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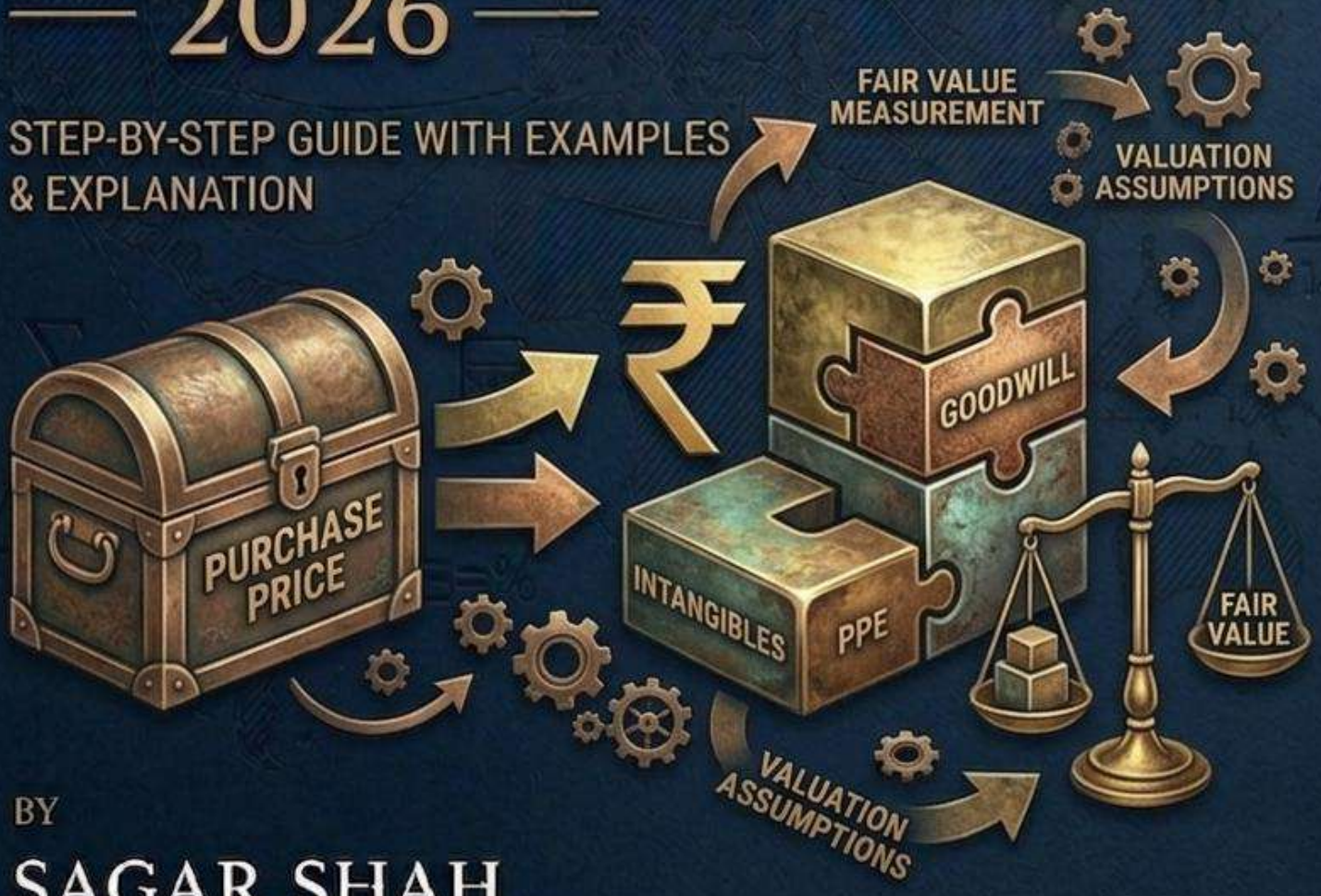
THE COMPLETE PRACTICAL GUIDE TO PURCHASE PRICE ALLOCATION — 2026 —

STEP-BY-STEP GUIDE WITH EXAMPLES & EXPLANATION



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Sagar Shah is one of India's leading specialists in transaction advisory and intangible asset valuation, with over 15 years of hands-on experience conducting Purchase Price Allocations for some of India's most complex M&A transactions. He spent 9 years at Ernst & Young (EY) in the Transaction Advisory and Valuation practice, where he led PPA exercises across every major industry — technology, pharmaceuticals, consumer, FMCG, financial services, infrastructure, and manufacturing.

At Elite Valuation, the practice conducts PPA engagements under Ind AS 103 for acquirers, targets, and their statutory auditors, covering the full spectrum of intangible asset identification, valuation methodology selection, useful life determination, and post-acquisition amortisation modelling. Every PPA engagement is built on rigorous economic analysis, regulatory compliance, and the professional scepticism that withstands scrutiny from Big 4 auditors, SEBI, and the NCLT.

Core PPA & Intangible Asset Valuation Expertise

- Purchase Price Allocations under Ind AS 103 — full-scope intangible asset identification, classification, and fair value measurement
- Multi-Period Excess Earnings Method (MPEEM) — customer relationship and technology asset valuation with CAC framework
- Relief from Royalty (RfR) — brand, technology, and patent valuations for PPA and standalone purposes
- With-and-Without Method — non-compete agreement and contractual arrangement valuations
- Contributory Asset Charge (CAC) analysis — building the complete returns-on-asset framework
- Goodwill computation, CGU allocation, and annual Ind AS 36 impairment testing
- Deferred tax liability (DTL) and deferred tax asset (DTA) analysis arising from PPA step-ups
- WACC and intangible asset discount rate derivation — WARA reconciliation and IRR cross-check
- Post-PPA P&L impact modelling — amortisation schedules, EPS impact, EBITDA bridge

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Our PPA Services

PPA under Ind AS 103 — Full Scope — End-to-end Purchase Price Allocation: intangible asset identification, classification, fair value measurement, useful life assessment, and goodwill computation for M&A transactions under Ind AS 103.

Intangible Asset Identification & Classification — Systematic identification of all separable and contractual-legal intangible assets — customer relationships, technology, brand, non-competes, order backlog, and in-process R&D — with Ind AS 38 recognition analysis.

Customer Relationship Valuation — MPEEM — Multi-Period Excess Earnings Method for customer relationship and customer contract assets, with full CAC analysis for all contributory assets used in generating customer earnings.

Technology, Brand & Patent Valuations — RfR — Relief from Royalty Method for proprietary software, technology platforms, brand names, trademarks, and patents — with royalty rate benchmarking from Indian and global comparable transactions.

Non-Compete Agreement Valuations — With-and-Without Method for founder and key employee non-compete agreements — competition impact modelling and present value computation.

Goodwill Computation & CGU Allocation — Residual goodwill determination, Cash-Generating Unit (CGU) allocation strategy, and annual Ind AS 36 impairment testing support including VIU and FVLCD computation.

WACC & Discount Rate Derivation — WACC computation for the acquiring entity, intangible-specific discount rates, and WARA (Weighted Average Return on Assets) reconciliation to confirm internal consistency of the PPA.

Post-PPA Financial Impact Modelling — Amortisation schedule construction, post-PPA P&L bridge, EPS impact analysis, deferred tax liability computation, and presentation to audit committees and statutory auditors.

"A Purchase Price Allocation is not a compliance exercise — it is the financial reckoning of every assumption embedded in the acquisition price. The intangible assets identified, the useful lives assigned, and the goodwill residual all have direct, multi-year consequences for the acquirer's reported earnings. Get it right before the deal closes."

— Sagar Shah, CA | CS | Registered Valuer

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PART I: PPA FOUNDATIONS

Chapter 1: What Is a Purchase Price Allocation — Purpose, Regulation & the Ind AS 103 Framework

A Purchase Price Allocation (PPA) is the process by which the consideration paid for an acquired business is allocated to the individual assets and liabilities of that business at their fair values as of the acquisition date. This process, mandated by Ind AS 103 (Business Combinations), is one of the most consequential — and most technically demanding — accounting exercises in Indian corporate finance. It shapes the acquirer's balance sheet on day one post-acquisition, determines the amortisation charges that will flow through the P&L for years, and establishes the goodwill figure that will be tested for impairment every year thereafter.

Despite its importance, PPA is one of the most frequently misunderstood and inadequately executed exercises in Indian M&A practice. Many acquirers approach it as a compliance formality to be handled after the deal closes — a view that leads to inadequate intangible asset identification, poorly supported useful life assumptions, and goodwill figures that conceal the true economics of what was paid and why. This guide treats PPA as what it truly is: a rigorous economic analysis that must be planned before the deal, executed with methodology discipline, and documented to withstand multi-year scrutiny from statutory auditors, the NCLT, and SEBI.

1.1 The Legal and Regulatory Framework in India

Ind AS 103 is India's equivalent of IFRS 3 (Business Combinations), adopted as part of the Ministry of Corporate Affairs' convergence programme. It applies to all companies reporting under Indian Accounting Standards — which includes all listed companies, their subsidiaries, and unlisted companies above the prescribed threshold.

Key principles of Ind AS 103: the acquisition method is mandatory (no pooling of interests); the acquisition date is defined as the date on which the acquirer obtains control; all identifiable assets acquired and liabilities assumed must be recognised and measured at fair value on the acquisition date; and goodwill is the residual — it is not allocated to individual assets and is not amortised.

PPA Requirement	Applicable Standard	Triggered When	Key Consequence
Business Combination Accounting	Ind AS 103	Acquisition of control of any business	All identifiable A&L at fair value on acquisition date
Intangible Asset Recognition	Ind AS 38 + Ind AS 103	Acquired intangibles meeting recognition criteria	Separate recognition even if not on target's books
Goodwill Recognition	Ind AS 103 Para 32	Consideration > Fair value of net identifiable assets	Goodwill on balance sheet — not amortised; impairment-tested annually

PPA Requirement	Applicable Standard	Triggered When	Key Consequence
Goodwill Impairment Testing	Ind AS 36	Annual — regardless of impairment indicators	Recoverable amount vs. carrying value — write-down if impaired
Deferred Tax on Step-Ups	Ind AS 12	Fair value > tax base of acquired assets	DTL recognised for temporary differences; increases goodwill
Non-Controlling Interest (NCI)	Ind AS 103 Para 19	Acquirer does not acquire 100% of target	NCI measured at FMV or at proportionate share of net identifiable assets

Table 1.1: PPA Requirements under Ind AS 103 — Key Provisions and Consequences

1.2 Why PPA Matters Beyond Compliance

The PPA has several direct, practical consequences that extend well beyond the accounting entry. First, the fair values assigned to depreciating and amortisable intangible assets reduce future reported EBITDA and PAT — a material consideration for companies with earnout structures, management compensation plans linked to reported earnings, or debt covenants referencing EBITDA. Second, the goodwill figure must be tested annually under Ind AS 36 — a poorly justified goodwill that significantly exceeds any reasonable estimate of synergy value is a future impairment risk. Third, the PPA affects the acquiring company's return on invested capital metrics — sophisticated investors and analysts compute post-PPA ROIC to assess whether the acquisition was value-creative.

In India specifically, the PPA also has regulatory dimensions beyond pure accounting: SEBI's related-party transaction regulations require fair value certifications for certain acquisitions by listed companies; NCLT schemes of arrangement require registered valuer reports that effectively constitute a PPA; and the Income Tax Act's provisions on slump sales (Section 50B) and deemed consideration (Section 56(2)(x)) interact with PPA conclusions in ways that require coordination between the valuer, the tax adviser, and the statutory auditor.

KEY INSIGHT

We have observed a consistent pattern in Indian M&A practice: deal teams that commission the PPA as an afterthought — after the transaction has closed and the first post-acquisition balance sheet is due — face significantly more audit challenge and revision risk than those who engage the PPA valuer during due diligence. The PPA valuer who has access to management during deal due diligence can identify intangible assets that would otherwise be missed, challenge management projections with the independence needed for an auditable conclusion, and provide the deal team with a pre-close estimate of the post-PPA amortisation charge. Commission the PPA valuer at the same time as the legal and financial due diligence advisers.

PRO TIP

Every PPA engagement should begin with a 'preliminary intangible asset identification workshop' — a structured meeting between the PPA valuer, the acquirer's finance team, the

> *target's management, and the statutory auditor (if possible) — held within two weeks of deal close. The workshop's output is a list of all potential intangible assets, classified by recognition probability (definite, probable, possible, unlikely) and preliminary valuation method. This workshop sets the PPA's scope and prevents the most common error: discovering a significant intangible asset three months into the exercise that requires restarting the analysis.*

PART I: PPA FOUNDATIONS

Chapter 2: The PPA Process — Step-by-Step from Deal Close to Financial Statements

The PPA is a structured process with defined inputs, analytical steps, and outputs. Understanding the sequence — and the dependencies between steps — is essential for managing the timeline and delivering an auditable conclusion within the 12-month measurement period permitted by Ind AS 103. This chapter provides the complete process map, from deal close to final financial statement disclosure.

2.1 The Ind AS 103 Measurement Period

Ind AS 103 allows the acquirer up to 12 months from the acquisition date to finalise the fair values of assets and liabilities recognised — the 'measurement period.' During this period, provisional amounts may be recognised in the acquisition-date balance sheet and subsequently adjusted as information becomes available. However, the measurement period does not excuse indefinite delay: the standard requires that provisional values be as well-supported as possible on acquisition date, and the 12-month window is for genuine additional information — not for commissioning the PPA after the fact.

THE PPA PROCESS — STEP-BY-STEP TIMELINE	
STEP 1: Deal Close — Acquisition Date Established	**Day 0**
Confirm acquisition date (date of control transfer)	
Commission PPA valuer immediately	
STEP 2: Document Request & Management Interviews	**Week 1–2**
Financial statements, projections, customer lists, contracts, IP registers	
Management interviews on revenue drivers, customer churn, IP pipeline	
STEP 3: Intangible Asset Identification Workshop	**Week 2–3**
Apply separability and contractual-legal tests to all potential intangibles	
Agree scope with acquirer's audit team	
STEP 4: Tangible Asset Fair Value Assessments	**Week 3–5**
Property, plant & equipment — independent appraisal if material	
Inventory — step-up to net realisable value	
STEP 5: Intangible Asset Valuation Modelling	**Week 4–8**
MPEEM for customer relationships (most complex — starts earliest)	
RfR for brand/technology; With-and-Without for non-competes	
STEP 6: WACC, Discount Rates & WARA Reconciliation	**Week 6–8**
Derive WACC, intangible-specific rates; check WARA = WACC	

STEP 7: Goodwill Computation & DTL Analysis	**Week 8–10**
Compute residual goodwill; compute DTL on all step-ups	
STEP 8: Draft PPA Report & Audit Review	**Week 10–14**
Draft report to acquirer and statutory auditor; address queries	
STEP 9: Finalise & Incorporate in Financial Statements	**By Month 12**
Final PPA report signed; disclosures prepared per Ind AS 103 Para 59	

2.2 The Acquisition-Date Balance Sheet — The Starting Point

The PPA begins with the acquisition-date balance sheet of the acquired entity, prepared at book values. This becomes the 'pre-PPA balance sheet.' The PPA then adjusts each asset and liability from book value to fair value, adds the identified intangible assets (which were typically not on the target's books), and computes goodwill as the residual. The final output — the 'post-PPA balance sheet' — is what appears on the acquirer's consolidated financial statements from the acquisition date.

PRE-PPA vs POST-PPA BALANCE SHEET — ILLUSTRATIVE (Rs. Crore)		
ASSETS	**Pre-PPA**	**Post-PPA**
Property, Plant & Equipment (net)	180	215
(Fair value step-up: Rs. 35 Cr — land & buildings)		
Inventory	45	52
(Fair value step-up: Rs. 7 Cr — finished goods NRV)		
Trade Receivables	88	88
Cash and Equivalents	42	42
IDENTIFIED INTANGIBLE ASSETS (new — not in pre-PPA):		
Customer Relationships	—	95
Technology / Proprietary Software	—	45
Brand / Tradename	—	28
Non-Compete Agreement	—	8
GOODWILL (residual)	**—**	**127**
TOTAL ASSETS	**355**	**700**
LIABILITIES & EQUITY		
Trade Payables and Other Liabilities	95	95
Deferred Tax Liability (new — on all step-ups)	—	55
(DTL = Step-ups x 25.17% effective tax rate)		
Equity (Consideration paid by acquirer)	260	550
TOTAL LIABILITIES + EQUITY	**355**	**700**

KEY INSIGHT

We always prepare the pre-PPA and post-PPA balance sheet side-by-side as the first deliverable in any PPA engagement, even before the intangible asset valuations are complete. This structure forces the team to identify every item that will change, creates the 'bridge' from pre-PPA to post-PPA that the statutory auditor will want to review, and provides a clear view of the size of the exercise. A PPA that changes Rs. 5 Crore of assets in a Rs. 500 Crore acquisition is very different from one that changes Rs. 300 Crore of assets — and the scope and timeline of the work must be calibrated accordingly from day one.

PRO TIP

Always compute the 'implied goodwill' of the transaction before starting the PPA — this is the consideration paid minus the net book value of the target's equity. This number represents the maximum amount that must be explained by: fair value step-ups on existing assets, newly recognised intangible assets, and true synergy-based goodwill. If the implied goodwill is very large relative to the target's revenues, it signals a high-intangible business where the PPA will require extensive work. If it is relatively small, the PPA may be completed more quickly. Knowing this ratio at the outset is essential for scoping the engagement correctly.

PART II: INTANGIBLE ASSET IDENTIFICATION

Chapter 3: Identifying & Classifying Intangible Assets — The Separability and Contractual-Legal Tests

Intangible asset identification is the most judgment-intensive step in the entire PPA process — and the step most likely to be inadequately executed when PPA is treated as a compliance formality. Under Ind AS 38 and Ind AS 103, an intangible asset must be recognised separately from goodwill if it meets either the separability criterion or the contractual-legal criterion. The residual goodwill captures everything that does not meet either criterion — assembled workforce, synergies, going-concern value, and market position that is too diffuse to separate.

3.1 The Two Recognition Tests — Ind AS 38 Criteria

Separability Criterion: An intangible asset meets the separability criterion if it can be separated from the entity — sold, transferred, licensed, rented, or exchanged — either individually or in combination with a related asset or liability. The key question is whether a willing buyer could acquire this specific asset independently of the rest of the business. Customer relationships that are transferable under contract, technology that could be licensed to a third party, and brand names that could be sold separately all meet this test.

Contractual-Legal Criterion: An intangible asset meets the contractual-legal criterion if it arises from contractual or legal rights, regardless of whether those rights are separable from the entity. A patent meets this criterion because it arises from a legal grant. A non-compete agreement meets it because it arises from a contract. An in-process drug candidate meets it because the patent application creates a legal right. Contractual-legal assets are recognised even if they could not practically be sold separately.

Intangible Asset Class	Examples in Indian M&A	Recognition Test	Typical PPA Value Range
Customer Relationships	Customer lists, distributor networks, franchise agreements, subscriber bases	Separability or contractual-legal	20%–50% of total intangible value
Technology / Know-How	Proprietary software, algorithms, formulations, manufacturing processes	Separability — can be licensed	15%–40% of total intangible value
Brand / Tradename	Product brands, company names, logos, domain names	Separability — can be licensed	10%–35% of total intangible value
Order Backlog / Contracts	Firm customer orders, long-term supply agreements, construction contracts	Contractual-legal	2%–15% of total intangible value
Non-Compete Agreements	Founder / key scientist non-competes signed at acquisition	Contractual-legal	1%–10% of total intangible value

Intangible Asset Class	Examples in Indian M&A	Recognition Test	Typical PPA Value Range
In-Process R&D (IPR&D)	Drug candidates in clinical trials, software under development, patent applications	Contractual-legal (legal right)	5%–30% in pharma/biotech acquisitions
Licences & Permits	Operating licences, spectrum allocations, mining rights, NBFC/bank licences	Contractual-legal	Highly deal-specific
Assembled Workforce	Skilled technical teams, institutional knowledge	NOT separately recognised — into goodwill	Nil (part of goodwill)

Table 3.1: Intangible Asset Classification in Indian M&A — Recognition Tests and Value Ranges

3.2 The Identification Checklist — Systematic Approach

The identification process should be driven by a structured checklist that systematically examines every potential source of intangible value in the acquired business. The checklist approach prevents the most common error in PPA — failing to identify an intangible asset that a well-informed buyer would recognise, resulting in an understated PPA and an overstated goodwill figure.

INTANGIBLE ASSET IDENTIFICATION CHECKLIST — KEY QUESTIONS

CUSTOMER ASSETS:
- Does the target have customer lists with names, contact data, purchase history?
- Are there long-term customer contracts or subscription agreements?
- What is the average customer tenure and annual churn rate?
- Are there distributor or franchise agreements that transfer with the business?

TECHNOLOGY ASSETS:
- Does the target have proprietary software, algorithms, or platforms?
- Are there patented or patent-pending processes or formulations?
- Is there manufacturing know-how, trade secrets, or proprietary methods?
- Is any R&D in-process that has not yet reached commercial stage?

MARKETING ASSETS:
- Does the target have registered trademarks or brand names?
- Are there domain names, social media followings, or content libraries?
- Does the brand command a measurable price premium over generic alternatives?

CONTRACT ASSETS:
- Is there an order backlog of firm customer orders not yet delivered?
- Are there supplier agreements, exclusivity arrangements, or licensed technology?
- Are any non-compete agreements being signed as part of the acquisition?

REGULATORY ASSETS:
- Are there licences, permits, or regulatory approvals that are transferable?
- Any spectrum allocations, mining rights, or similar government-granted rights?

3.3 Assembled Workforce — The Non-Recognised Intangible

One of the most commonly misunderstood aspects of PPA identification is the treatment of assembled workforce. The assembled workforce — the skilled team of employees who make the business run — clearly has economic value: their expertise, institutional knowledge, and collective capability are central to what the acquirer is paying for. Yet Ind AS 38 explicitly excludes assembled workforce from separate recognition as an intangible asset, because the entity does not have sufficient control over its employees to meet the recognition criteria (employees can resign at any time).

This does not mean assembled workforce has no value — it means that value flows into goodwill. But it also has an important implication for the valuation of other intangible assets: when using the Multi-Period Excess Earnings Method (see Chapter 6), the contributory asset charge (CAC) for the assembled workforce must be included in the calculation, even though the workforce itself is not separately recognised. This is the most technically demanding aspect of MPEEM and the source of the greatest variation in PPA practice.

COMMON ERROR

Error: Recognising assembled workforce as a separate intangible asset in the PPA — justified by arguments such as 'our employees are our most valuable asset.'

Fix: Assembled workforce does not meet the separability criterion (employees can resign) and does not arise from contractual or legal rights. It must go into goodwill. However, it must be included as a contributory asset in MPEEM calculations — compute its fair value for CAC purposes, but do not put it on the balance sheet as a separate intangible.

KEY INSIGHT

We consistently encounter situations where target company management and even some auditors argue for recognition of assembled workforce as an intangible, particularly in technology and professional services acquisitions where human capital is genuinely the primary value driver. Our response: Ind AS 38 Para 15 is explicit — assembled workforce is excluded from separate recognition. The value of the team is properly captured in goodwill, in the customer relationships they have built (recognised under MPEEM), and in the technology they have developed (recognised under RfR). The standard's exclusion is not a gap — it is a deliberate design choice that is consistently applied across IFRS jurisdictions globally.

PART II: INTANGIBLE ASSET IDENTIFICATION

Chapter 4: Customer Relationships, Order Backlog & Contractual Assets

Customer relationships are typically the most valuable intangible asset in Indian M&A transactions — and the most technically complex to value correctly. The economic value of a customer relationship arises from the expectation that existing customers will continue to purchase from the business in the future, even after the acquisition. This future revenue stream, net of the costs required to serve it, is the foundation of customer relationship value under the Multi-Period Excess Earnings Method (covered in detail in Chapter 6).

4.1 What Constitutes a Customer Relationship?

A customer relationship meets the separability criterion when an entity has a practice of establishing relationships with its customers through contracts, even if those contracts are not currently in force. The key evidence of a recognisable customer relationship includes: a documented history of repeat purchase behaviour; identifiable customer accounts with revenue and profitability history; customer data that could be transferred to a buyer; and evidence of customer loyalty or switching costs that create a reasonable expectation of continuation.

In the Indian context, customer relationship recognition is highly industry-specific. In B2B industries — technology services, pharmaceuticals, industrial manufacturing — customer relationships are almost always recognisable because the commercial relationship is documented, multi-year, and contractually supported. In B2C industries — consumer goods, retail — recognition depends on whether there is identifiable, transferable customer data and demonstrable loyalty. A retailer with a loyalty programme has a recognisable customer relationship asset; a cash-and-carry retailer with no customer data does not.

4.2 Key Customer Data Required for PPA

Accurate customer relationship valuation requires granular customer-level data. The following data points must be collected from the target company's CRM or ERP system before the MPEEM analysis can begin:

1. Revenue by customer account — at least 3–5 years of historical revenue, by individual customer or customer cohort
2. Customer attrition data — annual churn rate by cohort (customers lost as a percentage of the prior year's customer base)
3. Gross margin by customer or product line — to compute the earnings attributable to customer relationships
4. Customer acquisition cost (CAC) — sales and marketing spend per new customer acquired, used for the contributory asset charge
5. Revenue concentration — the top 10 customers as a percentage of total revenue, and their individual contract status
6. Contract terms — length, renewal rights, exclusivity provisions, and termination clauses for key accounts

4.3 The Customer Attrition Rate — The Most Sensitive Assumption

The customer attrition rate is the single most important assumption in any customer relationship valuation because it determines the expected duration of the customer revenue stream and therefore the present value of the asset. A 10% annual attrition rate implies that the average customer relationship will last 10 years; a 20% attrition rate implies 5 years. A 5 percentage point difference in the attrition rate can change the customer relationship value by 20–35%.

ATTRITION RATE COMPUTATION — COHORT METHOD

Annual Attrition Rate = Customers Lost in Year / Opening Customer Count

Example — TechCo B2B SaaS Customer Base:

Opening customers FY2024: 425
New customers acquired: 68
Customers lost (churned): 42
Closing customers FY2024: 451 (= 425 + 68 - 42)

Annual Attrition Rate = 42 / 425 = 9.9%

Retention Rate = 1 - 9.9% = 90.1%

Average Customer Life = 1 / Attrition Rate = 1 / 9.9% = 10.1 years

(Use this as T in the MPEEM model — see Chapter 6)

Cross-check: Compute separately for each of 5 years; take weighted average
Year 1: 8.2% Year 2: 9.5% Year 3: 10.1% Year 4: 10.8% Year 5: 11.1%

► **5-year average attrition: 9.9% — consistent with single-year computation**

4.4 Order Backlog — The Shorter-Duration Contractual Asset

Order backlog — the firm purchase orders received from customers but not yet delivered — is a contractual asset that arises from customer contracts (contractual-legal criterion). It is distinguished from the broader customer relationship by its certainty: order backlog represents committed future revenue, not just expected future revenue based on historical patterns. Order backlog is typically valued separately from customer relationships because it has a much shorter duration (usually 6–24 months) and a higher discount rate (because the risk profile of committed orders is lower than speculative future orders).

ORDER BACKLOG VALUATION — SIMPLIFIED DCF

Target: InfraCo Ltd — EPC contractor with firm order book

Backlog data at acquisition date:

Total order backlog value: Rs. 380 Crore
Expected execution period: 18 months (6-month intervals)
Revenue expected H1 (Rs. Cr): Rs. 145 Crore
Revenue expected H2 (Rs. Cr): Rs. 135 Crore

Revenue expected H3 (Rs. Cr): Rs. 100 Crore

EBITDA margin on backlog: 14.5% (from management and historical data)
Discount rate for backlog: 12.0% (lower risk — committed revenue)

After-tax margin (at 25.17%): 10.8% (= 14.5% x (1 - 25.17%))

Cash flows:
H1 CF = Rs. 145 x 10.8% = Rs. 15.7 Cr Discounted (6m): Rs. 14.8 Cr
H2 CF = Rs. 135 x 10.8% = Rs. 14.6 Cr Discounted (12m): Rs. 13.0 Cr
H3 CF = Rs. 100 x 10.8% = Rs. 10.8 Cr Discounted (18m): Rs. 9.1 Cr

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► **Order Backlog Fair Value: Rs. 36.9 Crore**

Useful life: 18 months (straight-line amortisation over execution period)

KEY INSIGHT

We frequently encounter PPA exercises where the order backlog is not separately valued — either because the PPA team is unaware of the asset or because the backlog is small relative to the customer relationship value. Both errors can have audit consequences. Ind AS 103 requires recognition of all identifiable assets — the order backlog is a separate asset from the ongoing customer relationship because it represents committed rather than expected revenue, carries lower risk, and has a shorter duration. Even if the backlog value is modest (Rs. 5–15 Crore for a mid-size company), it must be separately identified, valued, and disclosed. Omitting it will be flagged by a thorough statutory auditor.

PRO TIP

For companies with large order backlogs — EPC contractors, infrastructure developers, defence manufacturers — the backlog often represents 6–18 months of revenue and can be the largest single intangible asset in the PPA. In these situations, segment the backlog by project and apply project-specific margins rather than a blended average, because project-level margins in EPC businesses vary enormously — from 5% to 25% — depending on project complexity and stage. A blended average will systematically misstate the backlog value if the project mix is skewed toward high-margin or low-margin work.

PART II: INTANGIBLE ASSET IDENTIFICATION

Chapter 5: Technology, Software, Patents & In-Process R&D

Technology assets are the second largest category of intangible assets in Indian PPA practice, and the most diverse. The category spans a spectrum from proven commercial software generating licence revenue to pre-revenue pharmaceutical compounds still in clinical trials — and the appropriate valuation method, discount rate, and useful life differ fundamentally across this spectrum. This chapter provides the identification and classification framework for technology assets, with the detailed valuation mechanics covered in Chapter 7 (Relief from Royalty).

5.1 Technology Asset Classification

Technology Asset Type	Recognition Basis	Primary Valuation Method	Typical Useful Life (India)
Proprietary Software (core platform)	Separability — can be licensed	Relief from Royalty	3–10 years
Manufacturing Know-How / Trade Secrets	Separability — can be licensed	Relief from Royalty	5–15 years
Patents (granted)	Contractual-legal — legal grant	Relief from Royalty / MPEEM	Remaining patent life (≤20 yr)
Patent Applications (pending)	Contractual-legal — right in process	Probability-weighted RfR	Estimated patent life if granted
In-Process R&D (pre-revenue)	Contractual-legal — Ind AS 103 Para 24	Risk-adjusted NPV (rNPV)	Indefinite — impairment tested
Pharmaceutical Formulations	Separability — can be licensed	Relief from Royalty	Remaining exclusivity period
Technical Databases	Separability — can be sold	Relief from Royalty / Cost	5–10 years
Software Under Development	Contractual-legal — Ind AS 103 Para 24	rNPV / Cost to complete	Indefinite until complete

Table 5.1: Technology Asset Types — Recognition Basis, Valuation Method, and Typical Useful Lives

5.2 Proprietary Software — The Most Common Technology Asset

In India's technology-intensive M&A market, proprietary software is almost always the primary technology asset in the PPA. Whether the target is a SaaS platform, an ERP system, a mobile application, or a data analytics engine, the software codebase that powers the business is a separable intangible — it can be licensed to a third party, which satisfies the separability criterion. The Relief from Royalty method is the standard approach: the software's value is the present value of the royalty payments the owner is relieved from paying by virtue of owning the software.

The most critical input for software RfR valuation is the royalty rate — the rate at which the specific software would be licensed in an arm's-length transaction. This requires an understanding of what the software does, how critical it is to the business's operations, whether there are commercially available substitutes, and what comparable software licensing transactions in the market imply.

For core proprietary platforms with no close substitute, royalty rates of 5%–10% of revenue are common; for standard enterprise software with multiple alternatives, 2%–4% is more typical.

5.3 In-Process R&D — The Special Ind AS 103 Treatment

In-Process R&D (IPR&D) — R&D projects that are underway at the acquisition date but have not yet reached a stage of completion where they would qualify for recognition under Ind AS 38 (if developed internally) — receives special treatment under Ind AS 103. Paragraph 24 requires that all IPR&D acquired in a business combination be recognised as a separate intangible asset on the acquisition date, regardless of whether it meets the Ind AS 38 criteria. This is a significant departure from the treatment of self-generated R&D.

IN-PROCESS R&D — PROBABILITY-ADJUSTED VALUATION (rNPV)

For a pharmaceutical compound in Phase II clinical trials:

rNPV = [P(success) x PV(Revenue if approved)] - PV(Remaining development cost)

Inputs for PharmaAcquire's acquisition of BiotechTarget:
Compound: Novel anti-diabetic molecule — Phase II trials
P(Phase II → approval): 25% (based on published attrition data)
Estimated Peak Revenue: Rs. 450 Crore (in Year 7, if approved)
Revenue ramp-up period: 5 years post-approval
Patent exclusivity: 12 years remaining
Remaining dev. cost (PV): Rs. 85 Crore (Phase III + registration)
Discount rate: 20% (high — pre-revenue pharmaceutical)

PV(Revenue if approved) = NPV of peak revenue profile discounted at 20%
= Rs. 380 Crore (DCF of 12-year revenue stream)

rNPV = P(success) x PV(Revenue) - PV(Dev. Cost)
= 0.25 x Rs. 380 - Rs. 85
= Rs. 95 - Rs. 85

► **IPR&D Fair Value: Rs. 10 Crore**

Note: IPR&D is not amortised until the compound reaches commercial use.
It is tested for impairment annually under Ind AS 36 Para 10.

KEY INSIGHT

We have seen Indian pharmaceutical PPA exercises where IPR&D compounds have been lumped into goodwill because the PPA team considered them too uncertain to value separately. This is incorrect under Ind AS 103 Para 24 — IPR&D must be recognised regardless of the uncertainty, with that uncertainty reflected in the probability-adjustment (the 25% P(success) in the example above) and the discount rate (20% vs. 14% for a commercialised drug). The standard explicitly contemplates that IPR&D may be valued at a small number — even zero in extreme cases — but it must be recognised and disclosed separately from goodwill. The auditor's question will be: 'What is your probability-weighted value of each in-process project?' — not 'Can you recognise it?'

PART III: VALUATION METHODOLOGIES — FULL WORKINGS

Chapter 6: The Multi-Period Excess Earnings Method (MPEEM) — Customer Relationship Valuation

The Multi-Period Excess Earnings Method (MPEEM) is the standard valuation methodology for customer relationships, and it is the most technically complex calculation in the entire PPA exercise. MPEEM values the customer relationship as the present value of the 'excess earnings' attributable specifically to the existing customer relationships — that is, the earnings generated by existing customers, after deducting contributory asset charges (CACs) for all other assets that contribute to generating those earnings.

The core logic: the customer relationship is not the only thing generating the business's earnings. The property, equipment, working capital, assembled workforce, technology, and brand all contribute. MPEEM isolates the earnings attributable specifically to existing customers by charging a return on each of those other assets — and the remaining earnings, after those charges, are the 'excess earnings' of the customer relationship.

6.1The MPEEM Framework — Seven Steps

1. Project the revenue from existing customers over the expected customer life, declining by the attrition rate each year
2. Apply the operating margin to compute EBIT from existing customer revenue
3. Compute the after-tax EBIT (NOPAT) from existing customers
4. Compute the Contributory Asset Charge (CAC) for each supporting asset class
5. Deduct the total CAC from NOPAT to get the 'Excess Earnings' attributable to customer relationships
6. Discount the excess earnings stream at the customer relationship discount rate
7. Sum the PVs to get the customer relationship fair value

6.2 Step-by-Step MPEEM Calculation — Complete Worked Example

MPEEM — COMPLETE WORKED EXAMPLE: TECHCO INDIA LTD ACQUISITION

Acquisition: TechCo India (B2B SaaS) acquired for Rs. 550 Crore
Current Revenue from existing customers: Rs. 210 Crore
Annual attrition rate: 10% => Revenue declines by 10% per year
EBIT margin on customer revenue: 28%
Effective tax rate: 25.17%
Customer relationship discount rate: 17% (see Chapter 9)
Projection period: 8 years (covers 99% of PV at 10% attrition)

YEAR-BY-YEAR REVENUE FROM EXISTING CUSTOMERS (Rs. Crore):
Year 1: 210.0 Year 2: 189.0 Year 3: 170.1 Year 4: 153.1
Year 5: 137.8 Year 6: 124.0 Year 7: 111.6 Year 8: 100.4

(Each year = prior year x (1 - 10% attrition))

YEAR 1 DETAILED CALCULATION:
Revenue (existing customers): Rs. 210.0 Crore
EBIT (28% margin): Rs. 58.8 Crore
Tax (25.17%): Rs. (14.8) Crore
NOPAT (after-tax EBIT): Rs. 44.0 Crore

CONTRIBUTORY ASSET CHARGES (CAC) — YEAR 1:
Working Capital: Rs. 42 Cr x 5.5% = Rs. 2.3 Crore
Fixed Assets (net): Rs. 68 Cr x 8.0% = Rs. 5.4 Crore
Assembled Workforce: Rs. 95 Cr x 12.0% = Rs. 11.4 Crore
Technology / Software: Rs. 45 Cr x 14.0% = Rs. 6.3 Crore
Brand: Rs. 28 Cr x 15.0% = Rs. 4.2 Crore

Total CAC Year 1: Rs. 29.6 Crore

EXCESS EARNINGS YEAR 1:
NOPAT - Total CAC = Rs. 44.0 - Rs. 29.6 Rs. 14.4 Crore

DISCOUNT FACTOR (mid-year convention at 17%):
Year 1: 1/(1.17)^0.5 = 0.9258
PV of Year 1 Excess Earnings: Rs. 14.4 x 0.9258 = Rs. 13.3 Crore

6.3 The Contributory Asset Charge (CAC) — The Most Critical Component

The CAC is the most technically demanding and most frequently debated element of MPEEM. It represents the return that each contributing asset class must 'earn' to justify the capital invested in it — effectively a charge that customer earnings must pay to the other assets before any excess can be attributed to the customer relationship itself. Setting the CAC rates correctly is essential: if CAC rates are too low, the customer relationship value is overstated; if too high, it is understated.

CONTRIBUTORY ASSET CHARGE RATES — DERIVATION FRAMEWORK

Each CAC rate = Pre-tax return required on that asset class

Asset Class	Return Basis	Typical Rate (India)
Working Capital	Risk-free rate + spread	5% - 7%
Fixed Assets (PPE)	After-tax cost of debt	7% - 10%
Assembled Workforce	Mid-point of WACC	10% - 15%
Technology	Above WACC (higher risk)	13% - 18%
Brand / Tradename	Above WACC (brand risk)	13% - 18%
Order Backlog	Low risk — near risk-free	8% - 12%

Key principle: All asset returns must be PRE-TAX in the CAC
(because NOPAT is after-tax; the CAC is applied to pre-tax return on a pre-tax asset base, so the charges are pre-tax equivalents)

Worked example — Assembled Workforce CAC:
Fair value of workforce (replacement cost): Rs. 95 Crore
Required pre-tax return on workforce: 12%
► **Workforce CAC: Rs. 95 x 12% = Rs. 11.4 Crore per year**

MPEEM SUMMARY TABLE — ALL 8 YEARS (Rs. Crore)

Year	Rev	NOPAT	Total	CAC	PVF	PVEE
1	210.0	44.0	29.6	14.4	0.9258	13.3
2	189.0	39.6	26.6	13.0	0.7912	10.3
3	170.1	35.6	24.0	11.6	0.6762	7.8
4	153.1	32.1	21.6	10.5	0.5780	6.1
5	137.8	28.9	19.4	9.5	0.4941	4.7
6	124.0	26.0	17.5	8.5	0.4224	3.6
7	111.6	23.4	15.7	7.7	0.3610	2.8
8	100.4	21.1	14.2	6.9	0.3085	2.1
TOTAL PV OF EXCESS EARNINGS	**Rs. 50.7 Crore**					
Tax Amortisation Benefit (TAB) adjustment: +12%	Rs. 6.1 Crore					
CUSTOMER RELATIONSHIP FAIR VALUE	**Rs. 56.8 Crore**					

6.4 The Tax Amortisation Benefit (TAB) Adjustment

The Tax Amortisation Benefit (TAB) adjustment increases the calculated MPEEM fair value to reflect the fact that an acquirer who buys a standalone customer relationship asset (not as part of a business combination) can amortise it for tax purposes and thereby reduce tax payments. Since this benefit has economic value, it must be added to the MPEEM value. In practice, the TAB adjustment is applied as a multiplicative factor.

TAB (TAX AMORTISATION BENEFIT) ADJUSTMENT FORMULA

TAB Factor = 1 / [1 - (Tax Rate x Amortisation Rate / (Discount Rate + Amortisation Rate))]

For TechCo example:
Tax Rate: 25.17%
Amortisation Rate: 1/8 years = 12.5% (straight-line over useful life)
Discount Rate: 17%

TAB Factor = 1 / [1 - (0.2517 x 0.125 / (0.17 + 0.125))]
= 1 / [1 - (0.0315 / 0.295)]
= 1 / [1 - 0.1068]
= 1 / 0.8932
= 1.1196 => approximately 12% uplift

► **Customer Relationship Fair Value with TAB:**
Rs. 50.7 Crore x 1.12 = Rs. 56.8 Crore

Note: In PPAs under Ind AS 103 (where intangibles are recognised on acquirer's books), the TAB is built into the valuation because DTL is separately computed. Apply TAB only if instructed by the statutory auditor — practice varies.

KEY INSIGHT

We regularly debate the application of TAB with statutory auditors in Indian PPA engagements. The theoretical argument for TAB is sound: the fair value of an asset should reflect all cash flows it generates, including tax savings from amortisation. However, in a Ind AS 103 PPA context, the DTL is separately recognised on the PPA step-up, which already captures part of this benefit. We recommend discussing the TAB treatment with the statutory auditor before the valuation is finalised, documenting the agreed position, and applying it consistently across all intangible assets in the PPA.

PART III: VALUATION METHODOLOGIES — FULL WORKINGS

Chapter 7: The Relief from Royalty Method (RFR) — Brand and Technology Valuation

The Relief from Royalty (RFR) method is the most widely used methodology for valuing technology assets and brand names in Indian PPA practice. Its logic is elegant: if the company did not own the brand or technology, it would have to pay a royalty to license it. By owning it, the company is 'relieved' of this royalty obligation. The value of the intangible asset is the present value of the royalty payments it is thereby saved — the 'royalty relief.'

7.1 The RFR Formula and Its Components

RELIEF FROM ROYALTY FORMULA — COMPLETE SPECIFICATION

Intangible Asset Value (RfR) = Sigma [Revenue x Royalty Rate x (1 - Tax Rate)] / (1 + r)^t

Where:
Revenue_t = Revenue in period t attributable to the intangible asset
Royalty Rate = Arm's-length royalty rate for this type of intangible
Tax Rate = Effective income tax rate (India: approx. 25.17% for most)
r = Intangible asset specific discount rate
t = Period number (years into the future)
Sigma = Sum across all periods in the asset's useful economic life

Alternative formulation (using EBIT approach for technology):
Value = Sigma [(Revenue x Royalty Rate - Maintenance costs) x (1 - Tax Rate)] / (1 + r)^t

7.2 Royalty Rate Selection — The Critical Input

The royalty rate is the single most important and most contested input in the RFR method. It must represent the rate at which the specific intangible asset — not a generic comparable — would be licensed in an arm's-length transaction between a willing licensor and a willing licensee, both with full knowledge of the asset. In Indian PPA practice, royalty rates are established through three complementary methods: comparable transaction analysis, analytical build-up, and the 25% rule cross-check.

Comparable transaction analysis searches published databases (ktMINE, RoyaltySource), SEBI-mandated related-party disclosures, ITAT judgements, and DPIIT approval records for actual arm's-length royalty rates for the same or similar intangible asset type. In India, the DPIIT automatic route ceiling — 5% on domestic sales and 8% on exports for technology collaboration agreements — provides a regulatory reference point but is not a valuation constraint.

7.3 Complete RFR Worked Example — Technology Asset

RfR — TECHNOLOGY ASSET VALUATION: TECHCO PLATFORM SOFTWARE

Context: TechCo India acquisition — valuing the proprietary SaaS platform
Revenue attributable to the technology: Rs. 210 Crore (Year 1)
Revenue growth: 12% p.a. for 5 years, then 6% terminal growth
Royalty rate: 6% of revenue (based on comparable SaaS platform licences)
Effective tax rate: 25.17%
Technology discount rate: 16% (higher than WACC — see Chapter 9)
Useful life: 7 years (technology lifecycle assessment)

YEAR-BY-YEAR CALCULATION (Rs. Crore):

Year	Revenue	Royalty (6%)	Post-Tax Royalty	Disc. Factor	PV
1	210.0	12.60	9.43	0.9285	8.76
2	235.2	14.11	10.56	0.8001	8.45
3	263.4	15.80	11.83	0.6897	8.16
4	295.0	17.70	13.24	0.5945	7.87
5	330.4	19.82	14.83	0.5125	7.60
6	350.2	21.01	15.72	0.4416	6.94
7	371.2	22.27	16.66	0.3807	6.34

Terminal Value in Year 7: [16.66 x 1.06] / (0.16 - 0.06) = Rs. 176.6 Crore
PV of Terminal Value: 176.6 x 0.3807 = Rs. 67.2 Crore

Sum of PV (Years 1-7):	Rs. 54.1 Crore
PV of Terminal Value:	Rs. 67.2 Crore

► **Technology / Software Fair Value: Rs. 121.3 Crore**

Note: Terminal value used because technology is core to ongoing business.
For technology with clear obsolescence, use finite life only (no TV).

7.4 Brand Valuation Using RFR — The Same Method, Different Inputs

Brand valuation under the RFR method uses the same formula as technology valuation, but with brand-specific royalty rates and revenue bases. The key differences in brand RFR versus technology RFR are: the royalty rate reflects brand recognition and consumer loyalty rather than functional capability; the revenue base is the total revenue that is brand-driven, which may be a subset of total revenue for companies with both branded and unbranded product lines; and the useful life may be indefinite for strong heritage brands, leading to a perpetuity terminal value rather than a finite projection.

BRAND VALUATION — RFR WITH INDEFINITE USEFUL LIFE

For a heritage Indian FMCG brand:
Brand-attributable revenue Year 1: Rs. 580 Crore
Long-run revenue growth: 8% p.a.
Brand royalty rate: 3.5% (FMCG mass-market brand)
Post-tax royalty Year 1: Rs. 580 x 3.5% x (1-25.17%)
= Rs. 20.3 x 0.7483 = Rs. 15.2 Crore

Brand discount rate: 15% (brand-specific rate)
Long-run growth: 8%

Brand Value (Gordon Growth / Perpetuity):
= Post-tax royalty Year 1 x (1 + g) / (r - g)
= Rs. 15.2 x 1.08 / (0.15 - 0.08)
= Rs. 16.4 / 0.07

► Brand Fair Value: Rs. 234 Crore (classified as indefinite life — annual impairment test)

KEY INSIGHT

We have found that the royalty rate is the most frequently challenged input in RFR-based PPA valuations — both by statutory auditors and, in the Transfer Pricing context, by the tax authority. The best defence is a documented comparable transaction database: at minimum 5–7 actual licence agreements for comparable intangibles, with adjustment factors documented for each comparable to explain why the chosen rate is higher or lower. A royalty rate that is described as 'selected based on industry practice' without specific comparable evidence will not survive audit scrutiny. We maintain a continuously updated database of Indian and global royalty transactions for this purpose.

PRO TIP

When applying the RFR method to a brand in a consumer goods acquisition, test whether the royalty rate leaves a viable margin for a hypothetical licensee. The 'profitability test' works as follows: if a licensee paid the proposed royalty rate and operated at the industry-average EBITDA margin, would it still earn a reasonable return? If the royalty would consume more than 30–40% of the licensee's EBITDA margin, the rate is almost certainly too high and will be challenged in audit. Reduce the royalty rate until the licensee's residual margin is commercially viable — typically at least 10–15% EBITDA after the royalty payment.

PART III: VALUATION METHODOLOGIES — FULL WORKINGS

Chapter 8: The With-and-Without Method — Non-Compete Agreement Valuation

The With-and-Without Method (WWM) values an intangible asset by comparing the value of the business in two scenarios: 'with' the asset and 'without' the asset. The difference in business value between these two scenarios is the fair value of the intangible asset. This method is most commonly used for non-compete agreements — the contracts signed by founders, key executives, or scientists at the time of acquisition that restrict them from competing with the acquired business for a defined period.

8.1 When to Use the With-and-Without Method

The WWM is appropriate when an intangible asset's value is best captured by modelling the economic damage that would occur if the asset did not exist — rather than by reference to royalty rates (RFR) or customer earnings (MPEEM). Non-compete agreements are the classic application: the value of the non-compete is the present value of the revenue and margin protection it provides by preventing the departing founder from competing directly.

Other applications of the WWM in Indian PPA practice include: exclusive supplier agreements (value = cost saving vs. open market procurement); exclusive distribution agreements (value = revenue protection in the exclusive territory); and operating licences in regulated industries (value = cost to obtain an equivalent licence through alternative means).

8.2 Complete WWM Calculation — Non-Compete Agreement

WITH-AND-WITHOUT METHOD — NON-COMPETE AGREEMENT VALUATION

Context: Founder of TechCo India (departed at acquisition) signs a 3-year non-compete covering the same B2B SaaS vertical in India.

SCENARIO A — 'WITH' NON-COMPETE (baseline business plan):
Revenue is protected for 3 years because founder cannot compete
Year 1: Rs. 210 Cr Year 2: Rs. 235 Cr Year 3: Rs. 264 Cr
EBIT margin: 28% => After-tax EBIT (NOPAT) at 28% x (1-25.17%)
Year 1 NOPAT: Rs. 44.0 Cr Year 2: Rs. 49.3 Cr Year 3: Rs. 55.2 Cr

SCENARIO B — 'WITHOUT' NON-COMPETE (founder competes from Year 1):
Revenue impact: Founder could capture 18-25% of TechCo's customer base within 12-18 months, based on industry switching patterns
Conservative assumption: 15% revenue attrition in Year 1, additional 8% in Year 2, stable at 77% of baseline from Year 3

Year 1 Without: Rs. 210 x 85% = Rs. 178.5 Cr NOPAT: Rs. 37.4 Cr
Year 2 Without: Rs. 235 x 77% = Rs. 180.9 Cr NOPAT: Rs. 37.9 Cr
Year 3 Without: Rs. 264 x 77% = Rs. 203.3 Cr NOPAT: Rs. 42.6 Cr

DIFFERENTIAL CASH FLOWS (With - Without):
Year 1: Rs. 44.0 - Rs. 37.4 = Rs. 6.6 Crore
Year 2: Rs. 49.3 - Rs. 37.9 = Rs. 11.4 Crore
Year 3: Rs. 55.2 - Rs. 42.6 = Rs. 12.6 Crore

Discount rate for non-compete: 13% (moderate risk — contractually secured)
PV Year 1: Rs. 6.6 / 1.13^0.5 = Rs. 6.2 Crore
PV Year 2: Rs. 11.4 / 1.13^1.5 = Rs. 9.6 Crore
PV Year 3: Rs. 12.6 / 1.13^2.5 = Rs. 9.4 Crore

► **Non-Compete Agreement Fair Value: Rs. 25.2 Crore**
Useful life: 3 years (= contractual term — straight-line amortisation)

8.3 Estimating the Revenue at Risk — The Key Judgement

The most contested element of a non-compete WWM is the revenue at risk — how much revenue the departing founder could realistically capture if they competed. This assumption is driven by: the founder's customer relationships (are customers loyal to the founder personally or to the company's product?); the non-compete's geographic and product scope (a narrow non-compete that allows the founder to operate in adjacent verticals has less protective value than an all-India, all-category restriction); the technical barriers to replication (how quickly could the founder rebuild a competing platform?); and the industry competitive dynamics (is the market highly fragmented, making competition easy to establish, or are there strong network effects protecting the incumbent?).

In Indian M&A, founder non-competes are almost universal in technology and consumer startup acquisitions — and they are almost always negotiated as part of the deal terms rather than separately priced. The PPA valuer must assess what portion of the revenue protection attributable to the non-compete is economically real (the founder's customer relationships) versus legally symbolic (restrictions on activities the founder could not practically undertake anyway).

COMMON ERROR

Error: Using the maximum contractual revenue at risk (e.g., 100% of revenue) as the 'Without' scenario assumption, which produces an unrealistically high non-compete value.

Fix: The 'Without' scenario should reflect a realistic, evidence-based estimate of what would actually happen without the non-compete — not the worst-case scenario. For most Indian B2B founders, the realistic revenue capture is 15%–30% of the acquired company's customer base in a 2–3 year window. Support this with customer concentration data (top 10 customers as % of revenue) and the nature of the customer-founder relationship (contractual vs. personal).

KEY INSIGHT

We have valued non-compete agreements in many Indian M&A transactions. The most consistent finding is that the non-compete value is highly sensitive to two assumptions: the revenue at risk (the percentage of customers who might follow the departing founder) and the time-to-replication (how quickly the founder could build a competing product). For technology startups where the founding team built the core IP, both assumptions need careful examination. We always request the founding team's customer meeting logs, GitHub contribution history (to assess who built the core codebase), and any customer surveys on product loyalty vs. founder loyalty. This data materially affects the non-compete value in ways that a purely financial model cannot capture.

PRO TIP

For non-compete agreements longer than 3 years in Indian PPA practice, the discount between the contractual term and the economically realistic protection period must be explicitly modelled. Most founders' competitive advantage dissipates significantly after 2–3 years — their institutional knowledge becomes stale, the market evolves, and the acquired company's brand and product invest fill the gap. Valuing a 5-year non-compete at full economic value for all 5 years overstates the asset: model Years 4–5 at a significantly reduced revenue-at-risk assumption (perhaps 30–40% of the Year 2–3 impact) to reflect this diminishing competitive threat.

PART IV: GOODWILL, DISCOUNT RATES & FINANCIAL IMPACT

Chapter 9: WACC, Intangible Discount Rates & the WARA Reconciliation

The discount rate framework for PPA is one of the most technically demanding aspects of the exercise — and the source of the greatest variation in practice across Indian valuation firms. A PPA that uses internally inconsistent discount rates — for example, discounting customer relationships at the same rate as working capital — will fail the WARA reconciliation test and will not withstand rigorous audit scrutiny. This chapter builds the complete discount rate framework from the ground up.

9.1 The WACC for the Acquisition — The Anchor Rate

The WACC is the starting point for all discount rates in the PPA. It represents the weighted average cost of capital for the combined entity post-acquisition, reflecting both the cost of equity (derived from CAPM) and the after-tax cost of debt, weighted by their respective contributions to the total capital structure.

WACC COMPUTATION — TECHCO INDIA ACQUISITION

COST OF EQUITY (CAPM):
Risk-Free Rate (10-yr G-Sec yield): 7.10%
Equity Risk Premium (Damodaran India ERP): 9.80%
Beta (relevered to target capital structure): 1.05
Size Premium (mid-cap adjustment): 1.50%

Cost of Equity = 7.10% + 1.05 x 9.80% + 1.50%
= 7.10% + 10.29% + 1.50%
= 18.89%

COST OF DEBT:
Gross cost of debt (current market rate): 9.50%
Effective tax rate: 25.17%
After-tax cost of debt = 9.50% x (1 - 25.17%) = 7.11%

CAPITAL STRUCTURE (market value weights):
Equity weight: 80% (EV Rs. 550 Cr; Net Debt Rs. 110 Cr => E Rs. 440 Cr)
Debt weight: 20%

WACC = 18.89% x 80% + 7.11% x 20%
= 15.11% + 1.42%

► **WACC = 16.5% (rounded)**

9.2 Intangible Asset Specific Discount Rates

Each intangible asset class carries a different risk profile — and therefore a different discount rate. Assets with more certain, more contractually protected cash flows warrant lower discount rates;

assets with more speculative cash flows warrant higher rates. The table below provides the standard intangible asset rate hierarchy used in Indian PPA practice.

Asset Class	Risk Profile	Typical Rate (India)	Basis for Premium over WACC
Working Capital	Lowest — highly liquid, near cash	5% – 7%	Risk-free plus short credit spread
Fixed Assets (PPE)	Low — tangible, insurable	7% – 10%	After-tax cost of debt
Order Backlog	Low — committed revenue	9% – 12%	Low risk — contractual obligation of customer
Non-Compete Agreements	Moderate — legally binding but enforcement risk	11% – 14%	Modest premium over WACC for legal risk
Customer Relationships	Moderate-High — attrition and competition risk	14% – 19%	Significant premium over WACC for churn risk
Assembled Workforce	Moderate-High — employee departure risk	10% – 15%	Premium for key person dependency
Technology / Software	High — obsolescence and competition risk	14% – 20%	High premium for technology lifecycle risk
Brand / Tradename	High — consumer preference volatility	13% – 19%	Brand equity erosion and competitive risk
In-Process R&D	Very High — technical and commercial failure risk	18% – 35%	High probability of failure embedded in rate
Goodwill	Highest — residual, synergy-dependent	= WACC	Cannot exceed WACC — residual must balance

Table 9.1: Intangible Asset Discount Rates — Risk Hierarchy and Indian Market Benchmarks

9.3 The WARA Reconciliation — The Internal Consistency Test

The Weighted Average Return on Assets (WARA) is the most powerful quality control test in the entire PPA. It verifies that the discount rates assigned to individual assets are internally consistent with the overall WACC. The WARA is computed by weighting each asset's discount rate by its fair value as a proportion of total enterprise value. The WARA must equal the WACC — if it does not, the discount rates or fair values are inconsistent.

WARA RECONCILIATION FORMULA AND WORKED EXAMPLE

WARA = Sigma [Asset Fair Value / Total EV] x Asset Discount Rate

WARA must equal WACC (within rounding tolerance of +/- 0.5%)

TECHCO INDIA PPA — WARA COMPUTATION:

Asset	FV (Rs. Cr)	Weight	Disc. Rate	Contribution
Working Capital	42	7.6%	6.0%	0.46%
Fixed Assets (net)	68	12.4%	8.5%	1.05%
Order Backlog	37	6.7%	10.5%	0.70%
Customer Relationships	57	10.4%	17.0%	1.77%
Technology	121	22.0%	16.0%	3.52%

Brand	28	5.1%	15.0%	0.77%
Non-Compete	8	1.5%	13.0%	0.20%
Assembled Workforce	95	17.3%	12.0%	2.07%
Goodwill	94	17.1%	16.5%	2.82%
TOTAL / WARA	550	100.0%		13.36%

Target WACC: 16.5%
WARA: 13.4% => Not reconciling — need to review rates

COMMON RESOLUTION: Increase customer relationship and technology rates, or adjust assembled workforce rate until WARA matches WACC (Goodwill rate is always set = WACC to make the reconciliation work)

KEY INSIGHT

The WARA reconciliation is the single most reliable indicator of whether a PPA has been built with internally consistent assumptions. We have reviewed dozens of PPA reports from various valuation firms in India — and the WARA reconciliation is the most commonly missing element. When a PPA report does not include a WARA reconciliation table, it almost always means that the discount rates have been set intuitively rather than derived from a coherent framework. Every PPA deliverable should include the WARA table as a standard exhibit, and the statutory auditor should request it as part of the PPA review. A WARA within 100 basis points of the WACC is acceptable; anything beyond that range requires explanation.

PRO TIP

A useful shortcut for the WARA reconciliation: set goodwill's discount rate equal to the WACC, and then work backwards to determine the range of intangible asset discount rates that will produce a WARA equal to the WACC. If goodwill is 20% of enterprise value and bears the WACC rate, and tangible assets (40% of EV) bear rates of 6%–9%, then the intangible assets (40% of EV) must carry an average rate of approximately WACC + 4–5% to balance. This back-of-envelope check tells you whether your proposed intangible rates are in the right neighbourhood before building the full WARA table.

PART IV: GOODWILL, DISCOUNT RATES & FINANCIAL IMPACT

Chapter 10: Goodwill Computation, CGU Allocation & Ind AS 36 Impairment Testing

Goodwill is the residual in every PPA — it is what remains of the consideration transferred after the fair values of all identified net assets (including intangibles) have been allocated. Far from being a simple subtraction, goodwill is a carefully constructed number that encapsulates the economic rationale for the acquisition premium: synergies, market position, going-concern value, and future earning power that cannot be assigned to specific identifiable assets. Under Ind AS 103, goodwill is not amortised but must be tested for impairment annually under Ind AS 36.

10.1 Goodwill Computation — The Residual Formula

GOODWILL COMPUTATION — IND AS 103 PARA 32

Goodwill = Consideration Transferred + NCI + Previously Held Interest - FVNIA

Where:

Consideration Transferred = Purchase price paid (cash, shares, contingent consideration)
NCI = Fair value of Non-Controlling Interest (if < 100% acquired)
Previously Held Interest = Fair value of any pre-existing equity interest in the target
FVNIA = Fair value of Net Identifiable Assets acquired
= (Fair value of assets) - (Fair value of liabilities)

TECHCO INDIA WORKED EXAMPLE:

Consideration transferred (cash):	Rs. 550 Crore
NCI (100% acquisition — NCI = nil):	Rs. 0 Crore
Previously held interest (none):	Rs. 0 Crore
Total Consideration:	Rs. 550 Crore

Fair Value of Net Identifiable Assets:

Total assets at fair value:	Rs. 700 Crore
Less: Total liabilities at fair value:	Rs. (150) Crore
Less: DTL on step-ups (see Chapter 11):	Rs. (55) Crore
FVNIA:	Rs. 495 Crore

► **GOODWILL = Rs. 550 - Rs. 495 = Rs. 55 Crore**

10.2 CGU Allocation — The Operational Framework for Impairment Testing

Goodwill recognised in a business combination must be allocated to the Cash-Generating Unit (CGU) or group of CGUs that are expected to benefit from the combination, for the purpose of annual impairment testing. A CGU is the smallest identifiable group of assets that generates cash

inflows largely independently of other assets. In practice, the CGU is often equivalent to a reportable segment, a product line, or a geographic market — but it must be identified based on how management monitors the business, not how the accounts are structured.

The CGU allocation strategy is a critical decision that has long-term consequences for the impairment risk exposure of the acquirer. Allocating goodwill to a large, diversified CGU provides more 'headroom' (the difference between recoverable amount and carrying value) and therefore less impairment risk. Allocating goodwill to multiple smaller, focused CGUs provides more transparency but may accelerate impairment recognition if specific business units underperform.

10.3 Annual Impairment Testing — The Value in Use Model

The annual impairment test under Ind AS 36 compares the carrying value of the CGU (including allocated goodwill) to its recoverable amount — the higher of 'Value in Use' (VIU) and 'Fair Value Less Costs of Disposal' (FVLCD). If carrying value exceeds recoverable amount, an impairment loss equal to the difference is recognised and charged to the P&L.

GOODWILL IMPAIRMENT TEST — VALUE IN USE MODEL

Two years post-acquisition: Management has revised TechCo projections downward due to increased competition in the B2B SaaS market.

CGU CARRYING VALUE:
Net assets (tangible + intangible): Rs. 420 Crore (post-amortisation)
Goodwill allocated to CGU: Rs. 55 Crore
TOTAL CARRYING VALUE: Rs. 475 Crore

VALUE IN USE COMPUTATION (updated management projections):
Year 1-3 FCFF (revised): Rs. 35, 42, 50 Crore per year
Long-run growth rate: 6% (down from 8% at acquisition)
Pre-tax discount rate: 22% (pre-tax version of WACC)
(Note: VIU uses PRE-TAX discount rate per Ind AS 36 Para 55)

PV of explicit period FCFFs: Rs. 88 Crore
Terminal Value (Year 3 FCFF x 1.06 / (0.22 - 0.06)):
= Rs. 53 / 0.16 = Rs. 331 Crore
PV of Terminal Value: Rs. 198 Crore
VALUE IN USE: Rs. 286 Crore

IMPAIRMENT CALCULATION:
Carrying Value: Rs. 475 Crore
Value in Use: Rs. 286 Crore
► **IMPAIRMENT LOSS: Rs. 189 Crore**

Allocation: First against goodwill (Rs. 55 Cr), then to other assets (Rs. 134 Cr)
GOODWILL WRITTEN OFF COMPLETELY: Rs. 55 Crore
ADDITIONAL IMPAIRMENT ON INTANGIBLES: Rs. 134 Crore

KEY INSIGHT

We have conducted goodwill impairment reviews for several Indian companies where the original PPA was poorly constructed — with goodwill inflated by inadequate intangible asset identification. In these situations, the impairment test reveals the problem: when the recoverable amount drops below the carrying value, it forces the question of whether the original goodwill was justified or was simply a residual of an incomplete PPA. A well-constructed PPA — with comprehensive intangible asset identification, rigorous valuations, and defensible useful lives — produces a goodwill figure that is specifically justified by identifiable synergies and going-concern value. When impairment testing subsequently challenges that goodwill, the company can point to the original synergy analysis and explain specifically which synergies have or have not materialised.

PRO TIP

Build the 'impairment headroom analysis' into the initial PPA report — compute the CGU's recoverable amount (VIU) using the same management projections underlying the acquisition business case, and show the headroom (recoverable amount minus carrying value). This analysis gives the acquirer's finance team and audit committee immediate visibility into how much the business can underperform before triggering impairment. For acquisitions where the VIU headroom is less than 20% of the CGU's carrying value at acquisition date, flag this as a heightened impairment risk requiring close monitoring in subsequent years.

PART IV: GOODWILL, DISCOUNT RATES & FINANCIAL IMPACT

Chapter 11: Post-PPA Financial Statements — Amortisation, DTL, and P&L Impact

The post-PPA financial statements are the final output of the entire PPA exercise — and the deliverable that most directly affects the acquirer's management, investors, and analysts. The amortisation charges arising from identified intangible assets can significantly reduce reported EBITDA and PAT relative to the pre-PPA expectations of the deal team. The deferred tax liability arising from fair value step-ups affects the opening balance sheet and is unwound over time. Understanding these impacts — and modelling them before the deal closes — is essential for every Indian M&A professional.

11.1 The Amortisation Schedule — From Fair Value to Annual Charge

Each finite-life intangible asset recognised in the PPA is amortised over its useful life, typically using the straight-line method. The annual amortisation charge for each asset is simply the fair value divided by the useful life in years — but the aggregate amortisation across all intangible assets can be a large and strategically important number.

TECHCO INDIA — PPA AMORTISATION SCHEDULE (Rs. Crore per year)			
Intangible Asset	**FV**	**Life(yr)**	**Annual Amort**
Customer Relationships	57	8	7.1
Technology / Software	121	7	17.3
Brand / Tradename	28	Indefinite (impairment-tested annually)	0.0
Order Backlog	37	1.5	24.7
Non-Compete Agreement	8	3	2.7
TOTAL ANNUAL AMORTISATION — YEAR 1	**Rs. 51.8 Crore**		
TOTAL ANNUAL AMORTISATION — YEAR 2 (backlog fully amortised)	**Rs. 27.1 Crore**		
TOTAL ANNUAL AMORTISATION — YEAR 4 (non-compete also done)	**Rs. 24.4 Crore**		
TOTAL ANNUAL AMORTISATION — YEAR 8+ (only customer rel. remaining)	**Rs. 7.1 Crore**		

11.2 Post-PPA P&L Impact — The EBITDA Bridge

The PPA amortisation charges appear below EBITDA in the P&L (as amortisation in the D&A line) — they therefore reduce EBIT and PAT but do not affect EBITDA. This has important implications

for deal structuring and management incentive design: many Indian PE-backed acquisitions set management compensation targets based on EBITDA, which effectively excludes PPA amortisation from the performance metric. However, for purposes of valuing the acquired business on a forward EV/EBITDA multiple, analysts must decide whether to use reported EBITDA (excluding PPA amortisation) or 'economic' EBITDA (which might include a portion of amortisation as a real economic cost of the intangible asset declining in value).

POST-PPA P&L BRIDGE — YEAR 1 IMPACT ON TECHCO INDIA

PRE-PPA ACQUISITION MODEL P&L (what the deal team modelled):

Revenue:	Rs. 210 Crore
EBITDA (28% margin):	Rs. 58.8 Crore
Depreciation (PPE):	Rs. 8.5 Crore
EBIT:	Rs. 50.3 Crore
Finance costs:	Rs. 8.2 Crore
PBT:	Rs. 42.1 Crore
Tax (25.17%):	Rs. (10.6) Crore
PAT:	Rs. 31.5 Crore

POST-PPA ADJUSTMENTS:

Add: PPA Amortisation Year 1:	Rs. (51.8) Crore (below EBITDA)
Add: Inventory step-up expense:	Rs. (7.0) Crore (COGS in Year 1 only)

POST-PPA P&L (what will actually be reported):

Revenue:	Rs. 210 Crore (unchanged)
EBITDA:	Rs. 51.8 Crore (after inventory step-up COGS)
D&A (PPE + Intangible Amort):	Rs. 60.3 Crore (8.5 + 51.8)
EBIT:	Rs. (8.5) Crore (negative!)
Finance costs:	Rs. 8.2 Crore
PBT:	Rs. (16.7) Crore (reported loss)
Tax (deferred tax benefit):	Rs. 4.2 Crore

► **POST-PPA PAT YEAR 1: Rs. (12.5) Crore**

vs. Pre-PPA deal model: Rs. 31.5 Crore

IMPACT: Rs. 44 Crore swing — management must be aware before close

11.3 Deferred Tax Liability on PPA Step-Ups

Every fair value step-up in the PPA — on tangible assets, intangible assets, and inventory — creates a temporary difference between the accounting carrying value (fair value) and the tax base (typically cost or historical book value). Under Ind AS 12, this temporary difference must be recognised as a Deferred Tax Liability (DTL) at the acquisition date. The DTL is measured at the tax rate applicable to the company — in India, typically 25.17% for larger companies.

DEFERRED TAX LIABILITY COMPUTATION ON PPA STEP-UPS

DTL = Total PPA Fair Value Step-Ups x Effective Tax Rate

TECHCO INDIA PPA STEP-UPS AND DTL:

PPE fair value step-up:	Rs. 35 Crore
Inventory step-up:	Rs. 7 Crore

Customer Relationships: Rs. 57 Crore (not on target's tax books)
Technology / Software: Rs.121 Crore (not on target's tax books)
Brand / Tradename: Rs. 28 Crore (not on target's tax books)
Order Backlog: Rs. 37 Crore (not on target's tax books)
Non-Compete Agreement: Rs. 8 Crore (typically IS on tax books)

Total taxable temporary differences: Rs.293 Crore (excl. non-compete)

DTL = Rs. 293 x 25.17% = Rs. 73.7 Crore (recognised on acquisition date)

IMPORTANT: DTL increases the goodwill residual!
Without DTL: FVNIA = EV - DTL = Rs.550 - Rs.426 = Rs.124 Cr goodwill
With DTL: FVNIA = Rs.550 - (Rs.426 - Rs.73.7) = Rs. 50.3 Cr goodwill
(DTL reduces FVNIA; lower FVNIA increases goodwill — always compute DTL first)

KEY INSIGHT

The DTL interaction with goodwill is one of the most misunderstood aspects of PPA in Indian practice. The DTL must be recognised on acquisition date, it increases the goodwill residual (because it reduces the fair value of net identifiable assets), and it is subsequently released to the income statement as the underlying asset is amortised (which partially offsets the amortisation P&L charge). Many Indian deal teams compute the PPA without the DTL and then discover that adding it materially changes the goodwill figure — sometimes by 15–25% of the final goodwill amount. Always compute the DTL as part of the initial PPA scope and build it into the opening balance sheet from the start.

PRO TIP

Build an 'amortisation and DTL unwind schedule' as a standard deliverable alongside the PPA report — a year-by-year table showing the amortisation charge for each intangible asset, the corresponding DTL release, and the net P&L impact (amortisation minus DTL release) for each year of the intangible assets' lives. This schedule is exactly what the statutory auditor and the acquirer's tax team need to prepare the financial statements in subsequent years. If the PPA report does not include this schedule, the finance team will have to reconstruct it themselves — which creates reconciliation risk.

PART V: QUALITY CONTROL & REPORTING

Chapter 12: PPA Report Standards, Audit Readiness & Common Errors

A PPA report that cannot survive the scrutiny of a Big 4 statutory auditor is not a PPA report — it is a draft. The audit process for PPA in India has become significantly more rigorous over the past 5 years, driven by SEBI's increased focus on fair value disclosures, the NCLT's growing comfort with challenging acquisition accounting, and the global harmonisation of PPA audit standards across IFRS jurisdictions. This chapter covers the quality control framework, the standard report structure, and the most common errors in Indian PPA practice.

12.1 The Pre-Submission Quality Control Checklist

Quality Check	What to Test	How to Test	Red Flag
WARA = WACC	Weighted average of all asset returns equals WACC	Build WARA table; compute weighted average	Gap > 100 bps unexplained
Goodwill is positive	Residual should be non-negative	Consideration - FVNIA must be ≥ 0	Negative goodwill requires bargain purchase analysis
All intangibles identified	Checklist covers all asset classes	Use the Chapter 3 checklist systematically	Any category left as 'not applicable' without evidence
Useful lives justified	Finite vs. indefinite; years supported	Document analysis per Ind AS 38 criteria	Useful life > remaining legal right without justification
Revenue attribution consistent	Same revenue base used across all assets	Customer, technology, brand revenue don't overlap	Double-counting revenue across two intangible assets
CAC rates internally consistent	Higher-risk assets have higher CAC rates	Compare rates across asset hierarchy	Working capital rate > intangible rate
DTL computed on all step-ups	All FV > tax base differences recognised	Check each asset's tax base vs. FV	Any step-up without corresponding DTL
IRR cross-check	Modelled IRR should approximate WACC	Build IRR model from acquisition cash flows	IRR < WACC or IRR > 2x WACC

Table 12.1: PPA Quality Control Checklist — Eight Critical Tests Before Report Submission

12.2 The IRR Cross-Check — The Acid Test of PPA Consistency

The Internal Rate of Return cross-check is the single most powerful validation test for a completed PPA. It works as follows: compute the IRR of the acquisition by treating the consideration paid as the initial investment and the projected free cash flows of the acquired business as the return stream. This IRR should approximate the WACC used in the PPA — because the WACC represents the required return on the acquisition, and the IRR represents the expected return.

IRR CROSS-CHECK — FORMULA AND INTERPRETATION

IRR Cross-Check: 0 = -Consideration + Sigma [FCFF_t / (1 + IRR)^t]

Where FCFF is the projected free cash flow of the combined business.

INTERPRETATION:
IRR ≈ WACC: PPA is internally consistent (PASS)
IRR >> WACC: Management projections too optimistic; OR
WACC is too low; OR goodwill is understated
IRR << WACC: Acquisition was overpriced; OR
WACC is too high; OR goodwill is overstated

TECHCO INDIA EXAMPLE:
WACC: 16.5%
IRR from acquisition model: 17.8%
Gap: 130 bps => PASS — consistent with a modestly value-creating deal

12.3 Standard PPA Report Structure

A professionally structured PPA report should contain the following sections, in order, to facilitate efficient audit review and regulatory compliance:

1. Executive Summary — PPA conclusion table (asset, fair value, useful life), consideration reconciliation, goodwill computation, and key assumptions summary
2. Engagement Scope and Standards — identification of the intangible assets in scope, applicable standards (Ind AS 103, Ind AS 38, Ind AS 36), and independence declaration
3. Acquisition Overview — deal structure, consideration components (including contingent consideration at acquisition date FV), and acquisition date confirmation
4. Business Overview — the acquired entity's business model, revenue streams, and competitive position (necessary to understand the economic rationale for each intangible asset)
5. Intangible Asset Identification — systematic application of the separability and contractual-legal tests to each potential intangible, with conclusion on recognition
6. Valuation Methodology — WACC derivation, intangible-specific discount rates, and WARA reconciliation
7. Individual Asset Valuations — full working for each intangible: MPEEM (customer relationships), RFR (technology, brand), WWM (non-compete), rNPV (IPR&D)
8. Goodwill Computation and DTL Analysis — residual goodwill, DTL on all step-ups, and CGU allocation recommendation
9. Post-PPA Balance Sheet and Amortisation Schedule — full-scope PPA impact on balance sheet and multi-year amortisation and DTL unwind schedule
10. Quality Control — WARA reconciliation, IRR cross-check, useful life justification, and completeness certification

12.4 The Most Common PPA Errors in Indian Practice

COMMON ERROR

Error: Failing to identify all intangible assets — specifically, missing order backlog, non-compete agreements, or in-process R&D because the deal team did not apply a systematic identification checklist.

Fix: Use the Chapter 3 identification checklist on every engagement. Specifically ask about: (1) signed non-compete agreements in the SPA, (2) firm order backlog at acquisition date, (3) any R&D projects not yet in commercial use. These three are the most commonly missed intangibles in Indian PPA practice.

COMMON ERROR

Error: Computing the customer relationship useful life as the average customer tenure without attrition analysis — which systematically overstates the useful life and understates the amortisation rate.

Fix: Compute the customer attrition rate from actual customer data using the cohort method (Chapter 4). The useful life is not the average tenure — it is the period over which 95% of the PV of customer earnings is received, which is typically 2x–3x the average customer tenure due to the diminishing revenue from departing customers.

COMMON ERROR

Error: Excluding assembled workforce from the CAC analysis on the grounds that it is not separately recognised — then failing to include the workforce CAC in the MPEEM calculation.

Fix: Assembled workforce is not recognised as a separate intangible asset but must be included as a contributory asset in MPEEM. Estimate its fair value using replacement cost (cost of recruiting, hiring, and training an equivalent team), and apply a return rate of 10%–15% as the CAC. Omitting this charge significantly overstates customer relationship value.

KEY INSIGHT

We have participated in post-acquisition audits where the original PPA was challenged because the WARA could not be reconciled with the WACC. In one transaction, the original PPA had used a 14% discount rate for both customer relationships and assembled workforce — assets with fundamentally different risk profiles. When we rebuilt the rate hierarchy correctly (assembled workforce at 11%, customer relationships at 17%), the customer relationship value dropped by Rs. 18 Crore and the goodwill increased by the same amount. The statutory auditor accepted the revised PPA. The WARA reconciliation — if built from the start — would have caught this error before the first draft was submitted.

PRO TIP

Build the PPA report as a live Excel model with direct links from every assumption to the valuation outputs — not as a static Word document with hardcoded numbers. A live model allows the statutory auditor to run sensitivity analysis on key assumptions (attrition rate, royalty rate, useful life) without requesting manual recalculations from the valuer. This dramatically accelerates the audit process, reduces the risk of transcription errors, and demonstrates the rigour of the analytical framework. The model should include a 'Sensitivity Dashboard' sheet showing the impact on each intangible asset's fair value of ±1% change in discount rate, ±1 year change in useful life, and ±2% change in the royalty rate or attrition rate.

CONCLUSION

Conclusion: Building Excellence in Purchase Price Allocation

A Purchase Price Allocation is one of the most consequential financial analyses an acquirer undertakes — more consequential than most deal teams realise when they sign the SPA. The intangible assets identified, the fair values assigned, the useful lives selected, and the goodwill residual computed all have multi-year effects on the acquirer's reported earnings, its return on invested capital, and its balance sheet credibility. A well-constructed PPA is not a compliance exercise — it is a comprehensive economic statement about what was bought, what it is worth, and how that value will flow through the financial statements over time.

This guide has built the complete PPA toolkit from first principles: the Ind AS 103 regulatory framework and the measurement period; the systematic intangible asset identification process using the separability and contractual-legal tests; the detailed mechanics of the three primary valuation methodologies — MPEEM for customer relationships, Relief from Royalty for technology and brand, and With-and-Without for non-compete agreements; the discount rate framework including WACC derivation, intangible-specific rates, and the WARA reconciliation; goodwill computation, CGU allocation, and annual impairment testing; and the post-PPA financial statement impact including amortisation, DTL, and the P&L bridge.

The Path from Adequate to Excellent PPA

Most PPA exercises in India are adequate — they identify the major intangible assets, apply standard methodologies, and produce numbers that satisfy the statutory auditor. Excellent PPA practice goes further: it identifies all intangible assets including the smaller ones that are easy to miss (order backlog, in-process R&D, minor non-competes); it applies methodologies that are genuinely appropriate for the specific asset rather than default approaches; it justifies every assumption with specific evidence rather than industry averages; and it delivers the WARA reconciliation and IRR cross-check as standard quality controls rather than afterthoughts.

Key Practical Reminders

- Commission the PPA valuer during due diligence, not after close — the insights from early engagement improve both the PPA quality and the deal team's understanding of what drives value in the acquisition
- Apply the systematic identification checklist to every acquisition — never assume a category is not applicable without reviewing the evidence
- Compute the WARA reconciliation before submitting the draft report — it is the most reliable indicator of internal consistency
- Model the post-PPA P&L impact before the deal closes — amortisation charges can be very large and must not be a surprise to the CFO or audit committee
- Compute the DTL on all step-ups at the outset — it affects the goodwill residual and must be in the opening balance sheet from Day 1
- Build the PPA as a live Excel model — not a static document — to facilitate efficient audit review and sensitivity analysis

How Elite Valuation Can Help

- Full-scope PPA under Ind AS 103 — intangible asset identification, valuation, goodwill computation, DTL analysis, and amortisation schedule
- Customer relationship valuation using MPEEM — full contributory asset charge framework and attrition analysis
- Technology, brand, and patent valuations using Relief from Royalty — royalty rate benchmarking with Indian and global comparable transactions
- Non-compete and contractual asset valuations using With-and-Without Method — revenue at risk modelling and economic impact analysis
- WACC derivation, intangible discount rates, and WARA reconciliation — complete discount rate framework with audit-ready documentation
- Goodwill impairment testing under Ind AS 36 — annual VIU and FVLCD models with CGU-level reporting
- Post-PPA P&L impact modelling — amortisation schedules, DTL unwind, and management P&L bridge for board presentations

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"A Purchase Price Allocation is not a compliance exercise — it is the financial reckoning of every assumption embedded in the acquisition price. The intangible assets identified, the useful lives assigned, and the goodwill residual all have direct, multi-year consequences for the acquirer's reported earnings. Get it right before the deal closes."

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