VALUATION: VCM ATQS

“MINORITY HOLDING VALUATION: OFTEN UNSATISFACTORY ?”

VALUATION STANDARDS BOARD

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament)

New Delhi

Series-4

Valuation: VCM ATQs
"Minority holding valuation: often unsatisfactory?"

Valuation Standards Board
The Institute of Chartered Accountants of India

Preamble

Valuation Standards Board of ICAI (VSB) had organised a live VCM on the topic "Minority holding valuation: often unsatisfactory?" held on 13th June 2021. The details of the VCM are:

President ICAI:	CA. Nihar N. Jambusaria
Vice President ICAI:	CA. Debashis Mitra
Address by:	CA. Anil Bhandari, Chairman, VSB, ICAI CA. M. P. Vijay Kumar, Vice- Chairman, VSB, ICAI
Speaker:	CA. T.V. Balasubramanian
Director:	Shri Rakesh Sehgal, Director, ICAI
Secretary:	CA. Sarika Singhal, Deputy Secretary, ICAI

The Webcast received overwhelming response and was attended by more than 2500 viewers. The said webcast can be viewed again at https://live.icai.org/vsb/vcm/13062021/

There were many questions raised during the webcast. We have prepared answers to the questions (ATQs) raised during the webcast, which do not require application of valuation practices and principles. Also, repetitive questions and questions not related to subject matter have not be answered.

We would also like to mention that the Valuation Standards Board has brought many publications and the Concept papers that may be referred for guidance and reference. All the below publications are available on the Committee link at ICAI website i.e., www.icai.org

- ICAI Valuation Standards 2018
- Educational Material on ICAI Valuation Standard 103 - Valuation Approaches and Methods

- Educational Material on ICAI Valuation Standard 301- Business Valuation
- Valuation: Professionals' Insight- Series- I, II, III, IV and V
- Answers to the Questions raised during the Live Webcast on "Valuation and Valuation Standards Compliance and other aspects under various Laws"
- Technical Guide on Valuation
- Frequently Asked Questions on Valuation
- Concept Paper on findings of Peer Review of Valuation Reports
- Concept Paper on All About Fair Value
- Sample Engagement Letter for accepting Valuation assignment

The answers have been given for reference purposes. Detailed analysis may be done, and other material may be referred.

Valuation Standards Board

New Delhi

30th June 2021

A Brief Note on Valuation of Minority Holdings

The inherent conflict between the Majority and Minority

It is a constant feature that the majority holders believe that the minority holders are seeking too high a valuation whilst the minority feels that they are being exploited with a low value offering.

The many battles in the courtroom and in general meetings have been on this one topic of what is the fair value? Is it the same for all shares, minority holders and majority holders alike?

If there is a difference, is there a bridge between what can be construed as a fair value for the minority shareholders vs. what can be considered as the fair value for the majority shareholder?

The commercial take on the matter

The moot question in this debate is, whether each share is worth the same value per share irrespective of the quantum of shares involved and the stake that it represents in the overall context.

It is only commercially understandable that with varying degrees of share stake, there are differing economic benefits which may be derived. For example, stake share of more than 50% would mean that there could be control over the direction of the entity and this could provide an opportunity to direct it in a manner (and also in conjunction with other entities in his control) to provide a better return to the overall stake that he holds across the entities. While a marginal small holding may not provide that kind of controlling / influencing interest which could be seen to have an edge in terms of the economic benefit to the holder.

The value perception to the share stake could be impacted by the following key factors:

- The stake involved in the transaction
- Existing stake level of the buyer / seller and the resultant stake level of the buyer / seller
- Regulatory rights provided for various levels of stake holding
- The shareholding pattern in the company and the distribution of control of the remaining

interest

- Agreement binding the shareholders such as Articles of Association, Shareholder's Agreement etc.

The key driver for the value difference is not the right which comes from voting rights per se but the ability to control or significantly influence the business and its operational management.

There are also all other general factors which affect the valuation of a business / entity especially in the context of a transaction, such as

- Any change in the keymen involved in the business arising from such transaction
- Any likely change in the related party transactions post such transaction
- Synergy benefits arising from the transaction, etc.

World over, any number of control premium studies have reflected that there is a premium applied to the price when there is a controlling stake involved in a transaction as opposed to a non-controlling stake. Thus, the commercial basis for a difference in the valuation for a controlling stake and the non-controlling stake is important to consider and cannot be ignored.

<u>Regulatory perspective</u>

From a regulatory perspective, the Companies Act, 2013, in section 236 deals with buyout of minority stake by the majority holder. This is the most apt and directly applicable provision dealing with the issue of acquisition from a minority by the majority.

This section, when dealing with acquisition of minority stake by the majority holders, provides that the price determined on the basis of valuation by a registered valuer in accordance with such rules as may be prescribed. The rule when dealing with the case of unlisted companies / private companies expect the valuer to determine the offer price after taking into account the following factors:

(a) the highest price paid by the acquirer, person or group of persons for acquisition during last twelve months;

(b) the fair price of shares of the company to be determined by the registered valuer after taking into account valuation parameters including return on net worth, book value of shares, earning per share, price earning multiple vis-à-vis the industry average, and such other parameters as are customary for valuation of shares of such companies.

It also then goes on to require the registered valuer to provide a valuation report on the basis of valuation addressed to the board of directors of the company giving justification for such valuation.

It can be seen that this section and the rule thereunder are only expecting that the valuer considers these aspects and is able to justify the valuation he arrives at in the light of these factors.

For instance, it does not even want the price which the majority shareholders have paid for acquiring from others in the recent period to be directly applied to be the price for the acquisition from the minority holders, but is only expecting that the same be factored. This seems to implicitly indicate that there is clarity that there could be differences in the price offered in a minority buy out and other stake acquisitions, based on various factors.

Valuation Standards view on Minority Holdings

The Valuation Standards issued by the Valuation Standards Board of the Institute of Chartered Accountants of India deals with minority holding / non-controlling interest and in this connection brings out:

- Control Premium / Discount for Lack of Control Discount as a probable adjustment between the controlling interest and non-controlling interest / minority holding.
- While discussing about participant specific value, highlights the importance of such control premium / minority discount, in, say a transaction involving transfer of 2% stake from a minority holder to a party already holding 49% stake.

It is also pertinent to note that there are two valuation standards, which may have application for valuation of the equity shares, more particularly when minority holdings are being valued.

On the one hand, the Valuation Standard 301 (Business Valuation) provides for valuation of the equity holder's value using this business valuation standard and once the business value is arrived at, the same being allocated to various quasi equity interests, which may exist prior to the residual value being allocated to the equity interest.

This valuation model would be more appropriate in certain circumstances including in cases where controlling stake transfers are being considered, where the business value could be pertinent or important. Similarly, it may also be appropriate when valuation is being done for the purpose of raising further finance.

The valuation under the standard for business valuation presupposes that to arrive at the value per share, first one begins with valuation of the business and then adjusting for non operating assets / investments which may be there to arrive at the total value which is then adjusted to arrive at the equity value to be allocated to the equity shareholders as a residual.

On the other hand, it is also possible to consider using the Valuation Standard 303 (Financial Instruments) for the purpose of valuation of the equity shares. The Valuation Standard 303 lays emphasis on determination of present value (being the value realization expected from cash flows in future from the holding of the scrip, which being equity in nature could be dividends and sale realisation) and any adjustments which may be required for credit risk.

This works with the premise that what is held is a financial instrument which is expected to produce a certain cash flow in future and the present value of such cash flows would be the current value of the equity instrument, suitably adjusted for any credit risk.

This approach may have more relevance in selecting as the basis for valuation in respect of valuation of very small shareholdings which may not make any impact on the controlling or influencing stakes either for the seller or for the buyer.

A specific critical aspect is on use of Highest and Best Use (HABU) as a premise / key consideration in the approach to the valuation. HABU is associated with non-financial assets and is a key consideration in valuation of a non-financial asset. Accordingly, valuation of a business could consider this concept. However, if the shares are valued using valuation standard 303 (financial instruments), HABU as a concept cannot be applied to the financial instrument as what is getting valued is the equity and not the underlying business and assets, necessarily.

Judicial precedents

One of the key aspects underlying disputes in valuation of minority holdings has been the treatment accorded to assets which could be put to better use than what is presently being done with them. For instance, prime property in today's context being put to use as a factory facility in view of historic reasons of having set up the factory in an area which has presently become a prime location for real estate. Another case in pint could be where prime properties are used for office / residences which are not realizing the returns which are feasible by putting these assets to other uses or sale.

Without going into specific cases, there have been quite a few cases in respect of the value offered to minority shareholders in mergers, buy backs etc., in India which have all emphasized certain key decisions:

- Unless there is something apparently wrong in the valuation, courts would consider the valuation undertaken by independent valuers who are experts in their field.
- Courts in some cases have had a fresh valuer undertake the valuation to ensure that there is fairness in the value arrived at.
- They have not held it as a rule that the value that should be attributed to the share of a majority stake would be the same as the value attributed to the share of a minority stake.

Conclusion

One area of potential conflict in terms of value derived for majority stake and minority stake of control premium may be an already accepted part of the valuation regime.

However, based on a case to case evaluation of the complete picture of each transaction, there is a specific need to determine whether the approach to valuation should be using valuation standard 301 or valuation standard 303. It cannot be laid down as a rule that for non-controlling interests, valuation is appropriate only by valuation standard 303 and for majority interest under valuation standard 301. It would be essential to consider this aspect in each case of valuation as would be most appropriate for the given case.

Answers to the Questions (ATQs) raised during the Virtual CPE Meeting Series "Sundays with Valuation Experts" on the topic "Minority holding valuation: often unsatisfactory?" held on 13th June, 2021.

S. No	Question	Answer
1.	Are there any separate valuation standards for valuation of minority shareholdings?	There are no separate valuation standards for "minority shareholding" per se. However, in practice, one needs to clearly look at the circumstances of each case to determine whether the valuation is best done under VS 301 (Business Valuation) or VS 303 (Financial Instruments). The approach to valuation could accordingly differ based on the facts of the case.
2.	What are the differences which needs to be considered between valuation of a majority stake and a minority holding? What are the various inflection points in this continuum from negligible stake to a 100% stake?	The factors that need to be considered in valuation of minority holdings vs. majority holdings are: • Size of the block • Shareholding pattern • Ability and extent of control • Legal rights available for approaching NCLT etc., • Possibility of the minority holders to come together to effectively act as a block • Listed or unlisted • Likelihood of listing of the entity in future One measure of the inflection points could be the percentages which provide for additional rights under the Companies Act 2013 such as • Less than 10% • 20% • 26% • 50%

S. No	Question	Answer
		• 51% • 90% • 100%
3.	What are the likely areas of controversies – especially in the Indian scenario with respect to minority stake valuation? – prime properties / major expansion plans / strategic partnerships / global acquisitions?	A key area of dispute is the use to which certain properties are put into. For historic reasons, company may be operating its facilities from some prime property, which may have a significantly higher market value than what can be attributed to it in its present use. This becomes even more complicated when the use is not for its critical factory operations, which is difficult to move and it being used for say residential accommodation or office space etc., If the company is at the stage of commissioning a major expansion plan or new product introduction, significant acquisition or some strategic partnership which could change the position of the business in future significantly, whether the valuation considers these factors is also an aspect to be considered. If there are other transactions effected in the capital structure around the same time as the transaction involving acquisition of minority holdings etc., then the valuations considered for the different transactions could also be an area for controversies.
4.	Can the Cadbury case be discussed in the context of the minority shareholding – from a valuation perspective?	In the Cadbury case, the company had come up with a buy back scheme for minority shareholders at a price determined based on valuation by two CA firms. When some of the minority shareholders agitated, the court appointed a third

S. No	Question	Answer
		valuer who initially valued the company on the basis of comparable companies' multiples. When some minority shareholders agitated on this matter also and said that the DCF method has not been used, the court sought the third valuer to consider this method also and revert. Once the third valuer came back with a valuation using DCF method also, thereafter, the court approved it stating that it will not interfere in the valuation any-more as it has been performed by experts and appropriately considering the different methods of valuation. This case is a landmark judgement in terms of valuation for acquisition from minority shareholders in the Indian context.
5.	What has been the experience in terms of the valuation offered in respect of companies which were registered in the regional exchanges and were delisted and offered buy back schemes?	In respect of the companies which were delisted from regional exchanges and placed on the dissemination board, these companies were offering buy back schemes, most of which were felt by the minority holders to be valued at a depressed level. However, SEBI has clear guidelines on the method of determining the pricing in case of delisting of listed company shares.
6.	Does the DCF model generally reflect the minority holding value?	Generally, the DCF model tends to indicate the controlling interest or a large block value as the DCF considers the projected financials which are prepared by those who can influence the business into the future periods.

S. No	Question	Answer
7.	Is the Comparable Companies Multiple Method (PE multiple, EV/EBIDTA multiple etc.) reflective of minority holding value?	Generally, the comparable company multiples provide a retail stake value indicator (on the assumption that the market is perfect and hence the market price reflects the value of the company).
8.	When using Comparable Companies Multiple Method, should we also apply discount for lack of marketability?	In case of CCM Method care is needed to adjust for Discount for Lack of Marketability in case of unlisted entities. The multiples derived in the CCM method are reflective of the price applicable to a listed equity while in case of unlisted entities, there is the impact of illiquidity which needs to be also factored.
9.	Does the Comparable Transaction Multiple (unlisted company acquisition transactions which have happened in the market recently) are reflective of minority holding value?	Generally, CTMs reported are of controlling or significant stake transactions and thus are not reflective of the minority holding value.
10.	How and when Highest and Best Use (HABU) is to be applied in valuing minority stakes?	Highest and Best Use (HABU) as a principle is linked to fair valuation bases and is to be applied when valuing non-financial assets. Thus, this may be applicable only in some cases where the valuation of the equity is being approached under ICAI Valuation Standard 301 – Business Valuation by valuing the business of the entity and that too where the fair value premise is used instead of going concern premise or otherwise. If the shares are valued under the VS 303 for valuing financial instruments HABU is no longer

S. No	Question	Answer
		applicable as it is to be applied only in respect of non-financial assets. This is also reflective of the situation that someone having a few equity shares (a negligible minority stake) may not have control to determine the assets be allocated on the basis of highest and best use to get the benefit therefrom.
11.	What is the relevance of the price at which transactions are happening in the informal market for unlisted shares?	In the unlisted shares space, there are entities where there is an informal marketplace in operation and transactions do happen in this. If such transactions are happening, then it is only appropriate that the availability of such market place and the level of liquidity in view of this is also factored in determining the DLOM appropriately – for instance, a company having such informal market place may have a lower DLOM adjustment than one which does not have any market place, all other things remaining equal.
12.	For minority shareholders protection, what is the legal remedy, whether- to approach ROC- to file petition before NCLT - to go to Court which one is advisable.	Presently the remedy is before the NCLT if there is a scheme being contemplated. However, there must be a pragmatic sense of understanding that the share value for a minority holder and the controlling stake holder cannot be the same and there are fair reasons for a lower valuation. There are likely to be landmark decisions under Section 236 etc. in times to come, which will set

S. No	Question	Answer
		the precedence for the future course of action by all concerned in regard to minority consideration.
13.	To whom shall we approach to get valuation of the property of company?	Property valuation should be undertaken by Registered Valuer of the appropriate asset class (if so statutorily required). Alternatively, the valuation should be from an expert on whom reliance can be placed by the valuer.
14.	Is there any valuation for minority holders in NIDHI companies incorporated under section 406 of the Companies Act 2014?	Generally, not much beyond the book value as a minority shareholder in a Nidhi Company is more of a holding of share to enable participation in the thrift activities of the entity. However, will have to be evaluated on a case-to-case basis.
15.	When we do a valuation report under section 62(1)(c) for issue of capital (say additional 10%) by a private limited company, should the valuation be done on controlling basis, or should a discount be considered.	Needs to be considered on a case-to-case basis – based on nature of the block being issued on preferential basis will entail in terms of the shareholding pattern post such issue.
16.	Whether percentage of holding on controlling power also impact the valuation of single share?	If the single share is the golden share with 50% holding otherwise by two parties, the share could have a premium attached thereto. So, valuation of shares in unlisted entities (especially) will have to factor the effect it will have on control etc.
17.	Which method can be used to nearly satisfy a minority shareholder for valuation?	The requirement for Registered Valuer is to arrive at a fair value and this is a tug between what can “satisfy” the minority holder as what he perceives

S. No	Question	Answer
		is a fair deal and what can "satisfy" the controlling shareholder as to what he perceived as a fair deal. As a Registered Valuer we should approach the valuation of the transaction from a fair value perspective considering the practical constraints attached to the shares held by the minority like whether the acquisition is optional or forced acquisition, whether more likely changes in business scenario and asset allocations have been factored or not in the valuation etc.,
18.	What are various adjustments in valuation- like discount made to minority interest valuation?	Some of the common adjustments in Valuations are as under:- • Illiquidity Discount • Control Premium • Minority Discount • Company Risk Discount • Business Size Discount / Premium • Synergy Premium • Key person discount • Trapped in Capital Gains discount • Block sale discount / premium
19.	In case of India cements promoters were holding 21% equity while Mr. Damani holds 20%, So is Mr Damani a minority holder in India Cements?	Such cases and possibilities are exactly the reason why there is a need for a comprehensive review of the shareholding pattern to determine the appropriate approach as well as the treatment to the valuation. In the kind of given instance, the 20% stake could have a near similar block premium as would the other 21% stake probably holds.

S. No	Question	Answer
20.	A Private Limited Co formed in April 2021 has a paid-up capital of Rs.5,00,000, shares issued at par. Founders of the company are ex-bankers with more than 20 years of experience, who ventured into business of financial company. Venture capital fund abroad valued business at 7 million dollar and agreed to take 20% equity through private placement. What will be the tax implications?	As the amount is coming from non-resident investors into the company, issue at a premium is not taxable in the hands of the company under Section 56(2)(viib).
21.	Why there should be difference in the valuation among different shareholders?	All the equity shares come with some, or the other rights attached to it and those rights vary depending upon the extent or level of equity holding Hence, the difference in valuation amongst different shareholder drives from the economic benefit and control that can be derived by the stake holding of the party in the context of the structure of the shareholding in the entity.
22.	Promoters wants to buy out minority at business value. However, the land and building value is five times higher than the business value. Should minority shareholders get the benefit of such higher value, though management contends that it does not intend to sell land and building?	Such cases are part of the standard controversies in the valuation field. There is a need to evaluate on a case-to-case basis. However, in general a 5 times difference in valuation could indicate the need to review the approach and methodologies adopted for the valuation.

S. No	Question	Answer
23.	Net worth as per book value and valuation as per valuer's opinion. Clarify fair value significance under both?	Net-worth is not defined as a fair value measure (except to a limited extent for rule-based method in Income Tax). Even the cost approach is not really looking at net worth but the replacement cost of reconstruction cost.
24.	It is being said that purpose play an important role in valuation then how one can decide which method to use?	The Valuation Standards clearly require certain qualitative characteristics to be met. Purpose is extremely relevant to meet the objective of Relevance in this regard. Further, para 9 of VS 102 states "Valuation base selected by a valuer shall be appropriate considering the purpose of engagement and the terms of the engagement." ICAI Valuation Standard 103- specifies various approaches and methods of valuation. It mentions that the valuer needs to select the most appropriate approach or method very responsibly as there is no single approach or method that is best suited in every situation. The valuation approaches and methods shall be selected in a manner which would maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The key factors that a valuer needs to consider while selecting an approach are as under: • purpose of Valuation • nature of asset to be valued;

S. No	Question	Answer
		• availability of adequate inputs or information and its reliability; • strengths and weakness of each valuation approach and method; and • valuation approach/method considered by market participants.
25.	When valuation is done by considering the purpose then it may not be a fair value or the fair value is related to the purpose?	The valuation arrived at is always for the given purpose. For instance, the fair value determined for liquidation value premise may not be the same as under-going concern premise. Accordingly, there is necessarily no one value which is appropriate devoid of any connect with the purpose of the valuation.
26.	What about oppression in respect of minority valuation?	Registered Valuer is expected to prepare the valuation without being biased and adhering to the ethical code and the valuation standards by which he is bound.
27.	Can two valuation report be taken at same time for two sets of shareholders?	Theoretically, this is possible. An example could be valuation undertaken for issue of ESOP at a fair value (which is minority stake holdings) while at the same time, an investor is being allotted a block of shares considering a control premium and hence another valuation undertaken for it. However, the values should be explainable in relation to one another. Further, it is subject to any legal / regulatory expectations and potential perceptions in law in the absence of settled case laws.
28.	The fact still remains that value of share arrived at will have to be uniformly applied to all the	Any valuation derived at a point of time for a given purpose will apply to all shareholders for

S. No	Question	Answer
	shareholders. Factors like valuation at a point of time, purpose of valuation etc. may decide and impact the valuation, but ultimately, based on these factors, whatever value is arrived at will apply to all the shareholders uniformly. Kindly Comment.	that purpose. This however does not mean all shareholders' holdings have similar valuation. For instance, even under SEBI regulations, the take-over code open offer pricing requirement is different from the pricing requirement in case of preferential allotment, which may be an indicator of such value perceptions.
29.	How to value premium for Minority shareholders and how to convert control benefits into value?	Presently there are no ready databases or studies which are able to provide such data for Indian stocks. However, on a case-to-case basis, there could be suitable bases / reasonably comparable bases identified by research.
30.	Is there any model like optimistic valuation and pessimistic valuation?	No, there is no such model. However, Para 23 of ICAI Valuation Standard- 202 permits a reasonable range of values in certain circumstances as opposed to a single amount. Further, multiple scenario-based valuation models such as Monte Carlo methods of simulation could be put to use, where appropriate.
31.	Why valuation done for ESOP for an unlisted cannot be used for share issue under IPO by that company as well?	The same report cannot be used as the purpose of valuation is different. Generally, ESOP is being issued, if the IPO plans are already not in the pipeline, there is a higher risk of illiquidity as opposed to when the shares are being valued for IPO. This itself could significantly impact the valuation used for ESOP and IPO, which are at a different time period too.

S. No	Question	Answer
32.	What is the role of liquidity in minority valuation?	Liquidity is more to do with whether the shares are listed and frequently traded, listed but infrequently traded or unlisted etc. Discount for Lack of Marketability needs to be adjusted in case it is there.
33.	Recently Govt of India announced that the sale of public sector companies will be done through a process of Enterprise valuation. In such a situation - what is the role and rights of minority shareholders and how to do their share valuation?	From my understanding, enterprise valuation is being used as a basis for determining divestment by GOI primarily because it gives them the flexibility to structure the debts as most of these entities are carrying a higher than normal level of debts. Case in example is Air India.
34.	What are the Rights of minority shareholders?	Generally, under Companies Act, minority holders have the right to approach NCLT on oppression and / or mis-management complaints if more than 100 shareholders or $1/10^{th}$ of shareholders or shareholders holding 10% of shareholding are parties to the compliant.
35.	When minority shareholders hold Compulsorily Convertible Preference Shares, without voting rights, how do they ensure their value when the promoter decides to acquire their shares. (CCPS)	These will have to be valued on a case-to-case basis by allocating the total value to all shareholders using appropriate models for considering their rights, liquidation preference etc.,
36.	What will be the outcome in case the minority shareholder holding 10% shareholding in a Private Limited Company wishes to sell their shares at a price which may be lower than the fair market value?	Valuation and price are different, and the transaction could happen at a price which is different from the valuation arrived at based on mutual understanding between the buyer and seller.

S. No	Question	Answer
		It is possible that there may be consequential implications (including some restrictions) under FEMA / taxation and other laws based on the regulatory provisions in these laws.
37.	Minority shares under PSU, how to value in case the PSU has substantial assets in form of Land?	Minority interest in PSU would generally only relate to listed entities where SEBI has prescribed the methods of valuation which would have to be adhered to for given purposes.
38.	Valuation of unlisted companies- can they be valued at less than book value?	Theoretically this could be the case – but it would have to be balanced with the reasoning as to how the company has not impaired the assets and how the auditor has dealt with it in his report in terms of qualification etc.
39.	a) In case of shareholding of 0-11% - how much premium should we add * b) In case of shareholding of say 22% -how much premium should we add What is the authentic basis for computation of such % towards premium which should be acceptable in the court of Law?	As there are no ready data available, one could collate data and do research on the same. Alternatively international study reports are available which may be evaluated and considered appropriately, as suitable to the specific case.
40.	In case of mergers how synergy expected to be generated is apportioned to minority shareholding valuations?	In case of mergers, generally, if it is an all-stock deal, the minority holders will get to benefit in a similar manner as remaining shareholders. In case of cash deals, synergy benefits are generally shared by remaining shareholders as the synergy benefits are to be actualized only in future.

S. No	Question	Answer
41.	Intangible property which are not accounted in the books shall also make impact valuation provided the minority shareholder knows about it.	Absolutely, in valuation of the company, the valuer needs to factor the intangibles also to arrive at the fair value. This is irrespective of the knowledge of the minority shareholders.
42.	Can you please explain the difference between "PRICE AND VALUE"?	Value of an asset depends on many factors including the investor, the structure, the marketplace, and the approach and sometimes the ultimate selling price can be greater than the value. The term 'price' indicates the amount at which particular asset is bought or sold in an open market in a particular transaction. The term 'value' indicates the worth of that asset in normal circumstances or the amount at which it should be exchanged. The price may be understood as "the amount of money or other consideration asked for or given in exchange for something else". The price is, therefore, an outcome of a transaction whereas the value may not necessarily require the existence of a transaction. The value exists even in some assets which may not be generating cash flows today but can generate in the future on the happening of some event/s. The quote for listed companies is the price at which transaction has occurred. While the intrinsic value could be different as perceived by different valuers, which is why some stock

S. No	Question	Answer
		analysts provide advice on buy / sell based on their assessment.
43.	What if Minority Valuation conflicts with Sec 56 of Income Tax? i.e., valuation as envisaged in Rule 11 UA?	For the purpose of Income Tax Act, one needs to do valuation as per Income Tax Rules only, it cannot be overridden. Further in Preface to the ICAI Valuation Standards it has been clearly stated that "The Valuation Standards by their very nature cannot and do not override the local regulations which govern the preparation of valuation report in the country. However, the government may determine the extent of disclosure to be made in the valuation report." Valuation for regulatory requirements and for commercial purposes could be different.
44.	When there is a land which is not put to use and there are no business revenue coming up, what should be the valuation approach?	The land will have to be treated as a surplus asset and valued at its present market value. Surplus Assets refers to the assets of the company which are not actively held in the use for the business, for instance, there could be land held by the company which is not in the use of the business or there could be investments held by the company. These are not considered in the cash flow projections and any income / expenditure related to the same. Hence, the fair value of these assets shall ideally be separately considered for valuation.

S. No	Question	Answer
		However, Surplus Assets are one of the major area of controversies between the companies and minority stake holders.
45.	Can you please discuss the factors affecting the Discount for Lack of Control to be considered in the Equity Value?	Valuation Standard suggests considering factors such as amount/ extent of control in the asset to be valued, distribution of control of the remaining interest in the subject entity, statutory provision relating to protection of minority shareholders; the shareholder protection restrictions contained in the articles of incorporation, the bye-laws and/or the shareholders' agreement, blockage discount, etc.
46.	Will the minority value differ if the buyer of the minority shareholding is the majority or an outsider?	It may vary depending upon the scenario. For instance, if the minority shares are being acquired by a majority holder and by such acquisition, the majority shareholder will cross 90% stake in the company, it would give the benefit of complete control including option to squeeze out the rest of the minority shareholders and thus has an additional value to this majority shareholder compared to say another outsider buying it and ending up with just a minority stake.
47.	Should not we take the most advantageous price as the fair value as per valuation standards?	The ICAI Valuation Standards are clear and indicates use for Highest and Best Use as a principle to be adopted only for non-financial assets and also when the valuation is on the basis of fair value and not on any other basis.
48.	How does an IPO gets valued for a startup?	The valuation approaches and methods shall be selected in a manner which would maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

S. No	Question	Answer
		Please refer to chapter "Valuation of Start-Up Companies" in Education Material on ICAI Valuation Standard 301- Business Valuation as issued by Valuation Standards Board of ICAI and ICAI RVO available at https://resource.cdn.icai.org/63123vsb51074.pdf
49.	Each of the asset is to be valued based on the purpose for which the valuation is done, first collectively as a running manufacturing operations and then as individual assets in the event the same is sold by shifting the operations to backward areas?	Yes, assets involved in the business are generally valued as a business in totality and other surplus / non-operating assets may be valued separately at their market values. Where there are some properties in prime location which are presently used for manufacturing facilities and where there is a reasonable likelihood of shifting the facilities to other locations to unlock the value in the prime property, then such option should also be factored into the valuation.
50.	If the price of listed company is different from the value, then why do we use price of the share for valuation of share of the company?	There are times when there may be a valuation of a company which is different from the market price, and which is used for certain decision making – including say some block transactions or controlling stake sales. The general presumption is that for the market as a whole the price is an indicator of the value on the premise that the market is a perfect market. However, in each specific case of valuation requirement, these have to be evaluated appropriately.
51.	We must also take into account provision of rule 11UA of income tax rules in minority shareholding valuation?	For the purposes of income tax requirements, valuation where required under 11UA needs to be considered appropriately.

S. No	Question	Answer
52.	Would it not be proper for the valuers to estimate values as a range, as opposed to a number for a definite purpose?	Yes. The valuation standards also provided as under: The valuation assignment concludes with the valuer providing an estimate of value. Such an estimate of value may be an exact number or a range of values. A valuer shall clearly describe the conclusion of value, either as a single amount or a range. In certain cases, the law or regulatory orders may require the valuer to report a specific amount, which may be a number or some other specific unit. In such cases, the valuer shall clearly describe the specific exchange or swap ratio based on the value arrived at.
53.	Can we use Highest and Best Use (HABU) method for valuation of Non-Financial assets?	Yes, where Highest and Best Use(HABU) is the principle applicable considering the bases and premise of valuation.
54.	A Company is holding 20 Acre land near a city with a steel plant that is closed for last 10 years. As a liquidator, do I have to value the land as what a steel manufacturer will pay, or can I value it for alternate use too – E.g.: residential colony or Information Technology Park? The value shall increase fivefold if second option is considered.	It depends on the case and as a liquidator, the approach is to maximise the value realization for the stakeholders from the assets. Accordingly, unless there are regulatory issues, the liquidator is bound to sell the assets for alternative use which will fetch better realisations. Accordingly, the valuation should also factor this aspect.
55.	DCF valuation considers future cash flows and residual value. If the company has not declared	Large reserves deployed in working capital would be anyway factored as lower debt (or nil debt) in arriving at equity value after computing

S. No	Question	Answer
	dividend for several years and has huge reserves in working capital, then do we need to consider fair value as book value or intrinsic value of share based on DCF.	enterprise value using FCFF model or would result in higher returns flowing through in the FCFE model in the absence of interest due to use of own funds.
56.	A valuer discovers the price or he only arrives at a value? Kindly comment	Valuer arrives at the value for a given purpose and as of a given time period. The value so expressed could be a range or a specific value depending on the requirement of the engagement.
57.	In your opinion, forced squeeze out shall be at a premium viz a viz optional buy back price? Will courts accept this?	From a valuation perspective, there is a case for a higher value in case of forced squeeze back as opposed to optional buy back. It is for the valuer to justify the same properly in the valuation report.
58.	In case of litigation on a valuation report issued by a registered valuer, who will bear the cost of litigation? While accepting assignment obviously we are not covering cost of litigation in professional fees? What is general practice?	As a registered valuer, the registered valuer is responsible for what he has signed off in the report and he should be able to defend it. Having said that, the registered valuer may consider agreeing upfront with the client in terms of costs and remuneration for efforts if there is a dispute and there is time and money to be spent by the registered valuer towards it. This could be part of the engagement terms itself, as a commercial agreement between the registered valuer and the client.
59.	In a private limited company minority shareholders were below 10% holding and were considered as angel shareholders. Rest were promoters and large private equity shareholders. These shareholders	Generally, such companies will have detailed shareholders agreement or incorporate clauses in the articles which will determine such rights.

S. No	Question	Answer
	had no preferential rights and used to be considered as part of promoter's holdings for all practical purpose as most of them are relatives and friends of promoters. Private Equity investors has all preferential rights for exit as well as management of the company including seat on board. Recently, in latest round of investment, percentage holding of minority shareholders crossed 10% and now they hold about 11% Query: - Can these minority shareholders claim similar rights as of PE investors now?	
60.	Will a property be valued at a premium only if it is held for sale and not in the case of going concern?	Even in going concern value, properties which are not integrally entwined into the critical operations of the business, may have to be valued separately and added at their market value.
61.	In case of Squeeze Buy, a Price out is offered to Minority shareholder, now if the Minority shareholders come back and make a counter-offer to buy further shares instead of selling (if they feel it is an undervaluation), what would be the contention of the company (with majority shareholders being the real face of the company)	There is always a possibility to negotiate counter purchase offers. However, it is most likely that the majority holder would expect a control premium over the price offered to buy out the minority stake, in such a case.

S. No	Question	Answer
62.	Ind As 113 says that fair value must be based on highest and best use. Then how can fair value vary based on the Business Valuation under DCF?	Ind AS 113 prescribes usage of Highest and best use (HABU) only for non-financial assets. Further, valuation need not necessarily for Ind AS and could be under other regulations also.
63.	As shared by you, In Cadbury Case - perpetuity growth of 6% was considered. Can you please share your thought on *the basis for computation of perpetuity growth* say for a power project valuation?	First and foremost, perpetuity growth should be considered in line with long term economic growth indicators as the industry cannot be growing faster than the economy for ever. This needs to be considered and accordingly to the sunrise, stable or otherwise nature of the industry, the growth rate could be considered in the region of the economy's long term expected growth rate. Factors that a valuer may consider while determining the terminal growth rate are as under: • whether the level of operations beyond explicit forecast period is expected to be significantly different from the level projected in the last year of the explicit forecast period or only a normal growth is expected; • capacity utilisation at the end of explicit forecast period. • functional currency in which the projections have been prepared. • market share; • product life cycle; • geographic location of the asset; • type of cash flows; • residual life of the asset at the end of the explicit forecast period;

S. No	Question	Answer
		• capital investment required to support the assumed growth rate; • whether there is future growth potential for the asset beyond the explicit forecast period, or whether the asset is deteriorating in nature; and Generally, in perpetuity computations, additional capex is not considered (except for maintenance capex) so the projections cannot lead to capacity growth. Thus, in power projects, the perpetuity growth should be more in line with the inflation factors considered in the projections and discount rates.
64.	As per valuation standards, orderly transaction is not forced. Then should this be considered a premise in the fair value?	Orderly transaction is a liquidation with time being provided. So, this may not necessarily be fair value under other premises such as going concern basis etc.
65.	How enterprise value is different from share value or equity value?	Equity value is the total value of all outstanding stock of the company whereas enterprise value is the total net worth of a company net of cash and debt. Equity value is calculated by multiplying price of a single share of stock with the number of shares outstanding whereas enterprise value is calculated after deducting cash, investments, and debt from equity value.
66.	You mean to say that business assets used for manufacturing and assets which are non-business or non-manufacturing, must be	Business assets get valued as part of the business valuation using DCF model etc., However, surplus assets need to be valued separately at their respective market values to arrive at the overall value for the company / equity.

S. No	Question	Answer
	valued separately to have better and fair valuation. Please clarify.	
67.	Is there any requirement from ICAI Registered Valuer, if Companies are deliberately following historical cost method to value investment assets and not marked them to market, financial statements would not be true and fair reflection of the current value of the Company?	All assets in the Financial Statements are not necessarily required to be restated at their fair values under the accounting standards. Valuation could be and is generally different from the net-worth reflected in the financial statements. There is no requirement under any law that the financial statements should be reflective of the fair values at all times for general businesses (except maybe in case of funds which are fair valued for their NAV).
68.	Should the valuation not be based on the going concern basis with the ongoing objects of the business, as opposed to cherry picked value of land, given that minority invested in the business of the company and not Real Estate?	Valuation is always based on the purpose and considering the facts of each case please be guided by the valuation standards in respect of the valuation approach and methodologies in all engagements.
69.	If a business plan is not implemented and is only on paper, shall a valuer consider same in business valuation?	The valuation standard states that a valuer shall by employing procedures such as ratio analysis, trend analysis to determine historical trends, gather necessary information to assess risks inherent in the achievability of the projections. This is to be factored in the valuation engagement appropriately.
70.	Should brand value built by majority shareholder be included	The brand value is also an asset of the company and is part of the company's value. As an equity

S. No	Question	Answer
	when valuing for minority stakeholder? (e.g. Mistry group buyout of Tata brand in Tata Sons stake)	shareholder, all shareholders have a right in the residual value of the company which belongs to the equity holder.
71.	Can we use Net Asset Valuer of the company for its Business Valuation?	NAV is not defined as a fair value measure (except to a limited extent for rule-based method in Income Tax). Even the cost approach is not really looking at NAV but the replacement cost of reconstruction cost.
72.	In buy back of shares of Pvt Ltd Co. is valuation report compulsory or optional?	**As per Companies Act 2013** Valuation is not required for buy back of shares; however, valuation report can be obtained from Chartered Accountant or Registered Valuer for justifying the buyback price. **As per Income Tax Act** Under Section 115QA of the Income Tax Act at a flat rate of 20% on the 'distributed income'. Distributed income means the consideration paid by the company on buyback of shares as reduced by the amount which was received by the company for the issuance of such shares. Receipts in the hands of shareholder is exempt under Section 10(34A) of Income Tax Act.
73.	How to do the valuation of religious and charitable institutions if such institutions are owned and controlled by private holders?	Theoretically public religious and charitable trusts cannot have a value as there are to be no "owners" or "equity holders" who can derive value from such engagements in a legal manner.
74.	What happens to minority shareholders when the Company	Practically, till now it is seen is that all equity shareholders lose their complete shareholding

S. No	Question	Answer
	goes to IBC and some other company comes to control the company?	rights. In almost all cases which have gone through IBC, the value of the business and assets are not adequate to satisfy other priority stakeholders itself.
75.	In the Cadbury case which was a better method, Comparable Companies Multiple Method or Discounted Cash Flow Method?	In Cadbury case, finally, what the court has approved was based on use of both methods and finding a suitable weighted average thereof.
76.	Company is having no business; its net worth is negative and there is prospective buyer for shares who is going to bring in business for company. Can valuation be done at face value of shares?	Yes, as generally the pre-money valuation is to be done based on what the company has and not what the investor is bringing in. Also, as per the Companies Act, shares cannot be issued at a discount. So, valuation at face value may be appropriate.
77.	Can you put light on valuation of different classes of equity shares?	It is a vast topic, kindly refer to various articles on this topic in Publication Valuation Professional Insight Series I to V, issued by Valuation Standards Board and ICAI RVO and available at:- https://www.icai.org/post/publications-valuation-standards-board
78.	What is difference in valuation as per income tax and companies act?	Under Income Tax Act, valuations are driven by the rules and methods prescribed therein. While Companies Act does not prescribe specific rule- based valuation or methods which must be adopted in each scenario and expects the valuer to adhere to the valuation standards to determine the approach and methodology for the valuation.

S. No	Question	Answer
79.	As per warren buffet, price is what we pay, and value is what we get. Kindly share your views please.	Value of an asset depends on many factors including the investor, the structure, the marketplace, and the approach and sometimes the ultimate selling price can be greater than the value. The term 'price' indicates the amount at which particular asset is bought or sold in an open market in a particular transaction. The term 'value' indicates the worth of that asset in normal circumstances or the amount at which it should be exchanged. The price may be understood as "the amount of money or other consideration asked for or given in exchange for something else". The price is, therefore, an outcome of a transaction whereas the value may not necessarily require the existence of a transaction. The value exists even in some assets which may not be generating cash flows today but can generate in the future on the happening of some event/s.
80.	How do you value minority shares in Public Sector Undertakings sale as planned by Government of India now?	Minority interest in PSU would generally only relate to listed entities where SEBI has prescribed the methods of valuation, and which would have to be adhered to for given purposes.
81.	A company is targeting to purchase 25% of its shares. This 25% is divided into 3 parts, 11% by one investing firm, 3% by another investing firm and 11% by general public? How can each party be satisfied?	Each engagement of valuation needs to be approached on a case-to-case basis on an evaluation of the full facts involved and accordingly such transactions will have to be appropriately evaluated by the Registered Valuer, undertaking the valuation.

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