

# Valuation

Under Different Statutes



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# Purpose of Equity Share Valuation

Equity Share Valuation is required under the following circumstances:



Sale of Business



Fund Raising



Merger/ Acquisition/  
Reconstruction/  
Amalgamation



Reduction of share  
capital



Conversion of stocks  
(Preference/  
Debenture to Equity)



Implementation of  
Employee Stock  
Option Plan (ESOP)



Strategic Business  
Decisions/settlement  
of family dispute



Voluntary Value  
Assessment



To comply with regulatory / accounting requirements in India under RBI/ FEMA / Income Tax Act 1961/ SEBI/ Companies Act etc.

# Who can do Valuation ?

Statute	Registered Valuer	Merchant Banker	Chartered Accountant
Companies Act, 2013	✓	X	X
Income Tax Act, 1961	✓	✓ *	✓ **
Foreign Exchange Management Act, 1999	X	✓	✓



\* Can use any method except DCF

\*\* DCF/Other than DCF

# A Registered Valuer is mandatorily to be appointed by Audit Committee/ Board of Directors of Company.

# Valuation requirements under **Various Statutes**



Companies  
Act, 2013



FEMA, 1999



Income Tax  
Act, 1961

# Valuation requirements under various statutes

## Companies Act, 2013

- Further issue of share capital –
- Preferential Allotment
- Rights Issue
- ESOP's
- Reduction of share capital
- Non-Cash transactions involving directors
- Valuing assets for submission of report by Company Liquidator
- Scheme of Compromise/Arrangement/Corporate Debt Restructuring
- Purchase of Minority Shareholding
- Declaration of solvency of voluntary wind up proposal

## Income Tax Act, 1961



### **Section 56 of Income Tax Act 1961 read with Rule 11UA of Income Tax Rules**

- Fresh issue of shares
- Transfer of Equity Shares
- Transfer of securities other than equity shares

## FEMA, 1999



### **Regulation 11 of Pricing**

Guidelines of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017

- Fresh Investment/Transfer of Shares between non-resident and residents

# The Companies Act, 2013

Activity	Reference	Trigger Point
Issue of shares for consideration other than cash - requirement for valuation of the consideration	Section 39 read with Rule 12(5) of the Companies (Prospectus and Allotment of Securities) Rules, 2014	When filing the return of allotment for issue of shares for consideration other than cash
Valuation of assets of a Section 8 Company when it is to be converted into any other type of company	Section 8 read with Rule 21 and 22 of the Companies (Incorporation) Rules, 2014	Before filing of conversion
Fair price justification for issue of sweat equity shares	Section 54 read with Rule 8(6) of the Companies (Share Capital) Rules, 2014	Before the approval of issue of sweat equity shares
Valuation of IP / know how acquired by issue of sweat equity shares to be valued	Section 54 read with Rule 8(7) of the Companies (Share Capital) Rules, 2014	Before the approval of issue of sweat equity shares

# The Companies Act, 2013

Activity	Reference	Trigger Point
Share issue (other than rights and ESOP)	Section 62(1) (c) read with Rule 13(1) of the Companies (Share Capital and Debentures) Rules, 2014	Before pricing the issue
Determination of price of issue by an unlisted entity when shares are issued to employees / trust to which the company is providing loan for such purchase	Section 67(3) read with Rule 16(1) (c) of the Companies (Share Capital and Debentures) Rules, 2014	Before the approval of the transaction
To determine that bonds / debentures issued are secured (and hence not a deposit), valuation of the assets provided as security	Section 73 read with Rule 2(ix) of the Companies (Acceptance of Deposits) Rules, 2014	Before the issue of such bonds / debentures
Non-cash transaction involving directors - requirement to value the assets	Section 192(2)	Before effecting approval for the transaction to be executed.
Filing of a compromise or arrangement amongst creditors / shareholders	Section 230(2) and Section 230(3)	Before filing of the application.
Mergers and amalgamations	Section 232	When Board places their report to the members
Acquisition of minority stake by those holding 90% or more	Section 236	Before making an offer for buyout of the shares from the minority holders
Valuation of assets at the time of winding up of a company	Section 281(1)(a)	Once the liquidator is appointed



# Foreign Exchange Management Act



Inbound foreign investment in an unlisted entity

**At the time of investment**



Buy Back of shares by an Indian Entity from foreign shareholders

**At the time of buy back**



Conversion of CCP / CCD where the conversion terms were not predetermined

**At the time of conversion**



# Foreign Exchange Management Act contd.,

When there is a transaction to swap shares between companies involving foreign shareholders

**At the time of conversion**



At the time of transfer of shares in unlisted Indian entities between a resident and non-resident or vice versa

**At the time of the transaction**



At the time of investment in entities abroad / acquisition of shares / stake in entities abroad by a resident

**At the time of the transaction**



At the time of transfer / disposal of shares / stake in foreign entities by a resident

**At the time of the transaction**



## The Income Tax Act, 1961



<b>Activity</b>	When there is a purchase of shares in an unlisted company	When there is a sale of shares in an unlisted company	When a company in which public are not substantially interested issues shares at a premium (including a rights issue)	When ESOP shares in unlisted company is exercised – for determination of perquisite value by issuing company.
<b>Reference</b>	Section 56(2)(x) read with Rule 11UA	Section 50 CA read with Rule 11UA	Section 56(2)(viib) read with Rule 11UA	Section 17 read with rule 3(8)
<b>Trigger Point</b>	At the time of the transfer	At the time of the transfer	At the time of the issue	At the time of exercise of options (reports are valid for a period of 180 days)

## The Income Tax Act, 1961 contd.,

<b>Activity</b>	For determining arm's length pricing, if and when required	When a slump sale is effected, to determine the fair value of the slump sales	Valuation of specified security or sweat equity share being a share in the company	Valuation of specified security not being an equity share in the company
<b>Reference</b>	Section 92 and 93	Section 50B and Rule 11UAE	Section 115WC and Rule 40C	Section 115WC and Rule 40D
<b>Trigger Point</b>	At the time of contracting the transaction	At the time of effecting the slump sale	At the date on which the option vests with the employee	At the date on which the option vests with the employee



# Methods of Valuation

It is pertinent to mention that the valuation of a business is not an exact science and ultimately depends upon number of factors like the purpose of valuation, stage of business, past financials, expected financial results, industry scenario, market recognition etc.

## Income Approach



### Methods:

1. Discounted cash flow method
2. Capitalization of earnings method

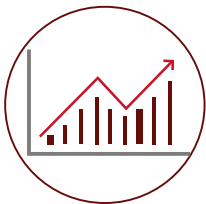
## Assets Approach



### Methods:

1. Net Asset Value Method

## Market Approach



### Methods:

1. Market Price method
2. Comparables Companies Multiple method
3. Comparable Transaction Multiple method
4. Prior sale of Business method



## Discounted Cash Flow Method :



It expresses present value of business as a function of its future cash earnings capacity.

This methodology works on the premise that the value of a business is measured in terms of future cash flow streams, discounted to the present time at an appropriate discount rate. The value of the firm is arrived at by estimating the Free Cash Flows (FCF) to Firm and discounting the same with Weighted Average cost of capital (WACC). The DFCF method using the FCF, values Company as an overall.

The DFCF methodology is considered to be the most appropriate basis for determining the earning capability of a business.

**DCF = Value today of projected cashflows + Terminal value**

Steps for arriving at Present Value of Cashflows:



## Step 1: NOPAT

Arrive at Profit Before Taxes for projected years (Generally we consider 5 year projections)

**Less:** Interest (if any)

**Less:** Taxes

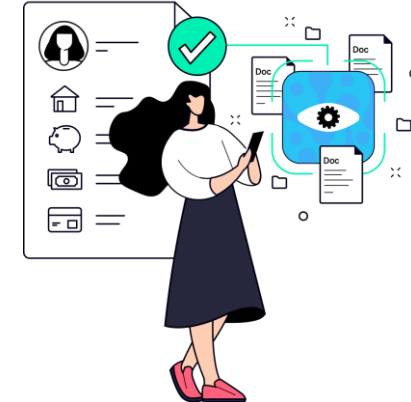


## Step 2: FCFF

**Add:** Non cash expenditure (Already deducted in Step 1)

**Less:** Capital expenditure

**Less:** Increase in Non-Cash Working Capital



## Step 3: Present Value of Cashflows

**Multiply:** WACC & Year count (if valuation date is not year end)

- Find Discount Factor
- FCFF \* Discount Factor



Steps for arriving at Value Per Share:



## **Step 1: Enterprise Value of Company**

Present Value of Cash Flows + Terminal Value

## **Step 2: Equity Value of Company**

Cash and Bank Balances – Loans as on valuation date

## **Step 3: Value Per Share**

Equity value of company / No. of equity shares

## Net Asset Value Method:

Asset based methods are normally based on the Net Asset Value (NAV) of the Company as on the valuation date and could be on current replacement cost basis or on the basis of book values, depending on the prevailing circumstances.

In Net Asset Value Valuation method, value of Equity is determined as the value of **Paid-up and Subscribed equity Share Capital and Reserves and Surplus** of the Company **divided** by the **number of shares outstanding** as at the date of valuation.

Alternatively, **net worth** of the business unit can be arrived at by **netting of the liabilities against the total assets** of the company.



**Net Asset Value = Fund Assets – Fund Liabilities / Total number of Outstanding shares**



Tailor-Made Strategy For Your Business

## Why SBC???



Our Team comprises of distinguished Chartered Accountants, Merchant Bankers, Registered Valuer's, Certified Public Accountants rendering comprehensive professional services and a dedicated team for Business Valuations (Equity/ Intangibles), whose core competencies are:

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- Understanding the micro and macro economic factors through detailed Study of industry in which a specific client is operating;
- Determination of appropriate valuation method basis the detailed study of valuation purpose
- Arriving at the fair value of an entity's equity stock
- Preparation of detailed Valuation report certifying the equity/ intangible asset value

# Core Competencies

Preeti has over 10 years of experience in Big 4's in the field of Valuations, Corporate taxation and Finance advisory matters. She is also qualified as a IBBI recognized Registered Valuer for Securities and Financial Assets.

## Her core competencies are:

- » Business Valuations; Startup Valuations; Acquisition and Investment valuation; Valuation of Asset, plant and machinery; Intangibles Valuation; all types of Statutory Valuations & Regulatory Reporting (FDI, ODI, ESOP etc.); Merger Valuations; Distress Valuation; Purchase Price Allocation; ESOP & Sweat Equity Consultant
- » Business restructuring advisory and implementation i.e., evaluating various options like amalgamation, demerger, slump sale/hive off, buy back , capital reduction etc for various entities
- » Investor and Financial Modelling Services for preparation of business plans and detailed business models
- » Virtual CFO services with full range of support on accounting and bookkeeping services assisting small to mid-sized enterprises like recording of revenue & expenditure transactions, accounts payable management, accounts receivable management, Cash Flows management
- » Valuation and Transaction tax services to clients in Technology, Pharma, Construction and Real Estate Industry in relation to Tax, FEMA, SEBI and Stamp Duty regulations

Our Valuation team has considerable experience in valuation advisory and certifications of companies of all sizes and we have served more than 100 sophisticated assignments to our growing and satisfied clientele.



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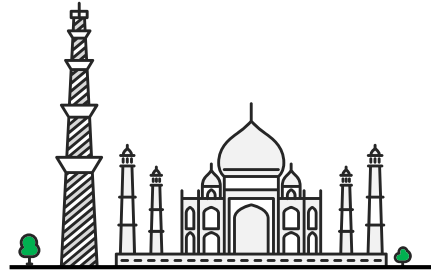
# Thank you

For more details please logon to <http://www.steadfastconsultants.in>



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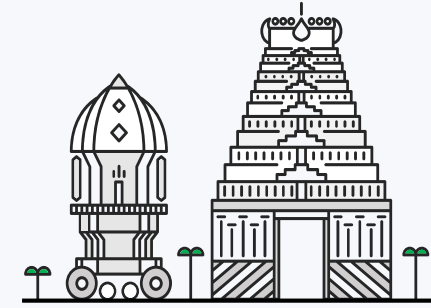
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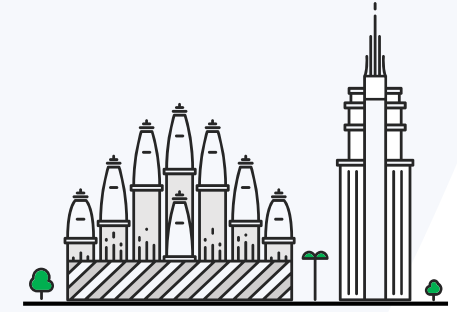
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# THANK YOU

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