

OVERVIEW OF VALUATION AND PROFESSIONAL OPPORTUNITIES

CHENGALPATTU DISTRICT BRANCH

SIRC OF ICAI

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Coverage

- General
- Professional Opportunities
- Case laws
- Exam Preparation
- National Institute of valuation
- Story of Ruchi Soya
- Altzman Z
- RVO

Valuation

Businesses rely on valuation data to:

Establish the underlying value of their assets

Make informed and de-risked investment decisions

Comply with financial reporting rules and regulations

Compare and benchmark asset performance

Manage risk effectively

Inaccurate and poor quality valuations add risk and hinder business.

Poor valuations shakens business and public trust and undermine stability in the financial system



Adobe Acrobat
Document

Business Valuation

Price is not the same as valuation

Value varies with person , purpose and situation

Valuation is art as well as science

Complete Business understanding

Process understanding- MFG and Distribution

Technology and Know How

Cost Competiveness

Skilled Work force

IP and licences

Blue chip and multi baggers come out of above

Valuation-Cash is King

Higher the cash flow , higher the value

Earlier the cash flow better the value

Recurrence of cash flow

Valuation-IPL Franchise Team selection

Different factors come into play in deciding the number.
like

- The popularity of the player
- Advertisement value of the player
- Merchandise that can be sold because of the player
- Availability of the player for the entire season
- Chances of his being selected into the team
- At what point in time does he come into the auction
- Which slot is he going to fit into the team?
- Who is he competing against?
- How are others bidding for him?

Technically sound player will not get selected but many rooky player get selected

Valuation-Key man Impact

Key man impact: In many SME deals, the key man makes much difference,
It is key man who generates income and not the entity

Rumours on health of key man will impact the market price

When HLL sold its Edible oil business to Bunge Agri Business there was a condition that key employee should work in new entity for 2 years to stabilize

Valuation

Form the regulator Shri MS Sahoo

Source : IBBI Journal October to December 2018

As compared to price discovered by market , value estimated by a valuer is most authentic reflection of worth of assets

Price converges with value in a perfect competition market

Market economy needs valuation of assets to facilitate variety of transactions

Reforms succeed if it is least disruptive and builds on institutional frame work

Only fit and proper persons are eligible for registration as valuers

RVOs compete with one and another and also with market

RVOs and valuers are watched closely

Valuation Challenges

Subject to Audit

Subject to Penal Clauses under the Companies Act, 2013

Calls for Multidisciplinary Approach

Corporate World expects Value Addition from services of Valuers

Professional Valuers are called for

Specialization In Various Facets like technical, economics, finance, accounting, law and what not.

Abreast to specialize in Sector Specific Areas & specialties in valuations.

Valuation Challenges

Story of King Fisher

Economic times news item 15.10.2018

A leading global tax and advisory firm is under CBI lens

Complaint was made by SBI

Highly inflated and exaggerated valuation of Rs 3400
Crores submitted

Also the defaulter used KFA Brand Value as Collateral
against a loan from SBI

Premises of valuation

Highest and Best use

Going concern

Liquidation – orderly and forced

Sum of the parts Valuation

Process of valuing the individual components of the business and then arriving at the valuation of the company

Example companies with multiproduct/ Business unit

ITC and L & T

Based on SOTP corporate actions like Merger
Demerger, hive off etc happens

Date of valuations

Valuations are done at particular date

Considering particular situation

Date is critical for relative valuation and bench marking

In respect of IBC , date of valuation is the date on which CD is admitted for resolution by NCLT

Valuation report

Scope of work

Methods applied

Assumptions

Key data / inputs

Conclusions arrived

Date of report which is different from valuation date

Disclaimers, Cavets and Limitations –October 2020

Valuation

Transactions	Regulatory	Financial Reporting
Merger/ Demergers	Companies Act	Fair Value
Investment	Income Tax Act	ESOP
Equity Research	SEBI	Purchase price Allocation
Fund Raising	FEMA	Impairment testing
Sale of business	IBC	
Dispute Resolve	Court litigation	

Valuation

Period	Areas/ scope
1957-89	Wealth tax rules mainly for valuation of unquoted shares
Prior to 1992	CCI guidelines for issue of shares at premium
1992	SEBI act was enacted where companies are free to fix their prices in consultation with MB Infosys Public issue at Rs 93/- Wealth creation , Kaun banega Crorepathi lucky many car drivers of Promoters
2010	FEMA –initially DCF method then changed to internationally accepted method for issue of shares for issue/ transfer of shares in Indian Company
2017	MCA notified Company Valuation rules ICAI issued valuation standards
2020	Notification of Draft valuers Bill in public domain for comments

Valuation – Companies Act

Sr.No	Section	Particulars
1	39 (4)	Allotment of shares for consideration under than cash
2	54 (1)	Issue of Sweat Equity Shares / ESOP
3	62 (1) c	For further issue of share capital
4	67 (3) b	Issue of shares on preferential basis
5	73	Acceptance of deposits – secured by charge on assets
6	177 (4) (Vi)	Audit comm to insist for valuation where ever necessary
7	192 (2)	Arrangement of non cash transactions involving directors
8	230 (2) (c) (V)	Compromises, restructuring
9	232	Merger and amalgamation
10	232 (3) h	Exit opportunities to the shareholders of transferor companies
11	236 (2)	Valuation of equity shares held by Minority share holders

Valuation – Companies Act

Sr.No	Section	Particulars
12	247	Registered valuers report for all categories
13	281 (1)	Valuing report for submission of report by Liquidator to NCLT

Op

Valuation Section 247 of the Companies Act 2013

Valuation by registered valuers.— (1) Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

(2) The valuer appointed under sub-section (1) 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;

Valuation Section 247 of the Companies Act 2013

(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.

Valuation Section 247 of the Companies Act 2013

If a valuer contravenes the provisions of this section 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:

Valuation Section 247 of the Companies Act 2013

Where a valuer has been convicted under sub-section (3), he shall be liable to—

- (i) refund the remuneration received by him to the company; and
- (ii) 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.

Rights issue Sec 62(1) (C) of Companies Act

Further issue of share capital to any person

Whether for issue of shares against cash or consideration other than cash price of that share to be determined based on valuation report from Registered valuer

Arrangement of non cash transactions involving Directors Section 192 (2)

an arrangement by which—

(a) a director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire assets for consideration other than cash, from the company; or

(b) the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected,

Arrangement of non cash transactions involving Directors Section 192 (2)

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(2) The notice for approval of the resolution by the company or holding company in general meeting under sub-section (1) shall include the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer.

Power to make compromise or arrangements with creditors or members Section 230 (2)

Where a compromise is proposed between

Company and Creditors

Company and members

Which involves reduction of share capital

Corporate Debt Restructuring

It should be supported by valuation report in respect of
of shares and assets by a registered valuer

Merger and amalgamations Section 232

Where an application is made to the Tribunal under section 230 for the sanctioning of a compromise or an arrangement proposed between a company and any such persons as are mentioned in that section, and it is shown to the Tribunal—

(a) that the compromise or arrangement has been proposed for the purposes of, or in connection with, a scheme for the reconstruction of the company or companies involving merger or the amalgamation of any two or more companies; and

(b) that under the scheme, the whole or any part of the undertaking, property or liabilities of any company (hereinafter referred to as the transferor company) is required to be transferred to another company (hereinafter referred to as the transferee company), or is proposed to be divided among and transferred to two or more companies,

To be supported by valuation report from Registered Valuer

Purchase of minority share holding Section 236

In the event of an acquirer, or a person acting in concert with such acquirer, becoming registered holder of ninety per cent. or more of the issued equity share capital of a company, or in the event of any person or group of persons becoming ninety per cent. majority or holding ninety per cent. of the issued equity share capital of a company, by virtue of an amalgamation, share exchange, conversion of securities or for any other reason, such acquirer, person or group of persons, as the case may be, shall notify the company of their intention to buy the remaining equity shares.

(2) The acquirer, person or group of persons under sub-section (1) shall offer to the minority shareholders of the company for buying the equity shares held by such shareholders at a price determined on the basis of valuation by a registered valuer in accordance with such rules as may be prescribed

Submission of report by Company Liquidator

Section 281

Submission of report by Company Liquidator.— (1)

Where the Tribunal has made a winding up order or appointed a Company Liquidator, such liquidator shall, within sixty days from the order, submit to the Tribunal, a report containing the following particulars, namely:—

(a) the nature and details of the assets of the company including their location and value, stating separately the cash balance in hand and in the bank, if any, and the negotiable securities, if any, held by the company:

Provided that the valuation of the assets shall be obtained from registered valuers for this purpose;

Valuation RULES

“asset class” means a distinct group of assets, such as land and building, machinery and equipment, displaying similar characteristics, that can be classified and requires separate set of valuers for valuation;

“valuer” means a person registered with the authority in accordance with these rules and the term “registered valuer” shall be construed accordingly.

Valuation RULES

Fit and Proper Person

- (i) Integrity, reputation and character,
- (ii) Absence of convictions and restraint orders,
- (iii) Competence and financial solvency.

Valuation RULES

Committee to advice on valuation Valuation matters

The Committee shall comprise of-

- (a) a Chairperson who shall be a person of eminence and well versed in valuation, accountancy, finance, business administration, business law, corporate law, economics;
- (b) one member nominated by the Ministry of Corporate Affairs;
- (c) one member nominated by the Insolvency and Bankruptcy Board of India;
- (d) one member nominated by the Legislative Department;

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Valuation RULES

Committee to advice on valuation Valuation matters

(e) up to four members nominated by Central Government representing authorities which are allowing valuations by registered valuers;
Government.

(f) up to four members who are representatives of registered valuers organisations, nominated by Central Government.

Valuation RULES

Committee to advice on valuation Valuation matters

(g) Up to two members to represent industry and other stakeholder nominated by the Central Government in consultation with the authority;

15[(h) Presidents of, the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India, the Institute of Cost Accountants of India as ex-officio members.]

(3) The Chairperson and Members of the Committee shall have a tenure of three years and they shall not have more than two tenures.

Valuation RULES

Committee to advice on valuation matters

Shri R.Narayanaswamy Chairperson IIMB

Shri K.Biswal Ministry of Law and Justice

Shri Navrang Saini IBBI

Shri KVR Murthy MCA

Shri Rajesh Kumar Kedia CBDT

Shri Saurav Sinha RBI

Shri Jayatha Jash SEBI

Shri A Ramana Rao IRDAI

Member of IOV

Member of ICAI/ ICSI/ ICMAI

Shri Varun Gupta CII

Shri Bansal FICCI

Valuation RULES

Committee to advice on valuation matters

They can invite or coopt subject matter experts

Make recommendations to Central Government for formulations of valuation standards and compliances

Valuation RULES

Valuation Standards.— The Central Government shall notify and may modify (from time to time) the valuation standards on the recommendations of the Committee set up under rule 19 .

Valuation Standards-ICAI RVO

Fundamental ethical principles

Integrity and fairness

Objectivity

Professional competence and Due care

Confidentiality

Compliance with laws and rules

Valuation Standards-ICAI RVO

To standardize the practice followed by Registered Valuers

Standard principal and concepts set out in accordance with legal frame work in India

Bench mark to professionals to ensure uniform in approach and quality

Valuation standards cannot override the existing regulations which are prevalent

Valuation standard are to be adopted for items which are material

Other RVO adopt IVS

Case Laws –Judicial Pronouncement

Commissioner of Gift Tax, Mumbai Vs Smt Kusumben
Determination of Valuation methodology for unlisted
companies

Determination of valuation method for unlisted
companies

Valuation to be made with reference to profits. Profit
earning method takes in to account the profits that the
company has been making and capable of making
and valuation is based on average maintainable profits

Case Laws –Judicial Pronouncement

The Supreme Court in *Miheer H. Mafatlal v. Mafatlal Industries Ltd.*

Apex Court held that once the exchange ratio of the shares of the transferee company to be allotted to the holders of shares in the transferor company has been worked out by a recognised 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 an overwhelming majority of the shareholders of the two companies

Case Laws –Judicial Pronouncement

Brooke Bond Lipton India Ltd

Court held that ratio of exchange has been fixed by reputed firm of Chartered Accountants and court will accept the value and ratio of exchange

Advance Plastics (P) Limited

In the above case no shareholder had challenged the amalgamation and in the given circumstances valuation is not necessary

Case Laws –Judicial Pronouncement

Hindustan Levers employees union Vs HLL

Tata oil mills was merged in to HLL exchange ratio was determined by combining 3 methods –net worth method, market value method and earning method

Court held that above method is fair and not contrary to law or unfair to shareholders of the company

Court does not want to go in to Arithmetical accuracy

Insolvency and Bankruptcy Code

Regulation 27 of the IBBI

(CIRP 2016 deals with the appointment of registered valuers.

Resolution Professional within 7 days of his appointment should appoint two registered valuers to value assets class in accordance with fair value and liquidation value

Range of valuation arrived should be so different and in case of major variation valuation from Third Valuer will be obtained

In Case where there is no resolution and results in liquidation fresh valuation to be taken provided the previous valuation is more than 6 months

Prepack Insolvency – new opportunities

Valuation – IBC Code 2016

Sl.no	nature	Number of valuers
1	Land and Building	2
2	Plant and Machinery	2
3	Financial assets/ securities	2

Case Laws – Solidaire India Limited

NCLT Chennai MA 530/ 2019 in CP/977/ 2018

Relief Sought by Financial Creditor

To direct the RP to conduct valuation of property at Perungudi Estate to arrive at proper fair and Liquidation valuation

Back Ground

Valuer valued the Land at Minuscule amount of 6 digits for property which is suppose to be 9 digits

Case Laws IBC – Solidaire India Limited

NCLT Chennai MA 530/ 2019 in CP/977/ 2018

Para 9 and Para 10 page 6 of NCLT order

Land was assigned by Govt of TN through Department of Industries in 1989 on payment of Rs 31700 with the condition that land to be used for the purpose for which it is assigned with out making any alienation or creating third party right

No ownership was given to CD

Valuation of Sweat Equity Shares (SES)

SES to be issued shall be valued at a price determined by registered valuer at the fair price giving justification. Relevant IPR or KNOWHOW or VALUE ADDITIONS also to be valued by Registered Valuer by providing proper report to the Board.

Delisting of shares (SEBI)

Where equity shares are delisted by a recognised stock exchange by a recognized stock exchange, the stock exchange shall appoint an independent valuer or valuers who shall determine the fair value of the delisted equity shares; from out of its panel of expert valuers

SEBI Compulsory Delisting

Where Equity shares of the company are delisted by a recognised stock exchange , SE has to appoint an Independent valuer who will determine the fair value of the shares

Valuer is either CA or Merchant Banker

Valuation

SEBI has recently prescribed the disclosure of following format for determination of share exchange ratio where a Listed Company is involved in Scheme of Arrangement-

Computation of Exchange Ratio				
	ABC Ltd		DEF Ltd	
Valuation Approach	Value per Share	Weight	Value Per share	weight
Asset Approach	X	a	Y	d
Income Approach	x	b	Y	e
market Approach	x	c	Y	f
Relative Value Pershare	X		Y	
Exchange Ratio			XX	

SEBI circular dated 3.11.2020

Scheme of arrangements by Listed Companies

Report from Audit committee recommending the draft scheme to take in to consideration valuation report

Audit Committee to comment on
Need for merger/ synergy / value creation etc

Valuation report to be submitted by Registered Valuer

FEMA

Transactions

Fresh issue of Indian Company Shares by subscription to MOA to a person resident outside India
Issue of shares or securities by an Indian Company to a person resident outside India

Transfer of shares or securities by a resident to a person resident outside India

Transfer of shares or securities by a resident outside India to a resident

FEMA ODI

In case of partial / full acquisition of an existing foreign company where the investment is more than USD 5 M valuation of shares to be done by Category I merchant Banker or Investment Banker registered outside India

In case of Investment by Swap of shares irrespective of amount valuation of shares to be done by Category I merchant Banker or Investment Banker registered outside India

Valuation of shares of the Foreign Company shall be as per recommendations of Investment Banker if the shares are not listed in the stock exchange

No particular Valuation method prescribed but Internationally accepted method to be used

FEMA FDI

Shares issued to persons resident outside India By company under FDI policy shall not be less than

Price worked out in accordance with SEBI Guidelines when the shares are listed in the stock exchange in India

Fair valuation of shares done by a SEBI registered Merchant Banker or CA as per Internationally accepted pricing methodology where the shares are not listed in the stock exchange in India

Income Tax Act

Section	Valuation Requirement
56 (2) (Vii b)	Issue of unquoted shares, FMV of shares to be computed in accordance with Rule 11 A
56 (2) (X) and 50 CA	Transfer of unquoted shares
50 B	Slump sale of Business
92	Transfer Price
17 (2)	Valuation of perks for ESOP / Sweat Equity Shares

Valuation – IND AS

Sr.No	Standards	Particulars
1	113	Measurement of fair value
2	102	Share based payments
3	109, 107,32	Financial instruments
4	38	Intangible Assets
5	16	Property plant and equipment
6	36	Impairment of assets testing

Valuation- Advisory

Is Valuation is for compliance Or beyond

It is much beyond as you can do Equity research and consulting for your existing clients

CA's are investment Banker and Analyst of their client

Valuation - NIV

Government considers setting up National Institute for valuers

Draft Bill was introduced in April 2020

Institute will be in line with ICAI

Government will also consider uniform guidelines on valuation methods

Entry and Membership will be regulated

Could have taken shape but for covid

Valuation

Insolvency Professionals 3747 as of 31.12.2020

Registered Valuers L & B -1928

Registered Valuers P & M 382

Registered Valuers Securities 1437

Total	3747
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Story of Ruchi Soya

Ruchi Soya was in CIRP

Resolution Applicant Patanjali Group

Patanjali has access to huge land parcels, Brands

Share price of Ruchi Soya increased by Multi %

Closing price on 28.5.2021 – Rs 1071 with FV Rs 2

With in five months of Resolution after relisting

Public share holding was 0.97 %

Low public float created artificial demand

Necessitates need to consider Minimum Public Shareholding (MPS) for CIRP companies

Story of Ruchi Soya

Every listed Company has to maintain 25 % MPS

SEBI take over regulations provides for buyer can acquire more than 75 % in a company

SEBI recommended 3 options to deal with MPS

18 Months to be reduced to 6 months for 10 % MPS

Option 2 Post CIRP company to have 5% MPS after relisting and to be increased to 25 % over a period of time

Option 3

10 % MPS at the time of relisting then increase to 25% in 3 years

Business Valuation - Assets

Accounting Assets

Current assets and Fixed Assets

Business Assets

Good will

Brand / IPR

Current Assets

Fixed Assets

Forecasting Bankruptcy

Z Altman Ratio

50 years old tool for identifying Bankruptcy

Parameters

$Z > 2.99$ Safe Zone

Z Between 1.8 to 2.99 Grey Zone

$Z < 1.89$ Danger Zone

Top 12 Insolvency cases in 2017 was in line with above parameter and zone

Forecasting Bankruptcy

Z-Score (1968) Component Definitions and Weightings

Variable	Definition	Weightage
X1	Working Capital/ Total Assets	1.2
X2	Retained earnings/ Total Assets	1.4
X3	EBIT/ Total Assets	3.3
X4	Market Value of equities/ Book value of total Liabilities	0.6
X5	Sales/ Total Assets	1

Sensitivity analysis

Study measurement of key variables the change of which results in change in cash flow

And valuation

Example

5% increase in material cost

2% Decrease in Sales

3% changes in variables like power fuel etc

Sensitivity analysis is an analysis to determine how changes in an assumed input would affect the outcome of an analysis.

Valuation -Equity Research

Rakesh Jhunjhunwala CA is Warren Buffet of India
Picked many stocks at low price with high potential
Later become multi bagger
Titan Industries

Started his carrier with small investment of Rs 5 K
Now holds portfolio worth Rs 10 K Crores

Forecast

Top Down Forecast

Moves down from International
National macro economic forecast
Industry
Individual company

Bottom Up approach

Contrary to above
Lower economic parameter to higher level

Valuation – Category

Securities or Financial assets**

Land and Building

Plant and Machinery

CA / CS/ CMA / MBA finance with 3 years PQ can do
SFA

Valuation – Membership

Primary Enrolment with RVO

Attend 50 hours training and education

Enrol and attend exam conducted by IBBI

Membership with RVO on clearing of exams

Post qualification training and issue of COP

Valuation – Current Scenario

Companies Act only Registered Valuer

IBBI – only Registered valuer 2 for each category

SEBI – CA/ MB but recognition of RV for merger ,REIT,
Invit (from November 2020)

Income tax only CA/ MB

RBI / FEMA only CA / MB

Valuation Exam

2 hours exam

MCQ of 90 questions

Negative mark for incorrect answers

Pass mark 60 %

To aim for 68 %

Combination of CFA and our statutory with case studies and case laws

Certain syllabus common to IBC exam

VALUATION

It is better to be roughly right than precisely wrong

Thanks

N.Kumar