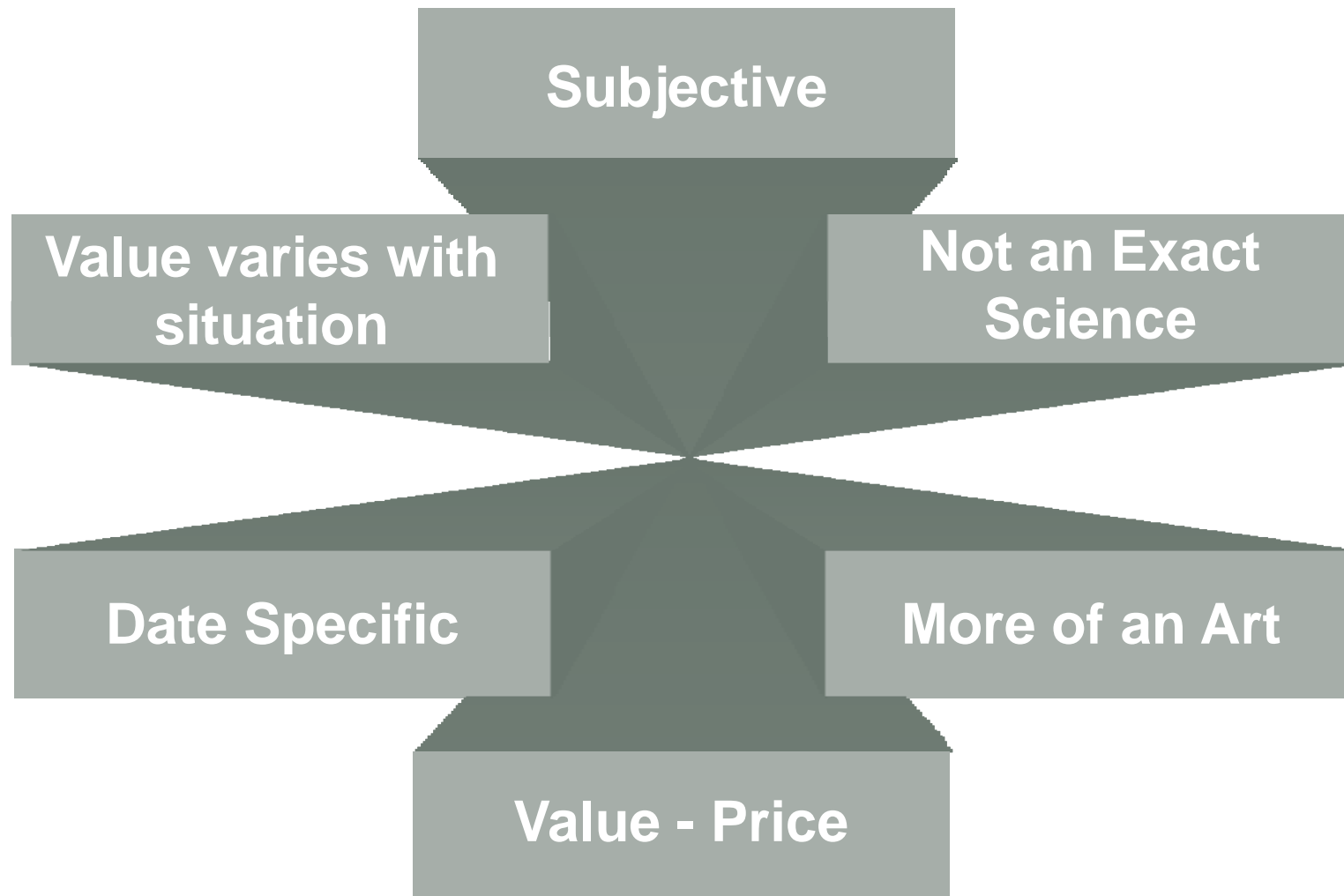


Overview





WHEN IS
VALUATION REQUIRED?

Restructuring

Relative Value

Amalgamation –
Swap ratio

Demerger –
Entitlement ratio

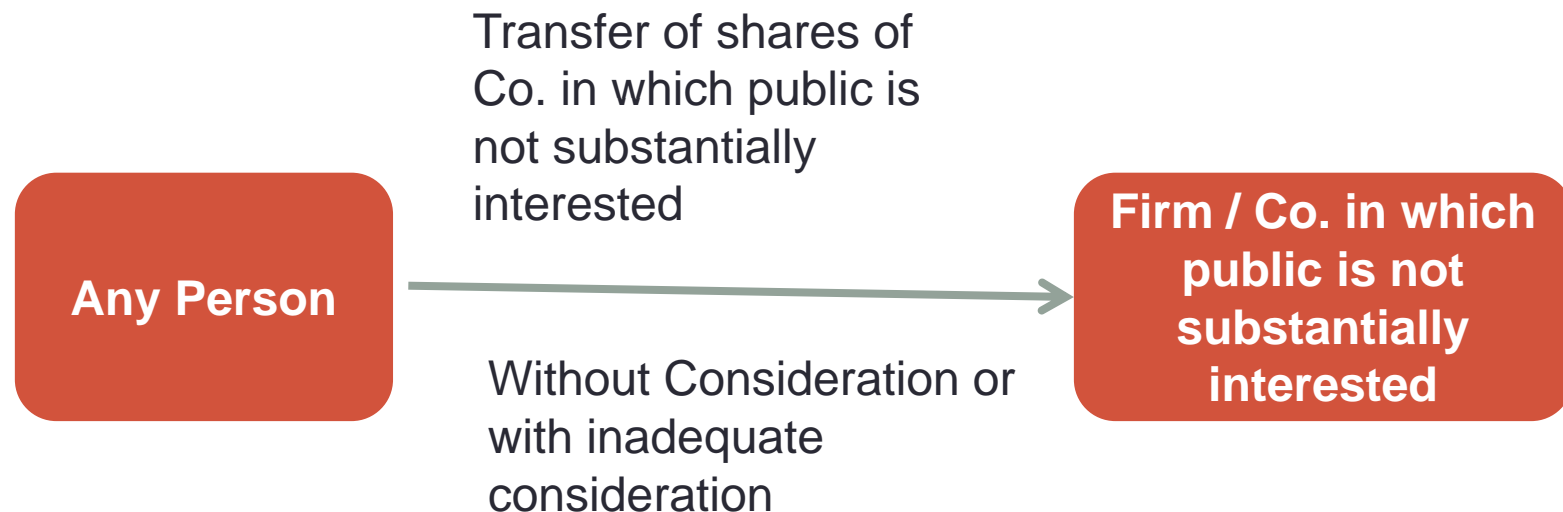
Fair Value

Purchase/ sale
of business

Buy back of
shares

Income Tax Act

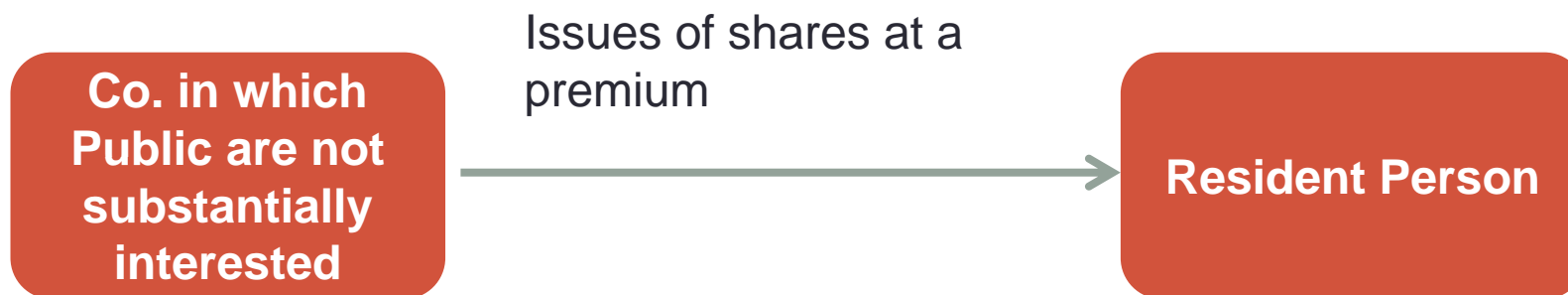
- **Sec 56(2)(viiia)**



- Amount liable to tax = FMV of shares transferred less consideration paid

Income Tax Act

- **Sec 56(2)(viib)**



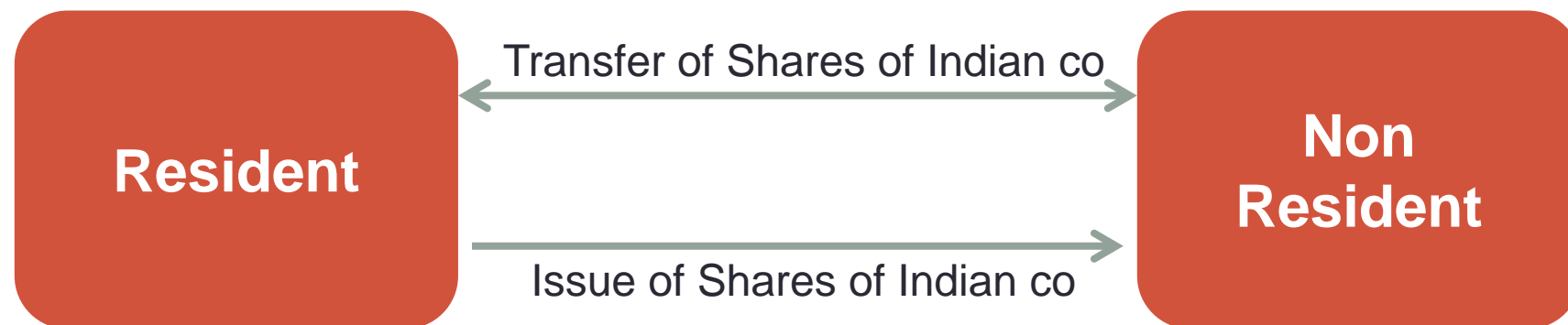
- Amount liable to tax = Consideration paid less FMV of shares

Transfer Pricing



- Transfer should be at Arm's Length Price (ALP)
- ALP = Fair Value


FEMA



- Quoted – as per SEBI guidelines
- Unquoted – Any internationally accepted valuation methodology

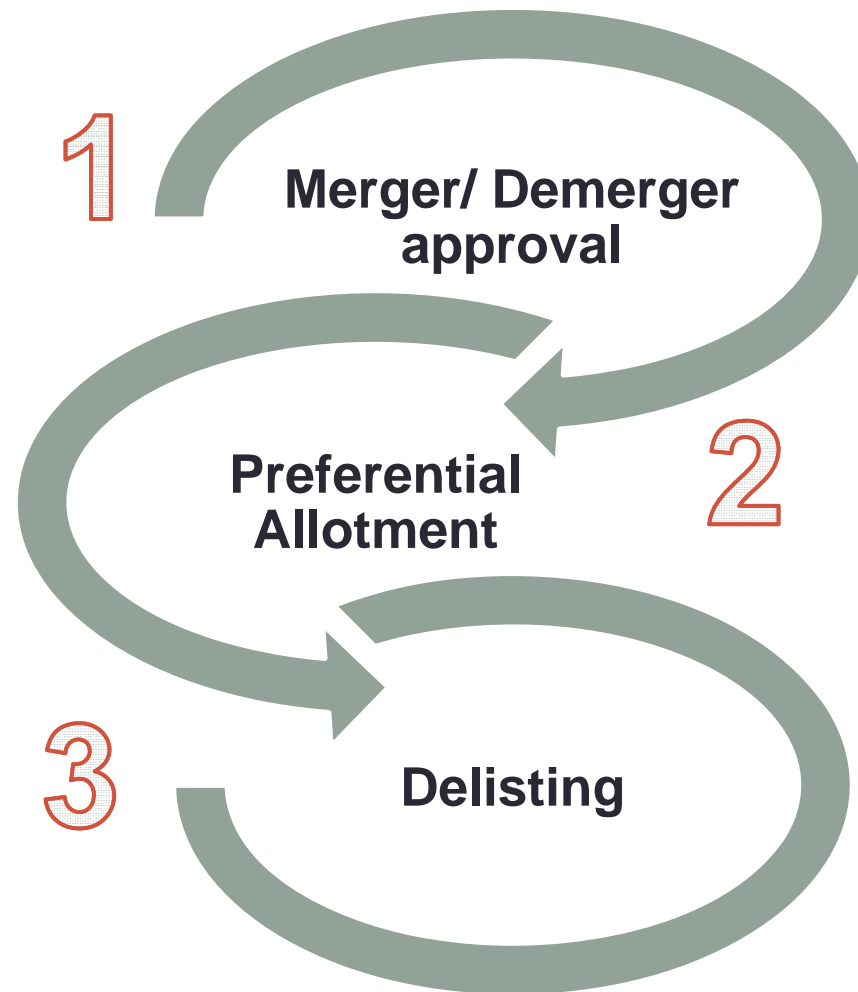
Accounting

- 
- Purchase Price Allocation

- 
- Ind AS 38 – Intangible Assets
 - Ind AS 103 – Business Combinations
 - Ind AS 36 – Impairment of Assets
 - Ind AS 28 – Investment in Associates and Joint Ventures

- 
- Valuation to be done as per Ind AS 113 – Fair Value Measurement

SEBI



Others

Portfolio
value of
investments

Family
separation

Litigation

Steps in Valuation





VALUATION METHODOLOGIES

Valuation Methodologies

Earnings Based Approach

- Earnings Multiple
- Discounted Cash Flow

Market Approach

- Market Price
- Market Comparables

Asset Based Approach

- Net Assets
- Replacement value/
Realisable value

Earnings Multiple Method

Commonly used multiples

- Price to Earnings Multiple (PE Multiple)
- Enterprise Value to EBITDA Multiple (EV / EBITDA Multiple)

Parameters

- Capitalization Rate / Multiple
- Future Maintainable Profits

Discounted Cash Flow (DCF) Method

- Values a business based on the expected cash flows over a given period of time
 - Considers Cash Flow and Not Accounting Profits
- Value of business is aggregate of discounted value of cash flows for the explicit period and perpetuity
- Involves determination of
 - Discount Factor - Weighted Average Cost of Capital ('WACC')
 - Growth rate for perpetuity

DCF - Parameters

Cash Flows

- Projections
 - FCF to Firm or FCF to Equity
- Horizon (Explicit) period
- Growth rate for perpetuity

Discounting rate

- Cost of Equity
- Cost of Debt
- Debt Equity ratio

Cash Flows

- Gross operational cash flows (EBIDTA)
- Less: Tax
- Less: Working capital requirements
- Less: Capex requirements

Enterprise Value

Equity Value

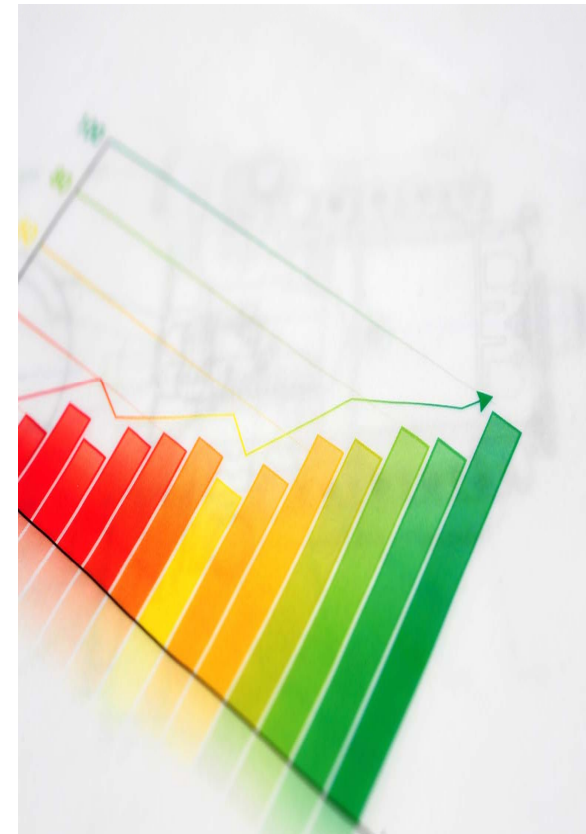
- Less: Interest payment & principal repayment for loans

FCFF

FCFE

Review of Projections

- Past Profitability
- Capacity Utilisation
- Capital expenditure – increasing capacities
- Working capital requirements
- Alternate scenarios / sensitivities



Market Price Approach

- Evaluates the value on the basis of prices quoted on the stock exchange
 - Thinly traded / Dormant Scrip – Low Floating Stock
 - Significant and Unusual fluctuations in the Market Price
- It is prudent to take weighted average of quoted price for a reasonable period
- Regulatory bodies often consider market value as important basis – Preferential allotment, Buyback, Takeover Code

Market Comparables

- Generally applied in case of unlisted entities
- Estimates value by relating an element with underlying element of similar listed companies
- Based on market multiples of Comparable Companies
 - EV/Sales Multiple
 - Book Value Multiples
 - Industry Specific Multiples
 - Multiples from Recent M&A Transactions

Net Assets Method

Total Assets (excluding Miscellaneous Expenditure and debit balance in Profit & Loss Account)

Less: Total Liabilities

NET ASSET VALUE

OR

Share Capital

Add: Reserves

Less: Miscellaneous Expenditure

Less: Debit Balance in Profit & Loss Account
--

NET ASSET VALUE

Common adjustments

- Contingent Liabilities/Assets
- Investments
- Surplus Assets
- Preference Shares
- ESOPs / Warrants
- Tax concessions
- Auditors Qualification
- Findings of Due Diligence Reviews



Selection of methods

Situation	Approach
Knowledge based companies	Earnings/Market
Manufacturing Companies	Earnings/ Market/ Asset
Brand Driven companies	Earnings/Market
Investment/Property companies	Asset
Company going for liquidation	Asset

Generally Market Approach is used in combination with other methods or as a cross check

Reaching a Recommendation

- Methods throw a range of values
- Consider the relevance of each methodology depending upon the purpose and premise of valuation
- Mathematical weightage
- Professional judgment
- Subjective Value

Other Value Drivers



CRITICAL ASPECTS - VALUATION



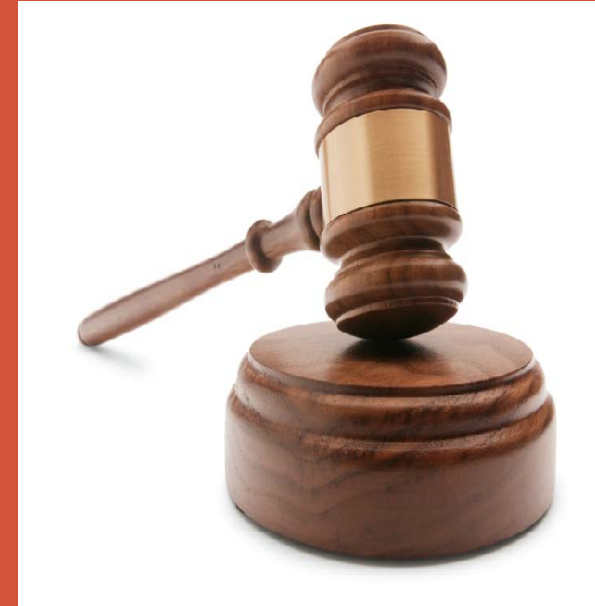
Critical Aspects - Valuation

- Issues in forecasting
- Selection of methods
- Difficulty in obtaining comparable multiples
- Thinly traded/ Dormant Scrip - Low Floating Stock, Unusual fluctuations in Market Price
- Loss making companies
- Start-up companies
 - Valuation of e-commerce companies – Which is the appropriate method?
- Illiquidity discount & control premium

Critical Aspects - Valuation

- Transaction Structure
- Procedural and Regulatory Issues
- Relying on Technical Valuer's Report
- Joint Reports
- Fairness Opinion by Merchant Bankers
- Management Representations

JUDICIAL PRONOUNCEMENTS



Judicial Pronouncements

- Exchange Ratio not disturbed by Courts unless objected and found grossly unfair”
 - **Miheer H. Mafatlal Vs. Mafatlal Industries (1996) 87 Com Cases 792**
 - **Dinesh v. Lakhani Vs. Parke-Davis (India) Ltd. (2003) 47 SCL 80 (Bom**
- “Valuation will take into account number of factors such as prospective yield, marketability, the general outlook for the type of business of the company, etc. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible”
 - **Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in30 TC 209 (House of Lords)**

Judicial Pronouncements

- Appointed date of implementation of scheme can be different from the date of valuation”
 - **Sumitra Pharmaceuticals and Chemicals Limited re (1997) 88Com Cases 619(AP)**
- “DCF Method is an acceptable method. A combination of methods can be accepted for valuation. Intrinsic value cannot include control premium.”
 - **Mrs Renuka Datla V/s Solvay Pharmaceutical B.V. & Ors. (2003)**
- “It is fair to use combination of three well known methods - asset value, yield value & market value”
 - **Hindustan Lever Employees ‘ Union Vs. HLL (1995) 83 Com. Case 30 SC**

Judicial Pronouncements

- “It is not possible for a Court to go into the exercise of carrying out a valuation itself. Courts do not have the expertise, the time or the means to do this. I do not believe that they are expected to do it. What the Court’s approach must be to examine whether or not a valuation report is demonstrated to be so unjust, so unreasonable and so unfair that it could result and result only in a manifest and demonstrable, inequity or injustice. This injustice must be shown to apply to a class.”
- “No valuation is to be disregarded merely because it has used one or the other of various methods. It must be shown that the chosen method of valuation is such as has resulted in an artificially depressed or contrived valuation well below what a fair-minded person may consider reasonable.”
 - **Cadbury India Limited Vs. Mrs Malati Samant and Mr Alok C. Churiwala (Samant Group and Churiwala Group) (2014) (Bom HC)**

THANKYOU!
