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Divya Jyoti Valuers Foundation



VALUER INSIGHTS

JOURNAL

NEWSLETTER

Dear Readers,

Welcome to Valuer Insights, the e-journal by Divya Jyoti Valuers Foundation. We have launched this platform for meaningful discourse, knowledge exchange, and professional enrichment in the field of valuation. At Divya Jyoti Valuers Foundation, we're committed to excellence, integrity, and continuous learning. Through Valuer Insights, we aim to showcase our expertise and foster collaboration within the valuation community. This issue features articles, and case studies, exploring valuation methodologies, industry trends, and regulatory updates. We invite you to engage with us, share your experiences, and contribute to the collective knowledge in valuation. As we embark on this journey, we extend our gratitude to our contributors, supporters, and readers. Let's illuminate the path forward and elevate the profession of valuation together.

Divya Jyoti Valuers Foundation
Registered Valuers Organisation

April - Sept. 2026

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From The Desk Of Chairman

Dear Esteemed Members,

As we navigate an increasingly complex economic landscape, the role of a Registered Valuer has never been more critical than it is presently. Valuation is not merely a mathematical exercise or a compliance formality; it is the cornerstone of informed decision-making, investor trust, and market integrity. Every valuation report we sign impacts corporate restructuring, insolvency resolutions, taxation matters, and strategic investments. Our professional credibility relies entirely on the precision, objectivity, and independence we bring to our assignments.

In recent times, regulatory scrutiny and stakeholder expectations have grown exponentially. Courts, tribunals, regulatory bodies, committee of creditors and investors are increasingly examining not just the final valuation figure, but the underlying rationale and thought process that led to it. A valuation conclusion that cannot be substantiated with robust data and logical reasoning leaves both the valuer and the profession vulnerable to challenge.

Therefore, I strongly urge all members to exercise utmost diligence in maintaining comprehensive documentation and working papers for every assignment and preserving it for at least 3 yrs from the completion of assignment. Your files should serve as an unassailable audit trail, clearly capturing the assumptions made, the methodologies adopted, the sources of market data utilized, and the rationale for choosing a specific approach over others. If a valuation amount is questioned months or years down the line, it is your contemporaneous records and documented working papers that will stand as proof of your professional diligence, unbiased judgment, and compliance with the Valuation Standards.

Let us continue to uphold the highest standards of professional excellence, transparency, and accountability. By fortifying our documentation practices and preserving the records properly, we not only protect our individual practices but also elevate the stature and trustworthiness of valuation profession in general.

Wishing you all a productive and successful quarter ahead.

Warm regards,
S P Sharma
(Non executive Chairman and Independent Director)
Divya Jyoti Valuers Foundation RVO



From The Desk Of CEO

Dear Valued Members,

As we step into another quarter of dynamic economic growth and evolving regulatory landscapes, I want to take a moment to reflect on the core pillars that define our standing as Registered Valuers. Our profession sits at the critical intersection of trust, financial reporting, and corporate governance. Every valuation report we sign carries weight—not just for our individual practices, but for the credibility of the entire valuation ecosystem.

In recent months, we have witnessed significant shifts in the regulatory environment, characterized by heightened scrutiny from oversight authorities, lenders, and corporate stakeholders. In this context, compliance is no longer a box-ticking exercise that occurs at the end of a financial year or during a periodic audit. It must be an active, continuous state of readiness. Being fully compliant at all times—whether concerning credit hrs. of Continuous Education Program (CEP), adherence to valuation standards, maintenance of robust documentation, or declaration of independence—is our primary defense against professional risk.

However, there is an equally compelling commercial dimension to perpetual compliance. The modern corporate world moves at an unprecedented pace. Distress resolution timelines, rapid-fire mergers and acquisitions, sudden regulatory directives, and strategic investments often present high-value business opportunities with very short turnaround times. When institutional clients or tribunals need an urgent valuation, they look for professionals who can be onboarded and deployed immediately.

A valuer whose compliance paperwork, membership renewals, or annual declaration (OF 3) , half yearly reports (OF 4), CEP credit hours, COP renewals are lagging cannot afford the luxury of time when a sudden opportunity knocks. Delays caused by last-minute filings or administrative oversights often result in missed mandates and lost credibility. Conversely, the practitioner who maintains an immaculate, audit-ready compliance record can step up instantly, capturing time-sensitive assignments with confidence and precision.

Our organization remains committed to supporting you through automated compliance tracking, timely reminders, and capacity-building workshops. I urge each of you to review your internal practices, ensure your records are impeccably up to date, and treat compliance not as a regulatory burden, but as your sharpest competitive edge.

Let us continue to uphold the highest standards of integrity, quality, and readiness.

Warm regards,
Sarita Singh
Chief Executive Officer
Divya Jyoti Valuers Foundation

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BUSINESS VALUATION: TOP 11 RESOURCES TO BUILD YOUR EXPERTISE

Introduction

Business valuation is both an art and a science. It combines financial analysis, economic understanding, industry knowledge, accounting interpretation, risk assessment, forecasting, and professional judgment to determine the value of a business, security, or underlying economic interest. For finance professionals, investment bankers, equity research analysts, private equity professionals, corporate finance teams, consultants, and valuation practitioners, a strong understanding of valuation is an essential professional skill.

In today's increasingly complex business environment, valuation is required for a wide range of purposes. Companies need valuations for mergers and acquisitions, fundraising, restructuring, strategic decision-making, financial reporting, taxation, regulatory compliance, shareholder transactions, insolvency proceedings, and dispute resolution. Investors use valuation to determine whether an investment opportunity is attractive, while management uses it to assess business performance and create long-term value.

Business valuation, therefore, is much more than calculating a number. A valuation conclusion represents an informed opinion about the economic worth of a business at a particular valuation date and for a particular purpose.

A professional looking to build valuation expertise should develop knowledge progressively. The journey generally starts with the fundamentals, moves into market-based and income-based approaches, and then advances into sophisticated techniques such as merger modelling and leveraged buyout analysis.

This article presents 11 important resources and concepts that can help professionals build a strong foundation in business valuation and progressively develop advanced valuation capabilities.

1. Valuation Overview

The first step in learning business valuation is understanding what valuation actually means.

At its simplest level, valuation is the process of estimating the economic value of an asset, business, security, or ownership interest. However, the appropriate valuation methodology depends on several factors, including the nature of the asset, the purpose of the valuation, the availability of information, the valuation date, and the characteristics of the market.

The three broad approaches commonly used in business valuation are:

Market Approach

The market approach determines value by comparing the subject company with similar companies or transactions.

Common techniques include:

- Comparable Company Analysis
- Precedent Transaction Analysis
- Market multiples
- Enterprise Value/EBITDA
- Price/Earnings
- Enterprise Value/Sales
- Price/Book Value

Income Approach

The income approach estimates value based on the present value of future economic benefits.

The most prominent method is the **Discounted Cash Flow (DCF)** method.

Other income-based techniques may include:

- Capitalization of earnings
- Capitalization of cash flows
- Dividend discount models
- Excess earnings methods

Cost Approach

The cost approach considers the cost of creating or replacing the underlying assets, adjusted for appropriate forms of depreciation and obsolescence.

Although the cost approach is often more relevant to asset-intensive businesses and specific asset valuations, understanding it is important because some businesses cannot be reliably valued solely through market or income approaches.

A strong valuation professional should understand not only how to calculate value but also **why a particular method is appropriate**.

2. Intrinsic Value vs. Market Value

One of the most important concepts in valuation is the distinction between **intrinsic value and market value**.

Intrinsic value represents an estimate of what an asset or business is worth based on its underlying fundamentals. These fundamentals may include:

- Expected future cash flows
- Profitability
- Growth prospects
- Risk
- Capital requirements
- Competitive advantages

- Cost of capital
- Industry conditions

Market value, on the other hand, reflects the price at which an asset or security is traded or could transact in an appropriate market under relevant circumstances.
For a listed company, the market capitalization is calculated as:
Market Capitalization = Share Price × Number of Outstanding Shares

However, market price and intrinsic value are not necessarily identical.
For example, suppose the estimated intrinsic value of a company's share is ₹150, while the current market price is ₹110. A fundamental investor may consider the security potentially undervalued, subject to the assumptions and risks underlying the valuation.
Conversely, if intrinsic value is ₹150 and the market price is ₹200, the security may appear overvalued based on that particular valuation model.
The important lesson is that valuation is assumption-driven. Intrinsic value is not an unquestionable fact; it is a reasoned estimate based on available information and assumptions.

3. Enterprise Value vs. Equity Value
Understanding the difference between Enterprise Value and Equity Value is fundamental to professional valuation.
Enterprise Value
Enterprise Value generally represents the value attributable to the operating business before considering the financing structure.
A simplified formula is:
Enterprise Value = Equity Value + Net Debt
More comprehensively, adjustments may be required for cash, debt-like items, minority interests, preferred securities, and other relevant claims depending on the valuation context.

Equity Value
Equity Value represents the value attributable to the equity shareholders.
A simplified relationship is:
Equity Value = Enterprise Value − Net Debt
For example, assume:

- Enterprise Value = ₹500 crore
- Debt = ₹150 crore
- Cash = ₹50 crore

Net Debt = ₹150 crore − ₹50 crore = ₹100 crore
Therefore:
Equity Value = ₹500 crore − ₹100 crore = ₹400 crore
This distinction is particularly important when using valuation multiples.
For example, **EV/EBITDA** is an enterprise-value-based multiple, whereas P/E is an equity-value-based multiple.

A professional must always ensure that the numerator and denominator are conceptually consistent.

Market Valuation Approach: Relative Value

Once the fundamentals are understood, the next stage is learning how businesses are valued relative to other companies and transactions.

The market approach is particularly useful when sufficient market information is available.

4. Comparable Company Analysis

Comparable Company Analysis, commonly known as CCA or Trading Comparables, estimates the value of a company by comparing it with similar publicly traded businesses.

The process generally involves:

1. Identifying comparable companies.
2. Collecting relevant financial information.
3. Calculating valuation multiples.
4. Selecting appropriate multiples.
5. Applying the selected multiples to the subject company's financial metrics.
6. Making appropriate adjustments.
7. Arriving at an implied valuation range.

Typical multiples include:

- EV/Revenue
- EV/EBITDA
- EV/EBIT
- P/E
- Price/Book Value

The selection of comparable companies is critical.

A company may be considered comparable based on:

- Industry
- Products and services
- Business model
- Geography
- Size
- Growth rate
- Profitability
- Capital intensity
- Risk profile

For example, comparing a rapidly growing technology company with a mature manufacturing company merely because both have similar revenue would not necessarily produce a meaningful valuation.

The principle is simple:

Better comparable generally produce better valuation insights.

However, even the best comparable analysis requires professional judgment because no two companies are perfectly identical.

5. Precedent Transaction Analysis

Precedent Transaction Analysis values a business by examining prices paid in actual mergers and acquisitions.

Instead of asking, "How are similar public companies trading?" the analysis asks:

"What prices have buyers actually paid for similar businesses?"

This approach can be particularly useful in M&A transactions because transaction multiples may reflect:

- Control premiums
- Expected synergies
- Strategic value
- Competitive bidding
- Market conditions
- Transaction-specific circumstances

For example, if similar companies were acquired at an average EV/EBITDA multiple of 10x and the subject company's normalized EBITDA is ₹50 crore, an initial indication of Enterprise Value could be:

₹50 crore × 10 = ₹500 crore

However, the transaction data must be carefully examined.

An old transaction completed during a different economic cycle may not be directly comparable to a current transaction. Similarly, a strategic acquisition involving substantial synergies may command a premium that would not be appropriate for a financial investor. Therefore, precedent transaction analysis requires both numerical analysis and contextual judgment.

6. EBITDA Multiple

EBITDA, or Earnings Before Interest, Taxes, Depreciation and Amortization, is one of the most widely used operating metrics in valuation.

The EV/EBITDA multiple is particularly popular because EBITDA provides a measure of operating performance before financing decisions, taxation, and certain non-cash charges.

The basic formula is:

Enterprise Value = EBITDA × EV/EBITDA Multiple

Suppose:

- EBITDA = ₹40 crore
- Comparable EV/EBITDA multiple = 8x

Then:

Enterprise Value = ₹40 crore × 8 = ₹320 crore

If net debt is ₹70 crore:

Equity Value = ₹320 crore – ₹70 crore = ₹250 crore

However, EBITDA should never be used mechanically.

Professionals should consider:

- Normalized EBITDA
- One-time income and expenses
- Accounting policies

- Capital expenditure requirements
- Working capital requirements
- Business cyclicality
- Growth expectations
- Debt levels
- Industry characteristics

A business with high EBITDA but enormous capital expenditure requirements may deserve a lower valuation than a business generating similar EBITDA with significantly lower reinvestment requirements.

7. Football Field Chart

A Football Field Chart is a powerful visual tool used to present valuation ranges derived from multiple methodologies.

For example, a valuation analysis might produce:

Valuation Method Implied Equity Value

Comparable Companies ₹420–₹480 crore

Precedent Transactions ₹450–₹520 crore

DCF ₹400–₹550 crore

LBO ₹380–₹450 crore

Instead of presenting only individual numbers, a football field chart displays the ranges visually.

This makes it easier for management, investors, boards, and transaction advisors to understand:

- The range produced by each method
- The overlap between methodologies
- The relative positioning of the subject company
- Potential negotiation ranges

The chart does not determine the final value by itself. Rather, it helps communicate the valuation analysis effectively.

A professional valuation report should distinguish between **mechanical valuation outputs and the final professional conclusion.**

Discounted Cash Flow Approach: Intrinsic Value

The DCF approach is one of the most important techniques for understanding intrinsic value.

Rather than relying primarily on market multiples, DCF attempts to estimate value based on the future cash-generating capacity of the business.

8. Ultimate Cash Flow Guide

Cash flow is at the heart of valuation.

Profit and cash flow are not the same.

A company may report accounting profits but generate relatively little free cash flow because of:

- High working capital requirements
- Capital expenditure
- Tax Payments
- Debt Servicing
- Other cash commitments

In business valuation, commonly considered ash flow measures include:

Free Cash Flow to Firm (FCFF)
FCFF represents cash flow available to all providers of capital.
A simplified formulation is:
FCFF = EBIT *(1-Tax Rate) + D&A - Capex - Increase in Working Capital

Free Cash Flow to Equity (FCFE)
FCFE represents cash flow available to equity shareholders after considering debt-related cash flows.
The selection between FCFF and FCFE depends on the valuation framework.
If FCFF is used, the discount rate is generally WACC and the resulting value is Enterprise Value.
If FCFE is used, the discount rate is generally the Cost of Equity and the resulting value is Equity Value.
Understanding this relationship is essential for avoiding valuation errors.

9. Weighted Average Cost of Capital (WACC)
WACC represents the weighted average required return of the providers of capital to the business.
A simplified formula is:
WACC = (E/V × Ke) + (D/V × Kd × (1 − T))
Where:
- E = Market value of equity
- D = Market value of debt
- V = Total capital
- Ke = Cost of equity
- Kd = Cost of debt
- T = Tax rate

The WACC is particularly important in an FCFF-based DCF valuation because future cash flows are discounted at the rate reflecting the risk and financing structure of the business.
A small change in WACC can have a significant impact on valuation.

For example, a business with long-term cash flows may have a materially higher valuation at a 10% discount rate than at a 13% discount rate.
Therefore, the discount rate should not simply be selected to achieve a desired valuation.

It should be supported by appropriate analysis of:

- Risk-free rate
- Equity risk premium
- Beta
- Cost of debt
- Country risk
- Company-specific risk where appropriate
- Capital structure
- Industry risk

The quality of a DCF valuation depends significantly on the quality and reasonableness of its discount rate assumptions.

10. DCF Model Training Free Guide

A DCF model converts business assumptions into a structured valuation framework.

The typical DCF process includes:

Step 1: Historical Analysis

Review:

- Revenue
- EBITDA
- EBIT
- Working capital
- Capital expenditure
- Taxes
- Cash flows

Step 2: Forecast Financial Performance

Forecast future:

- Revenue growth
- Operating margins
- Working capital
- Capital expenditure
- Taxes
- Free cash flow

Step 3: Determine Discount Rate

Calculate an appropriate WACC or cost of equity.

Step 4: Discount Forecast Cash Flows

Each future cash flow is discounted to present value.

The basic formula is:

PV = Future Cash Flow / (1 + r)^n

Step 5: Calculate Terminal Value

Estimate the value beyond the explicit forecast period.

Step 6: Arrive at Enterprise Value

Add:

PV of Forecast FCFF + PV of Terminal Value

Step 7: Bridge to Equity Value

Adjust for:

- Debt
- Cash
- Other debt-like items
- Non-operating assets
- Other relevant adjustments

The DCF model is powerful because it forces the analyst to understand the economics of the business rather than simply applying a market multiple.

11. DCF Model Template

A structured DCF model is an excellent practical learning tool.

A professional DCF model typically contains:

Historical Financials

- Revenue
- EBITDA
- EBIT
- Taxes
- Working capital
- Capex
- Depreciation

Forecast Period

Usually several years of explicit forecasts are prepared.

Free Cash Flow Calculation

FCFF is derived from operating performance and reinvestment requirements.

Discounting

The forecast cash flows are discounted using WACC.

Terminal Value

The terminal value is calculated separately.

Valuation Summary

The final model typically presents:

- Enterprise Value
- Less: Debt
- Add: Cash
- Equity Value
- Number of shares
- Implied value per share

The model should also include sensitivity analysis.

For example, the analyst may assess the impact of different:

- WACC assumptions
- Terminal growth rates
- EBITDA margins
- Revenue growth rates

This demonstrates how sensitive the valuation is to key assumptions.

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YEARS' PURCHASE (YP) VERSUS RATE OF RETURN (ROR): THE CORRECT CAPITALIZATION RATE IN INDIAN PROPERTY VALUATION

Introduction

One of the most misunderstood aspects of the Income Capitalisation Approach is the distinction between **Years' Purchase (YP) and Rate of Return (RoR)**. Many valuation reports incorrectly adopt an investor's desired return or Internal Rate of Return (IRR) as the capitalization rate, resulting in values that may not reflect the true market value of the property.

In Indian valuation practice, particularly for land acquisition, compensation determination, rental capitalization, and market value assessment, the courts and valuation standards have consistently emphasized that **market-derived yield (Years' Purchase)** must be adopted instead of a subjective investor-specific Rate of Return.

This article explains the concept, legal foundation, and practical application of YP in Indian valuation practice.

Understanding Years' Purchase (YP)

1. Years' Purchase (YP): The Market's Multiplier

Real-Term Meaning: YP is a strictly objective, market-derived multiplier. It answers the question: Based on current market conditions, how many years' worth of current income is the general public willing to pay upfront to own this asset?

It is fundamentally tied to the "Yield Rate," which is the baseline return a typical market participant expects, heavily influenced by risk-free government securities (G-Secs) or fixed deposit rates.

Mathematically:

$$Value = Net\ Annual\ Income \times Years\ of\ Purchase$$

or

$$YP = 1/YieldRat$$

Illustration

Suppose a mango orchard generates a net annual income of ₹1,00,000. Market evidence indicates that similar orchards in the locality are selling at approximately 15 times their annual income.

Therefore:

$$Value = ₹1,00,000 \times 15$$

$$Value = ₹15,00,000$$

In this example, the YP is 15.

The important point is that the multiplier is derived from **actual market transactions**, not from the expectations of an individual investor.

Understanding Rate of Return (RoR)
Real-Term Meaning: RoR is entirely subjective. It answers the question: What percentage return must I, as an individual investor, get to justify risking my capital on this specific property?
This rate incorporates the investor's personal cost of debt (e.g., a loan at 12%), their desire for profit, and their speculative hopes for the future (e.g., rezoning, infrastructure booms).
Investment Value = Net Annual Income × 1 /RoR

For example, a developer or investor may state:
"I will invest only if I can earn 18% per annum on my capital."
This expected return may be influenced by:

- Individual risk appetite;
- Cost of borrowed funds;
- Future development expectations;
- Speculative growth assumptions;
- Personal investment objectives.

Consequently, RoR is often subjective and investor-specific rather than market-derived.

Where It Works vs. Where It Fails
When to Use Years' Purchase (YP)

- **Where it works perfectly: * Statutory Valuations:** Land acquisition compensation (e.g., under the LARR Act 2013), computing wealth tax, or stamp duty, Income fetching Property.

o Court Disputes: Partition suits, family settlements, and divorce proceedings where a neutral "fair market value" is required.
o Stabilized Yield-Generating Assets: Valuing fully leased commercial buildings, established mango orchards, or rented residential complexes.

- **Where it does NOT work: * Vacant Land with No Income:** If land is barren and generates zero rent or agricultural yield, applying YP to an income of zero mathematically results in zero value, which is false. (Here, the Comparative Sales Method is required).

o Distressed Markets: During severe economic crashes where there are no buyers, market yield becomes impossible to accurately measure.

When to Use Rate of Return (RoR)
 Where it works perfectly:
o Private Equity & Joint Ventures: When a developer is pitching to a private equity firm, the firm wants to see the IRR (RoR) to decide if the project meets their internal benchmark.
o Corporate Financial Modeling: When a company is deciding whether to buy a warehouse or just lease it, they use their internal RoR.

 Where it does NOT work:
o Determining Legal Compensation: Indian courts (including the Supreme Court) have repeatedly rejected RoR for land acquisition. You cannot compensate a farmer less for their land just because a specific developer demands a high 20% return on their investment.
o Public Financial Reporting: Overstating or understating balance sheets based on a CEO's personal return expectations violates accounting standards.

Real-World Example: The Mango Orchard
Let's look at how using the wrong capitalization rate radically alters the valuation of an asset.
The Scenario:

- **Asset:** A Mango Orchard in rural Haryana.
- **Net Annual Income:** ₹1,00,000 (after deducting labor, fertilizers, etc.)
- **Market Reality (Yield):** Secure Government Bonds yield 7%. Due to the slight risk of agriculture, the market demands an 8% yield.
- **Investor's Expectation (RoR):** A corporate farming company wants to buy it, but their internal policy requires an 18% return to justify the purchase.

If a government were acquiring this land for a highway, using the investor's RoR would unfairly cheat the farmer out of nearly ₹7 Lakhs. This is precisely why Indian valuation standards legally mandate the use of Market Yield (YP).

How to Select the Percentages
A. Selecting Market Yield (to calculate YP)
Market Yield is an observed metric. You do not invent it; you find it.
1. Direct Market Extraction (The Gold Standard): Find 3 to 5 similar properties in the same locality that recently sold and were generating rent.
If comparable shops are generating ₹10 Lakhs in rent and selling for ₹1.25 Crore, the market yield is exactly 8%.

2. The Build-Up Method:
If direct sales data is scarce, build the yield from the ground up:
1. Base: 10-Year G-Sec Yield (Let's say 7.1%)
2. Add Risk Premium: +1.0% to 2.5% (for illiquidity, tenant vacancy risk, and physical depreciation).
3. Subtract Growth: -0.5% to 1.5% (if the property is in a high-growth area where capital appreciation oUsets the need for high current income).
4. Result: A realistic market yield (e.g., 8%).
5. Calculate YP: 1/0.08 = 12.50.

B. Selecting Rate of Return (RoR / IRR)
RoR is a required metric. It is what a specific investor needs to survive financially.
1. Cost of Debt: What interest rate is the bank charging the investor? (e.g., 11%).
2. Cost of Equity: What return does the investor or their partners demand for risking their own cash? (e.g., 18%).

o Result: The investor might require an RoR of 14% to make the project viable for them.

Part 3: Practical Case Study
The Scenario:
You are a Registered Valuer in Gurugram, tasked with valuing a fully leased commercial retail space on Golf Course Road.

- **Net Annual Rent:** ₹30,00,000
- **Task 1:** The bank needs the **Market Value** for collateral.
- **Task 2:** A private equity group needs the **Investment Value** to decide if they should buy it.

1. Market Value

As a Registered Valuer, you must answer: "What price would a typical buyer in the open market pay today?"
You therefore study actual market transactions.

Comparable Sale	Yield
Shop A	**7.4%**
Shop B	**7.6%**
Shop C	**7.5%**

Market Yield = 7.5% YP = 100/7.5 = 13.33 = Value = ₹30 lakh × 13.33 = ₹4.00 crore
This is the **Market Value.**

2. Investment Value (What This Particular Investor Pays)

Now suppose a private equity fund says: "We don't buy anything unless we earn at least 14%." Their required return is much higher than the market's 7.5%.
Therefore:

Value = Income / Required Return = ₹30 lakh / 14% = ₹2.14 crore
This is NOT market value.

It is merely: "The maximum amount this investor is willing to pay."
Market Value versus Investment Value
This distinction is fundamental.

Market Value
Market Value represents the price that would be agreed between:

- A willing buyer; and
- A willing seller, acting knowledgeably, prudently, and without compulsion.

Investment Value
Investment Value represents the value of an asset to a particular investor based on his own expectations and return requirements.
A property may have:

- Market Value of ₹1 crore; but
- Investment Value of ₹80 lakh to one investor and ₹1.20 crore to another.

Therefore, a Registered Valuer assessing Market Value must focus on market evidence rather than personal investment expectations.

Why Indian Valuation Practice Prefers YP over RoR

Indian courts have repeatedly emphasized that valuation under the Income Capitalisation Method must be based on **market-derived capitalization rates** and not on arbitrary investor expectations.

The rationale can be understood under three key principles.

1. Protection Against Speculative Valuation

A high RoR is generally based on assumptions regarding future events such as:

- anticipated infrastructure development;
- future rental growth;
- expected appreciation in land prices;
- proposed industrial or urban expansion.

Such projections may or may not materialize.

Indian courts have consistently held that valuation must be based on realities existing on the valuation date rather than speculative future possibilities.

A market-derived YP reflects actual transactions occurring in the market and therefore provides a more reliable basis for determining value.

2. Relationship with Government Securities and Risk-Free Returns

Historically, Indian courts have often linked capitalization rates to prevailing returns available from secure investments such as:

- Government Securities (G-Secs);
- Long-term Fixed Deposits;
- Other low-risk investments.

The principle is straightforward:

A prudent investor will compare property investment returns with alternative risk-free investments.

For example:

- Long-term Government Security Yield = 7%
- Property Yield = 8%

Then: YP = 1/0.08

YP = 12.5

This means a purchaser is willing to pay approximately 12.5 years' net income for the property.

If an arbitrary 18% RoR is adopted: YP = 1/0.18 = 5.56

The resulting value would reduce dramatically and may not represent actual market behavior.

Such a capitalization rate would imply an exceptionally high-risk asset, which may be inconsistent with the characteristics of established real estate.

3. Requirement of Objectivity in Valuation

The role of a Registered Valuer is not to determine what a particular investor wishes to pay. The role is to determine what the market would pay.

Under internationally accepted valuation principles and Indian valuation standards, valuation should be:

- Objective;
- Evidence-based;
- Market-oriented;
- Defensible.

A market-derived YP satisfies these requirements because it reflects the collective actions of numerous market participants.

An investor-specific RoR reflects only the opinion of one investor.

Judicial Perspective

Indian courts, including the Supreme Court, have consistently emphasized that capitalization rates should be supported by market evidence and not by arbitrary assumptions. The courts have repeatedly observed that compensation and market value determination should be based on:

- existing market conditions;
- comparable transactions;
- actual income-generating capacity; and
- reasonable capitalization rates supported by market evidence.

The underlying judicial philosophy is that valuation must represent **fair market value**, not speculative or investor-specific value.

Practical Guidance for Registered Valuers

When applying the Income Capitalisation Method, a Registered Valuer should:

✓ Analyse actual market transactions of comparable income-producing properties.
✓ Derive market yield from comparable sales wherever data is available.
✓ Consider prevailing Government Security and Fixed Deposit rates as reference indicators.
✓ Avoid adopting investor-specific IRR targets without market support.
✓ Clearly distinguish between Market Value and Investment Value.
✓ Provide justification for the selected capitalization rate in the valuation report.
✓ Maintain documentary evidence supporting the adopted YP.

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INTEREST RATE SWAPS

Interest Rate Swap is a derivative instrument where two parties agree to exchange one type of future interest payments with another type. In most cases this includes converting fixed rate of interest to a floating rate or vice versa. Two or more parties agree to exchange their cash flows, customize them to meet the needs and try to mitigate the interest rate risk. One party pays the fixed interest and receives the floating interest while the other party receives the floating interest and pays the fixed interest. Interest Rate Swaps are traded Over the Counter (OTC). The loans of the borrowers are not exchanged but only the interest is settled on a settlement date based on net interest on a notional principal. The party which facilitates the swap arrangement is called the swap intermediary and this may also be done by a bank or a financial institution. A well-structured interest rate swap agreement includes the terms like fixed rate, floating rate, notional principal, period of agreement and the interest payment frequency.

Interest rate - Fixed vs Floating

A fixed interest rate is one where the rate of interest remains fixed over the tenor of loan. Floating interest rate is one which may vary during the tenor of the loan. Floating rate is normally tied to a market benchmark rate like Secured Overnight Financing Rate (SOFR), Tokyo Overnight Average Rate (TONA), Sterling Overnight Index Rate (SONIA), Mumbai Interbank Offer Rates (MIBOR) etc. In India MIBOR is commonly used and this is the rate at which banks in India wanted to charge other banks to lend money. Typically, a floating rate in India could be MIBOR plus 1% or MIBOR minus 0.5% and it may be different to different borrowers. Fixed rate is suitable for a risk averse borrower while floating rate is preferred by risk taking borrower.

Types of Interest Rate Swaps

There are three common types of interest rate swaps:

1. **Fixed to Floating –** Here a company receives interest based on fixed interest rates and pays interest based on floating interest rates.
2. **Floating to Fixed –** Here a company receives interest based on floating interest rates and pays interest based on fixed interest rates.
3. **Float to Float –** Here companies exchange interest based on different benchmark floating interest rates.

Working Mechanism of Interest Rate swap

Let us understand as to how an interest rate swap contract works. Two companies A Ltd and B ltd have a loan of Rs 100 crores each.

-Terms of loan for A Ltd are fixed rate of 9% or floating rate of MIBOR plus 0.25%. A Ltd accepts the fixed rate of 9%.

-Terms of loan for B Ltd are fixed rate of 8% or floating rate of MIBOR plus 0.5%. B Ltd accepts the floating rate of MIBOR plus 0.5%.

-A swap intermediary arranges for a swap contract with both the parties i.e swapping the loan of A Ltd to floating and swapping the loan of B Ltd to fixed rate.

-Swap intermediary calculates the actual cost of the loan of both parties to be 9% for A Ltd and MIBOR plus 0.5 for B Ltd. So, the total cost works out to 9% plus MIBOR plus 0.5% i.e MIBOR plus 9.5%.

-Swap intermediary then calculates the total cost of both parties due to swap contract as MIBOR plus 0.25% for A Ltd and 8% for B Ltd. So, the total cost of swap works out to MIBOR plus 0.25% plus 8% i.e MIBOR plus 8.25%.

-The total savings worked out by swap intermediary is the difference between (MIBOR plus 9.5%) and (MIBOR plus 8.25%) i.e 1.25%. The swap intermediary may charge say 0.25% for executing this swap contract and this is called the swap fee or swap charges.

-The effective profit is thus 1.25% minus 0.25% i.e 1% and if it is equally attractive for both the parties then the saving for each A Ltd and B Ltd is 0.5%. 0.5% of Rs. 100 crore will work out to a savings of Rs. 50 lakhs.
The process flow of an INR interest rate swap is shown in the Process Flow Chart.

Benefits of interest rate swaps
The following are the benefits of interest rate swaps:

1. Interest rate swaps help businesses flexibility in aligning their cash outflow of interest payments.
2. Interest rate swaps are derivative instruments which help in hedging interest risks of businesses.
3. Interest rate swaps are customizable to the needs of the parties.
4. Instead of taking new loans with different terms or even restructuring of the existing loans, swaps can be an easier and cost saving option to the borrowers.
5. They can be worked out for a specific time period. Therefore, the parties can avoid extending this contract if it is not seen attractive.

Conclusion

When more than one currency is involved then currency swaps also come into play. Over USD 3 trillion was cleared in INR swaps during the year 2024. Swaps in foreign currency are more common but this may also involve currency rate risks. This volume is expected to increase in the future years as there is more interest rate volatility in today's world. Interest rate swaps are derivative instruments and derivatives are risky. These instruments are effective when it is beneficial to both the borrowing parties. However, there are times when one party may gain and another party may lose. The companies may still use interest rate swaps to hedge and reduce losses or even make some profit which may be speculative.

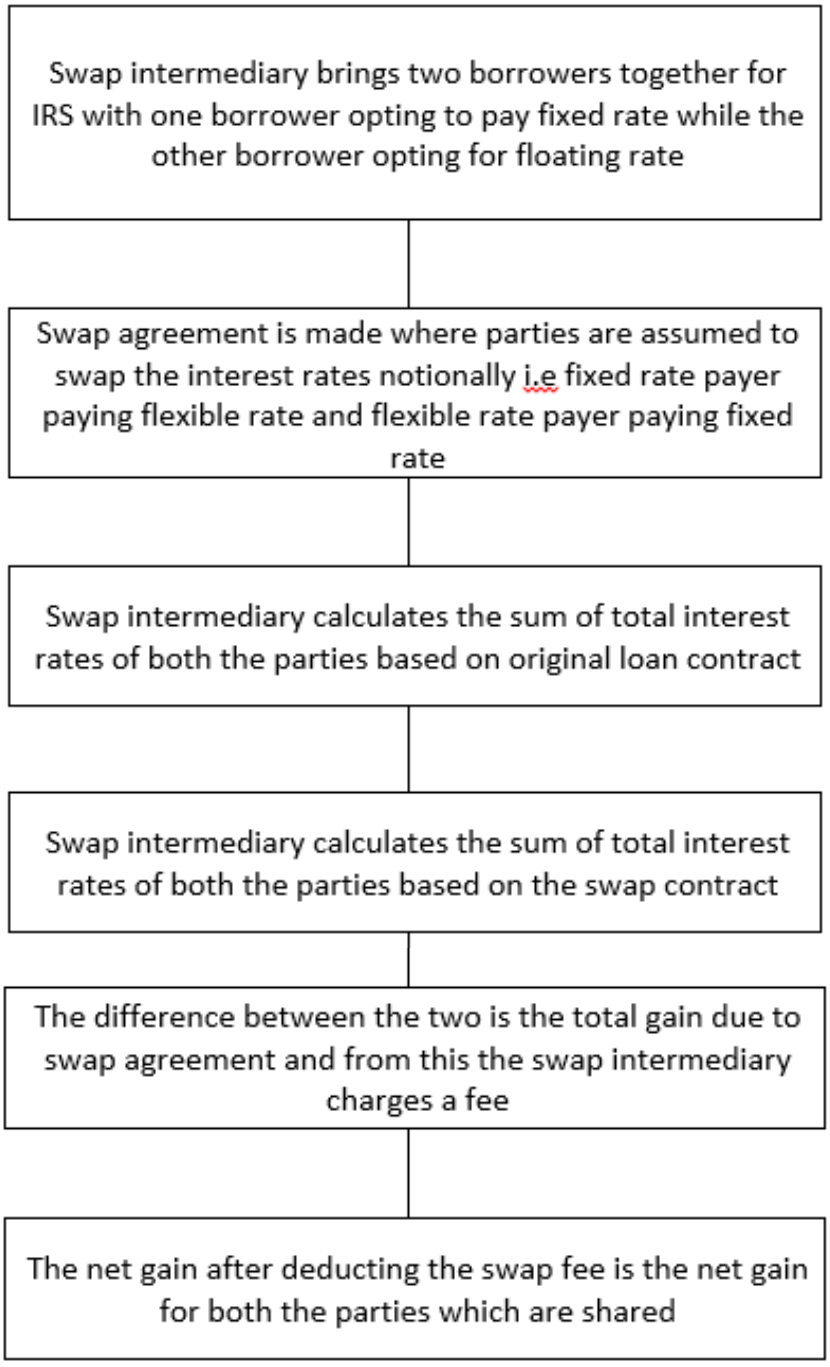
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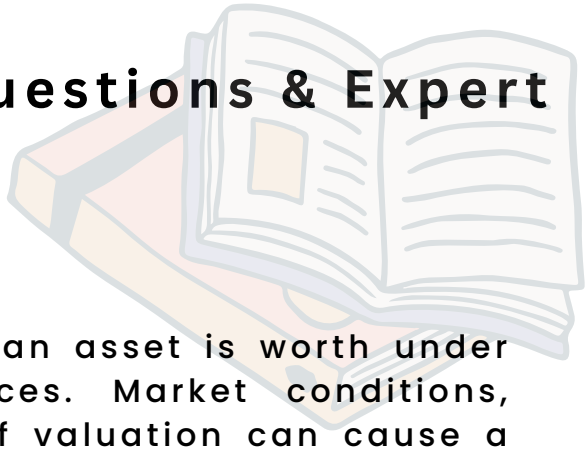
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Process Flow Chart of an INR interest rate swap (IRS)



Valuation Essentials: Key Questions & Expert Answers



Q1. Is price always equal to value?
Answer:
No. Price is what is paid; value is what an asset is worth under specified assumptions and circumstances. Market conditions, negotiation, urgency, and the purpose of valuation can cause a significant difference between the two.

Q2. Can an asset have more than one value?
Answer:
Yes. An asset can have different values depending on the purpose, valuation date, premise of value, and methodology used. Market Value, Liquidation Value, Investment Value, and other bases may produce different conclusions.

Q3. What makes a comparable company truly "comparable"?
Answer:
Similarity in business model, size, growth, profitability, risk, geography, and market conditions. A company may operate in the same industry but still be a poor comparable if its financial or risk profile is significantly different.

Q4. Can a loss-making company have significant value?
Answer:
Absolutely. A company may have valuable assets, intellectual property, technology, brand, customer relationships, market position, or future growth potential, even when its current profits are negative.

Q5. Can a loss-making company have significant value?

Answer:
Absolutely. A company may have valuable assets, intellectual property, technology, brand, customer relationships, market position, or future growth potential, even when its current profits are negative.

Q7. What is the biggest challenge in DCF valuation?
Answer:
Forecasting the future. Small changes in revenue growth, margins, terminal growth, or discount rate can significantly affect the final valuation. Therefore, assumptions must be reasonable, supportable, and clearly explained.

L&B
192
Batches

SFA
91
Batches

P&M
74
Batches

No. of Batches conducted

Upcoming Batches



Land & Building (L&B)

Date: 24th Oct 2026
Time: 9am to 6pm



Plant & Machinery (P&M)

Date: 24th Oct 2026
Time: 9am to 6pm



Securities or Financial Assets (SFA)

Date: 24th Oct 2026
Time: 9am to 6pm

Note: Weekend Batches : Saturdays & Sundays

For more information contact : 7455000323

DJVF RVO Members who cleared IBBI Exam in last 6 Month (Oct - March 2026)

Sr. No.	Name	Asset class	Scored (%)
1	Hardik Rameshchandra Parmar	L&B	68
2	Devashish Kamleshbhai Jani	L&B	71.75
3	Amit Talwar	SFA	64
4	Komal	L&B	64.25
5	Sandeep Namdeo Gole	L&B	63.25
6	Deven Anilbhai Chotai	L&B	63.75
7	Ajay Girdharilal Chandak	P&M	60
8	Gourvit Bhanot	L&B	63
9	Aishwarya Sankalp Krishnan	L&B	63.25
10	Rohit Goel	SFA	69
11	M Karthikeyan	L&B	67.5
12	Avikumar Chetankumar Doctor	L&B	60.75
13	Rahul Verma	L&B	65

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