

BUSINESS VALUATION UPDATE

TIMELY NEWS, ANALYSIS, AND RESOURCES FOR DEFENSIBLE VALUATIONS

Draft Regulations Take Center Stage at the BV Summit in Mumbai

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The Business Valuation Summit–Mumbai was held on May 3 and was the second in a series of three summits in India. A focus of the summits is a discussion of the draft regulations for the Registered Valuer program, issued by the Ministry of Corporate Affairs (MCA) and implemented by the Insolvency and Bankruptcy Board of India (IBBI). The MCA and IBBI continue to be highly involved with the valuation profession, with the IBBI forming a Valuation Committee and taking counsel from leading experts from the International Valuation Standards Council (IVSC), Registered Valuer Organizations (RVOs), and valuation firms. Organized by I-Deals Network and the International Institute of Business Valuers (iiBV), with sponsors including KNAV, Corporate Professionals, Truscel Capital, and Rakesh Narula & Co., the summits feature leading experts from India and several nations in private equity, venture capital, and valuation.

Growth in the profession. The valuation profession in India continues to grow, fueled by the growth in India's economy, which is on track to become the world's fifth largest economy in 2018¹; Indian firms' expansion and merger activity worldwide; the growth of the private equity/venture capital industry, which reached an all-time high of US\$26.5 billion in 2017; and new regulations called the Insolvency and Bankruptcy Code (IBC) addressing nonperforming assets. These trends are anticipated to continue in the

near term, and the potential for valuers to join RVOs is high, and attracting interest worldwide, as evidenced by the CFA Institute's Indian membership of approximately 13,000, the third highest country total worldwide, exceeded only by membership in the U.S. and China.

The clarification of regulations regarding insolvency services in India is also driving activity, with the IBC consolidating legislation regarding the insolvency process undertaken by creditors or debtors. Under the IBC, an interim resolution professional (IRP) is appointed to manage the process, who then retains two registered valuers to determine the liquidation value of the corporate debtor. Liquidation value in these regulations is defined as "the estimated realizable value of the assets of a corporate debtor if the corporate debtor were to be liquidated on the insolvency commencement date."² These insolvency valuations typically involve reconciling several scenarios of enterprise value and the liquidation value of the underlying real estate and plant machinery.

Discussion highlights. The agenda for the Mumbai Summit focused on current issues regarding valuations for private equity, venture capital, and valuations. Shri G.N. Bajpai, former chairman of the Securities and Exchange Board of India (SEBI), gave the keynote address, which addressed the need for, and opportunities presented by, the new regulations. Other sessions included panels discussing the latest updates in proposed regulations in India; best practices in business valuations

1 "India Is Poised to Become the World's Fifth Largest Economy, But It Can't Stop There," *Forbes*, Dec. 2017.

2 Regulation 35(1) Corporate Insolvency Resolution Process.

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in India, valuation of blockchain companies and ICOs, valuations in startups and M&A transactions, private equity perspective on valuations, and insolvency; and the Bankruptcy Code.

There were several noteworthy updates since the Bangalore Summit: the increase of Registered Valuer Organizations the IBBI recognizes, as shown on its website.³ The IBBI defines valuer classifications as real estate, plant machinery, and financial asset valuers, and RVOs can include all three types or combinations of valuer categories. Six RVOs are now registered: the Institution of Estate Managers and Appraisers, IOV Registered Valuers Foundation, Institute of Company Secretaries of India (ICSI), The Indian Institution of Valuers, the Institute of Cost Management Accountants India (ICMAI), and the Institute of Chartered Accountants India. The breadth of RVO organizations ranges from legal to accounting and valuation-centric organizations. The ICSI was recognized as an RVO in October 2017, where its members are responsible for the administrative controls of companies, including following board procedures, and compliance with corporate governance under corporate, securities, and other business laws including filings, annual returns, mergers and acquisitions, joint ventures, and the issuance of shares.

The ICAI, one of the latest RVOs to register, has created a Valuation Standards Board (VSB) and has invited comments for a draft on Indian valuation standards with the objective of providing interpretations, guidance, and technical materials. These valuation standards are noteworthy, as the regulations require valuation be made in accordance with internationally accepted valuation methodology; valuation standards any valuation professional organization adopts; or valuation standards of the Reserve Bank of India, Securities Exchange Board of India, or any other statutory regulatory body supplies.⁴ Several of

3 ibbi.gov.in/rovs.html.

4 Rule 16 of the Companies Registered Valuers and Valuation Rules 2017.

these RVOs were at the Mumbai Summit and are actively accepting individual valuer memberships in anticipation of the September 2018 deadline. Active participants are expected to be at the next summit, which will be in Delhi.

Another highlight was the publication of the book *Business Valuation in India - Beyond the Numbers*,⁵ one of the first textbooks on business valuation in India under the new regulations. Written by several authors from the firm Corporate Valuations, and published by Wolters Kluwer, the book discusses the history of valuations in India, valuation approaches and methodologies, and Indian regulatory and judicial issues.

5 Available from Business Valuation Resources; bvresources.com/products/guides-and-books.

Future summit. The final summit in the series is planned for June 15⁶ and will again update recent regulatory issues and activity of the RVOs in implementing testing and accreditation for the Registered Valuer designations. Several RVOs are expected to attend and will provide updates on valuation standards, efforts to streamline prior often conflicting regulations with the new regulations for Registered Valuers, and private equity, venture capital, and valuers' perspectives going forward. ♦

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6 idealsnetwork.com/business-valuation-summit-15th-june.