



# Impact of COVID-19 on Business Valuation

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# Introduction – Business Valuation

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*Price is what you pay, Value is what you get. – Warren Buffett*

- ❑ Business valuation determines the economic value of a business or business unit.
- ❑ Business valuation can be used to determine the fair value of a business for a variety of reasons, including M&A or sale value, fund raising, establishing partner's ownership, taxation, accounting disclosure and even divorce proceedings.
- ❑ The owner of a company/ management usually approach professional business valuers for getting an objective estimate of the business' value for varied purposes.
- ❑ Valuations is the process of determining the “Economic Worth” of an Asset, Business or Company under certain “Assumptions” and “Limiting Conditions” and subject to “Data” available on the “Valuation Date”.

# 'History of Business Valuation in India'

Since **SEBI Act** came into force in 1992, companies are **free to price** their issues in consultation with the Merchant Bankers

**Fixed Pricing Guidelines** for valuation of shares erstwhile **Controller of Capital Issue (CCI)** guidelines as per NAV, PECV and **Market Value** method.

**Valuation of unquoted shares** on adjusted Book Value Method as per Balance Sheet (repealed w.e.f. 1.4.1989)

**ICAI issued Valuation Guide on Share Valuation in 1994 and 1999**

**SEBI brought Fairness Opinion on Valuation** in scheme of Arrangement of Listed Cos in 2008

Income Tax prescribed **Valuation for Transfer of Shares in 2009**

**ESOP FBT of 2007** changed to **Perquisite Tax in 2009**

**DCF Method** prescribed by RBI in **2010** for all **FDI Valuations** (later changed to any Internationally accepted method)

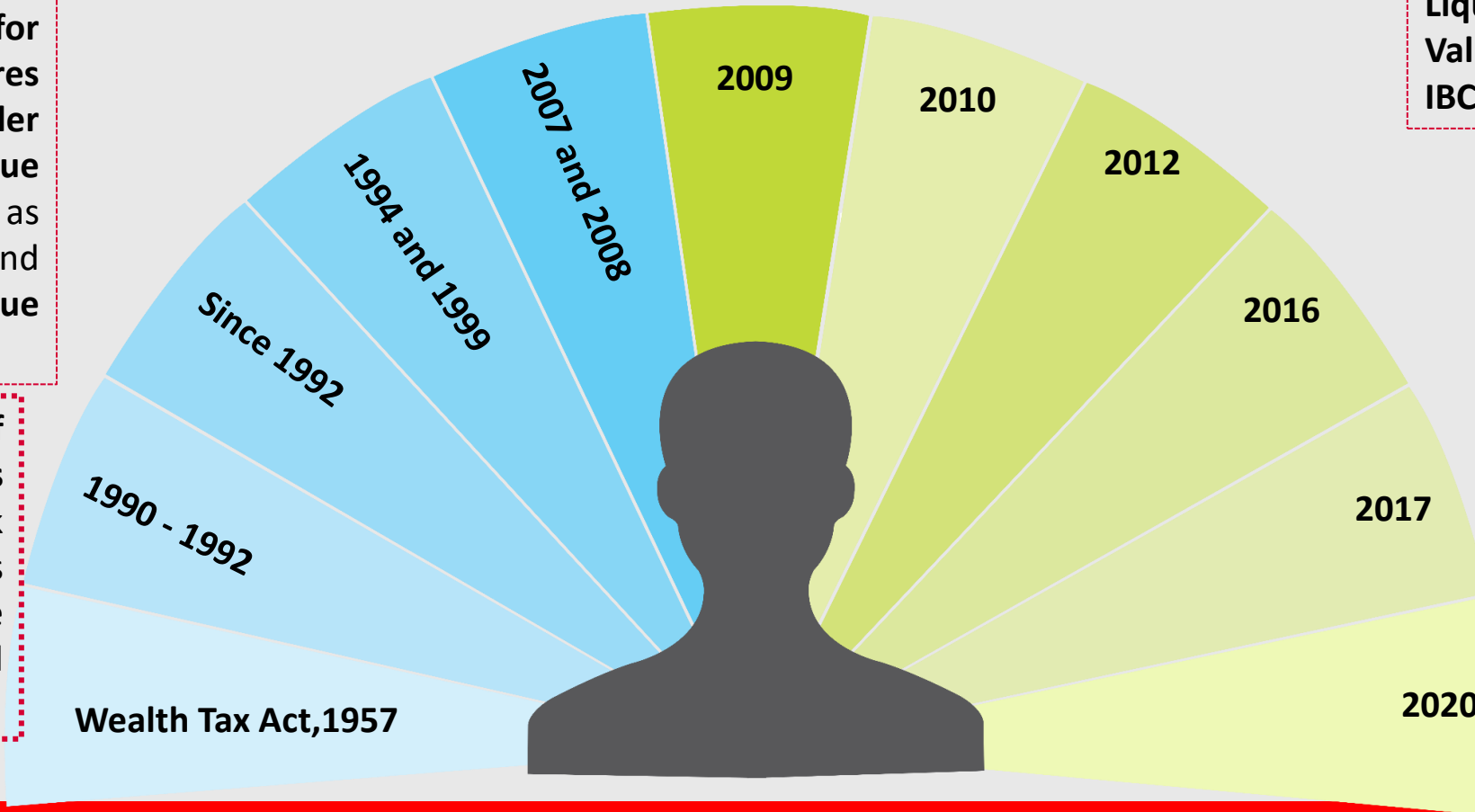
Income Tax prescribed **Valuation for Issue of Shares in 2012**

From 2016, "**Fair Value Standard**" came into force (Ind AS 113)

**Liquidation Value and Fair Value of "Assets"** came in IBC w.e.f Dec 2016.

**Registered Valuer provisions** of Companies Act, 2013 Implemented **Companies (Registered Valuers and Valuation) Rules, 2017**

**CG appointed Committee of Experts** submitted report with **Draft Valuer Bill, 2020**



# Requirement of Valuation in India

There are three types of Valuations requirements in India

## Transactions

- Voluntary Assessment
- Business Valuation
  - Mergers / Acquisitions
  - Investment / Fund Raising
  - Sale of Business
  - Dispute Resolution

## Regulatory

- RBI
- Income Tax
- SEBI
- Companies Act
- IBC

## Financial Reporting

- Purchase Price Allocation
- Impairment / Diminution
- Fair Value (IND AS)
- ESOP

# Knowing Regulatory Valuations in India under different laws

Fresh Issue of Shares	<ul style="list-style-type: none"> <li>• Reserve Bank of India – FDI</li> <li>• Reserve Bank of India – ODI</li> <li>• Income Tax Law</li> <li>• Company Law</li> <li>• SEBI Law</li> </ul>	<ul style="list-style-type: none"> <li>• Company Law</li> <li>• SEBI Law</li> <li>• Financial Reporting</li> </ul>	Business Combination/ Scheme of Arrangement
Transfer of Shares	<ul style="list-style-type: none"> <li>• Reserve Bank of India – FDI</li> <li>• Reserve Bank of India – ODI</li> <li>• Income Tax Law</li> </ul>	<ul style="list-style-type: none"> <li>• Income Tax Law</li> <li>• Company Law</li> <li>• Financial Reporting</li> </ul>	ESOP/Sweat Equity
Bankruptcy: Insolvency & Bankruptcy Code		Fair Value Accounting : IND-AS	

**Observation :** Valuation Standards permit departures in order to comply with Legislative, Regulatory and Authoritative requirements. Hence, knowledge of applicable Laws and valuation requirements is necessary.

# 'Guiding Principles of Valuation'

## Return on Capital Employed and Growth

Companies create value when their ROCE exceeds WACC.

- competitive advantages
- industry structure
- market trends

## Conservation of Value

The valuation of business is directly linked with its underlying cash flows and value from Operations.

- Accounting numbers may be misleading

## Demand, Supply and Equilibrium

The transactions in real life take place at the equilibrium of demand and supply at a particular point of time.

- Value is fundamental; Price is market driven

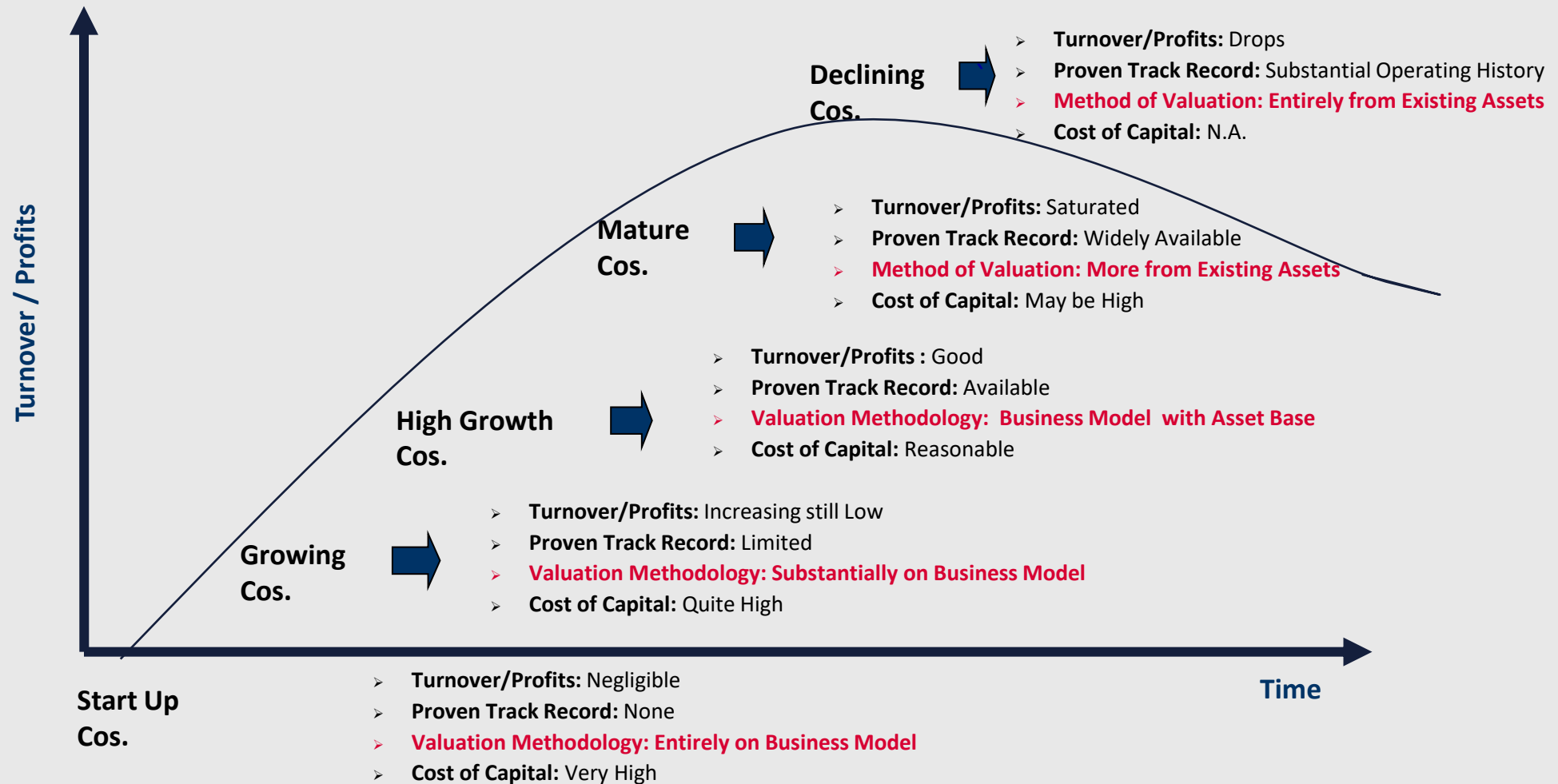
## Economies of Scale

Higher Growth brings benefits to business but not where the business model itself is questionable.

- Positive Cash Flows essential even though in longer run for start-up's

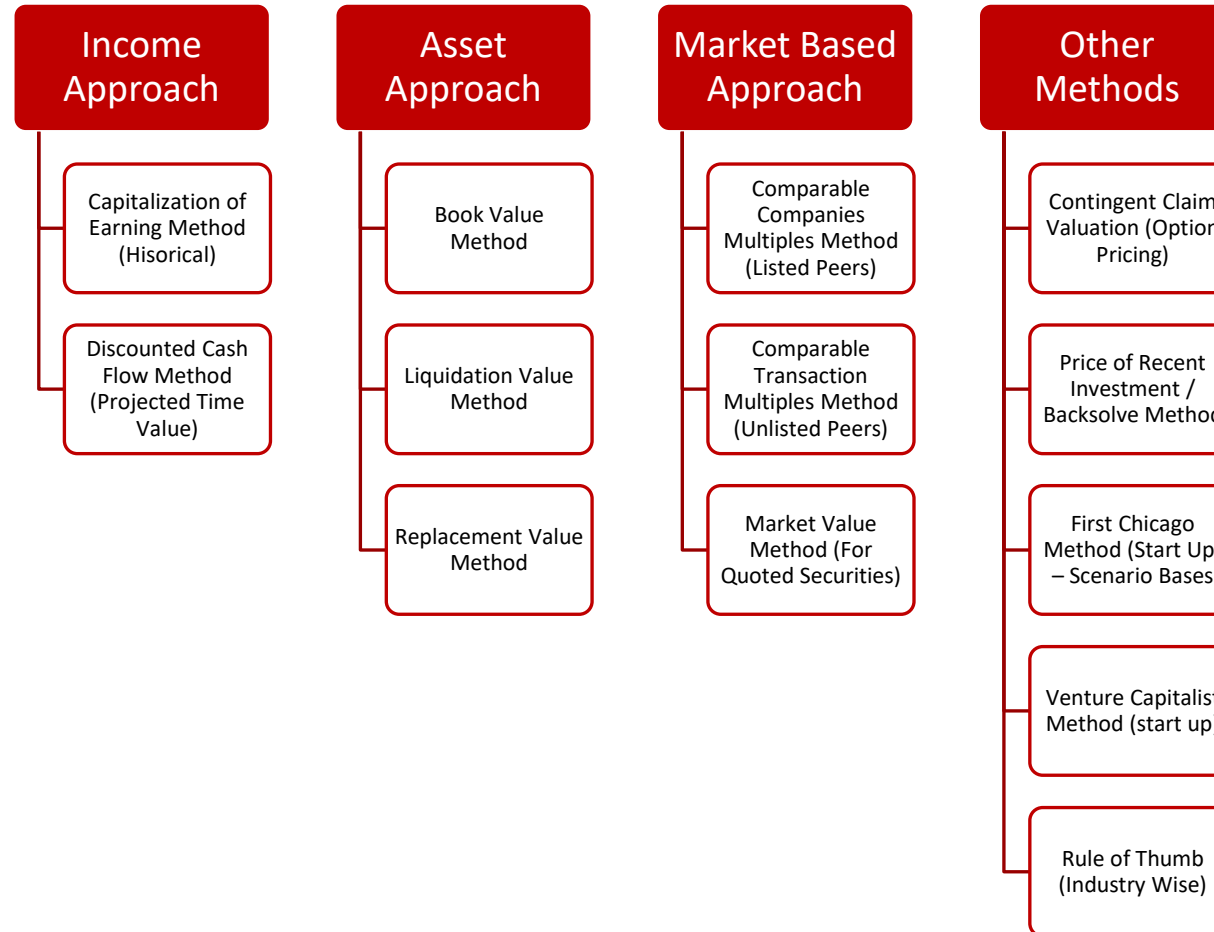


# Valuation across Business Cycle





# Introduction of Valuation Approaches



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Possible Industry guide and

# Industry guide during COVID

COVID-19 affected different industries differently, due to their nature of Business. We have segmented few industries in three groups (Red, Yellow, and Green) as follows:

Green Zone (Affected Positively)	Yellow Zone (Moderately affected)	Red Zone (Most Severely affected)
<ul style="list-style-type: none"> <li>EduTech, FMCG, Healthcare, Pharmaceuticals</li> </ul>	<ul style="list-style-type: none"> <li>Consumer Goods, Trading</li> </ul>	<ul style="list-style-type: none"> <li>Travel, Tourism, Aviation</li> </ul>
<ul style="list-style-type: none"> <li>Insurance, Telecom, Utilities</li> </ul>	<ul style="list-style-type: none"> <li>Pharmaceuticals*</li> </ul>	<ul style="list-style-type: none"> <li>Local Transport, Hospitality, Cinema</li> </ul>
<ul style="list-style-type: none"> <li>Agriculture, Produce, Digital Products</li> </ul>	<ul style="list-style-type: none"> <li>Banking</li> </ul>	<ul style="list-style-type: none"> <li>Live Sports, Events and Conferences, Luxury Products</li> </ul>
<ul style="list-style-type: none"> <li>Freelancing, Stock Market Investing</li> </ul>	<ul style="list-style-type: none"> <li>Glass, Plastics</li> </ul>	<ul style="list-style-type: none"> <li>Tech &amp; Gadgets, Gems &amp; Jewellery</li> </ul>
<ul style="list-style-type: none"> <li>Home Gardening, Online Coaching, Mental Health</li> </ul>	<ul style="list-style-type: none"> <li>Logistics</li> </ul>	<ul style="list-style-type: none"> <li>Retail, Automobile, Steel, Apparel &amp; Footwear</li> </ul>
<ul style="list-style-type: none"> <li>Alternate Energy, Gaming, Affiliate / Network Marketing</li> </ul>	<ul style="list-style-type: none"> <li>Mining</li> </ul>	<ul style="list-style-type: none"> <li>Paper, Print, Real Estate, Construction</li> </ul>
<ul style="list-style-type: none"> <li>Data Science, Spiritual Sciences</li> </ul>		<ul style="list-style-type: none"> <li>Oil &amp; Gas, Shipping, Microfinance Institutions</li> </ul>

# Post COVID Effects

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➤ Following Industries have high chances to accelerate exponentially post COVID.

- **Travel, Tourism, Aviation**
- Local Transport, Hospitality, Cinema
- Live Sports, Events and Conferences, Luxury Products
- Tech & Gadgets, Gems & Jewellery
- Retail, Automobile, Steel, Apparel & Footwear
- Paper, Print, Real Estate, Construction
- Oil & Gas, Shipping, Microfinance Institutions

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# Challenges in Business Valuation post COVID-19

# Factors while performing Valuations post COVID-19

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- **Purpose of the Valuation** : Useful to decide the Market Volatility to import into the valuations.
- **Wider impacts on Cash Flow** : Wider impact of COVID-19 on growth rates and margins.
- **Public market trends** : Valuation shouldn't be slavishly matched to declines in public markets, nor should the valuation be insulated from a decline by using the argument that the whole market is distressed.
- **Discount Rate Movements** : Uncertainty implies towards a higher discount rate.
- **Scenario and Sensitivity Analysis** : Focus on greater use of scenario and sensitivity analysis to take account of uncertainty.
- **Use of ranges** : Valuation ranges will need to be wider than normal, and these ranges may well be subject to volatility as valuations are updated over time.
- *In general, the issues outlined above should provide a reasonable starting point of topics to consider when performing a valuation during this crisis. Creativity and practicality are important components of valuations, particularly as the financial impact of COVID-19 continues to unfold.*



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