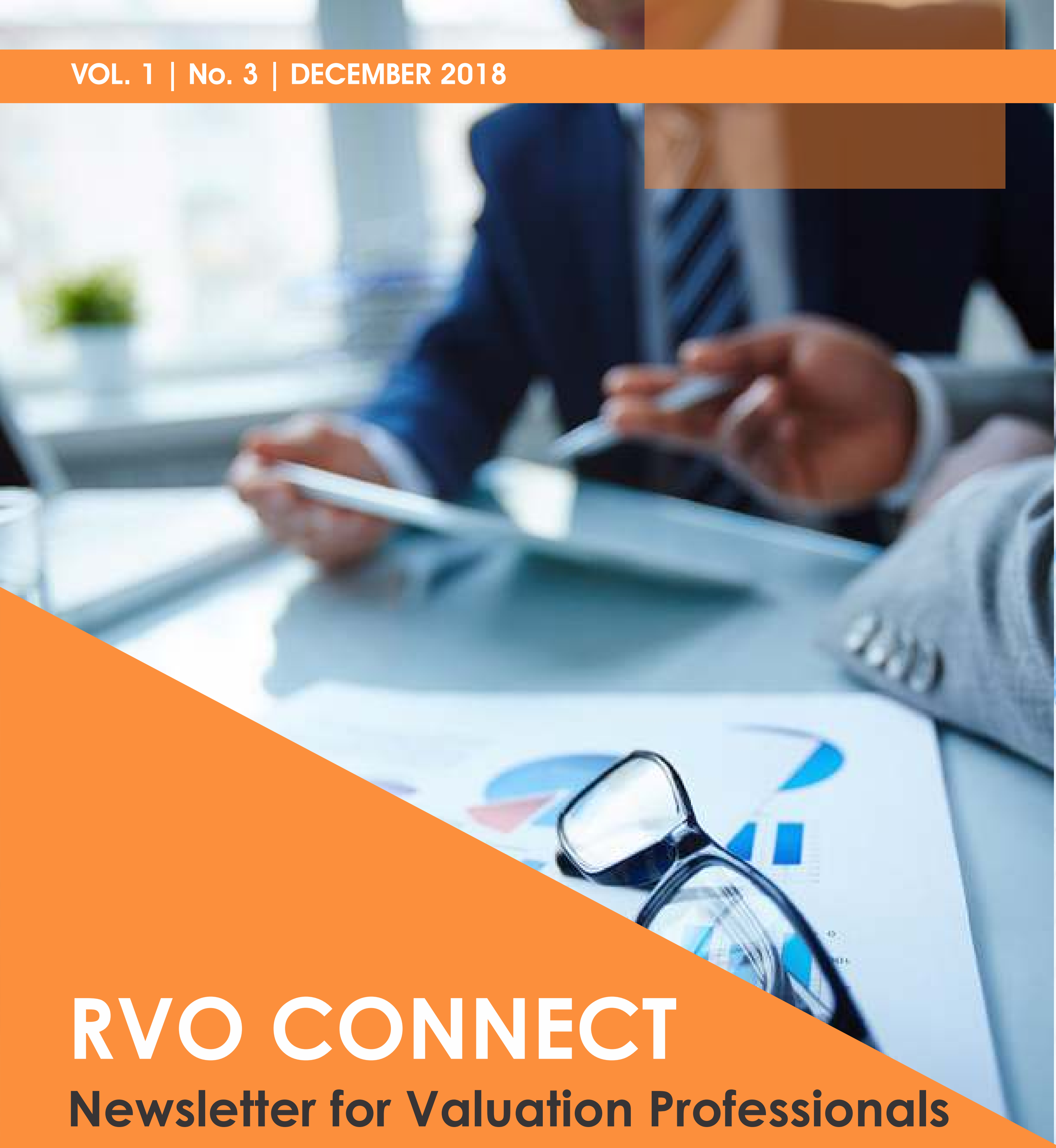
VOL. 1 | No. 3 | DECEMBER 2018



RVO CONNECT

Newsletter for Valuation Professionals

REGISTERED VALUERS ORGANISATION
(A Wholly owned subsidiary of ICSI and registered with IBBI)

CONTENTS

VOL.1 | No. 3 | DECEMBER 2018

Printed and Published by Samir Raheja on behalf of ICSI Registered Valuers Organisation

Correspondence:

ICSI Registered Valuers Organisation
4th Floor, ICSI House
22 Institutional Area, Lodi Road
New Delhi - 110003
Ph. - 011-45351028

Message From President

"There is no justification for present existence other than its expansion into an indefinitely open future."

~Simon de Beauvoir

Dear Professional Colleagues,

Growth and expansion have been a part of those words in our vocabulary which behold within them a positive surge of energy. Words which are a proof of the human nature to explore, find avenues, search for opportunities and be better than one's own self every passing day.

ICSI RVO is a growing child too, and as we celebrate the completion of one full year of this Institute, its achievements and the growth made within these twelve months has not been surprising but heart warming and ones which fill all of us and especially me with a sense of pride and a heightened zeal to work towards a future full of extensive opportunities…

The refurbished, colourified and user-friendly website of ICSI RVO can be very well considered as the perfect celebration of our first anniversary with all our members and stakeholders. It is indeed a leap forward from offline registration to a fully automated and tech-savvy mode…

The classroom trainings are spawning and spreading on a pan-India basis. New members are being added to the RVO family with each passing day. Another heartening fact worth boasting is that the candidates of the earlier batches of the Classroom training have groomed themselves to double up in the role of faculty in the recent sessions of the ongoing and upcoming batches of these trainings.

Gaining knowledge is a continuous process. It does not end with the attainment of a certain degree or skill. And for all those who have been a part of the industry and the profession for long would agree to this statement with full gusto.

To all my friends and fellow professionals joining this budding and yet magnanimous field of valuation, I would like to say, that the area is an open field of opportunities and when opportunities knock at your door, always be willing to take a chance, because you never know how perfect something could turn out to be !!!

Happy reading !!!!

(CS Makarand Lele)
President,
The Institute of Company Secretaries of India

Decision Making in Financial Management

CS Rajesh Mittal
FCS, FCA, Insolvency Professional, Registered Valuer
e-mail: rajesh@alamakcapital.com

Decision making is the act of making a choice among the alternatives. There are innumerable decisions that are taken by human beings in day-to-day life. Decision making is possible when there are two or more alternatives to solve a single problem or difficulty. Therefore, decision making is a problem-solving approach by choosing a specific course of action among various alternatives.

A. DECISION MAKING AREAS

There are three major decision-making areas in financial management, viz:

1.Investment Decision:

Identification of assets in which investment is to be made is called investment decision. Generally, the assets of a company are of two types - those which yield income spreading over a year or more and assets which are easily convertible into cash within a short time, such as inventory & receivables. The first type of investment decision is capital budgeting and the second one is the working capital management.

Capital budgeting is the allocation of funds on a new asset or reallocation of capital when an old asset becomes non - usable. It also deals with the options of make, buy or lease. Capital budgeting decision seeks to determine the benchmark or standard against which benefits are to be judged. This is known as cut off rate, hurdle rate, minimum rate of return etc. which essentially is cost of capital. Working capital management relates to management of the current assets & current liabilities and is also termed as liquidity management.

2. Financing Decision:

This decision relates to how, when and where funds are to be raised to meet investment needs. It is related to the capital structure or financial leverage or debt - equity ratio. The right mix of debt and equity enhances the overall shareholder's wealth. There are no common standard applicable to all industries but a debt equity ratio up to 2:1 is considered reasonable by the lenders.

The financing decision aims to determine the right balance between debt and equity considering the factors like the industry, the ability to raise debt, the relative cost of debt & equity and the borrower's ability to service debt. Besides managing financial leverage, financing decision should address issues of short term &long term sources of funds & its matching with the utilization for the same period.

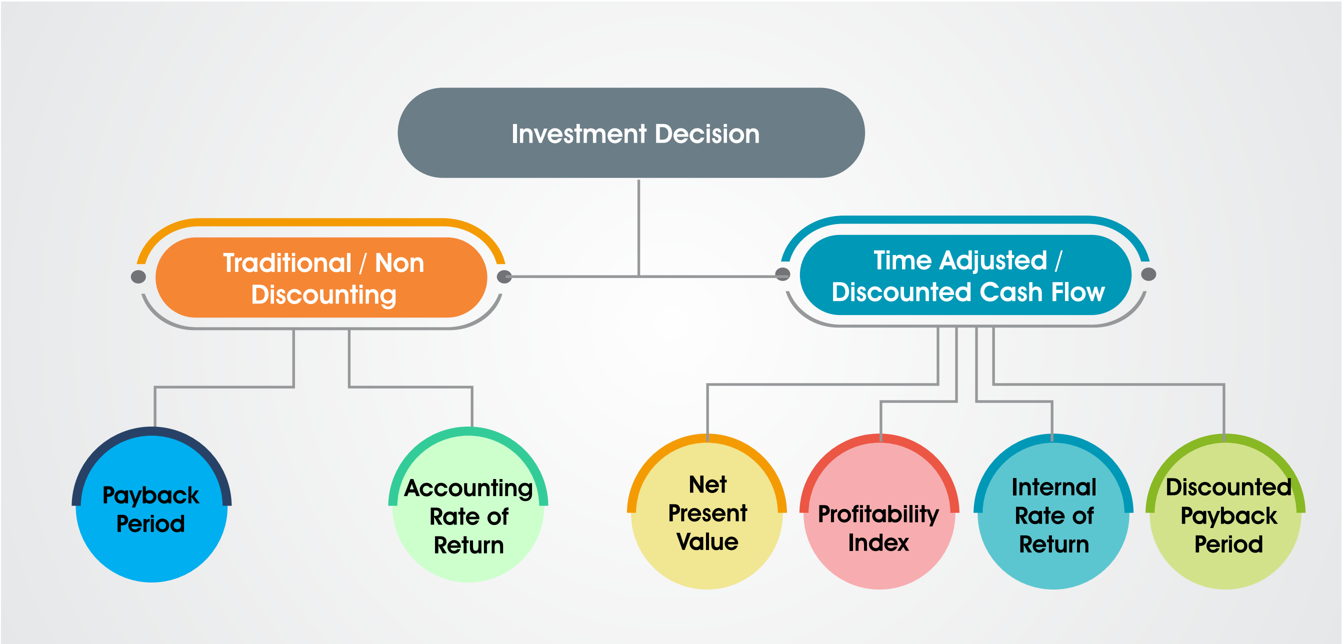
3. Dividend Decision:

The profit of the company can be dealt with in two alternate ways - to distribute as dividend to shareholders or to retain them in the business. If the profits, are distributed to the maximum extent, the company will lose out on important source of internal financing. The company can form a dividend policy specifying the payout ratio and reinvesting its retained earnings.

The above mentioned decisions might not be the exhaustive ones but indicate the kind of decisions to be taken by financial managers of a company. Once again, the primary objective of such decisions is to maximize the wealth of the stakeholders through detailed analysis of the projects.

B. TOOLS FOR DECISION MAKING

There are a number of tools used in order to help decision making in financial management some of which are stated below:



1.) NET PRESENT VALUE (NPV)

The Net Present Value takes into account the cash outflows and expected cash inflows for the analysis of the feasibility of the project. In this method, the present value of cash outflows is subtracted from the present value of cash inflows. This enables the manager to understand the value created for the shareholders of the company, if the project is undertaken.

The net present value approach is the most intuitive and accurate valuation approach to capital budgeting problems. Discounting the after-tax cash flows by the weighted average cost of capital allows managers to determine whether a project will be profitable or not.

Some of the major advantages of the NPV approach include the overall usefulness and easy understandability of the figure. NPV provides a direct measure of incremental cash flow, allowing one to simultaneously compare multiple mutually exclusive projects.

The formula for calculation of the Net Present Value is stated as below:

$$NPV = (\text{ investment }) + \frac{CF_1}{(1+k)^1} + \frac{CF_2}{(1+k)^2} + \sum \frac{CF_t}{(1+k)^t}$$

(Investment) = Initial Cash Investment
CF = Cash Inflows occuring during the life of the project
k = Weighted Average Cost of Capital

Weighted average cost of capital (WACC) is arrived at as a Weighted average of cost of equity & post tax cost of debt. There are multiple methods to find out cost of equity out of which the most prominent model is - Capital Assets Pricing Model (CAPM).

The decision rule for the NPV method is that **"Accept the project that has a positive NPV and Reject the project that has a negative NPV".** This is because any positive amount will create the wealth for the shareholders whereas a negative NPV would decrease the wealth of shareholders.

2.) INTERNAL RATE OF RETURN (IRR)

Internal rate of return (IRR) is the discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Generally, the higher a project's internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a firm is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and undertaken first. IRR can also be interpreted as the rate at which the present value of the cash outflows equals the present value of cash inflows.

IRR can be thought of as the return that the project would generate for the company if it is undertaken. IRR of a project can also be compared against the prevailing rates in the financial market, because if the IRR of the project is equal to or less than the return in the market, the company may choose to invest the money in financial markets rather than take on a project providing same rate of return. If the IRR on the project is higher than the required rate of return of the project, it should be accepted and undertaken.

IRR is calculated using iteration by keeping cash outflows on one side of the equation and cash inflows on the other side or alternatively scientific calculator & excel worksheet could easily calculate IRR.

3.) PROFITABILITY INDEX (PI)

A profitability index attempts to identify the relationship between the costs and benefits of a proposed project. The profitability index is calculated by dividing the present value of the project's future cash flows by the initial investment. A PI greater than 1.0 indicates that profitability is positive, while a PI of less than 1.0 indicates that the project will lose money. As values on the profitability index increase, so does the financial attractiveness of the proposed project.

The PI ratio is calculated as follows:

$$\frac{\text{PV of Future Cash Flows}}{\text{Initial Investment}}$$

A ratio of 1.0 is the lowest acceptable measure for the profitability index. Any value lower than 1.0 would indicate that the project's PV is less than the initial investment, and the project should be rejected or abandoned. The profitability index rule states that the ratio must be greater than 1.0 for the project to proceed.

4.) PAYBACK PERIOD

Payback Period refers to the period in which the company expects to get its initial investment back from the project. At the payback period the net cash outflow is equal to zero. The Payback Period (PP) is calculated as below:

$$\text{PP} = \text{years full recovery} + \left(\frac{\text{unrecovered cost at beginning of last year}}{\text{cash flow in following year}} \right)$$

The interpretation of payback period is used to judge as to how early will the initial investment made by the manager comes back to him. Therefore, shorter the payback period, the better it is for the investor. When two projects are compared, the project that has the shortest payback period is the project to be accepted.

A major drawback of the Payback Period is that it doesn't take into account the time value of money which in turn is vital for the financial decision making.

5.) DISCOUNTED PAYBACK PERIOD (DPP)

A discounted payback period gives the number of years it takes to break even from undertaking the initial investment, by discounting future cash flows and recognizing the time value of money. The net present value (NPV) aspect of the discounted payback period does not exist in a payback period in which the gross inflow of future cash flows is not discounted.

The formula to calculate the discounted payback period is shown below:

$$DPP = \text{year before DPP occurs} + \frac{\text{Cumulative discounted cash flow at beginning of last year}}{\text{Discounted cash flow in the following year}}$$

Discounted payback period addresses the major drawback of the Payback Period method. The payback period is the amount of time for a project to break even in cash collections. Alternatively, the discounted payback period reflects the amount of time necessary to break even in a project based not only on what cash flows occur, but when they occur and the prevailing rate of return in the market. Decision matrix similar to payback period is applicable in case of DPP.

6.) DUPONT ANALYSIS

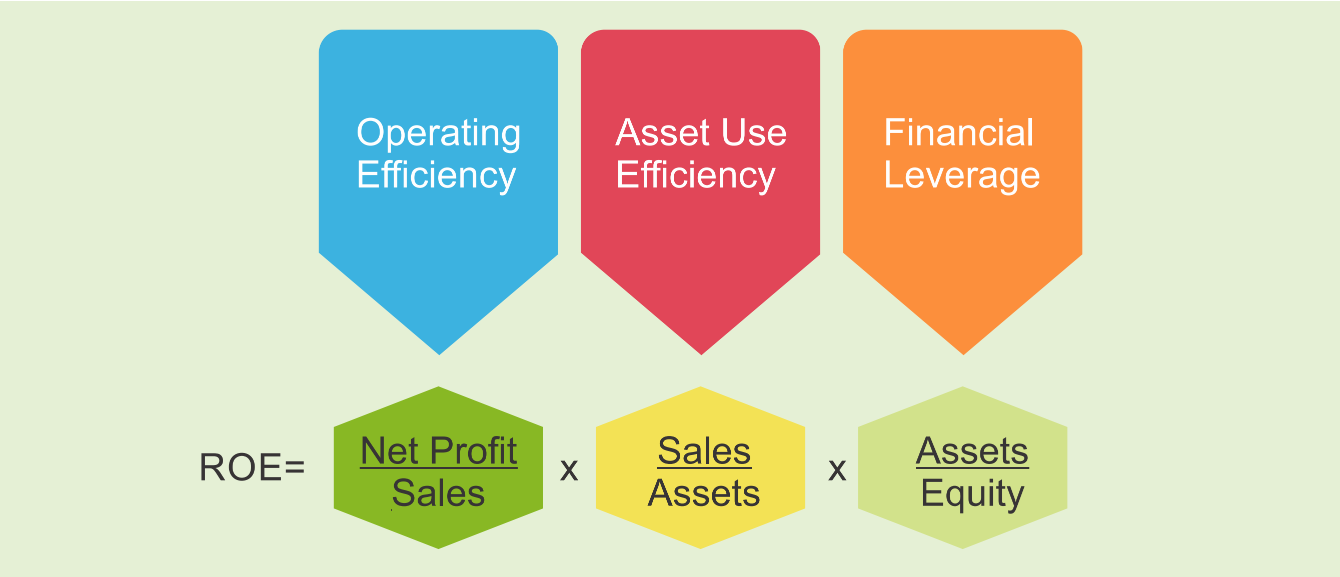
DuPont Analysis is the basic framework for performance measurement popularized by DuPont Corporation. DuPont analysis decomposes various components of Return on Equity (ROE). Decomposition of ROE formula helps the investors to get the insight into different aspects of business discussed as below:

Net Profit Margin: Helps to interpret the actual profitability of the business, after paying off all the other stake holders such as dividends, interest etc. This ratio measures the operating efficiency of the business.

Asset Turnover Ratio: This helps in analyzing how well the company has been using its assets to generate revenue. This ratio measures the Asset use efficiency of the business.

Equity Multiplier: This ratio assesses the financial leverage of a company. Equity multiplier indicates whether the company finances majority of its assets through debt or equity. Higher the equity multiplier, the more leveraged the company, or the more debt it has in relation to its assets.

The below mentioned diagram depicts the 3-part decomposition of the DuPont's formula:

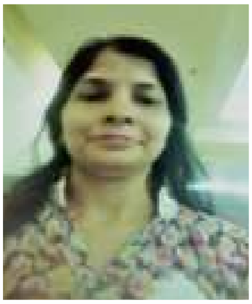


As an extension of Du Pont Analysis, each of the above three elements can be sub broken into a large number of ratios to analyze financial efficiency (or inefficiency!) at smaller activity level for corrective action or financial decision making.

A. CONCLUSION

Decision making in financial management is supported by historical data analysis, projections and use of ratios and tools. As a thumb rule, any tool which does not factor in time value of money, need to be discarded for the purpose of evaluation. The financial manager has to have a high level of judgment while applying the tools.

MCQs on Indian Contact Act, 1872



CS Preeti Garg
M.Com, ACS, LL.B
email: preetigargcs2001@gmail.com

1 Every promise and every set of promise forming the consideration for each other is a/an

(i) Contract
(ii) Agreement
(iii) Offer
(iv) Acceptance

2. Domestic arrangements between husband and wife is not a contract because

(i) There is no offer.
(ii) There is no acceptance.
(iii) There are no promises.
(iv) There is no intention to create legal relationship.

3. "Consensus-ad-idem" means

(i) agreeing upon same thing in same sense
(ii) consent is influenced by coercion
(iii) consent is influenced by fraud
(iv) consent is influenced by mistake.

4. Who is disqualified from contracting under the Indian Contract Act, 1872?

(i) A person of sound mind.
(ii) A person who has attained 18 years of age.
(iii) A foreign ambassador
(iv) An Indian ambassador

5. 'quid pro quo' means

(i) nothing in return
(ii) equality in return
(iii) something in return
(iv) benefit in return

6. "An agreement which is enforceable at the option of one or more parties thereto but not at the option of other or others"..............is known as

(i) valid contract
(ii) voidable contract
(iii) void contract
(iv) void agreement

7. A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable...... is known as

(i) voidable contract

(ii) void agreement

(iii) Illegal agreement

(iv) void contract

8. As regards rights of the parties, in the case of a ....there is no legal remedy for the parties as the contract cannot be performed in any way.

(i) voidable contract

(ii) void contract

(iii) void agreement

(iv) unenforceable contract

9. .... is forbidden by law.

(i) Illegal agreement

(ii) valid contract

(iii) voidable contract

(iv) unenforceable contract

10. An offer which is allowed to remain open for acceptance over a period of time is known as

(i) cross offer

(ii) counter offer

(iii) standing offer

(iv) general offer

11. When two parties exchange identical offers in ignorance at the time of each other's offer, the offers are called

(i) specific offer

(ii) counter offers

(iii) acceptance of each other

(iv) cross offers

12. A prospectus issued by a company is

(i) offer

(ii) acceptance

(iii) invitation to offer

(iv) invitation to acceptance

13. Communication of a proposal is complete

(i) when it is put in the course of transmission.

(ii) when it is delivered to the offeree.

(iii) when it comes to the knowledge of the person to whom it is made.

(iv) when it is received by the person to whom it is made.

14. Communication of acceptance is complete as against the proposer

(i) when it comes to the knowledge of the proposer.

(ii) when it is put in the course of transmission to him so as to be out of power of the acceptor.

(iii) when it is received by the acceptor.

(iv) when it has been delivered to the proposer.

15. Death or insanity of the proposer would result in automatic revocation of the proposal

(i) when the death or insanity took place.

(ii) only if the fact of death or insanity comes to the knowledge of the acceptor .

(iii) only if the fact of death or insanity comes to the knowledge of the acceptor before acceptance is completed on part of offeror.

(iv) when the fact of death or insanity is communicated to the offeree.

16. A promises to pay B a sum of money if a certain ship return within a year. The Contract may be enforced if the ship returns with the year, and becomes void if the ship is burnt within the year. This types of contract are known as:

(i) void contract

(ii) voidable contract

(iii) quasi contract

(iv) contingent contract

17. Where promisor offers to deliver the goods or services but promisee refuses to accept the delivery, then

(i) Promisor cannot sue the promisee for non-performance.

(ii) Goods or services need not be tendered again.

(iii) Promisor is not discharged from his liability.

(iv) Goods or service shall be delivered at agreed place, time and by agreed mode.

18. In which of the following case, the contract comes to an end on the death of the promisor

(i) when it involves exercise of personal skill like painting

(ii) It is a commercial transaction

(iii) It is a loan contract

(iv) It is an arbitration agreement.

19. In which of the following contracts, time is not presumed to be essence of the contract?

(i) mercantile contracts

(ii) sale of goods having rapidly fluctuating market price and ready market

(iii) contracts of sale of immovable property

(iv) where delay operates as an injury to third party.

20. In which of the following situation, the law has given a privilege to creditor to appropriate the payment even against time barred debts:

(i) If neither debtor expressly intimates nor circumstances imply the debt to be appropriated, the right of appropriation towards lawful debt actually due and payable is left to the creditor.

(ii) Where a debtor expressly intimates to creditor at the time of making payment that payment should be applied to discharge a particular debt,and if creditor accepts payment, payment must be applied to the debt so specified.

(iii) If there is such an instruction from third party.

(iv) If there is no express intimation by debtor, but circumstances imply that payment should be appropriated to particular debt andcreditor accepts the payment.

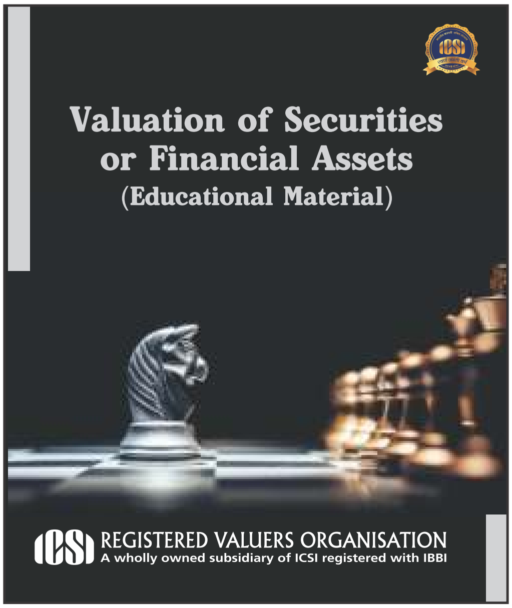
Answers:

1. (ii) Agreement **2.** (iv)-There is no intention to create legal relationship. **3.** (i)agreeing upon same thing in same sense **4**. (iii)-A foreign ambassador **5.** (iii) something in return **6.** (ii) voidable contract **7.** (iv) void contract **8.** (ii) void contract **9**. (i) Illegal agreement **10.** (iii) standing offer **11.** (iv) cross offers **12.** (iii) invitation to offer **13.** (iii) when it comes to the knowledge of the person to whom it is made.**14.** (ii) when it is put in the course of transmission to him so as to be out of power of the acceptor. **15.** (iii) only if the fact of death or insanity comes to the knowledge of the acceptor before acceptance is completed on part of offer or. **16.** (iv) contingent contract **17.** (ii) Goods or services need not be tendered again **18.** (i) When it involves exercise of personal skill like painting **19.** (iii) contracts of sale of immovable property **20.** (i) If neither debtor expressly intimates nor circumstances imply the debt to be appropriated, the right of appropriation towards lawful debt actually due and payable is left to the creditor.

Latest Publication

About the Book

In pursuance of Rule 5 of the Companies (Registered Valuers and Valuation) Rules, 2017, the Insolvency and Bankruptcy Board of India ('IBBI÷), being the Authority, has specifled the curriculum of Educational Courses for the Asset Class 'Securities or Financial Assets'. The Task Force constituted by the Governing Board of ICSI Registered Valuers Organisation has developed a comprehensive material covering the following entire curriculum prescribed by IBBI:



Topics

- Macro Economics
- Overview of Valuation
- Finance
- Valuation Approaches and Methodologies
- Professional Ethics and Standards
- Valuation Application
- Financial Statements Analysis
- Laws and Regulation relevant to Financial Assets Valuation
- General Laws and judicial Pronouncements
- Case Studies on application of valuation techniques

Price of the publication is Rs. 750 (postage charges extra). To place an order please send an email to rvo@icsi.edu.

Members Admitted

Sl. No.	Name	Address	Registration No.	E-mail	Date of Registration
1	S Ramasamy	D6 Dev Apartments No.32 Kalakshetra Road Lakshmi Puram Thiruvanmiyur, Chennai, Tamil Nadu, 600041	IBBI/RV/03/2018/10225	ramasamych41@gmail.com	26 Nov, 2018
2	Gyaneshwar Sahai	A 1404, The Resort, Sector 75,Faridabad, Haryana, 121004	IBBI/RV/03/2018/10226	gyaneshwar.sahai@gmail.com	26 Nov, 2018
3	M Alagar	M. Alagar And Associates,No 21-B, 1st Floor A.R.K Colony, Eldams Road, Alwarpet, Chennai,Tamil Nadu, 600018	IBBI/RV/03/2018/10227	alagarcs@gmail.com	26 Nov, 2018
4	Rajashree Santhanam	Flat No 6, Old No 20, New No 8, Ramakrishna Street, Thiyagaraya Nagar, Chennai,Tamil Nadu, 600017	IBBI/RV/03/2018/10228	rajashrees66@gmail.com	26 Nov, 2018
5	Ajay Garg	H No.970,Sector-21 D, Faridabad, Haryana, 121001	IBBI/RV/03/2018/10229	gargajay24@yahoo.co.in	26 Nov, 2018
6	Venkateswara Reddy Rachamallu	8-2-293/82/10/80, First Floor, Womens Cooperative Housing Society, Road No. 7, Jubilee Hills, Hyderabad, Other,Telangana, 500033	IBBI/RV/03/2018/10231	rvr@rvsr.co.in	27 Nov, 2018

About ICSI RVO

The field of valuation, as an area of activity is still untapped, demanding the presence of experts possessing the right knowledge and capabilities which brings upon the realisation that we Company Secretaries as professionals in India can provide the much needed support both as members of ICSI as well as by forming a significantly strong army of Valuation members.

In order to enable the members of ICSI, as well as other professionals and eligible persons to register as Registered Valuers, the ICSI on November 22, 2017 incorporated a not-for-profit private limited company under Section 8 of the Companies Act, 2013, by the name **ICSI Registered Valuers Organisation (ICSI RVO).**

ICSI RVO intends to enrol, educate, train and promote the profession of Registered Valuers as per the Companies (Registered Valuers and Valuation) Rules, 2017.

"You cannot connect dots looking forward, but you can connect dots looking backwards."

~ Steve Jobs

The concept of 'Registered Valuer' was introduced under section 247 of the Companies Act, 2013 to carry out valuation in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities, as per the Companies (Registered Valuers and Valuation) Rules, 2017 notified by MCA on 18th October, 2017. The Rules will lead to setting-up of Valuation Standards which will further improve transparency and governance and, while bringing about a clarity regarding various aspect of valuation will have a major impact on the industry, professionals, stakeholders and the government as well. Needless to say, the requirement of Registered Valuers will definitely enhance professional opportunities for both the Company Secretaries as well as other professionals.

Some of the areas under Companies Act, 2013 requiring valuation include:

About the Institute of Company Secretaries of India (ICSI):

ICSI is a statutory body constituted under the Company Secretaries Act, 1980 to regulate and develop the profession of Company Secretaries. The Institute has been contributing in all initiatives of Govt. of India having potential to excel socio-economic growth of the nation and in one such initiative has delved into developing Registered Valuers by establishing its wholly owned subsidiary **ICSI Registered Valuers Organisation (ICSI RVO).**



SYLLABUS FOR VALUATION OF SECURITIES OR FINANCIAL ASSETS

S. NO.	COVERAGE	S. NO.	COVERAGE
1.	Macro Economics	2.	Finance
3.	Professional Ethics and Standards	4.	Financial Statement Analysis
5.	General laws and Judicial Pronouncements	6.	Overview of Valuation
7.	Valuation Approaches and Methodologies	8.	Valuation Application
9.	Laws and Regulations relevant to Financial Assets Valuation	10.	Case Studies

EDUCATIONAL QUALIFICATION & EXPERIENCE

Graduate Level
Graduate in any stream

+

Post Graduate level
(1) Member of the The ICSI or ICAI or The ICMAI or;
(2) MBA/PGDBM specialisation in finance or;
(3) Post Graduate Degree in Finance

+

3 years of experience in the discipline after completing graduation

REGISTRATION

Any individual willing to register himself as a Valuer Member may send an application in the form available at the website : **www.icsirvo.in**

The form shall be accompanied by a Demand Draft favouring ICSI Registered Valuers Organisation payable at New Delhi.

FEE FOR THE COURSE:

- Enrolment Fee : Rs. 8,850/- (Rs. 7,500 + GST @ 18%)
- Course Fee : Rs. 26,550/- (Rs. 22,500 + GST @ 18%)
- Educational course Fee (for members who have successfully completed the online Course on Valuation conducted by ICSI): Rs.20,600/-(Rs.17,500+GST@18%)

PROCEDURE TO BE FOLLOWED

1. Meet eligibility requirements, qualification and experience prescribed under Rule 4 of the Companies (Registered Valuers and Valuation) Rules, 2017.
2. Seek enrolment as a valuer member of ICSI RVO.
3. Complete 50 hours educational course.
4. Register and pass computer based Valuation Examination conducted by IBBI.
5. Within 3 years of passing the examination, submit Form A along with requisite fee in favour of Insolvency and Bankruptcy Board of India and supporting documents, to ICSI RVO.
6. ICSI RVO shall verify Form A & other requirements and submit the same along with its recommendation to IBBI.
7. On receipt of Form A along with recommendation of ICSI RVO, fee and other documents, the IBBI shall process the application for registration in accordance with the Rules.
8. After registration with IBBI, take up training with ICSI RVO.
9. On completion of the training, the ICSI RVO shall issue a Certificate of Practice to the registered valuer.
10. Valuation certificate can be issued only after obtaining Certificate of Practice.

IBBI EXAMINATION REQUIREMENTS

a. The examination is conducted online (computer-based in a proctored environment) with objective multiple-choice questions by IBBI

b. The duration of the examination is 2 hours

c. A candidate is required to answer all questions

d. Wrong answer attracts a negative mark of 25% of the marks assigned for the question

e. A candidate needs to secure 60% of marks for passing

FEE FOR THE IBBI EXAMINATION: Rs. 1500/- for every enrolment.

For further information contact:

CS Samir Raheja, CEO (Designate), ICSI RVO

4th Floor, ICSI-House, 22, Institutional Area, Lodi Road, New Delhi-110 003,

Phone : +91-11-45341028, E-mail : rvo@icsi.edu, Website : www.icsirvo.in

Motto

सत्यं वद। धर्मं चर।

speak the truth. abide by the law.

Vision

"To be a global leader in promoting good corporate governance"

Mission

"To develop high calibre professionals facilitating good corporate governance"