Sundae Capital Advisors Private Limited

Category 1 Merchant Banker | Registered Valuer (SFA)

REFERENCE GUIDE FOR CLIENTS & PROFESSIONALS

India Valuation Regulatory Framework

A comprehensive reference guide to valuation requirements across the Companies Act, FEMA, Income Tax Act, SEBI Regulations and Indian Accounting Standards (Ind AS).

Designed for professionals navigating complex transactional and compliance landscapes in India.

Valuation at a Glance: Transaction Categories

Every significant corporate transaction in India carries a valuation requirement. Understanding the applicable framework across Companies Act, FEMA, Income Tax, SEBI and Ind AS is essential for compliance and sound decision-making.

Transaction Category	Key Valuation Requirement	Primary Regulations
Equity/ Other Securities -Issuance	Fair Market Value (FMV) / Issue Price	Companies Act, FEMA, Income Tax, SEBI
Share Transfers	Fair Value Determination	FEMA, Income Tax
Mergers & Acquisitions	Enterprise Value & Share Exchange Ratio	Companies Act, SEBI, Ind AS and FEMA
ESOPs & Sweat Equity	Fair Value of Equity Instruments	Companies Act, Income Tax, Ind AS 102 and SEBI
Financial Reporting	Fair Value, Impairment and Purchase Price Allocation	Ind AS
Cross-Border Transactions	RBI-Compliant Valuation	FEMA
Capital Market Transactions	Pricing Valuations	SEBI

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Regulatory Mapping Matrix

This matrix provides a quick-reference view of which regulatory frameworks apply to each transaction type. Use it to identify all applicable compliance obligations at the outset of any transaction.

Transaction Type	Companies Act	FEMA	Income Tax	Ind AS	SEBI
Fresh Issue of Securities	✓	✓	✓	—	✓
Transfer of Shares	—	✓	✓	—	—
Merger / Amalgamation	✓	✓	—	✓	✓
Scheme of Arrangement	✓	—	—	✓	✓
ESOP / Sweat Equity	✓	—	✓	✓	✓
Foreign Investment	—	✓	—	—	—
Business Combination Accounting	—	—	—	✓	—
Delisting / Takeover	—	—	—	—	✓

Multiple regulations often apply simultaneously. Early identification of all applicable frameworks is critical to avoid compliance gaps.

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Companies Act, 2013 — Key Valuation Triggers

The Companies Act, 2013 mandates valuation across a wide range of corporate events. Below are the key triggers with their regulatory references, valuation requirements, and timing.

#	Reference	Transaction / Event	Valuation Requirement & Timing
1	Sec. 8, Rules 21 & 22	Conversion of Section 8 Company	Asset valuation to determine fair value of undertaking; prior to conversion application
2	Sec. 39, Rule 12(5)	Issue of shares for non-cash consideration	Valuation of consideration received in lieu of shares; prior to Return of Allotment
3	Sec. 54, Rule 8(6)	Issue of Sweat Equity Shares	Determination and justification of fair value; prior to shareholder approval
4	Sec. 54, Rule 8(7)	Acquisition of IP / know-how via sweat equity	Valuation of IP rights, know-how, or value additions; prior to shareholder approval
5	Sec. 62(1)(c), Rule 13(1)	Preferential allotment of shares	Determination of fair issue price; prior to fixing the issue price
6	Sec. 67(3), Rule 16(1)(c)	Issue of shares to employees / welfare trusts	Determination of fair value and issue price; prior to transaction approval
7	Sec. 73, Rule 2(1)(ix)	Issue of secured bonds or debentures	Valuation of assets offered as security; prior to issuance
8	Sec. 230(2) & 230(3)	Scheme of compromise or arrangement	Valuation report supporting the arrangement; prior to Tribunal filing
9	Sec. 232	Merger or amalgamation	Valuation for share exchange ratio and fairness; prior to scheme circulation
10	Sec. 236	Acquisition of minority shareholding (90%+ holders)	Determination of fair value for minority buyout; prior to buyout offer

Indian Accounting Standards (Ind AS) — Valuation Requirements

Ind AS governs financial reporting valuation across asset classes, employee benefits and business combinations. Each standard prescribes specific valuation requirements and timing.

#	Standard	Business Event / Transaction	Valuation Requirement & Timing
1	Ind AS 16 – PPE	Revaluation of land, buildings, plant & machinery	Fair value for revaluation; at reporting date when revaluation model adopted
2	Ind AS 109 – Financial Instruments	Unlisted equity investments (FVTPL/FVTOCI)	Fair valuation to reflect market-based value; each reporting period end
3	Ind AS 40 – Investment Property	Investment properties for rental income or capital appreciation	Fair value for financial statement disclosure; at year end
4	Ind AS 36 – Impairment	Decline in value of assets or cash-generating units	Recoverable value for impairment testing; when indicators exist, typically at period end
5	Ind AS 102 – Share-Based Payments	Grant of ESOPs, SARs, or share-based awards	Valuation for accounting recognition; at grant date
6	Ind AS 102 – Share-Based Payments	ESOPs/SARs with performance or market conditions	Reassessment of valuation assumptions; each reporting period end
7	Ind AS 103 – Business Combinations	Acquisition of business, subsidiary, or controlling interest	Fair value of identifiable assets/liabilities and PPA; on acquisition date
8	Ind AS 105 – Held for Sale	Classification of assets/businesses as held for sale	Fair value less costs to sell; at time of classification
9	Ind AS 105 – Held for Sale	Assets already classified as held for sale	Periodic reassessment of fair value less costs to sell; each period until disposal
10	Ind AS 19 – Employee Benefits	Funded gratuity, pension, or post-employment benefit plans	Valuation of plan assets for actuarial reporting; each reporting period end

FEMA & Income Tax Act — Valuation Triggers

Foreign Exchange Management Act (FEMA)

FEMA governs cross-border valuation requirements for inbound and outbound investments, ensuring RBI-compliant pricing.

- **Inbound FDI:** Investment in unlisted entity -> at time of investment
- **Buy Back:** From foreign shareholders -> at time of buy back
- **CCP/CCD Conversion:** Where terms not pre-determined -> at time of conversion
- **Share Swap: (Resident/ Non-Resident)->** before approval
- **Share Transfer:** Resident / non-resident in unlisted entities --> at time of transaction
- **ODI Investment:** Acquisition of shares/stake abroad -> at time of transaction
- **ODI Disposal:** Transfer/disposal of foreign entity shares -> at time of transaction

Income Tax Act, 2025 / Erstwhile Income Tax Act, 1961

The Income Tax Act prescribes valuation for share transactions, ESOPs, transfer pricing and slump sales.

- **Sec. 92(2)(m) / 56(2)(x):** Purchase of shares in unlisted company -> at transfer
- **Sec. 79 / 50CA:** Sale of shares in unlisted company -> at transfer
- **Sec. 17 / Rule 15(6):** ESOP exercise -> perquisite value determination at exercise
- **Sec. 161 & 174 / 92 & 93:** Arm's length pricing for transfer pricing -> at contracting
- **Sec. 77 / 50B:** Slump sale fair value determination -> at time of effecting slump sale
- **Sec. 9(2) Rule 11-22/ 9 Rule 11UB**: Income deemed to be accrued or arise in India.

SEBI Regulations — Valuation Requirements

SEBI regulations govern valuation for listed entities, open offers, preferential issues and capital market transactions ensuring investor protection and transparent pricing.

#	SEBI Regulation	Business Context	Purpose & Timing
1	LODR Reg. 2015 – **Reg. 87C**	Listed issuers of Security Receipts	Determine and disclose **NAV** of underlying assets for investor reporting; quarterly
2	Takeover Reg. 2011 – **Reg. 8(16)**	Open offer for infrequently traded shares	Determine fair and transparent offer price for public shareholders; at time of open offer
3	ICDR Reg. 2018 – **Reg. 158(6)**	Debt-to-equity conversion under restructuring	Determine fair conversion price of equity shares issued against outstanding debt; at time of pricing
4	ICDR Reg. 2018 – **Reg. 164/166A**	Pricing mechanisms for preferential issues	Determine fair and transparent preferential issue price for shareholders at the time of pricing.
5	ICDR Reg. 2018 – **Reg. 165**	Issuance of infrequently traded shares	Determine fair issue price where market-based discovery is unavailable; at time of pricing
6	ICDR Reg. 2018 – **Reg. 163(3)**	Preferential issue for non-cash consideration	Establish fair value of assets, businesses, or non-cash consideration exchanged; prior to issuance

Initial Public Offering (IPO) Pricing- *Independent valuation report for consideration by the Independent Directors in determining the IPO Price Band.*

ESOPs, Sweat Equity & Employee Compensation

Employee share-based compensation is one of the most heavily regulated areas spanning the Companies Act, Income Tax Act and Ind AS 102. Each framework imposes distinct valuation requirements at different stages of the ESOP lifecycle.

Companies Act — Issue Stage

Sec. 54, Rule 8(6): Determination and justification of fair value of sweat equity shares prior to shareholder approval.

Sec. 67(3), Rule 16(1)(c): Fair value and issue price for shares issued to employees or employee welfare trusts prior to transaction approval.

Income Tax Act — Exercise Stage

Sec. 17 read with Rule 15(7): Determination of perquisite value by the issuing company when ESOP shares are exercised at the time of exercise of options.

Ind AS 102 — Accounting Stage

Grant Date: Valuation of ESOPs, SARs and share-based awards for accounting recognition.

Each Reporting Period: Reassessment of valuation assumptions for performance or market-condition-linked awards.

ESOP valuation must be coordinated across all three frameworks to ensure compliance at grant, exercise, and financial reporting stages.

Mergers, Acquisitions & Business Combinations

M&A transactions trigger valuation requirements across multiple regulatory frameworks simultaneously. The share exchange ratio, purchase price allocation and fairness opinions must all be supported by robust, compliant valuations.

Companies Act — Sec. 232

Valuation for determining the share exchange ratio and fairness of merger consideration. Required prior to circulation of the scheme and Board report to stakeholders.

SEBI — Takeover Regulations

Reg. 8(16) mandates fair offer price determination for open offers involving infrequently traded shares. Ensures transparent pricing for public shareholders during takeover transactions.

Ind AS 103 — Business Combinations

Fair valuation of identifiable assets and liabilities acquired, with purchase price allocation (PPA) determined on the acquisition date. Critical for post-merger financial reporting.

Key Resources & Important Disclaimer

Important Reference Links

- International Valuation Standards (IVSC)
- ICAI Valuation Standards:
- Income Tax Act 2025:
- Companies Act 2013
- FEMA Guidelines & Act
- SEBI Regulations

Disclaimer

This document is compiled for general informational and reference purposes only. It should not be construed as legal, tax, accounting, regulatory, or professional advice.

Readers are advised to independently evaluate applicability to their specific circumstances, undertake their own due diligence and seek appropriate professional advice including their tax advisors. Users should refer to relevant provisions of applicable laws, rules, regulations and accounting standards as amended from time to time.

The author(s) and/or organization shall not be responsible for any loss, liability, or consequence arising from reliance upon the information contained herein.

About SUNDAE

SUNDAE Capital Advisors Private Limited is India's first entity registered as both a Category I Merchant Banker with SEBI and a Registered Valuer (Securities or Financial Assets) with IBBI.

Our valuation and corporate advisory services are delivered through a Separate Business Unit (SBU), aligned with applicable regulatory requirements.

We specialize in providing comprehensive valuation, merchant banking, and corporate advisory services across all regulatory frameworks covered in this guide including Companies Act, FEMA, Income Tax, SEBI and Ind AS requirements.

Our expertise spans:

- Business Valuations & Fairness Opinions
- M&A Advisory & Transaction Structuring
- Capital Markets Advisory (IPOs, Buybacks, Open Offers)
- Stock Incentive Plans & ESOP Valuations
- Corporate Restructuring & Demergers
- Startup Advisory & Fund Raising

Why Choose SUNDAE Capital?

- Deep Domain Expertise: 20+ years of experience navigating India's complex regulatory landscape.
- Dual Registration: Unique positioning as both merchant banker and registered valuer.
- Proven Track Record: 50,000+ crores in transaction advisory across 100+ valuations.
- Client-Centric Approach: We go the extra mile, taking personal involvement through project completion.
- Strategic Solutions: We provide innovative alternatives tailored to your specific corporate goals.
- Regulatory Excellence: Expert guidance across all applicable frameworks Companies Act, FEMA, Income Tax, SEBI and Ind AS.

Contact us to discuss how we can support your valuation and advisory needs.

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