

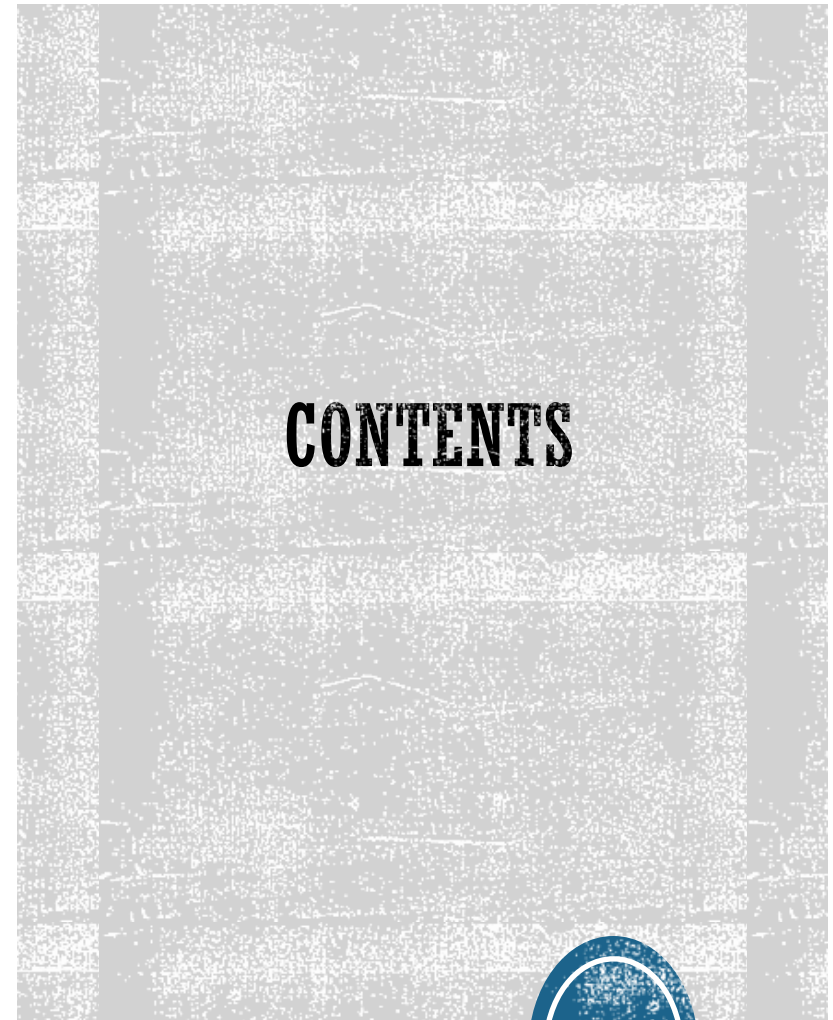
# VALUATION: LANDSCAPE & OPPORTUNITIES

Webinar: June 27, 2020

Speaker: CA. Nitesh Bhuta



I.	Application
A.	Regulatory
	The Companies Act, 2013
	The Income Tax Act, 1961
	FEMA/RBI Regulations
	SEBI Regulations
	Insolvency & Bankruptcy Code, 2016
B.	Non-Regulatory
	Internal Reviews
	Dispute Resolutions
	Succession Planning
II.	The Advent of Registered Valuer
III.	Resources - Novice Valuation Professionals
IV.	Valuation in the time of Covid-19



# IA. APPLICATION - REGULATORY

The Companies Act, 2013:

Section 54 (1)

Issue of Sweat Equity Shares

Registered Valuer

Section 62 (1) (c)

Further Issue of Share Capital

Registered Valuer

Section 192 (2)

Non-cash transactions with Directors for acquiring assets from the company

Registered Valuer

Section 230 (2) & (3)

In case of scheme of corporate debt restructuring

Registered Valuer

# IA. APPLICATION - REGULATORY

The Companies Act, 2013:

Section 232 (2)

Mergers &  
Amalgamations or  
Demergers

Registered Valuer

Section 232 (3) (h)

Exit for dissenting  
shareholder of  
transferor company

Registered Valuer

Section 236 (2)

Purchase of Minority  
Shareholding

Registered Valuer

Section 281 (1) (a)

Submission of report  
by Company  
Liquidator

Registered Valuer

# IA. APPLICATION - REGULATORY

The Income Tax Act, 1961:

Section 17 (2) (vi)

Valuation of Perquisite pertaining to Sweat Equity Shares or ESOPs

Merchant Banker

Section 56 (2) (viib)

Valuation of Unquoted Securities - Issue of Shares

Merchant Banker

Section 56 (2) (x)

Transfer of Shares - 'Income from Other Sources'

For Unquoted Shares other than Equity Shares - Merchant Banker or a Chartered Accountant.

Section 50CA

Transfer of Shares - 'Capital Gains'

For Unquoted Shares other than Equity Shares - Merchant Banker or a Chartered Accountant.

# IA. APPLICATION - REGULATORY

## RBI/FEMA Regulations:

### Foreign Investments in India:

Particulars	Listed Company	Un-Listed Company
Issue by an Indian company or transferred from a resident to non-resident - Price should not be less than	The price worked out in accordance with the relevant SEBI guidelines.	The fair value worked out as per any internationally accepted pricing methodology for valuation on an arm's length basis, duly certified by a Chartered Accountant or a SEBI registered Merchant Banker or a practicing Cost Accountant.
Transfer from a non-resident to resident - Price should not be more than	The price worked out in accordance with the relevant SEBI guidelines.	The fair value as per any internationally accepted pricing methodology for valuation on an arm's length basis, duly certified by a Chartered Accountant or a SEBI registered Merchant Banker.

# IA. APPLICATION - REGULATORY

## RBI/FEMA Regulations:

### Overseas Direct Investments:

Particulars	Investment > USD 5 Million	Investment - All other Cases
In case of partial / full acquisition of an existing foreign company	Valuation by a Category I Merchant Banker registered with the Securities and Exchange Board of India (SEBI) or an Investment Banker/ Merchant Banker outside India registered with the appropriate regulatory authority in the host country.	Valuation by a Chartered Accountant/ Certified Public Accountant.
In case of investment by acquisition of shares where the consideration is to be paid fully or partly by issue of the Indian Party's shares (swap of shares)	Valuation by a Category I Merchant Banker registered with SEBI or an Investment Banker/ Merchant Banker outside India registered with the appropriate regulatory authority in the host country.	

# IA. APPLICATION - REGULATORY

## SEBI Regulations:

Regulation/Circular	Particulars	Valuation By:
SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 - Regulation 76	Preferential Issue - Frequently Traded Shares	No valuation requirement, however pricing guideline has been specified. Pricing Guideline: The average of the weekly high and low of the [volume weighted average price] of the related equity shares quoted on the recognised stock exchange during the [twenty-six weeks] preceding the relevant date; or The average of the weekly high and low of the [volume weighted average prices] of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date.
SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 - Regulation 76A	Preferential Issue - Infrequently Traded Shares	Merchant Banker or Chartered Accountant in practice having a minimum experience of 10 years.
SEBI (Issue of Sweat Equity) Regulations, 2002 - Regulation 6(4)	In case of issue of sweat equity shares in lieu of intellectual property rights, technical know-how or other value addition, valuation of such intellectual property rights or technical know-how or other value addition to be received from the employee or director is mandated	Valuation of intellectual property or value addition must be done by a Merchant Banker. Merchant Banker shall obtain a certificate from a Chartered Accountant that the valuation is in accordance with the accounting standards.
SEBI (Substantial Acquisition of Shares and Takeovers), 2011 - Regulation 8	Open Offer - Offer Price	If shares are not frequently traded, offer price should be determined on the basis of valuation of shares conducted either by Merchant Banker, Chartered Accountant or Registered Valuer.



# IA. APPLICATION - REGULATORY

## SEBI Regulations:

Regulation/Circular	Particulars	Valuation By:
SEBI/HO/MRD/DSA/CIR/P/2016/110	Determination of Exit Price pertaining to the exit opportunity to be provided to the shareholders of Exclusive Listed Companies.	Independent valuer from the panel of expert valuers of the designated stock exchange.
SEBI (Delisting of Equity Shares) Regulations, 2009 - Regulation 23	Where equity shares of a company are delisted by a recognised stock exchange, the recognised stock exchange shall appoint an independent valuer or valuers who shall determine the fair value of the delisted equity shares. The promoter of the company shall acquire delisted equity shares from the public shareholders by paying them the value determined by the valuer, subject to their option of retaining their shares.	'valuer' means a Chartered Accountant who has undergone peer review as specified by the Institute of Chartered Accountants of India or a Merchant Banker.
SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 - Regulation 70	Preferential issue of specified securities is made to the lenders pursuant to conversion of their debt, as part of a debt restructuring scheme implemented in accordance with the guidelines specified by the Reserve Bank of India.	The conversion price shall be certified by two Registered Valuers.
SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 - Regulation 73	Where specified securities are issued on a preferential basis to promoters, their relatives, associates and related entities for consideration other than cash, the valuation of the assets in consideration for which the equity shares are issued shall be done by an independent qualified valuer, which shall be submitted to the recognised stock exchanges where the equity shares of the issuer are listed.	Here, 'valuer' means a Chartered Accountant or a Merchant Banker.

# IA. APPLICATION - REGULATORY

## Insolvency and Bankruptcy Code, 2016:

Regulation 35 of IBBI (Insolvency Resolution Process for Corporate Persons) Regulations 2016

Determination of Liquidation Value

Registered Valuer

Regulation 3(i)(b) of IBBI (Voluntary Liquidation Process) Regulations 2016

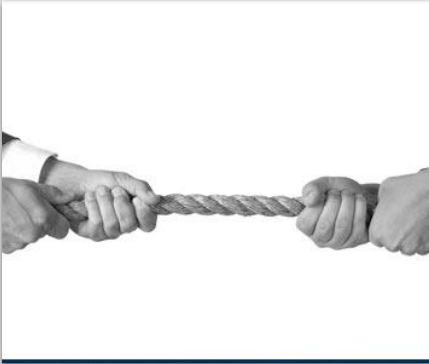
Voluntary Liquidation

Registered Valuer

# IB. NON - REGULATORY

Non - Regulatory:

Dispute Resolution



Succession Planning



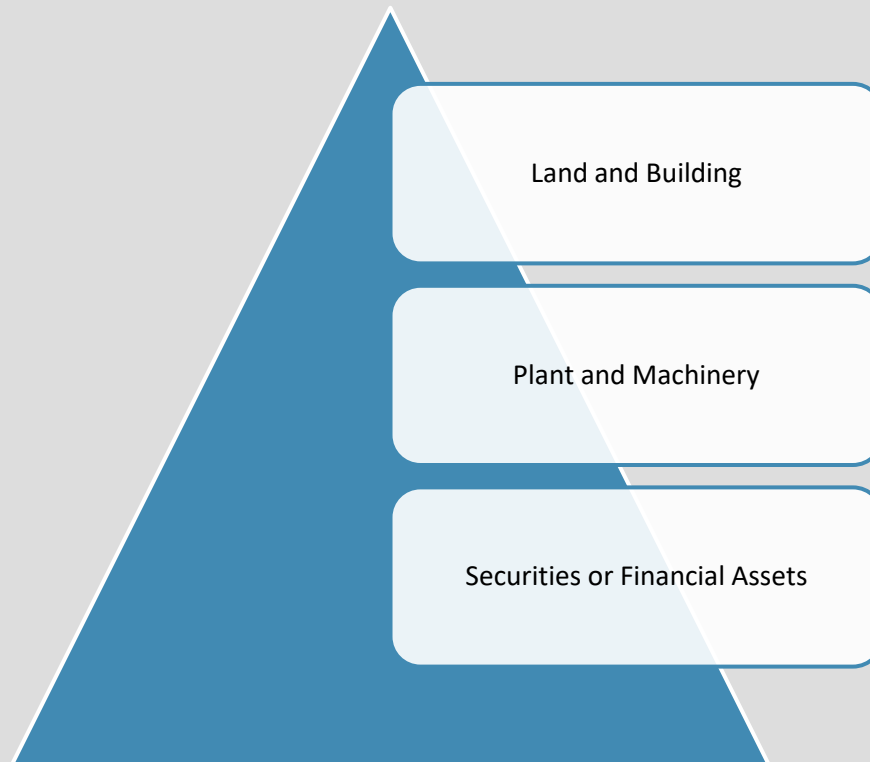
Voluntary Assessment



# II. THE ADVENT OF REGISTERED VALUER

The concept of Registered Valuer introduced for the first time under Section 247 of The Companies Act, 2013

Asset Classes:



# II. THE ADVENT OF REGISTERED VALUER

## Regulatory Structure: At Present

Insolvency and Bankruptcy Board of India

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graph TD; A[Insolvency and Bankruptcy Board of India] --> B[Registered Valuer Organization]; B --> C[Registered Valuer];
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Registered Valuer Organization

Registered Valuer

## Regulatory Structure: Proposed

National Institute of Valuers

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graph TD; A[National Institute of Valuers] --> B[Valuation Professional Organization]; B --> C[Registered Valuer];
```

Valuation Professional Organization

Registered Valuer

# II. THE ADVENT OF REGISTERED VALUER

## Valuation Standards

Internationally Accepted Valuation Standards

Valuation Standards Adopted by RVO

## Valuation Standards issued by ICAI

ICAI Valuation Standard 101

• Definitions

ICAI Valuation Standard 102

• Valuation Bases

ICAI Valuation Standard 103

• Valuation Approaches and Methods

ICAI Valuation Standard 201

• Scope of Work, Analyses and Evaluation

ICAI Valuation Standard 202

• Reporting and Documentation

ICAI Valuation Standard 301

• Business Valuation

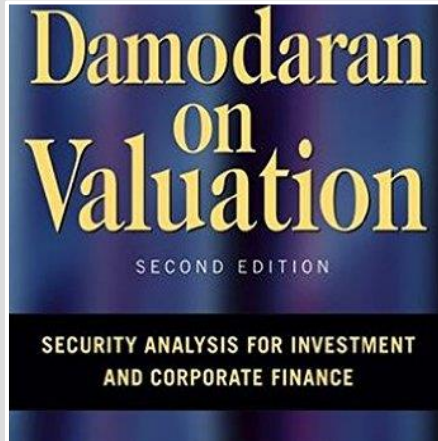
ICAI Valuation Standard 302

• Intangible Assets

ICAI Valuation Standard 303

• Financial Instruments

# III. RESOURCES – NOVICE VALUATION PROFESSIONALS



## Books on Valuation by Aswath Damodaran

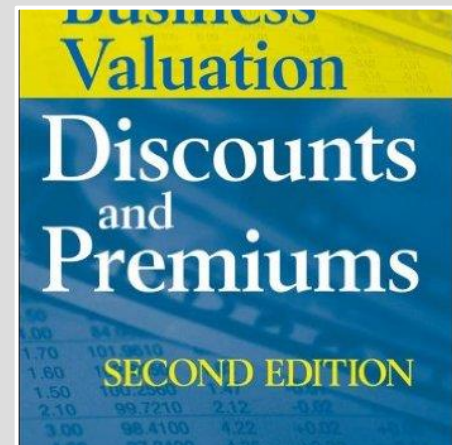
The Little Book of Valuation

Damodaran on Valuation

The Dark Side of Valuation

Investment Valuation

Books on Valuation by Shannon P. Pratt  
Business Valuation: Discounts and Premiums  
Valuing a Business  
Cost of Capital: Estimation and Applications  
The Market Approach to Valuing a Business



# III. RESOURCES – NOVICE VALUATION PROFESSIONALS

## Data Points: Business & Value Drivers

### Data sources for understanding the nature of business and value drivers:

Company Website (About us section) - Product Line & Service Line  
Annual Report of the Company - Management Discussion & Analysis Section  
Annual Report of the Company - Segment Reporting Section  
Research Websites - Screener/ Money Control / Researchbytes  
Research Softwares - Bloomberg/ Reuters / Capitaline / Ace Equity

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Research Websites - Screener/ Money Control / Researchbytes



# III. RESOURCES – NOVICE VALUATION PROFESSIONALS

## Data Points: Industry Analysis

Reports published by industry body / regulator of the industry

- Automobile - SIAM
- Telecom - TRAI
- Mines & Minerals - IBM
- IT BPM - NASSCOM
- Banking - RBI

Research reports published by rating agencies

- CRISIL, CARE, ICRA, Brickworks

Research softwares

- Centre for Monitoring Indian Economy (CMIE)
- Bloomberg
- Reuters

Research websites

- Researchbytes
- IBEF

Macro data

- Global - World Bank Database
- Domestic - The Ministry of Statistics and Programme Implementation (MOSPI) / Central Statistics Office (CSO)

# IV. VALUATION IN THE TIMES OF COVID 19

Material Considerations  
to be Evaluated

Revenue / Topline

Profitability / EBITDA Margins

Working Capital Cycle

Capital Expenditure

Scenario Analysis - Projected Financial Statements

Discounting Factor - Additional Risk Premium

Multiples to be adjusted for the Covid 19 impact

# Let's Discuss More on Valuation Questions/Comments

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