AlphaValue Consulting

Common Practices followed by

Registered Valuer

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‘REPRESENTATIVE OF THE FAIR VALUE’

DEPENDS

QUALITY OF INPUTS

“Value in Valuation is a question,

and

Your choice of Method is the first step towards answer”

Price is what you Pay, Value is what you get

Warren Buffett

Conceptual Description of Fair Market Value

‘Meaning of Valuation’

Valuation is the process of determining the “Economic Worth” of an Asset or Liability under certain “Assumptions” and “Limiting Conditions” and subject to the “Data” available on the “Valuation Date”

‘Date of Valuation’

‘Why Valuation’ ?

Transactions

- Mergers / Acquisitions
- Investment
- Fund Raising
- Sale of Businesses
- Voluntary Assessment
- Dispute Resolution

Regulatory

- RBI
- Income Tax
- SEBI
- Companies Act
- IBC

Financial Reporting

- ESOP
- Purchase Price Allocation
- Impairment / Diminution
- Fair Value (Ind AS)

History of Valuation in India

Wealth Tax Rules,1957

Had provision for Valuation of unquoted shares and Company
Emphasis was given on Book Value Method (Adjusted) as per Balance Sheet duly adjusted for discount for Marketability, Lack of Dividends etc. (repealed w.e.f. 1.4.1989)

13.7.1990 - Till 1992

There was fixed Pricing Guidelines for valuation of shares done as per erstwhile **Controller of Capital Issue (CCI)** guidelines which prescribed **Net Assets Value** (NAV), **Profit Earning Capacity Value** (PECV) and **Market Value** (in case of Listed Company). As the value was based on Historical Financials and formulae drives, resultant value was fixed

Since 1992

Since **SEBI Act** was made, companies are free to price their issues in consultation with the Merchant Bankers

ICAI Study on Share Valuation - 1994

ICAI issued Valuation Guidance

ICAI Technical Guide on Share Valuation - 1999

2007 – FBT

2008 – Fairness Opinion (SEBI)

(Start Up)

DFCF Method was prescribed by RBI for all FDI Valuations (which later changed to any Internationally accepted method)

April 2010

ICAI issued Valuation standard CAS-1 (recommendatory)

1.10.2000; 1.6.2010

Income Tax Law prescribed Valuation for Transfer of Shares

ESOP tax was also introduced as Perquisite

April 2013

Income Tax Law prescribed Valuation for Issue of Shares

Sep 2013
Oct 2017

Registered Valuer provisions governing both Technical & Financial Valuer were brought in Companies Act, 2013. Implemented w.e.f. 18.10.2017 to Regulate practice of Valuation in India)

2016

From 1.4.2016, Fair Value based **Ind AS** comes into force. Now applicable to all Listed companies and others with Net Worth of 250 Crores.

‘Guiding Principles of Valuation’

Return on Capital Employed and Growth

Companies create value when their ROCE exceeds WACC. However, for companies to do so and also maintain consistent growth, there must be certain inherent competitive advantages which in turn depends upon industry structure and market trends.

Conservation of Value

The valuation of an asset is directly linked with its underlying cash flows. if the cash flows of a business do not change, its value should also not change irrespective of what the accounting numbers communicate.

Demand, Supply and Equilibrium

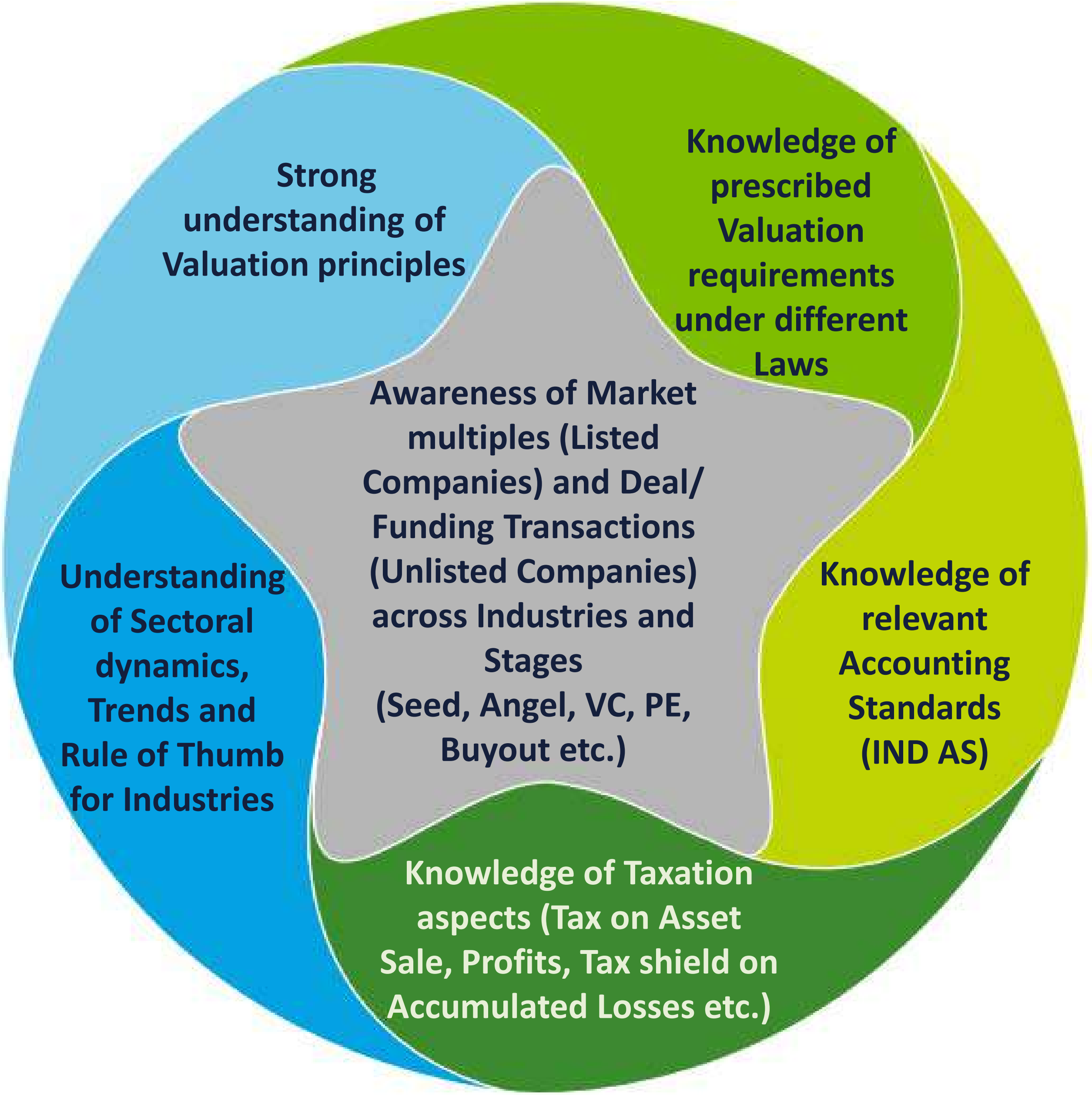
The transactions in real life take place based at the equilibrium of demand and supply at a particular point of time.

Economies of Scale

Higher Growth brings benefits to business but not where the business model itself is questionable (start-up’s)

Competition

Skills Required for Performing Valuations



Skills Required for Performing Valuations

Revenue Ruling 59-60 (Internal Revenue Service of USA)

Revenue Ruling (RR) 59-60 is one of the oldest guidance available on Valuation in the world but still most relevant for Tax Valuations specifically for valuing closely held equity shares. It is the most widely referenced revenue ruling, also often referenced for Non Tax Valuations. While valuing, it gives primary guidance on eight basic factors to consider-

- Economic outlook in general
- Outlook of the specific industry in particular
- Nature of the Business and the History of the Enterprise from its inception
    - Book Value of the stock and the Financial condition of the business
    - Earning Capacity of the company
    - Dividend-Paying Capacity of the company
    - Goodwill or other Intangible value
    - Sales of the stock and the Size of the block of stock to be valued
    - Market prices of stock of company engaged in the same or a similar line of business

‘Valuation Approaches, globally’

Asset Approach

Aim to value a firm by valuing its assets on a carry value, replacement value or liquidation value basis

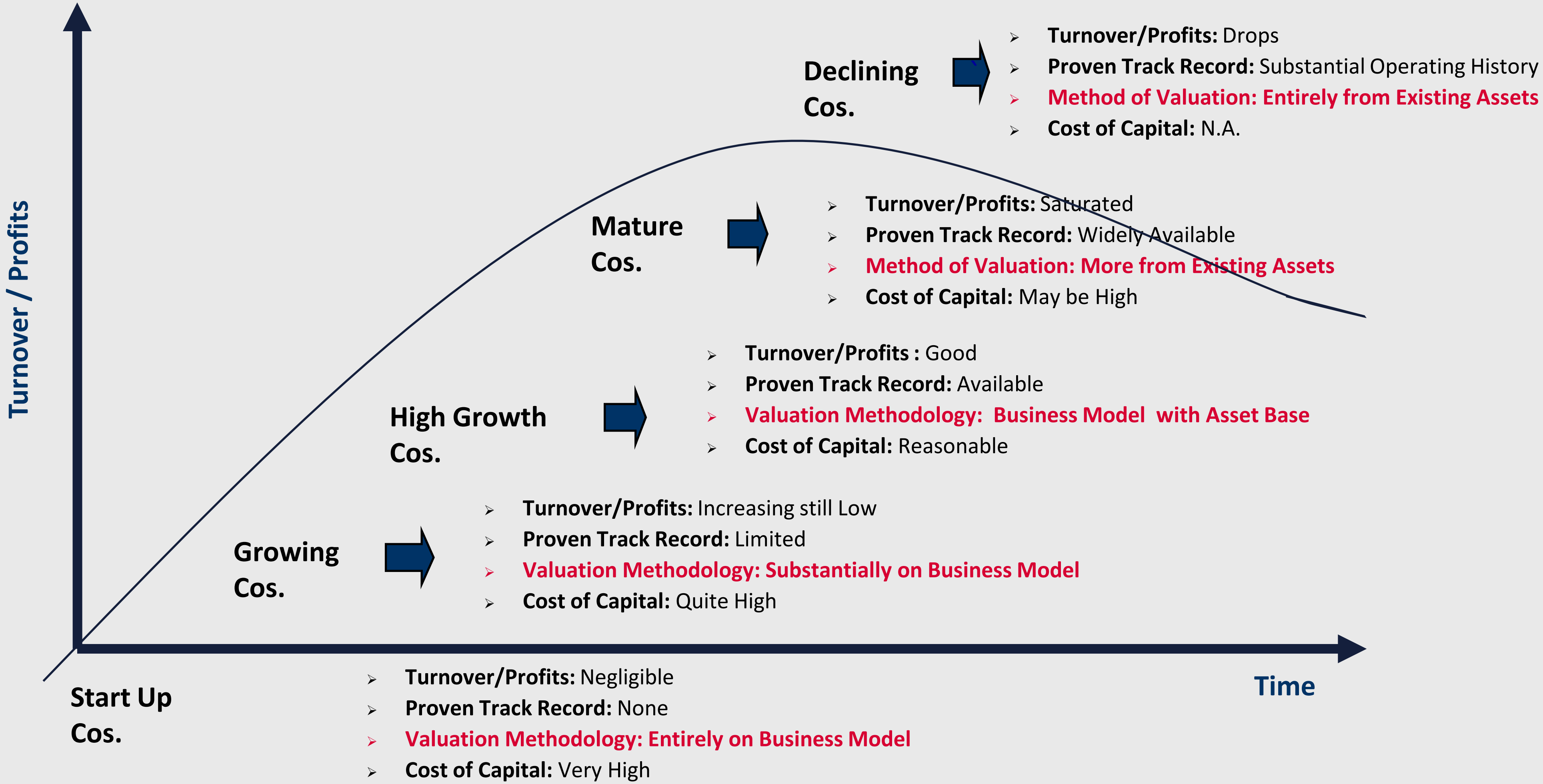
- NAV (Book Value) - Minority Value

·ket Approach (Relative Value)

- NAV (Fair Value) - Control Value

Maı

Valuation across business cycle follow the LAW of ECONOMICS



New Era of Valuation in India – Registered Valuers

- Legal Recognition
- Regulated Profession
- Uniform Practice
- Requires Skill set / Capacity Building

Valuation of Securities or Financial Assets

New Regulations

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 <u>market-based</u> measurement, <u>NOT an entity-specific measurement</u>**
- **Gives more <u>preference to</u> valuation methods relying on "<u>Observable Inputs</u>"** than unobservable inputs.
- **Specific Standards for specific issues**
  - Ind AS – 109, 107 and 32 : Financial Instruments
  - Ind AS - 102 : Share based payment
  - Ind AS - 103 : Business Combination
  - Ind AS – 38 : Intangible Assets
  - Ind AS - 16 : Property Plant & Equipment
  - Ind AS – 36 : Impairment of Assets

Registered Valuer

- Regulating the profession of Valuation in India for Standardization and Transparency. As of now, covers Companies Act and IBC
- Defined Eligibility, Educational and Exam requirements
- Made 3 Asset classes – Securities or Financial Assets, Land & Building and Plant & Machinery
- Brought in concept of RVO's for education, training and monitoring of Valuers
- Coming up with Indian Valuation Standards
- Prescribed Contents of Valuation Report
- Maintenance of Records for 3 years

Fair Value Hierarchy prescribed in IND AS - 113

Level -1

If there is principal market for asset or liability with Quoted Price

<u>Quoted Price - Unadjusted</u> (whether that price is directly observable or estimated using another valuation technique)

Level -2

If there is principal market for asset or liability <u>but quoted price is not available</u>

Quoted Price for Comparable Companies (CCM Method)

<u>Adjustments to Level-2 Inputs are permitted</u> including for condition or location of Asset; Volume of activity in markets within which inputs are observed

Level-3

Unobservable Inputs shall be used, where there is little, market activity for the asset/liability at the measurement date. An entity may begin with own data but shall adjust that if market participants would use different data (which is reasonably available).

Discounted Cash Flow Method

Black Scholes or Binomial models

Other methods

Valuation Process

Understanding Purpose of Valuation

- Transaction, regulatory or financial reporting purposes
- Time horizon: Short term versus long term
- Type of shareholders: Minority versus control
- Enterprise Value vs. Equity Value

Standard of Value

Standard of Value is the fundamental conditions under which a business is valued.

Types of Standard of Value:

FAIR MARKET VALUE

As per IVS 104, *Bases of Value*:

Para 100.1, the OECD defines Fair Market Value as the price a **willing buyer** would pay a **willing seller** in a **transaction** on the **open market**.

FAIR VALUE

Ind AS 113 defines fair value 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."

INVESTMENT VALUE

Investment value can be defined as the **value to a particular investor** based on the investor's investment requirements and expectations.

Premise of Value

Premise of value relates to the assumptions upon which the valuation is based.

GOING CONCERN

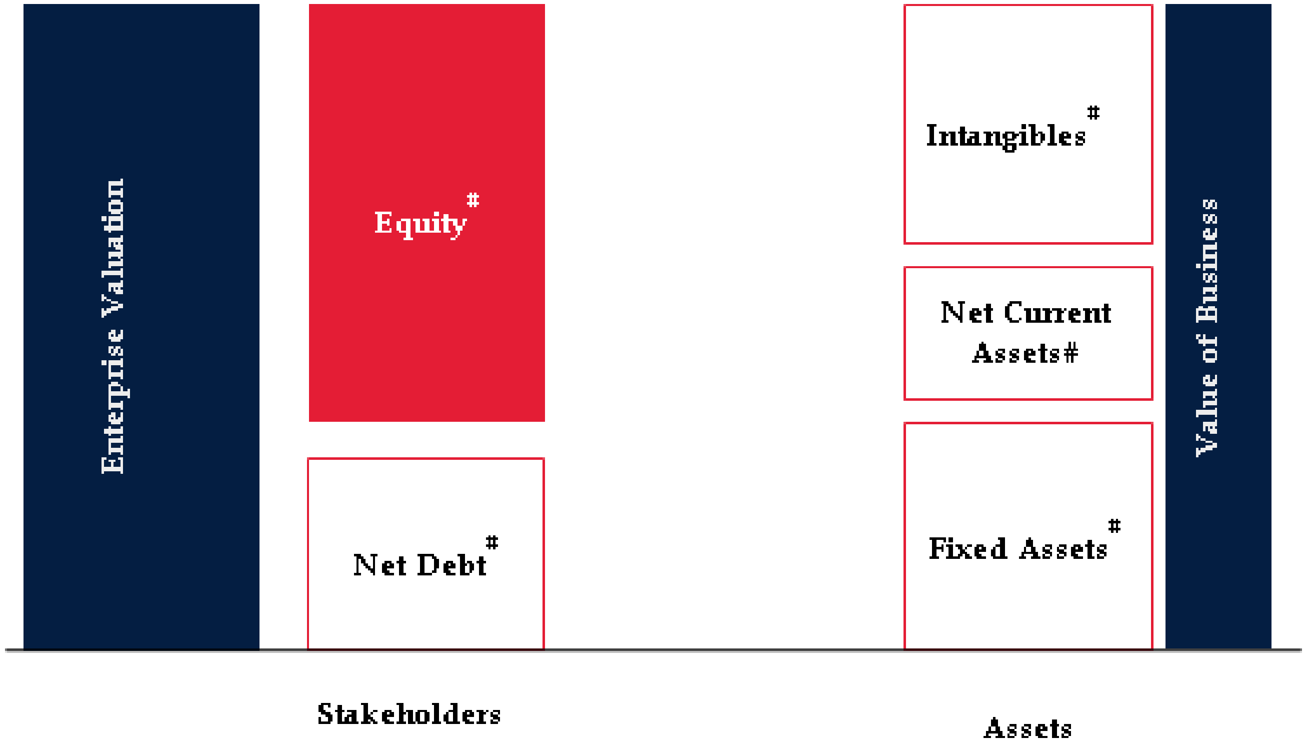
Value as an ongoing operating business enterprise

LIQUIDATION

Value when business is terminated . It could be ‘forced’ or ‘orderly’

- **Value-in-use**
- **Value-in-exchange**

Enterprise Valuation vs. Equity Valuation



Based on Market Values

Information requisition from Company

Information requisition depends upon -

- Nature of the valuation engagement
- Scope of the valuation engagement
- Valuation date
- Intended use of the valuation
- Applicable standard and premise of value
- Assumptions and limiting conditions; and
- Applicable laws, regulations and professional standards

Such information includes:

✓ **Non-financial** information (Promoters, Management, Products, Industry, Competition, Strategy)

✓ **Shareholders** information (Equity Shares v. Preferred Shares, Minority v. Control)

✓ **Financial** information (Historical Annual Reports, Future Projections, Non Operating Assets)

Scope of Work

Guidance under IVS – 101 on Scope of Work

Para 20.3. A *valuer must* communicate the scope of work to its *client* prior to completion of the assignment, including the following:

(a) Identity of the *valuer*:
(b) Identity of the *client(s)*
(c) Identity of other intended users (if any)
(d) Asset(s) being valued
(e) The valuation currency
(f) Purpose of the valuation
(g) Basis/bases of value used
(h) Valuation date
(i) The nature and extent of the *valuer's* work and any limitations thereon
(j) The nature and sources of information upon which the *valuer* relies
(k) Significant assumptions and/or special assumptions
(l) The type of report being prepared
(m) Restrictions on use, distribution and publication of the report

Financial Analysis and Normalisation Adjustments

Analysis of the past financial performance of a company is necessary for forecasting its future performance.

Besides financial statements, the **annual report of a company includes a lot of information considered important for analysis of the company**. This includes -

- Management discussion and analysis report (MDA)
- Independent auditor's report
- Accounting policies and disclosures
- Related party transactions
- Segment reporting and
- other aspects.

Closely held companies require significant adjustments to estimate the normalised earnings of the company (Related party transactions)

The non-recurring and non-operating items also need segregation from the financial statements

Understanding Industry Characteristics and Trends

Knowledge of industry is necessary and essential for **preparation** and **review** of financial forecasts of any company

Different Industries have different risk and return characteristics and competitive advantages

Basic economic factors— supply and demand—provide a fundamental framework for understanding an industry.

While forecasting, past data does provide a basis. However, newer technology and changing government regulations have an impact on changing the business models of companies, significantly.

Understanding basis of classification of industries is important

- The National Industrial Classification, 2008 (**NIC**) in India based on the United Nations International Standard Industrial Classification (ISIC) - economic activity wise data

- **Internationally**, for industry classification reliance is given upon Global Industry Classification Standard (**GICS**) developed by Standard & Poor's and Morgan Stanley - The GICS combines the companies in a sector, industry group, industry and sub-industry based on the **principal product and services** of the companies and their revenue contribution.

- **The S&P BSE indices in India have also made an industry classification system in line with GICS.**

Forecasting and Validating Company Performance

Industry and competitive analysis, together with an analysis of the company's financial performance, provide a basis for forecasting performance. Forecasts of sales, expenses, profits (EBIT, EBITDA and PAT), capex and working capital provide the inputs for most valuation models.

IT IS THE WORK AND RESPONSIBILITY OF A COMPANY'S MANAGEMENT TO MAKE FINANCIAL PROJECTIONS OF ITS BUSINESS. THE ROLE OF A VALUER IS TO JUST VALIDATE IT.

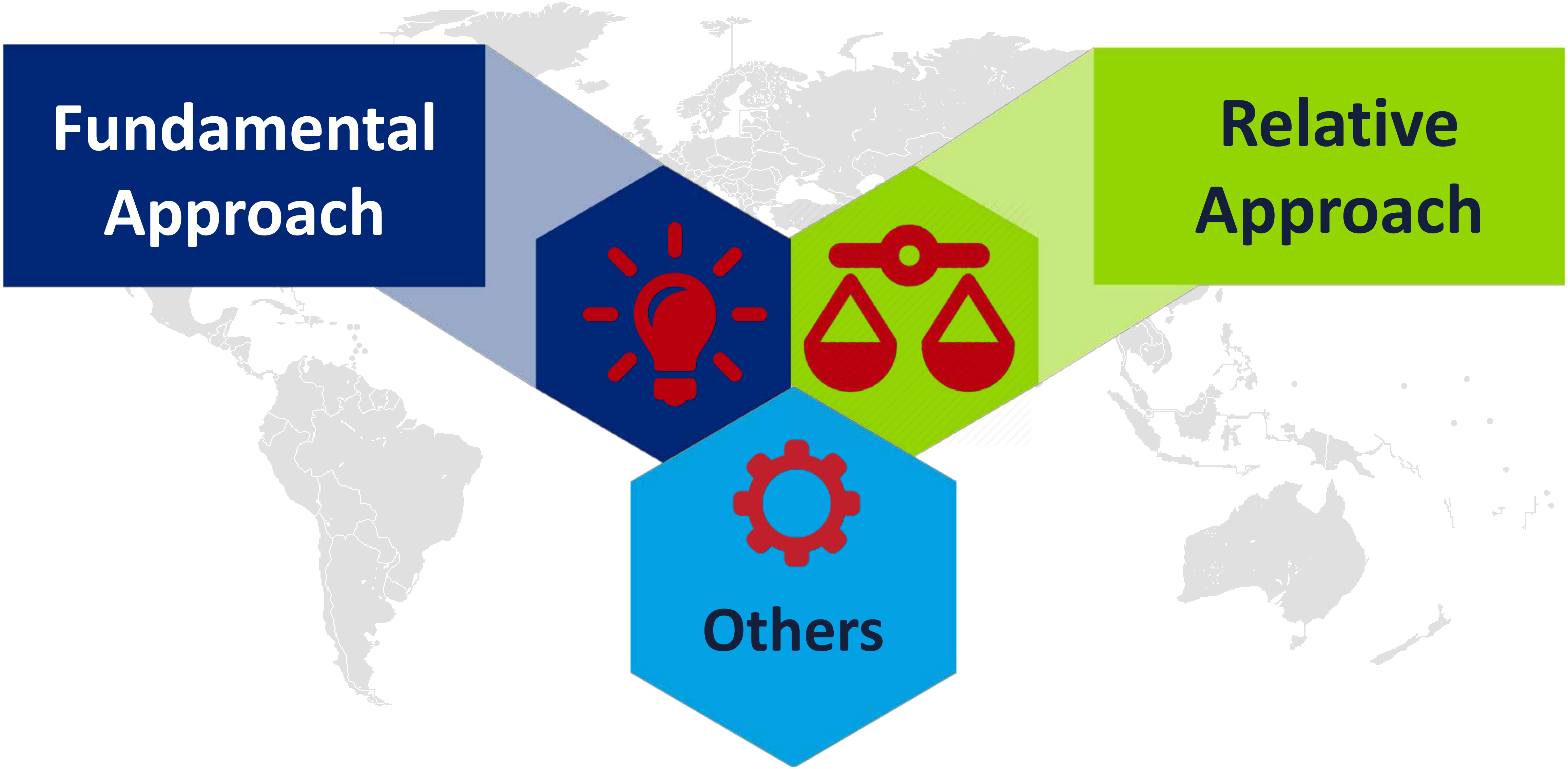
Guidance under IVS on reasonableness of Assumptions and information received from Management

As required by IVS 105*Valuation Approaches and Methods*, para 10.7, **a *valuer must* assess the reasonableness of information received from management, representatives of management or other experts and evaluate whether it is appropriate to rely on that information for the *valuation purpose***.

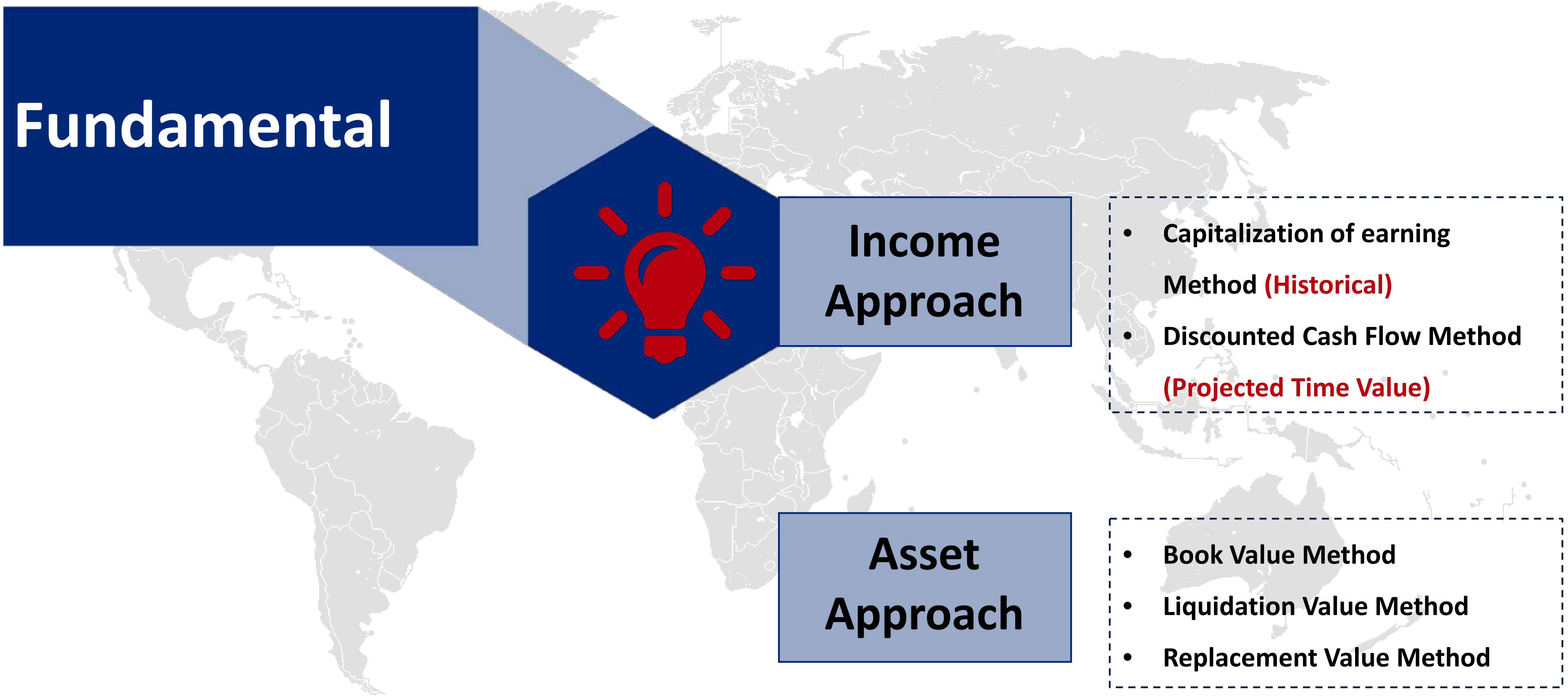
Guidance under IVS on Investigations and Compliance

As per IVS 102 (Para 20.2), **Sufficient evidence *must* be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported,** adequate for the *purpose of the valuation*.

Considering and Applying appropriate Valuation Approach



Valuation Approaches



Valuation Approaches

- Comparable Companies Market Multiples Method (Listed Peers)
- Comparable Transaction Multiples Method (Unlisted Peers)
- Market Value Method (For Quoted Securities)

Market Based Approach

Relative

Valuation Approaches

Other Methods

- Contingent Claim Valuation (Option Pricing)
- Price of Recent Investment / Backsolve Method
- First Chicago Method (Start Up) – Scenario based
- Venture Capitalist Method (Start Up)
- Rule of Thumb (Industry wise)

Choice of Valuation approaches

In selecting a model, data availability and quality/accuracy of data can be limiting factors and require suitable adjustments considering industry trends and valuer's experience.

In General, for Business Valuation on going concern basis, Income Approach is preferred;

- The **dominance of profits for valuation of share was emphasised in "McCathies case"** (Taxation, 69 CLR 1) where it was said that *"the real value of shares in a company will depend more on the profits which the company **has been making and should be capable of making**, having regard to the nature of its business, than upon the amount which the shares would realise on liquidation".*
- This was also re-iterated by the Indian Courts in Commissioner of Wealth Tax v. **Mahadeo Jalan's case (S.C.)** (86 ITR 621) and Additional Commissioner of Gift Tax v. Kusumben D. Mahadevia (S.C.) (122 ITR 38).
- **However, Asset Approach is preferred in case of Asset heavy companies and on liquidation; The liquidated value of the Net Assets is also considered the minimum value of the whole company and will prevail even if Earning capacity is low or negative subject to any discounting in appropriate circumstances (like Reluctance to wind up, Ability to control, Tax adjustments etc.)**
- **Market Approach is preferred in case of listed entity and also to evaluate the value of unlisted company by comparing it with its peers;**

Choice of Valuation approaches - Guidance under IVS

As per IVS 105, *Valuation Approaches and Methods*

Para 10.3, the goal in selecting valuation approaches and methods for an *asset* is to find the most appropriate method under the particular circumstances. No one method is suitable in every possible situation.

Para 10.4, *Valuers* are not required to use more than one method for the valuation of an *asset*, particularly when the *valuer* has a high degree of confidence in the accuracy and reliability of a single method, given the facts and circumstances of the valuation engagement.

However, *valuers should* consider the use of multiple approaches and methods and more than one valuation approach or method *should* be considered and *may* be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. Where more than one approach and method is used, or even multiple methods within a single approach, the conclusion of value based on those multiple approaches and/or methods *should* be reasonable and the process of analysing and reconciling the differing values into a single conclusion, without averaging, *should* be described by the *valuer* in the report.

Para 10.5, It is the *valuer's* responsibility to choose the appropriate method(s) for each valuation engagement.

Para 10.7, *Valuers should* maximise the use of relevant observable market information in all three approaches.

Choice of Valuation approaches - Guidance under IVS

As per IVS 105: *Valuation Approaches and Methods*,

<u>Guidance under IVS on application of Income approach</u>

Para 40.2, the income approach *should* be applied and afforded *significant weight* under the following circumstances:

(a) the income-producing ability of the *asset* is the critical element affecting value from a *participant* perspective, and/or

(b) reasonable projections of the amount and timing of future income are available for the subject *asset*, but there are few, if any, relevant market comparables.

<u>Guidance under IVS on application of Asset/Cost approach</u>

As per IVS 200, Businesses and Business Interests

Para 70.1, the cost approach cannot normally be applied in the valuation of businesses and business interests as these *assets* seldom meet the criteria in IVS 105, *Valuation Approaches and Methods*, paras 70.2 or 70.3. However, the cost approach is sometimes applied in the valuation of businesses, particularly when:

(a) the business is an early stage or start-up business where profits and/or cash flow cannot be reliably determined and comparisons with other businesses under the market approach is impractical or unreliable;

(b) the business is an investment or holding business; and/or

(c) the business does not represent a going concern and/or the value of its *assets* in a liquidation *may* exceed the business' value as a going concern.

Choice of Valuation approaches - Guidance under IVS

Guidance under IVS on application of Market Approach

As per IVS 105, *Valuation Approaches and Methods*

Para 10.8, although no one approach or method is applicable in all circumstances, price information from an active market is generally considered to be the strongest evidence of value.

Para 20.2, The market approach *should* be applied and afforded *significant weight* under the following circumstances:

(a) the subject *asset* has recently been sold in a transaction appropriate for consideration under the basis of value,

(b) the subject asset or substantially similar assets are actively publicly traded, and/or

(c) there are frequent and/or recent observable transactions in substantially similar *assets*.

CCM Method-

Para 30.13, a *valuer should* choose publicly traded comparables within the following context:

(a) consideration of multiple publicly-traded comparables is preferred to the use of a single comparable,

(b) evidence from similar publicly-traded comparables (for example, with similar market segment, geographic area, size in revenue and/or *assets*, growth rates, profit margins, leverage, liquidity and diversification) provides a better indication of value than comparables that require *significant* adjustments, and

(c) securities that are actively traded provide more meaningful evidence than thinly-traded securities.

Choice of Valuation approaches - Guidance under IVS

CTM Method-

Para 30.7, A *valuer should* choose comparable transactions within the following context:

(a) evidence of several transactions is generally preferable to a single transaction or event,

(b) evidence from transactions of very similar *assets* (ideally identical) provides a better indication of value than *assets* where the transaction prices require *significant* adjustments,

(c) transactions that happen closer to the valuation date are more representative of the market at that date than older/dated transactions, particularly in volatile markets,

(d) for most bases of value, the transactions *should* be “arm’s length” between unrelated parties,

(e) sufficient information on the transaction *should* be available to allow the *valuer* to develop a reasonable understanding of the comparable *asset* and assess the valuation metrics/comparable evidence,

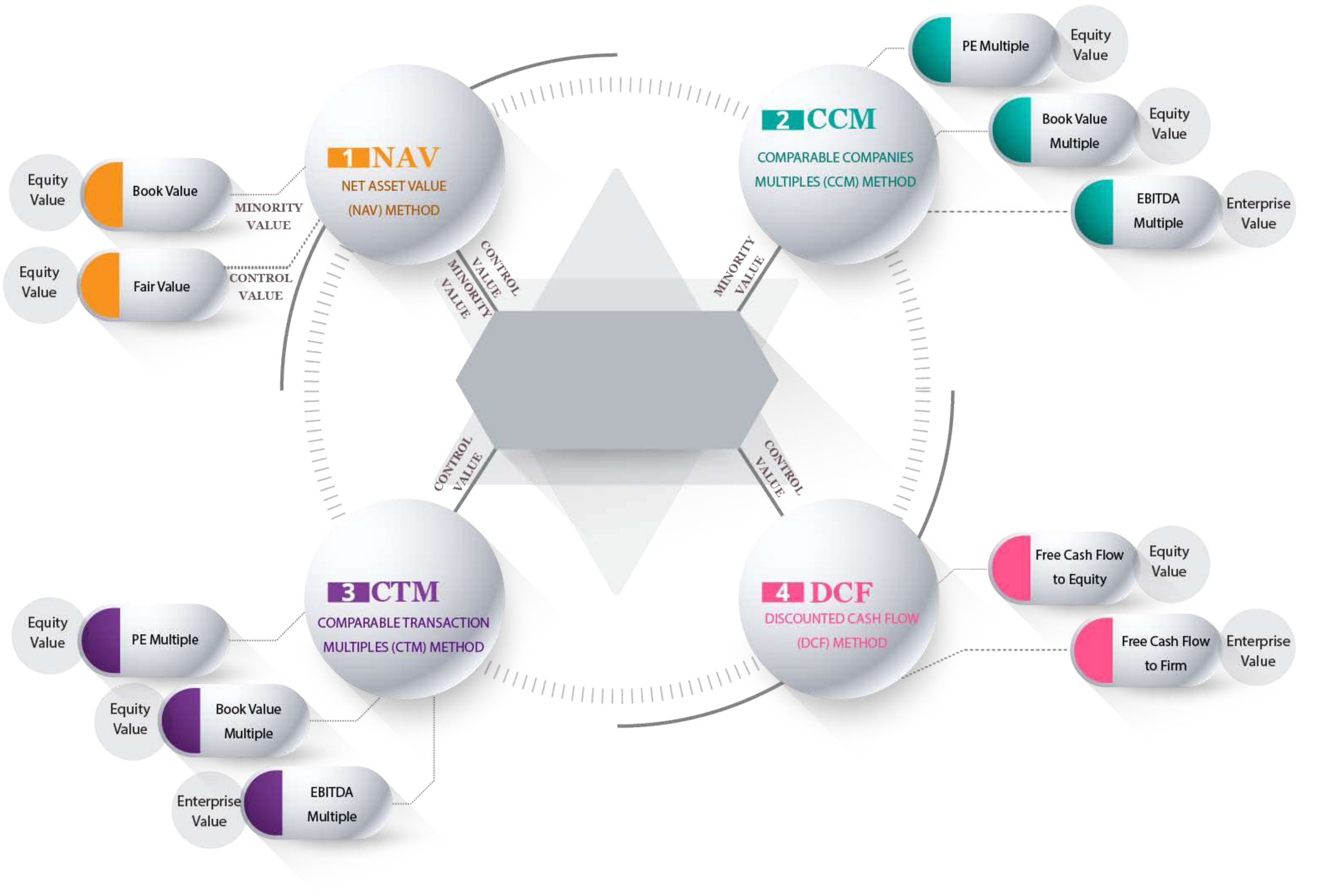
(f) information on the comparable transactions *should* be from a reliable and trusted source, and

(g) actual transactions provide better valuation evidence than intended transactions.

Reliance on Rule of Thumb

As per IVS 105 ***Valuation Approaches and Methods*****, para 30.16,** value indications derived from rule of thumb *should* not be given substantial *weight* unless it can be shown that buyers and sellers place *significant* reliance on them.

Valuation Methodology & Outcome



Performing Value Adjustments

Discounts and Premiums come into picture when there exists difference between the subject being valued and the methodologies applied. As this can translate control value to non-control and vice-versa, so these should be judiciously applied.

Discount at Company Level

The company level discounts affect the equity value of the company and are applied before any apportionment is made to the shareholders. Major types of company level discounts include the following:

- Key Person Discount
- Discount for Contingent Liabilities
- Diversified Company Discount
- Holding Company Discount
- Liquidation Discount (Tax Payout on Appreciation of Assets)

Discounts and Premium at Shareholder Level

The shareholder level discounts affect the value of specific shareholders and are applied after distribution of the equity value to the respective shareholders. Major types of shareholder level discounts include the following:

- Discount for Lack of Control (DLOC)
- Discount for Lack of Marketability (DLOM)
- Control Premium

Performing Value Adjustments

Non Operating Assets

Operating Assets

- Assets used in the operation of the business including working capital, Property, Plant & Equipment & Intangible assets
- Valuing of operating assets is generally reflected in the cash flow generated by the business

Non - Operating Assets

- Assets not used in the operations including excess cash balances, and assets held for investment purposes, such as vacant land & Securities (which are not generating any operational income) are the non-operating assets.
- <u>Investors generally do not give much value to such assets and Structure modification may be necessary</u>

Treatment of Non-operating Assets

The value of such non-operating asset should be added separately to arrive at the enterprise value.

Regulatory Valuation in India

Requirement of business/share valuation in India under different laws

Fresh Issue of Shares	• Reserve Bank of India – FDI • Reserve Bank of India – ODI • Income Tax Law • Company Law • SEBI Law	• Company Law • SEBI Law • Financial Reporting	Business Combination/ Scheme of Arrangement
Transfer of Shares	• Reserve Bank of India – FDI • Reserve Bank of India – ODI • Income Tax Law	• Income Tax Law • Company Law • Financial Reporting	ESOP/Sweat Equity
	Bankruptcy: Insolvency & Bankruptcy Code	**Fair Value Accounting** : IND-AS	

Valuation for Fresh Issue and/or Transfer of Shares

A. Companies Act, 2013

Applicability - Issue of Shares and Convertible Instruments

Governing Provisions/ Regulations	Section 62(1)(c) read with rule 13 of the Companies (Share Capital and Debentures) Rules, 2014
Valuation Methodology for issue of shares	Not prescribed Valuation shall be done in accordance with the Companies (Registered Valuers and Valuation) Rules, 2017 However, for preferential allotment of shares of listed companies, SEBI Regulations need to be followed.
Who can do Valuation?	Registered Valuer

Valuation for Fresh Issue of Shares

B. Income Tax Act, 1961

Applicability – Issue and Transfer of Shares and other Securities

Case 1 - Issue of Shares and Other Securities

Governing Provisions/ Regulations	Section 56(2)(viib) read with rule 11UA(2) and 11UA(1)(c)(c) of the Income Tax Rules, 1962
Valuation Methodology for - Issue of unquoted Equity shares - Rule 11UA(2) **- Issue of Unquoted Shares (other than equity shares) - Rule 11UA(1)(c)(c)**	**Discounted Cash Flow (DCF) or Net Asset Value (NAV)** method or value as may be substantiated by the company to the satisfaction of the AO based on the value of its assets including intangible assets - Price it would fetch if sold in the open market
Who can do Valuation?	**For unquoted equity shares**, SEBI-registered category I merchant banker or fellow chartered accountant **For unquoted shares** (other than equity shares): Chartered accountant or SEBI-registered category I Merchant Banker.

Valuation for Transfer of Shares

Case 2 - Transfer of Shares and Other Securities

Governing Provisions/ Regulations	Section 56(2)(x) read with rule 11UA(1)(c) of the Income Tax Rules, 1962
Valuation methodology for issue of shares	**Quoted Shares:** Market price on recognised stock exchange on the valuation date or on a date immediately preceding the valuation date where on the valuation date there is no trading in such shares and securities on any recognised stock exchange - rule 11UA(1)(c)(a) **Unquoted Equity Shares:** Adjusted net asset value (NAV) - rule 11UA(1)(c)(b) **Unquoted Shares (other than equity shares)**: Price it would fetch if sold in the open market - rule 11UA(1)(c)(c)
Who can do Valuation?	**For shares other than equity shares:** Chartered accountant or SEBI-registered category I merchant banker **For quoted shares and unquoted equity shares**: Not prescribed

Valuation for Transfer of Shares

Other areas where tax valuation is required for transfer of shares/assets under the Income Tax Act, 1961

Valuation for Capital Gain purposes	**Section 50CA** provides for a special provision for determination of minimum consideration in case of transfer of unquoted shares, being a capital asset. Further **section 50D** of the Income Tax Act, 1961 states that where consideration for transfer of a capital asset is not ascertainable, its fair market value shall be deemed to be its consideration.
Transfer Pricing	**Section 92C** provides that any international transaction between associated entities needs to be done at arm's length price. Now, even in case of domestic related party transactions above Rs 20 crore, applicability of transfer pricing provisions get triggered. In case where issue or transfer of shares, business or certain rights (intangibles) is involved in such a case, it requires valuation.
Indirect Transfer of Assets	As per **section 9** of the Income Tax Act, 1961, any capital gains arising to a non-resident on transfer of shares of a foreign company if such shares derive its value substantially from the assets located in India (indirect transfer of shares of Indian company) is deemed to accrue or arise in India. In order to cover only large transactions that derive their value from underlying Indian business, two additional criteria need to be met: • the fair market value (FMV) of assets located in India exceeds Rs 10 crore; and • FMV of assets located in India represents at least 50% of FMV of total assets of the foreign company or entity.

Valuation for Fresh Issue and/or Transfer of Shares

C. Reserve Bank of India

Applicability – Issue and Transfer of Shares

Governing Provisions/ Regulations	**FDI-** Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations **ODI –** Direct investments by residents in Joint Venture (JV) and Wholly Owned Subsidiary (WOS) abroad -
Valuation Methodology for issue of shares	**FDI–** **Unlisted company - Internationally accepted pricing methodology** Listed company - SEBI preferential allotment guidelines. **ODI-** No mention for basis of valuation of shares of a foreign company.
Who can do Valuation?	**Under ODI guidelines, where investment amount exceeds USD 5 million**, - SEBI-registered merchant banker or investment banker/merchant banker outside India registered with the appropriate regulatory authority in the host country and in all other cases, a chartered accountant or a certified public accountant. **In case investment is by way of swap of shares** - Category I Merchant Banker registered with SEBI or an Investment Banker outside India registered with the appropriate regulatory authority in the host country. Under FDI transactions, in case of an unlisted Indian Company - Chartered Accountant or SEBI registered Merchant Banker or Cost Accountant.

Valuation for Fresh Issue of Shares

D. SEBI Regulations

Applicability – Issue of Shares

Governing Provisions/ Regulations	**SEBI (ICDR) Regulations, 2009 [Preferential Issue]**
Valuation Methodology for issue of shares	**Frequently Traded – As per Market Price (refer Regulation 76)** **Infrequently Traded - Based on the price of its comparable companies, book value and other valuation parameters (refer Regulation 76A)**
Who can do Valuation?	Infrequently Traded Independent merchant banker or an independent chartered accountant in practice having a minimum experience of 10 years

Valuation for Transfer of Shares

D. SEBI Regulations

Applicability – Transfer of Shares

Governing Provisions/ Regulations	SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
Valuation Methodology for issue of shares	**Regulation 8(2)** **In case of Direct Acquisition:** **- Frequently Traded Shares: (d) The volume-weighted average market price of such shares for a period of 60 trading days immediately preceding the date of the public announcement** as traded on the stock exchange where the maximum volume of trading in the shares of the target company are recorded during such period **Infrequently Traded Shares:(e) The price determined by the acquirer and the manager to the open offer taking into account valuation parameters including, book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies**
Who can do Valuation?	Infrequently Traded Shares: For cl 8(2)(e), the Board may, at the expense of the acquirer, require valuation of the shares by an independent merchant banker other than the manager to the open offer or an independent chartered accountant in practice having a minimum experience of 10 years

Valuation for Sweat Equity

E. Valuation for Sweat Equity

Governing Provisions/ Regulations	Section 2 (88) of the Act defines 'sweat equity shares' Section 54 of the Act: Issue of Sweat Equity Shares Rule 8 of the Companies (Share Capital and Debentures) Rules, 2014 SEBI (Issue of Sweat Equity) Regulations, 2002 Section 17(2)(vi) of the Indian Income Tax Act, 1961 read with Notification no. 94/2009 dated 18 December 2009 issued by CBDT
Valuation Methodology for issue of shares	Not prescribed
Who can do Valuation?	Valuation of IPR / Know How (For Listed Companies) By a Merchant Banker. Valuation of IPR / Know How (For Unlisted Companies) By Registered Valuer Valuation of sweat equity shares: By a Merchant Banker or CA in practice having 10 years of experience

Valuation for Financial Reporting

F. Valuation for Financial Reporting

Governing Provisions/ Regulations	Indian Accounting Standards
Valuation methodology for issue of shares	**Fair value hierarchy is prescribed under Ind AS 113**. Preference is given to valuation method relying on observable inputs, ie, market price. However, if market price is not available, other valuation techniques may be applied.
Who can do Valuation?	Not prescribed

Valuation for Mergers

Under SEBI Circular no CFD/DIL3/CIR/2017/21 dated 10 March 2017, Valuation by independent chartered account mandatory other than those specifically exempted. "Valuation Report from an Independent Chartered Accountant" is not required in cases where there is no change in the shareholding pattern of the listed company / resultant company.

Computation of Fair Share Exchange Ratio

As per SEBI circular No. CFD/DIL3/CIR/2017/26 dated 23 March 2017, fair value of listed companies needs to be undertaken as per preferential allotment guidelines prescribed under the SEBI (ICDR) Regulations, 2009. The relevant date for this purpose is defined as the date of Board Meeting in which the scheme of merger is approved.

Further as per NSE circular No. NSE/CML/2017/12 dated 1 June 2017 and BSE circular number LIST/COMP/02/2017-18 dated 29 May 2017, as advised by SEBI, w.r.t. the valuation reports on Scheme of Arrangement, the valuation reports shall display the workings, relative fair value per share and fair exchange ratio in the following format:

	XYZ Ltd		PQR Ltd	
Valuation Approach	**Value per Share**	**Weight**	**Value per Share**	**Weight**
Asset Approach	X	a	y	d
Income Approach	X	b	y	e
Market Approach	X	c	y	f
Relative Value per Share	X		y	
Exchange Ratio (rounded off)			xx	

Determination of Swap ratio

- **<u>In case of a merger valuation, the emphasis is on arriving at the “relative” values of the shares of the merging companies to facilitate determination of the “swap ratio”</u>**

  Hence, the purpose is not to arrive at absolute values of the shares of the companies

- **The key issue to be addressed is that of fairness to all shareholders**

  This is particularly important where the shareholding pattern and shareholders vary between the two companies

- **There are established legal precedence for merger valuation methodologies**

  Valuer’s role is to incorporate case specific factors and use appropriate methodologies so as to determine a fair ratio

  Usually, best to give weight ages to valuation by all methods

  Market price method and Earnings methods dominate.

M&A Valuation Case Laws

WHETHER VALUATION IS REQUIRED FOR MERGER?

In the matter of ***Shreya's India (P) Ltd.* v. *Samrat Industries (P) Ltd.*** the Regional Director (RD) raised an objection that no valuation report has been filed and that the exchange ratio for amalgamation has not been worked out by an independent valuer.

"The Hon'ble High Court of Rajasthan overruled this objection and sanctioned the scheme of amalgamation by holding that there was no legal or factual impediment to grant sanction to the scheme of amalgamation."

Same ratio in Advance Plastics (P) Ltd vs Dynamic Plastics (P) Ltd - Bombay High Court

WHETHER ANY VALUATION METHODOLDY IS REQUIRED FOR MERGER?

Though there are no specific methodology prescribed for valuation under Merger, however **In Hindustan Lever Employees Union v. Hindustan Lever Ltd and Others, Bombay High Court -**

"*accepted the **ratio of 2:2:1 as Income, Market and Asset Approach on which the valuation was based."***

VALUATION OF INFREQUENTLY TRADED SHARES

In G.L. Sulatnia and another the parameters expressly laid down therein must be considered by the valuer since they are basic and essential. If the valuation report discloses non consideration of any of the enumerated parameters, the report shall stand vitiated for that reason. That however does not prevent the valuer from considering other relevant factors according to accepted principles of valuation of shares".

ESOP Accounting Valuation

APPLICABLE LAW:

Sec 62 of Companies Act, 2013 read with Rule 12 of Share Capital Rules, 2014

SEBI (Share Based Employee Benefits) Regulations, 2014

ICAI Guidance Note

Ind AS 102

Purpose of Valuation
Determination of compensation cost for amortization over the vesting period

Impact of Valuation
Being P&L item, it impacts Profitability and reduces EPS. The expense may or may not be allowed by the Tax authorities

Method of Valuation : If a Company listed on recognized stock exchange in India and issued shares under an ESOS / ESPS, the fair value of stock option shall be estimated using an option pricing model (Black-Scholes or a binomial model) which shall be treated as employee compensation cost for the Company.
Market Price is defined as the Closing Market Price immediately before the Relevant Date which is further defined as date of meeting of Compensation committee.

If company is unlisted, Intrinsic value method is allowed with disclosure of Fair Value

Valuer: Not Prescribed

Components of present value measurement (Discounted Cash Flow)

- An estimate of **future cash flows** for the asset/liability being measured;
- Expectations about possible variations in **amount and timing of cash flows** representing uncertainty inherent in cash flows;
- Time value of money, represented by the rate on Risk Free Monetary Assets having maturity coinciding with period of cash flows **(Risk Free rate)**
- Price for bearing the uncertainty inherent in cash flows **(Risk Premium)**
- Other factors that market participants would take **(CSRP)**

Notes

1. An entity shall develop unobservable inputs using best information available in circumstances. An entity may begin with own data but shall adjust that if market participants would use different data (which is reasonably available).

Discount rates should reflect assumptions consistent with those inherent in Cash Flows.

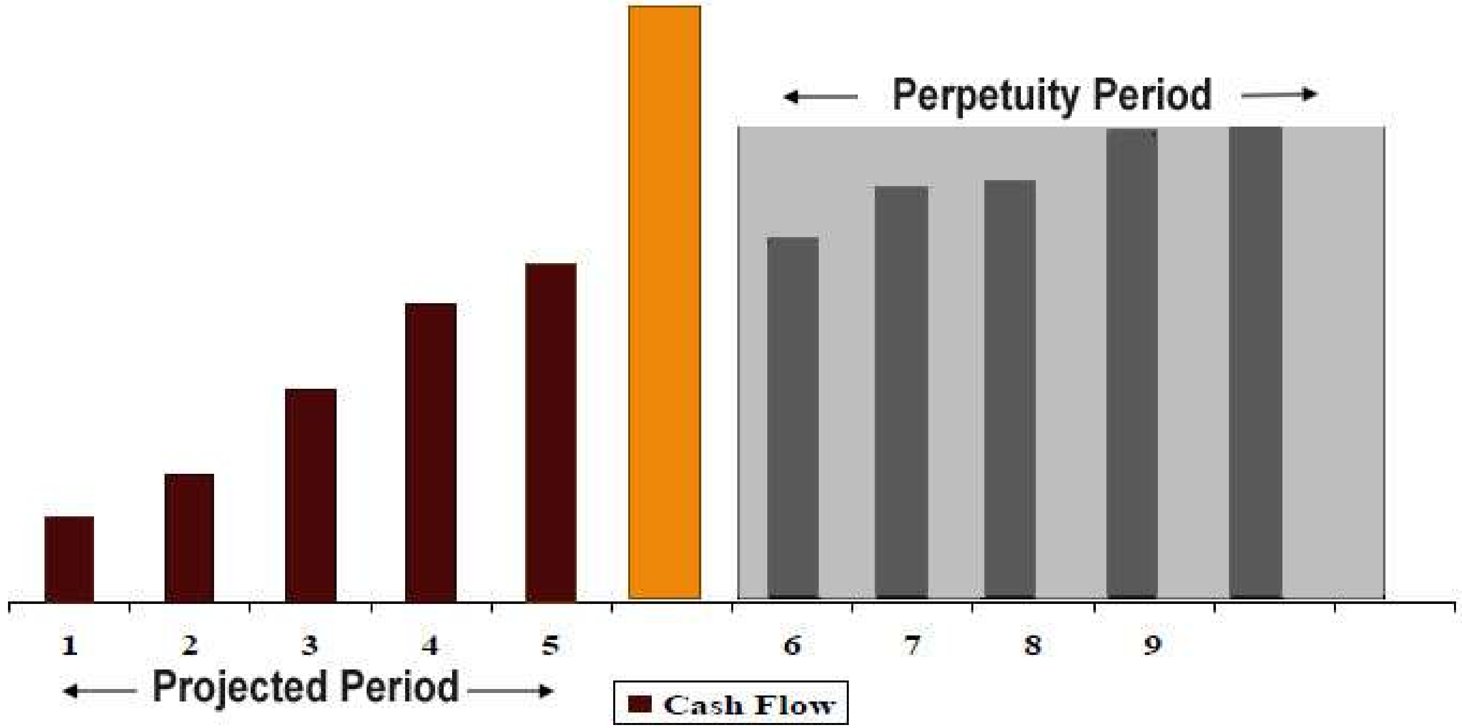
2. Assumptions about Cash Flows and Discount rates should be internally consistent (Nominal Cash Flows v, Real Cash Flows, Tax adjustments etc.)

3. Discount rates should be consistent with underlying economic factors of currency in which cash flows are denominated

Validation of projections (Discounted Cash Flow)

- **Future cash flow projections should reasonably capture the growth prospects and earning capability of the company.** Past performance, any envisaged savings or pressure on margins due to say competition should be properly reviewed.
- **Discontinuation of any part of business, Business Expansion or Diversification and any major changes in policies of the company may materially impact the projections and make it different than the historical trends.**
- **In case of Business Expansion, state of execution at time of valuation should be given due consideration.** Mere paper plans for expansion should not be taken into account.
- **In case profits are expected to be realized after a lapse of some years or if material amount is to be incurred before profits are realized, due consideration have to be given to these circumstances.** A better way could be valuing new business stream separately as it carries a different risk reward characteristics.
- Similarly in Turnaround cases, the uncertainty of higher profits in much greater. **Careful evaluation of the steps actually taken to implement its strategy should be undertaken before accepting management's claims.** If necessary, reports of Technical and other consultants should be called for.
- **For Companies which are cyclical, the forecast period should necessarily cover entire business cycle**
- **Appropriate allowance should be made for Capital Expenditure and Working Capital in Projections (for growth and also for existing capacity).**
- **In case of multiple unrelated businesses, SOTP valuation is preferred**

Free cash flows – value trend



Terminal Value is calculated for the Perpetuity period based on the Adjusted last year cash flows of the Projected period.

Free cash flow calculation

FREE CASH FLOWS

Free cash flows to firm (FCFF) is calculated as

EBITDA − (Taxes, Change in Non Cash Working capital, Capital Expenditure) = Free Cash Flow to Firm

Note that **an alternate to above is following (FCFE) method in which the value of Equity is directly valued in lieu of the value of Firm**. Under this approach, the Interest and Finance charges is also deducted to arrive at the Free Cash Flows. Adjustment is also made for Debt (Inflows and Outflows) over the definite period of Cash Flows and also in Perpetuity workings.

Theoretically, the value conclusion should remain same irrespective of the method followed (FCFF or FCFE), (Provided, assumptions are consistent).

Cost of capital calculation

DISCOUNT RATE – WEIGHTED AVERAGE COST OF CAPITAL

$$\text{WACC} = \frac{(K_d \times D) + (K_e \times E)}{(D + E)}$$

Where:

D = Debt part of capital structure

E = Equity part of capital structure

K_d = Cost of Debt (Post tax)

K_e = Cost of Equity

In case of following FCFE, Discount Rate is Ke and Not WACC

Cost of Equity calculation

DISCOUNT RATE - COST OF EQUITY

The Cost of Equity (Ke) is computed by using Modified Capital Asset Pricing Model (Mod. CAPM)

Mod. CAPM Model

ke = Rf + B (Rm-Rf) + SCRP + CSRP

Where:

Rf = Risk free rate of return (Generally taken as 10-year Government Bond Yield)

B = Beta Value (Sensitivity of the stock returns to market returns)

K_e = Cost of Equity

Rm= Market Rate of Return (Generally taken as Long Term average return of Stock Market)

SCRP = Small Company Risk Premium

CSRP= Company specific Risk premium

Terminal calculation

PERPETUITY FORMULA

- Usually comprises a Large part of Total Value and is sensitive to small changes

- Capitalizes FCF after definite forecast period as a growing perpetuity;
- Estimate Terminal Value using Terminal Value Multiplier applied on last year cash flows
- Gordon Formula is often used to derive the Terminal Cash Flows by applying the last year cash flows as a multiple of the growth rate and discounting factor

$$\frac{(1 + g)}{(WACC - g)}$$

- Estimated Terminal Value is then discounted to present day at company's cost of capital based on the discounting factor of last year projected cash flows

IMPORTANT TIP- It is advised to do Sanity check by applying Relative Valuation Multiples to the Terminal Year Financials and also doing Scenario Analysis.

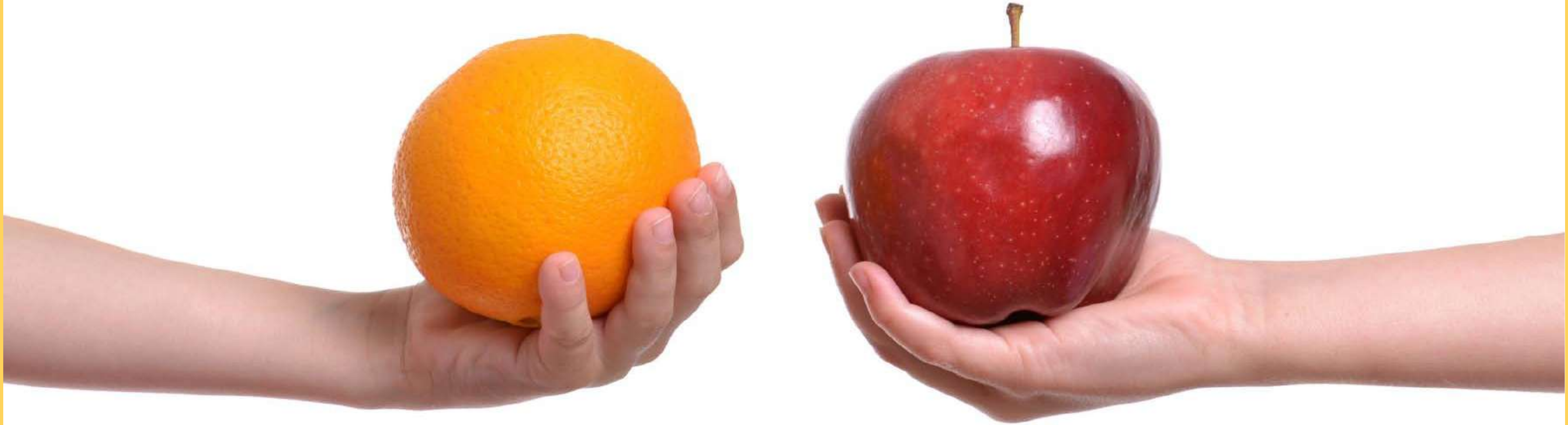
Rule of Thumb

However, Exclusive use of Rule of Thumb is not recommended

A rule of thumb or benchmark indicator is used as a reasonableness check against the values determined by the use of other valuation approaches.

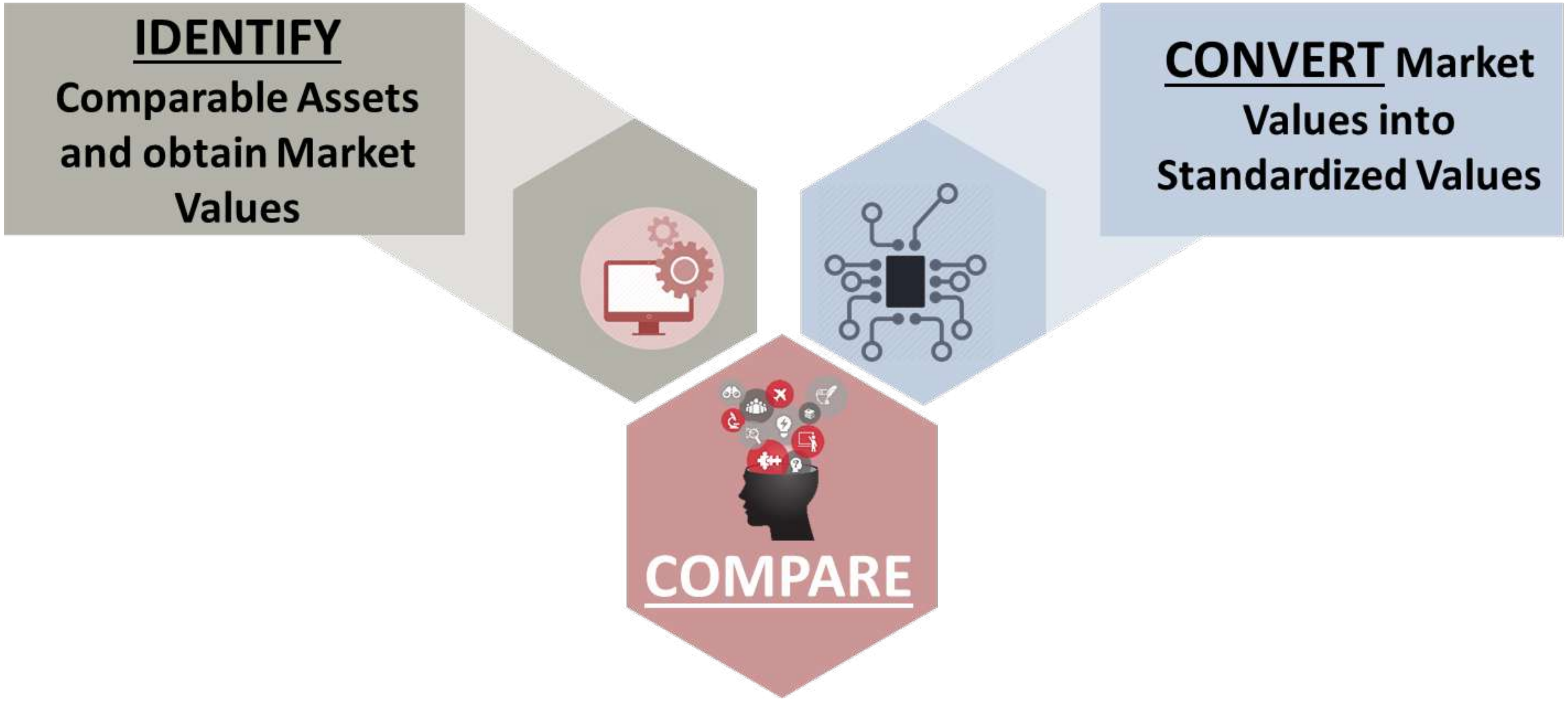
Industry	Valuation Parameters
Hospital	EV/Room
Engineering	Mcap/Order Book
Mutual Fund	Asset under management
OIL	EV/ Barrel of equivalent
Print Media	EV/Subscriber
Power	EV/MW, EBITDA/Per Unit
Entertainment & Media	EV/Per screen
Metals	EBITDA/Ton, EV/Metric ton
Textiles	EBITDA depend upon capacity utilization Percentage & per spindle value
Pharma Bulk Drugs	New Drug Approvals , Patents
Airlines	EV/Plane or EV/passenger
Shipping	EV/Order Book, Mcap/Order Book
Cement	EV/Per ton & EBITDA/Per ton
Banks	Non performing Assets , Current Account & Saving Account per Branch

Relative Valuation



What is Relative Valuation

The Value of an asset is compared to the values assessed by the market for similar or comparable assets.



Relative Valuation is Pervasive

Standardizing Value

The valuation ratio typically expresses the valuation as a function of a measure of Key Financial Metrics

Multiples can be misleading

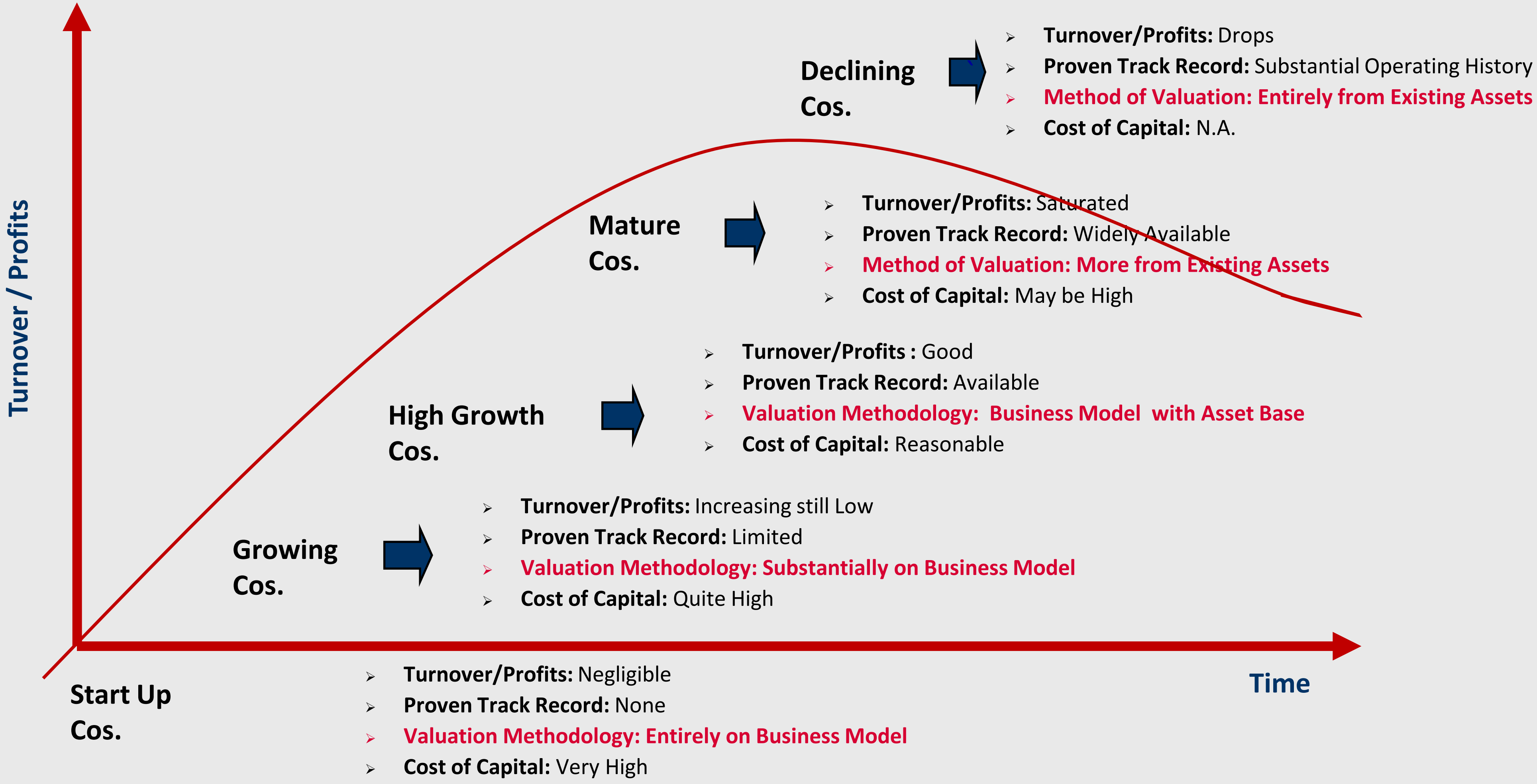
To use a multiple you must:

- Know what are the fundamentals that determine the multiple and how changes in these fundamentals change the multiple
- Know what the distribution of the multiple looks like (Mean/Median/Outliers)
- Ensure that both the denominator and numerator represent same group
  - PE, Book Value, Mcap/Sales Multiples result in Equity Value
  - EBIT, EBITDA, EV / Sales Multiple result in Enterprise Value
- Ensure that firms are comparable (Business Model, Product Profile, Geography, Stage & Size of Business, Profitability margins, Borrowings etc. play a crucial role in finding "Comps"

‘Factors that affect selection of valuation approach’

Stage of Development

Valuation across business cycle follow the LAW of ECONOMICS



‘Factors that affect selection of valuation approach’

Earning History

‘When to apply DCF’

- Resolution depends upon future earning potential;
- Availability of future earnings;

‘When to apply DCF’

- Resolution depends upon future earning potential;
- Availability of future earnings;

‘Solution to remove abnormality’

PREDICTIONS

SCENARIO ANALYSIS

- Bear;
- Base;
- Bull;

SCENARIO ANALYSIS

- Bear;
- Base;
- Bull;

SENSITIVITY ANALYSIS

- Cost of Capital;
- Growth Rate;
- Volatility;

‘Type of Sensitivity analysis’

Change in Growth rate while holding all other assumptions constant		
Particulars	**Growth Rate**	**Equity Value (INR Cr.)**
Change in Growth rate (delta effect of - 0.5%)	2.50%	1,680.79
	3.00%	**1,811.79**
Change in Growth rate (delta effect of + 0.5%)	3.50%	1,959.79

Change in WACC rate while holding all other assumptions constant		
Particulars	**WACC**	**Equity Value (INR Cr.)**
Change in WACC rate (delta effect of - 0.5%)	10.71%	2,083.56
	11.21%	**1,811.79**
Change in WACC rate (delta effect of + 0.5%)	11.71%	1,570.62

Change in Volatility rate while holding all other assumptions constant		
Particulars	**Volatility**	**Equity Value (INR Cr.)**
Change in Volatility rate (delta effect of - 0.5%)	43.55%	1,811.79
	44.05%	**1,811.79**
Change in Volatility rate (delta effect of + 0.5%)	44.55%	1,811.79

Points Of Discussion In DCF

- Projection / Discrete Period;
- Terminal Growth Rate;
- Capex in Terminal value;
- Negative Change in Non-Cash Working Capital
- Time frame of Beta;
- Debt to Equity ratio in calculation of WACC
  - As on Date of valuation;
  - If highly fluctuated;
  - If debt is getting repaid;

Points Of Discussion In DCF

- Equity Market return;
- Risk free rate;
- Company Specific Risk Premium;
- Modified CAPM;
    - Country Risk;
    - Size;
- Mid-year discounting;
- Cash & Bank Balance;

Points Of Discussion In DCF

- Share Application Money;
- Contingent Liability;
- Beneficial Accumulated Losses;
- Diluted No. of Shares;
- Impact of Inflation;
- Impact of Currency;

Global Trend In Valuation

- Environment Matters;
- Legal Matters;
- Verification of Assets;
- Provisional financials of subject Company

Types Of Premium In Cost Of Equity

- Country Risk;
- Size;
- Specific Risk Premium;

Assumptions taken in special situation like current pandemic Covid -19

The information in the valuation report should categorically reflects the prevailing conditions and the view of the Valuer as of its date.

Event Taken place Subsequent to date of Valuation

- Sale of investment / Assets
- Liquidation of mutual funds

‘Factors that affect selection of valuation approach’

Market Trend

‘Factors that affect selection of valuation approach’

Business structure


Paytm Biggest Competitors
Financial Services
paisabazaar
bankbazaar.com
policybazaar
Ticketing
bookmyshow
cleartrip
makemytrip
Stock Broking
ZERODHA
Groww
upstox
E - commerce
amazon
Flipkart
snapdeal
Fantasy Sports
RummyCircle.com
DREAM11
MPL SPORTS
Payments Bank
Jio
airtel
NSDL
Payments
PhonePe
freecharge
G Pay
Payment Gateway
Razorpay
BillDesk
PayU
Paytm
Paytm Money
Paytm Mall
Paytm First Games
Paytm Payments Bank

‘Factors that affect selection of valuation approach’

Underlying Instrument to be valued

Case Study

Transaction	ABC Limited "ABC", listed at BSE and NSE has core business verticals viz. Chemicals business (Remaining Business) and another is the 'Trading Division and Recycle Compounds' (Demerged Undertaking). Since the nature of businesses of these two verticals are unconnected and distinct. Thus, the management was contemplating the segregation of the two verticals. XYZ Limited, a unlisted company ('XYZ' or 'Resulting Company') is a group company and a part of the promoter group of "ABC" (ABC or Demerged Company). The business of Resulting Company is similar to the business of the Demerged Undertaking. Hence in order to unlock the true value of each of the business verticals and achieve prosperity in segment the management of the both the companies have decided to Demerge the 'Trading Division and Recycle Compounds' from ABC and amalgamate with XYZ.
Date of Valuation	31.03.2021
Transaction	Business Valuation
Premises	Going Concern
Methodology used	NAV, CCM, Market Price

Case Study

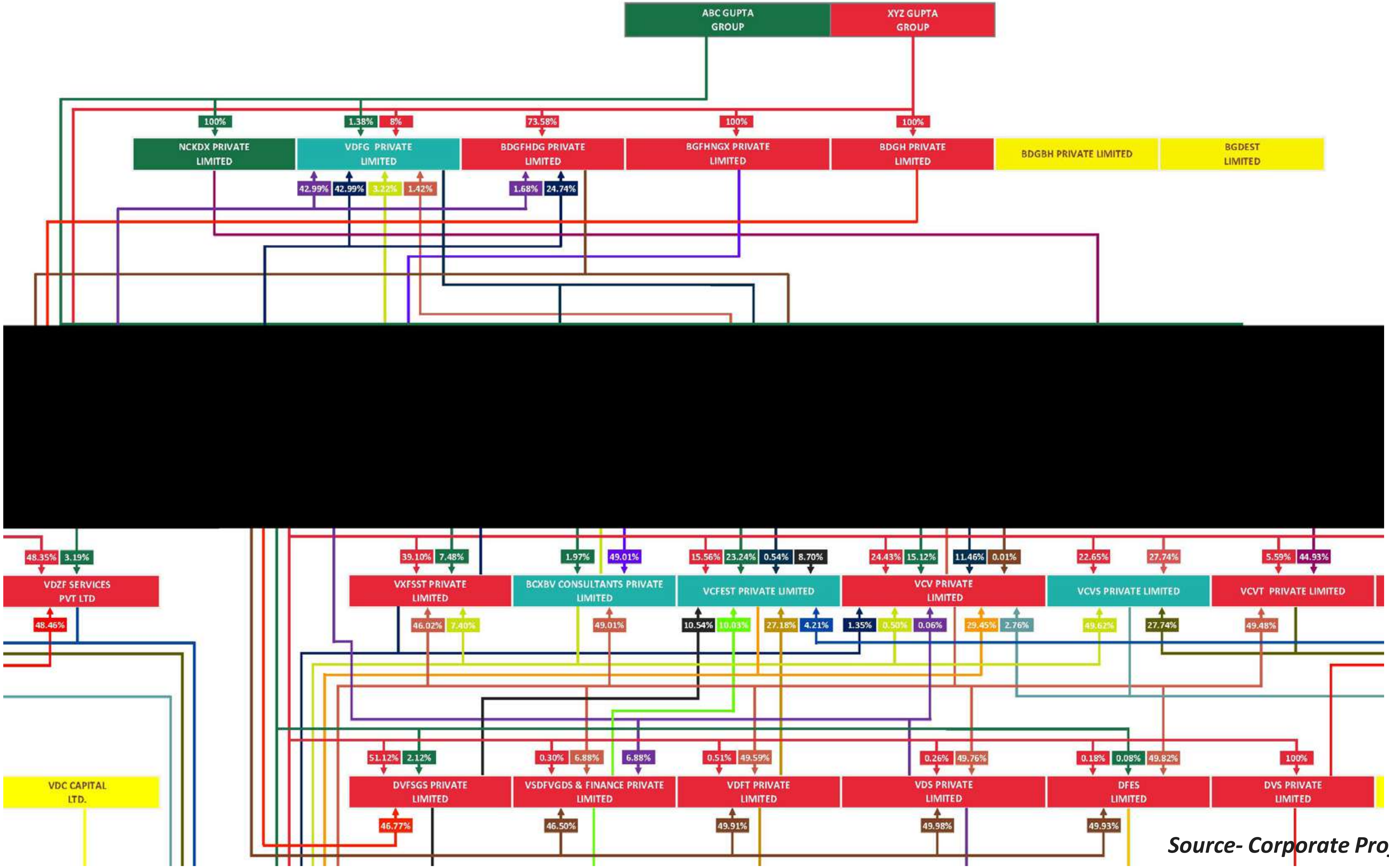
Date of Valuation	31.03.2022
Transaction	Merger of two unlisted companies, Transferee company will issue RPS as consideration

Valuation In Case Of Group Merger

Name of Company	> A Private Limited (Transferee Co.) > B Private Limited (Transferor Co. 1) > C Private Limited (Transferor Co. 2)
Listed / Unlisted	Unlisted
Date of Valuation	31-Oct-21

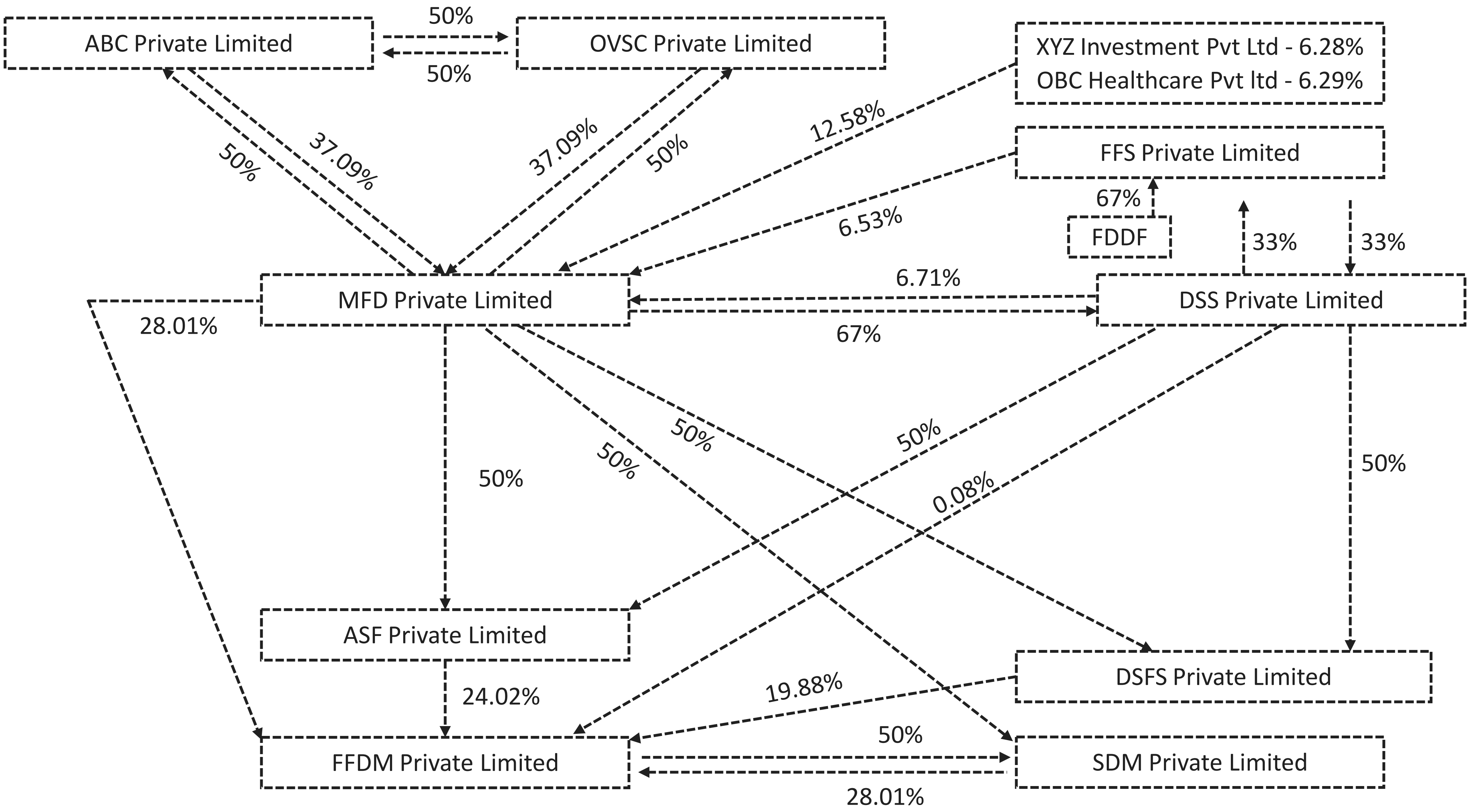
POSITION IN INDIA-

IDENTIFICATION OF BENEFICIAL OWNERS

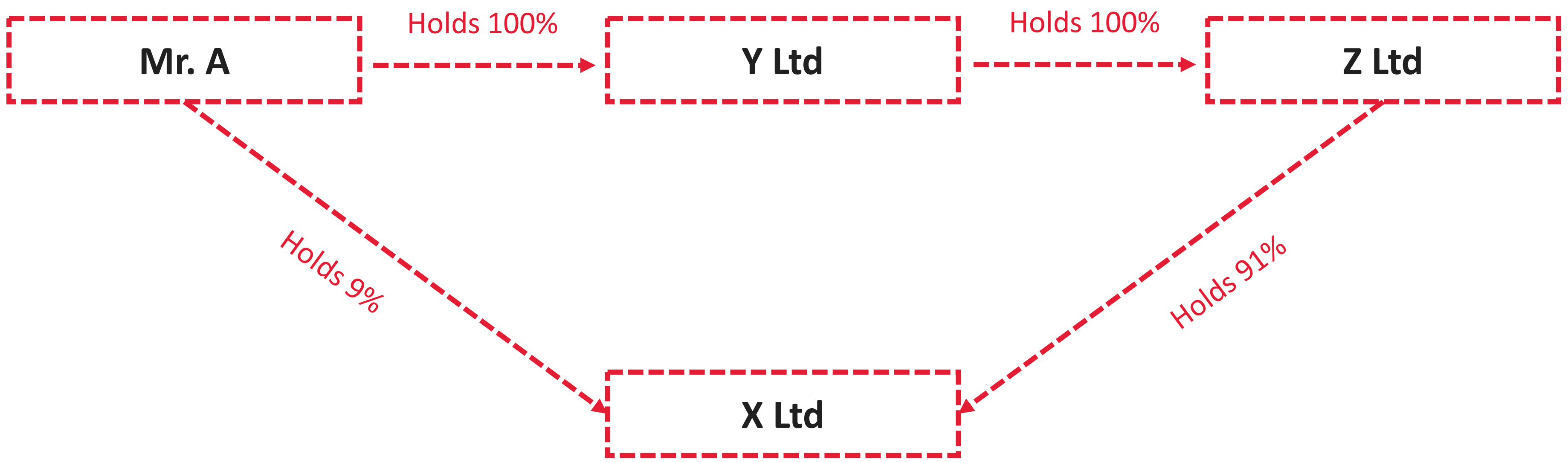


Source- Corporate Professionals

Corporate Inter-locks



Direct and indirect chain of holdings



If Mr. A holds 9% in X Ltd. directly, but he holds shares in X Ltd. **indirectly** through Z Ltd. and Y Ltd

Proportionate shareholding

$$\boxed{\textbf{Mr. A}} \xrightarrow{\text{Holds 100\%}} \boxed{\textbf{P Ltd.}} \xrightarrow{\text{Holds 50\%}} \boxed{\textbf{Q Ltd.}} \xrightarrow{\text{Holds 25\%}} \boxed{\textbf{R Ltd.}}$$

If Mr. A is holding 100% in P Ltd. and P Ltd. is holding 50% in Q Ltd. and further Q Ltd. is holding 25% in R Ltd. then Mr. A is the significant beneficial owner for Q Ltd. of 50% (100%*50%) and ultimate beneficial owner in R Ltd. of 12.5% (Proportionate- 50%*25%) through P Ltd. and Q Ltd.

Break in chain of holdings

Mr. A → (Holds 73%) → P Ltd. → (Holds 25%) → Q Ltd. → (Holds 9%) → R Ltd.

If Mr. A is holding 73% in P Ltd. and P Ltd. is holding 25% in Q Ltd. and further Q Ltd. is holding 9% in R Ltd. then Mr. A is the significant beneficial owner for Q Ltd. of 18.25% (73%*25%) but is not an ultimate beneficial owner in R Ltd. as significant holding is 1.64% (Proportionate- 18.25%*9%).

‘Factors that affect selection of valuation approach’

Purpose / Transaction

Case Study

Date of Valuation	31.03.2022
Transaction	The company is under process for reduction of share capital by way of cancellation of equity shares.
Methodology Applied	• Adjusted Net Asset Value • CCM

‘Value Reconciliation’

- **Nature of Business;**
    - **Operating**
    - **Investment Company**
    - **Capital Intensive**

Case Study

Date of Valuation	31.12.2021
Some Facts	•As of the Valuation date (December 31, 2021), subject Company engaged in the business of sourcing parts and components of heavy machinery . • Provide sourcing support to inter group companies in Hongkong and China respectively, in return for a service fee based;
Transaction	Valuation of Hongkong and China entity
Special adjustments	• Currency fluctuation risk; • Interest free loans; • Surplus Land; • Land use subject to satisfaction of statutory requirements; • Repayment of debt

Valuation In Case Of Merger Of unlisted entity with listed entity

Name of Company	> A Limited (Transferee Co.) – Listed Company > B Private Limited (Transferor Co. 1)
Listed / Unlisted	Unlisted
Date of Valuation	31-Mar-21

Regulatory Changes

CASE 1: When allotment of < 5% of post issue fully diluted share capital

Higher of:

- 90/10 trading days' volume weighted average price (VWAP) of the scrip preceding the relevant date, whichever is higher, or
- any stricter provision in the Article of Association (AOA) of the issuer company.

CASE 2: When allotment of > 5% of post issue fully diluted share capital, to an allottee either individually or acting in concert

Higher of:

- 90/10 trading days' volume weighted average price (VWAP) of the scrip preceding the relevant date, whichever is higher, or
- any stricter provision in the Article of Association (AOA) of the issuer company
- Valuation Report from a registered Independent Valuer

Frequently traded shares" means the shares of the issuer, in which the traded turnover on any recognized stock exchange during the 240 trading days preceding the relevant date, is at least 10% of the total number of shares of such class of shares of the issuer

Types of valuation engagements

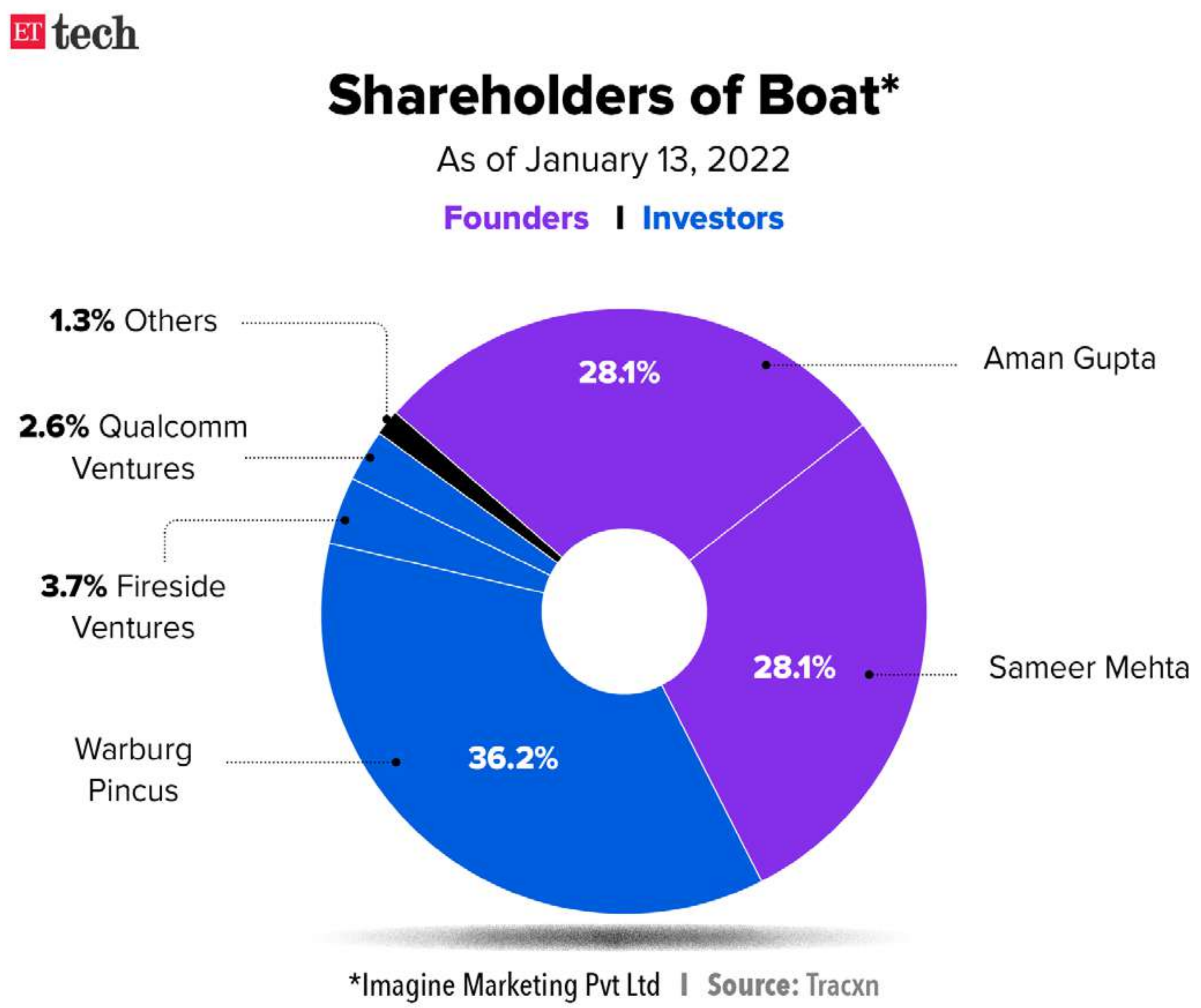
VALUATION ENGAGEMENT

CALCULATION ENGAGEMENT

REVIEW ENGAGEMENT

Scope Of Work Valuation Report

Type of Valuation Report	Economic Environment	Industry Context	Company Specific Non-Financial Information	Company Specific Financial Information Information	Valuation Context	Valuation Assessments
Comprehensive	High	High	High	High	High	High
Estimate	Moderate	Moderate	Moderate	Moderate	High to Moderate	High to Moderate
Calculation	Low	Low	Low	Low	Low to Moderate	Low to Moderate


ET tech
Shareholders of Boat*
As of January 13, 2022
Founders I Investors
1.3% Others
2.6% Qualcomm Ventures
3.7% Fireside Ventures
Warburg Pincus
36.2%
28.1%
Aman Gupta
28.1%
Sameer Mehta
*Imagine Marketing Pvt Ltd I Source: Tracxn

‘Common Challenges in Valuation’

‘Points of Discussion’

- **Financial debt assumption**
- **Specific valuation of non-operating assets**
- **Investment assumptions**
- **Basis of Valuation of a Holding Company**
- **Impact of Corporate Structure on Value of Company**

‘Points of Discussion’ Cont.

- Nature of instrument
- Availability of Credit
- Adjustment of amount belongs to ESOP pool
- Adjustment of Other Income in case investment made in subsidiary is considering as surplus into nature
- Adjustment of Surplus / operational bank deposit
- Adjustment of inter corporate loans and provisions made

‘Points of Discussion’ Cont.

- Volatility of shares in ESOP

- Amount of Debt in projected period

- Tax rate in case of Beta calculation of listed comparable company in loss

- Debt in balance sheet of the Company as part of working capital

- No information regarding projected working capital of the company

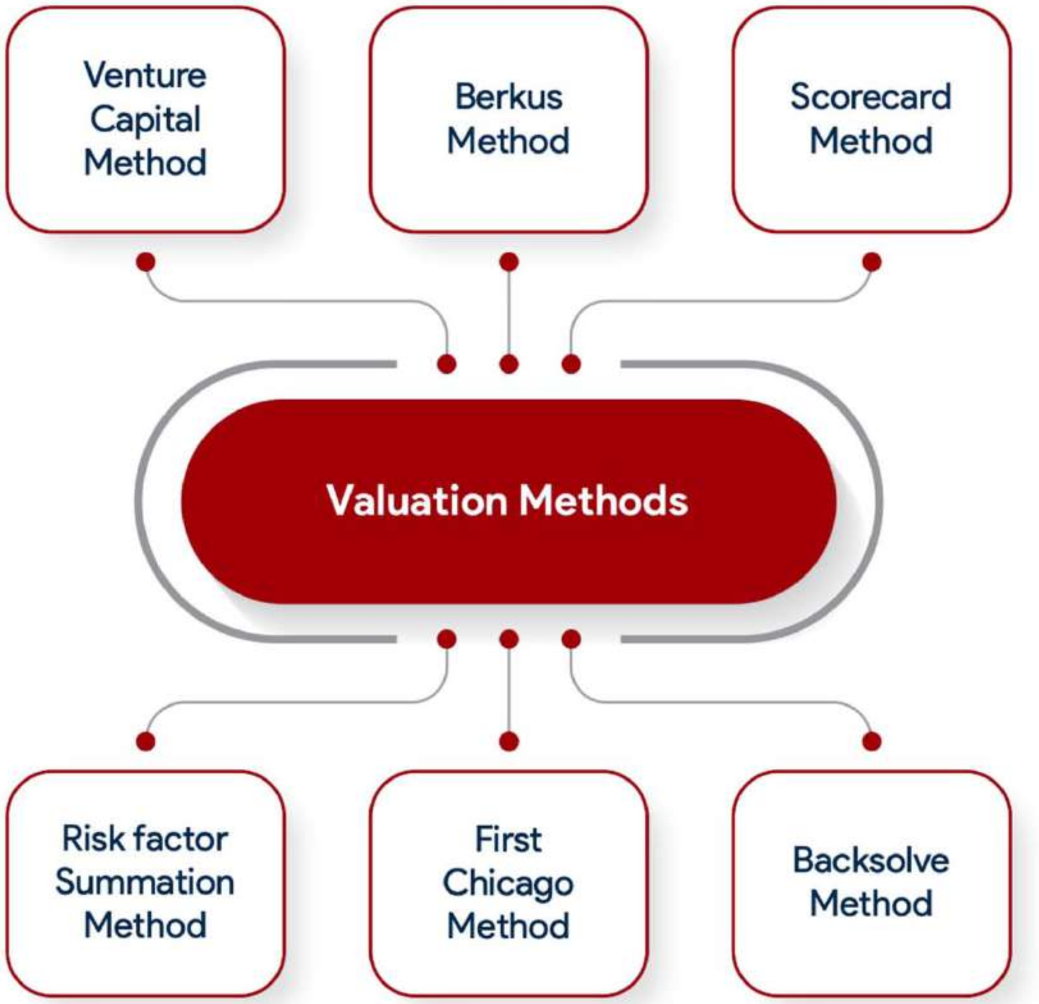

hard
work
idea
</>
launch
growth
STARTUP
2.0


STARTUP DEVELOPMENT PHASES
Growth
Vision & Mission
Minimum Viable Product (MVP)
Product Market Fit
Scale
-2
-1
0
1
2
3
Time
PRE-STARTUP
STARTUP
GROWTH
Ideation
Concepting
Commitment
Validation
Scaling
Establishing

Impact of Various Factors on the Valuation of Pre-Revenue Startup Companies

Weightage	0-30%				0-25%		0-10%	
	Strength of the Entrepreneur & Management Team				Size of the Opportunity		Competitive Environment	
Factors or Issues	Experience	Willing to step aside, if necessary for an Experienced CEO	Is the Founder Coachable?	How Complete is the Management Team ?	Size of the Target market	Potential for Revenues for Target Company in Five years	Strength of competitors in this marketplace	Strength of competitive products
Impact	(+) Many Years of Business Experience	(- -) Unwilling	(+++) Yes	(-) Entrepreneur only.	(- -) < $50 Million	(- -) < $20 Million	(- -) Dominated by a single large player	(- -) Competitive products are excellent
	(++) Experience in this business sector	(0) Neutral	(- -) No	(0) One competent player in place	(+) $100 Million	(+ +) $20 to $50 Million	(-) Dominated by several players	(+++) Competitive products are weak
	(+++) Experience as a CEO	(+++) Willing		(+) Team identified & on the sidelines	(+ +) > $100 Million	(-) > $100 Million (Will require significant additional funding)	(++) Fractured, many small players	
	(++) Experience as a COO, CFO, CTO			(+++) Competent team in place				
	(+) Experience as a product manager							
	(-) Experience in sales or technology							
	(- -) No business experience							

‘Valuation Approaches, Start-up’



Rule of Thumb

However, Exclusive use of Rule of Thumb is not recommended

A rule of thumb or benchmark indicator is used as a reasonableness check against the values determined by the use of other valuation approaches.

Industry	Valuation Parameters
Hospital	EV/Room
Engineering	Mcap/Order Book
Mutual Fund	Asset under management
OIL	EV/ Barrel of equivalent
Print Media	EV/Subscriber
Power	EV/MW, EBITDA/Per Unit
Entertainment & Media	EV/Per screen
Metals	EBITDA/Ton, EV/Metric ton
Textiles	EBITDA depend upon capacity utilization Percentage & per spindle value
Pharma Bulk Drugs	New Drug Approvals , Patents
Airlines	EV/Plane or EV/passenger
Shipping	EV/Order Book, Mcap/Order Book
Cement	EV/Per ton & EBITDA/Per ton
Banks	Non performing Assets , Current Account & Saving Account per Branch


CUSTOMERS

B2B

5.00%

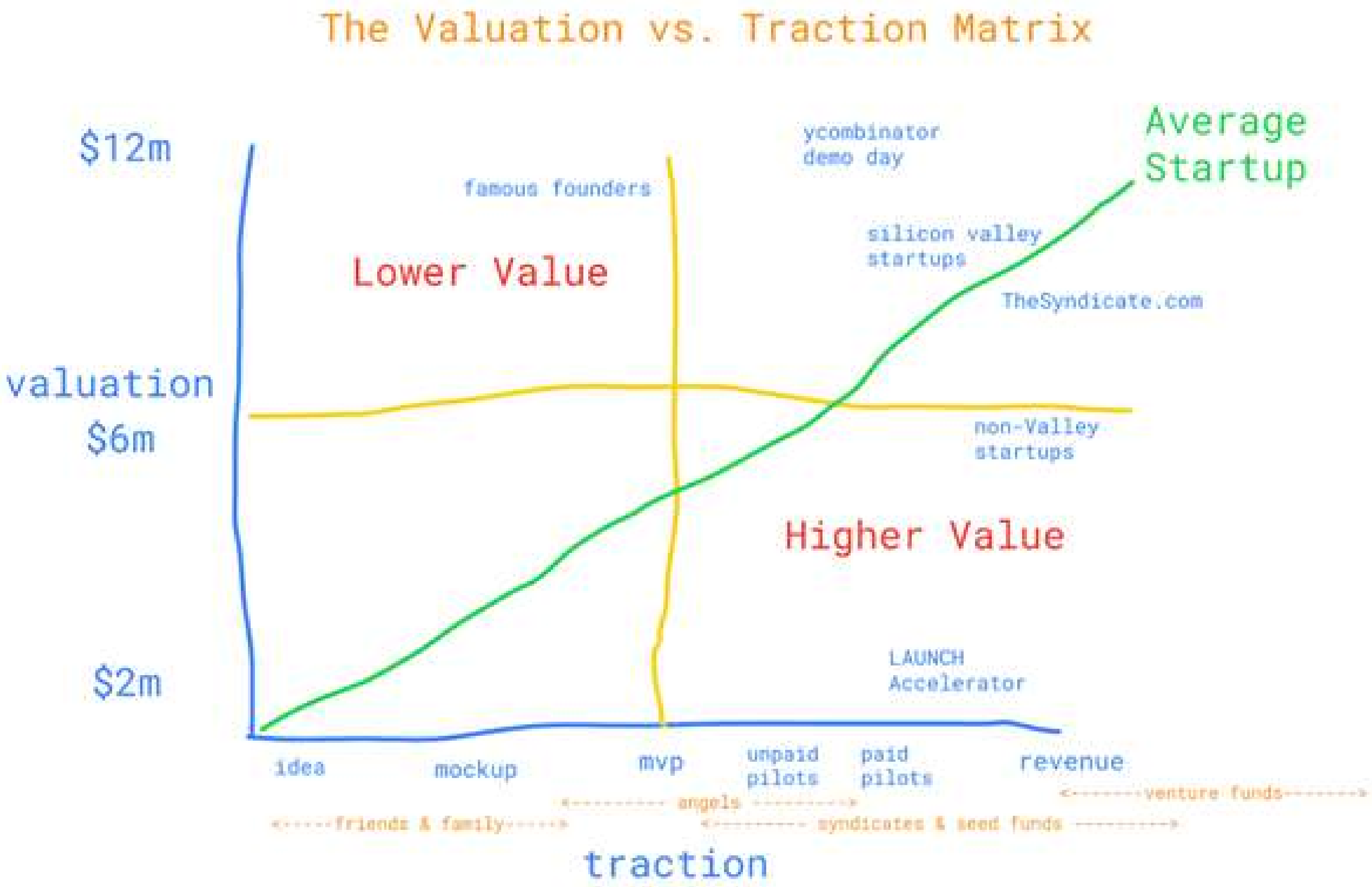
B2C

7.05%

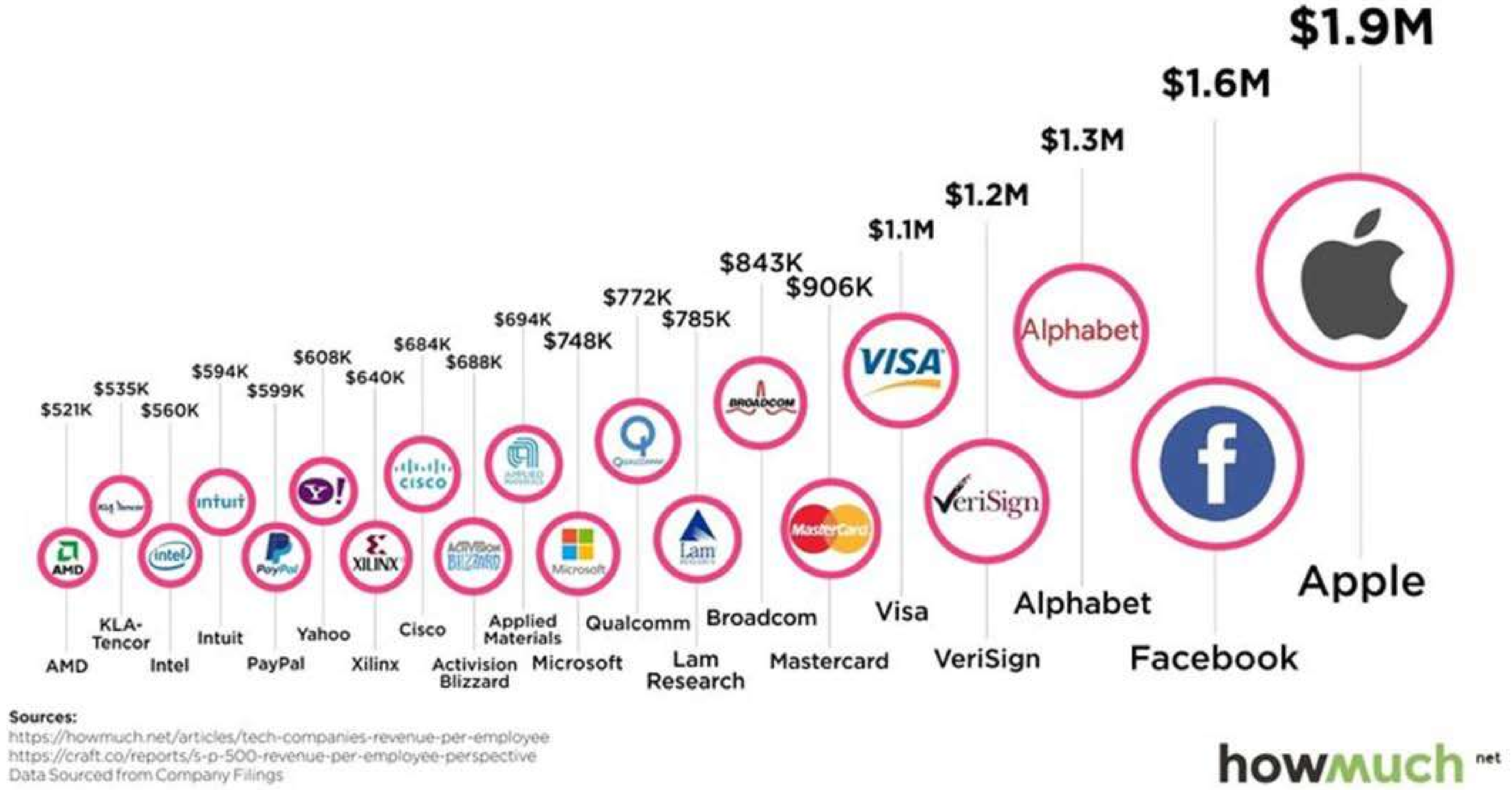
B2B vs. B2C

B2C companies experience higher churn than B2B. B2B purchase processes can be complex, resulting in a more considered purchase.

Valuation vs. Traction Matrix



Revenue per Employee



Case Study - Transaction

Date of Valuation	**31.03.2020**
Some Facts	As of the Valuation date (**March 31, 2020**), Company X had not started generating revenue and is currently operating at a loss.
	The Company has skilled co-founders. Further the Company has already made capex of INR 10 Millions and moved inched a little from idea stage by converting the idea into a commercial service and projecting a market with some revenues and profits within a span of 3 years.
	As of the valuation date, Company X product is under development phase and expects to generate revenue in FY ended 2023.
	Seeking funding of USD 1 Million.
Transaction	**Business Valuation (Where independent investment has not yet been made in the Company)**

Case Study – First Chicago

Particulars	Success	Survival	Failure
Projected Sales of the Company for FY ended 2023	199.21	132.80	74.04
Projected EBITDA of the Company for FY ended 2023	127.95	85.30	47.82
Discounting Factor	20.26%	21.26%	22.26%
Year of generating revenue	3.00	3.00	3.00
Present Value Factor	0.57	0.56	0.55
Adjusted Revenue of the Company	73.56	47.84	26.16
Industry adjusted average (EV/EBITDA Multiple)	4.00	4.00	4.00
Enterprise Value of the Company as per CCM	294.25	191.35	104.65
Probability of Each Scernario	25.00%	50.00%	25.00%
Value from Operations	195.40		
Add: Cash as on 31.03.2020	1.80		
Enterprise Value	197.20		
Less: Debt as on 31.03.2020	20.92		
Concluded Equity Value (Post Money)	176.28		
Less: Estimated Capex Required	75.34		
Concluded Equity Value (Pre Money) (INR Mn)	100.94		
Concluded Equity Value (Pre Money) USD Mn)	1.34		

Case Study – Scorecard Method

Qualitative Factors	% Weightage	Company XYZ Score	Factor
Size of the Opportunity	10%	80%	0.08
Product/Technology Uniqueness	10%	80%	0.08
Operational Status of the startup (Ideation / Concepting / Validation stage), Scaling Stage, Establishing stage	20%	60%	0.12
For how long is Core Team working together with each other and how do they complement	10%	80%	0.08
Current Traction of your startup	15%	60%	0.09
Competitive Environment	10%	40%	0.04
Need for Additional Investment	20%	40%	0.08
What alternatives do your customers using right now?	5%	60%	0.03
			0.30

Pre Money Equity Value of the Company (INR Million) (Calculated through First Chicago Method)	100.94
Scorecard Factor	0.30
Adjusted Equity Value through Scorecard Method (INR Million)	30.28
Adjusted Equity Value through Scorecard Method (USD Million)	0.40
Assumed: 1 USD is equal to INR 75.34	

Case Study – Venture Capitalist Method

Particulars	
Valuation Date	**31st March 2020**
Exit Year	**2026**
All Amount INR Million	
Revenue	258.12
EBITDA	153.65
Industry Average EV / EBITDA Multiple	4.70
Adjusted Industry Average EV / EBITDA Multiple (15% Discount)	**4.00**
Value of Operations - 2026	**613.82**
Add: Cash (Exit Year)	185.85
Enterprise Value - 2026	**799.67**
Less: Debt (Exit Year)	20.92
Equity Value - 2026	**778.75**
Less: Capex Required (Future Value)	567.28
Adjusted Equity Value - 2026	**211.48**
Discount Rate (%)	40 %
Present Value Factor	0.13
Equity Value as on Valuation Date (INR Mn)	**28.09**
Equity Value as on Valuation Date (USD Mn)	**0.37**
Assumed: 1 USD is equal to INR 75.34 **> Expected rate of investment is 40%**	

Rule of Thumb

However, Exclusive use of Rule of Thumb is not recommended

A rule of thumb or benchmark indicator is used as a reasonableness check against the values determined by the use of other valuation approaches.

Industry	Valuation Parameters
Hospital	EV/Room
Engineering	Mcap/Order Book
Mutual Fund	Asset under management
OIL	EV/ Barrel of equivalent
Print Media	EV/Subscriber
Power	EV/MW, EBITDA/Per Unit
Entertainment & Media	EV/Per screen
Metals	EBITDA/Ton, EV/Metric ton
Textiles	EBITDA depend upon capacity utilization Percentage & per spindle value
Pharma Bulk Drugs	New Drug Approvals , Patents
Airlines	EV/Plane or EV/passenger
Shipping	EV/Order Book, Mcap/Order Book
Cement	EV/Per ton & EBITDA/Per ton
Banks	Non performing Assets , Current Account & Saving Account per Branch

Leveraging Technology for Valuation

How to build up Valuation Practice

Current Landscape

Aggrieved Client

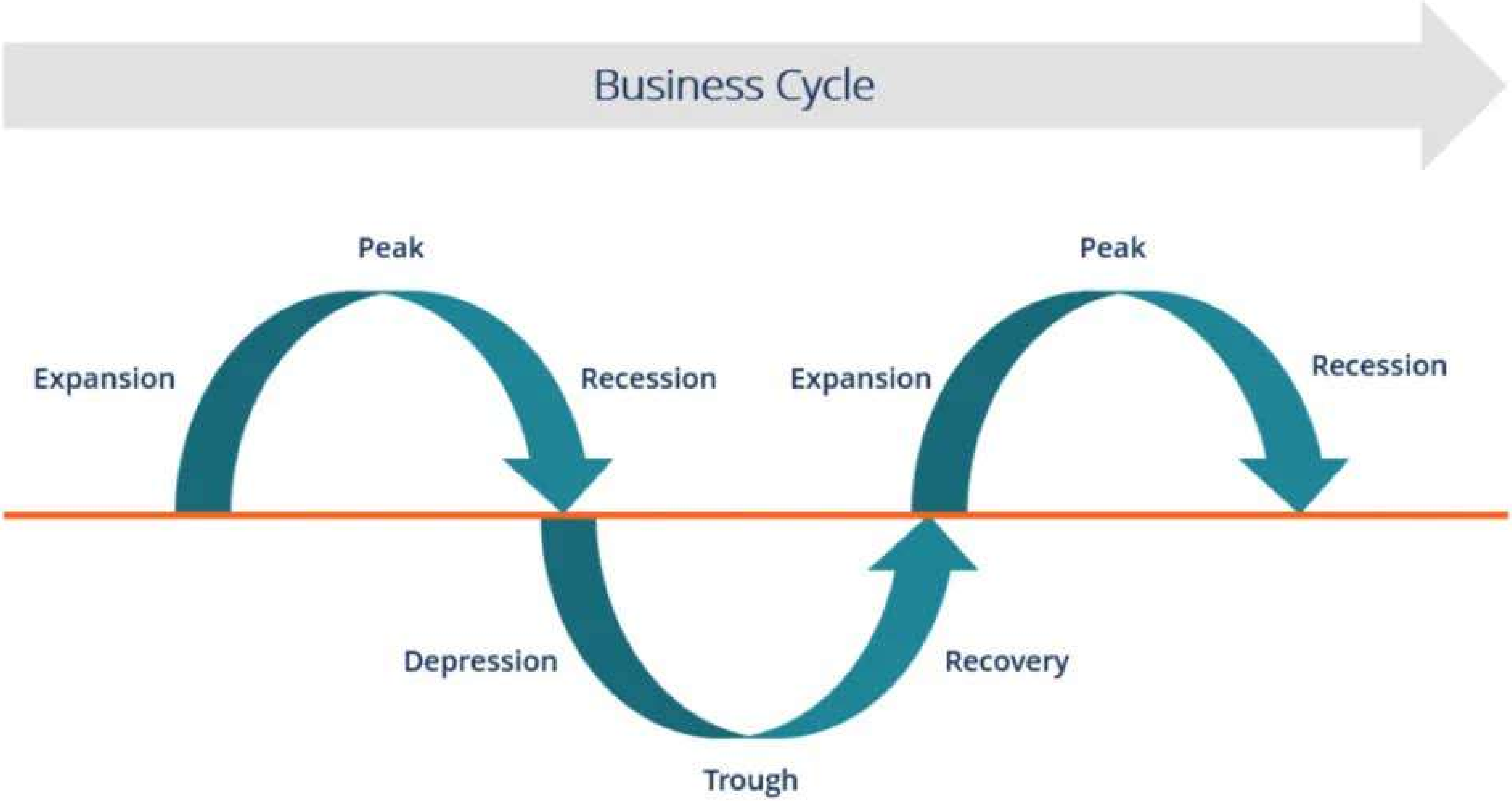
Issues Involved

- Fees
- Expectation to get whatever they want, whenever they want it with the click

Solution

- Automated Valuation Models
- Use of cloud for storage of data
- Get into in-depth level of interaction with Clients with availability of data
- No fear of Reputation Loss
- systematic process
- Inventory Valuation
- 3D Printing of building layouts

‘Valuation of Cyclical companies’



Importance Points to evaluate

- Cyclical changes in the economy
- Cyclical changes in the industry
- Changes in political uncertainty
- Cash flow for complete cycle

Questions to Answer

- Impact on Input cost of Raw Material
- Availability of Labor Force
- Supply Chain
- How other players in the market are impacted or have responded to it?
- How difficult it to raise capital considering the state of market?
- Credit Worthiness

Case Study – Transaction - 1

Date of Valuation	31.12.2021
Some Facts	•As of the Valuation date (December 31, 2021), Company X good amount of e-commerce business.
Transaction	Domain name valuation for business from India

Case Study – Transaction - 2

Date of Valuation	31.12.2021
Transaction	Valuation of Receivables for accounting purpose
Methodology applied	Credit risk adjustment

Case Study – Transaction - 3

Date of Valuation	**30.06.2021**
Transaction	*Valuation Analysis of stores / undertaking acquired by ABC Limited and purchase price allocation for acquisition consideration decided*

Case Study – Transaction - 4

Date of Valuation	**31.03.2021**
Transaction	**Challenges in Valuation of Toll Collection Company ;**

Case Study – Transaction - 5

Date of Valuation	**31.03.2020**
Transaction	Valuation of Life Insurance Company;

‘Valuation of Life Insurance companies’

Appraisal Value = Embedded Value + Goodwill or Structural Value

Where, **Embedded Value =** Adjusted net worth (ANW) + Value in Force (VIF)

Case Study – Transaction - 5

Date of Valuation	31.03.2021
Transaction	Cross Border Valuation Challenges ;

Case Study – Transaction - 6

Date of Valuation	31.03.2021
Transaction	Valuation of Corporate Guarantee ;

Case Study – Transaction - 7

Date of Valuation	31.03.2021
Transaction	Valuation of Investment Companies;

Case Study – Transaction - 8

Date of Valuation	31.03.2021
Transaction	Valuation for issuance of 0.1% Non-cumulative Optionally Convertible Redeemable Preference Share ;

Case Study – Transaction - 9

Date of Valuation	**31.03.200**
Transaction	**Valuation of Embedded Foreign Exchange Derivative component through Binomial Option Pricing Model**;
Facts	- CCD issued by the Company giving an option to investor which can be converted at any point before the expiry of 10 years from the date of allotment at the option of investor, further holder of such CCD's are entitled to receive maximum of 21% IRR in US dollar terms which means the Company is driving its value in one currency i.e. "INR"while the return on investment made in the Company is in another currency i.e. "USD". Accordingly, there are two embedded derivatives attached to an instrument, one is right to convert at any point before an expiry of an instrument and another is foreign exchange derivative.

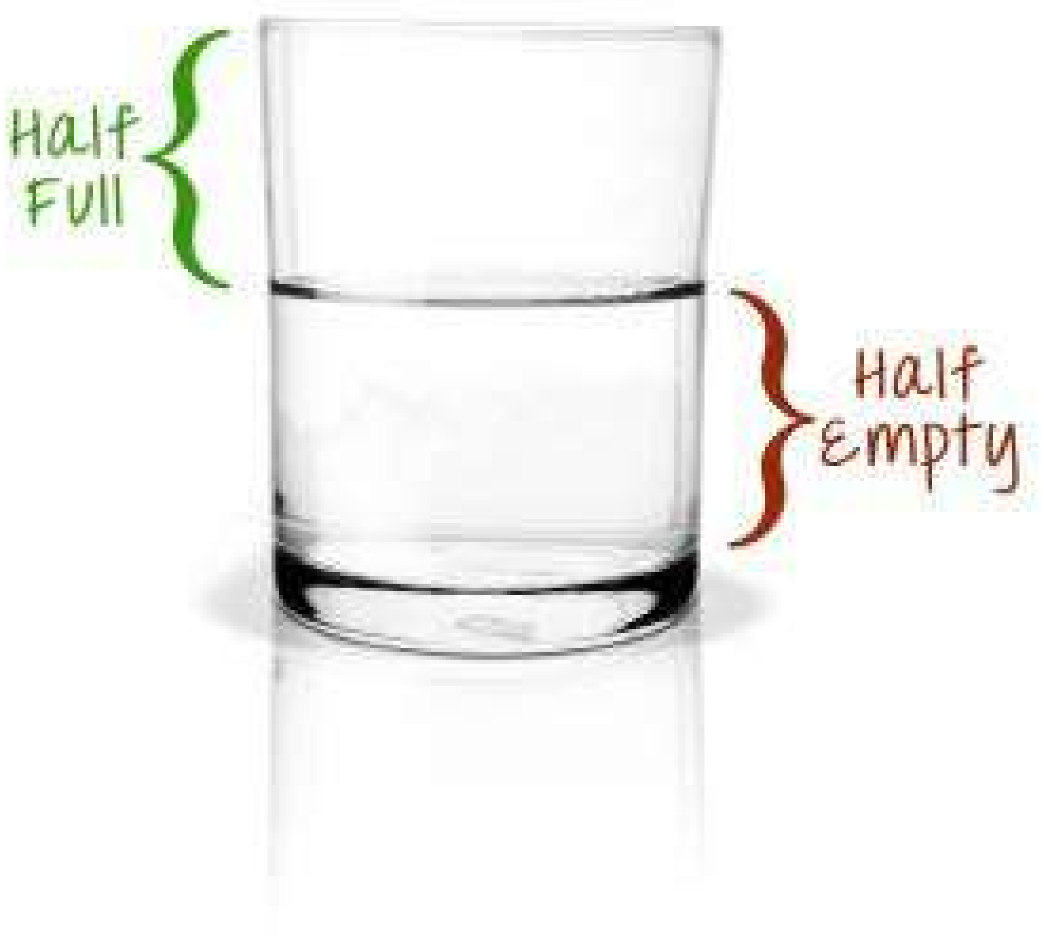
‘Valuation of arbitration Awards ’

Generally graded probability based Discounted Cash Flows valuation approach is followed to value these arbitration awards after evaluating factors like risk, timing and amount of the awards expected to receive.

Ethics and Governance

Fundamental Ethical principles as per the IVSC Code of Ethical Principles	The model code of conduct for Registered Valuers issued by MCA under Companies (Registered Valuers and Valuation Rules), 2017
Integrity	Integrity & Fairness
Objectivity	
Competence	Professional Competence
Confidentiality	Independence and Disclosure of Interest and Confidentiality
Professional Behavior	
	Due Care

Are You Looking At The Glass As Half Full Or Half Empty?



Need for Uniformity

- International Valuation Standards
- Indian Valuation Standards
- Ethical Standards
- Minimum Performance Framework

What a Professional should Do

SAAM	• Diplomacy of Corporation and Mutual Respect
DAAM	• Not to be Greedy
SPASHT KAAM	• Transparency / Ethics in work, operations and process
SATARKATA	• Vigilance
PABAND	• Time Commitment

"We must analyze all Corporate Actions and take necessary steps to Align them with new Regulatory Valuation requirements"

Let's Learn…Unlearn…Relearn

AlphaValue Consulting

THANK YOU

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