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AIF Valuation in India

— GUIDE 2026 —

SEBI Regulations • IPEV Guidelines • NAV • LP Reporting

A Practitioner's Guide for AIF Managers, Fund Administrators & Institutional Investors in India

BY

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Sagar Shah is a leading valuation specialist in India with over 15 years of experience across financial services, private equity, and fund management ecosystems. He spent 9 years at Ernst & Young (EY) in the Transaction Advisory and Valuation practice, where he led fund valuation mandates across Category I, II, and III Alternative Investment Funds, as well as PE fund portfolio valuations for audit, regulatory, and transaction purposes.

At Elite Valuation, the practice advises AIF managers, fund administrators, LPs, and institutional investors on independent fair value assessments for portfolio companies, SEBI regulatory compliance valuations, and Net Asset Value (NAV) computations. The practice has extensive experience with the full spectrum of AIF asset classes - from early-stage venture investments and growth equity to real estate, infrastructure, credit, and listed equity portfolios.

Core AIF & Fund Valuation Expertise

- AIF portfolio valuations for SEBI compliance and LP reporting under Category I, II, and III
- Fair value assessments for unlisted portfolio companies using DCF, CCA, and Net Asset methodologies
- NAV computation and periodic valuation for AIF funds - quarterly, semi-annual, and annual cycles
- IPEV (International Private Equity and Venture Capital Valuation) Guidelines application
- SEBI AIF Regulations - compliance, reporting, and valuation policy framework
- Carried interest waterfall modelling and investor distribution analysis
- Real estate AIF and InvIT valuations - income capitalisation and replacement cost methods
- Credit / debt fund portfolio valuations - expected credit loss and yield-to-maturity analysis
- Listed equity portfolio fair value adjustments - liquidity and blockage discounts under Ind AS 113

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Our AIF Valuation Services

AIF Portfolio Valuation (SEBI Compliance) - Independent fair value assessments for AIF portfolios at each reporting date - compliant with SEBI AIF Regulations and Circular requirements on independent valuation.

NAV Computation & Certification - Net Asset Value calculations for Cat I, II, and III AIFs, including per-unit NAV for investor statements, redemptions, and new subscriptions.

Unlisted Portfolio Company Valuations - DCF, Comparable Company, and Net Asset Value analyses for private portfolio companies across stages - seed, growth, pre-IPO, and turnaround.

IPEV Guidelines Implementation - Full implementation of IPEV Valuation Guidelines for private capital funds, including calibration, price of recent investment, and subsequent measurement frameworks.

Real Estate & Infrastructure AIF Valuations - Income capitalisation, replacement cost, and comparable transaction approaches for real estate, infrastructure, and InvIT assets held by AIFs.

Credit / Debt Fund Portfolio Valuations - Expected credit loss modelling, yield-to-maturity analysis, and fair value assessments for performing and stressed debt instruments held in credit funds.

Carried Interest & Waterfall Modelling - Waterfall analysis for fund economics - preferred returns, carried interest calculations, clawback provisions, and GP/LP distribution modelling.

Valuation Policy & Governance Advisory - Drafting and reviewing valuation policies for AIF managers to meet SEBI regulatory requirements, including independence standards and methodology documentation.

"AIF valuation is not an administrative exercise - it is the foundation of LP trust, regulatory credibility, and the integrity of India's private capital markets. Every fair value opinion we issue is built on methodology, independence, and accountability."

- Sagar Shah, CA | CS | Registered Valuer

TABLE OF CONTENTS

PART I: AIF FRAMEWORK & REGULATION

Chapter 1: The AIF Ecosystem in India - SEBI Regulations, Categories, and Market Growth

India's Alternative Investment Fund (AIF) industry has emerged as a critical pillar of the country's private capital markets. From a nascent industry at the time of the SEBI (Alternative Investment Funds) Regulations, 2012, the AIF ecosystem has grown to encompass thousands of registered funds across all three categories, managing combined commitments in excess of Rs. 10 lakh crore as of early 2026. This growth reflects both the deepening of India's institutional investor base and the increasing sophistication of domestic fund managers who have built credible track records in private equity, venture capital, real estate, credit, and infrastructure strategies.

For fund managers, fund administrators, limited partners (LPs), and independent valuers, understanding the AIF regulatory framework is the essential starting point for any valuation discussion. The SEBI AIF Regulations do not merely prescribe registration and compliance requirements - they directly govern how funds raise capital, deploy it, report to investors, and how the fair value of portfolio investments must be assessed at each reporting date.

1.1 The Three-Category AIF Framework

SEBI's AIF Regulations, 2012 classify AIFs into three categories based on their investment strategy, leverage approach, and systemic importance. Category I AIFs include venture capital funds, social venture funds, infrastructure funds, and SME funds - typically closed-end, unleveraged, and investing in sectors considered socially or economically beneficial. Category II AIFs, the largest category by commitments, include private equity funds, debt funds, and funds of funds - closed-end, with limited leverage permitted. Category III AIFs include hedge funds and other funds that employ complex or diverse trading strategies, including leverage.

AIF Category	Sub-Category	Typical Asset Class	SEBI Registration
Category I	Venture Capital Fund	Early-stage startups, seed stage	Mandatory - SEBI AIF Regs
Category I	SME Fund	Unlisted SME equity	Mandatory - SEBI AIF Regs
Category I	Social Venture Fund	Impact / ESG investments	Mandatory - SEBI AIF Regs
Category I	Infrastructure Fund	Infra projects, InvITs	Mandatory - SEBI AIF Regs
Category II	Private Equity Fund	Unlisted growth equity	Mandatory - SEBI AIF Regs
Category II	Debt Fund	Unlisted corporate debt / NCDs	Mandatory - SEBI AIF Regs

AIF Category	Sub-Category	Typical Asset Class	SEBI Registration
Category II	Fund of Funds	Units in other AIFs	Mandatory - SEBI AIF Regs
Category III	Hedge Fund	Listed equity, derivatives	Mandatory - SEBI AIF Regs
Category III	Long-Only Equity Fund	Listed equity (concentrated)	Mandatory - SEBI AIF Regs

Table 1.1: AIF Categories, Sub-Categories, and Asset Classes under SEBI AIF Regulations, 2012

1.2 Key SEBI AIF Regulatory Milestones Relevant to Valuation

The SEBI Master Circular on AIFs (most recently updated in 2024) consolidates all regulatory requirements, including those specifically related to valuation. Key provisions include: Regulation 23 - mandatory annual audited accounts; requirements for NAV disclosure to investors at least semi-annually for close-ended funds and more frequently for open-ended; the requirement for an independent valuer for unlisted securities in Category II and Category III AIFs above certain asset thresholds; and SEBI's 2023 circular introducing enhanced governance requirements for valuation policies.

SEBI has progressively tightened valuation standards for AIFs, moving closer to international norms (IPEV Guidelines, ILPA reporting standards) while maintaining India-specific adaptations. The trajectory is clear: regulatory expectations for AIF valuations will continue to rise, and fund managers who invest in robust valuation infrastructure now will be better positioned for LP scrutiny, regulatory inspections, and future fund-raising.

KEY INSIGHT

We have observed a consistent pattern across AIF mandates: funds that invest in independent, rigorous valuation processes from Fund I onwards build significantly stronger LP relationships and have better fund-raising outcomes at Fund II and Fund III. LPs - particularly institutional LPs such as insurance companies, pension funds, and DFIs - conduct detailed valuation due diligence as part of their re-commitment decisions. A track record of credible, independently verified valuations is one of the strongest signals a fund manager can send.

1.3 AIF Market Size and Growth Trajectory

India's AIF industry has exhibited exceptional growth over the past decade. Total AIF commitments raised have grown at a compound annual growth rate of over 25% since 2015, driven by: increasing domestic family office and HNI allocations to alternative assets; growing institutional LP participation from insurance companies, pension funds, and NPS trust allocations; strong inflows from global LPs attracted by India's growth story; and the formalisation of family business succession and liquidity transactions through PE.

Category II Private Equity and Debt Funds represent the largest share of AIF commitments, followed by Category III long-only and hedge strategies. Category I venture capital funds, while

smaller in absolute terms, have seen the most rapid growth, reflecting the deepening of India's startup ecosystem.

1.4 The Role of the Independent Valuer in an AIF

SEBI's regulatory framework distinguishes between the fund manager's internal valuation team and an independent external valuer. For unlisted securities - the core asset class of Category I and II AIFs - SEBI requires that valuations be conducted by an independent valuer who is not connected to the fund manager or the portfolio company. This independence requirement serves multiple purposes: it protects LPs from potential manager conflicts of interest in valuing their own portfolio; it provides a defensible basis for NAV computation; and it ensures that the valuation methodology is documented, consistent, and capable of being challenged or explained.

> **PRO TIP**
> *When selecting an independent valuer for an AIF mandate, verify that the valuer holds both IBBI Registered Valuer credentials (in the Securities or Financial Assets class) and has documented experience with IPEV Guidelines. A valuer who is familiar with corporate restructuring valuations but has not applied IPEV calibration methodology to private equity portfolios will produce substandard work. Always request sample valuation reports and methodology papers before engagement.*

PART I: AIF FRAMEWORK & REGULATION

Chapter 2: Valuation Governance for AIFs - SEBI Requirements, Independence Standards, and Valuation Policies

Valuation governance is the framework of policies, processes, controls, and oversight mechanisms that an AIF manager establishes to ensure that portfolio valuations are accurate, consistent, independent, and compliant with regulatory requirements. In the AIF context, governance is not a compliance exercise - it is a fundamental component of the fund manager's fiduciary responsibility to its limited partners.

SEBI has progressively strengthened valuation governance requirements for AIFs, culminating in a comprehensive circular in October 2023 that mandates documented valuation policies, independence standards for valuers, and board-level oversight of the valuation process. This chapter provides a detailed framework for AIF managers to build and maintain a valuation governance architecture that meets both regulatory requirements and institutional LP expectations.

2.1 SEBI's Valuation Requirements for AIFs - Consolidated Framework

Regulatory Requirement	SEBI Provision	Frequency	Key Compliance Point
Annual Audited Accounts	Regulation 23(1)	Annual	Fair value of investments - Ind AS 113
Semi-annual NAV Disclosure to LPs	SEBI Master Circular	Semi-annual (min.)	Independent valuation of unlisted securities
Independent Valuer for Unlisted Sec.	SEBI AIF Circular 2023	Each valuation date	Valuer independence from fund manager
Valuation Policy Documentation	SEBI Circular - Oct 2023	One-time + annual review	Board-approved methodology policy
Fair Value under Ind AS 113	MCA / ICAI Standards	Each reporting period	Level 1 / 2 / 3 hierarchy disclosure
IBBI Registered Valuer Certificate	Companies Act / FEMA	As applicable	For specific regulatory filings

Table 2.1: SEBI AIF Valuation Compliance Requirements Summary

2.2 The Independence Standard - What It Means in Practice

SEBI's requirement for an 'independent' valuer is more nuanced than it appears. Independence has two dimensions: structural independence (the valuer must not be an associate, related party,

or connected entity of the fund manager or any portfolio company) and functional independence (the valuer must have the ability to reach conclusions without direction or pressure from the fund manager).

Functional independence is particularly important and harder to verify. A valuer who consistently accepts the fund manager's management projections without challenge, who never produces valuations below cost for underperforming investments, and who adjusts conclusions after receiving 'feedback' from the manager is structurally independent but functionally compromised. LPs conducting due diligence on a fund's valuation practices should specifically examine: whether the valuer has ever marked down an investment; whether the valuation methodology has been consistently applied across periods; and whether the valuer's conclusions have ever differed materially from management's initial estimate.

KEY INSIGHT

We have reviewed AIF valuation processes for LP due diligence purposes on numerous occasions. The most common governance weakness we encounter is the absence of a 'valuation committee' - a formal body that reviews and approves all portfolio valuations before they are used in investor reporting. Without a valuation committee, valuations may be approved by a single senior executive who has a personal economic interest in the fund's carried interest. A properly constituted valuation committee - with at least one independent member, formal terms of reference, and documented minutes - is the single most important governance improvement an AIF manager can make.

2.3 The SEBI October 2023 Circular - Key Requirements

SEBI's October 2023 circular on AIF valuation governance introduced several specific requirements that all AIF managers must comply with. These include: a board-approved valuation policy documenting all methodologies used for each asset class; quarterly (rather than semi-annual) valuation for Category III AIFs and for any investor's redemption or subscription; mandatory rotation of the independent valuer every three years to prevent familiarity threats to independence; and explicit documentation of all departures from the standard valuation methodology with board approval required for any such departure.

2.4 Designing an AIF Valuation Policy

An AIF valuation policy should be a living document that reflects the specific asset classes in the fund's portfolio and the methodologies most appropriate for each. At a minimum, the policy should address: the valuation methodology hierarchy for each asset class (primary, secondary, and tertiary methodologies); the definition of 'fair value' adopted (IFRS 13 / Ind AS 113 / IPEV); the frequency of independent valuations; the process for selecting and reviewing the independent valuer; the escalation process for disputed valuations; and the documentation and record-keeping standards.

PRO TIP

> *Draft your AIF valuation policy before the first portfolio investment - not after the first valuation is due. A retroactively drafted policy looks like a compliance exercise and will not withstand rigorous LP or SEBI scrutiny. A policy written before deployment demonstrates that the fund manager has thought through the valuation framework as part of the fund's operational infrastructure. Include specific provisions for 'hard-to-value' assets (pre-revenue companies, highly illiquid debt instruments, real estate in thin markets) from the outset.*

PART II: CORE VALUATION METHODOLOGIES FOR AIF ASSETS

Chapter 3: Valuing Unlisted Portfolio Companies - DCF, CCA, and Net Asset Value Approaches

The valuation of unlisted portfolio companies is the core technical challenge of AIF fund administration. Unlike listed securities, where observable market prices provide an objective starting point, unlisted companies must be valued using analytical methodologies that are inherently judgement-intensive. The IPEV Valuation Guidelines (International Private Equity and Venture Capital Valuation Guidelines) provide the globally accepted framework for this exercise, and SEBI AIF Regulations now effectively mandate their application for Indian Category I and II funds.

This chapter provides a detailed methodology guide for the three primary approaches used in AIF portfolio valuations: the Income Approach (DCF), the Market Approach (Comparable Companies and Precedent Transactions), and the Asset Approach (Net Asset Value). For each methodology, we address the key inputs, the critical assumptions, and the India-specific adjustments required for a credible, defensible valuation.

3.1 Selecting the Right Methodology - The IPEV Hierarchy

Methodology	Best Used For	Primary Inputs	IPEV Guidance
DCF (FCFF)	Profitable, cash-generative businesses	WACC, FCFF projections, terminal growth	Recommended for mature portfolio cos
Comparable Company Analysis	Businesses with listed peers	EV/EBITDA, EV/Revenue, P/E multiples	Secondary methodology - use with CCA
Precedent Transactions	Businesses near exit / exit planning	Deal multiples, control premium	Supplementary - verify recency
Net Asset Value (NAV)	Asset-heavy, holding companies	Fair value of underlying assets	Mandated for real estate / infra
Price of Recent Investment	Early-stage, first 12 months	Last round price - calibrated	IPEV primary for early-stage
Revenue / ARR Multiple	Pre-profit growth businesses	Revenue multiple, sector comps	Acceptable for SaaS / tech

Table 3.1: Valuation Methodologies for AIF Portfolio Companies - IPEV Alignment

3.2 The Income Approach - DCF for AIF Portfolio Companies

The Discounted Cash Flow method is the most rigorous and theoretically sound valuation approach for unlisted portfolio companies that have achieved positive EBITDA and have a reasonable basis for cash flow forecasting. In the AIF context, DCF is typically used for: growth

equity investments in established businesses; pre-exit valuations where the exit thesis is driven by earnings growth; and buyout fund portfolio valuations where leverage and cash flow management are central to the investment thesis.

Enterprise Value = Σ [FCFFt / (1+WACC)^t] + Terminal Value / (1+WACC)^n

The projection period for an AIF portfolio DCF should align with the fund's remaining investment horizon for that specific portfolio company. A fund that invested 3 years ago and plans to exit in 2 years should use a 2-year explicit projection period plus a terminal value - not a standard 5-year projection that extends beyond the expected hold period. This 'hold period alignment' is a specific feature of AIF portfolio DCF that differs from a standalone M&A valuation.

KEY INSIGHT

We frequently encounter AIF portfolio valuations where the DCF model uses management's 'Blue Sky' projections without any independent challenge or adjustment. This is not a valuation - it is a forecast certification. When we conduct independent AIF portfolio valuations, we apply a systematic 'management bias adjustment' by comparing the previous period's management forecast against actual results. In over 70% of AIF portfolio companies we have evaluated, actual revenue underperformed management's prior-period forecast by 10–25%. This systematic optimism must be corrected in any independent valuation.

3.3 The Market Approach - Comparable Company Analysis in an AIF Context

Comparable Company Analysis for AIF portfolio companies requires additional care compared to the M&A context, because the purpose of the valuation is periodic fair value reporting rather than deal pricing. The same portfolio company will be valued at every reporting date, so the comparable set must be consistently applied across periods - methodological changes must be disclosed and justified, not used to manage NAV.

Finding credible Indian listed comparables for early-to-mid-stage private companies is a persistent challenge. When no direct Indian comparable exists, valuers must apply either (a) global comparables with explicit India country risk adjustment, or (b) Indian companies in adjacent sectors with documented adjustments for business model differences. The valuation report must document the comparable selection process, the screens applied, and the rationale for including or excluding specific companies.

PRO TIP

Build a 'living comparable company database' for each portfolio company at the time of initial investment. Document the 10–15 most relevant comparables, the screening criteria used, and the current multiples. Update this database at each valuation date rather than redoing the comparable selection from scratch. This approach ensures consistency across valuation periods, reduces re-work, and provides a clear audit trail for LP or regulatory review.

3.4 Net Asset Value - When and How to Apply It

The Net Asset Value approach values a portfolio company by reference to the fair value of its underlying assets less its liabilities. This is most appropriate for holding companies, asset-heavy businesses (real estate developers, infrastructure companies), and companies where the going-concern cash flow model does not adequately capture the sum-of-parts value of the business. For financial services portfolio companies - NBFCs, insurance companies, banks - NAV or book-value-based multiples are typically primary.

A critical distinction for AIF portfolio valuations is between 'book NAV' and 'fair value NAV.' IPEV Guidelines and SEBI regulations require fair value NAV - where each material asset of the portfolio company is independently assessed at its market value rather than its accounting carrying value. For most portfolio companies, the largest fair value adjustment is to the value of the business's customer relationships, technology, and brand - intangible assets that are absent from the book balance sheet.

PART II: CORE VALUATION METHODOLOGIES FOR AIF ASSETS

Chapter 4: IPEV Guidelines - Calibration, Price of Recent Investment, and Subsequent Measurement

The International Private Equity and Venture Capital Valuation (IPEV) Guidelines, most recently updated in December 2022, represent the global standard for valuing private capital fund investments. SEBI's AIF regulatory framework has progressively aligned with IPEV principles, and institutional LPs - particularly global LPs who allocate to Indian funds alongside global private equity - expect IPEV compliance as a baseline. This chapter provides a detailed practitioner's guide to applying IPEV in the Indian AIF context.

4.1 The IPEV Framework - Core Principles

IPEV Guidelines are built on four core principles. First, fair value is the price at which an investment could be exchanged between knowledgeable, willing parties in an arm's length transaction at the measurement date - consistent with Ind AS 113. Second, the measurement of fair value is based on the conditions and information available at the measurement date, without the benefit of hindsight. Third, the fund manager must use the valuation technique most appropriate for the specific investment, given the available information. Fourth, the fund manager must apply valuation techniques consistently period-over-period, unless a change in technique is warranted by a change in circumstances.

4.2 Calibration - The Critical IPEV Concept

Calibration is the most technically important concept in IPEV that is most frequently misunderstood or skipped in practice. When an investment is first made, the transaction price typically represents the best evidence of fair value at that date. Calibration is the process of using the transaction price to 'calibrate' the valuation model - ensuring that the DCF or comparable company analysis, when applied at the investment date, produces a value consistent with the transaction price.

If the DCF model at investment date produces an enterprise value significantly different from the deal price, this difference must be explained and documented. Common explanations include: synergy value embedded in the deal price that will not be captured in a standalone DCF; a control premium reflected in the acquisition price; a 'market clearing price' in a competitive deal process that exceeded intrinsic value; or management projections that were more aggressive than the valuer's independent view.

Calibration Gap = Transaction Price – Independent Valuation Model Output

In subsequent periods, the valuation model is updated with new information, and the calibration gap is reassessed. If the calibration gap has been validated by subsequent performance (the portfolio company has grown into its deal-price valuation), no adjustment is needed. If the

portfolio company has underperformed, the calibration gap should be reduced or eliminated - reflecting a lower fair value than the original investment cost.

KEY INSIGHT

We have reviewed several AIF portfolios where investments have been carried at 'cost' for 3–4 years on the basis that 'there is no new information to change the valuation.' This approach misunderstands the IPEV calibration framework. Every quarter without a new transaction is information - it tells us whether the portfolio company is tracking the plan or diverging from it. If a portfolio company is 40% behind its original revenue plan at Year 3, maintaining a cost-based valuation is indefensible. Calibration requires ongoing monitoring, not a one-time check at investment date.

4.3 Price of Recent Investment (PORI) - Application and Limitations

IPEV's Price of Recent Investment (PORI) methodology values an investment at the price of the most recent arm's length transaction in the same or comparable company. PORI is most commonly used for: early-stage and seed-stage venture investments where the company has no earnings and a DCF is not reliable; situations where a new funding round has occurred and provides a market-tested reference price; and as a cross-check against other methodologies for any investment within 12 months of acquisition.

PORI has important limitations that are often ignored in practice. A PORI becomes progressively less reliable as the time since the reference transaction increases. IPEV Guidelines are clear that PORI should not be mechanically maintained for more than 12 months without adjustment for performance developments. After 12 months, the valuer must actively assess whether the original transaction price still represents fair value in light of: portfolio company performance versus plan, changes in the sector's trading multiples, and changes in the fund's overall portfolio quality.

PRO TIP

Establish a formal 'PORI review trigger' in your AIF valuation policy: any portfolio investment that has been carried at PORI for more than 12 months is automatically flagged for a full independent methodology review. Additionally, set performance deviation triggers - if a portfolio company's revenue or EBITDA deviates more than 20% from the plan underpinning the last transaction price, PORI must be re-calibrated regardless of elapsed time. These triggers protect the fund from the regulatory and LP reputational risk of maintaining stale valuations.

4.4 Milestone-Based Valuations for Pre-Revenue Companies

For pre-revenue portfolio companies - typical in early-stage Category I VC funds - neither DCF nor comparable company analysis is reliable due to the absence of meaningful financial data. IPEV Guidelines recommend a milestone-based approach: the valuation framework explicitly identifies the milestones (product launch, regulatory approval, first customer, Series A closing) that, if

achieved, validate or increase the investment's value, and those that, if missed, trigger a downward reassessment.

The milestone-based approach is effectively a probability-weighted expected value model. At each valuation date, the valuer assesses the probability that the company will achieve each value-increasing milestone, and the probability that it will fail or pivot, and weights the 'success scenario value' against the 'failure scenario value' (typically zero or recovery of tangible assets).

PART II: CORE VALUATION METHODOLOGIES FOR AIF ASSETS

Chapter 5: Venture Capital and Early-Stage Investments - Probability-Weighted Scenarios and the VC Method

Valuing early-stage venture capital investments is arguably the most difficult and judgment-intensive exercise in the AIF valuation toolkit. Pre-revenue, pre-profit companies - the typical early-stage portfolio company - have no historical earnings to capitalise, no stable cash flows to discount, and often no direct comparable in the listed markets. The range of outcomes is binary to extreme: the company either grows to be a significant business, or it fails and returns nothing. Standard valuation methodologies must be adapted for this binary uncertainty.

5.1 The VC Valuation Method - Mechanics and Application

The Venture Capital (VC) Method, originally developed by Bill Sahlman at Harvard Business School, values an early-stage company by working backwards from an expected exit value at a projected exit date. The method involves: (1) estimating the terminal value of the company at exit based on projected revenue or earnings at exit multiplied by an expected exit multiple; (2) discounting the terminal value back to today at a high 'venture discount rate' that reflects the risk of total loss; and (3) dividing by the post-money shares outstanding to derive a per-share value.

Pre-Money Value = Terminal Value / (1 + Target IRR)^n – Investment Amount

The venture discount rate in the VC Method is significantly higher than a standard WACC - reflecting the probability of total loss at each stage of development. Typical venture discount rates by stage are: seed stage (60–80%), early stage (40–60%), late stage / pre-IPO (25–40%). These rates are not derived from CAPM - they are empirically calibrated to reflect actual venture fund returns and failure rates.

5.2 Scenario-Based (Probability-Weighted) Approach

For AIF portfolio valuations at each reporting date, the scenario-based approach is often more appropriate than the pure VC Method, because it explicitly models multiple outcomes rather than a single 'expected exit.' The approach involves: defining three to five scenarios (base, upside, downside, liquidation) with distinct financial trajectories; assigning probabilities to each scenario based on the portfolio company's current performance and external market conditions; computing the discounted value of each scenario outcome; and computing the probability-weighted average as the fair value estimate.

The scenario-based approach is particularly powerful for portfolio companies at inflection points - companies that are either about to break out or about to need rescue capital. By making the scenario probabilities explicit, the valuation provides a transparent view of the risk distribution around the expected value, which is exactly what sophisticated LPs and SEBI auditors want to see.

KEY INSIGHT

We have observed that the most common error in venture portfolio valuations is the failure to update scenario probabilities as performance data accumulates. A fund that assigns a 60% probability to the 'base case successful exit' at investment date must reassess that probability at each subsequent valuation date. If the company has missed 3 consecutive quarterly targets, the probability of the base case should have declined - and the valuation should reflect that decline. Maintaining static scenario probabilities regardless of performance outcomes is not independent valuation; it is portfolio management optimism.

5.3 Valuing SaaS and Technology Portfolio Companies

Software-as-a-Service (SaaS) and technology portfolio companies require specific valuation approaches because their value drivers - Annual Recurring Revenue (ARR), Net Revenue Retention (NRR), Customer Acquisition Cost (CAC), and Lifetime Value (LTV) - are not captured by traditional EBITDA-based methodologies. For Indian SaaS portfolio companies, the following framework applies:

- ARR Multiple Approach: Enterprise Value = ARR × Revenue Multiple, where the multiple is calibrated to comparable Indian or global SaaS companies at a similar ARR scale and growth rate
- Rule of 40 Calibration: High-quality SaaS companies (Rule of 40 score > 40) typically command a premium multiple over peers with lower scores; build this calibration into the comps selection
- LTV/CAC Ratio as a Quality Signal: Companies with LTV/CAC > 3x are typically valued at a premium; below 1.5x signals a broken unit economics model that warrants a discount
- India vs. US SaaS Multiple Gap: Indian SaaS companies typically trade at 30–50% discount to equivalent US-listed SaaS peers, reflecting liquidity, market size, and investor base differences

PRO TIP

For Indian SaaS portfolio companies, always present the revenue multiple analysis on a 'forward ARR' basis - using projected ARR 12 months forward rather than current ARR. SaaS companies are valued on growth expectations, not current scale. Using trailing ARR understates value for high-growth companies and overstates it for decelerating ones. Document the ARR forecast basis clearly in the valuation report to avoid misinterpretation.

PART III: ASSET-CLASS SPECIFIC VALUATION

Chapter 6: Real Estate and Infrastructure AIF Valuations - Income, Cost, and Comparable Methods

Real estate and infrastructure AIFs represent two of the most asset-intensive and valuation-complex categories within the Indian AIF ecosystem. Category I Infrastructure Funds and Category II real estate and infrastructure funds manage portfolios that include operating assets, under-development projects, land banks, toll roads, renewable energy plants, hospitals, and logistics parks - each requiring distinct valuation methodologies and assumptions.

The valuation of real estate and infrastructure assets is further complicated by their illiquid nature, the thin transaction market for comparable properties, the long cash flow horizons of infrastructure assets, and the regulatory overlay of SEBI's InvIT Regulations for infrastructure investment trusts. This chapter provides a methodology guide for the principal asset sub-classes encountered in real estate and infrastructure AIF portfolios.

6.1 Real Estate Portfolio Valuations - Primary Methodologies

Property / Asset Type	Primary Method	Secondary Method	Key Value Driver
Completed commercial property	Income Capitalisation	Direct Comparison	Net operating income, cap rate
Under-construction residential	Residual / Development Method	Cost Approach	Gross Development Value, costs-to-complete
Industrial / warehouse	Income Capitalisation	Replacement Cost	Rental yield, occupancy rate
Infrastructure (toll road)	DCF (traffic model)	Regulatory Asset Base	Traffic volume, tariff escalation
InvIT units	NAV of underlying assets	Market price (listed InvIT)	Distributable cash flows per unit
Social infrastructure (hospital)	DCF (bed occupancy model)	Replacement Cost	Bed utilisation, ARPOB

Table 6.1: Real Estate and Infrastructure Asset Valuation Methods for AIF Portfolios

6.2 The Income Capitalisation Approach

The Income Capitalisation approach values a real estate asset by capitalising its net operating income (NOI) at an appropriate capitalisation rate. It is the most widely used approach for completed, income-generating commercial real estate assets - office parks, retail malls, warehouses, and industrial estates.

Property Value = Net Operating Income (NOI) / Capitalisation Rate

Net Operating Income is the gross rental income less vacancy allowance and operating expenses (excluding financing costs and depreciation). The capitalisation rate represents the market rate of return expected by investors for the asset class, location, tenant profile, and lease structure. In India, Grade A commercial office cap rates in major metros have ranged between 7.5%–9.5% in recent years; retail is higher at 8.5%–11%; and logistics/warehousing has seen cap rate compression to 7%–9% reflecting increased institutional interest.

KEY INSIGHT

We have conducted real estate AIF portfolio valuations where the fund manager was using a cap rate derived from a transaction 4–5 years old, without adjustment for the significant changes in the Indian commercial real estate market over that period. Cap rates are market-determined and change with interest rate cycles, liquidity conditions, and sector sentiment. We always derive cap rates from at least 3–5 comparable transactions within the prior 18 months. Using stale cap rates is one of the most common - and most consequential - errors in real estate AIF valuations.

6.3 Infrastructure Asset Valuation - The DCF Approach

Infrastructure assets - toll roads, renewable energy plants, transmission lines, airports - are best valued using a project-specific DCF model that captures the long-term, regulated or quasi-regulated cash flow profile of the asset. The key features of infrastructure DCF models that distinguish them from standard corporate DCF are: very long projection periods (20–30 years matching the concession period); explicit modelling of regulatory tariff escalation and periodic revision; traffic or utilisation ramp-up curves (especially for new toll roads); and construction risk premium for assets in development phase.

Infrastructure Asset Value = PV of Distributable Cash Flows over Concession Period

The discount rate for infrastructure assets reflects the lower risk profile of regulated cash flows - typically 10%–13% for operating assets (compared to 14%–18% for growth equity) - but higher for development-stage assets carrying construction completion and ramp-up risk.

PRO TIP

For toll road and transport infrastructure assets, always include a separate 'traffic sensitivity analysis' in the valuation: show how enterprise value changes for every 5% variance in long-term traffic growth assumptions. Traffic risk is the single largest source of value variance for Indian toll road assets - and the one most often underweighted in fund manager valuations. LPs reviewing your valuation report will expect to see this sensitivity explicitly modelled.

PART III: ASSET-CLASS SPECIFIC VALUATION

Chapter 7: Credit and Debt Fund Portfolio Valuations - ECL, YTM, and Stressed Asset Frameworks

Credit funds - Category II AIFs that invest primarily in unlisted debt instruments, structured credit, and distressed debt - have grown rapidly in India as an alternative source of corporate financing outside the banking system. The valuation of a credit fund portfolio is fundamentally different from equity portfolio valuation: debt instruments have a contractual cash flow stream, a maturity date, and a priority in the capital structure that equity instruments do not. The core valuation question for debt instruments is not 'what is the enterprise value of the issuer?' but 'what is the probability that these contractual cash flows will be received as scheduled, and what is the appropriate discount rate?'

7.1 The Yield-to-Maturity (YTM) Approach for Performing Loans

For performing debt instruments - loans, non-convertible debentures (NCDs), and structured credit instruments where the borrower is current on interest and principal payments - the primary valuation method is the Yield-to-Maturity (YTM) approach. The fair value of the instrument is computed as the present value of all contractual future cash flows (interest and principal) discounted at the current market yield for instruments of equivalent credit quality, tenor, and structure.

Fair Value (Debt) = Σ [Contractual Cash Flowt / (1 + Market Yield)^t]

When the instrument's contractual yield (coupon rate) equals the current market yield for equivalent risk, the instrument's fair value equals its face value. When market yields have risen (credit quality has deteriorated or market rates have increased), the fair value of the instrument falls below face value - generating an 'unrealised mark-to-market loss' that must be reflected in the AIF's NAV even though no cash loss has yet occurred.

KEY INSIGHT

We have reviewed several credit AIF portfolios where every debt investment was being carried at face value on the grounds that 'all borrowers are current on interest payments.' This is not a valuation - it is confirmation that no default has occurred yet. The correct question is whether the current market yield for each borrower's credit quality justifies carrying the instrument at par. In a rising interest rate environment, or when a borrower's credit quality has deteriorated (even without a missed payment), marking to YTM will produce a fair value below par. We have seen situations where fair-value NAVs were 8–12% below face value for portfolios that were technically performing, purely due to yield changes. This mark-to-market matters for LPs at redemption.

7.2 Expected Credit Loss (ECL) Framework for AIF Credit Portfolios

For credit AIF portfolios, the Expected Credit Loss (ECL) framework - mandated under Ind AS 109 for financial instruments - provides a forward-looking approach to impairment that is more rigorous than the historical 'incurred loss' model. Under ECL, the valuer must estimate: the Probability of Default (PD) - the likelihood that the borrower will default within a defined time horizon; the Loss Given Default (LGD) - the economic loss incurred if the borrower defaults, after recovery from collateral and guarantees; and the Exposure at Default (EAD) - the outstanding exposure at the time of default.

Expected Credit Loss = PD × LGD × EAD

For AIF credit portfolios, ECL inputs must be estimated from both internal data (portfolio performance history) and external data (sector default rates, macroeconomic conditions). The RBI's published data on sectoral non-performing assets provides useful benchmarks for PD estimation across Indian borrower sectors.

> **PRO TIP**
> *Segment your credit AIF portfolio into three ECL stages at each valuation date: Stage 1 (no significant increase in credit risk since origination - 12-month ECL), Stage 2 (significant increase in credit risk - lifetime ECL), and Stage 3 (credit-impaired - lifetime ECL with high PD). The stage classification should be reviewed at every reporting date, not just annually. A borrower who has missed a covenant test but not a payment is typically a Stage 2 classification - do not wait for a payment default before recognising the increased credit risk in the valuation.*

7.3 Distressed Debt and Stressed Asset Valuation

When a credit fund portfolio company enters financial stress - CIRP proceedings, a missed payment, a covenant breach, or a request for restructuring - the valuation methodology must shift from YTM-based fair value to a recovery analysis. The core question becomes: what will the fund recover from this instrument, and when?

Recovery analysis for distressed debt in an AIF portfolio requires: a liquidation analysis of the borrower's assets (if the IBC route is likely), scenario modelling of different restructuring outcomes (haircut accepted, extended tenor, equity conversion), and assessment of the fund's position in the capital structure relative to secured creditors, other unsecured creditors, and equity holders.

7.4 Convertible Instruments - Equity Upside with Debt Floor

Many Indian credit funds invest in hybrid instruments - Compulsorily Convertible Debentures (CCDs), Optionally Convertible Preference Shares (OCPS), or Optionally Convertible Debentures (OCDs) - that carry both a debt-like contractual yield and a conversion option into equity. Valuing these instruments requires a bifurcated approach: the debt component is valued using the YTM approach (present value of contracted cash flows), and the conversion option is valued using an option pricing model (typically Black-Scholes or a lattice model adapted for private company equity).

Convertible Instrument Value = Straight Debt Value + Option Value of Conversion Right

PART III: ASSET-CLASS SPECIFIC VALUATION

Chapter 8: Listed Equity in AIF Portfolios - Blockage Discounts, Liquidity Adjustments, and Ind AS 113

While the valuation of listed equity at quoted market prices appears straightforward - simply use the closing market price - the AIF context introduces several important complications that require adjustments to the raw market price for a fair value determination. Ind AS 113 (Fair Value Measurement) and IPEV Guidelines both recognise that quoted market prices may not represent fair value for large blockholder positions, restricted securities, or thinly traded stocks.

8.1 The Ind AS 113 Fair Value Hierarchy for Listed Securities

Ind AS 113 establishes a three-level fair value hierarchy based on the observability of inputs: Level 1 (quoted prices in active markets for identical assets - the most reliable); Level 2 (inputs other than Level 1 that are directly or indirectly observable); and Level 3 (unobservable inputs - the least reliable, requiring the most judgement). For listed equity, the default is Level 1 - the quoted closing price. However, when adjustments are needed for blockholder size, restrictions, or illiquidity, the classification moves to Level 2 or Level 3.

Scenario	Listed Security	Relevant Discount	Ind AS 113 Reference
Freely tradeable, liquid	Large-cap NSE/BSE listed	None - Level 1 fair value	Level 1 input
Restricted securities (lock-in)	ESOP/ESOP conversion shares	10–25% marketability discount	Level 2 input with adjustment
Large blockholding	Strategic > 5% stake	5–15% blockage discount	Level 3 - unobservable adjustment
SEBI lock-in (pre-IPO)	Pre-IPO placement / AIF-held	20–35% DLOM	Level 2/3 - restricted period adj.
Thinly traded / illiquid micro-cap	Sub-Rs. 500 Cr market cap	15–30% liquidity discount	Level 3 input

Table 8.1: Discount Scenarios for Listed Equity in AIF Portfolios under Ind AS 113

8.2 Blockage Discounts - When and How to Apply

A blockage discount reflects the price concession that would be necessary to sell a large block of shares in the market without moving the price against the seller. If an AIF holds a 10% stake in a listed company and the average daily trading volume is Rs. 5 Crore, the fund cannot realistically exit its entire position in the market without significant price impact - it would take many months to liquidate at the quoted price.

The blockage discount is estimated based on: the ratio of the AIF's holding to the average daily trading volume (the 'days-to-liquidate' metric); the price impact function specific to the stock's

liquidity profile; and the implied discount derived from the options pricing approach (comparing the value of a lock-up position to a freely tradeable equivalent). For Indian listed companies, empirical research on blockage discounts suggests a range of 5%–15% for stakes representing 30–90 days of trading volume.

KEY INSIGHT

We advise AIF managers to adopt a consistent, documented blockage discount policy and apply it mechanically rather than on a case-by-case basis. The policy should specify: the threshold position size (as a multiple of ADTV) above which a blockage discount is applied; the discount methodology (days-to-liquidate model or empirical lookup table); and the maximum discount cap. Without a documented policy, SEBI examiners and LP auditors may challenge the inconsistency of applying blockage discounts in some periods but not others for similar position sizes.

8.3 Discount for Lack of Marketability (DLOM) - Restricted Securities

When an AIF holds listed shares that are subject to a trading lock-in - SEBI's mandatory lock-in for anchor investors, pre-IPO placement investors, or promoters - the shares cannot be sold at the quoted market price until the lock-in expires. The Discount for Lack of Marketability (DLOM) quantifies the reduction in value attributable to this temporary illiquidity.

The primary method for computing DLOM for restricted listed securities is the Protective Put approach: the DLOM is equivalent to the value of a put option that would protect the holder against downside risk during the lock-in period. This is computed using standard Black-Scholes inputs: the volatility of the underlying stock, the length of the lock-in period, and the risk-free rate.

$$\text{DLOM (Put Option Approach)} = P(S, K, r, \sigma, T) / S$$

PRO TIP

For AIF portfolios with significant pre-IPO listed equity positions, always compute DLOM using the actual lock-in expiry date and the listed company's implied volatility from traded options (if available) or historical volatility. Do not use a generic 'rule of thumb' DLOM percentage - the discount is highly sensitive to volatility and lock-in duration. A 6-month lock-in at 30% volatility produces a fundamentally different DLOM than a 12-month lock-in at 55% volatility. Show the DLOM calculation explicitly in the valuation report.

PART IV: FUND ECONOMICS AND REPORTING

Chapter 9: NAV Computation - From Portfolio Valuation to Per-Unit NAV

The Net Asset Value (NAV) of an AIF is the key financial metric that governs LP economics - unit subscription prices, redemption prices (for open-ended funds), performance reporting, and carried interest calculations. Computing the NAV correctly, consistently, and with full documentation is one of the most important operational responsibilities of the fund administrator. Errors in NAV computation - whether due to incorrect portfolio valuations, omitted liabilities, or calculation errors - can result in regulatory penalties, LP disputes, and reputational damage.

9.1 The NAV Computation Framework

AIF NAV is computed as: Total Fund Assets at Fair Value minus Total Fund Liabilities, divided by the total number of units outstanding. The key components of the computation are: (a) portfolio investments at fair value - the sum of all individual investment valuations; (b) cash and cash equivalents - at face value; (c) receivables - dividends declared but not yet received, interest accrued; (d) fund-level liabilities - management fees payable, accrued expenses, unfunded commitments; and (e) net units outstanding - adjusted for any capital calls or distributions since the prior valuation date.

NAV per Unit = (Total Assets at Fair Value – Total Liabilities) / Units Outstanding

For closed-end AIFs, NAV is typically computed semi-annually or quarterly rather than daily, reflecting the illiquid nature of private investment portfolios. For open-ended Category III AIFs (hedge funds), daily NAV computation is standard. The frequency, methodology, and key assumptions used in the NAV computation must be disclosed in the fund's Private Placement Memorandum (PPM) and the annual accounts.

9.2 Unrealised and Realised Returns - Separating the Components

A well-constructed AIF NAV computation separates unrealised gains (increases in portfolio fair value not yet realised through a sale) from realised gains (proceeds from exits). This separation is important for several reasons: tax treatment differs between unrealised and realised gains in many LP structures; carried interest is typically calculated on realised returns in Indian AIFs (though IPEV encourages total return metrics); and investor reporting should clearly distinguish between paper gains and cash returns.

9.3 Management Fee and Expense Accruals

Fund-level expenses - management fees, custodial fees, fund administration fees, audit fees, legal expenses, and transaction costs - must be properly accrued and reflected in the NAV computation at each valuation date. Under-accruing expenses overstates NAV, which is a form of misrepresentation to LPs.

Management fee accruals require particular attention. Most Indian AIFs charge management fees on 'invested capital' or 'net asset value' - the basis of the fee changes as the fund deploys capital and marks up or down its portfolio. The fund administrator must apply the fee calculation methodology as specified in the PPM consistently at each NAV date, using the correct fee base.

KEY INSIGHT

We have identified cases where AIF NAV statements did not reflect the full management fee accrual for the period because the fee had not yet been formally invoiced by the fund manager. This is incorrect - accounting requires accrual-based recognition of expenses when they are incurred, not when the invoice is raised. Every NAV computation must include all accrued but unpaid fund expenses, regardless of invoicing status. LP audit firms check this specifically.

9.4 Currency Translation for Multi-Currency Portfolios

Category II and Category III AIFs with cross-border investments - offshore portfolio companies, global comps-based valuations, or USD-denominated instruments - must translate foreign-currency-denominated valuations to INR at the appropriate exchange rate. Under Ind AS 21, monetary items are translated at the closing rate at the balance sheet date; non-monetary items carried at fair value are translated at the rate prevailing at the date of fair value determination. Foreign currency translation differences on portfolio investments held at fair value flow through the Statement of Changes in Net Assets (SOCNA), not through a separate translation reserve.

PRO TIP

For AIFs with significant USD or foreign-currency portfolio exposure, build a currency sensitivity table into the NAV computation workbook: show the impact on NAV per unit of a 5% INR appreciation and 5% INR depreciation. Currency is often the largest source of inter-period NAV volatility for funds with offshore exposure, and LPs will ask about it. Preparing this analysis proactively demonstrates valuation sophistication.

PART IV: FUND ECONOMICS AND REPORTING

Chapter 10: Carried Interest, Waterfall Mechanics, and GP/LP Economics

The economic framework of an AIF - the distribution waterfall, the carried interest structure, and the GP/LP alignment mechanisms - is as important to fund stakeholders as the portfolio valuation itself. Carried interest is the primary economic incentive for fund managers and represents a significant share of the total economics of a successful fund. Understanding how carried interest is calculated, when it is paid, and how it is protected through clawback provisions is essential for both GPs and LPs.

10.1 The Distribution Waterfall - Structure and Mechanics

Waterfall Component	Description	Typical Indian AIF Structure	Key Parameter
Return of Capital	LP capital returned first before distributions	100% of invested capital	Invested capital definition
Preferred Return (Hurdle)	Minimum return to LPs before carry kicks in	8% p.a. compounded (most common)	Simple vs. compound interest
Catch-Up (GP Catch-Up)	GP receives 100% of profits until carry % is reached	Full catch-up or 80/20 split	Catch-up rate - full or partial
Carried Interest	GP's share of profits above hurdle	20% (standard); some 15%	Carry basis - net of fees?
Clawback	LP right to recover over-distributed carry	Standard in all SEBI-compliant AIFs	Look-back period, carry escrow

Table 10.1: AIF Waterfall Components and Typical Indian Market Parameters

10.2 Preferred Return (Hurdle Rate) - Calculation Mechanics

The preferred return (or hurdle rate) is the minimum annualised return that LPs must receive before the GP is entitled to carried interest. For most Indian AIFs, the hurdle rate is 8% per annum, compounded annually on drawn capital. The key mechanics to understand are: the hurdle is calculated on invested capital (capital drawn down for investments plus management fees and expenses), not on committed capital; the compounding convention (annual vs. daily) significantly affects the hurdle amount in long-hold funds; and the hurdle may be structured as 'American' (deal-by-deal) or 'European' (whole-fund) - a critical distinction for when carry begins to flow.

Hurdle Amount = Invested Capital × [(1 + Hurdle Rate)^(Investment Period in Years) − 1]

The American waterfall allows carry to be paid on a deal-by-deal basis - once an individual investment returns capital plus hurdle, the GP receives carry on that deal. The European waterfall requires the entire fund to return capital plus hurdle before any carry is paid. Indian AIFs typically follow a modified European waterfall, providing better LP protection than the American structure

while still allowing periodic carry distributions once the fund reaches a sufficient realisation threshold.

KEY INSIGHT

We have modelled carried interest waterfalls for several Indian AIFs where the fund manager's carry calculation differed materially from our independent analysis - not due to bad faith, but due to ambiguous PPM language on the hurdle calculation basis. Common points of ambiguity: whether the hurdle applies to management fees (is the fee 'invested capital'?); whether unrealised gains count toward the hurdle calculation for interim carry distributions; and the precise definition of 'gross proceeds' versus 'net proceeds' for carry purposes. We recommend that all AIFs commission an independent waterfall model review against the PPM at the time of each carry distribution.

10.3 Clawback Provisions - Protecting LP Economics

A clawback provision requires the GP to return carried interest distributions to LPs if, at the end of the fund's life, the total carry distributed exceeds the amount the GP was entitled to receive based on overall fund performance. Clawbacks arise when early fund investments perform well (generating carry), but later investments underperform, reducing the overall fund return below the level that justified the earlier carry payments.

In Indian AIFs, clawback provisions are standard but the mechanics vary. Key clawback parameters include: the carry escrow percentage (typically 25–30% of each carry distribution is held in escrow against potential clawback obligations); the look-back period (typically the entire fund life); and whether the clawback obligation is on the GP entity or on individual carry recipients (GPs should have individual carry recipient clawback agreements to ensure enforceability).

PRO TIP

GP carry recipients should model their personal after-tax clawback exposure at each carry distribution. In high-tax environments, GPs who receive gross carry distributions and pay income tax immediately may face a net clawback obligation that exceeds the post-tax amount they actually retained. Some fund structures address this through a 'tax distribution' mechanism or a reduced clawback obligation net of taxes paid. Ensure the PPM is explicit on the clawback tax treatment to avoid disputes at fund wind-down.

PART IV: FUND ECONOMICS AND REPORTING

Chapter 11: LP Reporting, Investor Communications, and Valuation Disclosure Standards

Investor reporting is the primary communication channel between an AIF manager and its limited partners. For LPs - who have committed capital that is illiquid and not marked-to-market on a daily basis - the quarterly or semi-annual fund report is their primary source of information about the value of their investment, the performance of the portfolio, and the fund manager's execution of the stated investment strategy. High-quality investor reporting is a fiduciary obligation, a fund-raising asset, and a risk management tool.

11.1 Minimum SEBI Disclosure Requirements for AIFs

SEBI AIF Regulations and the Master Circular prescribe minimum investor reporting requirements including: semi-annual reports to investors for close-ended funds, and quarterly reports for open-ended funds; NAV per unit at each reporting date; audited annual accounts within 6 months of financial year end; a detailed portfolio schedule listing all investments at fair value; a summary of material developments affecting the portfolio; and disclosure of any deviation from the fund's investment strategy or investment conditions.

SEBI has also mandated specific disclosures around the independent valuation process: the name and credentials of the independent valuer, the methodology used for each investment class, and the date of the last independent valuation. These disclosures are intended to give LPs enough information to assess the quality of the valuation process, not merely the valuation output.

11.2 ILPA Reporting Standards - Institutional LP Expectations

Institutional LPs - insurance companies, pension funds, endowments, family offices, and development finance institutions - typically expect reporting that goes beyond SEBI minimums and aligns with ILPA (Institutional Limited Partners Association) reporting standards. Key ILPA reporting elements that sophisticated Indian AIF managers are increasingly adopting include: a cash flow statement showing all capital calls and distributions by LP and by investment; a portfolio company performance summary with revenue, EBITDA, and leverage metrics; a detailed vintage year IRR and TVPI (Total Value to Paid-In) table; and a fund-level attribution analysis showing performance drivers.

KEY INSIGHT

We have found that AIFs that adopt ILPA-aligned reporting from Fund I - even before LPs formally request it - consistently achieve higher LP satisfaction scores and better re-commitment rates. Institutional LPs spend significant resources on portfolio monitoring across their entire alternative assets portfolio, and funds that provide standardised, comparable data

reduce that burden. In our experience advising on fund-raising processes, a clean ILPA-formatted data room is often cited by LP due diligence teams as a positive differentiator.

11.3 Key Performance Metrics - IRR, TVPI, DPI, and RVPI

AIF performance is reported using a standard set of metrics that allow LPs to compare performance across funds, vintages, and strategies. Internal Rate of Return (IRR) is the annualised return that equates the present value of all capital calls to the present value of all distributions and residual NAV. Total Value to Paid-In Capital (TVPI) is the ratio of total value (realised + unrealised) to total invested capital - a multiple of invested capital measure. Distributions to Paid-In Capital (DPI) measures only realised cash returns, providing a 'cash-on-cash' performance view that is more conservative than TVPI. Residual Value to Paid-In Capital (RVPI) measures the unrealised portion of TVPI.

TVPI = (Realised Distributions + Unrealised Portfolio Fair Value) / Capital Called

These metrics must be presented consistently at each reporting date, using the same methodology for capital accounting, NAV determination, and timing conventions. LPs use these metrics to benchmark the fund against vintage year peers, listed market benchmarks (PME - Public Market Equivalent analysis), and the fund manager's own prior fund performance.

PRO TIP

Always include a Public Market Equivalent (PME) analysis in your annual LP report - compare the fund's IRR against what an LP would have earned by investing the same capital calls into the Nifty 50 or BSE 500 index on the same dates and redeeming on the same distribution dates. PME analysis is the most rigorous benchmark for AIF performance, and proactively including it demonstrates confidence in the fund's alpha generation. LPs will compute it themselves if you do not - better to control the narrative.

11.4 Handling Valuation Uncertainty in LP Communications

LPs understand that private portfolio valuations are inherently uncertain - they are estimates, not facts. What LPs do not tolerate is the concealment of uncertainty through artificially smooth NAV trajectories, unexplained valuation uplifts, or the deferral of downward revisions. The most credible LP communication around portfolio valuations includes: a clear explanation of the methodology used for each significant investment; an honest discussion of the key risks and assumptions; and a sensitivity analysis showing how the NAV would change under adverse scenarios.

PART V: OPERATIONAL AND REGULATORY PRACTICE

Chapter 12: Building a Robust Valuation Process - Policies, Controls, and Independent Oversight

A valuation process is only as robust as its weakest link. The most sophisticated IPEV-compliant methodology, applied by a technically excellent independent valuer, can be undermined by poor data quality, inadequate controls over portfolio company reporting, or governance failures in the approval and sign-off process. This final chapter synthesises the preceding technical chapters into a practical guide for building an AIF valuation infrastructure that meets SEBI regulatory standards, institutional LP expectations, and professional best practices.

12.1 The Five Pillars of AIF Valuation Excellence

Based on extensive experience reviewing and improving AIF valuation processes, we have identified five pillars that distinguish excellent from adequate valuation frameworks:

- Pillar 1 - Clear Methodology: A documented, board-approved valuation policy that specifies the primary and secondary valuation methodology for each asset class, the hierarchy of inputs, and the conditions under which methodology changes are permitted
- Pillar 2 - Data Quality: Reliable, timely portfolio company data - management accounts, KPI reports, board updates - provided to the independent valuer at each valuation date with minimal lag
- Pillar 3 - Independence: Structural and functional independence of the external valuer from the fund manager and portfolio companies, reinforced by formal independence confirmations at engagement and at each valuation date
- Pillar 4 - Governance: A valuation committee with documented terms of reference, independent membership, and formal approval authority over all portfolio valuations before LP reporting
- Pillar 5 - Consistency: Consistent application of methodology across valuation dates, with documented justification for any change, and clear audit trail of the valuation history for each portfolio company

KEY INSIGHT

The most common valuation process failure we encounter during AIF operational due diligence is not a methodology error - it is a data quality failure. Fund managers who do not receive reliable quarterly management accounts from portfolio companies within 45 days of period end cannot commission timely, credible independent valuations. We strongly advise AIF managers to include specific financial reporting obligations in their shareholder agreements and investment documents - monthly MIS within 15 days of month-end, quarterly management accounts within 30 days, audited accounts within 90 days of year-end. Valuation quality depends directly on data quality.

12.2 The Valuation Committee - Structure and Role

A valuation committee is the primary governance mechanism for AIF portfolio valuations. It provides an institutional check on the independent valuer's conclusions, ensures that the fund manager's views have been considered and either incorporated or documented as disagreements, and provides board-level accountability for the final valuations used in LP reporting.

A well-structured AIF valuation committee typically includes: the Chief Investment Officer or a senior partner (but not the individual deal team partner responsible for the specific investment being valued); the CFO or Head of Finance; at least one independent member (an external expert with valuation credentials); and the fund administrator (in an observer capacity). The committee should meet at each valuation cycle, review all independent valuation reports, document any departures from the independent valuer's conclusions, and formally approve the final valuations.

12.3 SEBI Regulatory Inspection Preparedness

SEBI has been actively conducting thematic inspections of AIF managers, with valuation practices as a frequent focus area. Inspectors typically review: the fund's valuation policy and whether it has been approved by the board; the independence of the external valuer (checking for related party connections); the consistency of valuation methodologies applied across periods; the documentation of key assumptions and sensitivity analyses; and the alignment between internal management projections and independent valuer assumptions.

AIF managers should maintain a 'valuation documentation file' for each portfolio investment that includes: the initial investment memo with the acquisition valuation basis; all subsequent independent valuation reports; the valuation committee minutes approving each valuation; any correspondence between the fund manager and the independent valuer regarding assumptions; and the LP report extract showing how the valuation was communicated to investors.

> **PRO TIP**
> *Conduct an annual internal 'mock SEBI inspection' of your valuation process: select 3–4 portfolio investments and trace the complete documentation trail from the initial investment to the most recent valuation. Identify any documentation gaps, inconsistencies in methodology, or independence issues before a real regulatory inspection does. This exercise typically requires a full day with your compliance team and independent valuer, but the investment is well justified by the regulatory risk it mitigates.*

12.4 Technology and Systems for AIF Valuation

The growing complexity and frequency of AIF valuation requirements has driven demand for technology solutions that can streamline the valuation process - portfolio data aggregation, model management, scenario analysis automation, and reporting generation. Leading fund administrators and independent valuers are increasingly using purpose-built AIF valuation platforms that: centralise portfolio company data in a structured database; maintain version-controlled valuation models; automate NAV computation from portfolio valuations; and generate LP report data packs in standard formats.

For smaller AIFs with limited technology budgets, a well-structured Excel-based valuation system - with standardised input templates, locked and documented model architecture, and a formal version control protocol - can achieve adequate process quality. The key is consistency and documentation, not necessarily sophisticated technology.

CONCLUSION

Conclusion: Working With an AIF Valuation Expert

India's AIF industry is at a pivotal moment of maturation. The regulatory framework has evolved from a basic registration and disclosure regime to a sophisticated governance structure that now mandates independent valuations, board-approved valuation policies, valuer rotation, and LP-level disclosures. The institutional LP community - which drives the majority of capital formation in Indian private markets - has progressively raised its expectations for valuation quality and process transparency. And SEBI's inspection programme is making it clear that valuation compliance is a priority area.

This playbook has provided a comprehensive, practitioner-grade guide to every dimension of AIF valuation in India. From understanding the three-category regulatory framework to applying IPEV calibration methodology, from valuing early-stage VC investments to computing credit fund ECL provisions, from NAV computation to waterfall modelling, the twelve chapters cover the full technical landscape that AIF managers, fund administrators, independent valuers, and institutional LPs need to navigate.

When to Handle Valuation Internally vs. When to Engage an Independent Expert

The 70/30 principle applies in AIF valuation as it does across financial advisory. Fund managers should build internal valuation capability for the 70% - financial modelling, portfolio monitoring, management projection review, and preliminary valuation assessments. The 30% where independent expertise is essential: all SEBI-mandated independent valuations; any valuation that will be used in an LP report, redemption calculation, or regulatory filing; situations where the investment is underperforming or distressed; and any cross-border investment requiring FEMA-compliant valuation certification.

The benefits of professional independent valuation extend well beyond regulatory compliance. An experienced independent valuer brings sector expertise, a database of comparable transactions and trading multiples, and the professional credibility that protects both the fund manager and the LP from disputes. When a valuation is challenged - by an LP, an auditor, a tax authority, or SEBI - the independence and credentials of the valuer become critically important.

What to Expect From an Elite Valuation AIF Engagement

An AIF valuation engagement with Elite Valuation is a structured process: initial scoping to understand the fund's portfolio, asset classes, and SEBI/LP reporting requirements; a document request for each portfolio company covering management accounts, business plans, market data, and legal/structural documents; direct management calls with portfolio company management teams for large or complex investments; independent valuation model preparation for each portfolio company; a draft report shared with the fund's valuation committee for review; and a

final report with full methodology documentation issued for LP reporting and regulatory compliance.

Elite Valuation provides valuation opinions that are: independent (no relationship with the fund manager or portfolio companies beyond the valuation engagement); methodology-driven (fully documented, consistent with IPEV and Ind AS 113); sector-informed (calibrated to current Indian market data); and defensible (capable of withstanding LP, auditor, and SEBI scrutiny).

KEY INSIGHT

Our most fundamental commitment to AIF clients is honest, courageous valuation. We will not produce a valuation that knowingly overstates the value of an underperforming investment to avoid a difficult LP conversation. We will not accept a management projection without independently assessing its reasonableness. We will not change a conclusion because the fund manager prefers a different number. These commitments sometimes make for difficult conversations - but they are the foundation of the independence that makes our valuation opinions worth anything. We believe that credible valuation, built on rigour and integrity, is ultimately the best investment a fund manager can make in their own long-term reputation.

How Elite Valuation Can Help Your AIF

- Independent AIF portfolio valuations for SEBI compliance and LP reporting - across all asset classes and AIF categories
- NAV computation and certification - per-unit NAV for investor statements, subscriptions, and redemptions
- IPEV Guidelines implementation - calibration models, scenario-based valuations, and PORI methodology
- Valuation policy drafting and review - board-ready valuation governance documentation compliant with SEBI's October 2023 circular
- Valuation committee support - independent member participation and meeting facilitation
- Credit fund ECL and YTM analysis - performing, stressed, and distressed debt portfolio valuations
- Real estate and infrastructure AIF valuations - income capitalisation, DCF, and replacement cost approaches
- LP due diligence support - independent assessment of portfolio valuations for prospective LPs conducting fund due diligence

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"AIF valuation is not an administrative exercise - it is the foundation of LP trust, regulatory credibility, and the integrity of India's private capital markets. Every fair value opinion we issue is built on methodology, independence, and accountability."

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