

# **VALUATION RULES AND STANDARDS**

Study Course on Valuation  
The Chamber of Tax Consultants

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# **REGISTERED VALUER RULES**

UNDER THE COMPANIES ACT, 2013

# INTRODUCTION TO 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

# REGISTERED VALUER RULES

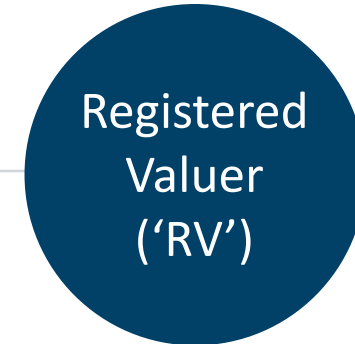
On 18 Oct 2017, MCA notified the Companies (Registered Valuers and Valuation) Rules, 2017



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



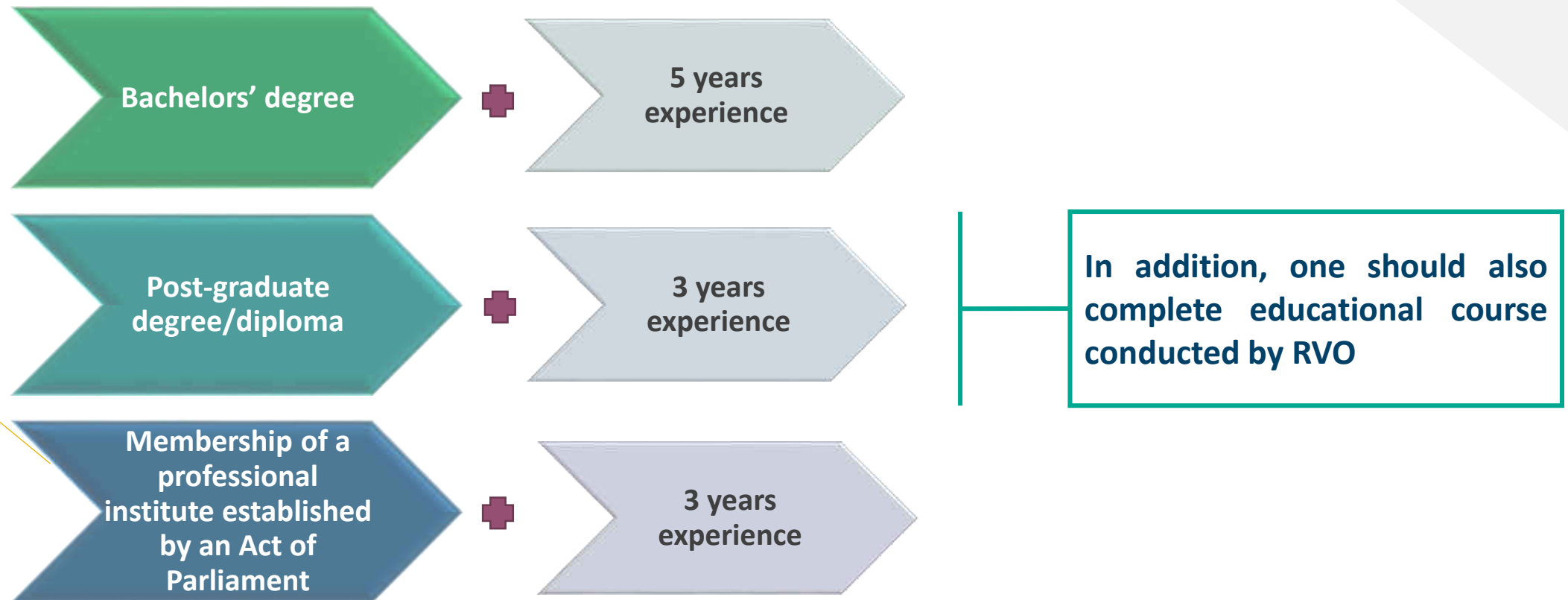
Obtain Educational Qualifications and Experience

Pass Valuation Examination

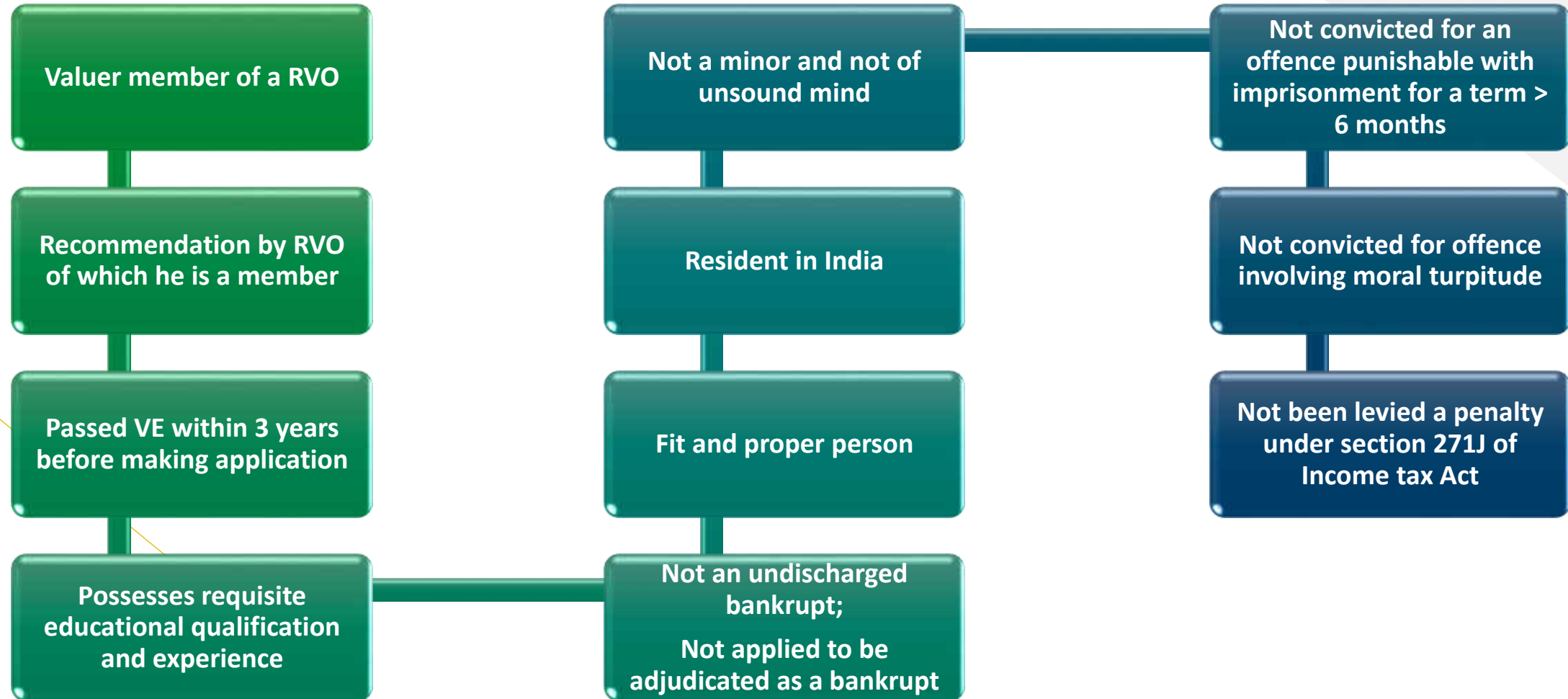
Satisfy other specified Eligibility Criteria

# 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

Co not a subsidiary / JV / associate of another company

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

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 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, SEBI, FEMA
- ICAI RVO has adopted the valuation standards issued by ICAI

# ICAI VS 2018

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

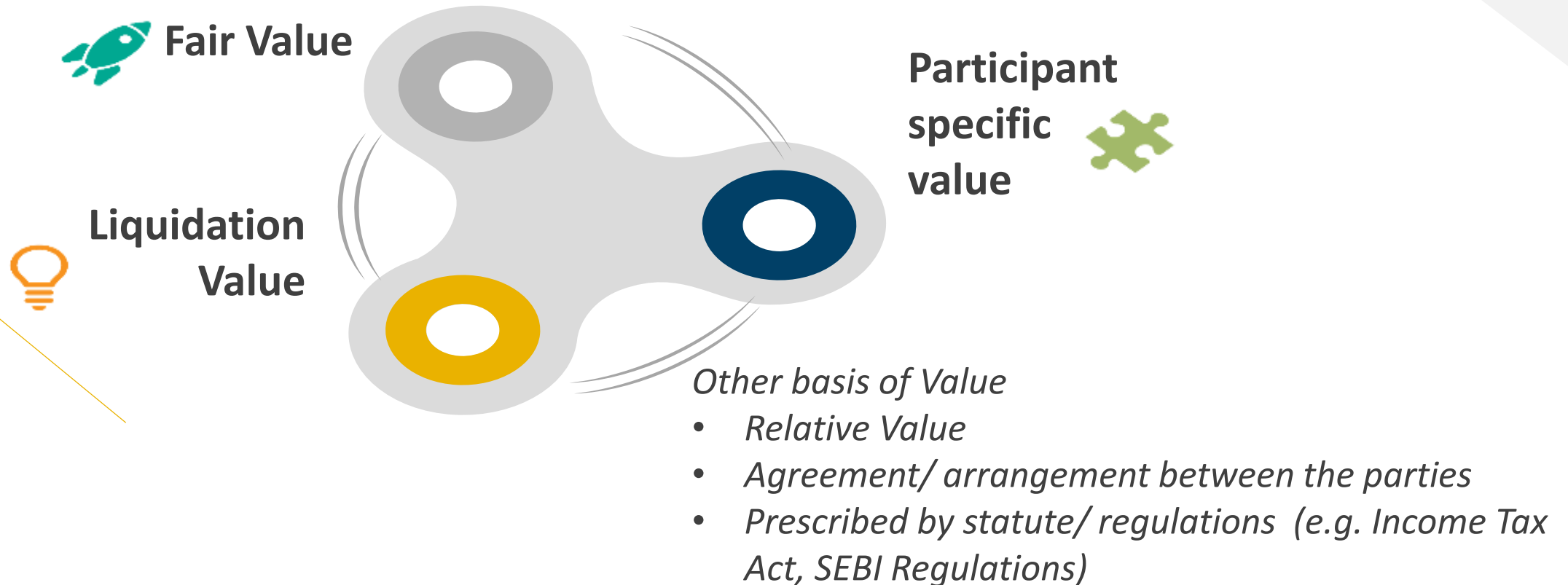
Financial Instruments

**ICAI VS 102**

**VALUATION BASES**

# VALUATION BASES

- Indication of the type of value being used in an engagement
- Different valuation bases may lead to different conclusions of value.



# 1 FAIR VALUE

The Fair Value ('FV') is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

FV in case of a non-financial asset to be measured assuming highest and best use of such asset by market participants

|                     |   |
|---------------------|---|
| Price               | Price in the principal / most advantageous market     |
| Valuation date      | Specific date at which the valuer estimates the value |
| Orderly transaction | Not forced or distress sell                           |
| Market participants | Not entity specific                                   |

willing buyers & sellers, not forced

Independent

Knowledgeable

Able to enter into transaction

## 2 PARTICIPANT SPECIFIC VALUE

- Value estimated after considering specific advantages or disadvantages of
  - Owner; or
  - Identified Acquirer
- consider factors which are specific to such parties and may not be applicable to market participants in general.
- For example:
  - a) Synergies e.g. backward / forward integration for the acquirer
  - b) Ability of an acquirer to utilise the tax losses of the seller in an accelerated manner
  - c) Transfer of stake by a minority shareholder to a shareholder holding 49% stake - consider aspects such as minority discount and control premium



# 3 LIQUIDATION VALUE

- Three Elements
  - value realised on sale of an asset
  - business termination
  - cost of disposal to be reduced
- Orderly transaction with a typical marketing period or forced transaction with a shortened marketing period

# OTHER VALUATION BASES - RELATIVE VALUE

- 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
- 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

# RELATIVE VALUE

## SHARE EXCHANGE RATIO

### Merger of Co A into Co B

| Valuation Approach                  | Co A                  |             | Co B                  |             |
|-------------------------------------|-----------------------|-------------|-----------------------|-------------|
|                                     | Value per share (INR) | Weights     | Value per share (INR) | Weights     |
| Asset Approach                      | 25.00                 | 0%          | 120.00                | 0%          |
| Income Approach                     | 116.00                | 50%         | 285.00                | 50%         |
| Market Approach                     | 120.00                | 50%         | 305.00                | 50%         |
| <b>Relative value per share</b>     | <b>118.00</b>         | <b>100%</b> | <b>295.00</b>         | <b>100%</b> |
| <b>Exchange ratio (rounded off)</b> | <b>2.50</b>           |             |                       |             |

2 (two) equity shares of Co B of face value of INR 10 each fully paid up for every 5 (five) equity shares of Co A of face value of INR 100 each fully paid up

## SHARE ENTITLEMENT RATIO

### Demerger of 'Undertaking X' of Co A into Co B

| Valuation Approach                     | Undertaking X of Co A |             | Co B                  |             |
|--|-----------------------|-------------|-----------------------|-------------|
|  | Value per share (INR) | Weights     | Value per share (INR) | Weights     |
| Asset Approach                         | 10.00                 | 0%          | 120.00                | 0%          |
| Income Approach                        | 58.00                 | 50%         | 285.00                | 50%         |
| Market Approach                        | 60.00                 | 50%         | 305.00                | 50%         |
| <b>Relative value per share</b>        | <b>59.00</b>          | <b>100%</b> | <b>295.00</b>         | <b>100%</b> |
| <b>Entitlement ratio (rounded off)</b> | <b>5.00</b>           |             |                       |             |

1 (one) equity share of Co B of face value of INR 10 each fully paid up for every 5 (five) equity shares of Co A of face value of INR 100 each fully paid up

# PREMISE OF VALUE

- Refers to the conditions and circumstances of how an asset is deployed
- Some common premises of value are as follows:
  - a) Highest and best use
  - b) As is where is value
  - c) Orderly liquidation
  - d) Forced transaction
  - e) Going concern value
- Single or multiple premises of value can be adopted depending upon the facts

# PREMISE OF VALUE

- **Highest and best use ('HABU')** is the use of a non-financial asset by market participants that maximises the value of the asset
- **As-is-where-is basis** will consider the existing use of the asset which may or may not be its highest and best use
- An **orderly liquidation** refers to the realisable value of an asset in the event of a liquidation after allowing appropriate marketing efforts and a reasonable period of time to market the asset on an as-is, where-is basis.
- **Forced transaction** is a transaction where a seller is under constraints to sell an asset without appropriate marketing period or effort to market such asset
- **Going concern value** is the value of a business enterprise that is expected to continue to operate in the future

# Examples

| Purpose   | Bases  | Premise   |
|---|--|---|
| Acquisition of shares / business                            | <ul style="list-style-type: none"> <li>- Fair Value</li> <li>- Participant Specific Value</li> </ul> | <ul style="list-style-type: none"> <li>- HABU (could be as-is-where-is premise and/or going concern value / orderly liquidation value, depending on specific circumstances of the asset)</li> <li>- Premise considering seller ('as-is')/ acquirer specific factors (Synergy/ integration costs)</li> </ul> |
| Financial Reporting for PPA in case of business acquisition | Fair Value   | HABU (could be as-is-where-is premise and/or going concern value / orderly liquidation value)   |
| Bankruptcy  | Liquidation Value  | <ul style="list-style-type: none"> <li>- Orderly liquidation</li> <li>- Forced liquidation</li> </ul>   |
| Merger / Demergers  | Relative Value   | Going concern   |
| Determination of open offer price ('Floor Price')           | SEBI Takeover Regulations  |   |
| Transfer of shares – valuation for income tax purpose       | Section 56(2)(x) and Section 50CA of IT Act read with Rule 11UA                                      |   |

**ICAI VS 201**

**SCOPE OF WORK, ANALYSES  
AND EVALUATION**

# SCOPE OF WORK / TERMS OF ENGAGEMENT

- Engagement Letter to include:
  - Details of the client and other users, if any
  - Details of the valuer
  - Purpose of the valuation
  - Identification of the subject matter of valuation
  - Valuation date
  - Basis and premise of valuation
  - Responsibilities of the client and the valuer
  - Confidentiality obligations of the client and the valuer
  - Scope/Limitations
  - Fees
  - Details of third party expert, if any, and their scope of work, scope limitations, and responsibilities



# ANALYSIS AND EVALUATION

- Valuer shall obtain and evaluate the following information:
  - Financial information
  - Historical financial statements, projections, etc.
- Non-financial information
  - Nature, background, history of the business
  - Economic environment
  - Industry, future outlook, etc.
- Ownership details
  - Type of ownership
  - Shareholders / Joint Venture agreement
  - Licensing / Franchisee agreements, Contracts in case of intangible assets, etc.

**ICAI VS 202**

**VALUATION REPORT AND  
DOCUMENTATION**

# CONTENTS OF REPORT

Background information of the asset being valued

Purpose of valuation and appointing authority

Identity of the valuer and any other experts involved in the valuation

Disclosure of valuer interest or conflict, if any

Date of appointment, valuation date and date of report

Inspections and/or investigations undertaken

Nature and sources of the information used or relied upon

Procedures adopted in carrying out the valuation and valuation standards followed

Restrictions on use of the report, if any

Major factors that were taken into account during the valuation

Conclusion

Caveats, limitations and disclosures - not limiting responsibility for the report

# 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



thank you!

