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Approches to Business Valuation

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NEW DELHI, Oct 14, 2016 (PR Newswire Europe via COMTEX) -- NEW DELHI, October 14, 2016 /PRNewswire/ --

Valuation is an important part of litigation in Mergers & Acquisitions and involves an element of subjectivity that often gets challenged. Institute of Chartered Accountants of India (ICAI) has developed and recommended Business Valuation Practice Standards (BVPS) aiming to establish uniform principles, practices and procedures for valuers performing valuation services in India.

Business Valuation is the process of determining the 'Economic Worth' of a company. This is based on certain assumptions and limiting conditions subject to the data available on the valuation date.

There are broadly three approaches to valuation:

- Asset Approach
 - Income Approach
 - Market Approach
- Asset Approach**

In this cost based approach, the primary emphasis is placed upon the fair market value of the assets and liabilities of a business. As a result, this approach uses various methods that consider the value of individual assets and liabilities including intangible assets.

Income Approach Income based method of valuations is based on the premise that the current value of any business is a function of the future value that an investor can expect to receive from purchasing all or part of the business.

Market Approach

Market Approach refers to the notion of arriving at the value of a company by comparing it to the market value of similar publicly listed companies. The comparison is based on certain financial ratios or multiples, such as the price to book value, price to earnings, EV/EBITDA, etc., of the equity in question to those of its peers.






About the author: Neeraj Bhagat is a member of the Institute of Chartered Accountants of India (ICAI) since 1997. He is also an Associate member of Association of International Accountants, United Kingdom. He is founder of Neeraj Bhagat & Co, an Indian Chartered Accountancy firm serving various MNC'S from across the globe. Neeraj Bhagat & Co. has its offices at New Delhi, Gurgaon and Mumbai. They are part of INAA Accounting Association which is one of the World's Top 20 in accounting associations.

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