

Documentation for Valuation

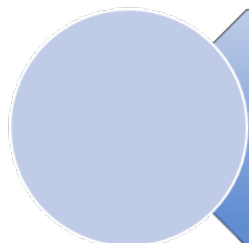
Basic Documents involved in Valuation Process



Proposal Letter



Management Representation



Valuation Report

Proposal Letter

Meaning

A proposal letter defines the legal relationship (or engagement) between a professional firm and its client(s).

Contents of a Proposal

- ▶ Description of the transaction
- ▶ Scope of services
- ▶ Timeframe for the assignment
- ▶ Composition of the team
- ▶ Fees for professional services
- ▶ Confidentiality
- ▶ Information required for valuation
- ▶ Indemnity Clause

Management Representation

Meaning

A **Management Representation** is a written document given by the client on its letter head to the valuer as an evidence that the procedures and assumptions adopted are materially accurate, complete, fair in the manner of its portrayal and therefore forms a reliable basis for the valuation.

- ▶ To be taken from the client, issued by the person duly authorised or by way of a board resolution;
- ▶ Should confirm the essential conditions specified in the Proposal.

Areas requiring Management Representation

- ▶ Projections
- ▶ Surplus assets
- ▶ Contingent Liability
- ▶ Long term Borrowings
- ▶ Capital Structure
- ▶ Competitive position in the market etc.

Basic elements of a management Representation letter

- ▶ Addressed :

It should be addressed to the valuating firm.

- ▶ Dated :

It would normally be dated the same date as the Valuation Report or a date prior thereto.

- ▶ Signature:

A management Representation letter should ordinarily be signed by persons in management of the client.

eg. Managing Director, Finance director.

Broad contents of a valuation report

- ▶ Purpose of valuation
- ▶ Identity of the appointee
- ▶ Valuation Date
- ▶ Background of the company/business being valued
- ▶ The basic information and assumption underlying the valuation
- ▶ Specific aspects considered in valuation
- ▶ Statutory provisions or legal position governing the valuation
- ▶ Recommendation as to value or ratio
- ▶ Disclaimers and limitations

Information required for a valuation

- ▶ Background of the company/business:
 - Structural
 - Financial
- ▶ Details of future projections
- ▶ Information on the industry and market

Background of the Company:

- ▶ Age of the business;
- ▶ Description of the business;
- ▶ Number of the equity shares issued and subscribed;
- ▶ Face value of the equity shares;
- ▶ Net worth at book Value (excluding deferred tax assets/liabilities);
- ▶ Book Value per share;
- ▶ Debts as at the close of the last accounting year;
- ▶ Market capitalization (if applicable)
- ▶ EPS
- ▶ PE

Disclosure of Information and assumptions

- Information from publicly available sources:
 - ▶ Databases
 - ▶ Magazines
 - ▶ Stock Exchanges
 - ▶ Websites
 - ▶ (to specify the date of the publication or the cut off date)

□ Disclosure of Information obtained from the management :

- ▶ Business note
- ▶ Number of years financial statements past and projected
- ▶ If financials of subsidiaries or joint ventures are considered then disclosure as to their availability
- ▶ List of important agreements obtained
- ▶ The scheme of corporate restructuring, if in case of demerger/ amalgamation
- ▶ Report of other valuer relied upon, if any
- ▶ Answers to specific questions and issues raised on a time to time basis

Specific aspects considered in valuation

- ▶ Control Premium
- ▶ Liquidity discounts
- ▶ Growth factor considered in case of DCF
- ▶ Number of past years considered (in some cases the past performance of the company is not considered due to various turbulence during the past)
- ▶ Treatments to specific items of financial statements e.g. discontinued operations, surplus assets, etc.

Limitations and Disclaimers

- ▶ Responsibility for information provided by the management.
- ▶ Not an audit, review or examination.
- ▶ Not an outcome of any due diligence procedures. A change in the actual financial position could have a material bearing on the report.
- ▶ Report to be only used for the purpose specified.
- ▶ Prohibition on copying the report or reproducing the same.
- ▶ Based on the market conditions prevailing at such time.
- ▶ Events occurring after the valuation date.
- ▶ Whether physical verification of assets and liabilities carried out

Draft Rules for Registered Valuers under Companies Act,

2013

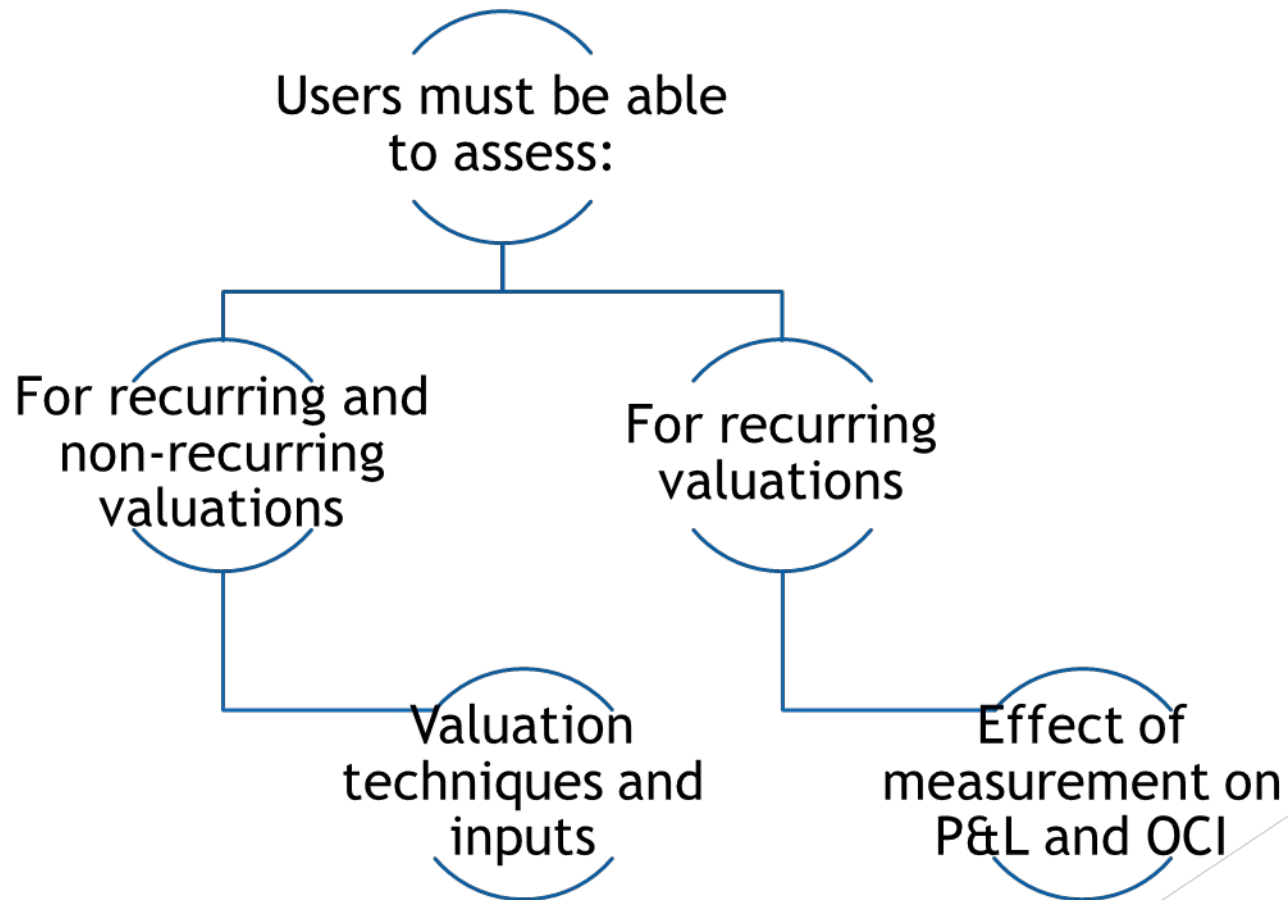
▶ The report of valuation by a registered valuer shall be as near to and shall contain information as set out in Form 17.3.

- ▶ The contents of Form 17.3 are as follows:
 - Details of the valuer
 - Description of valuation engagement
 - Description of Business/Asset/Liability being valued
 - Description of the information underlying the valuation
 - Description of specific valuation of assets
 - Confirmation that valuation has been undertaken in accordance with these Rules.

Form No 3CT

- ▶ Section 285A of the Act mandates reporting requirement on the Indian concern through or in which the foreign company or entity holds the assets in India.
- ▶ Information or documents to be furnished under section 285A are to be given in Form 49D electronically.
- ▶ The Indian concern shall furnish valuation report for the following reasons:
 1. Forming basis of the consideration in respect of share, or the interest.
 2. To determine the place of location of the share or interest being transferred.

Ind AS 113 Disclosures



Disclosure

For Recurring and Non-Recurring Valuations

1. Valuation techniques and inputs
2. Fair Value measurement at the end of each reporting period (and reason for measurement if non-recurring)
3. If the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use
4. Level of the fair value hierarchy
5. For measurements classified under Level 2 and 3 - description of technique, reason for change in valuation technique if any

For Recurring Valuations

1. Amounts and reason of any transfers between Level 1 and Level 2 of the fair value hierarchy
2. Measurements classified under Level 3 – Reconciliation between opening and closing balance

Disclosure

For Recurring and Non-Recurring Valuations

4. For measurements classified under Level 3 - quantitative information about the significant unobservable inputs
5. For measurements classified under Level 3 - description of the valuation processes, sensitivity of the fair value measurement to changes in unobservable inputs, interrelationships between inputs and how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement

For Recurring Valuations

1. Amounts and reason of any transfers between Level 1 and Level 2 of the fair value hierarchy
2. Measurements classified under Level 3 – Reconciliation between opening and closing balance

Disclosure

Entity to consider the following when making disclosure:

- ▶ Level of detail necessary to satisfy the disclosure requirements
- ▶ Emphasis to be placed on each of the various requirements
- ▶ Aggregation or disaggregation to be undertaken
- ▶ Additional information needed by users to evaluate the quantitative information disclosed

Disclosure

- ▶ An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred.
- ▶ If an entity makes an accounting policy decision to use the exception to this standard when valuing for a group of assets and liabilities together, it shall disclose that fact.
- ▶ For each class of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, an entity shall disclose level of fair value hierarchy, description of valuation technique and inputs used in fair valuation and quantitative information about unobservable inputs and if the highest and best use of a non-financial asset differs from its current use, reason for the same.

Disclosure

- ▶ For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.
- ▶ An entity shall present the quantitative disclosures required by this Ind AS in a tabular format unless another format is more appropriate.

Thank You

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