

OVERVIEW OF VALUATION



CA. SOWMYA G ,
Registered Valuer(SFA)



Value Investing



EVOLUTION OF VALUATION

2020

Draft
Valuers Bill

2017

RV rules
notified

2013

Companies
Act

2010

FEMA

1992

SEBI – Issue
of shares
pricing

1957-

1989

Wealth Tax

Registered Valuer



Section 247 of the Companies Act, 2013 provides



Valuation of property, stocks , shares, debentures, securities, goodwill or other assets/liabilities/networth of a company under the Act.



To be done by the Registered Valuer(RV)



Appointed by Audit committee or in its absence the Board of Directors of that company.

Registered Valuer



Types of assets



LAND & BUILDING



PLANT & MACHINERY



SECURITIES & FINANCIAL
ASSETS

Registered valuers as on 17/05/2024

RVOs – 15



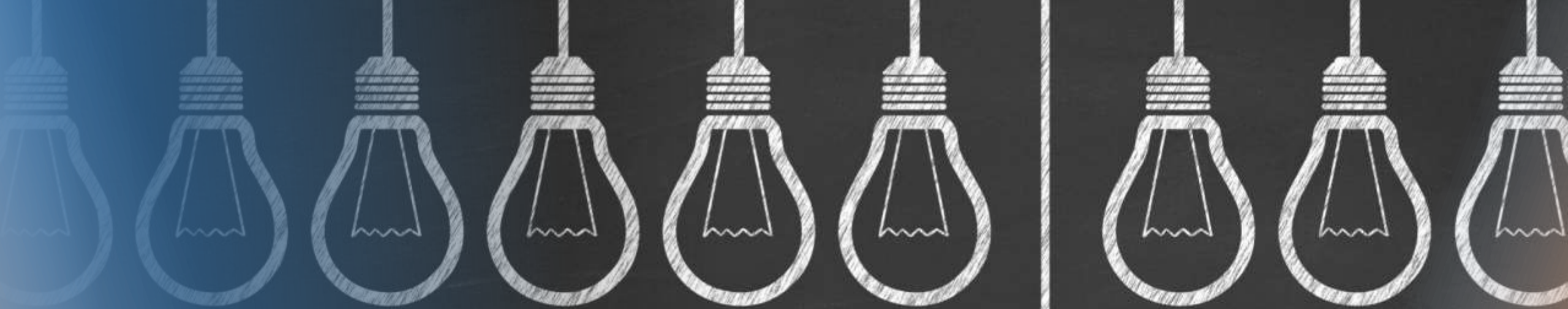
RVs (SFA)-
2197



Plant &
Machinery - 553



Land & Building -
2796



Opportunities

STATUTORY REQUIRED VALUATIONS

Companies
Act

FEMA

Income Tax

SEBI

IBC

Companies Act

Section 54(1) (d) – Issue of Sweat Equity Shares

Section 62(1)(c) – Issue of shares

Section 67(3)(b) - Provision of money by company for purchase of its own shares by employees or by trustees for the benefit of employees

Section 192(2) – Transfer of assets for non cash consideration to/from Directors

Section 230 & 232 – Merger or amalgamation

Section 234 – Cross border Merger of an Indian Co into Foreign co. or Vice Versa

Section 236 – Purchase of minority Share holding

Section 281 – Winding up of a company

Foreign Exchange Management Act, 1999 – Issue /Transfer of Shares

Listed Shares

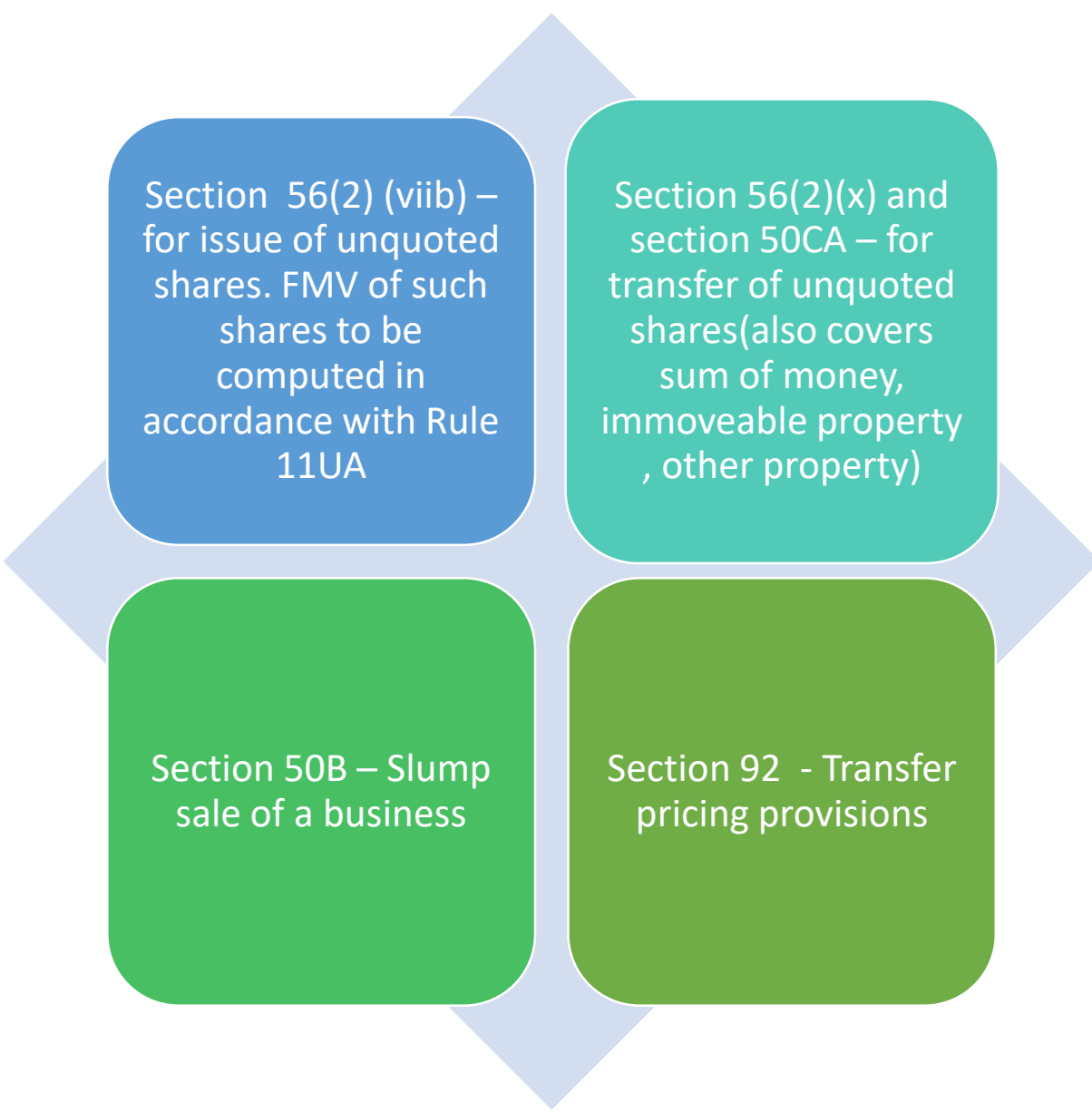
- The price would be worked out as per SEBI guidelines

Unlisted shares

- Internationally accepted pricing methodology for valuation on an arm's length price
- *Certified by CA or merchant Banker or practicing Cost Accountant*

In case of partial/full acquisition of an existing foreign company and when the investment is more than USD 5 million

- *Valued by Category I Merchant Banker or Merchant Banker outside India registered with appropriate regulatory authority in the host country*
- All other cases done by CA



Section 56(2) (viib) –
for issue of unquoted
shares. FMV of such
shares to be
computed in
accordance with Rule
11UA

Section 56(2)(x) and
section 50CA – for
transfer of unquoted
shares(also covers
sum of money,
immoveable property
, other property)

Section 50B – Slump
sale of a business

Section 92 - Transfer
pricing provisions

Income Tax Act

SECURITIES EXCHANGE BOARD OF INDIA



SUBSTANTIAL ACQUISITION OF SHARES
& TAKEOVERS REGULATIONS, 2011



ISSUE OF CAPITAL AND DISCLOSURE
REQUIREMENTS REGULATIONS, 2018

Frequently Traded shares and Not
frequently traded shares

Insolvency and Bankruptcy Code



Insolvency & Bankruptcy Code 2016



the resolution professional shall within 7 days of his appointment, appoint two registered valuers to determine the fair value.

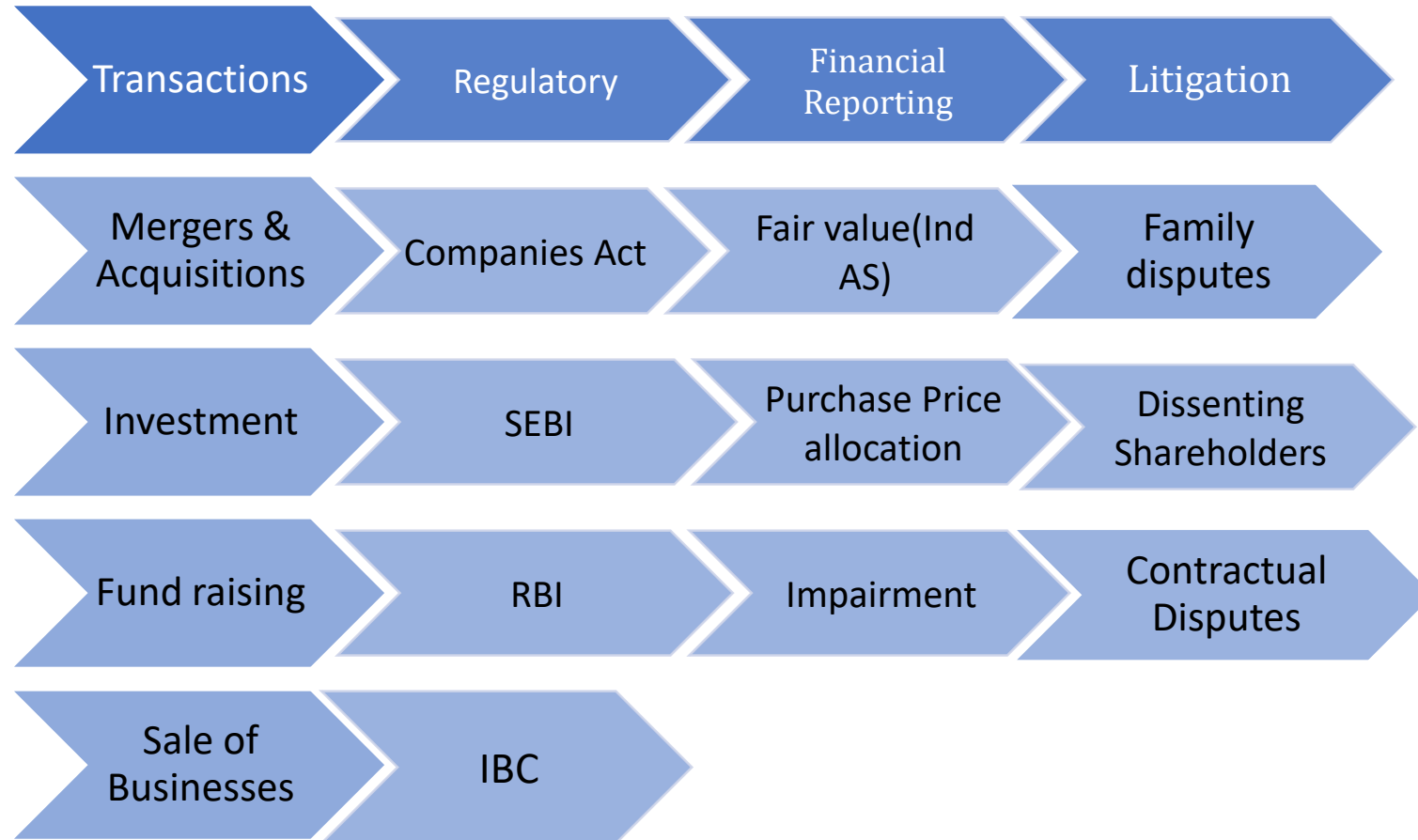


- And when there is significant difference in valuation then IRP to appoint 3rd registered valuer.



Average of two closest values

Need of Valuation



Valuation Opportunities in IND AS

IND AS 113 – Dedicated Standard on “ **FAIR VALUE**” measurement - in line with global equivalents – **IFRS 13** and **ASC 820(US GAAP)**. Covers Financial reporting

Fair value is a market – based measurement , NOT an entity- specific measurement.



**SPECIFIC STANDARDS
FOR SPECIFIC ISSUE**



IND AS – 109, 107
AND 32 : FINANCIAL
INSTRUMENTS(ASSET
S & LIABILITIES)



IND AS -102 : SHARE
BASED PAYMENT



IND AS – 103 :
BUSINESS
COMBINATION



IND AS – 16 :
PROPERTY PLANT &
EQUIPMENT



IND AS- 36 :
IMPAIRMENT OF
ASSETS

**THE BEST MATH
YOU CAN LEARN
IS HOW TO CALCULATE
THE FUTURE COST OF
YOUR CURRENT
DECISIONS.**



STRATEGIC EVALUATION



National Institute of Valuers



- Valuation Services
Section 2(52) – Valuation Services means the services relating to valuation of any asset or liability –
(a) which is required under the provisions of

Valuation Services



(i) Banking Regulation Act, 1949

(ii) Securities Contracts(Regulation) Act, 1956

(iii) The wealth Tax Act, 1957

(iv) The Income Tax Act, 1961

(v) The Securities Exchange Board of India, 1992

(vi) The Insurance and Regulatory and Development Authority Act, 1999

(vii) The Foreign Exchange Management Act, 1999

(viii)The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002

(ix) The Prevention of Money Laundering Act, 2002

Valuation Services

(x) The Limited Liability Partnership Act, 2008

(xi) The Companies Act, 2013

(xii) The Pensions Funds Regulatory and Development Authority Act, 2013

(xiii) The Black Money (undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

(xiv) The Insolvency and Bankruptcy code , 2016 or

(xv) Any other law, as may be prescribed.

(b) Which arises from needs of market, as may be specified.

Valuation Services

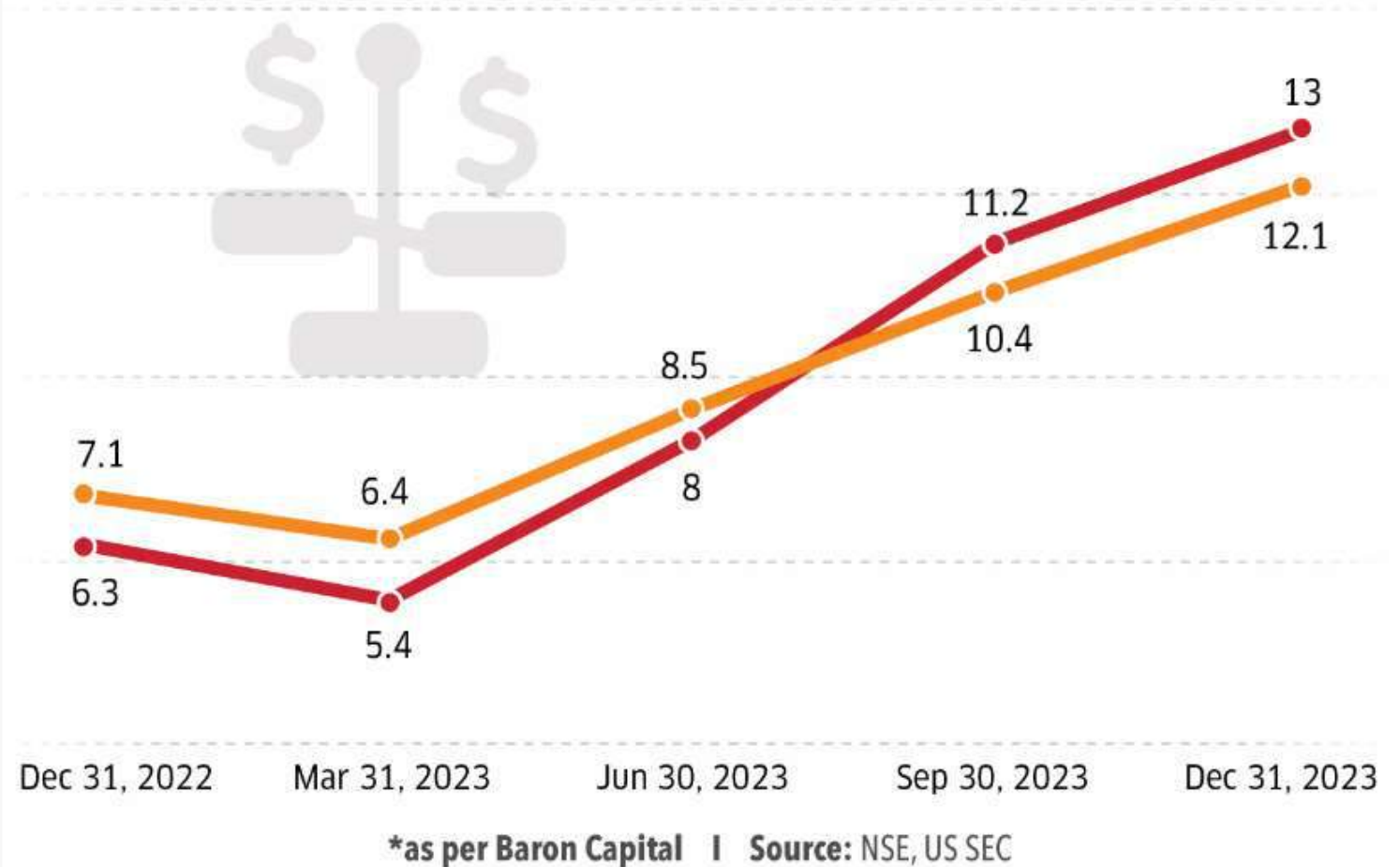
CONCEPT & PRINCIPLES OF VALUATION




Valuation
???

Swiggy vs Zomato: comparing valuations

— Swiggy* — Zomato (Figures in \$ billion)



Valuation ???

 Not accounting

 Not pricing

ZOMATO				
Period End Date	Dec-23	Sep-23	Jun-23	Mar-23
Revenue	3,288.00	2,848.00	2,416.00	2,056.00
Total Revenue	3,288.00	2,848.00	2,416.00	2,056.00
Cost of Revenue Total	782	674	562	439.1
Gross Profit	2,506.00	2,174.00	1,854.00	1,616.90
Selling/ General/ Admin Expenses Total	797	772	652	1,842.30
Depreciation/ Amortization	128	128	130	133.8
Unusual Expense(Income)	0	0	0	-0.2
Other Operating Expenses Total	1,658.00	1,449.00	1,250.00	-
Total Operating Expense	3,365.00	3,023.00	2,594.00	2,415.00
Operating Income	-77	-175	-178	-359

Valuation principles



Neither an art nor
a science



Date specific



Subjective



Value varies with
situation

Steps in valuation

1

Collection of
Information

2

Analysis

3

Valuation
Methodologies

4

Recommendation

Sources of Information



Audited Financials of
the company



Industry & Company
Overview



Future Projections



Management
discussion



Stock market
quotations &
announcements



Publicly available
data on comparable
companies



Market surveys,
news report events



Representation by
Management



Analysis of the Company

- Understanding of the Business
- Industry analysis
- Existing policy/Legal framework
- SWOT analysis
- Profitability Analysis
- Financial Ratio Analysis
- Projection analysis
 - Installed capacity, capital expenditure , working capital needs , alternate scenarios

3 P's Test

- ✓ Possible
- ✓ Plausible
- ✓ Probable

Valuation Approaches

Yesterday

Today

Future

Valuation Approaches



COST



MARKET



INCOME



COST

-SUBSTITUTION




MARKET

PRICE – MARKET EQUILIBRIUM



INCOME

ANTICIPATION OF BENEFITS



Testing your
understanding...

Assume you need to value a xerox machine

Three scenarios

Scenario 1:
Venilla is
using the
xerox
machine for
her business

Scenario 2:
Nakshatra
wants to give
the xerox
machine on
rent

Scenario 3 :
Surya wishes
to start a shop
to provide
xerox copies
to customer

*What would be the valuation
approach you would choose?*

Valuation Methodologies



COST

- Net Assets value method
- Replacement value/realizable value



MARKET

- Market Price Method
- Comparable Companies Method
- Comparable Transactions Multiples method



INCOME

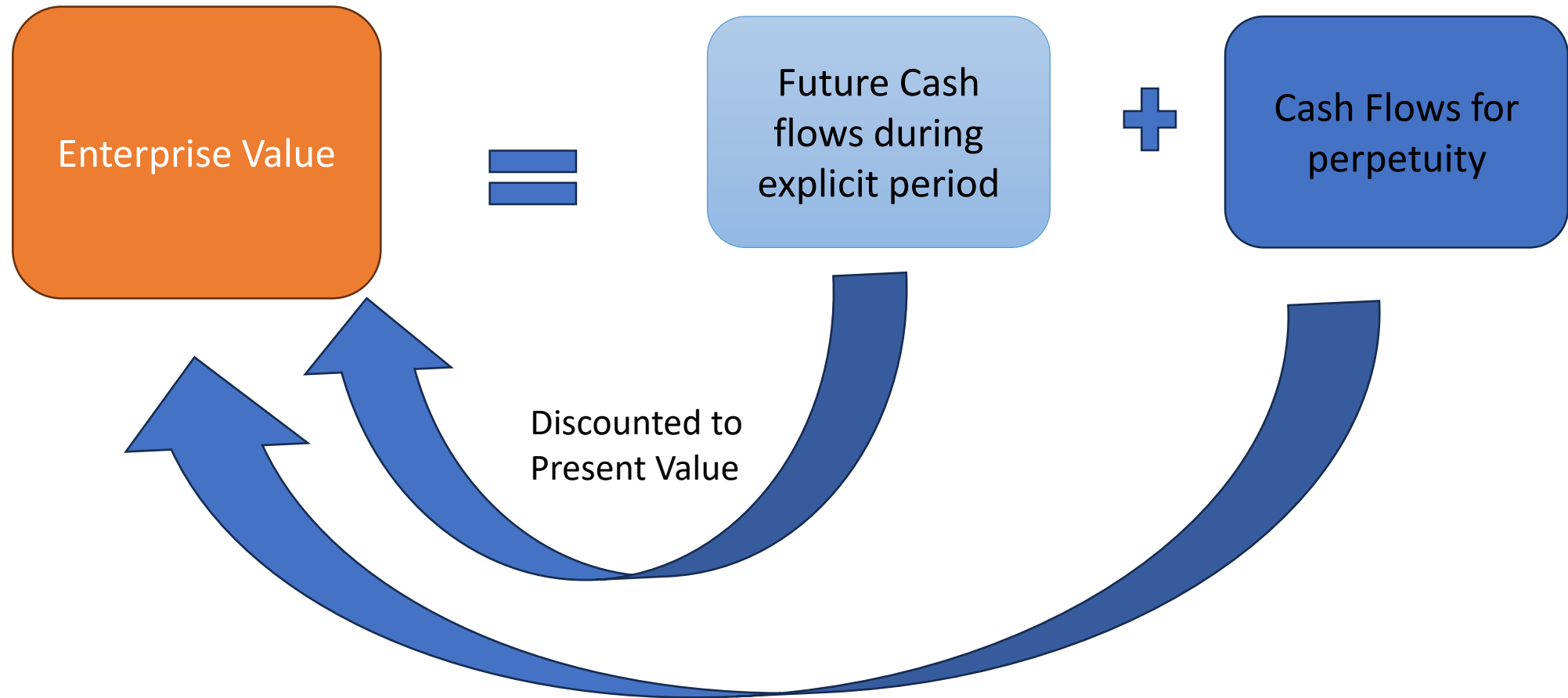
- Discounted Cash Flow method



Discounted Cash Flow Method

- 1) Values a business based on the expected cash flows over a period of time
- 2) Considers the cash flows and not accounting profit
- 3) Value of business is the aggregate of discounted value of the cash flows for the explicit period and the perpetuity
- 4) Involves determination of discount factor and growth rate of perpetuity.

DCF Method



Steps in DCF Valuation



1 Estimate the Future cash flows



2 Find the appropriate Discount rate



3 Determine the Terminal value



4 Calculate the Present value of the explicit period and perpetuity



5 Arrive at the Value

Discounting Factor



Cost of Equity(K_e)



Cost of Debt (K_d)



Weighted Average
cost of capital(WACC)

	A	B	C	D	E	F
1						
2			FCFF	1		
3			DF	11%		
4	DISCOUNTED CASH FLOW METHOD CALCULATION					
5		Year	Growth	FCF	PVF @11%	PV
6	Variable Growth	1	8.00%	1.08	0.900900901	0.972973
7		2	8.00%	1.1664	0.811622433	0.946676
8		3	8.00%	1.259712	0.731191381	0.921091
9		4	7.00%	1.34789184	0.658730974	0.887898
10		5	6.50%	1.43550481	0.593451328	0.851902
11		6	6.00%	1.521635098	0.534640836	0.813528
12	Fixed Growth	7	4.00%	1.582500502		
13	Step 1 :		PV of Explicit period(A)			5.394069
14						
15						
16	Step 2	Terminal value		22.60715003		
17				=D12/(D3-C12)		
18	Step 3	Present value of Terminal Value(B)		12.08670559		
19				=D16/(1+D3)^B11		
20	Step 4		Value of the business(A) +(B)			17.48077
21						



MARKET APPROACH

Market Price Method



Evaluates the value on the basis of prices quoted on the stock exchange



It is prudent to take weighted average of quoted price over a reasonable period



Thinly traded /Dormant strip – Low floating stock



Regulatory bodies often consider market price as important basis – Preferential allotment, Takeover code



Comparable Companies Multiple Method

- Generally applied in case of unlisted entities
- Estimates value by relating an element with underlying element of similar listed companies
- Based on market multiples of listed comparable companies

PE Multiple

EV/EBITDA Multiple

Revenue Multiple (EV/Revenue)

Book value Multiple

EV/Tonne(Industry specific multiple)

COMPARABLE TRANSACTION MULTIPLE METHOD

- Determines the value based on any recent transaction in the comparable companies
- Multiples derived from recent M&A transactions are considered

EV/EBITDA

EV/Sales

Book Value multiple

Industry Specific Multiple

Generally used as a cross check

COST APPROACH



NET ASSETS VALUE METHOD

**TOTAL ASSETS(excluding
Miscellaneous Expenditure and
debit balance in Profit & Loss
Account)**

Less : TOTAL LIABILITIES

NET ASSET VALUE

OR

Share Capital

Add : Reserves

Less : Miscellaneous Expenditure

Less : Debit balance in Profit & Loss Account

NET ASSETS VALUE

REPLACEMENT /REALISABLE VALUE METHOD

Replacement Value of assets

Cost of new asset

Similar Condition

Equivalent utility

Depreciation for obsolescence

Realisable Value of assets

Cost of disposal

Tax on sale(LTCG, STCG)

Time Required

Valuation Standards



A Registered Valuer while conducting valuation, shall comply with the valuation standards notified or modified by Central Government.



Until Valuation standards are notified by Central Government, a valuer shall make valuations as per:



Internationally accepted valuation standards or Valuation standards adopted by RVO



Valuers Bill , 2020 – Parliament approval is awaited for enactment of the bill



Valuation Report

*Valuation reports must convey the following at a **minimum***

- (a) Agreed scope of the work
- (b) Assets and/or liabilities being valued
- (c) The identity of the valuer
- (d) Client
- (e) Intended use
- (f) Intended users, if applicable
- (g) Valuation currencies used
- (h) Valuation date
- (i) Basis/es of value adopted
- (j) The valuation approach adopted
- (k) Valuation method
- (l) Sources and selection of significant data and inputs used
- (m) Significant environmental, social and governance factors used and considered
- (n) Significant or special assumptions and/or limiting conditions
- (o) Findings of a specialist or Service organisation
- (p) Value and rationale of valuation
- (q) IVS Compliance statement
- (r) The date of the report(may differ from the valuation date)

Caveats ,Limitations and Disclaimers by Registered Valuers in Valuation report

- Issued by the Authority (IBBI) through circular dated 01/09/2020
- **A Caveat** is a warning or cautionary statement that indicates a limitation or qualification to a particular claim or statement
- **Limitations** refer to conditions or factors that restrict or constrain the scope or accuracy of something
- **Disclaimer** refers to a statement that serves to limit or exclude liability for certain actions , statements or information.



The disclaimers cannot be used to absolve an expert or firm of liability in cases where there has been negligence or breach of duty.

Code of Conduct



Independent



Objective



High standards of
Integrity & fairness

Role of Registered Valuer

As per Section 247(2) of the Act, Registered Valuer 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.

Synopsis





Thank You...