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THE VALUATION PERSPECTIVE

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RESEARCH JOURNAL OF ICAI REGISTERED VALUERS ORGANAISATION (ICAI RVO)

(A Section 8 Company promoted by ICAI & Registered as a RVO with IBBI)

“Valuation is neither an art nor a science. It is a craft that can be honed and worked upon…..
— Aswath Damodaran”

ABOUT ICAI RVO

The Insolvency and Bankruptcy Board of India (IBBI) was specified as the "Authority" by the Central Government under section 458 of the Companies Act, 2013. IBBI introduced 'The Companies (Registered Valuers and Valuation) Rules, 2017' in October 2017 with the intention of bringing out harmony in the valuation process and to raise the confidence of users of valuation reports. The Rules so framed are applicable to three asset classes viz, Land & Building, Plant & Machinery and Securities or Financial Assets.

Institute of Chartered Accountants of India (ICAI) has been playing a pioneer role in the development of the profession of accounting in general and valuation in particular since 2008. Therefore, the Government of India requested ICAI to incorporate a Registered Valuer Organisation under its aegis as its wholly owned subsidiary to bring in its professional acumen and experience in the field of Valuer organisations.

In view of the above, ICAI Registered Valuers Organisation ("ICAI RVO" or the "Company") was incorporated as a Section 8 Company under the provisions of the Companies Act, 2013. ICAI RVO is a wholly owned subsidiary of the ICAI. ICAI RVO received recognition by IBBI on 15th May 2018, to act as a frontline regulator as Registered Valuers Organisation and recognised under Rule 13(5) of the Companies (Registered Valuers and Valuation) Rules, 2017 under the asset class of Securities & Financial Asset Class only.

ICAI RVO is commanding approximately 50% of the total valuer members registered with the IBBI under the asset class Securities or Financial Assets.

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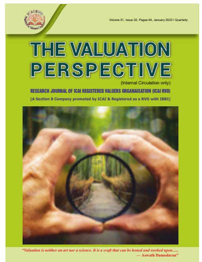

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MESSAGE

FROM THE DESK OF CHAIRMAN, EDITORIAL BOARD, ICAI RVO

Prof. Anil Saini

Dear Member,

At the outset of the global need for expertise in the field of valuation of various asset classes, IBBI has recognised ICAI RVO to promulgate quality valuation training and is entrusted to pave the way for further improvement in the valuation field in India. Looking into present needs and changing scenarios, ICAI RVO launched the first edition of its Journal "The Valuation Perspective" on 18th October, 2022 on the occasion of "Valuation Day". The journal has been launched by ICAI RVO to meet its objective of enriching and providing relevant information, articles etc., to its valuer members. In continuation of that, ICAI RVO has now come up with the second issue of its journal in January, 2023.

As we all know valuation is an imprecise science. May be it's an imprecise art further. However, Valuers have to stand by their workings/ calculations and cannot shelter themselves under the gown of subjectivity. The integrity of the valuation process and independence, which significantly affect the value, can't be ensured without effective regulation. For valuation professionals, it will always be difficult to defend their roles unless they make it clear to their clients and user what type of services they are actually providing and how they should be used in decision making.

ICAI RVO quarterly journal aims to focus on valuation related information and updates so that our members and other stakeholders can keep themselves abreast about the latest developments in the field of valuation.

The second issue of the journal is very educational because it incorporates the most recent amendments made by the Ministry of Corporate Affairs where by IBBI has prescribed fees to be paid for change in details of Registered Valuers as well as Registered Valuers Entity. The Code of Conduct and Bye Laws of ICAI RVO as well as details of various fees charged by ICAI RVO and IBBI are also published in this issue of the journal which will help the members as a quick guide.

We appreciate our members, who have contributed articles on topics such as Distribution Network Valuation; Value of Customer: On Valuation Perspective; Purpose of Valuation and Premises of Valuation; How to Value your Business during COVID-19 Times: Aspects to be considered and Understanding Portfolio Theory and its Impact on Valuation; which will give further insight into the field of valuation.

I wish these articles as well other information given in this journal will be useful and informative for our members and stakeholders.

Wish you a happy reading & a Very Happy New Year.

Prof. Anil Saini
Independent Director & Chairman,
Editorial Board, ICAI RVO

FROM THE DESK OF CHAIRPERSON, ICAI RVO

Shri Rajeev Kher

Dear Member,

With great pride, I congratulate ICAI, promoter of ICAI RVO, for successfully conducting the World Congress of Accountants (WCOA) in collaboration with the International Federation of Accountants (IFAC) from November 18–21, 2022, at Jio World Convention Centre in Mumbai. A record 10,000 delegates from over 120 nations attended the 21st World Congress, more than 6,500 of whom came in person and more than 3,300 of whom joined virtually through a specially curated online platform. Over 150 distinguished national and international thought leaders delivered over 40 sessions over the course of four days, covering the most pertinent and current subjects. The World Congress, which had **"Building Trust Enabling Sustainability"** as its theme, focused on the ongoing engagements and role of the accounting profession in fostering trust in order to support businesses and communities and to create the resilient, sustainable economies that we will need in the future. The WCOA also placed a strong emphasis on professional development in modern and developing fields. The WCOA was held in India for the first time ever as a celebration of India's progress towards being the global centre for accounting.

Words like "growth" and "expansion" have become a part of our vernacular because they conjure up feelings of uplifting energy. Words are evidence of the human propensity to explore, discover paths, look for chances, and strive to improve every day. Accordingly, the main goal of ICAI RVO is to create, advance, and uphold high ethical and professional standards of practice and professional conduct for all of its Registered Valuer Members. It also aims to prevent any wrongdoing in their conduct and to protect the rights, interests, and independence of its Registered Valuer Members. Hence, the performance of ICAI RVO during these years demonstrates the organization's explosive development and dominance in the valuation industry.

I am happy to share that the ICAI RVO hosted a National Conference with the theme "The Valuation: Five Years of Journey and Way Forward" in collaboration with the Insolvency and Bankruptcy Board of India (IBBI) and other RVOs on October 18, 2022 at India Habitat Centre, New Delhi, to mark the completion of five years of the regulation of the valuation profession. The Conference was conducted in hybrid mode and attended by more than 100 Registered Valuers (RVs) and other stakeholders physically and around 1200 Registered Valuers and other stakeholders witnessed the conference in virtual live mode.

In the last quarter, as on 20th December, 2022, our membership comprised approximately 50% of the total Registered Valuers registered under the asset class Securities or Financial Assets. We have enrolled an additional 307 professionals as Primary Members, who will take up Valuation profession. We have successfully conducted one Educational Course program which was attended by 50 participants. We have also conducted 11 Continuing Education Programs (CEP) where 881 of our members had participated. Two

Certificate of Practice (CoP) training programs were conducted by ICAI RVO wherein 31 of our Registered Valuer Members have attended and got certificates.

The Ministry of Corporate Affairs vide Notification dated 21.11.2022 amended certain provisions of the Companies (Registered Valuers and Valuation) Rules, 2017, in exercising its powers conferred by Section 247 read with Sections 458, 459 and 469 of the Companies Act, 2013. The details of the amended rules are being published in this part of the journal for the benefit of the members.

At ICAI RVO, our guiding principle is to create long-term value in the interests of all parties involved, including Members, Staff, the Government, and Society. At ICAI RVO, we don't take our success for granted. We look for opportunities amidst difficulties as it helps us prepare our business for the future.

This quarterly journal of ICAI RVO provides relevant information, Articles, Statutory Updates and Case Study etc., on the valuation process for its members and stakeholders.

I hope this quarterly journal of ICAI RVO will be helpful and effective.

Wishing you A Very Happy New Year

Rajeev Kher

Chairperson, Governing Board, ICAI RVO

FROM THE DESK OF PRESIDENT ICAI & DIRECTOR ICAI RVO

CA. (Dr.) Debashis Mitra

Dear Professional Colleagues,

Knowing the worth of an asset and what determines its embedded value has always been at the centre stage of an informed decision making for determining the appropriate price 'to pay' or 'receive' in a business cycle and more particularly in context of methodically arriving at 'Value' which the context demands. Valuation; post the notification of the Companies (Registered Valuers and Valuation Rules) 2017; has come to emerge as a multi-faceted discipline; a unique curation of scientific methods; coupled with an Art that not only requires subjectivity and objectivity but most importantly professional judgement of Valuer as well within the ecosystem of the said Rules. Rule 8 specifically lays the boundaries to the Conduct of Valuation thus giving the process of Valuation a structured formulation.

The Registered Valuer with a strong exposure to business dynamics is well equipped to comprehend several factors like capability of the management, valuer's understanding of the future market and competition, business complexities etc. which as such may not be evident from the financial statements but are based on professional assumptions of the Valuer and are critical in valuation. Thus, the initiatives taken to address the growing need for well-regulated and monitored set of Valuation professionals by coming up with unified institutional framework by strengthening the education & research in valuation and aligning it with best global practices; has met with positive response from all stakeholders. A regime of uniform valuation standards coupled with strict monitoring mechanism through an enabled regulatory framework would ensure that the challenges that arise with advancement in technology and globalization in the profession of valuation; will be addressed through timely interventions from the Regulatory Authorities. Such a holistic approach towards development of the profession shall attract the best talent in industry who shall further strive to raise the benchmark of quality valuations. I am happy to share that ICAI RVO recognising its mandate; has been working for the growth and development of Valuation profession in Securities or Financial asset class.

ICAI RVO in association with the Insolvency and Bankruptcy Board of India (IBBI) and various other RVOs celebrated Valuation Day on completion of 5 years of regulation of the Valuation Profession by organised a National Conference on the theme **"The Valuation Profession: 5 years Journey and the Way Forward"** on 18th October, 2022 at India Habitat Centre, New Delhi. The conference aimed to help understand the changing paradigm and drivers impacting the future of the profession and enabled a dialogue between Valuers of all three asset classes by sharing their first-hand experience in presence of Senior functionaries of IBBI who were present during the entire duration of Conference and shared the key insights and trends.

With immense pride and satisfaction, I am also pleased to share the successful conduct of the most awaited global accountancy event: the 21st

MESSAGE

World Congress of Accountants (WCOA) by ICAI which happened in India for the first time in more than 100 years of its existence on the theme **"Building Trust Enabling Sustainability"** at Mumbai, India in Hybrid mode; not only clocking mammoth registrations but was stupendously impactful in bringing Indian perspective to key issues before a global audience. Delegates from more than 120 Countries attended the Congress. The 4-day event was inaugurated by **Shri Om Birla, Hon'ble Speaker of Lok Sabha and Smt. Nirmala Sitharaman, Hon'ble Minister of Corporate Affairs & Finance,** who delivered the Key Note Address.

I extend my appreciation to ICAI RVO for taking initiative in bringing out this second edition of its quarterly journal with the objective of capacity building and knowledge dissemination for the benefit of members and other stakeholders.

Wish you a Very Happy New Year.

CA. (Dr.) Debashis Mitra
President, ICAI & Director, ICAI RVO

A REPORT ON NATIONAL CONFERENCE VALUATION: FIVE YEARS JOURNEY AND THE WAY FORWARD

Over the years, the valuation profession has emerged as a key institution. This profession has a long history in India. Valuation profession have gone to great lengths to meet the expectations and visions of policy makers who have given autonomy to the profession through "The Companies Act, 2013" and "The Companies (Registered Valuer and Valuation) Rules, 2017". The Valuation Profession continues its glorious journey completing 5 years on 18th Oct 2022, as we celebrate our Valuation Day. Since its inception, this profession has experienced tremendous growth, which makes us happy and proud of it. On 18th October, we take pride in celebrating the hard work, integrity, independence and excellence of valuation professionals that have granted then success both domestically and internationally.

Taking the initiative forward, the ICAI Registered Valuers Organisation, IOV Registered Valuers Foundation and ICMAI Registered Valuers Organisation, on the occasion of completion of 5 years of Regulation of Valuation Profession, organised a National Conference on 18th October 2022 in India Habitat Centre, New Delhi, and celebrated the day as "Valuation Day" in association with Insolvency & Bankruptcy Board of India (IBBI).

The Conference was attended by more than 100 Registered Valuers (RV) & other stakeholders physically. Around 1200 Registered Valuers & other stakeholders witnessed the Conference on Live mode.

The dais was occupied by the Chief Guest Hon'ble Justice Shri Anil Dave, Shri Sudhakar Shukla, Whole Time Member, IBBI, Shri Rajeev Kher, Chairperson ICAI RVO, Shri Amit Pradhan, ED, IBBI, Dr. Rakesh Sehgal, MD, ICAI RVO and Shri Vinay Goyal, CEO-MD, IOV Registered Valuers Foundation.

Welcome & Opening Address

Ms Sarika Singhal, Officiating CEO, ICAI RVO warmly invited and welcomed the members to the dais. The Hon'ble Guests lighten the lamp to start the program.

Shri Vinay Goel, CEO-MD, IOV RVF, in his opening address, briefly described the journey of this profession over the last five years. On 18th October 2017, the MCA notified the provisions governing valuation by Registered Valuers (Section 247 of the Companies Act, 2013) and the Companies (Registered Valuers and Valuation) Rules, 2017. As informed by Mr. Goel, the period of five years journey was full of challenges and opportunities to all the RVOs and Registered Valuers due to transformation of this profession and the demand for the profession under IBC. He also addressed the challenges faced and the need of the regulatory framework for the profession. He connected the participants with Hon'ble PM's ideals of "Sabka Saath, Sabka Vikas, Sabka Vishwas" and "Aatmanirbhar Bharat" to encourage the professionals and the profession.

Setting the context of the Event

Dr. Rakesh Sehgal, MD, ICAI RVO, delivered his words on the context of the event. As spoke by Dr. Sehgal the profession of RVs was created on this day.

He spoke about Section 247 of the Companies Act, 2013, which states that where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other asset or net worth of a company or its liabilities under the provisions of this Act, it shall be valued by a Registered Valuer. He gave a brief glimpse about the contents of the Companies (Registered Valuers and Valuation) Rules, 2017 and how the Rules provides a comprehensive framework for development and regulation of the profession of valuers. He also enlightened the importance of registered valuers in different fields.

Address by the Guests

Shri Rajeev Kher, Chairperson, ICAI RVO, briefly highlighted the published technical guidelines, valuation standards and code of conduct to encourage professionals to employ fair, reasonable just, and non-

discriminatory practices in the profession. The whole objective of carrying out the requisite amendments in the Companies Act' 2013 and the corresponding rules was to establish, promote and maintain high ethical and professional standards of practice and professional conduct of registered valuers. He talked about the biggest challenge of "Standards" in this profession. With a vision to promote best practices in this profession, the Standards lay down a framework for the members to ensure uniformity in approach and quality of valuation output. He emphasied on duties and responsibilities of the registered valuers and registered valuers organisation. RVOs are assigned with the duty of developing this profession in line with the international requirements. He also informed the gathering that over the last 5 years, ICAI RVO has released so many technical guidelines, FAQs, Educational materials, Concept papers on valuation and proposed to do much more for the ease of its members.

Guest of Honour, Shri Sudhakar Shukla, Whole Time Member, IBBI, in his address to audience

mentioned that he has been associated with IBBI for the past three years. IBBI runs so many educational courses to educate all its stakeholders. IBBI has always received government support in terms of funding, regardless of the situation. He shared the valuation related requirements mentioned in the statue and their growth over the period. According to Shri Shukla, the valuation profession has been filled with obstacles and we overcome these obstacles to emerge as winners. He spoke about the major Regulations and provisions under IBC (CIRP) Regulations and Liquidation

Regulations. He shared the realisation related to the liquidation value. He shared with the members regarding the use of services of Registered Valuers by all the regulators, as decided at the 26th meeting of the Financial Stability and Development Council (FSDC), Chaired by the Union Minister of Finance. He also mentioned some theoretical challenges in value and price. He also informed the audience the recent changes made by IBBI regarding submission of valuation reports and announced that the valuation standards to be adopted within IBC framework are going to be published shortly.

Shri Amit Pradhan, ED, IBBI, delivered his words on the IBBI regulations relating to its members, their monitoring, review, assessment, and development. RVOs are obliged to monitor and inspect the

performance of its members with respect to the various provisions of the Act, Rules, Regulations and Guidelines. He shared the importance and contribution made by the valuers in CIRP cases. Till September 2022, more than 5800 cases were admitted to CRP cases, out of which 3900 cases has been completed. He shared that a remarkable achievement made over the 5 years. The Registered Valuers have contributed to more than 10000 valuation reports during the process under the court. He also thanked all the RVOs to organise the event.

Special address by Chief Guest

Hon'ble Justice Shri Anil Dave emphasised his speech of words on professional ethics. He talked about the integrity, honesty and conduct to be maintained in the profession to meet the expectations of the stakeholders. A valuer shall maintain integrity by being honest, straightforward, and forthright in

all professional relationships. He gave the mantra of "Unlearn & Relearn" to the participants. A valuer shall continuously maintain professional knowledge and skill to provide competent professional service based on up-to-date developments in practice, prevailing regulations/guidelines, and techniques.

Publications Released

The publications released by the various RVOs in the National Conference are:

i. By ICAI RVO

   a. First journal of ICAI RVO "The Valuation Perspective"

   b. Handbook on "Best Practices in Valuation for Registered Valuers"

   c. Booklet on "Calendar of Trigger Dates of Valuation under Various Laws"

   d. Book on "Judicial Pronouncements in Valuation"

ii. By IOV RVF

a. Book on "International Marketing", Cargo Insurance" & "Import Management"

b. Book on Valuation Precedents under IBC

c. Book on Valuation under Indian Statues

iii. By ICMAI RVO

a. MCQ Book on Valuation

b. Workbook on Valuation

c. Research Journal

Panel Discussion on "Five Years of Journey - Challenges & Way Forward"

The panel discussion was Chaired by Dr Mukulita Vijayawargiya, Past Whole Time Member, IBBI with other members, such as, CA Rajan Wadhawan (RV), CA T.V.Balasubhramanian (RV), Shri Anil Kumar Sharma (RV), and Shri Sunil Aggarwal (RV).

The key highlights of panel discussions are:

i. Valuation is a subjective assessment of the worth of the assets. There can be difference in valuation estimates of different valuers. Proper assumptions must be mentioned in the report with information obtained during the valuation process. Quality must be maintained in valuation report.

ii. Best practices must be followed while conducting valuation.

iii. There may be difficulties in obtaining information while conducting valuation, and thus a valuer must specify proper assumptions taken to justify his report.

iv. Quality must be maintained by the valuers in the reports.

Panel Discussion on "Expectation of Stakeholders"

The panel discussion was Chaired by Dr. S. K. Gupta, MD-ICMAI RVO with other members, such as Shri Deepak Rao, General Manager, IBBI, Shri Sanjeev Pandey, Former DGM-NCLT, SBI & Insolvency Consultant, Shri R K Patel (IP& RV), CA. Parag Kulkarni (RV), Shri Manish Shrivastava (RV), Shri Tanuj Bhatnagar (RV), Shri Alok Kaushik (RV), and Shri Subramaniam Pichaiya (RV).

The key highlights of panel discussions are:

i. A valuer shall maintain integrity by being honest, straightforward, and forthright in all professional relationships.

ii. A proposal of benchmark of minimum fees was put forward for consideration by RVOs and IBBI.

iii. A valuer shall keep stakeholders interest foremost while delivering his services

iv. Fair value can have different meaning for different valuers. To simplify, it is the value which the valuer can justify to the stakeholders.

v. Knowledge management is as equally important as other management in the profession.

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UPCOMING PROGRAMS

A. Upcoming Training Programs of ICAI RVO

Date	Training Programme	Tentative Fees	Conducted by
06-01-2023	Continuous Educational Programme	₹200 plus GST @ 18%	ICAI RVO
10-01-2023	Continuous Educational Programme	₹200 plus GST @ 18%	ICAI RVO
12-01-2023-22-01-2023	50 Hours Educational Course	₹17700 plus GST @ 18%	ICAI RVO
17-01-2023	Training Programme for grant of Certificate of Practice	₹500 plus GST @ 18%	ICAI RVO
18-01-2023	Continuous Educational Programme	₹200 plus GST @ 18%	ICAI RVO
24-01-2023	Continuous Educational Programme	₹200 plus GST @ 18%	ICAI RVO
31-01-2023	Continuous Educational Programme	₹300 plus GST @ 18%	ICAI RVO

Please note:

- For each virtual training program, we can accommodate only as many participants as prescribed in IBBI Guidelines (CEP-200, COP-50, Educational Course-50)
- The registration will be confirmed on first come first serve basis only on payment of fees through ICAI RVO portal. No other mode of payment will be accepted.
- For better clarity and clarification of your doubt, please read FAQs https://icairvo.in/faq-icairvo.aspx

Contact Us:

- Continuous Educational Programme (CEP)- Email: icairvocpe@icai.in; Phone: 0120-3876891
- Certificate of Practice (COP)- Email: rvo.program@icai.in; Phone: 0120-3876867
- Educational Course-Email: rvocourse@icai.in; Phone: 0120-3045945

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STATUTORY UPDATES

A. NOTIFICATIONS

1. Amendment in the Companies (Registered Valuers and Valuation) Rules, 2017

Ministry of Corporate Affairs vide its notification dated 21st November 2022 has amended the Companies (Registered Valuers and Valuation) Rules, 2017.

Accordingly, in the exercise of the powers conferred by section 247 read with sections 458,459 and 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following amendments of the Rules.

These rules may be called the Companies (Registered Valuers and Valuation) Amendments Rules, 2022 and came into force on 21st November 2022.

The pre and post analysis of the amendments are as follows:

Sl. No.	Rules	Companies (Registered Valuers and Valuation) Rules, 2017 Pre-Amendment	Companies (Registered Valuers and Valuation) Amendments Rules, 2022 Pre-Amendment
1	**Rule 3(2)** **Eligibility for Registered Valuers**	(C) all the partners or directors, as the case may be, are not ineligible under clauses (c), (d), (e), (f), (g), (h), (i), (j) and (k) of sub-rule (1)	(C) all the partners or directors, as the case may be, are not eligible under clauses (c), (d), (e), (f), (g), (h), (i), (j) and (k) of sub-rule (1) **New Insertion** **After clause (e), the following clause shall be inserted** (f) it is not a member of a registered valuers organisation: Provided that it shall not be a member of more than one such registered valuers organisation at a given point of time. Provided further that the partnership entity or company, already registered as valuers, on the date of commencement of the Companies (Registered Valuers and Valuation) Amendment Rules, 2022 shall comply within six months of such commencement with the conditions specified under this clause.
2	**Rule 7A** **Intimation of changes in personal details etc., by registered valuers to authority**	N/A	**New Insertion** **After Rule 7 the following Rule shall be inserted.** 7A. A registered valuer shall intimate the authority for change in personal details, or any modification in the composition of partners or directors, or any modification in any clause of the partnership agreement or Memorandum of Association, which may affect registration of registered valuer, after paying fee as per the Table-I in Annexure V.

3	**Proviso to Rule 8 of Companies (Registered Valuers and Valuation) Rules, 2017** **Conduct of Valuation**	Provided that until the valuation standards are notified or modified by the Central Government, a valuer shall make valuations as per- (a) Internationally accepted valuation standards; (b) Valuation standards adopted by any registered valuers organisation.	Provided that until the valuation standards are notified or modified by the Central Government, a valuer shall make valuations as per- (a) Internationally accepted valuation standards; or (b) Valuation standards adopted by any registered valuers organisation.
4	**Rule 14A:** **Intimation of changes in composition of governing board etc. by the registered valuers organisations to the authority**	N/A	**New Insertion** **14A Intimation of changes in composition of governing board etc. by the registered valuers organisations to the authority** A registered valuers organisation shall intimate the authority for change in composition of its governing board, or its committees or appellate panel, or other details, after payment of fee as per the Table II in Annexure V.
5	**Annexure-III, in Part II, in serial Number XI, in clause 26, in sub clause (1), in item (b):** **Surrender of Membership and Expulsion from Membership**	N/A	New Insertion Explanation. - For the removal of doubts, it is hereby clarified that a member functioning as a whole time director in the company registered as valuer shall not be treated as taking up employment for the purpose of this provision.
6	**Annexure-IV, the existing note shall be numbered as Note 1 and after the Note 1 , Note 2 shall be inserted**	Annexure-IV, the existing note shall be numbered as Note 1	New Insertion Note 2: In case of asset classes namely, the 'plant and machinery' and 'land and building', the corresponding relevant nomenclature for the branches of the engineering and technology of graduate and post-graduate courses referred to in the notification number F.No. 27/RIFD/Pay/01/2017-18, dated the 28th April, 2017, issued by the All India Council for Technical Education, shall also be considered.
7	**After Annexure-IV:** **New Annexure-V shall be inserted**		**New Insertion** Refer to the below table

ANNEXURE-V

(See rule 7A and 14A)

TABLE-I

(Fees to be paid to the authority for change in details of registered valuers):

S.NO	Particular of Change	Fee (in rupees)*	
(1)	(2)	(3)	
1.	Communication details like Name, Address, e-mail etc.,	250/-	500/-
2.	Transfer of membership of Registered Valuers Organisation.	500/-	1,000/-
3	Change in composition of Board of Directors, or partners, in the company or partnership entity, as the case may be.	Nil	2,000/-
4	Change in Memorandum of Association of company or partnership agreement of the partnership entity, as the case may be.	Nil	2,000/-
5	Any other details	250/-	500/-

*plus GST/other taxes as may be applicable.

TABLE-II

[Fees to be paid to the authority for change in details of Registered Valuers Organisation (RVO)]:

S.NO	Particular of Change	Fee (in rupees)*
(1)	(2)	(3)
1.	Composition of Governing Board of the RVO	5,000/-
2.	Chief Executive Officer/Managing Director of an RVO	2,000/-
3.	Name of an RVO	10,000/-
4.	Registered Office address of the RVO	2,000/-

*plus GST/other taxes as may be applicable.

[Notification No. F.No.1/27/2013-CL-V dt.21st November, 2022]

For details please visit:

https://icairvo.in/documents/policy/Valuation%20Rules%20amendment.pdf

B. PRESS RELEASE

1. Utilisation of services of Registered Valuer by all Government Departments.

The 26th Meeting of the Financial Stability and Development Council (FSDC) was held today under the Chairpersonship of the Union Finance Minister, Smt. Nirmala Sitharaman.

The meeting was attended by Hon'ble Dr. Bhagwat Kishanrao Karad, MoS (Finance); Hon'ble Shri Pankaj Chaudhary, MoS (Finance); Shri Shaktikanta Das, Governor, Reserve Bank of India; Dr. T. V. Somanathan, Finance Secretary and Secretary, Department of Expenditure, Ministry of Finance; Shri Ajay Seth, Secretary, Department of Economic Affairs, Ministry of Finance; Shri Tarun Bajaj, Secretary, Department of Revenue, Ministry of Finance; Shri Sanjay Malhotra, Secretary, Department of Financial Services, Ministry of Finance; Dr. V. Anantha Nageswaran, Chief Economic Adviser, Ministry of Finance; Ms. Madhabi Puri Buch, Chairperson, Securities and Exchange Board of India; Shri Debasish Panda, Chairperson, Insurance Regulatory and Development Authority of India;

Shri Supratim Bandyopadhyay, Chairperson, Pension Fund Regulatory and Development Authority; Shri Ravi Mittal, Chairperson, Insolvency and Bankruptcy Board of India, Shri Injeti Srinivas, Chairperson, International Financial Services Centres Authority, and the Secretary of the FSDC, Department of Economic Affairs, Ministry of Finance.

The Council, inter alia, deliberated on the Early Warning Indicators for the economy and our preparedness to deal with them, improving the efficiency of the existing Financial/ Credit Information Systems, issues of governance and management in Systemically Important Financial Institutions including Financial Market Infrastructures, strengthening cyber security framework in financial sector, Common KYC for all financial Services and related matters, update on Account Aggregator and next steps, Issues relating to financing of Power Sector, strategic role of GIFT IFSC in New Atmanirbhar Bharat, inter- regulatory Issues of GIFT-IFSC, and need for utilisation of the services of Registered Valuers by all Government Departments.

It was noted that there is a need to monitor the financial sector risks, the financial conditions and market developments on a continuous basis by the Government and the regulators so that appropriate and timely action can be taken so as to mitigate any vulnerability and strengthen financial stability.

The Council also took note of the preparation in respect of financial sector issues to be taken up during India's G20 Presidency in 2023.

[Press File No. 18/ 14/2022—FSDC dated 15th September, 2022]

For details pleaswe visit:

https://icairvo.in/documents/Press%20Release%20dt.15.09.2022.pdf

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JUDICIAL PRONOUNCEMENTS

1. Alok Kaushik Vs. Bhuvaneshwari Ramanathan and Ors., (Civil) Appeal No. 4065 of 2020 decided on 15.03.2022 (Supreme Court)

- The National Company Law Tribunal (NCLT) has jurisdiction under Section 60(5)(c) of the Insolvency and Bankruptcy Code, 2016 (IBC) to adjudicate as insolvency cost, the monetary claim of an expert valuer appointed by Resolution Professional (RP) during the Corporate Insolvency Resolution Process (CIRP), even after the CIRP is set aside.
- The availability of a grievance redressal mechanism under Sections 217-220 of the IBC against an insolvency professional does not divest the NCLT of its jurisdiction under Section 60(5)(c) of the IBC to consider the amount payable to the Appellant/professional as the purpose of such a grievance redressal mechanism is to penalize errant conduct of the RP and not to determine the claims of other professionals which form part of the CIRP costs.

Section 60(5) read with Sections 217-220 of Insolvency and Bankruptcy Code, 2016 read with Regulations 30(A) and 34 of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 – Authority for Corporate Persons - Jurisdiction to Entertain or Dispose Application

Fact of the case:

The appellant was appointed as a registered valuer by the first Respondent to value the plant and machinery of the Corporate Debtor across India. The Appellant's appointment fee and other expenses were ratified by the Committee of Creditors (CoC), led by the second Respondent. The Appellant claimed to have conducted valuation work of over eighty-four sites and to have visited forty sites. Further, several outstation meetings were also stated to have been conducted between the Appellant and the first Respondent i.e., the Resolution Professional.

The National Company Law Appellate Tribunal (NCLAT) set aside the initiation of CIRP against the Corporate Debtor. The NCLAT remanded the matter back to the NCLT to decide on the issue of CIRP costs. In view of the order of the NCLAT, the first Respondent canceled the appointment of the Appellant. The first Respondent paid certain sum as fee to the Appellant on the that the fee as ratified could not be paid. The Appellant filed an application under Section 60(5) of the Insolvency and Bankruptcy Code, 2016 before the NCLT challenging the non-payment of the fees. However, the NCLT dismissed the application concluding that it had been rendered functus officio. In appeal, the NCLAT rejected the contention of the Appellant. Hence, this appeal to the Supreme Court.

The issue in the present appeal relates to the costs, charges, expenses and professional fees payable to a registered valuer appointed after the initiation of the CIRP under the IBC, in a situation where the CIRP is eventually set aside by the Adjudicating Authority or, as the case may be, Appellate Authority.

The Supreme Court held as follows:

Regulation 30(A) would not apply specifically to the present situation, since it deals with a case where an application is withdrawn under Section 12A of the IBC. The Appellant was justified in contending that there must be a forum within the ambit and purview of the IBC which had the jurisdiction to decide on a claim of the present nature, which had been instituted by a valuer who was appointed in pursuance of the initiation of the CIRP by the RP. After the NCLAT set aside the CIRP and remitted the proceedings to the NCLT to decide on the CIRP costs, the NCLT held that it was rendered *functus officio* in relation to the Appellant's claim. This, would be an incorrect reading of the jurisdiction of the NCLT as an Adjudicating Authority under the IBC. [Para 18]

Though the CIRP was set aside later, the claim of the Appellant as a Registered Valuer related to the period when he was discharging his functions as a registered valuer was appointed as an incident of the CIRP. The NCLT would have been justified in exercising its jurisdiction under Section 60(5)(c) of the IBC and, in the exercise of jurisdiction under Article 142 of the Constitution, accordingly order and direct that in a situation such as the present case, the Adjudicating Authority was sufficiently empowered under Section 60(5)(c) of the IBC to make a determination of the amount which is payable to an expert valuer as an intrinsic part of the CIRP costs. Regulation 34 of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 defines 'insolvency resolution process cost' to include the fees of other professionals appointed by the Resolution Professional. Whether any work had been done as claimed and if so, the nature of the work done by the valuer was something which need not detain this, Court; since it was purely a factual matter to be assessed by the Adjudicating Authority. [Para 19]

The NCLT in its order while dismissing the application of the Appellant for the payment of fees, observed that the Insolvency and Bankruptcy Board of India (IBBI) was the competent authority to deal with allegations against the Resolution Professional relating to their failure to discharge statutory duties. Section 217 of the IBC empowers a person aggrieved by the functioning of a Resolution Professional to file a complaint to the IBBI. If the IBBI believes on the receipt of the complaint that any Resolution Professional had contravened the provisions of IBC, or the rules, Regulations or directions issued by the IBBI, it can, under Section 218 of the IBC, direct an inspection or investigation. Under Section 220 of the IBC, IBBI can constitute a disciplinary committee to consider the report submitted by the investigating authority. If the disciplinary committee is satisfied that sufficient cause exists, it can impose a penalty. The availability of a grievance redressal mechanism under the IBC against an insolvency professional does not divest the NCLT of its jurisdiction under Section 60(5)(c) of the IBC to consider the amount payable to the Appellant. In any event, the purpose of such a grievance redressal mechanism was to penalize the errant conduct of the Resolution Professional and not to determine the claims of other professionals which form part of the CIRP costs. [Para 20]

Therefore, the Hon'ble Supreme Court set aside the impugned judgment and order of the NCLAT. The proceedings shall accordingly stand remitted back to the NCLT for determining the claim of the Appellant for the payment of the professional charges as a Registered Valuer appointed by the Resolution Professional in pursuance of the initiation of the CIRP. [Para 21]

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2. Mahrashtra Seamless Limited Vs. Padmanabhan Venkatesh and Others, Civil Appeal No. 4242 and 4967-4968 of 2019 decided on 22.01.2020 (Supreme Court)

- There is no provision in the Regulations or Code which provides that the bid of any Resolution Applicant has to match the liquidation value.
- Once, a resolution plan is approved by the CoC, the statutory mandate on the Adjudicating Authority under Section 31(1) of the Code is just to test the Resolution Plan with reference to provisions of Section 30(2) of the Code.
- The exit route prescribed in Section 12-A is not applicable to a Resolution Applicant.

Regulation 35 read with Regulation 27 of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 read with Sections 30(2)&(4), and 31(1) of the Insolvency and Bankruptcy Code, 2016 - Fair value and Liquidation value

Sections 12A of the Insolvency and Bankruptcy Code, 2016 - Withdrawal of Application Admitted under section 7, 9 or 10

Facts of The Case:

The National Company Law Tribunal (NCLT), Hyderabad Bench admitted the petition filed under

Section 7 of IBC, 2016 by the Indian Bank and initiated the CIRP proceedings against the United Seamless Tubulaar Pvt. Ltd (hereinafter referred to as the Corporate Debtor). The Resolution Professional so appointed received four resolution plans and the same along with the liquidation value and fair value were placed before the Committee of Creditors (CoC). In the 8th CoC Meeting, the resolution plan submitted by Maharashtra Seamless Ltd. (MSC), was approved by the Majority of CoC by 87.10% of voting shares, consisting of the Deutsche Bank International (Asia) Limited holding 73.40% vote share and the Indian Bank holding 12.90% voting share in the CoC.

Two Registered Valuers were initially appointed by the Resolution Professional for determining the value of the Corporate Debtor. Their valuations were to the tune of Rs. 681 crores and Rs. 513 crores respectively. On account of the substantial difference in their valuations, the Committee appointed a third Registered Valuer. They valued the Corporate Debtor at Rs. 352 crores. The Committee thereafter took into consideration the average of the two closest estimates of valuation and liquidation value was assessed to be Rs. 432.92 crores.

The Resolution Professional filed an application before the NCLT Bench of Hyderabad for the approval of the Resolution Plan of Maharashtra Seamless Ltd. (MSL). The NCLT Bench disposed-off the application and further directed the Resolution Professional to re-determine the liquidation value of the Corporate Debtor by taking into consideration the average of the first and second valuations and consequently, the valuation was revised from Rs. 432.92 Crores to Rs. 597.54 Crores. The Adjudicating Authority directed the RP to convene a meeting of the CoC to place the qualified Resolution Plan for reconsideration in light of revised liquidation value of the Corporate Debtor. The aforesaid order of the NCLT Bench was challenged before the appellate authority (NCLAT) by the Resolution Applicant, Maharashtra Seamless Limited. The Tribunal vide its order dated 12th November 2018 disposed of the appeal with directions to the NCLT Bench of Hyderabad to pass orders on the Resolution Plan under Section 31 of the IBC, 2016. The NCLT, Hyderabad bench vide order dated 21.01.2019, approved the Resolution Plan proposed by MSL which involved an upfront payment of Rs.477 Crores and additional fund infusion on the takeover of Corporate Debtor.

A number of parties raised objection against the Resolution Plan submitted by M/s. Maharashtra Seamless Ltd., on different grounds and accordingly appeals, were filed against the same NCLAT. The NCLAT held that since the amount provided in the Resolution Plan was lower than average of the liquidation value arrived at by the Valuers, therefore, the Resolution Plan approved by the Adjudicating Authority is against Section 30(2) of the IBC, 2016 and is against the statement and object of the IBC, 2016. Further, held that 'M/s. Maharashtra Seamless Ltd.' Should increase upfront payment of Rs.477 Crores as proposed to the 'Financial Creditors', 'Operational Creditors' and other Creditors to Rs. 597.54 Crores by paying additional Rs.120.54 Crores approximately to make it at par with the average liquidation value of Rs. 597.54 Crores.

Hence, it held that if 'The Resolution Applicant' modifies the 'Resolution Plan', as ordered above, and deposits another sum of Rs.12.54 Crores within 30 days, by improving the plan, the Adjudicating Authority will allow 'M/s. MSL to take over the possession of the 'Corporate Debtor' including its moveable and immoveable assets and the plant. On failure, the plan was approved in favor of M/s. MSL is deemed to be set aside and the Adjudicating Authority will pass appropriate order in accordance with the law.

Supreme Court held as follows:

No provision in the Code or Regulations has been brought to our notice under which the bid of any Resolution Applicant had to match liquidation value arrived at in the manner provided in Clause 35 of the Insolvency and Bankruptcy Board of India Regulations, 2016. [Para 26]

The object behind prescribing such a valuation process was to assist the CoC to take a decision on a resolution plan properly. Once, a resolution plan was approved by the CoC, the statutory mandate on the Adjudicating Authority under Section 31(1) of the Code is to ascertain that a resolution plan meets the requirement of Sub-sections (2) and (4) of Section 30 thereof. There was no breach of the said provisions in the order of the Adjudicating Authority in approving the resolution plan. [Para 27]

The Appellate Authority had proceeded on equitable perception rather than commercial wisdom. On the face of it, release of assets at a value twenty percent below its liquidation value arrived at by the valuers seems inequitable. The Court ought to cede ground to the commercial wisdom of the creditors rather than assess the resolution plan on the basis of quantitative analysis. Such was the scheme of the Code. Section 31(1) of the Code lays down in clear terms that for final approval of a resolution plan, the Adjudicating Authority has to be satisfied that the requirement of Sub-section (2) of Section 30 of the Code has been complied with. The proviso to Section 31(1) of the Code stipulates the other point on which an Adjudicating Authority has to be satisfied. That factor was that the resolution plan has provisions for its implementation. The scope of interference by the Adjudicating Authority in limited judicial review had been laid down in the case of Essar Steel. The case of Appellant in their appeal was that they want to run the company and infuse more funds. In such circumstances, the Appellate Authority ought not to have interfered with the order of the Adjudicating Authority in directing the successful Resolution Applicant to enhance their fund inflow upfront. [Para 28]

MSL cannot withdraw from the proceeding in the manner they have approached this Court. The exit route prescribed in Section 12-A is not applicable to a Resolution Applicant. The procedure envisaged in the said provision only applies to applicants invoking Sections 7, 9 and 10 of the IBC, 2016. In this case, having appealed against the NCLAT order with the object of implementing the resolution plan, MSL cannot be permitted to take a contrary stand in an application filed in connection with the very same appeal. Moreover, MSL has raised the funds upon mortgaging the assets of the corporate debtor only. In such circumstances, we are not engaging in the judicial exercise of determining the question as to whether after having been successful in a CIRP, an applicant altogether forfeits their right to withdraw from such process or not. [Para 29]

Hence, the Supreme Court, after taking into consideration the facts of the case held that there is no breach of the provisions of the IBC, 2016 or the Regulations thereunder; upheld the order of the Adjudicating Authority approving the Resolution Plan and set aside the order of NCLAT dated 8 April, 2019.

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ARTICLE

DISTRIBUTION NETWORK VALUATION

Jaideep Chakravarthy

(The Author is a Registered Valuer Member of ICAI RVO. He can be reached out Jaideep.chakravarthy@gmail.com)

This article seeks to articulate ways and means of valuing a distribution network, which is a pivotal intangible asset. A distribution network represents a significant asset that can be leveraged by its owner to market itself to potential investors. Specifically, this article argues that the WITH & WITHOUT methodology can be used to value distribution networks. This article, further provides a breakdown of the benefits emanating from distribution networks and critically appraises the valuation methodology. Subsequently, it discusses why other valuation methodologies may possibly not be applicable and conclude by advocating the need for further research on this topic.

Introduction

Two decades ago, foreign financial service firms (e.g., insurance firms, etc.) entered the Indian market in large numbers. These foreign companies did not possess the branch network to sell their products in India. Moreover, as per Indian regulations, these foreign corporations had to enter into joint ventures with Indian players who already had a distribution network, brand, and human resources needed to sell financial products such as insurance.

Indian firms thus believed that these foreign players had to pay a premium because they possessed intangible assets (for instance branches), which were hard to replicate and duplicate. Branches take a considerable time to create and once well-established they represent a significant asset as many customers may also visit the branch even on a daily basis. Once such an event occurs (i.e., customer footfall is high), then cross-selling products becomes feasible.

Income Approach

There are 3 approaches to valuation viz.:

- Cost Approach
- Income Approach
- Market Approach

In this paper, cognizance of the Income Approach only has been taken. The income approach subsumes the Discounted Cash Flow approach, which computes the intrinsic value of the distribution network (as in this case) as the present value of the future benefits that emanate from the future benefits, which accrue from the distribution network.

In order to arrive at the discount rate, the Capital Asset Pricing Model is used to determine the cost of equity:

Cost of equity = Risk Free rate + Beta*(Equity Market Risk Premium)

Cost of debt = Interest rate on debt

Then the debt-equity ratio is used to weight the cost of equity and the cost of debt to arrive at the discount rate.

Premium determination: What should not be done

A valuation based on the Discounted Cash Flow method can be done to arrive at the valuation. But this will NOT be a Free Cash Flow to Firm or Free Cash Flow to Equity valuation as the firm is not being valued but it is the distribution network that is being valued. It, therefore, becomes imperative to identify the value drivers on which the distribution network is predicated upon.

Case Study

An Indian hire purchase & leasing company may wish to enter into the insurance business and it may possess a well-entrenched branch network but it may lack the ability to sell financially sophisticated products. In such a context, the foreign player may provide the sophisticated product whilst the Indian player will provide a pan-India branch network to sell these products resulting in considerable synergies.

Specifically, the Indian hire purchase & leasing company may have customers who operate buses across the nation and require motor insurance products. But the hire purchase & leasing company may not know how to price and craft the motor insurance product in a bespoke manner, thus satisfying the customer's needs and wants. The preceding example shows where the foreign insurance company has a competitive advantage as it has global experience in creating such products. However, the Indian hire purchase & leasing company will have a branch network to attract and retain customers that gives it a competitive advantage. Clearly, the foreign insurance company and the Indian hire purchase & leasing firm can enter into an alliance to sell insurance products in India. Evidently, there is a business argument for the genesis of an insurance firm where both the Indian hire purchase & leasing company and the foreign insurance company can be partners.

"The WITH and WITHOUT method can be used to value the distribution network of the Indian hire purchase & leasing company in terms of the cost savings."

Valuation: What ought to be done

A thorough analysis must be undertaken to identify the value drivers (as mentioned earlier) that give the distribution network owner a competitive advantage. These advantages can be broken down in an ensuing manner:

- **Additional Income Benefits**

The distribution network will also possess an existing customer base and hence the potential to cross sell products must be carefully assessed and evaluated. In the case study given earlier, we spoke about an Indian hire purchase & leasing company, which is in the commercial trucking business and has entered into an alliance with a foreign insurance company, which distributes motor insurance products.

The Indian company will have field officers working in the branch who will have a fair idea of the income-generating capacity and costs incurred by the commercial truck owner. Thus, an understanding of the risks and rewards of the commercial truck owner will now be available to the foreign insurance company via its Indian partner.

Thus, WITH its Indian partner the foreign insurance company is able to sell a number of motor insurance products to Indian commercial truck owners. In other words, the Indian partner through its Indian branches has provided an advantage to the foreign insurance firm to equitably price and sell its products. If the foreign insurance company was WITHOUT its Indian partner then it would not have enjoyed such benefit(s).

- **Greater Cost Savings**

If the foreign insurance company had been WITHOUT its Indian partner it would have to incur additional customer acquisition costs (list not exhaustive) as enumerated below:

1. Sales & Marketing
2. Promotions
3. Credit assessment

These aforesaid expenses have already been incurred when the Indian hire purchase & leasing company established its distribution network across the nation. Thus, the WITH and WITHOUT method can be used to value the distribution network of the Indian hire purchase & leasing company in terms of the cost savings.

- **Capital Expenditure Advantages**

When a branch is created especially across the nation, considerable amount of pecuniary and other resources has to be expended to create such assets. For instance, office space may have to be rented or purchased as the case may be and it needs to have furniture, computers etc. to make it functional.

If this office, furniture and computers had been part of a new project by the foreign insurance to enter into India on its own then it would have to expend on these line items on its own but because it has an alliance WITH an Indian partner it does not have to spend on such items. Thus, these represent cost-savings to the foreign company that will need to factored in the valuation as the Indian partner brings such costs savings to the negotiation table. Note that this may appear small but imagine a case where the Indian company already has branches across the nation (say 150 branches), then this represents immense cost savings. The foreign player may possess the monetary resources but it cannot build such a huge network in even a 3 to 4 years time span WITHOUT its Indian partner. Obviously, the Indian player has considerable leverage, and the WITH & WITHOUT method can indeed capture this facet of the valuation.

"Working capital is a key value driver and it needs to be incorporated into the valuation."

- **Working Capital benefits**

The aforesaid advantages are not limited to income, costs and capital expenditure. The Indian hire purchase & leasing firm may also possess working capital benefits, which the foreign insurance company cannot plausibly enjoy at the very inception of operations.

E.g., the Indian hire purchase & leasing firm may be able to collect dues from customers (i.e., debtors) in a relatively short time span relative to its rivals. Consequently, the foreign insurance company can now piggyback on its Indian partner and WITH its Indian partner it can collect its dues relatively rapidly and swiftly than it would have had it been WITHOUT the Indian partner. Thus, the WITH and WITHOUT methodology captures this benefit as well.

This is a frequently ignored aspect but the fact remains that working capital is a key value driver and its needs to be incorporated in the valuation.

Valuation Template

The below table captures and seeks to quantify these benefits:

(All figures are in INR)

Income Benefits	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Additional Sales	120000	120000	120000	120000	120000
Cost Advantages					
Promotion costs	500000	500000	500000	500000	500000
Sales & Marketing	250000	250000	250000	250000	250000
Credit appraisal costs	300000	300000	300000	300000	300000
Capital Expenditure Savings					
Branches	20	30	40	50	60
Capital Expenditure per branch	200000	200000	200000	200000	200000
Total Capital Expenditure	4000000	6000000	8000000	10000000	12000000
Working Capital Benefit					
1 month of sales	10000	10000	10000	10000	10000
Savings to the Foreign Insurance firm	**5180000**	**7180000**	**9180000**	**11180000**	**13180000**
Less: Tax @30%	1554000	2154000	2754000	3354000	3954000
Post tax value of cash flows	**3626000**	**5026000**	**6426000**	**7826000**	**9226000**
Discount factor @12%	0.893	0.797	0.712	0.636	0.567
PV of cash flows	3237500	4006696	4573900	4973564	5235080
Total PV of cash flows	22026741				

Tax Amortization Benefit

While distribution networks are not specifically mentioned the benefit derived from higher income, lower costs, capital expenditure and working capital all emanate from customer relationships. Thus, if we assume a discount rate of 12%, 5-year period and a 30% tax rate, the Tax Amortization Benefit factor (Source: http://www.taxamortisation.com/tab-calculator.html) is 1.235.

In this hypothetical scenario, if we multiply 1.235 with INR 2.2 Cr. (equivalent to INR 22,026,741) we arrive at a valuation of INR 2.72 Cr.

Note: Tax Amortization Benefit is a contested issue and constitutes a gray area. Practitioners are advised to seek the advice of an expert on the applicability of Tax Amortization Benefit. The aforementioned example is merely a hypothetical construct.

Critical Appraisal

- **Human resource cost exclusion**

Human resources are a key component of business operations and we have not considered it explicitly in the model. An argument can be made that this exclusion will undermine the credibility of the model. While this is certainly valid, it could also be argued that the foreign insurance company can itself hire people in a facile manner, thus eroding the case to subsume human resource costs in the model.

- **Brand**

The brand of the Indian hire purchase & leasing company will play a crucial part in augmenting revenue by attracting customers and minimizing costs by maintaining a ceiling on advertisement costs, reducing the recruitment and retention costs associated with human talent etc. Thus, the brand of the Indian hire purchase & leasing company will provide multifarious benefits to the alliance.

Using the same line of argument, the foreign insurance company will also have its own pedigree and it can also argue in a compelling manner that it brings a world-renowned brand to the negotiations. The foreign insurance company will possess a high degree of expertise in risk management for instance that will be highly useful in managing the business in an efficacious manner.

The model does not capture such benefits but the fact remains that the brand equity of both the Indian hire purchase & leasing company and that of the foreign insurance firm are reflected in the higher revenue streams and lower costs incurred by the resulting joint venture between both parties. Thus, at one level such benefits are being captured but perhaps not in a direct way.

Why other valuation methodologies are not feasible

It could also be persuasively argued that the following methodologies could also be used to valued distribution networks, but we now posit, albeit briefly, reasons as to why such methodologies may not be applicable.

- **Excess Earnings Method**

In this case, we will need to identify contributory assets that will be an arduous exercise, thus precluding one from using this method. But if such contributory assets can be easily identified, then we can indeed consider using this method.

- **Royalty Relief Method**

Apropos the royalty relief method, we will need to identify hypothetical royalty payments that would be saved from owning the asset rather than third party licensing. Needless to add, the inability to find such a royalty rate will impede this method from being used.

- **Greenfield Method**

This methodology is predicated on the key assumption that the subject intangible (viz. distribution network) is the sole intangible asset that is to be valued. But as the discourse shows there are many other intangibles that are involved in the process, thus preventing the use of this methodology in a practical way.

- **Distributor Method**

This methodology entails the identification of distributors in similar/same business lines and the computing their profit margin that is then applied to the projected revenue. Given the specificity of businesses, it would be difficult to find such distributors and moreover profit margins are highly confidential and similar/same distributors will be reluctant to divulge the precise profit margin, potentially rendering this methodology infeasible.

Conclusion

Distribution networks clearly represent a critical asset. An EY study on purchase price allocation rightly observed that "allocation of value to the dealer network is amongst the lowest, implying that it is not a key driver for acquisitions, though considered a key element for many industries". The purpose of this article is to challenge this perspective and foster intellectual debates. One is sanguine that this will paper act as a catalyst for more research on the crucial theme of distribution network valuation.

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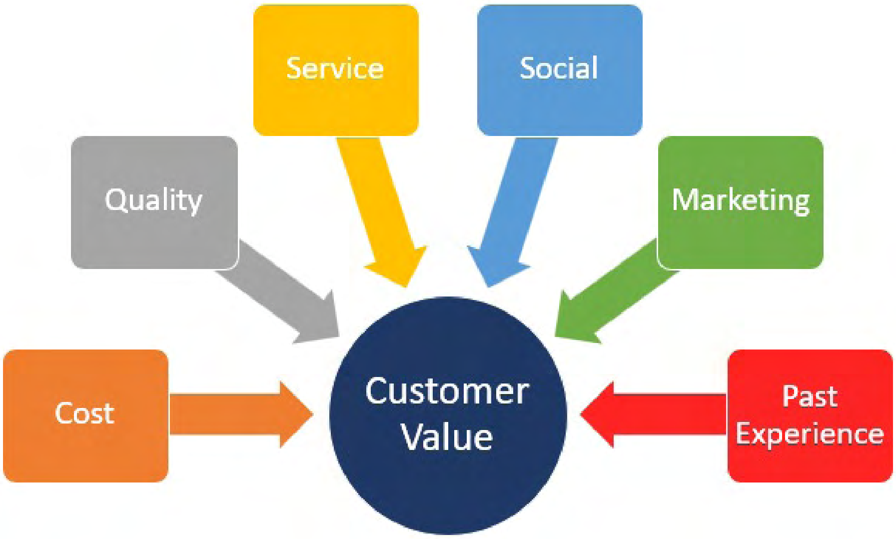
VALUE OF CUSTOMER: ON VALUATION PERSPECTIVE



CA. Deepak Sharma
(The Author is a Chartered Accountant/Registered Valuer. He can be reached out dnsharma@outlook.com)

Introduction

We come across many digital products and services in the new age digital world. A number of products and services are so called "free" to the customer. This term "free" may not have any upfront costs i.e. complimentary to the customer, hence seems to be free to the customer. This leads to the question on how anyone can offer something for free. This needs to be understood from a wider perspective of the company/organisation that is offering the product and services free to the customer. In the new age digital world, traditional ways to attract customer may not be very feasible and needs a re-look at mechanisms and importance of modern approaches to customer relationships.

"Technological developments have enabled higher accessibility of resources, and this has led to a high rate of production of goods"

Customer is GOD

We may have come across many sayings that the customer is always right. There is a very specific proverb in Japanese - "okyakusama wa kamisama desu" which translates into Customer is God. More specifically the term "kyakusama" means customer but expresses particular honour and adoration as in for an honoured guest.

Similarly in German language there is an expression in business "der Kunde ist König" which directly translates into Customer is King. Thus, the status of customer is one who is admired and respected across the different cultures.

Consumerism

In most of the earlier times, people would consume resources to survive. Accordingly, the consumption was towards the necessities for life. A frugal way of life was the norm whereas consuming heavily or excessively was looked down and termed as being careless by the world at large. Such restricted consumption was also due to the fact of resource limitation and also limitation on the extent to which these resources could be exploited by extraction and conversion.

In the modern era, technological developments have enabled higher accessibility of resources. This has led to a high rate of production of goods. More recently, availability of consumer credit has enabled high buying power for the consumer. Another aspect that helped is global supply chain management giving power to consumers in the remotest part of the world to order and consume any product or service of their choice.

> **"Marketing has evolved from a transaction-oriented task to a relationship with the customer. Hence, the customer relationship process is more about defining, developing, and delivering value to the customer"**

Customer Relationship

For a company, the customer is the key driver of business. He is not only a consumer of products and services, he is also a critical source of review and response on the products and services. This helps the company to improve upon the product and services. Accordingly, the importance of customer needs no further endorsement. Thus, the customer can be a key deciding factor for a company to either grow or perish. Thus, over the years, marketing has evolved from a transaction oriented task to a relationship with the customer. Accordingly, the process is more about defining, developing and delivering value to the customer. A high rate of competition has ensured that quality and effective service is provided to satisfy the consumer and loyalty be developed. This has also led to higher switching of brands by consumers getting higher satisfaction from a rival goods or service provider.

Customer relationship is now about the customer value and value chain. From an organisation/company perspective, the relationship defines the business and is a key strategic asset. Customers are now central to all the marketing endeavours of the company because they do not only generate income, but also increase the market value of the company as well. Customer Relationship Management (CRM) is now at the core of all interconnected processes and activities that design, connect and deliver values for customers.

The availability of large amounts of data (big data) about the individual customers and groups of customers has enabled a more granular understanding of the relationship. This progression has now enabled a significant deviation from past forms centred around brand equity, product and transaction towards customer relationship which is a valuable intangible asset of the company. The objective of CRM is towards expanding to new customer, retain existing customer and forge long-term relationship with customers.

This leads to an important question: What is the value of the customer? Or more specifically for a business organisation, what is the true value that a customer is worth so as to design business strategies.

Models for calculating Value of Customer

A. RFM – Recency, Frequency, and Monetary (RFM) approach [1]

The Recency, Frequency, and Monetary (RFM) approach is a method to identify customers who are more likely to respond to new offers.

RFM groups customers by:

1. Recency:

Time since the customer made his/her most recent purchase. Customers who made a recent purchase would have the product on their minds and are more likely to buy the product again. Generally, this is measured in days, however, few businesses may measure this in years, weeks, or even hours.

2. Frequency:

Number of purchases this customer made within a designated time period. Customers who purchased a product once are also more likely to buy it again. Also, such first-time customers may be a good potential target for a follow up to convert them into frequent customers

3. Monetary:

Average purchase amount. Customers who spend a large amount of money are more likely to spend higher amounts in the future and give higher value to a business.

Under RFM analysis a score is ascribed to the three factors. Below is an example of RFM analysis. Here three customers namely, Akash, Suresh and Rohan are tagged to understand the scores assigned.

R (recency) is measure in a number of months here.

- For R <= 2 points would be 20,
- For R between 2 and 4 points would be 10
- For R between 4 and 6 points would be 5
- For R between 6 and 9 points would be 3

Frequency is measured in number of times purchased in a month.

- For F points calculation would be F * 3

Monetary is value of purchase in each instance.

- M points would be the Rupee purchase (i.e M) * 0.1

Weight are assigned to each of R (0.5 recency), F (0.2 frequency) and M (0.3 monetary). RFM score is the total of weighted points.

RFM Analysis[2]

		Recency				Frequency				Monetary				
	Purchase number	R (months since last purchase)	R points	Weight of R	Weighted R points	F	F points	Weight of F	Weighted F points	M	M points	Weight of M	Weighted M points	RFM score
A	B	C	D	E	F = C*D	G	H	I	J=H*I	K	L	M	N=K*L	O = E+I+M
Rohan	1	2	20	0.5	10	1	3	0.2	0.6	40	4	0.3	1.2	24.9
	c	4	10	0.5	5	1	3	0.2	0.6	120	12	0.3	3.6	
	3	9	3	0.5	1.5	1	3	0.2	0.6	60	6	0.3	1.8	
Akash	1	6	5	0.5	2.5	2	6	0.2	1.2	400	25	0.3	7.5	11.2
Suresh	1	2	20	0.5	10	1	3	0.2	0.6	90	9	0.3	2.7	30.4
	2	4	10	0.5	5	1	3	0.2	0.6	70	7	0.3	2.1	
	3	6	5	0.5	2.5	2	6	0.2	1.2	80	8	0.3	2.4	
	4	9	3	0.5	1.5	1	3	0.2	0.6	40	4	0.3	1.2	

Here it can be observed that the customer – Suresh has highest RFM score of 30.4 as compared to Akash and Rohan who have lower score. The organisation would be interested in targeting more customers in the league of Suresh in above case as they would have a higher RFM score and thus are highly valued by the business.

"Share of wallet is the proportion of category value accounted for by a brand or firm amongst all category purchases by the buyer and amongst a certain base of buyers at the individual level and collective level respectively"

B. SOW – Share of Wallet

Share of wallet (SOW) is the percentage of a customer's expenses on a product that is provided by the firm selling the product. At the individual level, it is the proportion of category value accounted for by a brand or firm amongst all category purchases by the buyer. Thus, at the collective level, it is the proportion of category value accounted for by a brand or firm amongst a certain base of buyers;

For example in a similar example we assess the total amounts spent by each of the customers (Rohan, Akash and Suresh) as compared to the total amount spent by each in the company's product category.

Share of wallet

Customer	Amount spend on company platform	Amount that a buyer spends in total on company's product category	Share of wallet
A	B	C	D = B/C*100
Rohan	220	400	55
Akash	400	800	50
Suresh	280	350	80
Average	**900**	**1550**	**58**

On an individual level the Company's products have the highest share of wallet (SOW) for Customer – Suresh as 80% of his purchase in the product category are from the company. Here he is having very high level of engagement with the company to buy the maximum items from the company as against the competitor company (i.e. total product category). Such customers are valued highest for the company and such customers would be targeted on a higher basis.

On an average level, the company products have a 58% share of wallet (SOW) by including all the customers. This indicates that the company has competitors who are consuming a balance 42% SOW on an aggregate level. Thus the company has 58% serviceable available SOW and the company would have stickiness amongst such customers.

C. Past Customer Value (PCV)

This is the total contribution by the customer towards the present profits based on all the past transactions

Below is the formula for calculating Past customer value:

$$PCV_i = \sum_{t=1}^{T} GC_{it} * (1+d)^t$$

- Here GC_{it} = Gross contribution by it's customer's transaction relating to time
- T = number of time periods prior to the current time
- d = discount rate (e.g., 15% per year, 1.25% per month)

The below example highlights the sale to a customer (example Suresh) from April 2021 to Sep 2021. It is assumed that the gross contribution i.e. gross margin is about 40% for each sale. Discount multiplier is considered at 15% per year i.e. 1.25% per month.

Past Customer Value (PCV)

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Total
A. Gross merchandise value (GMV) A	900.00	700.00	800.00	400.00	600.00	500.00	3,900.00
B. Gross contribution @ 40% (A*40%)	360.00	280.00	320.00	160.00	240.00	200.00	1,560.00
C. Discount multiplier (1+d)^t	1.077	1.064	1.051	1.038	1.025	1.013	
PCV (B * C)	**387.86**	**297.94**	**336.30**	**166.08**	**246.04**	**202.50**	**1,636.72**

The total Past Customer Value (PCV) for customer, Suresh is INR 1636.72. Similar calculation can be made to understand the value that a customer provides in comparison with other customers. These scores as calculated using PCV can be a basis for ranking and identifying potentially high value customer for the business.

The three models (RFM, SOW and PCV) discussed above are based on historical information. These do not consider the future revenues and corresponding future costs to service customers.

D. Customer Lifetime Value (CLV)

Customer Lifetime Value i.e CLV is the present value of all future cash flows during the entire lifetime of the relationship with the company. Thus, it is the value of business assigned to the customer during the entire relationship with the company. This is also termed as Lifetime customer value (LCV) or Lifetime value (LTV). Thus, it is the sum total worth of the customer's cash flow to the business over the duration of his engagement with the company.

CLV is the value a customer provides to the business over the entire lifetime at the company. The aim is to maximise the earnings and profits by understanding customer behaviour and business cycles to classify and target customers with highest prospective value over time.

The formula for Customer Lifetime Value (CLV) is as below:

$$CLV = \sum_{t=0}^{T}\left[\frac{M}{(1+d)^t} r^t\right]$$

- M = Contribution
- r = rate of retention for customers
- d = discount rate
- t = time period
- T = total time periods

The below example highlights the sale to a customer (example Suresh) from 2021 to 2028. It is assumed that the sale is constant for the years. Further, it is assumed that the gross contribution i.e. gross margin is about 40%. Discount multiplier is considered at 10% per year. Retention rate (Likelihood of retention) of customer is 30%. It is also assumed that the customer flows are realised at the end of the years.

Customer Lifetime Value (CLV)

	2021	2022	2023	2024	2025	2026	2027	2028
A. Gross merchandise value (GMV)	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00
B. Gross contribution @ 40%	120.00	120.00	120.00	120.00	120.00	120.00	120.00	120.00
C. Discount multiplier 1/(1+d)^t	0.91	0.83	0.75	0.68	0.62	0.56	0.51	0.47
D. Discounted contribution (B*C)	109.09	99.17	90.16	81.96	74.51	67.74	61.58	55.98
E. Retention rate	100.00%	30.0%	9.0%	2.7%	0.8%	0.2%	0.1%	0.0%
F. Discounted contribution * retention rate (D*E)	109.09	29.75	8.11	2.21	0.60	0.16	0.04	0.01
Customer Life-time Value	**150.00**							

Here the customer – Suresh has Customer lifetime value (CLV) of INR 150 based on the retention ratio of 30%. This information can be similarly calculated for each customer on individual level or cohort (group) level. Cohort is a group of customers who can be segmented in a single unit based on their buying habit, spending power, age, region, etc. Thus cohort analysis can be conducted with average revenue per user as one metric being used. Alternately the cohort revenue can be calculated to result in the Customer Lifetime Value (CLV) of the entire cohort. Averaging for the number of customers in the cohort will give the average Customer lifetime value for cohort.

E. Customer Acquisition Cost (CAC)

Customer acquisition cost is the cost incurred to convince a probable customer to buy a product or service. Some of the costs that can be considered part of CAC include sales and marketing staff wages, software costs for sales and marketing, supplementary professional charges for consultants, designers etc along with associated overhead costs to sales and marketing.

$$CAC = \frac{MCC + W + S + PS + O}{CA}$$

- CAC = Customer Acquisition Cost 3
- MCC = total marketing cost for acquisition of customers
- W = wages for sales and marketing team
- S = Software costs related to the marketing and sales (e.g. E-Commerce Platform, artificial intelligence marketing, analytics etc.)
- PS = Professional service costs in marketing / sales (Designer, consultant, etc.)
- O = Other overheads that are associated with marketing and sales
- CA = total number of customers acquired

Extending the above example, following costs may be incurred.

Acquisition Costs	Amount
MCC = total marketing cost for acquisition of customers	200000
W = wages for sales and marketing team	100000
S = Software costs related to the marketing and sales (e.g. E-Commerce Platform, artificial intelligence marketing, analytics etc.)	50000
PS = Professional service costs in marketing / sales (Designer, consultant, etc.)	25000
O = Other overheads that are associated with marketing and sales	25000
Total costs	**400000**

Total number of customers acquired – 6000

$$CAC \quad \frac{400000}{6000} = 66.67$$

Thus, CAC would be 66.67 for each customer acquired. If the customer, Suresh is giving CLV of 150 as compared to CAC of 66.67 i.e ratio of CLV/CAC is about 2.25. Such customers are giving higher value as compared to the costs to acquire.

F. Customer Retention Costs (CRC)

These are the costs incurred by a company providing product or services to retain an existing customer. Some of the costs that can be considered part of CRC include after-sales support staff wages, software costs for after-sales, billing costs, promotion costs etc along with associated overhead costs to after-sales and promotion.

$$CRC = \frac{PCC+W+S+PC+O}{CR}$$

- CAC = Customer Retention Cost
- PCC = total promotion cost for promoting to existing customers
- W = wages for after-sales team
- S = Software costs related to the after-sales (e.g. E-Commerce Platform, supply chain monitoring, analytics etc.)
- PS = Professional service costs in promotion and after-sales (Designer, consultant, etc.)

- O = Other overheads that are associated with after-sales and promotion

CR = total number of customers retained

Extending the above example, the following costs may be incurred.

Acquisition Costs	Amount
PCC = total promotion cost for promoting to existing customers	75000
W = wages for after-sales team	50000
S = Software costs related to the after-sales (e.g. E-Commerce Platform, supply chain monitoring, analytics etc.)	25000
PS = Professional service costs in promotion and after-sales (Designer, consultant, etc.)	10000
O = Other overheads that are associated with after-sales and promotion	10000
Total	**170000**

Total number of customers retained – 4000

$$\text{CRC} \quad \frac{170000}{4000} = 42.50$$

Thus, CRC would be 42.50 for each customer acquired. If the customer, Suresh is giving CLV of 150, CAC of 66.67, and CRC of 42.50 then the customer is giving 40.83 as net profits. Such customers are giving higher value as compared to the costs to acquire and retain.

The company needs to finalise the right strategic decision by computing and tracing the CLV along with the Customer Acquisition Cost (CAC) associated with CLV. This is important to understand the overall profitability of the company from each customer. In an ideal situation, the CLV should be exceeding the CAC i.e. the value of each customer should be more than the cost spent on acquiring a such customer. CLV provides pivotal metrics to the basic financial health of a customer and the strategies employed to acquire him. In case the company is not able to retain or reduce the churn rate then these customers are leaking value for the company. The most important longer term strategy is to keep CAC at the minimum in relation to the CLV. Conversely to keep growing CLV as compared to the CAC to enable higher contribution to the company.

Similarly, Customer Retention Costs (CRC) need to be bench marked to understand the CLV. It is generally understood that the CRC is lower compared to CAC i.e. cost of retaining a customer is lower as compared to acquiring new customers. A combination of CAC and CRC can be assessed against CLV to arrive at the net value each customer is adding to the company. Also pertinent to note is that CAC is an upfront cost vs CRC which is a recurring cost that will be incurred each year. Over a longer term, the active customers can be bench marked to understand the CLV and the value each brings to the company. Thus, the value of customers can be assessed in the new age digital world which ultimately leads to value for the company.

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ARTICLE

PURPOSE OF VALUATION AND PREMISES OF VALUATION

CA. Geetanjali Pandey

(The Author is a Chartered Accountant/Registered Valuer at ICAI RVO. She can be reached out geet.2505@gmail.com)

Introduction

In this global around us, where we are living, the term "Valuation" has a wider importance. What is actually this term "Value", and how it differs from the term "Price?". Both of these words have its own significance and meaning. Price denotes the money that you pay for acquiring something or you are willing to pay, whereas the term Value has more relevance. Value denotes the monetary worth of particular things or assets or liabilities etc., which reflect the importance or necessity of something to you. "Value" is what you believe the product or service is worth to you.

Purpose & Objective of Valuation

A valuation is undertaken for one or more of several reasons/objective i.e. for valuation of any business, for acquiring any business, merger and acquisition, for liquidation, start-up valuation, distress firm valuation, intangible valuation etc., and many more.

Valuation requires a detailed understanding of various factors affecting value, professional judgment and exercise. The Need for valuation depends upon various circumstances and situations prevailing in the market and the necessity and objectives of the person approaching for valuation.

Some of the common purposes of valuation are as follows:

A. Transaction based

- Merger and acquisition
- Demerger

- Leverage buy out
- Management buy out
- Restructuring
- Recapitalization
- Buy back of shares
- Project financing

"Price denotes the money that you pay for acquiring something or you are willing to pay, whereas the term Value has more relevance."

B. Litigation and Court Case

- Bankruptcy and Insolvency
- Contractual disputes
- Ownership disputes
- Divorce cases

C. Compliance Purpose

- Fair Value
- Tax issue
- Financial reporting

D. Planning Purpose

- Personal finance planning
- Strategic planning
- M&A planning

"Depending upon the premises of valuation that have been selected, will consider all the circumstances and conditions that are relevant for the intended purpose".

Premises of Valuation

This is the basic and foremost step to be undertaken before commencing any valuation assignment. We need to first understand the motive/objective of the client and the circumstance and conditions affecting the subject asset/liability undervaluation. Whether we are going to value the asset or liability or business that is going to run for a long or we are valuing for any distressed business that is going to shut down. Depending upon the premises of valuation that we have selected, we will consider all the circumstances and conditions that are relevant to the intended purpose.

- ***Going Concern***

  Under this approach, it is assumed that the particular business is a going concern. Going concern "an ongoing operating business enterprise". While carrying out any valuation assignment we generally take going concern as premises of value. Under this approach we make an assessment considering the potential of the business to grow and survive in this competitive environment by analyzing its strength and opportunities and to identify and overcome its threats and weakness. There are various model and school of thought for assessing the growth and shortcoming of the business like SWOT Model, Michael Porter Five forces, Pest Analysis etc. Under this going concern premise of valuation, we carry out valuation assignment considering all the factors mentioned below:

  a. Highest and Best Use-(HABU Model)

  In accordance with IND AS 113, it takes into account a market participant's ability to generate economic benefits by using the asset at its highest or best use or by selling it to another person that would use the asset at its highest and best use. The highest and best use must be physically possible, financially feasible and legally allowed.

"While carrying out any valuation assignment, generally take going concerned as premises of value and Going concern is an "ongoing operating business enterprises".

For Example - A vendor running a bakery business generating heavy revenue from its bakery products has now decided to lend its trademark/ or give its franchise to another person to make the best and highest use of its asset.

The highest and best use of asset provides maximum value to market participant through its use in combination with other asset as a group or in combination with other asset or liability.

b. Current or existing use

Current or existing use is the current way an asset, liability, or a group of asset, or liability or a group of liability is used. The current use may be, but is not necessarily, also the highest and best use.

"Under the Liquidation Premise of a valuation assignment, liquidation can be either orderly or forced."

- ***Liquidation Premise of Valuation***

Under this premise of valuation, we carry out valuation assignment assuming the business is going to wind up or carrying out the valuation of distressed business. Depending upon the circumstance and condition adversely affecting the business, Liquidation can be either orderly or forced

a. Orderly liquidation

Under this, asset or liability is sold under normal market condition where the seller has reasonable time and devoted its effort for its marketability and gets the reasonable price of the subject asset or liability.

b. Forced Liquidation

Under this, the seller is under compulsion and forced to sell the particular asset or liability without its marketability, a proper marketing period is not possible and the buyer may not be able to undertake due diligence.

"For the purpose of carrying out the valuation, there are certain valuation approaches and methods used for determining the value of the subject asset or liability."

Types of Value

A. Intrinsic Value

Intrinsic value is a measure of what an asset is worth. This measure is arrived at by means of an objective calculation or complex financial model. Intrinsic value is different from the current market price of an asset. However, comparing it to the current price can give investors an idea of whether the asset is undervalued or overvalued.

For the purpose of carrying out the valuation, there are various valuation approaches and methods used for determining the intrinsic value of the subject asset or liability. There is no universal standard for calculating the intrinsic value of a company or stock. Financial analysts attempt to determine an asset's intrinsic value by using fundamental and technical analyses to gauge its actual financial performance. There are discounted cash flows method, relative valuation methods, replacement cost method, reproduction cost method, relief from royalty methods used by the valuer to determine the intrinsic or underlying value of the asset or liability. For eg.- In options pricing, intrinsic value is the difference between the strike price of the option and the current market price of the underlying asset.

"Participant Specific value captures the set of characteristics that makes the business or its asset valuable to the specific investor"

B. Participant Specific Value

Participant specific value denotes the value of the subject asset or liability considering the specific advantage of the asset or liability from the point of view of the acquirer which is not available to other person or any other acquirer in general. For example, Facebook acquire WhatsApp at a price that is more than its net worth and in spite of its accumulated losses, here Facebook pays more attention to the No of users associated with or using WhatsApp which in the future can become prospective users of Facebook and which may be overlooked or may not be valuable for any other acquirer. Participant Specific value captures the set of characteristics that makes the business or its asset valuable to the specific investor.

Participant specific value is the estimated value of an asset or liability considering specific advantages or disadvantages of either of the owner or identified acquirer or identified participants.

"When two companies merge to create greater efficiency or scale, the result is what is sometimes referred to as a synergy merge"

C. Synergistic Value

This is the value which arises from the combination of two or more asset or businesses that has a higher value than the sum of the individual one. Synergy is a term that is most commonly used in the context of mergers and acquisitions (M&A). Synergy, or the potential financial benefit achieved through the combining of companies, is often a driving force behind a merger. If two companies can merge to create greater efficiency or scale, the result is what is sometimes referred to as a synergy merge. The expected synergy achieved through a merger can be attributed to various factors, such as increased revenues, combined talent and technology, and cost reduction. In addition to merging with another company, a company can also create synergy by combining products or markets, such as when one company cross-sells another company's products to increase revenues.

Companies can also achieve synergy between different departments by setting up cross-disciplinary workgroups in which teams work cooperatively to increase productivity and innovation. For example, a retail business that sells clothes may decide to cross-sell products by offering accessories, such as jewelry or belts, to increase revenue.

"Fair value is the estimated price at which an asset is bought or sold when both the buyer and seller freely agree on a price"

D. Fair Value

Fair value is a market-based measurement, not an entity-specific measurement. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. It is the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participant at the measurement date under current market condition. Fair value is the estimated price at which an asset is bought or sold when both the buyer and seller freely agree on a price. An entity measure Fair value using valuation technique that maximize the use of relevant observable input and minimize the use of unobservable input.

Observable input like if the shares of a particular company are listed then its quoted price/traded price in an active market becomes its observable input to determine fair value of shares. However, if the company is a closely held company whose shares are not listed, then valuation technique will be used that takes into the future cash flows the that a market participant would expect to receive from holding the particular asset or liability. Fair value accounting is the practice of measuring a business's liabilities and assets at their current market value. If the fair value of a stock share is $100, and the market price is $95, an investor may consider the stock undervalued and buy the stock. If the market price is $120, the investor will likely forego the purchase as the market value does not align with their idea of fair value.

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HOW TO VALUE YOUR BUSINESS DURING COVID-19 TIMES: ASPECTS TO BE CONSIDERED

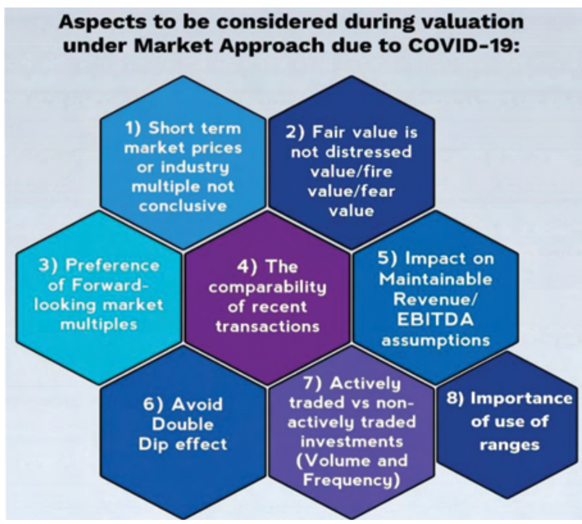
CA. Ishan Tulsian
(The Author is a Chartered Accountant/ICAI Registered Valuer. He can be reached out at ishan@rtulsian.com)

This topic is a burning issue currently and is relevant for all Registered Valuers, performing business valuation during the COVID-19 crisis and also lends a practical insight on how to comprehend valuation reports issued during the pandemic of COVID-19.
The article discusses comprehensively, the aspects to be considered during valuation and the relevant adjustments or normalisations required to be made under Income Approach as well as Market Approach during business valuation and an in-depth analysis of the impact and treatment of each factor affecting valuation under both the approaches along with references to practical case studies that have been provided.
The article has been supported with thorough research and more than 20 graphs, tables, illustrations in tabular and pictorial forms havae been presented to substantiate several practical aspects and for a clearer understanding of the impact, treatment and quantification of such impacts, that these factors lend towards the valuation approaches and finally towards the final business valuation.
According to the author, the article addresses and provides resolution to several burning and complex issues in valuation that have come up due to the advent of COVID-19 and shall benefit our members of RVO in their valuation practice.

Valuation under Market Approach:

Market-based valuations determine the value of a company by comparing it to similar business transactions. The valuer, while applying the Market Method, may be faced with the challenge of insufficient access to market data on insufficiently comparable competitors. Additionally, the valuer is posed with another distinct challenge of deciding to use pre- COVID-19 transactions in post-COVID-19 valuations. Expert valuation analysis and normalisation adjustments shall be required in order to produce useful financial metrics. During such unprecedented times of COVID-19, merely selecting a group of transactions from the past two years and calculating an average multiple shall not suffice.

Aspects to be considered during valuation under Market Approach due to COVID-19:



1) Short Term Market prices or industry multiple not conclusive:

The valuer should take a long-term view of the market multiples rather than a distressed multiple as on a specific date, which may disproportionately reduce the value of the company.

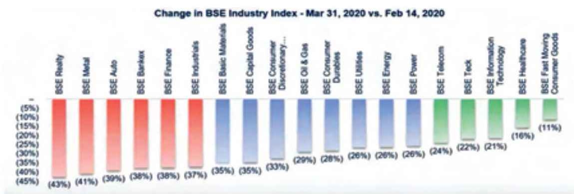
The valuer should evaluate whether the market price of comparable companies on the valuation date represents fair value or not.

Valuer, usually, uses Last Twelve Months (LTM) EBITDA multiple while applying Market Approach, and such a singular use of LTM multiple may not be appropriate and may require a combination of LTM and NTM i.e. Next Twelve months, multiples.

The valuer should note that the unlisted companies or the private limited companies should be valued using inputs consistent with the perspectives of the market participants, that emphasizes on the use of general market conditions over and above market conditions for a particular date.

Therefore, Industry Multiple calculated based on the prevailing market prices as on 31.3.2020 may not be an appropriately adjusted Industry Multiple for unlisted companies, especially because of a high volatility factor. Therefore, it is pertinent for the valuer to use the multiple based on market prices over a period of time rather than on a specific date.

The valuer takes cognisance of the fact that the unlisted and private limited companies are less volatile since private investments lag the public markets and change value less quickly as compared to the actively traded public limited companies and should not be discounted as much as the public limited companies. The private investments lag the public markets since the public markets have a more active market and there are frequent and quick sale and purchase of equity shares as compared to that for a closely held private limited company; hence the volatility is lower in the latter company.



Source: *COVID-19- Impact on valuations material dated 08.04.2020 by EBC Learning and Finvox Analytics*

The valuer should not assume that the corresponding industry multiple of Realty has also declined by 43% just as there is a similar decline in the Realty Index, while conducting business valuation.

2) Fair value is not distressed value/fire value/fear value:

As per IND-AS 113, Fair Value is defined 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.

Significant elements of Fair Value:

1) Orderly Transaction

2) Measurement Date

3) Market Participants assumptions wherein there shall be a willing buyer and a willing seller and there shall be focus on future maintainable income or revenue

Fair value is not the same as Distressed sale Price/ Forced sale price.

Fair Value means the amount which would be received in an orderly transaction given an appropriate marketing period. In case of distressed sale or a forced sale during the adverse impact of COVID-19, then an appropriate marketing period may not be available to ensure an orderly transaction and such consequent distressed sale price should not be considered as Fair Value.

Comparable transactions pertaining from February 15th to March 31st 2020 should not be considered since such value is not fair value and is a forced/fire sale price.

It is important to assess whether current market prices are reflecting long term fair value. The valuer should consider preference of unaffected metrics over affected market prices and in case of use of actual or normalized market multiples, it is important to document the nature of the selected multiples.

The valuer may consider the VIX Index, which is an apt indicator to gauge investor sentiments and whether the market value is a true indicator of Fair Value or is indeed Fear Value. The VIX Index, which usually trades at the level of 20, when trades at a level of 40 or above, represents investor's anxiety and fear, and such high levels of implied volatility indicate are acutely bearish.

3) Preference of Forward-looking Market Multiples:

The valuer should prefer the use of forward-looking public company market multiples. In the guideline public company method (GPCM), a variation of the market approach, forward-looking multiples are now stressed to indicate business value. This is because, these multiples reflect COVID-19-related market pricing and earnings impacts. The recent financial history of a company (its past revenue, earnings, cash flow, etc.) are now viewed as less reliable parameters used to indicate value, since they do not fully reflect the subject company's post-COVID-19 financial conditions and earning power outlook.

4) The comparability of recent transactions:

The Guideline Public Method and Comparable Transaction Method is a comparable analysis method that seeks to value similar companies using the same financial metrics applied in recent comparable transactions. Market approach requires use of different multiples like Book Value Multiple, EBIT multiple, etc. The valuer should be mindful that a multiple reported even a month ago might materially misrepresent the risk associated with a comparable transaction as on date.

The valuer may prefer to use the Transaction Multiples method, but special attention and caution is required to be provided on such comparable transactions occurred during the COVID-19 crisis period, which may require downward adjustments to prevent overstatement of business valuation. The valuer may use his professional judgement to evaluate the degree of this adjustment, which may need to be assessed on a case-to-case basis depending upon the industry and the level of stress.

Thus, the valuation professional needs to carefully use the multiples associated with the transactions that occurred during this crisis.

In usual practice, comparable transactions pertaining to a time period of the previous 2-3 financial years are considered and a longer duration is not preferred due to drastic changes in economy, industry and technology and other macro-economic factors.

5) Impact of maintainable revenue/EBITDA assumptions:

The valuer shall evaluate maintainable revenue and earnings, keeping in view the market participants' perspective.

The valuer shall analyse comprehensively the impact on the financial metrics of the target company such as PAT, EBITDA, EPS, EBIT, Revenue etc.

The valuer shall gain insight by industry benchmarking to comprehend short-term and long-term impacts on the financial metrics.

	Expected Change in PAT	
	Scenario 1 – Covid Impact lasts till 1Q FY 21	Scenario 2 – Covid Impact lasts till 2Q FY 21
• Consumer Discretionary	(19.9%)	(31.2%)
• Real Estate	(29.2%)	(49.6%)
• Energy (Oil and Gas)	(40.2%)	(57.7%)
• Financial Services	(10.0%)	(17.5%)
• Auto and Auto Components	(11.7%)	(21.3%)
• FMCG	(2.5%)	(5.2%)
• IT and Exchanges	(4.6%)	(9.8%)

Source: HDFC Securities

6) Avoid Double Dip Effect:

In case, the valuer having calculated the target multiple based upon the current market price using the LTM multiple basis for comparable companies, that already includes the impact of COVID-19, shall not consider making adjustments to the performance or financial matrix of the target company, in order to ensure that the business value is not underestimated or conservative.

7) Actively traded vs non-actively traded investments (Volume and frequency):

The valuer should take cognisance of the fact that infrequently traded or non-traded investments are usually less volatile than actively traded investments. During times of drastic public market value changes, private investments tend to lag the public markets and tend to change value less steeply than the actively traded investments.

The private investments lag the public markets since the public markets have a more active market and there are frequent and quick sale and purchase of equity shares as compared to that for a closely held private limited company, hence the volatility is lower in the latter company.

8) Importance of use of ranges:

Due to high volatility and the possibility of subjective valuation using scenario analysis or due to the shortcomings of selection of market multiples methods during COVID times, the valuation ranges may need to be wider than normal, and these ranges may well be subject to volatility as valuations are updated over time.

In terms of financial reporting valuations, disclosures in the valuation report may require to be more comprehensive and mention that valuations could change quickly over a relatively short time frame, particularly if the businesses are highly leveraged.

Conclusion:

The valuer is expected to apply his professional judgement on case-to-case basis since there is no set thumb rule to approach and account for market uncertainties and volatility in the valuation exercise and no standard normalization adjustments to cash flows or discount rates are made available to make the valuation assignment any less subjective. The market environment is so unpredictable and volatile that if a particular business were to be valued on 31st December 2019, it may reflect a drastically different picture as against being valued on 31st March 2020 or on 31st March 2021. The engagement with management becomes of paramount importance to discuss and assess any short-term or long-term effects in financial performance or metrics.

The use of a range of values has become significant in every engagement, along with a disclaimer that valuations may change significantly and frequently given the changes in such dynamic circumstances.

Disclaimer: *The contents of this article are solely for informational purpose and for the reader's personal non-commercial use. It does not constitute professional advice or recommendation of the Authors. Neither the author nor his firm and its affiliates accept any liability for any loss or damage of any kind arising out of any information in this article, nor for any actions taken in reliance thereon.*

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ARTICLE

UNDERSTANDING PORTFOLIO THEORY AND ITS IMPACT ON VALUATION

CA Srivatsan Ranganathan
(The Author is a Chartered Accountant/ICAI Registered Valuer. He can be reached out at sibirabi@gmail.com)

A portfolio is set to contain more than one asset or liability. The combination of a portfolio of assets and liabilities is also possible in real life, say in the instance of an investor borrowing and investing in a set of securities. The net return of the portfolio is the return of the portfolio, comprising all the securities, less the borrowing cost incurred. It is this principle, which sets the tone for put call parity theorem if we recap. While reading portfolio theory, we come across a number of nuances and fine prints. How do these impact valuation, or what understanding do we need to carry on valuation from the portfolio theory is what is discussed herein.

Balance sheet as a portfolio

This topic is no stranger to most valuation practitioners. In the first place, every balance sheet asset and liability side is viewed as a portfolio. To illustrate, consider the below example (for simplicity, I have not taken taxes into account):

Balance sheet							
Cost of capital	**Cost %**	**Liabilities**	**Amount**	**Assets**	**Amount**	**Return %**	**WARA**
270	27%	Equity	1000	Fixed Assets	1200	25%	300
50	10%	Debt	500	Net Current Assets	300	20%	60
320	**21.33%**	**Total**	**1500**		**1500**	**24%**	**360**
	WACC%					WARA %	

It is the above principle which we mirror image in Capital budgeting techniques or in valuing intangibles. We apply the cutoff rate logic in NPV/IRR based on how much of the fixed asset/net current asset is funded with which component part of the cost of capital or in what mix.

It is also known that the cost of equity has the CAPM behind it, which also emerges out of the portfolio theory with E(R) = Rf +Beta (Rm - Rf) where:

E(R) is either the expected return or the cost of capital seen from either side.

Rf is the risk free rate and Rm is the market return.

Rm-Rf is what is termed as "Market Risk Premium".

Continuing with the above balance sheet, we will appreciate that if above was how the entity is structured, then the enterprise valuation will increase from the book value initial investment of Rs. 1500 to say more than 40 (360-320) (WARA – WACC) = 1540 or more due to synergy in the portfolio construct. Also, to add, whether there is synergy in the portfolio construct or not itself needs to be understood in detail using portfolio theory, which is also discussed later on in this document.

Business as a portfolio

We all will appreciate that any business is a bundle of assets, and the assets/liabilities instead of being classified technically as fixed assets, current assets, non-current assets etc., can also be classified as business groups or asset groups. Once we cluster the businesses, we come to the concept of Cash Generating Unit (CGU) where we apply the impairment testing using the DCF technique to examine the carrying value of the CGU.

So is the concept of the summation principle in valuation, where if an entity has different lines of business that are not related at all, such as ITC, which has tobacco, FMCG, Agarbathis, and Packaging printing as different portfolio constructs, we add the independent values of each of these businesses comprising the portfolios to derive the enterprise value.

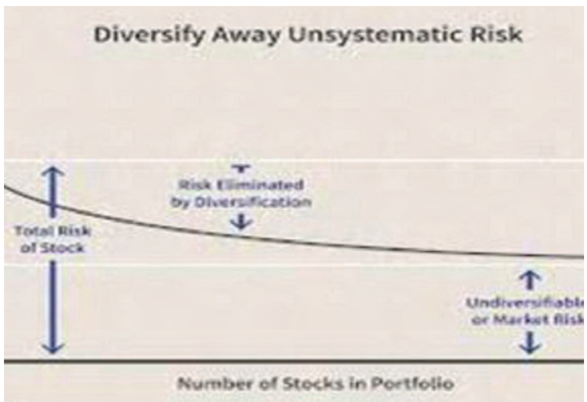
Thus, one can say if there are more than one CGU's/ verticals/business divisions in an entity then:

Enterprise Value = Value of CGU1 + CGU2 +… and so on + CGUn

Portfolio basics

The synergistic value is generally seen as by comparing the overall enterprise value on the whole versus the summation value of the individual CGU's. If the overall enterprise value is greater than the summation value, then there is definitely a synergy in the portfolio construct. This then is traced back to identifiable assets CGU's, where the synergy emerges from be it tangible or intangible which is what is also discussed in Ind-AS 36/AS 28. Recap the allocation of the acquired goodwill using the top-down technique or the bottom-up technique. The same is equally applicable for intangible assets like brand value, etc. especially if the brand value contributes substantially to the value of the enterprise, as in case of LG Asafoetida or Padmini Agarbathis.

We all understand that any asset portfolio (I am using asset in a loose manner here; it will equally apply to securities or even a group of securities or even to a bundle of liabilities) comprises systematic and unsystematic risk. The diversifiable part of the portfolio is the unsystematic risk which is the unique risk of the asset. On the contrary, systematic risk, which is the part of the risk underlying the entire market, is non-diversifiable. To diversify, we need to have a minimum of two assets as a rule. The individual variance or standard deviation of the individual asset vis a vis if seen with the portfolio standard deviation of both the assets put together is what proves the diversification principle in the portfolio theory. It is recommended that readers may refer to any standard text on financial management to revisit these fundamentals.



Empirically, it is said a portfolio constructed of 9/12 assets/securities will diversify any portfolio to the fullest extent and beyond this, the impact of diversification is hardly felt or seen. There is no mathematical proof to this empirical fact, however, and one must test it by keeping on adding assets to a portfolio to see if the portfolio variance reduces by the inclusion of the security or otherwise. This is depicted diagrammatically above:

Technically, a portfolio diversification is logical if it results in one of the feasible options listed below :-

a) Higher portfolio return at same risk (or)

b) Same return with lower risk (or)

c) Better quality of security at same risk

Of all the above three, measuring the last is perhaps the most difficult proposition as that is always relative to the investor perception, as quality is always relative.

Maximum Return – Minimum Variance Portfolio

The Maximum Return (MR) and Minimum Variance Portfolio (MVP) feasibility matrix can be seen, which may be the right mix of securities and assets in the portfolio construct.

Portfolio return is given by the below formula, to recap.

$E(Rp) = W1R1 + W2R2 + W3R3 + \ldots .. WnRn$

Where W1, W2, W3, Wn are the weights of the constructs in the portfolio and R1, R2, R3, Rn are the returns of the respective assets, be it securities or assets or liabilities.

Risk measure or variance of a portfolio is given by the below formula:

Variance of Portfolio $= (W1\sigma1 + W2\ \sigma\ 2 + W3\ \sigma\ 3 + \ldots .. Wn\ \sigma\ n\ )2$

Where W1, W2, W3, Wn are the weights of the constructs in the portfolio and σ 1, σ 2, σ 3, σ n are the standard deviations of the respective assets, be it securities or assets or liabilities.

To understand the impact of portfolio risk on valuation/ synergies arising out of portfolios, let us take this risk measure of Portfolio variance. We take only two assets as a sample.

W1, W2 are the portfolio weights of the two assets in the portfolio and σ 1, σ 2 is its respective standard deviation.

Variance of Portfolio $V(P) = (W1\sigma1 + W2\ \sigma\ 2)2$

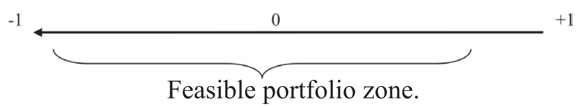
This, if expanded will read as under:

$V(P) = (W1\sigma1\ )2 + (W2\ \sigma\ 2)2 + 2\ W1\sigma1\ W2\ \sigma\ 2\ \rho12$

In this, the most important term is $\rho12$, which is the correlation between the two assets. We know that the correlation coefficient can range between +/- 1. If it is +1, then there is a perfect correlation, meaning the assets move in the same direction, and if it is -1, there is a perfect negative correlation.

Impact of Correlation

Portfolio theory confirms that a portfolio with two securities with perfect positive correlation cannot exist, as the weight of one of it will turn negative or in other words, by adding two securities in a portfolio having perfect positive correlation, the overall risk of the portfolio cannot be reduced further or diversified. Thus, for a portfolio construct to be successful, a negative correlation or anything less than a perfect positive correlation is what is always better. The more the correlation moves left on the negative side of the scale, the better the portfolio construct is possible. It is still possible to construct a portfolio with negative weights or by not involving any investment at all (or only nominal), which is where the concept of leveraging to invest and derivatives + assets as a portfolio originates.



This is perhaps the reason why totally unrelated businesses when forming part of a portfolio, give better return than the market return itself, and no matter, blue chip businesses with one portfolio business as in IT sector (Infosys, TCS etc.) are more risky relatively.

Infosys Beta as on date (25.09.2022) is 0.73 (5 year monthly beta)

TCS Beta is 0.69 (5 year monthly beta)

Both of the above, are IT market leaders/peers.

ITC Beta is 0.46 (5 year monthly beta)

If we are to see the sectoral betas of ITC's businesses like tobacco, printing and packaging, hotels and FMCG, we will realize the absence of co-relation or a negative correlation between these. Thus, the example of ITC is a live testimony to portfolio construct using correlation coefficient. This is perhaps the reason why no matter market fluctuation, the company stock has been able to return/beat the market consistently. The advantage of having different unrelated/negative or zero-correlated businesses in the portfolio construct is, one +ve offsets the –ve of the other which is not always possible for single sector entities like Infosys/TCS; their portfolio diversification is possible only within their core Information Technology business model, say, to expand their ERP biz, SaaS biz, BPO biz etc.

An interesting proposition also emerges what happens if an enterprise has reached its maximum diversifiable portfolio mix? It is certainly not the end of the road for that enterprise. That is the point when the enterprise looks to expand on a different scale across geographies or say, in new unrelated businesses. Thus the portfolio diversification curve will keep going like an Electro cardiogram graph (ECG) reflecting as under.

Diversification curves/portfolio constructs are the curved lines in the above ECG (the ECG themselves are nothing but to be visualized as different portfolios and their risks); each one may be seen as a point of inflexion into a higher indifference curve with higher risk and better portfolio construct, be it strategically a horizontal, vertical, merger, demerger, spin off, divestment diversification approach. The above can be appreciated/understood by the enterprise life cycle theory as well.

Impact on valuation

When it comes to valuation, especially, when synergies are valued- it is worth seeing the Beta of the individual businesses/CGU's vis-a-vis the entity on the whole. Portfolio Beta can be dissected/deconstructed.

Portfolio Beta = W1β1 + W2 β 2 + W3 β 3 +….. Wn β n

Where W1, W2, W3, Wn are the weights of the constructs in the portfolio and β 1, β 2, β 3, β n are Betas of the respective assets, be it securities or assets or liabilities.

Business Beta can be picked up from the market or can be calculated from the sector beta vs. index, be it Sensex or Nifty. The trouble starts only when the Beta is of an unlisted entity or the Beta pertains to a division of the entity wherein to pull out the Beta of that division alone is difficult. This is where the epochal work of Robert Hamada to adopt proxy beta and un-levering and re-levering the asset Beta is put to use.

The relationship can tell how far the synergy is realizable. A totally unrelated business would thereby be the perfect fit in the portfolio, and it is not necessary that always a vertical or a horizontal diversification needs to be profitable. While valuing businesses, we can see it independently and then on the whole, while seeing the whole entity effects of the correlation of those CGU's on the entire portfolio needs to be seen.

The topic appears easy, the hardest part is the practice to pull it out of the maze of numbers and identify this.

While performing valuation, a sanity check if the various divisions are value adding individually or have a synergistic Beta with a negative or less than positive correlation to the firm's Beta needs to be seen. If this is not the case, and still the valuation gives a larger number arising out of that division, a more deeper dive to understand fundamental reasons to it has to be well understood.

Conclusion

It is for this seminal work on Modern Portfolio theory that Harry Markowitz won the Nobel prize for Economics in the year 1990. He then went on to build the efficiency frontier (egg shell) curve and the Characteristic line/Security market line of the portfolio (SML) with the most feasible zone being the tangential point of the SML to the feasibility frontier. So much math in an egg shell, shape amazingly.

William Sharpe, John Lintner and Jack Treynor (William Sharpe won Nobel Prize for their work on CAPM model. Post William Sharpe; Stephen Ross developed the APM (Arbitrage Pricing Model) which Robert Hamada took over further into his Nobel Prize work for leveraged beta/unleveraged beta and using proxy beta.

In all the models, including CAPM/APM, or Portfolio Theory, the base assumption is that markets are perfect and have clear arbitrage and free movement across markets/securities/assets besides unlimited leveraging assumptions. These assumptions or the lack of them in the real world are what also makes it complicated. The same portfolio theory is what bases Risk weighted Assets and return and capital adequacy norms in banking and insurance biz. Money market, bond, mutual fund houses/investors also apply it on to immunize their asset/liability mismatches.

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A CASE STUDY ON RELIEF FROM ROYALTY METHOD (RFR)

CA. Gandharv Jain
(The Author is a Chartered Accountant/Registered Valuer at ICAI RVO. He can be reached out jaingandharv@gmail.com)

ABC Private Ltd., an unlisted Indian Company has been in business for over 45 years now. The journey started with the family starting the stainless-steel raw material business in early 1970s and did that successfully till the mid1990s. That was the time when there was an upsurge in the exports from India and due to their long association with steel, the promoters decided to incorporate this company and to graduate from raw materials to Kitchenware & housewares. So the company started to work with a few importers in the USA and since design was their core competence, they soon realized that working directly with the retailers would be more beneficial for the company and this resulted in making inroads with major retailers worldwide.

ABC is the first design led stainless home accessories brand launched in India. In less than a decade since incorporation, company achieved international status and enjoyed its presence in over 20 countries including USA, UK & Europe. After receiving immense recognition and success in India, ABC has forayed into retail with opening their exclusives boutiques. ABC had become the one of the most inspirational brand reaching out to millions through retail outlets & shoppers stop across India.

However, despite having global presence and premium designs the company went into losses during Covid-19 due to slump in demand of luxuries. This has led the creditors to apply for CIRP under IBC, 2016. The liquidator for the valuation of brand, appointed Mr. Ram.

Following is the information available for computing valuation of brand:

1) Sales for the year ended March 31, 2021 is Rs. 163.35 crores. Sales growth is projected below, with long term growth being 4%:

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030
Sales Growth	12.0%	10.0%	7.5%	6.0%	5.0%	5.0%	4.0%	4.0%	4.0%

2) Brand life is infinite.

3) Royalty as a % age of total brand revenue is 4%(computed).

4) Effective Income tax rate 25.2%.

5) Branding expenses 3.50% for the first four years, 3.00% for next three and 2.00% balance years.

6) Cost of Debt is 9%.

7) Return on T-bills is 6.5%, Market equity risk premium is 9.4%, Beta is 0.72.

8) Asset specific risk is 12.00%

9) Target weights, Debt-20%; Equity-80%.

You being Mr. Ram are required to do the valuation. In this context, please answer the following:

Q1. What is the fair value of the brand as of March 31, 2021 before considering tax amortization benefit?

a) 9.90 crores

b) 8.07 crores

c) 10.82 crores

d) 9.82 crores

Q2. What is the net royalty before taxes in the year 2030?

a) 4.31 crores

b) 4.10 crores

c) 4.40 crores

d) 4.27 crores

Q3. What is WACC for the company?

a) 21.35%

b) 25%

c) 21.20%

d) 25.35%

Q4. What is the fair value of the brand as of March 31, 2021?

a) 3.04 crores

b) 9.99 crores

c) 9.82 crores

d) 3.04 crores

Q5. What is the Cost of Equity?

a) 21%

b) 13.27%

c) 12%

d) 25%

Answer- Q1- b) Q2- d) Q3- a) Q4- c) Q5- d)

1. Application of Relief from Royalty Method

ABC Pvt. Ltd.
Valuation of Brand: ABC
Relief from Royalty Method

(INR Crores)

Particulars		For the Year Ending March 31:									
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Projected Revenues from Brand : ABC		163.35	182.95	201.25	216.34	229.32	240.79	252.83	262.94	273.46	284.40
Revenue Growth %			12.0%	10.0%	7.5%	6.0%	5.0%	5.0%	4.0%	4.0%	4.0%
Royalty (% of Total Brand Revenue)	4.00%	6.53	7.32	8.05	8.65	9.17	9.63	10.11	10.52	10.94	11.38
Less: Branding Expenses		(5.72)	(6.40)	(7.04)	(7.57)	(8.03)	(7.22)	(7.58)	(7.89)	(6.84)	(7.11)
		3.50%	3.50%	3.50%	3.50%	3.50%	3.00%	3.00%	3.00%	2.50%	2.50%
Net Royalty		0.82	0.91	1.01	1.08	1.15	2.41	2.53	2.63	4.10	4.27
Less: Income Tax on Royalty	25.20%	(0.21)	(0.23)	(0.25)	(0.27)	(0.29)	(0.61)	(0.64)	(0.66)	(1.03)	(1.08)
After Tax Relief From Royalty		0.61	0.68	0.75	0.81	0.86	1.80	1.89	1.97	3.07	3.19
Selected Discount Rate (WACC)	**21.35%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**
Beginning of Period #		-	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00
End of Period #		1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Mid Year Convention #		0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50
Discounting Factor		**0.9078**	**0.7481**	**0.6165**	**0.5080**	**0.4187**	**0.3450**	**0.2843**	**0.2343**	**0.1931**	**0.1591**
Present Value of After Tax Relief From Royalty		**0.55**	**0.51**	**0.46**	**0.41**	**0.36**	**0.62**	**0.54**	**0.46**	**0.59**	**0.51**
Terminal Cash Flow											**19.13**
Sum of Present Value		5.02									
Present Value of Terminal Value		3.04									
Present Value of Brand before Tax Amortization Benefit		8.07									
Add: Tax Amortization Benefit		1.76									
Total Fair Market Value of Tradename/Brand		**9.82**									

2. **Calculation of Tax Amortization Benefit**

ABC Pvt. Ltd.

Calculation of Tax Amortization Benefit

(INR in Crores)

Particulars	For the Year Ending March 31:									
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Amortization Rate	**25.00%**									
Opening Balance	9.82	9.82	7.37	5.53	4.14	3.11	2.33	1.75	1.31	0.98
Less: Amortization	(2.46)	(2.46)	(1.84)	(1.38)	(1.04)	(0.78)	(0.58)	(0.44)	(0.33)	(0.25)
Closing Balance	7.37	7.37	5.53	4.14	3.11	2.33	1.75	1.31	0.98	0.74
Tax Benefit on Amortization	0.62	0.62	0.46	0.35	0.26	0.20	0.15	0.11	0.08	0.06
Discounting Factor	0.9078	0.7481	0.6165	0.5080	0.4187	0.3450	0.2843	0.2343	0.1931	0.1591
Present Value of Tax Amortization Benefit	**0.56**	**0.46**	**0.29**	**0.18**	**0.11**	**0.07**	**0.04**	**0.03**	**0.02**	**0.01**
Tax Amortization Benefit	**1.76**									

3. **Calculation of Weighted Average Cost of Capital**

ABC Pvt. Ltd.

Calculation of Weighted Average Cost of Capital

Particulars		**31-Mar-21**
Cost of Debt	(A)	9.00%
Maximum Marginal Tax Rate	(B)	25.20%
Effective Cost of Debt	(A) x (B) = (C)	6.73%
Cost of Equity	(D)	25.00%
Target Debt / Total Capital Ratio	(E)	20.00%
Target Equity / Total Capital Ratio	(F)	80.00%
Weighted Average Cost of Capital ("WACC")	[(C) x (D)] + [(E) x (F)]	**21.35%**

4. **Computation of Cost of Equity using Capital Asset Pricing Model**

ABC Pvt. Ltd.

Computation of Cost of Equity using Capital Asset Pricing Model

Particulars	**Rate**
Risk Free Rate (T-bills)	6.50%
Add: Beta Adjusted Equity Risk Premium	6.77%
Market Equity Risk Premium (1)	9.40%
Beta (2)	0.72%
Asset Specific Risk (3)	12.00%
Cost of Equity	**25.00%**

FEES STRUCTURE OF ICAI RVO

The Government of India introduced 'The Companies (Registered Valuers and Valuation) Rules, 2017' (in short 'The Rules') with intention of bringing out harmony in the valuation process to raise the confidence of users of valuation reports. The Rules so framed are applicable to three asset classes viz., Land & Building, Plant & Machinery and Securities or Financial Assets.

The ICAI Registered Valuers Organisation (RVO) was incorporated as a Section 8 Company under the provision of the Companies Act, 2013. ICAI RVO is a wholly owned subsidiary of the ICAI. ICAI RVO received Certificate of Recognition as a Registered Values Organization (RVO) under Rule 13(5) of the Companies (Registered Valuers and Valuation) Rules, 2017 by the IBBI/Authority under the Companies Act, 2013 on 15th May 2018, to act as a frontline regulator for the Registered Valuers Members. ICAI RVO is commanding approximately 50% of the total valuer member registered with the IBBI under the asset class Securities or Financial Assets (S&F).

ICAI RVO specified the fee structure for its Primary Members, Registered Valuer Members and Registered Valuers Entity. As per Clause 11 of the Bye Laws of ICAI RVO, the Valuer Members enrolled with ICAI RVO shall pay an Annual Membership Fee as may be specified by the Governing Board from time to time.

Accordingly, the detailed table of the fee structure to be paid by the Primary Member, Registered Valuer Member, and Registered Valuer Member Entity to ICAI RVO at various stages are mentioned below:

A. Primary Member of ICAI RVO

Sl. No.	Fee Type Primary Member	Fee details (Fee + GST)	Refundable/Non-refundable
1.	Membership Fee	Rs. 5,900/- (Rs. 5,000/- + Rs. 900/- GST @ 18%)	Non Refundable
2.	Educational Course Fee (Physical Mode)	*Rs 29,500/- (Rs. 25,000/- + Rs. 4,500/- GST @ 18%)	Refundable, if informed before 48 hours of the commencement of the Course
3.	Educational Course Fee (Online Mode)	Rs 17700/- (Rs. 15,000 + Rs. 2,700/- GST @ 18%)	Refundable, if informed before 24 hours of the commencement of the Course
4.	Annual membership fee	NIL	NA
5.	Study material fee	NIL	NA
6.	Fee for shifting to another RVO	**NIL	NA
7.	Fee for shifting from any other RVOs to ICAI RVO	***NIL	NA

* For members who have participated/passed the Certificate Course on Valuation conducted by ICAI Rs 23,600/- (Rs. 20,000 + Rs. 3,600/- 18% GST)

** NOC for shifting from ICAI RVO to another RVO in case of members who have completed 50 hours training from ICAI RVO and want to register with any other RVOs.

***The Member has to pay the Membership Fee of Rs. 5,900/- (Rs. 5,000/- + Rs. 900/- GST @ 18%) only.

B. Registered Valuer Member of ICAI RVO

S.No.	Fee Type	Fee Details (Fee + GST)	Refundable/Non-refundable
1.	Enrolment fee (Individual)	Rs. 2360/- (Rs. 2,000/- + Rs. 360/- GST @ 18%)	Non Refundable
2.	*Annual membership fee (Individual)	**I.** Rs. 11,800/- (Rs. 10,000/- + Rs. 1,800/- GST @ 18%) **II.** Rs.5,900/- (Rs. 5,000/- + Rs. 900/- GST @ 18%, if application for enrolment is filed between 1st October to 31st March	◆ Refundable (In case the Application Form A is rejected) ◆ Member enrolled with ICAI RVO has to pay the Annual Membership Fees as per Clause 11 of the Bye Laws of ICAI RVO every year.
3.	Training Fee for Certificate of Practice (COP) (Physical classes)	Rs. 1180/- (Rs. 1000/- + Rs. 180/- GST @ 18%)	Yes, if informed before 48 hours of the commencement of the Course
4.	Training Fee for Certificate of Practice (COP) (Online classes)	Rs. 590/- (Rs. 500/- + Rs. 90/- GST @ 18%)	Yes, if informed before 24 hours of the commencement of the Course
5.	Training Fee for Continuous Educational Programme (CEP) (Online classes)	Rs. 118/- per Hour (Rs. 100/- + Rs. 18/- GST @ 18%)	No
6.	Fee for shifting to other RVO	No. Only Pending Dues, if any	NA
7.	Fee for shifting from another RVO	Same as provided in Columns No 1 and 2	NA

* Membership Fee is charged at 50% of the Annual Membership Fee i.e. an amount of Rs. 5000/- (Rupees Five Thousand only) plus GST @ 18% (Total- Rs. 5900) w.e.f. 1st October to 31st March of each Financial Year for the New Members who are appling for enrolment with ICAI RVO.

Policy for payment of Annual Membership Fee for Registered Valuer Members of ICAI RVO

(Sl. Nos. 1 to 5 are applicable w.e.f. 1st April 2023)

1. Members should pay their Annual Membership Fee by 30th April, to avoid incurring any penalty.
2. Members may pay the Annual Membership fees on or before 30th June of the year with a late fine of Rs. 500/- (Rupees Five Hundred) plus tax.
3. Members delaying Annual Membership fee payment beyond 30th June will be referred to the Membership Committee for necessary action as per Bye-laws.
4. A member who applies for Temporary surrender/ Surrender of his membership post 1st April shall be allowed to do so after payment of his annual membership fees for the current year.
5. A member who has been granted Temporary Surrender will not have to pay the Annual Membership Fee till he revives his membership.
6. If a member seeks revival of his/ her membership between 01st April to 30th September, he/she must pay an Annual Membership Fees of Rs. 10,000 plus GST @ 18%.
7. If a member seeks revival of his/ her membership between 01st October to 31st March, h/she must pay 50% of the Annual Membership Fees, i.e., Rs. 5,000 plus GST @ 18%.

C. Registered Valuers Entity (RVE)

S.No.	Fee Type Registered Valuers Entity	Fee details (Fee + GST)	Refundable/Non-refundable
1.	Enrolment fee (Firm)	Rs. 59000 (Rs 50000/- + Rs. 9,000/- GST @18%)	No
2.	Annual membership fee (Firm)	Rs. 29500/- (Rs 25000/- + Rs. 4,500/- GST @18%)	No

BYE-LAWS OF ICAI REGISTERED VALUERS ORGANISATION

I. GENERAL

1. These Bye laws are applicable to "ICAI Registered Valuers Organisation" as Registered Valuers Organisation (hereinafter referred to as the Organisation)

2. The Organisation is registered as a company under section 8 of the Companies Act, 2013 (18 of 2013) with its registered office situated at ICAI Bhawan, Indraprastha Marg New Delhi- 110002.

3. These bye-laws shall not be amended, except in accordance with this Annexure.

II. DEFINITIONS

4. (1) In these bye-laws, unless the context otherwise requires -

   (a) "certificate of membership" means the certificate of membership of the Organisation granted under bye-law10;

   (b) "Act" means the Companies Act, 2013 (18 of 2013);

   (c) "Governing Board" means the Board of Directors of the Organisation as defined under section 2(10) of Companies Act, 2013 (18 of 2013);

   (d) "relative" shall have the same meaning as assigned to it in section 2(77) of the Companies Act, 2013.

   (2) Unless the context otherwise requires, words and expressions used and not defined in these bye-laws shall have the meanings assigned to them in the Companies Act, 2013 (18 of 2013).

III. OBJECTIVES

5. (1) The Organisation shall carry on the functions of the registered valuers organisation under the Companies (Registered Valuers and Valuation) Rules, 2017, and functions incidental thereto.

   (2) The Organisation shall not carry on any function other than those specified in sub clause (1), or which is inconsistent with the discharge of its functions as a registered valuers organisation.

IV. DUTIES OF THE ORGANISATION

6. (1) The Organisation shall maintain high ethical and professional standards in the regulation of its members.

   (2) The Organisation shall -

   (a) ensure compliance with the Companies Act, 2013 and rules, regulations and guidelines issued thereunder governing the conduct of registered valuers organisation and registered valuers;

   (b) employ fair, reasonable, just, and non-discriminatory practices for the enrolment and regulation of its members;

   (c) be accountable to the authority in relation to all bye-laws and directions issued to its members;

   (d) develop the profession of registered valuers;

   (e) promote continuous professional development of its members;

   (f) continuously improve upon its internal regulations and guidelines to ensure that high standards of professional and ethical conduct are maintained by its members; and

   (g) provide information about its activities to the authority.

   (3) Matters that are considered by Organisation necessary for the furtherance of the above objects:

   (a) to borrow monies and raise loans and advances, either secured or unsecured, on such terms and conditions as to interest, repayment and security as are beneficial in the interest of the Company and in particular create charges, liens, encumbrances and mortgages in respect of all the immovable and movable properties of the Company for securing the due repayment of the principal and interest of the monies borrowed.;

(b) to purchase, acquire, develop, take on lease or on license all kinds of immovable properties and rights therein including the easements rights and to construct, rehabilitate, alter, adapt, improve, add to, develop or repair immovable properties of all kinds.

(c) to purchase or acquire or take on lease or license or hire or on bailment basis or in any other way any kind of moveable property including plant and machinery, equipment, furniture, fixtures, fittings, books, conveyances, appliances, instruments, vehicle and technical knowhow and to sell, lease, mortgage or otherwise deal in any way with any such asset;

(d) to appoint Board of Directors, committees, advisory boards, executive, and other governing bodies for the Company as per the provisions of the Companies Act, 2013 and Rules framed thereunder.

(e) to open, operate, and maintain one or more accounts in the name of the Company with any nationalized or scheduled bank and issue suitable instructions for the operation of such accounts

(f) to enter into contracts necessary or desirable for the conduct of the Company's affairs, including knowledge partnership agreements, or non-disclosure agreement or indemnity or guarantee of any kind whatsoever.

(g) to construct, alter and maintain any infrastructure considered necessary for the use of its members and others or for any other purpose of the Company;

(h) to maintain a library or libraries for the use of its members;to publish information about its functions, list of its members, performance of its members and such other information as may be desirable;

(i) to impart training to, and conduct seminars and other professional development programs for its members;

(j) to hold meetings and organize conferences, exhibitions, study circles or conventions for study, research and development of registered valuers;

(k) to make grants or other contributions to local or other bodies in furtherance of the objects of the Company;

(l) to recruit, employ, appoint, engage, hire including on deputation, academicians, research scholars, librarians, technicians, executives, managers, secretary, treasurer, officers, administrative and other staff and servants and establish and maintain provident funds, gratuity funds, pension and other funds, for the benefit of the employees and staff.;

(m) to pay remuneration and the reasonable expenses to the officers or employees of the Company, members or any other persons; and to pay pensions and gratuity , or to make other provisions for, ex- officers and employees of the Company;

(n) to indemnify the employees, staff, officers, executives and directors of the Company against all losses, costs, damages, claims and demands under any law or equity or proceedings or otherwise in respect of accidents, injury, death, or other contingencies caused in the discharge of their duties under the Company;

(o) to engage and retain the services of lawyers, accountants, bankers, architects, academicians, consultants, technicians, and other experts technical or otherwise, on such terms and conditions as may be determined as beneficial in the interest of the Company

(p) to do, alone or in conjunction with others, the foregoing and all such other lawful things, in any manner whatsoever, consistent with the provisions of these bye- laws, as may be incidental or conducive to promoting, furthering or protecting the interests, usefulness and efficiency of the Company and its members;

(q) to frame schemes, rules and regulations for attaining any of the objects of the Company and byelaws for conducting the affairs of the Company in line with the provisions of the Companies Act 2013 from time to time.

The doing of all such other lawful things as considered necessary for the furtherance of the above objects.

V. COMMITTEES OF THE ORGANISATION

Advisory Committee of Members.

7. (1) The Governing Board may form an Advisory Committee of members of the Organisation to advise it on any matters pertaining to-

(a) the development of the profession;

(b) standards of professional and ethical conduct; and

(c) best practices in respect of Valuation.

(2) The Advisory Committee may meet at such places and times as the Governing Board may provide.

Other Committees of the Organisation.

8. (1) The Governing Board shall constitute-

(a) one or more Membership Committee(s) consisting of such members as it deems fit;

(b) a Monitoring Committee consisting of such members as it deems fit;

(c) one or more Grievance Redressal Committee(s), with not less than three members,;

(d) one or more Disciplinary Committee(s) consisting of at least one member nominated by the authority.

(2) The Chairperson of each of these Committees shall be an independent director of the Organisation.

VI. MEMBERSHIP

Eligibility for Enrolment.

9. No individual shall be enrolled as a member if he is not eligible to be registered as a registered valuer with the authority:

Provided that the Governing Board may provide additional eligibility requirements for enrolment:

Provided further that such additional requirements shall not discriminate on the grounds of religion, race, caste, gender, place of birth or professional affiliation.

Process of Enrolment as Member.

10. (1) An individual may apply for enrolment as a member by submitting an application in Form “A” with the relevant documents to Organisation in such manner and with such fees as may be specified by the Governing Board of the Organisation from time to time.

(2) The Organisation shall examine the application in accordance with the applicable provisions of the rules, regulations and guidelines thereunder.

(3) On examination of the application, the Organisation shall give an opportunity to the applicant to remove the deficiencies, if any, in the application.

(4) The Organisation may require an applicant to submit additional documents, information or clarification that it deems fit, within reasonable time.

(5) The Organisation may reject an application if the applicant does not satisfy the criteria for enrolment or does not remove the deficiencies or submit additional documents or information to its satisfaction, for reasons recorded in writing.

(6) The rejection of the application shall be communicated to the applicant stating the reasons for such rejection, within thirty days of the receipt of the application, excluding the time given for removing the deficiencies

or presenting additional documents or clarification by the Organisation, as the case may be.

(7) The acceptance of the application shall be communicated to the applicant, along with a certificate of membership.

(8) An applicant aggrieved of a decision rejecting his application may appeal to the Membership Committee of the Organisation within thirty days from the receipt of such decision.

(9) The Membership Committee shall pass an order disposing of the appeal in the manner it deems expedient, within thirty days of the receipt of the appeal.

Membership Fee.

11. Members should pay an Annual membership fee as may be specified by the Governing Board from time to time.

Register of Members

12. (1) The Organisation shall maintain a register of its professional members, containing their-

(a) name;

(b) proof of identity;

(c) contact details;

(d) address;

(e) date of enrolment and membership number;

(f) date of registration with the authority and registration number;

(g) details of grievances pending against him with the Organisation;

(h) details of disciplinary proceedings pending against him with the Organisation; and

(i) details of orders passed against him by the authority or Disciplinary Committee of the Organisation.

(2) The records relating to a member shall be made available for inspection to-

(a) the Authority,

(b) any other person who has obtained the consent of the member for such inspection.

VII. DUTIES OF MEMBERS

13. (1) In the performance of his functions, a member shall-

(a) act in good faith in discharge of his duties as a registered valuer;

(b) discharge his functions with utmost integrity and objectivity;

(c) be independent and impartial;

(d) discharge his functions with the highest standards of professional competence and

(e) professional ethics;

(f) continuously upgrade his professional expertise;

(g) comply with applicable laws in the performance of his functions; and

(h) maintain confidentiality of information obtained in the course of his professional

(i) activities unless required to disclose such information by law.

14. The Organisation shall have a Code of Conduct that shall be consistent with, and that shall provide for all matters in the Code of Conduct as specified in the Annexure-I.

VIII. MONITORING OF MEMBERS

15. The Organisation shall have a Monitoring Policy to monitor the professional activities and conduct of members for their adherence to the provisions of the Act, rules, regulations and guidelines issued thereunder, these bye-laws, the Code of Conduct and directions given by the Governing Board.

16. A member shall submit information about ongoing and concluded engagements as a registered valuer, in the manner and format specified by the Organisation, at least twice a year stating inter alia, the date of assignment, date of completion and reference number of valuation assignment and valuation report.

17. The Monitoring Committee shall review the information and records submitted by the members in accordance with the Monitoring Policy.

18. The Monitoring Policy shall provide for the following -

    (a) the frequency of monitoring;

    (b) the manner and format of submission or collection of information and records of the members, including by way of inspection;

    (c) the obligations of members to comply with the Monitoring Policy;

    (d) the use, analysis and storage of information and records;

    (e) evaluation of performance of members; and

a. any other matters that may be specified by the Governing Board.

19. The Monitoring Policy shall –

    (a) have due regard for the privacy of members,

    (b) provide for confidentiality of information received, except when disclosure of information is required by the authority or by law, and

    (c) be non-discriminatory.

20. The Organisation shall submit a report to the authority in the manner specified by the authority with information collected during monitoring, including information pertaining to -

    (a) the details of the appointments made under the Act/these Rules,

    (b) the transactions conducted with stakeholders during the period of his appointment;

    (c) the transactions conducted with third parties during the period of his appointment; and

    (d) the outcome of each appointment.

IX. GRIEVANCE REDRESSAL MECHANISM

21. (1) The Organisation shall have a Grievance Redressal Policy providing the procedure for receiving, processing, redressing and disclosing grievances against the Organisation or any member of the Organisation by-

    (a) any member of the Organisation;

    (b) any person who has engaged the services of the concerned members of the Organisation; or

    (c) any other person or class of persons as may be provided by the Governing Board.

    (2) The Grievance Redressal Committee, after examining the grievance, may-

    (a) dismiss the grievance if it is devoid of merit; or

    (b) initiate a mediation between parties for redressal of grievance.

    (3) The Grievance Redressal Committee shall refer the matter to the Disciplinary Committee, wherever the grievance warrants disciplinary action.

22. The Grievance Redressal Policy shall provide for-

    (a) the format and manner for filing grievances;

    (b) maximum time and format for acknowledging receipt of a grievance;

    (c) maximum time for the disposal of the grievance by way of dismissal, reference to the Disciplinary Committee or the initiation of mediation;

    (d) details of the mediation mechanism

    (e) provision of a report of the grievance and mediation proceedings to the parties to the grievance upon dismissal or resolution of the grievance;

    (f) action to be taken in case of malicious or false complaints;

    (g) maintenance of a register of grievances made and resolutions arrived at; and

    (h) periodic review of the Grievance Redressal Mechanism.

X. DISCIPLINARY PROCEEDINGS

23. The Organisation may initiate disciplinary proceedings by issuing a show-cause notice against members-

    (a) based on a reference made by the Grievances Redressal Committee;

    (b) based on monitoring of members;

    (c) following the directions given by the authority or any court of law; or

    (d) suo moto, based on any information received by it.

24. (1) The Organisation shall have a Disciplinary Policy, which shall provide for the following –

    (a) the manner in which the Disciplinary Committee may ascertain facts;

    (b) the issue of show-cause notice based on the facts;

    (c) disposal of show-cause notice by a reasoned order, following principles of natural justice;

    (d) timelines for different stages of disposal of show cause notice; and

    (e) rights and obligations of the parties to the proceedings.

    (2) The orders that may be passed by the Disciplinary Committee shall include-

    (a) expulsion of the member;

    (b) suspension of the member for a certain period of time;

    (c) admonishment of the member;

    (d) imposition of monetary penalty;

    (e) reference of the matter to the authority, which may include, in appropriate cases, recommendation of the amount of restitution or compensation that may be enforced by the authority; and

    (f) directions relating to costs.

    (3) The Disciplinary Committee may pass an order for expulsion of a member if it has found that the member has committed-

    (a) an offence under any law for the time being in force, punishable with imprisonment for a term exceeding six months, or an offence involving moral turpitude;

    (b) a gross violation of the Code, rules, regulations and guidelines issued thereunder, bye-laws or directions given by the Governing Board which renders him not a fit and proper person to continue acting as a registered valuer.

    (4) Any order passed by the Disciplinary Committee shall be placed on the website of the organisation within seven days from passing of the said order, and a copy of the order shall be provided to each of the parties to the proceeding.

    (5) Monetary penalty received by the Organisation under the orders of the Disciplinary Committee shall be used for the professional development.

25. (1) The Governing Board of Organisation shall constitute an Appellate Panel consisting of one independent director of the Organisation, one member from amongst the persons of eminence having experience in the field of law, and field of Valuation and one member nominated by the Authority.

    (2) Any person aggrieved of an order of the Disciplinary Committee may prefer an appeal before the Appellate Panel within thirty days from the receipt of a copy of the final order.

    (3) The Appellate Panel shall dispose of the appeal in the manner it deems expedient, within thirty days of the receipt of the appeal.

XI. SURRENDER OF MEMBERSHIP AND EXPULSION FROM MEMBERSHIP

Temporary Surrender of Membership.

26. (1) A member shall make an application for temporary surrender of his membership of the Organisation at least thirty days before he-

    (a) becomes a person not resident in India;

    (b) takes upemployment; or

    (c) starts any business, except as specifically permitted under the Code of Conduct;

and upon acceptance of such temporary surrenderand on completion of thirty days from the date of application for temporary surrender, the name of the professional member shall be temporarily struck from the registers of the Organisation, and the same shall be intimated to the Authority.

(2) No application for temporary surrender of membership of the Organisation shall be accepted if -

(a) there is a grievance or disciplinary proceeding pending against the member before the Organisation or the authority, and he has not given an undertaking to cooperate in such proceeding; or

(b) the member has been appointed as a registered valuer for a process under the Companies Act, 2013, and the appointment of another registered valuer may be detrimental to such process.

(3) A member may make an application to revive his temporarily surrendered membership when the conditions for temporary surrender as provided in sub-clause (1) cease to be applicable, and upon acceptance of the application for revival, the name of the member shall be re-inserted in the register of the Organisation, and the same shall be intimated to the authority.

Surrender of Membership

27. (1) A member who wishes to surrender his membership of the Organisation may do so by submitting an application for surrender of his membership.

(2) Upon acceptance of such surrender of his membership, and completion of thirty days from the date of such acceptance, the name of the member shall be struck from the registers of the Organisation, and the same shall be intimated to the Authority.

28. Any fee that is due to the Organisation from a member surrendering his membership shall be cleared prior to his name being struck from the registers of the Organisation.

29. The Organisation may refuse to accept the surrender of membership by any member if-

(a) there is any grievance or disciplinary proceeding pending against the member before the Organisation or the Authority; or

(b) the member has been appointed as a registered valuer process under the Companies Act, 2013, and the appointment of another registered valuer may be detrimental to such process.

Expulsion from Membership.

30. A member shall be expelled by the Organisation –

(a) if he becomes ineligible to be enrolled under bye-law 9;

(b) on expiry of thirty days from the order of the Disciplinary Committee, unless set aside or stayed by the Appellate Panel;

(c) upon non-payment of membership fee despite at least two notices served in writing;

(d) upon the cancellation of his certificate of registration by the Authority;

(e) upon the order of any court of law.

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FEES STRUCTURE FOR VARIOUS SERVICES CHARGED BY IBBI

India introduced 'The Companies (Registered Valuers and Valuation) Rules, 2017' with the intention of bringing out harmony in the valuation process to raise the confidence of users of valuation reports. The Insolvency and Bankruptcy Board of India (IBBI) has been designated as the Authority by the Central Government under Section 247, read with Sections 458, 459, and 469 of the Companies Act, 2013 and the Companies (Registered Valuers and Valuation) Rules, 2017 for regulation and development of the profession of valuers in the country.

The detailed table of the fee structure to IBBI at various stages in the valuation process are mentioned below:

A. Fee Structure of Valuation Examination

IBBI charges the Valuation Examination fee for the candidate as follows

Sl. No	Fee Type Primary Member	Fee Details (Fee + GST)
1	Valuer Examination Fee	Rs.5,900/- (Rs.5,000/- + Rs.900/- GST @18%)

IBBI vide Circular No. IBBI/EXAM/52/2022 dated 31.08.2022 has revised the Valuation Examination Fees from Rs.1500/- + GST to Rs.5000/- + GST.

Note:

IBBI vide Circular No. EXAM-130161/1/2022-IBBI dated 06.06.2022 has decided that the valuation examination shall be attempted by the candidate after considering a colling period of two months between each consecutive attempt of such candidate, thereby making a total of 6 attempts in a period of 12 months.

B. Fee Structure of IBBI for Registered Valuers (Individual)

As per Rule 6(1) of the Companies (Registered Valuers and Valuation) Rules, 2017 a non-refundable application fee has to be paid by an Individual Applicant to IBBI. The details of fees charged by the IBBI are as under:

Sl. No	Fee Type Registered Valuers (Individual)	Fee Details (Fee + GST)
1	Registration Fee for RV	Rs.5,900/- (Rs. 5,000/- + Rs. 900/- GST @18%)
2	Fees for change in Communication details, Name, Address, Email etc.,	*Rs. 250/-
3	Transfer of membership of Registered Valuers Organisation	*Rs. 500/-
4	Any other details	*Rs. 250/-

* Plus Goods and Services Tax/other taxes as applicable and mentioned vide Notification No. F.No.1/27/2013-CL-V dated 21.11.2022 issued by the Ministry of Corporate Affairs.

C. Fee Structure of IBBI for Registered Valuer Entity (RVE)

As per Rule 6(2) of the Companies (Registered Valuers and Valuation) Rules, 2017, a non-refundable application fee has to be paid by a Registered Valuer Entity to IBBI. The details of fees charged by the IBBI are as under:

Sl. No	Fee Type Registered Valuers Entity	Fee Details (Fee + GST)
1	Registration Fee for RVE	(Rs.10,000/- + Rs.1800/- GST @18%)
2	Fees for change in communication details, Name, address, Email etc.,	*Rs.500/-
3	Transfer of membership of Registered Valuers Organisation	*Rs.1000/-
4	Change in composition of Board of Directors, or partners, in the	*Rs. 2000/-
5	Change in Memorandum of Association of company or partnership agreement of the partnership entity, as the case may be.	*Rs.2,000/-
6	Any other details	*Rs.500/-

* Plus Goods and Services Tax/other taxes as applicable and mentioned vide Notification No. F.No.1/27/2013-CL-V dated 21.11.2022 issued by the Ministry of Corporate Affairs.

CODE OF CONDUCT OF ICAI RVO

Integrity and Fairness

1) A valuer shall, in the conduct of his/its business, follow high standards of integrity and fairness in all his/its dealings with his/its clients and other valuers.

2) A valuer shall maintain integrity by being honest, straightforward, and forthright in all professional relationships.

3) A valuer shall endeavor to ensure that he/it provides true and adequate information and shall not misrepresent any facts or situations.

4) A valuer shall refrain from being involved in any action that would bring disrepute to the profession.

5) A valuer shall keep public interest foremost while delivering his services.

Professional Competence and Due Care

6) A valuer shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.

7) A valuer shall carry out professional services in accordance with the relevant technical and professional standards that may be specified from time to time

8) A valuer shall continuously maintain professional knowledge and skill to provide competent professional service based on up-to-date developments in practice, prevailing regulations/ guidelines and techniques.

9) In the preparation of a valuation report, the valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assutbased on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer.

10) A valuer shall not carry out any instruction of the client insofar as they are incompatible with the requirements of integrity, objectivity and independence.

11) A valuer shall clearly state to his client the services that he would be competent to provide and the services for which he would be relying on other valuers or professionals or for which the client can have a separate arrangement with other valuers.

Independence and Disclosure of Interest

12) A valuer shall act with objectivity in his/its professional dealings by ensuring that his/ its decisions are made without the presence of any bias, conflict of interest, coercion, or undue influence of any party, whether directly connected to the valuation assignment or not.

13) A valuer shall not take up an assignment if he/ it or any of his/its relatives or associates is not independent in terms of association to the company.

14) A valuer shall maintain complete independence in his/its professional relationships and shall conduct the valuation independent of external influences.

15) A valuer shall wherever necessary disclose to the clients, possible sources of conflicts of duties and interests, while providing unbiased services.

16) A valuer shall not deal in securities of any subject company after any time when he/it first becomes aware of the possibility of his/its association with the valuation, and in accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 or till the time the valuation report becomes public, whichever is earlier.

17) A valuer shall not indulge in “mandate snatching” or offering “convenience valuations” in order to cater to a company or client’s needs.

18) As an independent valuer, the valuer shall not charge success fee.

19) In any fairness opinion or independent expert opinion submitted by a valuer, if there has been a prior engagement in an unconnected transaction, the valuer shall declare the association with the company during the last five years.

Confidentiality

20) A valuer shall not use or divulge to other clients or any other party any confidential information about the subject company, which has come to his/its knowledge without proper and specific authority or unless there is a legal or professional right or duty to disclose.

Information Management

21) A valuer shall ensure that he/ it maintains written contemporaneous records for any decision taken, the reasons for taking the decision, and the information and evidence in support of such decision. This shall be maintained so as to sufficiently enable a reasonable person to take a view on the appropriateness of his/its decisions and actions.

22) A valuer shall appear, co-operate and be available for inspections and investigations carried out by the authority, any person authorised by the authority, the registered valuers organisation with which he/it is registered or any other statutory regulatory body.

23) A valuer shall provide all information and records as may be required by the authority, the Tribunal, Appellate Tribunal, the registered valuers organisation with which he/it is registered, or any other statutory regulatory body.

24) A valuer while respecting the confidentiality of information acquired during the course of performing professional services, shall maintain proper working papers for a period of three years or such longer period as required in its contract for a specific valuation, for production before a regulatory authority or for a peer review. In the event of a pending case before the Tribunal or Appellate Tribunal, the record shall be maintained till the disposal of the case.

Gifts and Hospitality

25) A valuer or his/its relative shall not accept gifts or hospitality which undermines or affects his independence as a valuer. Explanation.? For the purposes of this code the term 'relative' shall have the same meaning as defined in clause (77) of Section 2 of the Companies Act, 2013 (18 of 2013).

26) A valuer shall not offer gifts or hospitality or a financial or any other advantage to a public servant or any other person with a view to obtain or retain work for himself/ itself, or to obtain or retain an advantage in the conduct of profession for himself/ itself.

Remuneration and Costs.

27) A valuer shall provide services for remuneration which is charged in a transparent manner, is a reasonable reflection of the work necessarily and properly undertaken, and is not inconsistent with the applicable rules.

28) A valuer shall not accept any fees or charges other than those which are disclosed in a written contract with the person to whom he would be rendering service.

Occupation, employability and restrictions.

29) A valuer shall refrain from accepting too many assignments, if he/it is unlikely to be able to devote adequate time to each of his/ its assignments.

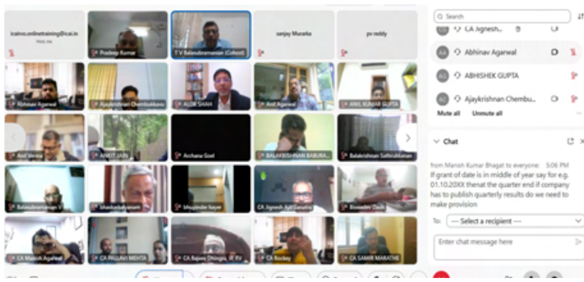
30) A valuer shall not conduct business which in the opinion of the authority or the registered valuer organisation discredits the profession.

PHOTOGRAPH

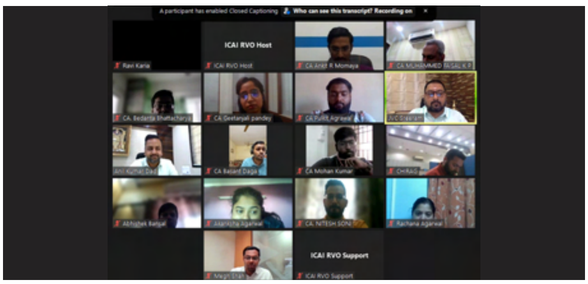
National Conference on "Valuation: Five Years Journey and the Way Forward" held in New Delhi. (18-12-2022)

Panal Discussion on "Five Years of Journey – Challenges & Way Forward". (18-12-2022)

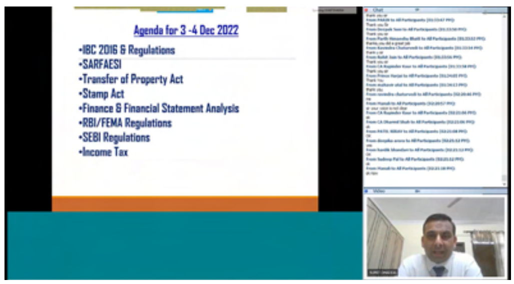
Releasing of Journal of ICAI RVO "The Valuation Perspective" released at National Conference on Valuation. (18-12-2022)



ICAI RVO Member attending Continuine Education Programs (CEP). (22-12-2022)



Members of ICAI RVO attending Certificate of Practice Training Program for grant of Certificate of Practice. (16-12-2022)



ICAI RVO Member attending Education Course. (24-11-2022 to 4-12-2022)

Glimpses of World Congress of Accountants (WCOA) hosted by ICAI at Mumbai, India. (18 to 21- 11-2022)

INVITATION FOR CONTRIBUTING ARTICLE

The ICAI Registered Valuers Organisation (RVO) has been incorporated as a section 8 Company by the Institute of Chartered Accountants of India as its wholly owned subsidiary to enrol and regulate registered valuers as its members in accordance with the Companies (Registered Valuers and Valuation) Rules, 2017.

It has also received recognition from Insolvency and Bankruptcy Board of India as a Registered Valuer Organisation under the asset class "Securities or Financial Assets". One of the founding objectives of the Company is to develop the profession of Registered Valuers and to promote continuous professional development of its members and it is the constant endeavour of ICAI RVO to be engaged in the furtherance of this objective.

It is with great pleasure, we wish to inform you that ICAI RVO has released its 1st edition of the Quarterly Journal **"The Valuation Perspective"** with effect from October 2022.

The third edition of the ICAI RVO Journal will be published in April 2023. We invite you to contribute articles for the Journal on topics relevant to valuation and Registered Valuers. The same will be considered for publication in the upcoming edition of the Journal, subject to approval by the Editorial Board of ICAI RVO.

The articles sent for publication in the Journal should conform to the following parameters:

- The article should be original, i.e., not published/broadcasted/hosted elsewhere including on any website.
- The article should help in development of the profession of Registered Valuers and promote continuous professional development of valuation professionals and highlight matters of current interests/challenges to the professionals/emerging professional areas of relevance.
- The article should be technically correct and sound.
- The length of the article should be 2500-3000 words and should preferrable be accompanied with and executive summary of around 100 words.
- The tables and graphs should be properly numbered with headlines and referred with their numbers in the text.
- The authors must provide the list of references at the end of article.
- A brief profile of the author, e-mail ID, postal address and contact number along with his passport size photograph and declaration confirming the originality of the article as mentioned above should be enclosed along with the article.
- The article can be sent by e-mail at **icairvo.journal@icai.in**
- In case the article is found suitable for publication, the same shall be communicated to the author/s at the earliest.

Please Note that ICAI RVO has the sole discretion to accept, reject, modify, amend and edit the article before publication in the Journal and the copy right for the article(s) published in the Journal shall vest with ICAI RVO.

ICAI REGISTERED VALUERS ORGANAISATION

Regd. Office: ICAI Bhawan, Indraprastha Marg, New Delhi – 110002

Corporate Office: ICAI Bhawan, 7th Floor, Administrative Building, A-29, Sector – 62, Noida – 201309

0120-3876867 icairvo@icai.in https://icairvo.in/