



Valuation under SEBI Laws

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Preferential Issue

Definition of frequently traded shares

SEBI (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2014 w.e.f. 25.08.2014

After Regulation 71, the following new regulation shall be inserted, namely:-

"Frequently traded shares."

71A. For the purpose of this Chapter, “**frequently traded shares**” means shares of an issuer, in which the **traded turnover** on **any** stock exchange during the **twelve calendar months preceding the relevant date**, is at least **ten per cent of the total number of shares of such class** of shares of the issuer:

Provided that where the share capital of a particular class of shares of the issuer is not identical throughout such period, the weighted average number of total shares of such class of the issuer shall represent the total number of shares."

Preferential Issue

Definition – Volume Weighted Average Market Price

SECURITIES AND EXCHANGE BOARD OF INDIA (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 2011

In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions and variations shall be construed accordingly,—

(zb) “volume weighted average market price” means the product of the number of equity shares traded on a stock exchange and the price of each equity share divided by the total number of equity shares traded on the stock exchange;

(zc) “volume weighted average price” means the product of the number of equity shares bought and price of each such equity share divided by the total number of equity shares bought;

(zd) “weighted average number of total shares” means the number of shares at the beginning of a period, adjusted for shares cancelled, bought back or issued during the aforesaid period, multiplied by a time-weighting factor;

Preferential Issue

'Independent valuer' for the valuation of the Companies

Securities and Exchange Board of India (Infrastructure Investment Trusts) (Amendment) Regulations, 2017,
w.e.f. 15.12.2017

In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions and variations shall be construed accordingly,—

(zzf) “valuer” means any person who is a “registered valuer” under section 247 of the Companies Act, 2013 or as specified by the Board from time to time.;

Preferential Issue

Preferential issue of shares- in case of frequently traded shares

SEBI (ICDR), 2018
Regulation 164 – General case
Regulation 164A – Stressed Assets

Pricing in case of frequently traded shares – Generally : Regulation 164 of SEBI (Issue of share Capital and Disclosure Requirements), 2018

In case of shares listed on the recognized stock exchange for a period > 26 weeks will not be less than higher of the following:

- Average of the weekly high and low of the volume weighted average price during the 26 weeks preceding the relevant date; or
- Average of the weekly high and low of the volume weighted average prices during the 2 weeks preceding the relevant date.

Preferential Issue

Preferential issue of shares- in case of frequently traded shares

SEBI (ICDR), 2018
Regulation 164 – General case
Regulation 164A – Stressed Assets

Pricing in case of frequently traded shares – Generally : Regulation 164 of SEBI (Issue of share Capital and Disclosure Requirements), 2018

In case of shares listed on the recognized stock exchange for a period < 26 weeks price will not be less than higher of the following:

- Price at which equity shares were issued by the issuer in its initial public offer or the value per share arrived at in a scheme of compromise, arrangement and amalgamation; or
- Average of the weekly high and low of the volume weighted average prices during the period the equity shares have been listed preceding the relevant date; or
- Average of the weekly high and low of the volume weighted average prices during the 2 weeks preceding the relevant date

Preferential Issue

Preferential issue of shares- in case of frequently traded shares

SEBI (ICDR), 2018
Regulation 164 – General case
Regulation 164A – Stressed Assets

Pricing in exceptional cases : Regulation 164A of SEBI (Issue of share Capital and Disclosure Requirements), 2018

Valuation of shares for preferential issue of shares of companies having stressed assets:

- Price of preferential issue shall not be less than the average of the weekly high and low of the volume weighted average price during the 2 weeks preceding the relevant date.

Preferential Issue

Preferential issue of shares- in case of infrequently traded shares

SEBI (ICDR), 2018
Regulation 165

Pricing in exceptional cases : Regulation 165 of SEBI (Issue of share Capital and Disclosure Requirements), 2018

Pricing in case of infrequently traded shares- Price shall be determined by Independent Valuer considering:

- Book value
- Comparable multiples
- Other parameters.

Preferential Issue

Preferential issue of shares- Optional pricing in preferential issue

SEBI (ICDR), 2018
Regulation 164B

Optional pricing in preferential issue :Regulation 164B of SEBI (Issue of share Capital and Disclosure Requirements), 2018

In case of frequently traded shares, the price of the equity shares to be allotted pursuant to the preferential issue shall be determined by regulation 164 or regulation 164B. In case of regulation 164B, price shall not be less than the higher of the following:

- Average of the weekly high and low of the volume weighted average prices of the related equity shares quoted the 2 weeks
- Average of the weekly high and low of the volume weighted average price during the 12 weeks preceding the relevant date

Valuation of Assets (business) if consideration other than Cash is issued to Promoters or PAC

SEBI (ICDR),2009
Regulation 73(3)

Where specified securities are issued on a preferential basis to promoters, their relatives, associates and related entities for consideration other than cash, the valuation of the assets in consideration for which the equity shares are issued shall be done by an independent qualified valuer, which shall be submitted to the recognized stock exchanges where the equity shares of the issuer are listed.

No method of valuation has been prescribed.

A Chartered Accountant or a Merchant banker can be a valuer.

Exit opportunity to Shareholders of Exclusive Listed Companies

SEBI Circular SEBI/HO/MRD/DSA/CIR/P/2016/110 dated October 10, 2016 and notice (20161104 – dated November 4, 2016)

The Promoter of such companies in consultation with the Designated Stock Exchange shall appoint an independent valuer from panel of expert valuers.

Purpose of Valuation: Providing Exit Opportunities to Shareholders of Exclusively Listed Companies of Derecognized Stock Exchanges placed in Dissemination Board.

Impact of Valuation: Promoters will have to buyout the exiting Shareholders based on the Valuation of the valuer and this would entail a cost. Being Minority Shareholders, SEBI is protecting there rights and regulating the process.

Method of Valuation: BSE and NSE are in process of finalizing the valuation reporting format and also the process guidance

Valuer: BSE and NSE have recently empaneled Valuation Firms for this purpose.

Exclusive Listed Companies: companies exclusively listed on non-operational stock exchanges i.e. all those stock exchanges which have not achieved the prescribed turnover of Rs. 1000 Crore on continuous basis on or before May 30, 2014.

Valuation: REITs & InvITs

Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 &
Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014

The manager shall ensure that the valuation of the REIT/ INVIT assets is done by the valuer(s) in accordance with regulation 21.

Regulation 21: REIT/InvIT shall be read wherever InvIT is written.

- (1) The valuer shall not be an associate of the sponsor(s) or investment manager or trustee and shall have not less than five years of experience in valuation of infrastructure assets.
- (2) Full valuation includes a detailed valuation of all assets of the InvIT by the valuer including physical inspection of every infrastructure project by the valuer.
- (3) Full valuation report shall include the mandatory minimum disclosures as specified in Schedule V.
- (4) A full valuation shall be conducted by the valuer not less than once in every financial year: Provided that such full valuation shall be conducted at the end of the financial year ending March 31st within two months from the date of end of such year.
- (5) A half yearly valuation of the assets of the InvIT shall be conducted by the valuer for the half - year ending September 30th for a publicly offered InvIT for incorporating any key changes in the previous six months and such half yearly valuation report shall be prepared within one month from the date of end of such half year

Valuation: REITs & InvITs

Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 &
Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014

The manager shall ensure that the valuation of the REIT/ INVIT assets is done by the valuer(s) in accordance with regulation 21.

Regulation 21:

[Provided that in case the consolidated borrowings and deferred payments of an InvIT, in terms of Regulation 20, is above forty-nine percent, the valuation of the assets of such InvIT shall be conducted by the valuer for quarter ending June, September and December, for incorporating any key changes in the previous quarter and such quarterly report shall be prepared within one month from the date of the end of such quarter.]

(6) Valuation reports received by the investment manager shall be submitted by the investment manager to the designated stock exchanges within fifteen days from the receipt of such valuation reports.

(7) Prior to any issue of units by publicly offered InvIT other than bonus issue, the valuer shall undertake full valuation of all the InvIT assets and include the same in the Offer Document:

Provided that such valuation report shall not be more than six months old at the time of such offer:

Provided further that this shall not apply in cases where full valuation has been undertaken not more than six months prior to such issue and no material changes have occurred thereafter.

Valuation: REITs & InvITs

Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 &
Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014

The manager shall ensure that the valuation of the REIT/ INVIT assets is done by the valuer(s) in accordance with regulation 21.

Regulation 21:

(8) For any transaction of purchase or sale of infrastructure projects, whether directly or through holdco and/or SPVs, for publicly offered InvITs,—

(a) a full valuation of the specific project shall be undertaken by the valuer;

(b) if, —

(1) in case of a purchase transaction, the asset is proposed to be purchased at a value greater than hundred ten per cent of the value of the asset as assessed by the valuer;

(2) in case of a sale transaction, the asset is proposed to be sold at a value less than ninety per cent. of the value of the asset as assessed by the valuer,

approval of the unit holders shall be obtained in accordance with regulation 22.

(9) No valuer shall undertake valuation of the same project for more than four years consecutively.

Provided that the valuer may be reappointed after a period of not less than two years from the date it ceases to be the valuer of the InvIT.

(11) In case of any material development that may have an impact on the valuation of the assets of the InvIT, then investment manager of a publicly offered InvIT shall require the valuer to undertake full valuation

Valuation: AIFs

Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012

Regulation 23

- (1) The Alternative Investment Fund shall provide to its investors, a description of its valuation procedure and of the methodology for valuing assets.
- (2) Category I and Category II Alternative Investment Funds shall undertake valuation of their investments, atleast once in every six months, by an independent valuer appointed by the Alternative Investment Fund: Provided that such period may be enhanced to one year on approval of atleast seventy-five percent of the investors by value of their investment in the Alternative Investment Fund.
- (3) Category III Alternative Investment Funds shall ensure that calculation of the net asset value (NAV) is independent from the fund management function of the Alternative Investment Fund and such NAV shall be disclosed to the investors at intervals not longer than a quarter for close ended Funds and at intervals not longer than a month for open ended funds.

Valuation: ESOPs

Sec 62 of Companies Act, 2013 read with Rule 12 of Share Capital Rules, 2014
SEBI (Share Based Employee Benefits) Regulations, 2014
ICAI Guidance Note & IND AS 102

Purpose of Valuation: Determination of compensation cost for amortization over the vesting period.

Impact of Valuation: Being P&L item, it impacts Profitability and reduces EPS. The expense may or may not be allowed by the Tax authorities.

Valuation Methodologies: Option Pricing Models: Black Scholes Merton Model, Black Model, Binomial Model, Binomial Lattice Model, Monte Carlo Simulation.

Valuer: Not prescribed.

Other Provisions given under SEBI, Which Requires Valuation Report from A Registered Valuer

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

158(6)(b) Conversion price of debt, as a debt restructuring scheme, has to be certified by two independent registered valuer.

163(3) when the specified securities are issued on a preferential basis for consideration besides cash, the valuation of the assets for which the equity shares are issued has to be done by a valuer, which must be submitted to the stock exchanges where the equity shares are listed. Provided that if the stock exchange is not satisfied with the appropriateness of the valuation, then the valuation can be done any other valuer and for this purpose, it may seek any information, as deemed necessary, from the issuer.

SEBI (Appointment of Administrator and Procedure for refunding to Investors) Regulations, 2018

7(2)(b)- Functions of the Administrator: The Administrator must engage the services provided by the registered valuer to make an evaluation of the properties of defaulter that are attached by the Recovery Officer. Also for submission of a certified valuation reporting accordance with the guidelines issued by the Board

8(1)- Sale of Properties: The Administrator has to undertake the process of the sale of properties after conducting a separate valuation of those properties by a registered valuer.

Other Provisions given under SEBI, Which Requires Valuation Report from A Registered Valuer

SEBI (Listing Obligations and Disclosure Requirements Regulations), 2015

87C (1)(ii)- Valuation, Rating and NAV disclosure: An issuer whose security receipts are listed on a stock exchange must ensure that the valuation is conducted by a registered valuer.

SEBI (Issue and Listing of Securitized Debt Instruments and Security Receipts) Regulations, 2008

38G (1)(a)- Valuation, Rating and NAV disclosure: An issuer whose security receipts are listed on a recognized stock exchange must ensure that the valuation is conducted by a registered valuer.

THANK YOU

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