SEPTEMBER 2021

THE VALUATION PROFESSIONAL

YOUR INSIGHT JOURNAL

ICMAI REGISTERED VALUERS ORGANISATION

About ICMAI Registered Valuers Organisation

The Companies Act, 2013 brought into the light the concept of 'Registered Valuers' to regulate the practice of Valuation in India and to standardize the valuation in line with International Valuation Standards. Consequentially, The Ministry of Corporate Affairs (MCA) notified the provisions governing valuation by registered Valuers [section 247 of the Companies Act, 2013] and the Companies (Registered Valuers and Valuation) Rules, 2017, both came into effect from 18 October, 2017.

In view of the above, the Institute of Cost Accountants of India (Statutory body under an Act of Parliament) has promoted ICMAI Registered Valuers Organisation (ICMAI RVO), a section 8 company under Companies Act, 2013 on 23rd February 2018, which is recognised under Insolvency and Bankruptcy Board of India (IBBI) to conduct educational courses on Valuation for three different asset classes - Land & Building, Plant & Machinery and Securities or Financial Assets and to act as frontline regulator as Registered Valuers Organisation. ICMAI Registered Valuers Organisation is an Academic Member of International Valuation Standards Council.

GOVERNING BOARD

INDEX

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

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FROM THE CHAIRMAN's DESK

CS (Dr.) Shyam Agarwal
Chairman
ICMAI Registered Valuers Organisation

A good valuation is a bridge between stories and numbers. Every number in a valuation has a story behind it and every story about a company has to have a number attached to it. Indian markets are no longer at a stage where a stock would make money for investors because it is cheaply valued; One should focus more on valuation story rather than growth story as majority of the growth parameters are already captured in current valuation.

Growth is now a more important factor in investing than just valuation comfort. We have been seeing a series of game changing events happening in India. So we have seen the advent of 4G, the advent of smartphones, the emergence of discount brokerages, the advent of money actually flowing out of mutual funds and people making their own investment decisions. And of course, then comes the work from home, not to mention e-KYC. So all of these factors put together, have basically caused the bull market to continue upwards. Market is trading at premium valuation currently in anticipation of robust earnings growth ahead with increasing vaccination coverage. We believe market to remain firm based on various fundamental triggers, while some profit booking led correction remains on card.

FROM THE PRESIDENT's DESK

CMA Biswarup Basu
Nominee Director
ICMAI Registered Valuers Organisation

President
The Institute of Cost Accountant of India

The market in India is discovering new valuation dynamics. We are deriving our strength from the fact that we are probably the country which has shown the greatest improvement in vaccination. In terms of controlling the second wave and muting the third wave, the pace of vaccination and sero prevalence, there is a stark difference because the western world is experiencing the impact of the delta but we are not. There is also the fact that the world markets may not be reacting as well but the world growth story is continuing to have a strong underpinning and India has managed to grab the export pie. Exports have been the surprise winner for India and that has calmed down the foreign investors' worries about whether the rise in commodity prices would hurt the Indian economy. Exports have improved as we have managed to gain a share from China plus one strategy and that has been helped by the government successfully implementing its PLI scheme.

Given the sharp fall in our GDP last year and the sharp bounce back, it is very important to look at it as valuation story like a PE growth or the PEG ratio, which when plugged in the expected growth of high single digit for the following year, make those valuations look too reasonable. a lot of IPOs coming into the market are from new sectors where historic valuation models do not apply. So, the market is discovering new valuation dynamics and that is where the story lies. Last and finally, the existing earnings expectations of analysts has all been beaten by the companies and so unless they are lagging in terms of projecting the future earnings growth, that positive thing has given us further impetus to the fact that do not look at current valuations in terms of trailing but put your eyes forward in terms of the new dynamic.

FROM THE MD's DESK

Dr. S. K. Gupta
Managing Director
ICMAI Registered Valuers Organisation

Strong recovery in earnings after the first wave of Covid and a re-rating of companies where valuations turned attractive during the crises have been the driving factors for the rise in market capitalization of top business group. a global flush of liquidity and overall equity re-rating has kept the buying interest in these companies through both domestic and foreign institutional funds

The country's conglomerates have not only gained heft in the market but have also created wealth for shareholders big time. Thanks to the sizzling rally in group companies' share prices and speedy recovery in their earnings after the first Covid wave, market capitalizations of India's fabled business houses surged, adding to shareholders' kitty. On the flip side, Questionable corporate governance and weak earnings coupled with a troubled balance sheet were the factors for wealth destroyers in many companies.

Not surprisingly, India's largest group by revenue, the House of Tatas, is the largest wealth-creator for shareholders. Its 28 listed entities together added more than Rs 6 lakh crore wealth for investors since January this year — a return of over 40%. Next is Reliance Industries (RIL) Group, controlled by Mukesh Ambani. Its nine listed firms cumulatively added close to Rs 4 lakh crore wealth for investors, a return of 28%. Bajaj is the third-largest wealth creator for investors followed by Adani while Aditya Birla and L&T are neck and neck in the fifth spot.

PROFESSIONAL DEVELOPMENT

ICMAI REGISTERED VALUERS' ORGANISATION

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PROFESSIONAL DEVELOPMENT PROGRAMS

August'2021 to October'2021	
Date	**PD Programs**
31st July 2021 &01st August 2021	Certificate Course on International Valuation Standards (General)
04rth August 2021	Harmonizing Interface between IPs and RVs
07th August 2021	Learning Session on Valuation
08th August 2021	Orientation Program on Valuation
11th August 2021	Learning Session on Valuation-Zomato Valuation -Case Studies
13th-14th -15th August 2021	3 Days Learning Session on Case Studies
14th August 2021	Master Class on Valuation
16th August 2021	Orientation Program on Valuation
19th August 2021	Master Class on Valuation
21st & 22nd August 2021	Master Class on Valuation
23rd August 2021	Orientation Program on Valuation
25th August 2021	Master Class on Soft Skills
28th -29th August 2021	Use of Advance Excel in Valuation & How to use Financial Modelling in Valuation
30th August 2021	Power Learning Series Emerging Trends in Valuation
01st & 2nd September 2021	Master Class on Valuation
03rd to 5th Sept. 2021 & 09th to 12th Sept. 2021	50 hours Valuation Course on Land and Building asset class.
03rd to 5th Sept. 2021 & 09th to 12th Sept. 2021	50 hours Valuation Course on Plant and Machinery asset class.
04th & 5th September 2021	Master Learning Series
08th & 9th September 2021	Master Class on Valuation
11th & 12th September 2021	Master Class on Valuation
10th-11th-12th September 2021	3 Days Learning Session on Case Studies
15th -16th September 2021	Master Class on Practical Aspects on Valuation
17th September 2021	Learning Session for Registered Valuers
17th to 19th Sept. 2021 & 23rd to 26th Sept. 2021	50 hours Valuation Course on securities or Financial Assets
18th -19th September 2021	Master Class on Valuation
26th September 2021	Valuation Standard Conclave
29th-30th September 2021	Master Class on Valuation
02nd October 2021	Overview of Valuation and Emerging Professional Opportunities in Valuation Domain
2nd-03rd October 2021	Practical Aspects in Valuation
05th October 2021	Emerging Trends in Valuation
06th -7th October 2021	Learning Session on Valuation-STEP BY STEP GUIDE FOR CARRYING OUT VALUATION
7th -13th October 2021	50 hours Valuation Course on securities or Financial Assets

PROFESSIONAL DEVELOPMENT PROGRAMS

Upcoming Professional Development Programs

Date	PD Programs
09th -10th October 2021	Master Class on Valuation
15th -16th -17th October 2021	3 Days Learning Session on Case Studies
17th to 19th Sept. 2021 & 23rd to 26th Sept. 2021	50 hours Valuation Course on securities or Financial Assets
23rd October 2021	3 Month's Certification Program on Valuation


Articles

ESG AND VALUATION : CONCEPT, APPROACH, CHALLENGES AND WAY FORWARD

Dr. S K Gupta
Managing Director
ICMAI Registered Valuers Organization

Abstract

Environmental, Social, and Corporate Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. It's not just regulators that are driving this trend. It is being driven by investors themselves – both institutions and private individuals. – The companies that demonstrate their awareness of ESG principles are more likely to have higher valuation.

The Perspective

In the last decade, companies have come under pressure to be socially conscious and environmentally responsible, with the pressure coming sometimes from politicians, regulators, and interest groups, and sometimes from investors. The argument that corporate managers should replace their singular focus on shareholders with a broader vision, where they also serve other stakeholders, including customers, employees, and society, has found a receptive audience with corporate CEOs and institutional investors. The pitch that companies should focus on doing good is sweetened with the promise that it will also be good for their bottom line and for shareholders

These changes have caused many to participate in an evolving conversation on the impact of ESG factors on corporate value. Understanding these impacts allows a finer understanding of the effects on share price, but perhaps more importantly, how corporate decisions that impact these factors (and require resources to deal with), can be weighed with more conventional concerns like those that directly impact on customers, cost structure, and competition.

The global move towards better environmental standards is another theme that has been accelerated by the Covid-19 pandemic. Most of the world's major economies are now implementing massive investment programmes in green energy, to create jobs and futureproof their infrastructure. The investment opportunities created by the acceleration of the energy transition away from carbon should also provide many more opportunities for investors considering ESG factors

The ESG Phenomenon

Every business, is deeply intertwined with environmental, social, and governance (ESG) concerns Environmental, Social and Governance (ESG) metrics are the three central themes for measuring the sustainability and positive impact of an investment or business. While these criteria help to better determine the future performance of companies.

- The E in ESG, environmental criteria, is the energy your company takes in and the waste it discharges, the resources it needs, and the consequences for living beings as a result. Not least, *E* encompasses carbon emissions and climate change. Every company uses energy and resources; every company affects, and is affected by, the environment.
- *The* S in , social criteria, addresses the relationships your company has and the reputation it fosters with people and institutions in the communities where you do business. *S* includes labor

relations and diversity and inclusion. Every company operates within a broader, diverse society.

- *The* G in, governance, is the internal system of practices, controls, and procedures your company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders. Every company, which is itself a legal creation, requires governance.

Just as ESG is an inextricable part of how you do business, its individual elements are themselves intertwined. For example, social criteria overlaps with environmental criteria and governance when companies seek to comply with environmental laws and broader concerns about sustainability. Our focus is mostly on environmental and social criteria, but, as every leader knows, governance can never be hermetically separate. Indeed, excelling in governance calls for mastering not just the letter of laws but also their spirit—such as getting in front of violations before they occur, or ensuring transparency and dialogue with regulators instead of formalistically submitting a report and letting the results speak for themselves.

Integrating ESG into valuation model

ESG factors are integral to assessing the quality of a company and thus are a vital part of valuation process. Three key questions to determine the sustainability of competitive advantage and how it can be monetized through growth:

- Is the company a disruptor or is it insulated from disruptive change?
- Does the company demonstrate financial strength with high returns on invested capital, high margins, strong cash conversion, low capital intensity and low leverage?
- Are there environmental or social externalities not borne by the company, or governance and accounting risks that may alter the investment thesis

When integrating ESG factors into investment analysis, they are examined alongside other valuation drivers. It has been more common to process ESG factors through qualitative analysis, but investors are increasingly also quantifying and integrating ESG factors into financial forecasting and company valuation models, in alignment with other financial factors.

There is a current imbalance in supply and demand of ESG targets which is driving higher multiples, two of the bankers said, noting that well-managed companies which market themselves in a sustainable fashion gain a premium.In particular, targets in some specific sectors, such as renewable energy or biotechnology, are in high demand, therefore multiples of these kind of companies have jumped

For instance, there have been about 30 deals announced where the target was in the renewables sector over the past five years, according to *Acuris* data. Of these, 16 were undertaken over 2019, 2020 and YTD 2021. These deals were carried out at an average EV/sales and EV/EBITDA multiple of 14.1x and 15.2x respectively. This is higher than the average multiple over 2018 and 2017 in which deals were done at an average sales and EBITDA multiple of 5.4x and 13.1x each, *Acuris* analytics show.

How to Include ESG in Valuation

Every valuer considers political, environmental, social and technological factors that might have an impact on the growth of an industry, businesses within that industry or the profitability of those that operate within the industry. Accordingly, valuers consider each of these factors and the potential impact of them on revenue, costs, tax, working capital and capital expenditures, risk and market sentiment, even today. For some businesses, these factors may either be very distant, or idiosyncratic in their effect (and therefore eliminated by an investor diversifying their portfolio). In either of these cases, value impacts are unlikely to be large. However, in markets where there are substantial externalities or a stigma attached to the ownership of particular stocks or particular sectors, valuers will take these issues into account.

Environmental factors

Every valuer considers political, environmental, social and technological factors that might have an impact on the growth of an industry, businesses within that industry or the profitability of those that operate within the industry. Accordingly, valuers consider each of these factors and the potential impact of them on revenue, costs, tax, working capital and capital expenditures, risk and market sentiment, even today.

For some businesses, these factors may either be very distant, or idiosyncratic in their effect (and therefore eliminated by an investor diversifying their portfolio). In either of these cases, value impacts are unlikely to be large. However, in markets where there are substantial externalities or a stigma attached to the ownership of particular stocks or particular sectors, valuers will take these issues into account. For example, in recent days, when looking at the value of carbon intensive industries, the impacts of potential carbon taxes is often considered in terms of price forecasts and cost structure forecasts for major miners and oil and gas operators.

In addition, a number of investors have decided to remove some of these asset classes from their portfolios, particularly thermal coal related

assets. This reluctance to invest has already led to a demonstrable increase in the funding costs for those assets in the credit markets, which is increasingly translating to higher costs of equity. These changes have had an adverse effect on the pricing of thermal coal assets beyond the effect suggested by changes in commodity prices and exchange rates, which historically have been the most significant drivers of changes in prices for those sort of assets.

Social factors

Social factors represent where a business may be acting in a way outside current social mores. For valuers, the effect of these social issues is felt most profoundly on an organization's brand in the markets in which it operates. The most common markets for a company where brand plays a role are consumer, supplier, employment and capital.

The effect of brand is most significant when the identity of the counterparty is affected by association with the brand. For example, an expensive car purchase might seem eminently reasonable if the purchaser sees themselves in a better light because they own that car. Similarly, employee identity is often inextricably linked with their profession and their employer, so the choice of role is highly influenced by the brand associations of their employer and industry. Accordingly, where an organizations brand in any market is associated with the identity of the other side of the deal, social factors that impact the identity of that other party will significantly impact the price at which they would be willing to do business – or sometimes make them refuse to do business at all.

An example might help illustrate. Take a distinctive fashion brand that is exposed as a proponent of unfair labour practices in developing countries. Assuming that the situation is not remedied, those that continue to wear that brand are effectively saying "I am OK with that" - many people wouldn't be, so demand may ebb considerably for that brand, affecting cash flow and value in a very direct and straightforward way

Governance

The final aspect of governance has interesting valuation considerations.

For example, when valuers value 100% of the business, the governance question becomes almost moot, because the buyer of the entire business can change current governance practices. Of course, the costs of resolving previous governance issues may need to be allowed for, but prospectively they can almost be assumed away.

For minority interest (effectively share prices), such a convenient assumption cannot be made. When compared to valuing 100% or otherwise controlling interests, valuers will apply a discount to these minority interests. These discounts take into account a multiplicity of factors, including the propensity for the company to act in a way that is not aligned with the interests of a minority shareholder (ie issues of trust), and the propensity for poor (or perhaps just more risky) future decisions to be made. Therefore, this element of the minority discount is effectively a governance discount.

- **Market Approach:** Valuers may take a greater initiative to integrate ESG factors into current market approach procedures by identifying the relevant ESG criteria for the comparable companies. Instead of focusing on assessing different financial factors, ESG criteria may need to be included. Valuers may need to compare the performance on ESG of the subject company with that of the comparable companies.
- **Income Approach:** Valuers may need to carefully assess if they have already counted ESG factors implicitly when considering different pre-financial characteristics of a company to prevent double counting. For example, the size premium, which represent a higher rate of return for smaller companies, might have considered certain ESG factors. For Beta, similar with market approach, ESG factors may need to be considered when selecting comparable companies.

  For terminal growth rate, strong ESG criteria is likely to be positively correlated to the long-term growth rate. Valuers may need to consider adjusting the terminal growth rate by assessing the subject company's performance on ESG factors. With detailed consideration, valuers could also include a specific risk premium for ESG factors, or adjust on the projected cash flows. It would be complex and highly technical, which requires a more formal ESG framework.

Challenges in factoring ESG in Valuation

Unlike financial metrics, ESG or sustainability metrics have far more interpretation challenges due to non-standardization. That is also the reason sometimes for marked differences in ESG ratings for a company assessed by different agencies. Thus valuation benchmark remains a major challenge as the future cost and value of ESG issues are still difficult to calculate. ESG is increasingly affecting the fundamental value of a business and becoming core to what a target is worth

Key issues in linking ESG with Valuation are as under:

- What are the best conditions for linking ESG issues to value

drivers?

- What levels of analyst quality, reporting, and corporate integration of sustainability into strategy are needed?
- And how do these factors interact?
- And even when linking is successful, how does impact on corporate financial performance translate to the performance of investment funds?
- Are better financial performers more likely to succeed at ESG integration?
- Do weak performers have more/less incentives to start ESG integration
- Another dimension is visibility, which means that if your consumer doesn't know about ESG it is unlikely to affect their behavior. .
- Another complexity is competitor relativity. Essentially, if everyone in your industry is doing the same thing, it is less likely to affect your value because the alternatives for customers, employees and suppliers are restricted.

Clearly, there are still several challenges ahead of us and steps we can take. Challenges include getting stronger views on specific factors, better data from companies and sell side analysts, better measurement of our sustainability impact, and a clearer link to higher aggregation levels, so as to get an ESG macro view and an ESG asset allocation view. We are confident that we can take these steps, but wider adoption of true ESG integration by peers would be helpful, as an exchange of knowledge and experience in this area would likely speed up the learning process.

ESG Valuation in India

Indian firms are upping their game on ESG—environmental, social and governance—factors. When Zomato Ltd kicked off its roadshows for its initial public offering, its ESG measures featured as a prominent slide in its presentation. India's largest company, Reliance Industries Ltd, said recently it will invest ₹75,000 crore in green energy projects. Analysts said this will help improve its ESG score, as it will partly offset the overhang of the oil business. Elsewhere, India's largest cement firm, Ultratech Cement Ltd, aims to cut its carbon emissions by 27% by 2032 and raise the share of green energy in its total power consumption. Even as companies have increased their thrust on ESG, experts say these are still early days, and investors will need to carefully evaluate how valuations will be impacted by ESG disclosures. The path ahead is not rosy on this front for firms in certain industries. Firms in the tobacco, coal and oil sectors, for instance, will inherently find it more challenging to meet expectations on the ESG front. ITC Ltd, for instance, has labored to improve its environmental and social engagements and offset the impact of its tobacco business on ESG scores and has even succeeded.

Although a few ESG indices have outperformed the market, the direct correlation with ESG-related factors is not easy to assess. It is one thing to make an ESG announcement but following up on changes in the business model to reap the benefits of the process takes time. Valuations will not change only on the basis of companies making statements on becoming more ESG-compliant; execution is the key.

In this backdrop, market regulator Securities and Exchange Board of India's (Sebi) Business Responsibility and Sustainability Report (BRSR) is expected to meaningfully improve ESG reporting standards. The BRSR is applicable to top 1,000 listed companies based on market capitalization and would be mandatory from FY23, although it is voluntary in FY22. The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters. This would facilitate comparability across companies and sectors, thereby enabling investors to make better investment decisions.

Conclusion

In the end, business valuation outcomes are a reflection of the story line of the financial figures that serve as input for these valuations. Given the new and expanding view on risks and opportunities associated with businesses, viewing the development of industry and market forces not just with a financial lens but also with an ESG-lens, and incorporating them in the cash flows and discount-rate analysis, is a need of the hour. t the demand for better informed change is growing. Pressure from investors, employees and customers alike means that ESG ratings have become critical metrics for success. ESG is all about attracting capital flows given that ESG investment has seen a big spike in flows in recent years. While this might increase near-term costs for firms and weigh on profitability, note that more capital would eventually translate into higher valuations and lower cost of capital for corporates

VALUATION - AN OVERVIEW

CA Madhusudan Kr. Poddar
FCA, IP, Registered Valuer (SFA), DISA, DIRM

There are misconceptions among stakeholders about the exact nature of valuation and its outcome. This article seeks to present a general insight about the concept of valuation and its underlying process.

Meaning

- IVS glossary define valuation an "act or process of determining an estimate of value of an asset or liability by applying IVS." The word "value" refers to "the judgement of the valuer of the estimated amount consistent with one of the bases of value set out in IVS 104 Bases of Value."

  Here the term **estimate and judgement** are of wide importance. Value is an estimate, but not a fact. When we talk about estimation or judgement, it requires a lot of assumptions and involve subjectivity by the person valuing the assets. Different valuers may make different assumptions or conclude different judgement depending upon their understanding and perception about present or future prevailing situations affecting the subject assets under valuation. Thus, different valuers may provide different values for a same asset. There is no one single valuation that fit right for all. What is the value to one person may be inconsequential to another.

Difference between Value and Price

- To further understand what value actually is, we need to know the difference between price and value. Here we must realize that value is an economic concept. It is inherent economic worth of an asset estimated and measured in term of money. On the other hand, Price indicates the amount at which particular asset is bought or sold in an open market. The question arise here is can price differs from Value? The answer lies in degree of efficiency of market. While in an efficient market condition, market (the combined force of buyers and seller) considers all the known factors in a rational and efficient manner to discover a price that can fairly be taken as a representation of inherent worth of the asset. However, the efficient market is only a hypothecated economic scenario. In real life, markets are not always perfect. As a result, the price determined by market may not represent the true value of the asset. In favorable market conditions, one may receive price more than the value and in the reverse case one may have to sell it at a discount. Thus, while price is greatly influenced by the market conditions, no method of valuation can answer how much is the price. Price can be answered at the negotiation stage which depends upon so many economic as well as non-economic factors.

Valuation, a scientific art

- Does the fact about subjectivity involved in valuation make every valuation right? The answer is simply no. Even though a valuation involves a lot of subjectivity, it is still a rational process but not an emotional one. Attempt has been made over past few years to standardize the valuation process. Many standards settings body and regulators has set up standards for valuers. International Valuation standard council, one of the premier valuation standard setting body, has issued International Valuation standards which define overall framework that need to be followed by a valuer. Still every process undertaken in a valuation exercise can't be codified. Even working within the framework of standards, the subjectivity inherent in the valuation process can't be eliminated. This makes the valuation process as an more of an art, while the standardized aspects, application of mathematical and statistical tools and models can be termed as the scientific part of valuation. We can say Valuation is neither a pure Art nor a pure science but a perfect combination of both.

Different measurement concept of Values

- There are different concept dealing with measurement of value. The value can either be Asset specific Value (for market at large) or the Participant/ Parson Specific Value.

  Depending upon the assumed use of the assets, the value can either be going concern value or liquidation value.

  Further there can be different situations where value of an asset can most appropriately be represented by either of the three among: -

  - ✓ Price at which asset can be exchanged at marketplace; or
  - ✓ the income generating

capability of asset, or

- ✓ the cost incurred or to be incurred on the asset of same/similar utility

Selection of any specific measurement concept of value require to first identify the **purpose of the valuation, set up the bases of the value, set up the premise of valuation, selection of appropriate measurement approach and then selection of suitable method of valuation.** We will discuss the importance of all these aspects one by one.

Purpose of valuation

- ⊙ The primary determinant factor of value is the purpose of valuation. A Valuation requires an *intended purpose.* The same asset often has different values depending on the purpose of valuation. In other word, a single valuation cannot serve more than one Purpose. For example- Liquidation value measured is inappropriate for a business acquired with the intention to run as a going concern. Similarly earning based valuation is inappropriate for an asset acquired for immediate sale at a favorable price. Thus, identification of purpose is of utmost importance for a valuer. Few of the purposes are as below: -
  - ➢ Valuation for transactions purpose- Business purchase, business sale, M&A(Mergers & Acquisition),reverse merger, Recapitalization, Restructuring, LBO (Leverage Buy Out), MBO (Management Buy Out), MBI (Management Buy-In), BSA (Buy Sell Agreement), IPO, ESOPs, Buyback of shares, project financing and others
  - ➢ Valuation for financial planning purpose- Estate planning, Personal financial planning, M&A planning, strategic planning
  - ➢ Valuation for compliances purpose- Taxation Purposes, accounting purpose
  - ➢ Valuation for court cases- Bankruptcy, contractual disputes, ownership disputes, dissenting and oppressive shareholder cases

Bases of Value

- ⊙ Once the purpose is identified, the valuer needs to set up certain fundamental assumptions. These assumptions are basically related to: -
  - ➢ the transaction (actual/ hypothetical),
  - ➢ the parties (related/ nonrelated, knowledge level),
  - ➢ date of transaction (Present/ past/future),
  - ➢ market conditions (active market, efficient market) etc.

  These assumptions are called as fundamental premise or the bases of valuation. These assumptions are indicator of what type of value to be measured in an assignment. Here the valuer must need to ensure that assumptions are consistent with the purpose of valuation, as otherwise the valuation would not serve the intended purpose. This is also specified in the definition of value as per IVS that require that the value need to be *consistent with one of the bases of value set out in IVS 104 Bases of Value.*

  To standardize these fundamental assumptions, IVS 104 has prescribed six standardized bases of value specified as below: -
  - ➢ Market Value
  - ➢ Market rent
  - ➢ Equitable Value
  - ➢ Investment Value
  - ➢ Synergistic value
  - ➢ Liquidation Value

  Each base as listed above have different inbuilt assumption regarding the transaction, parties, date of transaction, market conditions. For example- the market value base assumes: -
  - ⊙ Value to be an estimated price
  - ⊙ Valuation date as transaction date
  - ⊙ Transaction is arm length transaction, after proper marketing
  - ⊙ Parties are willing, has acted knowledgably, prudently and without compulsion.
  - ⊙ Market is open and competitive

  Apart from IVS 104 identified bases, in some engagements, a valuer is required to adopt valuation bases prescribed by regulations or as agreed upon between the parties. In those cases, valuation bases are applied considering the relevant regulations, agreement or arrangement.

Premise of Value

- ⊙ Each bases of value uses a further assumption about the assumed use of asses. These are termed as Premise of Value. Premise of valuation describes the circumstances of how an *asset* or liability is to be used or deployed. IVS 104 further identify four premise of value as below:-
  - ➢ highest and best use,
  - ➢ current use/existing use,
  - ➢ orderly liquidation, and
  - ➢ forced sale.

  As an example, the market value base assumes premise of highest and best use. The liquidation value base assumes one of the two premises i.e., orderly liquidation or forced sale.

Approaches and methods of valuation

- ⊙ As we have already discussed that there can be different situations where either among the three, being the price at which asset can be exchanged at marketplace, or the income

generating capability of asset, or the cost incurred or to be incurred on the asset of same/similar utility; most appropriately defines the value. Accordingly, the appropriate value under any base can be measured using either one or combination of market approach, income approach, or the cost approach. We will discuss a brief about all three approach one by one.

- **Market approach: -** The market approach provides an indication of *value* by comparing the *asset* with identical or comparable (that is similar) *assets* for which price information is available. This approach is primarily used where there are frequent or recent observable market transaction in either the same asset, or substantially similar asset. The approach is favored because of being less subjective, however it may not be suitable where there is no market transaction in the asset or the similar asset in recent past, or if the transaction information is not available. Market price method, comparable companies' multiple method, comparable transaction multiple method are different methods under market approach.
- **Income approach: -** The income approach provides an indication of *value* by converting future cash flow to a single current value. Under the income approach, the *value* of an *asset* is determined by reference to the *value* of income, cash flow or cost savings generated by the asset. This approach is most suitable for assets where income-producing ability of the asset is the critical element affecting the value for a participant. However, it suffers from the limitation that it involves a lot of estimation, judgement and subjectivity. The cash flow may not be reliably projected or may not be available. Discounted cash flow method and its different variants like dividend discount method, DCF for Enterprise, DCF for Equity are methods under income approach.
- **Cost Approach: -** The cost approach provides an indication of *value* using the economic principle that a buyer will pay no more for an *asset* than the cost to obtain an *asset* of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of *value* by calculating the current replacement or reproduction cost of an *asset* and making deductions for physical deterioration and all other relevant forms of obsolescence. Cost approach may not be suitable where there are potential legal or regulatory hurdles or significant time involved in recreating the asset. It has limited application like for an investment-based company, a company under liquidation etc. Replacement cost method, reproduction cost method, summation method are methods under this approach.

Valuation Process

- Apart from what we have discussed so far, from identification of purpose to selection of appropriate methods of valuation, the valuation exercise usually passes through followings major stages: -
- **Asset analysis and forecasting: -** For a business valuation, Asset analysis involve macro-economic analysis, industry analysis and analysis of qualitative and quantitive sides of the business. For this the valuer collect necessary background information, analyze them, Identify the adjustments to the historical financial and non-financial information and forecast the future scale of operation if required under the methods of valuation selected.
- **Arriving at first stage valuation** – the Valuer arrives at a first stage valuation by applying the selected method of valuation on the inputs came out from study carried out in previous step.
- **Evaluating the valuation so arrived for secondary evidence and empirical testing -** This stage is the most important stage. This is the stage where the valuer and his team need to thoroughly test the valuation done by them and challenge every aspect of the finding, such that, their valuation should stand the test of purpose for which it is prepared.
- **Drafting the valuation report -** Once the valuation is arrived at, report is prepared as a final deliverable for the client.
- **Documentation -** Documentation is the insurance policy of every valuer. While valuation remains an exercise of judgment for the valuer, documentation is the manifestation of that judgment. Without documentation, it is impossible for a valuer to substantiate his assumptions, judgement and valuation opinion. Documentation provides reference material to the valuer in case of audits, investigations, legal matters and other places where a valuer is required to defend his valuation.

Conclusion

Having regard to above discussions, we can now conclude that: -

- Valuation is a not a pure science, it is a scientific art.
- Valuation is not objective; it is subjective.
- Valuation does not give precise number; the truth is that valuation process only gives an estimate.
- A single valuation cannot serve more than one purpose. Value will change if the purpose changes.
- Even Detailed valuation exercise may not provide a precise estimate of value. The truth is that any valuation is only as good as its underlying assumptions.

LET's VALUE BITCOIN

CA Mayank J. Dave

Being in the field of valuation (although I am very novice in this field) , I start calculating valuation of anything that comes in my way and start comparing value with price and after careful analysis I came to know one interesting fact. In shortrun, price and value has big difference and many times this difference is million times and second this short run can be too long.

Don't you believe me? I know you all know the price of bitcoin. However have you ever tried to make valuation of it?

Let's first understand the concept of crypto currency and then we will do valuation of bitcoin as it is oldest and most popular crypto-currency.

1) Introduction to crypto-currency.

I know most of you know what bitcoin is and might have read about it on internet but I would like to explain it again because most of articles, posts, videos available on internet are biased one or made by person who did not have proper knowledge of economics. Yes, I strongly believe that one can understand this concept only if one study economics behind it.

So let's try to understand with example

a. It's like some technocrat businessman create formula for making machine in which one unique color envelope can be printed. Some other characteristics of that machine and envelop are as below
   i. Envelop does not have any usage i.e. it cannot be used for storing anything.
   ii. The machine using which this envelop can be created is amply available and even you and me can make this machine after some modification in our computer.
   iii. To create envelop using this machine you need only two thing, electricity and time.
   iv. All the machines in world used to create this envelops are linked to each other so it can keep track of each manufactured envelop.
   v. On every addition of one envelop in this world, next envelop making require more time and more electricity than previous one.
   vi. One can transfer his envelop to other person secretly without government knowledge.
   vii. Total no of envelop going to be created by all machine is limited and cannot be created after it reach certain number so availability of this empty envelop is limited.

b. Now the person who first created some envelop give it for buying pizza after saying that you can give this envelop to some other person with good profit. Now in this way envelops were distributed at very cheap rate to some people. Now some early envelop creator people also started advertising it on internet and social media that "look, we have made something which is unique, cannot be counterfeited, cannot be destroyed, cannot be traced, so come join us and create more and more envelop or buy from market. Further to add in some fuel they say that government is printing too much envelop with promise to pay but what happen if they cannot keep their promise to pay so government is not reliable but we are reliable as our envelop cannot be counterfeited and limited in number. However, while explaining all this things, they did not explain that there is no promise to pay by anyone and there is no usage of this empty envelop in real world.

c. Now this empty envelope is accepted by Mr. X, Mr. Y, Mr. Z. So Mr A, B, C also get attracted and seeing all of them many others started buying it. Now seeing this thing, there comes marketing and financial professional who find opportunity for quick money and so they start online envelop exchange and start advertisement in big way to attract more and more people. As there are more buyers and supply are limited, the price keeps on increasing and so its return on investment is much higher as compared to other asset class. Then some high IQ people and some big billionaire and scientist also think like a layman and bought it for profit. Everyone saw this high IQ persons endorsing it and felt that those high IQ people cannot be wrong so it again increases price of empty envelop.

d. Seeing this many technocrat businesses come in market and create their own machine and start making some other unique colored envelopes with different names. New investors join in with a hope that this new one will also rise like the first case so even new colored envelop start gaining momentum. Then come some bankers who

wish to give high returns to shareholders announce that they will accept particular coin or will start owning the machine for printing empty envelopes.

In this example, this empty envelop is crypto coin, this process of creating envelop is crypto mining. I hope now you can relate it with what you have read on crypto currency and relate it with this example for getting better clarity on concept.

2. VALUATION OF BITCOIN

Before starting valuation exercise, it is required to know the object behind making valuation, let's assume that we are valuing bitcoin for purpose of investment to earn good return on investment.

As you are aware before valuing any asset, we have to ascertain first what we are valuing, what usage, right and responsibility attached to that asset. Now as it is unique thing which is newly evolved first has to put it in some asset class.

a) Determination of asset class of Bitcoin

i. Now obviously bitcoin is not physical asset as it remains only in digital world.

ii. Bitcoin is not debt instrument as there is not any promise to pay exist between two people.

iii. Whether it is equity, I think no because it did not give you ownership right in any organization.

iv. Is it intangible asset, I think no because it is not helping to create anything (so not knowhow or patent), not helping to sell anything (brand), Not providing any entertainment (copyright or content right). Now here one can argue that it has brand value but here we are valuing one bitcoin and not the platform of bitcoin. Now there can be another argument that if one consider brand value with platform of bitcoin then as number of bitcoin is limited and brand value can be divided amongst all bitcoin in equal proportion but then problem comes that this brand name cannot be encashed as such that platform is open source and no one is owning it.

v. Some people may argue that bitcoin can be used as medium of exchange (or indirectly saying it as currency) so that is proprietary value which can be considered as intangible. Now to understand this, we need to understand history and evolution of currency note and economic behind it.

vi. History and evolution of currency : As we aware that before currency evolved, people used to barter things where in they give things which they do not need or which is excess with him in exchange of thing which they need for some current or future usage. Now as it was difficult for people to trade, currency has been evolved where in king will issue currency in form of metal coin (This is in some fast-forward mode as such I know all you people know how it evolved). Now as print technology evolved, king or government start printing paper currency note wherein he write his promise to pay to whoever person come to him with note to give money in equal amount and so to be able to fulfill this promise to pay, it was required by king or government to put gold/silver of equal worth in his treasury with the theory that even if all citizen of country come on same day and ask for barter to currency note, king can give gold. Then comes the problem that government need more currency although reason was different in different country like some government want to spend more for welfare of citizen or some government want to build more infrastructure, or some government just overspend in undisciplined manner. So all government in world delink its currency issuance from gold standard to FIAT method wherein government can print its currency as it think fit without any relation with gold holding. Now in light of above, we can say that currency has promise to pay by government and for that government did not have gold in its treasury but yes government as ownership of infrastructure, ownership of future cash flow from taxes, ownership of natural resources on its land and sea territory.

vii. Now let's get back to para 2(a)(v) which we interrupted to explain currency. Now this currency has two factors, it has ultimate promise to pay by government and it has exchange value i.e. it help us in trade as medium of exchange. Now bit coin although has exchange value it did not contain ultimate promise to pay. So it is something less than currency now how much this "something less "will affect its value. To do it logical why do not we decrease promise to pay from government and check value of Indian currency note of Rs. 500 and rs. 1000 notes . Anything comes to your mind, correct, its demonetisation. As soon as promise to pay gone, the value of currency becomes zero. Let's take other example, suppose you have got cheque of rs. 1 lac issued by mr x of bank of xyz. Now suppose mr x goes bankrupt what will be value of that cheque or suppose mr x is fine but bank of xyz got bankrupt then what will be value of that cheque. So if the only characteristic asset class has is its exchangeability then it has zero value if it lakes promise to pay. Let's take real life example, Alon musk twitted on 13th may,2021 that he will not accept bitcoin and price of bitcoin tumble by 13%. Now this example tech us one new theory. i.e. currency has value because of creditworthiness of its promiser to pay and stronger the promise, higher the exchangeability. In this case as soon as telsa start accepting bitcoin against its car, people find it as promise by telsa to pay

something in return of bitcoin and as soon as promise broken, its value decrease.

So do you think that bitcoin will fit in any current asset class. I think no so lets create one new asset class and name it as crypto-currency and assume without any argument that yes there is one asset class namely crypto-currency and bitcoin is one of crypto-currency.

Now as such it is new asset class, we have to search for proper method of valuation so let's try to apply each valuation approach and method and find out which is best suited for this.

b) Premises of Valuation :

As we do not know whether it will fall within definition of securities or financial asset or not but it's something nearest to it. So, let's assume it as financial instrument and let's decided premises of valuation.

Now, it's really tricky because if we calculate its value on premises of liquidation, it will have zero value as there is no ultimate promise to pay by any person and it did not have any underlaying asset by selling which we can get some worth. So at least for this exercise we will consider it on premises of going concern.

c) Approach of valuation

As we studied, there are three approaches to valuation. Let's check each one by one

i. Cost Approach: Cost approach is based on assumption that value of business or investment can be determined based on the cost to rebuild or replace. However, there is one other important concept which normally prevent one from valuing business with cost approach and it is theory of sunk cost ie. Cost already incurred has no value and only value attributable to asset is its future benefit reduced by pending cost to be incurred.

Now, whether bitcoin can be valued at cost approach? Let's first calculate it at cost value with replacement or rebuild method. At present , one can do crypto mining (the process in which computer will work for long period of time running some software and using lot of electricity and produce one bitcoin). Now to mine 1 bitcoin, it take 44972.88 usd worth of electricity and let's add depreciation of hardware and time cost of money, it come out to 47000 usd. So it we calculate with cost approach, cost to mine it is 47000 usd per bitcoin i.e. Rs. 34,24,603.

We will evaluate whether cost approach is proper approach or not after calculating valuation with other alternative methods.

ii. Discounted Cash flow :

The most widely adopted method for valuing financial instrument is DCF method where in all future cash flows will be discounted to present value. Now as such bitcoin is not providing any cash flow in form of interest, dividend or profit during the holding period of same, its cash flow can be considered as zero. And so its valuation as per DCF method is zero. We will discuss appropriateness of this method in later part of this exercise.

iii. Market Approach:

Market approach uses relative valuation. Following are techniques for market approach

In this method, a valuer shall consider the traded price observed over a reasonable period while valuing asset which are traded in active market. Active market means market that routinely experience high transaction volumes. Now as on date of writing this article, price of bitcoin is Rs. 27,85,463 (Price was Rs. 42,12,916 as on 01-05-2021) as per google. However following are other relevant information required to be considered while deciding whether market approach is correct or not which we will discuss in later part of article. However some of the factor affecting market price of bitcoin presently in india is as below

- It is informed by wazir x(one of private exchange which facilitate transaction in bitcoin in india) that as such no bank is providing banking facility for transaction made through wazir x , they will not able to provide payment facility and member has to do transaction peer to peer.
- China and turkey has banned crypto coin trading. In india, bill has been prepared twice where in first bill was prepared in 2019 which was drafted with full ban on crypto currency trading but somehow could not be introduced in parliament and second bill is going to be introduced in parliament in current year which will most probably going to ban crypto currency trading in india.
- RBI has already issued notification banning crypto currency trading through banking channel in 2017 which was although nullified by supreme court based on lack of jurisdiction but RBI has again issued caution warning to all banks and so all banks has removed banking support to crypto currency exchanges in india.
- Price of bitcoin jumped by more than 10% just based on one twit of alon musk.

iv. Comparable transaction :

As this asset class is new in market, let's find comparable asset which same characteristic and let's find price of those comparable asset. After thinking lot, I come to conclusion that this bitcoin are same as plastic coin used to play board game like monopoly. As such while children were playing that game, there is limited supply of the plastic coin in that game and it has value till children

play that game. However while playing that game due to some misunderstanding some player start believing that they will get real money at end of game and so everyone start to accumulating as much coin as possible and for that they start giving real money to other player to purchase plastic coin from them however those player who did not have misunderstanding sell their plastic coin at high price to those people who were under misunderstanding that they will get real money at end of game against those plastic coin. So the time till that misunderstanding remain amongst player, price of those coin reached to crores but as soon as misunderstanding got clarified by parents, the price reached to zero. So as per comparable product method valuation of bitcoin is zero.

d) Discussion on appropriateness of approach to value

Now in light of above analysis let's decide which is the most appropriate method to value bitcoin?

The first approached which we discussed was cost method however as name itself suggest that cost means what is incurred to built that and it cannot be equal to value as such cost is what is spent or incurred to creates something while value is worth of asset so there is no direct nexus between what was cost incurred to create something with how much worth that asset is. Let's take one real life example, there was one bridge under construction and substantial amount was spent on construction, however due to some flaw in drawing of bridge that bridge collapsed and resulted in death of 10 people. Now cost of bridge was say rs. 25 crore but value of that bridge was zero or even can be said negative value just due to minor flaw in design. Now as such bitcoin mining create new bitcoin but amount spend to create one bitcoin cannot be considered as value due to reason explained above. Further replacement cost mostly work as upper cap on valuation as such it will create replica of some other asset and so valuation of that asset cannot be more than cost to create replica of same and so we can say that upper cap on valuation of bitcoin is 47000 usd but it cannot be considered as value of same.

Now the second approach we used was discounted cash flow where in cash flow during lifetime of asset is discounted to present value using cost of capital however as such crypto currency did not have any cash flow till it is sold so this method is not appropriate to value bitcoin.

Now let's discuss market value approach. Before considering market value approach, let's differentiate between price and value as such this is exercise to discover valuation of bitcoin and not price of bitcoin so one can find price of bitcoin by google it but we are doing some fruitful exercise to discover its value. Price is amount of money expected to be given for something and following are factor governing price and comment on each factor how this factor play role in determining price of bitcoin

- Demand and supply: Its supply is artificially limited so its prices keep on increasing when demand increase due to non possibility of new supply.
- Cost of production: its lower cap of price i.e. normally people will not sell below its cost price.
- Price of alternative product: As discussed it has no physical world usage as product and it has usage as medium of exchange so alternative to crypto currency is traditional currency printed by government.
- Purchasing power of customer : People who are buying bitcoin is buying it as investment and not as product for usage and so purchasing power has no effect on price of bitcoin as such due to divisibility of bitcoin, it can be bought for as low as rs. 100 denomination.
- Marketing method used and sentiment of people: It is marketed as something alternative to real world currency although it is not and so people by mistake believe it as valuable as real world currency. It has been marketed that your real world currency will have decreased value due to inflation while crypto currency will not have affect of inflation and rather based on its price trend, it can be said that in last 10 year, that currency has deflation in place of inflation.
- Usefulness or perceived value: Price is perceived value of thing and people perceived it as digital gold. Creator of crypto-currency tried to put all the characteristics in crypto-currency which gold has in real world, to create perceived value as bitcoin has. People start comparing it with gold based on the jargon like crypto mining, limited availability, mining becomes difficult so marginal cost increase after every new unit added as happen in gold mining. However, people forget that gold has value of beautification and will going to remain in market in foreseeable future.

Now as such there is vast difference between valuation as per market value approach and other than market value approach, so it is important to understand what are normally reason for difference between price and value

i. I think difference upto 5% arise due to liquidity factor i.e. mismatch between demand and supply, lake of enough liquidity in market or lake of arbitrator in market.

ii. Next 20% difference I will attribute to the estimation of value behind product between different market participation. In short term different investor estimate different earning capacity of investment and so they estimate their valuation differently however mostly estimate of different brokerage houses on different security vary from + or – 20% to mean of it.

iii. Now I will attribute difference above (20+5)% between market price and valuation as misinformation

or hidden information. Now misinformation can be both side i.e. positive or negative. For example, satyam company's share were trading at Rs. 500+ although its real valuation was nearly Rs. 50 and only its management had got the knowledge of real valuation. It's share traded at ten time valuation for nearly 7 to 8 year. Now as soon as Mr. raju revealed true fact, within week its price reached below rs. 10. So it is example showing how misinformation can keep price very high for considerably long period of time.

iv. Timing difference: I believe that it take long time for investor to understand real valuation of investment and in short term there may be considerable difference between price and value however in long term price will reach near to value and at that stage difference between price and value remain under + or – 25% differences. However what time span means short-term is different for each and every security. For example, share price of satyam remain overvalued for more than 7 to 8 year and in same way market value of share of ITC remain undervalued for more than 10 years (this is period since I am tracking it) and do not know when its price will intercept its valuation so even after 10 year its short term has not completed. I am providing example of shares because we can relate it easily however it can be in any other asset class.

Now in light of above reason, we can comfortably say that market value approach cannot be applied for valuation as such what market valuation approach is providing is its price and as we analyzed above, there may be misinformation about investment and market can remain misinformed for very long period and so price can be considered as mirror of value only in long term and as such crypto currency is into market from very short time in market, its price cannot be considered as anywhere near to its value. So I will rule out its price as its value.

Now if I am ruling out all the approach of valuation as discussed above what shall be its valuation.

3. CONCLUSION

I will consider *valuation* of bitcoin as same as plastic coin used to play monopoly game and in support of my contention, I will present following arguments

a. There is no intrinsic value of bitcoin.

b. There is no promise to pay by any person unlike government currency. One can give many arguments why government currency is also not reliable or one day government currency will lose value due to inflation however it will be limitation of government currency buy by mistake people start believing that as its alternative to government currency, it did not have the limitation.

c. An asset class whose price moved 30% just due to twitter of some private company owner is nothing but gamble and cannot be put in category of investment.

d. The market price it command is big misinformation amongst its trader and investor and will going to remain in short term however in long term it will traded at junk value only.

e. Let's hypothetically assume that there will be only private crypto-currency in world and all government currency got removed from world as claimed by crypto advocates. What will happen then

   i. As government did not have its own currency, it may not be in position to print money as and when needed (for situation like war, natural calamity, pandemic, etc) and so has to remain dependent on market borrowing however as such there is very limited crypto currency in market, government has to borrow at too high interest rate and so it will either did not make borrowing or make too little and so just imagine what will happen to country or poor one in such situation.

   ii. As people can generate bitcoin using electricity and each increase in number of bitcoin in world will require higher electricity consumption, people will stop manufacturing real life things and keep investing in factory that create bitcoin or any other such crypto coin which will lead to prevention of growth and scarcity of real life products.

   iii. As crypto-currency are traded or exchanged through computer only, there will be continuous hacking attempt and even one successful attempt will rob peoples from their lifesaving.

   iv. As government will not have power to control money, its power on financial policy and taxation will also decreased substantial and it will decrease power of government and substantially increase power of technology-companies and promoters of those companies. Now as such these non-government companies has main object of increasing share value of company, they will work for profit and not for welfare of people like government do.

   v. I also have doubt whether money multiplier effect which normal flat currency can produced will not be possible in crypto currency due to its uniqueness and its technology.

   vi. Due to limitation in supply,

crypto currency will push lot of people below poverty line.

vii. As government did not have trail of currency, it will permanently close trail to catch criminal using crypto currency which is becoming major source of exchange between criminal. So it will make world more unsafe.

viii. Anyone with knowledge of block chain technology and some marketing investment can start his own crypto currency, sell it in market and run away. Who will control it ? if you say its government who will control , then problem is that believer of crypto currency has already concluded that government is irresponsible and that's why they are introducing this crypto currency.

ix. Last but not least as per my assumption, under what right people who is creating crypto currency can take real world money in exchange of some junk software code. Do one want to make this junkie our next government?

f. Then why bitcoin is accepted in market from such a long period and traded at such high price? I will tyr to answer it as below

i. Misinformation

ii. Marketing – yes those who understand it avoid it however will not come out and explain other why it shall not be invested. But those who did not understand it earned fortune and so come out like mad and start explaining people why it shall be invested. I have seen chartered accountant making video on their YouTube channel explaining limitation of fiat currency and suggesting by explaining what crypto currency is and why one shall invest. And yes those paid publicity sponsored by crypto exchanges did not have any limit as such they are earning unimaginably due to this fad.

iii. If one open YouTube and search 5 video in support of crypto currency and 5 video in oppose of crypto currency, One can observe difference in quality of video wherein those video which support crypto are well crafted with lot of jargon and information and mostly focusing on word like future, bumper return, technology without explaining what this crypto is and video's of opposite side are although logical but made in such way that only expert in finance and economics will be able to digest the video.

iv. Feeling of left out: yes, this is the biggest reason for getting into financial trap in investment market. In any investment product, which has bullish momentum for considerably long period will attract lot of people at end of cycle and people who enters in this cycle do not know when this cycle will end and due to underperformance of other investment products, people diversify they investment from traditional investment products to crypto currency and so it keep on increasing and higher the rate of increase, higher the number of people get attracted so seeing bigger size of bubble people start believing it as big attractive products however do not see what's under this bubble.

v. Government is indecisive on this and so people start believing that this is genuine investment. Now why government did not stop it? I think there is some powerful lobby who find it safe medium of exchange and safe vehicle to invest which cannot be caught by any low enforcement agency and so keep their illegitimate asset in safe heaven as such even swiss bank now started sharing their account holder detail.

vi. Is it scam? if yes then who is scammer? I will consider it as scam which is not done purposefully but it become scam on its own without knowledge of any body. If I am new investor and I invested some money in crypto currency, it will marginally increase market capitalization of crypto currency and so indirectly I become contributor to this scam as marginal increase in market capitalization will attract more investor and becoming victim of this scam so I will say that as such people do not find any scammer, people believe that it is not scam and so investor believe it as genuine.

So I suggest lawmakers to get crypto currency valued by some expert valuer and if their valuation matches with my valuation, kindly pass the ordinance immediately to prevent people at large from getting duped. RBI is trying its best to stop crypto trading however due to lake of legal framework in India to prevent crypto trading it is not successful in its complete prevention. Even government believe this and has been in process of passing required law but each day's delay is wiping out millions of people's hard-earned saving and I cannot imagine what will happen when this bubble will burst to those investors.

VALUATION OF AAC BLOCK MANUFACTURING UNIT

Er. Vr. Parth Shah
Registered Valuer
B.Tech, M.Sc. (Real Estate Valuation)
M.Val (Plant & Machinery), Chartered Engineer (I)

WHAT IS AAC ?

In 1914 the Swedes formulated a mixture of cement, lime, water and sand that expanded due to aeration upon addition of aluminium powder. A material like wood but without the disadvantages of combustibility, decay and termite damage was obtained. The material was further developed to what we know today as Autoclaved Aerated Concrete (AAC).

Autoclaved Aerated Concrete (AAC) is a fully integrated building system of panels and blocks that are used for residential, commercial and industrial buildings. AAC, a light-weight green building material, is fire resistant and has good thermal insulation, solid structure and is easy to work with. AAC is manufactured in 35 countries and is used extensively in residential, commercial and industrial buildings.

Advantages of AAC product

1. Eco-friendly & Sustainable
2. Lightweight
3. Thermally Insulated & Energy Efficient
4. Fire Resistant
5. Accoustic Performance
6. Easy Workability and Design Flexibility
7. Seismic Resistant
8. Precision
9. Termite/Pest Resistant
10. Low Maintenance
11. Faster Construction

PROCESS FLOW CHART

Stage 1: Raw material feeding in storage

Stage 2: Fly ash slurry + weigh batch

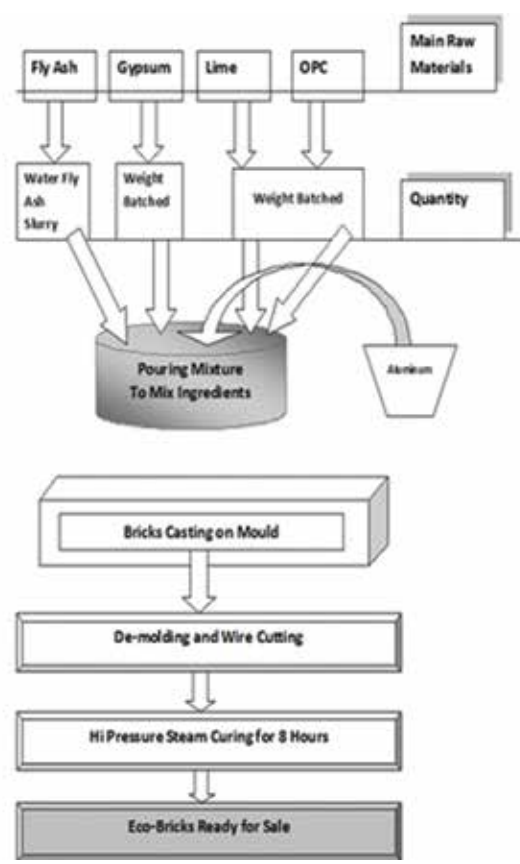
Stage 3: Procuring mixture

Stage 4: Brick casting in mould

Stage 5: Precuring time

Stage 6: Demoulding and wire cutting

Stage 7: Hi pressure steam curing



(

Source: Internet)

A CASE STUDY

1.	Appointment by	:	Insolvency Resolution Professional
2.	Date of Appointment	:	XX.05.2021
3.	Purpose of Valuation	:	To determine fair value and liquidation value of tangible fixed asset under regulation 35 of Insolvency & Bankruptcy Board of India (Liquidation Process) Regulation, 2016
4.	Date of inspection	:	XX.05.2021
5.	Date of Report submission	:	XX.07.2021
6.	Valuation Currency	:	Indian Rupees (INR)
7.	Location of property	:	M/s. XYZ Pvt. Ltd., RS NO.AAA, ABAD - Rajkot Highway, Village: AAA, Taluka: AAA, District: AAA

1. Purpose and scope of Valuation

The scope of work include to provide an estimation of fair value and liquidation value of the Land and building for this purpose, the fair value and liquidation value shall have the meaning assigned to it in regulation 2(1)(hb) and regulation 2(1)(k) respectively of the Insolvency and bankruptcy board of India (Insolvency resolution process for corporate persons) regulations 2016; The definitions are herein below appended:

Regulation 2 (1) (hb) : "Fair Value" means the estimated realizable value of assets of the corporate debtor, if they were to be exchanged on the insolvency commencement date between a willing buyer and willing seller in an arm's length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion:

Regulation 2 (1) (k): "Liquidation Value" means the estimated realizable Value of the asset of the corporate debtor, if the corporate debtor were to be liquidated on the insolvency commencement date.

FAIR VALUE

Fair Value is the estimated amount for which an assets or liability should exchange on the valuation date between a willing buyer and willing seller in an arm's length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.

Liquidation Value:

IVS 2017 defines "Liquidation Value" is the amount that would be realized when an asset or group of assets are sold on a piecemeal basis. Liquidation Value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation value can be determined under two different premises of value:

A. An orderly transaction with a typical marketing period (section 160)

B. A forced transaction with a shortened marketing period (section 170)

2. APPROACHES TO VALUATION

MARKET APPROACH

INCOME APPROACH

COST APPROACH

Methodology of Valuation

Methodology for Valuation of Land

Market approach to Valuation is adopted for estimating the market value of land. The Methodology is sales comparison methods in which due weightages have been given to factors such as: Demand and prospective buyers for such type of land Shape, size, prominence and location of land, marketability, utility, demand and supply of immovable property in surrounding area. The land rate as evident from the sales instances of comparable land found upon market inquiry. The market rates prevailing in nearby areas Local governance bye laws, rules, regulation.

Methodology for Valuation of Buildings & Civil Structures

Cost approach (Depreciated Replacement Cost method) is adopted for this valuation exercise. The first step in the cost Approach is to determine the replacement cost new, or reproduction cost new (collectively referred to as 'RCN') for the subject assets.

Replacement Cost New – *Replacement cost new is defined as the current cost of producing or constructing a similar new item having the nearest utility as the property being valued.*

Reproduction Cost New - *Reproduction Cost new is the current cost of duplicating an identical item new. It is the current cost of producing an exact replica.*

Under this approach, the value is determined by adjusting the reproduction / replacement cost new by the loss in value due to physical deterioration and obsolescence for asset.

The depreciated replacement cost ('DRC') method under cost approach is an accepted method of valuation used to estimate value for specialized assets, where lack of suitable market evidence exists. The adoption of a DRC estimate assumes the subject entity has adequate potential profitability. Analysis does not take into account any factors related to profitability or technical / financial viability of the facilities.

Due to the fact that the subject assets have been in use over varying periods of time, it is reasonable to assume that an asset's value is something less than its current RCN. Therefore, allowances are made for physical depreciation.

RCN was depreciated considering age and normal lives of asset under valuation using straight line method of depreciation to arrive at DRC considering suitable percentage of RCN as residual value for different assets. The value of assets depends on the following factors:

- ✓ *Age*
- ✓ *General condition as represented by Company and based on our overview of facilities*
- ✓ *Normal useful life*
- ✓ *Historical cost*
- ✓ *Replacement Cost new*
- ✓ *Obsolescence*

Once the gross current replacement cost (GCRC) of a modern equivalent asset has been derived, it is adjusted or depreciated to reflect difference between the modern equivalent asset and the actual asset being valued. Applying depreciation is primarily a process of replicating how the market would view the asset. Depreciation rates and estimates of the future economic life of an asset are influenced by market trends and/or the entity's intentions.

The principal types of depreciation allowance or obsolescence, may be identified as:

I. Physical deterioration caused by wear and tear over the past age of the asset, which may be combined with a lack of maintenance;

II. Technological obsolescence may arise because of advances in technology. A machine may be capable of replacement with a smaller, cheaper equivalent that provides a similar output;

III. Functional obsolescence arises where the design or specification of the asset no longer fulfils the function for which it was originally designed. In some cases functional obsolescence is absolute, i.e. the asset is no longer fit for purpose. In other cases the asset will still be capable of use, but at a lower level of efficiency than the modern equivalent or may be capable of modification to bring it up to a current specification. The depreciation adjustment will reflect either the cost of upgrading or, if this is not possible, the financial consequences of the reduced efficiency compared with the modern equivalent;

IV. Economic obsolescence arises from the impact of changing economic conditions on the demand for goods or services produced by the asset. For example, over-capacity in a particular market reduces the demand and therefore value for the actual asset, regardless of how modern or efficient it may be. Legislative change may also cause obsolescence. In the industrial sector, an existing plant may be incapable of meeting current environmental regulations, or in some cases the product it was built to produce is now illegal.

DRC method is normally used where obsolescence is only partial. Although the actual asset may not be in the same condition, as efficient or as technically advanced as a modern equivalent, it may still have a balance economic life (BEL) and will therefore have a value for that use. Economic life is the period up to which a machine is economical to use and after which, the return is less than the cost to use the machine. Assessing the remaining life of the asset is therefore an important aspect of the DRC method. In assessing the BEL, it may be assumed that routine servicing and repairs are undertaken, but the possibility of materially extending the life of the asset by significant refurbishment or the replacement of components is disregarded.

Methodology and Factors Considered in Valuation of Plant & Machinery

- ✓ *Type of machinery/plant*
- ✓ *Imported or indigenous*
- ✓ *Capacity*
- ✓ *Technical Specification*
- ✓ *Make, Model*
- ✓ *Age, Life*
- ✓ *Production*
- ✓ *Physical Condition*
- ✓ *Obsolesce*

Data / Documents:

- ✓ *Sale deed*
- ✓ *Mortgaged deed*
- ✓ *Approved plans*
- ✓ *Abstract 7/12,8-A*
- ✓ *Construction permission*
- ✓ *Legal scrutiny report*
- ✓ *NA order*
- ✓ *Zoning certificate*
- ✓ *Factory licence*
- ✓ *Tax bill & receipt*
- ✓ *Electricity bill & receipt*
- ✓ *Fixed asset register*
- ✓ *Machinery layout*
- ✓ *Invoices of machinery*
- ✓ *Repair & maintenance schedule / chart*

Demarcation of Subject Property

East	*Boundary of Estate.*
West	*16.00 mtr. Road.*
North	*Plot No. 3752.*
South	*Plot No. 3754.*

Valuation of Land

Sr. No.	Particulars	Area in sq. mtr.	Rate / sq. mtr.	Fair Value in INR.	Liquidation Value in INR
1	Land	1,628.00	21,000.00	3,41,88,000.00	2,05,12,800.00
			Value of Land (A)	**3,41,88,000.00**	**2,05,12,800.00**

(Note: Rate derived after considering proper weightages w.r.t obtained sale instance from market inquiry)

Valuation of Buildings & Civil Structures

Sr. No	Particulars	Area in sq. mtr.	Fair Value in INR.	Liquidation Value in INR
1	**Main Factory Shed** It is M.S. Structure having Percolated sheets as roofing, IPS flooring, necessary electrification provided.	829.60	33,18,400.00	19,91,040.00
2	**Marginal Shed** It is M.S. Structure having Percolated sheets as roofing, IPS flooring, Surface electric wiring, necessary electrification provided.	705.16	24,68,060.00	14,80,836.00
3	**Office (G.F+F.F)** It is Load bearing structure having brick masonry wall with RCC Slab as roofing, Polish Kota Stone flooring, necessary electrification provided.	83.66	4,18,300.00	2,50,980.00
4	**Panel Room (G.F+F.F)** It is Load bearing structure having brick masonry wall with RCC Slab as roofing, Vitrified tiles as flooring, Wooden frame & Shutter for door, Aluminium glazed shutter for windows, necessary electrification provided.	21.31	1,06,550.00	63,930.00
5	**Security Cabin (G.F+F.F)** It is Load bearing structure having brick masonry wall with RCC Slab as roofing, IPS flooring, MS frame & Shutter for door & Windows, necessary electrification provided.	24.74	1,11,330.00	66,798.00
6	**Loading & Unloading Shed** It is M.S. Structure having Percolated sheets as roofing, IPS flooring, necessary electrification provided.	70.07	3,15,315.00	1,89,189.00
	Value of Building & civil Structures (B)		**67,37,955.00**	**40,42,773.00**

(Note: Value derived after considering age of the building, remaining economic life, type of structure, specification, replacement cost, depreciation etc.)

Valuation of Plant & Machinery

Sr. no.	Description	Specification/ Capacity	Qty	Unit	Fair Value In INR	Liquidation Value In INR
1	Cement Silo with attachment	Capacity: Approx. 200 Ton MOC: MS	2	no.	1,585,204	951,122
2	Silo top filter	MOC: MS	1	no.	67,526	40,516
3	Bulker unloading pump with motor	Motor Rating: 70 HP, 3 Phase	1	no.	206,329	123,797
4	Waste slurry tank	MOC: MS	2	no.	60,023	36,014
5	Electric generator set with Canopy	Rating: 400KVA	1	no.	1,181,700	709,020
6	Light duty MS rail for Mould transit	capacity: 100 ton capacity Dimension: 16 mtr length	5860	Mtr	1,410,305	846,183
7	Digital fully Electric type weighbridge,		1	no.	581,471	348,883

8	Steam Boiler, Pressure parts, Boiler shell, Down comer/risers, Feed water lines, cyclone, feed pump, mountings, air pre-heater, furnace, ID fan, FD Fan, Screw feeder etc.,	rating: 6 TPH, 17.5 kg/cm2	1	no.	2,460,937	1,476,562
9	MS Chimney earthling plate, aluminum paint HR 250 'C temperature	dimension: 30.5 mtrs, 25x3 GI sheet, 300x300x6	1	no.	516,197	309,718
10	Distribution Transformer	rating: 500 KVA 3ph	1	no.	315,870	189,522
11	MS Beams, MS Channel, MS Pipes, MS Angle, MS Plates, MS Sheets, MS Flats			lot	1,796,076	1,077,646
12	Electrical Switch Board Main LT Board		1	no.	541,481	324,889
13	Coal Handling plant Coal crusher, bucket elevator, hump type magnet electric control panel		1	no.	420,910	252,546
14	Electric Cables & Cu flexi with cable 1.1 KV, 11 HT Cable, Alu. Armed Cable, Shield Cu Flexi PVC etc.		1	lot	1,171,297	702,778
15	AAC Autoclave,	2 mtr dia 33 mtr length, 20 bar pressure, 300 temperature	4	no.	17,772,186	10,663,312
16	AAC Block Making Machine (including following equipment/machinery)	Model:MJ100000 (Capacity:100000 CBM)			39,443,757	23,666,254
	Hand Screw valve		2	no.		
	Lime Screw Conveyor		1	no.		
	Cement Screw Conveyor		1	no.		
	Pneumatic knocker		5	no.		
	Bucket elevator		1	no.		
	Agitator for slurry		1	no.		
	Agitator for waste slurry		1	no.		
	Agitator for slurry tank		2	no.		
	Agitator for transitional pool		1	no.		
	Slag pump		3	no.		
	Slurry scale		1	no.		
	Aluminum slurry mixer		1	no.		
	Main mixer		1	no.		
	Mould transfer platform		1	no.		
	Electric hoist		1	no.		
	Moulds		16	no.		
	Side plates		100	no.		
	Mould winches		5	no.		
	Tilting crane		1	no.		
	Tilting frame		1	no.		
	Cutting line		1	no.		
	Agitator for waste slurry		1	no.		
	Slag pump		1	no.		
	Turing table		1	no.		
	Roll transport system		16	no.		
	Loading crane		1	no.		
	Lading hange		1	no.		
	Hardening cars		42	no.		
	Hardening car winches		5	no.		
	Mobile windlass		1	no.		
	Ferry carriage		1	no.		
	Laboratory equipment Box Electric Resistance furnace Cement Setting Time test machine Cement -ve Pressure fine screening Instrument Compressor Testing Machine Drying Oven Electromagnetic Crusher DF4 Slake Reactivity Apparatus Stainless Steel Electric heating distilling apparatus		1	lot		
	Steam distribute system		1	no.		
	Air compressor LGGD1.5/10		1	no.		
	Vacuum pump		1	no.		
	Set of distribution cabinet & control system		1	no.		

17	AIR BLOWER		1	no.	250,000	150,000
18	air compressor 3 stage piston type		1	no.	350,000	210,000
19	Valves		Lot		65,000	39,000
20	Pneumatic & Hydraulic apparatus		Lot		175,000	105,000
Note: This is only indicative.						
Many Columns are hidden.				**Total**	**70,371,268**	**42,222,761**

SUMMARY OF VALUE

The estimated fair Value and liquidation value of the land & building and Plant & machinery of ***M/s. Xyz Pvt. Ltd.*** *as on XX*th *July 2021 is given below in tabular format:*

Sr. No.	Asset	Fair value	Liquidation Value
		In Rs.	In Rs.
1	Land	**4,09,25,955.00**	**2,45,55,573.00**
2	Buildings & Civil Structures	**67,37,955.00**	**40,42,773.00**
3	Plant & Machinery	**7,03,71,268.00**	**4,22,22,761.00**
	Total	**11,80,35,178.00**	**7,08,21,107.00**

Observations:

1. The subject manufacturing unit is closed down (nonworking condition) since last 3 years. Hefty amount needs to be spend on operation and maintenance to restart the unit.
2. As of now we derived fair value of all the tangible assets i.e. Land, Building & civil structure, Plant & machinery in non working condition after giving proper weightages of sale instance, inquiry, quotation invited from different supplier, depreciation, etc.
3. In Indian context, cost of tangible assets i.e. land, building, plant & machinery, equipment etc. contains accounted and unaccounted money. When buyer wants to purchase asset from open market the cost of asset contains accounted as well as unaccounted money / transaction however buyer wants to purchase an asset from auction it contains only accounted money / transaction. To derive fair value of the asset in this case, from auction due to limited buyer situation, the value of asset will differ from open market scenario.
4. The Value of asset purchased from auction is not intrinsic value or true value of asset as it is purchased from auction or limited buyers market, hence the same cannot be considered as a sale instance as many technical-legal situation, statutory requirements may or may not be known to us.

Disclaimer:

This article is intended for general guide lines as regards approach of valuers to arriving at the auction value applicable to stressed assets. It is not intended to provide, and should not be used in lieu of, professional advice. The author assumes no liability for readers' use of the information herein and readers are encouraged to seek professional assistance with regard to specific matters. Any conclusions or opinions are based on the individual facts and circumstances of a particular matter and therefore same may not apply in other matters. All opinions expressed in these articles are those of the authors and do not necessarily reflect the view of the author.

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FREQUENTLY ASKED QUESTIONS ON VALUATION

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FREQUENTLY ASKED QUESTIONS ON VALUATION

1.How the liquidity of firm or business is to be measured?

Liquidity can be measured by evaluation the following three ratios:

- **Current Ratio –** It measures the company's ability to pay its short-term liabilities from short-term assets. Also, formulated as:= Current Assets / Current Liabilities
- **Quick Ratio –** It is also known as acid test, which measures the company's ability to pay off its short-term obligations from current assets, excluding inventories. Also, formulated as:

  = (Current assets - inventory) / Current liabilities
- **Cash Ratio –** It measures the extent to which current obligations can be paid from cash or near cash assets. Also, formulated as:= (Cash and cash equivalents) / Current liabilities

2.Explain the ratios covered under the Profitability Ratio.

The ratios covered under the Profitability Ratio are:

- **Gross Profit Margin –** It is the margin available to cover other expenses beyond cost of goods sold. Also, formulated as:= (Sales - cost of goods sold) / net sales
- **Operating Margin –** It is known as profit from operations which is available to cover interest costs, taxes and dividends. Also,

  formulated as:= Operating Income / net sales
- **Return On Investment –** It is known as return on assets. Also,formulated as:

  = Net profit after taxes / total assets
- **Return on Equity –** It is the rate of return on the book value of the stockholders' investment which is also formulated as:= Net profit after taxes / stockholders' equity

3.How are the Management Efficiency Ratios evaluated?

The Management Efficiency Ratios are evaluated as follows:

- **Net Profit Margin -** It shows how much after tax profit (net income) is generated by each Rupee of sales.= Net profit after taxes / net sales
- **Fixed Asset Turnover -** It measures the utilization of the company's fixed assets. = Sales / fixed assets

  Typically, fixed assets are a combination of tangible assets (property, plants and equipment), intangible assets (trademarks, goodwill) and investments in subsidiaries.
- **Accounts Receivable Turnover -** It is the number of times that accounts are cycled during the period.= Sales / Accounts Receivable (average)
- **Average Collection Period -** Average length of time that a company must wait to collect a sale after making it, i.e the average number of days to receive a payment greatly vary from one sector of activity to another, or from a country to another.

4.How can the Leverage Ratios be measured?

The Leverage ratios can be measured as follows:

- **Debt to Asset Ratio -** It measures the extent to which borrowed funds have been used to finance the acquisition of assets.= Total debt / assets
- **Long-term Debt to Capital Structure -** It measures the longterm component of the capital structure.

  = Long-term liabilities / stockholders' equity
- **Times Interest Earned -** It is also known as coverage ratio, it indicates the ability of the company to meet its interest costs.= Operating Profit / interest charges
- **Leverage -** It measures the extent to which assets are financed with debt. The higher the leverage of a company, the greater the sensitivity of its profit to variations in sales volume.

  = Assets / stockholders' equity

5.What do you understand by Valuation and Growth Ratios?

The Valuation and Growth Ratios are

Earnings Per Share - After tax earnings generated for each share of common stock.

= (Net profit after taxes - preferred stock dividends) / number of shares

Price/Earnings Ratio - It shows how much an investor is willing to pay for each dollar of earnings given the actual market price.

= Market price per share / earnings per share

Dividend Payout Ratio - It is the percentage of profit that is paid out as dividend.

= dividends per share / earnings per share

Index of Sustainable Growth - Developed by Robert L. Higgins, this index helps to determine the level of growth of sales beyond which external capital will be needed. In other words,

FREQUENTLY ASKED QUESTIONS ON VALUATION

when planning for a specific growth in sales, one must be aware of whether external financing will be needed.

Bankruptcy Index - Developed by Edward I. Altman on a sample of 66 manufacturing companies, it is a formula used to predict a company's likelihood of going bankrupt. The Z-score is reputed for becoming more accurate as a firm nears bankruptcy. As a general rule, a score below 1.81 is dangerous while a score above 2.99 is comfortable.

6.What is the punishment for contravening the provisions of Section 247 of Companies Act, 2013?

If a valuer contravenes the provisions of Section 247 or the Rules made thereunder, the valuer shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees:

Provided that if the valuer has contravened such provisions with the intention to defraud the company or its members, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

Where a valuer has been convicted under Section 247 (3), he shall be liable to—

- refund the remuneration received by him to the company; and
- pay for damages to the company or to any other person for loss

arising out of incorrect or misleading statements of particulars made in his report.

7.What is the punishment for contravening the provisions of Companies (Registered Valuers and Valuation) Rules, 2017?

Without prejudice to any other liabilities, where a person contravenes any of the provision of these rules he shall be punishable in accordance with sub-section (3) of Section 469 of the Act.

8.What is the punishment for making false statement as per Companies (Registered Valuers and Valuation) Rules, 2017?

Without prejudice to any other liabilities, where a person contravenes any of the provision of Companies (Registered Valuers and Valuation)

Rules, 2017, he shall be punishable in accordance with sub-section (3) of Section 469 of the Act. Section 469 (3) provides that any rule made under Section 469 (1) may provide that a contravention thereof shall be punishable with fine which may extend to five thousand rupees and where the contravention is a continuing one, with a further fine which may extend to five hundred rupees for every day after the first during which such contravention continues.

Important Judicial Pronouncements in Valuation

9. What are the key takeaways in the case of Miheer H. Mafatlal Vs.Mafatlal Industries Ltd. (1997) 1 SCC 579?

- According to the mentioned case law, the Court considered the fact that that before formulating the proposed Scheme of Compromise and Amalgamation, an expert opinion was obtained by the respondent-company as well as the transferor-company on whose Board of Directors appellant himself was a member.
- The Court further suggests that since valuation of shares is a complex problem so it should be appropriately left to the consideration of experts in the field of accountancy i.e. Chartered Accountants
- The valuer considering all the relevant aspects and obviously keeping in view the accounting principles underlying the valuation of shares suggested the exchange ratio at 5:2 which was found acceptable both by the Board of Directors of the respondent-company as well as the Board of Directors of the transferor-company and was later objected by the director of transferor company who earlier gave green signal to the Scheme.
- The counsel of appellate suggests that the proper exchange ratio would be one share of transferee-company to six shares of transferor-company. It is difficult to appreciate this contention of the appellant. It has to be kept in view that appellant never bothered to personally remain present in the meeting of equity shareholders for pointing out the unfairness of this exchange ratio.
- The Supreme Court finally concluded that 'Once the exchange ratio of the shares of the transferee company to be allotted to the shareholders of the transferor company has been worked out by a recognized firm of chartered accountants who are experts in the field of valuation and if no mistake can be pointed

out in the said valuation, it is not for the court to substitute its exchange ratio, especially when the same has been accepted without demur by the overwhelming majority of the shareholders of the two companies.

10.What are the key takeaways in the case of Dinesh Vrajlal Lakhani vs. Parke Davis (India) Ltd. [2005] 124 Comp Case 728 (Bom)?

- Under this case law, a few of the shareholders of the transferor company opposed the Scheme of Amalgamation. According to them, swap ratio proposed in the Scheme of Amalgamation was unfair and against the interest of a minority of shareholders of the transferor. Also, the Chairman of the Company rejected the resolution for amendment in the swap ratio.
- The Learned Judge held that while considering a Scheme of Amalgamation, the Court does not exercise an appellate jurisdiction, but a jurisdiction founded on fairness. The Court would not interfere with the swap ratio adopted on the advice of an expert unless it was contrary to law. The Learned Judge held that it was not the case before him that the swap ratio was contrary to law or that the experts who submitted the valuation report were not independent.

11.What are the key takeaways in the case of Brooke Bond Lipton India Ltd. [1999] 98 Comp Cas 496 (Cal)?

- In accordance with the specified case law, under the scheme of Amalgamation in consideration of the transfer and vesting of the undertaking of the transferor-company in the transferee company, the transferee-company shall issue 9 equity shares to every shareholders of the transferor company for every 20 shares held by them.
- The sanction or approval of the appropriate authorities concerned was obtained in respect of any of the matters in respect of which such sanction or approval is required.
- The Supreme Court clarified, "Once the exchange ratio of the shares of the transferee-company to be allotted to the shareholders of the transferor-company has been worked out by a recognized firm of chartered accountants who are experts in the field of valuation and if no mistake can be pointed out in the said valuation, it is not for the court to substitute its exchange ratio, especially when the same has been accepted without demur by the overwhelming majority of the shareholders of the two companies or to say that the shareholders in their collective wisdom should not have accepted the said exchange ratio on the ground that it will be detrimental to their interest."
- It was further held that "if the ratio of exchange has been fixed by an experienced and reputed firm of chartered accountants, then in the absence of any charge of fraud against them, the court will accept such valuation and ratio of exchange,"
- Hence, no charge made or established in instant case

12.What are the key takeaways in the case of Hindustan Lever Employees' Union Vs. Hindustan lever Limited?

- According to the given case, share exchange ratio has been determined by combining the three methods by well reputed valuer of chartered accountant firm and a director of TOMCO (Tata Oils Mills co.).
- Following factors have to be taken into account while determining the share exchange ratio-The stock exchange prices of shares of two companies, Dividend presently paid on the shares of the company, relevant growth prospects of two company, the cover (ratio of after tax earnings to dividends paid during the year) for the present dividend of two company. the relative gearing of the shares of two company, the value of net assets of two company, voting strength in the merged enterprise of the shareholders, past history of prices of two companies.
- It was held that "the exchange ratio determines cannot be considered as mala fide merely on the fact that the share exchange ratio is calculated through combination of three well known methods i.e net worth, market value and earning method.
- It was further held that "A financial institution holding 41% of shares of the transferor company did not find any fault in the valuation of share, the court should not interfere with such valuation.

13.What are the key takeaways in the case of Dr. Mrs. Renuka datla

FREQUENTLY ASKED QUESTIONS ON VALUATION

Vs. Solve Pharmaceuticals B.V & Ors.?

- In the given Case, shares held by petitioner in 2 companies were to be purchased by Solvay Pharmaceuticals and Mr. Vasant kumar.
- A chartered accountant had to evaluate the Intrinsic worth of both the companies as a going concern and value the shares 4.91% shares held by petitioner by following the standard and generally accepted method of valuation.
- The valuer considered 3 methods namely Asset base, earning base and market base.
- Discounted cash flow (DCF) was not applied in the absence of independent Projections and the projection provided by parties substantially differing.
- It was held that "If the valuer had applied the standard method of valuation, considering the matters from all appropriate angle, his valuation could not be challenged on the ground of being vitiated by fundamental error.
- It was further held that "If a valuer has not added control premium in intrinsic value and the same has not been specifically mentioned in the terms of settlement, the treatment done by valuer will be considered as correct.
- Further DCF method has not been considered by valuer due to unavailability of independent projections. In respect of projections, the valuer has chosen the best possible method by capitalizing past earning and also considering maintainable profits.

14. What are the key takeaways in the case of G.L Sultania and Another Vs. Securities and exchange Board of India?

- According to the mentioned case law, Appellant claimed that SEBI as well as merchant banker have not valued the shares of target company under the "takeover code" and the Board had taken all the necessary precaution to safeguard the interest of shareholders to ensure payment of best price for the shares sold by them
- Learned counsel of appellant has provided valuation report of two chartered accountant before the Board, valued the shares of target company at Rs.590/- per share and Rs. 480/- per share. The Board have rejected the report of these valuers as the shares were valued at abnormally high price with a vast difference of Rs. 182/- per share.
- On the contrary, Board appointed its own valuer to value the shares of target company and ultimately report of valuer appointed by board have been accepted by acquirer.
- The court held that "Board committed no error in accepting the report Patni & co. and Board has acted in a reasonalble manner.Unless, it is shown to the court that some well accepted principle of valuation has been departed from without any reason or that the approach adopted is erroneous, the court cannot interfere with the valuation of an expert. Hence, Board has exercised its discretion wisely.

15.What is the Revenue Ruling 59-60(of USA)?

The Revenue Ruling, Published in 1959, (Internal Revenue Service,Revenue Ruling 59-60, 1959-1 C.B. 237) is one of the earliest exposition in business valuation. The purpose of the Ruling is to outline general approaches, methods and factors to be considered while valuing shares of closely held companies or shares of companies whose market quotations are not available or scarcely available. Even though the Ruling was delivered for estate tax, gift tax and income tax, its principles are considered for valuation of any business and the eight factors which must be considered in the valuation are given below:

- The nature of the business and the history of the enterprise from its inception.
- The economic outlook in general and the condition and outlook of the specific industry in particular.
- The book value of the stock and financial condition of the business.
- The earning and the dividend-paying capacity of the company
- Whether or not the enterprise has goodwill or other intangible value.
- Sales of the stock and the size of the block of stock to be valued.
- The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the counter.

INTERNATIONAL VALUATION STANDARDS (IVS)

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IVS 500 FINANCIAL INSTRUMENTS

10. Overview

10.1. The principles contained in the General Standards apply to *valuation*s of financial instruments. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for *valuation*s to which this standard applies.

20. Introduction

20.1. A financial instrument is a contract that creates rights or obligations between specified parties to receive or pay cash or other financial consideration.

Such instruments include but are not limited to, derivatives or other contingent instruments, hybrid instruments, fixed income, structured products and equity instruments. A financial instrument can also be created through the combination of other financial instruments in a portfolio to achieve a specific net financial outcome.

20.2. *Valuation*s of financial instruments conducted under IVS 500 *Financial Instruments* can be performed for many different *purposes* including, but not limited to:

a. acquisitions, mergers and sales of businesses or parts of businesses,
b. purchase and sale,
c. financial reporting,
d. legal or regulatory requirements (subject to any specific requirements set by the relevant authority),
e. internal risk and compliance procedures,
f. tax, and
g. litigation.

20.3. A thorough understanding of the instrument being valued is required to identify and evaluate the relevant market information available for identical or comparable instruments. Such information includes prices from recent transactions in the same or a similar instrument, quotes from brokers or pricing services, credit ratings, yields, volatility, indices or any other inputs relevant to the valuation process.

20.4. When *valuation*s are being undertaken by the holding entity that are intended for use by external investors, regulatory authorities or other entities, to comply with the requirement to confirm the identity and status of the *valuer* in IVS 101 *Scope of Work*, para 20.3.(a), reference *must* be made to the control environment in place, as required by IVS 105 *Valuation Approaches and Methods* and IVS 500 *Financial Instruments*paras 120.1-120.3 regarding control environment.

20.5. To comply with the requirement to identify the *asset* or liability to be valued as in IVS 101 *Scope of Work*, para 20.3.(d), the following matters *must* be addressed:

a. the class or classes of instrument to be valued,
b. whether the *valuation* is to be of individual instruments or a portfolio, and
c. the unit of account.

20.6. IVS 102 *Investigations and Compliance*, paras 20.2-20.4 provide that the investigations required to support the *valuation must* be adequate having regard to the *purpose* of the assignment. To support these investigations, sufficient evidence supplied by the *valuer* and/or a credible and reliable third party *must* be assembled. To comply with these requirements, the following are to be considered:

a. All market data used or considered as an input into the valuation process *must* be understood and, as necessary, validated.
b. Any model used to estimate the *value* of a financial instrument shall be selected to appropriately capture the contractual terms and economics of the financial instrument.
c. Where observable prices of, or market inputs from, similar financial instruments are available, those imputed inputs from comparable price(s) and/or observable inputs *should* be adjusted to reflect the contractual and economic terms of the financial instrument being valued.
d. Where possible, multiple valuation approaches are preferred. If differences in *value* occur between the valuation approaches, the *valuer must* explain and document the differences in *value*.

20.7. To comply with the requirement to disclose the valuation approach(es) and reasoning in IVS 103 *Reporting*, para 20.1, consideration *must* be given to the appropriate degree of reporting detail. The requirement to disclose this information in the valuation report will differ for different categories of financial instruments. Sufficient information *should* be provided to allow users to understand the nature of each class of instrument valued and the primary factors influencing the *values*. Information that adds little to a users' understanding as to the nature of the *asset* or liability, or that obscures the primary factors influencing *value*, *must* be avoided. In determining the level of disclosure that is appropriate, regard *must* be had to the following:

a. Materiality: The *value* of an instrument or class of instruments in relation to the total value of the holding entity's *assets* and liabilities or the portfolio that is valued.
b. Uncertainty: The *value* of the instrument *may* be subject to *significant* uncertainty on the

valuation date due to the nature of the instrument, the model or inputs used or to market abnormalities. Disclosure of the cause and nature of any material uncertainty *should* be made.

c. Complexity: The greater the complexity of the instrument, the greater the appropriate level of detail to ensure that the assumptions and inputs affecting *value* are identified and explained.

d. Comparability: The instruments that are of particular interest to users *may* differ with the passage of time. The usefulness of the valuation report, or any other reference to the *valuation*, is enhanced if it reflects the information demands of users as market conditions change, although, to be meaningful, the information presented *should* allow comparison with previous periods.

e. Underlying instruments: If the cash flows of a financial instrument are generated from or secured by identifiable underlying *assets* or liabilities, the relevant factors that influence the underlying value *must* be provided in order to help users understand how the underlying value impacts the estimated value of the financial instrument.

30. Bases of Value

30.1. In accordance with IVS 104 *Bases of Value*, a *valuer must* select the appropriate basis(es) of value when valuing financial instruments.

30.2. Often, financial instrument valuations are performed using bases of value defined by entities/organisations other than the IVSC (some examples of which are mentioned in IVS 104 *Bases of Value*) and it is the *valuer's* responsibility to understand and follow the regulation, case law, tax law and other interpretive guidance related to those bases of value as of the valuation date.

40. Valuation Approaches and Methods

40.1. When selecting an approach and method, in addition to the requirements of this chapter, a *valuer must* follow the requirements of IVS 105 *Valuation Approaches and Methods*.

40.2. The three valuation approaches described in IVS 105 *Valuation Approaches and Methods may* be applied to the *valuation* of financial instruments.

40.3. The various valuation methods used in financial markets are based on variations of the market approach, the income approach or the cost approach as described in the IVS 105 *Valuation Approaches and Methods*. This standard describes the commonly used methods and matters that need to be considered or the inputs needed when applying these methods.

40.4. When using a particular valuation method or model, it is important to ensure that it is calibrated with observable market information, where available, on a regular basis to ensure that the model reflects current market conditions. As market conditions change, it *may* become necessary to change to a more suitable model(s) or to modify the existing model and recalibrate and/ or make additional adjustments to the valuation inputs. Those adjustments *should* be made to ensure consistency with the required valuation basis, which in turn is determined by the *purpose* for which the *valuation* is required; see the IVS *Framework.*

50. Market Approach

50.1. A price obtained from trading on a liquid exchange on, or very close to, the time or date of valuation is normally the best indication of the market value of a holding of the identical instrument. In cases where there have not been recent relevant transactions, the evidence of quoted or consensus prices, or private transactions *may* also be relevant.

50.2. It *may* be necessary to make adjustments to the price information if the observed instrument is dissimilar to that being valued or if the information is not recent enough to be relevant. For example, if an observable price is available for similar instruments with one or more different characteristics to the instrument being valued, then the implied inputs from the comparable observable price are to be adjusted to reflect the specific terms of the financial instrument being valued.

50.3. When relying on a price from a pricing service, the *valuer must* understand how the price was derived.

60. Income Approach

60.1. The *value* of financial instruments *may* be determined using a discounted cash flow method. The terms of an instrument determine, or allow estimation of, the undiscounted cash flovvs. The terms of a financial instrument typically set out:

a. the timing of the cash flows, ie, when the entity expects to realise the cash flovvs related to the instrument,

b. the calculation of the cash flows. eg. for a debt instrument. the interest rate that applies, or for a derivative instrument, how the cash flovvs are calculated in relation to the underlying instrument or index (or indices),

c. the timing and conditions for any options in the contract, eg, put or call, prepayment, extension or conversion options, and

d. protection of the rights of the

parties to the instrument. eg. terms relating to credit risk in debt instruments or the priority over, or subordination to, other instruments held.

60.2. In establishing the appropriate discount rate, it is necessary to assess the return that vvould be required on the instrument to compensate for the time *value* of money and potential additional risks from, but not limited to the following:

a. the terms and conditions of the instrument, eg, subordination,
b. the credit risk, ie, uncertainty about the ability of the counterparty to make payments when due,
c. the liquidity and marketability of the instrument,
d. the risk of changes to the regulatory or legal environment, and
e. the tax status of the instrument.

60.3. Where future cash flows are not based on fixed contracted amounts, estimates of the expected cash flows will need to be made in order to determine the necessary inputs. The determination of the discount rate *must* reflect the risks of, and be consistent with, the cash flows. For example, if the expected cash flows are measured net of credit losses then the discount rate *must* be reduced by the credit risk component. Depending upon the *purpose of the valuation*, the inputs and assumptions made into the cash flow model will need to reflect either those that would be made by *participants*, or those that would be based on the holder's current expectations or targets. For example, if the *purpose of the valuation* is to determine market value, or fair value as defined in IFRS, the assumptions *should* reflect those of *participants*. If the *purpose* is to measure performance of an *asset* against management determined benchmarks, eg, a target internal rate of return, then alternative assumptions *may* be appropriate.

70. Cost Approach

70.1. In applying the cost approach, *valuers must* follow the guidance contained in IVS 105 *Valuation Approaches and Methods*, paras 70.1-70.14.

80. Special Considerations for Financial Instruments

80.1. The following sections address a non-exhaustive list of topics relevant to the *valuation* of financial instruments:

a. Valuation Inputs (section 90)
b. Credit Risk (section 100).
c. Liquidity and Market Activity (section 110).
d. Control Environment (section 120).

90. Valuation Inputs

90.1. As per IVS 105 *Valuation Approaches and Methods*, para 10.7, any data set used as a valuation input, understanding the sources and how inputs are adjusted by the provider, if any, is essential to understanding the reliance that *should* be given to the use of the valuation input.

90.2. Valuation inputs *may* come from a variety of sources. Commonly used valuation input sources are broker quotations, consensus pricing services, the prices of comparable instruments from third parties and market data pricing services. Implied inputs can often be derived from such observable prices such as volatility and yields.

90.3. When assessing the validity of broker quotations, as evidence of how *participants* would price an *asset*, the *valuer should* consider the following:

a. Brokers generally make markets and provide bids in respect of more popular instruments and *may* not extend coverage to less liquid instruments. Because liquidity often reduces with time, quotations *may* be harder to find for older instruments.
b. A broker is concerned with trading, not supporting *valuation,* and they have little incentive to research an indicative quotation as thoroughly as they would an executable quotation. A *valuer* is required to understand whether the broker quote is a binding, executable quote or a non-binding, theoretical quote. In the case of a non-binding quote, the *valuer* is required to gather additional information to understand if the quote *should* be adjusted or omitted from the *valuation.*
c. There is an inherent conflict of interest where the broker is the counterparty to an instrument.
d. Brokers have an incentive to encourage trading.

90.4. Consensus pricing services operate by collecting price or *valuation* input information about an instrument from several participating subscribers. They reflect a pool of quotations from different sources, sometimes with adjustment to compensate for any sampling bias. This overcomes the conflict of interest problems associated with single brokers. However, as with a broker quotation, it *may* not be possible to find a suitable input for all instruments in all markets. Additionally, despite its name, a consensus price *may* not necessarily constitute a true market "consensus", but rather is more of a statistical estimate of recent market transactions or quoted prices. Therefore, the *valuer* needs to understand how the consensus pricing vvas estimated and if such estimates are reasonable, given the instrument being valued. Information and inputs relevant to the *valuation* of an illiquid instrument can often be gleaned through comparable transactions (see section 110 for further details).

100. Credit Risk Adjustments

100.1. Understanding the credit risk is often an important aspect of valuing a financial instrument and most importantly the issuer. Some of the common factors that need to be considered in establishing and measuring credit risk include the following:

a. Own credit and counterparty risk: Assessing the financial strength of the issuer or any credit support providers will involve consideration of not only historical and projected financial performance of the relevant entity or entities but also consideration of performance and prospects for the industry sector in which the business operates. In addition to issuer credit, the *valuer must* also consider the credit exposure of any counterparties to the *asset* or liability being valued. In the case of a clearing house settlement process, many *jurisdictions* now require certain derivatives to be transacted through a central counterparty which can mitigate risk, however residual counterparty risk needs to be considered.

b. The *valuer* also needs to be able to differentiate between the credit risk of the instrument and the credit risk of the issuer and/or counterparty. Generally, the credit risk of the issuer or counterparty does not consider specific collateral related to the instrument.

c. Subordination: Establishing the priority of an instrument is critical in assessing the default risk. Other instruments *may* have priority over an issuer's *assets* or the cash flows that support the instrument.

d. Leverage: The amount of debt used to fund the *assets* from which an instrument's return is derived can affect the volatility of returns to the issuer and credit risk.

e. Netting agreements: Where derivative instruments are held between counterparties, credit risk *may* be reduced by a netting or offset agreement that limits the obligations to the net value of the transactions, ie, if one party becomes insolvent, the other party has the right to offset sums owed to the insolvent party against sums due under other instruments.

f. Default protection: Many instruments contain some form of protection to reduce the risk of non-payment to the holder. Protection might take the form of a guarantee by a third party, an insurance contract, a credit default swap or more *assets* to support the instrument than are needed to make the payments. Credit exposure is also reduced if subordinated instruments take the first losses on the underlying *assets* and therefore reduce the risk to more senior instruments. When protection is in the form of a guarantee, an insurance contract or a credit default swap, it is necessary to identify the party providing the protection and assess that party's creditworthiness. Considering the credit worthiness of a third party involves not only the current position but also the possible effect of any other guarantees or insurance contracts the entity has written. If the provider of a guarantee has also guaranteed other correlated debt securities, the risk of its non-performance will likely increase.

100.2. For parties for which limited information is available, if secondary trading in a financial instrument exists, there *may* be sufficient market data to provide evidence of the appropriate risk adjustment. If not, it might be necessary to look to credit indices, information available for entities with similar risk characteristics, or estimate a credit rating for the party using its own financial information. The varying sensitivities of different liabilities to credit risk, such as collateral and/or maturity differences, *should* be taken into account in evaluating which source of credit data provides the most relevant information. The risk adjustment or credit spread applied is based on the amount a *participant* would require for the particular instrument being valued.

100.3. The own credit risk associated with a liability is important to its *value* as the credit risk of the issuer is relevant to the *value* in any transfer of that liability. Where it is necessary to assume a transfer of the liability regardless of any actual constraints on the ability of the counterparties to do so, eg, in order to comply with financial reporting requirements, there are various potential sources for reflecting own credit risk in the *valuation* of liabilities. These include the yield curve for the entity's own bonds or other debt issued, credit default swap spreads, or by reference to the *value* of the corresponding *asset*. However, in many cases the issuer of a liability will not have the ability to transfer it and can only settle the liability with the counterparty.

100.4. Collateral: The *assets* to which the holder of an instrument has recourse in the event of default need to be considered. In particular, the *valuer* needs to be understand whether recourse is to all the *assets* of the issuer or only to specified *asset(s)*. The greater the *value* and liquidity of the *asset(s)* to which an entity has recourse in the event of default, the lower the overall risk of the instrument due to increased recovery. In order not to double count, the *valuer* also needs to consider if the collateral is already accounted for in another area of the balance sheet.

100.5. When adjusting for own credit risk of the instrument, it is also important to consider the nature of the collateral available for the liabilities being valued. Collateral that is legally separated from the issuer normally reduces the credit exposure. If liabilities are subject to a frequent collateralisation process, there might not be a material own credit risk adjustment because the counterparty is mostly protected from loss in the event of default.

110. Liquidity and Market Activity

110.1. The liquidity of financial instruments range from those that are standardised and regularly transacted in high volumes to those that are agreed between counterparties that are incapable of assignment to a third party. This range means that consideration of the liquidity of an instrument or the current level of market activity is important in determining the most appropriate valuation approach.

110.2. Liquidity and market activity are distinct. The liquidity of an *asset* is a measure of how easily and quickly it can be transferred in return for cash or a cash equivalent. Market activity is a measure of the volume of trading at any given time, and is a relative rather than an absolute measure. Low market activity for an instrument does not necessarily imply the instrument is illiquid.

110.3. Although separate concepts, illiquidity or low levels of market activity pose similar valuation challenges through a lack of relevant market data, ie, data that is either current at the valuation date or that relates to a sufficiently similar *asset* to be reliable. The lower the liquidity or market activity, the greater the reliance that will be needed on valuation approaches that use techniques to adjust or *weight* the inputs based on the evidence of other comparable transactions to reflect either market changes or differing characteristics of the *asset.*

120. Valuation Control and Objectivity

120.1. The control environment consists of the internal governance and control procedures that are in place with the objective of increasing the confidence of those who *may* rely on the *valuation* in the valuation process and conclusion. Where an external *valuer* is placing reliance upon an internally performed *valuation,* the external *valuer must* consider the adequacy and independence of the valuation control environment.

120.2. In comparison with other *asset* classes, financial instruments are more commonly valued internally by the same entity that creates and trades them. Internal valuations bring into question the independence of the *valuer* and hence this creates risk to the perceived objectivity of *valuations.* Please reference 40.1 and 40.2 of the IVS *Framework* regarding *valuation* performed by internal *valuers* and the need for procedures to be in place to ensure the objectivity of the *valuation* and steps that *should* be taken to ensure that an adequate control environment exists to minimise threats to the independence of the *valuation.* Many entities which deal with the *valuation* of financial instruments are registered and regulated by statutory financial regulators. Most financial regulators require banks or other regulated entities that deal with financial instruments to have independent price verification procedures. These operate separately from trading desks to produce *valuation*s required for financial reporting or the calculation of regulatory capital guidance on the specific valuation controls required by different regulatory regimes. This is outside the scope of this standard. However, as a general principle, *valuation*s produced by one department of an entity that are to be included in financial statements or otherwise relied on by third parties *should* be subject to scrutiny and approval by an independent department of the entity. Ultimate authority for such *valuations should* be separate from, and fully independent of, the risk-taking functions. The practical means of achieving a separation of the function will vary according to the nature of the entity, the type of instrument being valued and the materiality of the *value* of the particular class of instrument to the overall objective. The appropriate protocols and controls *should* be determined by careful consideration of the threats to objectivity that would be perceived by a third party relying on the *valuation.*

120.3. When accessing your valuation controls, the following include items you *should* consider in the valuation process:

a. establishing a governance group responsible for valuation policies and procedures and for oversight of the entity's valuation process, including some members external to the entity,

b. systems for regulatory compliance if applicable,

c. a protocol for the frequency and methods for calibration and testing of valuation models,

d. criteria for verification of certain *valuations* by different internal or external experts,

e. periodic independent validation of the valuation model(s),

f. identifying thresholds or events that trigger more thorough investigation or secondary approval requirements, and

g. identifying procedures for establishing *significant* inputs that are not directly observable in the market, eg, by establishing pricing or audit committees.

INTERNATIONAL VALUATION STANDARDS (IVS)

KEY CHANGES IN THE REVISED IVS

Key changes at a glance:

Effective date: The latest IVS becomes effective from 31 January 2022. However, the IVSC encourages early adoption from the date of publication. Valuers will need to make clear which edition of the IVS they are using when preparing a valuation report.

New chapter: The updated IVS includes a new chapter, '*IVS 230 Inventory*' as part of the intangible asset standards.

Technical revisions: Updates also include the technical revisions consulted on throughout 2020 and 2021.

Introduction: The introduction has been revised to incorporate new '*core principles of valuation standard setting*' and the '*core principles of valuation*'

Glossary: The IVS glossary has been updated to include new terms and to provide additional clarifications.

IVS *Framework*: The sections on '*compliance with standards*', '*assets and liabilities*', '*valuer'* and '*competence*' have been revised to provide additional clarifications.

IVS 104 *Bases of Value*: A new section on '*allocation of value'* has been included within this chapter.

IVS 105 *Valuation Approaches and Methods*: The introduction has been revised to provide additional clarification that one or more valuation approaches may be used to arrive at the value reported within a basis of value.

Additions to 'Introduction' :

The IVSC Standards Boards have taken into account the following core principles when drafting the International Valuation Standards.

Core Principles of Valuation Standard Setting

1. Purpose (Objective)

The purpose of valuation standards is to promote and maintain a high level of public trust in valuation practice by establishing appropriate requirements for valuers.

2. Valuation Standards

Valuation Standards should be principle based and adequately address the development of a credible opinion of value and the communication of that opinion to the intended user(s).

3. Development and Revisions of Standards

Standards are to be created and revised, when necessary, by way of a transparent process after appropriate exposure.

4. Jurisdiction

Departures from the standards to comply with legislative and regulatory requirements that are in conflict with the standards are allowed.

Core Principles of Valuation

1. Ethics

Valuers must follow the ethical principles of integrity, objectivity, impartiality, confidentiality, competence and professionalism to promote and preserve the public trust.

2. Competency

At the time the valuation is submitted, valuers must have the technical skills and knowledge required to appropriately complete the valuation assignment.

3. Compliance

Valuers must disclose or report the published valuation standards used for the assignment and comply with those standards.

4. Basis (ie, Type or Standard) of Value

Valuers must select the basis (or bases) of value appropriate for the assignment and follow all applicable requirements. The *basis of value* (or bases) must be either defined or cited.

5. Date of Value (ie, Effective Date/Date of Valuation)

Valuers must disclose or report the date of value that is the basis of their analyses, opinions or conclusions. Valuers must also state the date they disclose or report their valuation.

6. Assumptions and Conditions

Valuers must disclose significant assumptions and conditions specific to the assignment that may affect the assignment result.

7. Intended Use

Valuers must disclose or report a clear and accurate description of the intended use of the valuation.

8. Intended User(s)

Valuers must disclose or report a clear and accurate description of the intended user(s) of the valuation.

9. Scope of Work

Valuers must determine, perform, and disclose or report a scope of work that is appropriate for the assignment that will result in a credible valuation.

10. Identification of Subject of Valuation

Valuers must clearly identify what is being valued.

INTERNATIONAL VALUATION STANDARDS (IVS)

11. Data

Valuers must use appropriate information and data inputs in a clear and transparent manner so as to provide a credible valuation.

12. Valuation Methodology

Valuers must properly use the appropriate valuation methodology(ies) to develop a credible valuation.

13. Communication of Valuation

Valuers must clearly communicate the analyses, opinions and conclusions of the valuation to the intended user(s).

14. Record Keeping

Valuers must keep a copy of the valuation and a record of the valuation work performed for an appropriate period after completion of the assignment.

Changes, New terms and clarifications introduced in the 'Glossary' :

20.2. Basis (bases) of Value

The fundamental premises on which the reported values are or will be based (see IVS 105 *Valuation Approaches and Methods*, para 10.1) (in some jurisdictions also known as standard of value).

20.4. Cost(s) (noun)

The consideration or expenditure required to acquire or create an asset.

20.5. Discount Rate(s)

A rate of return used to convert a monetary sum, payable or receivable in the future, into a present value.

20.6. Equitable Value

This is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

20.7. Fair Market Value

1. The Organisation for Economic Co-operation and Development (OECD) defines "fair market value" as the price a willing buyer would pay a willing seller in a transaction on the open market.

2. For United States tax purposes, Regulation §20.2031-1 states: "The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts" .

20.8. Fair Value (International Financial Reporting Standards)

IFRS 13 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.

20.11. Investment Value

The value of an asset to the owner or a prospective owner given individual investment or operational objectives (may also be known as worth).

20.13. Liquidation Value

The amount that would be realised when an asset or group of assets are sold on a piecemeal basis. Liquidation value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation value can be determined under two different premises of value (see IVS 104 *Bases of Value*, section 80):

(a) an orderly transaction with a typical marketing period; or

(b) a forced transaction with a shortened marketing period.

20.14. Market Value

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

20.18. Price (noun)

The monetary or other consideration asked, offered or paid for an asset, which may be different from the value.

20.23. Synergistic Value

The result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer, then synergistic value will differ from market value, as the synergistic value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as marriage value.

20.24. Valuation

The act or process of determining an opinion or conclusion of value of an asset on a stated basis of value at a specified date in compliance with IVS. ~~A "valuation" refers to the act or process of determining an estimate of value of an asset or liability by applying IVS.~~

20.25. Valuation Approach

In general, a way of estimating value that employs one or more specific valuation methods (see IVS 105 *Valuation Approaches and Methods*).

20.26. Valuation Method

Within valuation approaches, a specific way to estimate

a value.

20.29. Value (noun)

The opinion resulting from a valuation process that is compliant with IVS. It is an estimate of either the most probable monetary consideration for an interest in an asset or the economic benefits of holding an interest in an asset on a stated basis of value. ~~The word "value" refers to the judgement of the valuer of the estimated amount consistent with one of the bases of value set out in IVS 104 *Bases of Value*.~~

20.30. Valuer

A "valuer" is an individual, group of individuals ~~or a firm~~ or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), ~~who possesses~~ possessing the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer.

20.33. Worth

See investment value.

Revisions in the IVS Framework

Para 10. Compliance with Standards

10.2. In order for a *valuation* to be compliant with IVS the *valuer must* comply with all the requirements contained within IVS.

10.3. A *valuer* can only depart from International Valuation Standards (IVS) as described in section 60 of this *Framework*.

Para 20. Assets and Liabilities

20.1. The standards can be applied to the *valuation* of both *assets* and liabilities and present and future claims on *assets* and liabilities.

Para 30. Valuer

30.1. *Valuer* has been defined as "an individual, group of individuals, or ~~a firm~~ individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to undertake a *valuation* in an objective, unbiased, ethical and competent manner. In some *jurisdictions*, licensing is required before one can act as a *valuer*. Because a *valuation reviewer must* also be a *valuer*, to assist with the legibility of these standards, the term *valuer* includes *valuation reviewers* except where it is expressly stated otherwise, or is clear from the context that *valuation reviewers* are excluded.

Para 50. Competence

50.1. *Valuations must* be prepared by an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to execute a *valuation* in an objective, unbiased, ethical and competent manner and having the appropriate technical skills, experience and knowledge of the subject of the *valuation*, the market(s) in which it trades and the *purpose of the valuation*.

[IVS 2020 version : 50.1. *Valuations must* be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the *valuation*, the market(s) in which it trades and the *purpose of the valuation*.]

IVS 101- Scope of work

Para 10 – Introduction:

10.1. A scope of work (sometimes referred to as terms of engagement) describes the fundamental terms of a valuation ~~engagement~~, such as the *asset(s)* being valued, the *purpose of the valuation* and the responsibilities of parties involved in the *valuation*.

10.2. This standard is intended to apply to a wide spectrum of valuation assignments, including:

(a) *valuations* performed by *valuers* for their own employers (~~"in-house valuations"~~ employed)

(b) *valuations* performed by *valuers* for *clients* other than their employers (~~"third-party *valuations*"~~ engaged), and

(c) valuation reviews where the reviewer *may* not be required to provide their own opinion of *value*.

IVS 104-Bases of value

Para 220. Allocation of Value

220.1. Allocation of value is the separate apportionment of *value* of an *asset(s)* on an individual or component basis.

220.2. When apportioning *value*, the allocation method must be consistent with the overall valuation premise/basis and the *valuer must*:

(a) follow any applicable legal or regulatory requirements,

(b) set out a clear and accurate description of the *purpose* and *intended use* of the allocation,

(c) consider the facts and circumstances, such as the relevant characteristic(s) of the items(s) being apportioned,

(d) adopt appropriate methodology(ies) in the circumstances.

INTERNATIONAL VALUATION STANDARDS (IVS)

IVS 105-Valuation approaches and methods

Para 10. Introduction

10.1. Consideration *must* be given to the relevant and appropriate valuation approaches. One or more valuation *approaches may* be used in order to arrive at the *value* in accordance with the *basis of value*. The three approaches described and defined below are the main approaches used in *valuation*. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution.

Para 50.13

As required by para 50.12, regardless of the source of the PFI (eg, management forecast), a *valuer must* perform analysis to evaluate the PFI, the assumptions underlying the PFI and their appropriateness for the valuation *purpose*. The suitability of the PFI and the underlying assumptions will depend upon the *purpose* ~~of the *valuation*~~ and the required *bases of value*. For example, cash flow used to determine *market value should* reflect PFI that would be anticipated by *participants*; in contrast, *investment value* can be measured using cash flow that is based on the reasonable forecasts from the perspective of a particular investor.

IVS 200-Businesses and Business Interests

Para 20. Introduction

20.1. The definition of what constitutes a business *may* differ depending on the *purpose* of a *valuation*. ~~However,~~ but generally ~~a business conducts a~~ involves an organisation or integrated collection of *assets* engaged in commercial, industrial, service or investment activity. Generally, a business would include more than one *asset* (or a single *asset* in which the *value* is dependent on employing additional *assets*) working together to generate economic activity that differs from the outputs that would be generated by the individual *assets* on their own. ~~Businesses can take many forms, such as corporations, partnerships, joint ventures and sole proprietorships. The *value* of a business *may* differ from the sum of the values of the individual assets or liabilities that make up that business. When a business value is greater than the sum of the recorded and unrecorded net tangible and identifiable intangible *assets* of the business, the excess value is often referred to as going concern value or goodwill.~~

20.2. Individual intangible assets, or a group of intangible assets might not constitute a business but would nonetheless be within the scope of this standard if such *assets* generate economic activity that differs from the outputs that would be generated by the individual assets on their own. If the *assets* do not meet these criteria, a *valuer* should defer to IVS 210 *Intangible Assets* and IVS 220 *Non-Financial Liabilities*. ~~When *valuing* individual *assets* or liabilities owned by a business, *valuers should* follow the applicable standard for that type of *asset* or liability (IVS 210 *Intangible Assets*, IVS 400 *Real Property Interests*, etc).~~

20.3. The commercial, industrial, service or investment activity of the business may result in greater economic activity (ie, *value*), than those *assets* would generate separately. The excess value is often referred to as going concern value or goodwill. This excess value may constitute a separate *asset* under certain *bases of value* in certain situations. The absence of excess value does not automatically mean that the *asset* or group of *assets* does not constitute a business. In addition, economically, substantially all of the *value* of *assets* within a business may reside in a single *asset*.

20.4. Businesses can take many legal forms, such as corporations, partnerships, joint ventures and sole proprietorships. However, businesses could take other forms such as a division, branch, line of business, segment, cash generating unit, and asset group that can consist of parts of one or more legal entities.

20.5. Interests in a business (eg, securities) can also take many forms. To determine the value of a business interest, a *valuer* should first determine the *value* of the underlying business by applying these standards. In such instances, business interests should be within the scope of this standard but depending on the nature of the interest certain other standards may be applicable.

[IVS 200-Para 20.3 & 20.4 of IVS 2020 version now stand renumbered at Para 20.6 & 20.7 respectively]

IVS 230 Inventory

10. Overview

10.1. The principles contained in the General Standards apply to *valuations* of inventory and *valuations* with an inventory component. This standard contains additional requirements for *valuations* of inventory.

20. Introduction

20.1. Inventory broadly includes goods which will be used in future production processes (ie, raw materials, parts, supplies), goods used in the production process (ie, work-in-process), and goods awaiting sale (ie, finished goods).

20.2. This standard focuses on *valuation* of inventory of physical goods that are not real property, as the numerous and varied aspects of real property inventory were not considered or contemplated in the preparation of this standard. The *valuation* of real property is covered in IVS 400 *Real Property Interests*.

20.3. While the book value of inventory only includes historical costs, the profits earned in the production process, which reflect returns on the *assets* utilised in manufacturing (including working capital, property, plant, and equipment, and intangible assets), are not capitalised into book value. As a result, the *market value* of inventory typically differs from, and is usually higher than, the book value of inventory.

20.4. As inventory is seldom transacted at an interim stage (eg, work-in-process) or *may* not be frequently sold to a third party to conduct the selling effort (eg, finished goods sold via distributor networks), the valuation techniques and considerations for inventory frequently vary from those of other *assets*.

20.5. Inventory valuations are performed for a variety of *purposes*. It is the *valuer's* responsibility to understand the *purpose* of a *valuation* and whether the inventory *should* be valued, whether separately or grouped with other *assets*. A non-exhaustive list of examples of circumstances that commonly include an inventory valuation component is provided below:

(a) For financial reporting *purposes*, *valuations* of inventory are often required in connection with accounting for business combinations, asset acquisitions and sales, and impairment analysis.

(b) For tax reporting *purposes*, inventory valuations are frequently needed for transfer pricing analyses, estate and gift tax planning and reporting, and ad valorem taxation analyses.

(c) Inventory valuation *may* be the subject of litigation, requiring valuation analysis in certain circumstances.

(d) *Valuers* are sometimes asked to value inventory as part of general consulting, collateral lending, transactional support engagements and insolvency.

30. Bases of Value

30.1. In accordance with IVS 104 *Bases of Value*, a *valuer must* select the appropriate *basis(es) of value* when valuing inventory.

30.2. Often, inventory valuations are performed using *bases of value* defined by entities/organisations other than the IVSC (some examples of which are mentioned in IVS 104 *Bases of Value*) and the *valuer must* understand and follow the regulation, case law, and other interpretive guidance related to those *bases of value* as of the valuation date.

40. Valuation Approaches and Methods

40.1. The three valuation approaches described in IVS 105 *Valuation Approaches* can all be applied to the *valuation* of inventory. The methods described below simultaneously exhibit elements of the cost approach, market approach, and income approach. If necessary for the *valuer* to classify a method under one of the three approaches, the *valuer should* use judgement in making the determination and not necessarily rely on the classification below.

40.2. When selecting an approach and method, in addition to the requirements of this standard, a *valuer must* follow the requirements of IVS 105 *Valuation Approaches*, including para 10.3.

50. Market Approach

50.1. The market approach, ie, reference to market activity involving identical or similar goods, has only narrow direct application for the *valuation* of inventory. Such applications typically include 1) inventory of commoditised products, or 2) inventory in which a market exists for the inventory at an interim stage in the production process. For non-commodity traded products or products that a market exists at an interim production stage, such selling prices *must* be adjusted downward to account for the disposal effort and related profit.

50.2. While the market approach is not directly applicable in most instances, *valuers should* consider market-based indications to determine the selling price as an input for other methods.

50.3. Other observable markets *may* provide insights on the returns attributable to the manufacturing and disposition of *assets* that can also be leveraged for inputs into other methods. Such returns are typically considered to exclude returns attributable to intellectual property. For example:

(a) Distributor profit margins represent a meaningful market proxy for returns on the disposition process, if an appropriate base of comparable companies is identified.

(b) Contract manufacturers, to the extent available, *may* provide a proxy for margins earned through the manufacturing process.

50.4. *Valuers must* comply with paras 20.2 and 20.3 of IVS 105 *Valuation Approaches and Methods* when determining whether to apply the market approach to the *valuation* of inventory. In addition, *valuers should* only apply the market approach to value inventory if both of the following criteria are met:

(a) information is available on arm's length transactions involving identical or similar inventory on or near the valuation date, and

(b) sufficient information is available to allow the *valuer* to adjust for all *significant* differences between the *subject* inventory and those involved in the transactions.

50.5. Where evidence of market prices is available, *valuers should* make adjustments to these to reflect differences between the *subject* inventory and those involved in the transactions. These adjustments are necessary to reflect the differentiating characteristics of the *subject* inventory and those involved in the transactions. Such adjustments may only be determinable at a qualitative, rather than quantitative, level. However, the need for *significant* qualitative adjustments *may* indicate that another approach would be more appropriate for the *valuation* (see IVS 105 *Valuation Approaches and Methods*, paras 10.1-10.10).

60. Income Approach

60.1. The *valuation* of inventory using the income approach requires the allocation of profit (value) contributed pre-valuation date versus the profit (value) contributed post-valuation date.

60.2. *Valuers must* comply with paras 40.2 and 40.3 of IVS 105 *Valuation Approaches and Methods* when determining whether to apply the income approach to the *valuation* of inventory.

Top-Down Method

60.3. The top-down method is a residual method that begins with the estimated selling price and deducts remaining *costs* and estimated profit.

60.4. The top-down method attempts to bifurcate the efforts, and related value, that were completed before the measurement date versus those efforts that are to be completed after the measurement date.

60.5. The key steps in applying the top-down method are to:

(a) Estimate the selling price. The *valuer should* rely on direct observations of selling prices when the information is available. However, such data is often not available and the selling price is often estimated by applying an appropriate gross profit margin to the net book value of finished goods at the product level or aggregate level. Typically, the projected gross profit margin in the period the inventory will be sold is used.

(b) Estimate the *costs* to complete (for work-in-process only). Completion costs *should* include all of the expenditures directly or indirectly remaining to be incurred post-valuation date in bringing the work in progress inventory to its finished condition. *Costs* to complete *should* be adjusted to remove expenses benefitting future periods.

(c) Subtract the *costs* of disposal. *Costs* of disposal represent *costs* that would be incurred post-valuation date in order to deliver the finished goods to the end customer. *Costs* of disposal *should* be adjusted to remove expenses benefitting future periods. Disposal costs generally include selling and marketing expenses while procurement and manufacturing expenses have typically already been incurred for finished goods inventory. In order to properly determine *costs* of disposal, each expense in the inventory cycle (including indirect overhead) *should* be categorised as having been incurred and, therefore, contributed to the *value* of the finished goods inventory or remaining to be incurred during the disposal process.

(d) Subtract the profit allowance on the completion effort (for work-in-process only) and the disposal process. An initial starting point *may* be to utilise the operating profit of the company. However, this methodology assumes the profit margin would be proportional to the *costs* incurred. In most circumstances there is rationale to assume profit margins which are not proportional to *costs* (see section 90).

(e) Consider any necessary holding costs. Holding costs *may* need to be estimated in order to account for the opportunity cost associated with the time required to sell the inventory. Additionally, the *valuer should* consider the risk born during the holding period when determining the required rate of return. Risks *may* be a function of the length of inventory life cycle and the contractual arrangements with end customers (eg, manufacturer bears the risk of fluctuation in *costs* of completion and disposal). Holding costs *may* be immaterial if the inventory turnover is high and/or the borrowing rate is low.

60.6. When determining the *cost* to complete, *costs* of disposal and profit allowance, the *valuer should* identify and exclude any expenses that are intended to provide future economic benefit and are not necessary to generate the current period revenue. Examples of future-benefit expenses *may* include research and development (R&D) related to new product development; marketing for a new product; recruiting to increase the size of the workforce; expansion into a new territory; depreciation of an R&D facility dedicated to future research; or restructuring costs.

60.7. Internally developed intangible assets *should* either be modelled as 1) a *cost* as if they were hypothetically licensed, and therefore included in either the *cost* of production or disposal, or 2) considered as part of a functional apportionment when determining the appropriate profit allowance.

60.8. When utilising the top-down method, *valuers should* consider whether sufficient data are available to appropriately apply the key steps. If sufficient data is not available, it *may* be appropriate to apply other methods or techniques.

60.9. The *valuer may* use the bottom-up method (see para 60.10) to corroborate the *value* derived from the top-down method (see paras 60.3 to 60.9).

Bottom-Up Method

60.10. The key steps in applying the bottom-up method are to:

(a) Determine the book value of the *subject* inventory. The book value *may* need to be adjusted for multiple considerations (see para 70.4 and section 110).

(b) Add any *cost* of buying and holding already incurred.

(c) Add any *cost* toward completion already incurred. Such *costs* typically include procurement and manufacturing expenses

(d) Add profit on total *costs* already incurred. An initial starting point *may* be to utilise the operating profit of the company. However, this methodology assumes the profit margin would be proportional to the *costs* incurred. In most circumstances there is rationale to assume profit margins which are not proportional to *costs* (see section 90).

60.11. When determining the *costs* already incurred, *valuers should* consider internally developed intangible assets that have contributed toward the completion effort.

70. Cost Approach

70.1. The primary method to value inventory is the replacement cost method. Raw materials inventory is typically valued using the current replacement cost method.

70.2. *Valuers must* comply with paras 60.2 and 60.3 of IVS 105 *Valuation Approaches and Methods* when determining whether to apply the cost approach to the *valuation* of inventory.

Current Replacement Cost Method

70.3. The current replacement cost method (CRCM) *may* provide a good indication of *market value* if inventory is readily replaceable in a wholesale or retail business (eg, raw materials inventory).

70.4. The *market value* of raw materials and other inventory *may* be similar to the net book value as of the valuation date but certain adjustments *should* be considered.

(a) The book value *may* need to be adjusted to FIFO basis.

(b) If raw material prices fluctuate and/or the inventory turnover is slow the book value *may* need to be adjusted for changes in market prices.

(c) The book value of raw materials *may* also be decreased to account for obsolete and defective goods.

(d) The book value *may* also need to be decreased for shrinkage, which is the difference between inventory listed in the accounting records and the actual inventory due to theft, damage, miscounting, incorrect units of measure, evaporation, etc.

(e) The book value *may* need to be increased for any *costs* incurred in connection with raw material preparation (eg, purchasing, storage and handling).

80. Special Considerations for Inventory

80.1. The following sections address a non-exhaustive list of topics relevant to the *valuation* of inventory.

(a) Identification of value-added processes and returns on intangible assets (section 90).

(b) Relationship to other acquired assets (section 100).

(c) Obsolete inventory – reserves (section 110).

(d) Unit of account (section 120)

90. Identification of Value-Added Processes and Returns on Intangible Assets

90.1. The *valuation* of inventory involves an allocation of profit between the profit earned pre-measurement date and the profit earned post-measurement date. In practice, profit earned *may* not be proportional to expenses. In most cases the risks assumed, value added, or intangibles contributed to the inventory pre-measurement date are not the same as those contributed post-measurement date.

90.2. *Valuers* typically *should* not simply allocate profit in proportion to disposition and manufacturing costs. This assumption can misallocate profit, as it presupposes that a company's production process earns profit on a pro-rata basis based on *costs* incurred. For manufacturers, this method is inappropriate if the *costs* of materials represent an initial outflow without significant efforts. Such an assumption also fails to recognise the contribution of internally-generated intangible assets with minimal associated costs.

90.3. *Valuers should* distinguish between value-added costs and those that are not value-added. The materials portion of COGS may not be a value-added cost because it does not contribute any of the profit to the inventory.

90.4. For a company that owns internally developed intangible assets that contribute to an increase in the level of profitability, the return on and of those intangible assets would be included in the total profit margin of the business. However, whether intangible assets are owned or licensed, the *market value* of the inventory *should* be the same.

90.5. The *valuer should* determine the extent to which the technology, trademarks, and customer relationships support the manufacturing and distribution processes and whether the returns are applicable to the entire base of revenue. If the intangible asset has been utilised to create the inventory (eg, a manufacturing process intangible), then the *value* of the inventory would be increased. Conversely, if the intangible asset is expected to be utilised in the future, at the time of disposal, the *value* of the inventory would be decreased.

90.6. For marketing intangibles, the determination of whether the intangible is an attribute of the inventory *may* be difficult. To assist with the determination, the *valuer may* consider how the inventory would be marketed by a market *participant* to its customers – pull vs push model. A push

model requires significant disposal efforts for inventory and is less reliant on marketing intangibles, while a pull model depends on strong brand development and recognition to pull customers to the product.

90.7. A non-exhaustive list of other considerations for evaluating when intangible assets are contributed *may* include the amount of marketing spend, whether products are sold through a distributor, level of attrition for customer relationships, and any legal rights associated with the intangible assets.

90.8. In some cases, the intangible asset may consist of several elements that contribute to various aspects of the value creation, such as a pharmaceutical product intangible asset that is comprised of technology and trade name. This requires an assessment of how the overall profit related to each element of the intangible asset *should* be apportioned to manufacturing the inventory versus in the disposal effort.

90.9. Similarly, although a single intangible asset may only contribute to either the manufacturing or disposal effort, it is possible for a portion of the intangible to be contributed pre-measurement date and a portion contributed post-measurement date. For example, when assessing the contribution of symbolic IP for finished goods, although the product bears the respective branding associated with the symbolic IP, the related right to sell the branded product *may* not be conveyed with the transfer of inventory. As such, it *may* be appropriate to consider such rights in the *costs* of disposal.

100. Relationship to Other Acquired Assets

100.1. The *valuer should* maintain consistency, as appropriate, between assumptions used in the inventory valuation relative to *valuation* of other *assets* or liabilities.

110. Obsolete Inventory Reserves

110.1. The *valuer should* account for obsolete inventory reserve balances. The inventory reserve balances *should* be applied to the inventory in which the reserve applies, rather than netted against the entire inventory balance.

110.2. Typically, the obsolete inventory adjusted for the inventory reserve would not be valued as it has been adjusted to net realisable value. However, the *valuer may* need to consider further write-downs if *market value* is lower than net realisable value.

120. Unit of Account

120.1. For *purposes* of inventory valuation, it is often appropriate to assume inventory is one homogenous set of *assets*. However, it is possible for the profit margins, risk, and intangible asset contributions to vary by product or product group.

120.2. If the profit margins, risk, and intangible asset contributions vary by product or product group, and the relative mix of inventory being valued does not match the assumed sales mix used to develop the assumptions for the *valuation*, the *valuer should* assess the different groups of inventory separately.

IVS 400-Real Property Interests

Para 20. Introduction

20.1. Property interests are normally defined by state or the law of individual *jurisdictions* and are often regulated by national or local legislation. In some instances, legitimate individual, communal/community and/or collective rights over land and buildings are held in an informal, traditional, undocumented and unregistered manner ~~outside of a modern land administration and governance system.~~ Before undertaking a *valuation* of a real property interest, a *valuer must* understand the relevant legal framework that affects the interest being valued.

20.2. A real property interest is a right of ownership, control, use or occupation of land and buildings. A real property interest includes informal tenure rights for communal/community and or collective or tribal land and urban/rural informal settlements or transition economies, which can take the form of possession, occupation and rights to use.

20.6. To comply with the requirements to state the extent of the investigation and the nature and source of the information to be relied upon in IVS 101 Scope of Work, para 20.3.(j) and IVS 102 Investigations and Compliance, the following matters ~~must~~ should be considered:

(a) the evidence, if available, required to verify the real property interest and any relevant related interests,

(b) the extent of any inspection,

(c) responsibility for information on the site area, site characteristics and ~~any~~ building floor areas,

(d) responsibility for confirming the specification and condition of any building,

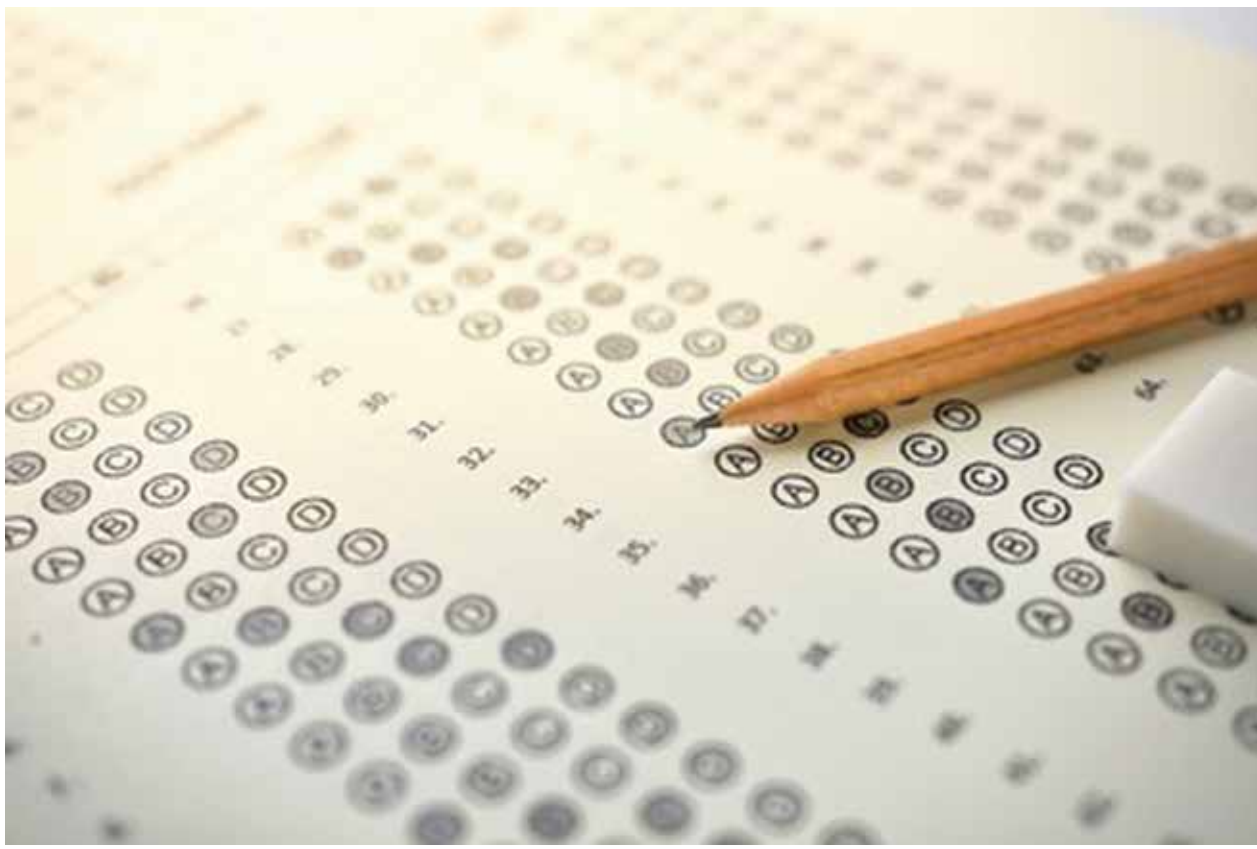
(e) the extent of investigation into the nature, specification and adequacy of services,

(f) the existence of any information on ground conditions and ~~foundation~~ soil conditions,

(g) responsibility for the identification of actual or potential environmental factors ~~risks~~,

(h) legal permissions or restrictions on the use of the property and any buildings, as well as any expected or potential changes to legal permissions and restrictions.

MULTIPLE CHOICE QUESTIONS



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MULTIPLE CHOICE QUESTIONS

MCQs ON SARFAESI

1.How many days' notice is required to be send by the lender to the borrower?

a. 30 days
b.45 days
c. 60 days
d.90 days

Ans c

2.Within how many days the borrower should make representation to the Bank from receipt of notice

a. 2 days
b. 10 days
c. 15 days
d. 20 days

Ans c

3.Under the Sarfaesi Act, the secured creditor is empowered to enforce the security

a. Without intervention of court
b. With intervention of court
c. With Intervention of DRT
d. With intervention of DRAT

Ans: a

4.An Asset reconstruction company should be registered with

a. Central Government
b. Reserve Bank of India
c. Ministry of Finance
d. Ministry of Law

Ans b

5.The ARC should have a minimum net worth of

1. Rs 1 crore
2. Rs 100 Crore
3. Rs 5 crore
4. Rs 10 crore

Ans 2

6.The Asset Reconstruction Company should not have incurred losses for previous

1. 2 years
2. 1 years
3. 3years
4. 5 years

Ans 3

7.Any document executed by any bank or financial institution under for the purposes of asset reconstruction or securitisation shall

a. Have stamp duty @ 0.5%
b. Have stamp duty @1%
c. Have stamp duty @.25%
d. Exempt from the stamp duty

Ans d

8.For Transfer of pending applications to any one of Debts Recovery Tribunals in case when there are applications in more than one DRT, the application should be made to

a. DRAT
b. DRT with maximum number of cases
c. DRT with minimum number of cases
d. Central Government

Ans a

9.Application against the action of creditor can be made to DRT within

a. 30 days
b. 40 days
c. 45 days
d. 60 days

Ans c

10.An appeal against the order of DRT can be made to DRAT within

a. 15 days
b. 30 days
c. 45 days
d. 60 days

Ans b

11.The amount of compensation payable to director in case of loss of office during enforcement of security shall be

a. 1 month salary
b. 2 month salary
c. No compensation
d. 3 month average salary

Ans c

12.Sarfaesi Act cannot be invoked if

a. The amount is less than 1 lakh
b. The amount is less than 2 lakhs
c. The amount is less than 5 lakhs
d. The amount is less than 10 lakhs

Ans a

13.Any dispute arising between Bank or financial institute & ARC or QIB shall be resolved by making an application to

A. National Company Law Tribunal
B. High Court
C. Arbitrator under Arbitration & Conciliation Act,1996
D. Regional director

Ans C

14.An Asset Reconstruction company Works as

A. Agent, manager & receiver
B. Principal, manager & receiver
C. Manager, receiver & administrator
D. agent, manager & obligator

Ans A

15.Under the provision of SARFAESI Act 2002, where a transaction of securitisation is registered

A. Registrar of Companies

MULTIPLE CHOICE QUESTIONS

B. Registrar of Firms
C. Registrar of Assurances
D. Registrar of Central Registry

Ans D

16.Asset ltd. is an asset reconstruction company, of which certificate of registration was cancelled. Which authority can cancel the registration?

A. Supreme court
B. High Court
C. RBI
D. All are empowered

And C

17.As per Security Interest (enforcement) Rules,2002, on sale of immovable property by the secured creditor, the purchaser shall pay a deposit of _____ of the amount of sale price immediately and balance within _____ days of such sale.

A. 15% , 15 days
B. 35%, 20 days
C. 25%, 15 days
D. 50%, , 30 days

Ans C

18.As per Change in or takeover of management of business (RBI) Guidelines, 2010, a Securitization Company may effect change or takeover of management if the amount due from borrower exceeds :

A. 25
B. 45
C. 35
D. 55

Ans A

MCQ SEBI GUIDELINES

19.In case of ICDR guidelines , the relevant date means

a. The date of public announcement
b. The date of board meeting in which the variation was done'
c. The date of valuation of shares
d. The date as directed by SE

Ans b

20.Obligation for exit offer arises when dissenting shareholders are ___ and amount be utilized for purpose for which offer was made is less than ___

a. 10%.50%
b. 15%.75%
c. 10%, 75%
d. 15%, 50 %

Ans c

21.The maximum permissible non public shareholding is

a. 50%
b. 60%
c. 75%
d. 90%

Ans c

22.The allotment in case of preferential allotment has to be done within

a. 30 days
b. 10 days
c. 7 days
d. 15 days

Ans d

23.ICDR guidelines Chapter VIA is applicable to issues after

a. April 1 , 2011
b. April 1 ,2014
c. April 1, 2012
d. April 1 , 2013

Ans b

24.The eligibility of dissenting shareholder

a. Holding shares on the date of Board meeting/Relevant date
b. Holding shares on General Meeting
c. Holding shares on the date when application is made to stock exchange
d. None of the above

Ans a

25.In case of insider trading regulations, the trading plan shall remain in force atleast for

a. 12 months
b. 6 months
c. 3 months
d. 24 months

Ans a

26.The directors/KMP/promoter have to inform about the securities held by them as on date of appointment within

a. 7 days
b. 10 days
c. 15 days
d. 30 days

Ans a

27.In case of SASTA guidelines the amount to be deposited in Escrow account for first 500 cr will be

a. 20 %

MULTIPLE CHOICE QUESTIONS

b. 25%
c. 50%
d. 75%

Ans b

28.Competing offer should be made within

a. 10 days of DPS
b. 7 days of DPS
c. 15 days of DPS
d. 30 days of DPS

Ans c

29.Delisting is a failure if

a. 90% shares not received in the process
b. 75%not received in process
c. 100% not received in process
d. 50% not received in process

Ans a

30.In case of compulsory delisting the directors/promoters etc are debarred form entering capital market for a duration of

a. 5 years
b. 10 years
c. 15 years
d. Life time

Ans b

31.Frequently traded shares in case of SAST regulations means

a. Minimum 10% of total shares traded in last 12 months
b. Minimum 20% of total shares traded in 26 weeks
c. Minimum 25% of total shares in last 12 months
d. Minimum 20% shares in last 26 weeks

Ans a

32.The tendering period in case of exit offer under ICDR guidelines shall remain open for

a. 7 days
b. 5days
c. 10 days
d. 15 days

Ans c

33.Employee benefit scheme should be approved

a. By special resolution at GM
b. By ordinary resolution at GM
c. BY resolution at BM
d. No approval is required

Ans a

34.Constitution of compensation committee under employee benefit scheme should be same as

a. CSR committee
b. Nomination and remuneration committee
c. Audit committee
d. No committee is required

Ans b

35.Employee under benefit scheme does not include

a. Permanent employee
b. Whole time director
c. Employee outside india
d. Independent director

And d

37.Disclosure is required to be made under Insider trading quidelines , If in quarter traded value exceeds

a. 10 lakhs
b. 20 lakhs
c. 25 lakhs
d. 50 lakhs

Ans a

38.Who controls the capital market in India?

(A) SEBI
(B) RBI
(C) IRDA
(D) NABARD

Ans A

39.Which of the following reasons is not responsible for the ups and downs in the Sensex?

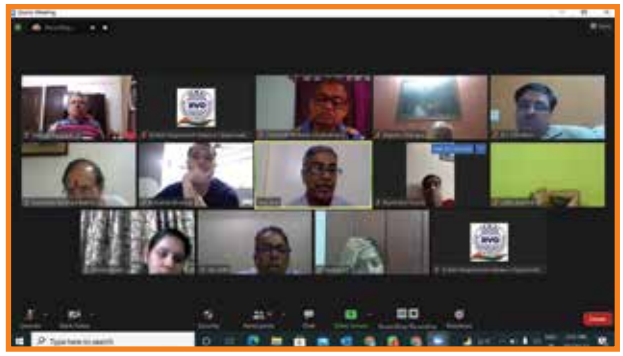
(A) Rain
(B) Monetary policy
(C) Political instability
(D) None of the following

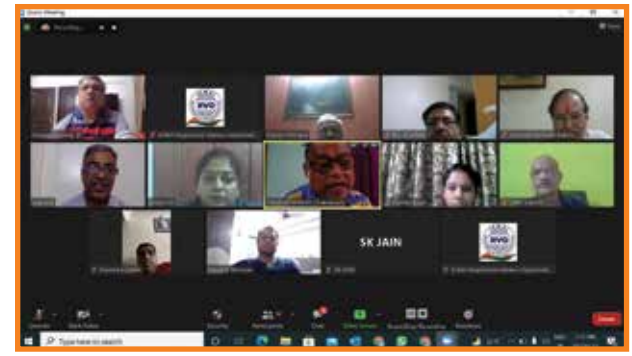
Ans D

40.Which of the following is not a credit rating agency?

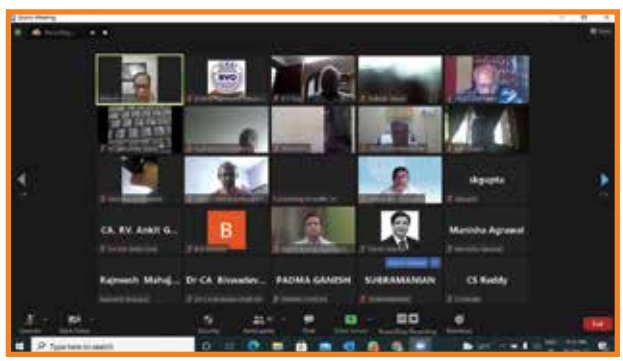
(A) CRISIL
(B) ICRA
(C) NIKKEI
(D) CARE

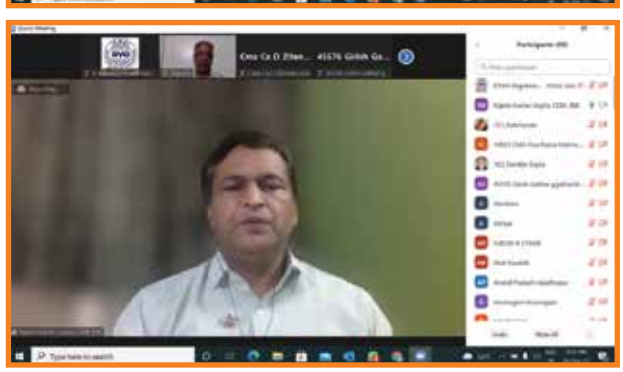
Ans C





3 Months Online Certificate Program in Valuation





Valuation Standards Conclave

TECHNICAL GUIDANCE NOTE: IMPACT OF COVID 19 ON VALUATION

Dear Sir/Madam,

Greetings

The Valuation Standards Board of ICMAI Registered Valuer Organisation has recommended Draft **Technical Guidance Note on - Impact of Covid-19 on Valuation** which is attached herewith for your kind perusal/observations if any.

You are requested to kindly offer your comments in the **Track change mode** on the draft guidance note latest by **10th November 2021.**

you may also access the document through the link given below and make suggested changes therein if any.

Click Here
https://docs.google.com/document/d/1iPO47M9KEVGMnNi9HfDqcLkYLfauncw9mpiFM0PhXtI/edit?usp=sharing

Table of Contents

1. Background

1.1 The COVID 19 crisis continues to hugely affect the humanity including global economic, social, and political perspectives. These are uniquely testing times for us all. The speed at which COVID-19 has spread across the world is unprecedented and the characteristics, dimensions and severity of the disruption to the global economy, is yet unknown.

1.2 The recent Covid-19 outbreak and subsequent lockdowns have significantly impacted global markets with increased volatility and business disruption worldwide. When it comes to valuation, concerns have been raised about the fair value of companies, resulting in increased regulator and stakeholder scrutiny. These times are very demanding specially in respect of valuations as in order to value assets, there are limited to no comparable data and all markets, sectors and firms arefacing an uneven / uncertain future.

1.3 While it is difficult to predict the overall social and economic impact of the crisis with any degree of certainty, performing a valuation in these market conditions is quite challenging, in particular when significant unobservable / unknown inputs are to be considered, relied upon and factored into valuation.

2. Economic Impact of COVID

2.1 Economic Impact on the Indian market / economy

2.1.1 As per the official data released by the ministry of statistics and program implementation, the Indian economy contracted by 7.3% in the April-June quarter of this fiscal year. The surveys conducted by the Centre For Monitoring Indian Economy shows a steep rise in unemployment rates, in the range of 7.9% to 12% during the April-June quarter of 2021. The economy is having a knock-on effect with many MSMEs shutting their businesses. Millions of jobs have been lost permanently and have dampened consumption.

2.1.2 Using a capacity utilization ratio method, it is estimated that the countrywide lockdown disrupted both demand and supply, with a loss of GVA for 2020–21 of 1.7% under an optimistic approach, and a fall in employment of 0.34%, with a loss of 1.56 million jobs.

2.1.3 A majority of financial analysts predict GDP growth at 18-20 per cent in the June quarter and remain optimistic about economic recovery in upcoming quarters as the second wave fades and more Indians get vaccinated against the deadly virus. India's economic growth trajectory remains positive at the moment. Crucial economic segments such as manufacturing, services, industrial output, exports and demand. Activity in many sectors including retail, automobile, agriculture and construction have also gained momentum; only a few contact-heavy sectors such as transport, tourism and hospitality remain weak.

2.1.4 A GDP growth rate of 20.1 per cent in the April-June quarter of this fiscal, helped by a low base of the year-ago period, despite a devastating second wave of COVID-19. The gross domestic product (GDP) had contracted by 24.4 per cent in the corresponding April-June quarter of 2020-21. Economic think-tank National Council of Applied Economic Research (NCAER) has estimated India's GDP to grow 11.5 percent in the first quarter and 8.4 to 10.1 percent for the current financial year 2021-22. Gross domestic product (GDP) grew by 20.1% for the April to June quarter compared to a year earlier. During the same period last year, India's economy shrank by 24%.

2.1.5 India's stock markets recorded especially bullish performance over the past months despite the fact that the impact of the second wave has largely frozen the economic activities across the country for weeks. The benchmark BSE Sensex achieved a milestone by hitting an all time high of 60000 last week.

2.1.6 Cautious optimism has started to return to India's economy which was heavily battered by Covid 2.0 On the brighter side, several aspects of aggregate supply conditions – agriculture and contactless services are holding up, while industrial production and exports have surged compared to last year amidst pandemic protocols. The economy has the resilience and the fundamentals to bounce back from the pandemic and unshackle itself from pre-existing cyclical and structural hindrances.

2.2 Sector wise Economic impact

2.2.1 The agricultural sector, which remained unbattered by the Covid-19 induced lockdown,grew by 4.2 per cent in the June 2021 quarter. Utilities, which were quick to recover from the shock reported a smart 8.6 per cent expansion in the June 2021 quarter. The manufacturing sector returned to growth, buoyed by release of pent-up demand and fresh festive spending. It clocked 1.7 per cent growth in GVA in June 2021 quarter. The IIP data shows that this growth, however, was skewed in favor of infrastructural goods, electronic goods and home appliances. Labor intensive industries such as textile, leather, beverages, tobacco and paper were missing from the festive frenzy.

2.2.2 Manufacturing in India was hugely impacted by Covid. As the sector with the maximum amount of backward and forward linkages, manufacturing crucially sustains and propels economic recovery. However shoots of recovery are now visible. In June 2021 the IHS Markit India Manufacturing Purchasing Managers' Index (PMI) improved to 57.2 from 55.5 in April 2021 after declining to a seven-month low in March at 55.

2.2.3 The automobile sector, which was grappling with the new Bharat Stage (BS) VI regulations, was faced with the shortage of spare parts from China where factories were shut following the coronavirus outbreak. As per a parliamentary panel report, the Indian automotive industry suffered Rs 2,300 crore loss per day and an estimated job loss in the sector was about 3.45 lakh, as a direct result of the pandemic. The report stated that all the major original equipment manufacturers (OEM) have cut down their production by 18-20% due to low demand and decline in sales of vehicles.Of late some recovery is seen in this sector.

2.2.4 On the demand side, the growth was driven by capital formation alone. Private final consumption expenditure did narrow its contraction to 1.8 per cent in the June 2021 quarter, but failed to return to growth. Consumption demand seems to have been driven by middle and higher-income groups, a majority of whom have not taken a hit on their incomes amid the pandemic. Final consumption expenditure by the government too declined by 1.1 per cent and so did imports and exports, which fell by 4.6 per cent each.

2.2.5 India's travel and tourism sector, which accounts for

nearly 2.5 percent of GDP suffered heavily during the Covid on account of lockdown and travel restrictions. It is only recently that the sector has started to look up on its path to recovery. he impact on the hospitality industry is not going to last long. It may be slower to recover, but when the recovery happens, it will be like a true hockey stick.

2.2.6 The COVID-19 pandemic had a massive impact on the Indian aviation sector in 2020 and major airlines facing losses and challenging times laid off employees, sent them on leave without pay, or cut their salaries. The revival of overseas travel is expected to be slower and more challenging than domestic

2.2.7 Digital & Internet Economy: During the course of the pandemic, people have started using digital medium for work commitments, education, and entertainment. Online platforms for work meetings have seen a massive rise in popularity. , Meeting and Video calling Applications have come up with innovative features making it conducive for professionals to work from home. This has also facilitated Schools and universities to start online education and assessments. The lockdown has restricted events that require a massive gathering of people like sports, music festivals, theatre, movies etc. resulting in these sectors taking a hit. Due to which online platforms for digital content has become a huge hit with many movies and shows seeing digital release instead of theatrical release. Due to lockdown, this sector has really seen a boom time like never before.

2.2.8 FMCG & Retail: This sector has seen a growth in this tough time. With continued fear of complete lockdown, food-based retail chains and essential commodity providers have emerged as winners. Given the heightened need of healthy food and immunity-boosting products among consumers have further broadened the scope for the companies in the product segment. These companies are revamping their growth strategies with a focus on providing a value proposition to consumers in existing categories, launching new products in the food and health categories, enhancing the direct distribution reach in the rural market, door to door services, etc. which will help them to achieve the growth in the medium term. By this, companies have been trying to broaden their product portfolio and reducing dependence on seasonal offerings.

2.2.9 Specialty Chemicals: Increased need for cleansing and sanitation has catapulted the demand for hand sanitizers, disinfectants, and surface cleaners. India's largest fast-moving consumer goods (FMCG) companies have rolled out a range of home cleaning, disinfectants, and personal hygiene products as they anticipate a surge in demand for such items amid the COVID-19 crisis. Also, the increased demand for the disinfectants, drugs, and medicines due to the pandemic, has given an opportunity to the organizations manufacturing chemicals required for manufacturing these. Hence organizations dealing in chemicals are expected to see a spike in demand owing to increased demand for disinfectants, drugs, and medicines by the customers.

2.2.10 Healthcare Sector: Healthcare sectors have faced hardships owing to the lockdown and all non-emergency treatments taking a back seat. But this sector shall see immense investment in the aftermath of the pandemic. The world would now realise that the threat of a pandemic is very real and investment in the sector to safeguard will be done in the near future. The rife spread of the virus has warranted people to take precautions to save themselves from this deadly disease. Demand for certain medical devices like oximeters, Personal Protective Equipment (PPE) kits, and masks have seen a rise as infected patients with mild symptoms under self-care and isolation need these basic devices for self-monitoring.

2.2.11 The market to the above-specified sectors is expected to see growth owing to this pandemic. Some are converting this into an opportunity by changing their product mix. New brands are coming up with essential supplies like hand sanitizers and disinfectant cleaners. While these brands are taking advantage of this opportunity, established brands that have built trust over the years are leading through this rat race.

2.2.12 The world has seen something like never before. The COVID-19 crisis has ultimately lead to an emergence of new FMCG products, a change in consumer behavior, and a shift in the market's focus on health protection and hygiene. In order to get the business and economy back on track, the companies are moving forward by taking the situation of the pandemic as an opportunity. Some are coming up with innovative ideas and resultantly getting the first-mover advantage, whose impact will entertain a long-lasting impact on the market.

2.2.13 Covid has brought change in pattern of consumption of goods & services. Many goods which considered to be essentials in physical format e.g. printed books, appeals, Fuel etc. are being substituted by virtual services like eBooks, good internet connectivity, software, Apps etc. Infect the corporates who sensed this change early emerged as winners and the financial performance has seen positive upside.

2.2.14 COVID brought substantial amount of reduction especially on Administration & Selling and Distribution costs. Suddenly corporates are finding many recurring costs as redundant and have taken policy decisions for dispensing with the same. Hence although there wereconstraints on Top line, the bottom line remained unaffected relatively.

2.3 Industry wise economic impact

COVID-19 affected industries differently and in general the industry wise impact is as under:

- Minimal — consumer staples, technology and utilities;
- Moderate — financials, health care, industrials and real estate; and
- Significant — consumer discretionary, energy, retail and tourism and hospitality.

3. Valuation Considerations

Valuation during Covid-19 brings a new set of challenges for the valuers and analysts. While assessing the value of businesses, the valuers must keep in mind that while most businesses have been hit negatively, some businesses have benefitted from the pandemic as well. Some ofthe key factors impacting business value includes, dependence of business on macro-economic factors; company's product/service demand; level of technology enablement; the current impact of pandemic on business and the management's plan towards recovery. Valuers would also need to assess if the management plans towards recovery are plausible.

Unaffected businesses: In case of businesses who have not been impacted by the pandemic and have shown resilience, their valuation should be done as is. In some cases, valuers may assign a higher value for better resilience.

Improved businesses (short term): Think of hospitals,

companies that made masks and hand sanitizers. Their businesses skyrocketed in the short run, but they are expected to come downin near future when the pandemic subsides, and these incomes are really extraordinary gains for them. It may be built into valuation as one-time gains. Valuers should be careful while using revenue growth forecasts beyond the next couple of years. Using a high base to calculate revenue forecasts may be dangerous. The likely future cash flow will, at worst, remain where it was pre-pandemic, and possibly increased post pandemic. These companies as a whole have increased in value, albeit marginally.

Improved businesses (long term): Technology enabled companies like Zoom, EdTech companies like Byju's, e -commerce companies and food delivery companies have really benefitted from the pandemic and expected to continue to sustain the advantages in themedium term. However, valuers must also consider the fact that in the long run, more and more companies may join the party and the margins and revenues of these companies will also come down eventually – normal economics.

Badly affected businesses: Businesses in travel, tourism, restaurants, entertainment businesses have been badly hit and some of them may never recover completely at all. If the company has been severely impacted, assess the going concern impact and assign a probability of the company shutting operations.

In this Vulnerable, uncertain, complex and ambiguous economic environment, Valuers may consider and keep in mind the following guidance notes:

3.1 Price vs. Value – Whilst it is always important to remember the distinction between the two, it iseven more critical in the current market conditions to ensure that it is possible to separate fundamental value changes from potential 'noise' in the pricing of public securities and valuationof assets.

3.2 Recognize the volatility – Periods of increased volatility should not be ignored. While heightened volatility reflects increased uncertainty and makes valuations more challenging, it is still possible to perform robust valuations that reflect market conditions at the valuation date. It isrecommended to take projections for a longer period, to see through the pandemic uncertainty.

3.3 What's the story underpinning the valuation – Valuations begin with numbers but closing a valuation requires telling a story that fits together. Valuations can make little sense when variouspieces of data are brought together without ensuring that they work in unison. This is a particular risk in the current environment given the fact that there have been significant fluctuations in several fundamental valuation inputs. An important consideration would be toform an opinion in the context of the sector/industry in which the valuation is being conducted. Whether the disruption in market conditions is short term, like it happened in case of real estate and financial services or is it going to have medium to long term impact like in case of travel andhospitality.

3.4 Gearing position and timing of refinancing events can increase risk.

Government has taken various steps to maintain liquidity in credit markets. However, consideration will need to be given to the funding position of each investment, particularly if there are indications that the credit markets may be constricted. Of particular interest will be:

- those investments with refinancing events in the short-term, which will be most at risk given the potential uncertainties in the amount of debt that can be raised and the cost of new debt
- the medium-term margin assumptions adopted, which may need to be reassessed if credit spreads widen for lower rated investments
- the extent of refinancing assumed in the medium-term that primarily provide an equity release, which may not be available in a dislocated credit environment
- the covenant headroom available, with those investments with limited headroom being at most risk, potentially amplified by any lingering uncertainty in relation to the impact on covenants of recently introduced accounting measures for right of use assets

3.5 Valuation Date

In determining if the impact of COVID -19 was known or knowable as on the valuation date, a valuation professional needs to understand the timeline of COVID-19. in India Most valuation experts believe that as of December 31, 2019, COVID-19's impact was not known or knowable. However, for valuation dates through the first part of 2020, valuers will have to make an assessment based on the specific valuation date, the information that was known and available as of that date, and to what extent it should be taken into account in the valuation.

3.6 Events between Valuation Date & Report Date:

ICAI Valuation Standards – *"*The valuation date is the specific date at which a valuer estimatesthe value of the asset. An event that occurs subsequent to the valuation date could affect the value; such an occurrence is referred to as a subsequent event. Subsequent events are indicative of the conditions that were not known or knowable at the valuation *date, including* conditions that arose subsequent to the valuation date. Generally, a valuer would consider only circumstances existing at the valuation date and events occurring up to the valuation date.

However, events and circumstances occurring subsequent to the valuation date, may be relevant to the valuation depending upon, inter alia, the basis, premise and purpose of valuation. Hence the valuer should apply its professional judgement, to consider any of such circumstances / events which are relevant for the valuation. Such circumstances / events could be relating to, but not limited to, the asset being valued, comparables and valuation parameters used. In the event such circumstances / events are considered by the valuer the same should be explicitly disclosed in the valuation report".

International Valuation Standards – Bases of Valuation:

"The assumed date of a transaction will influence what information and data a valuer considers in a valuation. Most bases of value prohibit the consideration of information or market sentiment that would not be known or knowable with reasonable due diligence on the measurement/valuation date by participants."

Therefore, a valuer may include additional analysis and disclosures explaining the impact of the subsequent event (COVID-19) on the performance and value of the subject company. As with many other valuation decisions, whether to account for the COVID-19 pandemic in a valuation will

be based on specific facts and circumstances of the Business/ Asset being Valued including the Purpose, Basis , Premise and Approach followed in performing the Valuation exercise. Events affecting Valuation in between Valuation date & Valuation Report date may be captured and quantified in footnote in the Valuation Report in order to bring clarity for intended user of Valuation report.

It is important to have a month-on-month review of events to formulate an opinion on how much impact of Covid need to be internalized in the valuations even when the valuation date is post Covid spread, as different waves have stuck at different time periods. Vaccination started at different points of time and their progress has also varied. This becomes even more critical, when adopting Discounted Cash Flow method of valuation where there is a gap between valuation date and date of report.

3.7 Starting Point of Valuation

As companies navigate the ongoing COVID-19 crisis, there are a number of key issues corporate leaders should be thinking about, as well as steps they can take to not only react to severe business shocks now but also reshape their business and plan for recovery. A careful examination of the total business landscape specially in the current dynamic environment will be very helpful for a valuer to assess the impact of the pandemic on the subjectbusiness:

3.7.1 The business Continuity plan – The businesses need to Reshape strategy for business continuity. Companies need to evaluate short-term liquidity. Companies will want to instil short-term cash flow monitoring discipline that allows them to predict cash flow pressures and intervene in a timely manner. They'll also want to maintain strict discipline on working capital, particularly around collecting receivables and managing inventory build-up. Additionally, it's important to be creative and proactively intervene to lighten the working capital cycle. Throughout the crisis, companies will want to maintain regular contact with suppliers to identify any potential risks.

3.7.1.1 Assess financial and operational risks and respond quickly. Companies will need to monitor direct cost escalations and their impact on overall product margins, intervening and renegotiating, where necessary. Companies that are slow to react or unable to renegotiate new terms and conditions may be vulnerable to financial stress that could carry long-term implications.

3.7.1.2 Consider alternative supply chain options. Companies that source parts or materials from suppliers in areas significantly impacted by COVID-19 will need to look for alternatives

3.7.1.3 Determine how the COVID-19 crisis affects budgets and business plans. Companies will want to stress-test financial plans for multiple scenarios to understand the potential impact on financial performance and assess how long the impact may continue. If the impact is material and former budget assumptions and business plans are no longer relevant, companies should revise them to remain agile. Where the business is significantly impacted, companies will need to consider minimum operating requirements, including key dependencies of workforce, vendors, location and technology.

3.7.1.4 Companies also would face the issue of short-term capital demands for continuous business operations. Based on the outcome of the assessment, companies may need to look at near-term capital raising, debt refinancing or additional credit support from banks or investors, or policy supports from the government. At the same time, companies will need to review overall operating costs and consider slowing down or curtailing all non-essential expenses.

3.7.1.5 Once the COVID-19 outbreak is controlled, companies will want to review and renew business continuity plans (BCP). They'll want to assess how existing BCPs are working. If there are deficiencies, companies will want to identify root causes, whether it's timeliness of action, lack of infrastructure, labor shortages, or external environment issues. Companies will then want to consider putting new internal guidelines in place based on lessons learned, as well as solid contingency plans to build resilience and better respond to future crises

3.7.2 Customers and suppliers – Clear, transparent and timely communications are necessary when creating a platform to reshape the business and to secure ongoing support from customers, employees, suppliers, creditors, investors and regulatory authorities. Evaluate health, pipeline, and various risks and opportunities in particular impact of single or few large customers' own health, on the target assets value.

3.7.3 Products and services (availability, volumes, price) – consider supply chain disruptionor dislocation, impact on pricing, demand.

3.7.4 Operations – changes to key overhead costs, impact of government assistance programs availability of reduced skilled resources

3.7.5 Liquidity – cash crunch, covenants, collateral assessment, working capital requirements.

3.7.6 Profitability – when is the company expected to return to the pre-COVID-19 level of profitability? What is the expected impact on long-term profitability?

3.7.7 Customer Behavior- Impact on short, medium and long term of the customer behavior patterns and hence subsequent impact on the different types of businesses should be evaluated. In some cases, it could be a favorable change of customer behavior for instancein Telemedicine, Remote services related to medical diagnostics, medical insurance relatedservices, home shopping delivery services.

3.7.8 Going Concern Assumption – Testing the ability of the company to generate sustainable cash flows and outcompete the crisis is critical to consider and incorporate in valuation.

3.7.9 Board Reporting Framework post Covid 19

3.7.9.1 Almost the entire world today is reeling under the threat and aftermath of unprecedented COVID 19 pandemic. This has had a huge and significant impact on the businesses all over theworld across sectors. The disruption to normal business models from the supply lines is likely to have long-lasting repercussions. Given such a scenario, companies will need tooperate differently to effectively manage the crisis. COVID-19 is changing the way we live, work and use technology. As the world adjusts to its new normal, this calls for a need to rethink strategies to drive resilience and emerge from this crisis stronger. The Corporate Boards will respond to challenges resulting in revised business models evolving over time frame. The objective of this paper is to provide a conceptual Corporate Governance perspective to the Board Reporting Framework – Post COVID 19 which will serve as an internal document from the managements mirroring the

renaissance of the related entity.

Post COVID 19 business will have a new normal and the Corporate Governance perspective and Board Reporting Framework will have to be reengineered accordingly and appropriately. There is an imperative need to have a well-defined management reporting to update the Board on the crisis and its (changing) impact on business fundamentals, with data about current and projected impacts on performance based on established key indicators and how the business is recovering. It is also important that the Board adapts its working mode to the speed of events, requiring ongoing communication between Boards and Management Teams.

3.7.9.2 Value Chain Approach

The speed and breadth of this crisis has impacted the Value chains of the companies both internal and external to the entity. The Current Corporate and Board reporting practices are entity focused. Post COVID 19 the value chain approach based on sustainability and the integrated reporting architecture would be more relevant which is also endorsed by the global management accounting bodies.

The COVID-19 pandemic has destabilized supply chains like no other event in recent history. Effective inventory management including efficient warehousing keeping the customer value expectations in focus the managements will be compulsorily be required to relook the entire value chain and work out appropriate strategies and action plans to deal with the new emerging business order. The focus will be on faster ramp up and sustained growth of the organization.

3.7.9.3 Time dimensions

Once the pandemic is over, Boards and management should take the opportunity to review the situation and discuss lessons learnt including how the business was disrupted (historical impact) and likely future implications for the business in immediate, short, medium and long term. In the current scenario, the Time Dimension of short, medium and long term have a different connotation than what is normally understood, explained elsewhere in this paper.

This requires

a. Impact assessment (Historical analysis),
b. Short term action Framework (1-3 months),
c. Medium term action Framework (3 months to 6 months),

3.7.9.4 Key Board Reporting Themes

Once the pandemic is over, Boards and management should take the opportunity to review the situation and discuss lessons learnt including how the business was disrupted (historical impact) and likely future implications for the business. This requires a facilitative management reporting framework focused on capturing the historical impact and offering a perspective and handle on projected impacts on operational and financial performance of companies. The Boards should get this right and it presents a unique opportunity to establishand build trust within their stakeholders. The key themes on which the management attention and indulgence is inevitable are –

- Rebuilding Stakeholder value
- Supply Chain – Inbound
- Production / Operations
- Marketing
- Supply Chain – Outbound
- Financial Resources Management
- Infrastructure Management
- Human Resources
- Information Technology
- Sustainability

3.7.9.5 Futuristic Information

As the reporting will now seek to inform the Board not only the historic impact but also futuristic information, the managements need to be on sound footing in estimating future costs which will form a part of short, medium and long term indicators. Moving beyond the accounting norms of good estimates and provisions, measurement tools need to be in placeto forecast the costs impact in foreseeable future using cost and management accounting tools like Life Cycle or Technology based costing.

3.7.9.6 Risk - Impact and Management

Business risk involves the possibility of financial and operational difficulties in the business environment. The COVID-19 pandemic demonstrates the unprecedented levels of global connectivity we work and live with; and how seemingly unrelated issues like the resilience ofbusinesses, dependence on supply chains, and normal social interactions can be simultaneously severely compromised. The businesses in future will need to develop comprehensive and robust risk management architectures with a view to affording riskshield to their operations and an ability to steer the entity towards achieving organizational objectives. This calls for a relook at the way the companies were managed in pre COVID 19 scenario. Financial and Non-financial information may need to be viewed through the lens of risk management before they are presented to the Board.

4. Valuation Approaches

4.1 Income Approach

The Income Approach establishes a projection of the future value a buyer might expect to receive as a result of acquiring the asset / business. This value is determined by capitalizing the future cashflows at the required rate of return for investing the business. This offset of future revenue against immediate risk is inverse to the value of the business.

Cash flow has always been a focus when it comes to valuations and the business's ability to continue operations. COVID-19 has made cash flow that much more important. A valuer should consider the subject company's cash balance and cash usage rate in assessing the company's ability to continue operations. This also includes assessing changes the company has made to preserve capital during this time period as well as going forward. Doing so will give the valuer a good idea of how long the company may survive under the current situation. Some of the issuesthat the company may face and for which adjustment would be required are the following:

- Changing customer behavior
- Short-term and long-term impact on revenue
- Labor shortages
- Increased cost of production
- Increase in working capital days

- Cost of restart in case of a continuous process plant
- Impact on short term liquidity
- Difficulty in meeting debt obligation
- Adjustment to Discount for Lack of Marketability
- Valuations using DCF will be given more weightage in the current scenario as this can capture a limited downside period more accurately, albeit with a lot more diligence on business projections.

Therefore, valuers may have to be acutely aware of the need to make normalizing adjustments to both revenue and expenses as part of their models & in case the cash flows are already adjusted with the effects of COVID 19, no further adjustments would be required in the discounted rate. Further detailed deliberations are required on below parameters impacting income approach directly:

Value of the Company = Probability $_{Failure}$ x Liquidation Value + Probability $_{Success}$ x Going Concern Value

Liquidation Value = Current Book Value of the company – Shut Down costs

Attention must be given to potential loss of Sales, unrecoverable debt, forced sale of inventoryor fixed assets and severance pay to employees.

4.1 Going Concern Value

Going Concern Value may be arrived at using scenario analysis. While Scenario analysis is not new and is often used in valuation given the uncertainty around future, this is more relevant during these times

Base Case : A return to normal life is not expected until the risk to lives of people and the pressure on our health system can be managed. The key milestones that are being monitored are: A reduction in new cases and flattening of the curve, widespread and accessible testing (including the introduction of random and symptomatic testing), successful trials of existing drugs that prove effective at fighting the disease. This scenario sees real GDP returning to pre-COVID levels by the end of 2021—but with subdued near-term productivity growth, lower capital expenditures from businesses and higher unemployment levels through 2025. In this case, consumers could remain cautious with wallets, resulting in an elevated savings rate of 10% (pre-COVID it was roughly 7.3%) and subdued spending habits.

Bear Case : There is a very real possibility of an alternative scenario, where we find ourselves in a situation not too dissimilar to 2008/09, with dramatic business disruption, a tougher recovery/walk-back, decreasing consumer confidence and sector-wide unemployment. This case could come to fruition if we fail to effectively contain Covid – 19. In this case we could see a delayed and sluggish upturn following a more protracted slowdown

Bull Case : Under the best-case scenario, a vaccine arrives well before the spring of 2021, and low risk aversion among consumers and businesses brings a swift return to life as normal. All told, life after COVID wouldn't be materially different than before the pandemic. "A quick return to pre-COVID norms means the economy will likely avoid the depressing effects of a weak cyclical recovery on potential output growth, while some of its side effects—technological adoption and more durable work-from-home arrangements—are likely to remain in place

In case valuers choose to value the company using scenarios, value of going concern may be:GC Value = Value $_{base}$ x Probability $_{base}$ + Value $_{bear}$ x Probability $_{bear}$ + Value $_{bull}$ x Probability $_{bull}$

4.1.2 Cash Flow Projections

There is a fundamental understanding that valuation is forward-looking. Valuers use their training and experience to put forth cash flow projections that reflect what is "known or knowable" at the time of the valuation. The change that is occurring around the world is material, significant and rapid. Therefore, the valuation of an entity as of December 31, 2019, will look dramatically different than the valuation of the same entity as of March 31, 2020 or March 31, 2021. Additionally, 2020 & 2021 revenue and expenses will assuredly reflect significant fluctuations from historical trends and will not reflect a normalized level of operations for the basis of forecasting a subject entity's cash flow. Therefore, valuers will have to beacutely aware of the need to make normalizing adjustments to both revenue and expenses as part of their forecast models.

'Alpha' adjustments should not be confused with illiquidity adjustments to discount rates, Alpha is a specific risk premium because the set of cash flow projections being used may not be 'expected' cash flows. There may be some 'downside' scenarios missing from the 'probability weighted average' set of projections

4.1.3 Cash flow considerations

While preparing the projections, care must be taken to duly take into account the following considerations:

- Revenue and Profit Margin levels may be very volatile over the next few years
- Interest rates are likely to be lower in the next few years
- The company's working capital may change significantly in the short period given thereceivables may be delayed and accordingly, the working capital requirements may increasein short run.
- The company's expansion plans may also be affected significantly during covid. Usually, companies would like to defer their capex plans. However, for those looking to pivot their businesses in a new direction or those positively affected by the pandemic may increase their capex immediately.
- Borrowings may go up in case companies are planning to expand. However, given the lowerinterest rates, interest expenses are likely to go down.

Depending on the specific entity type, these adjustments will be more or less material. Furthermore, there is significant uncertainty surrounding how long the pandemic will continue, meaning the development of cash flow projections will require substantial judgment based onthe facts known at the time of the valuation. The increased uncertainty, and risk associated with the cash flow projections, will need to be accounted for within the selected discount rate used within the valuation. Different cash flow scenarios could be a useful way of understanding the range of potential outcomes for a business and its attached risks. For example, a business-as-usual scenario, a scenario with short/medium term disruption and a scenario with a broader and longer economic downturn.

4.1.4 Long term growth rates:

Long term growth rate assumptions should reflect market

participants' long-term estimates for inflation and real economic growth, adjusted to reflect the outlook for the sector that a company is operating in as well as company specific factors. Typically, the effects of new industries and technologies and the impact of competition within industries may limit company specific long term growth rates to a lower level than for the economy as a whole to at least some degree. However, the long-term sector and company specific outlook may well have changed as a resultof Covid-19, with some sectors demonstrating stronger growth and more resilience and others being relatively weaker than previously expected. The overall drop-in risk-free rates, and indeed discount rates more broadly, is also arguably consistent with a reduction in long term economy wide nominal growth expectations to at least some degree, due to changing expectations of inflation and/or real economic growth. It is therefore important that the discount rate and long- term growth rate assumptions used within a valuation are internally consistent, otherwise the capitalization rates / multiples implied within terminal values may not be realistic or reconcilable with market data.

4.1.5 Cost of capital

At the current time the Capital Asset Pricing Model (CAPM) and other established methods for calculating the cost of capital should continue to be used. As these approaches rest upon a theoretical basis which should hold good in general – including in times of an economic downturn – there is no reason to adjust the general approach for calculating the cost of capital. However, a review of each input factor seems appropriate and assessment of the overall resultis certainly required. For instance, the use of a normalized or smoothed risk-free rate may be advisable if a particular daily spot risk-free rate appears out of line with other days as a result of market volatility. Given the overall decline in risk-free rates and stock markets at the start of the pandemic, even if a spot risk-free rate was being used, it may be necessary to consider an increase in the equity market risk premium from previous levels. However, equity markets have since staged significant recoveries with a number of global indices at or even exceeding pre- pandemic levels. This suggests that broader market discount rate inputs may actually beindicating lower discount rates than those seen prior to the start of the pandemic.

4.1.6 Cost of debt/gearing

Other components of the cost of capital may need to be adjusted to take into account industry, geographic or company specific risks arising out of current market conditions. Therefore, valuers must consider (on a case-by-case basis) whether the actual, current debt margins should be applied (or not) in order to estimate an appropriate cost of debt (e.g., depending on whether a company is funded short-term or long-term, the necessity of future (re)financing, promised vs. expected yield, assumption whether observed spreads persist indefinitely, etc.). The same principle holds for the appropriate target debt/equity ratio which, in general, might be expected to be lower relative to equivalent historical ratios in certain sectors due to the constraints on current debt financing packages.

4.1.7 Discount Rates

The selection of a discount rate is meant to align the relative risk associated with an entity's operations, or an investment in the subject entity, compared to alternate investment options and their associated rates of return. In times of crisis, and with extraordinary market volatility, it becomes paramount for valuers to view market data through a different lens. Valuers must take care not to operate mechanically but to be consciously aware of the data and assumptions relied-upon. Principally, whether through a risk-free rate adjustment or within the valuers determination of the company-specific risk premium, the discount rate selected must match the inherent risk of achieving the cash flow projection of the subject entity. The discount rate must also be derived based on what is "known or knowable" as of the valuation date. One needs tobe careful regarding adoption of relevant discount rate by adjusting for any risks. If the risks are internalized in future projections of cash flows, in terms of revenues or costs, then adding any further risk premium on discount rate would be erroneous. Since the interest rates are reduced, it calls for a lower cost of capital. Further, investors' expectations are reduced when it comes to investing given the slowdown in business activity. Since the cost of capital is expected tochange considerably over time, valuers may use varying discount rates over time.

The discount rate should be adjusted for Covid only if the valuer is unable to make realistic adjustments in cash flows. Adjusting both cash flows and discount rate may lead to double counting the pandemic effect.

It has been observed that some valuers have followed an approach of adding a discount for distress. Distressed entities generally have higher risk profiles and lower profitability levels compared to their healthy competitors, and a discount for distress, usually at least 20%, is built into the valuation. However, this is not a preferred approach and It's better to build the risk into the cash flows and discount rate.

4.1.8 The COVID-19 marketability discount.

It may make sense to use a separate COVID-19 marketability discount because it clearly shows the valuers' thought process and the actual discount being applied for the current high level of uncertainty. Clearly, this is a method that would be applied depending on the situation. The logicto develop a COVID-19 marketability discount can be applied to directly adjusting the multiplier, discount, or capitalization rate or applied as a separate discount for marketability. As with any discount, care must be exercised to not apply a discount for a risk that has already been fully accounted for.

When applying a COVID-19 marketability discount, Valuers must value the subject company similar to how they would have done prior to COVID-19-related issues becoming prevalent. Valuers may adjust future cash flows to what is most likely. The marketability discount accounts for that increased risk from possible but not predictable economic or governmental action that could change those cash flows. Since February 2020, in general, marketability discounts have increased as a result of the factors below – albeit partially offset by a lower risk-free rate of interest:

- Decreased access to financing for the underlying business and the purchase of the minorityposition itself.
- Decreased M+A activity and a reduced pool of willing buyers.
- Increased supply side of secondary investments as institutions seek to divest to rebalanceand/or meet regulatory requirements.
- Reduced expected profitability, cash flow and longer realization timelines.

- Increased perceived risk and demand of higher returns

If the value of any business is the sum of its future cash flows, then valuation fundamentally depends on predicting the future. The uncertainty created by the coronavirus pandemic has made this prediction even more difficult than before in this environment. The onus is on the valuers to duly consider the parts of the future which are known, and which can be predicted, to build a more detailed picture and make valuation more achievable. For industries that are expected to be resilient through the crisis, a business case must be made that explains this in detail. At the level of the individual business there will be many things that can be predicted, anddata should be used to highlight these. Specific measures taken by businesses to reduce losses, or to take advantage of growth opportunities in specific profit centres, must be quantified, tracked and highlighted. The objective is to reduce the generalized cloud that surrounds the future by making certain parts of it clearer and more predictable.

4.1.9 Illiquidity adjustments to discount rates

In the immediate aftermath of Covid-19, illiquidity adjustments might be required to discount rates for assets in sectors where it is observed that the marketplace had frozen up or its efficiency had diminished to some degree. Any such adjustments ideally should be incorporated in operating parameters rather than discount rates as these conditions are most likely to be temporary/short term whereas discount rates are applied for the entire period of projections which are medium to long term.

4.1.10 Beta

Applying increased scrutiny to previously assessed betas will be appropriate to ensure that expected sector volatility is appropriately incorporated within the discount rate. Due to the extreme volatility experienced due to the spread of the COVID period there can be a disproportionately large impact from the data in certain months on the beta calculations, in somecases causing betas to double or halve from previous levels. It may be appropriate to exclude the data from these particularly volatile months in certain circumstances to ensure the beta isn't disproportionately weighted towards data from this highly volatile period. Whilst changes in beta may well be justified given the shifting patterns in sector performance, these changes should also be grounded in general expectations for the expected performance and relative volatility in the sector going forward, rather than just mechanically applied from historical data.

4.1.11 Increased volatility in betas

In addition to financial forecasts being affected by the COVID-19 pandemic, the discount rates used in a DCF analysis to discount future cash flows are affected as well. One input typically used to estimate the discount rate is a company's beta. Beta is often estimated by comparing a stock's historical returns to those of the market, and can be estimated using different estimation windows (e.g., the previous one, two, or five years of returns) and return frequencies (e.g., daily, weekly, or monthly).

Estimating betas using weekly returns over the past two years shows that, on average, betas have increased substantially since the COVID-19 pandemic began in March 2020. An increase in beta, all else equal, implies an increase in discount rate and a corresponding reduction in valuation. The increase in betas varies broadly across industries. The COVID-19 pandemic has also resulted in an additional element of uncertainty regarding the most appropriate way to calculate beta. It is well established that the estimation period may impact betas. Because the COVID-19 pandemic unfolded quickly, betas calculated using short-term lookback windows are more likely to be affected than betas calculated from longer-term data. Again, the sector to which the company belongs should determine whether the long-term price movements shouldbe given higher weightage in Beta estimations or short term. For the sectors, which have had moderate to low impact beta may be estimated using long term price movements, and sectors which have had high impact with lingering after effects, would require higher weightage to short term price movements for beta estimations.

4.1.12 EBITDAC

The overly simplistic principle of just excluding the period affected by coronavirus, and employing the same metrics for valuation but using the time period immediately before the pandemic took hold (the so called EBITDAC approach), will not yield a meaningful valuation on its own. Each industry and each business is different, but in most cases people do not reasonably expect conditions to return to exactly as they were in 2019, and a simplified valuation with this approach is obviously flawed. Each business will have some elements that are more profitable than before, some that are less profitable, some business units that have completely changed or have been eliminated, and new profit centres that may not have existed before. Businesses that cannot reduce the uncertainty around their future at all will face valuations that are significantly discounted compared to pre-COVID levels, whereas those that can show at least a degree of predictability will be discounted far less

The main principles of business valuation still apply. The question is how much of a discount from the pre-COVID valuation is reasonable for businesses that have been negatively affected, or how much of a premium can be justified for businesses that are performing better than ever. The key to each answer is building a reasonable business case, using those pieces of data or insights that are available, to reduce the uncertainty around the data that is not available.

4.2 Market Approach

Market-based valuations determine the value of a company by comparing it to similar business transactions. The Market Method already includes the challenge of sufficient access to market data on sufficiently comparable competitors; Now it carries the distinct challenge of using pre- COVID-19 transactions in post-COVID-19 valuations. This means expert analysis and adjustments will be required in order to produce useful financial metrics. Simply gathering a group of transactions from the past three years and calculating an average multiple will not suffice. Valuer should

- Evaluate maintainable revenue and earnings, keeping in view the market participants'
- perspective.
- Assess whether recent transactions are still comparable- A multiple reported even a month ago might materially misrepresent the risk associated with a comparable transaction today.
- Assess whether current market prices reflecting long term fair value – "unaffected" metrics vs. "affected" market prices, it is important to document the nature

of the selected multiples (actual vs. normalized)

- Look at Forward Multiples.
- Understand that Transaction Multiples could gain more traction but in the current scenario will still need to be adjusted downwards; the degree of this adjustment will need to be assessed on a case-to-case basis depending upon the industry, level of stress.
- An important part of any appraisal assignment is analysis of market conditions. The coronavirus threat may be impacting market conditions. However, in most markets it is not yet clear to what extent, if any, market conditions are affected. Related, complicating factors include fluctuations in the stock market and changes in mortgage interest rates.
- Market analysis includes observing market reactions. This analysis becomes more complicated when market participants themselves are facing uncertainty.
- Appraisal reports should include a discussion of market conditions, and so mention the Coronavirus outbreak and its possible impact. However, it is not appropriate to include a disclaimer or extraordinary assumption that suggests the appraiser is not takingresponsibility for analysis of market conditions.
- In Plant and Machinery valuations a down fall of rates ranging from 5% to 50% - depending upon the type of asset has been noticed. Lowest was in personal mobility – that is cars etc. Max was in construction equipment

Thus, the valuation professional needs to carefully use the multiples associated with the transactions that occurred during this crisis. While multiple valuation methods should always be used to value a business, some will be more appropriate in the time of COVID-19 and should beweighted accordingly.

4.2.1 Use of Ranges

- Valuation ranges will need to be wider than normal, and these ranges may well be subject to volatility as valuations are updated over time.
- In terms of financial reporting valuations, disclosures may need to be more detailed and make clear that valuations could change quickly over a relatively short time frame, particularly if the businesses are highly leveraged.

4.3 The Asset Cost Approach

The asset Cost approach is often used for valuation of businesses where their liquidation value is greater than the value of the business in operation as determined under the income, and market approaches. It is useable all the same as cost of substitution is meaningful evenalongside the income or cash flow approach. As Professor John Bon bright puts it so clearly in his book "The Valuation of Property "that replacement cost approach is one that cannot be doneaway with, a paragraph from his book is reproduced here to illustrate this principle that still holdsits meaning:

"It is doubtless true as Mr George O May testified in litigation of the proposed Bethlehem- Youngstown Steel merger that modern financial practice and appraisal theory accord much less significance than formerly to "physical valuations" and much more significance to reported and estimated earnings. But it would be utterly disastrous to ignore replacement costs; for they have a significance not possessed by any other data in setting the upper value beyond which a replaceable property may not be valued. An industrial plant, "can't be worth more than it would cost to reproduce it; neither can it be worth less than its salvage value if it were destroyed." Indeed, there is much evidence that within the last few years that professional appraisers and security analysts have gone far too much in belittling the importance of replacement - cost data. Their very proper reactions against the popular assumption that property is normally worth its replacement cost, minus conventional deductions of depreciation, has led some of them to the equally untenable position that replacement costs can be safely ignored."

This approach requires applying the cost method and factors in both functional and economic obsolescence in determining the value of asset. The macro-economic impact of Covid 19 both mid-term or long-term impact related to customer behavior, impact on supply chain or even excess capital costs will be reflected in these adjustments required to be made to assets value. In some ways this value adjustment mirrors reduced net cash flows in an Income approach due to similar macroeconomic or specific industry factors. Economic obsolescence used in the cost approach gets also expressed through an increased denominator, the equivalent discount rate in the Income approach reflecting increased uncertainty in some ways, ultimately both the cost approach and income approach express reduced value on account of the same underlying external or specific industry factors. In fact, depreciation of operating and functional obsolescence quite often uses capitalized earning method to evaluate depreciation or the differential in the income is used to determine deprecation.

Typically, in the cost approach, excess capital outlay can be determined using cost to capacity principles applying known cost to capacity factors, and functional obsolescence caused by increased costs or reduced yield can be determined applying differential cash flow analysis and economic obsolescence resulting from reduced demand, regulatory changes can also be determined using the similar analysis or simply taking effect of capital additions in the future based on its present value. While using the replaceable physical assets method one must bear in mind that they do not constitute the entire property in question. The entire property comprises of tangible and intangible assets, the goodwill too, thus value of an entity can only be fully determined when you add determined value of current and intangible assets to the new replaceable costs after deducting depreciation.

This approach is also suggested in the context of assets where the going concern status is doubtful or where buyer can expect a greater Value if they liquidate the business' physical assets after settling liabilities and closing up shop than they would by continuing business operations. Given the uncertainty with respect to the duration and severity of COVID-19 and its related economic impacts, it is likely that companies will need to employ even more careful scrutiny and judgment as they work through impairment assessments pertaining to assets such as goodwill, PP&E, and equity method investments. Management should apply informed judgment as it relates to these impacts on financial reporting matters. Asset Approach often relies on historical data which may be outdated. Further, use caution with reliance on reports qualified due to the pandemic and related matters.

Site inspection- Ideally valuer should conduct such enquiry

personally at the site or through an employee or associate or local valuer at the site however it is needless to again say that the ultimate responsibility of valuation report in either case shall lie on the shoulders of the person signing the report.

In circumstances such as Lockdowns due to pandemic, site inspections become challengingand unachievable. In such scenario, the valuer must emphasis on conducting site inspections virtually, through various modes / technologies available, including live virtual site inspection through online real-time basis video conference platform, rather than carrying out valuation on desktop analysis basis. For residual life, the maintenance records of the assets may be seen. Good maintenance means a good residual life. Regarding all the other data – like calculatingthe Replacement cost, internet data mining might be used.

5. Valuation Disclosures

Companies around the world are experiencing severe business disruption as a result of the COVID. Restrictions in production and trade are interrupting supply chains, and demand for certain products is falling, or increasing, as consumer needs and anxieties evolve. Such changes in circumstance may require additional or revised disclosures in current and future Valuation reports. Disclosures should include information that is material and relevant for end users as of the date of the valuation:

- Valuation is therefore reported on the basis of 'material valuation uncertainty' prevailing as on the date of this Report. Consequently, less certainty – and a higher degree of caution – should be attached to valuation than would normally be the case.
- Values may change more rapidly and significantly than during standard market conditions.
- For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate thevaluation.

6. VSC Guidance

6.1 The emergence towards the end of 2019 of the novel coronavirus, also known as Covid-19, and the resulting global pandemic, has created a huge amount of uncertainty around the world. Among the many manifestations; this has led to enormous market volatility. These times have been made even more interesting in respect of valuation as valuers are having to value assets, when there are limited to no comparable evidence and all markets are facing an uncertainfuture.

6.2 It should be noted that this Guidance does not deal with uncertainty caused by limitations imposed under the terms of engagement on the extent of investigations or information, though this topic is also relevant for these challenging times and may be dealt with in a future IVSC perspectives paper.

6.3 One of the main issues when dealing with valuation uncertainty is that a valuation is not a fact, but it is an estimate of the most probable of a range of possible outcomes based on the assumptions made in the valuation process. Market valuations are estimates of the mostprobable price that would be paid in a transaction on the valuation date. However, even where assets are identical and exchanged in contemporaneous transactions, fluctuations in the prices agreed between different transactions can often be observed. These fluctuations can be causedby factors such as differences in the objectives, knowledge or motivation of the parties. Consequently, an element of uncertainty is inherent in most market valuations as there is rarely a single price with which the valuation can be compared.

6.4 Valuation uncertainty should not be confused with risk. Risk is the exposure that the owner of anasset has to potential future gains or losses. Risk can be caused by various factors affecting either the asset itself or the market in which it trades.

Examples include:

- for tangible assets reduction in market prices after the date of acquisition or valuation,
- a deterioration in the projected future income of a security,
- a loss of liquidity compared with other assets,
- costs for maintaining or developing an asset being higher than currently anticipated,
- the rate of an asset's technical or physical obsolescence being higher than currently anticipated.

6.5 Such risks are taken into account by informed buyers/ sellers when considering a bid for an asset and are balanced against the perceived advantages of ownership. Risk is therefore normally reflected in market prices. Risk can often be quantified. For example, market risk can be measured by applying statistical techniques to previous patterns of price fluctuation, or by assuming different market scenarios to model different outcomes. Techniques for identifying risks and quantifying them are central to the various methods used to determine discount rates used in valuation.

6.6 Valuation uncertainty should not be confused with stress testing, i.e. measuring the impact on a current price or value of a specified event or series of events. Valuation uncertainty can be caused by various factors. These can be broadly divided into the following categories: • market disruption, • input availability, • choice of method or model. These causes of valuation uncertainty are not mutually exclusive. For example, market disruption may affect the availability of relevant data which, in turn, may create uncertainty as to the most appropriate method or model to use. Interdependence and correlation between the causes of uncertainty are therefore likely to exist and account should be taken of this during the valuation process.

6.7 Market Disruption Valuation uncertainty can arise when a market is disrupted at the valuation date by current, or very recent events, for example through panic buying or selling, or a loss of liquidity due to a disinclination of market participants to trade. The events causing market disruption may be macroeconomic such as the 2009 financial crisis or recent disruptions in the UK markets due to Brexit, or microeconomic for example an unexpected change in the law or a natural disaster disrupting a sector of the market or causing disruption to the supply chain of an industry. In respect of the coronavirus, the market disruption could be seen as microeconomic, but in

future this could also have some macroeconomic implications.

6.8 **Input Availability** A lack of relevant input data will cause valuation uncertainty. This may be due to market disruption as described above, but may also be due to the assets being unique orbecause the market for the asset is normally illiquid. Where there is a lack of relevant market data, there may be a need to extrapolate inputs from directly observable prices for similarassets, or to rely on unobservable inputs. These are inputs for which market data are not available but that can be developed using the best information available about the assumptions that market participants would use when pricing the asset. The use of extrapolation or unobservable inputs can be a source of uncertainty because of the difficulty of finding objective evidence to support either the adjustments or the assumptions made.

6.9 Choice of Method or Model For many asset types, more than one method or model may be commonly used to estimate value. However, those methods or models may not always produce the same outcome and therefore the selection of the most appropriate method may itself be a source of valuation uncertainty.

6.10 Significant Uncertainty

6.10.1 Most valuations contain an element of uncertainty but IVS 103 only requires this to be disclosed when it is "significant". A requirement to disclose uncertainty when it is of no or limited consequence would be an unnecessary complication in the reporting of many valuations and could breach the principle that reports should provide the intended reader with a clear understanding of the valuation.

6.10.2 However, the existence of significant uncertainty does not mean a valuation cannot be undertaken, but it does mean that significant assumptions within the valuation approach and methodology should be disclosed within the valuation report. Factors that it may be helpful to consider in order to determine whether valuation uncertainty is significant for tangible asset and business valuations include:

6.10.3 whether the valuation is required for internal purposes by the commissioning party or whether it will be disclosed to and relied upon by third parties (the threshold of materiality is likely to be lower if the valuation is to be relied on by third parties);

6.10.4 the extent to which the value of a total portfolio is affected if the valuation uncertainty affectsonly certain assets within the portfolio (this may also involve considering correlation and interdependence between the individual assets);

6.10.5 whether the cause of the uncertainty was known to the commissioning party or to a third party relying on it when the valuation was commissioned;

6.10.6 whether the effect of the uncertainty could expose the commissioning party or a third party relying on the valuation to significant risk of loss

6.11 Measuring Valuation Uncertainty

6.11.1 Notwithstanding the general caution required in presenting any quantitative estimate of uncertainty, there may be valuation purposes where it is required. As discussed, uncertainty stemming either from the choice of model or method, or from a lack or inconsistency of input data, may be estimated by observing the effect on the valuation of using an alternative model or input. Quantification of valuation uncertainty can be more relevant for some classes of asset than others. Where two or more alternative scenarios are possible the valuation should be based on the most likely scenario.

6.11.2 A quantitative measure should always be accompanied with a narrative describing the cause and nature of the uncertainty.

6.113 A purely numeric illustration will only confirm uncertainty, not explain it. There is no useful purpose served by providing such a quantitative expression of uncertainty if this will not result ina better understanding of the valuation conclusion by the user.

6.11.4 Quantifying valuation uncertainty does not involve forecasting a worst-case scenario. The objective is not to stress test a valuation to an extreme case. Any test of valuation uncertainty should address the impact on the reported value of reasonable and likely alternative assumptions. When choosing alternative assumptions to measure uncertainty within a business or tangible asset valuation, a selection needs to be made among possibilities that are not located in the tail of the distributions (where events are very unlikely to happen), but rather intheir central areas (where events are likely to occur).

6.11.5 The objective of any uncertainty analysis is not to provide a forecast of possible fluctuations in the reported value at future dates, but to provide information about the variability of the value at the specific valuation date.

6.11.6 When quantifying the impact of uncertainty, the interdependence or correlation between significant inputs needs to be considered when it is practical to do so. Correlation analysis is an extremely important part of this process and when uncertainty is measured without proper correlation of interdependent inputs, the degree of uncertainty may be overestimated.

7. Conclusion

7.1 There is no set approach to account for market uncertainties as the COVID impact might be different for different business in different region. Thus, the businesses which were valued as on 31st March 2020 or 31st March 2021 would may reflect a different picture as against valued on orbefore 31st December 2020**.** It will be important to discuss and assess any near- or long-term effects in operational and financial performance with the management. The Valuer need to apply their professional judgement on case-to-case basis.

7.2 If you value companies in a period like this, you are facing exactly the same kinds of uncertainties you face during any other period. The only thing is, you are more likely to be wrong—and guess what, everybody is facing the same scenario. You are just as uncertain as everybody else and you have to make your best judgment The traditional approaches tovaluation need to be carefully reconsidered in the current environment. Valuers will need to conduct a more rigorous due diligence on the quality of financial forecasts provided to them and what adjustments, if any, should be made to earnings, multiples or discount rates. Thus, implication and challenges to the valuation would be unique and the and negotiating thevaluation to close a deal would remain a challenge. A useful test for considering whether valuation uncertainty is significant is to consider whether failure to disclose the uncertainty would lead a reasonable person to take action that relies on the reported valuation that they may not have taken if the uncertainty had been disclosed. Valuers must consider giving a range of value for the engagements with a disclaimer that valuations may change significantly and frequently given the changes in circumstances and as situations unfold.

TECHNICAL GUIDANCE NOTE: CREATION, MAINTENANCE AND RETENTION OF VALUATION WORKING PAPERS

Dear Sir/Madam

Greetings

The Valuation Standards Board of ICMAI Registered Valuer Organisation has recommended Draft **Technical Guidance Note on -Creation, Maintenance and Retention of Valuation Working Papers** which is attached herewith for your kind perusal/observations if any.

You are requested to kindly offer your comments in the **Track change mode** on the draft guidance note latest by **10th November 2021.**

you may also access the document through the link given below and make suggested changes therein if any.

Click here
https://docs.google.com/document/d/11jMLmxDpN9Jyy6CULXETIdc9hxbz8DGh4ox6-YojBik/edit?usp=sharing

Draft

Technical Guidance Note

Creation, Maintenance and Retention of Valuation Working Papers

1.Preamble

Valuation documentation is an essential element of Valuation quality and is a critical component of a valuation process as it evidences the work done by the valuer.This Guidance note lays down the basic tenets of Valuation documentation

2. Definitions : The following terms are used in this guidance note with the meaning specified :

i)Document : *A document is any material which provides evidence of work performed, action taken or the happening of an event. It may be in a piece of paper written, drawn, printed, presented or electronic matter – any data, record or data generated, image or sound stored, received or sent in an electronic form including any information generated, sent, received or stored in media, magnetic, optical, computer memory, that provides information or evidence or that serves as an official record.*

ii)Documentation : *The record of valuation procedures performed, relevant valuation evidence obtained, and conclusions the valuer reached (terms as "working papers")*

iii)Working file : *One or more folders or other storage media, in physical or electronic form, containing the records that comprise the Valuation documentation for a specific engagement*

iv)Working paper : *mean the written paper and document containing details about the analysis, summaries and comments built up by a valuer during the course of a particular valuation engagement. Working paper refers to the documents proposed or obtained by the Valuer and retained by him in connection with the performance of his assignment and which provide the basis of conclusions and summarizations of the report prepared by the valuer at the end of the valuation work.*

Thus, all the documents gathered or prepared by valuer during the course of a valuation constitute valuation working papers, but broadly these are two types:

- Working papers **prepared** by the valuer himself, like valuer note book, valuation program, details of queries made and their explanations thereof.
- Working papers **collected** by the valuer from the client, like budgets, Financial statements, business plans, schedule of debtors and creditors, management representations, confirmations etc.

3. Importance (or) Advantages of Valuation Working Papers

3.1. **Planning the Valuation Work:** It acts as the process of planning for the valuer so that he can estimate the time that is required for conducting the valuation work.

3.2. **Helps in Fixing Responsibility:** It helps in fixing responsibility and to measure the work being performed by the valuers assistants.

3.3. **Helps in Drawing Conclusions:** Working papers are necessary to draw conclusion from the evidence obtained.

3.4. **Helps in Preparing Valuation Report:** The valuer prepares and finalizes the valuation report taking into account the information or extracts contained in the working papers.

3.5. **Documentary Evidence:** It is a valuable documentary evidence in the Court or Tribunal of law when a charge of negligence is brought against the valuer.

3.6. **Permanent Record:** Working papers are the permanent record of the work done by the valuer during a particular period of time

3.7. **They serve as a guide** to the valuer in subsequent examinations and help the valuer to plan for the succeeding year.

3.8. **They serve as a means to give training** to the valuation assistants to summarize the work done by them.

3.9**. Support for Auditor's Opinion**: Working papers provide support for the report of the valuer. When the auditor's opinion on financial statement or recommendations given by the valuer is questioned working papers support the opinion or recommendations given by the valuer.

3.10. **Division of Labor**: Working papers help in dividing the valuation work among the valuers staff so that each staff is responsible for his work to the valuer.

3.11. **Helps in recording and follow up on queries**: Recording queries that were raised in the course of the work and their state of disposal In respect of disposed queries, explanation obtained and evidence seen would be recorded in the working papers, while queries remaining un-disposed of would be noted for follow up.

3.12. **Enable the conduct of quality control reviews** and inspections for ensuring that the valuation carried out as per expected quality standards

4. Form, Content and Extent of valuation documentation

The form, content and extent of audit documentation depends on factors such as:

4.1. The size and complexity of the entity.

4.2. The nature of the valuation procedures to be performed.

4.3. The identified risks of material misstatement.

4.4. The significance of the valuation evidence obtained.

4.5. The nature and extent of exceptions identified.

4.6. The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or valuation evidence obtained.

4.7 The valuation methodology and tools used.

5. Contents of valuation documentation

Documentation should include all those documents and information the scrutiny of which could confirm that valuer has duly fulfilled his duties and responsibilities which inter alia the following :

- Name of the Client
- Valuation date
- Assets to be valued
- Purpose of valuation
- Timelines agreed between the valuer and the client
- Engagement letter
- background information of the asset being valued;

- disclosure of valuer interest or conflict, if any;
- nature and sources of the information used or relied upon;
- procedures adopted in carrying out the valuation and valuation standards followed
- caveats, limitations and disclaimers to the extent they explain or elucidate the limitations faced by valuer,
- valuation plan and program defined, with details of work carried out and results filled, including planning memorandum
- Summaries of significant matters.
- Letters of confirmation and representation.
- Checklists used for valuation
- Correspondence (including e-mail) concerning significant matters.
- Abstracts or copies of the entity's records (for example, significant and specific contracts and agreements).
- The identifying characteristics of the specific items or matters tested;
- Who performed the valuation work and the date such work was completed; and
- Who reviewed the valuation work performed and the date and extent of such review.
- Risk and controls relevant to the area
- Assertions to be tested and satisfied
- Substantive and analytical procedures performed
- Persons performing/reviewing the work
- Dates on which the work was performed / reviewed
- Valuation methodology and technology used in the valuation.
- Correspondences and balance confirmations from Debtors, Creditors and bankers.
- Correspondences from legal advisors and statutory authorities.
- Certificates of officials with regard to various assets, liabilities and other matters.
- Certificate from valuers for valuing stock-in-trade and investments.
- Certificate confirming cash balance.
- Certificate from authorized person with regard to outstanding assets and liabilities, contingent assets and liabilities etc.
- Copies of the minutes of the meeting of directors and shareholders
- Valuer documentation may be in the form of physical papers or in electronic form, more commonly referred to as hard copy and soft copy respectively.
- The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- The documentation is not limited to records prepared by the valuer but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the valuer.
- Assessment on Other Areas (planning and work done) - Subsequent Events, Going Concern, Compliance with Laws and Regulation, Related Parties, Internal Audit Function, Involvement of Specialists, Others, as required
- Abstracts or copies of entity's records - Partnership deeds, Shareholding agreements, Articles of Association ,Memorandum of Association ,Trust Deeds ,Lease Agreements, Key Contracts, Policies Manuals (key Extracts)
- Types of valuation procedures performed - Physical Examination ,Observation ,Confirmation Tracing, Inspection, Reconciliation, Re performance, Analytical Procedure, Inquiry ,Comparison Re-calculation
- Departure from relevant requirement -In case it is necessary to depart from a relevant standard valuation requirements or other legal and regulatory requirements, document - Reason for departure , Alternative audit procedures performed , How the alternative procedure achieved the aim of requirement
- A Registered Valuer shall :

  (a) make an impartial, true and fair valuation of any assets which may be required to be valued;

  (b) exercise due diligence while performing the functions as valuer;

  (c) make the valuation in accordance with such rules as may be prescribed; and

  (d) not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during or after the valuation of assets.
- Keep comprehensive records of comparables on file using a dedicated comparable table template. Having all comparables clearly documented and referenced, together with the analysis and record of how they influenced the valuation, support the valuation if there is a claim in the future

5.1 What should not be included in documentation?

- Superseded drafts of working papers and financial statements
- Notes that reflect incomplete or preliminary thinking
- Previous copies of documents corrected for errors , Duplicate documents

5.2 Changes in Documentation: Changes of administrative nature, to the valuation documentation, may be made.

- Deleting / discarding superseded documents
- Sorting and collating working papers ,
- Cross-referencing working papers ,
- Signing off on completion checklists relating to final assembly process

5.3 Preservation of Valuation working papers

- Working papers are to be retained in the safe custody of the valuer. The client's staff or third parties should not have access to working papers. The valuer has to maintain the confidentiality of the affairs of the client
- A valuer shall not use or divulge to other clients or any other party any confidential information about the

subject company, which has come to his/its knowledge without proper and specific authority or unless there is a legal or professional right or duty to disclose.

- A valuer shall ensure that he/ it maintains written contemporaneous records for any decision taken, the reasons for taking the decision, and the information and evidence in support of such decision. This shall be maintained so as to sufficiently enable a reasonable person to take a view on the appropriateness of his/its decisions and actions.
- A valuer while respecting the confidentiality of information acquired during the course of performing professional services, shall maintain proper working papers for a period of three years or such longer period as required in its contract for a specific valuation, for production before a regulatory authority or for a peer review. In the event of a pending case before the Tribunal or Appellate Tribunal, the record shall be maintained till the disposal of the case.
- Not to discard delete the audit documentation once the valuation file assembly has been done until retention period. In case of necessary modifications or additions after audit file assembly has been done, document - Specific reasons for making the changes, When and by whom they were made and reviewed
- The Information Technology Act 2000 provides that the requirement of maintaining valuation records shall be deemed to have been satisfied if such documents, records or information are retained in the electronic form, if— (a) the information contained therein remains accessible so as to be usable for a subsequent reference; (b) the electronic record is retained in the format in which it was originally generated, sent or received or in a format which can be demonstrated to represent accurately the information originally generated, sent or received; (c) the details which will facilitate the identification of the origin, destination, date and time of dispatch or receipt of such electronic record are available in the electronic record. The valuer should follow reasonable secure practices and procedures designed to protect such information from unauthorized access, damage, use, modification, disclosure or impairment,

5.4 Ownership of Valuation working papers

The working papers are the matters documented by the valuer. So they are his property. Although, the client may claim them as a record of his business matters, the valuer cannot part with them as his conclusions are based on them and as they provide evidence of the valuation work carried out according to the basic principles.

The legal observation in the case of Sockockinsky Vs Bright Grahame & Co. is that "The working paper belongs to the valuer not to the client, as the valuer is an independent contractor and not the agent of the client".

Similarly the Court of Appeal in the case of Chantrey Martin & Co. Vs Martin held that "The working papers prepared by the valuer are the property of the valuer".

Thus, the working papers are the property of the valuer. They are not a part of, nor substitute for, the client's records.

6. Checklist for assessing quality of valuer documentation

- Whether the valuation documentation is prepared on a timely basis?
- The nature, timing, and extent of the valuation procedures performed to comply with the and applicable legal and regulatory requirements;
- The results of the valuation procedures performed, and the valuation evidence obtained;
- Significant matters arising during the valuation, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- The identifying characteristics of the specific items or matters tested;
- Who performed the valuation work and the date such work was completed;
- Who reviewed the valuation work performed and the date and extent of such review
- Whether the document includes discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place
- Where it is necessary to modify existing valuation documentation or add new valuation documentation after the assembly of the final valuation file has been completed, whether the following were documented?

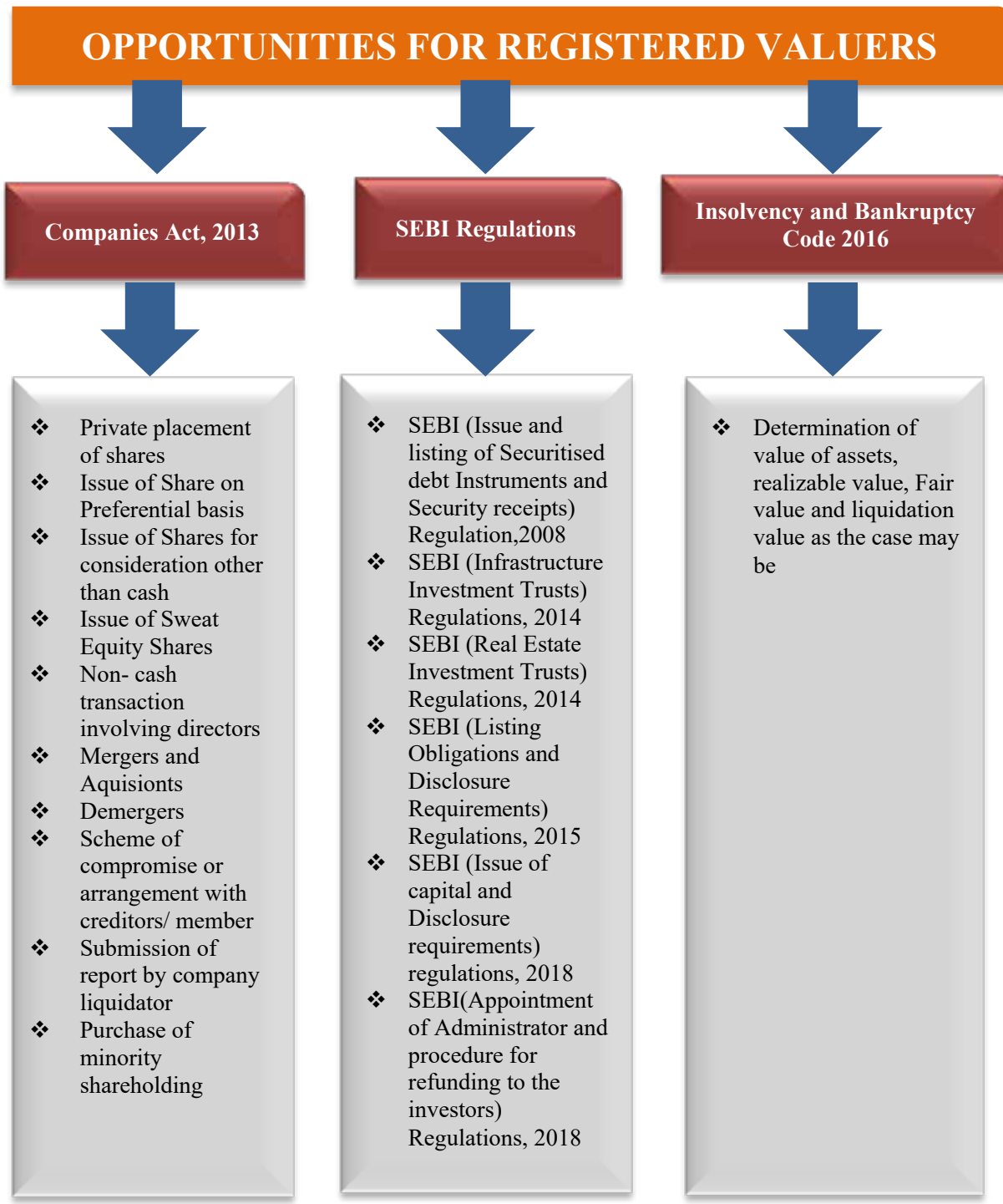
  (a)The specific reasons for making them; and

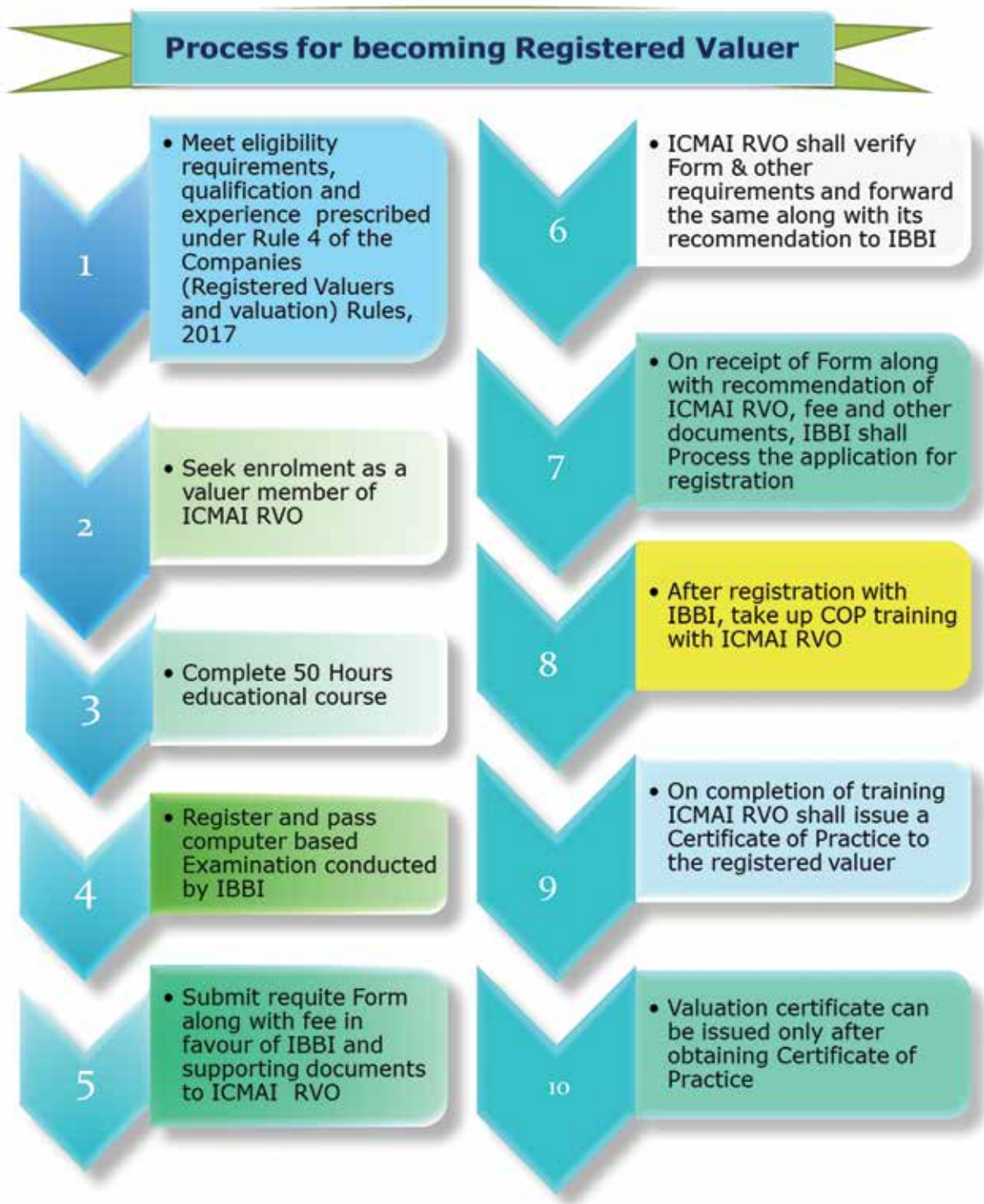
  (b) When and by whom they were made and reviewed.
- Where in exceptional circumstances, new or additional valuation procedures are performed or new conclusions are reached after the date of the valuation report, whether the following were documented?

  (a) The circumstances encountered;

  (b) The new or additional valuation procedures performed, valuation evidence obtained, and conclusions reached, and their effect on the valuers report; and

  (c) When and by whom the resulting changes to valuation documentation were made and reviewed.
- Is it ensured that after the assembly of the final valuation file has been completed, no deletion or discard of audit documentation of any nature has taken place
- Where it is identified that information is inconsistent with the valuer's final conclusion regarding a significant matter, whether it is documented as to how the inconsistency was addressed?
- Whether the valuation documentation is sufficient to enable an experienced valuer, having no previous connection with the valuation, to understand the valuation process followed


OPPORTUNITIES FOR REGISTERED VALUERS
Companies Act, 2013
Private placement of shares
Issue of Share on Preferential basis
Issue of Shares for consideration other than cash
Issue of Sweat Equity Shares
Non- cash transaction involving directors
Mergers and Aquisionts
Demergers
Scheme of compromise or arrangement with creditors/ member
Submission of report by company liquidator
Purchase of minority shareholding
SEBI Regulations
SEBI (Issue and listing of Securitised debt Instruments and Security receipts) Regulation,2008
SEBI (Infrastructure Investment Trusts) Regulations, 2014
SEBI (Real Estate Investment Trusts) Regulations, 2014
SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
SEBI (Issue of capital and Disclosure requirements) regulations, 2018
SEBI(Appointment of Administrator and procedure for refunding to the investors) Regulations, 2018
Insolvency and Bankruptcy Code 2016
Determination of value of assets, realizable value, Fair value and liquidation value as the case may be


Process for becoming Registered Valuer
1
• Meet eligibility requirements, qualification and experience prescribed under Rule 4 of the Companies (Registered Valuers and valuation) Rules, 2017
2
• Seek enrolment as a valuer member of ICMAI RVO
3
• Complete 50 Hours educational course
4
• Register and pass computer based Examination conducted by IBBI
5
• Submit requite Form along with fee in favour of IBBI and supporting documents to ICMAI RVO
6
• ICMAI RVO shall verify Form & other requirements and forward the same along with its recommendation to IBBI
7
• On receipt of Form along with recommendation of ICMAI RVO, fee and other documents, IBBI shall Process the application for registration
8
• After registration with IBBI, take up COP training with ICMAI RVO
9
• On completion of training ICMAI RVO shall issue a Certificate of Practice to the registered valuer
10
• Valuation certificate can be issued only after obtaining Certificate of Practice

EDUCATIONAL QUALIFICATION & EXPERIENCE

FOR 50 HOURS EDUCATIONAL COURSE

Asset Class	Eligibility/ Qualification	Experience in specified discipline.
Plant and Machinery	(I} Graduate in Mechanical, Electrical, Electronic and Communication, Electronic and Instrumentation, Production, Chemical, Textiles, Leather, Metallurgy, or Aeronautical Engineering, or Graduate in Valuation of Plant and Machinery or equivalent; (ii) Post Graduate on above courses.	(i) Five years (ii) Three years
Land and Building	(i) Graduate in Civil Engineering, Architecture, or Town Planning or equivalent; (ii) Post Graduate on above courses and also in valuation of land and building or Real Estate Valuation (a two-year full time post-graduation course).	(i) Five years (ii) Three years
Securities or Financial Assets	(i) Member of Institute of Chartered Accountants of India, Member of Institute of Company Secretaries of India, Member of the Institute of Cost Accountants of India, Master of Business Administration or Post Graduate Diploma in Business Management (specialisation in finance). (ii) Post Graduate in Finance	Three years
Any other asset class along with corresponding qualifications and experience in accordance with rule 4 as may be specified by the Central Government. *Note: The eligibility qualification means qualification obtained from a recognized Indian University or equivalent Institute whether in I ndia or abroad.".*		

PROCESS FOR IBBI EXAMINITION

a. The candidate may enroll for the examination on payment of the fee as prescribed by IBBI
b. Online examination with objective multiple-choice questions
c. The duration of the examination is 2 hours
d. Wrong answer attracts a negative mark of 25% of the assigned for the question
e. A candidate needs to secure 60% of marks for passing.

FORMAT AND FREQUENCY OF EXAMINATION

a. The examination is conducted online (computer-based in a proctored environment) with objective multiple-choice questions;
b. The examination centers are available at various locations across the country;
c. The examination is available on every working day;
d. A candidate may choose the time, the date and the Examination Centre of his choice for taking the Examination. For this purpose, he needs to enroll and register at https://certifications.nism.ac.in/nismaol/
e. A fee of Rs.1500 (One thousand five hundred rupees) is applicable on every enrolment;
f. The duration of the examination is 2 hours;
g. A candidate is required to answer all questions;
h. A wrong answer attracts a negative mark of 25% of the marks assigned for the question;
i. A candidate needs to secure 60 % of marks for passing;
j. A successful candidate is awarded a certificate by the Authority;
k. A candidate is issued a temporary mark sheet on submission of answer paper;
l. No workbook or study material is allowed or provided;
m. No electronic devices including mobile phones and smart watches are allowed; and
n. Use of only a non-memory-based calculator is permitted. Scientific Calculators (memory based or otherwise) are not allowed.

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

GUIDELINES FOR ARTICLES

The articles sent for publication in the journal "The Valuation Professional" should conform to the following parameters, which are crucial in selection of the article for publication:

- The article should be original, i.e. Not Published/ broadcasted/hosted elsewhere including any website.
- A declaration in this regard should be submitted to ICMAI-RVO in writing at the time of submission of article.
- The article should be topical and should discuss a matter of current interest to the professionals/readers.
- It should preferably expose the readers to new knowledge area and discuss a new or innovative idea that the professionals/readers should be aware of.
- The length of the article should not exceed 2500-3000 words.
- The article should also have an executive summary of around 100 words.
- The article should contain headings, which should be clear, short, catchy and interesting.
- The authors must provide the list of references, if any at the end of article.
- A brief profile of the author, e-mail ID, postal address and contact numbers and declaration regarding the originality of the article as mentioned above should be enclosed along with the article.
- In case the article is found not suitable for publication, the same shall be communicated to the members, by e-mail.

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

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