An Overview on Business Valuation

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Business Valuation – How to define

Business Valuation

‘ An act or process of determining the value of a business, business ownership interest, security or intangible assets.’

{ The international glossary of Business Valuation Terms }

Alternative Definition

‘ Business valuation is a logical, defendable process of arriving at the opinion as to the worth of a business given the information available, assumption & limiting conditions as on the valuation date.’

Valuation Truth

- “Some men know the price of everything and the value of nothing” – Oscar Wilde

- “It’s better to be roughly right than to be precisely wrong”
  – J.M. Keynes

- “It’s stupid the way people extrapolate the past and not slightly stupid, but massively stupid” – Charlie Munger

- “Appraisers have a value in mind before they start the process and try to back into it – Aswath Damaodaran

What is Valuation?

- It is an economic concept aligned to the legal concept of property.
- It is not an exact science.
- It requires judgments, assumptions and opinion.
- Value estimate is an opinion of value.
- Yet two appraisers arrive at to different and yet supportable value estimates for same asset or property.

Valuation Concept

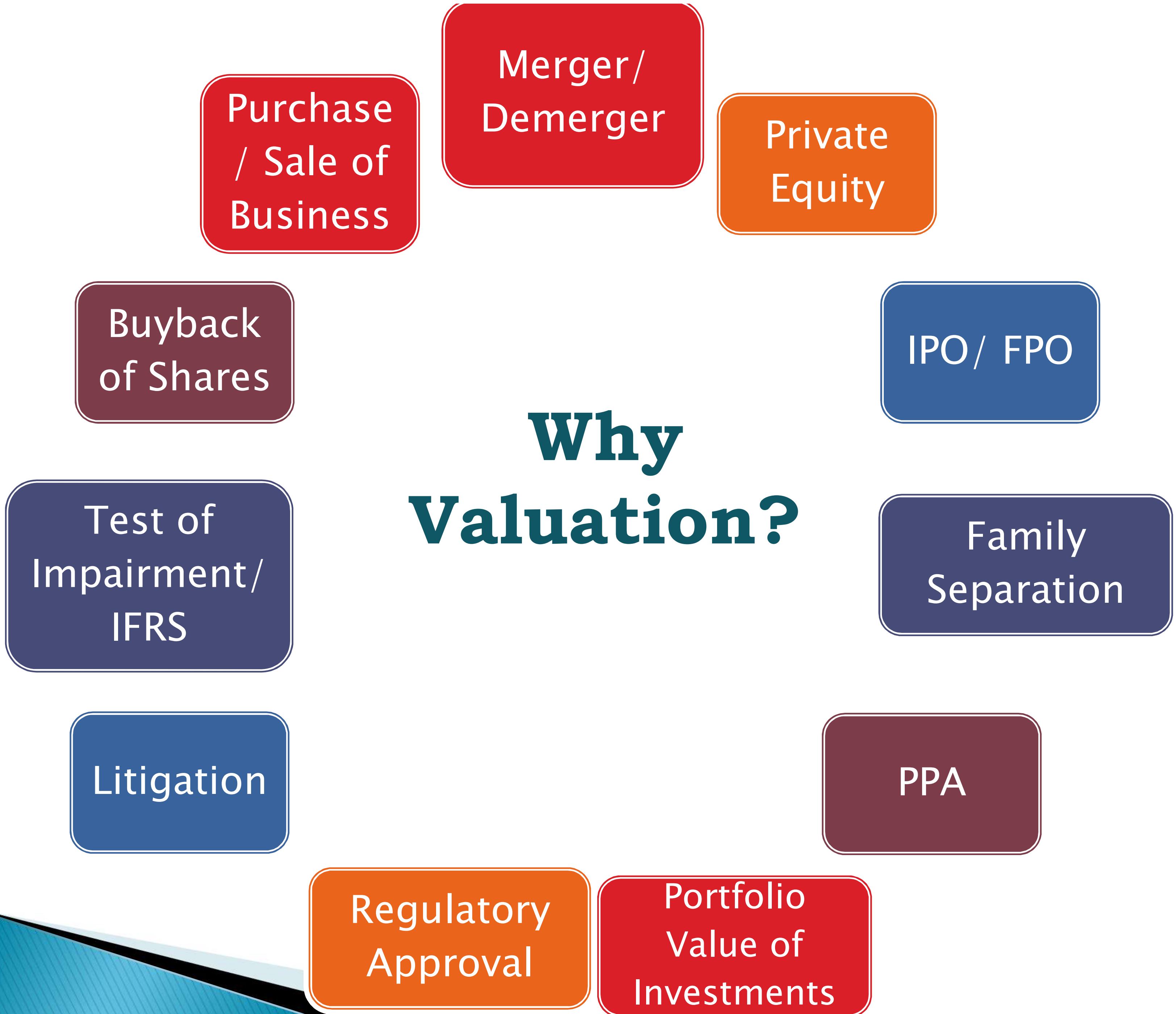
- Value – Price
- Not an Exact Science
- More of an Art
- Value varies with situation
- Subjective
- Data Specific

Wisdom begins with calling things by their right names

Value vs. Price

Value	Price
Not a static Figure	A static figure
Nothing called precise value	Always precise
Arrival of transaction not necessary	An outcome of transaction
Fundamentals are the key	May not be driven by fundamentals always
Always involves economic benefits	Includes economic & non-economic factors
Value is '*should be price'* – the basis of negotiation of price	May not look on valuation

PRICE is what you pay
COST is what is required
VALUE is what you get


Why Valuation?
Merger/ Demerger
Private Equity
IPO/ FPO
Family Separation
PPA
Portfolio Value of Investments
Regulatory Approval
Litigation
Test of Impairment/ IFRS
Buyback of Shares
Purchase / Sale of Business

Business Valuation Process

- Define Valuation Assignment

  - Subject interest to be valued - Ownership characteristics – Valuation Date – Purpose – Standard of value – Premise of value – Deliverables – Limitations – Special Instructions

- Obtaining information
- Management Discussion and Industry Overview
- Environmental Scan – Global Economy, Domestic Economy, Industry overview
- Company overview & historical financial analysis
- Company Business plan, Strategy & Risk analysis
- Selection of approaches & method – Income based, Market based & Asset based
- Assigning Weights
- Discount & premiums
- Recommendation
- Reporting

Sources of Information

- Historical data such as audited results of the company
- Future projections
- Stock market quotations
- Discussions with the management of the company & other key managerial personnel.
- Representation by the management
- Data on comparable companies
- Data on product, its uses, its market & its customers
- Market surveys, news paper reports, website information being publicly available

Analysis of Company

- SWOT Analysis
- Profitability Analysis- Past and vis-à-vis industry
- Ratio Analysis
  - P&L Ratios
    - Expense & Profitability ratios
  - Balance Sheet Ratios
    - Quick Ratio/ Current Ratio
    - Turnover Ratios
    - Liquidity Ratios
    - Debt Equity- of Company & Industry

Standard of Value

- A definition of the type of value being sought:
- " The identification of type of value being utilized in a specific engagement."
- { The international Glossary of Business Valuation terms }

- **Types of Standard of Value**

Fair Market Value(FMV)
Investment Value
Intrinsic Value
Fair Value (Legal Purpose)
Fair Value (Financial Reporting Purpose)

i) Fair market value(FMV):

The price expressed in terms of cash equivalents_at which property would change hands between hypothetical willing & able buyer and hypothetical willing & able seller acting at arms length in open and unrestricted market when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

ii) Investment Value:

The value to particular investor based on individual investment requirements & expectations.
[The international Glossary of Business valuation Terms]

Investment value may be more than FMV or less than FMV.

FMV vs. Investment Value

FMV	Investment Value
Consensus opinion of market participants	Opinion of a specific investor
Sale is always contemplated	Sale is not necessary
Hypothetical Investor	Specific Investor
Impersonal	Personal
DLOC & DLOM may apply	Control Premium & Synergy Premium apply

iii) Intrinsic Value or Fundamental Value

"The value that an investor considers on the basis of an evaluation or available facts to be 'true' or 'real' value that will become market value when other investor reach the same conclusion.

- Value based on fundamentals not by market
- Value derived by one analyst
- Market consensus may or may not be there
- Transaction Value(Price) is not similar to investment value which is used to estimate FMV

Graham & Dodd definition

' The value which is justified by assets, earnings, dividends, definite prospects and the factor of management'

iv) Fair value (Legal Purpose & Financial Reporting)

"The price that would be received for an asset or paid to transfer liability in a transaction between market participants at the measurement date"

- It gives recognition to the concept of market participation in hypothetical transaction
- Most complicated & definition varies with type of transaction & facts of each case
- Definition has two dimensions

  Fair value for legal purpose

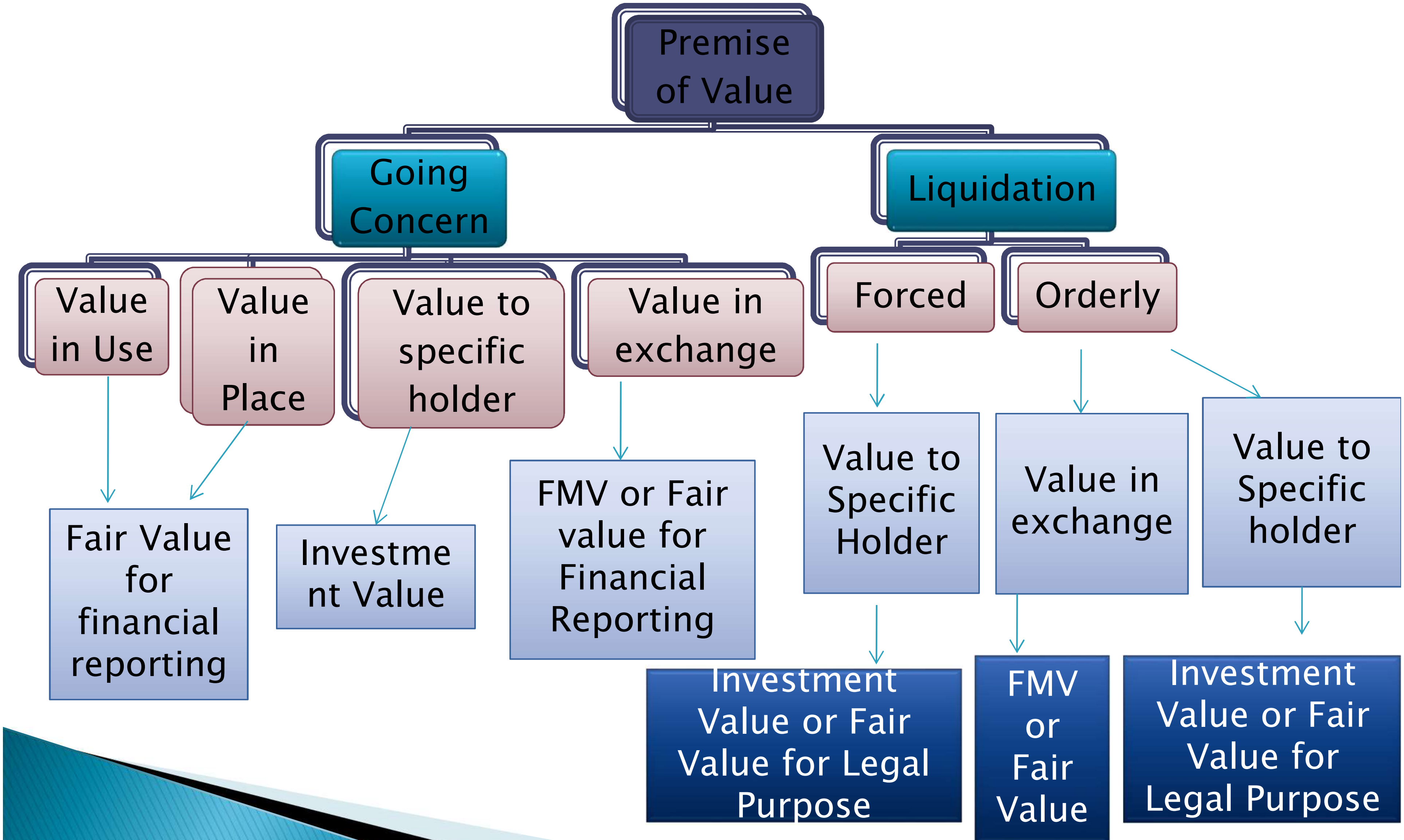
  Fair value for financial reporting
- For legal purpose courts give fair treatment to parties who seek remedy under law – DLOM & DLOC generally not allowed
- Stock holder is entitled to be paid for that which has been taken from him viz. his proportionate interest in a going concern.

PREMISE OF VALUE

The International Glossary defines premise of value as "An assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation, eg. going concern, liquidation."

- Talks about types of market conditions likely to be encountered
- **Two premises of value**
  Going Concern – Value as an ongoing operating business enterprise
  Liquidation – Value when business is terminated
  - Could be 'forced' or 'orderly'
- 'Going Concern' is not a standard of value.
- Some companies are worth more dead than alive
- When valuing an entire company, to determine if the going-concern value exceeds the liquidation value.

Premise of Value & Standard of Value



Purpose	Standard of Value
Tax Related	FMV
Financial Reporting	Fair Value
Security Analysis	Intrinsic Value
Going Private, shareholders dissent & oppression, dissolution	Fair Value
Divorce	Fair Value or FMV or Investment Value
Buy or Sell	FMV
M & A	Investment Value
IPO	FMV
Property	MV
Bankruptcy	FMV or MV

Principal Methods of Valuation (Approaches to Value)

Earning based approach

- Discounted Cash Flow
- Earnings Multiple Method

Market Approach

- Market Price
- Market Comparables

Asset Based Approach

- Net Assets Method
- Replacement Value/Realisable Value

Common Adjustments

Following adjustments may be called for:

- Investments
- Surplus Assets
- Auditors Qualification
- Preference Shares
- ESOPs / Warrants
- Contingent Liabilities/Assets
- Tax concessions
- Findings of Due Diligence Reviews

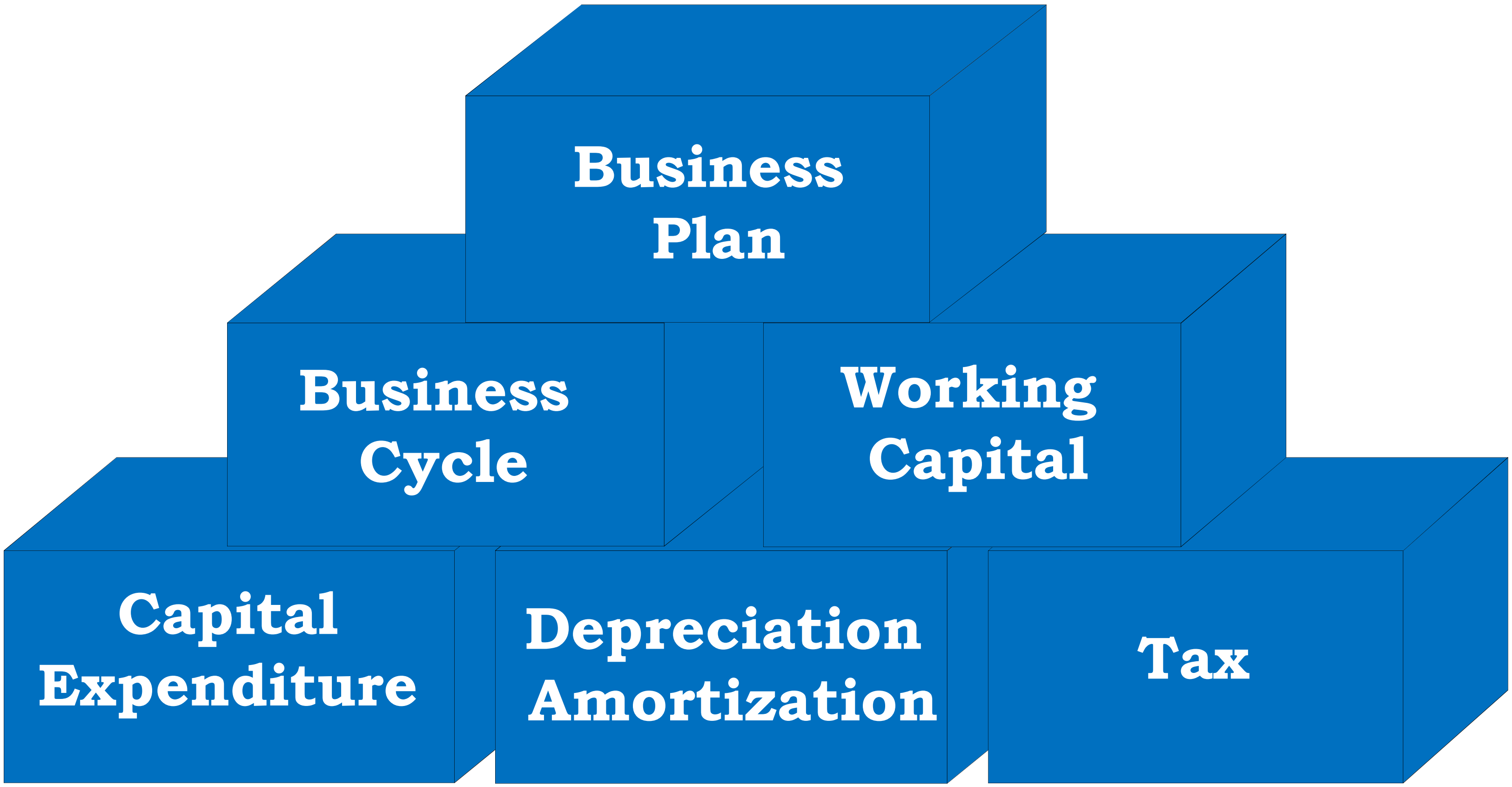
Discounted Cash Flow (DCF)

- Considers Cash Flow and Not Profits
- Cash is King
- Free Cash Flow ('FCF')
  - FCF to Firm
  - FCF to Equity

DCF – Parameters

- Cash Flows
  - Projections
  - Horizon period
  - Growth rate
- Discounting
  - Cost of Equity
  - Cost of Debt
  - Weighted Average Cost of Capital ('WACC')

Cash Flow's Projection



DCF - Projections

Factors to be considered for reviewing projections:

- Industry/Company Analysis
- Dependence on single customer/ supplier
- Installed capacity
- Existing policy/ legal framework
- Capital expenditure – increasing capacities
- Working capital requirements
- Alternate scenarios / sensitivities

DCF – Discounting

Weighted Average Cost of Capital (WACC)

$$WACC = \left\{ \frac{D}{(D + E)} \times Kd \right\} + \left\{ \frac{E}{(D + E)} \times Ke \right\}$$

D = Debt

E = Equity

Kd = Post tax cost of debt

Ke = Cost of equity

DCF - Terminal value

Terminal Value is the residual value of business at the end of projection period used in discounted cash flow method.

Terminal Value

- **Liquidation Approach**
- **Multiple Approach**
- **Stable Growth Approach**

DCF – An Example

(Rs. In Mn)

Particulars		2013-14	2014-15	2015-16	2016-17	2017-18	Perpetuity
Operating PBT		170	187	205	226	248	
Add : Inflows							
Interest		69	70	72	73	75	
Depreciation		81	85	90	94	99	
Total Inflows		320	342	367	393	422	
Less : Outflows							
Capital Expenditure		25	25	25	25	25	
Incremental Working Capital		39	49	61	54	62	
Tax		56	62	68	75	83	
Total Outflows		120	136	154	154	170	
Free Cash Flow(FCF)		**200**	**206**	**213**	**239**	**252**	
FCF for 2017-18							252
Growth Rate							2%
Capitalized Value for perpetuity							2142
Discounting Factor	14%	0.88	0.77	0.67	0.59	0.52	0.52
Net Present Value of Cash Flows		**176**	**159**	**143**	**141**	**131**	**1,114**
Enterprise Value							1,864
Less : Loan Funds							-350
Less : Contingent Liabilities							-50
Less : Preference Share Capital							-800
Add : Surplus Funds							120
Add : Value of Investments							1000
Adjusted Value for Equity Share Holders							1784
No. of Equity Shares							7,969,000
Value per Share(FV Rs 10)							224

Earnings Multiple Method

Commonly used Multiples

Price to Earnings Multiple:	• Market Cap/PAT
Enterprise Value to EBITDA Multiple:	• Enterprise Value/EBITDA
Sales Multiple:	• Enterprise Value/Sales

Enterprise Value/EBITDA Multiple Method

- Determination of Maintainable EBIDTA
- Capitalisation Rate/Multiple
- Not affected by the pattern of Funding adopted by Company/ Comparable Companies

Enterprise Value/EBITDA Multiple Method

- Based on past performance and /or projections
- Non-recurring & extraordinary items excluded
- EBIDTA of various years are averaged (simple or weighted). Current EBIDTA is accorded the highest weight
- Projected EBIDTA discounted for inflation
- Finally appropriate multiple is applied to arrive at the value

Multiples

- Multiples to be applied represent the growth prospects/ expectations of the Company
- Factors to be considered while deciding the multiple:
  - Past and Expected Growth of the Earnings
  - Performance vis-à-vis Peers
  - Size & Market Share
  - Historical Multiples enjoyed on the Stock Exchange by the Company and its peers

EV/EBIDTA – An Example

Calculation of Adjusted PBT & EBIDTA **(Rs. in Mn)**

Particulars	**2010-11**	**2011-12**	**2012-13**
Reported PBT	98	116	136
Less : Non-recurring / Non-operating income			
Profit on sale of investments	28	17	18
Dividend income	25	15	15
Profit on sale of Fixed Assets	4	0	20
Interest income	7	9	0
Other income	10	10	10
Total of Non-recurring income	**74**	**51**	**63**
Add : Non-recurring expenditure			
VRS written off	7	8	9
Prelimenary Expenditure	15	15	15
Loss on sale of Fixed Assets	0	15	0
Amortization of share issue expenses	10	10	10
One time settlement amount said to third party	0	0	58
Total of Non-recurring expenditure	**32**	**48**	**92**
Adjusted PBT	**56**	**113**	**165**
Add : Interest	**59**	**63**	**65**
Add : Depreciation	**70**	**75**	**79**
Adjusted EBIDTA	**185**	**251**	**309**

EV/EBIDTA – An Example

Particulars	Adj. EBIDTA	Weight	Product
2010-11	185	1	185
2011-12	251	2	502
2012-13	309	3	927
		6	**1614**
Maintainable PBT			**269**
EBIDTA Value			8
Capitalized Value			**2152**
Adjustments			
Less : Loan Funds			-350
Less : Preference Share Capital			-800
Add : Value of Investments			1000
Less : Contingent Liabilities			-50
Add : Surplus Funds			120
Equity Value			**2072**
No. of Equity Shares			7,969,000
Value per Share (FV Rs. 10)			**260**

Market Price Approach

- Evaluates the value on the basis of prices quoted on the stock exchange
  - Thinly traded / Dormant Scrip – Low Floating Stock
  - Significant and Unusual fluctuations in the Market Price
- It is prudent to take weighted average of quoted price for past 6 months
- Regulatory bodies often consider market value as important basis – Preferential allotment, Buyback, Takeover Code

Market Price Method – An Example

Month	Volume	Turnover
Oct-12	34,747,312	4,609,275,753
Nov-12	12,040,227	1,677,868,740
Dec-12	19,663,244	2,476,264,011
Jan-13	16,118,953	2,503,216,645
Feb-13	18,115,567	3,037,062,216
Mar-13	29,908,604	5,535,415,743
Total	130,593,907	19,839,103,108
Value Per share (Rs.)		**152**

NAV Formula

The Value as per Net Asset Method is arrived as follows:

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 ASSET VALUE

NAV – An Example

(Rs. in Mn.)

Particulars	Amount	Amount
Net Fixed Assets		700
Investments		950
Deferred Tax Asset (Net)		20
Current Assets,Loans & Advances	1,290	
Current Liabilities & Provisioins	(960)	
Net Current Assets		330
Loan Funds		(350)
Net Assets Value		**1,650**
Add/ (Less): Adjustments		
Appreciation in value of Investments		50
Contingent Liabilities		(50)
Preference Share Capital		(800)
Adjusted Net Assets		**850**
No. of Equity Shares (FV - Rs. 10 each)		79,69,000
Net Assets Value per Share		**107**

Market Comparables

- 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 Comparable Companies
  - Book Value Multiples
  - Industry Specific Multiples
  - Multiples from Recent M&A Transactions.

Selection of Methods

Situation	Approach
Knowledge based companies	Earnings/Market
Manufacturing Companies	Earnings/ Market/ Asset
Brand Driven companies	Earnings/Market
A Matured company	Earnings/Market
Investment/Property companies	Asset
Company going for liquidation	Asset

Generally Market Approach is used in Combination with other methods or as a cross check

Reaching a Recommendation

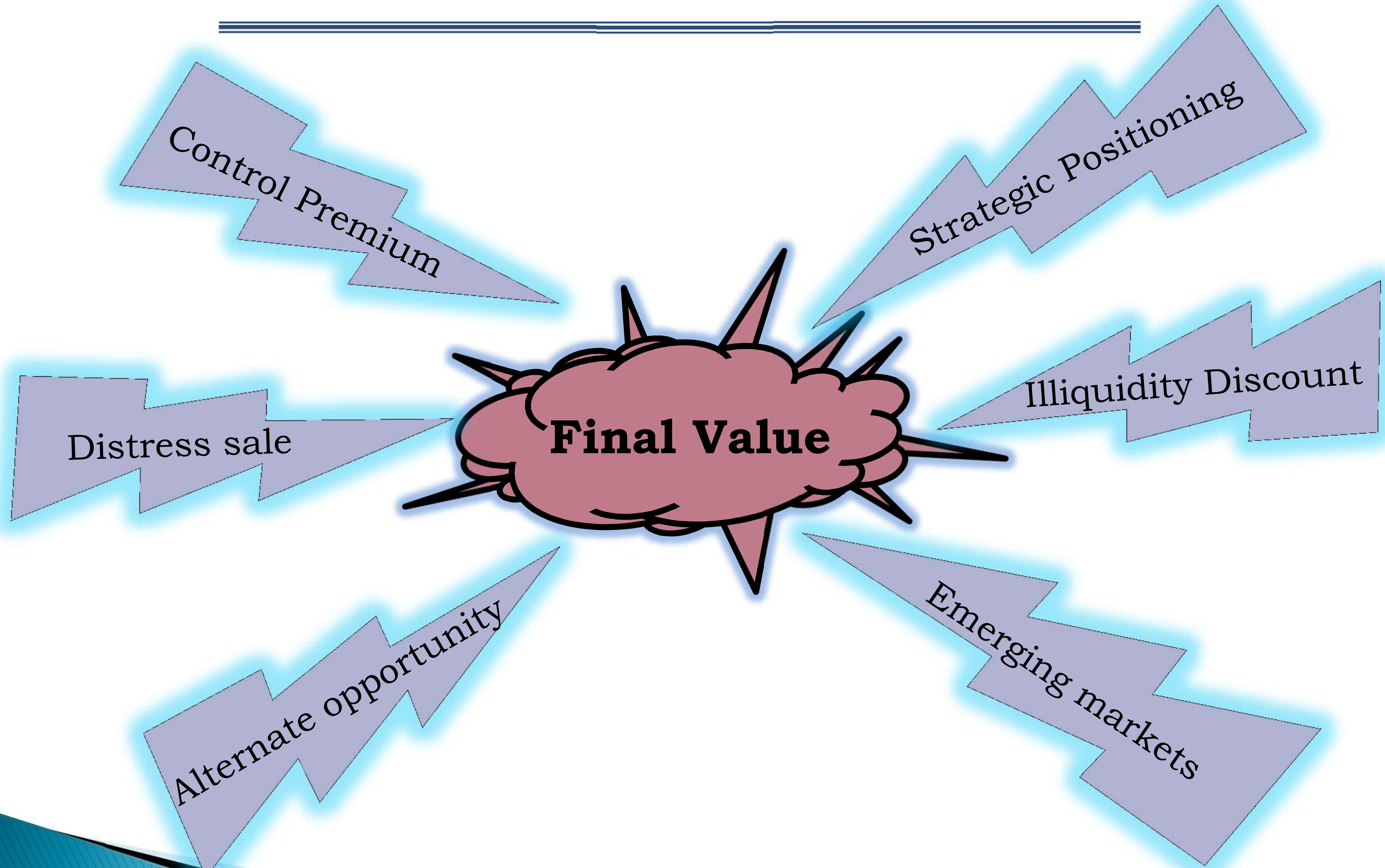
- Methods throw a range of values
- Consider the relevance of each methodology depending upon the purpose and premise of valuation
- Mathematical weightage
- Professional judgment
- Subjective Value

Fair Value

(In Rs.)

Method	Value per Share (In Rs.)	Weight	Product (In Rs.)
Net Assets Method	107	1	107
EV/ EBIDTA Method	260	1	260
DCF Method	224	1	224
Market Price Method	152	2	304
Total		**5**	**894**
Fair Value per share (in Rs.)			**179**

Other Value Drivers



Final Price is a result of negotiations

Discounts and Premiums – What are they?

- Major reasons for differences in valuation
- Discounts decrease value of interests
- Premium increase value of interest
- Discounts and premiums arise from 'control' and 'marketability'
- Most commonly applied discounts – DLOM & DLOC
- Most commonly applied premiums – Control premium and synergy premium
- Discounts and premiums can be adjusted through cash flows or to be base value

TYPES OF DISCOUNTS

DEL

Discount for entity or Corporate

- Impact on entity as a whole
- KPD(Key Person Discount)
  DEL(Discount for Environmental Liability)
  DPL(Discount for Pending Litigation)
  DNHA(Discount for Non-Homogeneous assets)
  DCB(Discounts for Customer Base)

DSL

Discounts for shareholders level

- Interest on specific ownership interest
- DLOC(or MID)
  DLOM

TYPES OF PREMIUM

- Synergy Premium
- Control Premium

Judicial Pronouncements

- **"Exchange Ratio not disturbed by courts unless objected and found grossly unfair"**
  - *Miheer H. Mafatlal Vs. Mafatlal Industries (1996) 87 Com Cases 792*
  - *Dinesh v. Lakhani Vs. Parke-Davis (India) Ltd. (2003) 47 SCL 80 (Born)*
- **"Valuation will take into account number of factors such as prospective yield, marketability, the general outlook for the type of business of the company, etc. Mathematical certainty is not demanded, nor indeed is it possible"**
  - *Viscount Simon Bd in Gold Coast selection Trust Ltd. Vs. Humphrey reported in 30 TC 209 (House of Lords)*

Judicial Pronouncements (contd.)

- **"It is fair to use combination of three well-known methods – asset value, yield value & market value"**
  - *Hindustan Lever Employees union Vs. HLL(1995) 83 Com. Case 30 SC*
- **"Valuation Job must be entrusted to people who know the company rather than giving to outsiders who will start from scratch"**
  - *Consolidated Coffee Vs. Arun Kumar Agrawal(1999) 21 SCL 11 (Kar)*
- **"Break-up value for going concern is not correct. Court laid down principles of valuation."**
  - *Mahadev Jalan, wealth tax, 1972(SC)*

Judicial Pronouncements (contd.)

- **"Reinforced principles laid down in the Mahadev Jalan"**
  - *Kusumben Mahadevia, Gift Tax, 1979(SC)*

- **"Court recognized practical difficulties in application of principles of Mahadev Jalan"**
  - *Bharat Hari Singhania, wealth Tax, 1994(SC)*

- **- Looking to no surety of future projections valuer adopted capitalized past earnings method instead of DCF.**

  - Valuation of brand already transferred and having legal litigations not considered by valuer for valuation.

  - Intrinsic value cannot include control premium since in terms of settlement it was not specified this major part of valuation"
  - *Mrs. Renuka Datla, Companies Act 2003(SC)-265 ITR 435*

Valuation Report Summary

- Introduction/ Background
- Purpose of Valuation
- Key Financials
- Sources of Information
- Methodologies of Valuation
- Important consideration & assumptions
- Valuation Workings
- Fair Value Recommendation
- Exclusions and Limitations

Few Valuation Tips by 'James Hitchner'

- Value is future looking. Investor buy tomorrow's cash flow, not yesterday's or even today's.
- Common mistake by valuer is they drop into text without discussion how it relates to the valuation conclusion.
- Valuer needs to develop the appropriate normalizing adjustment in cash flow for recurring/non-recurring items.
- Identification of the value drivers differs from enterprise to enterprise.
- For terminal value, valuer need to estimate sustainable growth in perpetuity and not just short term growth.
- Systematic risk captured by 'Beta', while it is very difficult to estimate unsystematic risk.
- In market approach, challenge to valuer is finding out proper market comparable companies and using discount and premiums for not exactly comparable companies.

Few Valuation Tips by 'James Hitchner'

- The blind application of discount and premium without thorough understanding of the subject company as compared to underlying data used for discount and premium can lead to misleading valuation result.
- Assumption and limiting conditions should be properly examined and putted into the engagement letter/valuation report, after reviewing enterprise facts and circumstances.
- Valuer should properly apply key person discount and cash flow affection subsequent to non-existence of key person. Key person's succession plan should be properly reviewed.
- The past performance is only relative to the extent that it is indicative of the company's future performance.
- Valuer should not arbitrarily average out valuation approach and methodology without giving appropriate weight age to the appropriate method for said enterprise.

Few Valuation Tips by 'James Hitchner' in Special cases

- Family-owned firms:
  - While valuing the value of any partner's share, their rights and responsibilities in a firm and its impact on value in case of non-existence of such rights and duties.
  - Restriction on transferability in partnership deed, if any, to be examined .
  - Appropriate standard of value – FMV / Investment Value
- Shareholder's Disputes:
  - Statutes governing shareholder's rights, obligations and valuation to be examined.
  - Appropriate standard of value – Fair Value
- ESOP Valuation:
  - Statutes governing ESOPs to be examined.
  - Appropriate standard of value – Fair Value

Few Valuation Tips by 'James Hitchner' in Special cases

- <u>Valuation in small business:</u>
  - Needs to properly normalize lower quality financial statement which is generally prepared on tax oriented matter rather than oriented to stockholders.
  - Recent earning in last 12 month should be given more weight age.
  - Proper comparables and DLOM/DLOC to be worked out.
  - Capitalization of earning/cash flow and excess cash flow/earning method are widely used in small business.
  - Value should be cross-checked with Rule of Thumb.
- <u>Professional Practice:</u>
  - Personal versus entity goodwill to be examined with reference to all ongoing clients/work and probable new clients/work.
  - Cash basis of accounting may require number of adjustments.
  - Value is largely governed by the successor of the key professional in place.

Few Valuation Tips by 'James Hitchner' in Special cases

- Health Services:
  - Regulatory environment to be examined.
  - Hospitals occupancy rate and capacity to be examined.
  - Variable and Fixed Cost to be examined.
  - Large Business governed through patient referrals/kickback.
  - Standard of Value – Fair Market Value
- Intangible Assets:
  - Intangible Assets receiving legal protection.
  - They are more risky than tangible assets to access return.
  - Intangible assets versus goodwill apportion.
  - Identification of specific intangible assets and its value.
  - Cost of development for such intangible assets, timing for such development versus value of intangible assets to be purchased.
  - Standard of Value – FMV/Fair Value/ Investment Value

Few Valuation Tips by 'James Hitchner' in Special cases

- Merger & Acquisition:
  - Standard of Value – Investment Value for transaction purpose
  - Standard of Value – Fair Value for Accounting Purpose
  - Synergies and its Value to be identified
- Early Stage Technology Companies:
  - Most important asset is intangible asset – whether strategic consideration exit, difficult to examine.
  - Multiple scenario and probability should be examined.
  - DCF approach should be used.
- Real Estate:
  - Standard of Value – Market Value, as most probable price that a property should bring in competitive and open market .
  - 3 approaches to value – Cost approach, Market approach (Sales comparison) & Income capitalization approach.
  - Highest and best use of the land as vacant and as after development considering the development expenditure to be examined.
  - Return on land and return on development to be examined.

PROFESSIONAL OPPORTUNITIES FOR CA's WITH RESPECT TO VALUATION

FDI In India – Revised Pricing Guidelines

- As per RBI circular dated July 2, 2012 (updated as on April 1,2013)
- **1) Fresh issue of shares to person resident outside India:**
  - On the basis of SEBI guidelines in case of listed companies.
  - Not less than fair value of shares determined by SEBI registered merchant banker or CA as per DCF method in case of unlisted companies.
- **2) Transfer of shares by Resident to Non-resident:**
  - <u>In case of listed companies :</u> The price shall not be less than the price at which a preferential allotment of shares under the SEBI Guidelines.
  - <u>In case of unlisted companies :</u> The price shall not be less than the **fair value** to be determined by a SEBI registered Category – I merchant banker or a Chartered Accountant as per **DCF method.**

3) Transfer of shares by Non-resident to:

- The price shall not be more than the minimum price at which the transfer of shares can be made from a resident to a non-resident as given above.

Companies Act, 2013

Companies Act, 2013 has introduced a new concept 'REGISTERED VALUERS' under chapter XVII section 247, which is briefly read as under:

- 247(1) : Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets(hereinafter referred to as assets) or net worth of a company or its liabilities under the provision of this act, it shall be valued by a person having such qualification and experience and registered as valuer.
- 247(2) : Valuer shall a) make impartial and true & fair valuation b) exercise due diligence c) make valuation in accordance with such rules as may be prescribed d) not undertake valuation of asset in which he is directly or indirectly interested/to be interested.

Companies Act, 2013

- 247(3) : If valuer contravenes the provisions of the sections and rules, the valuer shall be punishable with fine not less than Rs. 25,000, which may extend to Rs. 1,00,000.

  Provided, if valuer make contravention with intention or to defraud, he shall be punishable with imprisonment up to 1 year and fine not less than Rs. 1,00,000, which may extend up to Rs. 5,00,000.

- 247(4) : Where valuer has been convicted as per 247(3) above, he shall refund the fees and remuneration received & shall pay damages to the company or any other person for loss arising due to incorrect or misleading statement in valuation report.

Who can be Registered Valuer?

Chapter XVII, Section 247(1) read with rule 17.2(2), describes the eligibility of registered valuer. The classification has been made on the basis of type of valuation, into two parts:

- **Financial Valuation:**

  a) A CA, CS or CWA who is in whole time practice for more than five years, or retired member of Indian corporate Law Service or any person holding equivalent Indian or foreign qualification as the Ministry of Corporate Affairs may recognize by an order; **Provided** that such foreign qualification acquired by Indian citizen.

  b) A merchant banker registered with SEBI, and who has in his employment person(s) having qualifications prescribed under (a) above to carry out valuation by such qualified persons;

- **Technical Valuation** can be done by an Architect or Engineer in whole-time practice.

Role of Registered Valuer

S.No	Section	Sub-Section	Synopsis
1	247		Valuation requirement, roles and responsibilities of Registered Valuer
2	39 read with rule 3.9	39	Allotment of securities by company
		39(4)	Filing of return of allotment
		Rule 3.9(vii)	Shares issued in pursuance to 62(1)(c), valuation report of registered valuer to be attached
3	54 read with rule 4.6	54	Issue of Sweat Equity shares
		54(1)	Issue of Sweat Equity shares of class of shares already issued
		Rule 4.6(6)	The Sweat equity shares to be issued shall be valued at a price determined by a registered valuer at fair price
4	62 read with rule 3.9 & Rule 4.11	62	Further issue of share capital
		Rule 3.9(vii) Rule 4.11	Shares issued in pursuance to 62(1)(c), valuation report of registered valuer to be attached

Role of Registered Valuer(contd.)

S.No	Section	Sub-Section	Synopsis
5	67 read with Rule 4.14	67	Restriction on purchase by company or giving of loans by it for purchase of its shares
		67(3)(b)	Provision of a money in accordance with scheme approved by company through special resolution
		Rule 4.14	For non-listed companies, the valuation at which shares are to be purchased shall be made by registered valuer
6	191 read with rule 12.16	191	Payment to directors for loss of office, etc. in connection with transfer of undertaking, property or shares
		Rule 12.16	If payment is other than cash, then consideration to be valued by registered valuer
7	192	192	Restriction on non-cash transactions involving directors
		192(2)	Notice for approval of resolution shall include the value of assets involved as calculated by registered valuer
8	230	230	Power to compromise or make arrangements with creditors and members
		230(2)(c)(v)	A valuation report in respect of shares and property of the company by a registered valuer

Role of Registered Valuer(contd.)

S.No	Section	Sub-Section	Synopsis
9	230 read with rule 15.11	230	Power to compromise or make arrangements with creditors and members
		230(11)	Any compromise or arrangement may include takeover offer
		Rule 15.11	The takeover offer shall be at a price determined by registered valuer as approved by shareholders
10	232	232	Merger and amalgamation of companies
		232(2)	The report of expert with regard to valuation if any
11	232	232	Merger and amalgamation of companies
		3(h)(B)	Shareholder of the transferor company who opts for not taking the shares of the transferee company to be remunerated as per the valuation made

Role of Registered Valuer(contd.)

S.No	Section	Sub-Section	Synopsis
12	236 read with Rule 15.28	236	Purchase of minority shareholding
		236(2)	The acquirer shall offer the minority shareholders to buy their shares at a price determined by the registered valuer
		Rule 15.28(ii)	The registered valuer shall also provide a proper valuation report/basis of valuation addressed to the Board of directors of the company giving justification for such valuation.
13	281	281	Submission of report by Company Liquidator
		281(1)(a)	The valuation of the assets shall be obtained from registered valuer
14	305	305	Declaration of solvency in case of proposal to wind up voluntarily
		305(2)(d)	The valuation report of the assets is prepared by the registered valuer
15	319	319	Power of a company liquidator to accept shares, etc. as consideration for sale of property of company
		319(3)(b)	If any members dissents the special resolution, then the liquidator may purchase the interest of such member at a price as determined by agreement or registered valuer

Valuation of Equity and Non-Equity Shares Income Tax – Finance Act 2013 – New Amendments

- Sub Clause (c) of clause (vii) of subsection (2) of Section 56 by Finance Act, 2013 , inserted w.e.f from 01.04.2014;
  - Acquire or purchase or receive any property other than immovable property without consideration /improper consideration, where FMV exceeds Rs 50,000 or consideration/nil consideration, same shall be offered as a income under Income From other Sources
- Determination of FMV Rule 11UA
  - FMV of quoted shares & securities shall be as recorded in such recognised stock exchange or if received other than through stock exchange lowest price on any recognised stock exchange on the valuation date.
  - FMV of Unquoted shares & securities shall be determined as per clause (a) or clause (b) at the option of he assessee.
  - Clause (a) the fair market value of equity shares = $\frac{(A - L)}{(PE)} * (PV)$

where A = Book Value of assets reduced by Advance Tax and unamortized amount of deferred expenditure

L = Book value of liabilities reduced by provision for dividend, provision for taxation, provision for unascertained liabilities, Share Capital & Reserve

PE = Total amt of Paid up Equity Capital as shown in balance sheet

PV = Paid up value of such equity shares

Clause (b) the fair market value of unquoted equity shares determined by a merchant banker or an accountant as per the Discounted Free Cash Flow Method.

IFRS and Fair Value

- IFRS 13 is on Fair Value Measurement(FVM). It applies to IFRS's that require or permit fair value measurements or disclosures. It acts as single IFRS framework for measuring fair value and corresponding disclosures about FVM.
- Fair Value can be defined as "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"
  - IFRS 13 provides for consistency and comparability in FVM and related_disclosures through three levels of Inputs.
    - Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
    - Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
    - Level 3 inputs are unobservable inputs for the asset or liability.

IFRS and Fair Value

- A Fair Value measurements requires an entity to determine;
  - The particular asset or liability that is the subject of measurement.
  - For a non-financial asset, the valuation premise that is appropriate for the measurement.
  - The principal (or the most advantageous) market for the asset or liability
  - The valuation technique(s) appropriate for the measurements
- Three widely used valuation techniques which are also permitted under IFRS are;
  - Market approach
  - Cost approach
  - Income approach
- Following IFRS permit the use of Fair Value;
  - IFRS 5 – Non-current assets held for Sale and Discontinued Operations
  - IFRS 10 – Consolidated Financial Statements
  - IAS 16 – Property, plant and equipment
  - IAS 38 – Intangible Assets

Suggested Books & Websites

- Financial Valuation – Application & models
  - James R. Hitchner (Pub. – John Wiley & Sons)
- Financial Valuation Workbook
  - James R. Hitchner (Pub. – John Wiley & Sons)
  - Michael J Mard
- Damodaran on Valuation
  - Ashwath Damodaran (Pub. – Wiley India Pvt. Ltd.)
- Body of Knowledge
  - Sharnam P. Pratt (Pub. – John Wiley & Sons)
- www.damodaran.com

Valuation is not an objective exercise.

Any preconceptions and biases that an analyst brings to the process will find their way into the value.

I value your patience!
I value your listening!
I value you for not questioning!
Common sense is a sense which is not common , that is why valuation!

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