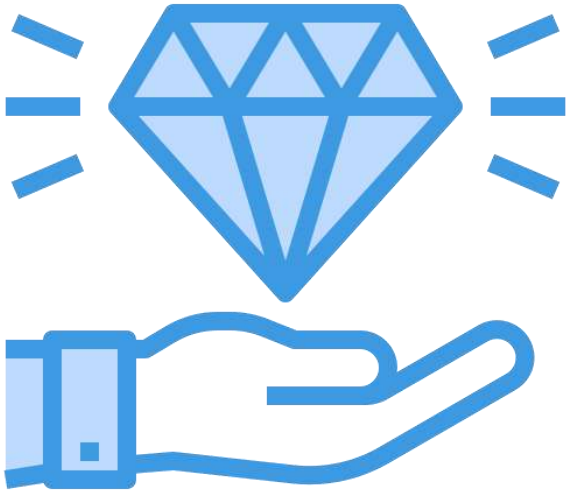
Concept & nature of Valuation and Valuation Approaches

16.08.2025

CA Rakesh Tayal

Today's Agenda



1. The Foundation: Why Valuation Matters
2. Approaches and Techniques to Valuation

Introduction – Valuation Concepts

A Facts about Valuation……

B Valuation Basic Concepts……..

C Purpose of Valuation ……..

D Steps in Valuation……..

E Q & A ……..

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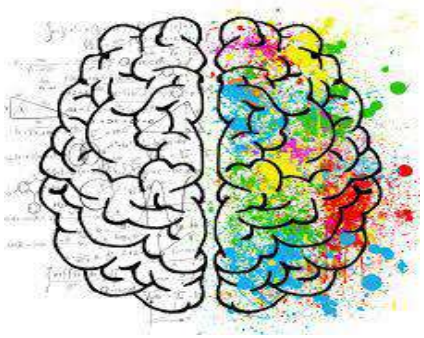
Cooking Video.mp4

Valuation

Value Vs Price

Price is what you pay
Value is what you get



Science or Art

Not an exact science,
Art and subjective assessment

Value varies with Situation

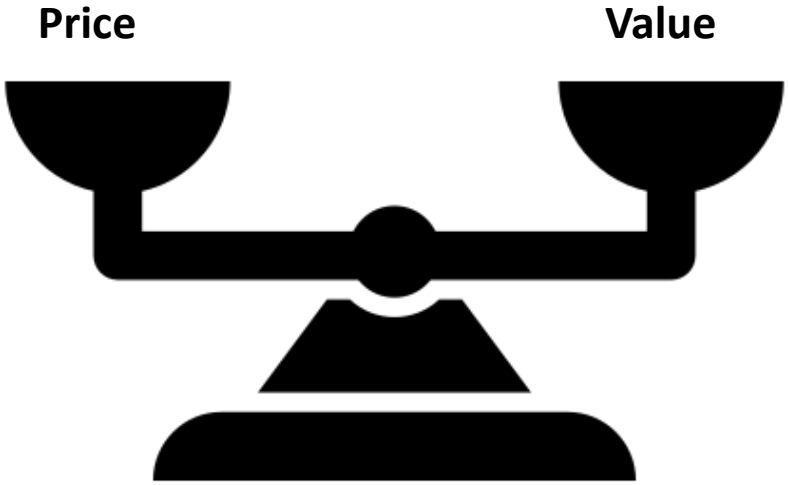
Value is Purpose Specific

Value is Date Specific

Valuation is the analytical process of determining the current **worth** of an asset, company, or investment.

It is not an absolute figure it reflects the value:

- **At a specific time (Date specific)**
- **For a specific purpose (Purpose specific)**
- **Under specific assumptions (Situation specific)**



*Valuation lies at the intersection of **facts and perception.***

It is influenced by:

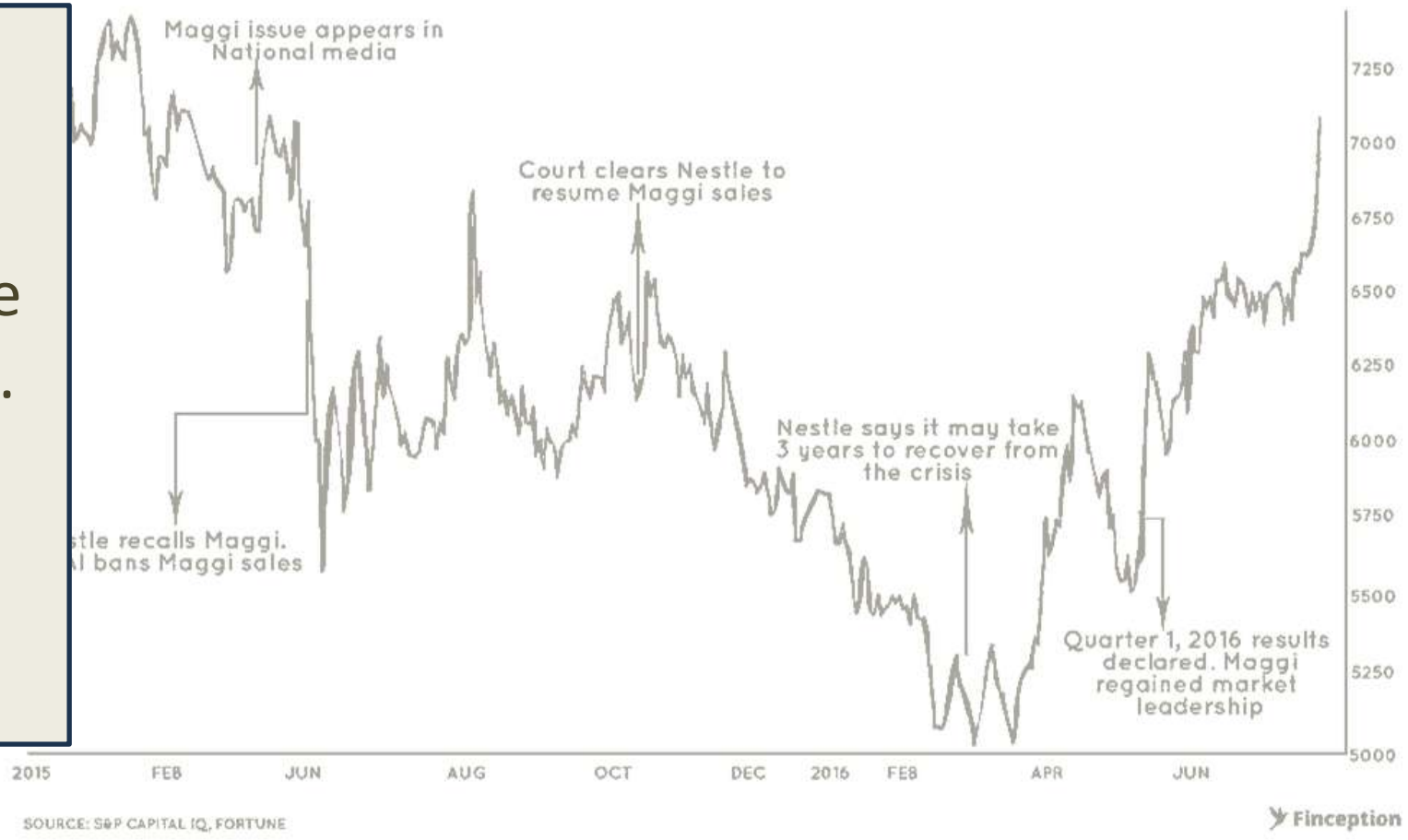
Market Sentiment	Investor Perception	External Factors

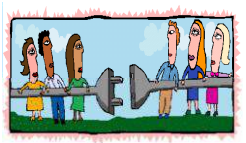
Value in the Real World – Situation / Date specific

Nestle Shares drop when customers lose **trust in brand**.

Maggi Lead Controversy

NESTLE INDIA LIMITED SHARE PRICE





Valuation – Myths vs Facts

Aswath Damodaran

A valuation is an objective search for "true" value

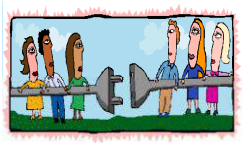
All valuations are biased. The only questions are how much and in which direction.

A good valuation provides a precise estimate of value

There are no precise valuations. The payoff to valuation is greatest when valuation is least precise.

The more quantitative a model, the better the valuation

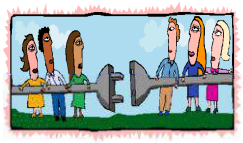
One's understanding of a valuation model is inversely proportional to the number of inputs required for the model. Simpler valuation models do much better than complex ones.



Valuation - Basics

Concept	Explanation
Intrinsic Value	The present value of future expected cash flows using a suitable discount rate.
Fair Value	The price agreed upon in an orderly transaction between willing market participants..
Market Value	The price observed in an active market for similar businesses or assets
Enterprise Value	Value of the entire business (debt + equity).
Equity Value	Value attributable to shareholders after accounting for net debt.

Intrinsic Valuation



Relative Valuation

Historical Cost	Acquisition Price
Current Cost	Price if Purchased now..
Realisable Value	Selling price if Sold Now
Present Value	Discounted Value of Expected Cash FLows

The Premises of Valuation

Premises

Going Concern

Assumes continued operations – typical in a DCF model.

Liquidation Value

Used when business viability is doubtful, e.g., failed textile unit.

Highest & Best Use

Applied when land or assets can yield more in alternate use.

Orderly vs Forced Sale

Impacts fair value estimates during distress.

Need for Valuation

M & A, Restructuring, Fund Raising

M & A

Issue & transfer of Shares

Companies Act, Income Tax, FEMA

Need of Hour

Litigation & Disputes

Helps in solving disputes

IND AS, IBC

Compliance

ESG & Intangibles

Valuing brands, Intellectual property, Carbon credits and Social Impact

ICMAI REGISTERED VALUERS ORGANISATION
RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

Purpose for Valuation

Strategic / Intrinsic Valuation

Mergers & Acquisitions
Acquiring a precision component plant.

Strategic Investments
JV with an overseas manufacturer.

Fundraising / IPO
Equity infusion or public listing of a unit.

ESOPs or Shareholder Exit
Equity valuation for employee options or exit deal.

Statutory / Extrinsic Valuation

Financial Reporting (Ind AS 113)
Fair value of assets and impairment tests.

Taxation / Transfer Pricing
Slump sale of a manufacturing plant.

Restructuring / IBC Process
Valuation under CIRP for distressed company.

While **strategic valuations** focus on potential and future utility, **statutory valuations** are bound by rules, timelines, and formats.





Manufacturing Sector Vs. Other Sectors

Valuation Aspect	Manufacturing Sector	Other Sectors (e.g. Services, Tech, Retail)
Nature of Assets	High tangible assets – plant, machinery, inventory	Predominantly intangible (IP, brand, software, goodwill)
Capex Intensity	High; frequent upgrades and maintenance required	Moderate to low (except infra and utilities)
Working Capital Cycle	Long; high inventory and receivables	Shorter cycles (esp. in services, SaaS)
Revenue Predictability	Depends on order book, capacity utilisation	Often recurring (e.g. subscriptions, retainer clients)
Cost Structure	Fixed costs dominate (depreciation, manpower)	Variable cost-heavy (especially in gig or service sectors)
Valuation Approach	Asset-based or DCF with emphasis on tangible drivers	DCF with growth and IP/IPR valuation as key components
Margins & Scalability	Economies of scale important, thin margins	Scalable models (e.g. SaaS), high margins possible
Risks & Obsolescence	Tech obsolescence, commodity risk	Market competition, innovation risk
ESG & Compliance Impact	High (energy use, waste, labour laws)	Focus on governance, data privacy, social equity

Steps in Valuation

- Understanding the Business
- Management Discussion & Industry Overview
- Data Analysis and Company Research
- Selection of Valuation Method
- Applying Method
- Conducting Sensitivities on Assumptions
- Assigning Weights
- Recommendations
- Reporting

Valuation Approach and Methodology

A Income Approach……

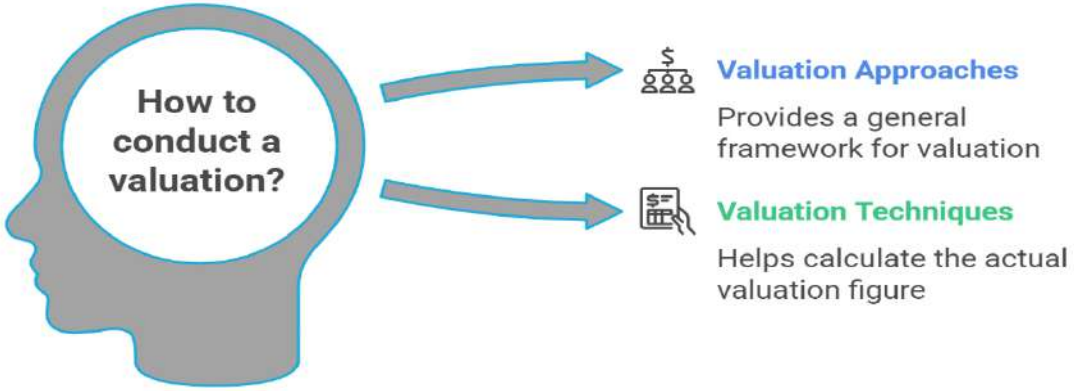
B Market Approach……..

C Cost Approach……..

D Selection of Approach & techniques……..

E Q & A ……..

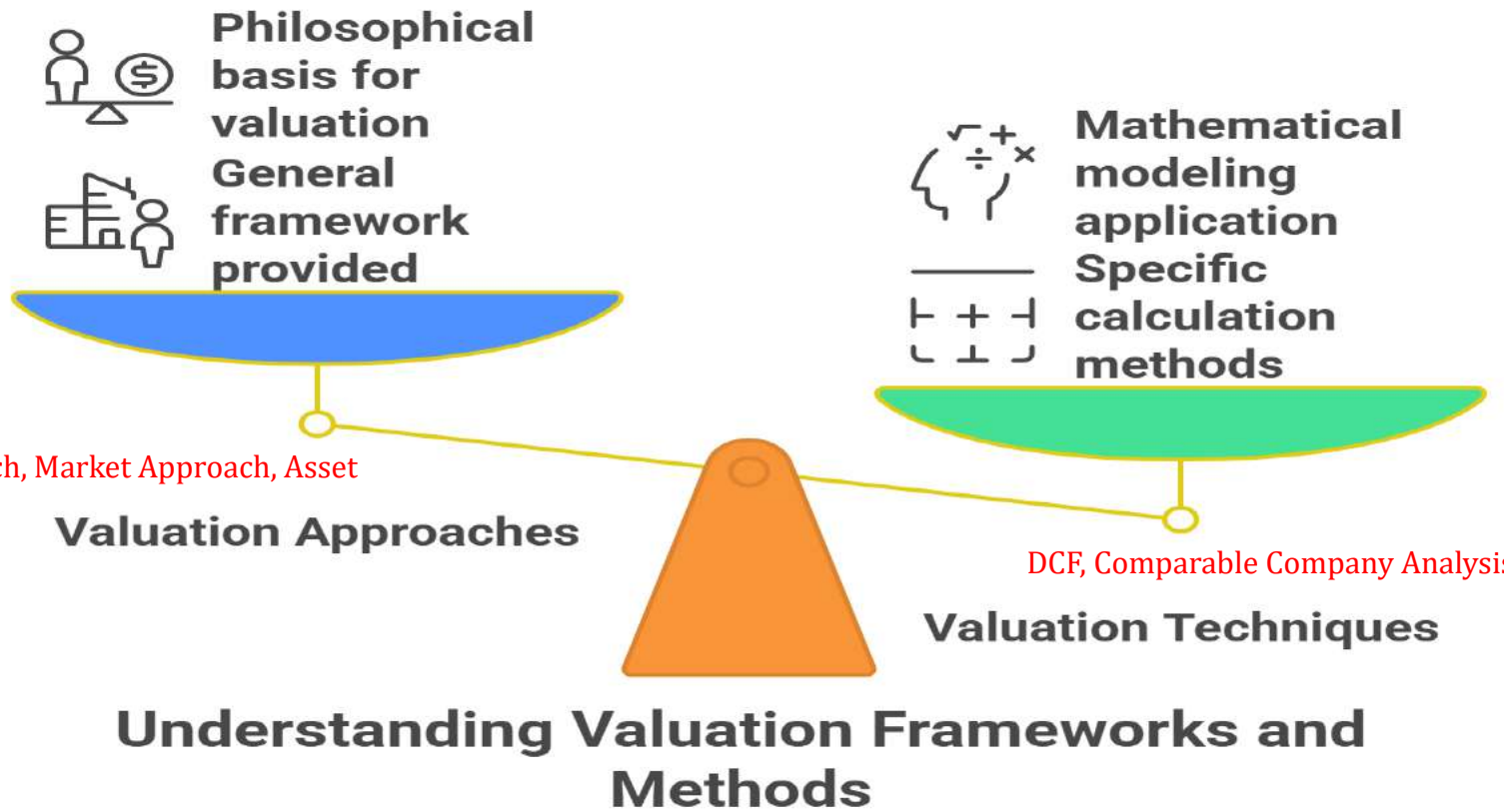
Valuation Approach and Valuation Techniques



Valuation Approaches Vs. Techniques

Broad methodologies for determining value

Specific methods used within each approach

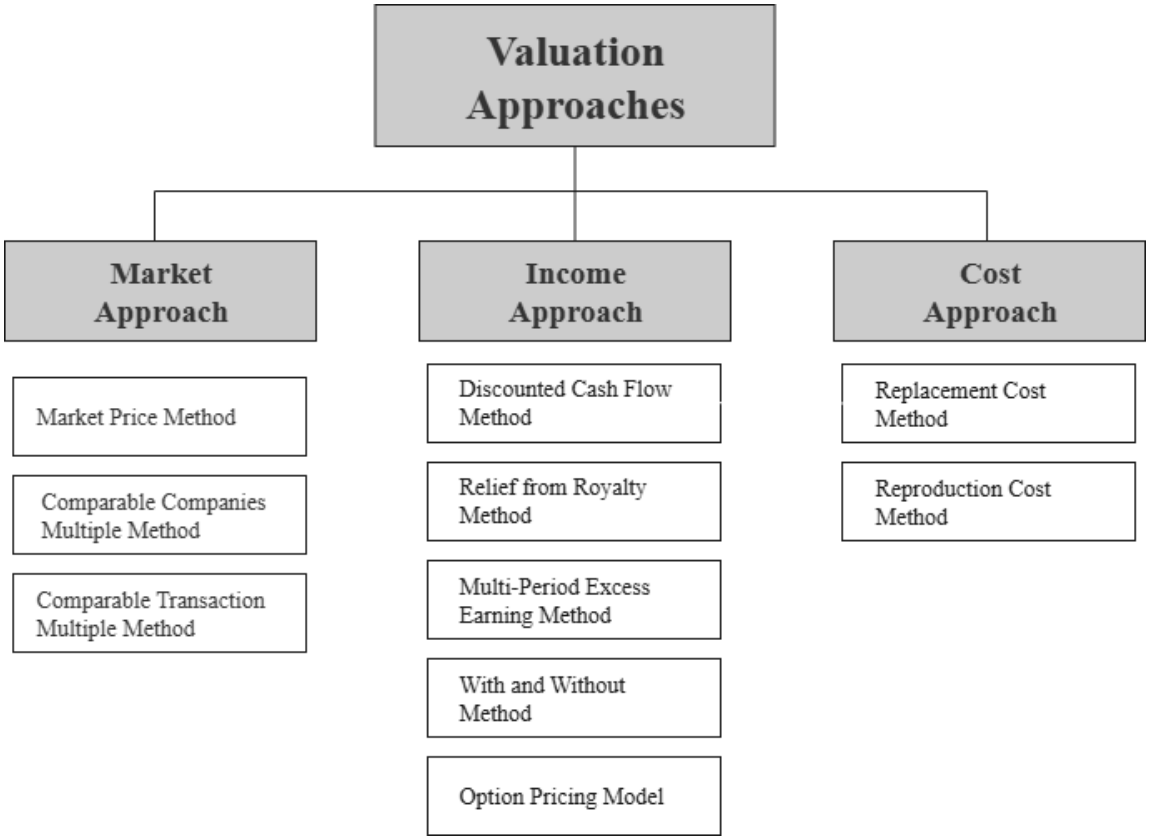


Income Approach, Market Approach, Asset Approach

DCF, Comparable Company Analysis, NAV Method

Understanding Valuation Frameworks and Methods

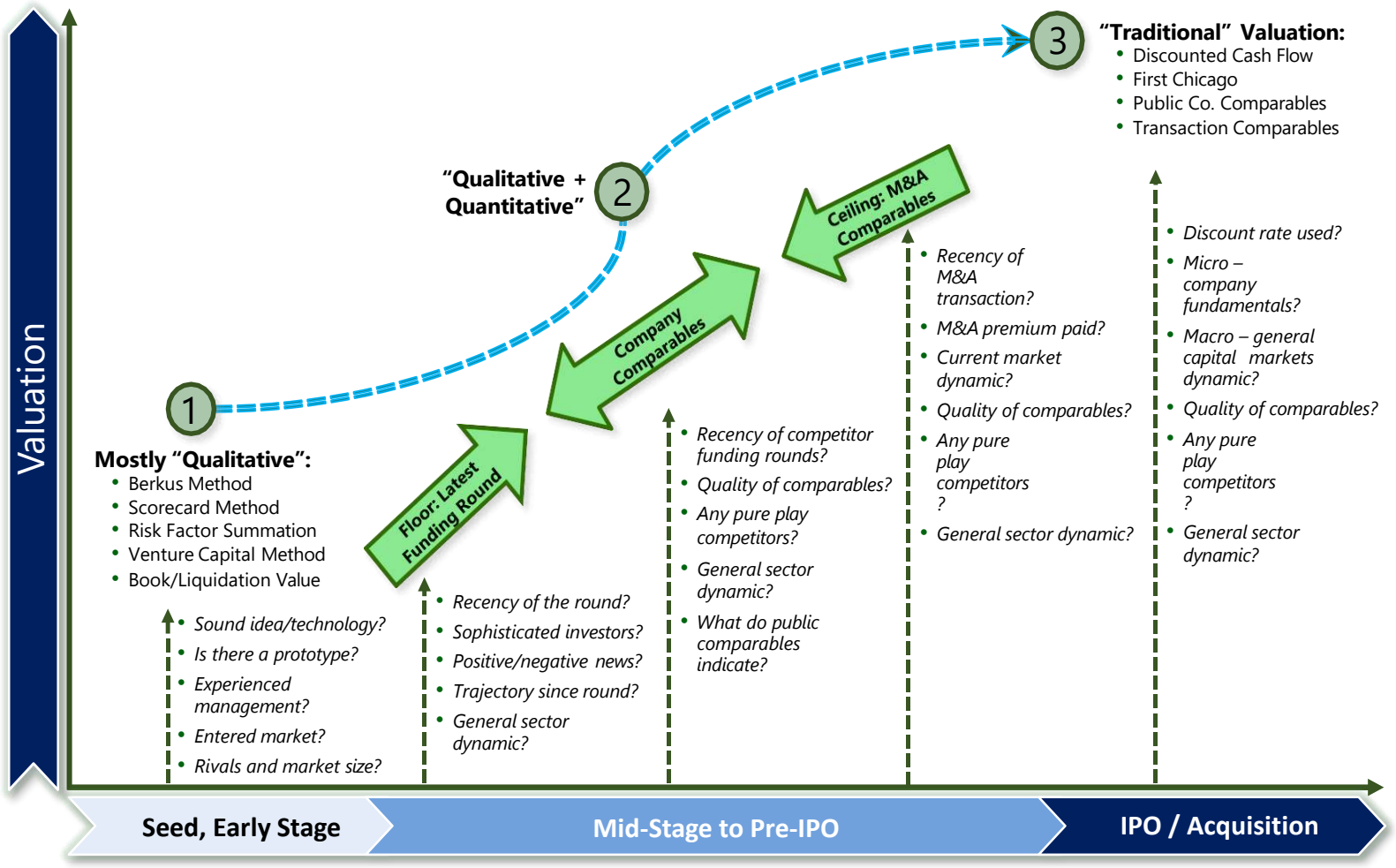
The 3 Core Valuation Approaches



The Industry Standard Valuation Methodologies for Statutory Valuation of a Company as per ICAI.

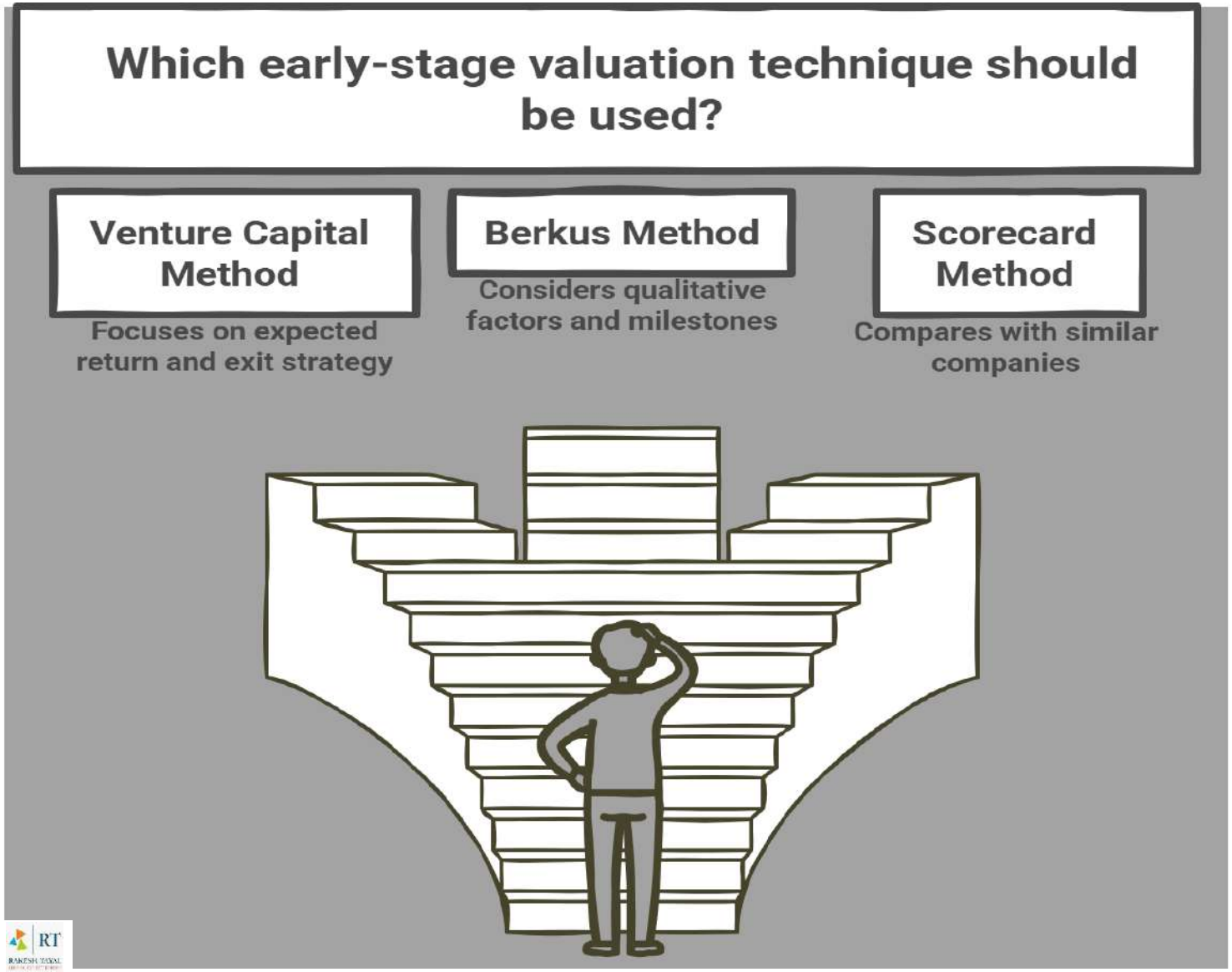
Source: ICAI – Technical Guide on Valuation (2021)

The Life Cycle of Valuation



The method used to value a company is dependent on its stage on the **"Valuation Life Cycle"**

Valuation Techniques at Early Stage :



Income Approach

It is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted or capitalized) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Methods

Discounted Cash Flow (DCF)

The DCF **method** values the asset by discounting the cash flows expected to be generated by the asset for the explicit forecast period and also the perpetuity value (or terminal value) in case of assets with indefinite life.

Growth rate

Capitalized Earning Method

A single year's earnings (or an average of multiple years) is capitalized using an appropriate rate to determine the value.

DCF Considerations

The Discounted Cash Flow (DCF) method is a cornerstone of the Income Approach. It is based on the idea of discounting the future expected cash flows of the enterprise to the present date and estimate its Fair Value.

$$\mathrm{DCF} = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \cdots + \frac{CF_n}{(1+r)^n}$$

DCF = discounted cash flow

CF_i = cash flow period i

r = interest rate

n = time in years before the future cash flow occurs

DCF to be used when Cash flows of the firm under valuation

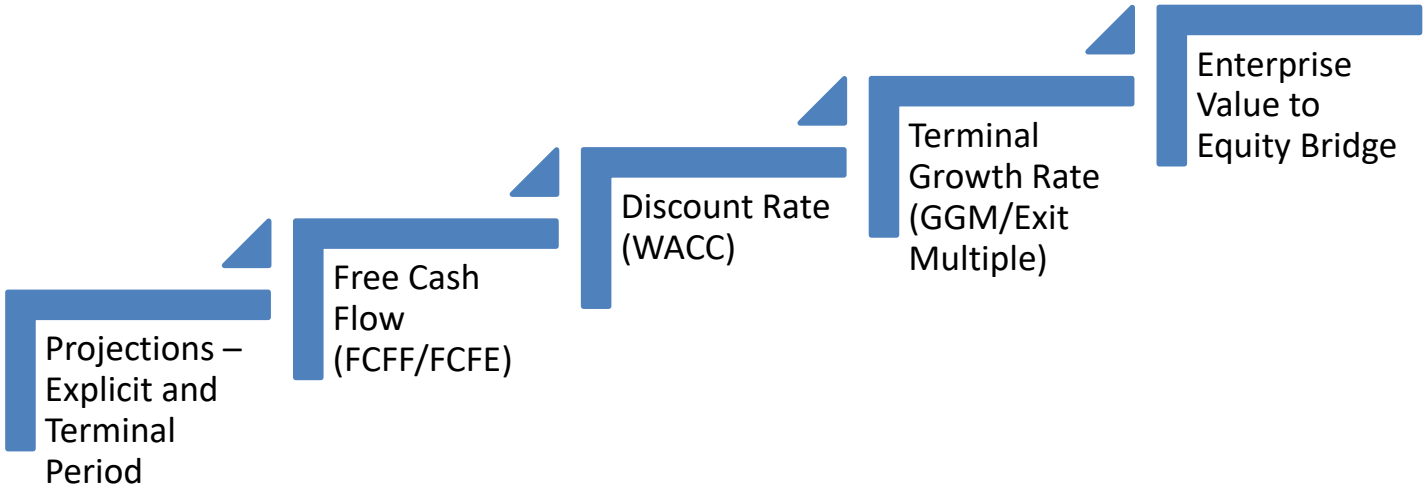
- Cash flows **Are Positive**
- Cash flows Can be determined with some **reliability** for future periods
- where a proxy for risk that can be used to obtain **discount rates** is available.

Investor using DCF Method

- have a **long-time horizon**, allowing the market time to **correct its valuation mistakes** and for price to revert to **"true"** value or
  - are capable of providing the catalyst needed to move price to value, as would be the case if you were an activist investor or a potential acquirer of the whole firm.

Steps in DCF

Steps to a DCF Model



1. Consider the **projections** to **determine the future cash flows** expected to be generated by the asset;
2. **Analyse** the projections and its underlying assumptions to assess the reasonableness of the cash flows;
3. choose the most appropriate **type of cash flows** for the asset viz., pre-tax or post-tax cash flows, **free cash flows to equity** or **free cash flows to firm;**
4. determine the **discount rate** and **growth rate** beyond explicit forecast period; and
5. apply the discount rate to arrive at the present value of the explicit period cash flows and for arriving at the **terminal value**.

Market Approach

The market approach relies on comparison to similar companies or transactions to determine value.

Methods

Market Price – Listed securities

Comparable Company Analysis (CCA)

Compares the target company to publicly traded companies in the same industry, using valuation multiples like P/E (Price to Earnings), EV/EBITDA (Enterprise Value to EBITDA), or EV/Sales.

Comparable Companies

Precedent Transaction Analysis (PTA):

Analyzes past M&A deals in the same industry to determine an appropriate valuation multiple..

Steps in Market Multiple Approach

1. Determination of Maintainable EBIDTA
2. Capitalisation Rate/ Multiple
3. Not affected by the pattern of Funding adopted by Company/ Comparable Companies

ADJUSTED EBITDA

- Based on past performance and /or projections
- Non- Recurring & Extraordinary items excluded
- EBITDA of Various years are averaged (simple or weighted). Current EBITDA is accepted the highest weight.
- Projected E B I D T A discounted for inflation

Finally appropriate multiple is applied to arrive at the value

Multiple

- Past and Expected growth Earnings
- Performance vis a vis Peers
- Size and Market Share
- Historical multiples enjoyed by Stock Exchange by the Company and its peers

Cost Approach

The asset-based approach calculates the value of a company based on the fair market value of its assets, subtracting its liabilities.

Methods

Net Asset Value (NAV) or Book Value:

Simply uses the balance sheet, adjusting assets and liabilities to market values.

Liquidation Value:

Assumes the company is being liquidated and values assets based on what they would fetch in a sale.

NAV Method

The Value as per Net Asset Method is arrived as follows:

Total Assets

(excluding Miscellaneous Expenditure and debit balance in Profit & Loss Account)

Less: Total Liabilities

NET ASSET VALUE

OR

Share Capital

Add: Reserves

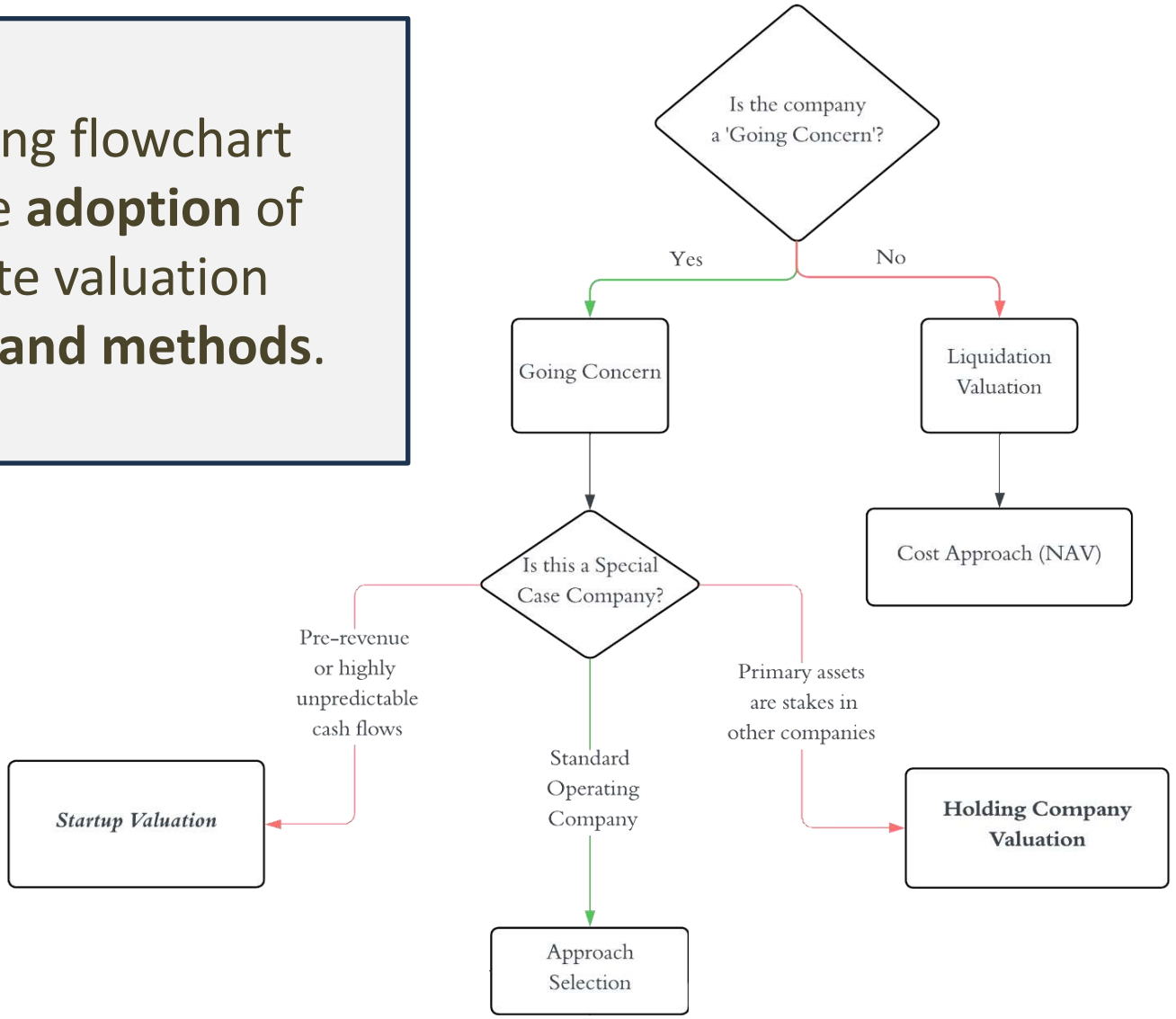
Less: Miscellaneous Expenditure

Less: Debit Balance in Profit & Loss Account

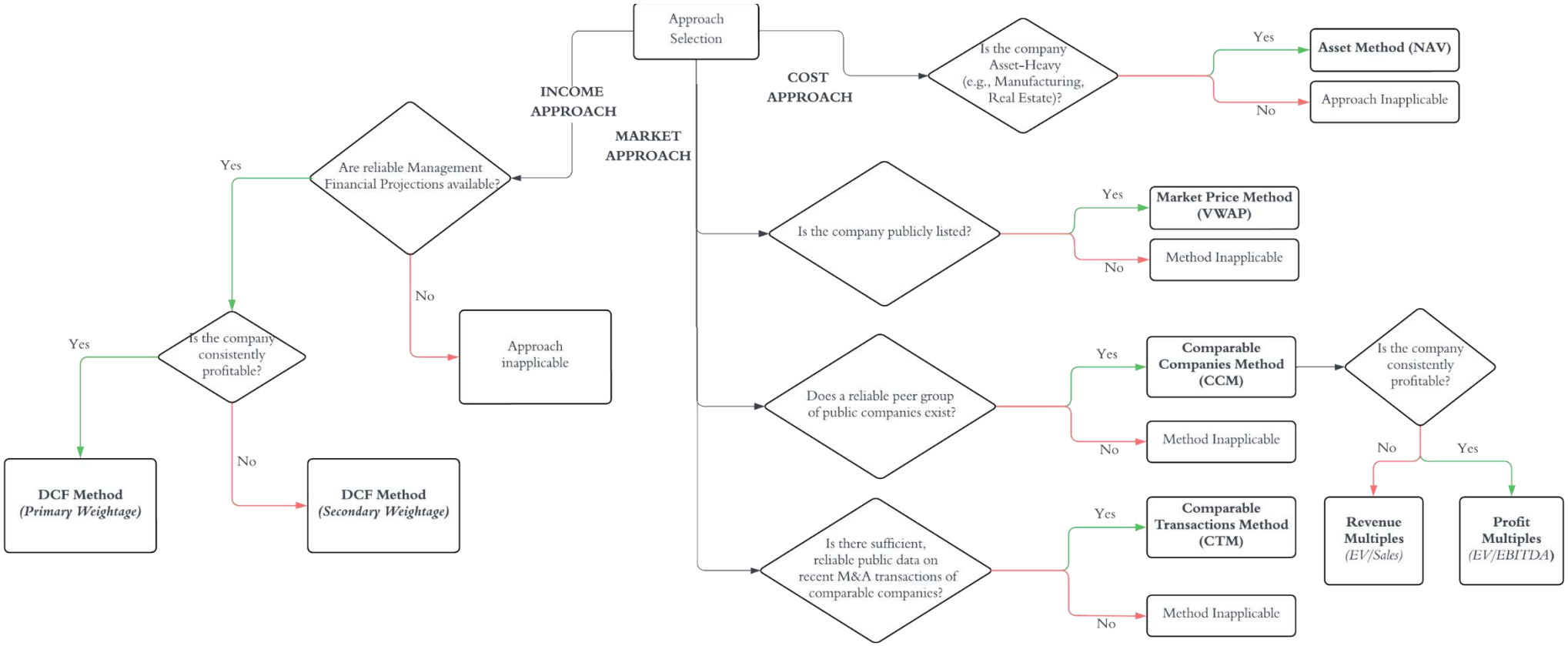
NET ASSET VALUE

Selecting the Right Method

The following flowchart explains the **adoption** of appropriate valuation **approaches and methods**.



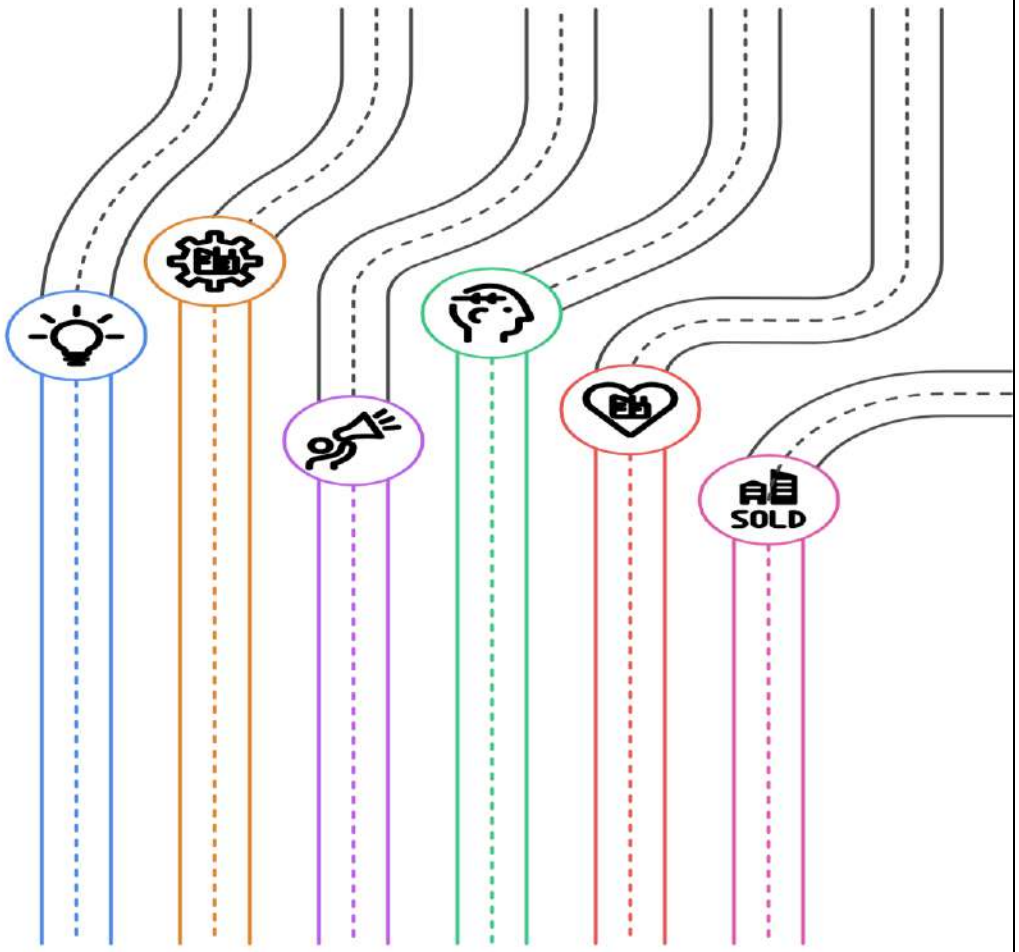
Selecting the Right Method



Industry and Valuation Approaches

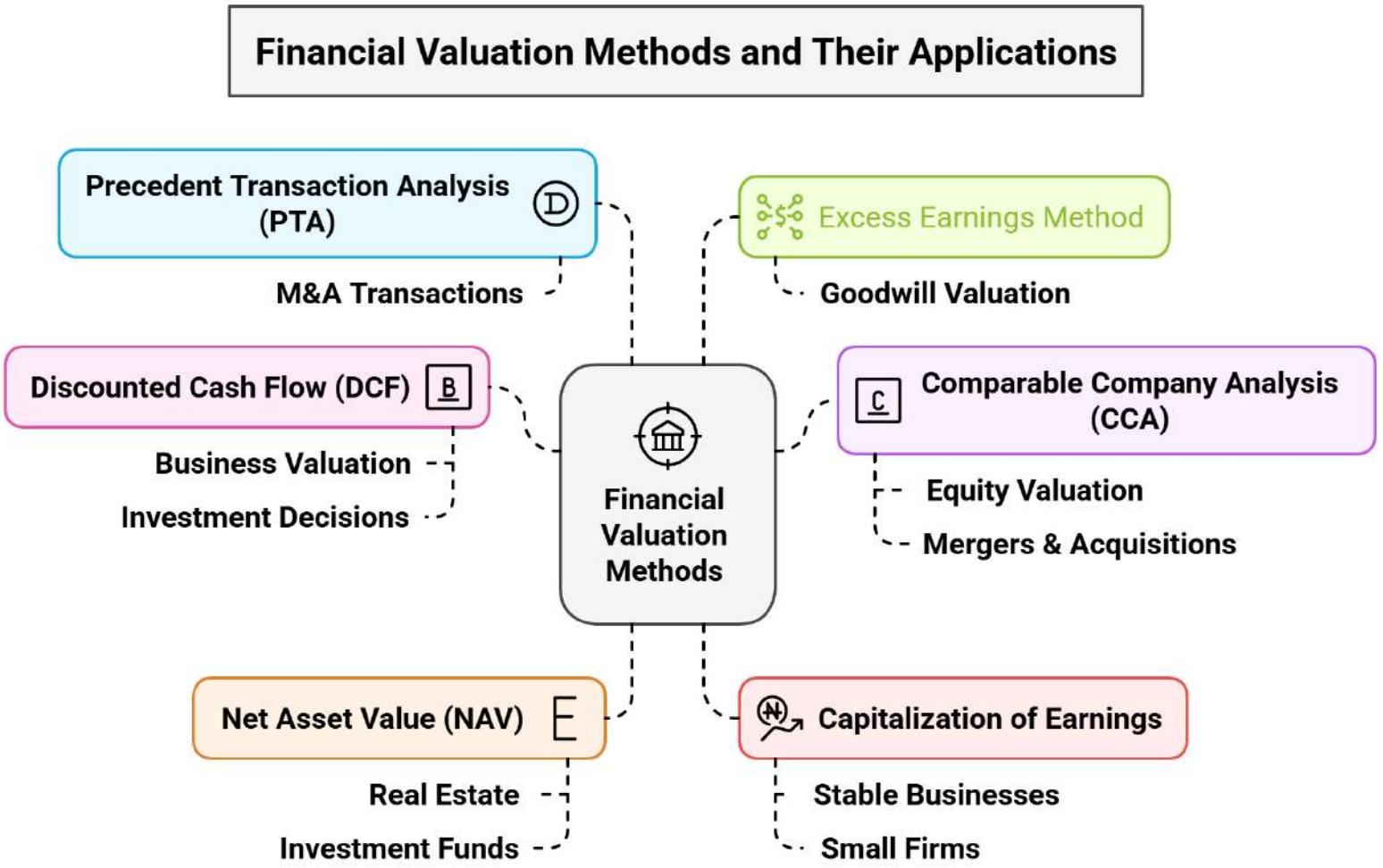
Which valuation approach should be used based on the company type?

Knowledge-Based Companies Use Earnings or Market approach for valuation	**Manufacturing Companies** Use Earnings, Market, or Assets approach for valuation
Brand-Driven Companies Use Earnings or Market approach for valuation	**Matured Companies** Use Earnings or Market approach for valuation
Investment/ Property Companies Use Asset approach for valuation	**Companies Going for Liquidation** Use Asset approach for valuation



Generally Market Approach is used in Combination with other methods or as a cross check

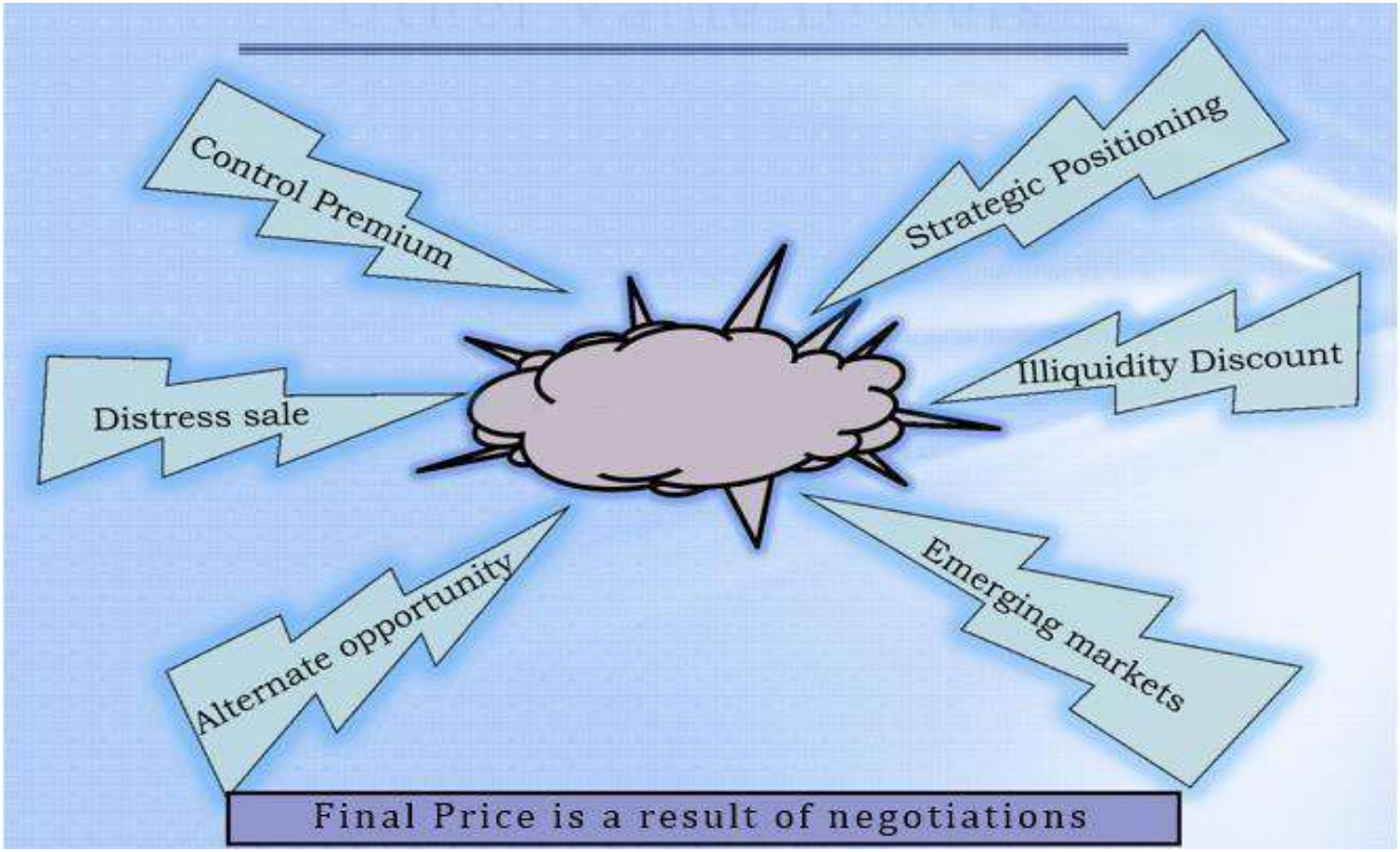
Application of Valuation Techniques



Application of Valuation Techniques

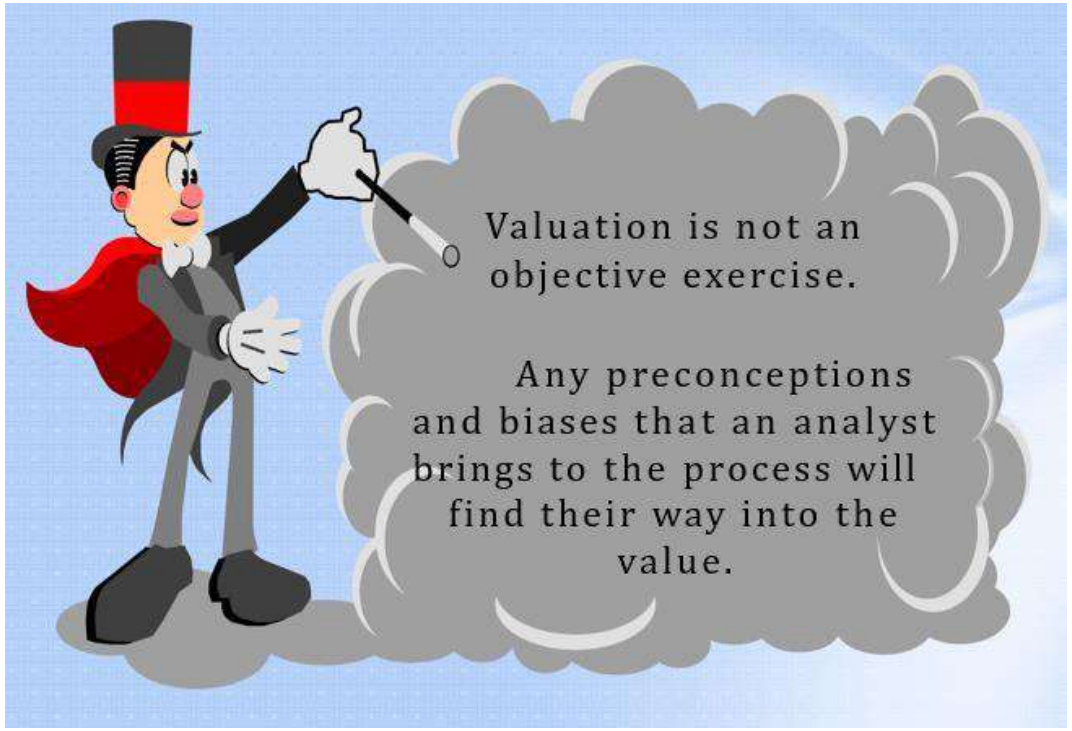
Valuation Approach	Valuation Techniques	Use Cases
Income Approach	**Discounted Cash Flow (DCF) Method**	Startups, High-growth businesses
	Capitalization of Earnings Method	Stable, profit-generating firms
	Excess Earnings Method	Goodwill and intangible asset valuation
Market Approach	**Comparable Company Analysis (CCA)**	Public company valuation
	Precedent Transaction Analysis (PTA)	Mergers & Acquisitions
	Guideline Public Company Method	Private company valuation
Asset Approach	**Net Asset Value (NAV) Method**	Real estate, asset-heavy firms
	Adjusted Book Value Method	Financial reporting
	Liquidation Value Method	Distressed business valuation

Other Considerations



Conclusion

Valuation is more an art than Science



Q & A

Thank You

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