

A CFO's Guide to

Intangible Assets Valuation

— 2026 —

A Practical Guide to Valuing
Intangible Assets in Compliance
with Global Standards and
Indian Regulations



BY
SAGAR SHAH

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

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ABOUT THE AUTHOR



Sagar Shah

CA | CS | IBBI Registered Valuer | All India Rank Holder

Sagar Shah is the Founder of **Elite Valuation**, an independent valuation and boutique advisory firm serving clients across India. With **15 years of professional experience** including **9 years at Ernst & Young (EY)**, he has valued intangible assets for M&A transactions, Purchase Price Allocations, financial reporting, tax compliance, and dispute resolution across industries including technology, pharmaceuticals, consumer goods, real estate, and financial services.

His intangible asset practice spans brand valuations, patent portfolios, customer relationships, technology platforms, copyrights, non-compete agreements, assembled workforce, and goodwill impairment testing — for both domestic corporates and multinational groups with Indian operations.

Core Intangible Valuation Expertise

- Brand and trademark valuation — Relief from Royalty, income-based, and market-based methods
- Patent and technology valuation — for licensing, M&A, litigation, and financial reporting
- Customer relationship valuation — MPEEM method for PPA under Ind AS 103
- Copyright and artistic asset valuation — music, film, publishing, and digital content
- Software and database valuation — cost approach with functional/economic obsolescence
- Purchase Price Allocation (PPA) — comprehensive Ind AS 103 compliance
- Goodwill impairment testing — Ind AS 36 annual and trigger-based assessments
- Non-compete and licensing agreement valuation — With-and-Without method

Phone: +91 7600008550 | **Email:** sagarrvshah@elitevaluation.in

Website: www.EliteValuation.in

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Our Intangible Valuation Services

Brand & Trademark Valuation: Relief from Royalty, income premium, and market-based valuations for M&A, licensing, financial reporting, tax transfer pricing, and brand strategy.

Patent & Technology Valuation: Technology portfolio assessment, Relief from Royalty for patent licensing, DCF for proprietary technology, cost approach for software platforms.

Purchase Price Allocation (PPA): Comprehensive Ind AS 103 intangible identification and valuation — customer relationships, technology, brand, non-compete, assembled workforce, and residual goodwill.

Goodwill Impairment Testing: Annual and trigger-based impairment assessments under Ind AS 36 — CGU identification, value-in-use computation, and fair value less costs of disposal.

Copyright & Artistic Asset Valuation: Music catalogues, film libraries, publishing rights, digital content, and software copyright valuations for transactions and reporting.

Transfer Pricing for Intangibles: Arm's length pricing for inter-company IP transfers, royalty rate benchmarking, DEMPE analysis, and TP documentation for intangible transactions.

"In the knowledge economy, the most valuable assets are the ones you cannot touch — but you must be able to measure them."

— Sagar Shah

DISCLAIMER

This guide is for educational and informational purposes only. Intangible asset valuations require professional expertise and should be conducted by a qualified Registered Valuer in accordance with applicable standards. Consult a professional before acting on any information herein.

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SECTION 1: INTANGIBLE ASSET FUNDAMENTALS

Chapter 1: Why Intangible Assets Are the New Balance Sheet

Here is a fact that should change how every Indian corporate thinks about valuation: for companies listed on the S&P 500, intangible assets now represent over **90% of total enterprise value**. In India, while the ratio is lower (estimated at 50–70% for Nifty 50 companies), the trend is unmistakable and accelerating. The most valuable assets in the modern economy are the ones that do not appear on a traditional balance sheet.

A brand name, a patent portfolio, a proprietary software platform, a customer database, a trained workforce — these assets generate the majority of cash flows for knowledge-economy businesses, yet they are typically carried at zero on the balance sheet (unless acquired through a business combination). This creates a fundamental disconnect between book value and market value that has profound implications for M&A pricing, financial reporting, tax planning, and strategic decision-making.

The Indian Context: Why This Matters Now

Several converging forces are making intangible asset valuation increasingly critical for Indian corporates:

- **M&A activity:** India saw over \$60 billion in M&A deal value in FY25. Every acquisition requires Purchase Price Allocation (PPA) under Ind AS 103, which mandates identification and fair value measurement of all acquired intangible assets. Under-identification of intangibles artificially inflates goodwill — a red flag for auditors and regulators.
- **Transfer pricing scrutiny:** The Income Tax Department is intensifying scrutiny of inter-company royalty payments, IP transfers, and cost-sharing arrangements. Arm's length pricing for intangible transactions requires credible, defensible valuations.
- **Brand monetisation:** Indian companies are increasingly licensing their brands to group entities, franchisees, and international partners. Determining a fair royalty rate requires formal brand valuation.
- **IP-driven businesses:** Technology companies, pharmaceutical firms, and creative businesses have intangibles as their core value drivers. Investors, lenders, and regulators all need to understand the value of these assets.
- **Goodwill impairment:** Ind AS 36 requires annual impairment testing of goodwill and indefinite-life intangibles. With economic uncertainty and sector-specific disruptions, impairment charges are becoming more common — and more scrutinised by auditors.

SAGAR'S INSIGHT

The single biggest mindset shift I advocate with my clients is this: stop thinking of intangible valuation as a compliance exercise that happens after a transaction. Start thinking of it as a strategic input that informs the transaction. Knowing the value of your brand, customer relationships, and technology portfolio before entering an M&A negotiation fundamentally changes your leverage, your pricing strategy, and your deal structure.

What This Guide Covers

This guide is designed to be the definitive practitioner's reference for intangible asset valuation in the Indian context. It covers the complete spectrum: types of intangible assets and their classification, regulatory triggers that mandate valuation, the three valuation approaches with practical examples, deep dives into brand and technology valuation, PPA methodology under Ind AS 103, tax and transfer pricing implications, common pitfalls, and emerging trends.

Whether you are a CFO navigating a PPA for the first time, a tax advisor structuring an IP transfer, a business owner licensing your brand, or a valuation professional looking for a practical Indian-market reference — this guide is written for you.

PRO TIP

Throughout this guide, I use the term "intangible asset" broadly to include all non-physical assets that generate economic benefit — whether or not they meet the strict recognition criteria of Ind AS 38 (Intangible Assets). This is important because many valuable intangibles (assembled workforce, customer relationships in certain contexts) may not qualify for separate balance sheet recognition under Ind AS 38 but must still be identified and valued in a PPA under Ind AS 103.

The Hidden Value Gap: Indian Balance Sheets vs. Reality

Consider the disconnect in Indian corporate balance sheets. A listed FMCG company with a market capitalisation of Rs.50,000 Crore has tangible assets worth Rs.8,000 Crore on its books. The remaining Rs.42,000 Crore — over 84% of market value — is attributable to intangible assets: its brand portfolio, distribution network relationships, product formulations, and customer loyalty. Yet these assets appear nowhere on the balance sheet unless they were acquired through a business combination.

This gap has real consequences. When the company engages in a related-party brand licensing transaction, the transfer pricing must be benchmarked against the true value of the brand — not the zero book value. When it acquires a competitor, the PPA must identify and value the competitor's intangibles to avoid inflating goodwill. When it seeks financing, lenders are increasingly willing to consider intangible asset value as part of the collateral base — but only with credible valuations.

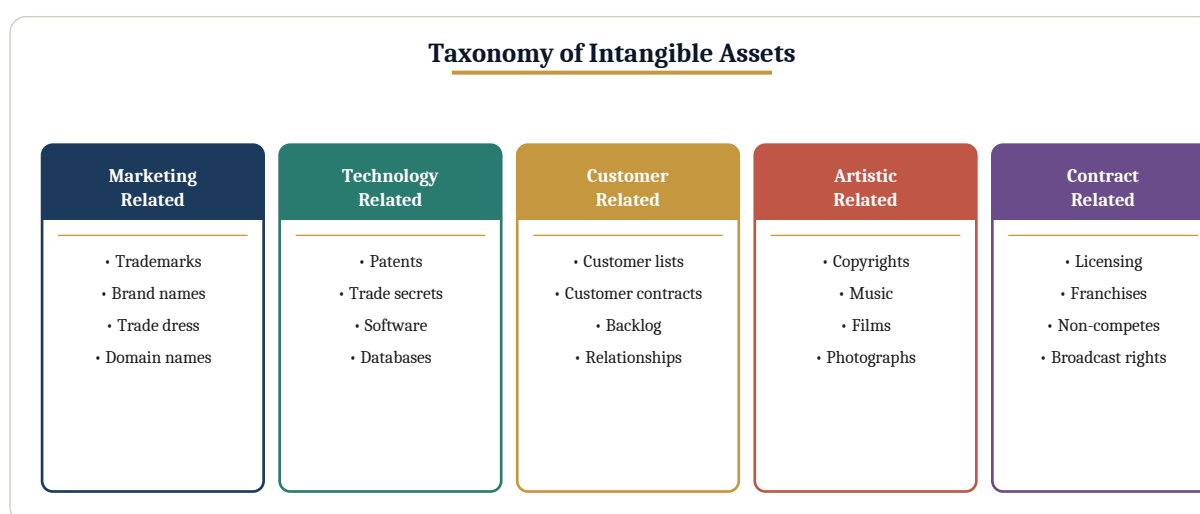
Industry Breakdown: Where Intangibles Dominate in India

- **Technology & IT Services (80–90% intangible):** Customer relationships, software IP, assembled workforce, and brand. Infosys, TCS, and Wipro derive almost their entire value from intangibles.
- **Pharmaceuticals (70–85% intangible):** Patents, ANDA filings, drug formulations, regulatory approvals, and R&D pipelines. A single blockbuster drug patent can be worth thousands of crores.
- **Consumer Goods / FMCG (65–80% intangible):** Brands, trademarks, distribution relationships, and product formulations. Brand value drives pricing power and market share.
- **Financial Services (50–70% intangible):** Customer relationships, brand trust, proprietary risk models, and technology platforms. Trust and brand are critical value drivers in banking and insurance.
- **Manufacturing (30–50% intangible):** Customer contracts, proprietary processes, certifications, and brand reputation. Even in asset-heavy industries, intangibles drive a significant portion of value above tangible book.

SECTION 1: INTANGIBLE ASSET FUNDAMENTALS

Chapter 2: Types of Intangible Assets — A Complete Taxonomy

Understanding the taxonomy of intangible assets is the essential first step. Different types of intangibles have different value drivers, different useful lives, different valuation methods, and different accounting and tax treatment. Misclassifying an intangible can lead to using the wrong valuation method, the wrong amortisation period, and ultimately the wrong value.



Marketing-Related Intangible Assets

Trademarks and brand names are among the most valuable intangible assets globally. In India, iconic brands like Tata, Reliance, Amul, and Infosys carry brand values in the tens of thousands of crores. Brand value derives from consumer recognition, trust, perceived quality, and pricing power. Trademarks have indefinite legal lives (as long as they are renewed and defended) but may have finite economic lives if the brand loses relevance.

Trade dress (distinctive visual appearance of a product or packaging), **domain names** (increasingly valuable in the digital economy), **newspaper mastheads**, and **internet content** are also marketing-related intangibles that may require valuation in M&A or licensing contexts.

Technology-Related Intangible Assets

Patents grant exclusive rights to an invention for 20 years in India. Patent valuation is critical for licensing negotiations, IP portfolio transactions, and transfer pricing. **Trade secrets** (proprietary processes, formulas, know-how) are not registered but can be enormously valuable — think of Coca-Cola's formula or a pharmaceutical company's API manufacturing process. **Software** (both internally developed and acquired), **databases**, and **proprietary algorithms** are technology intangibles that dominate valuation in the IT sector.

Customer-Related Intangible Assets

Customer relationships are often the single most valuable identifiable intangible in a business combination. They represent the economic value of existing customer connections that will generate future revenue. **Customer contracts** and **order backlog** are specific forms of customer-related intangibles with defined terms. **Customer lists** (names, contact information, purchase history) have value independent of contractual relationships — they reduce the acquirer's customer acquisition cost.

Contract-Related Intangible Assets

Licensing agreements, franchise rights, broadcast rights, mining rights, water rights, and non-compete agreements are contract-based intangibles. Their value is derived from the specific contractual terms and the economic benefit they confer. Non-compete agreements, in particular, are frequently valued in M&A transactions to quantify the protection against the seller re-entering the market.

Artistic-Related Intangible Assets

Copyrights protect literary, dramatic, musical, and artistic works. In India, copyright protection lasts for 60 years after the death of the author. **Music catalogues, film libraries, photographs, and video content** are artistic intangibles with growing value as streaming platforms and digital distribution expand the addressable market.

SAGAR'S INSIGHT

*In my PPA work, I find that the most commonly overlooked intangible is **assembled workforce**. While it does not meet Ind AS 38 recognition criteria (it is not separable and not arising from a contractual right), it must be considered in a PPA because its value is subsumed within goodwill. Explicitly valuing the assembled workforce helps the acquirer understand the composition of goodwill and defend the PPA in an audit. The cost-to-recreate method (recruitment costs + training costs + productivity ramp-up) typically yields 3–6 months of compensation for the acquired workforce.*

PRO TIP

When identifying intangible assets for a PPA, use the "separability" and "contractual-legal" tests from Ind AS 103. An intangible is identifiable if it is (1) separable — can be separated from the entity and sold, transferred, licensed, rented, or exchanged; OR (2) arises from contractual or legal rights, regardless of whether those rights are transferable or separable. Customer relationships, even if not contractual, often meet the separability test because they could theoretically be sold or licensed.

Ind AS 38 vs. Ind AS 103: The Recognition Gap

A critical distinction that every practitioner must understand: the recognition criteria for intangible assets differ significantly between Ind AS 38 (general recognition) and Ind AS 103 (business

combinations). Under Ind AS 38, internally generated brands, customer lists, and similar items are **specifically prohibited** from recognition. But under Ind AS 103, these same assets **must be identified and valued** when acquired in a business combination — because they meet the separability or contractual-legal test.

This creates a paradoxical situation: a company's own brand has zero book value, but the identical brand acquired in an M&A transaction is recognised at fair value — potentially worth hundreds of crores. This asymmetry is one of the most frequently discussed limitations of current accounting standards and is driving the global conversation about enhanced intangible asset disclosure.

Useful Life Determination: Finite vs. Indefinite

Every identified intangible asset must be classified as having either a finite or indefinite useful life. This determination directly impacts accounting treatment:

- **Finite-life intangibles** (customer relationships, patents, software, non-competes) are **amortised** over their estimated useful life. The amortisation pattern should reflect the expected consumption of economic benefits — not necessarily straight-line.
- **Indefinite-life intangibles** (certain brands, perpetual licences, spectrum rights) are **not amortised** but must be tested for impairment at least annually under Ind AS 36. An intangible has an indefinite life when there is no foreseeable limit to the period over which it is expected to generate cash flows.

Key factors in useful life determination: Legal or contractual life, expected competitive dynamics, technology obsolescence rate, customer attrition data, historical precedent in the industry, and the entity's own track record with similar assets. A patent has a maximum legal life of 20 years, but its economic life may be only 5–8 years if competitive alternatives are emerging.

SECTION 2: WHEN AND WHY VALUATION IS REQUIRED

Chapter 3: Regulatory Triggers — When Must You Value Intangibles?

Intangible asset valuation is not optional in many business contexts. Multiple regulatory frameworks in India mandate or strongly incentivise the valuation of intangibles. Understanding when a valuation is required — and which standard applies — is essential for compliance.

Ind AS 103: Business Combinations (PPA)

The most common trigger for intangible valuation is a **business combination** under Ind AS 103. The acquirer must allocate the purchase consideration to all identifiable assets (tangible and intangible) and liabilities at fair value. Any excess of consideration over the net identifiable assets is recorded as goodwill. The standard requires explicit identification of intangible assets that are either separable or arise from contractual/legal rights — even if the acquiree did not previously recognise them on its balance sheet.

Practical implication: A company that acquires another for Rs.500 Crore, where the target has net tangible assets of Rs.80 Crore, must identify and value Rs.270–350 Crore of intangible assets to avoid reporting Rs.420 Crore of goodwill — which auditors and analysts will scrutinise as a potential impairment risk.

Ind AS 36: Impairment Testing

Goodwill and intangible assets with indefinite useful lives must be tested for impairment at least annually under Ind AS 36. Intangible assets with finite lives must be tested whenever there is an indication of impairment (trigger-based testing). Impairment testing requires estimating the recoverable amount — the higher of fair value less costs of disposal and value in use. This often involves valuing the intangible assets or the Cash-Generating Unit (CGU) to which they are allocated.

Ind AS 38: Recognition and Measurement

Ind AS 38 governs the accounting for internally generated and separately acquired intangible assets. Key requirements: (1) Separately acquired intangibles are recognised at cost. (2) Internally generated intangibles are recognised only if the company can demonstrate technical feasibility, intention to complete, ability to use or sell, probable future economic benefits, availability of resources, and reliable cost measurement. (3) Internally generated brands, mastheads, publishing titles, customer lists, and similar items are specifically **not** recognised as intangible assets under Ind AS 38 — they are expensed as incurred.

Transfer Pricing (Income Tax Act)

Inter-company transactions involving intangibles — royalty payments for brand usage, technology licence fees, cost-sharing arrangements for R&D, and IP transfers — must be priced at arm's length under Section 92 of the Income Tax Act. The Transfer Pricing Officer (TPO) will examine whether the royalty

rate, licence fee, or transfer price is consistent with what unrelated parties would agree to in comparable circumstances. This requires formal intangible valuation to benchmark the pricing.

FEMA and Cross-Border IP Transfers

Transfer of IP between Indian entities and their overseas group companies must comply with FEMA regulations and RBI pricing guidelines. Whether it is an outbound transfer (Indian entity licensing IP to an overseas subsidiary) or inbound (overseas parent licensing technology to the Indian subsidiary), the pricing must be at fair value and must be supported by a valuation report.

Companies Act, 2013

The Companies Act requires valuation by a Registered Valuer for transactions involving transfer of assets (including intangible assets) in mergers, demergers, and schemes of arrangement. Section 232 specifically mandates fair value determination of all assets transferred under a scheme.

SAGAR'S INSIGHT

*The regulatory trigger I see companies miss most frequently is **transfer pricing for intangibles**. A company pays a 3% royalty to its parent for brand usage — but has never conducted a formal brand valuation or royalty rate benchmarking study to support that 3%. When the TPO examines the arrangement, the company has no defence. A Rs.5–10 Lakh valuation exercise could have protected against a Rs.2–5 Crore TP adjustment. The economics are overwhelmingly in favour of proactive valuation.*

PRO TIP

Create a "valuation trigger checklist" for your organisation: (1) Are we acquiring or being acquired? — PPA required. (2) Do we pay or receive inter-company royalties? — TP benchmarking required. (3) Do we have goodwill or indefinite-life intangibles on the balance sheet? — Annual impairment testing required. (4) Are we transferring IP cross-border? — FEMA valuation required. (5) Are we involved in a scheme of arrangement? — RV valuation required. If any answer is yes, engage a professional valuer proactively.

Ind AS 36: Goodwill Impairment — The Annual Test

Once goodwill is recorded through a PPA, it must be tested for impairment at least annually under Ind AS 36 — or more frequently if there are indicators of impairment (declining revenue, loss of key customers, adverse regulatory changes, market capitalisation below book value). The impairment test compares the carrying amount of the Cash-Generating Unit (CGU) to its recoverable amount (higher of value-in-use and fair value less costs of disposal).

In practice, goodwill impairment testing often requires the same skills as intangible asset valuation — DCF modelling, discount rate determination, and terminal value calculation. Companies that over-allocated to goodwill during the PPA (by under-identifying intangibles) face higher impairment risk

because the goodwill balance is inflated relative to the economic reality.

Section 32(1)(ii): Tax Depreciation on Intangibles

Under Section 32(1)(ii) of the Income Tax Act, depreciation at 25% (WDV basis) is allowed on know-how, patents, copyrights, trademarks, licences, franchises, and any other business or commercial right of similar nature. However, following the Supreme Court's ruling in CIT v. Smifs Securities Ltd. and subsequent legislative amendments, the availability of depreciation on goodwill has been restricted from April 2020. This makes the distinction between goodwill and other identifiable intangibles even more critical — properly identified intangibles qualify for depreciation; goodwill may not.

SEBI Regulations and Intangible Disclosures

SEBI has been progressively tightening disclosure requirements related to intangible assets. Listed companies must disclose: significant intangible assets and their carrying values, amortisation policies, any impairment losses recognised, and the methodology used for fair value determination in PPAs. SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework, mandatory for the top 1,000 listed companies, is also expanding the scope of intangible-related disclosures — particularly around brand value, R&D investments, and IP portfolio management.

SECTION 2: WHEN AND WHY VALUATION IS REQUIRED

Chapter 4: The Strategic Importance of Intangible Valuation

Beyond regulatory compliance, intangible asset valuation serves critical strategic purposes that directly impact business decisions, investor confidence, and competitive positioning.

M&A; Pricing and Negotiation

In any acquisition, the buyer is paying for future cash flows — and in knowledge-economy businesses, those cash flows are predominantly generated by intangible assets. Understanding the composition of value helps both buyers and sellers negotiate more effectively:

- **For buyers:** Knowing that Rs.150 Crore of the Rs.500 Crore purchase price is attributable to customer relationships (with quantified attrition risk) and Rs.60 Crore to technology (with a 5-year obsolescence timeline) enables better risk assessment and earnout structuring than treating the entire premium as undifferentiated "goodwill."
- **For sellers:** Presenting a pre-sale intangible asset valuation demonstrates the composition of value, justifies the asking price, and shifts the negotiation from "What is the company worth?" to "Which intangible assets are driving this value?" — a much stronger negotiating position.

Brand Licensing and Royalty Rate Determination

Indian corporates are increasingly monetising their brands through licensing arrangements — to domestic franchisees, international partners, and group entities. Determining the appropriate royalty rate requires a formal brand valuation that considers brand strength, market positioning, revenue contribution, and comparable licensing transactions. Common royalty rate ranges by sector in India:

Industry	Typical Royalty Range	Key Value Drivers
FMCG / Consumer Goods	3–8% of net sales	Brand awareness, shelf space, consumer loyalty
Technology / Software	5–15% of revenue	Patent strength, switching costs, market share
Pharmaceuticals	2–6% of net sales	Patent exclusivity, regulatory approvals, pipeline
Hospitality / F&B;	4–10% of revenue	Brand recognition, operational standards, footfall
Automotive	1–4% of net sales	Brand heritage, quality perception, dealer network

Table 1: Indicative Royalty Rate Ranges by Industry (India)

IP Strategy and Portfolio Management

For technology companies and R&D-intensive businesses, regular valuation of the IP portfolio informs strategic decisions: which patents to maintain (and pay renewal fees for), which to license, which to sell, and where to invest in new R&D. A patent that costs Rs.5 Lakh per year to maintain but generates no

licensing revenue or competitive advantage should be critically evaluated.

Investor Relations and Capital Raising

Investors in knowledge-economy businesses want to understand the intangible asset base that generates returns. A company that can articulate the value of its brand, technology, and customer relationships — with credible valuations — commands higher multiples than one that cannot. This is particularly relevant for startups and growth-stage companies seeking PE/VC funding, where the entire valuation may rest on intangible assets.

Litigation and Dispute Resolution

Intangible asset valuation is frequently required in litigation contexts: trademark infringement damages, patent infringement royalty determination, breach of non-compete agreement quantification, and partnership/shareholder disputes where IP is a contested asset. Court-defensible valuations require rigorous methodology, documented assumptions, and independent professional credentials.

SAGAR'S INSIGHT

I have seen companies where the brand was the single most valuable asset — worth more than all physical assets combined — yet the board had never formally valued it. When a licensing opportunity arose, or when a group restructuring required IP transfer pricing, they had no baseline. My recommendation: every company with a material brand, patent portfolio, or technology platform should conduct a formal valuation at least once every 3 years, even if no immediate transaction is planned. It becomes a strategic asset in its own right — ready to deploy when opportunity or necessity arises.

Mergers and Demergers: Intangible Allocation

In mergers under Section 230–232 of the Companies Act, the scheme of arrangement must fairly value all assets being transferred — including intangible assets. When a company demerges its consumer products division (with established brands) from its manufacturing division, the brand values must be explicitly determined to ensure fair treatment of shareholders in both resulting entities. I have seen demerger schemes where the brand was inadvertently left in the wrong entity, requiring scheme modification and fresh NCLT approval — a costly and time-consuming error.

Secured Lending Against Intangible Assets

An emerging trend in India is the use of intangible assets as collateral for debt financing. While still nascent compared to Western markets, some Indian lenders (particularly in the NBFC and private credit space) are beginning to accept brand valuations, patent portfolios, and customer contract values as part of the collateral base for working capital and term loan facilities. This requires independent, lender-grade valuations with explicit analysis of: realisability (can the intangible be sold separately?), value stability (how volatile is the intangible's value?), and enforcement mechanics (how would the lender take possession of an intangible in a default scenario?).

Insurance Valuation of Intangibles

Companies are increasingly insuring their intangible assets against specific risks: brand reputation damage, patent infringement liability, cybersecurity breaches affecting proprietary data, and business interruption from technology platform failures. Insurance underwriters require independent valuations to determine appropriate coverage levels and premiums. This represents a growing market for intangible asset valuation services in India.

SECTION 3: VALUATION METHODS

Chapter 5: The Income Approach — Relief from Royalty & MPEEM

The Income Approach is the most widely used framework for intangible asset valuation. It values the asset based on the economic income it generates or the cost savings it provides. Two methods dominate: the Relief from Royalty method and the Multi-Period Excess Earnings Method (MPEEM).

Relief from Royalty Method

The Relief from Royalty (RfR) method values an intangible asset by estimating the royalty payments the owner avoids by owning the asset rather than licensing it from a third party. It is the most commonly used method for **brands, trademarks, patents, and technology licences**.

$$\text{Value} = \text{PV of (Revenue} \times \text{Royalty Rate} \times (1 - \text{Tax Rate}))$$

Step-by-step process: (1) Project the revenue attributable to the intangible asset over its remaining useful life. (2) Select an appropriate royalty rate based on comparable licensing transactions, industry benchmarks, and the asset's specific strength. (3) Apply the tax rate to compute the after-tax royalty savings. (4) Discount the after-tax royalty savings to present value using an appropriate discount rate. (5) Apply a Tax Amortisation Benefit (TAB) adjustment if the intangible is tax-deductible.

Practical Example: Brand Valuation Using Relief from Royalty

Subject: "FreshCart" — a premium grocery brand with Rs.200 Crore annual revenue, projected to grow at 12% for 5 years and 5% thereafter. Comparable brand royalty rates in the Indian FMCG sector: 4–6% of net sales. Selected royalty rate: 5%. Discount rate (WACC): 14%. Tax rate: 25%. Remaining useful life: 20 years (indefinite trademark with periodic renewal).

Year	Revenue (Rs. Cr)	Royalty @5%	After-Tax Saving	PV Factor @14%	PV (Rs. Cr)
FY26	224	11.2	8.4	0.877	7.37
FY27	251	12.5	9.4	0.769	7.23
FY28	281	14.0	10.5	0.675	7.09
FY29	314	15.7	11.8	0.592	6.99
FY30	352	17.6	13.2	0.519	6.85
Terminal					42.10
Brand Value					77.63

Table 2: Brand Valuation — Relief from Royalty (FreshCart)

Result: Brand value of Rs.77.63 Crore, representing approximately 39% of the company's enterprise value.

Multi-Period Excess Earnings Method (MPEEM)

The MPEEM is used when the intangible asset is the **primary value driver** of the business (or a cash-generating unit). It is the standard method for valuing **customer relationships** in a PPA. The MPEEM isolates the earnings attributable to the specific intangible by deducting "contributory asset charges" — fair returns on all other assets (tangible and intangible) that contribute to generating those earnings.

$$\text{Intangible Value} = \text{PV of (Total Earnings - Returns on All Other Contributing Assets)}$$

The contributory asset charges ensure that the customer relationship value represents only the *incremental* earnings generated by the relationship, not earnings attributable to the brand, technology, workforce, or physical assets that also contribute to revenue generation. Determining appropriate contributory asset charges is the most judgment-intensive aspect of the MPEEM and requires careful calibration.

SAGAR'S INSIGHT

The RfR method is elegant but depends entirely on the selected royalty rate. A 1% difference in royalty rate on Rs.200 Crore revenue changes the brand value by Rs.15–20 Crore. This is why royalty rate selection must be grounded in comparable transaction evidence, not arbitrary assumption. I maintain a database of 200+ Indian and international licensing transactions across sectors, updated annually, to benchmark royalty rates for my valuations. The database is the foundation of every RfR valuation I produce.

PRO TIP

When using the MPEEM, always perform a "reconciliation check": the sum of all intangible asset values (from RfR, MPEEM, cost approach) plus tangible asset values plus goodwill should approximately equal the total enterprise value or purchase consideration. If the sum significantly exceeds or falls short of the total, either the individual valuations are inconsistent or the overall transaction pricing is questionable. This reconciliation is the single most important quality control step in a PPA.

The Greenfield Method

The Greenfield method is a variation of the income approach used to value customer relationships and businesses with a dominant intangible. It asks: *"If we started with only this intangible asset and had to build everything else from scratch, how much value would this asset generate?"* The method projects revenues starting from zero (the "greenfield" starting point), models the cost and time to rebuild complementary assets (workforce, technology, physical infrastructure), and discounts the resulting cash flows. The difference between the Greenfield enterprise value and the cost of rebuilding complementary

assets represents the intangible's value.

The With-and-Without Method

The With-and-Without method values an intangible by comparing the enterprise value (or cash flows) of the business *with* the asset versus *without* it. This is the preferred method for **non-compete agreements** and **exclusive licences**, where the key question is: how much value would be destroyed if this asset/right did not exist? For a non-compete agreement, the analysis models the impact of the seller re-entering the market — estimated revenue loss, margin compression, customer attrition, and competitive response costs — over the non-compete period.

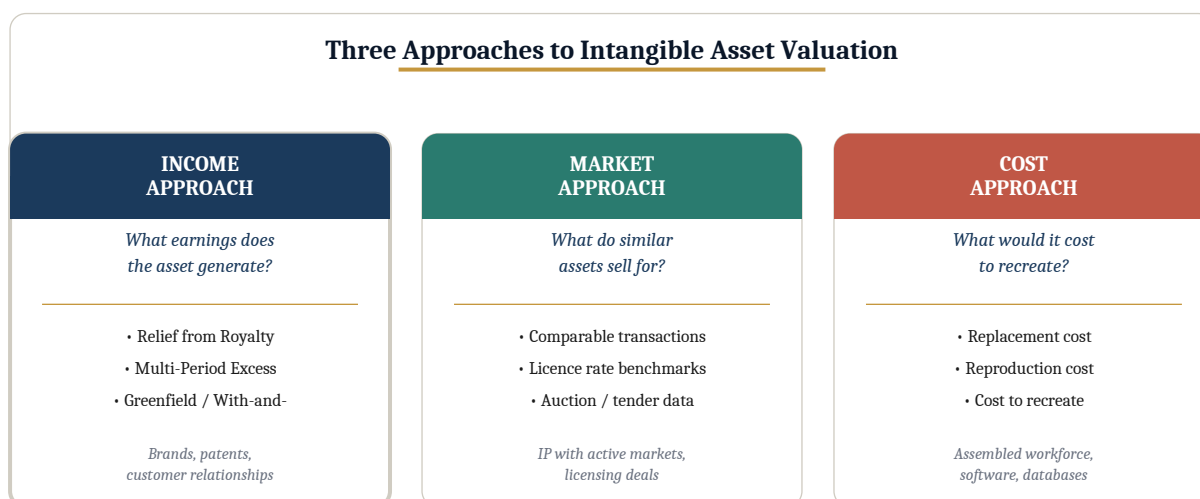
Practical Example: A company acquires a competitor with a 3-year non-compete clause for the founders. Without the non-compete, the founders could launch a competing product and potentially capture 15–20% of the acquired company's revenue within 2 years. The With-and-Without analysis estimates the present value of this revenue protection at Rs.18 Crore, which represents the fair value of the non-compete agreement in the PPA.

Selecting the Appropriate Discount Rate

Different intangible assets carry different risk profiles and should be discounted at different rates. The hierarchy of risk (and therefore discount rates) typically follows: **Contract-based intangibles** (lowest risk — near debt rate) < **Customer relationships** (moderate risk — between debt and WACC) < **Technology** (higher risk — at or above WACC) < **Brand** (variable — depends on brand strength) < **Unproven IP / early-stage intangibles** (highest risk — above equity rate). Using the entity-level WACC for all intangibles is a common but significant error that distorts relative values in a PPA.

SECTION 3: VALUATION METHODS

Chapter 6: The Market Approach & The Cost Approach



The Market Approach for Intangible Assets

The Market Approach values an intangible by reference to actual transactions involving comparable assets. While this is the most direct and empirical method, its application to intangibles is limited by the scarcity of comparable transactions — most intangible asset sales are unique, bundled with other assets, or involve terms that are not publicly disclosed.

Where it works well: (1) Technology licensing — where databases of licensing transactions (e.g., ktMINE, RoyaltyStat) provide comparable royalty rates. (2) Domain name transactions — where registries publish sale prices. (3) Patent auctions and IP portfolio sales — where transaction data is available through specialised platforms. (4) Franchise transactions — where franchise resale multiples can be observed.

Limitations in India: Indian intangible transaction data is limited and often not publicly available. Most IP licensing arrangements are between related parties, making arm's length comparability challenging. International transaction data can be used as a reference but must be adjusted for Indian market conditions, purchasing power differences, and regulatory environment.

The Cost Approach for Intangible Assets

The Cost Approach values an intangible based on the cost to recreate or replace it. It is most appropriate for assets where the cost of development is a reasonable proxy for value — typically **software, databases, assembled workforce, and proprietary processes**.

$$\text{Replacement Cost} = \text{Historical Development Cost} \times \text{Inflation Adjustment} - \text{Functional Obsolescence} - \text{Economic Obsolescence}$$

Key components: (1) **Reproduction cost** — cost to create an exact replica. (2) **Replacement cost** — cost to create a functional equivalent (usually lower, as it excludes obsolete features). (3) **Functional obsolescence** — reduction for features that are outdated or inefficient. (4) **Economic obsolescence** — reduction for external factors that diminish value (market changes, regulatory changes, competitive pressure).

Practical Example: Software Platform Valuation

A company acquires a SaaS platform. The development team spent 3 years building it with a total cost of Rs.12 Crore (salaries, infrastructure, testing). Using the cost approach:

- Reproduction cost (at current salary rates): Rs.15 Crore
- Functional obsolescence (some features are outdated): -Rs.2 Crore
- Economic obsolescence (market has shifted to cloud-native): -Rs.1 Crore
- **Replacement cost new less depreciation: Rs.12 Crore**

Important limitation: The cost approach measures what it would cost to *create* the asset, not what it is *worth* (i.e., the economic benefits it generates). For a wildly successful software platform, the income approach may produce a value 5–10x higher than the cost approach. Conversely, for a failed product, the cost approach may overstate value. The cost approach is therefore best used as a floor value or for assets where income attribution is difficult.

Choosing the Right Method

Intangible Asset	Primary Method	Secondary Method	Rationale
Brand / Trademark	Relief from Royalty	Income Premium	Observable royalty rate data available
Customer Relationships	MPEEM	With-and-Without	Primary cash-flow driver; contributory assets identifiable
Technology / Patents	Relief from Royalty	Cost Approach	Licensing comparables available; cost provides floor
Software	Cost Approach	Relief from Royalty	Development cost is measurable; licensing data may exist
Non-Compete Agreement	With-and-Without	DCF of lost profits	Models impact of competition on cash flows
Assembled Workforce	Cost to Recreate	N/A	Recruitment + training + ramp-up costs
Copyright / Artistic	Relief from Royalty	Income Approach	Licensing is standard monetisation model

Table 3: Recommended Valuation Methods by Intangible Asset Type

SAGAR'S INSIGHT

In practice, I use multiple methods for every significant intangible and reconcile the results. If the RfR produces Rs.80 Crore for a brand and the income premium method produces Rs.65 Crore, the 19% gap needs explanation. Is the royalty rate too high? Is the income premium method missing some indirect brand contribution? The reconciliation exercise often reveals insights that a single-method valuation misses entirely.

SECTION 4: PRACTICAL APPLICATIONS

Chapter 7: Brand & Trademark Valuation — A Deep Dive

Brand valuation is the most frequently requested intangible asset valuation service in my practice — and arguably the most complex. A brand is not a single asset; it is a bundle of perceptions, associations, and experiences in the consumer's mind. Quantifying that bundle requires both financial rigour and marketing insight.

When Brand Valuation Is Required

- **M&A / PPA:** Identifying and valuing the acquired brand separately from goodwill under Ind AS 103.
- **Brand licensing:** Determining the arm's length royalty rate for inter-company or third-party brand licensing.
- **Transfer pricing:** Supporting the royalty rate charged for brand usage in inter-company transactions.
- **Litigation:** Quantifying damages in trademark infringement or brand dilution cases.
- **Strategic planning:** Tracking brand value over time to measure the ROI of marketing investments.
- **Securitisation:** Using the brand as collateral for debt financing (emerging in India).

The Three Pillars of Brand Value

Brand value is driven by three interconnected factors:

- **Brand strength:** Consumer awareness, recall, loyalty, perceived quality, and emotional connection. Measured through brand tracking studies, Net Promoter Score (NPS), and market research.
- **Brand contribution to revenue:** The premium that consumers pay for the branded product versus an unbranded equivalent, or the incremental volume generated by brand awareness. This is the "demand driver" analysis.
- **Brand risk:** The sustainability of brand earnings — competitive threats, category disruption risk, regulatory risk, and brand reputation risk. Higher brand risk increases the discount rate applied to brand earnings.

Case Study: Valuing a Regional FMCG Brand for Acquisition

A national FMCG company is acquiring a strong regional snack brand ("CrunchKing") with Rs.85 Crore revenue and 60% market share in its region. The brand is well-known locally but has no national presence.

RfR approach: Comparable royalty rates for regional FMCG brands: 3–5%. Selected rate: 4% (reflecting strong regional position but limited geographic scope). Projected revenue: 15% growth for 3 years (national expansion by acquirer), then 8% for the next 5 years, then 4% terminal growth. Discount rate: 15%. Brand value: **Rs.38 Crore**.

Income premium approach: CrunchKing commands a 12% price premium over private-label equivalents. Revenue attributable to brand premium: Rs.85 Cr x 12% = Rs.10.2 Cr annually. After tax and discounting at 15% with a 15-year life, brand value: **Rs.42 Crore**.

Reconciliation: The two methods produce values within 10% of each other (Rs.38 Cr vs. Rs.42 Cr), providing confidence in the Rs.38–42 Crore range. The RfR result is given primary weight because it is based on observable market royalty rates, while the income premium method serves as corroboration.

PRO TIP

When valuing a brand for transfer pricing purposes, always document the "DEMPE" analysis required under OECD Transfer Pricing Guidelines and Indian TP regulations: who performs the Development, Enhancement, Maintenance, Protection, and Exploitation functions for the brand? The entity that performs DEMPE functions is entitled to the returns from the brand. If the Indian subsidiary performs marketing and brand building but pays royalties to the parent, the TP analysis must justify why the subsidiary is not entitled to a larger share of brand returns.

Alternative Brand Valuation Methods

While the Relief from Royalty is the most common brand valuation method, two alternatives provide valuable cross-checks:

Income Premium Method: Compares the profitability of the branded business with an unbranded or generic equivalent. The price premium x volume = brand premium revenue. After deducting additional costs associated with brand maintenance (marketing, quality control), the after-tax brand premium earnings are discounted to present value. This method directly measures the brand's contribution to pricing power.

Demand Driver Analysis: Disaggregates the factors that drive consumer purchase decisions (price, quality, availability, brand, features) and attributes a percentage of total revenue to the brand as a demand driver. This method is useful when brand influence varies by product category or customer segment within the same company.

Indian Brand Valuation: Unique Considerations

Brand valuation in the Indian market presents unique factors that must be incorporated into the analysis:

- **Regional vs. national brands:** India's linguistic and cultural diversity means that a brand dominant in Maharashtra may have zero recognition in Tamil Nadu. Brand valuation must account for geographic scope and expansion potential.
- **Family/promoter association:** Many Indian brands are closely associated with the founder or promoter family (Tata, Birla, Ambani, Godrej). This creates both positive brand associations and key-person risk that affects brand sustainability.
- **Government and regulatory endorsement:** In sectors like pharmaceuticals and defence, government approvals and certifications function as de facto brand assets that increase trust and

reduce customer acquisition costs.

- **Digital brand evolution:** Indian brands are rapidly building digital presence. Social media followers, app downloads, and digital engagement metrics are becoming part of the brand value equation, particularly for D2C and fintech brands.

SECTION 4: PRACTICAL APPLICATIONS

Chapter 8: Technology, Patent & Software Valuation

Technology assets — patents, trade secrets, proprietary software, algorithms, and databases — are the core value drivers for India's IT sector, pharmaceutical industry, and the growing deeptech ecosystem. Valuing these assets requires understanding both their technical merit and their economic contribution.

Patent Valuation

Patents have a maximum legal life of 20 years in India (from the filing date), but their economic life is often shorter — constrained by technology obsolescence, competitive alternatives, and market evolution. Patent valuation methods include:

- **Relief from Royalty:** Estimate the royalty rate a licensee would pay for the patented technology. Applicable when comparable licensing transactions exist. Royalty rates for technology patents in India typically range from 2–15%, depending on the technology's criticality and competitive alternatives.
- **Income Approach (DCF):** Project the incremental cash flows generated by the patented technology (revenue premium, cost savings, or market access) and discount to present value. Requires isolating the patent's contribution from other value drivers.
- **Cost Approach:** Estimate the cost to develop equivalent technology from scratch. Includes R&D costs, testing, regulatory approval, and an obsolescence adjustment. Most useful as a floor value or for early-stage patents with no revenue history.

Practical Example: Pharmaceutical Patent Portfolio

A pharmaceutical company holds 12 patents covering API manufacturing processes and drug formulations. For a licensing negotiation with an international partner:

- Core API patent (3 remaining years of exclusivity): valued at Rs.45 Crore using DCF of incremental margins versus generic alternatives
- Formulation patents (8 remaining years): valued at Rs.28 Crore using Relief from Royalty at 4% of projected formulation revenue
- Process patents (minor efficiency improvements): valued at Rs.5 Crore using cost approach with 40% obsolescence
- **Total patent portfolio value: Rs.78 Crore**

Software Valuation

Software valuation presents unique challenges because software is simultaneously an intangible asset and a product that generates recurring revenue. For internally developed software, the cost approach is most common (Ind AS 38 requires capitalisation of development costs meeting specific criteria). For acquired software, the income approach (RfR or MPEEM) is preferred.

Key considerations for software valuation: (1) Technology lifecycle — software platforms have typical useful lives of 3–7 years before requiring major re-architecture. (2) Maintenance and enhancement capex — ongoing development costs to keep the software current must be deducted from projected cash flows. (3) Customer lock-in — switching costs and data migration barriers increase the value of the software platform beyond the technology itself.

Trade Secrets and Know-How

Trade secrets (proprietary processes, formulas, manufacturing know-how) are among the most difficult intangibles to value because they have no defined legal life, no registration, and their value depends entirely on the owner's ability to maintain secrecy. The With-and-Without method is most appropriate: value the business with the trade secret, then value it without (assuming competitors could replicate the process or the secret is disclosed), and the difference is the trade secret's value.

SAGAR'S INSIGHT

In technology valuations, the most common error I see is using the cost approach when the income approach is clearly more appropriate. A software platform that cost Rs.5 Crore to develop but generates Rs.20 Crore in annual SaaS revenue is obviously worth far more than Rs.5 Crore. The cost approach tells you what was spent; the income approach tells you what was created. For revenue-generating technology, always start with the income approach and use the cost approach only as a reasonableness check.

Database and Data Asset Valuation

With the rise of data-driven businesses in India, proprietary databases and curated datasets are becoming significant intangible assets. Examples include: credit bureau databases (credit scores, payment histories), e-commerce platforms' customer behaviour data, healthcare databases (clinical trial data, patient outcomes), and agricultural data platforms (crop patterns, weather correlations). Valuation methods include: cost approach (cost of data collection, cleaning, and structuring), income approach (incremental revenue from data monetisation or cost savings from data-driven decisions), and market approach (comparable data licensing transactions).

Technology Lifecycle and Obsolescence

Technology intangibles have the shortest useful lives of any intangible asset category. When valuing technology, the obsolescence analysis is critical:

- **Functional obsolescence:** The technology still works but newer, more efficient alternatives exist. A 5-year-old enterprise software platform that runs on legacy infrastructure has significant functional obsolescence vs. cloud-native alternatives.
- **Economic obsolescence:** External market changes reduce the technology's earning capacity. A navigation app's value drops when competitors offer free alternatives, even if the technology itself is superior.

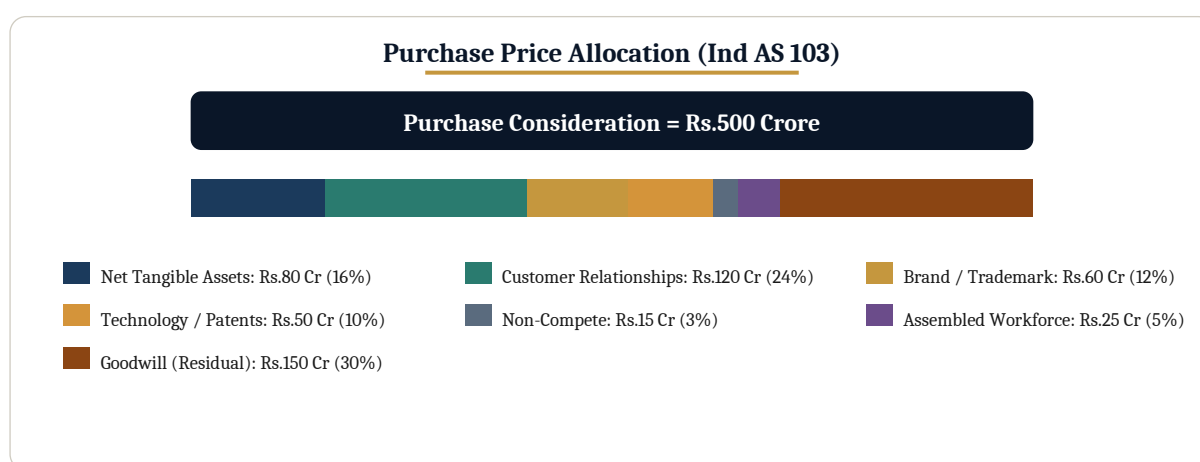
- **Technological obsolescence:** Fundamental technology shifts render the asset outdated. Feature phone software became obsolete with the smartphone revolution, regardless of its quality.

In my practice, I apply an obsolescence haircut of 15–40% to cost-approach technology valuations, depending on the technology's age, competitive positioning, and the pace of change in its sector. This adjustment is the most frequently contested element in technology valuations and must be thoroughly documented.

SECTION 5: PPA, TAX & COMPLIANCE

Chapter 9: Purchase Price Allocation Under Ind AS 103

Purchase Price Allocation (PPA) is the most technically demanding application of intangible asset valuation. It requires identifying all intangible assets acquired in a business combination, valuing each at fair value, and ensuring the total allocation reconciles with the purchase consideration. The residual is goodwill.



The PPA Process: Step by Step

- **Step 1: Analyse the transaction.** Understand the purchase consideration (cash, shares, contingent consideration), the business rationale, and the key value drivers that motivated the acquisition.
- **Step 2: Identify all intangible assets.** Apply the separability and contractual-legal tests from Ind AS 103. Prepare a comprehensive list of potential intangibles — marketing-related, technology-related, customer-related, contract-related, and artistic-related.
- **Step 3: Select valuation methods.** For each identified intangible, choose the most appropriate method based on available data, asset characteristics, and industry practice.
- **Step 4: Gather data and compute values.** Obtain financial projections, customer data, licensing comparables, development cost records, and market information. Execute the valuations with documented assumptions.
- **Step 5: Determine useful lives.** Assign finite or indefinite useful lives to each intangible based on legal, contractual, competitive, and economic factors. Finite-life intangibles are amortised; indefinite-life intangibles are tested for impairment.
- **Step 6: Reconcile and compute goodwill.** Sum all tangible assets, intangible assets, and liabilities at fair value. The excess of purchase consideration over net identifiable assets is goodwill.
- **Step 7: Document and present.** Prepare a comprehensive PPA report with methodology, assumptions, sensitivity analysis, and useful life determination for audit review.

Practical Example: PPA for a Digital Marketing Agency Acquisition

Acquirer pays Rs.120 Crore for a digital marketing agency with Rs.40 Crore revenue and Rs.10 Crore EBITDA.

Asset	Method	Fair Value (Rs. Cr)	% of Consideration	Useful Life
Net Tangible Assets	Balance sheet	8	7%	Various
Customer Relationships	MPEEM	42	35%	8 years
Brand / Trade Name	Relief from Royalty	15	13%	Indefinite
Proprietary Software	Cost Approach	12	10%	5 years
Non-Compete (Founders)	With-and-Without	6	5%	3 years
Assembled Workforce	Cost to Recreate	4	3%	N/A (in goodwill)
Total Identifiable Assets		87	73%	
Goodwill (Residual)		33	27%	

Table 4: PPA — Digital Marketing Agency Acquisition

Note: Without proper intangible identification, goodwill would have been Rs.112 Crore (93% of consideration) — an unsustainable level that would face audit challenge and annual impairment testing risk. The PPA reduces goodwill to Rs.33 Crore (27%), a much more defensible allocation.

SAGAR'S INSIGHT

The timeline for PPA is critical and frequently mismanaged. Ind AS 103 allows a "measurement period" of up to 12 months from the acquisition date to finalise the PPA. In my experience, companies that start the PPA process before the acquisition closes (using pre-close data access during due diligence) complete the exercise in 2–3 months. Those that start after closing typically take 6–9 months and face pressure from auditors to meet the measurement period deadline.

Common PPA Challenges in Indian Transactions

Indian M&A transactions present unique PPA challenges:

- **Contingent consideration:** Earnout structures require fair value measurement at acquisition date and subsequent remeasurement through P&L. This adds complexity to both the initial PPA and ongoing accounting.
- **Related-party acquisitions:** Intra-group acquisitions require heightened scrutiny of fair value. Independent valuation and fairness opinions are essential for audit defence.

- **Multi-entity acquisitions:** When acquiring a group, PPA must be performed separately for each entity with appropriate consideration allocation.
- **Step acquisitions:** Previously held minority stakes must be remeasured at fair value on the acquisition date, with gain/loss in P&L.

Post-PPA: Amortisation and Ongoing Impact

After PPA completion, acquired intangibles are amortised over their useful lives, directly impacting reported profits. A customer relationship valued at Rs.100 Crore with 5-year useful life creates Rs.20 Crore annual amortisation; the same asset at 10-year life creates Rs.10 Crore annually. This difference is material for EPS, operating margins, and management incentive calculations.

Companies should also establish a process for monitoring intangible assets post-PPA: tracking customer attrition against assumptions, monitoring technology obsolescence, and assessing brand strength changes. This ongoing monitoring feeds into both impairment testing and future transaction valuations.

PRO TIP

Start the PPA process during due diligence, not after closing. Request data on customer concentration, revenue by customer cohort, technology roadmap, brand tracking studies, and key contracts during the DD phase. This gives the valuer a 2–3 month head start and produces a higher-quality PPA because the data is fresher and management is more accessible. Waiting until after closing means working with stale data under time pressure.

SECTION 5: PPA, TAX & COMPLIANCE

Chapter 10: Tax & Transfer Pricing Implications

The tax treatment of intangible assets has significant implications for both acquirers and sellers. Understanding the interaction between intangible valuation, depreciation/amortisation, transfer pricing, and capital gains is essential for tax-efficient structuring.

Tax Amortisation Benefit (TAB)

When intangible assets are acquired as part of a business combination or asset purchase, the acquirer may be entitled to tax depreciation on the intangible asset. Under the Income Tax Act, goodwill and certain other intangible assets (know-how, patents, copyrights, trademarks, licences, franchises, or any other business or commercial right of similar nature) are eligible for depreciation at 25% on a written-down value (WDV) basis.

The **Tax Amortisation Benefit (TAB)** increases the fair value of the intangible asset because the tax deductions reduce the acquirer's effective cost. The TAB is computed as the present value of future tax savings from depreciation:

$$\text{TAB Factor} = \text{PV of (Depreciation} \times \text{Tax Rate)} / \text{Asset Value}$$

For a typical intangible with 25% WDV depreciation and 25% tax rate, the TAB factor is approximately 1.15–1.20 (i.e., the pre-TAB value is increased by 15–20%). In PPA valuations, the TAB must be applied consistently to avoid circular references (the TAB increases the intangible value, which changes the depreciation base, which changes the TAB).

Transfer Pricing for Intangible Transactions

Inter-company transactions involving intangibles are among the highest-risk areas for transfer pricing adjustments in India. The Income Tax Department and TPOs scrutinise:

- **Royalty payments:** Is the royalty rate arm's length? Is the royalty benchmarked against comparable uncontrolled transactions (CUT method) or using other TP methods (TNMM, profit split)?
- **IP transfers:** When intangible assets are transferred between group entities (e.g., an Indian company transfers a patent to an overseas subsidiary), the transfer must be priced at fair value. Under-pricing can result in capital gains adjustment and potential penalty.
- **Cost-sharing arrangements:** If group entities share R&D costs and the resulting IP, the cost allocation must reflect each entity's expected benefit. The OECD's 2017 Transfer Pricing Guidelines (and India's corresponding rules) require DEMPE analysis.
- **Marketing intangibles:** If the Indian subsidiary performs significant marketing activities that enhance the parent's brand in India, the subsidiary may be entitled to compensation for developing a "marketing intangible" — the so-called "Bright Line Test" from Indian TP jurisprudence.

Capital Gains on IP Transfers

Transfer of intangible assets triggers capital gains tax. For **self-generated intangibles** (where the cost of acquisition is typically nil or nominal), the entire sale consideration may be treated as capital gain. For **acquired intangibles**, the capital gain is the difference between sale consideration and the WDV after depreciation. The classification as short-term or long-term depends on the holding period (24 months for unlisted intangibles).

GST on IP Transactions

Transfer of intellectual property rights (other than those related to goods) is classified as a supply of services under GST and attracts 18% GST. Licensing of IP (temporary transfer of right to use) also attracts 18% GST. For cross-border IP licensing (import of services), GST is payable by the Indian recipient under the reverse charge mechanism.

PRO TIP

For M&A transactions, I always advise clients to model the after-tax cost of the acquisition with and without intangible asset identification. Properly identifying and valuing intangibles (rather than lumping everything into goodwill) often creates significant tax amortisation benefit for the acquirer. A Rs.500 Crore acquisition where Rs.200 Crore is allocated to depreciable intangibles (vs. non-depreciable goodwill per recent Supreme Court rulings on goodwill depreciation) can generate Rs.10–15 Crore of present-value tax savings. The PPA is not just a compliance exercise — it is a tax planning opportunity.

Common PPA Challenges in Indian Transactions

Indian M&A transactions present unique PPA challenges that require practitioner awareness:

- **Contingent consideration:** Many Indian deals include earnout structures where additional consideration is paid based on future performance. Under Ind AS 103, contingent consideration must be measured at fair value on the acquisition date and included in the purchase price for PPA purposes. Changes in fair value after the measurement period are recognised in profit or loss, not as PPA adjustments.
- **Related-party acquisitions:** Acquisitions between group entities or from promoter-held entities require heightened scrutiny of fair value determination. The PPA must demonstrate that the purchase price and asset valuations are at arm's length, which may require a fairness opinion from an independent valuer.
- **Multi-entity acquisitions:** When acquiring a group of companies (parent + subsidiaries), the PPA must be performed separately for each entity acquired, with appropriate allocation of the total consideration based on relative fair values.
- **Step acquisitions:** When an acquirer already holds a minority stake and acquires control, the previously held equity interest must be remeasured at fair value on the acquisition date, with any gain or loss recognised in P&L. The PPA is then performed based on the total fair value of the business (not just the incremental consideration paid).

Post-PPA: Amortisation and Ongoing Considerations

After the PPA is completed, the acquired intangible assets must be amortised over their useful lives. The amortisation expense directly impacts the acquirer's reported profits and key financial ratios (EPS, operating margin, ROCE). For this reason, the useful life determination in the PPA has multi-year P&L consequences. A customer relationship valued at Rs.100 Crore with a 5-year useful life creates Rs.20 Crore of annual amortisation; the same asset with a 10-year life creates only Rs.10 Crore annually. The difference is material for investor communication and management incentive calculations.

SECTION 6: KEY CONSIDERATIONS

Chapter 11: Common Pitfalls & Quality Markers

Having valued intangible assets across hundreds of engagements, I have identified consistent patterns of errors that undermine valuation quality. Here are the pitfalls to avoid and the quality markers to demand.

The 10 Most Common Intangible Valuation Errors

- 1. Under-identifying intangibles in a PPA:** Reporting 80%+ of consideration as goodwill when identifiable intangibles clearly exist. This is the single most common PPA deficiency and will be challenged by auditors.
- 2. Using a single method without corroboration:** Every significant intangible should be valued using at least two methods. A single-method valuation lacks the cross-check that builds confidence in the result.
- 3. Selecting royalty rates without comparable evidence:** Using a 'market standard' royalty rate without citing actual comparable licensing transactions or database evidence. Royalty rate selection must be empirically grounded.
- 4. Ignoring the Tax Amortisation Benefit:** Failing to apply the TAB adjustment in a PPA context inflates goodwill and understates intangible values by 15–20%. This is a systematic error that auditors increasingly flag.
- 5. Circular references in MPEEM contributory charges:** The MPEEM requires deducting returns on contributing assets — including other intangibles that may themselves be valued using the MPEEM results. This circularity must be resolved iteratively.
- 6. Using inappropriate discount rates:** Applying the WACC (entity-level discount rate) to all intangible assets, when different intangibles carry different risk profiles. Customer relationships (recurring revenue) are less risky than technology (obsolescence risk), which should be reflected in different discount rates.
- 7. Failing to determine appropriate useful lives:** Assigning a 10-year useful life to a technology intangible in a sector with 3-year product cycles, or treating all brands as having indefinite lives without analysis of brand lifecycle factors.
- 8. Not reconciling intangible values with total enterprise value:** If individual intangible values sum to more than the enterprise value, the valuations are internally inconsistent. This basic check is missed more often than it should be.
- 9. Ignoring economic obsolescence in cost approach:** Using reproduction cost without adjusting for the fact that a newer, more efficient alternative exists. Replacement cost less obsolescence is the correct

measure.

10. Inadequate documentation of assumptions: A valuation report that states conclusions without documenting the data sources, selection criteria for comparables, and rationale for key assumptions will not survive audit or regulatory scrutiny.

Quality Markers: What a Good Intangible Valuation Report Contains

- Clear statement of purpose, standard of value, and valuation date
- Comprehensive identification of all intangible assets using separability and contractual-legal tests
- Multiple valuation methods with reconciliation and reasoned weighting
- Documented royalty rate or contributory asset charge selection with comparable evidence
- Sensitivity analysis showing value range under different key assumptions
- Useful life determination with supporting analysis
- Tax Amortisation Benefit computation where applicable
- Reconciliation of total intangible values with enterprise value or purchase consideration
- Independence declaration and professional credentials of the valuer

SAGAR'S INSIGHT

The best intangible valuation reports I have seen — the ones that survive audit scrutiny, withstand TP assessment, and hold up in court — all share one quality: they show their work. Every assumption has a source. Every comparable has a documented selection rationale. Every judgment call is explained, not just stated. The valuer is willing to be questioned on every number in the report — and can answer. That is the standard I hold my own work to, and it is the standard I encourage every client to demand from their valuer.

The DEMPE Framework in Detail

The DEMPE analysis (Development, Enhancement, Maintenance, Protection, and Exploitation) is the cornerstone of transfer pricing for intangible transactions. Each DEMPE function must be mapped to the entity performing it, and the returns from the intangible must be allocated accordingly:

- **Development:** Who funds and performs the R&D or brand creation? The entity bearing the risk and cost of development is entitled to the primary return.
- **Enhancement:** Who improves the intangible over time? In India, subsidiaries that invest in local market adaptation, clinical trials for Indian approval, or regional marketing campaigns may be enhancing the parent's intangible.
- **Maintenance:** Who keeps the intangible current? Ongoing software maintenance, patent renewals, and brand monitoring activities must be compensated.
- **Protection:** Who defends the intangible against infringement? Legal costs of trademark enforcement, patent litigation, and trade secret protection should be allocated to the IP owner.

- **Exploitation:** Who commercialises the intangible? The entity that generates revenue from the IP (through sales, licensing, or deployment) performs the exploitation function.

Indian TP authorities are particularly focused on cases where the Indian entity performs significant DEMPE functions but pays full royalties to the parent without retaining any intangible-related return. The "Bright Line" approach adopted by Indian tribunals suggests that if the Indian entity's advertising and marketing expenditure exceeds the industry average, the excess represents development of a marketing intangible for which the Indian entity should be compensated.

SECTION 6: KEY CONSIDERATIONS

Chapter 12: The Future of Intangible Valuation in India

The landscape of intangible asset valuation is evolving rapidly, driven by technological change, regulatory evolution, and the growing recognition that intangibles are the primary value drivers in the modern economy. Here are the trends that will shape the next 3–5 years.

Trend 1: AI and Data as Valuation Subjects

Artificial intelligence models, trained machine learning algorithms, and proprietary datasets are emerging as distinct categories of intangible assets. A company's trained AI model — developed through years of data collection and algorithm refinement — may be its most valuable asset, yet current valuation frameworks do not have established methods for AI-specific assets. The cost approach (training compute costs + data acquisition costs) provides a floor, but the income approach (incremental revenue or cost savings from AI deployment) better captures the value. Expect dedicated AI asset valuation standards to emerge in the next 2–3 years.

Trend 2: ESG-Related Intangibles

Environmental, Social, and Governance (ESG) credentials are becoming intangible assets in their own right. A company's carbon offset portfolio, sustainability certifications, diversity metrics, and governance frameworks influence consumer choice, investor allocation, and regulatory treatment. While ESG "assets" do not yet have standardised valuation methods, they are beginning to affect discount rates, risk premiums, and exit multiples in M&A transactions. Forward-thinking valuers are developing frameworks to capture ESG-related value in their analyses.

Trend 3: Digital-First Intangibles

Domain names, social media followings, mobile app user bases, digital content libraries, and SaaS subscriber lists are digital-first intangibles with unique value characteristics. Their value is highly data-driven (measurable through engagement metrics, CAC, LTV, and cohort analysis) but also highly volatile (a platform algorithm change can destroy overnight what took years to build). Valuation methods must account for both the measurable value and the platform concentration risk.

Trend 4: Regulatory Convergence

India's valuation standards are converging with international best practices through ICAI's IVS-aligned standards, SEBI's tightening of disclosure norms, and the Income Tax Department's increasing sophistication in transfer pricing assessments. Valuers who operate to international standards will have a competitive advantage; those who rely on "Indian market practice" as justification for shortcuts will face increasing challenge.

Trend 5: Mandatory Intangible Disclosure

There is growing momentum globally — and early signals in India — toward mandatory disclosure of intangible asset investments and values, even for internally generated intangibles that are not currently recognised on the balance sheet. The ISSB (International Sustainability Standards Board) and IASB are exploring enhanced intangible asset disclosures. Indian corporates that begin tracking and valuing their intangible asset base now will be ahead of the curve when mandatory disclosures arrive.

PRO TIP

My prediction for the next 5 years: intangible asset valuation will move from being a transaction-triggered compliance exercise to an ongoing strategic function within finance departments. The companies that build this capability early — through regular valuations, IP portfolio tracking, and integration with strategic planning — will have a material advantage in M&A negotiations, capital raising, and investor communication. The cost of building this capability is modest; the value it creates is substantial.

Audit Defence: Preparing for Scrutiny

Every intangible asset valuation conducted for financial reporting purposes (PPA, impairment testing) will be reviewed by auditors — and increasingly by audit regulators (NFRA in India). Preparing for audit scrutiny means:

- **Maintaining working papers:** Every data input, comparable transaction, and calculation step must be documented and traceable. The auditor should be able to independently verify each significant assumption.
- **Sourcing all market data:** Royalty rates must be sourced from recognised databases (ktMINE, RoyaltyStat, Bloomberg) or actual transactions — not from "industry knowledge" or "general practice." Discount rates must be built up from verifiable components.
- **Sensitivity analysis:** Present the value range under different assumptions. An auditor is more likely to accept a valuation that acknowledges uncertainty than one that presents false precision.
- **Consistency across PPAs:** If you valued customer relationships at 8-year useful life in the previous year's PPA, changing to 12 years in the current year requires explicit justification for the different assumption.
- **Independence:** Document that the valuer is independent of the entity being valued and has no financial interest in the outcome. This is a threshold requirement that, if missing, can invalidate the entire valuation.

Industry Benchmarks for Intangible Asset Values in Indian PPAs

Based on my analysis of 50+ Indian PPAs across sectors, the following ranges are typical for intangible assets as a percentage of total purchase consideration:

Sector	Customer Relationships	Brand/Trademark	Technology	Goodwill
Technology / IT Services	25–40%	5–15%	15–25%	20–35%
Pharmaceuticals	15–25%	10–20%	20–35%	15–30%
Consumer / FMCG	15–25%	25–40%	5–10%	15–30%
Financial Services	30–45%	10–20%	10–20%	15–30%
Manufacturing	20–35%	5–15%	10–20%	25–40%

Table 5: Intangible Asset Ranges in Indian PPAs by Sector

CONCLUSION

Conclusion: Working With an Intangible Asset Valuation Expert

Intangible assets are the engines of value creation in the modern economy. Whether you are acquiring a business, licensing a brand, defending a transfer pricing position, or preparing financial statements, the value of your intangible assets matters — and getting it right requires specialised expertise.

When You Need a Professional

- Purchase Price Allocation under Ind AS 103 — identifying and valuing all acquired intangibles
- Brand and trademark valuation for licensing, M&A, or transfer pricing
- Patent and technology portfolio valuation for licensing negotiations or IP strategy
- Goodwill impairment testing under Ind AS 36
- Transfer pricing documentation for inter-company IP transactions
- Litigation support — trademark infringement damages, patent royalty determination
- FEMA compliance for cross-border IP transfers
- Strategic IP portfolio assessment and monetisation advisory

The Cost-Benefit Equation

A comprehensive intangible asset valuation engagement typically costs Rs.3–15 Lakh depending on complexity and scope. The transactions it supports — M&A deals, licensing arrangements, TP assessments, and impairment decisions — typically involve values of Rs.50–1,000+ Crore. A credible, defensible valuation is not a cost — it is a strategic investment that protects value, reduces risk, and creates optionality.

Building an Intangible Asset Strategy

Beyond individual transaction-triggered valuations, forward-thinking companies are building ongoing intangible asset strategies:

- **Annual intangible asset inventory:** Identify and catalogue all significant intangibles, even if not on the balance sheet. This creates readiness for M&A opportunities, licensing negotiations, and regulatory inquiries.
- **Periodic benchmark valuations:** Value key intangibles (brand, technology portfolio, customer base) every 2–3 years to track trends and identify value creation or erosion.
- **IP protection strategy:** Align the legal protection of intangibles (trademark registrations, patent filings, trade secret protocols) with the valuation analysis. An unprotected intangible is worth less than a protected one.
- **Tax-efficient IP structuring:** Work with tax advisors to structure IP ownership and licensing arrangements that optimise the combined tax position of the group while complying with transfer

pricing regulations.

- **Board-level reporting:** Include intangible asset value updates in board packs, alongside traditional financial metrics. This elevates intangible management from a finance function to a strategic priority.

The companies that will thrive in the knowledge economy are those that manage their intangible assets with the same rigour, measurement, and strategic intent that they apply to their physical assets and financial capital.

What to Expect from a Good Intangible Asset Valuation

When you engage a professional for intangible asset valuation, you should expect:

- A clear engagement letter defining scope, purpose, assets to be valued, standard of value, and valuation date
- Comprehensive intangible asset identification using separability and contractual-legal tests from Ind AS 103
- Multiple valuation methods for each significant asset, with documented reconciliation
- Royalty rate or discount rate selection supported by comparable evidence from recognised databases
- Sensitivity analysis showing the value range under different key assumptions
- Useful life determination with supporting analysis of legal, competitive, and economic factors
- Tax Amortisation Benefit computation where applicable
- A draft report for review before finalisation, allowing factual corrections
- Independence declaration and professional credentials documentation

If your valuer is not providing all of these elements, the resulting report may not withstand audit scrutiny, TP assessment, or court challenge. The cost of a thorough engagement is a fraction of the risk exposure from a deficient valuation.

A Final Word on Value

In every intangible asset valuation I conduct, I remind myself of a fundamental truth: the numbers we compute are not abstract academic exercises. They determine how much tax a company pays, how much goodwill appears on a balance sheet, whether a licensing arrangement is defensible, and whether a transaction is fairly priced. Behind every number is a business decision with real consequences for real stakeholders.

This responsibility — to be rigorous, transparent, and defensible — is what distinguishes professional intangible asset valuation from mere number-crunching. It is a responsibility I take seriously in every engagement, and one I hope this guide helps you appreciate and demand from your own advisors.

How Elite Valuation Can Help

- **Brand & Trademark Valuation:** Relief from Royalty, income premium, and multi-method approaches
- **Technology & Patent Valuation:** Portfolio assessment, licensing support, R&D ROI analysis
- **Purchase Price Allocation:** Comprehensive Ind AS 103 intangible identification and valuation
- **Goodwill Impairment Testing:** Annual and trigger-based Ind AS 36 assessments
- **Transfer Pricing Support:** Royalty rate benchmarking, DEMPE analysis, TP documentation
- **Copyright & Artistic Assets:** Music, film, publishing, and digital content valuations
- **Litigation Support:** Court-defensible valuations for IP disputes

Sagar Shah | CA, CS, IBBI Registered Valuer | All India Rank Holder

Phone: +91 7600008550 | **Email:** sagarrvshah@elitevaluation.in

Website: www.EliteValuation.in

"In the knowledge economy, the most valuable assets are the ones you cannot touch — but you must be able to measure them."

— Sagar Shah

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