on the asset being valued;

(b) Purpose of the valuation and appointing authority;

(c) The identity of the valuer and any other experts involved in the valuation;

(d) Disclosure of valuer interest or conflict, if any;

(e) Date of appointment, valuation date, and date of the report;

(f) Inspections and/or investigations undertaken;

(g) Procedures adopted in carrying out the valuation and valuation standards followed;

(h) Nature and sources of the information used or relied upon;

(i) Restrictions on use of the report, if any;

(j) Major factors that were taken into account during the valuation;

(k) Conclusion; and

(l) Caveats, limitations, and disclaimers to the extent they explain or elucidate the limitations faced by the valuer, which shall not be for the purpose of limiting his responsibility for the valuation report.

E. International Valuation Standards by International Valuation Standards Councils (IVSC) In 2017

General Standards

IVS 101 Scope of Work

IVS 102 Investigations and Compliance

IVS 103 Reporting

IVS 104 Bases of Value

IVS 105 Valuation Approaches and Methods

Asset Standards

IVS 200 Business and Business Interests

IVS 210 Intangible Assets

IVS 300 Plant and Equipment

IVS 400 Real Property Interests

IVS 410 Development Property

IVS 500 Financial Instruments

F. Valuation Approaches & Methods

1. Market Approach & Methods under Market Approach
2. Income Approach & Methods under Income Approach
3. Cost Approach & Methods under Cost Approach

1. Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.

The market approach should be applied and afforded significant weight under the following circumstances:

(a) the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value,

(b) the subject asset or substantially similar assets are actively publicly traded, and/or

(c) there are frequent and/or recent observable transactions in substantially similar assets.

Methods under Market Approach

i. Comparable Transactions Method

The comparable transactions method, also known as the guideline transactions method, utilizes information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value. Further such valuations are adjusted for Discounts & Premium due to the size and nature of the Subject Company.

ii. Precedent Transactions Method

The Precedent Transactions Method involves deriving value using pricing multiples that are based on observed transactions of companies in the industry of the subject company. It is based on the perception that comprehensive company financial data is not easily available, but there is an availability of transaction value.

2. Income Approach

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be applied and afforded significant weight under the following circumstances:

(a) The income-producing ability of the asset is the critical element affecting value from a participant perspective, and/or

(b) Reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparable.

Income Approach Methods

i. Discounted Cash Flow (DCF) Method

Under the DCF method, the forecasted cash flow is discounted back to the valuation date, resulting in a present value of the asset. Additionally, Terminal Value is added to cash flow as per appropriate methodology such as Gorden Growth Model, etc.

ii. Capitalization of the Cash Flow Method

The Capitalization of Cash Flow Method is most often used when a company is expected to have a relatively stable level of margins and growth in the future – it effectively takes a single benefit stream and assumes that it grows at a steady rate into perpetuity.

3. Cost Approach:

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The cost approach should be applied and afforded significant weight under the following circumstances:

(a) Participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a participant would not be willing to pay a significant premium for the ability to use the subject asset immediately.

(b) the asset is not directly income-generating and the unique nature of the asset makes using an income approach or market approach unfeasible, and/or

(c) the basis of value being used is fundamentally based on replacement cost, such as replacement value.

Methods of Cost Approach:

i. replacement cost method:

A method that indicates value by calculating the cost of a similar asset offering equivalent utility.

ii. reproduction cost method:

A method under the cost that indicates value by calculating the cost to recreating a replica of an asset, and

iii. summation method:

A method that calculates the value of an asset by the addition of the separate values of its component parts.

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