

# Basic Overview of Valuation and Regulatory Requirements

Welcome to this comprehensive presentation on valuation principles and regulatory frameworks. Presented by Harshel Ajmera, a Chartered Accountant & Registered Valuer, this guide is designed specifically for accounting and valuation professionals. Our goal is to provide you with a clear and detailed understanding of valuation concepts, standards, and compliance requirements essential for accurate and reliable valuation assignments.

This session will equip you with foundational knowledge as well as advanced insights into valuation methodologies, regulatory mandates, and reporting standards, enabling you to perform valuations with confidence and accountability.



by Harshel Ajmera

*Chartered Accountant & Registered Valuer*



# VALUATION

## Overview of Valuation

### Definition of Valuation

Valuation is the analytical process of determining the value of an asset, business, or liability based on established standards and methodologies.

### Purpose of Valuation

Valuation aims to provide an objective, defensible value figure for use in financial reporting, transactions, regulatory compliance, or decision-making.

### Key Concepts

Includes principles such as fair value, market value, going concern, and premise of value among others, which guide the valuation framework.

### ICAI Valuation Standards

Instituted by the Institute of Chartered Accountants of India to standardize valuation practices, ensuring consistency and reliability.

# Key Definitions in Valuation

## Fair Value

An **orderly transaction** between market participants as of the valuation date, emphasizing an unbiased transaction environment.

## Market Value

The price achievable in a competitive market with willing buyers and sellers following reasonable exposure time.

## Participant-Specific Value

Reflects the value to a particular owner or investor, accounting for unique synergies or advantages.

## Liquidation Value

Amount realized upon sale assuming business termination; includes **orderly** and **forced** liquidation scenarios.

## Book Value

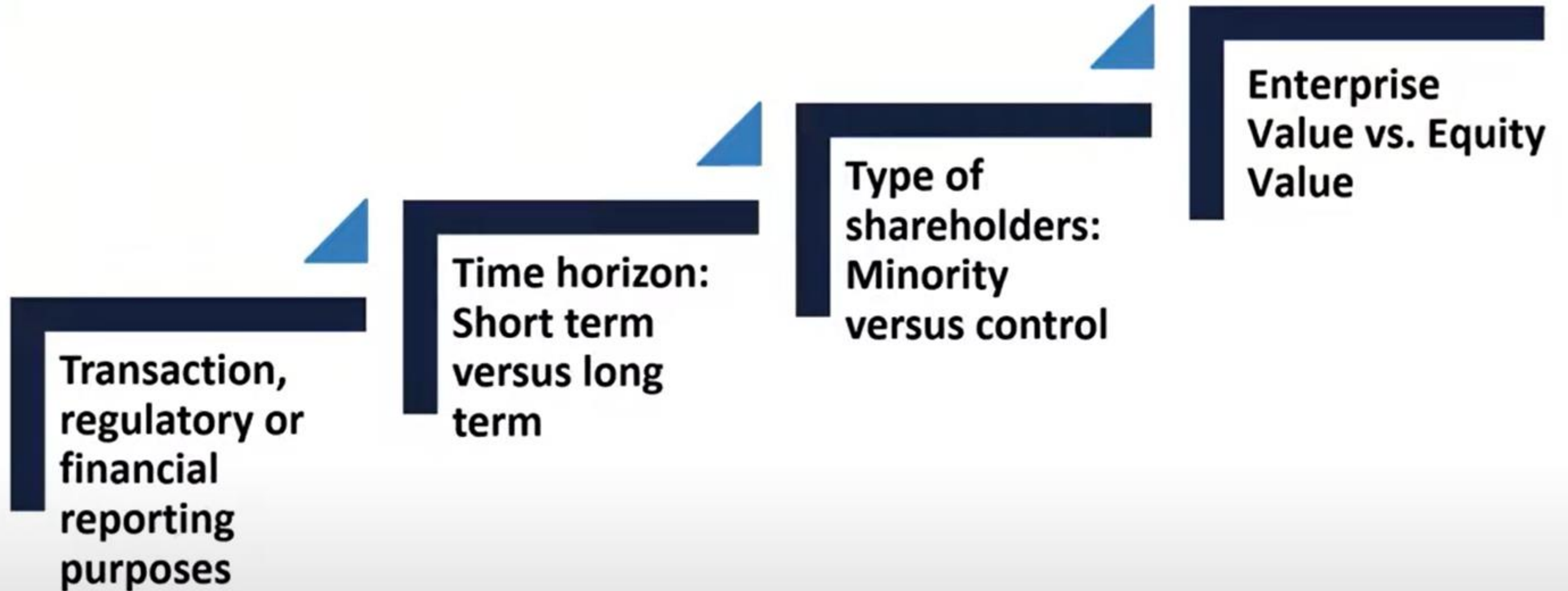
Accounting net worth recorded on the balance sheet, reflecting historical cost less depreciation.



# Valuation Process



# Purpose of Valuation



# Premises of Valuation

**It sets the stage for valuation** - A fundamental concept is the premise of value – the conditions under which an asset/business is assumed to be valued.

## Going Concern vs. Liquidation

Determines whether the asset or business is valued with the assumption of continued operation or disposal.

## Highest and Best Use

The most profitable legal use of the asset, which may differ from its current use, impacting valuation outcomes.

## Orderly vs. Forced Sale

Orderly sales assume adequate marketing and time, while forced sales are distress sales with urgency affecting price.

Clearly stating the premise of value in reports is critical, as it directs the valuation approach and informs stakeholders about assumptions made.

# Valuation Approaches



## Income Approach

Valuation based on expected future cash flows, including Discounted Cash Flow (DCF) and earnings capitalization.



## Market Approach

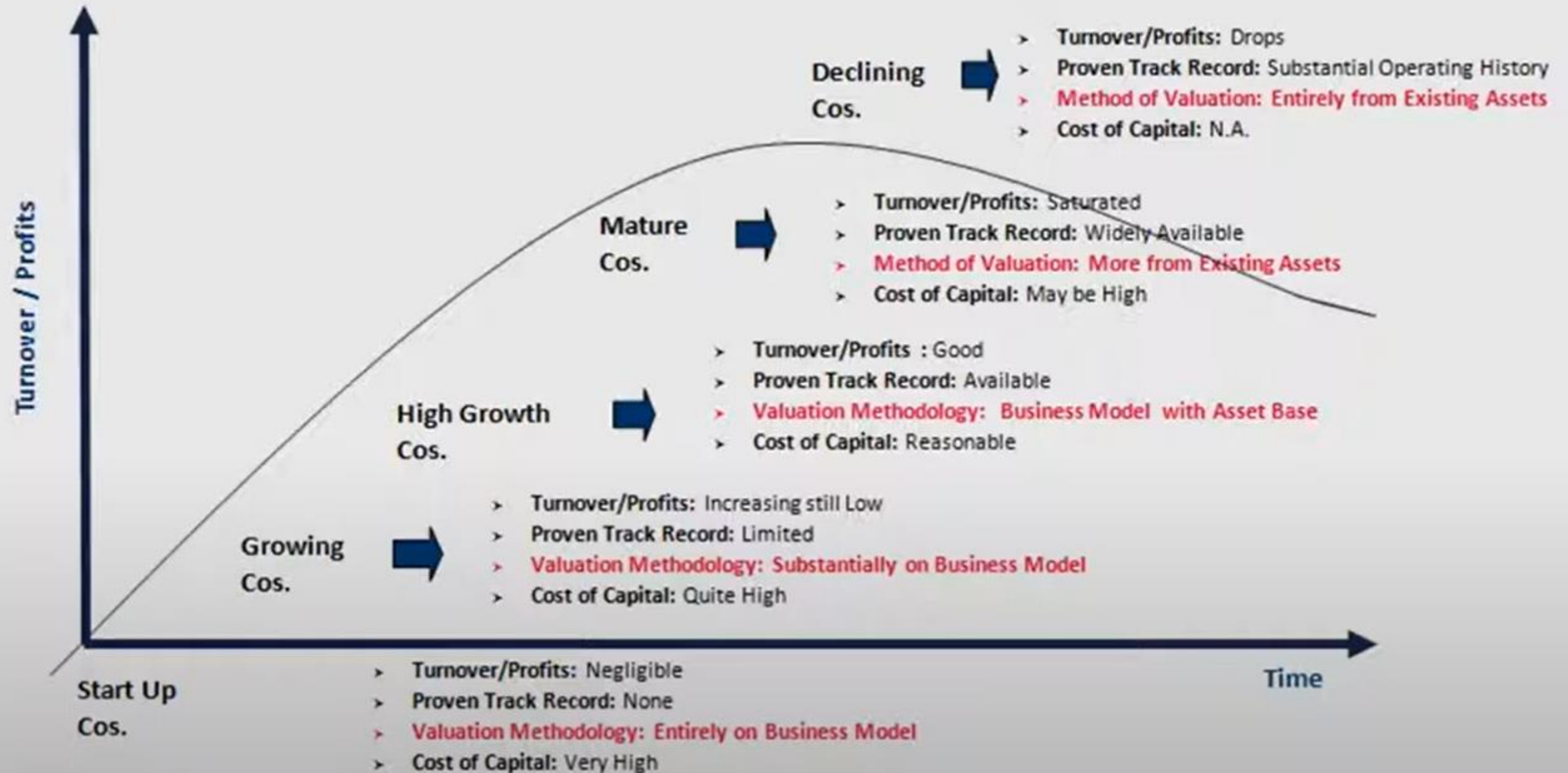
Uses data from comparable companies, transactions, or market prices to establish value benchmarks.



## Cost Approach

Determines value based on the cost to replace or reproduce an asset, adjusted for depreciation and obsolescence.

# Valuation for Different Business Cycles





# Indian Valuation Standards (ICAI)

## VS 101 – Definitions

Clarifies key terminology to ensure uniform understanding across valuation practitioners.

## VS 102 – Valuation Bases

Specifies different bases of value like fair value, market value, etc., to align with valuation objectives.

## VS 103 – Approaches & Methods

Outlines acceptable valuation approaches and selected methodologies under Indian regulatory context.

## VS 201 & VS 202

Define scope of work, analyses, evaluation, and the expected reporting and documentation requirements.

## VS 301 - 303

Standards for business, intangible assets, and financial instrument valuations offering detailed guidance.

A close-up photograph of a person in a dark suit and white shirt, holding a black pen and signing a document. The document is held by another person's hand, also in a suit. The background is a blurred office interior with glass partitions and blue lighting.

# Engagement Letter for Valuation - ICAI Valuation Standard 201

## Client and User Details

Clearly identifies the client and other users of the valuation report, ensuring clarity on recipients, details of valuer.

## Purpose, Subject, and Date

Specifies the valuation purpose, identifies the asset, and confirms the valuation date and premise.

## Responsibilities & Confidentiality

Defines roles of both, obligations, confidentiality terms, scope, limitations, fees, and details of third-party expert involvement.

Adhering to ICAI Valuation Standard 201 in the engagement letter safeguards clear communication and boundaries throughout the valuation process.

# Contents of the Valuation Report

## (ICAI Valuation Standard 202 )

### 1 Background & Purpose

Includes details of the asset, appointing authority, and objectives of the valuation engagement.

### 2 Valuer Details & Independence

Identifies valuers, discloses conflicts, and states appointment and valuation dates.

### 3 Valuation Procedures

Describes inspection, information sources, methodology, standards followed, and major valuation factors.

### 4 Conclusions & Disclaimers

States final valuation results (conclusion) along with caveats, limitations, and restrictions on report usage.

Comprehensive reporting builds user confidence and meets professional and regulatory expectations.

# Thank You