

2024

THIRD EDITION

For  
Valuation  
Examination  
with effect from  
1st July,  
2022

# A Comprehensive Guide to **Valuation Examination** with MCQs

(Asset Class – Securities or Financial Assets)

**B.D. Chatterjee**

[FCA, ACMA, ACS, Dip IFR (ACCA - UK)]

**Munesh Kumar Gaur**

[M. Com, ACS, LLB]

## HIGHLIGHTS

- Lucid explanations of valuation concepts
- More than 200 illustrations and charts related to various models of valuation
- Case studies related to valuation concepts
- More than 1000 multiple choice questions with answers including practice test papers similar to model questions and answers of Registered Valuers examination
- Covers the major judicial pronouncements mentioned in the syllabus

B L O O M S B U R Y

Bloomsbury Professional India



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**B D Chatterjee**, [FCA, ACMA, ACS, Dip IFR (ACCA - UK)]

**Munesh Kumar Gaur**, M. Com, ACS, LLB

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## **B D Chatterjee FCA, ACMA, ACS, DIP IFR (ACCA – UK)**

B D Chatterjee is a finance leader with over 40 Years of rich industry experience in overall business and finance function. He is a Chartered Accountant with CS and CMA qualifications and holds a diploma in IFRS from UK.

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He is also experienced in providing extensive support to the Board of Directors, its Committees and various Stakeholders in accordance with the applicable governance framework by handling Board matters including board evaluation, corporate governance reports, general meetings, stakeholder relationship, subsidiary and joint ventures governance, board/ committee meetings and resolutions, effective decision making by them and ensuring that the decisions and actions assigned are implemented by the business.

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- Master of Commerce in Business Policy and Corporate Governance-

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# Preface

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The emergence of inorganic growth through mergers and acquisitions have become more relevant in these uncharted times, where financially viable organizations are planning to take over comparatively weaker organizations to bring about synergies and usher in consolidation and growth.

We would like to thank our readers for their support to the first and second editions of this book and with this inspiration we have come up with the third edition in line with the changes in the Registered Valuer's Examination syllabus.

The topics included in the book cover the following:

The book has a comprehensive coverage of Registered Valuer's Examination syllabus and includes the following topics:

- Brief overview of Macro Economic concepts
- Overview of Financial Statement analysis including Financial Ratios
- All relevant statutes mentioned in the syllabus including:
  - Sections of Companies Act
  - Companies (Registered Valuer and Valuation) Rules, 2017 Insolvency and Bankruptcy Code, 2016 and SARFAESI Act, 2002 Income Tax Act, 1961
  - Transfer of Property Act, 1882 Indian Stamp Act, 1899
  - Relevant sections of SEBI and FEMA Guidelines
- Specific Ind ASs linked to valuation highlighted in the syllabus including:
  - Ind AS 36 Impairment of Assets
  - Ind AS 103 Business Combinations
  - Ind AS 109 Financial Instruments
  - Ind AS 113 Fair Value Measurement
- Strategy models linked to business strategy of organizations
- Financial due diligence and concepts related to merger and acquisition
- Risk management
- Detailed coverage of valuation concepts of financial assets and securities in the form of equity and debt and intangible assets

We would like to take this opportunity to mention that while considerable care has been taken to ensure that the contents of the book are accurate, a few errors and omissions might have crept in, for which we seek with all humility to all our readers to bear with us.

We would like to thank my publishers Bloomsbury professionals specially, Mr. Toby Thomas and Ms. Nikita Gupta in providing this opportunity to publish this book.

We would like to dedicate this book to our respective families for their constant inspiration and support in developing this body of work.

B D Chatterjee

Munesh Gaur

# Syllabus

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## Insolvency and Bankruptcy Board of India Valuation Examinations Division

31st March 2022

**Subject: Syllabus of Valuation Examination for Asset Class- Securities or Financial Assets with effect from 1st July 2022.**

In pursuance of the rule 5 (3) of the Companies (Registered Valuers and Valuation) Rules, 2017, the Insolvency and Bankruptcy Board of India, being the Authority, hereby publishes the syllabus, format, and frequency of the 'Valuation Examination' for the asset class: **Securities or Financial Assets** to be commenced from 1<sup>st</sup> July 2022.

### I. SYLLABUS

Sl. No.	Coverage	Weight (%)
1.	<b>Macroeconomics</b> <ul style="list-style-type: none"><li>- National income accounting: consumption, capital, intermediate and final goods, stock and flows concepts, gross investment, depreciation, and net investment; income method; expenditure method; value added method; GDP and NDP at factor cost and market price; national disposal income (gross and net); nominal and real income, GDP deflator</li><li>- Basics of fiscal policy: meaning, objectives and components; revenue receipts, capital receipts, revenue expenditure, capital expenditure, government deficit, revenue deficit, effective revenue deficit, fiscal deficit, primary deficit</li><li>- Basics of monetary policy: meaning, objectives and components; credit creation; money multiplier; tools of monetary policy- open market operation, cash reserve ratio, statutory liquidity ratio, bank rate, liquidity adjustment facility, marginal standing facility, reverse repo rate, quantitative easing; fiscal responsibility and budget management</li><li>- Understanding business cycles: business cycle; phases of business cycle; yield curve as a predictor of future economic growth; real business cycle</li></ul>	3

Sl. No.	Coverage	Weight (%)
2.	<p><b>Finance and Financial Statement Analysis</b></p> <ul style="list-style-type: none"> <li>- Finance: basic concepts of finance including time value of money</li> <li>- decisions in finance - investment decision; financing decision; dividend decision; net present value; internal rate of return; pay-back period</li> <li>- Financial statement analysis: financial statements; operating and non- operating assets; liabilities; incomes and expenses; profit and loss analysis; balance sheet analysis; ratio analysis; performance analysis; capital structure analysis; credit analysis; cash flow analysis</li> </ul>	6
3.	<p><b>Professional/Business Ethics and Standards</b></p> <ul style="list-style-type: none"> <li>- Model Code of Conduct under the Companies (Registered Valuers and Valuation) Rules, 2017: professional competence and due care, independence and disclosure of interest, confidentiality, information management, gifts, and hospitality</li> <li>- Integrity and fairness, remuneration and costs, occupation, employability and restrictions, business ethics</li> <li>- Ethical considerations under terms of engagements: engagement letter, management representation, guidance on use of work of experts, independence and conflict of interest, quality review process of valuers, rights, and responsibilities of valuers</li> </ul>	3
4.	<p><b>General laws</b></p> <ul style="list-style-type: none"> <li>- The Companies Act, 2013: Chapter IV - Share Capital and Debentures; Chapter XV - Compromises, Arrangements and Amalgamations and the Companies (Compromises, Arrangements and Amalgamations) Rule, 2016; Chapter XVII - Registered Valuers; The Companies (Registered Valuers and Valuation) Rules, 2017; Chapter XX -Winding Up</li> <li>- The Transfer of Property Act, 1882: definition of immovable property; transfer and sale of property; rights and liabilities of buyer and seller; mortgage of property; rights and liabilities of mortgager and mortgagee; lease; gift of immovable property</li> <li>- The Indian Stamps Act, 1899: basics of the act; instruments on which duty is levied; valuation for duty</li> </ul>	17

Sl. No.	Coverage	Weight (%)
	<ul style="list-style-type: none"> <li>- The Income Tax Act, 1961: taxes on individuals; taxes on companies; taxes on partnership firms; heads of income- income from salary; income from house property; income from profits; gains of business or profession; income from capital gains and income from other sources; clubbing and set off provisions; Double Taxation Avoidance Agreement; Valuation under Rule 11UA of Income Tax Act; taxation on transfer of business; transfer pricing issues; employee stock option plan or scheme</li> <li>- The Insolvency and Bankruptcy Code, 2016 (IBC) and Regulations: Part I of IBC: Preliminary; Part-II of IBC: Insolvency Resolution and Liquidation for Corporate Persons; The Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016; The Insolvency and Bankruptcy Board of India (Liquidation Process) Regulations, 2016; The Insolvency and Bankruptcy Board of India (Voluntary Liquidation Process) Regulations, 2017; Valuation under IBC</li> <li>- The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002)</li> <li>- <b>The Securities and Exchange Board of India (SEBI) Regulations:</b></li> <li>- The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;</li> <li>- The SEBI (Prohibition of Insider Trading) Regulations, 2015;</li> <li>- The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018;</li> <li>- The SEBI (Delisting of Equity Shares) Regulations, 2021</li> <li>- The SEBI (Share Based Employee Benefits) Regulation, 2021: Employee stock option schemes, Employee stock purchase schemes and Stock appreciation rights schemes;</li> <li>- <b>Reserve Bank of India and Regulations under Foreign Exchange Management Act, 1999:</b> FEMA (Transfer or Issue of Security by a Person Resident Outside India), Regulations, 2017; Foreign Direct Investment (Pricing Guidelines); Direct Investment by Residents in Joint Venture/ Wholly Owned Subsidiary abroad; Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks; Guidelines on Sale of Stressed Assets by Banks</li> </ul>	

Sl. No.	Coverage	Weight (%)
5.	Financial reporting under Indian Accounting Standards (Ind AS): Basics of fair value, fair value, and adjustments; Highest and best use, Fair value techniques, Disclosure in financial statement; Impairment of Assets (Ind AS 36); Financial Instruments (Ind AS 109); Business Combinations (Ind AS 103); Fair Value Measurement (Ind AS 113)	4
6.	<p><b>Overview of Valuation</b></p> <ul style="list-style-type: none"> <li>- Meaning of value: Difference between price and value; definition of Value</li> <li>- Types of value: fair market value, fair value, intrinsic value, investment value, synergistic value, market value, special value</li> <li>- Premise of valuation: going concern and liquidation</li> <li>- Purpose of valuation: mergers and acquisitions, strategy evaluation, identification of under and overvalued assets, legal, financial reporting, scope of work</li> <li>- Valuation standards</li> <li>- Valuation process: understanding the business; planning and preparation; forecasting company performance; selecting the appropriate valuation model; converting forecast to valuation; applying analytical results in the form of recommendations; conclusions</li> <li>- Valuation report and documentation: scope of the work performed, approach adopted, method applied, key inputs used, assumptions made, conclusion(s) of value and principal reasons for any conclusions reached, and date of report, date of valuation</li> <li>- Importance of documentation, nature and purpose of documentation, timely preparation of documentation, documentation of valuation procedures performed, assembly of the final documentation, ownership of documentation</li> </ul>	4
7.	<p><b>Valuation Approaches</b></p> <ul style="list-style-type: none"> <li>- Cost approach: net asset value and book value, adjusted value, sum of the parts, replacement cost</li> <li>- Market approach: quoted market price, price of recent investment and price of recent transaction, relative valuation, concept of multiples, selection of appropriate comparables; adjustments to multiple calculated in accordance with size, lines of operation and geographical areas of operation</li> </ul>	3

Sl. No.	Coverage	Weight (%)
	<ul style="list-style-type: none"> <li>- Income approach: discounted cash flow approach; terminal value; present value; adjusted present value approach; internal rate of return; cash flow analysis- end of year and mid of year conventions; earning capitalization method /yield method; concept of perpetual growth; concept of cost of capital and capitalization rate</li> </ul>	
8.	<p><b>Valuation Application</b></p> <ul style="list-style-type: none"> <li>- Equity / Business Valuation: analysis of entity's business environment/ business model, industry analysis, regulatory framework (EIC)</li> <li>- Analysis of Business environment, Entity's Business Strategy Analysis: Michael Porter's five forces; SWOT; PEST; GE/McKinsey Matrix; ADL Matrix; core competencies</li> <li>- Business Combinations: amalgamation, merger, demerger, arrangement &amp; restructuring; concept of due diligence, business risk assessment, historical financial analysis, sources of information; top to bottom and bottom to top approaches to analysis</li> <li>- Forecasting approaches and techniques; cash flow analysis - end of year and mid of year conventions</li> <li>- Appropriate Cost of Capital / rate of return; built-in Discount Rate; capital Asset Pricing Model (CAPM); modified CAPM; weighted Average Cost of Capital; weighted Average Rate of return on asset; internal rate of return; arbitrage pricing theory; risk adjustments</li> <li>- Valuation adjustments in relation to discount and premium</li> </ul> <p><b>Fixed Income Securities</b></p> <ul style="list-style-type: none"> <li>- Types of fixed income securities: categories of fixed income securities i.e., debt and preferred stocks along with different rights attached to both categories</li> <li>- Types of debt instruments: sovereign securities; state and local government bonds; semi-government/agency bonds; corporate debt securities; corporate bonds; money market securities in relation to investments (CP, CD, T-Bills); tax free securities; asset backed securities</li> <li>- Terms used in fixed income securities: fixed income securities; bond indenture; issuer and holder; covenants; maturity; par value, coupon rate, clean price, dirty price; repurchase agreement; yield to maturity, yield to put, yield to call; forward rate and spot rate</li> </ul>	33

Sl. No.	Coverage	Weight (%)
	<ul style="list-style-type: none"> <li>- Bond duration- Macaulay duration, Modified duration, Effective duration, Key duration</li> <li>- Credit rating of bonds: risk assessment and factors considered in assigning credit rating</li> <li>- Embedded options for issuer and holder; call/put for repayment; cap and floor on coupon; conversion options; pre-payment options</li> <li>- Derivative products: types of derivative products; calculation of swap rates; valuation of swaps; accruals on swaps</li> <li>- Related Fixed Income Money Market and Derivatives Association of India circulars for Non-SLR bonds, Traded bonds, Non-traded bonds- rated, Non-traded bonds-not rated, Floating rate bonds, Staggered redemption bonds, Perpetual bonds, Deep discount bonds, Bonds with call/put options, Tax free bonds, Security receipts/Pass through certificates</li> <li>- Option valuation: General principles</li> <li>- Option valuation models: Black and Scholes; Black and Scholes Merton option pricing method; Binomial tree method; Monte Carlo simulation</li> <li>- Valuation of other financial assets and liabilities: concept of financial and non-financial assets and liabilities; valuation of other instruments like financial guarantees and warranties</li> </ul> <p><b>Intangible Assets</b></p> <ul style="list-style-type: none"> <li>- Nature and classification of intangibles</li> <li>- Identification of nature of intangible assets: life of asset; based on function; acquired or internally generated; generating cash flow independently or not generating cash flow independently; intangible assets under development and research assets</li> <li>- Purpose of intangibles valuation: financial reporting under Ind AS, legal and tax reporting, estate and gift tax, amortization allowance, transfer of standalone intangible assets, transfer of intangible asset as part of transaction, collateral lending, franchises and brand license agreement, insolvency/ bankruptcy</li> <li>- Valuation Approaches: excess earnings method; relief-from-royalty method; premium profit method; greenfield method; distributor method;</li> </ul>	



Sl. No.	Coverage	Weight (%)
	other valuation approaches as applicable; rate of return and discount rate for intangibles <b>Situation Specific Valuation</b> <ul style="list-style-type: none"> <li>- Distressed asset valuation</li> <li>- Start-up entities valuation</li> <li>- Valuation of small and medium enterprises</li> <li>- Valuation of cyclical firms</li> <li>- Valuation of investment entities</li> <li>- Valuation for insurance coverage</li> </ul>	
9.	<b>Judicial Pronouncements on Valuation</b> <ul style="list-style-type: none"> <li>- Miheer H. Mafatlal Vs. Mafatlal Industries Ltd. (1997) 1 SCC 579</li> <li>- Hindustan Lever Employees' Union Vs. Hindustan Lever Limited and Ors</li> <li>- Brooke Bond Lipton India Ltd. (1999) 98 Comp Cas 496 (Cal)</li> <li>- Dinesh Vrajlal Lakhani Vs. Parke Davis (India Ltd.) (2005) 124 Comp Case 728 (Bom HC)</li> <li>- Dr. Mrs. Renuka Datla Vs. Solvay Pharmaceutical B.V. and Ors.</li> <li>- G.L. Sultania and Another Vs. The Securities and Exchange Board of India</li> </ul>	1
10.	<b>Case Studies</b> This section will have three case studies for application of valuation techniques. <ul style="list-style-type: none"> <li>- One case study with six 2-mark questions, for 12 marks</li> <li>- One case study with four 2-mark questions, for 8 marks</li> <li>- One case study with three 2-mark questions, for 6 marks</li> </ul> (This section will have case studies for application of valuation techniques. For each case there will be a comprehension narrating the transaction based on which questions will be asked from the case.)	26
	<b>Total</b>	<b>100</b>

Note: Wherever any Law, Act of Parliament or any Rule/Regulation is referred in the syllabus, the same shall be taken as updated as on 31<sup>st</sup> March 2022.

## II. FORMAT AND FREQUENCY OF EXAMINATION

- a. The examination is conducted online (computer-based in a proctored environment) with objective multiple-choice questions;
- b. The examination centres are available at various locations across the country;

- c. The examination is available on every working day;
- d. A candidate is expected to thoroughly read the relevant Frequently Asked Questions (FAQs) on Valuation Examinations placed on the IBBI website before registering/enrolling for the examination;
- e. A candidate may choose the time, the date, and the Examination Centre of his choice for taking the Examination. For this purpose, he needs to enrol and register at <https://certifications.nism.ac.in/nismaol/>;
- f. A fee of Rs. 1770 (Seventeen hundred and seventy rupees) is currently applicable on every enrolment;
- g. The duration of the examination is 2 hours;
- h. A candidate is required to answer all questions. No marks will be awarded if a question is not attempted;
- i. A wrong answer attracts a negative mark of 25% of the marks assigned for the question;
- j. A candidate needs to secure 60 % of marks for passing;
- k. A successful candidate is awarded a certificate by the Authority;
- l. A candidate is issued a temporary mark sheet on submission of answer paper;
- m. No workbook or study material is allowed or provided;
- n. No electronic devices including mobile phones and smart watches are allowed; and
- o. Use of only a non-memory-based calculator is permitted. Scientific Calculators (memory based or otherwise) are not allowed.

Further changes, if any, in the above details of the examination will be provided subsequently.

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