

Frequently Asked Questions on Valuation



Valuation Standards Board
ICAI Registered Valuers Organisation
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Message

As you all know that ICAI Registered Valuers Organisation is committed towards development of the valuation profession for the Asset Class-Securities or Financial Assets.

The role of the valuation professionals has become dynamic and they are required to sharpen their skills and perform their duties with due diligence and to abide by the Code of Conduct prescribed by ICAI Registered Valuers Organisation.

ICAI Registered Valuers Organisation in this direction is taking steps for guiding and helping the professionals alongwith the Valuation Standards Board of ICAI.

I congratulate the Valuation Standards Board of ICAI and ICAI Registered Valuers Organisation (ICAI RVO) for coming together to bring out the publication on 'Frequently Asked Questions on Valuation' to accomplish the common vision of encouraging the Valuation profession.

I am extremely happy for all the joint initiatives taken by the Institute of Chartered Accountants of India with ICAI RVO. I would like to appreciate the dedicated efforts of CA. M. P. Vijay Kumar, Chairman, Valuation Standards Board (VSB) of ICAI and to the members of the Board of ICAI RVO, Shri I. Y. R Krishna Rao, Shri Samir Kumar Barua, Shri Ashok Haldia and Shri Biswamohan Mahapatra for this joint endeavour. I would sincerely thank CA. Naveen N. D. Gupta, CA. Prafulla P. Chhajed, CA. Nilesh S. Vikamsey and CA. Dhinal A. Shah – the Directors of ICAI RVO, in encouraging all the initiatives.

I commend the sincere efforts put in by CA. Sarika Singhal, Ms S. Rita and Ms. Seema Jangid for preparing the publication.

I am confident that this publication will held in resolving many of the questions that the valuers may have in their mind.

Justice Anil R. Dave (Retd.)
Chairman,
ICAI Registered Valuers Organisation

Date: 10.01.2019

Place: New Delhi

Foreword

Valuation of a business requires understanding and analysis of various complex factors and has a major impact on all type of businesses whether big or small.

As we all know that the valuation assignment is distinctive and there are no uniform practices that are being adopted by the valuers in carrying valuation. So, tailoring a valuation about the most suitable and appropriate procedures to be relevant to each assignment is somewhat a very technical issue.

There are questions and queries in the minds of valuers on the understanding of Companies (Registered Valuers and Valuation) Rules, 2017, suitability and application of method of valuation etc. The Institute has been continuously undertaking several initiatives to support the newly regulated valuation profession as well as to create awareness amongst all related stakeholders for giving more clarity.

I congratulate the Valuation Standards Board and ICAI Registered Valuers Organisation to bring out the publication “Frequently Asked Questions on Valuation”, with the aim to provide answers to some practical issues being faced by stakeholders.

I appreciate the efforts put in by entire Valuation Standards Board and especially by CA. M. P. Vijay Kumar, Chairman, Valuation Standards Board and CA. Dhinal A. Shah, Vice- Chairman, Valuation Standards Board for initiating this publication.

I am sure that this publication would be immensely useful for the members and other interested stakeholders.

CA. Naveen N.D. Gupta
President ICAI
Director ICAI RVO

Date: 10.01.2019

Place: New Delhi

Preface

The Valuation as a practice and as a profession is being regulated now to improve Corporate Governance and better transparency in the corporate sector which is imperative to infuse confidence amongst investors in Indian market and abroad.

There is always a saying that Valuation is neither a pure Art nor a pure science but a perfect combination of both.” In the valuation process, Valuer values the organization by using technology, applying specific methods of valuation (which can be termed as part of Science) and his own experience in taking various assumptions i.e. an Art.

To facilitate the understanding of nuances of valuation, the Valuation Standards Board of the Institute of Chartered Accountants of India and ICAI Registered Valuers Organisation decided to bring out a publication on the Frequently Asked Questions on Valuation.

The publication has been designed in a question and answer format to assist our members and other stakeholders to enable them to have conceptual clarity on the various Valuation aspects. This publication comprehensively covers questions that are being asked while undertaking Valuation of Securities or Financial assets.

In this connection we take this opportunity in thanking the President of ICAI and Director ICAI RVO, CA. Naveen N. D. Gupta and Vice President and Director ICAI RVO CA. Prafulla P. Chhajed for their moral support and encouragement in bringing out the publication.

We would like to take this opportunity to convey our sincere thanks and gratitude towards the Board of ICAI RVO comprising of Hon'ble Mr. Justice Anil R. Dave (Retd.), Chairman of the Board and other Directors, Shri I.Y.R Krishna Rao, Shri Biswamohan Mahapatra, Shri Ashok Haldia, CA. Nilesh S. Vikamsey, Immediate Past President, ICAI for taking this joint initiative and bring out a publication to resolve queries that are in the minds of valuers.

We appreciate all Members of the Valuation Standards Board, Co-opted members and Special Invitees for their support and guidance in bringing out this publication.

We extend our appreciation to CA. Sarika Singhal, Ms. S. Rita and Ms. Seema Jangid for their efforts in preparing and bringing out this publication.

We are of firm belief that this publication will be of great help in understanding the aspects of valuation and in the practical implementation of the same.

CA. M. P. Vijay Kumar
Chairman
Valuation Standards Board, ICAI

CA. Dhinal A. Shah
Vice Chairman
Valuation Standards Board, ICAI

Date: 10.01.2019
Place: New Delhi

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Chapter 1

Registered Valuer Concept as per Section 247 of the Companies Act 2013 and Rules thereunder

1. Who shall be termed as a valuer?

“Valuer” means a person registered with the authority in accordance with Companies (Registered Valuers and Valuation) Rules, 2017 and the term “registered valuer” shall be construed accordingly.

2. Who is the authority for administering the Registered Valuers?

The Central Government has delegated its powers and functions under Section 247 of the Companies Act, 2013 to the Insolvency and Bankruptcy Board of India (IBBI) and specified the IBBI as the Authority under the Companies (Registered Valuers and Valuation) Rules, 2017.

3. Which Section of the Companies Act, 2013 mandates valuation by a Registered Valuer?

Section 247 of the Companies Act, 2013 read with Companies (Registered Valuers and Valuation) Rules, 2017 mandates valuation under the provisions of the Companies Act, 2013 by a Registered Valuer.

4. When the provisions of Section 247 of the Companies Act, 2013 became applicable?

The provisions of Section 247 of the Companies Act, 2013 came into effect from 18th October, 2017.

5. When the provisions of Companies (Registered Valuers and Valuation) Rules, 2017 became applicable?

The provisions of Companies (Registered Valuers and Valuation) Rules, 2017 came into effect from 18th October, 2017

6. What kind of valuations a Registered Valuer can undertake as per Section 247 of the Companies Act, 2013?

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Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer and being a member of an Organisation recognised, in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

7. Who can appoint a Registered Valuer for Valuation under the Companies Act, 2013?

A Registered Valuer can be appointed by the audit committee.

8. In case a company does not have an audit committee, who can appoint a Registered Valuer for Valuation under the Companies Act, 2013?

In the absence of the audit committee, a Registered can be appointed by the Board of Directors of that company.

9. Whether the commencement of Section 247 of the Companies Act 2013 and the Companies (Registered Valuers and Valuation) Rules, 2017 affect the conduct of valuation under any other law?

No, it has been clarified that conduct of valuation under any other law other than the Companies Act 2013 or Companies (Registered Valuers and Valuation) Rules, 2017 by any person shall not be affected by virtue of coming into effect of these rules.

10. What are the duties of a Registered Valuer as per Section 247 of the Companies Act, 2013?

The valuer appointed under Section 247 shall—

- make an impartial, true and fair valuation of any assets which may be required to be valued;
- exercise due diligence while performing the functions as valuer;
- make the valuation in accordance with such rules as may be prescribed; and
- not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during a

Registered Valuer Concept as per Section 247 of the Companies...

period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him.

11. What are the qualifications and experience required to register as a Registered Valuer for securities class or financial assets?

An individual shall have the following qualifications and experience to be eligible for registration under Companies (Registered Valuers and Valuation) Rules, 2017:

- Chartered Accountant, Cost Accountant, Company Secretary, MBA/ PGDBM in Finance and an individual having post-graduate degree in finance and
- Having at least three years' experience after possessing qualification as mentioned above.

12. Who is eligible to be a Registered Valuer?

A person shall be eligible to be registered valuer, if he -

- (a) is a valuer member of a registered valuers organisation;

Explanation.— For the purposes of this clause, “a valuer member” is a member of a registered valuers organisation who possesses the requisite educational qualifications and experience for being registered as a valuer;

- (b) is recommended by the registered valuers organisation of which he is a valuer member for registration as a valuer;
- (c) has passed the valuation examination within three years preceding the date of making an application for registration;
- (d) possesses the qualifications and experience as specified in the rules;
- (e) is not a minor;
- (f) has not been declared to be of unsound mind;
- (g) is not an undischarged bankrupt, or has not applied to be adjudicated as a bankrupt;
- (h) is a person resident in India;

Explanation.— For the purposes of these rules ‘person resident in India’ shall have the same meaning as defined in clause (v) of

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Section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999) as far as it is applicable to an individual;

- (i) has not been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence:

Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be registered;

- (j) has not been levied a penalty under Section 271J of Income-tax Act, 1961 (43 of 1961) and time limit for filing appeal before Commissioner of Income-tax (Appeals) or Income-tax Appellate Tribunal, as the case may be has expired, or such penalty has been confirmed by Income-tax Appellate Tribunal, and five years have not elapsed after levy of such penalty; and
- (k) is a fit and proper person:

Explanation.— For determining whether an individual is a fit and proper person under these rules, the authority may take account of any relevant consideration, including but not limited to the following criteria-

- (a) Integrity, reputation and character,
- (b) Absence of convictions and restraint orders, and
- (c) Competence and financial solvency.

No partnership entity or company shall be eligible to be a registered valuer if:

- (a) it has been set up for objects other than for rendering professional or financial services, including valuation services and that in the case of a company, it is a subsidiary, joint venture or associate of another company or body corporate;
- (b) it is undergoing an insolvency resolution or is an undischarged bankrupt;
- (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) above;

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- (d) three or all the partners or directors, whichever is lower, of the partnership entity or company, as the case may be, are not registered Valuers; or
- (e) None of its partners or directors, as the case may be, is a registered valuer for the asset class, for the valuation of which it seeks to be a registered valuer.

13. What are the other requirements to register as a registered valuer?

Subject to meeting other requirements, an individual is eligible to be a registered valuer, if he

- is a fit and proper person.
- has the necessary qualification and experience,
- is a valuer member of an RVO,
- has completed a recognised educational course as a member of an RVO,
- has passed the valuation examination conducted by the IBBI, and
- is recommended by the RVO for registration as a valuer.

14. What is the Code of Conduct for Registered Valuers?

As per Rule 7 (g) and Rule 12 (2) (d) of the Companies (Registered Valuers and Valuation) Rules, 2017, the Registered Valuers are required to follow the Code of Conduct available at: <http://www.icairvo.in/laws-policies/code-conduct/>

15. Whether it is mandatory to undertake Educational Course by an RVO?

Yes as per Rule 5 (1) of the Companies (Registered Valuers and Valuation) Rule, 2017, it is mandatory to undertake Educational Course in the specified class.

16. What is the process to be followed to become a Valuer member?

An individual has to first enroll as a valuer member with Registered Valuers Organisation and complete 50 hours Educational Course conducted by the RVO.