

Seminar on Valuation

Documentation

Darshana Kadakia

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Documentation

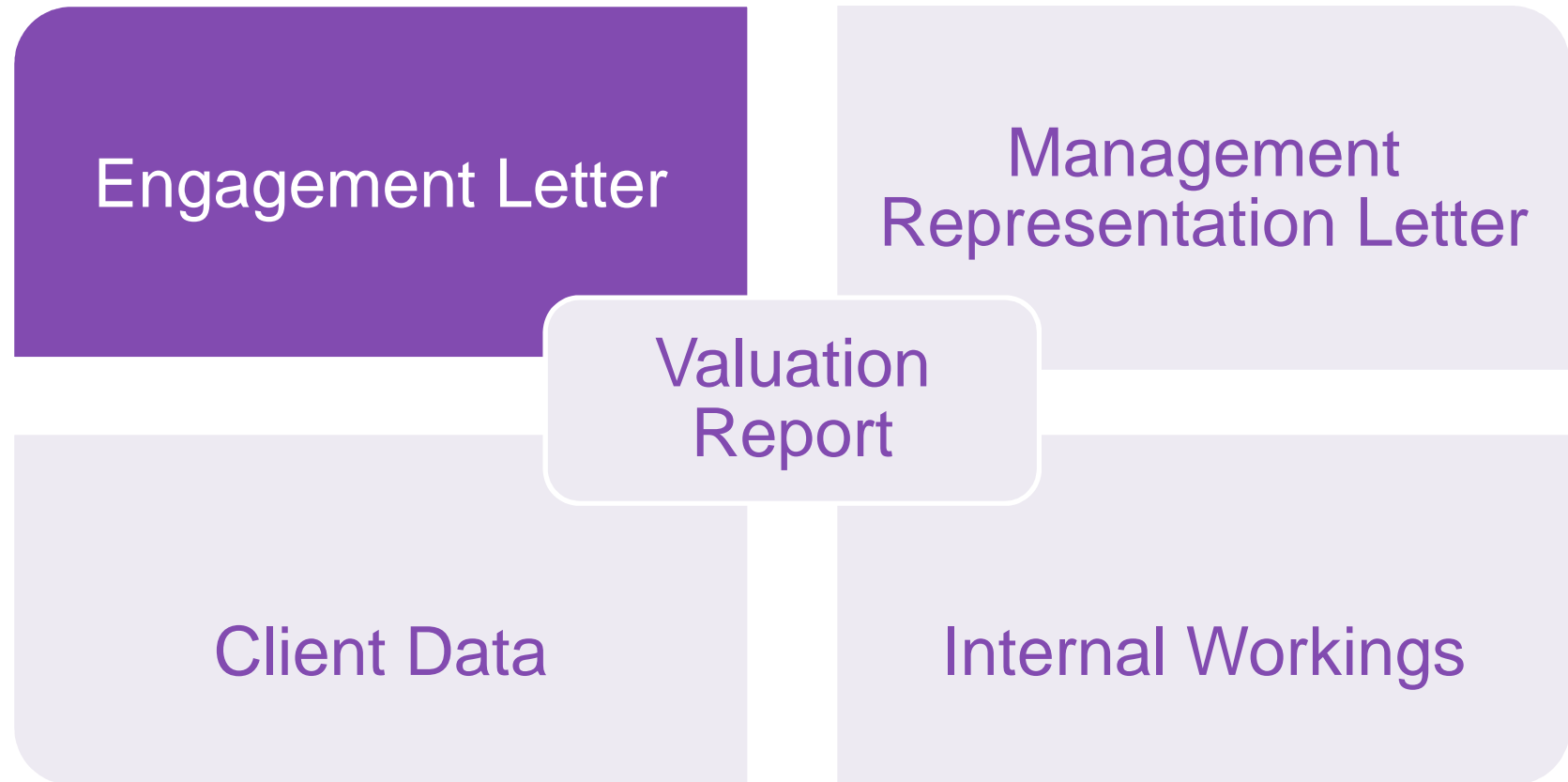
- Generally defined as material that provides official information or evidence or that serves as a record.
- Documentation is important in the workplace. A lawyer will say, if it's not in writing, it didn't happen. Documentation gives substance to a workplace's activities not only for legal matters, audits or disputes, but also for rules and regulations.
- Documents consist of – hard copies of documents / email messages / electronic form of files / publicly available data / news / analyst reports / excerpt from agreements or websites etc.
- Most of us have short memory, we are unable to remember all the discussions / thought process / data viewed in our past engagements hence documentation helps refresh our memory.
- With respect to Valuation, from the time an advisor engages with his/ her client, it is important to document all the relevant discussions/ agreements / data and worksheets. The need for valuation and categories of documentation are broadly explained in the following slides:

Need for Documentation

Documentation in Valuation is necessary for the following –

- i. Articulate exact scope of work
- ii. Record sources of information considered
- iii. Proof of adherence to valuation processes
- iv. Maintain basis of arriving at conclusion, proof of conduct of financial analysis, due diligence and application of professional judgement in the valuation exercise
- v. Substantiation of valuation conclusion

Category of Documents



Engagement Letter

This is a contract for the provision of Valuation Services between the Valuer and the Client. It includes -

Introduction

Brief description of the Client, the purpose of valuation, details of proposed transaction, if any and description of parties involved in the proposed transaction.

Scope of Work

Scope of Work outlines the deliverables expected from the Valuer, responsibilities of the Valuer, restrictions & limitations pertaining to the same and other related information which would form a part of the Valuer's output for the engagement.

Timelines

Specifies estimations of time expected to be incurred for the completion of the valuation assignment subject to conditions, if any.

Fees and Billing Schedule

Mentions professional fees which the Valuer would charge for the assignment and the requisite payment terms for the same.

Engagement Letter

Limitation of Liability

The clause generally specifies the extent to which the liability of the Firm and its personnel towards damages would be limited to.

Confidentiality

It mentions that the firm would not disclose any confidential information as received from the Client during the course of the engagement except to the persons who are bound by Confidentiality and Non Disclosure Agreements. It also states that the report or the deliverables, unless governed by statute or regulation or with explicit permission of the firm, would not be used for any purpose other than the one mentioned in the Engagement Letter.

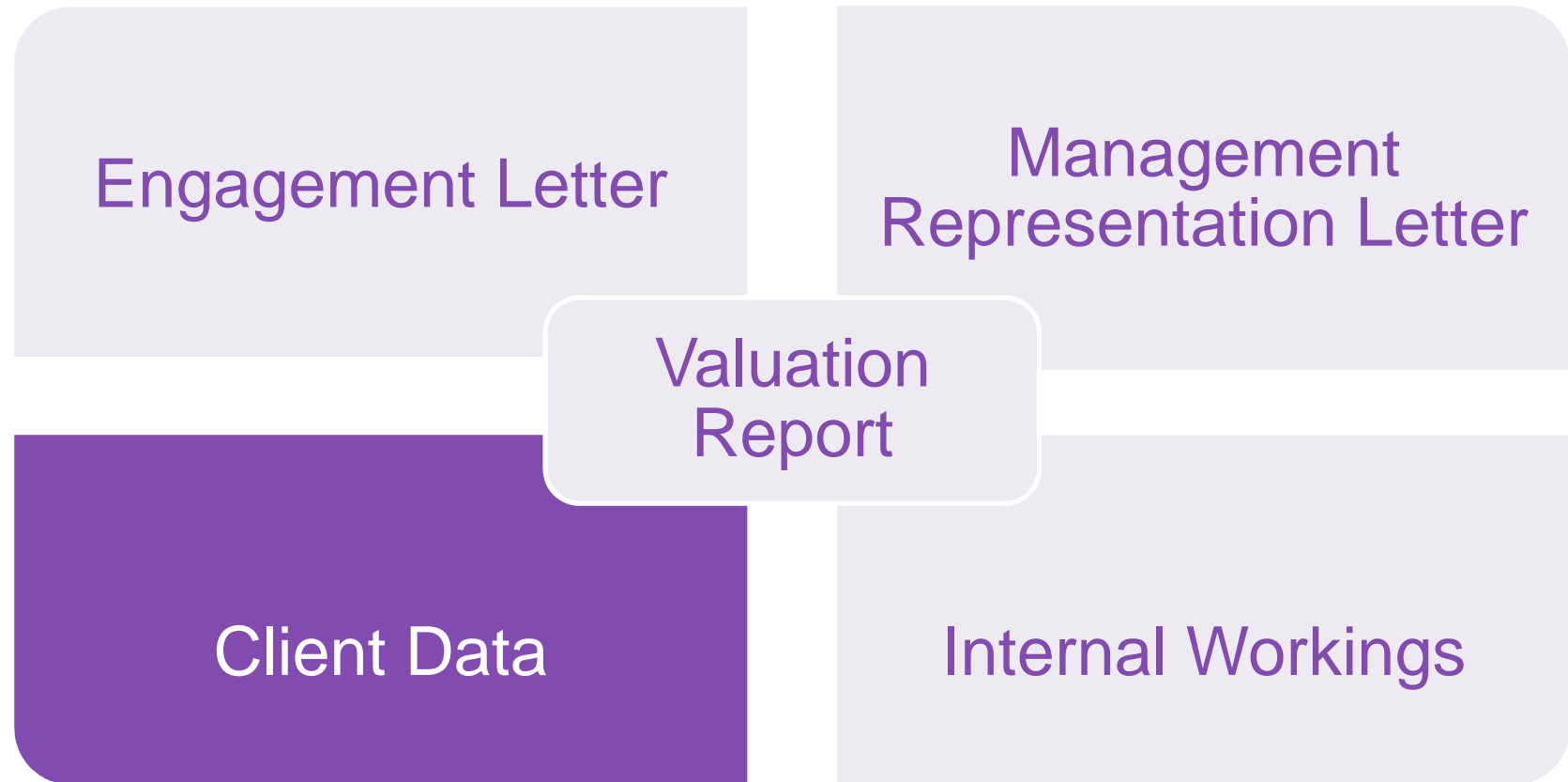
Governing Law

It specifies the area/country whose laws would govern the engagement letter and the place of jurisdiction to which the same would be subjected to.

Acceptance of Terms

States that the Valuer understands the instructions provided by the Client with respect to the engagement and the Client is in acceptance of the terms mentioned therein. It is generally followed by client's and Valuer's signature as their marks of acceptance.

Category of Documents

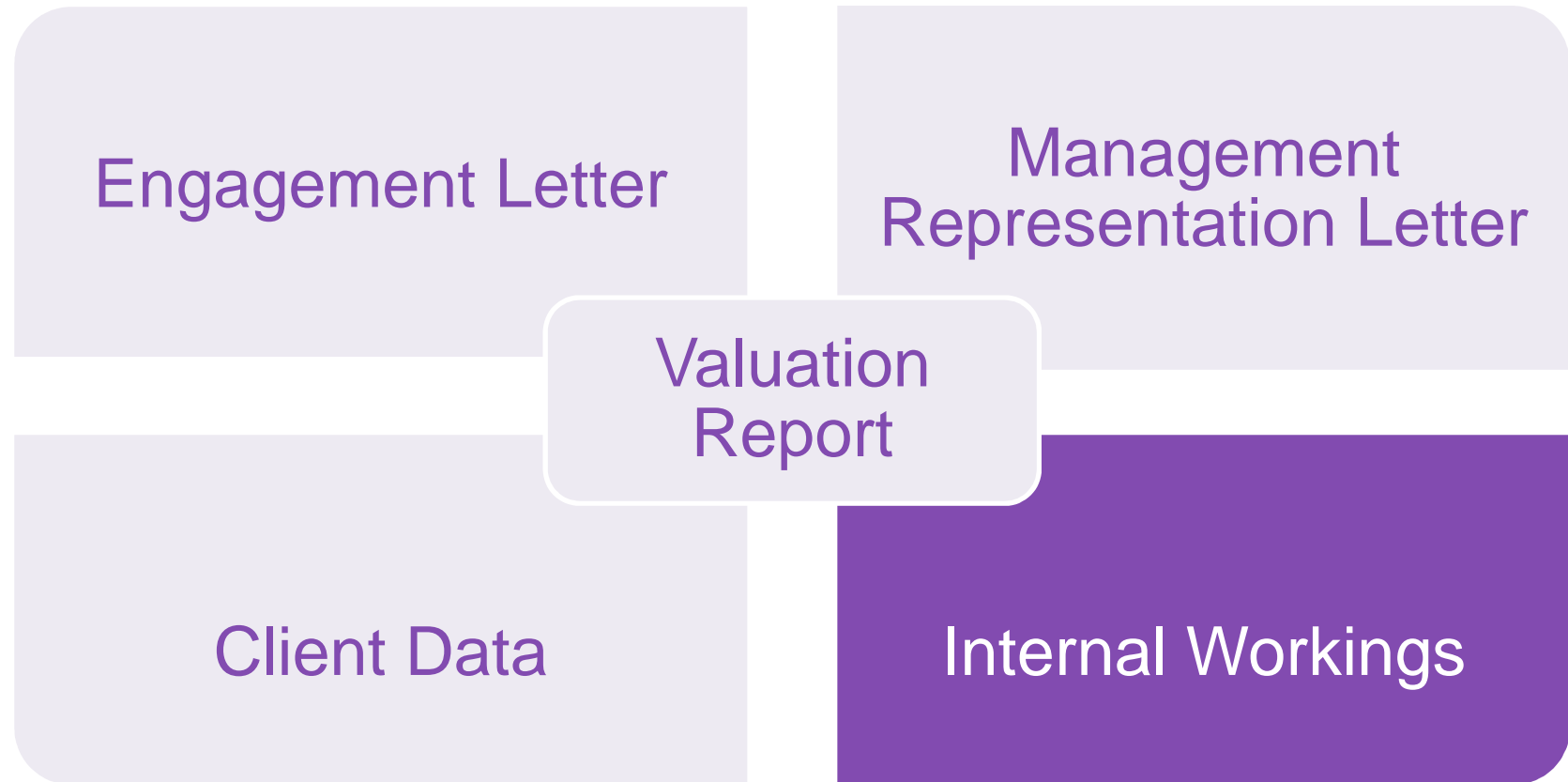


Client Data

Client Data includes entire set of data as received from the clients in paper or electronic form. Inclusive list for the same is as follows –

- Understanding of the purpose of valuation
- Financial data, historical as well as projected and explanation for variation in performance, if any
- Subject company background as well as business plan
- Brief understanding of the industry in which the company operates, its market share and information about its competitors
- Shareholder's Agreement, Share Purchase Agreement, Stock Compensation Agreement
- Details about the value drivers of the subject company
- Working Capital requirement and sources of finance
- Detailed Tax Workings for the Projected Period
- Details of Contingent Liabilities
- Details of any surplus / non-operating assets which the Company owns
- Fixed Asset Register
- Other Details as per the specifics of the engagement

Category of Documents



Internal Workings

Internal Workings are the work papers generated by the Valuer during the course of the engagement. These broadly include data obtained from public domain and internally developed valuation model.

A. Data from Public Domain

Annual reports and Company Presentations

Industry reports and statistics

Analyst reports

Documents on laws governing the industry in which the company operates

Specific government orders relating to operations of government regulated assets involved in valuation

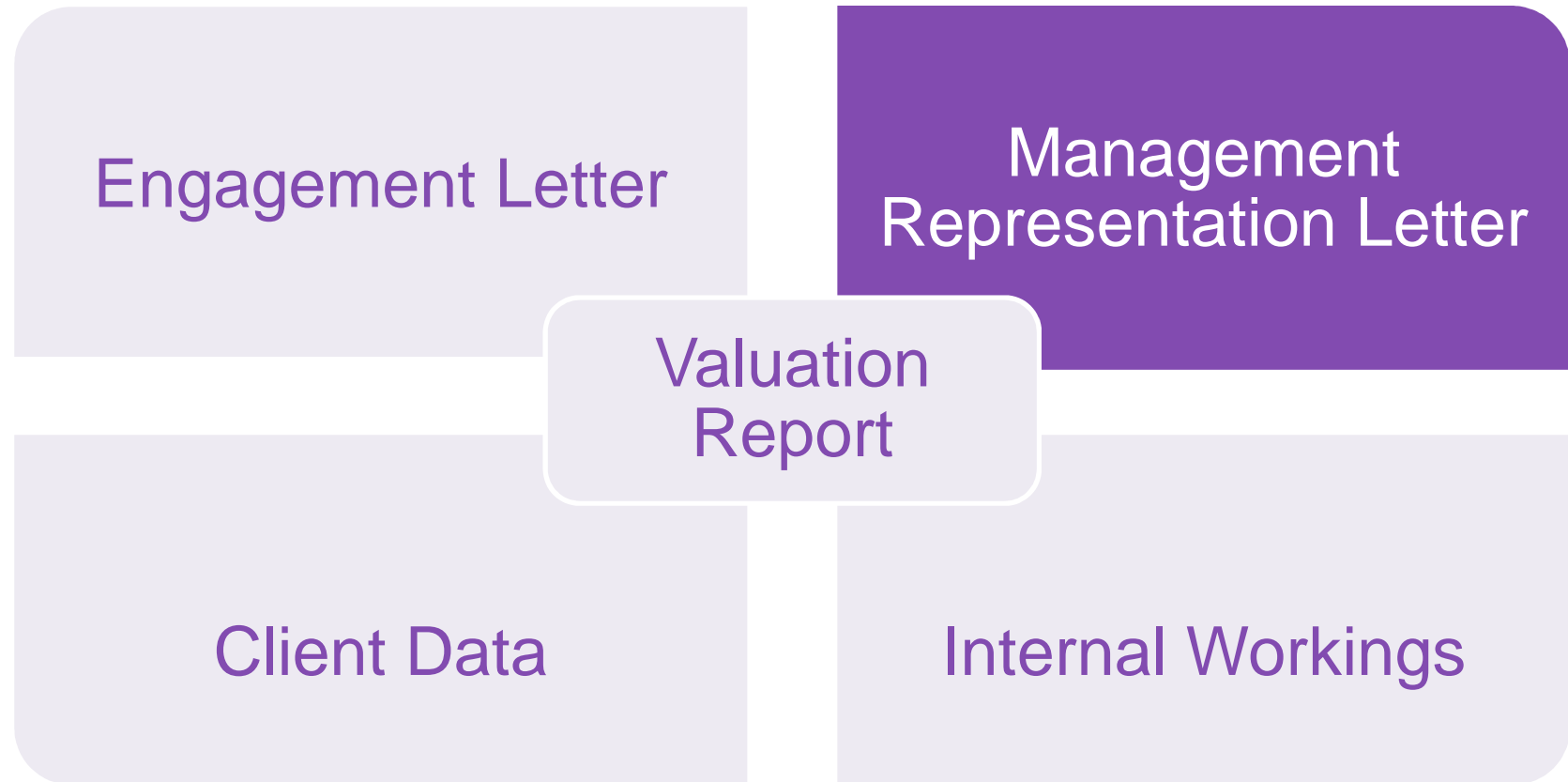
Other publicly available data as required in the engagement

Internal Workings

B. Internally Developed Valuation Model which would, among others, include –



Category of Documents



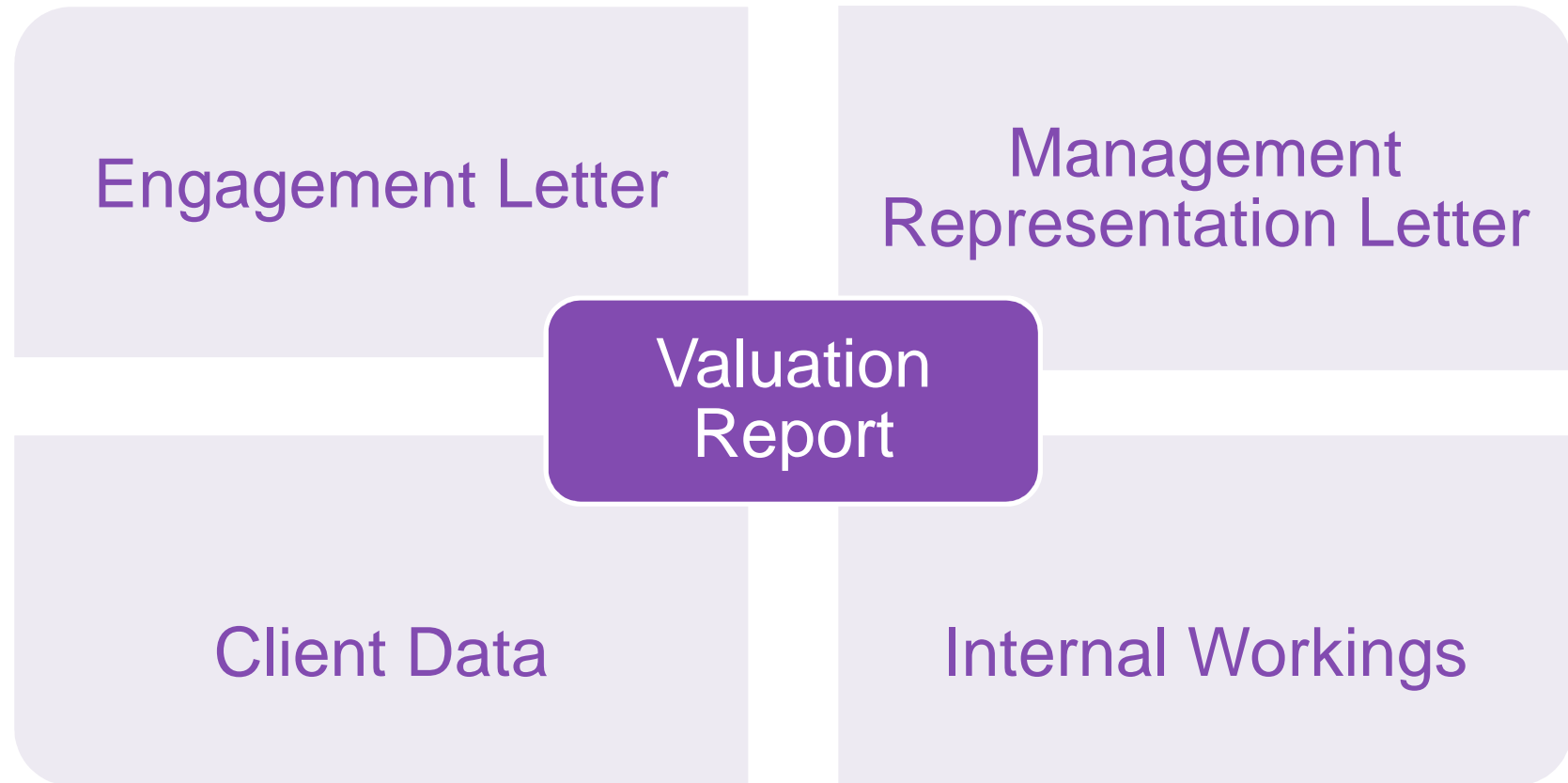
Management Representation Letter

A Management Representation Letter (MRL) is a document **signed by the client on their letterhead** confirming information shared with the Valuer with regards to the valuation assignment as **materially accurate & complete**.

The MRL confirms –

- Company Background and the purpose of valuation
- Current position of assets and liabilities
- Information & explanation about extraordinary expense/ revenue
- Future Projections, business plan and their underlying assumptions
- Detailed Tax Workings for the Projected Period
- Details of Contingent Liabilities
- Details of any surplus / non-operating assets which the Company owns
- Other Details as necessary

Category of Documents



Valuation Report

The Valuation Report is the final deliverable submitted by the Valuer to the Client. It is a signed report on the letterhead of the Valuer which contains –

Reference to the Engagement Letter

This section refers to the Engagement Letter confirming the appointment of Valuer for the engagement.

Brief description of the company, asset / liability to be valued, proposed transaction and purpose of valuation

This note provides a brief note of the company, the description of the asset / liability to be valued, the proposed transaction and entities involved. It also details the need and purpose of conducting the valuation exercise.

Scope and Limitations

It includes detailed scope of work, restrictions & limitations as applicable and necessary disclaimers & disclosures from the Valuer in relation to the Valuation assignment

Valuation Report

Valuation Approaches/Methodologies and rationale for the ones adopted

This part involves description of various approaches in valuation and their respective circumstances where they would be relevant, rationale for adoption of a particular approach(es) and the calculations and analysis that would be required for the same.

Analyses and workings under the methodologies adopted

This section would contain detailed analyses carried out by the Valuer as required under the methods adopted, their underlying assumptions and the values determined under each of them.

Valuation Summary & Conclusion

This section would summarise valuations determined from each of the methodologies adopted and the weights assigned to come to a value or range of values for the underlying asset

Valuation Report

Distribution of the Report

The Valuer mentions to whom is the Client authorised to distribute the report to. This would ideally be mentioned when the valuation is conducted under some regulatory requirement (e.g. – valuations under SEBI regulations, FEMA guidelines).

Sources of Information

Over here, respective sources of data as received from the client and data gathered from public domain, pertaining to the valuation engagement would be mentioned.

Appendices

As required

Thank You



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