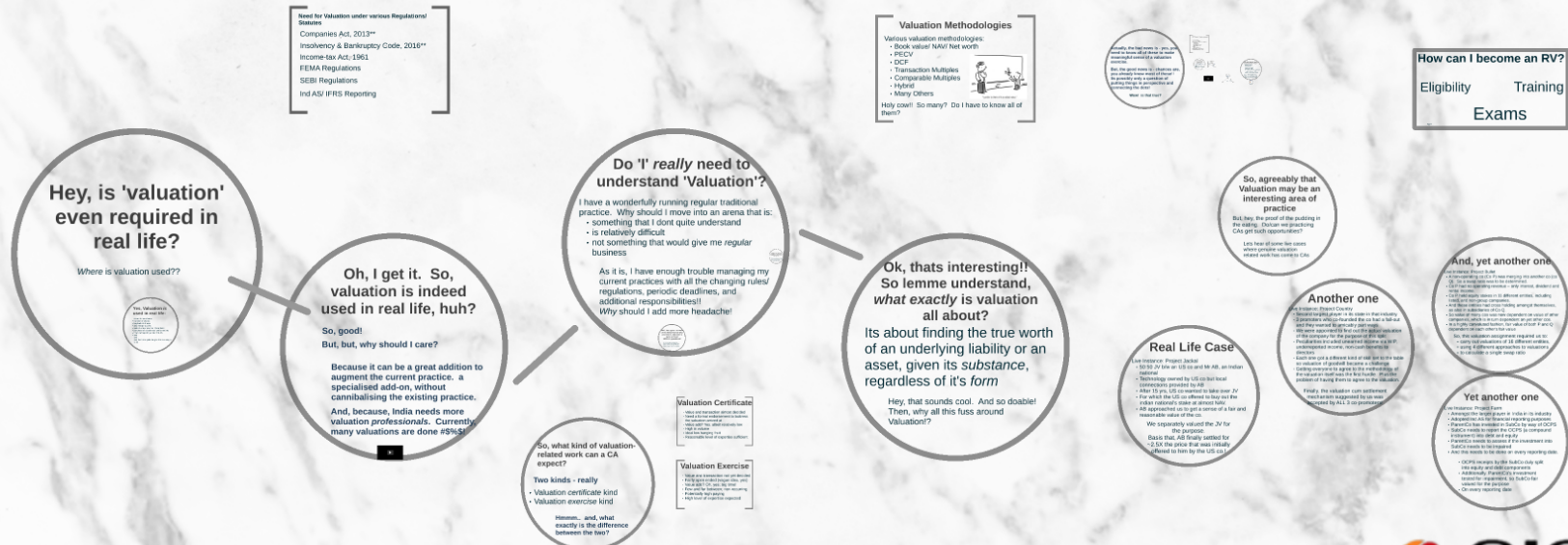


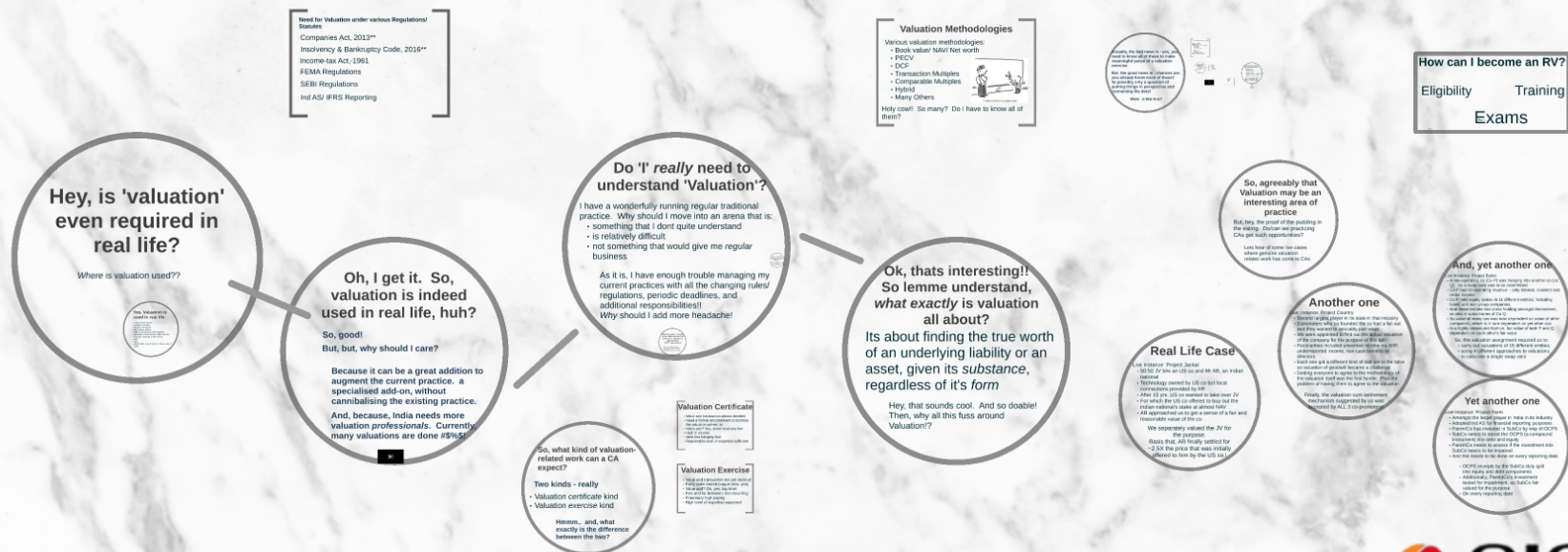
Valuation: An Additional Specialised Professional Opportunity for CAs!



CA Pratik Singhi, MD, Nine Rivers Capital 

Image by goodtextures: <http://fav.me/d2he3r8>

Valuation: An Additional Specialised Professional Opportunity for CAs!



CA Pratik Singhi, MD, Nine Rivers Capital 

Hey, is 'valuation' even required in real life?

Where is valuation used??

Yes, Valuation is
used in real life:

- issue of new shares
- transfer of shares
- buyback of shares
- buy merger activity
- sale of a business/ unit/ brand/etc
- purchase of a business/ units/ brand etc
- financial reporting under Ind AS
- and
- and
- and the list is quite long to fit into a single slide

Oh
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So, good!
But, but, v

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Yes, Valuation *is* used in real life:

- issue of new shares
- transfer of shares
- buyback of shares
- any merger activity
- sale of a business/ unit/ brand/etc
- purchase of a business/ unit/ brand etc
- financial reporting under Ind AS
- and
- and
- and the list is quite long to fit into a single slide

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**Oh, I get it. So,
valuation is indeed
used in real life, huh?**

So, good!

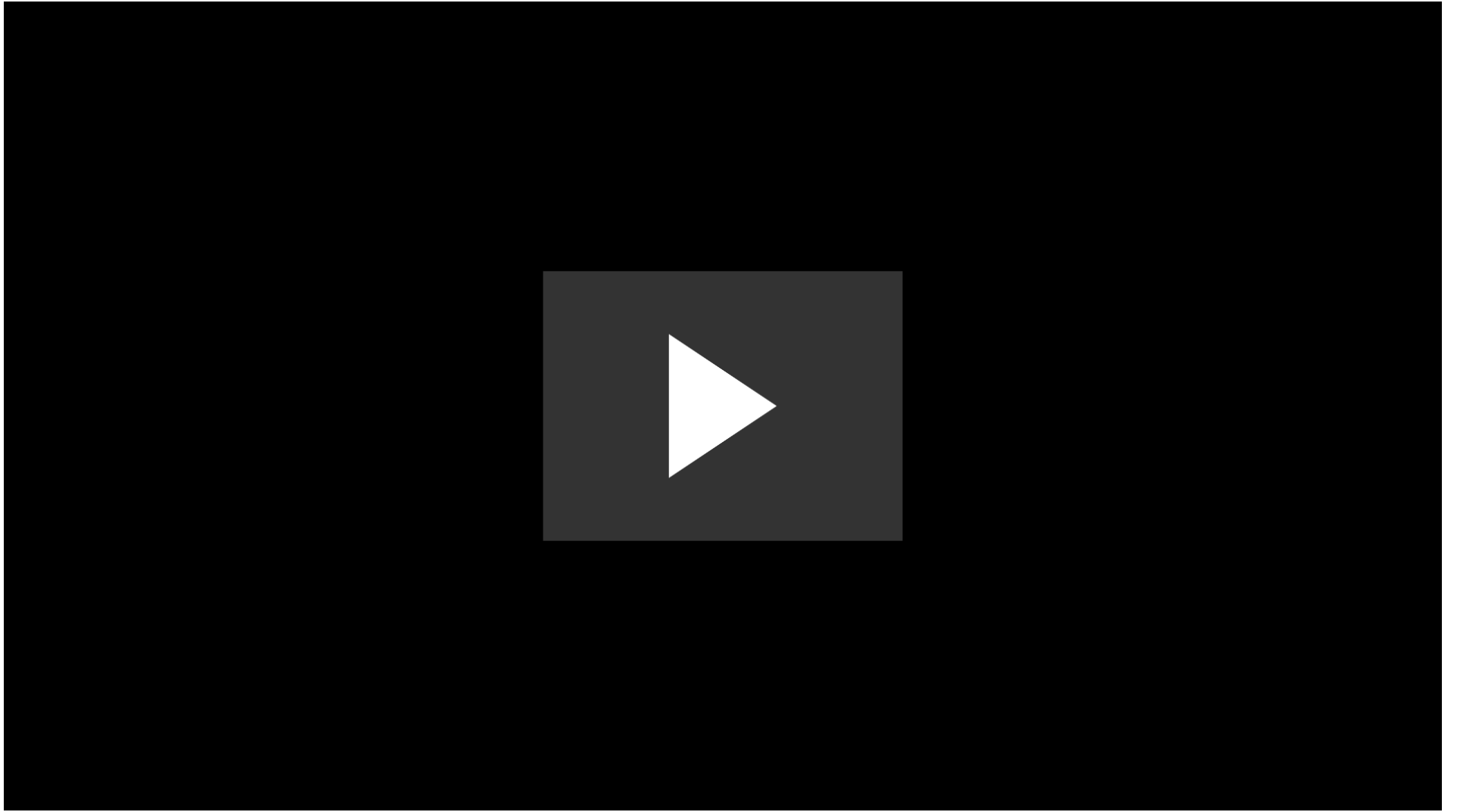
But, but, why should I care?

**Because it can be a great addition to
augment the current practice. a
specialised add-on, without
cannibalising the existing practice.**

**And, because, India needs more
valuation *professionals*. Currently,
many valuations are done #\$\$%\$!**



**So, what kind of
related work can**





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**Ok, thats interesting!!
So lemme understand,
what exactly is valuation
all about?**

Its about finding the true worth
of an underlying liability or an
asset, given its *substance*,
regardless of its *form*

Hey, that sounds cool. And so doable!
Then, why all this fuss around
Valuation!?

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Do 'I' really need to understand 'Valuation'?

I have a wonderfully running regular traditional practice. Why should I move into an arena that is:

- something that I don't quite understand
- is relatively difficult
- not something that would give me *regular* business

As it is, I have enough trouble managing my current practices with all the changing rules/regulations, periodic deadlines, and additional responsibilities!!

Why should I add more headache!

Well, lets agree - as most of the fields that we CFAs practice in, valuation is **RIGHT** up there!

HIGHLY specialised!

So, if conventional valuations, I have no option but to be **VERY** specialised! (I'm not kidding!)

Do appreciate that unlike the regular CA practice, a valuation services driven practice has:

- No *periodic* deadlines
- Lot less continuous regulatory changes
- Higher remuneration per hour
- Lot more depth than breadth

**Well, lets agree - as most
of the fields that we CAs
practice in, valuation is
right up there!
HIGHLY specialised!**

So, if I must practice valuations, I
have no option but to be absolutely
abreast with the tools techniques
methodologies nuances and pitfalls.

ly,

So, what kind of valuation-related work can a CA expect?

Two kinds - really

- Valuation *certificate* kind
- Valuation *exercise* kind

Hmmm.. and, what exactly is the difference between the two?

- Need a formula
the valuation a
- Value add? Yes
 - High in volume
 - Ideal low hang
 - Reasonable le

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- Value and tra
- Fairly open e
- Value add? C
- Few and far l
- Potentially hi
- High level of

Valuation Certificate

- Value and transaction almost decided
- Need a formal endorsement to buttress the valuation arrived at
- Value add? Yes, albeit relatively low
- High in volume
- Ideal low hanging fruit
- Reasonable level of expertise sufficient

Valuation Exercise

- Value and transaction not yet decided
- Fairly open ended (vague idea, yes)
- Value add? Oh, yes; big time!
- Few and far between; non-recurring
- Potentially high paying
- High level of expertise expected

**So, agreeably that
Valuation may be an
interesting area of
practice**

But, hey, the proof of the pudding is in the eating. Do/can we practicing CAs get such opportunities?

Lets hear of some live cases
where genuine valuation
related work has come to CAs

Real Life Case

Live Instance: Project Jackal

- 50:50 JV b/w an US co and Mr AB, an Indian national
- Technology owned by US co but local connections provided by AB
- After 15 yrs, US co wanted to take over JV
- For which the US co offered to buy out the indian national's stake at almost NAV.
- AB approached us to get a sense of a fair and reasonable value of the co.

We separately valued the JV for the purpose.

Basis that, AB finally settled for ~2.5X the price that was initially offered to him by the US co.!

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Another one

Live Instance: Project Country

- Second largest player in its state in that industry
- 3 promoters who co-founded the co had a fall-out and they wanted to amicably part ways
- We were appointed to find out the actual valuation of the company for the purpose of this split
- Peculiarities included unearned income via WIP, underreported income, non-cash benefits to directors
- Each one got a different kind of skill set to the table so valuation of goodwill became a challenge
- Getting everyone to agree to the methodology of the valuation itself was the first hurdle. Plus the problem of having them to agree to the valuation.

Finally, the valuation cum settlement mechanism suggested by us was accepted by ALL 3 co-promoters!

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Live Instance

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Yet another one

Live Instance: Project Farm

- Amongst the larger player in India in its industry
- Adopted Ind AS for financial reporting purposes
- ParentCo has invested in SubCo by way of OCPS
- SubCo needs to report the OCPS (a compound instrument) into debt and equity
- ParentCo needs to assess if the investment into SubCo needs to be impaired
- And this needs to be done on every reporting date.
 - OCPS receipts by the SubCo duly split into equity and debt components
 - Additionally, ParentCo's investment tested for impairment, so SubCo fair valued for the purpose
 - On every reporting date

And, yet another one

Live Instance: Project Bullet

- A non-operating co (Co P) was merging into another co (co Q). So a swap ratio was to be determined.
- Co P had no operating revenue – only interest, dividend and rental income.
- Co P held equity stakes in 11 different entities, including listed, and non-group companies.
- And these entities had cross holding amongst themselves, as also in subsidiaries of Co Q.
- So value of many cos was now dependent on value of other companies, which is in turn dependent on yet other cos.
- In a highly convoluted fashion, fair value of both P and Q dependent on each other's fair value

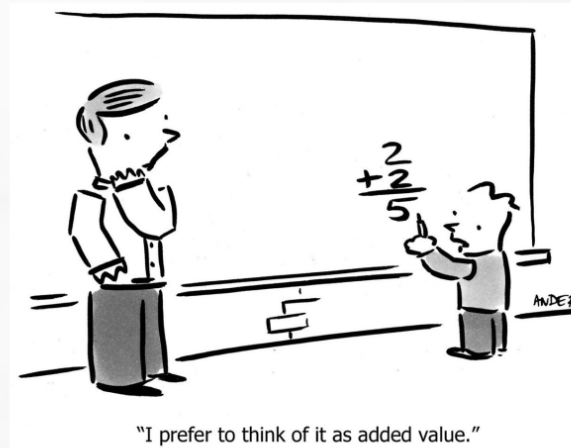
So, this valuation assignment required us to:

- carry out valuations of 16 different entities,
- using 4 different approaches to valuations
- to calculate a single swap ratio

Valuation Methodologies

Various valuation methodologies:

- Book value/ NAV/ Net worth
- PECV
- DCF
- Transaction Multiples
- Comparable Multiples
- Hybrid
- Many Others



Holy cow!! So many? Do I have to know all of them?

Actually, the bad news is - yes, you need to know all of these to make meaningful sense of a valuation exercise.

But, the good news is - chances are, you *already* know most of these!! Its possibly only a question of putting things in perspective and connecting the dots!

Wow! is that true?

DCF Valuation Process: a snapshot

- Future projections
- Free cash flows (FCFs)
- Weighted average cost of capital (WACC)
 - Cost of debt
 - Cost of equity
 - Risk-free rate of return
 - Market risk premium
- Beta
- Terminal value
 - Terminal growth rate
 - Present value of terminal value
- Enterprise value/ Equity value

Ah, I get it, since am a CA, a woman of NUMBERS, valuation should be a cakewalk for me!
Hmm.. actually, yes and not NOY??? and why is that?
Because DCF is fairly technical to understand. In particular, valuation goes way beyond the numbers. Numbers are important, yes, but not the only part!
What else, then?



DCF Valuation Process: a snapshot

- **Future projections**
- **Free cash flows (FCFs)**
- **Weighted average cost of capital (WACC)**
 - **Cost of debt**
 - **Cost of equity**
 - **Risk-free rate of return**
 - **Market risk premium**
 - **Beta**
- **Terminal value**
 - **Terminal growth rate**
- **Present value of terminal value**
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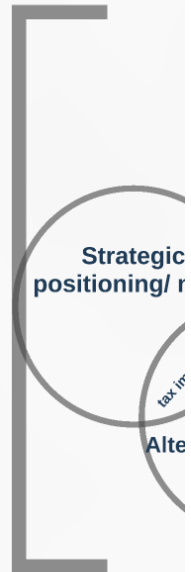
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**Hmm.. actually, yes and no!
NO?!?? and why is that?**

Because DCF is fairly technical to
understand.

Regardless, valuation goes way beyond the
numbers. Numbers are important, yes, but
not the say it all!

What else, then?



Situation Dictates Valuation



"But it must be valuable, it's got
'Made in China' stamped on the bottom!"

**Strategic
positioning/ need**

Negotiation skills

**Illiquidity
discount**

tax implications?

ratchet clause?

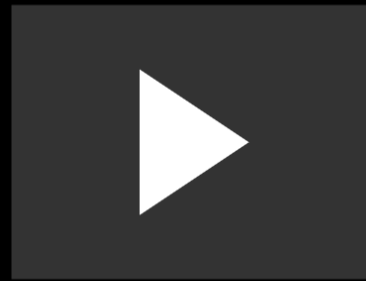
*stakes - majority
or minority?*

*single tranche or
multiple?*

Alternatives available

Control premium

Most important ingredient!



Triggers of need for Valuation work

```
graph TD; A((Triggers of need for Valuation work)) --> B((Regulatory)); A --> C((Transaction)); A --> D((Accounting/ Reporting));
```

Regulatory

- Companies Act (RVs only)
- Income Tax
- FEMA
- IBC (RVs only)
- SEBI

Transaction

- PE/VC investment
- Merger/ acquisition
- Sale or purchase of business/ asset
- Joint venture
- Liquidation

Accounting/ Reporting

- Testing of Impairment
- Goodwill calculation
- Purchase price allocation
- Portfolio valuation of PE/VC funds
- IFRS

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- Income Tax
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- SEBI

Need for Valuation under various Regulations/ Statutes

Companies Act, 2013**

Insolvency & Bankruptcy Code, 2016**

Income-tax Act, 1961

FEMA Regulations

SEBI Regulations

Ind AS/ IFRS Reporting

Companies Act

Section	Purpose
62(1)(c)	Issue of Sweat Equity Shares
62(1)(c)	Valuation of IPR/ know-how/Value addition for Issue of Sweat Equity Shares
62(1)(c)	Issue of shares on preferential basis
67	Provision of money by Co for purchase of its own shares by employees or by trustees
192	Non-Cash Transactions involving directors
236	Purchase of minority shareholding
305(2)(d)	Declaration of solvency in case of proposal to wind up voluntarily
281(1)(a)	Submission of report by Company Liquidator
260(2)(c)	Powers and duties of company administrator
230(2)(c)(v)	Compromise or Arrangements with creditors and members
232	Merger and amalgamation of companies

Additionally, under various provisions of

- The Companies (Acceptance of Deposit) Rules, 2014
- The Companies (Share Capital and Debentures) Rules, 2014
- The Companies (Prospectus and Allotment of Securities) Rules, 2014

Under the provisions of

- The Insolvency and Bankruptcy Code, 2016
- The IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016
- The IBBI(Liquidation Process) Regulations, 2016
- The IBBI (Voluntary Liquidation Process) Regulations, 2017
- The IBBI (Fast Track Insolvency Resolution Process for Corporate Persons) Regulations, 2017

Income-tax Act

Section	Purpose
9(1)(i)	Deemed income in case of indirect transfer of shares
17(2)(vi)	[^] Shares issued under ESOP
28(via)	Inventory converted into capitalised asset
43CA	Transfer of assets other than capital assets
50CA	Transfer of unquoted shares
50D	Deemed full value of consideration in certain cases
56(2)(viib)	[^] Fresh issue of shares
56(2)(x)	Receipt of asset without consideration or at consideration less than FMV
115TD(2)	Accreted income

FEMA Regulations

- Issue of shares to a non-resident
- Transfer of shares between a resident and a non-resident
- Investment in a foreign company

Need for Valuation under various Regulations/ Statutes

Companies Act, 2013**

Insolvency & Bankruptcy Code, 2016**

Income-tax Act, 1961

FEMA Regulations

SEBI Regulations

Ind AS/ IFRS Reporting

Ind AS/ IFRS: FMV of various Assets and Liabilities

- Assets: Securities (equity/convertible) held in other cos
- Assets: Derivatives held
- Assets: Goodwill (measurement and impairment)
- Liabilities: Optionally convertible instruments issued
- Liabilities: Compound instrument (split of debt/equity)
- Liabilities: Mandatory interest payments
- Liabilities: Bank Guarantee provided
- Liabilities: Settlement provisions

So, what does it take to be a successful valuer?

- common sense
- baniya buddhi
- convincing power
- negotiation skills
- of course, technical knowledge
 - especially w.r.t. DCF
- kaizen - continuous reading

**But, of course, that is *not* all.
There is a *formal* process too
that one needs to go through!**

How can I become an RV?

Eligibility

Training

Exams

IBBI

- Insolvency and Bankruptcy Board of India (IBBI) has been specified as the Authority by the Central Government u/s 458 of the Companies Act, 2013.
- The IBBI, as the authority, recognises RVOs and RVs, and monitors their conduct and performance in accordance with the Rules framed therefor.
- It is IBBI's responsibility to provide a comprehensive framework for development and regulation of the profession of valuers
- Currently, IBBI is the apex regulatory body in India for all RVs
- It also oversees all the RV Organisations (RVOs) in the country – currently 16
- RV cannot register directly with IBBI; has to be through any RVO.

Eligibility Criteria (for RV - Securities or Fin Assets):

- CA and
- 3 years of experience

Multiple Asset Classes

Training Requirement

- 50 hours of formal training
- Specific to each asset class
- Can be done through any of the 16 listed RVOs
 - Of which, 15 offer SFA as an option
- Suggestion: ICAI RVO

Syllabus/ Coverage

Sr	Topic	Coverage
1	Macro economics	3%
2	Finance and Financial Statement Analysis	6%
3	Professional/ Business Ethics & Standards	4%
4	General Laws (Cos Act, IT Act, FEMA, SEBI, IBC, etc)	18%
5	Financial reporting/ Ind AS	5%
6	Overview of Valuation	4%
7	Valuation Approaches	3%
8	Valuation Application	35%
9	Judicial pronouncements in valuation	2%
10	Case studies	20%
	Total	100%

Examinations

- 2 hours exams
- Online only
- Exams are conducted on every working day
- Can take multiple times in a day
- Fee of Rs 1500 per sitting
- In Mumbai – BSE Training Institute, BSE Tower

Exams

- MCQs only
- Total 90 questions; 100 marks
 - 80 questions X 1 mark each
 - 10 questions X 2 marks each
- Each question paper is unique, system-derived, randomised and comprehensive in terms of syllabus coverage
- Have to answer ALL questions
- Wrong answer has *negative* marking
- 60% marks is passing
- Best part: You know the result BEFORE you leave the exam hall...

BUT, WAIT, there is something more..

Recurring Requirements for an RV

- Compliance with the Indian Valuation Standards 2018
- Annual CPE (CEP) of 16 hours
- Continuous reporting to IBBI
- Cannot be in employment



Thank you for your time and attention!



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