

CRVI PART II (20 MARKS)

CH-12 OVERVIEW OF BUSINESS

VALUATION

REGULATORY FRAMEWORK

- Companies Act, 2013
- Insolvency & Bankruptcy Code, 2016 (IBC)
- SEBI Regulations
- Valuation Standards – IVS, ICAI Valuation Standards

INTRODUCTION TO VALUATION

- Market = price discovery, context-specific
- Valuer estimates worth → valuation process → value
- Valuation ≠ price, but ideal price = value in given context
- Dirty price ≠ dirty value
- Valuation = appraisal of tangible/intangible assets, securities, liabilities, biz
- Value = opinion, not exact figure
- Requires judgment + purpose clarity + industry/eco factors
- Used when market price = unreliable/non-existent
- Influences financial decisions + investor trust
- Helps avoid market failure, misallocation, collapse
- 4-Stage Process:
 1. Pre-valuation – terms agreed
 2. Investigation – examine property
 3. Data handling – process + analyze
 4. Reporting – submit value in report
- Reports follow standards like RICS Red Book, IVS
- Basis = valuation approaches/methods + value assumptions
- Requires multiple competencies, sound judgment

GENESIS OF VALUATION

- Valuation = estimate of eco worth under assumptions
- Needed for:
 - Loans against asset/guarantor
 - Taxes (municipal, stamp duty, IT)
 - Compensation, insurance, succession, disputes, etc.
- Authentic value crucial → avoid NPA, wrong liquidation
- Property = base of financial decisions
- Poor valuation → distorted mkt, eco harm
- After financial crises, valuation profession gains focus
- Examples:
 - UK 1970s crash → RICS Red Book
 - US 1980s S&L crisis → Appraisal licensing
 - 2008 GFC → highlighted valuer role

NEED FOR VALUATION

1. M&A, Takeover
 - Going concern basis or asset-specific
 - Ensure fair market value for both parties
2. Strategic Partnerships, JVs, Collaborations
 - Evaluate benefit: tech, finance, mkt expansion, etc.
3. ESOP, ESPS, Employee Retention
 - ESOP = share purchase at fixed price
 - Vesting period → right to exercise
 - Taxation:
 - FMV – issue price = salary income (perquisite)
 - Sale price – FMV = capital gain
4. Peaceful Exit

- For resolving stakeholder disputes, buyouts, stake sales, etc.
5. Specific Situations
 - Minority oppression, damages, insolvency, succession, etc.
 6. Under Co. Law
 - Required for:
 - Issue of shares (non-cash/private)
 7. Other Laws
 - Applicable under:
 - SEBI, FEMA, IT Act, Customs, Stamp Duty, IBC
 8. Insurance
 - Correct asset value → avoid over/under insurance
 9. Court-Directed Valuation
 - Done under NCLT, HC, ITAT, etc. directions
 10. Winding Up
 - Official Liquidator/Resolution Professional/Company Liquidator does valuation
 - Based on IBC timelines (insolvency/liquidation/solvency cert.)
 11. IPO/FPO
 - For listing, SEBI mandates valuation & methodology
 12. Debt Funding
 - Loan assessment, security cover, fund requirement
 - In market economies, valuation critical for transactions, CIRP, loan sanctions
 - Wrong valuation → bad lending, company liquidation, NPAs
 - Must be done by qualified professionals
 - Benefits: better sale price, litigation defense, tax planning, audit support

Here's a condensed bullet-point version for quick exam revision:

FACTORS INFLUENCING VALUATION

- Past dividend track record
- Past earnings of companies
- Share price trends (pre- & post-merger announcement)
- Bonus issue history
- IPO/FPO performance
- Historical share prices
- Voting strength in merged entity
- Net worth of companies
- Net assets
- Liquidity position
- Net tangible assets
- Business condition (Running/Closed)
- Future earnings projections
- Order book status, ongoing projects
- Future capacity utilisation
- Cash flows
- Net Present Value (NPV)
- Expected Rate of Return (ERR)

GENERAL PRINCIPLES OF BUSINESS VALUATION

- Time Value of Money: Present value of future cash flows
- Risk and Return: Higher risk = higher expected return
- Substitution: Price ≤ substitute available
- Alternatives: Compare multiple options
- Expectation: Focus on future performance, not past
- Reasonableness: Consider business nature, brand, book value, earnings, dividends

PURPOSE OF VALUATION

- M&A disputes arise due to **subjectivity** in valuation
- **Registered Valuer (RV)** introduced under **Companies Act, 2013 – Sec 247**
- Valuer must:
 - (a) Provide **impartial, fair valuation**
 - (b) Use **due diligence**
 - (c) Comply with **Valuation Rules**
 - (d) Avoid **conflict of interest** (within 3 years before/after)

VALUATION RULES (Companies (RV and Valuation) Rules, 2017)

- **IBBI** = Authority for regulation of Registered Valuers
- Registration of:
 - **Individuals/firms/companies** as RVs
 - **RVOs** to enroll, monitor and train RVs
- RV eligibility:
 - **Fit & proper**
 - **Qualification + Experience**
 - Member of **RVO**
 - Completed **RVO educational course**
 - Passed **valuation exam** (within 3 years)
 - Recommended by **RVO**
 - Degree + 5 yrs OR PG + 3 yrs experience

VALUATION STANDARDS

- Triggered by **financial collapses** (property-related)
- Two globally respected standards:
 1. **IVS (International Valuation Standards – IVSC)**
 - **5 General Standards** (scope, compliance, bases, methods, reporting)
 - **6 Asset-specific Standards** (business, intangibles, equipment, real property, etc.)
 - Allows **national-level flexibility**
 2. **RICS Red Book (UK)**
 - Adopts **IVS** with **three standards**:
 - (a) **Professional**: Ethics, conduct
 - (b) **Technical**: Definitions, conventions
 - (c) **Performance**: Rigour, objectivity
 - Includes **India-specific notes**: financial statements, secured lending, dev. land, taxation
 - RICS working on **India supplement**

RULES ON VALUATION STANDARDS (Under Valuation Rules)

- **Rule 8**:
 - RV must follow:
 - (a) **Govt. notified standards**, or
 - (b) **Internationally accepted standards**, or
 - (c) **RVO-adopted standards**
- **Rule 18**: Central Govt may **notify/modify** standards
- **Rule 19**: Central Govt may **constitute committee** to advise on standards
- Committee = "**Committee to advise on valuation matters**"

Here's a **compressed revision bullet list for Regulatory Aspects as to Valuation** under the **Companies Act, 2013** and **Companies (Registered Valuers and Valuation) Rules, 2017**:

Companies Act, 2013 – Section 247

- **Valuation** of assets, securities, goodwill, net worth, liabilities → by a **Registered Valuer**.
- **Appointed by**: Audit Committee or Board.
- **Valuer duties**:

- Impartial, **true & fair valuation**.
- **Due diligence**.
- Follow **prescribed rules**.
- **No conflict of interest** – 3 years prior/after.

- **Penalties**:
 - ₹25,000–1 lakh fine.
 - If **intent to defraud**: Up to **1 year jail + ₹1–5 lakh fine**.
 - On conviction: **Refund fee + pay damages**.

Companies (Registered Valuers and Valuation) Rules, 2017

- **Notified**: 18 Oct 2017.
- Objective: **Standardise valuation**, improve **transparency & governance**.
- Introduces **Registered Valuer Organisations (RVOs)** – Enrol, train & regulate valuers.

Eligibility Criteria – Rule 3

Individual must:

- Be a **valuer member of RVO**.
- Be **recommended** by RVO.
- Pass **valuation exam** (within 3 years before application).
- Have **qualifications & experience** (Rule 4).
- Be **resident in India**.
- Not be:
 - Minor, unsound mind, bankrupt.
 - Convicted (term >6 months or moral turpitude) → 5 yrs cooling period.
 - Penalised under **Section 271J of IT Act** (cooling off – 5 yrs).
- Be a **fit and proper person**:
 - Integrity, no restraint orders, financial solvency.

Firms/Companies must:

- Be set up for **professional/valuation services**.
- Not be insolvent/bankrupt.
- **3 or all** directors/partners (whichever lower) must be **Registered Valuers**.
- At least **one RV in relevant asset class**.

Qualifications & Experience – Rule 4

- **Postgraduate** in relevant field + **3 years** experience, OR
- **Bachelor's degree** + **5 years** experience, OR
- **Member of professional institute** (by Act of Parliament) + **3 years** post-membership experience.
- Refer **Annexure IV** for asset class-specific details.

Valuation Exam & Registration – Rules 5 & 6

- **Pass valuation exam** → receive acknowledgment.
- **Apply for registration** with supporting docs.
- **Authority grants certificate** upon satisfaction.

Here's the **bullet-point summary for quick revision**, following your preferred format:

Conduct of Valuation (Rule 8)

- **Valuation Standards**:
 - Follow **standards notified under Rule 18**.
 - Till notified: use either
 - (a) internationally accepted standards;
 - (b) standards of a **Registered Valuer's Organisation (RVO)**.
- **Use of Inputs/Other Valuer**:
 - Inputs/valuation may be taken from **another Registered Valuer**.
 - **Full disclosure** required (inputs, valuer's details).
 - **Liability** stays with **original valuer**.

- **Contents of Valuation Report:**
 - (a) Background of asset
 - (b) Purpose & appointing authority
 - (c) Identity of valuer & experts
 - (d) Disclosure of interest/conflict
 - (e) Appointment date, valuation date, report date
 - (f) Inspections/investigations
 - (g) Sources of info
 - (h) Procedures & standards used
 - (i) Restrictions on report use
 - (j) Major valuation factors
 - (k) Conclusion
 - (l) Caveats & disclaimers (but not to limit responsibility)

Functions of a Valuer (Rule 10)

- Conduct valuations as per these rules when required under the Act.

Eligibility for Registered Valuers Organisations (Rule 12)

- **Eligible organisations:**
 - Registered under **Sec 25 (CA 1956)** or **Sec 8 (CA 2013)** for valuation regulation.
 - Professional institute by **Act of Parliament**.
 - **Proviso:** Societies (under **Societies Act**) or Trusts (under **Trust Act**) also eligible.
- **Recognition Criteria:**
 - (a) Offer valuation courses as per Rule 5 (with training)
 - (b) Grant membership/certificate to eligible individuals (per Rule 4)
 - (c) Conduct **pre-certification training**
 - (d) Enforce **code of conduct**
 - (e) Provide **continuing education**
 - (f) Monitor quality of valuer services
 - (g) Grievance redressal & disciplinary mechanism
- **Conversion Rule:**
 - Entities under **proviso** to sub-rule (1) must convert to **Sec 8 company** within **1 year** from commencement.

SEBI (ICDR) Regulations, 2018 – Pricing & Valuation

Reg 27 – Face Value Disclosure

- **Face value** to be disclosed in **draft offer doc, final offer doc, ads, application forms**
- Must be in **same font size** as price band/issue price.

Reg 28 – Pricing

- Issuer may determine: → **Equity share price**,
→ **Coupon rate**,
→ **Conversion price**
→ In **consultation with lead manager(s)** or via **book building**
- Book building as per **Schedule XIII**.

Reg 29 – Price and Price Band

- Fixed price issue → disclose **price/price band** in **offer doc**.
- Book built issue → disclose **floor price/price band** in **RHP**.
- Final prospectus → only **one price/coupon rate**.
- **Cap on price band:**
 - ≤**120%** of floor price
 - ≥**105%** of floor price
 - Final/floor price ≥ **face value**
- If no disclosure in RHP:
 - Announce price band ≥ **2 working days** before issue opens
 - Must be in **same newspapers as pre-issue ad**
 - Include financial ratios (upper & lower band)
 - Must refer to **“basis of issue price”** in offer doc

→ Disclose on **stock exchange websites** + pre-filled in application forms

Reg 30 – Differential Pricing

- Allowed, with conditions:
 - (a) **Retail/Employees** may get ≤ **10% discount** (vs other investors)
 - (b) **Anchor investors** cannot get lower price than others
 - (c) In **alternate book building**, employees can get ≤ **10% discount** from **floor price**
- **Discounts** must be shown in **₹ terms** in offer doc

Reg 164 – Pricing of Frequently Traded Shares

- **If listed ≥90 trading days:**
 - Price ≥ **higher of:**
 - (a) 90-day VWAP, or
 - (b) 10-day VWAP
 - If **AoA provides higher floor**, that prevails
- **If listed <90 trading days:**
 - Price ≥ **higher of:**
 - (a) IPO price / Valuation under Sec 230-234,
 - (b) Avg VWAP during listing period,
 - (c) Avg 10-day VWAP during 2 weeks before relevant date
 - Re-compute price after 90 trading days → If higher, **allottees must pay difference**
- **Special Rule for QIBs (≤5):**
 - Price ≥ **10-day VWAP**
 - No allotment to **QIBs who are promoters/related** (unless lender without shareholding)
- **QIB deemed promoter-related if:**
 - Rights under shareholder/voting agreements
 - Veto rights
 - Right to appoint nominee director
- **“Frequently traded” shares:**
 - Trading turnover ≥ **10% of total shares** in 240 trading days before relevant date
 - Use **weighted average** if capital changed
 - “Stock exchange” = one with **highest trading volume** in last 90 trading days

Here’s your revision-ready bullet point summary:

SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

Employee Stock Option Scheme (ESOS)

- **Reg. 17:** Co. free to set **exercise price**, subject to **accounting policy** in **Reg. 15**.
- **Reg. 15:** Must follow **Accounting Standards u/s 133**, incl. **Guidance Note on ESOP**.

Employee Stock Purchase Scheme (ESPS)

- **Reg. 22(1):** Co. free to set **issue price**, must follow **Reg. 15**.
- **Reg. 22(2):** Shares under **ESPS locked-in 1 yr** from allotment.
 - **Exemptions:**
 - **Death/permanent incapacity** → No lock-in.
 - **Merger/Amalgamation** → Prior lock-in credited.
- **Reg. 22(3):** No lock-in if shares issued in **public issue** at **same price**.

Sweat Equity – Listed Company

- **Reg. 33:** Price = As per **preferential issue pricing** under **SEBI ICDR, 2018** (except QIBs).

SEBI (Delisting of Equity Shares) Regulations, 2021

Discovered Price – Reg. 20

- **Discovered price** = Through **reverse book building (RBB)**.
- **Floor price** = As per **Reg. 8** of SEBI SAST Regulations.
- **Reference date** = Date stock exchange notified of **Board Meeting** for delisting proposal.
- **Acquirer may:**
 - Give **indicative price** > floor price.
 - **Revise indicative price upward** before bidding period.
 - **Pay more** than discovered price.

Companies (Share Capital & Debentures) Rules, 2014 – Rule 8 Sweat Equity Shares

- **Valuation of shares/IPR/value add** = By **registered valuer** with **justification**.
- **Gist of valuation report** to be sent with **GM notice**.
- **Non-cash consideration:**
 - If **asset** → Carry in **balance sheet** as per AS.
 - Else → **Expense** as per AS.

SEBI (SAST) Regulations, 2011

Offer Price

- Offer price \geq as per **Reg. 8** (for frequently/infrequently traded shares).

Consolidated FDI Policy, 2020

Issue Price of Shares to NRIs/Foreigners

- **Listed Co.** → Price \geq as per **SEBI guidelines**.
- **Unlisted Co.** → **Fair valuation** by **SEBI Merchant Banker/CA**, using **international pricing methodology**, arm's length basis.
- **Preferential allotment** → Price \geq as per **RBI guidelines** for resident to non-resident transfer.
- **Subscription to MOA** by NRI/non-resident → Allowed at **face value**, if eligible under FDI.

Here's a **revision-ready bullet summary** of the valuation-related provisions under **Companies Act, 2013**:

■ Valuation Requirements – Companies Act, 2013

1. Section 39 – Return of Allotment

- **Valuation by Registered Valuer** required when securities are allotted for **non-cash consideration**.
- Attach **valuer's report** to **Form PAS-3**.

2. Section 54 – Sweat Equity (Unlisted Co.)

- **Valuation of shares & IP/know-how** by **Registered Valuer**.
- Detailed **valuer's report** to **Board**.

3. Section 62(1)(b) – ESOP/ESPS (Unlisted Co.)

- If **not listed**, valuation of shares purchased by **trustees for employees** must be done by **Registered Valuer**.

4. Section 62(1)(c) – Preferential Allotment (Unlisted Co.)

- **Valuation report** by **Registered Valuer** mandatory.
- Include **justification & method** in **Explanatory Statement** (Sec. 102).
- If **convertible securities**, price of resulting shares must be:
 - **Upfront** (based on RV report at time of offer), or
 - **Deferred** (RV report not older than **60 days** from entitlement date).

5. Section 73 – Deposits

- **Secured bonds/debentures** must not exceed **market value** of assets as per **Registered Valuer**.

6. Rule 6 of Deposit Rules – Creation of Security

- **Security on assets** to secure deposits must be valued by **Registered Valuer**.
- Amount of deposits + interest \leq **valuer-certified market value**.

7. Section 192 – Non-Cash Transactions with Directors

- **Prior general meeting approval** + **valuer report** on **asset value** is required.

8. Section 230 – Compromise/Arrangement

- **Valuation report** of shares/assets (tangible/intangible) by **Registered Valuer** for scheme approval.
- **Rule 3:** Report must cover:
 - Highest price in last 12 months.
 - Fair price using industry-standard metrics (e.g., P/E ratio).

9. Section 234 – Cross-Border Merger

- If **transferee = Indian Co.**, valuation by **Registered Valuer** (Indian RV).
- Must follow **internationally accepted principles**.

10. Section 236 – Purchase of Minority Shares

- When acquirer holds \geq **90%**, must offer to **buy out minority**.
- **Valuation by Registered Valuer:**
 - **Listed Co.:** As per **SEBI norms**.
 - **Unlisted/Private Co.:** Based on:
 - Highest price paid in last 12 months.
 - Industry-standard metrics.

11. Section 281 – Winding Up Report

- **Company Liquidator** to file **asset valuation** from **Registered Valuer** within **60 days** of winding-up order.

Here's a **compact revision sheet** for:

■ Valuation – Rule 8 (Companies (Registered Valuers and Valuation) Rules, 2017)

Valuation Report must contain:

- (a) **Background info** of asset
- (b) **Purpose** of valuation & **appointing authority**
- (c) **Identity** of valuer & other experts
- (d) **Conflict of interest** disclosure
- (e) **Dates:** appointment, valuation, report
- (f) **Inspections/investigations** done
- (g) **Sources of info** used
- (h) **Methodology & standards** followed
- (i) **Usage restrictions**, if any
- (j) **Key valuation factors**
- (k) **Conclusion**
- (l) **Caveats/disclaimers** (not to limit valuer's responsibility)

■ Valuation – IBC, 2016 & IBBI Regulations

S. No.	Reg./Section	Topic	Key Valuation Requirement
1	Reg. 27 – CIRP Reg.	Appointment of RVs	RP must appoint 2 Registered Valuers within 7 days (but not later than day 47) from ICD - Each valuer gives fair + liquidation value (based on physical verification, Intl standards) - If significant variation → appoint 3rd RV - Average of 2 closest values = final value
2	Reg. 35 – CIRP Reg.	Fair & Liquidation Value	
3	Reg. 38 – PPIRP Reg.	Appointment of RVs	RP must appoint 2 RVs within 3 days of appointment

S. No.	Reg./Section	Topic	Key Valuation Requirement
4	Reg. 35 – Liquidation Reg.	Valuation in Liquidation	- If CIRP values available → use average - If not or RV wants fresh values → appoint 2 RVs within 7 days - Valuation for assets under Reg. 32 (a)–(f)
5	Sec. 59(3)(b)(ii)	Voluntary Liquidation	Solvency declaration must include valuation report by Registered Valuer
6	Reg. 3(1)(b)(ii) – Voluntary Liquidation Reg.	Asset Valuation	Attach valuation report with solvency declaration
7	Reg. 30 – Bankruptcy (PG to CD) Reg.	Asset Valuation	RV must submit realisable value estimate based on physical verification and international standards

□ Other Mentions

- Valuation requirements also found in:
 - SEBI Regulations
 - Income Tax Act, 1961
 - GST Act, 2017
 - FEMA, 1999

🏠 □ Draft Valuers Bill, 2020

- Proposes setting up **National Institute of Valuers (NIV)**
- Based on **MCA Expert Committee** recommendation
- Goal: **Institutional regulation & development** of valuation profession

Here's a crisp **bullet-point revision sheet** on:

📊 Various Expressions of Value

◆ Fair Market Value (FMV)

- Estimated amount:** Asset exchanged between **willing buyer & seller**
- Arm's length transaction**, with proper marketing
- Both parties act **knowledgeably, prudently & without compulsion**
- Not influenced** by unique motivations
- Not equal to investment value** (specific to investor)

◆ Fair Value

- Exit price** on valuation/measurement date
- Orderly transaction** between **market participants**
- Market-based**, not entity-specific
- Price in **principal or most advantageous market**
- Must allow for **normal marketing period** (not forced/distress sale)

◆ Book Value

- Historical cost-based**
- Net Worth = Total Assets – Total Liabilities**
- Assets at **cost – depreciation**, liabilities at **face value**
- Reflects **accounting value**, not market-based

◆ Intrinsic Value

- Based on **fundamental analysis** (qualitative + quantitative)
- Independent of **market price**

- = Present Value of **future cash flows** using **discount rate**
- Factors: management, performance, financials, etc.

◆ Replacement Value

- Current cost** to replace asset with similar utility
- Uses **newer material & tech**
- ≠ Reproduction Cost (exact duplicate)
- Relevant for **non-income-generating** assets (e.g., furniture)

◆ Going Concern Value

- Value of a **continuing business**
- Includes **intangible assets**: brand, license, workforce, systems
- Liquidation Value
- As per **ICAI VS 102**: Intangibles contribute to business continuity
- Used in **M&A**, business purchase

◆ Equity Interest Value

- Value of **investment in equity** of a company
- Return = **(Dividends + Capital Gains) / Initial Price**
- In **listed** company → has exit via market
- In **unlisted** → long-term investment perspective

◆ Insurable Value

- Portion of asset to be **insured for indemnification**
- Relevant for **risk mitigation in M&A**
- For real estate: generally **building value** (land excluded)

◆ Value-in-Use

- Value to a **specific user** as part of going concern
- Reflects asset's **productive use**
- Value-in-exchange
- Relevant in **post-M&A** asset usage

◆ Value-in-Exchange

- Value if **sold separately**, outside of business
- Typically < **value-in-use**

◆ Goodwill Value

- Intangible asset** = Excess of business purchase price over FMV of net assets
- Arises from **reputation, loyalty, brand, intangibles**
- As per **ICAI VS-101**: Future benefits not separately recognized
- Key in **M&A, banking, tax, reporting**

◆ Salvage Value

- Value **realized** on sale/disposal after asset is **no longer useful** to owner
- ≠ Scrap (worthless)
- Important in **acquisition decisions**

◆ Liquidation Value

- As per **IVS 104 & ICAI VS 102**:
 - Value if assets sold **piecemeal**
 - May be:
 - (i) **Orderly** (with marketing)
 - (ii) **Forced** (quick sale)
 - Must deduct **cost of disposal**

- As per **IBBI Reg 2(k)**: Realizable value **on ICD** if CD is liquidated

Here's the **concise bullet-point version** of the provided content, ideal for quick exam revision:

RELATIONSHIP AMONG TYPES OF VALUE

- Scrap Value**: Lowest value; constant regardless of business income.
- Forced Liquidation Value**: Second lowest; unaffected by income; assumes hurried sale.
- Orderly Liquidation Value**: Slightly higher; more time to find buyer.
- Value-in-use**:
 - Rises with income.
 - At **zero income**, \approx **orderly liquidation value**.
 - With higher income, $>$ **orderly liquidation value** and may = **replacement value**.
- Identifiable Intangibles**: Increase with business income.
- Goodwill Value**: Increases as **enterprise value** – (**tangible + intangible assets**).
- Enterprise/Business Value**: Total value increases with **future income potential**.

PRICE VS VALUE

- Price** = Actual transaction amount; driven by **demand & supply**.
- Value** = **Estimated worth** via valuation process.
- Difference due to**:
 - Market imperfections**
 - Perception gaps** between buyer/seller
 - Purpose-based valuation**
- Valuation \neq Price** always; different valuers may derive **different values**.

VALUATION PROCESS

- Purpose of valuation**
- Bases of Value** (IVS 104 / ICAI VS 102)
- Premises of Value**
- Valuation Approaches**
- Determine Value**
- Documentation**
- Valuation Report**

FACTORS FOR BASE SELECTION

- Nature** of asset
- Scope & purpose** of engagement
- Valuation/measurement date**
- Premises & assumptions**
- Govt. regulations/statutes**

ICAI VS 102 not applicable if:

- Specific **Statute/Regulation** applies
- Parties agree** on a different basis

PREMISES OF VALUE

- Describes **circumstances of usage** of asset/liability
- One or **multiple premises** may apply depending on case

VALUATION APPROACHES

1. Market Approach

- Based on **recent transactions** of **identical/comparable** assets
- Not suitable if**:
 - Fewer comparables
 - No active market

- No recent data
- Material differences needing heavy adjustments

Methods:

- Market Price Method**
- Comparable Companies Multiple (CCM)**
- Comparable Transaction Multiple (CTM)**

2. Income Approach

- Based on **Present Value (PV)** of **Future Income (FV)**
- $PV = FV / (1 + i)^n$
- Appropriate where **consistent earnings/cash flows** exist

Methods:

- Capitalization of Earnings**
- Discounted Earnings / Discounted Cash Flow (DCF)**
- Dividend Discount Model** (for shares)

3. Cost Approach

- Buyer won't pay $>$ cost to **recreate/replace** asset
- Suitable for:
 - Asset-intensive** or **distressed entities**
 - Non-income generating** or **non-unique** assets

Methods:

- Replacement Cost Method**
- Reproduction Cost Method**
- Summation/Sum-of-Parts Method**

Here's your **exam-focused revision notes** in **bullet format**, with **key concepts bolded**, symbols used where needed, and phrasing kept **short & direct**:

∞ Relationship Among Types of Value

- Scrap Value**: ₹ *Lowest*, constant regardless of income.
- Forced Liquidation Value**: ₹ *Practically lowest*, same across income levels.
- Orderly Liquidation Value**: $>$ Forced Liquidation (⌚ more time = better value).
- Value-in-Use (Tangible Assets)**: $\uparrow \square$ with income until = **Replacement Value**.
- At **Zero Income**: Value-in-use \approx Orderly Liquidation Value.
- Identifiable Intangibles**: $\uparrow \square$ with income.
- Goodwill** = Total Business Value - (Tangible + Identifiable Intangibles); $\uparrow \square$ with earnings.
- Total Business Value**: = All assets (Tangible + Intangible); $\uparrow \square$ with future income.

👛 Price vs Value

- Price**: Market-driven (demand/supply).
- Value**: 💡 Valuer's estimate (subjective, purpose-based).
- Price \neq Value due to:
 - Info asymmetry 📉
 - Market imperfections \square
- ⚖ Valuation \neq wrong if price differs.
- Valuers may differ \rightarrow due to:
 - Methods used
 - Assumptions taken
 - Purpose of valuation

□ Valuation Process

- Purpose of Valuation**
- Bases of Value**
- Premises of Value**
- Valuation Approach & Method**

5. **Determine Value**
6. **Documentation**
7. **Valuation Report**
 - **⚠ Wrong method** → *useless value conclusion*
 - **Valuation standards:**
 - **IVS** for IBC
 - **Formula-based** for listed co.
 - **IT Act** for closely held shares
 - **ICAI VS 102:** ✗ Not applicable where:
 - Statute/Regulation specifies base
 - Parties agree otherwise

🏠 Bases of Value (ICAI VS 102 / IVS 104)

- Based on:
 - Nature of asset
 - Purpose
 - Valuation date
 - Legal requirements
 - Assumptions/Limitations
 - Regulatory framework

🏠 Premises of Value

- Describes **how** the asset is used.
- May use single/multiple premises based on context.

🏠 Three Valuation Approaches

1. Market Approach

- Based on **comparable market transactions**
- Use if:
 - Active market exists
 - Info is recent & reliable
- **Don't use if:**
 - No active market
 - No recent transaction
 - Insufficient comparables
- **★ Methods:**
 - **Market Price**
 - **Comparable Company Multiples (CCM)**
 - **Comparable Transaction Multiples (CTM)**

2. Income Approach

- Based on **present value of future benefits**
- Formula: $FV = PV \times (1 + i)^n$
- **★ Methods:**
 - **Capitalization of Earnings**
 - **Discounted Cash Flow (DCF)**
 - **Dividend Discount Model (DDM)**

3. Asset (Cost) Approach

- Buyer won't pay more than **cost to recreate** asset
- Used for:
 - **Asset-heavy firms**
 - **Distressed companies**
- **★ Methods:**
 - **Replacement Cost**
 - **Reproduction Cost**
 - **Summation (Sum-of-parts)**

★ Principles of Valuation

1. **Substitution:** Value = Cost of substitute.
2. **Risk-Return:** ↑ Risk → ↑ Required Return.
3. **Intangible Value** exists if **Excess Earnings** exist.
4. **Excess Earnings** = > avg. of similar firms.
+ Need to decide **Capitalization Rate**.
5. ✗ No universal formula. Must consider all factors.
6. Intangible value = Appraised value – Book value.

7. 📖 Continuous learning + awareness of literature.

🚧 Hindrances/Bottlenecks in Valuation

1. **Multiple types of Value:** Market, Fair, Liquidation, GC, Investment.
2. Everyone has an opinion; meaning of **value** varies.
3. ✗ Not exact science – **subjectivity** inevitable.
4. Market ≠ perfect → precision impossible.
5. Value = Hypothetical **arm's length** deal.
6. ✗ Value ≠ inherent; it's based on perception.
7. Key challenges:
 - Define "**benefits**"
 - Project future accurately
 - Determine **discount rate**
8. Justify all assumptions in projections.
9. Select correct market comparables.
10. Choose proper **Valuation Standards**.
11. Draft comprehensive **valuation report**.
12. Ensure compliance with **IVS / ICAI VS**.

Here's your **exam-style revision** for **Core Principles of Valuation** in short, crisp bullet points with key terms bolded and formatting for quick recall:

★ Core Principles of Valuation (To Be Followed by Valuers)

- **Ethics:**
 - Follow **integrity, objectivity, impartiality, confidentiality, competence, professionalism**
 - Aim: Maintain **public trust**
- **Competency:**
 - Must have **required technical skills & knowledge** at time of valuation submission
- **Compliance:**
 - **Disclose** valuation standards used
 - **Follow** those published standards
- **Basis of Value:**
 - Select **appropriate basis** (type/standard)
 - **Define or cite** the chosen basis
- **Date of Value / Valuation Date:**
 - Report both:
 - **Effective Date** (date for analysis)
 - **Report Date** (date disclosed to users)
- **Assumptions & Conditions:**
 - **Disclose significant assumptions** that may affect result
- **Intended Use:**
 - Clearly **state purpose** of valuation
- **Intended User(s):**
 - Clearly **identify intended users**
- **Scope of Work:**
 - Define and perform **appropriate scope** for a **credible valuation**
 - Must **disclose scope** in the report
- **Identification of Subject:**
 - Clearly **identify asset/business being valued**
- **Data:**
 - Use **relevant & reliable inputs**
 - Ensure **transparency** and clarity
- **Valuation Methodology:**
 - Apply **suitable methodology** properly
 - Must lead to **credible result**
- **Communication:**
 - **Clearly present** analyses, opinions & conclusions
 - Ensure **understandability** for intended user(s)