

THE ULTIMATE RELIEF FROM ROYALTY METHOD GUIDE 2026

*A Practitioner's Guide to Valuing
Brands, Trademarks, Patents &
Technology in India*



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Before founding Elite Valuation, he spent 9 years at Ernst & Young across valuation, transaction advisory, transfer pricing and cross-border taxation. His work today spans financial reporting, M&A and restructurings, intangible assets, ESOPs, FEMA, AIFs, securities, financial modelling and other regulator-facing assignments where the valuation must stand up to scrutiny from auditors, regulators, investors and boards.

EXPERIENCE	CLIENT BASE	CREDENTIALS	BIG 4 FOUNDATION
15+ Years	500+ Client Engagements	CA CS IBBI RV	9 Years at EY

VALUATION & ADVISORY EXPERTISE

- Business & Company Valuation
- M&A, Merger, Swap Ratio & PPA Valuation
- Intangible Asset, Brand, Patent & IP Valuation
- ESOP, Sweat Equity & Share-Based Payment Valuation
- Ind AS / Financial Reporting Valuation
- Shares, Securities & Complex Instrument Valuation
- FEMA, FDI / ODI & Cross-Border Valuation
- Income Tax, Companies Act & SEBI Valuation
- AIF Valuation, Structuring & Compliance Support
- ESOP Structuring, Scheme Design & Implementation
- Financial Modelling, Fundraising & Transaction Support
- Due Diligence, Transfer Pricing & Cross-Border Advisory

Practice focus. Elite Valuation is built for assignments where financial judgement, regulatory interpretation and transaction context intersect. The team supports both one-time transactions and recurring reporting requirements, with an emphasis on independent analysis, clear documentation and execution that is practical for management and audit teams.

HOW WE APPROACH ENGAGEMENTS

01 Clarify the purpose We start with the reporting, transaction or regulatory objective before selecting a method.	02 Build from evidence Assumptions are anchored to financials, market data, contractual terms and the economics of the business.	03 Document the judgement The report explains the why behind the number so that reviewers can follow and challenge it.	04 Stay involved through review We support management through auditor, board, investor and regulator questions on the valuation.
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WHAT WE DO

Elite Valuation supports companies, founders, investors and boards across the full valuation and transaction lifecycle. Intangible-asset work is one important part of the practice, but our assignments also span M&A, financial reporting, ESOPs, FEMA, AIFs, securities, tax, modelling and due diligence. The purpose is always fixed first; the valuation method follows the question that actually needs to be answered.

01 Intangible Asset & IP Valuation

Brand, customer relationship, technology, patent, copyright, licence and other intellectual-property valuation.

07 FEMA & Cross-Border Valuation

FDI / ODI, cross-border issue and transfer valuation, pricing certificates and transaction-structure inputs.

02 Business & Company Valuation

Independent enterprise and equity valuation for strategic, transaction, shareholder and regulatory purposes.

08 Income-tax, Companies Act & SEBI Valuation

Independent valuation for tax, corporate law, securities and transaction-specific requirements.

03 M&A, Merger & Swap Ratio Valuation

Acquisition, merger, demerger, restructuring and share-exchange ratio valuation, including transaction support.

09 AIF Valuation & Advisory

AIF portfolio valuation together with structuring, registration and compliance support for fund managers and sponsors.

04 Purchase Price Allocation & Ind AS Valuation

PPA, intangible assets, impairment, financial instruments and other fair-value measurements for financial reporting.

10 Financial Modelling & Fundraising

Investor-ready models, DCFs, cap-table economics, scenario analysis, fundraising materials and decision support.

05 ESOP & Share-Based Payments

ESOP valuation, ordinary-share value, grant-date fair value, scheme support and Ind AS 102 / accounting assistance.

11 Financial Due Diligence

Quality of earnings, working capital, net debt, accounting risk and transaction support.

06 Shares, Securities & Instruments

Equity, preference shares, debentures, convertibles and complex capital structures including OPM, PWERM and waterfall analysis.

12 Due Diligence & Transaction Advisory

Financial due diligence, M&A support, transaction structuring, review and execution-focused advisory.

One firm, multiple contexts. A single intangible-asset assignment can involve commercial pricing, Companies Act requirements, financial reporting, transfer pricing, FEMA, tax and transaction analysis. We coordinate the valuation logic across those contexts rather than forcing one number to serve every purpose.

REPORTS	MODELS	ADVISORY	REVIEW SUPPORT
PPA / Intangible / RV	RfR / MPEEM / WARA	Board / Deal / Royalty	Audit / Tax / Regulator



WHO WE SERVE

We work with decision-makers who need a valuation, model or transaction analysis to be understandable, commercially useful and defensible before another stakeholder. The client may be acquiring a business, reporting a PPA, licensing IP, preparing financial statements, raising capital or responding to a regulatory requirement.

CLIENTS & STAKEHOLDERS

- Founders & promoter groups
- Private and listed companies
- CFOs & finance teams
- Angel investors & family offices
- VC / PE / AIF managers
- MNC & cross-border groups
- Boards & audit committees
- M&A / strategy teams
- CA / CS / legal firms
- Investment bankers
- IP / legal / tax teams
- Lenders & transaction stakeholders

WHEN CLIENTS TYPICALLY CALL US

01 Before a PPA / acquisition Brands, technology, customer assets and goodwill need to be separated and valued.	02 Before a royalty / licence A royalty rate needs comparable evidence, profitability testing and a clear rights definition.	03 During audit / reporting PPA, impairment and intangible values need independent, documented fair value.
04 Before a cross-border arrangement Royalty economics intersect transfer pricing, tax, legal ownership and FEMA.	05 During M&A / restructuring Intangibles can influence enterprise value, purchase price, accounting and negotiations.	06 When a number is challenged Auditors, boards, investors, tax authorities or counterparties need to understand the evidence and judgement behind it.

SECTORS WE WORK ACROSS

Technology / SaaS	Fintech / NBFC	Consumer / D2C	Manufacturing	Healthcare
Renewables / Infra	Real Estate	Education	Logistics	Professional Services

WHY CLIENTS WORK WITH US

Independent judgement We are engaged to analyse the number, not to manufacture a predetermined answer.	Regulatory depth Valuation is connected to accounting, Companies Act, Income-tax, FEMA and SEBI frameworks where relevant.	Transaction context We translate technical valuation into pricing, reporting, tax and decision consequences.	Review support We stay involved through board, auditor, investor, tax and regulator questions.
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START A CONVERSATION

Practice focus. Share the asset being valued, the purpose, legal ownership, revenue linkage, available forecasts and any licence or royalty evidence. We can map the appropriate method, valuation date, evidence required and likely review path before modelling begins.

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DISCLAIMER

General

This guide is provided for general information and education only. It is not legal, tax, accounting, valuation, transfer-pricing, investment or transaction advice. Intangible-asset valuations are fact-specific, and the applicable purpose, standard of value, valuation date, professional signatory, tax consequence and regulatory use can differ depending on the asset, rights, transaction structure and intended users.

Regulatory Position - August 2026

The technical review for this edition is anchored to the Income-tax Act, 2025 and Income-tax Rules, 2026 for current tax periods, the Companies Act, 2013 and Registered Valuer framework, applicable Ind AS requirements and current FEMA / transfer-pricing architecture. Rules and official guidance change; the current primary text should be checked at the date of a live assignment.

A Number for One Purpose Is Not Automatically a Number for Another

Acquisition-date fair value, a transfer-pricing arm's-length royalty, a Companies Act valuation, a tax-prescribed value and an investment-value conclusion can all differ because they answer different questions. A report should identify its purpose, standard of value, valuation date, subject rights and intended users before reliance.

Illustrations and Market Practice

Royalty ranges, discount rates, growth assumptions and examples in this guide are illustrative market heuristics, not safe harbours or recommended pricing. Where a named framework prescribes a result, the operative law or accounting standard prevails over market convention. Examples do not represent actual Elite Valuation clients unless expressly identified and supportable.

Professional Eligibility and Signatory

The professional permitted to issue a valuation report or certificate depends on the legal purpose. A commercial valuation prepared for negotiation is not automatically a statutory report. Before relying on any analysis for Companies Act, tax, accounting, FEMA, SEBI or another regulatory purpose, confirm the prescribed signatory, asset class, valuation date and report format under the framework then in force.

Forward-Looking Information

Relief from Royalty valuations frequently rely on budgets, revenue forecasts, market assumptions and management estimates. These are inherently uncertain. Sensitivity analysis is intended to show how changes in assumptions affect value; it does not eliminate that uncertainty.

No Client or Transaction Representation

Any examples in this guide are educational composites unless expressly identified as public facts. They should not be read as disclosing the terms, results or identities of any Elite Valuation client engagement.

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EXECUTIVE SUMMARY

Eight Rules That Make a Relief from Royalty Valuation Defensible

The method is simple; the judgement is not. These eight rules form the control framework for the rest of the guide and should be revisited before any report is signed.

1 DEFINE THE ASSET Name the legal/economic rights, owner, territory, products and life before selecting a royalty rate.	2 USE ATTRIBUTABLE REVENUE Bridge from total revenue to the sales genuinely influenced by the asset.
3 EVIDENCE THE RATE Comparable licences need screening and adjustment; a database median is not a conclusion.	4 TEST AFFORDABILITY A licensee must retain a commercially sensible return after royalty; use profitability as a diagnostic.
5 TAX-AFFECT THE SAVINGS The avoided royalty is generally a pre-tax saving; model the after-tax economic benefit.	6 SEPARATE THE TAB Analyse any tax amortisation/depreciation benefit independently under the applicable tax basis and rules.
7 MATCH RISK AND LIFE Discount the specific royalty cash flow and stop finite-life assets at their economic/legal horizon.	8 BUILD FOR REVIEW Show sensitivities, rejected comparables, source reconciliations and purpose-specific limitations.

OUR INSIGHT

A strong intangible valuation is designed to become stale safely. Time-sensitive market inputs should be dated and sourced; legal references should identify the current framework; and the report should make clear which assumptions must be re-tested if the valuation date or transaction purpose changes.

PART I · FOUNDATIONS

Chapter 1: The Intangible Economy and Why

Royalty Relief Matters Intangible assets have quietly become the most valuable thing most companies own. Across global markets, the majority of enterprise value now sits in assets you cannot touch - brands, technology, customer relationships, data, and the contractual rights that bind them together. In India the same shift is well underway: consumer brands command valuations that dwarf the factories that make their products, technology platforms are bought and sold for multiples of their tangible book value, and every acquisition of any size forces the acquirer to ask a hard question - what, exactly, did we pay for, and how much of it is intangible? This guide is about one particular tool for answering that question: the Relief from Royalty method (also called the royalty-savings or royalty-relief method). It is the most widely used, most intuitive and most frequently defended technique for valuing brands, trademarks, patents, technology and licensable know-how. If you understand it properly - not just the arithmetic, but the judgement behind each input - you can value a very large share of the intangibles you will ever encounter in Indian practice.

1.1 Why Intangibles Demand a Different Toolkit

Tangible assets are comparatively easy: there is usually a market for a machine, a building or a vehicle, and a cost to replace it. Intangibles resist this treatment. There is rarely an active market in a specific brand or a specific patent, and "replacement cost" tells you almost nothing about what a brand is worth - the cost of the advertising that built a brand bears little relationship to the premium that brand now commands. Because of this, valuers lean heavily on the income approach: the idea that an asset is worth the present value of the economic benefits it will generate over its useful life. The Relief from Royalty method is a specific, elegant expression of the income approach. Its central insight is deceptively simple: if you own an asset that others must license, you are relieved of the royalty you would otherwise have to pay to use it. That avoided royalty is a real, recurring, measurable economic benefit - and its present value is the value of the asset.

OUR INSIGHT

Relief from Royalty is valuable because it forces four disciplines at the outset: define the asset, isolate the revenue it genuinely influences, anchor the royalty rate to market evidence, and keep the valuation purpose explicit. The method is transparent, but transparency also makes unsupported assumptions easy for an auditor or counterparty to challenge.

1.2 The Three Classical Valuation Approaches

Every valuation standard - the ICAI Valuation Standards, the International Valuation Standards, and the fair-value guidance in Ind AS 113 - recognises three approaches. Understanding where RfR sits among them is the first step to using it correctly.

Approach	Core Idea	Typical Intangible Application
Market	Value inferred from prices in observed transactions of comparable assets	Rare for intangibles; occasionally domain names, spectrum, licences
Income	Value equals the present value of future economic benefits attributable to the asset	The dominant approach: RfR, MPEEM, with-and-without, incremental cash flow
Cost	Value equals the cost to recreate or replace the asset's service capability	Assembled workforce, internally-developed software, some databases

Table 1.1: The three valuation approaches and their intangible applications.

The Relief from Royalty method is firmly an income-approach technique, but it is a hybrid in an important sense: its key input - the royalty rate - is drawn from market evidence (actual licence agreements). This is why practitioners often describe it as a market-calibrated income method, and it is part of why the method is so robust: the answer is anchored to what real parties actually pay.

1.3 Categories of Intangible Assets

Before choosing a method, you must classify the asset. Ind AS 38 and the appendix to Ind AS 103 group identifiable intangibles into five families. The Relief from Royalty method is well suited to the first two and to some of the third; it is generally the wrong tool for the last two.

Category	Examples	Usual Primary Method
Marketing-related	Trademarks, trade names, brands, mastheads, domain names, non-compete agreements	Relief from Royalty
Technology-based	Patents, patent applications, know-how, unpatented technology, software, databases	Relief from Royalty; cost for software
Contract-based	Licensing, franchise, supply and lease agreements; broadcast rights; permits	RfR or incremental cash flow
Customer-related	Customer contracts and relationships, order backlog, customer lists	Multi-Period Excess Earnings
Artistic-related	Copyrights on literary, musical, and audiovisual works; publishing rights	Relief from Royalty or MPEEM

Table 1.2: Intangible categories under Ind AS 103 / Ind AS 38 and the methods typically applied.

PRO TIP

Before you model anything, write a one-line answer to the question: "Who, in the real world, licenses this kind of asset, and for how much?" If you can answer it with confidence, RfR is probably your method. If nobody licenses that kind of asset - an assembled workforce, say, or a customer list - stop, because no market royalty exists and RfR will produce a number you cannot defend.

1.4 What This Guide Covers

The chapters that follow move from concept to execution. Part I establishes the foundations - the logic of the method, when to use it, and how to define the subject asset. Part II builds the model input by input: the revenue base, the royalty rate, the sanity checks, the discount rate and useful life, and the tax amortisation benefit. Part III addresses the Indian regulatory framework, the errors that draw audit and tax scrutiny, and three fully practical case studies. By the end you should be able to build, sanity-check and defend a Relief from Royalty valuation for the most common Indian intangibles - and to recognise the harder cases where judgement, not arithmetic, decides the answer.

1.5 The RfR Engagement Map

Before the model is built, the engagement team should map the valuation purpose to the exact subject right and the output that will be relied upon. This matters because an acquisition-date fair value, a licensing negotiation and a statutory valuation can use the same RfR mechanics but require different assumptions, evidence and report wording. The map should identify the legal owner, valuation date, standard of value, intended users, revenue perimeter and whether another intangible method is being used alongside RfR.

Purpose	Primary RfR question	Additional control
PPA / financial reporting	What royalty would a market participant avoid by owning the identifiable asset?	Reconcile with other intangible values, goodwill and overall business assumptions
Licence negotiation	What royalty range is commercially supportable for the rights granted?	Analyse functions, territory, exclusivity, services and licensee profitability
Transaction / strategic analysis	What does ownership of the asset contribute to the economics of the deal?	Keep investment-specific synergies separate from market-participant value
Statutory / regulatory use	What value is required under the specified legal framework?	Confirm professional eligibility, valuation date and report form

Table 1.3: Start with the purpose map before deciding how the RfR conclusion will be used.

QUESTIONS TO ASK BEFORE YOU ACT

Is the asset separately identifiable? Who legally owns it? Is there a real licensing market? Which revenue is influenced by the right? Does the valuation purpose require fair value, arm's-length pricing, statutory FMV or another basis? Who will review the result and what evidence will they expect?

CHAPTER 1 - PRACTITIONER CHECKLIST

- State the exact valuation purpose and valuation date.
- Identify the intangible category and confirm whether it is ordinarily licensable.
- Separate marketing, technology, customer, contract and workforce-related assets before selecting a method.
- Document why RfR is preferable to MPEEM, with-and-without or cost for this asset.
- Confirm that the revenue stream attributable to the asset can be isolated.
- Record the intended users and the standard of value before modelling.

FINAL REVIEW QUESTIONS

Review question	Why it matters
What exactly is the right being valued?	A precise legal/economic description prevents the method from drifting into goodwill or another intangible.
Is there a real licensing market?	RfR is strongest when third parties actually license similar rights.
Which valuation purpose governs?	Fair value, arm's-length price and statutory FMV are different questions.
Who will rely on the answer?	The evidence and report wording should be designed for the likely reviewer.

Table 1.R: Questions to resolve before the Chapter 1 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A consumer company owns a registered house mark but sells 35% of its products under retailer private labels. Management proposes to value the house mark on total company revenue because the factories, distribution team and procurement platform support every product. The RfR question is narrower: a hypothetical licensee would pay for the right to use the house mark only on revenue actually sold under that mark. The private-label revenue may still contribute to enterprise value, but it does not automatically belong in the trademark royalty base. The valuation team therefore separates branded and unbranded sales before deciding whether any additional trade-name or distribution intangible exists.

SIGN-OFF FILE

SIGN-OFF ITEM	WHAT SHOULD BE ON FILE
Asset scope	Owner, legal rights, territory, products and economic life are documented.
Purpose and date	The valuation purpose, standard of value and valuation date are explicit.
Revenue perimeter	The sales influenced by the intangible can be separated from unrelated revenue.
Licensability	A real-world licence market exists or the report explains why another method is better.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART I · FOUNDATIONS

Chapter 2: How the Relief from Royalty

Method Works The Relief from Royalty method rests on a single counterfactual. Imagine that the company did not own the brand, patent or technology it uses, and instead had to licence it from a third party. It would pay a royalty - typically a percentage of sales - for the privilege. Because the company does own the asset, it pays no such royalty. The stream of royalties it avoids is the economic benefit of ownership, and the present value of that stream, adjusted for tax, is the value of the asset.

2.1 The Method in One Equation

Every Relief from Royalty valuation, however elaborate, reduces to the following chain. For each year of the asset's remaining useful life: Pre-tax Royalty Savings = Royalty Rate x Attributable Revenue After-tax Royalty Savings = Pre-tax Royalty Savings x (1 - Tax Rate) t Asset Value (pre-TAB) = $\sum [\text{After-tax Royalty Savings} \div (1 + r)]$ t Final Value = Asset Value (pre-TAB) x Tax Amortisation Benefit Factor Four judgements therefore drive the entire result: the revenue you attribute to the asset, the royalty rate you apply, the discount rate and horizon over which you sum, and the tax adjustments (both the tax on the savings and the amortisation benefit). The rest of this guide is, in effect, a deep examination of those four judgements. The Relief from Royalty Method - Seven Steps 1 2 3 4 5 6 7 Identify Forecast Set Royalty Compute Tax-affect Discount to Add TAB Asset Revenue Rate Savings PV Multiply by (1 Gross up for - tax) for the tax Define the Project sales Derive an Rate x Apply a after-tax amortisation specific brand, the asset arm's-length revenue = risk-appropriate benefit benefit patent or drives, over its rate from pre-tax discount rate technology life licence data royalty saved

2.2 Why the Counterfactual Works

The strength of the method is that the counterfactual is real. Licensing markets exist for exactly the assets RfR is used to value. Global consumer companies licence their brands to regional bottlers and manufacturers; pharmaceutical innovators licence molecules and process patents; software owners licence code; franchisors licence entire business systems. Because these transactions happen every day, there is a body of evidence about what a willing licensee pays a willing licensor at arm's length. RfR borrows that evidence and applies it to the asset in front of you. Contrast this with a method that tries to isolate the "excess earnings" attributable to a brand by stripping out contributory-asset charges. That is legitimate - it is the Multi-Period Excess Earnings Method - but it requires you to estimate returns on every other asset in the business. RfR sidesteps that complexity by asking a narrower, more answerable question: what would it cost to rent this one asset?

OUR INSIGHT

The royalty saved is not the final economic benefit. A notional royalty would generally reduce taxable profit; avoiding that payment usually removes the corresponding deduction. The valuation therefore focuses on after-tax royalty savings, and any separate tax amortisation benefit is analysed independently rather than being netted into the same step.

2.3 Where RfR Sits Among the Income Methods

It helps to see RfR alongside its cousins. Each isolates the cash flow attributable to an intangible in a different way, and each suits different assets.

Method	How it isolates the benefit	Best-suited assets
Relief from Royalty	Royalty avoided by owning rather than licensing the asset	Brands, trademarks, patents, technology, franchises
Multi-Period Excess Earnings	Residual cash flow after charging all other contributory assets	Customer relationships, the single most important intangible
With-and-Without	Difference in business value with and without the asset	Non-compete agreements, certain contracts
Incremental Cash Flow	Extra cash flow (price premium or cost saving) the asset creates	Favourable contracts, supply agreements, some technology

Table 2.1: The income-approach family and the assets each method fits.

A crucial discipline follows from this table: do not double-count. If you value customer relationships using MPEEM and, in that model, you charge the business a royalty for the brand as a contributory asset, then you have already accounted for the brand's benefit inside the customer model. Valuing the brand separately by RfR and adding it back is legitimate only because the MPEEM charged the brand as a cost - the two models are designed to interlock. Getting these contributory-asset charges consistent across a full PPA is where much of the real skill lies, and we return to it in Part II.

2.4 A First Glimpse of the Numbers

To make the chain concrete, consider a brand attached to Rs. 500 Crore of annual revenue, a defensible royalty rate of 3%, a corporate tax rate of 25%, and - for this first illustration only - a single year. The pre-tax royalty saved is 3% of Rs. 500 Crore, or Rs. 15 Crore. After tax at 25% the benefit is Rs. 11.25 Crore. In a real valuation this after-tax figure would be projected across the brand's useful life, discounted to present value, and grossed up for the tax amortisation benefit. Every one of those extensions is the subject of a later chapter - but the engine, as you can already see, is simple. The elegance of RfR is also its danger. Because the arithmetic is so tractable, it is tempting to treat the output as precise. It is not. The value is only as defensible as the royalty rate and the revenue forecast behind it, and both are matters of evidence and judgement. The chapters ahead are, above all, about earning the right to trust the number the model produces.

2.5 The Model Control Sheet

A practical RfR workbook should have a one-page control sheet that can be read without opening the detailed calculations. It should display the valuation date, asset description, revenue base, concluded royalty rate and range, tax rate, discount rate, useful life, terminal-growth assumption, pre-TAB value, any tax-shield adjustment and the final sensitised range. The control sheet is not cosmetic: it forces the model to expose every assumption that can materially change value.

Control	What to show	Why it matters
Asset / scope	Owner, territory, products and rights included	Prevents the rate from being applied to the wrong economic perimeter
Revenue bridge	Total revenue to attributable net sales	Lets the reviewer reproduce the royalty base
Royalty evidence	Range, selected rate and comparable source summary	Separates market evidence from valuer judgement
Risk / life	Discount rate, useful life and terminal growth	Shows where timing and uncertainty enter the valuation
Tax	Tax on savings and separate TAB premise	Prevents the two tax adjustments from being confused
Sensitivity	At least two key-variable ranges	Shows how much of the conclusion depends on judgement

Table 2.2: Minimum fields on an RfR model control sheet.

PRACTICAL APPLICATION

If a senior reviewer cannot understand the valuation from the control sheet and the supporting evidence index, the model is too opaque. The purpose of a good workbook is not to hide complexity; it is to make the important judgements visible and reproducible.

CHAPTER 2 - PRACTITIONER CHECKLIST

- Define the asset and the royalty base before selecting a rate.
- Model pre-tax royalty savings and tax-affect them separately.
- Use a discount rate consistent with the risk of the royalty savings.
- Match the forecast horizon to legal and economic life.
- Analyse any tax amortisation benefit as a separate, purpose-specific adjustment.
- Present the core equation and assumptions so another reviewer can reproduce the result.

FINAL REVIEW QUESTIONS

Review question	Why it matters
Can the model be reproduced from one control sheet?	Every material assumption should be visible without reverse-engineering the workbook.
Are tax on savings and TAB separated?	Combining them hides two different economic effects.
Does the forecast horizon match asset life?	A finite right cannot be carried into perpetuity without a separate continuing-right rationale.
Which two assumptions move value most?	Those inputs deserve the strongest evidence and sensitivity.

Table 2.R: Questions to resolve before the Chapter 2 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

Two valuers use the same 3.0% royalty rate and the same revenue forecast but reach materially different brand values. One discounts the pre-tax royalty stream and then deducts tax only after present valuing; the other tax-affects each year before discounting. A third includes a generic tax-amortisation multiplier without checking the tax basis. The example shows why the seven-step chain must be explicit. A reviewer should be able to trace revenue x royalty, tax on savings, discounting, life/terminal value and any separate tax shield in that order.

SIGN-OFF FILE

SIGN-OFF ITEM	WHAT SHOULD BE ON FILE
Model chain	Revenue x royalty rate x tax x discounting is traceable from source inputs.
Tax treatment	Tax on royalty savings is separate from any tax amortisation benefit.
Timing	Useful life, mid-year/year-end convention and terminal assumptions are consistent.
Sensitivity	The rate, discount rate and other key judgemental variables are sensitised.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART I · FOUNDATIONS

Chapter 3: When to Use Relief from Royalty -

and When Not To A method that can be applied is not always a method that should be applied. The Relief from Royalty method is powerful precisely because it is anchored to observable licensing markets - but that anchor only holds where such markets genuinely exist. This chapter is about method selection: recognising the assets and situations where RfR is the right choice, and, just as importantly, the ones where it quietly misleads.

3.1 The Licensability Test

The threshold question is whether the asset is of a type that is, in the real world, licensed at arm's length. Brands are licensed constantly. Patents and technology are licensed. Franchise systems, broadcast rights and software are licensed. For these, a royalty is not a fiction - it is the ordinary commercial reality, and RfR simply measures the benefit of not having to pay it. By contrast, some intangibles are almost never licensed as standalone assets. Nobody licenses another company's assembled workforce, its customer list, or its order backlog by paying a percentage of sales. For these, any royalty rate you invent is unsupported, and the method collapses into circular guesswork. The licensability test is therefore the first gate: if the asset is not the kind of thing that is licensed, choose a different method. Choosing the Right Method for the Asset Relief from Royalty Multi-Period Excess Earnings Cost / With-and-Without Brands, trademarks, trade names Customer relationships Assembled workforce (cost) Patents and know-how Customer contracts and backlog Internal-use software (cost) Technology and software (licensed) The primary income-generating asset Non-compete agreements (W&W;) Franchise and licence agreements Needs contributory-asset charges Databases (cost or RfR) Active licensing market exists No standalone licence market Replacement cost estimable Royalty rate is observable Most judgement-intensive No royalty market

3.2 Assets Where RfR Excels

For a handful of asset types, RfR is not merely acceptable but usually the preferred method under Indian and international practice: (cid:127) Trademarks, trade names and brands. Brand licensing is a mature market with abundant comparable agreements. RfR is the default, and auditors expect it. (cid:127) Patents and patented technology. Licensing and cross-licensing are the norm in pharma, chemicals and electronics, giving strong royalty evidence. (cid:127) Unpatented know-how and process technology. Frequently licensed alongside patents; RfR applies where a technical-fee or royalty market exists. (cid:127) Franchise and format agreements. The franchise fee is a royalty, making RfR almost tautologically appropriate. (cid:127) Licensed software and content. Where the software or content is of a kind that is licensed to third parties on a royalty or per-user basis.

PRO TIP

When you have a choice between RfR and MPEEM for the same asset - which happens with brands in consumer businesses - prefer RfR unless the brand is the single dominant driver of all the company's earnings. RfR keeps you anchored to external market royalties; MPEEM makes you defend contributory-asset charges for every other asset in the business. The fewer subjective inputs your method needs, the easier your report is to defend in an audit or a tax hearing.

3.3 Assets Where RfR Misleads

Three situations deserve particular caution. First, customer relationships: there is no market in which one company licenses another's customers for a royalty, so RfR is inappropriate and MPEEM is the correct tool. Second, assembled workforce: this is a contributory asset valued at cost, never by royalty. Third, assets with no revenue line of their own: if you cannot cleanly attribute revenue to the asset, the royalty base is arbitrary and the result is unreliable. A subtler trap is the brand with no pricing power. RfR implicitly assumes the brand commands a royalty because it drives sales or margin. If the "brand" is really just a name with no demonstrable influence on customer behaviour - a commodity product sold on price - then a market royalty overstates its value. In such cases the honest royalty rate is near zero, and forcing a conventional rate produces a figure the business economics cannot support.

Situation	Is RfR appropriate?	Reason / alternative
Consumer brand with pricing power	Yes - preferred	Deep licence-comparable market
Patent generating licensable technology	Yes - preferred	Royalty and cross-licence evidence
Franchise / format agreement	Yes - natural fit	The fee itself is a royalty
Customer relationships	No	No licence market; use MPEEM
Assembled workforce	No	Contributory asset; use cost
Commodity name with no pricing power	Rarely	Royalty overstates value; test economics
Internally-used software	Sometimes	Use cost unless externally licensed

Table 3.1: A quick reference for when Relief from Royalty is the right method.

OUR INSIGHT

Method selection should be driven by licensability, not convenience. If the subject asset is not ordinarily licensed on a standalone basis, forcing a royalty rate onto it can create a precise-looking result with no market foundation. A change of method is often more defensible than a heroic adjustment to weak royalty evidence.

3.4 Reconciling Multiple Methods

Best practice, and increasingly the expectation of Indian auditors, is not to rely on a single method in isolation but to triangulate. Even where RfR is your primary method, a secondary check - a market multiple where one exists, a profit-split analysis, or a rough MPEEM - lends credibility. Where methods diverge sharply, that divergence is information: it tells you an assumption is under strain. The valuer's job is not to pick the method that gives the highest number, but to select the method whose assumptions the facts most strongly support, and to explain why. That explanation - the reasoning, not just the result - is what a well-run valuation ultimately sells.

3.5 Method Selection Decision Matrix

Method selection becomes clearer when the team scores the asset against a few practical questions instead of starting with a preferred formula. RfR becomes stronger as licensability, revenue attribution and market royalty evidence improve. MPEEM becomes stronger where the asset is the primary driver of residual earnings but is not ordinarily licensed. Cost becomes stronger where replacement effort is the most observable proxy for economic utility.

Decision question	If YES	If NO
Is the asset commonly licensed at arm's length?	RfR remains a strong candidate	Consider MPEEM, with-and-without or cost
Can revenue attributable to the asset be isolated?	A royalty base can be constructed	RfR may be too arbitrary unless a defensible allocation exists
Are comparable licence terms available?	Market-calibrated rate is supportable	Analytical methods and wider range/sensitivity become more important
Is the asset the primary residual income generator?	MPEEM may be a useful primary or corroborative method	RfR may be cleaner if a licence market exists
Is economic life observable?	Forecast horizon can be supported	Use scenarios/decay and avoid false precision

Table 3.2: A practical decision matrix for selecting RfR versus alternative intangible methods.

KEY DECISION

Do not use multiple methods merely to create the appearance of triangulation. A secondary method adds credibility only when it has an independent economic foundation. Two models built from the same unsupported assumption do not create two pieces of evidence.

CHAPTER 3 - PRACTITIONER CHECKLIST

- Pass the licensability test before using RfR.
- Use MPEEM for customer relationships where residual earnings are the relevant benefit.
- Use cost for assembled workforce and many internal-use software assets.
- Avoid RfR where revenue attribution is arbitrary or the asset has no credible pricing power.
- Use a secondary method or profitability test where evidence is weak.
- Explain method rejection - not only method selection.

FINAL REVIEW QUESTIONS

Review question	Why it matters
Would an independent licensee actually pay for this right?	If not, the RfR counterfactual is weak.
Can revenue be attributed without arbitrary allocation?	A weak base undermines even a strong royalty rate.
Is an alternative method economically better grounded?	Method convenience should never override asset economics.
Does the secondary method use independent evidence?	Triangulation only helps when it is genuinely independent.

Table 3.R: Questions to resolve before the Chapter 3 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A SaaS company asks for an RfR valuation of its customer list because subscription revenue can be traced to named customers. Traceability alone does not make the list licensable. If market participants do not ordinarily license customer relationships for a percentage of sales, the royalty counterfactual is artificial. The more natural method may be MPEEM, which measures residual cash flows after contributory-asset charges. RfR could still be appropriate for the trade name or licensed technology used to serve those same customers. One business can therefore require multiple intangible methods at the same valuation date.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART II · BUILDING THE MODEL

Chapter 4: Identifying and Defining the

Subject Intangible A Relief from Royalty valuation is only as sound as the definition of the asset being valued. Before any royalty rate is chosen or any revenue is forecast, the valuer must answer a precise question: exactly what intangible are we valuing, what legal rights does it comprise, and what economic function does it perform? Vague identification is the origin of most flawed intangible valuations - and, under Ind AS 103, the point on which auditors probe hardest.

4.1 From "the brand" to a Defined Asset

"The brand" is not, by itself, a valuable asset - it is a shorthand. What has value is a specific bundle of legal and economic rights: the registered trademarks, the trade name, the associated get-up and packaging, the domain names, and the goodwill customers attach to them. A rigorous valuation names these components, confirms who owns them, and establishes the territories and product categories over which they operate. A trademark registered only for one class of goods in one country is a materially different asset from a global mark registered across every relevant class. The same discipline applies to technology. "The technology" might comprise granted patents, pending applications, unpatented know-how, source code, and trade secrets. Each has a different legal life, a different risk of being designed around, and potentially a different royalty rate. Identifying them separately is what allows you to assign an appropriate life and rate to each.

Component	What to confirm	Why it matters for RfR
Registered trademarks	Registration status, classes, territories, renewal dates	Defines the scope of protection and the royalty base
Trade name / brand	Legal owner, licences in place, any co-branding	Establishes who is relieved of royalty
Domain names & digital	Ownership, active use, associated traffic	Increasingly material to brand economics
Patents & applications	Grant status, jurisdictions, expiry, litigation	Sets useful life and defensibility
Know-how & trade secrets	Documentation, access controls, dependency	Justifies a royalty where unpatented

Table 4.1: Components to identify and confirm before valuing a marketing or technology intangible.

OUR INSIGHT

Asset definition is where many later valuation disputes begin. Legal ownership, territory, product scope, bundled rights and remaining useful life determine both the royalty base and the royalty rate. A clear rights map at the start is more valuable than a sophisticated model built on an ambiguous asset description.

4.2 Legal Ownership and the Right to the Royalty

RfR values the benefit of ownership. If the entity you are valuing does not own the asset outright - if it licenses the asset in, holds it jointly, or has encumbered it - the royalty relief is reduced or eliminated accordingly. In Indian group structures this is common: an operating company may use a brand owned by a holding company or an overseas parent, paying a royalty for it. In that structure the operating company owns no royalty relief on that brand; the brand's value sits with the owner. Mapping the legal chain of title is therefore not a formality - it determines who, if anyone, enjoys the relief.

4.3 Remaining Useful Life

The horizon over which royalty savings are counted is the asset's remaining useful life (RUL), and establishing it is part of identification. Legal life sets a ceiling for some assets - a patent expires, after which anyone may use the technology and the royalty falls to zero. Trademarks, by contrast, are renewable indefinitely, so their life is economic rather than legal: it ends when the brand ceases to command a premium. Well-established brands are often modelled with indefinite lives (and a terminal value), while a patent is modelled to its expiry.

Asset	Legal life	Typical economic life assumption
Established consumer brand	Indefinite (renewable)	Indefinite - terminal value applied
Newer / regional brand	Indefinite (renewable)	10-20 years, or with decay
Patent	20 years from filing	To expiry, sometimes with decay near the end
Know-how / trade secret	Until public or obsolete	5-10 years, judgement-based
Software	Contractual / technological	3-7 years, reflecting obsolescence

Table 4.2: Legal versus economic life for common intangible assets.

PRO TIP

Do not default a brand to an indefinite life just because trademarks are renewable. Ask whether the brand will still command a premium in twenty years. For a category leader with decades of heritage, indefinite may be fair. For a five-year-old challenger brand in a fast-moving category, a finite life with an explicit decay curve is far more defensible - and an auditor who sees an indefinite life on a young brand will ask you to justify it, so build the justification in from the start.

4.4 Documenting the Identification

Everything established in this chapter belongs in the valuation report, not just in the model. A reader - auditor, tax officer, counterparty or court - should be able to see, without ambiguity, what asset was valued, who owns it, over what territory and life, and what revenue it was tied to. This documentation is not bureaucratic overhead: in the disputes I have seen, the valuations that survived challenge were invariably the ones that had defined the asset with precision at the outset, while those that fell apart had started from a hand-wave. Identification is where defensibility is won or lost.

4.5 When Intangibles Travel Together

Intangibles rarely operate in isolation, and the way they interact shapes how each is defined and valued. A brand and the technology behind a product often reinforce one another; a franchise agreement bundles a trademark, an operating system and ongoing know-how into a single licensed package. When you value one asset by Relief from Royalty, you must be clear about where its boundary lies and which benefits belong to a neighbouring asset. A royalty rate drawn from a licence that bundled trademark, marketing support and technical assistance cannot be applied wholesale to a bare trademark; the bundled elements must be unbundled, or the rate adjusted downward, so that each asset is credited only with the benefit that is truly its own. This matters most in a full purchase price allocation, where several intangibles are valued side by side and their combined value must reconcile to the price paid. If two assets are each credited with an overlapping benefit, their values sum to more than the business is worth. Defining each asset's boundary precisely at the identification stage is what prevents that overlap later. In practice I build a simple map of the intangibles at the outset, noting for each its legal basis, its revenue linkage and its interaction with the others, and I use that map to keep the individual valuations from colliding.

4.6 Assembling the Evidence File

A defensible identification is only as good as the evidence behind it. Before modelling begins, the valuer should assemble a file that documents the asset's existence, ownership and scope: trademark and patent registration certificates, licence and assignment agreements, the group's legal structure, product-level revenue data reconciled to the audited accounts, and management's representations on useful life and future use. This file is the factual spine of the valuation. When a report is later challenged, the questions are almost always factual before they are methodological - who owns the mark, over what territory, tied to which revenue - and a valuation with a complete evidence file answers them immediately.

PRO TIP

Ask for the trademark and patent registration certificates yourself rather than relying on a summary schedule. More than once I have found that a mark management described as 'ours' was registered in the name of a promoter or a sister entity, or lapsed for non-renewal in a key territory. A ten-minute check of the register can change which entity enjoys the royalty relief - and therefore where the value sits.

CHAPTER 4 - PRACTITIONER CHECKLIST

- | | |
|---|---|
| <ul style="list-style-type: none"> - Obtain trademark/patent registrations and ownership records. - Map territories, product classes, licences, encumbrances and co-branding arrangements. - Separate bundled rights before applying a comparable royalty. | <ul style="list-style-type: none"> - Assess legal life, economic life and obsolescence independently. - Tie each asset to a defined revenue stream. - Document neighbouring intangibles to prevent double counting in a PPA. |
|---|---|

FINAL REVIEW QUESTIONS

Review question	Why it matters
Who owns each relevant registration and right?	Ownership determines who enjoys the royalty relief.
Are any rights licensed in, co-owned or encumbered?	Those restrictions may reduce or eliminate the relief.
Do multiple intangibles travel together?	Bundled rights need boundaries to avoid overlapping value.
What fact could shorten economic life?	Obsolescence, rebranding, expiry or competition may matter more than legal renewability.

Table 4.R: Questions to resolve before the Chapter 4 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A target company presents a schedule showing that it "owns" a well-known brand used in India and Southeast Asia. Registration searches reveal that the Indian trademark is owned by the target, while the Southeast Asian marks remain with the promoter personally and are only informally used by the company. A single royalty rate on global revenue would value rights the target does not own. The correct response is to map legal ownership and licences by territory, value only the rights transferred or controlled, and identify whether a separate related-party arrangement needs to be formalised.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART II · BUILDING THE MODEL

Chapter 5: Revenue Forecasting and the

Royalty Base With the asset defined, the model needs a revenue base to which the royalty rate will be applied. This is the second of the four core judgements, and it is more subtle than it first appears. The question is not "what are the company's total sales?" but "what sales does this asset actually drive?" Getting the base wrong - too broad or too narrow - distorts the value more than almost any other input.

5.1 Attributable Revenue, Not Total Revenue

A royalty is paid on the revenue that the licensed asset generates. If a brand is applied to only part of a company's product portfolio, the royalty base is only that part. If a patent covers one product line, the base is that line's sales, not the whole company's. Attributing revenue correctly means excluding sales the asset does not touch - private-label output that carries no brand, licensed-in products sold under someone else's mark, or products that do not use the patented technology. Conversely, the base must capture all the revenue the asset genuinely drives, including revenue in adjacent territories or channels where the brand or technology is used. The discipline is one of matching: the royalty base must correspond precisely to the scope of the asset defined in Chapter 4.

Revenue stream	Uses the asset?	In the royalty base?
Products sold under the owned brand	Yes	Yes - full inclusion
Private-label / unbranded output	No	Exclude
Products under a licensed-in third-party brand	No (owned)	Exclude
Export sales under the same brand	Yes	Include (subject to territory)
Services bundled with the branded product	Sometimes	Judgement - include if brand-driven

Table 5.1: Deciding what belongs in the royalty base for a brand valuation.

OUR INSIGHT

The revenue base should be treated as a reconciliation exercise, not as a management estimate accepted at face value. A defensible model bridges from statutory or audited revenue to the specific products, territories and channels that actually use the intangible, and separately identifies normalising adjustments.

5.2 Forecasting the Base

Royalty relief is a multi-year benefit, so the base must be forecast, not merely observed. The forecast should rest on the company's own business plan where one exists, cross-checked against historical growth, market size and competitive dynamics. Three principles keep the forecast honest. First, growth assumptions must be reconcilable to the market: a brand cannot grow faster than its category forever. Second, the forecast horizon should match the asset's useful life - a finite-life patent is forecast to expiry; an indefinite-life brand is forecast explicitly for a period and then carried into a terminal value. Third, the forecast must be internally consistent with the discount rate: a high-growth, high-risk forecast demands a higher discount rate, not the same rate applied to a rosier plan.

5.3 A Practical Revenue Attribution

Consider a hypothetical Indian personal-care company, anonymised here as "VediHerb Consumer Ltd", with total revenue of Rs. 820 Crore. Of this, Rs. 610 Crore is sold under its own flagship brand, Rs. 140 Crore is private-label manufacturing for retailers (unbranded, and therefore outside the base), and Rs. 70 Crore is sold under an international brand licensed in from an overseas principal (on which VediHerb itself pays a royalty, so it owns no relief there). The attributable base for valuing VediHerb's own brand is therefore Rs. 610 Crore - not the headline Rs.

820 Crore.

Revenue stream	Amount (Rs. Cr)	Owned brand?	In base?
Flagship owned brand	610	Yes	610
Private-label manufacturing	140	No (unbranded)	-
Licensed-in international brand	70	No (licensed in)	-
Total / Attributable base	820		610

Table 5.2: Building VediHerb's royalty base from total revenue to attributable revenue.

Attributable revenue base for the flagship brand: Rs. 610 Crore, grown forward over the brand's useful life per the business plan.

PRO TIP

Always present the bridge from total revenue to attributable revenue explicitly in your report, as a small table like the one above. It pre-empts the first question every reviewer asks - "why this base?" - and it demonstrates that you have thought about scope rather than lazily applying a rate to the top line. A visible revenue bridge is one of the cheapest credibility signals a valuation can carry.

5.4 Currency, Inflation and Consistency

For Indian valuations the base is normally in rupees and the forecast in nominal terms, which means the discount rate must also be nominal - mixing a real growth rate with a nominal discount rate is a classic error. Where a brand earns export revenue in foreign currency, the valuer must decide whether to forecast and discount in that currency and convert, or to convert to rupees first; either is acceptable if applied consistently, but the two must never be blended. Consistency between the revenue forecast and every other input - tax rate, discount rate, inflation assumption - is the quiet discipline that separates a robust model from one that merely looks precise.

5.5 Multiple Brands and Segment Attribution

Many Indian companies operate a portfolio of brands rather than a single mark, and valuing one brand within a portfolio demands careful segment attribution. Revenue, and often the appropriate royalty rate, differ by brand: a flagship premium brand may carry a far higher royalty than an economy line sold under a different name. Where the accounts do not report revenue by brand, the valuer must work with management to allocate it, using distribution data, product master files or channel reports, and then reconcile the allocation back to total revenue so that nothing is double-counted and nothing is lost. Each brand is then valued on its own attributable base and rate, and the portfolio value is the sum of the parts - not a single rate applied to the group's combined turnover.

5.6 Normalising the Base

The historical revenue used to anchor the forecast should be normalised for anything that will not recur. One-off bulk orders, pandemic-era spikes or troughs, discontinued lines and short-lived promotional surges all distort the base if carried forward uncritically. The goal is a sustainable revenue figure that fairly represents the asset's ongoing earning power, from which growth is then projected. Normalisation is a matter of judgement, and it should be documented: a reviewer who sees an unexplained jump in the base will assume the worst, whereas a short note explaining that year three excludes a non-recurring government tender turns a red flag into evidence of care.

Adjustment	Effect on base	Rationale
Remove one-off bulk / tender orders	Reduces	Not part of sustainable branded demand
Normalise a pandemic spike or trough	Either	Return to a representative run-rate
Exclude discontinued product lines	Reduces	Asset will not earn from them in future
Annualise a mid-year launch	Increases	Reflects a full year of ongoing sales
Strip inter-company / captive sales	Reduces	May not carry an arm's-length royalty

Table 5.3: Common normalising adjustments when setting the historical royalty base.

OUR INSIGHT

The revenue base should be treated as a reconciliation exercise, not as a management estimate accepted at face value. A defensible model bridges from statutory or audited revenue to the specific products, territories and channels that actually use the intangible, and separately identifies normalising adjustments.

CHAPTER 5 - PRACTITIONER CHECKLIST

- Bridge total revenue to attributable revenue in the report.
- Exclude private-label, unbranded and licensed-in revenue where appropriate.
- Normalise non-recurring orders, launches and discontinued lines.
- Reconcile product/brand revenue to the audited or statutory accounts.
- Keep currency, inflation and discount-rate assumptions internally consistent.
- For portfolios, value distinct brands on separate bases where economics differ materially.

FINAL REVIEW QUESTIONS

Review question	Why it matters
Does the base tie to audited/statutory revenue?	A reviewer should be able to reconcile the amount directly.
Which sales are excluded and why?	Private-label, licensed-in and non-asset revenue should be visible.
What normalisations were made?	One-offs and launch timing can materially distort the starting point.
Are currency and inflation assumptions consistent?	Nominal/real mismatches can distort both cash flow and discounting.

Table 5.R: Questions to resolve before the Chapter 5 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A flagship brand generated Rs. 500 crore of revenue last year, including a Rs. 70 crore one-off institutional order and Rs. 40 crore from a product line discontinued after the valuation date. Using Rs. 500 crore as the starting base and applying the business plan growth rate would carry non-recurring sales into every forecast year and into terminal value. A defensible model normalises the base first, documents the Rs. 110 crore adjustment, and then forecasts sustainable branded revenue. The reduction in headline value is not conservatism; it is simply a more faithful representation of the asset's ongoing earning capacity.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART II · BUILDING THE MODEL

Chapter 6: Determining the Royalty Rate

The royalty rate is the beating heart of the method and the input that draws the most scrutiny. A difference of a single percentage point on a large revenue base can move a valuation by crores, so the rate must be derived, evidenced and defended - never simply assumed. This chapter covers where royalty rates come from and how to build a defensible rate; the next chapter covers how to sanity-check it.

6.1 Sources of Royalty Evidence

A defensible royalty rate rests on a hierarchy of evidence. The strongest evidence is a comparable licence of the same or a similar asset; the weakest is an unsupported rule of thumb. In practice the valuer assembles what evidence exists and triangulates. (cid:127) Comparable licence agreements. The gold standard. Databases such as RoyaltyStat, ktMINE and RoyaltyRange compile disclosed licences by industry, asset type and geography, giving observed arm's-length rates for genuinely comparable assets. (cid:127) The company's own licences. If the entity already licenses the asset in or out - to a subsidiary, a franchisee or a third party - that internal rate is powerful, direct evidence, provided it is arm's-length. (cid:127) Industry surveys and studies. Published royalty-rate surveys by sector give useful ranges, though they must be used with care as to comparability. (cid:127) Profit-split and analytical methods. Where direct comparables are thin, the rate is inferred from the economics of the business - covered in Chapter 7. (cid:127) Rules of thumb. Historical heuristics such as the "25% rule", useful only as a cross-check and never as a primary basis (also Chapter 7).

OUR INSIGHT

A royalty database is a source of evidence, not an answer. The concluded rate should explain why the selected licences are comparable on asset type, industry, territory, exclusivity, contractual scope, stage of development and profitability - and why rejected observations were not used.

6.2 Adjusting Comparables to the Subject

Raw comparable rates almost never apply unadjusted. The valuer must bridge from the comparable licence to the subject asset, considering the strength of the subject brand or technology relative to the comparables, the exclusivity and territorial scope of the rights, whether the royalty in the comparable was bundled with other services or support, and the profitability of the licensee's business. A comparable that bundles marketing support with the trademark licence carries a higher rate than a bare trademark licence, and the difference must be stripped out. This adjustment process is where the valuer's judgement is most visible and most testable.

6.3 Illustrative Royalty Ranges by Sector

The following ranges are broad illustrations of where trademark and technology royalties commonly fall, offered only to build intuition. They are not a substitute for asset-specific comparable analysis, and no valuation should rest on them alone.

Sector / asset type	Illustrative trademark royalty	Illustrative technology royalty
Luxury & lifestyle brands	8% - 15%	-
Fast-moving consumer goods	2% - 6%	-
Pharmaceuticals	3% - 8%	5% - 12%
Information technology / software	2% - 7%	5% - 15%
Industrial & B2B products	1% - 4%	2% - 6%
Automotive & components	1% - 5%	3% - 7%

Table 6.1: Illustrative royalty ranges for intuition only - not a basis for valuation.

Where Trademark Royalties Typically Fall (Illustrative Midpoints) 11% 5% 4% 4% 2% Luxury & lifestyle FMCG
Pharma IT / software Industrial B2B

6.4 Pre-tax or Post-tax, Gross or Net

Two definitional points cause endless confusion. First, royalty rates observed in licence agreements are pre-tax - they are gross percentages of sales that the licensee pays before its own tax. This is why the royalty savings in the RfR model are pre-tax and must then be reduced by tax, as established in Chapter 2. Second, most trademark royalties are quoted on net sales (gross sales less returns, discounts and certain taxes), so the revenue base should be net sales unless the comparable evidence is on a different basis. Matching the definition of the rate to the definition of the base is essential; a rate struck on net sales applied to a gross-sales base overstates the royalty.

6.5 Some Costs May Belong to the Owner

A debated refinement is whether the royalty savings should be reduced by costs that a licensor would ordinarily bear - for a brand, the cost of maintaining and defending the trademark, and sometimes a share of brand-building advertising. The purist view is that a running royalty already reflects the licensee carrying local marketing, so no further deduction is needed; a more conservative view deducts the owner's maintenance costs to isolate the net benefit of ownership. Whichever position you take, take it explicitly and consistently, and make sure it matches the basis of the comparable royalties you have used. Silent inconsistency here is a frequent source of error.

PRO TIP

Never report a single point royalty rate without a range around it. State the rate you have concluded, the comparable evidence that supports it, and the sensitivity of the valuation to a reasonable band on either side - for example 2.5%, 3.0% and 3.5%. A single number implies a false precision the evidence cannot support; a range with a reasoned point estimate shows you understand that the rate is a conclusion, not a fact, and it is exactly what a thoughtful auditor or tax officer wants to see.

6.6 Comparable Licence Adjustment Matrix

The rate-selection memo should show how each important difference between the licence and the subject asset affects comparability. Adjustments need not always be numerical; in many cases a qualitative ranking and a clear decision to include, weight down or reject a licence is more honest than an artificial basis-point adjustment. The important point is to make the bridge explicit.

Factor	Questions for the comparable	Possible response
Asset strength / stage	Is the licensed mark or technology stronger, more mature or more protected?	Weight, bracket or reject rather than copy the headline rate
Territory / exclusivity	Are the rights exclusive? Which countries and channels are covered?	Adjust for broader/narrower commercial rights
Bundled support	Does the agreement include marketing, R&D, technical assistance or services?	Unbundle where possible or reject if inseparable
Royalty base	Net sales, gross sales, units, minimum guarantee or tiered structure?	Normalise the economic burden before comparison
Term / renewal	Short development licence or long mature-brand agreement?	Reflect life-cycle and bargaining differences
Related-party status	Is the observed agreement truly uncontrolled?	Prioritise reliable third-party evidence

Table 6.2: Comparable-licence adjustment factors to document before selecting a point royalty rate.

6.7 What the Report Should Say About the Rate

A report should not simply state that "industry royalties range from 2%-6%, therefore 4% is selected." It should identify the search population, screening criteria, selected licences, contractual features, observed range, adjustments, profitability cross-check and the reason the subject sits at the selected point within the range. Where evidence is thin, say so and widen the sensitivity rather than creating false confidence.

QUESTIONS TO ASK BEFORE YOU ACT

Are the licence agreements current enough for the valuation date? Are they really for the same type of right? Is the royalty base defined the same way? Are marketing or technical services bundled? Is the subject materially stronger or weaker? Would the selected rate still be payable by a rational licensee after considering its margin?

CHAPTER 6 - PRACTITIONER CHECKLIST

- Start with actual internal/external licences before using broad industry observations.
- Match asset type, industry, territory, exclusivity and scope.
- Identify bundled services and adjust or reject the comparable.
- Align the royalty definition with the revenue definition (gross/net, currency, products).
- Show a range and a reasoned point estimate.
- Run profitability and sensitivity cross-checks before concluding.

FINAL REVIEW QUESTIONS

Review question	Why it matters
What is the best internal licence evidence?	The subject company's own third-party licences may be more informative than database averages.
How were bundled services handled?	Marketing, technical support and other services can inflate the headline royalty.
Why is the subject above or below the median?	The point estimate needs an asset-specific reason.
Would a rational licensee still earn an adequate return?	Affordability is a necessary commercial cross-check.

Table 6.R: Questions to resolve before the Chapter 6 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A database search returns ten trademark licences ranging from 1.5% to 8.0%. The highest observations relate to luxury consumer names with global exclusivity and marketing support, while the subject is a regional industrial brand licensed on a bare-mark basis. Reporting the median of all ten agreements would ignore the economics of the contracts. A better process screens out non-comparable rights, documents the remaining agreements, analyses the subject relative to them and then checks whether the selected rate is affordable for the licensee. The evidence trail matters more than the number of database hits.

SIGN-OFF FILE

SIGN-OFF ITEM	WHAT SHOULD BE ON FILE
Search population	Database, date range, industry, geography and asset-type filters are retained.
Licence selection	Each selected and rejected agreement has a documented comparability rationale.
Adjustments	Territory, exclusivity, bundled services, term and royalty-base differences are addressed.
Point rate	The concluded rate is explained within the observed range and tested against economics.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART II · BUILDING THE MODEL

Chapter 7: Sanity-Checking the Rate - Profit

Split and the 25% Rule A royalty rate drawn from comparables can still be wrong for the specific business in front of you. The final safeguard is to test the rate against the economics of the licensee - to ask whether a rational company could actually afford to pay it and still earn a fair return. This is the domain of profit-split analysis and the much-abused "25% rule". Used correctly, these are not alternative ways to set the rate; they are sanity checks that catch rates the market comparables got wrong.

7.1 The Affordability Principle

No licensee will pay a royalty that leaves it unable to earn a normal profit. The royalty must be carved out of the operating profit the asset helps generate, leaving enough for the licensee to cover its other costs and earn a return on its own capital. It follows that the royalty rate, expressed as a percentage of sales, cannot sensibly exceed the operating margin the licensee earns on those sales - and in practice it takes only a portion of that margin. A 6% royalty on a product line earning a 10% operating margin would consume well over half the profit; a 6% royalty where the margin is 4% is simply impossible. If your comparable rate fails this test, the rate or the revenue base is wrong.

OUR INSIGHT

Profitability is a powerful diagnostic. A royalty that absorbs an implausible share of the licensee's sustainable operating profit should trigger a review of the comparable set, the royalty base and the functions retained by the licensee. The historical 25% rule may be used only as a rough sense-check, never as a substitute for evidence.

7.2 The 25% Rule - Used and Misused

The best-known heuristic, associated with Robert Goldscheider, holds that a licensee will typically pay the licensor around 25% of the licensee's expected operating profit from the licensed product as a royalty. Expressed as a rate on sales, the rule gives an implied royalty of roughly one-quarter of the operating margin. If a product line earns a 20% operating margin, the 25% rule implies a royalty of about 5% of sales. The rule must be handled with care. In the United States, the Federal Circuit in *Uniloc v. Microsoft* (2011) rejected the 25% rule as a starting point for reasonable-royalty damages, holding that it is an arbitrary heuristic unconnected to the facts of the specific case. That ruling concerns litigation damages, not financial-reporting valuation, but its logic travels: a heuristic is not evidence. In valuation practice the historical 25% rule may be used only as a rough diagnostic cross-check - a way to ask whether a comparable-derived rate is broadly consistent with the profit the asset generates - but it should never be the primary basis for a concluded rate.

Product line	Operating margin	25% of margin	Implied royalty (of sales)
Premium skincare	22%	5.5%	~5.5%
Mass-market soap	9%	2.25%	~2.25%
Industrial adhesive	12%	3.0%	~3.0%
Branded software	35%	8.75%	~8.75%

Table 7.1: The 25% rule as a cross-check - implied royalty from operating margin.

PRO TIP

Treat the 25% rule as a smoke detector, not a thermostat. If your comparable-derived royalty implies you are handing the licensor 60% or 70% of the product's operating profit, an alarm should sound - something is wrong. But do not set the rate at 25% of profit just because the rule exists. Anchor the rate to comparable licences, then use the profit split to confirm it lands in a commercially rational zone.

7.3 Formal Profit-Split Analysis

Where comparable licences are genuinely scarce - common for novel technology - the profit split becomes more than a check; it becomes a method of deriving the rate. The valuer estimates the total operating profit attributable to the licensed asset and allocates it between the notional licensor and licensee according to the functions each performs, the assets each contributes and the risks each bears. This functional analysis mirrors the DEMPE framework used in transfer pricing (development, enhancement, maintenance, protection and exploitation of intangibles), and a valuer comfortable with one is well equipped for the other. The share allocated to the licensor, divided by sales, gives the implied royalty rate.

7.4 Reconciling the Rate to the Whole Valuation

A final, often-skipped check is to confirm that the royalty rate, applied across the forecast, does not imply an asset value greater than the total value of the business that houses it. A brand cannot be worth more than the enterprise that owns it. In a purchase price allocation, the sum of all identified intangibles, plus tangible assets and goodwill, must reconcile to the purchase price - and the implied returns on each asset must reconcile to the overall weighted average cost of capital. This weighted-average-return-on-assets (WARA) reconciliation, covered in the next chapter, is where an over-aggressive royalty rate is finally caught. The royalty rate does not live in isolation; it must be consistent with the entire economic picture.

OUR INSIGHT

Profitability is a powerful diagnostic. A royalty that absorbs an implausible share of the licensee's sustainable operating profit should trigger a review of the comparable set, the royalty base and the functions retained by the licensee. The historical 25% rule may be used only as a rough sense-check, never as a substitute for evidence.

7.5 Converting Profitability into a Review Range

A profitability test is most useful when it is shown as a range rather than a single historical heuristic. Start with sustainable operating margin before royalty, identify the functions and assets retained by the licensee, and calculate how much margin would remain at several candidate royalty rates. This makes the commercial trade-off visible without pretending that one predetermined licensor share is universally correct.

Candidate royalty	Operating margin before royalty	Margin remaining after royalty	Royalty / pre-royalty margin
2.5%	14.0%	11.5%	17.9%
3.0%	14.0%	11.0%	21.4%
3.5%	14.0%	10.5%	25.0%
4.0%	14.0%	10.0%	28.6%
5.0%	14.0%	9.0%	35.7%

Table 7.2: Illustrative affordability analysis - a diagnostic range, not a prescribed profit split.

The table does not establish that 3.5% is arm's length. It only shows that a 3.5% royalty would consume 25% of the pre-royalty operating margin in this illustration and leave a 10.5% margin. The actual conclusion still depends on comparable uncontrolled evidence, the functions and risks of the parties, the competitive position of the product and the licence terms.

PRO TIP

When the comparable range and the profitability range disagree, do not average them. Investigate the reason. The mismatch may reveal that the comparables include stronger rights, that the subject revenue base is too broad, or that the licensee performs more value-creating functions than the assumed licence structure allows.

CHAPTER 7 - PRACTITIONER CHECKLIST

- Use profit split as a diagnostic or supported analytical method - not a slogan.
- Treat the historical 25% rule only as a rough cross-check.
- Test whether the licensee retains a commercially sensible return after royalty.
- Analyse DEMPE/functions, assets and risks for related-party arrangements.
- Reconcile the implied asset value to the wider business economics.
- Investigate any result that depends on an implausible margin share.

FINAL REVIEW QUESTIONS

Review question	Why it matters
What profit measure is being tested?	EBIT, EBITDA and gross margin answer different affordability questions.
What functions remain with the licensee?	A licensee performing substantial value-creating functions should retain an appropriate return.
Are comparables stronger than the subject?	A high royalty range may reflect more valuable rights than the subject actually owns.
Is the 25% heuristic driving the answer?	If yes, the analysis needs stronger market evidence.

Table 7.R: Questions to resolve before the Chapter 7 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

Comparable licences indicate a 4%-5% range, but the subject product line earns only a 7% sustainable operating margin before royalty. A 5% royalty would leave the licensee with just 2% before considering functions that remain with it. The mismatch does not prove that 5% is impossible, but it demands explanation: perhaps the comparable rights are stronger, perhaps the subject base is too broad, or perhaps the licensee performs substantial marketing and development functions. Profitability is therefore used to diagnose comparability, not to manufacture a rate from a predetermined profit share.

SIGN-OFF FILE

SIGN-OFF ITEM	WHAT SHOULD BE ON FILE
Profit base	The operating margin used for affordability is normalised and reconciled.
Licensee return	The post-royalty margin remains commercially supportable for the functions retained.
Market evidence	Profitability is a diagnostic alongside comparable licences, not a substitute for them.
Heuristics	Any 25% rule reference is clearly labelled historical and non-prescriptive.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART II · BUILDING THE MODEL

Chapter 8: Discount Rates, Useful Life and

Terminal Value Royalty savings arrive over many years, and money in the future is worth less than money today. The discount rate converts the stream of future after-tax royalty savings into a single present value, and the useful life determines how many years of savings there are to discount. Together they are the third of the four core judgements, and small changes in either move the answer materially.

8.1 Choosing the Discount Rate

The discount rate must reflect the risk of the specific cash flow being discounted - here, the royalty savings attributable to one intangible asset. The natural starting point is the business's weighted average cost of capital (WACC), but intangibles are usually riskier than the business as a whole: their cash flows are more uncertain, they lack the collateral value of tangible assets, and their useful lives are harder to predict. For this reason the discount rate for an intangible is typically at or above the WACC, and often carries a premium. A brand in a stable category may be discounted at close to the WACC; a nascent technology with an uncertain future is discounted at a substantial premium to it.

Component	Illustrative value	Basis
Risk-free rate	7.0%	Yield on 10-year Government of India securities
Equity risk premium	7.5%	India ERP (e.g. Damodaran India dataset)
Beta (relevered)	1.05	Comparable-company betas, relevered to target gearing
Cost of equity	14.9%	Risk-free + beta x ERP
After-tax cost of debt	6.4%	Pre-tax cost 8.5% x (1 - 25%)
WACC	13.0%	Weighted for target capital structure
Intangible premium	+2.0%	Additional risk of the specific intangible
Discount rate for the asset	15.0%	WACC + intangible risk premium

Table 8.1: An illustrative build-up of the discount rate for an intangible asset (figures illustrative).

OUR INSIGHT

The asset discount rate should be consistent with the risk of the specific cash flow and with the wider valuation. WARA is a reasonableness framework rather than a mechanical rule: the portfolio of asset returns should broadly reconcile to the business return once tax, financing and residual goodwill assumptions are treated consistently.

8.2 The WARA Reconciliation

The weighted average return on assets (WARA) is the discipline that keeps the discount rates for individual assets honest. In a purchase price allocation, every asset acquired - working capital, fixed assets, each intangible, and goodwill - is assigned a fair value and a required rate of return. The values are the weights; the required returns are the rates. When you weight each asset's return by its share of total value, the result should be reviewed for consistency to the WACC used to value the business. A material difference between WARA and the business WACC is a review signal: it may indicate inconsistent asset values, discount rates, tax assumptions or residual goodwill rather than a single automatic error. The WARA is not a formality appended at the end - it is the test that binds every individual valuation into a coherent whole.

Asset	Fair value (Rs. Cr)	Weight	Required return	Weighted return
Net working capital	40	8%	6.0%	0.5%
Property, plant & equipment	60	12%	8.0%	1.0%
Brand (RfR)	150	30%	14.0%	4.2%
Technology (RfR)	80	16%	16.0%	2.6%
Customer relationships (MPEEM)	70	14%	15.0%	2.1%
Goodwill / residual	100	20%	13.5%	2.7%
Total / WARA	500	100%		13.0%

Table 8.2: A WARA reconciliation; the weighted return (15.0%) is checked against the WACC.

PRO TIP

Build your WARA table before you finalise any single discount rate, not after. Start from the WACC and work backwards: assign safe assets returns a little below the WACC and risky intangibles returns above it, then let the weights pull the average back to the WACC. This forces every asset's discount rate to be internally consistent from the outset, and it turns the WARA from a nervous end-of-project check into a design tool.

8.3 Useful Life and Terminal Value

The number of years over which savings are counted follows from the useful-life analysis of Chapter 4. A finite-life asset such as a patent is modelled to expiry, sometimes with the savings decaying in the final years as the technology is designed around. An indefinite-life brand is modelled with an explicit forecast period followed by a terminal value, calculated with a perpetuity-growth formula on the final year's after-tax savings. The terminal growth rate must be modest - no asset grows faster than the economy forever - and it must be consistent with the long-run inflation and growth assumptions elsewhere in the model. Terminal Value = [Final-year After-tax Savings x (1 + g)] ÷ (r - g) where r is the discount rate and g the perpetual growth rate. Because the terminal value can dominate an indefinite-life valuation, the growth assumption deserves as much scrutiny as the royalty rate itself. A terminal growth rate of 4% versus 5% may look trivial, but on a large brand it can swing the value by double-digit percentages, so it must be defensible against long-run GDP and category growth.

OUR INSIGHT

The asset discount rate should be consistent with the risk of the specific cash flow and with the wider valuation. WARA is a reasonableness framework rather than a mechanical rule: the portfolio of asset returns should broadly reconcile to the business return once tax, financing and residual goodwill assumptions are treated consistently.

8.4 Building the Asset Rate from Risk, Not from a Fixed Premium

A fixed "intangible premium" added to WACC can be a useful shorthand for an illustration, but a live valuation should explain the risk differences that justify the asset rate. Relevant considerations include dependence on a small number of products, legal protection, obsolescence, market share volatility, forecast uncertainty, stage of development, substitutability and the degree to which the royalty cash flow moves with the underlying business.

Risk characteristic	Lower-risk indication	Higher-risk indication
Legal protection	Strong registrations / enforceable rights	Weak, challenged or short-dated protection
Revenue diversity	Broad product/customer base	Concentrated product or customer dependency
Technology / obsolescence	Mature, established and difficult to replace	Rapid substitution or short innovation cycle
Forecast evidence	Stable history and contracted/observable demand	Early-stage forecast with limited track record
Brand position	Established pricing power and repeat demand	Name-only asset with uncertain customer influence

Table 8.3: Evidence to consider when differentiating asset risk from the overall business risk.

8.5 Terminal Value Control Tests

For an indefinite-life brand, calculate what percentage of the total value comes from the terminal period and show it prominently. If the terminal value is dominant, test whether the explicit forecast is long enough to reach a stable state, whether the terminal margin and growth are mature, whether continuing royalty strength is supported, and whether the terminal growth rate is consistent with the currency and long-run economic environment. A terminal value is not a licence to capitalise high growth forever.

QUESTIONS TO ASK BEFORE YOU ACT

How much of the value comes from the terminal period? Is the asset really indefinite-lived economically, not just legally renewable? Does the discount rate reflect the same nominal/real and currency basis as the forecast? Does the WARA review show broad consistency with the business valuation?

CHAPTER 8 - PRACTITIONER CHECKLIST

- Build the business WACC from current, sourced market inputs.
- Select an asset-specific discount rate based on risk of the royalty savings.
- Use WARA as a reasonableness check, not a plug.
- Match finite lives to legal/economic expiry and model decay where appropriate.
- Use terminal value only for assets with defensible continuing economic life.
- Sensitise discount rate and terminal growth where terminal value is material.

FINAL REVIEW QUESTIONS

Review question	Why it matters
Is the asset rate supported by identifiable risk factors?	Avoid unexplained fixed premiums to WACC.
How much value sits in the terminal period?	A dominant terminal value requires deeper scrutiny.
Does WARA broadly reconcile to the business valuation?	A gap may reveal inconsistent asset values or rates.
Is terminal growth consistent with currency and maturity?	Perpetual growth must reflect a stable long-run state.

Table 8.R: Questions to resolve before the Chapter 8 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

An established brand is valued with a five-year forecast, 15% discount rate and 5% perpetual growth. More than 70% of the value comes from the terminal period. The arithmetic may be correct, but the result is fragile. The valuation team extends the explicit forecast until growth and margins stabilise, reduces perpetual growth to a mature long-run level and sensitises both discount rate and terminal growth. The revised range is wider but more defensible because it shows exactly how much of the value depends on assumptions beyond the visible business plan.

PART II - BUILDING THE MODEL

Chapter 9: Tax Effects and the Tax Amortisation Benefit

Tax affects a Relief from Royalty valuation in two different places, and confusing them is one of the fastest ways to misstate value. The first adjustment converts the notional royalty saving from pre-tax to after-tax cash flow. The second - the tax amortisation benefit (TAB) - asks whether a market participant acquiring the intangible would obtain future tax deductions from the asset itself. These are separate questions, and the second is highly purpose- and structure-dependent.

9.1 Two Tax Questions, Kept Separate

Tax on the royalty saving. A notional royalty expense would ordinarily reduce taxable profit. If the entity owns the asset and avoids that royalty, taxable profit is generally higher than in the licence counterfactual. For valuation modelling, the pre-tax royalty saving is therefore tax-affected using the tax rate appropriate to the cash flow and valuation purpose.

Tax amortisation/depreciation benefit. Separately, an acquired intangible may create tax deductions for the acquirer. Whether those deductions exist, how they are measured and whose perspective matters depends on the transaction and the standard of value. A financial-reporting fair value analysis is market-participant based; an investment-value analysis may instead focus on the actual buyer. Do not assume that an accounting PPA by itself creates a new tax basis.

OUR INSIGHT

A TAB should never be a mechanical percentage added at the end of the model. First identify the tax basis that a relevant market participant could obtain, then model the timing of deductions, the applicable tax rate and any block-of-assets interaction. If the tax premise is uncertain, show the pre-TAB value separately and disclose the dependency.

9.2 Current Indian Tax Depreciation Framework

For current transactions, the Income-tax Act, 2025 applies from 1 April 2026. Section 33 permits depreciation for specified intangible assets including know-how, patents, copyrights, trademarks, licences, franchises and similar business or commercial rights (excluding goodwill). Rule 25 of the Income-tax Rules, 2026 applies the prescribed rate in Appendix I to the written-down value of the relevant block. The current Appendix I rate for the intangible-asset block is **25% on written-down value**.

Current reference	What it establishes	RfR implication
Income-tax Act, 2025 - Section 33	Depreciation for qualifying intangible assets	Identify whether the acquired right enters a depreciable intangible block
Income-tax Rules, 2026 - Rule 25	Depreciation calculated at Appendix I rates on WDV	Use WDV mechanics rather than an assumed straight-line life
Appendix I - Part B	25% depreciation rate for specified intangible assets	Tax shield timing differs materially from a 10-year straight-line assumption

Table 9.1: Current Indian income-tax references relevant to an illustrative TAB analysis.

9.3 Why a Universal TAB Factor Is Unsafe

Many textbooks present a closed-form TAB multiplier based on straight-line amortisation over a fixed number of years. That can be useful for understanding the economics, but it is not a substitute for the Indian tax rules. Current tax depreciation for the relevant intangible block is WDV-based, and the actual benefit may also depend on the existing block, asset-use conditions, transaction form and the availability of tax profits. A robust Indian model therefore builds the tax shield from the applicable tax basis and depreciation pattern rather than inserting a generic 1.10 or 1.14 factor.

PRO TIP

For a live engagement, keep three lines visible in the valuation: (1) pre-TAB RfR value, (2) present value of the supportable tax shield, and (3) final value including TAB. That presentation makes it easy for an auditor or tax adviser to challenge the tax premise without disturbing the underlying royalty valuation.

9.4 A Simplified WDV Illustration

Assume only for illustration that an acquired trademark receives a fresh tax basis equal to its concluded fair value, the applicable tax rate is 25%, tax depreciation is 25% WDV and the relevant discount rate for the tax shield is 15%. Ignoring block interactions and assuming sufficient taxable profits, the tax shield is a declining stream: 25% of opening WDV is deducted each year, and the remaining WDV rolls forward. Because the tax deductions are themselves based on the asset value, the TAB calculation is circular and is normally solved iteratively in a model.

Year	Opening WDV (% of basis)	Depreciation @25%	Tax shield @25%
1	100.0%	25.0%	6.25%
2	75.0%	18.75%	4.69%
3	56.25%	14.06%	3.52%
4	42.19%	10.55%	2.64%
5	31.64%	7.91%	1.98%

Table 9.2: Simplified illustration of the early-year WDV tax shield as a percentage of the asset tax basis.

9.5 Transaction Structure and Market-Participant Assumptions

A share acquisition, asset acquisition, slump sale, merger or internal restructuring can produce different tax consequences. The valuation report should therefore avoid broad statements such as "share deal = no TAB" or "slump sale = TAB" without analysing the specific tax basis and market-participant premise. For financial reporting, consult the accounting and tax advisers on the basis that market participants would assume; for transaction negotiation, distinguish fair value from the tax economics of the actual buyer.

Question	What the valuer should document
What is the valuation purpose?	Fair value, investment value, tax valuation, transaction negotiation or another basis
Whose tax attributes matter?	Market participant or the specific buyer/entity
Is a fresh tax basis supportable?	Identify the legal/tax mechanism - do not infer it from accounting fair values
What depreciation pattern applies?	Current WDV rules, tax rate, block mechanics and tax capacity
How is uncertainty handled?	Separate pre-TAB value, show sensitivities, and disclose tax-adviser reliance

Table 9.3: Minimum tax assumptions to document before including a TAB.

9.6 TAB Decision Matrix for Practitioners

The decision to include a TAB should be documented as a sequence rather than an assumption. First identify the basis of value and market-participant premise. Second determine whether the relevant hypothetical or actual acquisition would create a depreciable tax basis in the intangible. Third identify the applicable depreciation rules and tax rate. Fourth consider whether the tax deductions are expected to be usable. Finally, model the shield consistently with the asset value and disclose any reliance on tax advice.

Step	Question	If uncertain
1	Does the valuation basis require market-participant or buyer-specific tax attributes?	Present both perspectives or state the selected premise clearly
2	Would the relevant acquisition create a tax basis in the intangible?	Do not add TAB until tax treatment is confirmed
3	Which depreciation rule applies?	Use current Section 33 / Rule 25 / Appendix I references for 2026 work
4	Can the deductions be utilised?	Consider tax capacity and timing rather than assuming full benefit
5	Is the shield circular with fair value?	Solve iteratively and show pre-TAB value separately

Table 9.4: A practical sequence for deciding whether and how to model a tax amortisation benefit.

KEY DECISION

If the tax premise is not settled by the time the valuation is reported, a defensible approach is to conclude the pre-TAB RfR value and present the TAB as a separate scenario, clearly identifying the tax assumption that would make it available.

CHAPTER 9 - PRACTITIONER CHECKLIST

- Determine whether tax amortisation/depreciation is available for the relevant purpose and market participant.
- Use the Income-tax Act, 2025 and Income-tax Rules, 2026 for current transactions.
- Model the actual tax depreciation pattern (25% WDV for the relevant intangible block under current Appendix I), not an assumed straight-line period.
- Avoid assuming an accounting PPA automatically creates a new tax basis.
- Separate tax on royalty savings from any TAB.
- Disclose simplified TAB assumptions and tax-adviser dependencies.

FINAL REVIEW QUESTIONS

Review question	Why it matters
What tax basis is assumed?	Accounting fair value and tax basis are not automatically the same.
Which current depreciation rule applies?	Use Section 33, Rule 25 and Appendix I for 2026 work where relevant.
Can the tax shield actually be used?	Timing and tax capacity may affect economic value.
Is the TAB shown separately from pre-TAB value?	Separate presentation makes the tax premise transparent.

Table 9.R: Questions to resolve before the Chapter 9 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A PPA model shows a Rs. 120 crore pre-TAB brand value. Management asks the valuer to add the 1.14 TAB factor used in a prior global template. Under the current Indian rules, however, the relevant depreciation pattern is WDV-based and the availability of a fresh tax basis depends on the transaction and market-participant premise. The correct workflow is to keep Rs. 120 crore visible, ask tax advisers to confirm the supportable basis and depreciation mechanics, and then model the present value of the tax shield separately. If the premise cannot be confirmed, the report can show a scenario rather than embedding an unsupported uplift.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART III - REGULATION, RISK & APPLICATION

Chapter 10: The Indian Regulatory Framework - Purpose Before Method

A Relief from Royalty valuation can sit inside several different Indian frameworks. The method may be the same, but the legal purpose, standard of value, valuation date, eligible professional and evidentiary burden can change. A PPA brand value, a Companies Act registered-valuer report and an arm's-length royalty analysis should not be treated as interchangeable merely because each uses comparable licences.

10.1 Financial Reporting - Ind AS

Ind AS 103 requires an acquirer in a business combination to recognise identifiable assets acquired and liabilities assumed at acquisition-date fair value. **Ind AS 38** provides the recognition framework for intangible assets, including separability and contractual/legal-right criteria. **Ind AS 113** defines fair value from a market-participant perspective and provides the valuation framework. **Ind AS 36** becomes relevant to subsequent impairment testing.

Standard	Primary role	RfR relevance
Ind AS 103	Business combinations and PPA	Acquired brands/technology may require acquisition-date fair value
Ind AS 38	Recognition and classification of intangibles	Defines identifiable intangible assets and subsequent accounting
Ind AS 113	Fair value measurement	Market-participant assumptions, valuation approaches and disclosures
Ind AS 36	Impairment testing	Subsequent recoverable-amount testing for relevant assets/CGUs

Table 10.1: Financial-reporting standards most commonly encountered in an RfR engagement.

10.2 Companies Act and the Registered Valuer Framework

Where a valuation is required under the Companies Act, 2013, Section 247 and the Companies (Registered Valuers and Valuation) Rules, 2017 govern the registered-valuer framework. Intangible assets such as brands, patents and technology fall within the Securities or Financial Assets asset class for registered-valuer purposes. The report should identify the statutory purpose and the applicable valuation standards or professional framework rather than presenting an RfR conclusion as a universal certificate.

OUR INSIGHT

The first page of a regulatory valuation should answer four questions before it presents a number: what is being valued, for what purpose, on which date, and under which framework. If those four are clear, method selection and report wording become much easier to defend.

10.3 Income-tax - Current 2026 Architecture

For tax years beginning on or after 1 April 2026, current work should cite the **Income-tax Act, 2025** and **Income-tax Rules, 2026**, while legacy periods remain subject to the repealed 1961 Act under the transition provisions. Section 9(6) contains the current royalty deeming framework and definition. Section 33 addresses depreciation of qualifying intangible assets. Transfer-pricing provisions are reorganised in Chapter X: Section 161 requires international and specified domestic transactions to be determined having regard to the arm's-length price, and Section 165 sets out the arm's-length methods. Rule 57 contains current fair-market-value rules for specified property, including unquoted shares, where those rules are relevant to a separate tax purpose.

Current reference	Use in this guide
Income-tax Act, 2025 - Section 9(6)	Royalty source/deeming and definition framework
Sections 161-173, Income-tax Act, 2025	Transfer-pricing architecture, methods, definitions and documentation
Section 33 + Rule 25 / Appendix I	Current depreciation framework for qualifying intangible assets
Rule 57, Income-tax Rules, 2026	Prescribed FMV rules for specified property/share contexts - not a substitute for an intangible fair-value method

Table 10.2: Current tax references to use for 2026 work instead of legacy section/rule numbering.

10.4 Related-Party Royalties and DEMPE

A related-party royalty is a transfer-pricing problem, not merely an intangible-asset valuation problem. Comparable licence evidence may support the Comparable Uncontrolled Price method, but the analysis must also address the economically significant functions, assets and risks surrounding development, enhancement, maintenance, protection and exploitation (DEMPE). Ownership of a trademark registration alone does not determine the arm's-length return if another group entity performs the economically significant activities.

10.5 FEMA and Cross-Border Royalty Flows

Cross-border royalty and technical-fee remittances are generally dealt with as current-account transactions under FEMA. The erstwhile percentage caps should not be presented as current general limits. In a live transaction, however, the company and its authorised dealer should still verify the current Foreign Exchange Management (Current Account Transactions) Rules, sector-specific conditions, contractual documentation, withholding-tax position and any reporting or approval requirement applicable to the remittance. A valuation or benchmarking analysis supports commercial reasonableness and transfer pricing; it does not by itself replace FEMA or AD-bank compliance.

Purpose	Primary framework	Typical valuation question
PPA / acquisition accounting	Ind AS 103, 38, 113	What is acquisition-date fair value of the identifiable intangible?
Companies Act statutory valuation	Companies Act, 2013 / RV Rules	What value is required for the specified corporate action?
Related-party royalty	Income-tax Act, 2025 transfer pricing	What arm's-length price/rate is supported by comparables and functions?
Cross-border remittance	FEMA current-account framework + tax/TP	Is the payment permitted/documented and is the pricing supportable?
Tax FMV of specified property	Income-tax Act, 2025 / Rule 57 where applicable	What prescribed FMV rule applies to that property/share context?

Table 10.3: The same economic asset can require different outputs for different legal purposes.

PRO TIP

Do not put legacy references such as Sections 92-92F, Section 32 or Rule 11UA forward as the current 2026 law without a transition explanation. For tax years from 1 April 2026, cite the corresponding Income-tax Act, 2025 and Income-tax Rules, 2026 provisions; retain the old citations only when analysing an earlier period.

10.6 Primary Sources Reviewed for this Edition

Current-law review through 22 August 2026: Income Tax Department - Income-tax Act, 2025 as amended by Finance Act 2026; Income-tax Rules, 2026 including Rule 25, Appendix I and Rule 57; Companies Act, 2013 and Registered Valuer framework; notified Ind AS; and the prevailing FEMA/current-account framework. Transaction-specific circulars, treaties, sectoral rules and amendments must be checked again on the execution date.

CHAPTER 10 - PRACTITIONER CHECKLIST

- Identify the governing framework before selecting the report format.
- For Companies Act valuations, confirm registered-valuer eligibility and asset class.
- For tax work, use current 2025 Act / 2026 Rules section and rule references.
- For related-party royalties, document arm's-length method and functional analysis.
- For cross-border remittances, confirm current FEMA/current-account and AD-bank requirements.
- State purpose, standard of value, valuation date and intended users prominently.

FINAL REVIEW QUESTIONS

Review question	Why it matters
Which current law applies to the period?	Do not mix 1961 Act references into 2026 work without transition explanation.
Is the report a fair value, statutory valuation or arm's-length analysis?	The method may overlap, but the legal output is different.
Who is eligible to sign the required output?	Professional eligibility is purpose-specific.
Does cross-border compliance require more than valuation?	FEMA, AD-bank, withholding and TP documentation must be coordinated separately.

Table 10.R: Questions to resolve before the Chapter 10 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

The same group requests one brand report for three uses: acquisition accounting, a related-party royalty and a Companies Act transaction. The economic analysis can inform all three, but the required outputs are not interchangeable. The PPA requires acquisition-date fair value under Ind AS; the royalty requires an arm's-length pricing analysis under the current transfer-pricing framework; the Companies Act matter may require an eligible registered valuer and a statutory report. Reusing one conclusion without re-scoping the purpose, date and standard of value would create a documentation problem even if the underlying brand is identical.

SIGN-OFF FILE

SIGN-OFF ITEM	WHAT SHOULD BE ON FILE
Current framework	Current Income-tax Act / Rules, Ind AS, Companies Act and FEMA references are used.
Professional eligibility	The report signatory and asset class match the purpose-specific legal requirement.
Purpose-specific output	Fair value, statutory FMV and arm's-length royalty are not treated as interchangeable.
Cross-border file	Transfer-pricing, remittance and AD-bank/FEMA documentation are separately mapped.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART III · REGULATION, RISK & APPLICATION

Chapter 11: Common Errors, Audit Scrutiny

and Sensitivity The Relief from Royalty method fails in predictable ways. After enough reviews, the same handful of errors recur - and each is the kind of thing an auditor, a tax officer or an opposing expert is trained to find. This chapter catalogues the common failures and then turns to the single most important credibility device in intangible valuation: the sensitivity analysis.

11.1 The Recurring Errors

Most flawed RfR valuations fail for one of a small set of reasons. Learning to spot them in your own work before someone else does is most of what separates a defensible valuation from a vulnerable one.

Error	Consequence	The fix
Not tax-affecting the royalty savings	Overstates value by ~ the tax rate	Multiply pre-tax savings by $(1 - t)$
Omitting the TAB where it applies	Understates value by 10-18%	Add the TAB where a deduction accrues
Applying TAB in a share deal with no step-up	Overstates value	Match TAB to the actual deal structure
Royalty on total, not attributable, revenue	Overstates value materially	Build the base bottom-up; bridge from total
Rate not affordable from the margin	Implies an impossible licence	Run the profit-split affordability check
Double-counting across intangibles	Sum exceeds the enterprise value	Coordinate contributory-asset charges; run WARA
Perpetuity on a wasting asset	Values a patent past its expiry	Model to legal/economic life with decay
Mismatched rate and revenue basis	Gross/net or pre/post-tax confusion	Align the rate's basis to the base's basis
No sensitivity analysis	False precision; low credibility	Present the value as a range on key inputs

Table 11.1: The recurring errors in Relief from Royalty valuations and how to fix them.

OUR INSIGHT

The quickest quality review is to challenge the assumptions that carry the most value. Trace the royalty base to financial statements, inspect the licences behind the rate, test affordability, verify the tax treatment, and measure how much value sits in the terminal period. A model that survives those tests usually survives detailed review.

11.2 Why Single-Point Values Fail

A valuation reported as a single number - "the brand is worth Rs. 148 Crore" - projects a precision that the inputs cannot support. The royalty rate is a judgement within a range; the discount rate is an estimate; the growth assumption is a forecast. A reader who understands valuation knows this, and a single-point answer either insults that understanding or, worse, invites the reader to treat a soft estimate as a hard fact. The professional response is to embrace the uncertainty explicitly through sensitivity analysis - showing how the value moves as each key input varies across a reasonable range.

11.3 Building a Sensitivity Table

The most informative sensitivity varies the two inputs to which the value is most responsive - usually the royalty rate and the discount rate - in a two-way grid. Each cell shows the resulting value, letting the reader see at a glance both the central estimate and how much rests on the contested assumptions. The grid below illustrates a brand valued

around a central Rs. 148 Crore, showing how the answer shifts with the royalty rate and discount rate.

Royalty rate ↓ / Discount rate →	13%	15%	17%
2.5%	Rs. 142 Cr	Rs. 126 Cr	Rs. 113 Cr
3.0%	Rs. 167 Cr	Rs. 148 Cr	Rs. 133 Cr
3.5%	Rs. 192 Cr	Rs. 170 Cr	Rs. 153 Cr

Table 11.2: A two-way sensitivity of brand value to the royalty and discount rates (central case Rs. 148 Cr).

PRO TIP

Present the sensitivity grid in the body of the report, not buried in an appendix, and state your concluded value as a point estimate within a stated range - for example 'Rs. 148 Crore, within a reasonable range of Rs. 126-170 Crore'. This does three things at once: it demonstrates rigour, it inoculates you against the charge of false precision, and it frames any later challenge as a debate about where within a range the answer sits, rather than whether your single number is simply wrong.

11.4 Surviving Scrutiny

Ultimately a valuation is judged not by whether it is right - no one can know the single true value of a brand - but by whether it is reasonable and well-reasoned. The valuations that survive audit committees, tax hearings and cross-examination share a profile: the asset is precisely defined, the revenue base is bridged from the accounts, the royalty rate is evidenced and affordability-tested, the discount rate reconciles through a WARA, the TAB matches the deal structure, and the whole result is presented as a sensitised range with the reasoning laid bare. Build every valuation as though it will be challenged, because the good ones eventually are - and the discipline that makes a valuation defensible is the same discipline that makes it correct.

11.5 A Pre-Publication Self-Review Protocol

The cheapest way to catch the errors in this chapter is to review your own work against a fixed protocol before anyone else sees it. The discipline is to run the same checks every time, in the same order, so that nothing is skipped under deadline pressure. The protocol below mirrors the structure of this guide, walking back through each judgement in the model and asking whether it can be defended. (cid:127) Asset: Is the intangible precisely defined, with ownership and territory confirmed against the registers? (cid:127) Base: Does the royalty base bridge transparently from total revenue, and reconcile to the audited accounts? (cid:127) Rate: Is the royalty rate supported by genuinely comparable licences, and adjusted for differences? (cid:127) Affordability: Does the rate pass the profit-split check - could a licensee actually pay it and profit? (cid:127) Tax: Are the royalty savings tax-affected, and is the TAB treated consistently with the deal structure? (cid:127) Discount & life: Does the discount rate reconcile through a WARA, and does the horizon match the asset's life? (cid:127) Terminal value: Is any perpetuity growth rate modest and consistent with long-run economic assumptions? (cid:127) Presentation: Is the value shown as a sensitised range, with the reasoning for every key input on the page?

11.6 Reading a Valuation as a Skeptic

When the roles are reversed and you are reviewing someone else's valuation - a counterparty's, a target's, or an opposing expert's - the same protocol becomes a set of attack lines. The fastest way to test a conclusion is to probe the inputs it is most sensitive to: pull on the royalty rate and ask for the comparables behind it; pull on the terminal growth rate and ask how much of the value lives beyond the forecast; ask whether the TAB matches the structure and whether the intangibles reconcile to the enterprise value. A valuation that answers these calmly, with evidence, is probably sound. One that meets them with assertion rather than support is telling you where it is weakest. Learning to read valuations as a skeptic is the same skill as building them to survive skeptics - which is why the best preparation for defending your own work is to spend time dismantling other people's.

PRO TIP

Keep the self-review protocol as a literal checklist and initial each item before a report leaves your desk. It feels bureaucratic until the one time it catches a tax step you dropped at 11pm before a deadline. Every experienced valuer has a war story about the error a checklist would have caught; the checklist is how you avoid collecting your own.

CHAPTER 11 - PRACTITIONER CHECKLIST

- Trace the royalty base to source financial information.
- Review licences supporting the rate and document selection/rejection.
- Test affordability against sustainable operating margins.
- Verify useful life, terminal value and obsolescence assumptions.
- Check tax-affecting and any TAB separately.
- Run two-way sensitivities on the inputs that move value most.
- Confirm tables, formulas and cross-references reconcile before issue.

FINAL REVIEW QUESTIONS

Review question	Why it matters
Can each key input be traced to evidence?	Unsupported assumptions are the first point of attack.
Have formulas and arithmetic been independently reperformed?	A technically sound method can still fail through spreadsheet error.
Does sensitivity cover the real drivers?	Decorative sensitivities add little if they ignore the disputed inputs.
Could a skeptical reader understand the limitations?	Transparent limitations improve defensibility rather than weaken it.

Table 11.R: Questions to resolve before the Chapter 11 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A reviewer receives an RfR model with a polished narrative but no source bridge for revenue and only a screenshot of a royalty database. The fastest challenge is to ask for the product-level revenue reconciliation, the actual comparable licence terms, the rate adjustments, the useful-life support and the sensitivity grid. If those workpapers exist and reconcile, the report is likely robust. If they do not, additional prose will not repair the weakness. Audit readiness therefore begins in the workpapers, not in the final report formatting.

SIGN-OFF FILE

SIGN-OFF ITEM	WHAT SHOULD BE ON FILE
Source tie-out	Revenue, licence data, tax and market inputs can be reproduced from source evidence.
Sensitivity	The report shows how value changes for the assumptions that drive the conclusion.
Challenge test	A reviewer can see rejected comparables, limitations and management judgements.
Conclusion range	The point estimate is presented within a defensible range where uncertainty is material.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

PART III - REGULATION, RISK & APPLICATION

Chapter 12: Practical Case Studies - Brand, Patent and Royalty

The cases in this chapter are illustrative composites, not client matters. Their purpose is to show how the same RfR logic changes when the asset life, valuation purpose and tax premise change. Each case separates the pre-TAB RfR value from any tax-shield conclusion so the reader can see exactly which assumptions drive the number.

12.1 Illustrative Case Study A - Consumer Brand in a PPA

Assume a personal-care business has Rs. 610 crore of revenue attributable to its flagship owned brand. The base grows at 8% for five years and 4% thereafter. Comparable trademark licences support a 3.0% royalty on net sales. The modelling tax rate is 25% and the brand cash flows are discounted at 15%. The asset is assumed to have an indefinite economic life, so the model includes a terminal value.

Year	Revenue (Rs. Cr)	Royalty @3%	After-tax @25%	PV @15%
1	659	19.8	14.8	12.9
2	712	21.4	16.0	12.1
3	769	23.1	17.3	11.4
4	830	24.9	18.7	10.7
5	897	26.9	20.2	10.0
Terminal (g=4%)	-	-	191.0	95.0
Pre-TAB PV				152.1

Table 12.1: Illustrative pre-TAB Relief from Royalty computation for a consumer brand.

The discounted after-tax royalty savings are approximately **Rs. 152 crore before any tax amortisation benefit**. That is the cleanest point at which to pause and test the royalty rate, discount rate and terminal growth assumptions. If a market-participant tax basis and tax shield are supportable for the relevant fair-value purpose, the tax shield should be modelled separately using the applicable current tax rules rather than applying a universal 10-year straight-line multiplier.

OUR INSIGHT

The terminal period contributes a large share of an indefinite-life brand value. The best review question is therefore not only "is 3% the right royalty?" but also "how much of the conclusion sits beyond the explicit forecast, and what evidence supports the terminal growth and continuing brand life?"

12.2 Illustrative Case Study B - Pharmaceutical Patent with a Finite Life

Assume a process patent has seven years remaining to expiry. Attributable revenue is Rs. 240 crore in year one, grows by 5% initially, and then declines in the final two years as generic/design-around risk increases. Comparable technology licences support a 6% royalty. The modelling tax rate is 25% and the discount rate is 18%. Because the patent is finite-lived, there is no terminal value.

Year	Revenue (Rs. Cr)	Royalty @6%	After-tax	PV @18%
1	240	14.4	10.8	9.2
2	252	15.1	11.3	8.1
3	265	15.9	11.9	7.3
4	278	16.7	12.5	6.5
5	292	17.5	13.1	5.7
6 - decay	263	15.8	11.8	4.4
7 - decay	197	11.8	8.9	2.8
Pre-TAB PV				44.0

Table 12.2: Illustrative finite-life patent valuation with explicit patent-cliff decay.

The pre-TAB present value is approximately **Rs. 44 crore**. The central judgement is not the arithmetic but the decay profile: expiry does not automatically mean revenue becomes zero on one day, and a patent may lose economic power before legal expiry if substitutes or design-arounds emerge. Any tax-shield adjustment is again analysed separately based on the supportable tax basis and current WDV rules.

PRO TIP

For patents, create a one-page legal/economic life schedule before forecasting: filing date, grant date, expiry, key jurisdictions, competing patents, expected generic/design-around timing and management's replacement plan. The revenue decay should be tied to that evidence, not to a generic terminal assumption.

12.3 Illustrative Case Study C - Related-Party Trademark Royalty

Assume an Indian technology subsidiary uses a trademark owned by an overseas associated enterprise. The subsidiary earns Rs. 400 crore of branded revenue at a sustainable operating margin of 14%. A screened set of comparable trademark licences indicates a 3.0%-4.0% range. A proposed 3.5% royalty is then tested for comparability, functions and affordability.

Test	Illustrative finding	What it means
Comparable licence range	3.0%-4.0%	Proposed 3.5% sits within the screened market range
Operating margin before royalty	14.0%	Business has capacity to bear a royalty, subject to functions and risks
Royalty / operating margin	$3.5\% / 14.0\% = 25\%$	Historical 25% heuristic is only a diagnostic, not primary evidence
DEMPE / functional analysis	Parent performs material brand-development/protection functions	Supports - but does not automatically determine - the parent's arm's-length return
FEMA / remittance	Current-account compliance checked separately	Valuation support does not replace AD-bank/FEMA documentation

Table 12.3: Illustrative related-party royalty analysis - evidence first, heuristic second.

A defensible conclusion would explain the selected comparable licences, adjustments, the functions performed by each entity and the profitability available to the licensee. The fact that 3.5% happens to equal 25% of the 14% operating margin is not the reason for the conclusion; at most it is a sense-check. The arm's-length support rests on comparable uncontrolled evidence and the transfer-pricing analysis under the current Income-tax Act, 2025 framework.

12.4 What the Three Cases Share

Across all three cases, the same control sequence repeats: define the right being valued, bridge to attributable revenue, establish the royalty rate from evidence, test the rate against economics, tax-affect the royalty savings, select a cash-flow-specific discount rate, respect the legal/economic life, and analyse tax amortisation separately.

The method is simple enough to explain in one page; the professional judgement is in earning the right to use each input.

CHAPTER 12 - PRACTITIONER CHECKLIST

- Reperform every arithmetic step independently.
- Distinguish pre-TAB value from any tax-shield adjustment.
- Use finite-life modelling for patents and wasting technology.
- Use related-party royalty examples only as illustrations, not safe harbours.
- Show sensitivity and decision implications, not only one number.
- Label all company names and transaction facts as illustrative unless publicly sourced.

FINAL REVIEW QUESTIONS

Review question	Why it matters
Which parts of each case are illustrative assumptions?	Readers should not mistake educational inputs for market guidance.
Is the pre-TAB value visible before tax-shield scenarios?	This keeps valuation and tax premises separable.
Is finite-life decay tied to evidence?	Patent cliffs and technology obsolescence require explicit support.
Would the same royalty be supportable under TP analysis?	Comparable evidence and functions matter more than a heuristic ratio.

Table 12.R: Questions to resolve before the Chapter 12 conclusion is relied upon.

ILLUSTRATIVE SCENARIO

A board compares two RfR outputs for the same technology. The first gives a single Rs. 60 crore value using a 7% royalty and perpetual life. The second gives Rs. 42-50 crore using a finite legal life, explicit obsolescence decay and a royalty range supported by licences. The first is higher and simpler; the second is better grounded. The board should focus on whether the rights, life, revenue base and market evidence reflect what a buyer can actually exploit. A lower value is not automatically conservative, and a higher value is not automatically aggressive - defensibility depends on the assumptions.

SIGN-OFF FILE

SIGN-OFF ITEM	WHAT SHOULD BE ON FILE
Case assumptions	Every numerical assumption is clearly labelled illustrative and purpose-specific.
Arithmetic	Royalty savings, tax effects, discounting and terminal/finite-life mechanics reconcile.
Regulatory overlay	Each case separates valuation mechanics from accounting, tax or FEMA compliance.
Decision lesson	The case ends with the practical conclusion a CFO, board or adviser should carry forward.

DECISION POINT

The scenario is illustrative. The conclusion should follow the specific rights, evidence, valuation purpose and current legal framework - not a generic market convention.

CONCLUSION

Conclusion: Using Relief from Royalty as a Decision Framework

Relief from Royalty answers a simple economic question: what is the present value of the royalty a market participant avoids by owning a licensable intangible rather than renting it? The strength of the method is not its formula; it is the discipline it imposes on asset definition, revenue attribution, market evidence, tax treatment, risk and useful life.

What a Good RfR File Should Contain

Workstream	Minimum evidence
Asset definition	Ownership records, registrations, territories, product scope, licences and encumbrances
Revenue base	Product/brand revenue bridge to financial statements and normalising adjustments
Royalty rate	Screened licence set, comparability analysis, adjustments and rejected observations
Economics	Margin / affordability test, functions and risks, secondary cross-checks
Discount & life	Current market inputs, asset risk, useful-life evidence and terminal-value rationale
Tax	Tax on savings, separate TAB premise, current law references and adviser dependencies
Reporting	Purpose, standard of value, date, intended users, sensitivities and limitations

Table C.1: The core evidence trail behind a defensible RfR conclusion.

KEY DECISION

The right question is rarely "what royalty rate should I use?" It is "what licence would a market participant need for this exact right, on this exact revenue, for this exact period, and what would that licence cost?" The rate becomes easier to defend once the hypothetical transaction is defined properly.

When an Internal Model Is Enough

An internal RfR model can be useful for screening an acquisition, testing a royalty proposal, understanding the value sensitivity of a brand, or challenging a third-party analysis. For those purposes the goal is decision insight: clear inputs, reasonable ranges and transparent sensitivities.

When Independent Specialist Support Matters

Bring in a specialist when the number will enter audited financial statements, a statutory filing, a transaction price, a tax position, litigation or a cross-border related-party arrangement. Those situations require current comparable evidence, purpose-specific professional eligibility, documentation that survives review, and coordination with accounting, tax, legal and transaction workstreams.

FINAL TECHNICAL CHECKLIST

- Can another reviewer reproduce the revenue base from source financial information?
- Can every selected licence be explained and every major rejected comparable be justified?
- Does the royalty remain commercially affordable after considering the licensee's functions and margin?
- Does the discount rate match the risk of the royalty cash flow and the wider valuation?
- Is finite/indefinite life supported by legal and economic evidence?
- Are tax on savings and TAB separately documented under current rules?
- Does the report state purpose, standard of value, date and intended users clearly?

CONCLUSION

A Board-Level RfR Review Map

For a board, CFO, audit committee or transaction team, the full model can be reduced to six review questions. If the team can answer these with evidence, the valuation is usually in a position to be defended.

Question	What a strong answer looks like
1. What exactly is the asset?	A legal/economic rights map identifies owner, territory, product scope, useful life and neighbouring intangibles.
2. Which revenue does it drive?	A documented bridge reconciles total revenue to the attributable royalty base.
3. Why this royalty rate?	Comparable licences are screened, adjusted and supported by profitability and functions.
4. Why this discount rate and life?	The rate reflects the risk of the asset cash flow; useful life is supported by legal and economic evidence.
5. What tax benefit is included?	Tax on savings and any TAB are separated; the tax basis is explicit and current law is cited.
6. How uncertain is the number?	Two-way sensitivities show how value changes under reasonable royalty, discount and growth assumptions.

Table C.2: Six questions for a board-level review of an RfR conclusion.

OUR INSIGHT

The best RfR report is not the one with the most pages or the most decimals. It is the one where the reader can trace every material assumption to evidence, see the uncertainty, and understand why the selected method answers the stated purpose.

Elite Valuation - Intangible Asset & Transaction Support

Elite Valuation supports brand, trademark, patent, technology and other intangible-asset valuations for purchase price allocation, transaction analysis, financial reporting, licensing, transfer pricing support, impairment and statutory purposes. Our wider practice also covers business valuation, ESOPs, M&A, FEMA, AIFs, securities, financial modelling and due diligence.

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ONE LAST THING BEFORE YOU CLOSE THIS GUIDE

If the number matters, make sure it can be defended.

An intangible value can move purchase price allocation, earnings, impairment, tax positions, royalty payments and deal negotiations. The cost of getting the method wrong usually appears later - in audit questions, tax scrutiny, investor challenge or transaction rework.

YOU DO NOT NEED TO KNOW THE METHOD BEFORE CALLING US

Bring the transaction, the asset and the question. The first conversation is used to map the purpose, the correct valuation date, the information required, the likely method and the professionals or workstreams that need to be coordinated.

CALL US WHEN YOU ARE DEALING WITH

A PPA with material brands, patents or technology	A royalty or licence agreement that needs independent support
A related-party royalty and transfer-pricing review	An impairment test or auditor challenge
An acquisition where intangibles drive the economics	A dispute over IP value or reasonable royalty
A Companies Act valuation requiring a registered valuer	A cross-border transaction where valuation, tax and FEMA intersect

15+ YEARS	500+ ENGAGEMENTS	9 YEARS AT EY	IBBI RV
Professional experience	Client engagements	Big 4 foundation	Securities / Financial Assets

WHAT HAPPENS IN THE FIRST CONVERSATION

01	02	03
Map the purpose	Identify the evidence	Agree the workplan
We identify what the number will be used for and which framework controls.	We list the rights, financial data, licences, forecasts and market evidence needed.	We align timeline, deliverables, reviewer expectations and any parallel tax/legal work.

BOOK A 15-MINUTE INTRODUCTORY CALL

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BEFORE THE NEXT REVIEW QUESTION

If the royalty rate, revenue base, useful life, discount rate or tax assumption cannot be explained from evidence today, it will be harder to explain after the number has entered a board paper, financial statement, tax file or transaction document.