

# IND AS – VALUATION

VALUATION COURSE - ICAI  
Mihir Gada, CA, MMS, MRICS  
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# Ind AS - Valuation

Ind As 113 sets out in one single standard:

1. • Definition (and meaning) of fair value
2. • A framework for measuring fair value
3. • Disclosure requirements on fair value measurements

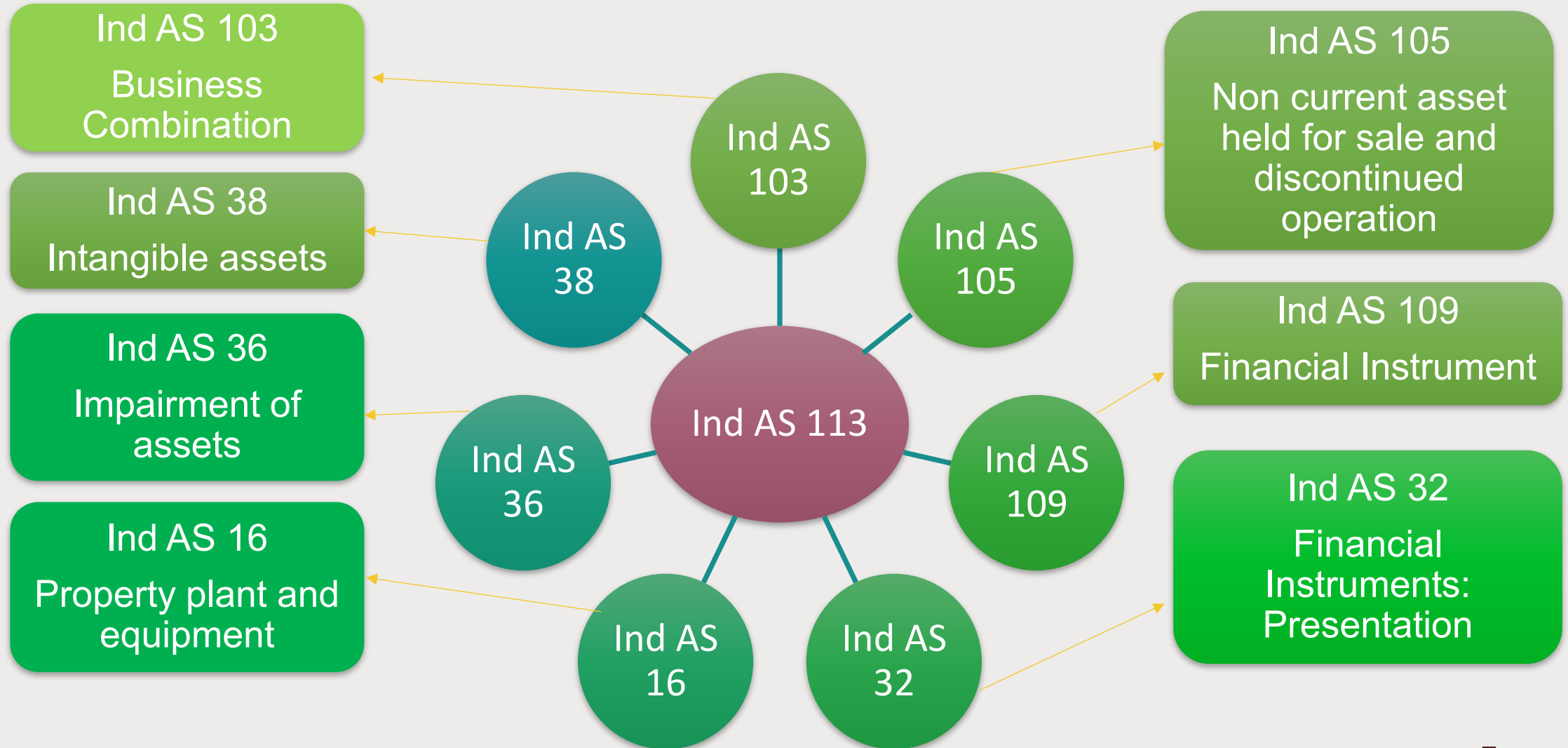
# Ind AS - Valuation

- Ind AS 113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- The fair value is thus the “exit price” as at the valuation date from the perspective of a market participants that hold the asset or owes the liability.

# Ind AS - Valuation

| <b>Words (part of definition)</b> | <b>Comments</b>  |
|-----------------------------------|--|
| The price that would be           | The price is the prevailing price in the principal (or most advantageous) market   |
| Received to sell an asset         | Refers to the selling of an asset (i.e. exit)  |
| or paid to transfer a liability   | Refers to the transfer of a liability (i.e. exit)  |
| in an orderly transaction         | Not a forced transaction or liquidation / fire sale or distressed sale or anxious purchase   |
| between market participants       | Not entity specific but a wider market participants perspective need to be considered  |
| at the measurement date           | A clear date of assumed sale or transfer or transaction needs to be defined and fair value needs to be conducted as of identified valuation date |

# Scope of Ind AS 113



# Ind AS- 113 on fair value measurement

Fair value measurement of non-financial asset

Considers

Market Participant's ability to generate economic benefits by using the asset in its "*highest and best use*"

What does **highest and best use of asset** take into account??

1.

- Physically possible

2.

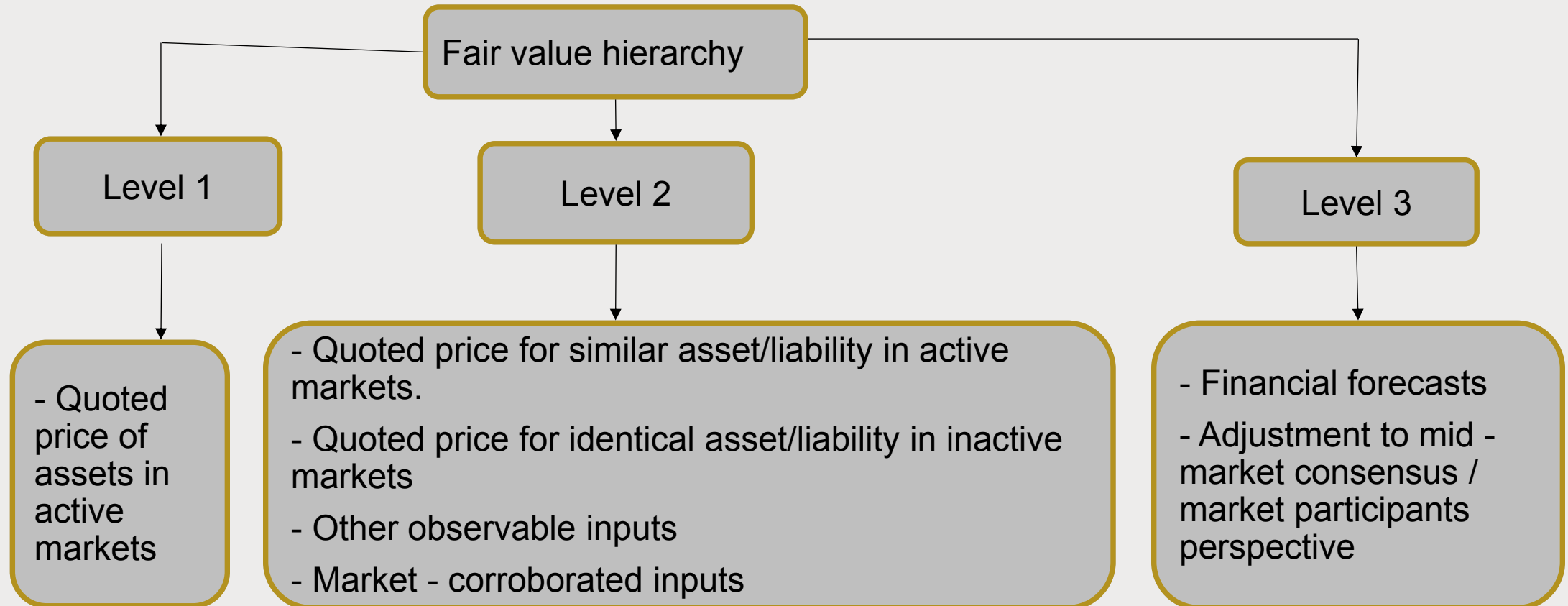
- Legally permissible

3.

- Financially feasible

# Ind AS- 113 on fair value measurement (Contd.)

Inputs-> Assumptions that market participants would use when pricing the asset or liability.



■ **Examples of Level 2 input are as follows:**

1. **Licensing arrangement:** A level 2 input would be the royalty rate in the licensing contract entered into by any other player.
2. **Finished goods inventory at an retail outlet:** A level 2 input would be price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item.
3. **Building held and used:** A level 2 input would be the price per square foot or lease rent per square foot for the building derived from observable market data. (i.e. lease or sale transaction of similar properties in that micro market).
4. **Cash-generating unit:** A level 2 input would be valuation multiple (eq a multiple of earning or revenues) derived from observable market data (EV / EBITDA multiple of listed software companies can be considered for valuation of similar sized unlisted software business).

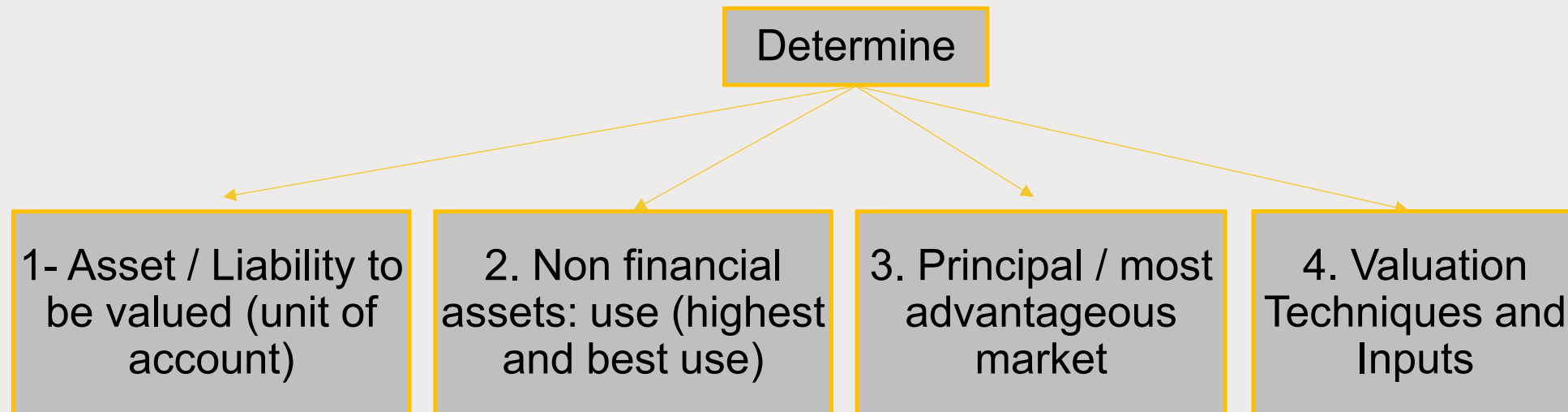
■ **Examples of Level 3 input is:**

**Cash-generating unit.** A level 3 input would be a financial forecast (e.g. of cash flows or profit or loss) to compute its fair value using Income Approach.

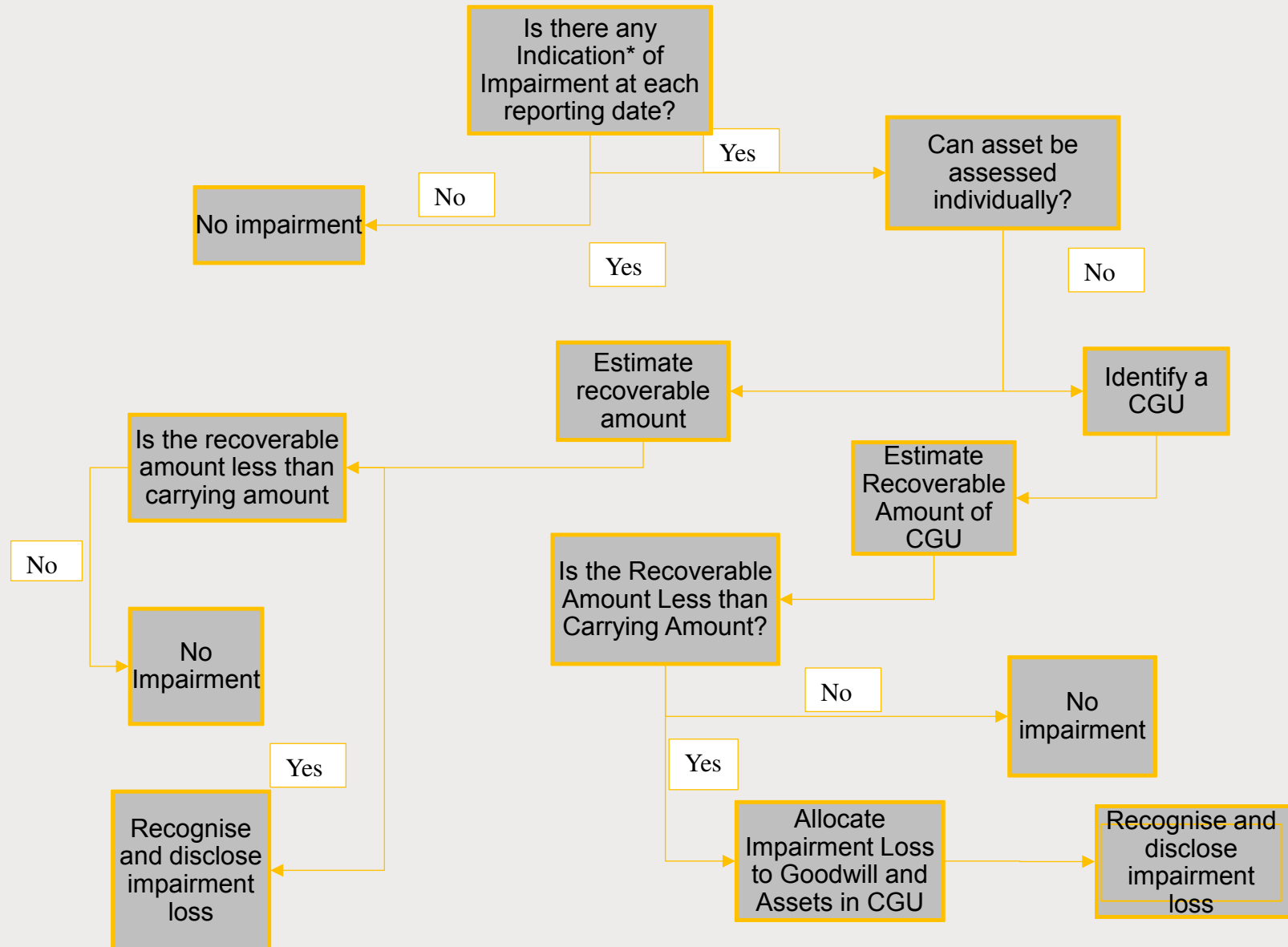


# Ind AS - valuation

- Fair value = the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.



# Ind AS - 36 Impairment of assets



# Ind AS - Valuation

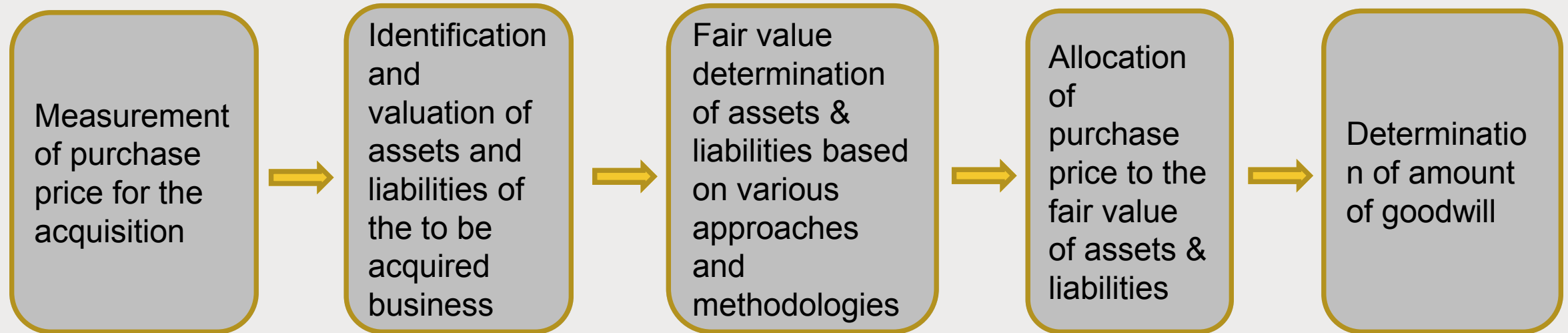
- The **recoverable amount** of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. **Fair value less cost to sell** is the amount obtainable from the sale of an asset unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

# Ind AS – Valuation

- For example, if company ABC has two plants M and R. The output of plant M is used by plant R. There is also an outside market for the output of plant M
- The CGU in this case will be both M and R separately since both M and R can generate cash flow independently

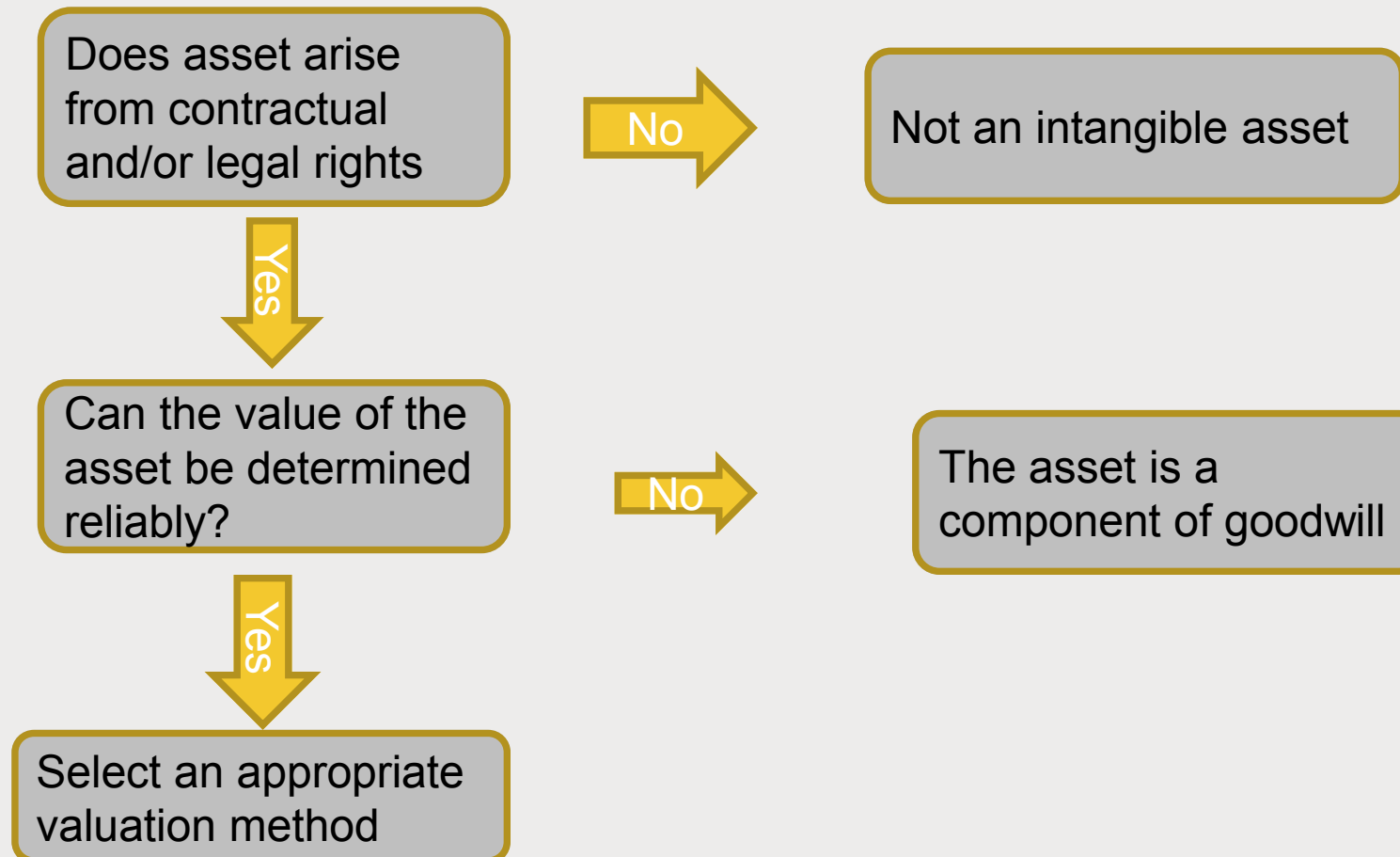
# Ind AS- 103 on purchase price allocation

Steps involved in Purchase Price Allocation:



# Ind AS- 103 on purchase price allocation (Contd.)

Goodwill- Recognition Criteria:



- ABC Ltd. Acquires the textile business of XYZ Ltd. as at 1 April 2016 for a total purchase consideration of ₹ 5,000 million. In this regards, the purchase consideration paid by ABC would be allocated to fair value of various assets and liabilities of the textile business and the balance would be recognized as goodwill.

| Particulars   |   | value (₹ mn) |
|---|---|--------------|
| Total purchase consideration paid                         | A | 5000         |
| <u>Fair value of tangible assets</u>                      |   |              |
| Land  |   | 380          |
| Building  |   | 430          |
| Plant & Machinery   |   | 680          |
| Total fair value of tangible assets                       | B | 1490         |
| Net working capital                                       | C | 120          |
| <u>Intangible assets separately identified and valued</u> |   |              |
| Brands / Trademarks                                       |   | 2137         |
| Order book / Backlog                                      |   | 83           |
| Non compete agreement                                     |   | 130          |
| Total fair value of intangible assets                     | D | 2350         |
| Deffered tax asset / liability (as applicable)            | E | 50           |
| <b>Goodwill to be recognized in books (A-B-C-D-E)</b>     |   | <b>990</b>   |

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