

THE ULTIMATE PRACTITIONER GUIDE TO SHARES & SECURITIES VALUATION IN INDIA 2026

*Equity, preference shares, debentures,
convertibles, warrants, OPM/PWERM
and regulatory pricing*



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Sagar Shah is the Founder of Elite Valuation and leads the firm's Valuation and Advisory practice. A Chartered Accountant (All India Rank Holder), Company Secretary and IBBI Registered Valuer, he brings 15+ years of professional experience advising promoters, investors, listed companies, startups and multinational groups on complex valuation and transaction matters across India. 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 business valuation, M&A, financial reporting, intangible assets, ESOPs, FEMA, AIFs, shares, securities and complex instruments - assignments where the conclusion 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
- Financial Modelling, Fundraising & Transaction Support
- Due Diligence & Transaction Advisory
- 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 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 Start with the reporting, transaction or regulatory objective before selecting a method.	02 Build from evidence Anchor assumptions to financials, market data, contractual terms and business economics.	03 Document the judgement Explain the why behind the number so reviewers can follow and challenge it.	04 Stay involved through review Support management through auditor, board, investor and regulator questions.
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WHAT WE DO

Elite Valuation is an independent boutique Valuation and Advisory firm supporting listed companies, MNCs, businesses, startups, funds, investors, CFOs and transaction teams. Shares and securities valuation forms one important part of a wider practice that connects transaction economics with regulatory, accounting, tax, cross-border and board requirements.

01 Shares, Securities & Complex Instruments Equity, preference shares, debentures, convertibles, warrants, options and capital-structure valuation.	02 Business & Company Valuation Enterprise and equity valuation for strategic decisions, fundraising, shareholder matters and transactions.
03 M&A, Merger & Swap Ratio Valuation Acquisition, merger, demerger, restructuring, share-exchange ratio and transaction valuation support.	04 Purchase Price Allocation & Ind AS Valuation PPA, intangible assets, impairment, financial instruments and fair-value measurement for reporting.
05 Intangible Asset & IP Valuation Brand, customer relationships, technology, patents, licences and other identifiable intangible assets.	06 ESOP & Share-Based Payment Advisory Option pricing, ordinary-share value, Ind AS 102, tax FMV, dilution and employee award economics.
07 FEMA & Cross-Border Valuation FDI, ODI, share transfers, cross-border mergers and foreign-investment pricing support.	08 Income Tax / Companies Act / SEBI Valuation Rule-based FMV, registered-valuer work, listed-company pricing and transaction-specific requirements.
09 AIF & Portfolio Valuation Independent portfolio valuation, NAV support and valuation-policy implementation for funds and investors.	10 Financial Modelling & Fundraising Integrated forecasts, scenario modelling, investor models and transaction decision support.
11 Financial Due Diligence Quality of earnings, working capital, net debt, accounting risk and transaction support.	12 Transaction & Strategic Advisory Structuring, valuation review, negotiation analytics, deal documentation support and board-ready material.

ONE TEAM, MULTIPLE CONTEXTS

A security value can affect dilution, a transaction price, tax, FEMA pricing, accounting, shareholder approvals and audit evidence. Our work is designed around the complete decision - not one isolated calculation.

REPORTS	MODELS	ADVISORY	REVIEW SUPPORT
Valuation & Fairness	DCF / OPM / PWERM	Board & Deal Support	Audit / Regulator / Investor

TYPICAL DELIVERABLES

Independent Valuation Reports	Regulatory Pricing Certificates	OPM / PWERM Allocation Models	Waterfall & Cap Table Models
DCF / Market / NAV Models	Fairness & Board Support	Audit Review Support	Transaction Sensitivity Analysis

HOW WE WORK WITH CLIENT TEAMS

01 MAP Purpose, instrument, date and regulatory context are fixed before modelling.	02 VALUE Evidence is translated into business value, security rights and class allocation.	03 DEFEND We support the board, audit, investor or regulator review until the conclusion is understood.
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WHO WE SERVE

Our clients usually call us when a security value is about to determine dilution, influence negotiation, enter a statutory filing, affect accounting, support a board decision or move value between shareholder classes. We work with the decision-makers who need the analysis to survive scrutiny after the transaction - not only at the time the report is signed.

CLIENTS & STAKEHOLDERS

Listed Companies	Promoters & Business Families	Boards & Audit Committees
MNCs & Cross-Border Groups	CFOs & Finance Teams	Startups & Founders
PE / VC / Strategic Investors	AIFs & Fund Managers	Investment Bankers
Law Firms & CA / CS Teams	M&A; / Corporate Development	ESOP & HR Leadership

WHEN CLIENTS TYPICALLY CALL US

EQUITY / FUNDRAISE A company needs a defensible pre-money or per-share value before issuing or transferring equity.	PREFERENCE / CONVERTIBLE CCPS, CCDs or warrants contain rights that make the headline round price an incomplete measure of value.	M&A; / WATERFALL Different security classes must be allocated sale proceeds or merger consideration consistently.
TAX / COMPANIES ACT A statutory valuation or Rule 57 FMV must be computed using the correct date, formula and signatory.	FEMA / CROSS-BORDER Resident and non-resident pricing rules create a floor or ceiling that must be aligned with commercial terms.	AUDIT / FAIR VALUE Ind AS requires a supportable fair value, option value, calibration or financial-instrument measurement.

SECTORS WE WORK ACROSS

Technology & SaaS	Financial Services	Consumer & Retail	Manufacturing	Healthcare
Infrastructure	Renewables	Logistics	Real Estate	Funds & Investments

WHY CLIENTS WORK WITH US

INSTRUMENT-FIRST We read the actual rights before assuming that all shares participate equally.	REGULATORY MAP We identify the exact purpose, date, price rule and prescribed professional before modelling.	VALUATION DEPTH DCF, multiples, NAV, yield, option methods and waterfalls are reconciled rather than used mechanically.	BOARD-READY Reports explain judgement in language that investors, auditors, boards and regulators can follow.
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WHAT WE HELP CLIENTS DECIDE

PRICE What price, range, floor or ceiling is supportable?	DILUTION How do rights, conversion and option pools change ownership?	ALLOCATION How should total equity value be allocated across classes?	DEFENSIBILITY What evidence will the board, auditor, investor or regulator challenge?
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START A CONVERSATION

Share the transaction structure, cap table, Articles / SHA, security terms, latest financials, projections, historical issuances and the exact legal or accounting purpose. We can map the value required, the method, the signatory and the work needed to make the conclusion defensible.

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DISCLAIMER

Important Information Before You Use This Guide

General Disclaimer

This guide is for educational and informational purposes only and does not constitute legal, investment, banking, tax, accounting, securities-law or transaction advice. Shares and securities valuation is purpose-specific. The same instrument can have a different value for commercial negotiation, Companies Act compliance, Income-tax FMV, FEMA pricing, SEBI pricing or Ind AS fair-value measurement because the governing question, date and assumptions are different.

Current-Law Review Date

The regulatory position in this guide was reviewed through 23 August 2026. The review is anchored to the Companies Act, 2013 and Companies (Registered Valuers and Valuation) Rules, 2017; Companies (Share Capital and Debentures) Rules, 2014; Income-tax Act, 2025 and notified Income-tax Rules, 2026; the current FEMA / NDI foreign-investment pricing framework; SEBI ICDR Regulations amended through 21 March 2026 and other current SEBI regulations where relevant; and notified Ind AS 102, 109 and 113. Primary text should be checked again for a live transaction.

One Security Can Have More Than One Relevant Value

A commercial round price, a statutory floor or ceiling, a tax FMV, an accounting fair value and a class-specific liquidation value are not interchangeable. A defensible report identifies the purpose, basis of value, measurement date, security rights, intended users and any regulatory formula before the method is selected.

Professional Eligibility

The professional permitted to issue a report or certificate depends on the legal purpose. The Companies Act may require a registered valuer; FEMA permits specified professionals for unlisted-company pricing and prescribes a merchant banker / eligible investment banker for swaps; Income-tax Rule 57 uses its own definitions; and listed-company transactions can prescribe merchant-bankers, registered valuers or mechanical pricing formulas depending on the transaction. Confirm the operative provision before engagement.

Illustrations and Market Practice

All numerical examples and scenarios are illustrative and do not represent any named client. DCF, multiples, NAV, yield, credit spread, OPM, PWERM, backsolve, option value and waterfall outputs depend on the facts and information available at the valuation date. Market-practice observations are not regulatory safe harbours.

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EXECUTIVE SUMMARY

Eight Rules for Defensible Shares & Securities Valuation

Shares and securities valuation is not a single formula. The practitioner must first identify what is being valued, which rights matter, why the value is required and whether the output is a commercial opinion, a statutory fair value, a regulatory floor / ceiling or an accounting measurement. These eight rules provide the control framework for the rest of the guide.

1 MAP THE PURPOSE FIRST Commercial price, Companies Act value, tax FMV, FEMA floor / ceiling and Ind AS fair value can legitimately differ.	2 READ THE SECURITY RIGHTS Dividend, liquidation preference, conversion, redemption, anti-dilution and voting terms can change class value materially.
3 SEPARATE BUSINESS VALUE FROM SECURITY VALUE First value the enterprise / equity where appropriate; then allocate value to each security class using its economic rights.	4 DO NOT FORCE ONE METHOD DCF, multiples, NAV, yield, option methods and probability-weighted scenarios answer different evidence conditions.
5 USE THE CORRECT 2026 TAX FRAMEWORK Income-tax Act, 2025 and Rule 57 now govern current unquoted-share FMV questions from 1 April 2026.	6 FEMA PRICING IS DIRECTIONAL Inbound issue / resident-to-nonresident transfer generally uses a floor; nonresident-to-resident transfer generally uses a ceiling.
7 COMPLEX CAPITAL NEEDS ALLOCATION OPM, PWERM, hybrid methods, backsolve and waterfalls are often required when headline post-money value does not equal ordinary-share value.	8 BUILD FOR REPRODUCIBILITY A conclusion is only defensible if another reviewer can recreate the cap table, assumptions, rights, market data, formulas and reconciliation.

OUR INSIGHT

The fastest way to create valuation risk is to ask for a per-share number before reading the instrument terms. In a simple one-class company, enterprise value may flow almost directly to ordinary equity. In a venture-backed or structured capital table, the same enterprise value can produce very different values for ordinary shares, preference shares, convertibles and options depending on the exit scenario.

PART I - FOUNDATIONS

Chapter 1: The Shares & Securities Valuation Map - Purpose Before Instrument

1.1 Why There Is No Single 'Share Value'

A share is a legal and economic claim, not merely a unit in a denominator. The value of that claim depends on the purpose of valuation, the rights attached to the security, the capital structure above and below it, and the measurement date. An ordinary equity share in a founder-owned company may participate proportionately in residual value. The same ordinary share in a venture-backed company can sit behind one or more preference classes with liquidation preference, conversion rights and anti-dilution protection. The headline company valuation therefore does not automatically equal ordinary-share value multiplied by the fully diluted share count.

The purpose can also change the answer. A commercial fundraising price is negotiated. A Companies Act valuation may support a statutory issue or transaction. Income-tax Rule 57 contains prescribed FMV mechanics for specified tax provisions. FEMA sets directional pricing constraints for cross-border issue and transfer. Ind AS fair value is a market-participant measurement. A sound engagement starts by mapping purpose, instrument, date, signatory and intended use before a model is opened.

Valuation Context	Primary Question	Typical Output
Commercial / M&A;	What price or exchange ratio is economically supportable?	Enterprise value, equity value, per-share / class value
Companies Act	What value is required under the Act / rules for the transaction?	Registered-valuer report where the law requires
Income-tax	What prescribed FMV applies to the tax event?	Rule 57 / other prescribed FMV
FEMA	Does cross-border issue / transfer satisfy pricing direction?	Certified floor / ceiling
Financial reporting	What would market participants pay / receive at measurement date?	Ind AS fair value / instrument fair value

Chapter 1 - valuation / regulatory reference table

Valuation Trigger Map - Write This Down Before Modelling

- | | |
|--|---|
| - Purpose and exact legal / accounting provision | - Fully diluted cap table and senior claims |
| - Valuation date and information cut-off | - Prescribed professional / report / certificate |
| - Security being valued and its contractual rights | - Decision, filing or approval that will use the number |

1.2 The Security Rights Hierarchy

Economic rights should be translated into cash-flow or exit consequences before they are translated into valuation. For preference shares, ask whether the dividend is cumulative, participating, discretionary or fixed; whether the instrument is redeemable; whether conversion is optional or mandatory; and whether liquidation preference is 1x, multiple, participating or subject to a cap. For debentures, identify coupon, maturity, ranking, security, covenants, prepayment and conversion or redemption options. For warrants and options, document exercise price, life, vesting / exercisability, dilution and settlement terms.

OUR INSIGHT

A valuation model should never contain a generic label such as 'CCPS' or 'CCD' without a rights summary. Two instruments with the same legal label can have different economics, and therefore different values, because the conversion ratio, participation, seniority, anti-dilution and exit rights are different.

1.3 Value, Price, Fair Value and Regulatory Floor

Price is an observed or negotiated transaction amount. Value is an analytical conclusion. Fair value under Ind AS 113 is an exit-price concept between market participants at the measurement date. Tax FMV is whatever the applicable tax rule prescribes, which may be formula-based rather than a full market-participant valuation. FEMA pricing is generally a regulatory floor or ceiling for specified cross-border transactions, not an assurance that the agreed commercial price is economically fair. Confusing these labels is one of the most common causes of unusable reports.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|---|---|
| - Which exact purpose is the report for? | - Is the output a point value, range, floor, ceiling or allocation? |
| - What is the legal form and economic substance of the security? | - Who can legally sign the output for that purpose? |
| - What rights become important at low, base and high exit values? | - Will a second value be required for accounting, tax or FEMA? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Purpose map	Exact operative provision, use and date are documented	Generic request for a valuation certificate
Rights	Executed Articles / SHA translated into payoff logic	Security label used without reading terms
Cap table	Issued, as-converted and fully diluted views reconcile	One denominator used for every purpose
Output	Fair value / FMV / floor / ceiling clearly labelled	One number presented as universal value

Practical Illustration - Same Company, Different Questions

Assume a private company has a negotiated post-money value of Rs. 120 crore in a CCPS round. The investor receives a 1x non-participating liquidation preference and can convert into ordinary shares. The same company is simultaneously issuing ESOPs and receiving foreign capital. The Rs. 120 crore headline valuation is commercial evidence, but it does not automatically determine ordinary-share fair value for ESOP accounting, the tax FMV at exercise, or the FEMA floor for the foreign investment. Each purpose must be mapped separately.

Item	Value / Position	Interpretation
Commercial round	Rs. 120 crore headline post-money	Negotiated class price and rights
Ordinary share	May be below CCPS implied price	Class rights / allocation matter
FEMA	Must satisfy current pricing rule	Directional floor / ceiling
Accounting	Measurement under applicable Ind AS	Market participant / option value

Practical Application

Build a one-page security map showing every class, number of instruments, conversion ratio, liquidation seniority, dividend / coupon, redemption, exercise price and vesting. Reconcile it to the Articles, shareholders agreement, debenture documents, ESOP scheme and MCA / depository records. The map should be signed off by management before allocation modelling begins.

COMMON ERRORS TO AVOID

Error	Why it matters
Starting with DCF before mapping the purpose	Can produce the right model for the wrong legal / accounting question.
Treating all preferred and ordinary shares as economically identical	Misses seniority, conversion and exit rights.
Using one valuation date for several events	Different regulations and accounting measurements can use different dates.
Ignoring professional eligibility	A technically sound number may still be unusable as a statutory certificate.

PRO TIP

If a term cannot be converted into a cash-flow consequence, dilution consequence or decision rule in the model, it has probably not been understood well enough. Translate legal drafting into economics before selecting the method.

PRACTITIONER CHECKLIST

- | | |
|---|---|
| - Freeze purpose and valuation date | - Separate statutory floors from fair value |
| - Read Articles, SHA and instrument documents | - Confirm signatory / independence requirements |
| - Reconcile issued and fully diluted securities | - Document information cut-off and limitations |
| - Identify seniority and liquidation waterfall | - Keep one rights summary with the model |

PART I - FOUNDATIONS

Chapter 2: Core Valuation Methodology - Business Value, Equity Value & Per-Security Value

2.1 Start With the Valuation Architecture

For operating companies, the most common architecture is: value the business, bridge enterprise value to equity value, then allocate equity value across security classes. The income approach values expected future economic benefits; the market approach uses comparable company or transaction evidence; the asset approach values underlying net assets. Security-specific methods then allocate or directly value the claims. This sequencing avoids a frequent mistake - applying a company multiple directly to one security class without recognising debt, cash, non-operating assets or senior claims.

A useful report distinguishes three layers. Enterprise value measures the operating business before financing claims. Equity value is the residual value after adjusting for debt-like claims, cash and non-operating assets as appropriate. Per-security value depends on the denominator and class rights. In a simple one-class company, a pro rata allocation may be reasonable. In a complex capital structure, OPM, PWERM, hybrid or explicit waterfall methods may be required.

Approach / Technique	Best Use	Key Risk
DCF / Income approach	Forecastable operating business	Forecast optimism, WACC, terminal value
Trading multiples	Observable comparable companies	Peer selection and accounting consistency
Transaction multiples	Control / M&A; evidence	Synergies, cycle and deal-specific terms
NAV / adjusted assets	Holding / investment / asset-rich businesses	Stale book values, hidden liabilities
Yield / bond pricing	Debt and fixed-income securities	Credit spread, recovery and optionality
Option / allocation methods	Convertibles, options, complex classes	Volatility, scenarios and breakpoint logic

Chapter 2 - valuation / regulatory reference table

Enterprise-to-Per-Share Bridge

- Operating enterprise value - + surplus cash / non-operating assets - - debt and debt-like claims	- - other senior / off-balance-sheet claims where appropriate - = equity value available to security holders - allocate by class rights, then divide by class units
--	---

2.2 DCF - The Model Is Not the Valuation

DCF quality depends on operating drivers, not the number of spreadsheet tabs. Revenue should be tied to measurable drivers such as customers, price, volume, capacity, utilisation or contracts. Margins should reconcile to the economics of delivery. Working capital, capex and tax must be modelled consistently. The discount rate should reflect the risk of the cash flows being discounted; adding arbitrary premiums simply to force a lower value is not a substitute for risk analysis. Terminal value should represent a mature state rather than capitalising an immature margin indefinitely.

OUR INSIGHT

The best DCF review question is not 'what WACC did you use?' It is 'which two assumptions move the valuation most, and what independent evidence supports them?' Sensitivity should focus on those assumptions rather than produce decorative grids around a predetermined answer.

2.3 Market and Asset Approaches

The market approach is only as strong as the comparable set. Business model, geography, scale, growth, margin, customer concentration, capital intensity and accounting policy can matter more than industry label. Multiples must be applied consistently: enterprise-value multiples to enterprise metrics; equity-value multiples to equity metrics. NAV is strongest when asset values, investments and liabilities are the economic drivers. For holding companies and investment entities, underlying investments may need separate valuation before the parent share is valued.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|---|---|
| - Is the method consistent with the basis and purpose of value? | - Are non-operating assets and investments separately valued? |
| - Are enterprise and equity multiples being mixed? | - Is the terminal value proportion reasonable? |
| - Does the net-debt bridge include lease / quasi-debt items consistently? | - Would an independent reviewer choose the same peer set? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Forecast evidence	Driver-based model reconciles to history / MIS	Top-line percentages with no operating bridge
Market evidence	Peer screen and rejected peers retained	Convenient peer set selected after seeing multiples
Equity bridge	Debt, cash, leases and non-operating assets reconciled	EV divided directly by shares
Weighting	Method weight follows evidence quality	Mechanical average of every method

Illustrative Reconciliation - Three Approaches, One Evidence Set

Assume a company produces DCF equity value of Rs. 82-94 crore, trading-multiple equity value of Rs. 78-90 crore and adjusted NAV of Rs. 54 crore. The company is an operating business with credible forecasts, so NAV is a downside cross-check rather than an equal-weight method. A reasoned conclusion might place more weight on DCF and market evidence while explaining why the lower asset value does not represent the going-concern economics.

Item	Value / Position	Interpretation
DCF	Rs. 82-94 cr	Primary - driver-based forecast
Trading multiples	Rs. 78-90 cr	Primary / corroborative
Adjusted NAV	Rs. 54 cr	Downside / asset cross-check
Conclusion	Reasoned range, not simple average	Weight follows evidence quality

Practical Application

Create a method-selection memo before finalising the model. For every method, state why it is included, why it is relevant to the subject, the principal observable inputs, the largest judgement and the reason any common method was excluded. This makes the final weighting explainable rather than arbitrary.

COMMON ERRORS TO AVOID

Error	Why it matters
Mixing EV and equity multiples	Creates a financing-structure error before per-share value is derived.
Adding cash / debt inconsistently between methods	Makes DCF and market cross-checks non-comparable.
Using a mature terminal margin in an immature forecast year	Overstates sustainable economics.
Averaging a weak NAV with strong operating evidence	Dilutes the quality of the conclusion rather than improving it.

PRO TIP

Do not average methods mechanically. A weak method does not become reliable because it is combined with a strong one. Weighting is a judgement about evidence quality, not a mathematical ritual.

PRACTITIONER CHECKLIST

- | | |
|---|--|
| - Reconcile enterprise and equity value | - Test terminal assumptions |
| - Use consistent debt / cash treatment | - Run meaningful sensitivity |
| - Normalise historical and forecast metrics | - Explain excluded methods |
| - Document peer-selection screen | - Conclude on a range before selecting a point |

PART II - EQUITY & PREFERENCE CAPITAL

Chapter 3: Equity Shares - DCF, Multiples, NAV & Minority / Marketability Considerations

3.1 Ordinary Equity Is the Residual Claim

Equity shares are often described as the simplest security, but their value still depends on capital structure, control rights, transfer restrictions and the valuation purpose. The starting point is usually the value available to equity holders after deducting debt and senior claims. Where there is only one class of ordinary shares with identical rights, per-share value can often be derived pro rata. Where there are preference shares, convertibles, warrants, ESOPs or different voting / economic classes, an allocation method may be required before ordinary-share value is known.

For private companies, the absence of an observable market price makes evidence selection critical. DCF may be strong where forecasts are credible. Comparable-company multiples can provide market anchoring. Recent arm's-length transactions may be useful if they are recent and the instrument rights are comparable. NAV can be primary for investment / asset-rich companies and a cross-check for many operating businesses.

Equity Evidence	When It Is Strong	What to Test
Recent arm's-length round	Recent, same economics, no material change	Rights, elapsed time, performance vs plan
DCF	Forecast drivers are supportable	WACC, terminal value, cash conversion
Listed comparables	True operating peers exist	Growth, margins, scale, accounting
Transactions	Comparable control deals exist	Synergy, cycle, deal structure
NAV	Assets drive economics	Revaluation, taxes, liabilities, subsidiaries

Chapter 3 - valuation / regulatory reference table

Private-Company Equity Data Pack

- Latest audited financials and current MIS - Board-approved / management forecasts with driver bridge - Cap table on issued, as-converted and fully diluted basis	- Debt, cash, surplus assets and off-balance-sheet claims - Articles / SHA / transfer restrictions - Recent transactions in the company's securities
--	--

3.2 Control, Minority and Marketability

A pro rata share of total equity value does not automatically imply the same value for every block. Control can carry economic benefits when it provides the ability to direct operations, capital allocation, distributions or a transaction. Minority interests can be exposed to information, governance or exit constraints. Private-company shares can also be less marketable because there is no active exchange and transfer may be restricted. However, discounts for lack of control or marketability should never be inserted mechanically. The basis of value, subject interest and already-embedded transaction assumptions determine whether an adjustment is appropriate.

OUR INSIGHT

A discount should be the last analytical step, not the first. Before applying a DLOM or minority adjustment, ask whether the selected comparable evidence already reflects minority market pricing, whether the DCF is built on control assumptions, and whether the shareholder agreement creates actual exit rights that reduce illiquidity.

3.3 Recent Transaction and Backsolve Evidence

A recent financing round can be powerful evidence, but the observed price belongs to the security that was actually issued. If the round security carries liquidation preference, anti-dilution, conversion or other investor rights, its issue price should not be copied directly to ordinary shares. In complex capital structures, a backsolve can infer total equity value or volatility / other inputs by calibrating a model to the transaction price and rights. The method is especially useful where a recent arm's-length financing is the strongest market evidence.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|---|---|
| <ul style="list-style-type: none"> - Is the subject a controlling block or minority interest? - Are transfer restrictions contractual, practical or both? - Does the selected evidence already reflect minority pricing? | <ul style="list-style-type: none"> - Was the latest round ordinary equity or a preferred security? - Has performance changed materially since the round? - Would a market participant demand a liquidity adjustment? |
|---|---|

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Recent round	Rights, timing and performance calibrated	Preferred price copied to ordinary shares
Control basis	Subject interest and basis of value stated	Automatic minority premium / discount
Marketability	Liquidity rights and holding period analysed	Standard DLOM inserted without evidence
Denominator	FD cap table reconciles to legal records	ESOP / convertibles omitted or double counted

Practical Illustration - Headline Round Price vs Ordinary Share Value

A company raises Rs. 20 crore through CCPS at Rs. 200 per preferred share. The CCPS has a 1x non-participating liquidation preference and converts 1:1. If the company is later valued at an exit value where the preference is likely to bind, an ordinary share may be worth less than Rs. 200 even though the latest financing occurred at that price. The difference is not a valuation contradiction; it is the value of the preferred rights.

Item	Value / Position	Interpretation
Observed CCPS price	Rs. 200	Includes preferred rights
Ordinary share	Potentially < Rs. 200	Residual / class-specific claim
High exit scenario	Values may converge	Conversion dominates
Low exit scenario	Gap can widen	Preference absorbs value first

Practical Application

When using a recent transaction, prepare a calibration schedule: transaction date, security class, price, rights, fully diluted ownership, company performance at the transaction date, current performance, time elapsed and any material market event. Then decide whether the transaction is a direct input, a backsolve input or only a cross-check.

COMMON ERRORS TO AVOID

Error	Why it matters
Copying the last CCPS issue price to ordinary shares	Transfers preferred-right value to the wrong class.
Applying DLOM and minority discounts without checking the basis	Can double-count risks already embedded in the evidence.
Ignoring transfer / exit rights in the SHA	Can overstate illiquidity.
Using the legal share count instead of the relevant fully diluted denominator	Moves every per-share result.

PRO TIP

Do not use a DLOM percentage merely because the company is unlisted. The adjustment should be linked to the basis of value, expected holding period, distribution prospects, transfer rights, information rights and available liquidity mechanisms.

PRACTITIONER CHECKLIST

- | | |
|--|--|
| - Confirm ordinary-share rights | - Document control / minority basis |
| - Reconcile fully diluted denominator | - Assess marketability evidence |
| - Bridge enterprise value to equity | - Avoid double-counting discounts |
| - Analyse recent transactions by class | - Cross-check per-share value to cap table |

PART II - EQUITY & PREFERENCE CAPITAL

Chapter 4: Preference Shares & CCPS - Rights Drive Value

4.1 Preference Capital Is a Bundle of Rights

Preference shares can resemble equity, debt or a hybrid depending on their terms. The valuer must identify dividend rights, cumulative or non-cumulative features, redemption, conversion, liquidation preference, participation, voting, anti-dilution, put / call rights and maturity. Compulsorily convertible preference shares (CCPS) used in venture financings are legally within equity-instrument frameworks for many purposes, but their economic value can still differ from ordinary shares because of preferential rights.

The correct technique depends on what drives the economics. Redeemable fixed-dividend preference shares can be analysed as a discounted fixed-income claim adjusted for credit and optionality. CCPS with meaningful liquidation and conversion rights may require scenario analysis, OPM, PWERM or a hybrid allocation. A simple pro rata allocation based on as-converted ownership can be misleading when the preference is expected to bind in downside or mid-value scenarios.

Preference Feature	Valuation Effect	Model Treatment
Cumulative dividend	Adds accrued / priority claim	Accrual + discounted expected payment
Redemption right	Creates fixed / timed cash-flow claim	Yield / present value + credit risk
1x liquidation preference	Protects downside proceeds	Waterfall breakpoint / scenario
Participation	Shares in residual after preference	Explicit waterfall
Conversion option	Upside participation	Option / max(preferred, conversion)
Anti-dilution	Changes future conversion ratio	Scenario / contractual adjustment

Chapter 4 - valuation / regulatory reference table

Rights Summary - Minimum Fields

- Issue price and paid-up amount - Dividend rate and cumulative status - Liquidation multiple and participation - Conversion ratio / formula / timing	- Redemption date and premium - Anti-dilution / down-round protection - Voting and protective provisions - Put / call / drag / tag / exit rights
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4.2 Non-Participating vs Participating Preference

For non-participating preference, the holder typically chooses or receives the more valuable of its preference amount and as-converted equity participation, depending on the contractual terms. This creates a breakpoint: below a certain equity value, the preference dominates; above it, conversion dominates. Participating preference can receive the preference amount and then share in residual proceeds, sometimes subject to a cap. The resulting payoff is more valuable and must be modelled explicitly. The cap table alone cannot show these economics.

OUR INSIGHT

The phrase '1x preference' is not enough for valuation. 1x non-participating, 1x participating uncapped and 1x participating with a 2x cap can produce materially different values from the same company equity value. Always model the full waterfall.

4.3 Discount Rate, Yield and Credit Risk

Where redemption or fixed dividends are economically significant, the valuation should consider the yield required by a market participant for the relevant credit, tenor, ranking and liquidity. A risk-free rate plus a generic spread may be too crude if the issuer is loss-making or subordinated. Conversely, double-counting business risk in both the enterprise valuation and a security discount rate can distort value. The model should be clear about whether credit risk is captured in cash-flow probabilities, discount rate, scenario probabilities or a combination.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|--|---|
| - Is conversion mandatory, optional or event-driven? | - Is redemption legally and economically enforceable? |
| - Does the holder receive preference or conversion value, or both? | - What happens on a sale before conversion? |
| - Are dividends cumulative and senior? | - Does anti-dilution change the conversion ratio in a down round? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Preference terms	Dividend, preference, conversion and cap modelled	Only face value and ownership percentage used
Breakpoints	Conversion / participation thresholds calculated	Preference assumed always to bind
Credit element	Redemption / yield assumptions supported	Debt-like cash flows ignored
Waterfall	Proceeds tested at low, base and high values	Legal terms not translated into cash proceeds

Illustrative Waterfall - 1x Non-Participating CCPS

Investor A invests Rs. 20 crore for CCPS representing 20% on an as-converted basis, with a 1x non-participating liquidation preference. At a Rs. 60 crore sale, 20% as-converted value is Rs. 12 crore, so the Rs. 20 crore preference is economically superior. At a Rs. 150 crore sale, 20% as-converted value is Rs. 30 crore, so conversion is superior. The economic breakpoint is the equity value at which 20% equals Rs. 20 crore, i.e. Rs. 100 crore.

Item	Value / Position	Interpretation
Exit equity value	Preference route	Conversion route
Rs. 60 cr	Rs. 20 cr	Rs. 12 cr
Rs. 100 cr	Rs. 20 cr	Rs. 20 cr
Rs. 150 cr	Rs. 20 cr	Rs. 30 cr

Practical Application

Plot the payoff of each preference class against total equity value. The graph should show where each security changes from preference to conversion, where participation caps are reached, and where junior classes begin to receive value. Those breakpoints become the foundation for OPM or scenario allocation.

COMMON ERRORS TO AVOID

Error	Why it matters
Treating a 1x preference as the same in every structure	Participation, seniority and caps change the payoff.
Ignoring accrued cumulative dividends	Understates the preferred claim.
Assuming mandatory redemption is risk-free	Credit and enforceability still matter.
Not testing the conversion election at multiple exit values	Misses the breakpoint where economics change.

PRO TIP

Value rights that can change cash proceeds; do not automatically assign separate value to every protective covenant. Governance rights matter when they alter market-participant economics, probability of outcomes or control, but not every veto translates into an independent numerical premium.

PRACTITIONER CHECKLIST

- | | |
|---------------------------------------|--|
| - Build class-by-class rights matrix | - Reflect anti-dilution scenarios |
| - Model accrued dividend / redemption | - Use market-consistent credit assumptions |
| - Calculate conversion breakpoints | - Reconcile value to total equity |
| - Test participation and caps | - Explain why method matches payoff |

PART III - DEBT & CONVERTIBLES

Chapter 5: Debentures, Bonds & NCDs - Yield, Credit & Embedded Options

5.1 Fixed Income Value Is the Present Value of Risk-Adjusted Cash Flows

A debenture or bond is valued by forecasting contractual and expected cash flows and discounting them at a yield consistent with tenor, credit risk, ranking, security, liquidity and embedded options. For a plain fixed-rate instrument, the core inputs are coupon, maturity, principal, payment frequency and required market yield. For private-company NCDs, observable yield evidence can be limited, so the credit spread must be built from issuer risk, comparable debt, ratings or other market evidence rather than selected to reach face value.

The distinction between contractual cash flows and expected cash flows matters. A deeply distressed issuer may not be able to repay contractual principal on time, so expected recovery and probability-weighted scenarios can be more relevant than discounting contractual amounts at an extreme yield. The basis of value and information available at the measurement date should determine the approach.

Debt Feature	Valuation Input	Typical Evidence
Coupon / cash interest	Scheduled cash flow	Instrument terms
Maturity / amortisation	Timing of principal	Debenture deed / term sheet
Credit quality	Credit spread / default probability	Ratings, leverage, coverage, peer debt
Security / ranking	Recovery and spread	Collateral and capital structure
Liquidity	Yield adjustment	Marketability / comparable private debt
Call / put / conversion	Option value	Option model / lattice / scenarios

Chapter 5 - valuation / regulatory reference table

Plain-Vanilla Bond Check

- | | |
|--|--|
| <ul style="list-style-type: none"> - Map every coupon and principal cash flow - Select market-consistent required yield - Use actual day-count / frequency where material | <ul style="list-style-type: none"> - Separate issuer credit from risk-free term structure - Consider ranking, security and liquidity - Reconcile clean / dirty price and accrued interest if relevant |
|--|--|

5.2 Credit Spread Is a Valuation Assumption, Not a Plug

Credit spread should reflect the probability and severity of non-payment relative to a benchmark yield curve. A practitioner can triangulate from listed bonds of comparable issuers, bank borrowing rates, rating spreads, credit metrics, CDS where available and expected recovery. Private-company spreads often require judgement, but the report should show the evidence and the bridge from benchmark to subject. If a company is near distress, scenario-based recovery may be more transparent than a single large spread.

OUR INSIGHT

A bond can trade below face value even when the company expects to repay in full, simply because the coupon is below the market yield. Conversely, a high coupon does not make a weak credit worth face value. Coupon determines contractual cash flow; yield determines present value.

5.3 Embedded Calls, Puts and Prepayment

Callable or puttable debentures contain options. A call benefits the issuer and usually reduces investor value when market yields fall; a put benefits the investor and can increase value, subject to enforceability and credit. Prepayment premiums, step-up coupons, make-whole provisions and covenant-triggered redemption can also alter expected cash flows. For material optionality, a lattice or scenario model may be more appropriate than a single-yield DCF.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|--|---|
| - What is the contractual maturity and actual expected repayment date? | - Are coupon and principal expected to be paid in full? |
| - Is the instrument secured and where does it rank? | - Who controls call, put or prepayment options? |
| - What market yield would a new investor require? | - Is there conversion or equity-linked upside? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Cash flows	Coupon / principal schedule ties to deed	Face value assumed to equal fair value
Yield	Benchmark plus supported issuer spread	Credit spread used as a plug
Recovery	Default / recovery considered where relevant	Contractual cash flows assumed despite distress
Optionality	Call / put / prepayment rights modelled	Single-yield DCF for option-heavy debt

Practical Illustration - Coupon Below Market Yield

Assume a five-year NCD with face value Rs. 100, annual coupon 8% and bullet redemption at Rs. 100. If a market participant requires 12% for the issuer's credit and liquidity, the fair value is below Rs. 100 because the contractual coupon is insufficient for the required return. Using annual discounting, the present value of five Rs. 8 coupons plus Rs. 100 principal is approximately Rs. 85.6.

Item	Value / Position	Interpretation
Face value	Rs. 100	Contractual principal
Coupon	8%	Rs. 8 annually
Required yield	12%	Market participant return
Indicative PV	~Rs. 85.6	Below par because coupon < yield

Practical Application

Prepare a yield-bridge table that starts with the risk-free or benchmark curve and then documents issuer credit, tenor, ranking / security and liquidity. Where the bridge is judgemental, show at least a low / base / high spread sensitivity and explain which scenario is most consistent with observable financing evidence.

COMMON ERRORS TO AVOID

Error	Why it matters
Assuming par equals fair value	Coupon and market yield rarely remain identical through time.
Using bank lending rate as the bond yield without adjustment	Ranking, security, tenor and liquidity can differ.
Ignoring recovery in distress	A very high discount rate can obscure the real loss mechanism.
Ignoring issuer call rights	Can overstate value when the investor cannot retain above-market coupons.

PRO TIP

Do not discount a distressed bond at an arbitrarily huge rate when the real issue is uncertain recovery. Probability-weighted recovery scenarios are often more explainable and less mathematically unstable.

PRACTITIONER CHECKLIST

- | | |
|--|--|
| - Reconcile contractual cash flows | - Value calls / puts / prepayment |
| - Select term-consistent benchmark | - Check accrued interest treatment |
| - Support credit spread with evidence | - Test yield sensitivity |
| - Model default / recovery if material | - Reconcile to recent financing evidence |

PART III - DEBT & CONVERTIBLES

Chapter 6: CCDs, OCDs, Warrants & Convertible Instruments - Conversion Economics

6.1 A Convertible Is Debt Plus Equity Optionality - Sometimes

Convertible instruments combine contractual cash flows with a right or obligation to receive equity. The economic decomposition depends on the terms. A compulsory convertible debenture (CCD) may have limited debt-like redemption economics if conversion is mandatory, while an optionally convertible debenture (OCD) can contain meaningful investor choice between debt repayment and equity conversion. Warrants and options generally derive value from the right, not the obligation, to acquire shares at an exercise price.

Valuation begins with the conversion formula: fixed ratio, valuation cap, discount to future round, formula linked to performance, or a combination. The practitioner must determine what happens at maturity, a qualified financing, an IPO, a sale, a down round and a failure to raise. These scenarios drive both cash flows and dilution.

Instrument	Economic Driver	Common Technique
CCD	Mandatory equity conversion	As-converted / scenario / PWERM
OCD	Debt value vs conversion option	Straight debt + option / lattice / scenarios
Convertible note	Cap, discount, financing trigger	Scenario / PWERM / option-informed
Warrant	Exercise right at strike	Black-Scholes / lattice / scenario
Call / put on shares	Right to buy / sell shares	Option model subject to contract
Performance conversion	Conditional ratio	Probability-weighted scenarios

Chapter 6 - valuation / regulatory reference table

Conversion Terms to Model

- | | |
|---|--|
| - Conversion trigger and timing | - Corporate-action adjustments |
| - Conversion price / ratio / cap / discount | - Down-round / anti-dilution mechanics |
| - Treatment of accrued interest | - Exit before conversion |
| - Qualified-financing definition | - Maturity, repayment or forced conversion |

6.2 Valuation Cap and Discount Mechanics

A capped or discounted conversion gives the holder more shares when the next round price is high relative to the cap or when the discount produces a lower conversion price. The contract must specify which mechanism wins if both apply. The valuation should use a fully diluted denominator consistent with the legal definition in the instrument. ESOP pool increases, other convertibles and new-money shares can materially change the conversion outcome, so a simplistic percentage shortcut is unsafe.

OUR INSIGHT

Deferred pricing is still pricing. A cap, discount or conversion formula simply moves part of the valuation decision to a future event. The present value of the instrument depends on the distribution of future financing values, timing and the contractual rule that converts those values into shares.

6.3 Warrants and Option Inputs

For warrants, the key inputs typically include underlying share value, exercise price, expected life, volatility, risk-free rate, expected dividends and dilution / settlement mechanics. Black-Scholes can be appropriate for simple European-style rights, but private-company warrants often contain vesting, early exercise, non-transferability, performance conditions or event-driven settlement that may require lattice or scenario methods. Volatility should be consistent with the expected life and the risk of the underlying business, usually informed by comparable listed companies and calibration.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|--|--|
| - Is conversion optional or compulsory? | - What happens if no qualified financing occurs? |
| - Which is more favourable: cap or discount? | - How is fully diluted capital defined in the contract? |
| - Does accrued interest convert or get paid in cash? | - Are warrant exercise and settlement assumptions modelled consistently? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Conversion formula	Cap / discount / denominator matches contract	Spreadsheet formula differs from legal drafting
Scenarios	Financing, no-financing, exit and maturity tested	Only one conversion event modelled
Option inputs	Underlying, life and volatility are consistent	Black-Scholes inputs copied from another exercise
Dilution	Post-conversion ownership shown explicitly	Percentage shortcut hides share-count changes

Illustrative Convertible Note - Cap vs Discount

Assume a Rs. 1 crore convertible note converts in the next financing at the more favourable of a 20% discount or a Rs. 20 crore valuation cap. If the next financing is priced at a Rs. 30 crore pre-money valuation, the discounted valuation is Rs. 24 crore while the cap is Rs. 20 crore. The cap therefore creates the lower effective conversion price and the larger share count, subject to the exact contractual denominator.

Item	Value / Position	Interpretation
Next round pre-money	Rs. 30 cr	Observed future financing
20% discount basis	Rs. 24 cr	30 x 80%
Valuation cap basis	Rs. 20 cr	Contractual cap
Conversion basis	Rs. 20 cr	More favourable to investor

Practical Application

Build a conversion table across at least five future financing values and, where relevant, multiple financing dates. Show conversion price, shares issued, post-conversion ownership and founder / ESOP dilution. The valuation model should then attach probabilities or option logic to those outcomes rather than hide the economics inside one formula.

COMMON ERRORS TO AVOID

Error	Why it matters
Using the lower of cap / discount incorrectly	The contract may define the investor-favourable conversion through price, not valuation shorthand.
Using the wrong fully diluted denominator	Can materially change conversion shares.
Ignoring accrued interest treatment	Changes both debt value and equity dilution.
Applying Black-Scholes to event-driven conversion without checking payoff	Technique may not match the security.

PRO TIP

The legal formula and the valuation model must use the same denominator. Many convertible errors come from modelling the cap on a fully diluted basis when the contract defines company capital differently, or vice versa.

PRACTITIONER CHECKLIST

- | | |
|--|--------------------------------------|
| - Read trigger and denominator definitions | - Reflect anti-dilution adjustments |
| - Model cap and discount separately | - Use appropriate option methodology |
| - Include accrued coupon / interest | - Check dilution after conversion |
| - Test no-financing and exit cases | - Reconcile model to legal drafting |

PART IV - COMPLEX CAPITAL STRUCTURES

Chapter 7: Complex Capital Structures - OPM, PWERM, Hybrid & Backsolve

7.1 When Pro Rata Allocation Stops Working

Complex capital structures arise when security classes have different rights to exit proceeds or different participation in future outcomes. Venture-backed companies commonly have several preference rounds, ordinary shares, ESOPs and convertibles. A single post-money value divided by fully diluted shares ignores liquidation preference, participation, conversion thresholds and option-like payoffs. Allocation methods are therefore needed to convert total equity value into class-specific value.

The Option Pricing Method (OPM) treats each security class as a series of options on total equity value across breakpoints. The Probability-Weighted Expected Return Method (PWERM) models discrete future outcomes such as IPO, sale, downside and continued private operation. Hybrid methods combine scenario probabilities with OPM within scenarios. Backsolve uses a recent transaction price to infer total equity value or model inputs consistent with the observed security price.

Method	Best Use	Principal Judgement
OPM	Continuous range of future outcomes; no specific near-term exit	Volatility, time to liquidity, breakpoints
PWERM	Specific identifiable outcomes with supportable probabilities	Scenario values, timing, probabilities
Hybrid	Specific outcomes plus continuous value within a scenario	Both scenario and option inputs
Backsolve	Recent arm's-length transaction in one class	Calibration, rights, elapsed time
Explicit waterfall	Known sale / transaction value	Contract interpretation and allocation

Chapter 7 - valuation / regulatory reference table

When to Consider Complex Allocation

- | | |
|---|---|
| <ul style="list-style-type: none"> - Multiple preference classes - Liquidation preference or participation - Material conversion breakpoints | <ul style="list-style-type: none"> - Recent financing in preferred security - Near-term IPO / sale scenarios - Ordinary-share value required for ESOP / accounting |
|---|---|

Primary references reviewed: Ind AS 113 calibration principle; Ind AS 102 where ordinary-share / option value supports share-based payment; market-participant valuation practice for complex capital structures.

7.2 OPM Breakpoints and Call Spreads

OPM begins by identifying the total equity values at which the distribution of incremental value changes. Breakpoints can arise when a preference class is fully satisfied, when conversion becomes more valuable than preference, when participation caps are reached or when warrants become exercisable in the money. Each interval of total equity value is allocated to the classes that participate in that interval. The present value of those intervals is then estimated using option-pricing logic.

OUR INSIGHT

The hardest part of OPM is not Black-Scholes. It is the breakpoint table. If the waterfall is wrong, a mathematically perfect option calculation will still allocate value to the wrong security class.

7.3 PWERM and Scenario Discipline

PWERM is appropriate when a limited number of future outcomes can be identified and their timing and probabilities can be supported. A common structure may include IPO, strategic sale, downside sale and continued private operation. Each scenario requires an equity value at the scenario date, class-level proceeds under the waterfall, and discounting to the valuation date. Probabilities must represent genuine judgement, not a plug used to reach a target value. The report should explain why the selected scenarios are mutually exclusive and collectively capture the material outcomes.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|---|--|
| - Are there specific exit scenarios or a broad continuum? | - Is a recent financing suitable for calibration? |
| - Which rights create payoff breakpoints? | - Do probabilities reconcile to board / transaction evidence? |
| - Is volatility observable or supportable? | - Are cash flows and values discounted consistently to the measurement date? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Waterfall	Breakpoint table independently tested	Software output accepted without legal test
OPM inputs	Volatility / time to exit supportable	Default volatility and term used
PWERM	Scenarios mutually exclusive and evidenced	Probabilities used to force target value
Calibration	Recent transaction genuinely arm's length	Related / distressed round treated as clean evidence

Illustrative Method Selection

A company has Series A and Series B CCPS, ordinary shares and ESOPs. There is no committed exit and management expects 3-5 years to liquidity. OPM may be more appropriate than PWERM because future outcomes are broad and continuous. Six months later, the company signs an exclusivity agreement for a strategic sale while also preparing an IPO fallback. At that point, a PWERM or hybrid model may better reflect the identifiable scenarios.

Item	Value / Position	Interpretation
No identified exit	OPM	Continuous future outcomes
Specific sale / IPO paths	PWERM	Discrete scenario evidence
Scenario + uncertain value within scenario	Hybrid	Combines PWERM and OPM
Recent preferred round	Backsolve	Calibration evidence

Practical Application

Prepare the contractual waterfall first, then derive model breakpoints. Do not begin with software. Independently test the allocation at very low, breakpoint, mid and very high equity values. At a very high value, classes that are economically as-converted should generally converge to their fully diluted participation, subject to special terms.

COMMON ERRORS TO AVOID

Error	Why it matters
Building OPM breakpoints from spreadsheet intuition	The contractual waterfall should determine the intervals.
Using PWERM probabilities that do not sum to an economically complete set	Leaves hidden outcomes or double counting.
Backsolving from a related-party financing	Calibration can inherit a non-market price.
Forgetting to reconcile class values to total equity	Allocation model can create or destroy value numerically.

PRO TIP

Use a backsolve only when the transaction was genuinely arm's length and the rights of the transacted security are fully modelled. A negotiated insider round, distressed bridge or related-party issue may be weak calibration evidence.

PRACTITIONER CHECKLIST

- | | |
|--|--|
| <ul style="list-style-type: none"> - Validate legal waterfall - Derive all breakpoints - Test high / low value behaviour - Support volatility and time to exit | <ul style="list-style-type: none"> - Document PWERM probabilities - Calibrate recent transaction if relevant - Reconcile class values to total equity - Run method and input sensitivity |
|--|--|

PART IV - COMPLEX CAPITAL STRUCTURES

Chapter 8: Waterfalls, Liquidation Preferences & Fully Diluted Cap Tables

8.1 The Cap Table Is a Valuation Model Input

A cap table is not merely a list of legal share capital. For valuation, it must show each security class on issued, as-converted and fully diluted bases, together with conversion ratios, vested / unvested options, warrants, convertibles and any promised but unissued pool that is economically relevant to the transaction. The denominator used for a fundraising price may differ from the legal issued share count and from the denominator used in a statutory formula. Those distinctions should be explicit.

The liquidation waterfall translates contractual seniority into proceeds. A typical sequence may pay debt first, then preference amounts by seniority, then participation or conversion economics, then residual ordinary equity. *Pari passu* classes share at the same level; senior and junior classes do not. Dividends, accrued returns, redemption premiums or participation caps can add additional layers.

Cap Table View	What It Includes	Use
Issued	Legally issued shares / securities	Corporate records / legal capital
As-converted	Convertibles converted per current terms	Ownership comparison
Fully diluted	As-converted + options / warrants / pool as defined	Fundraise / valuation denominator
Waterfall units	Securities grouped by economic rights	Exit allocation
Tax formula denominator	As prescribed by applicable rule	Rule-specific FMV

Chapter 8 - valuation / regulatory reference table

Cap Table Reconciliation Controls

- | | |
|---|--|
| <ul style="list-style-type: none"> - Tie legal capital to MCA / register / depository records - Tie each preference class to Articles / SHA - Identify partly paid securities and paid-up amount | <ul style="list-style-type: none"> - Separate granted vs ungranted ESOP pool - Reconcile conversion ratios and anti-dilution - Document denominator definition used in every output |
|---|--|

8.2 Liquidation Waterfall Mechanics

A waterfall should be executable from the contract without valuation judgement. Start with a stated total equity or transaction value. Deduct senior non-equity claims if the value is defined before them. Apply the exact liquidation priority, accrued preference amounts and participation terms. At each stage, test whether a holder would convert if conversion is optional. The model should prevent double counting - a non-participating holder does not receive both full preference and full as-converted participation unless the contract says so.

OUR INSIGHT

A waterfall is the bridge between legal drafting and economic value. If a lawyer, CFO and valuer each produce a different waterfall from the same SHA, the valuation should not proceed until the interpretation is resolved.

8.3 Partly Paid Shares and Unequal Paid-Up Capital

Partly paid shares require special attention because legal rights and statutory formulas can depend on paid-up value rather than nominal face value. A commercial valuation may consider the obligation to pay future calls and the rights attached to the partly paid share. Income-tax Rule 57 expressly uses PV, the paid-up value of the equity shares being valued, divided by PE, the total paid-up equity share capital in the balance sheet. This is different from simply dividing NAV by the number of shares when paid-up amounts differ.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|--|---|
| - Which share count is being used and why? | - Which preference classes are pari passu or senior? |
| - Are any shares partly paid? | - Does participation continue after conversion? |
| - Do ungranted ESOPs enter the commercial denominator? | - Are accrued dividends / returns included in liquidation preference? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Legal units	Register / MCA / depository tie-out	Spreadsheet is the only cap-table source
Paid-up value	Partly paid capital identified	Face value treated as paid-up value
Seniority	Pari passu / senior / junior classes mapped	Preference order assumed from round date
Conversion choice	Preference vs conversion election tested	Both preference and full participation double counted

Illustrative Waterfall - Senior Preference and Ordinary Equity

Assume total equity proceeds of Rs. 80 crore. Series B has a Rs. 30 crore 1x senior non-participating preference and 30% as-converted ownership. Series A has a Rs. 20 crore 1x junior non-participating preference and 20% as-converted ownership. The remaining 50% is ordinary. The correct result depends on each class's choice between preference and conversion; the model should test the waterfall iteratively rather than assume both preference amounts are always paid.

Item	Value / Position	Interpretation
Class	Preference amount	As-converted %
Series B	Rs. 30 cr	30%
Series A	Rs. 20 cr	20%
Ordinary	Residual	50%

Practical Application

Add a cap-table audit sheet to every complex valuation. The sheet should show source document, legal units, paid-up amount, conversion ratio, as-converted units, fully diluted units, liquidation seniority and model units. Any difference between legal, transaction and accounting denominators should be explained in a note.

COMMON ERRORS TO AVOID

Error	Why it matters
Treating ungranted ESOP pool the same for every purpose	Commercial dilution and statutory share counts may differ.
Ignoring partly paid capital	Paid-up rights and Rule 57 PV / PE can change.
Double counting preference plus as-converted proceeds	Common error in non-participating waterfalls.
Not reconciling cap table to legal records	Invalidates all per-share calculations even if business value is correct.

PRO TIP

Do not let the model hide share-count assumptions. A one-line denominator error can move every per-share value even when the enterprise valuation is perfect.

PRACTITIONER CHECKLIST

- | | |
|--|---|
| - Reconcile legal and model cap tables | - Test conversion elections |
| - Identify partly paid shares | - Include accrued preference correctly |
| - Separate issued / as-converted / FD | - Tie waterfall to total equity |
| - Validate liquidation seniority | - Document every denominator definition |

PART V - REGULATORY VALUATION

Chapter 9: Companies Act & Income-tax Valuation - Sections 62 / 247, Rule 57 & Tax FMV

9.1 Companies Act - Registered Valuer Context

Section 247 of the Companies Act, 2013 provides the registered-valuer framework where a valuation is required under the Act for property, stocks, shares, debentures, securities, goodwill, other assets, net worth or liabilities. For preferential issues by unlisted companies, Rule 13 of the Companies (Share Capital and Debentures) Rules requires the price of shares or other securities issued on a preferential basis to be determined on the basis of a valuation report of a registered valuer; convertible securities also require the resultant share price to be determined in accordance with the rule. Listed-company transactions can have additional SEBI pricing requirements, so the legal map should cover both regimes.

A statutory report should identify the exact section / rule, valuation date, security, scope, information relied upon and limitations. It should not simply describe itself as a 'Companies Act valuation' without stating the triggering provision.

Framework	Current Valuation Question	Key Control
Companies Act s.247	Who values where the Act requires valuation?	Registered-valuer eligibility / independence
SCD Rules r.13	Preferential issue price / convertible resultant shares	Valuation report and transaction terms
Income-tax Act 2025 s.79	Transfer of share other than quoted share below FMV	Prescribed FMV deemed consideration
Income-tax Act 2025 s.92(2)(m)	Receipt of specified property including shares / securities	Prescribed FMV for inadequate / nil consideration
Income-tax Rules 2026 r.57	How FMV is computed for covered assets	Asset-specific prescribed mechanics

Chapter 9 - valuation / regulatory reference table

Rule 57 - Unquoted Equity Formula

- | | |
|---|---|
| - FMV = (A + B + C + D - L) x PV / PE | - D: stamp-duty value of immovable property |
| - A: adjusted book value of other assets | - L: book liabilities after prescribed exclusions |
| - B: open-market value of jewellery / artistic work | - PV: paid-up value of subject equity share |
| - C: FMV of shares and securities under Rule 57 | - PE: total paid-up equity share capital |

9.2 Rule 57 Is a Prescribed Tax Formula, Not a DCF

For unquoted equity shares covered by the specified sections, Rule 57 uses a modified NAV formula. Certain assets are replaced by prescribed values, including shares / securities and immovable property; specified non-assets are removed; and specified liabilities are excluded from L. This means the tax FMV can differ materially from a commercial DCF or Companies Act valuation. For unquoted shares and securities other than equity shares that are not listed on a recognised stock exchange, Rule 57 uses the price the instrument would fetch in the open market on the valuation date, and permits a report from a merchant banker or accountant.

OUR INSIGHT

The most dangerous Rule 57 shortcut is to take balance-sheet net worth and divide by shares. The rule is an adjusted asset-and-liability formula with specific replacements and exclusions. Real estate, investments, provisions, reserves, taxes and partly paid equity can all change the answer.

9.3 The Audited Balance-Sheet Requirement

Rule 56 defines 'balance sheet' for an Indian company as the balance sheet, including notes forming part of the accounts, drawn up on the valuation date and audited by the company's auditor. That definition should be acknowledged explicitly. Where management only has provisional financial information, it may be used for preliminary advisory work or a conservative estimate, but the report should not describe a provisional balance sheet as satisfying the strict Rule 56 definition unless the legal position has been separately confirmed for the transaction.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|---|---|
| - Which Income-tax Act, 2025 section triggers FMV? | - Have shares / securities and immovable property been replaced by prescribed values? |
| - Is the security quoted, unquoted equity or another unquoted security? | - Which provisions / reserves are excluded from L? |
| - Is an audited balance sheet drawn up on the valuation date available? | - Are partly paid shares correctly reflected through PV / PE? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Tax trigger	Exact s.79 / s.92 or other provision identified	Rule 57 applied without identifying section
Balance sheet	Valuation-date audited balance sheet / notes available	Provisional data described as audited compliance
A+B+C+D-L	Each line has rule treatment and source	Book net worth divided by shares
PV / PE	Paid-up amounts reconciled	Partly paid shares treated as fully paid

Illustrative Rule 57 - Partly Paid Equity

Assume adjusted net assets after Rule 57 modifications are Rs. 90 lakh. Total paid-up equity capital (PE) is Rs. 9 lakh. A fully paid Rs. 10-face-value share has PV of Rs. 10, while a partly paid share with only Rs. 6 paid has PV of Rs. 6. The formula therefore produces Rs. 100 for the fully paid share and Rs. 60 for the partly paid share, all else equal. The result follows paid-up value, not merely the number of shares.

Item	Value / Position	Interpretation
Adjusted net assets	Rs. 90 lakh	A+B+C+D-L
PE	Rs. 9 lakh	Total paid-up equity capital
PV - fully paid	Rs. 10	FMV Rs. 100
PV - partly paid	Rs. 6	FMV Rs. 60

Practical Application

For every Rule 57 valuation, maintain a line-by-line reconciliation from audited balance sheet to A, B, C, D and L. Add a reason column that cites the rule treatment for each balance-sheet line. This turns the valuation from a black-box formula into an auditable tax working.

COMMON ERRORS TO AVOID

Error	Why it matters
Using book NAV instead of the Rule 57 formula	Misses prescribed asset replacements and liability exclusions.
Using provisional financials without disclosure	Confuses practical estimation with strict rule compliance.
Deducting reserves / provisions automatically in L	Rule 57 excludes specified liability items.
Ignoring underlying shares / securities and immovable property FMV	Can materially understate or overstate tax FMV.

PRO TIP

Do not import DCF value into Rule 57 merely because it appears more commercial. A statutory formula must be applied as written for the purpose it governs; commercial value can be shown separately if useful, but not substituted silently.

PRACTITIONER CHECKLIST

- | | |
|---|--|
| <ul style="list-style-type: none"> - Identify exact tax section - Use correct quoted / unquoted category - Obtain audited valuation-date balance sheet - Replace specified assets correctly | <ul style="list-style-type: none"> - Apply liability exclusions line by line - Check PV / PE for partly paid shares - Value other unquoted securities at open market - Keep commercial and tax values separate |
|---|--|

PART V - REGULATORY VALUATION

Chapter 10: FEMA & SEBI Pricing - Cross-Border and Listed-Security Floors

10.1 FEMA Pricing Is Directional

Under the current foreign-investment framework, pricing for unlisted Indian-company equity instruments is based on an internationally accepted pricing methodology on an arm's-length basis, certified by the professionals permitted under the applicable directions. The direction matters. An issue by an Indian company to a person resident outside India, and a transfer from resident to non-resident, generally cannot be below the applicable fair value / price. A transfer from non-resident to resident generally cannot exceed the applicable value. The regulatory objective is therefore a floor in one direction and a ceiling in the other, subject to the detailed rules and exceptions.

For convertible equity instruments, the price or conversion formula is required to be determined upfront at issue, and conversion cannot result in a price below the fair value worked out at issuance under the applicable framework. For a swap of equity instruments, the current RBI directions prescribe valuation by a SEBI-registered merchant banker or an eligible investment banker outside India, irrespective of amount.

Cross-Border Event	General Pricing Direction	Key Point
Indian company issue to non-resident	Not less than applicable value	Inbound floor
Resident -> non-resident transfer	Not less than applicable value	Outbound seller floor
Non-resident -> resident transfer	Not more than applicable value	Inbound buyer ceiling
Convertible equity instrument	Formula determined upfront	Conversion floor linked to issuance framework
Swap of equity instruments	Prescribed merchant / investment banker valuation	Specific professional requirement

Chapter 10 - valuation / regulatory reference table

FEMA File - Minimum Valuation Inputs

- Investor / seller / buyer residency - Instrument classification under NDI framework - Primary issue vs secondary transfer - Listed vs unlisted status	- Valuation / transaction date - Conversion formula where applicable - Sectoral / entry-route context - FIRMS / reporting workstream after transaction
--	---

Primary references reviewed: RBI Master Direction - Foreign Investment in India, pricing guidelines (current framework); SEBI ICDR Regulations, 2018 amended through 21 March 2026, including Regulation 164; current transaction-specific SEBI regulations.

10.2 Listed Securities - SEBI Pricing Can Be Mechanical

For listed issuers, SEBI can prescribe market-price formulas rather than a fundamental valuation opinion. Under the current ICDR preferential-issue framework, where the equity shares have been listed for at least the prescribed 90 trading days, Regulation 164 uses the higher of the 90-trading-day VWAP and 10-trading-day VWAP preceding the relevant date, subject to the regulation and any higher price resulting from the issuer's Articles. Other listed-company transactions - open offers, delisting, QIP, schemes, buybacks - have their own price rules and professional requirements. The transaction must be mapped to the correct chapter rather than using one generic 'SEBI valuation'.

OUR INSIGHT

A SEBI price floor and a fundamental fair value can both be correct because they answer different questions. The floor is a regulatory minimum calculated under a prescribed market formula. A board may still require an independent economic valuation or fairness analysis.

10.3 Frequently Traded, Infrequently Traded and Market Data Controls

Market-price rules depend on the correct relevant date, trading status, exchange, observation window and corporate-action adjustments. A one-day date error can materially change the price in a volatile market. The workpaper should archive raw exchange data, the selected exchange, excluded / non-trading days, adjustment for splits / bonus / rights where required, and the exact formula. For infrequently traded shares, the operative regulation may require or permit fundamental valuation parameters rather than relying solely on quoted price.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|---|--|
| - Is the transaction issue, resident-to-nonresident transfer or nonresident-to-resident transfer? | - Which SEBI regulation controls the listed-company price? |
| - Is the instrument an equity instrument under current NDI rules? | - What is the exact relevant date and observation window? |
| - Is a conversion formula fixed upfront? | - Is a separate fairness / fundamental value required? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Residency direction	Issue / R->NR / NR->R identified	FEMA value quoted without direction
Current framework	Current NDI / RBI directions checked	Legacy FEMA 20(R) wording reused
SEBI date	Relevant date and raw exchange data locked	Market data recreated from memory later
Purpose split	Regulatory floor separate from fairness value	DCF averaged into mechanical SEBI price

Practical Illustration - FEMA Floor vs Negotiated Price

An unlisted Indian company has a certified FEMA value of Rs. 150 per equity instrument. It proposes to issue shares to a non-resident investor at Rs. 180. Subject to all other conditions, the negotiated price is above the regulatory floor. If the same non-resident later sells to a resident at a time when the applicable fair value is Rs. 220, the FEMA rule generally operates as a ceiling: a negotiated price above Rs. 220 would require separate legal analysis and cannot be justified simply by referring to the earlier Rs. 180 issue price.

Item	Value / Position	Interpretation
Issue to non-resident	FMV Rs. 150; price Rs. 180	Above floor
Later NR -> resident transfer	Current FMV Rs. 220	Acts as ceiling
Commercial negotiation	May be different	Must remain within regulation

Practical Application

For cross-border work, prepare a two-column memo: commercial deal terms on the left and regulatory pricing constraint on the right. For listed-company work, prepare a price-factor schedule separately from any DCF / fairness valuation. The separation makes it clear which number is mandatory and which is advisory.

COMMON ERRORS TO AVOID

Error	Why it matters
Treating FEMA fair value as a single mandatory transaction price	The rule is directional and commercial price can differ within constraints.
Using an old DCF-only FEMA rule	Current framework permits internationally accepted methodologies.
Using the wrong SEBI relevant date	A one-day error can alter a VWAP floor materially.
Failing to preserve raw market data	Makes later regulatory or audit reproduction difficult.

PRO TIP

Do not rely on old FEMA 20(R) / historic DCF-only references as current law. Use the current NDI architecture and RBI directions in force on the transaction date, and re-check amendments before signing.

PRACTITIONER CHECKLIST

- | | |
|--|---|
| - Confirm residency and instrument | - Archive market data for SEBI calculations |
| - Map pricing direction | - Check relevant date carefully |
| - Use current NDI / RBI framework | - Keep regulatory floor separate from fairness |
| - Fix conversion formula upfront if required | - Confirm prescribed professional for swap / report |

PART VI - FINANCIAL REPORTING & DEFENSIBILITY

Chapter 11: Ind AS Fair Value - Ind AS 109, 113, 102 & Calibration

11.1 Fair Value Is a Market-Participant Measurement

Ind AS 113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It provides the valuation framework when another Ind AS requires or permits fair value. The focus is therefore on market-participant assumptions, not entity-specific intentions. Observable market inputs receive priority where available, while unobservable inputs must still reflect assumptions market participants would use.

Ind AS 109 governs accounting for financial instruments and can require fair-value measurement for many financial assets and liabilities. Ind AS 102 has its own measurement requirements for share-based payment and explicitly uses 'fair value' in a way that differs in some respects from Ind AS 113. The practitioner must therefore identify which standard governs the measurement before importing an Ind AS 113 model into an ESOP valuation.

Standard	Valuation Relevance	Key Distinction
Ind AS 113	Framework for fair-value measurement	Exit price; market participants; hierarchy
Ind AS 109	Financial assets / liabilities	Classification and subsequent measurement drive valuation need
Ind AS 102	Share-based payment	Own fair-value measurement requirements; option inputs
Ind AS 32	Presentation / equity vs liability	Classification affects accounting and measurement
Ind AS 103	Business combinations	Consideration / PPA may include equity instruments

Chapter 11 - valuation / regulatory reference table

Fair Value Hierarchy - Practical Lens

- | | |
|---|--|
| <ul style="list-style-type: none"> - Level 1: quoted prices for identical items in active markets - Level 2: observable inputs other than Level 1 - Level 3: significant unobservable inputs | <ul style="list-style-type: none"> - Maximise observable inputs and minimise unobservable inputs - Disclose valuation technique and significant assumptions where required |
|---|--|

11.2 Calibration to Transaction Price

Ind AS 113 requires valuation techniques to be calibrated when the transaction price represents fair value at initial recognition and a model using unobservable inputs will be used subsequently. Calibration helps ensure that the model captures characteristics of the instrument that the market priced at inception. In private-company securities, a recent arm's-length financing can therefore be an important calibration point, but the model must reflect the rights of the transacted security before it is used to infer ordinary-share value or future fair value.

OUR INSIGHT

Calibration is not the same as permanently fixing the model to the last round price. After initial recognition, the model must reflect current market data, company performance, time elapsed and changes in risk. A stale transaction is evidence, not an anchor that overrides new facts.

11.3 Option Inputs, Volatility and Expected Life

Option and warrant valuation requires a coherent set of inputs. Underlying share value should be consistent with the capital structure and rights. Expected life should reflect contractual term, vesting, exercise behaviour and liquidity. Volatility should be estimated over a horizon consistent with expected life, commonly using comparable listed companies where the issuer lacks trading history. Risk-free rate should match currency and term. Expected dividends should reflect the economic distribution policy. For private-company ESOPs, non-transferability and exercise restrictions must be considered within the applicable Ind AS 102 framework rather than through arbitrary after-the-fact discounts.

QUESTIONS TO ASK BEFORE YOU ACT

- Which Ind AS actually requires the measurement?
- Is the instrument equity or liability classified?
- Was the initial transaction price fair value?
- What market-participant evidence supports Level 3 inputs?
- Is volatility consistent with expected life?
- Has the model been recalibrated for changes since the last round?

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Unit of account	Specific instrument / class identified	Company value used without class allocation
Calibration	Initial transaction and rights reproduced	Last round price assumed to equal all securities
Level 3 inputs	Market-participant evidence documented	Unobservable inputs selected without support
Standard map	Ind AS 102 vs 109 / 113 separated	Fair-value terminology mixed across standards

Illustrative Calibration - Preferred Round and Ordinary Shares

A company issues Series B preference shares at Rs. 250 in an arm's-length financing. The security has a 1x liquidation preference and conversion rights. For an Ind AS measurement of ordinary shares shortly after the round, the valuer can backsolve total equity value so that the model reproduces the Rs. 250 Series B price, then allocate the calibrated equity value across all classes. Simply setting ordinary shares to Rs. 250 would ignore the value of Series B rights.

Item	Value / Position	Interpretation
Observed input	Series B price Rs. 250	Arm's-length transaction
Model step 1	Backsolve total equity	Calibrate to security rights
Model step 2	Allocate to all classes	OPM / PWERM / hybrid
Ordinary share	Derived class value	Not assumed equal to Rs. 250

Practical Application

For every Level 3 security, maintain a calibration history showing transaction date, transaction security, observed price, model technique, input solved or calibrated, current-period changes and reason. This is particularly useful for audit review because it separates model drift from real business / market change.

COMMON ERRORS TO AVOID

Error	Why it matters
Using Ind AS 113 for an Ind AS 102 measurement without checking scope	The standards use fair-value concepts differently.
Leaving the model calibrated to a stale financing	Ignores current performance and market conditions.
Using volatility with a horizon inconsistent with expected life	Creates an internally inconsistent option value.
Ignoring instrument classification	Equity vs liability classification can change measurement and remeasurement.

PRO TIP

Do not mix Ind AS 102 and Ind AS 113 terminology casually. Confirm the governing standard first; then apply the measurement framework, inputs and disclosures that belong to that standard.

PRACTITIONER CHECKLIST

- | | |
|--|--|
| <ul style="list-style-type: none"> - Identify governing Ind AS - Confirm classification and unit of account - Use market-participant assumptions - Calibrate when required | <ul style="list-style-type: none"> - Support Level 3 inputs - Match volatility / rate to term - Document changes from prior valuation - Reconcile class values to total equity |
|--|--|

PART VI - FINANCIAL REPORTING & DEFENSIBILITY

Chapter 12: Regulatory-Grade Reports - Common Errors, Review Questions & the Master Checklist

12.1 The Report Must Explain the Decision, Not Just the Formula

A valuation report is a reproducible reasoning document. It should identify the purpose, basis of value, valuation date, subject security, rights, capital structure, methods, sources, assumptions, limitations and conclusion. Where a statutory or regulatory formula applies, the report should distinguish the mechanical computation from any separate economic valuation. Where judgement is material, the report should explain why one method or assumption is more persuasive than another.

The workpapers should be strong enough that an independent reviewer can recreate the result after the transaction has closed. That means preserving the cap table, Articles / SHA / security terms, financial statements, projections, market data, peer screen, discount-rate build, scenario probabilities, option inputs, Rule 57 reconciliation, market-price files and final management representations.

Common Error	Why It Fails	Better Control
Using latest round price for all classes	Ignores preferred rights	Calibrate / allocate by class
Dividing EV by shares	Skips debt / cash / senior claims	Bridge EV to equity first
Mechanical DLOM	May double-count risk / minority pricing	Link adjustment to evidence and basis
Rule 57 = book NAV	Ignores prescribed replacements / exclusions	Line-by-line A+B+C+D-L schedule
Old FEMA references	Can use outdated pricing architecture	Check current NDI / RBI directions
Black-Scholes without rights review	Wrong underlying / term / payoff	Read instrument then choose technique

Chapter 12 - valuation / regulatory reference table

Minimum Report Architecture

- | | |
|--|---|
| <ul style="list-style-type: none"> - Executive summary and purpose - Valuation date / information cut-off - Company and capital-structure overview - Security rights and unit of account - Approaches, methods and exclusions | <ul style="list-style-type: none"> - Key assumptions and market evidence - Allocation / statutory calculation - Sensitivity / cross-checks - Conclusion, limitations and reliance |
|--|---|

12.2 Review Questions From Boards, Auditors and Regulators

A board typically asks whether the number is fair and what could change it. An auditor asks whether the method is consistent with the accounting standard, whether inputs are observable and whether the model calibrates to transactions. A tax reviewer asks whether the prescribed rule was followed literally. A FEMA reviewer asks whether the correct pricing direction and signatory apply. A regulator may focus on the relevant date, independence, source data and consistency with the operative rule. One model can support several workstreams, but the report language should be purpose-specific.

OUR INSIGHT

The strongest defence is contemporaneous documentation. A beautifully written report prepared after a challenge cannot recreate evidence that was never saved - exchange data, a board-approved forecast version, the actual cap table or the rights in force on the valuation date.

12.3 Common Model Governance Failures

Version control is a valuation issue. Changing forecasts after the valuation date, overwriting market data, hard-coding conversion ratios or using undocumented plug cells can break reproducibility. The final model should separate source inputs, assumptions, calculations and outputs; use formula checks; show cap-table reconciliation; and retain a locked PDF or checksum of key source documents where appropriate. For recurring valuations, a bridge from prior period to current period should explain the value movement through performance, market multiples, time, financing, volatility and rights changes.

QUESTIONS TO ASK BEFORE YOU ACT

- | | |
|---|---|
| - Can another reviewer recreate the value from saved source data? | - Are method exclusions explained? |
| - Does the report state the exact statutory / accounting purpose? | - Do sensitivity and cross-checks challenge the conclusion? |
| - Are all class rights sourced to executed documents? | - Does the final model reconcile to the signed report? |

REVIEW LENS

Focus	Higher-confidence evidence	Weak evidence / challenge
Reproducibility	Model, report and source folder tie together	Analyst oral explanation is necessary
Version control	Forecast / market-data versions locked	Live workbook overwritten after valuation date
Purpose wording	Report cites exact legal / accounting use	Generic report reused for multiple purposes
Red-team review	Independent reviewer challenges key inputs	Only builder checks formulas and narrative

Decision Example - When One Transaction Needs Four Values

A private company issues CCPS to a foreign investor, grants ESOPs in the same quarter, transfers founder shares and prepares Ind AS financial statements. The commercial round price may inform all four workstreams, but the outputs can differ: Companies Act issue valuation, FEMA pricing floor, tax FMV for the relevant tax event, and accounting fair value / option value. The correct governance solution is a valuation map with separate outputs connected to a common evidence base.

Item	Value / Position	Interpretation
Workstream	Output	Why different
Funding / Companies Act	Issue / class value	Transaction and statutory purpose
FEMA	Regulatory pricing floor	Residency and direction
Income-tax	Prescribed FMV	Rule-based tax purpose
Ind AS / ESOP	Fair value / option value	Accounting measurement

Practical Application

Before signing, run a red-team review. Ask a person who did not build the model to challenge the purpose, date, rights, denominator, method, market data, key assumptions and conclusion. Every unanswered question should be resolved in the model or explicitly disclosed as a limitation.

COMMON ERRORS TO AVOID

Error	Why it matters
Report conclusion does not tie to final model	Creates an avoidable numerical / governance failure.
Source files are not archived	Historical data may be impossible to reconstruct later.
Method exclusions are undocumented	Reviewer cannot tell whether alternatives were considered.
No bridge from prior valuation	Recurring fair-value movements become difficult to explain to audit / boards.

PRO TIP

Treat the final report, model and source-data folder as one deliverable. If they cannot be tied together without oral explanation from the original analyst, the valuation file is not yet regulator-grade.

PRACTITIONER CHECKLIST

- | | |
|--------------------------------------|---------------------------------------|
| - Confirm purpose / date / signatory | - Document method selection |
| - Lock rights and cap table | - Perform sensitivity / calibration |
| - Tie all source data | - Reconcile report to model |
| - Run numerical and formula checks | - Archive final sources and approvals |

CONCLUSION

The Board-Level Shares & Securities Valuation Framework

A defensible shares and securities valuation begins with a map, not a method. The map identifies the purpose, valuation date, security, rights, capital structure, applicable law or accounting standard, prescribed professional and intended user. Only then should the practitioner decide whether the evidence points to DCF, multiples, NAV, yield, option pricing, PWERM, OPM, backsolve, a statutory formula or a combination.

The central discipline is to separate total company value from security-class value. Debt, preference, conversion, liquidation, participation, anti-dilution, warrants and partly paid capital can move value between classes without changing enterprise value. The cap table and contractual waterfall are therefore core valuation inputs, not legal annexures to be read after the modelling is complete.

1. PURPOSE What decision, law, filing or accounting standard needs the number?	2. RIGHTS What cash flows, seniority, conversion and exit rights does the security actually have?
3. TOTAL VALUE What is the value of the business / assets before class allocation?	4. ALLOCATION How do OPM, PWERM, waterfall or statutory rules allocate value?
5. REGULATION Is the output a fair value, FMV, floor, ceiling or price formula?	6. EVIDENCE Can every assumption be traced to financials, market data or executed documents?
7. SENSITIVITY Which assumptions genuinely drive the conclusion?	8. DEFENSIBILITY Can a new reviewer reproduce the result six months later?

KEY DECISION

If the same transaction requires commercial, tax, FEMA, Companies Act and accounting values, do not force one number across all purposes. Use one consistent evidence base, then produce purpose-specific outputs under the framework that governs each decision.

Primary Regulatory References Reviewed for This Edition

Companies Act, 2013 and Companies (Share Capital and Debentures) Rules, 2014; Companies (Registered Valuers and Valuation) Rules, 2017; Income-tax Act, 2025 and notified Income-tax Rules, 2026 (including Rules 56-57); RBI current foreign-investment / NDI pricing directions; SEBI ICDR Regulations, 2018 amended through 21 March 2026 and other transaction-specific SEBI regulations as applicable; MCA-notified Ind AS 102, 109 and 113. Current primary text should be re-checked at the date of any live engagement.

ONE LAST THING BEFORE YOU CLOSE THIS GUIDE

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

Shares and securities valuation is rarely challenged because someone forgot a formula. It is challenged because the wrong purpose was mapped, a security right was missed, a denominator was inconsistent, a market input could not be recreated or a regulatory floor was presented as fair value. These issues can delay a transaction, create tax or FEMA exposure, reopen dilution economics and turn an audit discussion into a governance problem.

YOU DO NOT NEED TO KNOW THE METHOD BEFORE CALLING US

Share the transaction, security terms, cap table and the decision you need to make. We can first map the purpose, applicable rule, value required, signatory and data set - then determine whether the analysis needs DCF, multiples, NAV, yield, OPM, PWERM, a statutory formula or another technique.

CALL US WHEN YOU ARE DEALING WITH

- | | |
|--|--|
| <ul style="list-style-type: none"> - Equity issue, transfer, fundraising or shareholder exit - CCPS / preference shares with liquidation or conversion rights - CCD / OCD / convertible note or warrant valuation - OPM / PWERM / backsolve for a venture-backed cap table | <ul style="list-style-type: none"> - Companies Act preferential issue / registered-valuer requirement - Income-tax Rule 57 or other shares / securities FMV - FEMA pricing for issue, transfer or swap - Ind AS fair value, ESOP or financial-instrument measurement |
|--|--|

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WHAT HAPPENS IN THE FIRST CONVERSATION**01**

Map the purpose
We identify the exact transaction, security, valuation date and regulatory / accounting context.

02

Map the evidence
We identify the financials, projections, cap table, legal terms and market data required.

03

Map the output
We agree the report / model / certificate needed and the review process it must survive.

BOOK A 15-MINUTE INTRODUCTORY CALL

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The cost of resolving a valuation issue late is usually higher than the cost of mapping it correctly at the start.