

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)

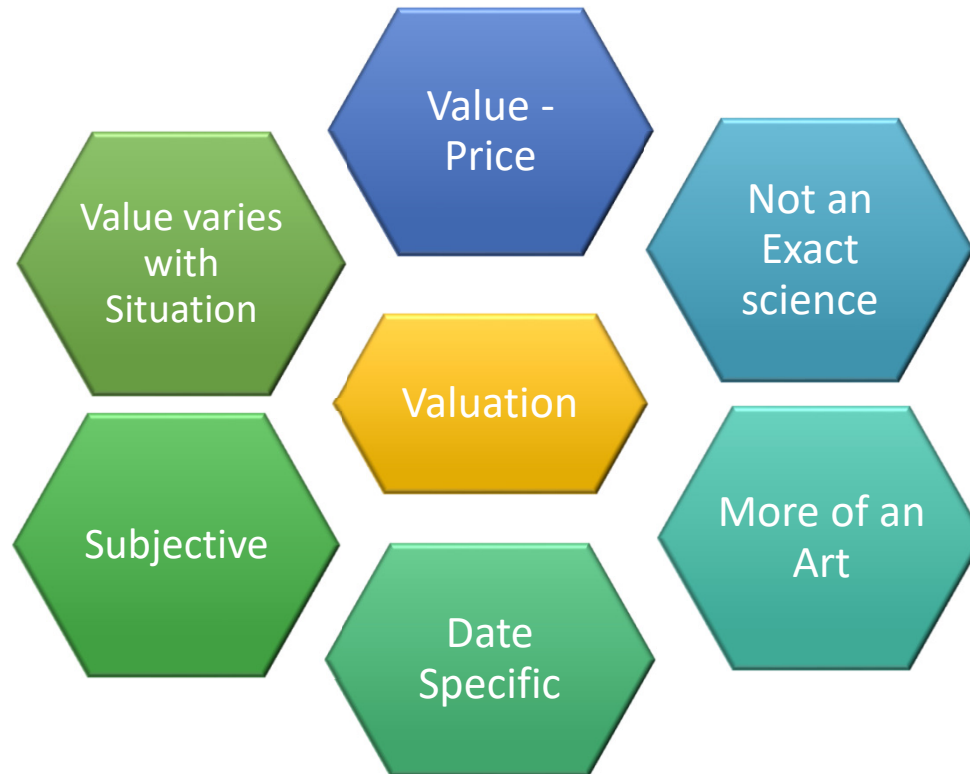




VALUATION CONCEPTS & PURPOSE



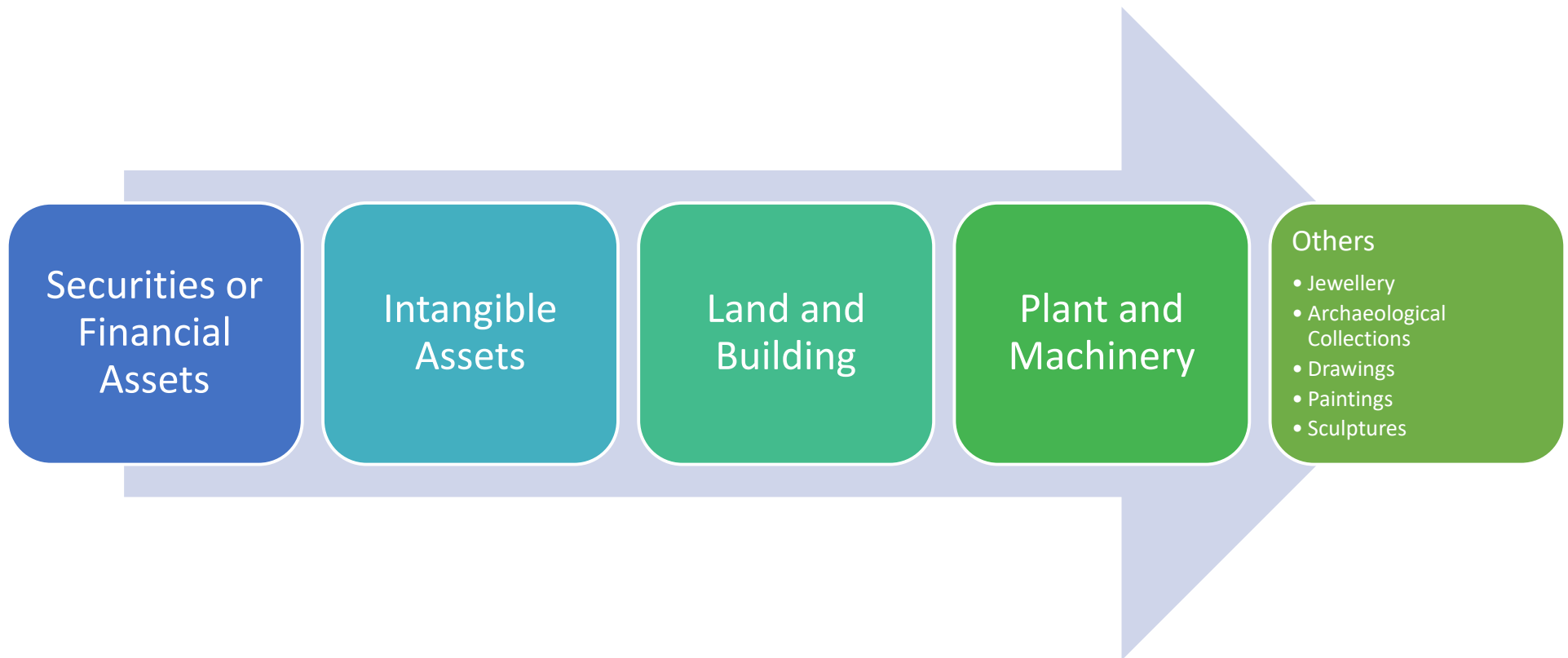
VALUATION CONCEPTS



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

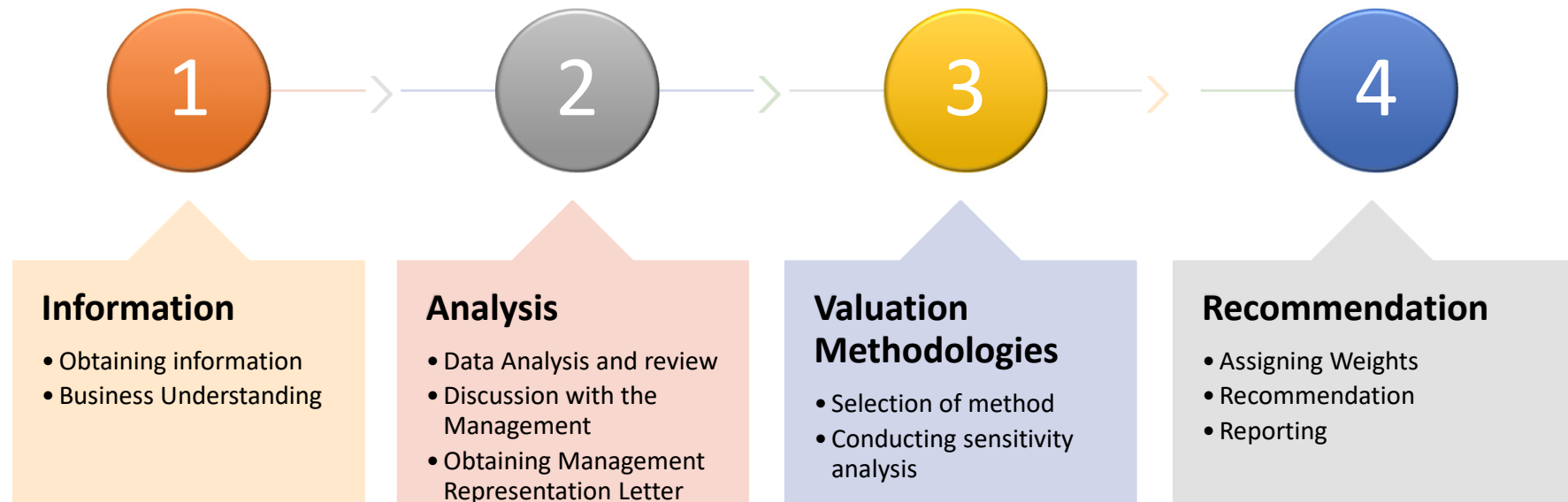




PROCESS OF VALUATION



STEPS IN VALUATION

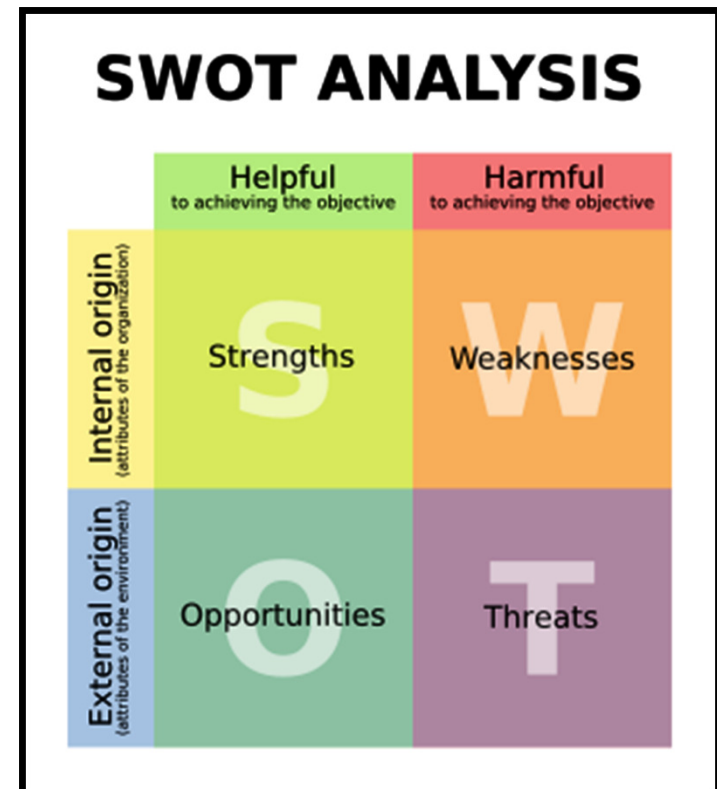


SOURCES OF INFORMATION

- 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

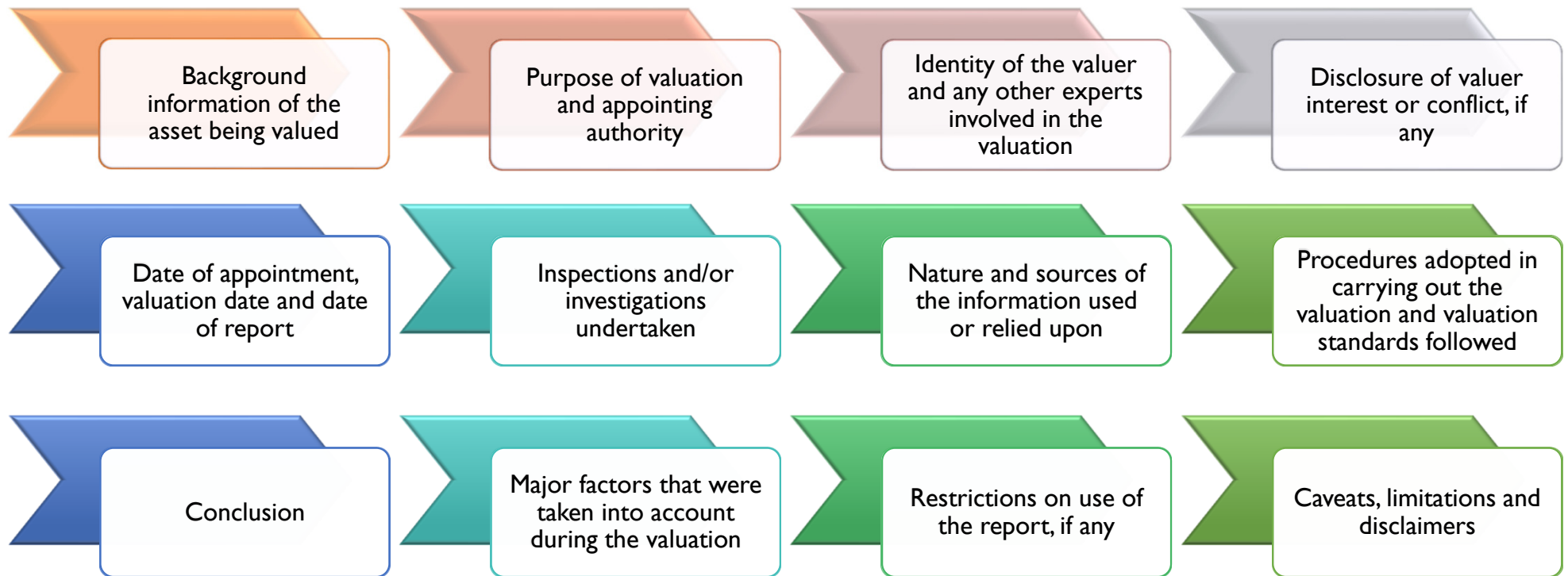
- In case of mergers and demergers, a relative valuation needs to be carried out
- Relative values are determined by
 - using similar valuation approaches / methods; and
 - applying similar weightages to values arrived under each approach / method
- Use of different approach / methods may be appropriate 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

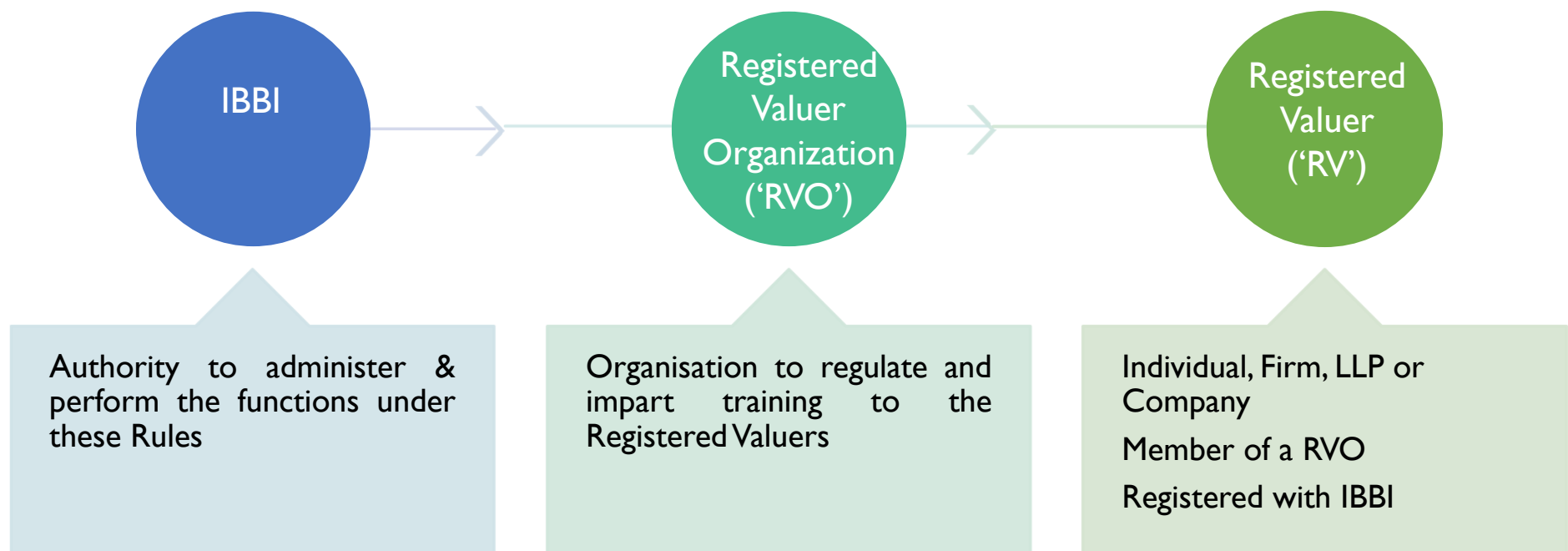


REGISTERED VALUER

- 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



TO BE A REGISTERED VALUER



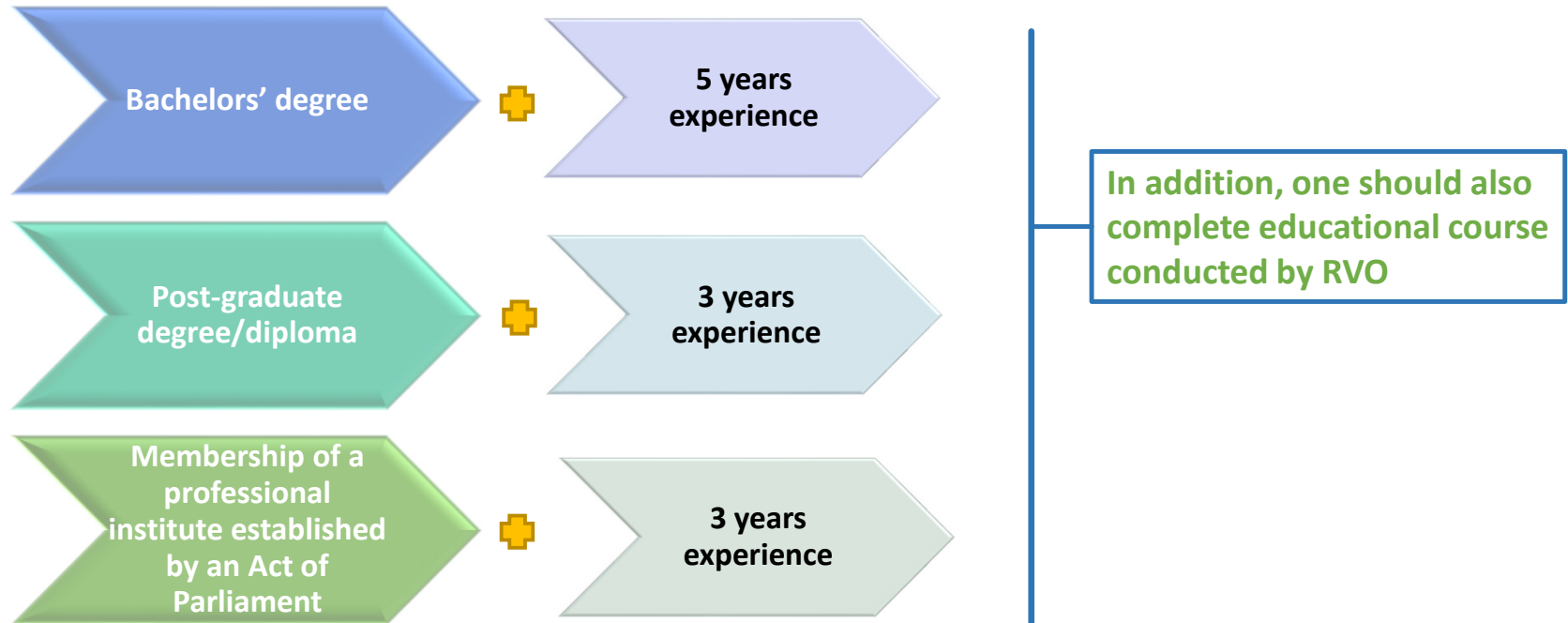
Obtain Educational Qualifications and Experience

Pass Valuation Examination

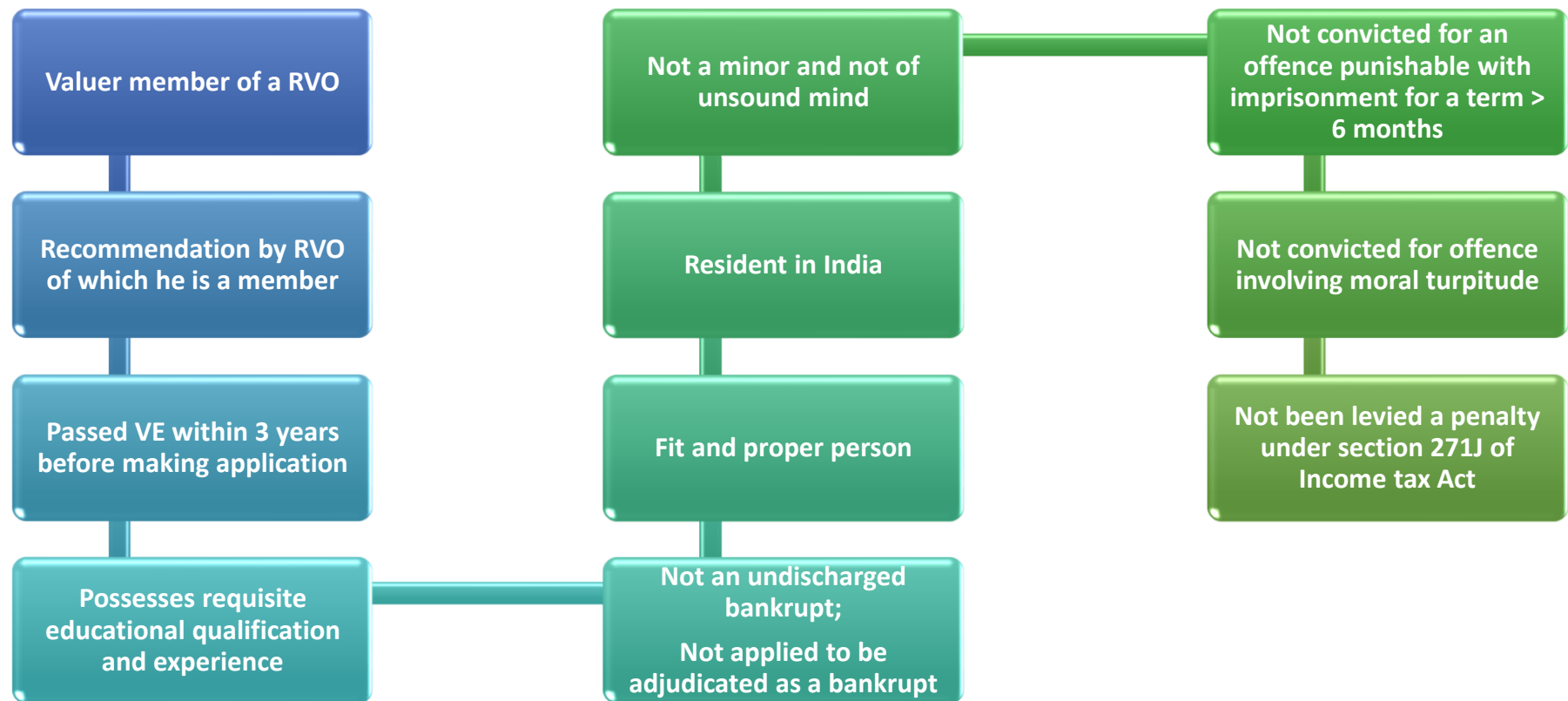
Satisfy other specified Eligibility Criteria

EDUCATIONAL QUALIFICATIONS AND EXPERIENCE

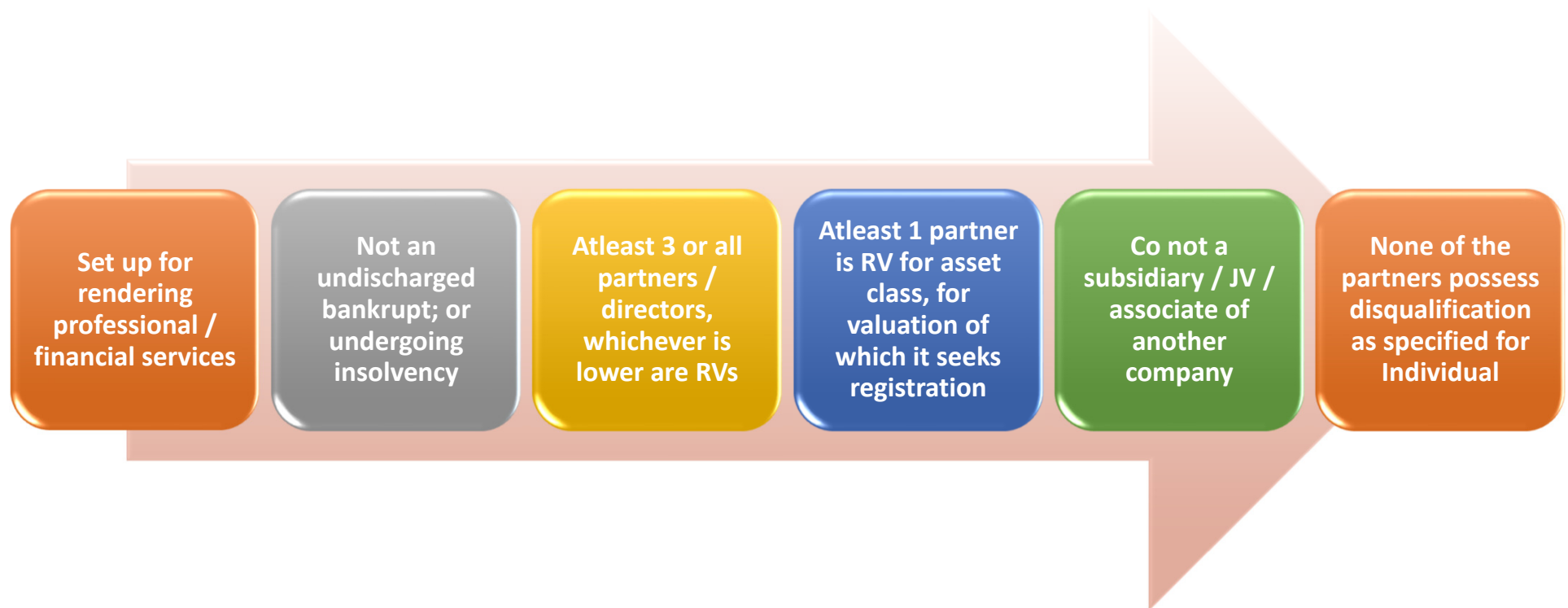
To be a RV, an individual must have the following educational qualifications and experience:



OTHER ELIGIBILITY CRITERIA - INDIVIDUALS



OTHER ELIGIBILITY CRITERIA – FIRMS/COMPANIES/LLP



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 |



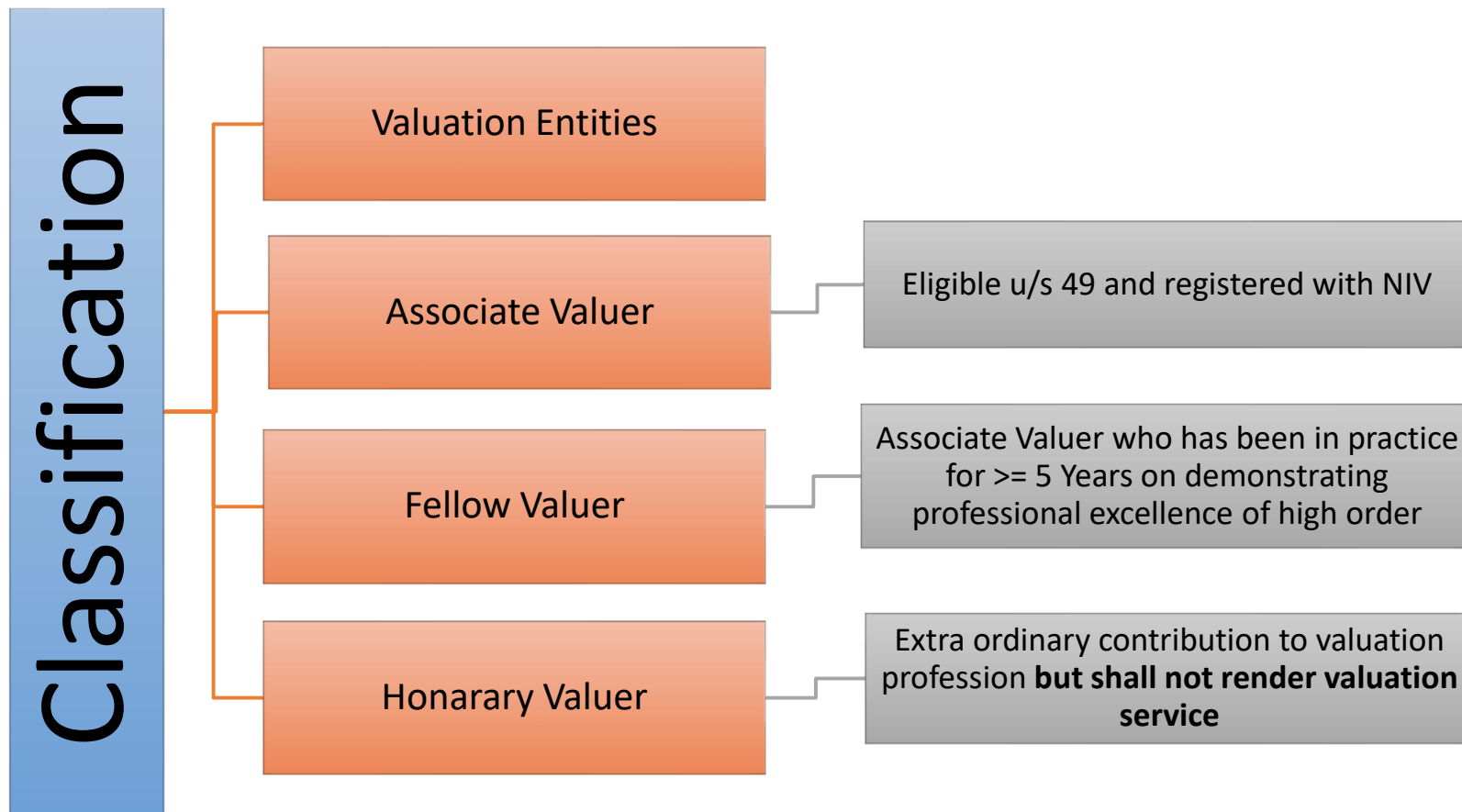
DRAFT VALUERS BILL 2020



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

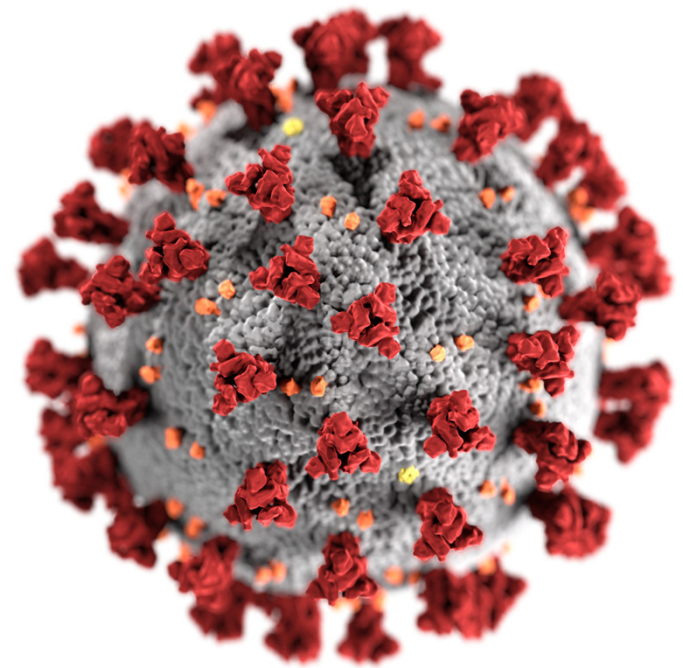
DRAFT VALUERS BILL 2020 - SALIENT FEATURES

- 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
 - Atleast 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.

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 !