



# VALUATION OF CORPORATES – IMPORTANT DEVELOPMENTS

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# EVOLUTION OF VALUATION REGULATIONS

## Since 1992

SEBI Act was introduced wherein Cos. were free to price their issues in consultation with the Merchant Bankers

## Prior 1992

CCI Guidelines for issue of shares at premium

## 1957-1989

Wealth Tax Rules, 1957 prescribed valuation of unquoted shares

## 2010

FEMA - DCF for valuations in case of issue / transfer of shares of Indian company which was subsequently changed to internationally accepted valuation methodology

## 2017 & 2018

The MCA notified Companies (Registered Valuers and Valuation) Rules, 2017 ('Rules') w.e.f. 18 Oct 2017

ICAI issues Valuation Standards w.e.f. 01 Jul 2018

## 2020

The MCA notified Draft Valuers Bill as on April 02, 2020 (Circulated for Public Comments)

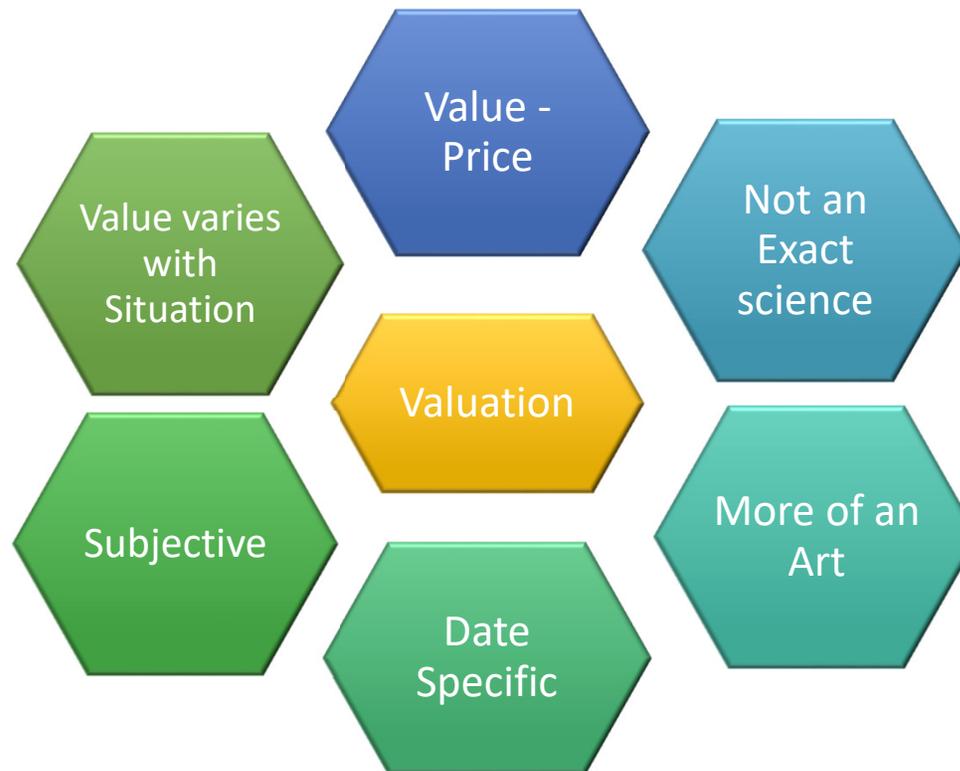




# VALUATION CONCEPTS & PURPOSE



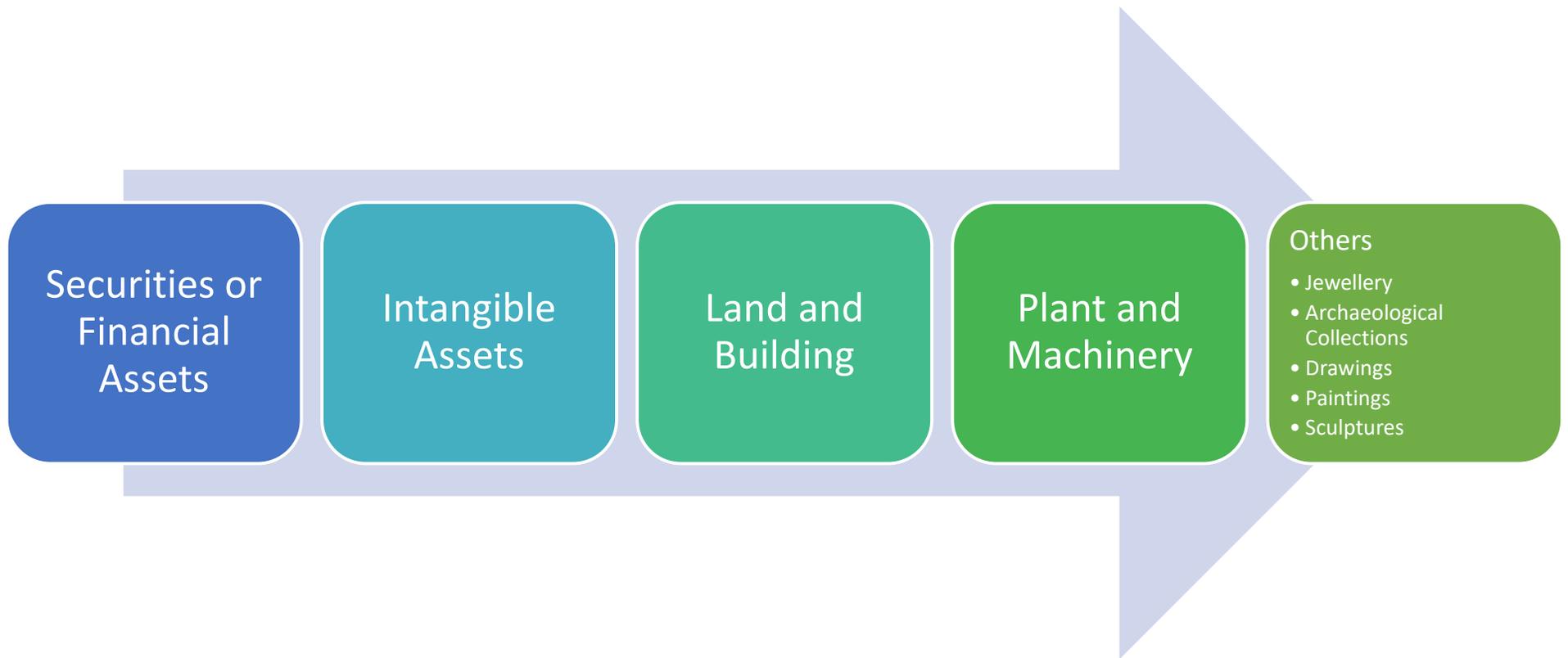
# VALUATION CONCEPTS



# PURPOSE OF VALUATION

Business Valuation	Regulatory	Intangibles	Financial Reporting
Restructuring	FEMA	Purchase / Sale	Purchase Price Allocation
Purchase / Sale of shares / business	Income Tax Act	Hypothecation	Private Equity/ Venture Capital Funds
Litigation / Family Settlements	SEBI Regulations	Accounting for purchase	Financial Instruments
Fund raising	Companies Act	Impairment	Ind AS reporting – Fair Value / Impairment

# TYPES OF ASSETS

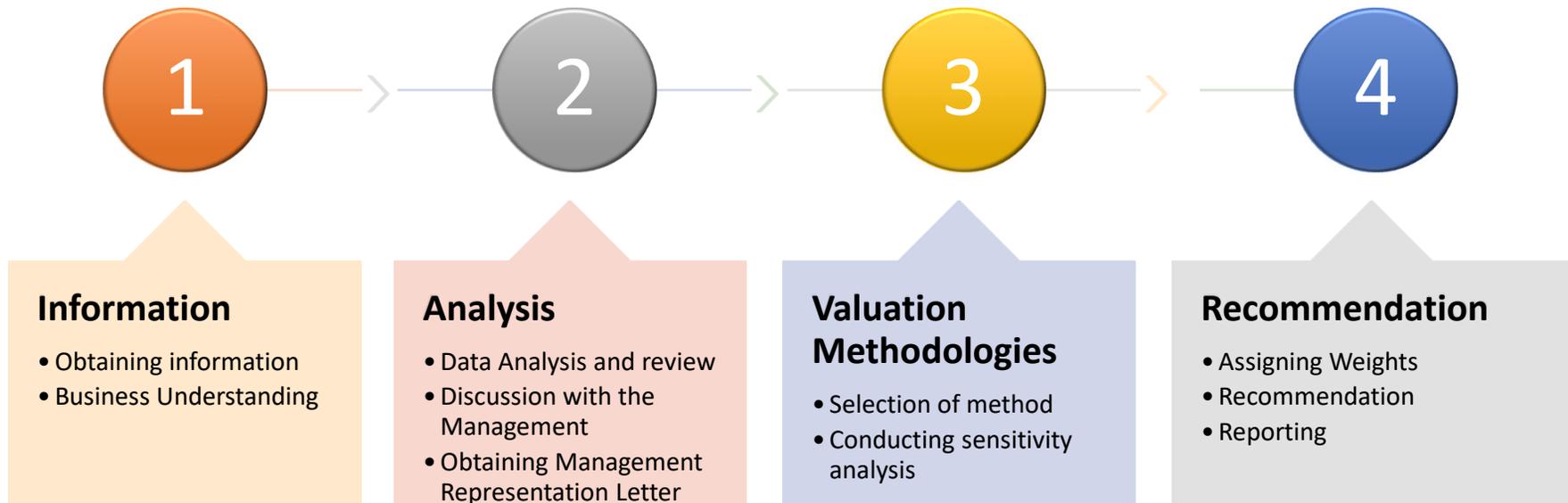




# PROCESS OF VALUATION



# STEPS IN VALUATION

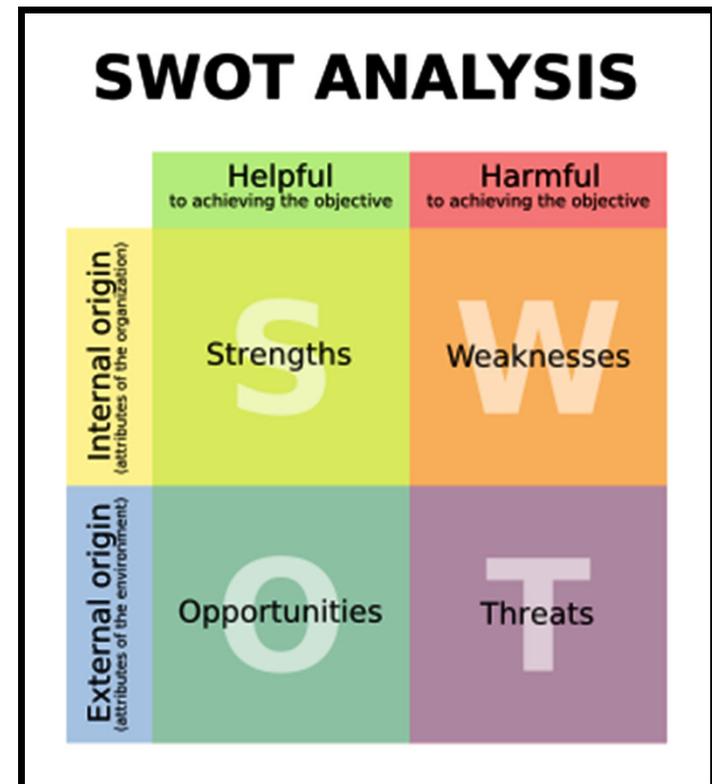


# SOURCES OF INFORMATION

- Historical data such as audited results of the Company
- Industry & Company overview
- Financial projections
- Management Discussion
- Stock market quotations / announcements
- Publicly available data on comparable companies
- Market surveys, news paper reports
- Representation by Management

# ANALYSIS OF THE COMPANY

- Understanding of the Business
- Industry Analysis
- Existing policy/ legal framework
- SWOT Analysis
- Profitability Analysis
- Financial Ratio Analysis
- Analysis of Past Data and Projections
  - Installed capacity
  - Revenue and Expenses ratio analysis
  - Capital expenditure – increasing capacities
  - Working capital requirements
  - Alternate scenarios / sensitivities





# VALUATION APPROACHES



# VALUATION APPROACHES

## INCOME APPROACH

Discounted Cash Flow Method

## MARKET APPROACH

Market Price Method

Comparable Companies Multiple Method

Comparable Transactions Multiple Method

## COST APPROACH

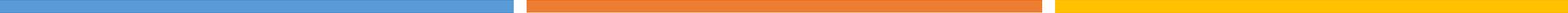
Net Assets Value Method

Replacement Value/  
Realizable Value Method

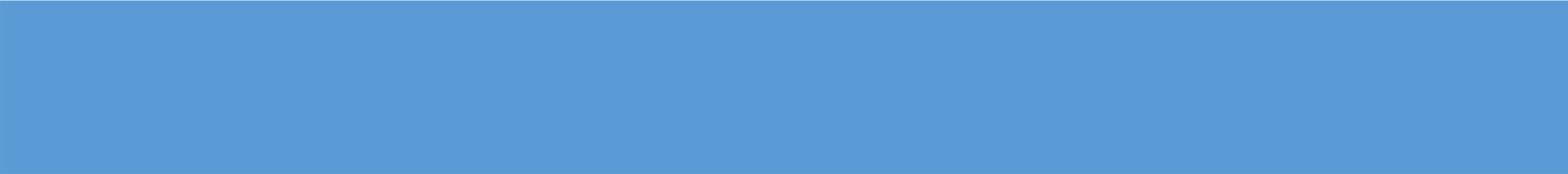
# COMMON ADJUSTMENTS

- Market value of the investments
- Other non-operating surplus assets
- Surplus cash
- Contingent liabilities / assets
- Loan Funds
- Preference Share Capital
- ESOPs / Warrants
- Convertible Instruments
- Tax Concessions





# VALUATION FOR MERGER / DEMERGER



# MERGER / DEMERGER – VALUATION ASPECTS

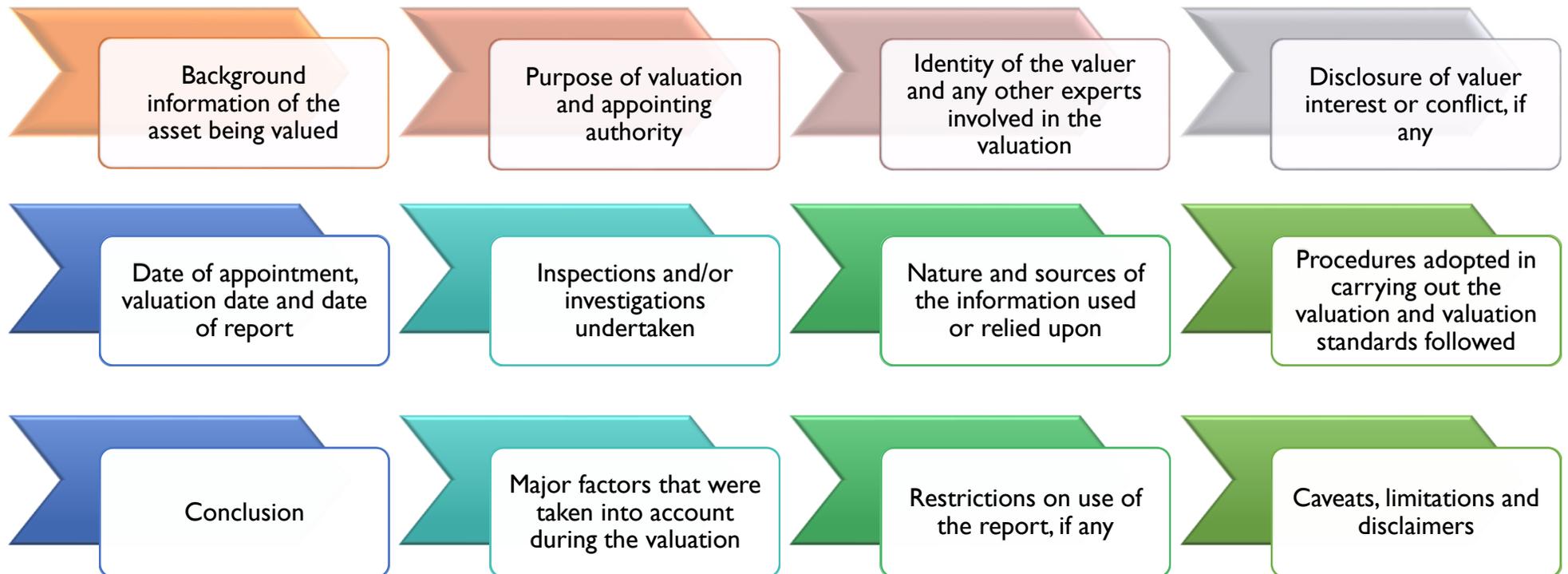
- In case of mergers and demergers, a relative valuation needs to be carried out
- Relative values are determined by
  - using similar valuation approaches / methods; and
  - applying similar weightages to values arrived under each approach / method
- Use of different approach / methods may be appropriate in certain cases, such as:
  - Merger of an investment holding company into technology company
    - Investment holding company - asset approach
    - Technology company - market approach / income approach
- Share exchange ratio for Merger – valuation of shares of Transferor Co and of Transferee Co
- Share entitlement ratio for Demerger – valuation of Demerged Undertaking and of Resulting Co



# VALUATION REPORT AND DOCUMENTATION

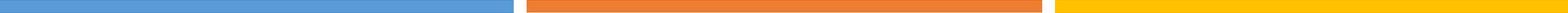


# CONTENTS OF REPORT AS PER THE COMPANIES (REGISTERED VALUERS AND VALUATION) RULES, 2017



# DOCUMENTATION

- Following documents/information/analyses to be documented:
  - engagement letter
  - data obtained during the course of valuation
  - valuation workings
  - copies of relevant circulars, extracts of legal provisions
  - bases, approaches and methods used
  - assumptions, a change in which, may materially affect the value
  - copy of the signed valuation report issued
  - management/client representation letter



# VALUATION – COMPANIES ACT 2013 & RULES



# REGISTERED VALUER

- Section 247 of the Companies Act, 2013 ('Act') provides:
  - Valuation of property, stocks, shares, debentures, securities, goodwill or other assets / liabilities / networth of a company under the Act
  - To be done by a Registered Valuer (RV)
  - Appointed by Audit Committee or in its absence the Board of Directors of that company
- Further, as per Section 247(2) of the Act, RV shall
  - make an **impartial, true** and **fair** valuation of assets;
  - **exercise due diligence** while performing the functions as valuer;
  - make the valuation in accordance with such rules as may be prescribed; and
  - not undertake valuation of any assets in which **he has a direct or indirect interest** or becomes so interested at any time during a period of **three years prior** to his appointment as valuer or **three years after** the valuation of assets was conducted by him.

# REGISTERED VALUER RULES

On 18 Oct 2017, MCA notified the Companies (Registered Valuers and Valuation) Rules, 2017

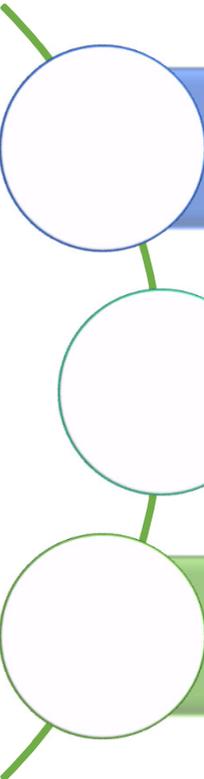


Authority to administer & perform the functions under these Rules

Organisation to regulate and impart training to the Registered Valuers

Individual, Firm, LLP or Company  
Member of a RVO  
Registered with IBBI

# TO BE A REGISTERED VALUER



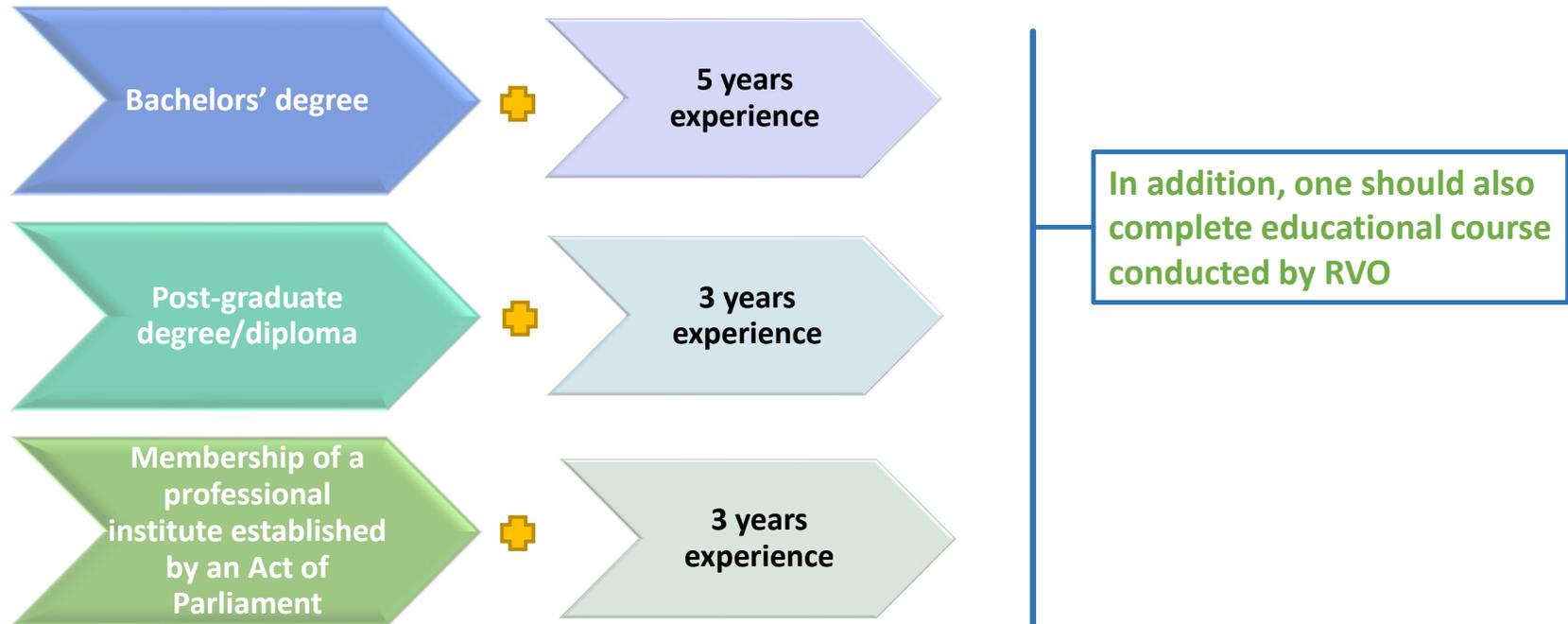
Obtain Educational Qualifications and Experience

Pass Valuation Examination

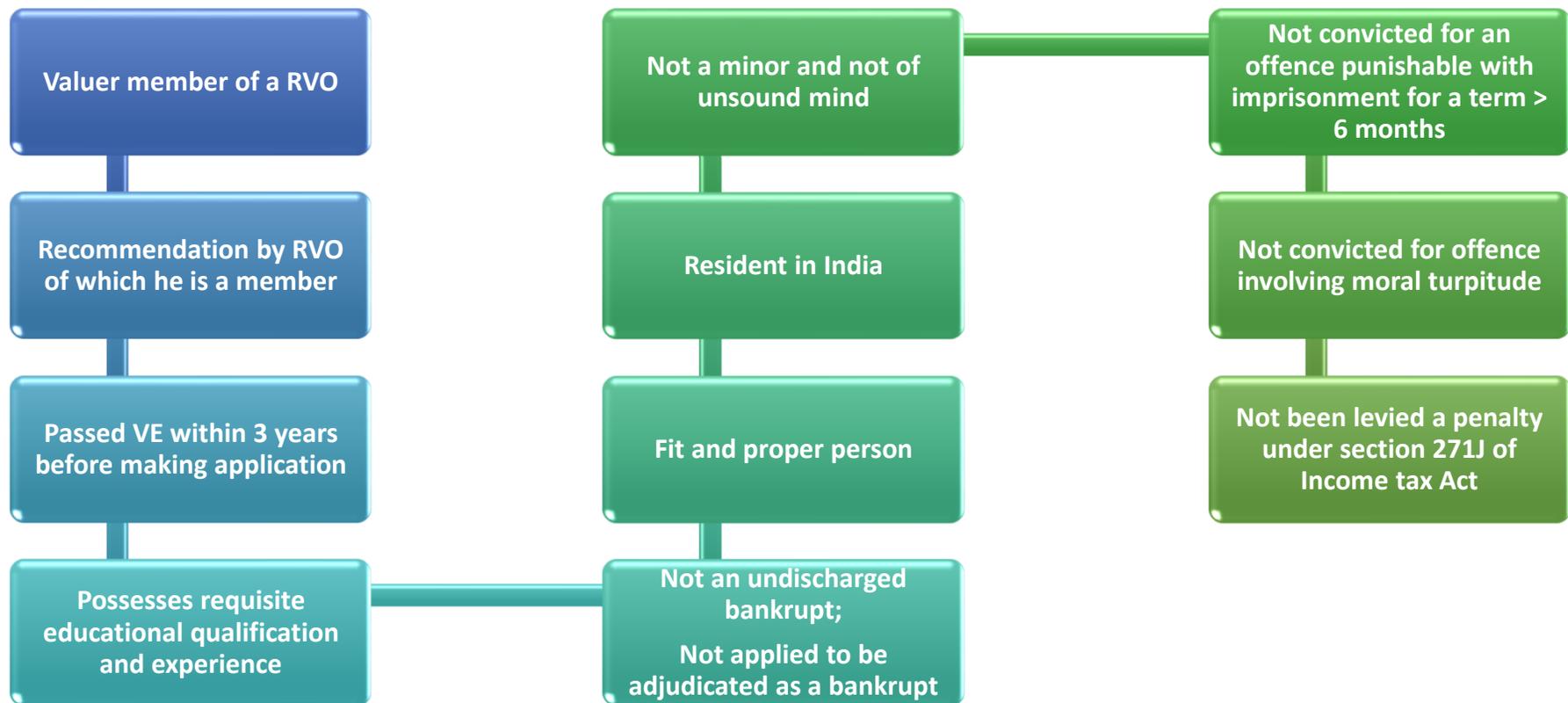
Satisfy other specified Eligibility Criteria

# EDUCATIONAL QUALIFICATIONS AND EXPERIENCE

To be a RV, an individual must have the following educational qualifications and experience:



# OTHER ELIGIBILITY CRITERIA - INDIVIDUALS



## OTHER ELIGIBILITY CRITERIA – FIRMS/COMPANIES/LLP

Set up for rendering professional / financial services

Not an undischarged bankrupt; or undergoing insolvency

Atleast 3 or all partners / directors, whichever is lower are RVs

Atleast 1 partner is RV for asset class, for valuation of which it seeks registration

Co not a subsidiary / JV / associate of another company

None of the partners possess disqualification as specified for Individual

# CONDUCT OF VALUATION

- RV shall, while conducting valuation, comply with valuation standards notified or modified by Central Government
- Until valuation standards are notified by CG, a valuer shall make valuations as per:
  - Internationally accepted valuation standards;
  - Valuation standards adopted by any RVO  
(ICAI RVO has adopted ICAI valuation standards 2018)



# ICAI VALUATION STANDARDS 2018

ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

## ICAI VALUATION STANDARDS ('ICAI VS') 2018

- ICAI issued Valuation Standards to address the need for consistent, uniform and transparent valuation policies.
- Valuation Standards lay down a framework to ensure:
  - uniformity in approach; and
  - quality of valuation output
- Applicability for Chartered Accountants
  - On mandatory basis for valuation reports issued under the Companies Act, 2013 on or after **01 Jul 2018**
  - On recommendatory basis for valuation under other statutes like Income tax, FEMA, SEBI
- ICAI RVO has adopted the valuation standards issued by ICAI

# ICAI VS 2018

## Framework for Preparation of valuation report in accordance with ICAI VS

ICAI VS 101

Definitions

ICAI VS 102

Valuation Bases

ICAI VS 103

Valuation Approaches and Methods

ICAI VS 201

Scope of Work, Analyses and Evaluation

ICAI VS 202

Reporting and Documentation

ICAI VS 301

Business Valuation

ICAI VS 302

Intangible Assets

ICAI VS 303

Financial Instruments



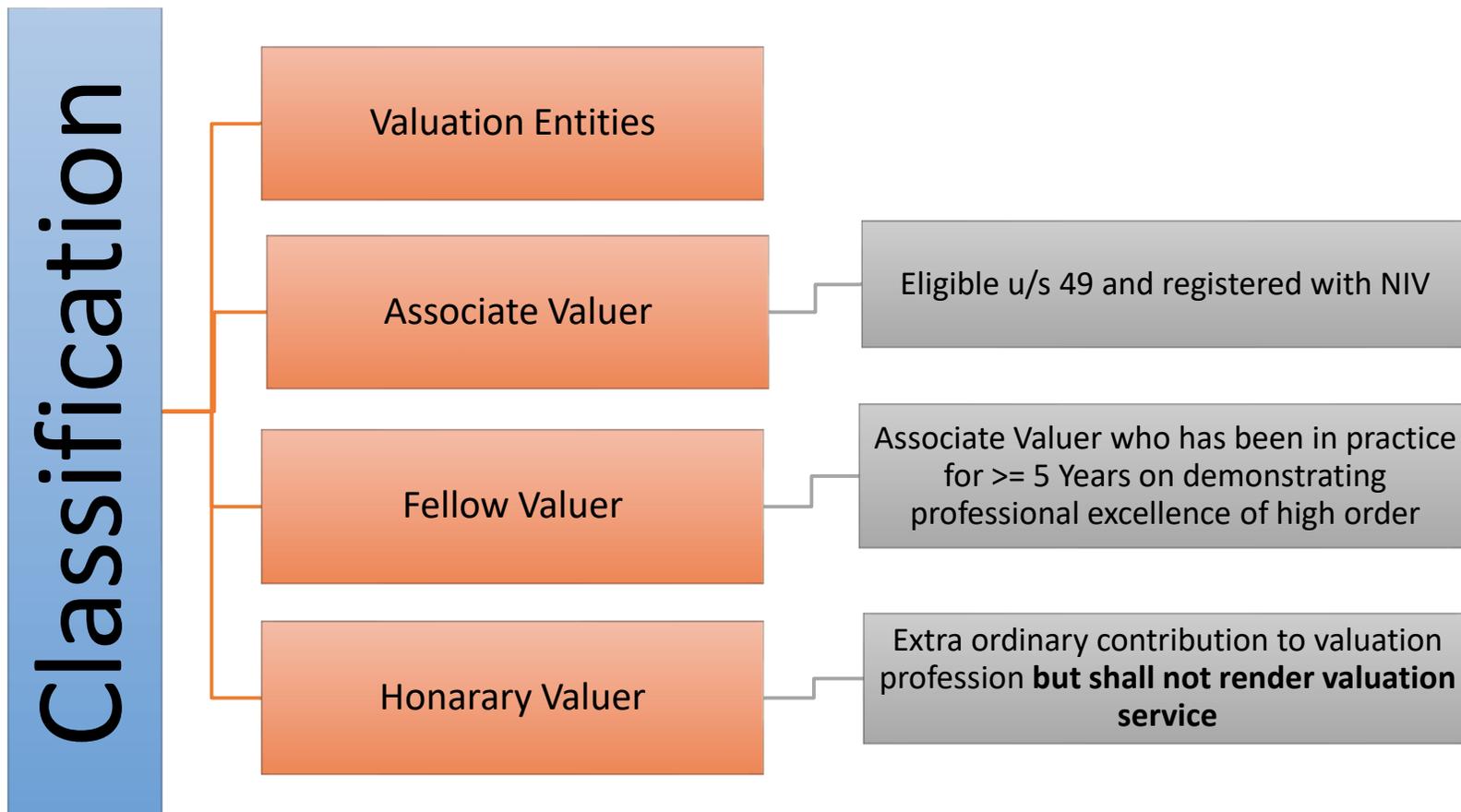
# DRAFT VALUERS BILL 2020



# DRAFT VALUERS BILL 2020 – SALIENT FEATURES

- Establishment of National Institute of Valuers ('NIV')
  - To Promote the development and Regulate the Valuation Profession
  - To Protect the Interest of Users of Valuation Services
- Framework of NIV
  - Governing Council Of NIV
  - Committee of Valuers
  - Valuation Standards Committee
  - Audit Committee
  - Administrative Law Department
- Formation of Valuation Standards Committee
  - To recommend & review (Once in a year) Valuation Standards and Valuation Guidelines
- Power to Inspections and Investigations (Search and Seizure)
- Settlement of Contraventions (similar to SEBI)
- Registration of Valuers under different Asset Classes

# SECTION 48: CLASSES OF VALUER



## SECTION 49(1): ELIGIBILITY FOR INDIVIDUALS

Has completed the **national valuation programme** of the relevant asset class, after having completed **higher secondary education**

has completed the **graduate valuation programme** of the relevant asset class, after having a **degree or equivalent** qualification in any of the **specified disciplines**

has passed the **valuation examination of the respective asset class**, having experience of rendering valuation services for at least **five years** and having completed the **limited valuation programme** of the relevant asset class

shall be available for **2 years** from the date of commencement

has passed the **valuation examination of the respective asset class**, having completed **specified hours of training from a valuation professional organization**, and having **specified qualification and experience** (*Refer next slide*)

shall be available for **3 years** from the date of commencement

## SPECIFIED QUALIFICATION AND EXPERIENCE UNDER CLAUSE (D) OF SECTION 49(1) OF THE ACT

Asset Class	Qualification (obtained from a recognised Indian University or Deemed University, whether in India or abroad)	Post-qualification experience of valuation in the asset class
Plant & Machinery	Graduate in Mechanical, Electrical, Electronic and Communication, Electronic and Instrumentation, Production, Chemical, Textiles, Leather, Metallurgy, or Aeronautical Engineering, or Post-Graduate in above disciplines.	5 years
	Post-Graduate in Valuation of Plant and Machinery	3 years
Land & Building	Graduate in Civil Engineering, Architecture, Town Planning or Valuation Surveying or Post-Graduate in above disciplines	5 years
	Post-Graduate in Valuation of Land and Building or Real Estate Valuation	3 years
Financial Assets	Member of ICAI, ICSI, ICWAI, MBA, Post-Graduate Diploma in Business Management (specialisation in finance) or Post-Graduate in Finance	3 years

# DRAFT VALUERS BILL 2020 - SALIENT FEATURES

## ■ Individual eligibility

The individual should not be:

- Minor
- Bankrupt
- Person of Unsound Mind
- Convicted
- Non-Resident (FEMA Definition)
- Not Fit and Proper

# DRAFT VALUERS BILL 2020 - SALIENT FEATURES

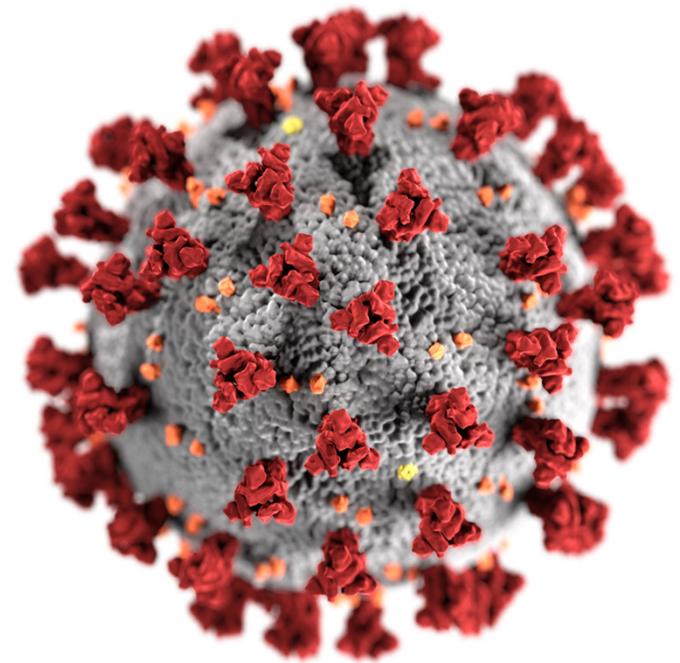
- Partnership/ Company Eligibility (Other than Subsidiary/JV/ Associate)
  - Primary Objective should be Valuation
  - Not Undergoing Insolvency
  - None of Its Partners or Directors are ineligible (All partners need not pass 'Valuation Examination' as required under current Rules)
  - Majority Partners/Directors are Valuers
  - None of Partners/ Directors are Partner or Director of another Partnership/Company which is a Valuer
  - At least one of the Partners or Directors is Valuer of Assets class for which Partnership/Company seeks registration

# DRAFT VALUER'S BILL 2020 - SALIENT FEATURES

- Following May be Registered as Valuer subject to conditions
  - Multi Disciplinary Firm
  - Subsidiary/JV/ Associate
- Registration and Fees
  - Those who are already registered as Registered Valuer will be Associate Members
- Valuer cannot hold Certificate of Practice if he is in employment
  - The whole time Director of a company will not be considered as person in employment for this purpose
- NIV to conduct examination
- Separation of role for imparting education and monitoring the valuer members:
  - **Valuers Institute** : Imparting education
  - **Valuation Professional Organisation ('VPO')** : to monitor the valuer members to ensure compliance with the Act, rules, and its bye-laws; redressal of grievances of users against its members; etc.

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# IMPACT OF COVID-19



# GLOBAL INDUSTRY SPECIFIC IMPACT ON COVID-19

## Apparel & Textile

- Disruption in labour supply
- Raw material unavailability
- Workings Capital Constraints

## Auto Sector

- Lack of demand
- Global Recession
- Falling income levels

## Building and Construction

- Highly leveraged, High Interest Payments
- Fall in Demand and lower Prices
- Labour Issue

## Aviation & Tourism

- Highly unlikely that people will travel for leisure apart from very essential travel

## FMCG

- Essential commodities have had very less impact
- Items of daily use have seen constant demand

## Pharmaceuticals

- Pharmaceutical firms are set to see growth in the near future

# IMPACT OF COVID-19 ON VALUATION

- Going concern assumption will have to be tested.
- Analysis of Industry and Company specific Impact becomes critical.
- INCOME APPROACH
  - Cash flows need to be built considering the impact of low demand due to COVID-19 and supply shocks.
  - Thorough scrutiny of cash flows has to be done.
  - Impact on discount rate on account of COVID-19 to be considered.
- MARKET APPROACH
  - Selection of appropriate period for considering the market prices and results of the comparable companies and that of the business/company to be valued
- REPORTING
  - Appropriate Disclosures to be made for COVID-19 specific limitations.



THANK YOU !