



VALUATION PROFESSIONALS: EXPLORING NEW PROFESSIONAL OPPORTUNITIES

33RD REGIONAL CONFERENCE OF WIRC OF ICAI

CA Sujal Shah
August 24 , 2018

EVOLUTION OF VALUATION

Wealth Tax Rules, 1957 prescribed valuation of unquoted shares.

1957-1989

SEBI Act was introduced wherein Cos. were free to price their issues in consultation with the Merchant Bankers.

Since 1992

The MCA notified Companies (Registered Valuers and Valuation) Rules, 2017 ('Rules') w.e.f. 18 Oct 2017.

2017

1990-1992

Pricing for valuation introduced as per Comptroller of Capital Issue guidelines.

2010

FEMA - DCF for valuations in case of issue / transfer of shares of Indian company which was subsequently changed to internationally accepted valuation methodology.

VALUATION APPROACHES AND METHODOLOGY

MARKET APPROACH

Market Price Method

Comparable Companies
Multiple Method

Comparable Transactions
Multiple Method

INCOME APPROACH

Discounted Cash Flow
Method

ASSET APPROACH

Replacement Cost
Method

Reproduction Cost
Method

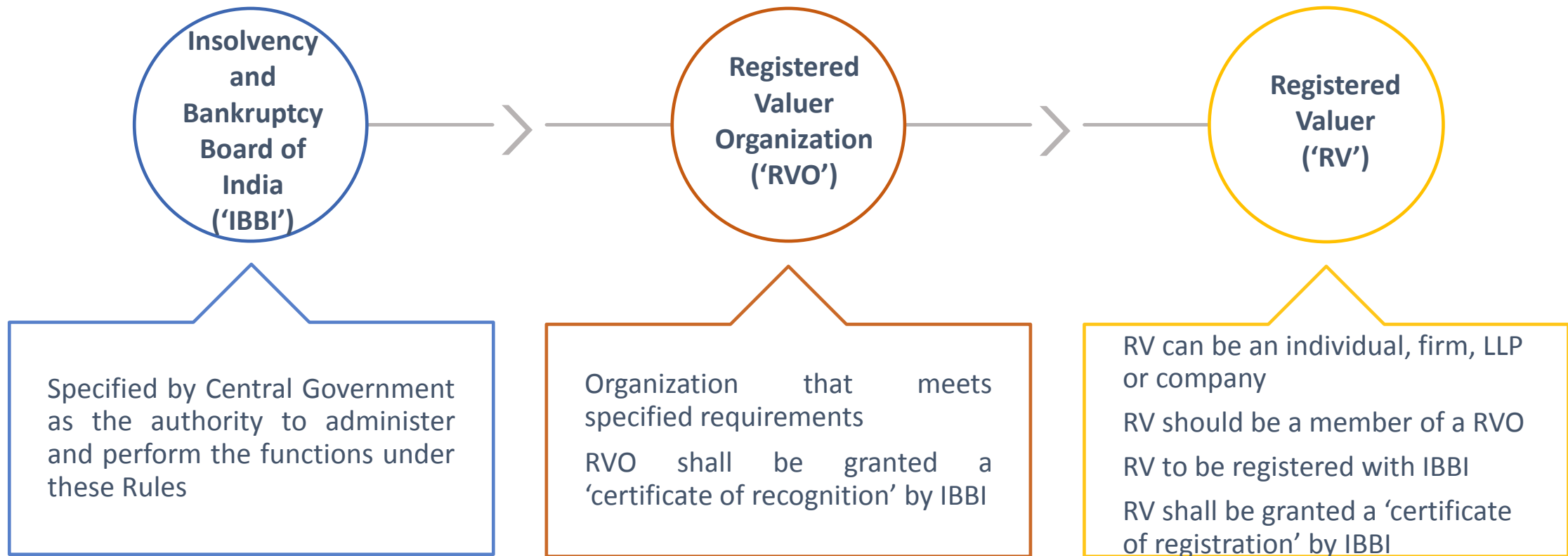
REGISTERED VALUERS

- **Section 247 of the Companies Act, 2013** ('Act') provides:
 - Valuation of property, stocks, shares, debentures, securities, goodwill or other assets/liabilities/networth of a company under the Act to be done by a **Registered Valuer ('RV')**
- RV shall
 - Make an impartial, true and fair valuation of assets;
 - Exercise due diligence while performing the functions as valuer;
 - Make the valuation in accordance with such rules as may be prescribed; and
 - Not undertake any valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during a period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him.
- For conducting the valuation exercise as envisaged under section 247, the Ministry of Corporate Affairs has notified Companies (Registered Valuers and Valuation) Rules, 2017 ('Rules') w.e.f. 18 Oct 2017

REGISTERED VALUERS & VALUATION RULES

- Lays down entire gamut of provisions dealing with inter-alia:
 - Eligibility and registration of valuers;
 - Role and functions of the Authority that would regulate the valuers;
 - Role and functions of Registered Valuer Organisation ('RVO');
 - Process of registration of valuer;
 - Conduct of valuation;
 - Model code of conduct to be adhered to by RV;
 - Governance Structure and Model Bye-laws to be adopted by RVO

REGULATORY STRUCTURE



TO BE A REGISTERED VALUER

1 Obtain Educational Qualifications and Experience

2 Appear for Valuation Examination

3 Satisfy other specified Eligibility Criteria

CONDUCT OF VALUATION

- RV shall, while conducting valuation, comply with valuation standards notified or modified by CG;
- Until valuation standards are notified by CG, a valuer shall make valuations as per:
 - Internationally accepted valuation standards;
 - Valuation standards adopted by any RVO
- The ICAI has notified “ICAI Valuation Standards” that are effective for valuation reports issued on or after 01 Jul 2018. These standards will be effective until valuation standards are notified by Central Government.

VALUATION STANDARDS

- The Valuation Standards lay down a framework for the preparation of valuation report and also the following 8 “ICAI Valuation Standards” are applicable for all valuation engagements under Co. Act, 2013:
 1. ICAI Valuation Standard 101 - Definitions
 2. ICAI Valuation Standard 102 - Valuation Bases
 3. ICAI Valuation Standard 103 - Valuation Approaches and Methods
 4. ICAI Valuation Standard 201 - Scope of Work, Analyses and Evaluation
 5. ICAI Valuation Standard 202 - Reporting and Documentation
 6. ICAI Valuation Standard 301 - Business Valuation
 7. ICAI Valuation Standard 302 - Intangible Assets
 8. ICAI Valuation Standard 303 - Financial Instruments

In respect of Valuation engagements under other Statutes like Income Tax, SEBI, FEMA etc, it will be on recommendatory basis for the members of the Institute. These Valuation Standards are effective for the valuation reports issued on or after 1st July, 2018

RELEVANT COMPANIES ACT PROVISIONS

Section	Valuation Requirement
54(1)(d)	Issue of Sweat Equity Shares in case of unlisted companies
62(1)(c)	Issue of shares / convertible securities on preferential basis by unlisted company for cash or for consideration other than cash
67(3)(b)	Provision of money by company for purchase of its own shares by employees or by trustees for the benefit of employees
192(2)	Transactions involving transfer of assets for non-cash consideration to / from directors
230, 232 & 233	Scheme of Compromise/Arrangement or Scheme of Corporate Debt Restructuring
234	Cross border merger of an Indian Co. into Foreign Co. or vice versa
236	Purchase of minority share holding
281	Winding up of a company

OPPORTUNITIES FOR PROFESSIONALS – VALUATION

BUSINESS VALUATION	REGULATORY	INTANGIBLES	FINANCIAL REPORTING	PRIVATE EQUITY
Restructuring of Companies	FEMA – issue/ transfer of shares	Brand / Trade Names, Non-compete Agreement	Purchase Price Allocation	Entry
Purchase/ Sale/ Merger/ Acquisition	Transfer pricing/ Income Tax Act	Customer contracts & relationships	Impairment Testing	Financial reporting – Private Equity
Litigation/ Dispute/ Family Settlements	Valuation under SEBI Regulations	Software & Technology	Financial Instruments – Options, ESOPs	Subsequent rounds of funding
Fund raising	The Companies Act, requirement	Intellectual Property	Ind AS reporting	Exit

COMPETENCE FOR VALUATION ENGAGEMENTS

- Valuation Seminars / Course conducted by ICAI
- Books on valuation e.g. Damodaran, Mckinsey, etc.
- Newspapers / Business Magazines
- Financial Statements
- Stock Exchange Announcements
- Journals of Professional bodies
- Tax Updates
- International Magazines / Newspapers
- SEBI & Corporate Law Journal



BEST PRACTICES FOR VALUATION ENGAGEMENT

- Rationale for various parameters used in valuation
- Arithmetical accuracy of the model
- Detailed office notes on valuation
- Regular Internal training of employees & Internal peer review
- Strict Adherence to Model Code of Conduct of RVO
- Internal Code of Conduct at office i.e. Confidentiality and Appointment of new employees and Restriction of trading in stocks
- Withholding Client Pressure for unreasonable timelines
- Creating goodwill will take a long time, destroying it will take a second



CHALLENGES IN VALUATION

- Availability of information from client and timelines
- Involvement of judgement
- Accounting – different GAAPs
- Relying on Technical Valuer's Report
- Discounts & Premiums
- Industry knowledge
- Knowledge of various laws (SEBI, FEMA, Companies Act, Income Tax Act, etc.)



THANK YOU!