



Valuation - Overview

The Institute of Chartered Accountants of India

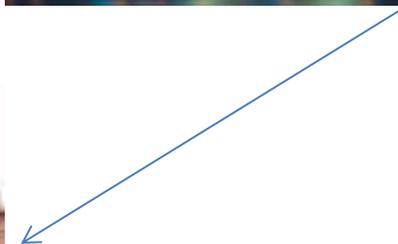
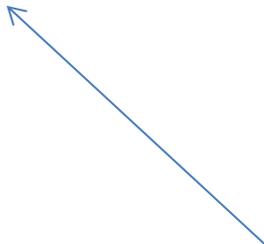
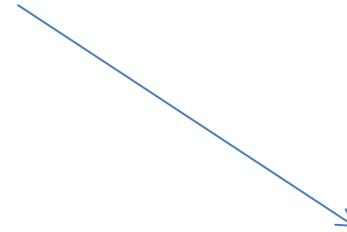
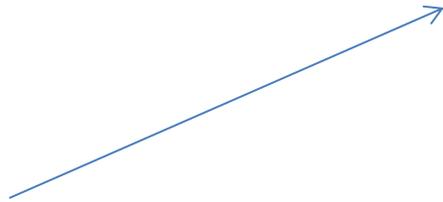
Hosted by: Gurugram Branch of NIRC

4th January 2019

CA. Sumit Dhadda

**B.Com, FCA, ACS,
DISA, DIRM, CCCA,
FAFD, CAMS (USA),
Registered Valuer**

My journey so far





Enter into new field

‘Meaning of **Valuation**’

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

'Need of Valuation' ?

Transactions

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

Regulatory

- Companies Act
- Income Tax
- SEBI
- RBI
- IBC
- Court litigation - divorce

Financial Reporting

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

Price= Value??

Or

Value = Price??

**“Price is what you Pay,
Value is what you get”**

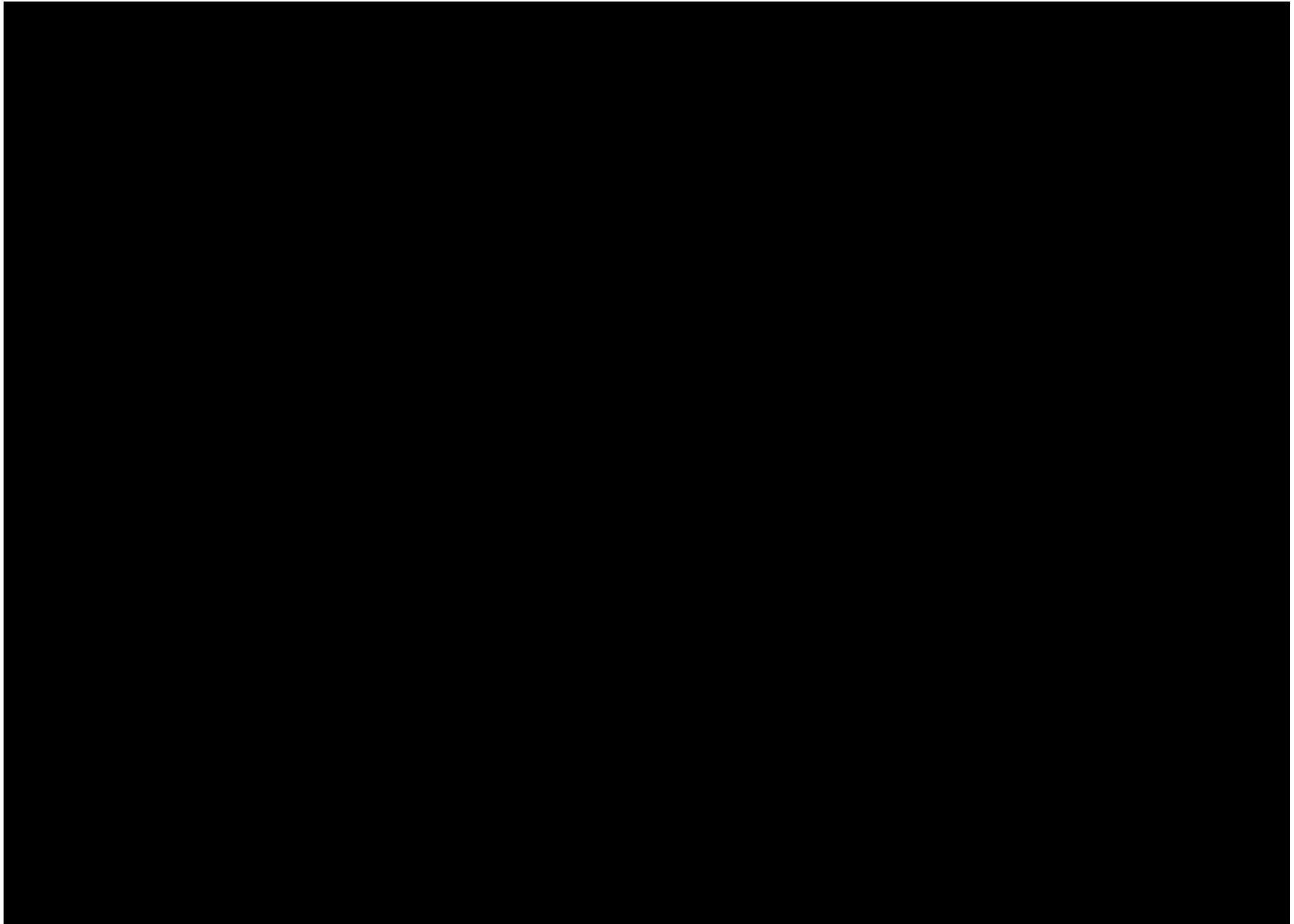
Warren Buffett



**“Valuation
is what people
are willing to pay.”**



Cameron Winckovoss



Flipkart

- May 2014 - \$ 2.6 billion
- July 2014 - \$ 7.1 billion
- Dec. 2014 - \$ 11.5 billion
- July 2015 - \$ 15.2 billion
- July 2016 - \$ 8.8 billion
- Aug.2016 - \$ 11.55 billion
- Nov. 2016 - \$ 5.6 billion

2017 – Loss 245 cr USD 7.6 bn val.

2018 – Loss 2063 cr USD20 bn val.

PayTm

- June 16 - \$ 2.3 billion
- Sep.16 - \$ 4.8 billion
- May17 - \$ 7 billion
- Jan. 18 - \$ 10 billion
- Aug. 18 - \$ 16 billion

2017 – 1490 cr. Loss

2018 – 3393 cr. Loss

11:03

4G+ 84%



Tweet



Harsh Goenka

@hvgoenka



If I travelled in an Ola taxi and stayed in an Oyo hotel and paid through my Paytm card, I would have increased the losses of all the three companies. Still trying to fathom the premise, the more the losses higher the market capitalizations.

Perhaps I am too old world !!!

6:55 PM · 24 Nov 18

Birth of Registered Valuer

Co. Act 2013 amended w.e.f. 18 Oct. 2017

Earlier RV was mandatory from 1 Oct.

2018 but extended to.....

1 February 2019

New Era of Valuation in India – Registered Valuers



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

IBBI

**Securities
or
Financial
Assets**

**Plant &
Machinery**

**Land &
Building**

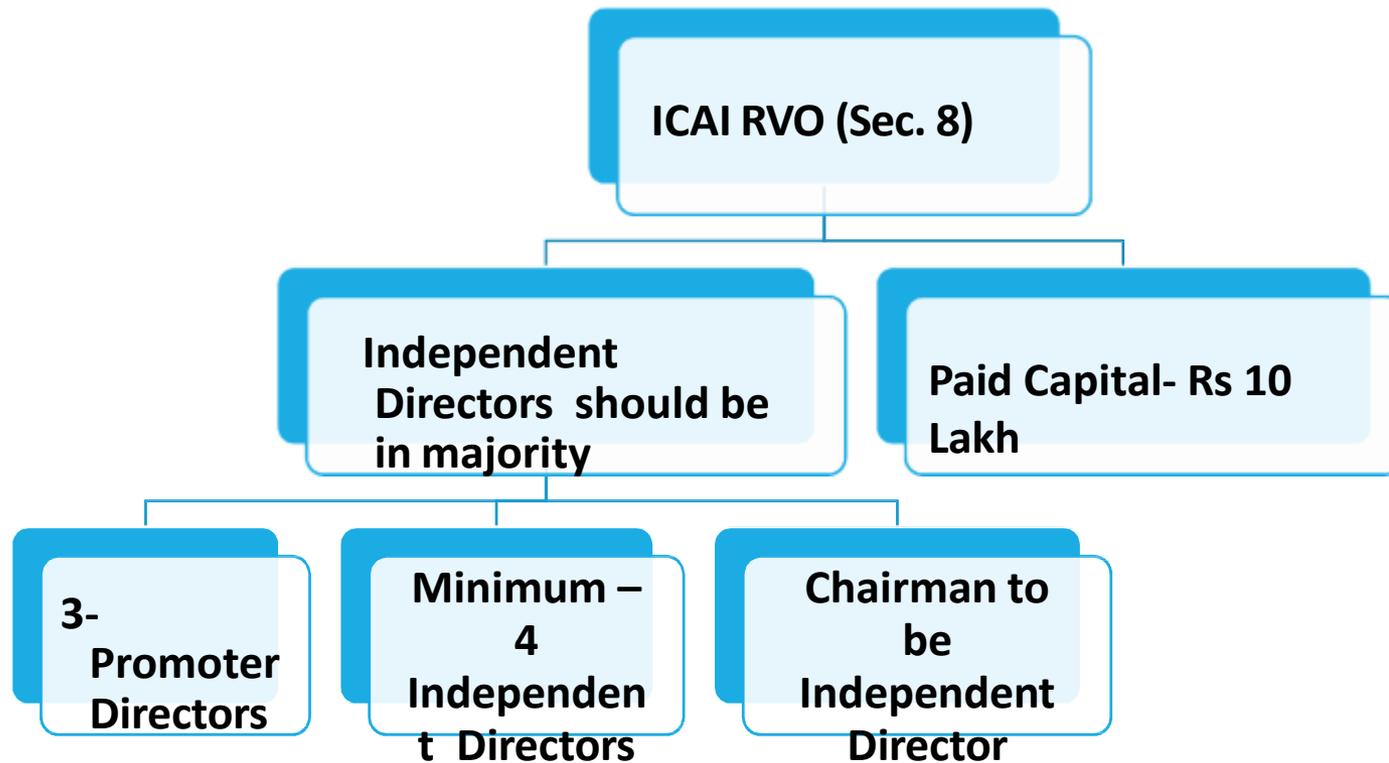
**Registered
Valuers
Organisation**

Registered Valuers Organisation

Registration no.	Name of RVO	Asset Class
IBBI/RVO/2017/001	Institution of Estate Managers & Appraisers	LB, PM & SFA
IBBI/RVO/2017/002	IOV Registered Valuers Foundation	LB, PM & SFA
IBBI/RVO/2017/003	ICSI Registered Valuers Organisation	LB, PM & SFA
IBBI/RVO/2017/004	The Indian Institution of Valuers	LB, PM & SFA
IBBI/RVO/2017/005	ICMAI Registered Valuers Organisation	LB, PM & SFA
IBBI/RVO/2017/006	ICAI Registered Valuers Organisation	SFA
IBBI/RVO/2017/007	PVAI Valuation Professional Organisation	LB, PM & SFA
IBBI/RVO/2017/008	CVSRTA Registered Valuers Association	LB, PM
IBBI/RVO/2018/009	Association of Certified Valuators & Analysts	SFA
IBBI/RVO/2018/010	CEV Integral Appraisers Foundation	LB, PM

LB = Land & Building (LB), PM = Plant & Machinery, SFA = Securities or Financial Assets

Structure of ICAI RVO



Registered Valuers

As at 4 January 2019

- Securities or Financial Assets – 139
- Land and Building – 319
- Plant and Machinery - 58

Registered Valuer

- **Starting Point – Section 247 of Companies Act, 2013**
- **Applicable Rules – Companies (Registered Valuers and Valuation) Rules 2017**
- **Regulating the profession of Valuation in India for Standardization and Transparency**
- **As of now, covers Companies Act, Insolvency and Bankruptcy Code (IBC) & SEBI**

Registered Valuer – Section 247

Section 247 of the Companies Act, 2013 states that a **Registered Valuer would carry out valuation** in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities and that the valuer shall have such qualifications and experience and *being a member of an organisation recognised*, on such terms and conditions as may be prescribed.

Registered Valuer – Section 247

Regarding the functioning and duties of the Registered Valuer, it is stated that the registered valuer shall:

- make an impartial, true and fair valuation of any assets that may be required to be valued;
- exercise due diligence while performing the functions as valuer;
- make the valuation in accordance with such rules as may be prescribed; and
- **not undertake valuation of any assets in which he has a direct or indirect interest** or becomes so interested at any time during 3 years prior to his appointment as valuer or 3 years after valuation of assets was conducted by him.

Companies (Registered Valuers & Valuation) Rules 2017

- **Applicable w.e.f. 18th October, 2017**
- **Defines 'Eligibility', 'Educational' and 'Exam' requirements**
- **Made 3 Asset classes** – Securities or Financial Assets, Land & Building and Plant & Machinery
- **Brought in concept of RVO's** for education, training and monitoring of Valuers
- **Coming up with Indian Valuation Standards**
- **Prescribed Contents of Valuation Report**
- **Maintenance of Records for 3 years**
- **Professional competence, Due Care and Independence of valuer**
- **Model Code of Conduct for Registered Valuers and RVO's**

Companies (Registered Valuers & Valuation) Rules 2017

Regulating Authority - Insolvency and Bankruptcy Board of India (IBBI)

IBBI has prescribed the syllabus and other details of educational courses and valuation examinations for different class of assets.

RVO to organise minimum 50 hours training. After completing the training a person can appear for the exam. Fee ranges between 25,000/- to 30,000/- approx depend on each RVO.

Exam conducted online by IBBI for 100 marks. Passing score is 60%. Negative marking is also there. Exam Fees only 1,500/- per attempt. No limits on attempts.

Companies (Registered Valuers & Valuation) Rules 2017

Who can become Valuer

An individual shall have the following qualifications and experience to be eligible for registration under rule 3, namely:-

- (a) post-graduate degree or post-graduate diploma, in the specified discipline, and at least **three years** of experience in the specified discipline thereafter; or
- (b) a Bachelor's degree or equivalent, in the specified discipline, and at least **five years** of experience in the specified discipline thereafter; or
- (c) **membership of a professional institute established by an Act of Parliament** enacted for the purpose of regulation of a profession **with at least three years' experience** after such membership (**CA, CS, CMA**) or MBA or PG in Bus. Mgt/Finance

Companies (Registered Valuers & Valuation) Rules 2017

Rule 8: Conduct of Valuation

(1) The registered valuer shall, while conducting a valuation, comply with the valuation standards as notified or modified under rule 18:

Provided that until the valuation standards are notified or modified by the Central Government, a valuer shall make valuations as per-

(a) internationally accepted valuation standards;

(b) valuation standards adopted by any registered valuers organisation.

International Valuation Standards Council issued International Valuation Standards

The ICAI has issues Indian Valuation Standards effective from 1st July, 2018

Companies (Registered Valuers & Valuation) Rules 2017

Contents of Valuation Report

The valuer shall in his report state the following:

- Background information of the asset being valued;
- Purpose of valuation and appointing authority
- Identity of valuer and any other experts involved in valuation;
- Disclosure of valuer interest/conflict, if any;
- Date of appointment, valuation date and date of report;
- Inspections and/or investigations undertaken;
- Nature and sources of the information used or relied upon;
- Procedures adopted in carrying out the valuation and the valuation standards followed;
- Restrictions on use of the report, if any;
- Major factors that were taken into account during the valuation;
- Conclusion; and
- Caveats, Limitations and Disclaimers to the extent they explain or elucidate the limitations faced by valuer, which shall not be for the purpose of limiting his responsibility for the valuation report.

Opportunity under Companies Act

Registered Valuer Report required in following sections as per Companies Act, 2013

S. No.	Section	Particulars
1	39 (4)	Allotment of Securities for consideration other than cash
2	54(1)	Issue of sweat equity shares
3	62(1)C	Valuation report for further issue of share capital
4	67(3) (b)	Issue of shares on preferential basis.
5	73	Acceptance of deposits – secured by charge of any assets
6	177(4) (vi)	Audit Committee to insist for valuation of assets wherever necessary
7	192(2)	Valuation of assets involved in arrangement of non-cash transactions involving directors
8	230(2)(c) (v)	Valuation of shares, property and assets of the company under a scheme of corporate debt restructuring

Opportunity under Companies Act

Registered Valuer Report required in following sections as per Companies Act, 2013

Sl. No.	Section	Particulars
9	230(3)	Valuation report along with notice of creditors/shareholders meeting –under scheme of compromise/arrangement
10	232(2)(d)	Merger & amalgamation of Company
11	232(3)(h)	The valuation report to be made by the tribunal for exit opportunity to the shareholders of transferor company – under the scheme of compromise/arrangement in case the transferor company is listed company and the transferee company is an unlisted company
12	236(2)	Valuation of equity shares held by the minority shareholders
13	247	Reg. Valuer report is required when valuation is to be done in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities under the provision of this Act.
14	281(1)	Valuing assets for submission of report by liquidator to NCLT

Registered Valuer opportunity in IBC 2016

Insolvency & Bankruptcy code 2016

- Reg. 27 the resolution professional shall within 7 days of his appointment, appoint two registered valuers to determine the fair value

-And when there is significant difference in valuation then IRP to appoint 3rd registered valuer

Valuation Opportunity in IND AS

- **Ind AS 113** - Dedicated Standard on “**Fair Value**” Measurement – in line with global equivalents – IFRS 13 and ASC 820 (US GAAP). Covers Financial Reporting.
- **Fair Value is a market-based measurement, NOT an entity-specific measurement.**
- **Specific Standards for specific issues**
 - Ind AS - 109, 107 and 32 : Financial Instruments (Assets & Liabilities)
 - Ind AS - 102 : Share based payment
 - Ind AS - 103 : Business Combination
 - Ind AS - 38 : Intangible Assets
 - Ind AS - 16 : Property Plant & Equipment
 - Ind AS - 36 : Impairment of Assets

Error in Valuation

- If a barber makes a mistake, It's a new style...
- If a politician makes a mistake, It is a new law.....
- If a scientist makes a mistake, It is a new invention...
- If a tailor makes a mistake, It is a new fashion...
- If our boss/Client makes a mistake, It is always our mistake.....
- If RV makes a mistake, It goes to High Court/Supreme Court.....

Valuation issues

- Bias in valuation
- Uncertainty in estimates, firm specific, macroeconomics
- Valuation process – Blackbox models
- Information overload

Valuation issues

- Insufficient documentation for professional judgment.
- Insufficient documentation of fair value conclusion
- Lack of professional skepticism when reviewing management's prospective financial information
- Human error – in punching data

Particulars		CY Proj	Projections	Projections
		Mar-16	Mar-17	Mar-18
NOPAT				
Add: Depreciation		-71.3	32.5	66.2
Less: Incr in WC		40.3	121.6	98.5
Less: Incr in Capex		56.1	42.3	27.5
FCFF		800.0	5.0	5.0
		-887.1	106.8	13.2
WACC	10.00%			
Discounted Years			1.0	2.0
Discounting Factor			0.9	0.8
Discounted Free Cash Flow			-806.5	88.3
Terminal Growth Rate	2.00%			
Enterprise Value	656.0			
Add: Cash	3.7			
Less: Debt	-21.0			
Less: Preference Capital	-			
Equity Value (Post Money)	680.7			
Equity Value (Pre Money)	680.7			
Equity Value per share (INR)	68.07			
No. of Equity Shares (Rs. 10)	21,000			
Value/per share (FV Rs. 10)	3,242			

What's next in Valuation

- **Rule 11 UA** – word Chartered Accountant was deleted on 24 May 2018
- It is expected that very soon Registered Valuer would be notified in 11UA

Keep learning – Keep growing

“Nowadays people
know the price of
everything and
the value of
nothing.”

- Oscar Wilde



CA. SUMIT DHADDA

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