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# **DISCOVER HOW VALUATIONS REALLY WORK**

Approaches, Models & Insights

**244th WEBINAR**

**Date: 05th December 2025**



# Today's Session



## What is Valuation?

Definition, key elements, and what valuation is NOT



## History in India

20-year evolution, regulatory milestones, ecosystem



## Why Valuation Matters

Fundraising, M&A, ESOPs, compliance, reporting



## Approach Selection

Decision framework with practical case studies



## Regulatory Context

Companies Act, SEBI, FEMA, Income Tax



## Future Outlook

AI-driven models, digital assets, creator economy



## Income Approach & DCF

Future cash flows, discount rates, terminal value



## Market Approach

Comparable companies, transaction multiples



## Asset Approach

NAV, book value, replacement cost, liquidation



## Financial Modelling

Scenario analysis, sensitivity testing, drivers



## Myths & Red Flags

Common misconceptions and warning signs



## FAQs & Q&A

Common questions and expert answers



# What **Is** Valuation

## Definition

- Analytical process to estimate economic worth of a business, asset, liability, or security
- Combines quantitative analysis, qualitative assessment, and professional judgment

## Standards-Based

- ICAI Valuation Standards
- International Valuation Standards (IVS)
- Companies Act / IBBI Registered Valuer Rules

## **Purpose-Driven**

- Transactions, ESOPs, fundraising, compliance
- Financial reporting, taxation, restructuring

## Premise of Value

- Going Concern Value – business continues operations
- Liquidation Value – orderly or forced sale basis
- Value-in-use – value derived from using the asset
- Fair Market Value / Fair Value depending on purpose

**Core Idea:** Valuation is a structured, standards-based judgment process to estimate value — not a mechanical formula.



# What Valuation **Is Not**

## ✖ Not an Exact Number

- Results vary with assumptions, methods, and market conditions
- Different valuers may reach different values depending on inputs
- Better viewed as a value range reflecting uncertainty

## 📊 Not Simple Math

- Not just book value, revenue, or profit calculation
- Incorporates multiple financial, economic, and qualitative factors
- Considers risk, growth prospects, and industry dynamics

## ❌ Not a Guaranteed Deal Price

- Real transactions depend on negotiations and buyer motivations
- Competitive dynamics and market sentiment influence outcomes
- Final price may differ significantly from valuation estimate

## 🕒 Not Static or Purely Historical

- Forward-looking based on expected future cash flows and risks
- Needs updating as business performance and conditions evolve
- Past performance informs but doesn't determine future value

**Core Idea:** Valuation estimates worth — it does not promise a price, outcome, or transaction certainty. It is a professional judgment, not a guarantee.

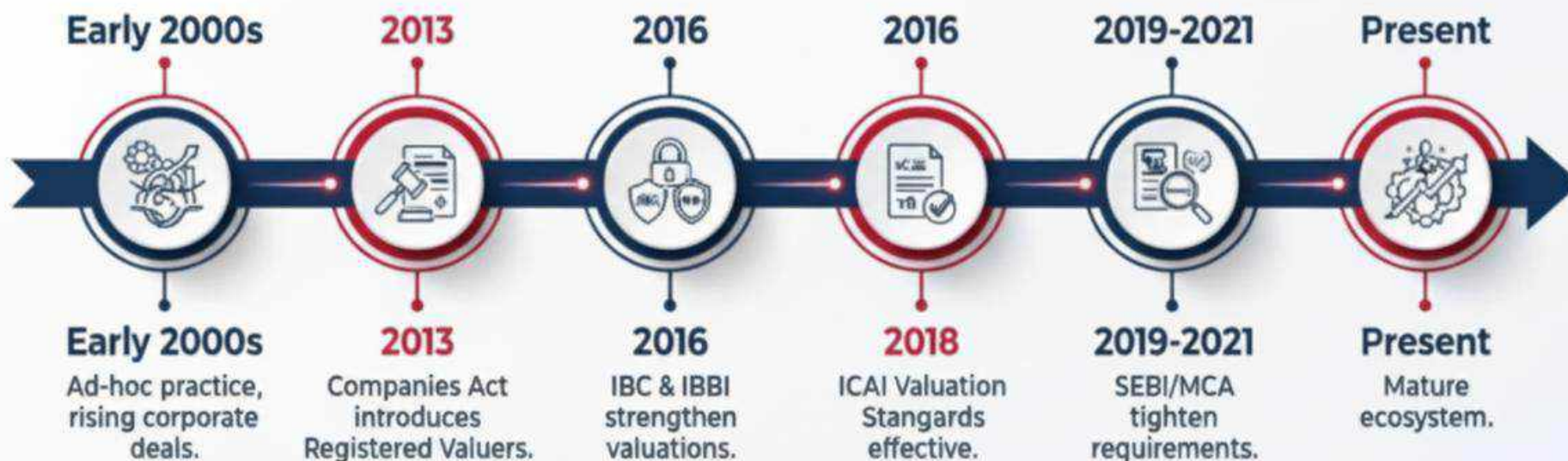




# History of Valuations **in India**

## EVOLUTION OF VALUATIONS IN INDIA: 2000s TO PRESENT

Timeline of Regulatory Milestones and Professionalization





# Why Valuation Is Required



## Fundraising & Investor Negotiations

Determine pre-money and post-money valuations for equity rounds and investor discussions



## M&A, JV & Buy-Sell Agreements

Value businesses for mergers, acquisitions, joint ventures, and shareholder exit transactions



## ESOPs

Fair market value for Employee Stock Ownership Plans accounting and tax treatment



## Regulatory & Tax Compliance

Meet requirements under Companies Act, SEBI, FEMA, and Income Tax Act provisions



## Financial Reporting

Impairment testing, purchase price allocation, and fair value measurements under Ind AS



## Strategic Business Planning

Understand value drivers, benchmark performance, and support key strategic decisions



# Where Valuation Is Applied

## Regulatory Requirements

- **Companies Act 2013:** Preferential allotment, buyback, mergers & schemes
- **SEBI Regulations:** Listed entity pricing, RPT valuation, delisting, takeover code
- **FEMA:** FDI/ODI using internationally accepted standards
- **Income Tax Act:** Section 56 valuations, ESOP perquisites, slump sale, transfer pricing
- **IBBI Rules:** Insolvency & bankruptcy proceedings

## Transactional Valuations

- **M&A:** Mergers, acquisitions, and consolidations
- **Swap Ratios:** Share exchange determination in mergers
- **Fairness Opinions:** Independent assessment for board decisions
- **Fundraising:** Pre-money and post-money valuation
- **JV Agreements:** Joint venture valuations
- **Shareholder Exits:** Buy-sell agreements

## Financial Reporting

- **Ind AS 113:** Fair value measurement framework
- **Ind AS 103:** Purchase price allocation & goodwill recognition
- **Ind AS 36:** Annual impairment testing of assets
- **Ind AS 102:** ESOP fair valuation for accounting
- **Ind AS 109:** Valuation of financial instruments





# Valuation Approaches Overview



**01**

## Income Approach

Present value of expected future cash flows  
(DCF method)

**02**

## Market Approach

Trading and transaction multiples of  
comparable companies

**03**

## Asset (Cost) Approach

Fair value of assets minus liabilities (NAV  
method)

**i** IVS 105 Recognition: These three pillars are globally recognized valuation approaches. In practice, approaches are often triangulated to provide a balanced and comprehensive view of business value.





# Income Approach



## Forward-Looking Focus

Emphasizes future free cash flows rather than historical performance alone. Values the economic benefits a business is expected to generate.



## Discounted Cash Flow (DCF)

The most widely used income approach method:

- Projects free cash flows over forecast period
- Calculates terminal value for long-term horizon
- Discounts using WACC or Cost of Equity



## Relief-from-Royalty Method

Estimates value of intangible assets by calculating hypothetical royalties saved by owning rather than licensing:

- Commonly used for brands, trademarks, patents
- Based on market royalty rates and projected revenues



## Key Elements

Critical components for robust income approach valuation:

- Detailed financial forecasting and modeling
- Comprehensive risk assessment
- Scenario analysis and sensitivity testing

✓ **Best For:** Businesses with strong visibility and predictable earning potential. Ideal when future performance can be estimated with reasonable reliability.



# Market Approach



## Comparable Companies Method

Uses trading multiples from similar publicly traded companies:

- Common multiples: P/E, EV/EBITDA, EV/Sales
- Selects peers with similar size, sector, and profile
- Applies median or average multiples



## Comparable Transactions Method

Applies deal multiples from recent acquisitions of similar businesses:

- Extracts multiples from transaction prices
- Shows real price points paid for similar companies
- Common in M&A valuations



## Adjustments Required

Benchmarks must be adjusted for key differences:

- Size, margin profile, and growth rates
- Risk factors and market timing
- Control premiums and specific deal terms



## Key Considerations

Important factors for market approach valuation:

- Cross-check with income approach results
- Relies on quality and relevance of comparables
- Reflects real-world market sentiment



**Grounded in Reality:** The Market Approach provides an objective, reality-tested view based on how similar companies are priced. Most useful when reliable public or transaction data is available.



# Asset (Cost) Approach



## Book Value Method

Simple net book value from the balance sheet based on historical accounting values.

- Straightforward and easy to calculate
- Does not reflect current market values
- Provides conservative baseline valuation



## Adjusted Net Asset Value

Restates assets and liabilities to reflect fair market values rather than historical costs. Most accurate approach.

- Revalues fixed assets, intangibles, liabilities
- Requires professional appraisals and market data
- Useful in buy-sell transactions and solvency analysis



## Replacement/Reproduction Cost

Calculates current cost to replace or reproduce assets, adjusted for deterioration and obsolescence.

- Values assets at today's replacement cost
- Adjusts for physical and economic obsolescence
- Common in insurance and capital-intensive industries



## Liquidation Value Method

Estimates net realizable value in distressed or forced-sale scenarios.

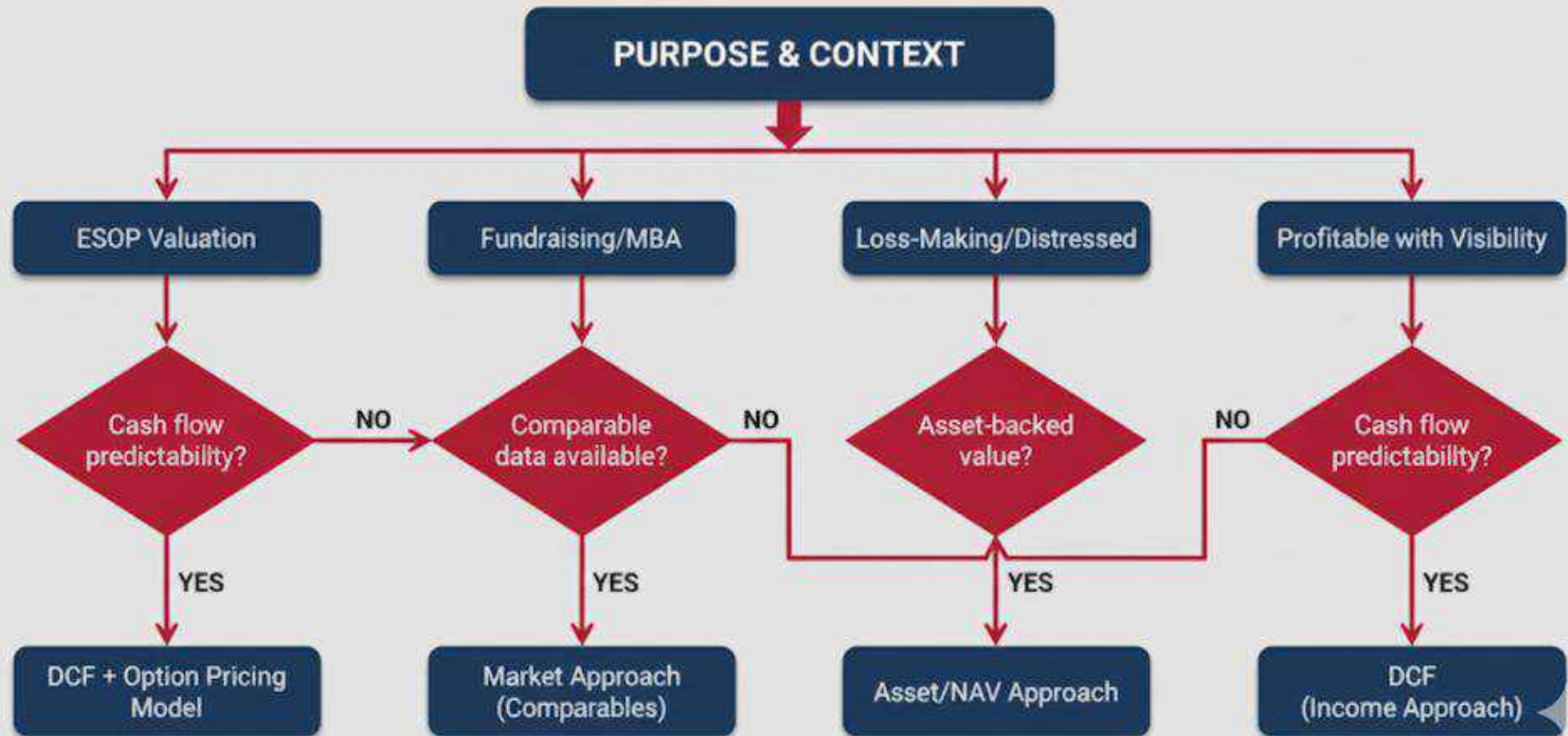
- Values assets at discounted prices reflecting urgency
- Applies in bankruptcy and restructuring situations
- Establishes floor price under adverse conditions

✓ **Best For:** Asset-heavy companies, distressed businesses, holding entities, or situations where value lies primarily in underlying assets rather than future profitability.





## Business Valuation Approach Selection Framework





# Selecting the **Right Approach**

## **Purpose**

Context drives approach: ESOPs, fundraising, M&A, restructuring, financial reporting, or tax compliance requirements

## **Business Stage & Cash Flow Stability**

Maturity level, growth trajectory, and predictability of future cash flows influence method selection

## **Data Availability**

Reliable forecasts vs. comparable company data vs. asset appraisals determine feasible approaches

## **Industry & Market Conditions**

Sector norms, market maturity, and availability of comparable transactions guide approach selection

## **Typical Choices:**

DCF (Income Approach) for profitable businesses with visibility and predictable cash flows • Market Approach for fundraising, M&A, and when comparable deal benchmarks are available • Asset/NAV Approach for loss-making, distressed, or asset-backed situations where value resides in underlying assets



# Case Study 1: ESOP Valuation



## Scenario

Mid-sized profitable SaaS company with steady growth, positive EBITDA, predictable renewals, and 5+ years of historical financial data.



## Purpose

Determine accounting fair value for stock options under Ind AS 102.



## Approach Used

Step 1: DCF Method to determine enterprise and equity value — selected because the company has stable revenues, predictable renewals, and reliable cash flow visibility.

Step 2: Option Pricing Model (Black-Scholes / Binomial) to determine fair value of the ESOP based on the equity value derived from DCF.



## Key Takeaway

For ESOPs, DCF provides the most realistic equity value required for option pricing. The approach aligns with Ind AS 102 requirements and captures company-specific growth and risk.





# Case Study 2: High-Growth Startup Fundraising



## Scenario

D2C brand growing 3x year-on-year with strong brand recall and customer engagement. Low profitability as the company reinvests heavily in marketing to capture market share and scale operations.



## Purpose

Transaction valuation for investment and equity dilution for a new funding round. Investors are evaluating the company's future scale potential.



## Approach Used

**Primary Method:** Market Approach using revenue/GMV multiples from comparable deals in similar sectors. Recent fundraising by comparable early-stage companies provides strong market benchmarks that reflect investor sentiment.

**Supporting Method:** Early-stage DCF as a cross-check, though not the primary method due to highly assumption-driven projections and unstable near-term cash flows.



## Key Takeaway

For fundraising rounds, investors benchmark against comparable deals in the market. Market Approach often dominates valuation discussions as it reflects real investor appetite and pricing trends in similar companies.



# Case Study 3: Loss-Making Manufacturing Company



## Scenario

Manufacturing company with 3 years of losses due to rising raw material costs and outdated machinery. Cash flows are unpredictable, but the plant, machinery, and working capital still hold material value.



## Purpose

Strategic restructuring, potential sale of business, or insolvency consideration.



## Approach Used

**Asset Approach — Adjusted Net Asset Value (NAV)**

Selected because future cash flows cannot be reliably estimated (DCF not suitable), comparable multiples cannot be applied to an unstable, loss-making business model, but tangible assets such as plant, machinery, and working capital can be identified and measured separately at fair market values.



## Key Takeaway

When a business is loss-making with no visibility of turnaround, the Asset Approach is the safest and most defensible valuation method. It focuses on the underlying value of assets rather than uncertain future earnings.



# DCF Method — Deep Dive



## 01 Build Integrated Financial Model

Forecast revenues, costs, capital expenditure, and working capital requirements

## 03 Estimate Discount Rate

Determine WACC or Cost of Equity using CAPM to reflect risk profile

## 05 Discount to Present Value

Discount projected cash flows and terminal value to present using discount rate

## 02 Compute Free Cash Flows


Calculate FCFF or FCFE consistently based on valuation perspective

## 04 Calculate Terminal Value

Apply perpetuity growth method or exit multiple for long-term value

## 06 Bridge EV to Equity Value

Add cash and investments, subtract debt and non-equity claims

 **Key Insight:** DCF provides a thorough, intrinsic valuation when future financial performance can be reasonably predicted. Consistency between cash flow type (FCFF/FCFE) and discount rate (WACC/ $K_e$ ) is essential.





# DCF Example — ABC Private Limited

WACC  
**34.44%**

GROWTH RATE  
**5.00%**

Particulars (INR Million)	2026	2027	2028	2029	2030	2031	Terminal
Net Revenue	9.42	48.78	166.05	498.15	1,394.82	1,743.53	—
Profit Before Tax (PBT)	(31.60)	(33.74)	50.08	196.38	597.85	639.47	—
Profit After Tax (PAT)	(31.60)	(33.74)	50.08	196.38	459.20	478.53	—
Add: Depreciation	6.26	4.56	3.48	2.88	1.92	1.28	—
Less: Capital Expenditure	17.02	0.38	0.75	(0.00)	(0.00)	(0.00)	—
Less: Change in Working Capital	—	2.90	8.98	10.92	11.34	9.83	—
Free Cash Flows to Firm	(42.36)	(32.45)	43.82	188.34	449.78	469.98	1,699.43
Discounting Factor (Mid-Year)	0.93	0.74	0.55	0.41	0.31	0.23	0.23
Present Value of Cash Flow	(39.34)	(24.14)	24.25	77.52	137.70	107.03	387.02

Enterprise Value	670.04
Add: Cash & Cash Equivalents	0.35
Add: Investments & Security Deposits	2.20
Less: Total Borrowings	(4.39)

**Equity Value** **668.20**

Diluted Number of Shares **2,399,476**

**Equity Value Per Share** **₹ 278.48**

Note: Ensure consistency between cash flow type (FCFF) and discount rate (WACC). If valuing equity directly using FCFE, use Cost of Equity instead of WACC.



# Financial Modelling in Valuation

## KEY MODULES



### Revenue Model

Pricing, demand drivers, market sizing



### Cost Structure

Fixed/variable costs, unit economics



### Working Capital

Receivables, inventory, payables



### Capex & Assets

Capital expenditure, asset schedule



### Debt Schedule

Borrowings, interest costs



### Free Cash Flow

FCFF/FCFE computation



## Model Outputs

FCFF / FCFE • Terminal Value • Valuation Bridge • Equity Value

## ANALYSIS TECHNIQUES



### Scenario Analysis

Base, optimistic, and downside cases changing multiple variables simultaneously to evaluate profitability, liquidity, and cash flow impact



### Sensitivity Testing

Single-variable changes (discount rate, growth, margins) to create tornado charts and identify top value drivers and model vulnerabilities



# Myths & Red Flags in Valuation

## Common Myths



**Myth 1:** Valuation is a precise number — it varies with assumptions and methods



**Myth 2:** Revenue alone drives value — profitability and risk matter more



**Myth 3:** DCF always gives highest value — depends on assumptions and inputs



**Myth 4:** All valuers provide same value — methods and assumptions cause variation



**Myth 5:** Only needed for fundraising — also for compliance, reporting, strategic decisions

## Red Flags by Approach



### Income Approach

- Mismatch between cash flows and discount rate
- Unrealistic growth assumptions exceeding norms
- Unnormalized earnings ignoring non-recurring items
- Unsupported discount rates without market data



### Market Approach

- Poor comparables differing in size, growth, geography
- Outdated transaction data ignoring current conditions
- Blind averaging without adjustments
- Over-reliance on public comps for private firms



### Asset Approach

- Using historical book values without adjustment
- Ignoring economic and functional obsolescence
- Excluding liabilities and contingent obligations
- Misusing liquidation values inappropriately





# Future Outlook & Key Questions



## The Next Decade of Valuation



**AI-Driven Models:** Real-time forecasting engines analyzing market patterns and behavioral signals



**Digital Assets:** Algorithms, datasets, proprietary AI models valued as standalone intangible assets



**Creator Economy:** Influencers, content creators, communities valued based on engagement and monetization



**Sustainability Premiums:** ESG-driven businesses commanding higher multiples and investor preference



**Human Capital:** Specialized teams and skill clusters requiring standalone valuation in M&A contexts



# FAQS ON VALUATION & FINANCIAL MODELLING

## **1. What is the difference between the Valuation Date and the Report Date?**

- The valuation date is the specific point in time at which the asset's value is measured.
- The report date is when the valuer issues the valuation report.
- Values do not automatically update between the two dates—only new engagement triggers a re-assessment.

## **2. When should the DCF Method be applied?**

- DCF is most appropriate when future cash flows can be reliably forecasted, the business has predictable growth patterns, and the valuer has sufficient information to model risk and return.
- It is ideal for going-concern businesses, early-stage companies with strong visibility, and investment appraisal scenarios.

## **3. How do we decide which valuation approach to use?**

- Selection depends on purpose, nature of business, data availability, and industry practices.
- Income Approach is used when earnings visibility exists, Market Approach when comparable data is available, and Asset Approach when asset backing is the fundamental driver of value.

## **4. Why do different valuation methods give different values?**

- Each method reflects a different perspective—future earnings (Income), peer benchmarks (Market), or asset base (Asset).
- Differences arise due to assumptions, discount rates, market multiples, and cash-flow outlook, leading to varying value outcomes.



## FAQS ON VALUATION & FINANCIAL MODELLING

### **5. What is a Valuation Range and why is it used instead of a single number?**

- Valuation relies on assumptions and market uncertainties.
- A range accounts for variability in key inputs such as growth, discount rate, or multiples.
- It provides a more balanced view and helps management in negotiation and decision-making.

### **6. What is the role of working capital in valuation?**

- Working capital affects operational liquidity and directly impacts free cash flows in DCF.
- Higher working capital needs reduce FCF, thereby reducing valuation.
- Modelling accuracy here is critical for realistic projections.

### **7. Why are synergies considered separately in deal valuation?**

- Synergies represent value over and above standalone valuation.
- They arise from cost efficiencies, revenue expansion, or optimized capital structure and must be quantified explicitly to avoid overpaying.
- They also guide deal pricing and post-merger integration plans.

### **8. What is the difference between Pre-Money and Post-Money Valuation?**

- Pre-money valuation is the value of the company before new investment.
- Post-money valuation = Pre-money + New capital infused.
- This distinction is critical for calculating investor ownership and dilution.





## FAQS ON VALUATION & FINANCIAL MODELLING

### **9. Why do valuation reports include disclaimers and limitations?**

- Valuation depends on management inputs, assumptions, and market conditions, which are beyond the valuer's control.
- Disclaimers clarify scope, reliance on data, and limitations, protecting stakeholders from misinterpretation or overreliance.

### **10. How accurate are valuation models?**

- Valuation is not an exact science—it is a reasoned estimate based on available information.
- Accuracy depends on quality of data, robustness of assumptions, and depth of modelling.
- Scenario analysis and sensitivity checks help assess the reliability of results.

### **11. Why is valuation required even when the company is not raising funds or doing a transaction?**

- Valuation is required for regulatory compliance, financial reporting (PPA, impairment, ESOP), tax purposes, restructuring, and internal strategic planning.
- It helps businesses understand value drivers and prepare for future fundraise or exit events.

### **12. Why do two valuers sometimes arrive at different valuation results?**

- Valuation involves professional judgment, assumption-setting, and interpretation of risk.
- Differences in discount rate computation, growth expectations, comparable selection, or adjustments to projections can lead to variation in outcomes even under the same method.



## FAQS ON VALUATION & FINANCIAL MODELLING

### **13. What is the difference between enterprise value (EV) and equity value?**

- Enterprise value measures the value of the entire business, independent of capital structure, including debt and equity holders.
- Equity value represents the value attributable to shareholders only, calculated as EV minus net debt and other non-equity claims.

### **14. Why is the Market Approach sometimes not applicable?**

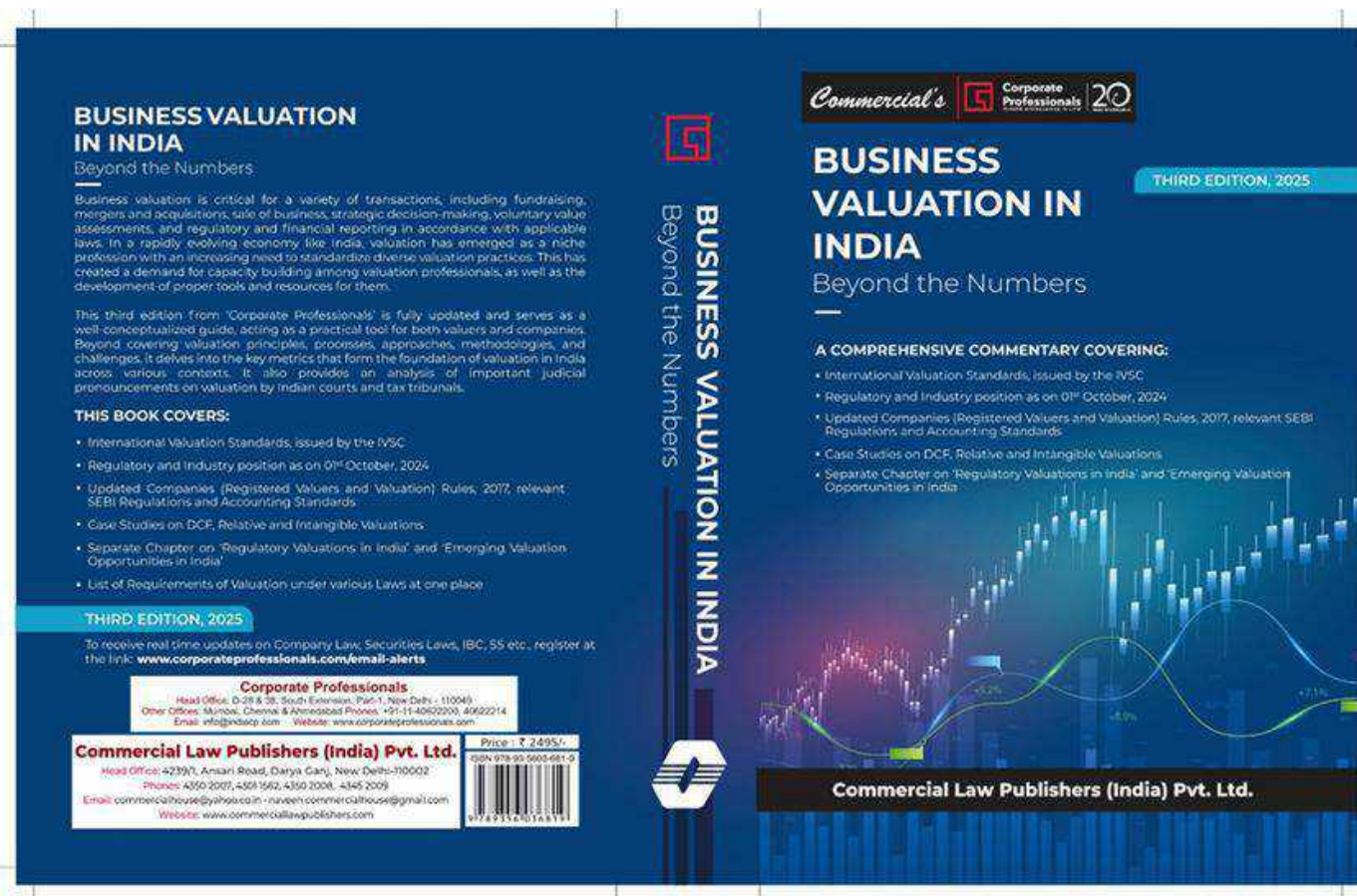
- The Market Approach requires reliable, comparable data on similar companies or transactions.
- If the business is unique, early-stage, private, or operates in a niche market with limited comparables, this approach may not reflect true value.

### **15. When is the Asset Approach appropriate?**

- The Asset Approach is used for asset-heavy companies, holding companies, real estate entities, investment firms, and businesses where earnings do not reflect economic potential or the company is underperforming/distressed.

### **16. Why does the discount rate vary between valuations?**

- Discount rate depends on risk-free rate, market risk premium, beta, capital structure, and company-specific risk adjustments.
- Changes in macroeconomic conditions, industry risk, or business fundamentals can materially affect discount rate outcomes



### Business Valuations in India, Beyond the numbers

Our latest Book titled “Business Valuations in India - beyond the numbers”, India’s first comprehensive book on Valuation under the new regulated regime in India and our dedicated website on Business Valuation, exhibit Team’s deep understanding and proficiency on the subject.





## TRANSACTIONAL VALUATIONS

- Voluntary Value Assessment
- Business Valuation
- IPO Valuation
- Buy Back of Shares
- Startup Valuation
- Family Settlement & Succession Planning

## FINANCIAL REPORTING VALUATIONS

- Intangible Assets Valuation
- Corporate Guarantee
- ESOP Cost Valuation
- Impairment of Assets
- Purchase Price Allocation
- Security Receipts Valuation
- Loan Portfolio

## REGULATORY VALUATIONS

- Company Act Valuations
- Income Tax Valuations
- Preferential Issue of Shares
- Slump Sale
- Sweat Equity Valuation
- ESOP Tax Perquisites
- FDI/ODI Valuations
- Merger & Demerger of Companies

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