

Overview of Valuation in India

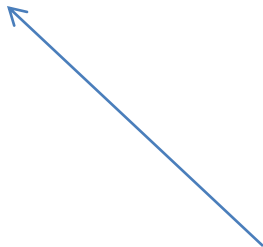
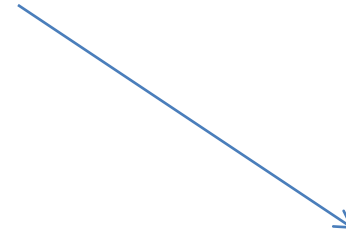
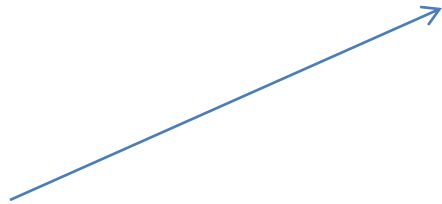
9th June 2020

Sumit Dhadha

**B. Com, FCA, DISA, DIRM, CCA, CS, CAMS (USA),
Insolvency Professional, Registered Valuer**

**E-learning initiative by
CA Sangam Aggarwal & Team**

My journey so far.....



Expand your horizon



What is Valuation?

“Valuation is a quantitative/qualitative process of determining the fair value of an asset, liability or a company.”

**“Price is what you Pay,
Value is what you get”**

Warren Buffet



Valuation - Art or Science?

“Valuation discipline is neither a science nor an art; it is a craft, i.e., a skill that one learns by doing. The more one does it, the better one gets at it.”

- Prof. Damodaran

Value, as a concept, is ambiguous; as an asset has different values depending on the purpose or context.



Flipkart

- May 2014 - \$ 2.6 billion
- July 2014 - \$ 7.1 billion
- Dec. 2014 - \$ 11.5 billion
- July 2015 - \$ 15.2 billion
- July 2016 - \$ 8.8 billion
- Aug. 2016 - \$ 11.55 billion
- Nov. 2016 - \$ 5.6 billion

2017 – Loss 245 cr USD 7.6 bn val.

2018 – Loss 2063 cr USD 20 bn val.

PayTm

- June 16 - \$ 2.3 billion
- Sep. 16 - \$ 4.8 billion
- May 17 - \$ 7 billion
- Aug. 18 \$ 10 billion

2017 – 890 cr. Loss

2018 – 1491 cr. Loss

2019 – 3960 cr. Loss

\$ 16 billion

11:03

4G+ 84%



Tweet



Harsh Goenka

@hvgoenka



If I travelled in an Ola taxi and stayed in an Oyo hotel and paid through my Paytm card, I would have increased the losses of all the three companies. Still trying to fathom the premise, the more the losses higher the market capitalizations.

Perhaps I am too old world !!!

6:55 PM · 24 Nov 18

Valuation: Evolution of Institutional Framework

Timeline	Developments
1968	First professional valuation society established.
1971	Wanchoo Committee Report highlights absence of proper valuation machinery.
2003	Shardul Shroff Expert Group suggests guidelines for valuation of shares.
2005	Irani Committee suggests establishment of an Institute of Valuers under MCA.
2006	Two working groups constituted by MCA to suggest institutional framework and curriculum for valuers.
June 2007	Public comments on Concept paper on formation of Council of Valuation Professionals of India invited.
Nov.2007	<input type="checkbox"/> Comments invited on revised Concept note. <input type="checkbox"/> Constitution of an Expert Group to advise on statutory framework for regulation of valuation professionals.
August 2013	The Companies Act, 2013 prescribes valuation by a Registered Valuers.

Source:

- Report of CoE to Examine the Need for an Institutional Framework for Regulation and Development of Valuation Professionals, Volume I
- Presentation on the Draft Valuers Bill, 2020 by Valuer Division, IBB

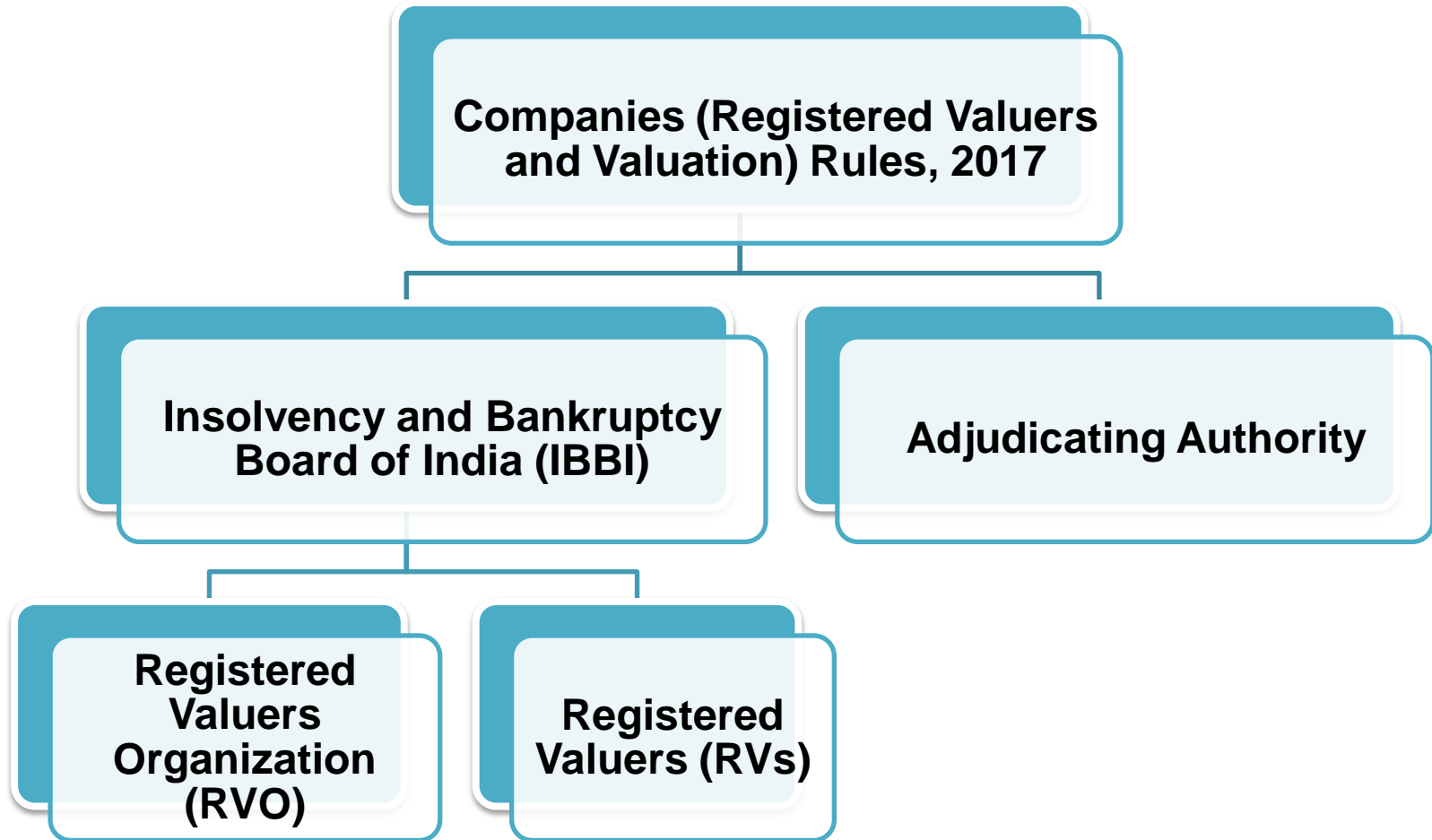
Valuation: Evolution of Institutional Framework

Timeline	Developments
Oct. 2017	<ul style="list-style-type: none">❑ The Companies (Registered Valuers and Valuation) Rules, 2017 notified.❑ Companies (Removal of difficulties) Second Order, 2017 issued.❑ IBBI notified as the Authority under the Rules.
Dec. 2017	First Valuers Organization recognized under the Rules.
March 2018	Online examination launched in all 3 asset classes.
April 2018	Committee to advise on valuation matters constituted.
June 2018	First individual registered as valuer under the Rules.
February 2019	With effect from 1 st February 2019, every valuation required under the Act and the IBC, 2016 to be conducted by a registered valuer.
May 2019	First Entity registered as valuer under the Rules.
March 2020	Total number of RVs cross the 3000 mark.

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Existing Institutional Framework for Registered Valuers

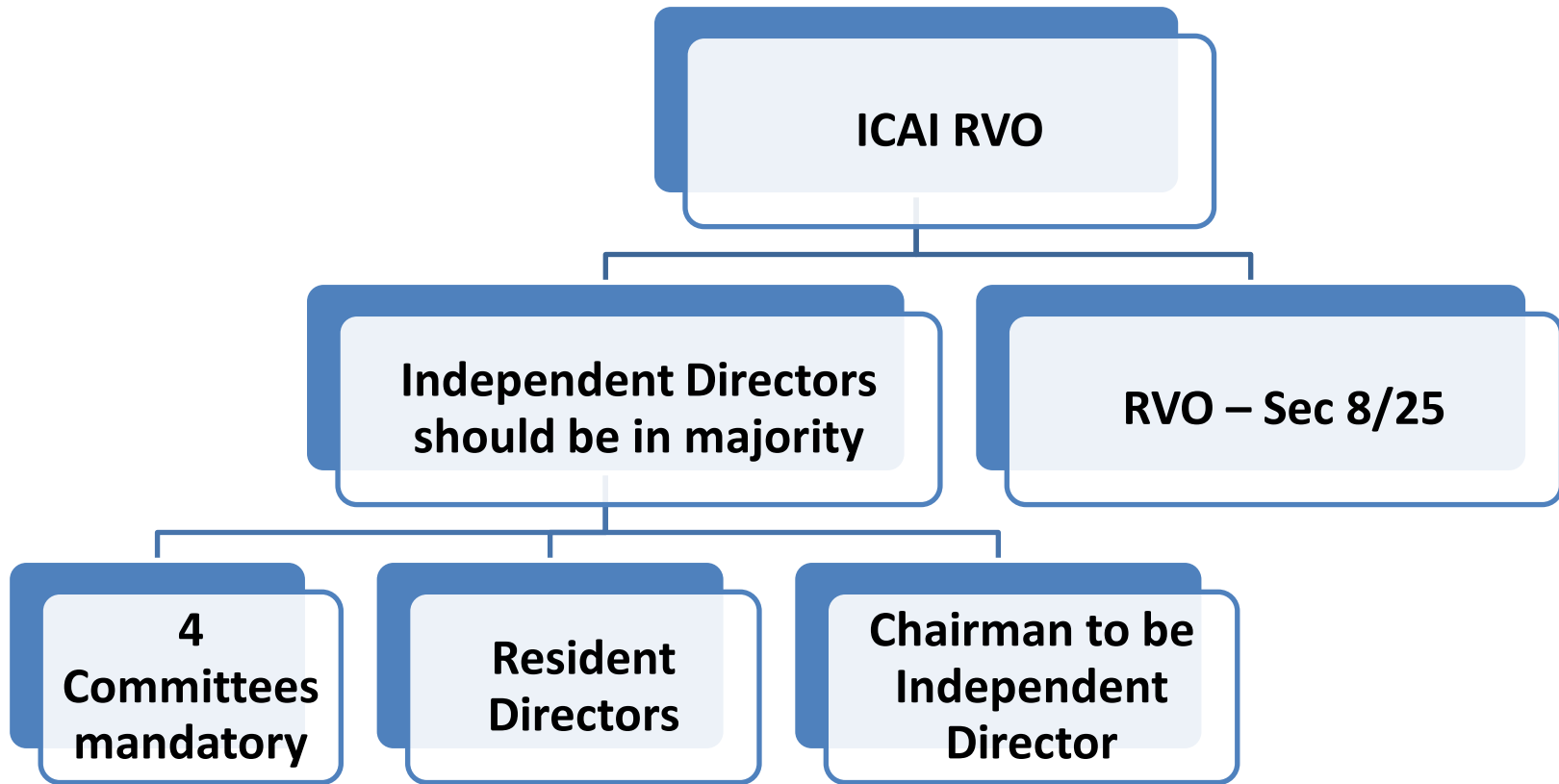


Registered Valuers Organisation

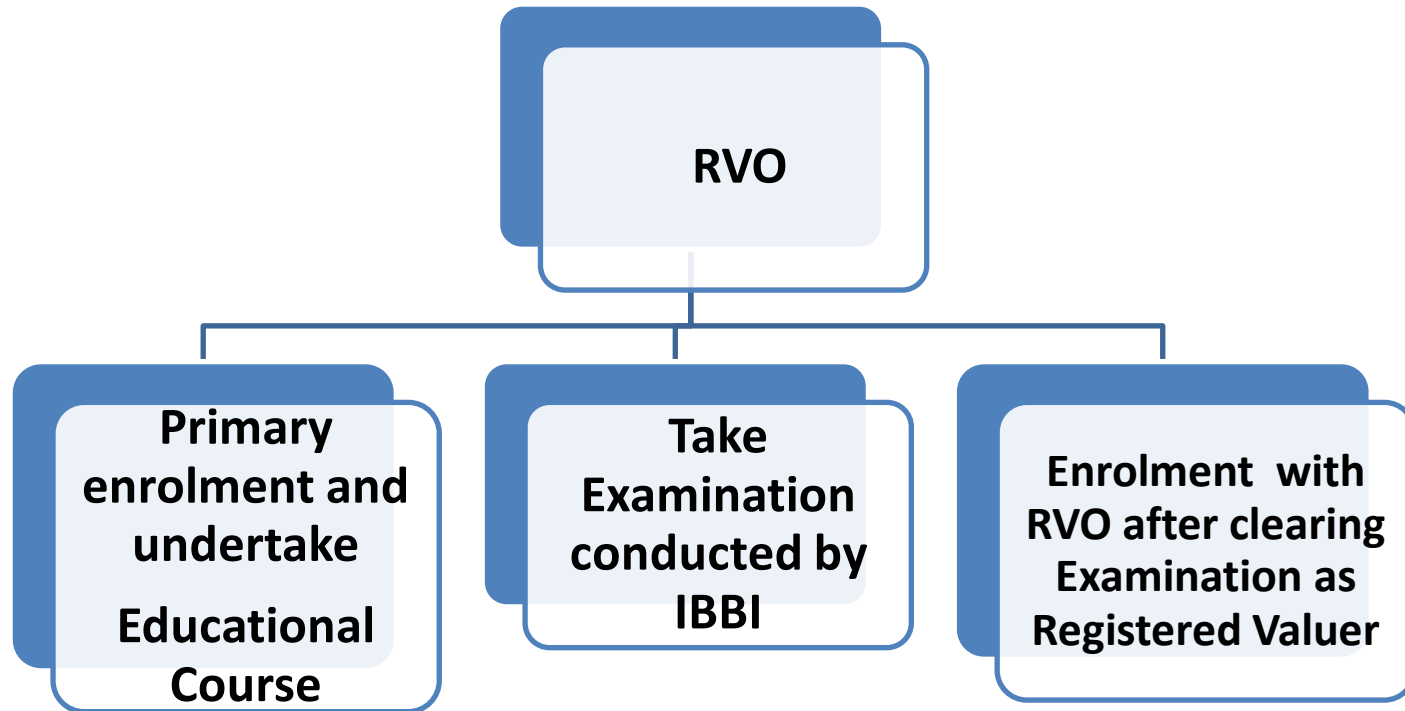
Registration no.	Name of RVO	Asset Class
IBBI/RVO/2017/001	Institution of Estate Managers & Appraisers	LB, PM & SFA
IBBI/RVO/2017/002	IOV Registered Valuers Foundation	LB, PM & SFA
IBBI/RVO/2017/003	ICSI Registered Valuers Organisation	LB, PM & SFA
IBBI/RVO/2017/004	The Indian Institution of Valuers	LB, PM & SFA
IBBI/RVO/2017/005	ICMAI Registered Valuers Organisation	LB, PM & SFA
IBBI/RVO/2017/006	ICAI Registered Valuers Organisation	SFA
IBBI/RVO/2017/007	PVAI Valuation Professional Organisation	LB, PM & SFA
IBBI/RVO/2017/008	CVSRTA Registered Valuers Association	LB, PM
IBBI/RVO/2018/009	Association of Certified Valuators & Analysts	SFA
IBBI/RVO/2018/010	CEV Integral Appraisers Foundation	LB, PM
IBBI/RVO/2018/011	Divya Jyoti Foundation	LB, PM & SFA
IBBI/RVO/2020/012	Nandadeep Foundation	LB, PM & SFA

LB = Land Building, PM = Plant & Machinery, SFA = Securities or Financial Assets

Structure of RVO



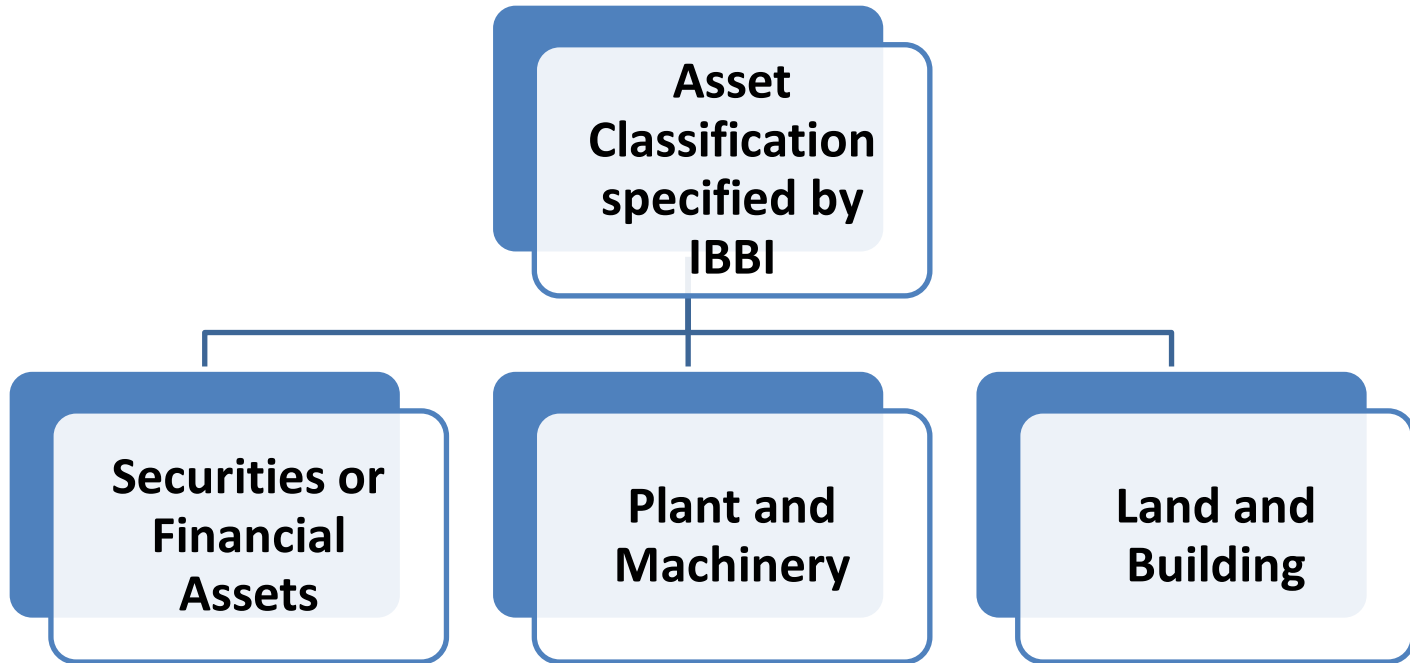
Membership Recognition



50 hours compulsory training to be eligible to take examination to become Registered Valuer.

Post Qualification Training & Issue of COP

Classes of Assets



- CA, CS, ICWA, MBA can register only in SFA

Registered Valuers

As at 9 June 2020

- Securities or Financial Assets – 1,122
- Land and Building – 1,647
- Plant and Machinery – 331

- **Registered Valuer Entities – 22**

Valuation Methodology

Kal

Aaj

Kal

Cost

Market

Income

'Need of Valuation' ?

Transactions

- Mergers / Acquisitions
- Investment
- Fund Raising
- Sale of Businesses
- Dispute Resolution

Regulatory

- Companies Act
- Income Tax
- SEBI
- RBI
- IBC
- Court litigation - divorce

Financial Reporting

- Fair Value (Ind AS)
- ESOP
- Purchase Price Allocation
- Impairment

Opportunity under Companies Act

Registered Valuer Report required in following sections as per Companies Act, 2013

S. No.	Section	Particulars
1	39 (4)	Allotment of Securities for consideration other than cash
2	54(1)	Issue of sweat equity shares
3	62(1)C	Valuation report for further issue of share capital
4	67(3) (b)	Issue of shares on preferential basis.
5	73	Acceptance of deposits – secured by charge of any assets
6	177(4) (vi)	Audit Committee to insist for valuation of assets wherever necessary
7	192(2)	Valuation of assets involved in arrangement of non-cash transactions involving directors
8	230(2)(c) (v)	Valuation of shares, property and assets of the company under a scheme of corporate debt restructuring

Opportunity under Companies Act

Registered Valuer Report required in following sections as per Companies Act, 2013

Sl. No.	Section	Particulars
9	230(3)	Valuation report along with notice of creditors/shareholders meeting –under scheme of compromise/arrangement
10	232(2)(d)	Merger & amalgamation of Company
11	232(3)(h)	The valuation report to be made by the tribunal for exit opportunity to the shareholders of transferor company – under the scheme of compromise/arrangement in case the transferor company is listed company and the transferee company is an unlisted company
12	236(2)	Valuation of equity shares held by the minority shareholders
13	247	Reg. Valuer report is required when valuation is to be done in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities under the provision of this Act.
14	281(1)	Valuing assets for submission of report by liquidator to NCLT

Valuation Opportunity in IND AS

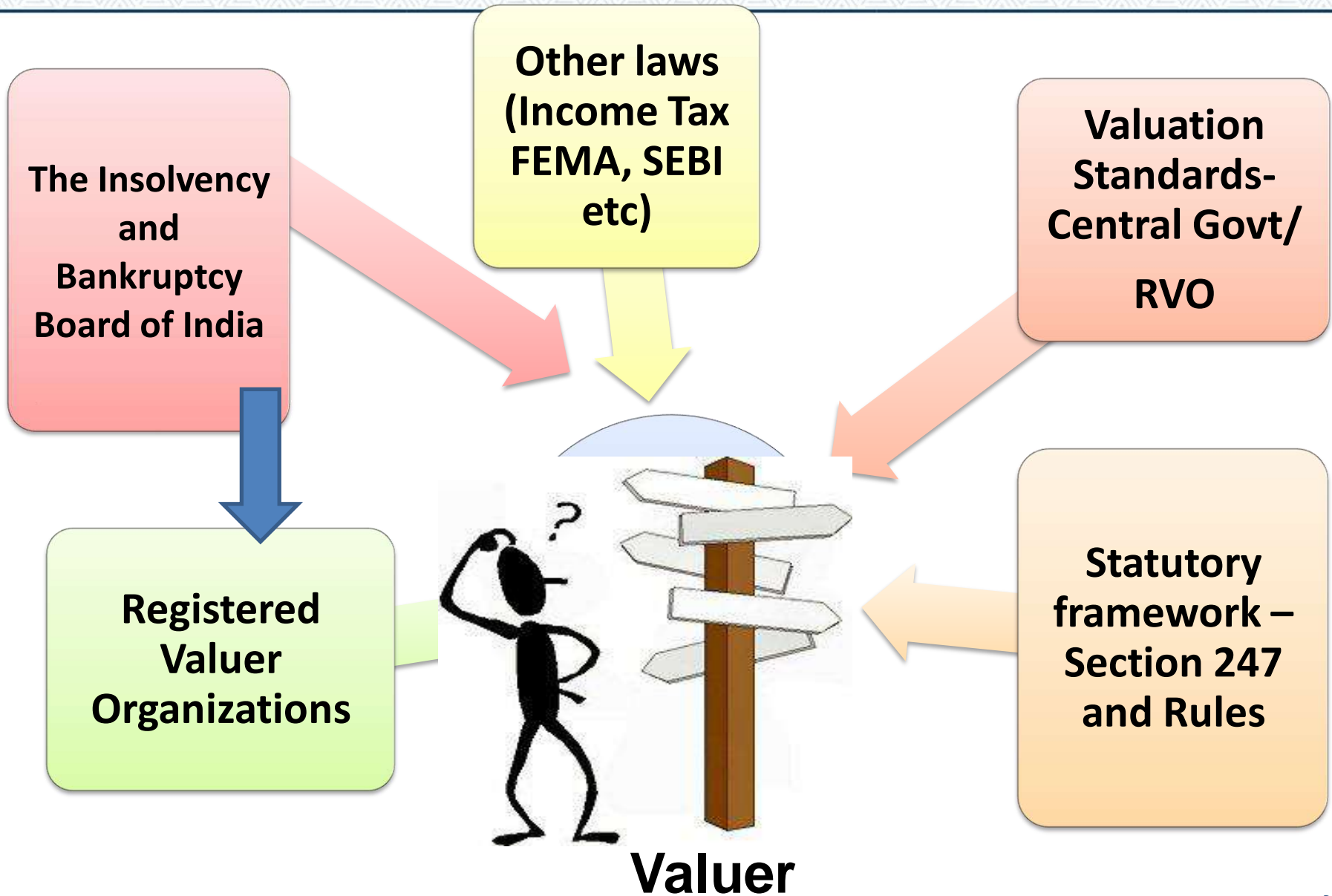
- **Ind AS 113** - Dedicated Standard on “**Fair Value**” Measurement – in line with global equivalents – IFRS 13 and ASC 820 (US GAAP). Covers Financial Reporting.
- **Fair Value is a market-based measurement, NOT an entity-specific measurement.**
- **Specific Standards for specific issues**
 - Ind AS - 109, 107 and 32 : Financial Instruments (Assets & Liabilities)
 - Ind AS - 102 : Share based payment
 - Ind AS - 103 : Business Combination
 - Ind AS - 38 : Intangible Assets
 - Ind AS - 16 : Property Plant & Equipment
 - Ind AS - 36 : Impairment of Assets

Registered Valuer opportunity in IBC 2016

Insolvency & Bankruptcy code 2016

- Reg. 27 the resolution professional shall within 7 days of his appointment, appoint two registered valuers to determine the fair value
- And when there is significant difference in valuation then IRP to appoint 3rd registered valuer
- And take average of two closest values

Valuation Environment



Multiple Authorised Valuers: Financial Securities

Issue of Equity Shares by an Unlisted Company

	Registered Valuer	Merchant Banker	Chartered Accountant
Issue of Equity Shares:			
Private Placement			
- Companies Act	√	X	X
- Income Tax Act (under DCF method)	X	√	X
- Income Tax Act (other than DCF method)	X	X	√
- FEMA (either MB or CA)	X	√	√
Right issue			
- Companies Act	X	X	X
- Income Tax Act (under DCF method)	X	√	X
- Income Tax Act (other than DCF method)	X	X	√
- FEMA (either MB or CA)	X	√	√

Multiple Authorised Valuers: Financial Securities

Issue of CCPS/CCD by an Unlisted Company

	Registered Valuer	Merchant Banker	Chartered Accountant
Issue of CCPS/CCD/Pref Shares/Debenture:			
Private Placement			
- Companies Act	√	X	X
- Income Tax Act	X	X	√
- FEMA (either MB or CA)	X	√	√

Multiple Authorised Valuers: Financial Securities

Transfer of Equity Shares by an Unlisted Company

	Registered Valuer	Merchant Banker	Chartered Accountant
Transfer of Equity Shares:			
- Companies Act	X	X	X
- Income Tax Act	X	X	X
- FEMA (either MB or CA)	X	√	√
Transfer of CCPS/CCD:			
- Companies Act	X	X	X
- Income Tax Act	X	√	√
- FEMA (either MB or CA)	X	√	√
ESOP			
On Grant of option	√	X	X
On Exercise of option	X	√	X

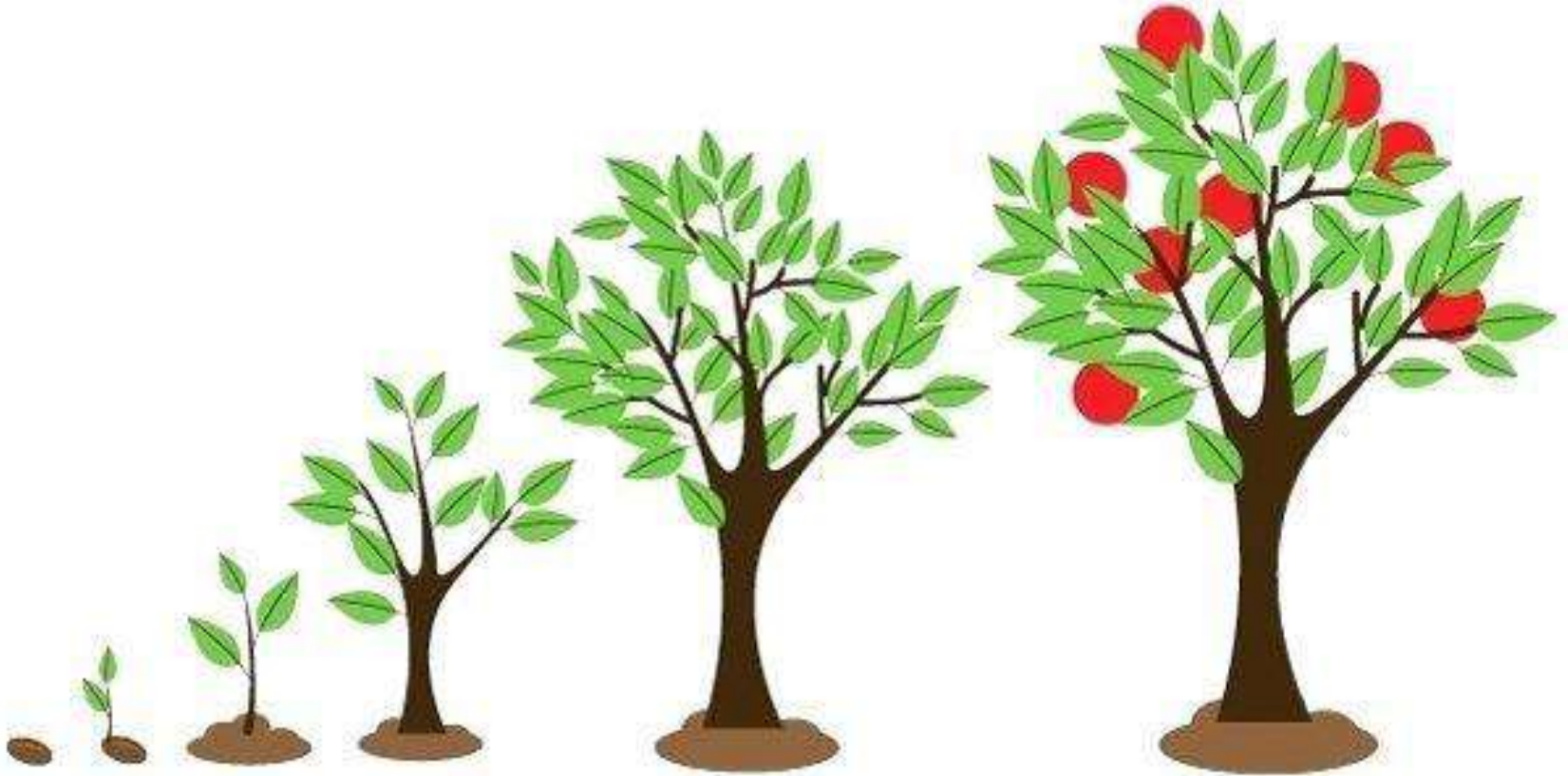
Multiple Authorised Valuers: Financial Securities

SEBI

	Registered Valuer	Merchant Banker	Chartered Accountant
SEBI			
- Real Estate Investment Trust	√	X	X
- Infrastructure Investment Trust	√	X	X
- Mutual Funds	X	X	√

Draft Valuers Bill, 2020

(Journey from **one section** to **Full Act**)



Committee of Experts

Members

- Dr. M.S. Sahoo, IBBI - Chairperson
- CA. Prafulla Chhajed, President, ICAI
- CMA. Balwinder Singh, President, ICoAI
- CS. Ranjeet Pandey, President, ICSI
- Mr. B. Sriram, Ex-CEO & MD, IDBI Bank
- Prof. R. Narayanaswamy, Professor, IIM-Bangalore
- Mr. Ajay Bahl, Founding Partner, AZB & Partners
- Mr. Manoj Pandey, Joint Secretary, MCA (Member-Secretary and Convenor)

Invited Panel Members

- Mr. Vinay Goel, CEO - IOV RVO
- Mr. Kirit P. Budhbhatti, Budhbhatti & Associates
- Mr. Varun Gupta, MD-Duff & Phelps
- Mr. Somasekhar Sundaresan, Advocate
- Mr. Nitin Kapoor, Director, South Asia-RICS

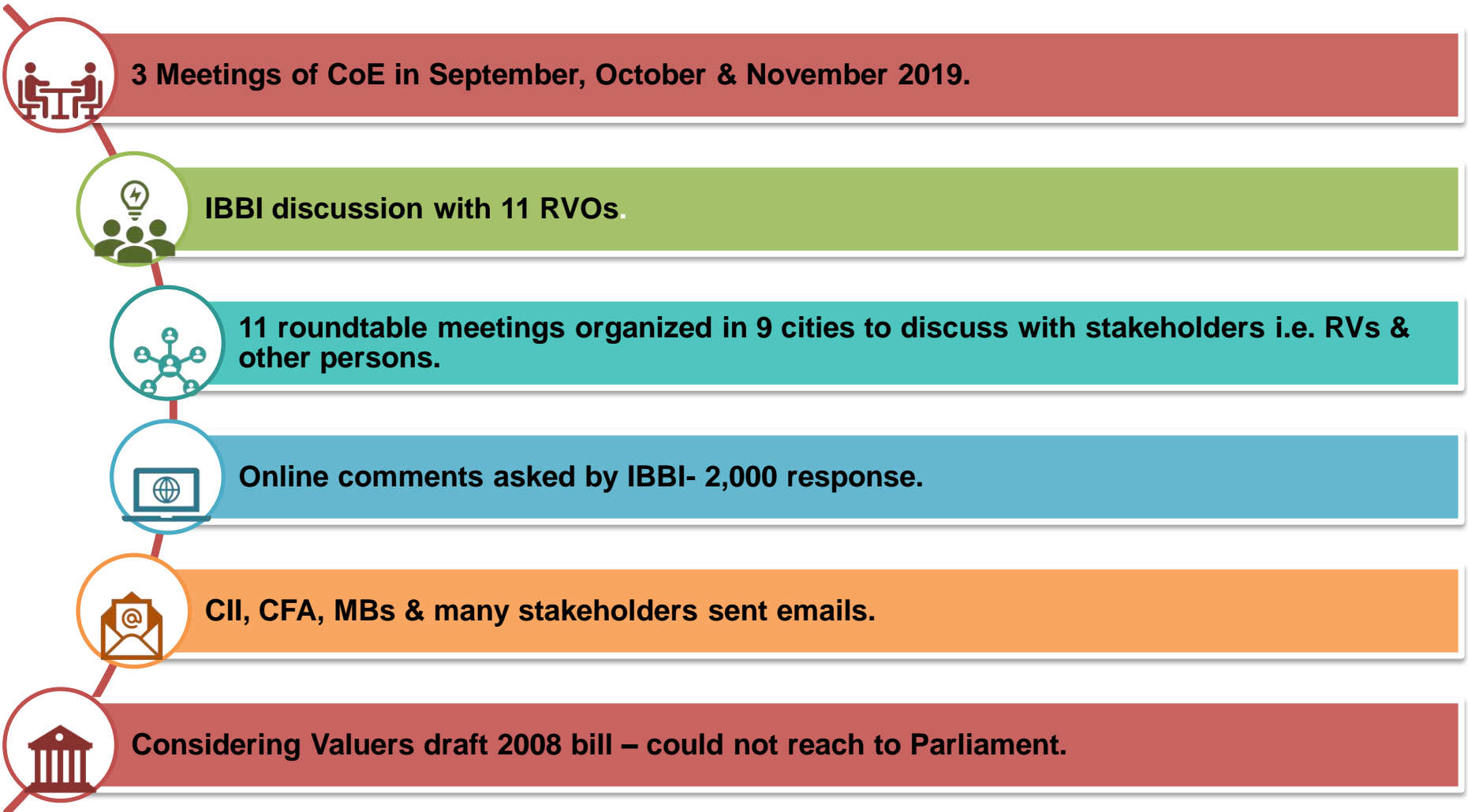


Source:

- *Report of CoE to Examine the Need for an Institutional Framework for Regulation and Development of Valuation Professionals, Volume I*
- *Presentation on the Draft Valuers Bill, 2020 by Valuer Division, IBBI*

Committee of Experts

Activities Undertaken



Source:

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Draft Valuers Bill, 2020

An Overview



69 Sections



**5 Schedules – Schedule 1 to 4 relates to contraventions by Valuers, VPO, VI –
Schedule 5 – Companies Act Amendments**



Once approved will be known as the Valuers Act, 2020



Governing Council - Bureaucrats



**Committee of Valuer – 20 valuers – Issue relating to valuation (5 by council +
15 by VPOs)**



Valuation Standard Committee – 3 valuer each Class



Valuation Professional Organisation – Valuer Institute

Source:

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- Presentation on the Draft Valuers Bill, 2020 by Valuer Division, IBB

Draft Valuers Bill, 2020

Salient Features

Some of the salient features of the Draft Valuers Bill, 2020 have been covered via the following heads:

General

Development of Profession

Regulation of Profession

Regulatory Architecture

Transitional Arrangement

Source:

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General

Scope:

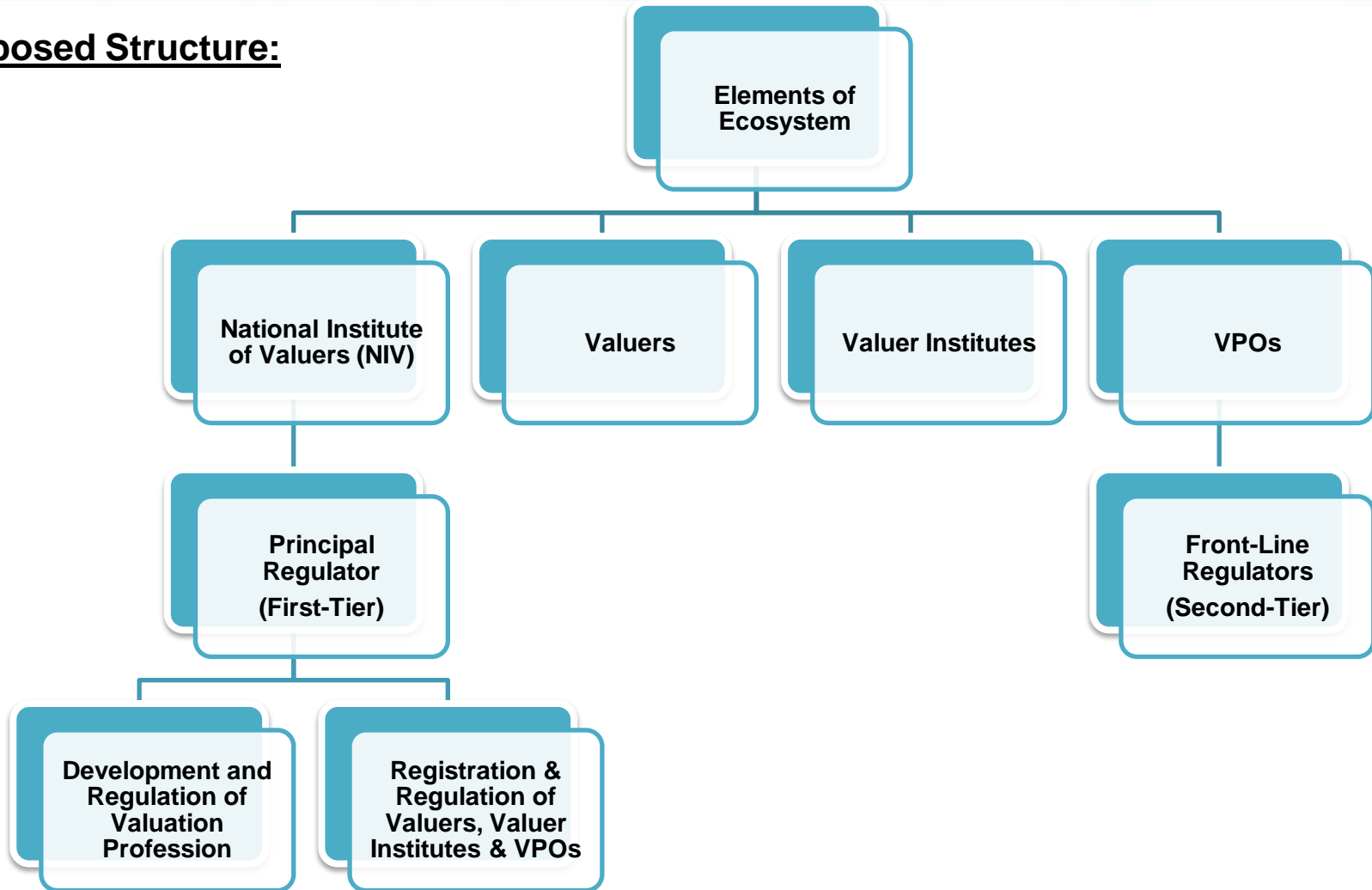
- Valuations under the Companies Act, 2013 and the IBC to be mandatory to begin with
- **Framework should cover valuations under other laws (14 acts) in a phased manner in due course**
- To name a few – Banking, Income tax, SARFAESI, FEMA, SEBI, Black Money Act, LLP

Source:

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General

Proposed Structure:



Source:

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Development of Profession

Educational courses:

- Framework defines broad entry norms.
- Provides three entry norms (2 regular & 1 transitional):
 - National Valuation Programme (NVP) - 4 years (including 1 year internship) after 10+2; or
 - Graduate Valuation Programme (GVP) - 2 years (including 1 year internship) after graduate degree or equivalent in an identified discipline relevant for an asset class; or
 - Limited Valuation Programme (LVP) - 400 hours professional course, in the absence of relevant qualification and having 5 years+ relevant experience. Initial 2 years only.

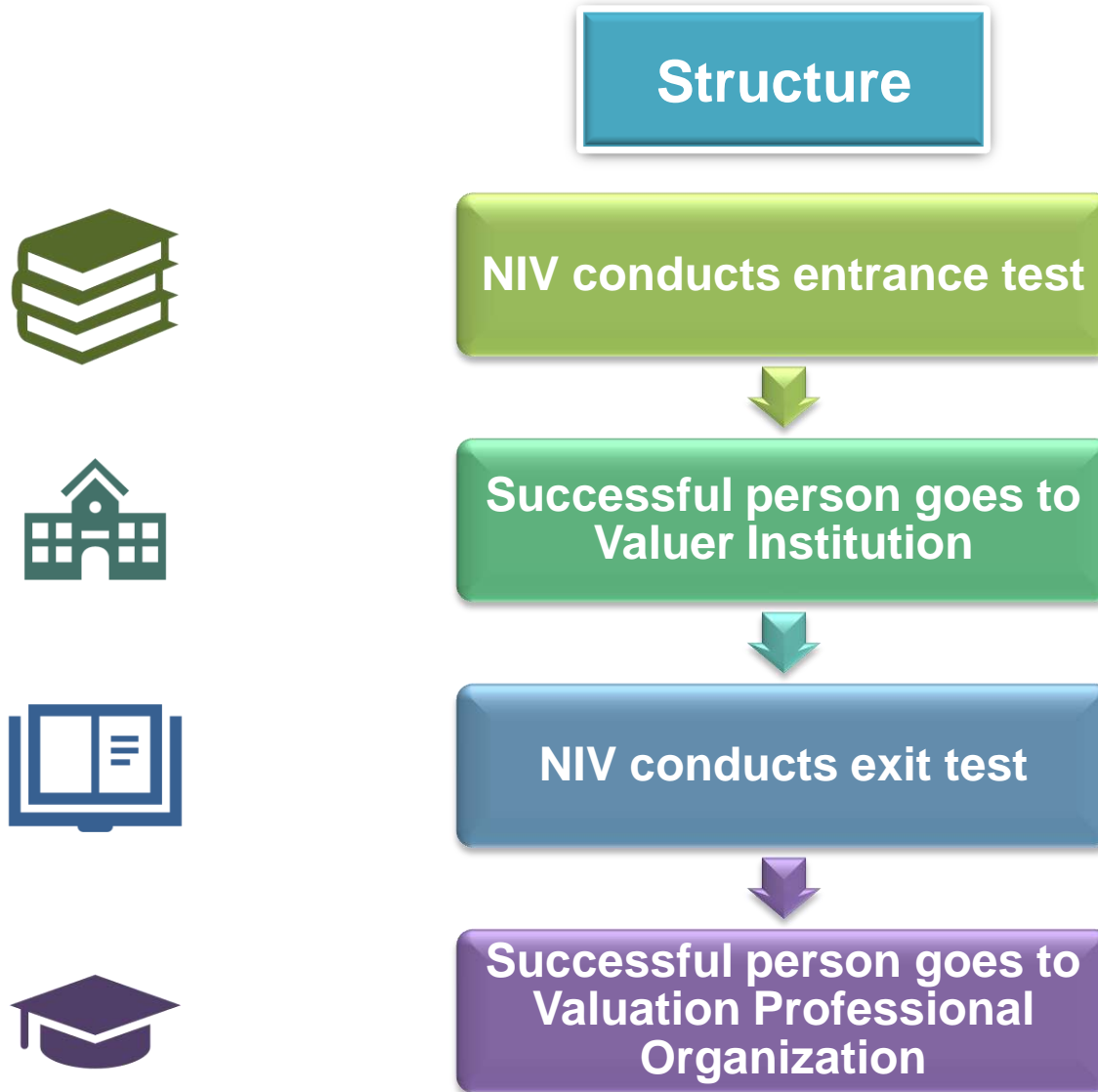
Internship:

- 1 year internship as part of NVP and GVP.
- Six-month component of project work in initial years.

Source:

- Report of CoE to Examine the Need for an Institutional Framework for Regulation and Development of Valuation Professionals, Volume I
- Presentation on the Draft Valuers Bill, 2020 by Valuer Division, IBBI

Development of Profession



Source:

- Report of CoE to Examine the Need for an Institutional Framework for Regulation and Development of Valuation Professionals, Volume I
- Presentation on the Draft Valuers Bill, 2020 by Valuer Division, IBB

Regulation of Profession

Registration:

A person may be registered as a Valuer, if he

- is a member of a VPO,
- possess necessary educational qualification and professional experience; and
- is a 'fit and proper person'.
- Not in employment

Fit and Proper:

A person should be fit and proper to be a Valuer.

- Integrity, reputation and character of the person,
- Absence of convictions and restraint orders against the person, etc.

Age Limit:

No upper age limit for entry into the profession or on Practice.

Source:

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Full time-part time practice

- A person wanted to practice Lawyer & Doctor profession – both association did not allowed – he moved to SC (1966)- Hon. Judge quoted
- “instead of having the best of both the worlds, he will have worst of both the worlds”
- **Full time Practice – When market matures**

Regulation of Profession

Types of Valuers:

- Associate Valuer (AV): Initial registration.
- Fellow Valuer (FV): After at least 5 years as AV.
- Honorary Valuer (HV): Extraordinary contribution to profession. Practice restricted.
- Can be Individual or Firm/Company/LLP

Source:

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Regulation of Profession

Protection of Valuers:

- Only NIV to take action against a Valuer, after following due process.
- Courts not to take cognizance of any offence against a Valuer, except on a complaint made by NIV / the Central Government.

Source:

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Professional Fees

Regulator not to fix fees

- Minimum fee becomes the maximum fee and the maximum fee becomes the minimum fee for the market participants.
- Administrative nightmare to monitor that fixed fee is being paid and there are no under the table payments

Regulation of Profession

Punishments:

Statute provides a list of possible contraventions and the associated penalties.

- Any person who not being a service provider represents– Penalty up to INR 10 lakhs. On subsequent conviction – Jail up to 3 years; or fine up to 5 crores; or both.
- Any valuer who renders deficient services – Penalty of INR 1 lakh to INR 10 lakhs. On subsequent conviction – Jail up to 3 years; or fine 10 lakhs to 5 crores; or both.
- Contravention by Companies – Every person who, at the time the contravention was committed, was in charge of, and was responsible to the company for the conduct of the business of the company.
- **Settlement Provisions just like Income Tax**

Source:

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Regulation of Market for Valuation Services

Disclaimers:

- Disclaimer should not dilute the responsibility of the Valuer.
- Disclaimer should not defeat the purpose of valuation.
- Reports should be capable of being tested through the crucible of legal evidence in judicial proceedings

Competition:

VPOs / Valuer Institutes should compete in respective domain.

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Regulatory Architecture

Two-Tier:

	Regulator	Constitution	Role
NIV	Principal Regulator	Statutory Body	Regulatory
VPOs	Frontline Regulator	Self-Regulating Organizations (SROs)	Developmental



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Transitional Arrangement

Category	Particulars	Remarks
Registered Valuers (under Valuation Rules)	Automatic transition.	
New Registration (till implementation of new framework)	As per Valuation Rules.	Provided a window of 3 years to seek registration.
Valuers in practice (not having qualification under Valuation Rules)	Registration after undertaking Limited Valuation Course and passing Valuation examination.	Provided a window of 2 years to seek registration.
RVOs	Automatic transition as VPOs.	
Authority- Principal Regulator (during the transitionary period)	IBBI during the transitionary period only.	

Source:

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Queries



Thank You!

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