

THE ULTIMATE
M&A VALUATION ₹
PLAYBOOK
— 2026 —

A Practitioner's Guide for Indian Investment
Bankers, PE Funds & Corporate Acquirers



BY

SAGAR SHAH

CA | CS | IBBI Registered Valuer | All India Rank Holder | Ex-EY

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ABOUT THE AUTHOR

Sagar Shah

CA | CS | IBBI Registered Valuer | All India Rank Holder | Ex-EY

Sagar Shah is one of India's leading M&A and transaction Valuation specialists, with over 15 years of experience advising on complex cross-border and domestic transactions. **He spent 9 years at Ernst & Young (EY) in the Transaction Advisory and Valuation practice, where he led mandates spanning private equity deals, strategic acquisitions, divestitures, open offers, and post-merger integrations.**

His deep understanding of deal economics, buyer psychology, and regulatory compliance makes him uniquely placed to guide both acquirers and targets through the valuation process.

At Elite Valuation, Sagar works with funds, investment banks, corporate acquirers, and promoter families to provide independent, defensible Valuations for M&A transactions ranging from Rs. 50 Crore to Rs. 5,000 Crore. His expertise spans all major Valuation methodologies — DCF, comparable company analysis, precedent transactions, option Valuations, and Net Asset Value — with particular depth in complex scenarios such as PPA allocations, earn-out structures, FEMA-compliant cross-border deals, and distressed asset acquisitions.

Core M&A Expertise

- Buy-side and sell-side Valuation for strategic M&A transactions
- Fairness opinions for listed company open offers and delisting
- Purchase Price Allocation (PPA) under Ind AS 103
- FEMA-compliant Valuations for cross-border deals and FDI/ODI transactions
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- Distressed asset and IBC/NCLT resolution plan Valuations
- Earn-out structuring and post-acquisition adjustments
- SEBI-compliant fairness opinions for related-party transactions
- Due diligence support and working capital analysis

Contact: +91 7600008550 | sagarrvshah@elitevaluation.in | www.EliteValuation.in

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SEBI Open Offer & Delisting Valuations — SEBI-compliant Valuations under the Takeover Code (SAST) and delisting regulations, including the reverse book-building process.

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Cross-Border & FEMA Valuations — FEMA-compliant Valuations for FDI inflows, ODI outflows, ECB conversions, and downstream investments — using RBI-mandated internationally accepted pricing guidelines.

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Due Diligence & Working Capital Analysis — Buy-side financial due diligence, normalised EBITDA computation, working capital peg analysis, and locked-box mechanism support.

"In every M&A transaction, the valuation is not just a number — it is the foundation on which deal economics, regulatory compliance, and long-term value creation are built. Get it wrong, and the consequences last long after the deal closes."

— Sagar Shah, CA | CS | Registered Valuer

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PART I: FOUNDATIONS

Chapter 1: The M&A Landscape in India — Deal Structures, Regulations, and Market Dynamics

India's mergers and acquisitions market has undergone a structural transformation over the past decade. From the early consolidation wave in telecom and banking to the current surge in technology, healthcare, and new-age consumer businesses, the Indian deal landscape now rivals those of more mature economies in terms of complexity — if not always in aggregate volume. According to publicly available data, India recorded over \$60 billion in M&A deal value in FY2024–25, driven by both inbound foreign interest and domestic corporate restructuring.

For the M&A practitioner — whether an investment banker, private equity professional, corporate development executive, or registered valuer — navigating this landscape demands a firm grasp of deal structures, regulatory frameworks, and the valuation methodologies that anchor every transaction. This playbook is your structured reference guide for the entire deal lifecycle, from initial screening to post-merger accounting.

1.1 The Indian M&A Regulatory Architecture

Unlike the United States, where M&A is largely governed by contract law and securities regulations, Indian transactions are subject to a multi-layered regulatory framework that directly dictates when, how, and at what price deals can be structured. Any M&A professional operating in India must be conversant with the following statutes:

- Companies Act, 2013 (Sections 230–240) — Governs mergers, demergers, and schemes of arrangement requiring NCLT approval
- SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (SAST) — Mandatory open offer triggers at 25% and 5% creeping acquisition thresholds
- Foreign Exchange Management Act, 1999 (FEMA) — Governs all cross-border transactions, including FDI pricing guidelines and ODI regulations
- Insolvency and Bankruptcy Code, 2016 (IBC) — Framework for corporate insolvency resolution and distressed M&A
- Income Tax Act, 1961 — Section 50C, 56(2)(x), 56(2)(viib) govern deemed consideration and fair market value rules
- Competition Act, 2002 — CCI approval mandatory for combinations above prescribed asset/turnover thresholds

1.2 Deal Flow Patterns and Sector Trends

Understanding sector dynamics is essential for any Valuation exercise. Different industries carry structurally different Valuation multiples, risk profiles, and deal structures. Technology and SaaS businesses trade on revenue multiples, while manufacturing businesses are valued on EBITDA. Financial services companies are typically valued on book value multiples or earnings capitalisation.

In FY2024–25, the most active sectors for M&A in India included: Financial Services (banking, NBFC, insurance); Technology and Digital Infrastructure; Healthcare, Pharma, and Life Sciences; Consumer Brands and Retail; and Renewable Energy and Infrastructure. Each sector brings its own regulatory overlay, and valuers must be aware of sector-specific regulations — RBI guidelines for banking acquisitions, IRDAI approvals for insurance deals, SEBI for listed securities.

Deal Type	Typical Structure	SEBI/RBI Trigger	Common Valuation Method
Strategic Acquisition	Share purchase + SPA	SAST (>25%)	DCF + CCA
PE Buy-Out	Primary + Secondary	FEMA (FDI)	DCF + LBO
Merger (NCLT)	Share swap / Cash	Companies Act	NAV + DCF
Open Offer	Public tender	SEBI SAST	CCA + Floor Price
Asset Acquisition	Business transfer / Slump sale	FEMA / GST	NAV + DCF
Distressed / IBC	Resolution plan	IBC 2016	Liquidation + Going Concern

Table 1.1: Common M&A Deal Structures and Valuation Triggers in India

1.3 The Role of the Independent Valuation Expert

Unlike many jurisdictions where Valuations are primarily internal exercises, Indian M&A law mandates independent registered valuers in a wide range of scenarios. Under the Companies Act, mergers via NCLT require registered valuer reports. Under FEMA, both the acquirer and target need FEMA-compliant Valuations from SEBI-registered Category I Merchant Bankers or IBBI Registered Valuers, depending on the instrument and deal type. Under the Takeover Code, the open offer price must be determined by an independent agency.

This mandatory independence requirement gives the valuation opinion significant legal weight — but also significant responsibility. A Valuation that cannot withstand regulatory or judicial scrutiny can delay or derail a transaction. At Elite Valuation, we have prepared Valuation reports that have been tested before the NCLT, before the Income Tax Appellate Tribunal, and in SEBI enforcement proceedings. Defensibility is not optional.

KEY INSIGHT

In 15 years of practice, the most common mistake I see acquirers make is commissioning a Valuation only at the term sheet stage — after the price has already been negotiated. A good M&A valuation should anchor the price discovery process, not merely justify it after the fact. I recommend engaging a registered valuer as early as the initial screening phase, so the price range informs the negotiation, not the reverse.

1.4 Deal Economics and Value Drivers

Every acquisition is ultimately a bet on future cash flows. The price an acquirer pays reflects: the intrinsic value of the target as a standalone business (the 'fundamental value'), plus a control premium reflecting the benefit of controlling the entity's decisions, plus synergy value representing operational and financial benefits post-combination, minus integration costs and execution risk.

$$\text{Transaction Price} = \text{Fundamental Value} + \text{Control Premium} + \text{Synergy Value} - \text{Integration Cost}$$

Understanding how each of these components is estimated — and where each party in a deal negotiation has information advantages — is the foundation of sophisticated M&A valuation. A seller will typically argue for synergy sharing; a sophisticated buyer will resist. A registered valuer's role is to provide a defensible 'fundamental value' range while clearly communicating the assumptions behind it.

PRO TIP

Always compute a preliminary 'break-even synergy' analysis before entering price negotiations: how much synergy would the acquirer need to realise to justify the proposed acquisition premium? If the required synergy exceeds what is operationally achievable, the price is too high — regardless of what comparables suggest. Present this as a stress-test slide in every buy-side mandate.

1.5 Indian M&A: Key Data Points and Market Context

A few benchmark data points that M&A practitioners should have at hand when contextualising Indian transaction Valuations: The average EV/EBITDA multiple for Indian listed mid-cap industrials has ranged between 8x–14x over FY2022–25; PE-backed deals in technology and consumer typically clear at 15x–25x; healthcare platform deals have commanded 20x–30x EBITDA in recent years. These are starting points, not answers — each transaction's multiple must be calibrated to the specific company's growth profile, margin trajectory, and capital requirements.

India's structural advantages — a large domestic consumption base, a growing formal economy, improving regulatory predictability, and a maturing capital market ecosystem — continue to attract both global strategic players and financial sponsors. For the M&A valuation practitioner, this means a deepening and more sophisticated deal pipeline, with correspondingly higher expectations for rigour and independence.

PART I: FOUNDATIONS

Chapter 2: Valuation Fundamentals — Methodologies, Standards, and the Regulatory Framework

Every M&A valuation exercise begins with a methodological choice. The three primary approaches — Income (DCF), Market (Comparables), and Asset (NAV) — are not alternatives to be picked arbitrarily; they are lenses through which different aspects of value are revealed. A sophisticated M&A valuation uses all three in triangulation, arriving at a value range rather than a point estimate, and explains the spread between the high and low ends.

In the Indian regulatory context, methodological choice is not entirely free. FEMA Regulations (specifically, the FEMA Non-Debt Instruments Rules, 2019) require that cross-border deal Valuations use 'internationally accepted pricing methodologies' — which in practice means DCF and/or market comparables for equity instruments, and Fair Market Value for debt and hybrid instruments. The SEBI Takeover Code requires an 'independent valuer' using 'internationally accepted valuation methods.' The Companies Act requires registered valuers under Rule 11 of the Companies (Registered Valuers and Valuation) Rules, 2017.

2.1 The Income Approach — Discounted Cash Flow

The DCF method values a business based on the present value of its projected free cash flows to the firm (FCFF), discounted at the Weighted Average Cost of Capital (WACC). This is the most rigorous and, in the Indian regulatory context, the most widely accepted methodology for M&A Valuations.

$$\text{Enterprise Value} = \sum [\text{FCFF}_t / (1+\text{WACC})^t] + \text{Terminal Value} / (1+\text{WACC})^n$$

The three core drivers of DCF value are: (1) the forecast free cash flow profile over the explicit projection period (typically 5–10 years), (2) the terminal value representing cash flows beyond the projection period, and (3) the discount rate (WACC). Each of these is an exercise in judgement as much as calculation — which is why a DCF model built without deep business understanding is not a valuation; it is a spreadsheet.

Methodology	Best Used For	Key Input	Regulatory Acceptance
DCF (Discounted Cash Flow)	Businesses with predictable cash flows	WACC, terminal growth rate	High — preferred for FEMA, SEBI
Comparable Company Analysis	Listed peer benchmarking	EV/EBITDA, P/E multiples	High — widely accepted
Precedent Transaction Analysis	Deal pricing reference	Deal multiples, control premium	Medium — context-dependent
Net Asset Value (NAV)	Asset-heavy, holding cos, real estate	Fair value of assets/liabilities	High — required for certain FEMA deals

Methodology	Best Used For	Key Input	Regulatory Acceptance
LBO Analysis	PE buyout pricing	IRR hurdle, exit multiple	Low (internal) — not for regulatory filings
Dividend Discount Model	Mature, dividend-paying companies	Dividend yield, CoE	Medium — used for banks/NBFCs

Table 2.1: M&A Valuation Methodologies — Applicability and Regulatory Acceptance

2.2 The Market Approach — Comparable Companies and Transactions

Market-based methods value a business by reference to observable market prices of similar businesses, either as listed public companies (Comparable Company Analysis, or 'Comps') or as recent M&A transactions (Precedent Transaction Analysis, or 'Precedents'). The underlying logic is straightforward: if comparable businesses trade at 10x EBITDA, our business — adjusted for size, growth, margin, and risk differences — should trade in a similar range.

In practice, identifying truly comparable companies in India is challenging. The listed universe is relatively shallow in many sectors, and public-private gaps are significant. Additionally, Indian market multiples are structurally different from US or European benchmarks — typically at a discount for smaller, less liquid companies and at a premium for market-leading franchises in high-growth sectors.

PRO TIP

When selecting comparable companies for an Indian M&A Valuation, always apply a three-screen filter: (1) same sector and business model, (2) comparable size range ($\pm 50\%$ of target revenue), and (3) similar growth profile ($\pm 5\%$ CAGR). Reject any comp that fails two of these three screens, regardless of how 'close' the business description seems. A bad comp set destroys the credibility of the entire market approach.

2.3 The Asset Approach — Net Asset Value

The NAV method values a business based on the fair value of its underlying assets and liabilities. This approach is most relevant for asset-heavy businesses (real estate, infrastructure, holding companies) and for situations where the going-concern value is lower than the liquidation value (distressed M&A, IBC proceedings). For FEMA Valuations involving non-convertible instruments and for certain SEBI-regulated transactions, NAV-based methods may be mandated.

A common mistake is applying book-value NAV rather than fair-value NAV. Book values reflect historical cost less depreciation; fair values reflect current market prices. For any M&A valuation, each significant asset class — fixed assets, investments, intangibles, real estate — must be marked to fair value before the NAV calculation is meaningful.

KEY INSIGHT

We have seen acquisition disputes arise years after closing because the buyer and seller disagreed on what 'NAV' meant in the SPA. In one transaction involving a holding company with listed and unlisted subsidiaries, the buyer assumed book NAV while the seller calculated fair-value NAV — a difference of over Rs. 80 Crores on a Rs. 300 Crore deal. Always define the Valuation standard precisely in the SPA, and engage a registered valuer to certify it independently at closing.

2.4 Regulatory Standards and IBBI Framework

The IBBI (Insolvency and Bankruptcy Board of India) Registered Valuers framework, established under the Companies Act, 2013 and the Companies (Registered Valuers and Valuation) Rules, 2017, provides the formal professional standards for valuers in India. Registered Valuers must follow the Valuation Standards issued by the ICAI Valuation Standards (IVS-aligned) or the IBBI's own framework, maintain mandatory CPE requirements, and carry professional indemnity insurance.

For M&A practitioners, the key implication is that any valuation used for a regulatory filing — be it under the Companies Act, FEMA, SEBI, or the IBC — must ideally be prepared or certified by an IBBI Registered Valuer in the relevant asset class (Securities or Financial Assets). This is a compliance requirement, not merely a best practice.

PART II: CORE VALUATION METHODOLOGIES

Chapter 3: Discounted Cash Flow (DCF) Analysis in M&A — Building a Defensible Model

The DCF model is the most powerful and the most abused tool in the M&A valuation toolkit. In the right hands, it is a structured way to convert a deep understanding of a business into an enterprise value range. In inexperienced hands, it becomes an exercise in reverse-engineering a desired answer through assumption manipulation. This chapter provides a rigorous, step-by-step framework for building M&A DCF models that withstand both commercial scrutiny and regulatory challenge.

3.1 Structuring the Projection Period

The first decision in any DCF model is the length of the explicit projection period. Industry convention for M&A Valuations in India is 5 years, though businesses in high-growth or volatile sectors may warrant 7–10 years to reach a 'normalised' cash flow state. The projection period should be long enough that the terminal value assumption is not carrying more than 60–65% of total enterprise value — if terminal value represents 80%+ of your DCF, the model is not robust.

- Year 1–2: Management projections or bottoms-up build from operational drivers
- Year 3–5: Analyst-adjusted projections incorporating industry benchmarks and macro assumptions
- Terminal Year: Normalised, steady-state margin and growth assumptions

3.2 Free Cash Flow to Firm (FCFF) — The Correct Definition

$$\text{FCFF} = \text{EBIT} \times (1 - \text{Tax Rate}) + \text{D\&A} - \Delta \text{ Working Capital} - \text{Capex}$$

A common error in Indian M&A models is using reported EBITDA as a proxy for cash flow without adjusting for: lease liabilities and Ind AS 116 impacts; maintenance vs. growth capex distinction; working capital cycles that differ materially from the industry norm; and off-balance-sheet items such as contingent liabilities and operating lease commitments.

PRO TIP

Always build a separate 'FCFF Bridge' exhibit in your model that starts from EBITDA and systematically deducts each item to arrive at FCFF. This forces you to make every assumption explicit and gives the buyer's due diligence team a clear audit trail. Models that hide cash flow adjustments in single-line items are rejected by sophisticated acquirers — and rightly so.

3.3 Computing the Discount Rate — WACC in an Indian Context

The Weighted Average Cost of Capital is the single most sensitive assumption in any DCF model. A 1% change in WACC on a business generating Rs. 100 Crore FCFF growing at 8% can shift

enterprise value by Rs. 150–200 Crore. Getting WACC right in the Indian context requires addressing several India-specific adjustments.

The Cost of Equity is derived from the Capital Asset Pricing Model (CAPM): Cost of Equity = Risk-Free Rate + Beta × Equity Risk Premium + Size Premium + Company-Specific Risk Premium.

For Indian Valuations, the Risk-Free Rate is the yield on the 10-year Government of India Securities bond — approximately 7.0–7.2% as of early 2026. The Equity Risk Premium (ERP) for India, using Damodaran's India ERP dataset, is approximately 9.5–10.5%. Beta is derived from comparable listed companies, re-levered for the target's capital structure.

$$\text{WACC} = [\text{Ke} \times \text{E}/(\text{D}+\text{E})] + [\text{Kd} \times (1-t) \times \text{D}/(\text{D}+\text{E})]$$

KEY INSIGHT

In every M&A DCF we prepare, we conduct a WACC sensitivity analysis across a 2% band — typically testing discount rates from WACC–1% to WACC+1% in 25bps increments. For an Indian mid-size business, this spread can produce an enterprise value range of 30–40%. We present this range transparently to clients and explain what business improvement levers would move the value toward the upper end. This is more honest — and more useful — than presenting a single-point value.

3.4 Terminal Value — The Most Consequential Assumption

Terminal Value typically represents 60–75% of enterprise value in a standard DCF model, making it the single most impactful assumption in the entire exercise. There are two primary methods for estimating terminal value: the Gordon Growth Model (perpetuity growth) and the Exit Multiple Method.

$$\text{Terminal Value (Gordon Growth)} = \text{FCFF}_{n+1} / (\text{WACC} - g)$$

The terminal growth rate (g) represents the long-run sustainable growth rate of the business. For Indian businesses, this is typically set at 4–6% — anchored to nominal GDP growth less a margin for mean reversion. Setting terminal growth above 6% for any business requires explicit justification. For the Exit Multiple Method, the terminal year EBITDA is multiplied by an industry-representative exit multiple derived from comparable transactions or trading comps.

PRO TIP

Use both terminal value methods in every DCF and present them as a cross-check. If the Gordon Growth Model gives a terminal multiple of 9.5x EBITDA but your comparable transactions show deals closing at 12x, the gap needs explanation — either the forecast growth rate is too conservative, the WACC is too high, or the comparables are genuinely superior businesses. Unresolved gaps between your two terminal value methods are a warning signal that one of your assumptions needs revisiting.

3.5 Sensitivity Analysis and Value Range Presentation

A single-point DCF output is not a Valuation. It is a calculation. A proper M&A Valuation presents enterprise value as a range across a sensitivity matrix — typically a 5×5 table showing enterprise value at different combinations of WACC and terminal growth rate (or exit multiple). This range becomes the foundation for the price negotiation anchor.

PART II: CORE VALUATION METHODOLOGIES

Chapter 4: Comparable Company Analysis (CCA) — Selecting, Adjusting, and Applying Multiples

Comparable Company Analysis (CCA), colloquially known as 'trading comps' or 'public market comps,' values a business by reference to the market multiples of publicly traded peers. The fundamental logic is that markets price businesses efficiently, and that similar businesses should trade at similar multiples — adjusted for growth, margin, size, and risk differences. In the Indian M&A context, CCA is almost universally included in any valuation exercise, though the quality of the Indian comparable universe varies considerably by sector.

4.1 Identifying the Right Comparable Universe

The integrity of a comparable company analysis is entirely dependent on the quality of the peer set. A single misclassified comparable — a business with a fundamentally different model, margin structure, or growth profile — can skew the entire analysis by 2–3 multiple turns. The selection process must be systematic, documented, and defensible.

Screening Criterion	Ideal Range	Exclude If
Revenue Size	0.5x – 2.0x Target Revenue	< 0.3x or > 3.0x
EBITDA Margin	Within ±500 bps	Structurally different model
Revenue Growth (3yr CAGR)	Within ±500 bps	> 1000 bps difference
Debt/EBITDA	Similar leverage	Highly leveraged outliers
Geography	India / Comparable EM	US/EU only — discount required
Listing & Liquidity	Listed on NSE/BSE	OTC only — liquidity discount

Table 4.1: Comparable Company Screening Criteria for Indian M&A

4.2 Key Multiples Used in Indian M&A

The choice of valuation multiple depends on the business's stage, industry, and financial profile. Enterprise Value / EBITDA is the most widely used multiple in Indian M&A across manufacturing, services, consumer, and healthcare sectors — it captures operating profitability before capital structure effects. EV/Revenue is used for high-growth, pre-profitability businesses where EBITDA is negative or distorted by one-off investments. Price/Earnings is used for financial services companies and mature, capital-light businesses. EV/EBIT is appropriate for capital-intensive businesses where depreciation is a real economic cost.

4.3 Multiples Adjustment for Indian Market Conditions

Direct application of global multiples to Indian businesses without adjustment is a common and costly error. Indian market multiples differ from US or European benchmarks for several structural

reasons: India's equity risk premium is higher, reducing multiples; Indian growth rates are higher, increasing multiples; liquidity discounts apply to smaller, less-traded Indian stocks; and regulatory risk is embedded in discount rates for Indian businesses.

KEY INSIGHT

In a recent sell-side mandate for an Indian B2B SaaS company, the founder had benchmarked their business against US SaaS comps trading at 8–12x revenue. After adjusting for India-specific ERP, size premium, and the illiquidity discount for a private transaction, the appropriate multiple range was 4–6x revenue — nearly half the reference point. The adjustment saved both parties significant time in a negotiation that would have otherwise been anchored to an unrealistic price expectation.

PRO TIP

Always present your comparable company analysis with two tiers: Tier 1 (pure-play Indian listed peers, highest relevance) and Tier 2 (global peers, used as a secondary reference with explicit India adjustment factors). This tiered structure makes the analysis more transparent and gives you a defensible framework when a buyer or seller challenges your multiple selection.

4.4 From Enterprise Value to Equity Value — The Bridge

Once the enterprise value range is established from comparable multiples, the practitioner must 'bridge' from enterprise value to equity value per share. This bridge requires: subtracting net financial debt (total debt less cash), subtracting minority interest at fair value, adding value of non-operating assets not captured in EBITDA (investments, surplus real estate), and adjusting for off-balance-sheet liabilities (contingent liabilities, pension deficits, lease obligations).

$$\text{Equity Value} = \text{Enterprise Value} - \text{Net Debt} - \text{Minority Interest} + \text{Non-Operating Assets}$$

This bridge is where many 'cheap' acquisitions turn out to be expensive, and where many 'expensive' acquisitions reveal hidden value. A Rs. 500 Crore EV business carrying Rs. 200 Crore in net debt, Rs. 50 Crore in contingent tax liabilities, and Rs. 30 Crore in unfunded pension obligations has an equity value of Rs. 220 Crore — less than half the headline EV. Failing to compute this bridge accurately is one of the most frequent sources of post-deal regret.

PART II: CORE VALUATION METHODOLOGIES

Chapter 5: Precedent Transaction Analysis — Extracting Control Premiums and Deal Insights

Precedent Transaction Analysis ('deal comps' or 'deal multiples') values a business by reference to the multiples paid in previous acquisitions of comparable businesses. Unlike trading comps, which reflect minority market prices, transaction multiples embed a control premium — the additional value a buyer pays to acquire control of the business and its future cash flows. In the Indian context, control premiums have historically ranged from 20% to 40% over the unaffected share price for listed acquisitions, though this varies considerably by deal structure, sector, and negotiating dynamics.

5.1 Building an Indian Precedent Transaction Database

Identifying relevant precedent transactions in India requires multiple data sources: SEBI open offer disclosures (publicly available), NCLT merger filings, RBI/FEMA reporting for cross-border deals, BSE/NSE takeover announcements, and subscription databases such as Bloomberg, VCC Edge, and Venture Intelligence. The quality and completeness of deal data in India is improving but remains inferior to US/UK data — partial disclosures and undisclosed deal terms are common, particularly for private transactions.

PRO TIP

When building a transaction database for Indian precedents, always record the 'unaffected date' — the last trading day before any public announcement or rumour — and compute the acquisition multiple off the unaffected share price. Using the price-run-up-adjusted unaffected price ensures you are measuring the true control premium being paid, not the multiple after the market has partially priced in the deal.

5.2 Control Premiums in Indian M&A — Data and Analysis

The control premium represents the incremental value a buyer pays above the standalone minority value to acquire operational and strategic control. In Indian M&A, control premiums are influenced by the following factors: strategic fit and synergy potential, competitive tension in the deal process, regulatory environment (promoter exit restrictions, SEBI open offer obligations), quality of the target's governance and management, and the seller's alternatives and urgency.

Based on publicly available data from SEBI open offer disclosures over the period FY2020–2025, the median control premium paid in Indian listed company acquisitions has been approximately 25–30% over the 60-day VWAP preceding the announcement date. Sector-specific premiums are meaningfully different: technology and digital assets have commanded 35–50% premiums, while regulated utilities and infrastructure have seen 15–25% premiums.

KEY INSIGHT

Control premiums in Indian family-business acquisitions frequently embed a 'governance discount' that is not visible in the deal multiple. In several transactions we have advised, a seemingly fair 28% premium over market price was actually a 15% true premium once the target's normalised earnings — adjusted for owner's compensation, related-party transactions, and undisclosed expenses — were used as the base. Always normalise earnings before computing multiples in family-business M&A.

5.3 Applying Transaction Multiples to Private Company Valuations

Applying precedent transaction multiples to unlisted private companies requires two adjustments. The first is a size discount — private companies are typically less liquid, less professionally managed, and have less diversified customer bases than the listed companies from which many deal multiples are derived. Size discounts in Indian M&A range from 15% to 30%, depending on EBITDA scale. The second adjustment is a marketability discount — reflecting the absence of a ready market for private company equity, typically 20–30% for minority interests.

Adjusted EV = Transaction Multiple × Normalised EBITDA × (1 – Size Discount)

PRO TIP

Present precedent transaction analysis as a 'vintage-adjusted' multiple where transactions older than 3 years are explicitly adjusted for the change in sector EV/EBITDA multiples over the intervening period. Presenting a 2021 PE acquisition multiple as a live comparable in a 2026 valuation — without adjusting for the multiple compression that occurred in 2022–23 — is a methodological error that will be caught by any experienced deal participant.

PART III: DEAL-SPECIFIC VALUATION TOPICS

Chapter 6: Purchase Price Allocation (PPA) – Ind AS 103 and Intangible Asset Recognition

Purchase Price Allocation is arguably the most technically complex and financially consequential valuation exercise in the M&A lifecycle. Every acquisition that results in a change of control must be accounted for under Ind AS 103 (Business Combinations), which requires the acquirer to: (1) measure the consideration transferred (the purchase price), (2) identify and measure all identifiable assets and liabilities of the acquiree at fair value on the acquisition date, and (3) compute goodwill as the residual between consideration transferred and the fair value of net identifiable assets.

6.1 The PPA Framework under Ind AS 103

Ind AS 103 is India's equivalent of IFRS 3 (Business Combinations) and is substantially converged with that standard. The key principles: the acquisition method is mandatory (pooling of interests is prohibited); all identifiable assets and liabilities, including those not previously recognised on the target's books, must be recognised and measured at fair value; and goodwill is not amortised but tested for impairment annually under Ind AS 36.

The most significant practical implication of PPA is the recognition of intangible assets that exist economically but are absent from the target's balance sheet – because they were internally developed rather than purchased. Customer relationships, technology platforms, brand names, non-compete agreements, and order backlogs are routinely identified and separately valued in a PPA exercise. The fair values assigned to these intangibles determine the amortisation charge that will hit the acquirer's P&L in the post-acquisition periods.

Asset Class	Valuation Method	Useful Life	Key Input
Customer Relationships	Multi-Period Excess Earnings (MPEEM)	5–15 years	Customer attrition rate, revenue contribution
Technology / IP	Relief from Royalty (RFR)	3–10 years	Royalty rate, technology lifecycle
Brand / Tradename	Relief from Royalty (RFR)	Indefinite / 10–20 yrs	Royalty rate, brand revenue base
Non-Compete Agreements	With-and-Without Method	2–5 years	Revenue impact of competition
Order Book / Backlog	Direct Capitalisation	1–3 years	Revenue conversion profile
Assembled Workforce	Cost Approach (Replacement)	N/A (not separately recognised)	Recruitment and training cost

Table 6.1: Intangible Asset Classes in PPA – Methods and Inputs

6.2 The Multi-Period Excess Earnings Method (MPEEM)

The MPEEM is the most commonly used method for valuing customer relationships in a PPA exercise. The method estimates the value of customer relationships as the present value of the excess earnings attributable specifically to those relationships — after deducting contributory asset charges (CACs) for the use of all other assets that contribute to generating the earnings.

$$\text{Customer Relationship Value} = \text{PV of [Revenue} \times \text{Attrition-Adjusted Margin} - \text{Contributory Asset Charges]}$$

KEY INSIGHT

In a PPA, we conducted for the acquisition of an Indian B2B IT services company at Rs. 450 Crore, we identified customer relationships with a fair value of Rs. 95 Crore and technology with a fair value of Rs. 35 Crore — assets that had zero book value on the target's balance sheet. The resulting amortisation charge was Rs. 13 Crore per year, reducing reported PBT by 18% compared to the acquirer's pre-PPA model. The acquirer's CFO had not anticipated this impact. Always model the post-PPA P&L impact before finalising deal economics.

6.3 Goodwill — Calculation, Impairment, and Disclosure

Goodwill is the residual consideration paid above the fair value of net identifiable assets — the 'premium for the future' that reflects synergies, assembled workforce, market position, and the going-concern value of the business as an integrated whole. Under Ind AS 36, goodwill must be allocated to Cash-Generating Units (CGUs) and tested for impairment annually or whenever there is an indicator of impairment.

In Indian M&A, goodwill impairment has become an increasingly important topic as several high-profile acquisitions from the 2010–2018 period are now showing impairment signs. An impairment test uses a recoverable amount based on either 'value in use' (DCF-based) or 'fair value less costs of disposal.' Any shortfall between carrying value and recoverable amount is recognised as an impairment loss and cannot be reversed.

PRO TIP

If the acquisition goodwill is greater than 30–40% of total consideration transferred, model out the impairment test at a 10% revenue miss and a 150bps EBITDA margin compression versus plan. If these scenarios trigger impairment under your DCF model, flag this as a risk in the deal committee presentation. Acquiring at a price that embeds high goodwill and provides little headroom for performance variability is a governance risk, not just an accounting concern.

PART III: DEAL-SPECIFIC VALUATION TOPICS

Chapter 7: FEMA & Cross-Border Valuations — RBI Compliance and Pricing Guidelines

Cross-border M&A transactions involving Indian companies are subject to the Foreign Exchange Management Act, 1999 (FEMA), and specifically the FEMA Non-Debt Instruments Rules, 2019 and the FEMA Overseas Investment Rules, 2022. These regulations prescribe not only the approval and reporting requirements for cross-border deals but also the pricing guidelines for both inbound FDI and outbound ODI transactions. Non-compliance with FEMA pricing guidelines can result in compounding penalties, deal unwinding requirements, and reputational damage.

7.1 FEMA Pricing Guidelines — Inbound FDI

For inbound FDI (a foreign entity acquiring shares of an Indian company), FEMA requires that the transaction price not be less than the Fair Market Value (FMV) of the shares. For listed companies, FMV is the SEBI-prescribed formula (volume-weighted average price). For unlisted companies — the more common case in private M&A — FMV must be determined by a SEBI-registered Category I Merchant Banker or an IBBI Registered Valuer, using 'internationally accepted pricing methodologies.'

In practice, DCF is the preferred methodology for FEMA-compliant Valuations of unlisted companies, supplemented by a CCA if credible Indian comparable companies exist. The valuation report must: be dated not more than 6 months prior to the transaction date; use financial statements not more than 18 months old; explicitly state the methodology used and the basis for key assumptions; and be signed by the registered valuer.

PRO TIP

For FEMA Valuations involving growth-stage companies with negative EBITDA, use a Revenue-based DCF with explicit path-to-profitability assumptions rather than an EBITDA multiple approach. FEMA officers reviewing the report will expect to see a rigorous DCF, not just a multiple-based valuation. Document every key assumption — especially the terminal value and WACC — in detail, as the RBI may request additional justification during the AD bank review process.

7.2 Outbound Direct Investment (ODI) and the ODI Rules 2022

Indian companies making overseas acquisitions are subject to the FEMA Overseas Investment Rules, 2022, which replaced the earlier ODI regulations with a more liberalised framework while maintaining robust reporting requirements. Under ODI Rules, an Indian entity acquiring a foreign target must: obtain prior approval for acquisitions exceeding the prescribed ODI ceiling (400% of net worth under the automatic route for financial commitments); ensure the acquisition price is

not greater than the FMV of the overseas entity; and file the requisite forms with the AD bank within specified timelines.

KEY INSIGHT

We advised an Indian pharmaceutical company on an outbound acquisition of a South-East Asian generic drug manufacturer. The cross-border Valuation required us to prepare parallel valuation reports — one for the FEMA compliance (capped at FMV under ODI Rules) and one for the deal negotiation (reflecting strategic value to the acquirer, including synergies). The strategic value was 35% above FEMA FMV. This is a common scenario in cross-border M&A — FEMA compliance sets a floor/ceiling on pricing, while deal economics determine the negotiated outcome. The two must be managed separately but consistently.

7.3 ECB Conversion to Equity and FEMA Compliance

A frequently encountered scenario in India is the conversion of External Commercial Borrowings (ECBs) or Compulsorily Convertible Debentures (CCDs) or Compulsorily Convertible Preference Shares (CCPS) into equity. FEMA regulations require that the conversion price not be less than the FMV of equity shares at the time of conversion. This requires a registered valuer's certificate at each conversion event.

For convertible instruments that convert over multiple tranches or over extended periods, some acquirers attempt to lock in a single valuation at the time of initial issuance. This is a common compliance error — each conversion event requires a fresh FMV determination if the conversion price is based on current FMV rather than a pre-agreed formula. The AD bank will typically flag this in the documentation review.

PRO TIP

When structuring PE investments in Indian companies using CCPS, always include a specific clause in the term sheet clarifying whether conversion is at a pre-agreed price or at FMV at the time of conversion. The former is administratively simpler; the latter may expose the investor to adverse FMV changes. This seemingly small drafting choice has significant FEMA and valuation implications.

PART III: DEAL-SPECIFIC VALUATION TOPICS

Chapter 8: Distressed M&A — Valuing Companies in CIRP and Stressed Scenarios

Distressed M&A — the acquisition of financially stressed or insolvent businesses — presents unique valuation challenges that are not addressed by standard going-concern methodology. The Insolvency and Bankruptcy Code, 2016 (IBC) has created a structured framework for corporate insolvency resolution in India, generating a significant pipeline of distressed assets and a new class of M&A opportunity for strategic acquirers, private equity funds, and turnaround specialists.

8.1 The IBC Framework and the CIRP Process

The Corporate Insolvency Resolution Process (CIRP) is initiated when a financial creditor, operational creditor, or the corporate debtor itself files an application under Sections 7, 9, or 10 of the IBC. Once admitted by the NCLT, a Resolution Professional (RP) is appointed, the management is suspended, a moratorium comes into effect, and the Committee of Creditors (CoC) is constituted. The RP invites Resolution Applicants (potential acquirers) to submit Resolution Plans within a 270-day window (extendable to 330 days with NCLT approval).

8.2 Dual Valuation Requirement under IBC

The IBC Regulations (specifically, IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016) require the RP to appoint two Registered Valuers to separately determine the Fair Value and the Liquidation Value of the corporate debtor's assets. The higher of the two Valuations becomes the 'floor' for Resolution Plan consideration. Resolution Plans that offer less than liquidation value to financial creditors are not eligible for CoC approval.

Minimum Resolution Plan Value \geq Liquidation Value (as determined by Registered Valuers)

KEY INSIGHT

In several IBC transactions we have been involved with, the spread between going-concern value and liquidation value has been extreme — sometimes 5x to 10x. For a steel plant with specialised machinery and a captive power plant, the going-concern value was Rs. 120 Crore (based on a DCF under a recovery scenario) while the liquidation value was only Rs. 28 Crore (fire-sale value of assets). The CoC's decision to accept a lower upfront consideration from a strategic buyer with a credible operational recovery plan was the correct economic decision, even though it appeared to sacrifice 'value' on paper.

8.3 Stressed Asset Valuation Methodology

Valuing a distressed business requires scenario-based analysis rather than a single valuation. The three standard scenarios for an IBC valuation are: (1) Going Concern (recovery scenario) — the

business is successfully turned around and generates sustainable cash flows; (2) Strategic Sale — the business is sold as a going concern to an acquirer who brings capital, management, and market access; and (3) Liquidation — the assets are sold on a piecemeal basis to the highest available buyers. A probability-weighted average of these scenarios, using realistic recovery assumptions, gives the expected value range.

PRO TIP

When evaluating a Resolution Plan as a CoC member or financial creditor's adviser, always build a 'recovery waterfall' model that shows how the Resolution Plan consideration is distributed between secured financial creditors, unsecured financial creditors, operational creditors, and the resolution applicant's equity. A plan that appears attractive at the headline level may offer poor recovery to your client's specific class of debt. Build the waterfall first, then evaluate the headline number.

PART IV: STRUCTURING AND NEGOTIATION

Chapter 9: Earn-Outs, Deferred Consideration, and Contingent Payments — Design and Valuation

Earn-out mechanisms are among the most powerful — and most frequently misused — tools in the M&A toolkit. An earn-out allows the buyer to defer a portion of the purchase price contingent on the target's future performance, effectively bridging the valuation gap when buyer and seller hold different views on the target's earnings potential. In India, earn-outs have become increasingly common in technology, healthcare, and consumer M&A, particularly where the target's value is heavily dependent on founder-led growth or customer concentration.

9.1 When to Use an Earn-Out

Earn-outs are most appropriate when: there is a meaningful valuation gap based on differing performance projections; the target's future performance is significantly dependent on factors within management's control; the seller (typically the founding team) will remain actively involved post-acquisition; and the performance metrics can be clearly defined, objectively measured, and not manipulable by the acquirer.

KEY INSIGHT

In a recent acquisition of an Indian EdTech company, the buyer's base case valued the business at Rs. 120 Crore while the founders believed it was worth Rs. 200 Crore based on their user growth projections. We structured a deal with Rs. 120 Crore upfront and a Rs. 80 Crore earn-out over 3 years, linked to annual active user milestones and EBITDA margin targets. The earn-out eliminated the valuation gap, aligned incentives, and allowed the acquirer to validate the founder's projections before paying full value. Two years into the deal, the first milestone was met and Rs. 28 Crore was paid — a win for both parties.

9.2 Valuing an Earn-Out — The Real Options and DCF Approaches

An earn-out is economically a contingent consideration — a financial instrument whose value depends on future performance. Under Ind AS 103, contingent consideration must be measured at fair value on the acquisition date and remeasured at each reporting period. The two primary methods for valuing earn-outs are the Scenario-Based Method (SBM) and the Real Options approach.

$$\text{Earn-Out Value} = \sum [\text{Probability}(i) \times \text{Payout}(i) \times \text{Discount Factor}(i)]$$

The Scenario-Based Method assigns probabilities to defined performance scenarios (base, upside, downside) and computes the probability-weighted present value of the earn-out payouts. The discount rate applied to earn-out cash flows should reflect the risk of the specific performance

metric — revenue-linked earn-outs carry higher risk (and thus higher discount rates) than EBITDA-linked ones, since revenue is less controllable.

9.3 Protecting the Earn-Out — Buyer and Seller Protections

Earn-out disputes are among the most common sources of post-closing M&A litigation. Buyers sometimes change reporting structures, allocate overhead charges, or delay revenue recognition to reduce earn-out payouts. Sellers sometimes take uneconomical short-term actions (discounting aggressively, reducing capex) to hit metric targets at the expense of long-term business health.

- Protect the earn-out metric from buyer interference: carve-outs for inter-company charges, revenue recognition policy changes, and management changes
- Include 'good leaver / bad leaver' provisions for founders linked to earn-out continuity
- Require audited financials for earn-out measurement, prepared by an independent auditor
- Define a dispute resolution mechanism (expert determination, arbitration) for earn-out disagreements

PRO TIP

Never link an earn-out solely to revenue without an accompanying profitability or margin floor. Revenue-only earn-outs incentivise the seller management to win low-margin contracts or front-load revenue in the earn-out period at the expense of sustainable unit economics. A well-designed earn-out uses a composite metric — for example, Revenue Growth AND EBITDA Margin AND Net Promoter Score — that rewards sustainable performance rather than gaming.

PART IV: STRUCTURING AND NEGOTIATION

Chapter 10: Working Capital Peg, Locked-Box Mechanisms, and Completion Accounts

The completion mechanism — the process by which the final deal price is determined and settled at closing — is one of the most technically detailed and financially consequential aspects of any M&A transaction. Two competing mechanisms dominate Indian M&A practice: the Completion Accounts mechanism (also called the 'adjustment mechanism') and the Locked-Box mechanism. Choosing between them, and executing each correctly, requires a detailed understanding of working capital dynamics, cash flows, and the accounting conventions that underpin each approach.

10.1 The Completion Accounts Mechanism

Under a Completion Accounts structure, the parties agree on an enterprise value, and the equity consideration is then adjusted post-closing to reflect the actual net debt and working capital position of the business at the completion date. The adjustment is computed by comparing the actual completion balance sheet (prepared after closing) against agreed target values for net debt and working capital.

$$\text{Final Equity Price} = \text{Enterprise Value} - \text{Actual Net Debt} \pm \text{Working Capital Adjustment}$$

The working capital peg (or 'target working capital') represents the normalised level of working capital the business needs to operate — typically the 12-month average or 'last twelve months' (LTM) average. If actual working capital at completion is above the peg, the buyer pays more (the seller left value in the business); if below, the buyer pays less.

10.2 The Locked-Box Mechanism

The Locked-Box mechanism provides price certainty for both parties from the moment of agreement. Under this structure, the parties agree on an equity value at a 'locked-box date' (a historical balance sheet date, typically the last audited or management accounts date) and the seller is contractually prevented from removing any value from the business after that date (no 'leakage'). In exchange for accepting a historical balance sheet date rather than actual completion accounts, the buyer negotiates an interest-like adjustment (the 'box rate') to compensate for the period between the locked-box date and completion.

KEY INSIGHT

In Indian PE-backed transactions, the Locked-Box mechanism has become the preferred completion mechanism for several reasons: it provides deal certainty for both parties and reduces post-closing disputes; it aligns management incentives to protect the business's value during the locked-box period; and it reduces the administrative burden of post-closing account

preparation. However, Locked-Box requires robust due diligence at the time of signing, since there is no post-closing price adjustment to fall back on if unexpected liabilities emerge.

10.3 Defining Leakage – The Critical Locked-Box Negotiation

'Leakage' in a Locked-Box context refers to any cash or value extracted from the target company after the locked-box date for the benefit of the seller or related parties. Standard leakage items include: dividends and distributions; management fees and related-party payments; bonuses and salary increases above normal course; legal or transaction cost payments; and any disposal of assets outside the ordinary course of business.

'Permitted leakage' items are leakage items that are explicitly agreed upon and disclosed at signing. These might include: the final pre-completion dividend (disclosed at signing); scheduled loan repayments; and ongoing management fees at pre-agreed levels. Identifying and capping permitted leakage is a critical negotiation point in any Locked-Box deal.

PRO TIP

When conducting financial due diligence for a Locked-Box transaction, always prepare a 'pro-forma locked-box' analysis that: (1) restates the locked-box balance sheet to remove all leakage items, (2) estimates inter-period value changes from the locked-box date to the expected completion date, and (3) quantifies the financial impact of any potentially undisclosed leakage items. This analysis protects the buyer by revealing the true equity value being acquired.

PART IV: STRUCTURING AND NEGOTIATION

Chapter 11: Open Offers, Delisting, and SEBI Compliance Valuations

For M&A transactions involving Indian listed companies, the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (the 'Takeover Code' or 'SAST Regulations') impose mandatory open offer obligations whenever an acquirer crosses specified shareholding thresholds. These open offer requirements — and the pricing, disclosure, and process obligations that accompany them — add a significant layer of complexity to any Indian listed company acquisition.

11.1 SAST Trigger Events and Open Offer Obligations

The two primary open offer triggers under SAST are: (1) the 25% threshold — an acquirer who acquires 25% or more of the voting rights in a target must make a public announcement to acquire an additional 26% from public shareholders; and (2) the creeping acquisition limit — an acquirer who already holds more than 25% but less than 75% and acquires more than 5% in any financial year must make an open offer.

Scenario	Open Offer Trigger	Minimum Price	Valuation Method Required
Direct acquisition > 25%	Mandatory	Higher of: VWAP 52-wk, SPA price	Independent valuer required
Creeping acquisition > 5% in 52 wks	Mandatory	Higher of: VWAP 52-wk, deal price	Independent valuer required
Indirect acquisition (change in control of acquirer)	Mandatory	SEBI formula price	Independent valuer required
Voluntary open offer	Optional ($\geq 10\%$ offer)	VWAP + any premium offered	Independent valuer (recommended)
Delisting (reverse book building)	Voluntary	Floor price per SEBI formula	Merchant banker / IB required

Table 11.1: SEBI SAST Open Offer Scenarios and Valuation Requirements

11.2 Open Offer Pricing — The SEBI Price Floor Formula

The SEBI Takeover Code prescribes a minimum open offer price formula that sets a floor below which no open offer can be made. The open offer price must be the highest of: (1) the highest price paid by the acquirer for shares of the target in the 52 weeks prior to the public announcement date; (2) the volume-weighted average price of the target's shares during the 52 weeks prior to the public announcement; (3) the highest price at which any party acting in concert with the acquirer has acquired shares; and (4) in some cases, the per-share NAV/book value may be considered.

KEY INSIGHT

A Takeover Code open offer price floor is a legal minimum, not a fair price. In several transactions, acquirers have made open offers at the minimum SEBI price formula price — which may be significantly below the intrinsic value of the target. Minority shareholders should always compare the open offer price to an independent DCF-based intrinsic value before deciding whether to tender. As an independent valuer, we always include a fairness statement in open offer valuation reports that contextualises the offer price relative to multiple valuation methodologies.

11.3 Delisting — The Reverse Book Building Process

When a promoter or acquirer wishes to delist a listed Indian company, the process is governed by the SEBI (Delisting of Equity Shares) Regulations, 2021. The delisting process involves: computing a SEBI formula-based floor price (typically the higher of the VWAP-based price or the book value per share); conducting a reverse book building (RBB) process where public shareholders bid at prices above the floor; and accepting the delisting if 90% of total shares (including promoter holdings) are tendered at or below the discovered exit price.

The valuation challenge in a delisting is the gap between the SEBI floor price and the exit price demanded by institutional shareholders. Institutional investors typically demand a meaningful premium to the SEBI floor — based on their own DCF or comparable analysis — creating a negotiation between the promoter and institutional investors in the RBB process.

PRO TIP

In delisting transactions, prepare a 'counter-valuation' analysis that estimates the intrinsic value of the company from an institutional shareholder's perspective. This helps the promoter understand the likely exit price demand from institutions before launching the RBB. A promoter who approaches a delisting without understanding the institutional valuation anchor will almost certainly fail — as the 90% threshold is difficult to achieve if institutions hold 20–30% of the float and have a fundamentally different view of intrinsic value.

PART V: EXECUTION AND BEST PRACTICES

Chapter 12: Due Diligence, Red Flags, and the Valuation Report

The valuation report is the culmination of the entire M&A valuation process. It must synthesise the business understanding, financial analysis, and methodological judgements of the prior chapters into a document that is: commercially accurate (it reflects the true economics of the business), legally defensible (it can withstand regulatory and judicial scrutiny), and professionally presented (it commands the respect of all transaction parties).

12.1 Financial Due Diligence – The Foundation of a Credible Valuation

A valuation is only as good as the financial information on which it is based. Financial due diligence (FDD) is the process of verifying the accuracy of the target's financial statements, understanding the quality of earnings, and identifying adjustments required to arrive at a normalised financial base for the valuation model.

The core deliverable of an FDD exercise is the 'Quality of Earnings' (QoE) report, which analyses: revenue recognition policies and adjustments (one-off revenues, timing differences, channel stuffing); EBITDA normalisation (removing one-off income/expenses, owner's compensation adjustments, related-party transaction normalisations); working capital analysis (seasonality adjustments, normalised working capital peg); and net debt identification (all debt-like items including lease liabilities, contingent liabilities, and unfunded obligations).

12.2 Key Red Flags in Indian M&A Due Diligence

- Revenue concentration: > 30% revenue from a single customer without long-term contracts
- Promoter-related party transactions without arms-length pricing documentation
- Aggressive revenue recognition: bill-and-hold, long-term contract over-recognition
- Abnormal working capital trends: rapid receivables growth without corresponding revenue growth
- Contingent tax liabilities: ongoing Income Tax, GST, or customs disputes with significant exposure
- Off-balance-sheet liabilities: operational lease commitments, guarantees, or contingent obligations
- FEMA non-compliance: undisclosed cross-border transactions or equity issuances without RBI approval
- Promoter pledging: high promoter share pledge ratios suggesting financial stress at the group level

KEY INSIGHT

In one acquisition we supported, the target company showed consistent 18% EBITDA margins over three years. During FDD, we discovered that the promoter had been booking personal

expenses — including family travel, real estate maintenance, and private school fees — as business expenses across multiple cost line items. The adjusted EBITDA margin was 22%, increasing the enterprise value by Rs. 65 Crore. Conversely, we also found two undisclosed GST dispute notices with an exposure of Rs. 12 Crore. The net impact of these FDD adjustments increased our valuation recommendation by Rs. 53 Crore — a 12% revision to the deal price.

12.3 Structuring the Valuation Report — Professional Standards

A professional M&A valuation report should include: an executive summary with the value conclusion range and key assumptions; a business overview including competitive positioning and market analysis; a financial analysis covering historical performance, FDD adjustments, and projections; a detailed description of each methodology applied, including all key inputs and assumptions; sensitivity analysis showing value ranges across key assumption variations; and appendices containing the financial model, comparable company data, and precedent transaction data.

12.4 Independence and Professional Scepticism

The registered valuer's most important professional obligation is independence. A valuation prepared at the behest of one party, using that party's projections without independent verification, reviewed only by that party before issuance, is not an independent valuation — it is a financial model with a letterhead. True independence requires: access to management for direct questioning; the ability to request additional information; the right to disagree with management's projections and document the disagreement; and professional indemnity insurance that creates accountability.

PRO TIP

Every valuation report I issue includes a 'key assumption sensitivity table' that shows the value impact of a 10% adverse variance in each of the top five value drivers. This table is not required by any regulatory standard — but it is the most important communication in the report. It tells the client: 'here is where you are most exposed; here is what you should spend due diligence time verifying.' A report that cannot explain its own sensitivities is not a professional valuation opinion.

CONCLUSION

Conclusion: Working With an M&A Valuation Expert

M&A is one of the most consequential financial decisions a business makes. Done well, a strategic acquisition creates lasting competitive advantage, accelerates growth, and generates returns that justify the premium paid. Done poorly — with inadequate valuation rigour, incomplete due diligence, or an undisciplined approach to deal structuring — an acquisition can destroy value, create regulatory liability, and distract management for years after closing.

This playbook has provided a practitioner-grade framework for every stage of the M&A valuation process: from understanding the Indian regulatory landscape to building defensible DCF models, from selecting appropriate comparable companies to structuring earn-outs and completion mechanisms. The twelve chapters cover the full spectrum of M&A valuation practice as it is actually executed — not as it is described in textbooks.

When to Conduct Your Own Valuation vs. When to Hire an Expert

The 70/30 rule applies here as throughout this guide. For straightforward transactions where your internal team has strong financial modelling capability, you can and should build the initial valuation model in-house. A well-constructed internal model forces the deal team to understand the business's value drivers, sets realistic price anchors, and prepares you for the negotiation.

The 30% where professional expertise is non-negotiable: regulatory filings (FEMA, SEBI, NCLT) that require a registered valuer or SEBI-registered merchant banker; complex Valuations involving intangible assets, distressed scenarios, or cross-border pricing; situations where the valuation may be challenged by a counterparty, a regulator, or in litigation; and any transaction where you need independence — where the valuation must withstand the scrutiny of parties who did not commission it.

What to Expect From an M&A Valuation Engagement

A professional M&A valuation engagement is a collaborative process, not a document production exercise. Expect: direct access to the company's management team for interviews and data requests; a rigorous review and, where warranted, challenge of management's financial projections; an independent assessment of the key value drivers and risk factors specific to the business; a value range (not a single number) with clear explanation of what assumptions drive the spread; and a report that meets the specific regulatory requirements of the transaction.

The timeline for a full M&A valuation report, from management interview to final report, is typically 2–4 weeks depending on the complexity of the business and the availability of information. For urgent transactions or NCLT-driven timelines, expedited engagements can be completed in 5–7 working days with advance preparation.

KEY INSIGHT

Our most important advice to any M&A practitioner is this: treat the Valuation as the anchor of the entire deal process, not as a compliance checkbox at the end. The best deals we have seen are those where the buyer understood the target's value deeply before entering negotiations, had a clear view of the synergy value and its probability of realisation, and structured the deal so that the price paid made sense even in the downside scenario. Discipline in Valuation is discipline in deal-making.

How Elite Valuation Can Help

Elite Valuation provides independent, professionally rigorous M&A valuation services across the full deal lifecycle. Our M&A practice capabilities include:

- **Buy-side and sell-side Valuations for strategic M&A transactions** — providing independent price anchors and negotiation support
- **FEMA-compliant cross-border Valuations** — for FDI inflows, ODI outflows, ECB conversions, and downstream investments
- **SEBI open offer and delisting Valuations** — independent registered valuer reports for Takeover Code compliance
- **Purchase Price Allocation (PPA) under Ind AS 103** — identification and valuation of acquired intangible assets
- **Distressed asset and IBC Valuations** — going concern, strategic, and liquidation scenario analysis
- **Earn-out design and Valuation** — structuring contingent consideration and preparing Ind AS 103 fair value assessments
- **Working capital analysis and locked-box/completion accounts support** — protecting deal economics at closing
- **Valuation reports for NCLT schemes of arrangement** — registered valuer certificates for merger and demerger approvals

Contact Elite Valuation

Phone: +91 7600008550

Email: sagarrvshah@elitevaluation.in

Website: www.EliteValuation.in

"In M&A, the valuation is not just a number — it is the foundation on which deal economics, regulatory compliance, and long-term value creation are built. Get it right, and you protect every crore of value. Get it wrong, and the consequences last long after the deal closes."

— Sagar Shah, CA | CS | IBBI Registered Valuer | Ex-EY