# VALUATION POLICY FOR SECURITIES AND OTHER ASSETS

A. I NTRODUCTION

The Securities and Exchange Board of India (SEBI) has outlined investment valuation norms and accounting policies under SEBI (Mutual Funds) Regulations, 1996 (the Regulations) as amended from time to time. The Investment Valuation Norms are prescribed in the Eighth Schedule of the Regulations (Regulation 47) and circulars issued by SEBI from time to time. Further, SEBI has amended Regulation 47 and the Eight Schedule vide a gazette notification dated February 21, 2012 and has introduced overriding guiding principles in the form of "Principles of Fair Valuation".

The amended regulation requires that Mutual Funds shall follow principles of fair valuation to minimize the difference in valuation of mutual fund assets relative to market values and also to enable fair treatment across all classes of investors i.e. existing investors as well as investors seeking to subscribe or redeem units.

It further prescribes that the valuation of investments shall be based on the principles of fair valuation i.e. the valuation shall be reflective of the realizable value of securities / assets. The valuation shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures as approved by the Board of the asset management company.

The amendment also states that in case of any conflict between the principles of fair valuation and valuation guidelines as per Eighth Schedule and circulars issued by SEBI, the Principles of Fair Valuation shall prevail.

This Policy reflects the guiding principles to ensure fair valuation of all securities under the Schemes to comply with the amended Regulation 47and the Eight Schedule relating to valuation of investments on February21, 2012 and February 28, 2012.

B. SCOPE OF THE POLICY

I. The scope of the policy is stated below:

- Ensure fair treatment to all investors in the scheme
- Defining valuation procedures/methodologies for various types of securities including any new security
- Ensure that the valuation methods adopted are being adhered to consistently as per the approved framework
- Devise process to detect and prevent incorrect valuation
- Ensure transparency by making appropriate disclosures
- Valuation of securities/assets during exceptional events and recording of deviations from established policies and procedures for escalation to the Board of AMC and Trustees
- Dealing with conflict of interests (including potential conflict of interest)

II. An exceptional event is defined as a situation wherein there is lack of clarity on the market movement and/or when sufficient information for valuation of securities for such events is not available.

III. The Valuation Committee shall be responsible for monitoring exceptional events and recommending appropriate valuation methods with the guidance of the Boards of the AMC, as the case may be.

IV. The Valuation Committee shall review the valuation methodologies at least annually in terms of its appropriateness and accuracy in determining the fair value of each and every security. The Boards of the AMC and Trustee Company shall be updated on effectiveness of the policy annually and deviations, if any or inadequate valuation of securities.

C. DISCLOSURE OF THE POLICY

The Valuation Policy approved by the AMC Board shall be disclosed in Statement of Additional Information (SAI), website of the AMC and other documents as prescribed by the Regulations and guidelines.

D. VALUATION METHODOLOGIES

_ The valuation of investment shall be based on the guiding principles of fair valuation.

_ Where it is observed that Valuation methodology mentioned below, does not lead to fair valuation of securities, Valuation Committee may on a prospective basis deviate from the defined methodology and adopt such alternate procedures / methods in conformance with the guiding principles of fair valuation in good faith to arrive at the true and fair estimation of the realizable value of the security. The rationale for any such deviations would be recorded in writing and placed before the Board of Directors of the AMC and the Trustee.

_ Investment in any new type of security shall be made only after establishment of the valuation methodology for such security with the approval of the Board of Directors of AMC and Trustee.

_ Valuation price of the Security; arrived as per the policy; shall be applied consistently across the portfolios. In other words; any particular security shall be valued at same price across all the portfolios and it cannot have different prices for valuation on a particular day.

_ The methodologies for valuing different type of securities are mentioned below.

**VALUATION METHODOLOGIES**

| **Asset Class** | **Traded / Not Traded / Thinly Traded / Listed / Unlisted** | **Valuation Methodology** |
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| Debt & Money Market instruments other than Treasury Bills, Government Securities, CBLO, Reverse Repo, Fixed Deposits, Bills Rediscounting Deposit Scheme, State Development Loan | **Traded** | Weighted average YTM at which they are traded / reported on public platform. Order of preference for the public platform for consideration are as follows:<br>1. FIMMDA<br>2. NSE WDM<br>3. BSE WDM<br>A security will qualify as traded security if:<br>_ For securities with residual maturity > 1 Year: There are at least two trades and aggregate volume of Rs.25 Crores face value or more on a public platform.<br>_ For securities with residual maturity <= 1 Year: There are at least three trades and aggregate volume of Rs. 100 Crores face value or more on a public platform.<br>Note: The qualifying criteria are to be observed at the exchange / platform level (as the same trades may be reported on multiple platforms).<br>If the security does not qualify as above, own traded price (including inter-scheme) for buy / sell transaction may be considered; provided that there is at least one trade of not less than Rs.5 Crore. |
| | **Not Traded/Thinly traded** | If the security is not traded; then according to existing SEBI regulation on Valuation:<br><br>a) For Securities with residual maturity <= 60 Days: Straight Line Amortization as long as their valuation remains within ±0.10% band of the price derived from the reference rate for each bucket. (Reference Rate = Benchmark Yield ± Spread (if any). Benchmark Yield is the yields |

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| | | provided by either CRISIL / ICRA). In case of amortized value falling outside the above band, the YTM of the asset will have to be adjusted in order to bring the price within the ±0.10% band with suitable justification<br><br>Determination of Spread:<br>In case on a particular valuation day, traded yield (purchase yield on allotment date in case of primary deals) has been considered for valuation, the difference between the traded / purchase yield and the benchmark yield will be fixed as the spread for the purpose of valuation without any cap on the illiquidity premium / discount<br><br>b) For Securities with residual maturity > 60 Days:<br><br>All money market and debt securities, including floating rate securities, with residual maturity of over 60 days shall be valued at weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day they shall be valued at benchmark yield/ matrix of spread over risk free benchmark yield obtained from approved agencies<br><br>To value an un-rated security, the fund manager shall assign an internal credit rating to the securities. The internal credit rating will be mapped to external credit rating matrix. The internal credit rating assigned will be used for determining spreads to be used for valuation. Since un-rated instruments tend to be more illiquid than rated securities, the yields would be marked up by adding discretionary spread<br><br>If there is a deviation of more than ±75 bps in the spread being used by the Fund Manager for the valuation purpose vis a vis the spread derived from the matrix of spread over risk free benchmark yield obtained from approved agencies, then the spread to be used for valuation purposes over the benchmark rate shall be approved by the Valuation Committee<br>. |
| | **Primary Market Deals** | To be valued at cost until allotment. |
| Valuation of securities with Put/Call options | **Not Traded** | In line with SEBI circular, the option embedded securities would be valued as follows:<br><br>**<u>Securities with Call Option</u>**<br><br>The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option.<br><br>In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instruments |

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| | | **<u>Securities with Put Option</u>**<br><br>The securities with put option shall be valued at the higher of the value obtained by valuing the security to final maturity and valuing the security to put option.<br><br>In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments<br><br>**<u>Securities with both Put and Call option on the same day</u>**<br><br>The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly<br><br>The securities having Put and Call options on the same day but at different prices would not be treated as maturity date of the instrument and would be valued at Put and Call dates. Lower of the best of Put and worst of call would be taken as the price for valuation. |
| Treasury Bills & Government Securities | **Traded / Not Traded** | Valued basis of security level prices received either from CRISIL or ICRA |
| Bank Fixed Deposits, CBLO/<br>Reverse Repo, Bills rediscounting<br>Deposit Scheme | **-** | Valued at cost plus accruals / amortization |
| Equity, Normal Preference shares and Cumulative Convertible Preference Share | **Traded** | Traded Securities are to be valued at the last quoted closing price on the primary Stock Exchange (NSE). If a security is not traded on NSE on a particular valuation day, the close price at which it is traded on BSE shall be considered. |
| | **Not Traded / Thinly Traded** | 1. If the security is not traded either on NSE and BSE, the earliest previous day's close price shall be used, provided such day is not more than thirty days prior to the valuation date.<br><br>**2. Other Cases:**<br>**A. Equity Shares:**<br>(a) Based on the latest available Balance Sheet, net worth shall be calculated as follows:<br>(b) Net Worth per share = [Share Capital + Reserves (excluding Revaluation Reserves) –Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid-up Shares.<br>(c) Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data(which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalization rate (P/E |

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| | | ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.<br>(d) The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10% for ill-liquidity so as to arrive<br>at the fair value per share.<br>(e) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning.<br>(f) In case where the latest balance sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.<br>(g) In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security.<br>To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation.<br><br>**B. Preference Share:**<br>Non traded preference shares should be valued in good faith depending upon the type of the Preference Share and after considering illiquidity discount, if any. |
| Equity | **Unlisted** | These guidelines are similar to the guidelines issued by SEBI for non traded / thinly traded securities mentioned above only except the following:<br>a. Computation of Net worth per share as lower of (i) and (ii):<br>i) Net worth of the company = Paid-up share capital + Reserves other than Revaluation<br>reserve - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses / Number of Paid-up Shares.<br>ii) Net worth of the company = Paid-up capital + Consideration on exercise of Option /Warrants received / receivable by the company + free reserves other than Revaluation reserve – Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses / {Number of paid-up shares + number of shares<br>that would be obtained on conversion / exercise of outstanding warrants and options}.<br>If the net worth of the company is negative, the share should be marked down to Zero.<br>a) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data(which should be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.<br>b) The value as per the Net Worth value per share and the capital earning value calculated as above shall be |

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| | | averaged and further discounted by 15 per cent for illiquidity so as to arrive at the fair value per share.<br>c) Computation of fair value per share to be considered for valuation at 15% discount for illiquidity. [(Net worth per share + Capitalized value of EPS) / 2] * 0.85.<br>The above valuation methodology shall be subject to the following conditions:<br>a. All calculations shall be based on audited accounts.<br>b. If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.<br>c. If the Net Worth of the company is negative, the share would be marked down to zero.<br>d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.<br>e. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security.<br>To determine if a security accounts for more than 5 per cent of the total assets of the scheme, it shall be valued in accordance with the procedure as mentioned above on the date of valuation. |
| Application Money for Primary Market Issue | | Application money should be valued at cost up to allotment.<br>Equity securities allotted and proposed to be listed, but not listed, are to be valued at cost till listing. |
| Qualified Institutional Placement (QIP) / Follow on Public Offer | | Valued at Bid price or Market price, whichever is lesser. |
| Rights Entitlements | **Traded** | If the rights are traded, then the traded price will be considered for valuation. |
| | **Non Traded/Unlisted/ Thinly Traded** | Valuations of non-traded / thinly traded / Unlisted rights entitlement, SEBI Regulations have explained this with the help of following formula:<br>Vr = n/m * (PEX – Pof) Where<br>Vr = Value of Rights<br>n = Number of rights offered<br>m = Number of original shares held<br>Pex = Ex-right price<br>Pof = Rights offer price<br>The following issues while valuing the rights entitlements have to be addressed:<br>i) In case original shares on which the right entitlement accrues are not traded on the Stock Exchange, right entitlement should be valued at zero.<br>ii) When rights are not treated *paripassu* with the existing shares such as, restrictions with regard to dividend etc., suitable adjustment should be made by way of a discount to the value of rights at the last dividend announced rate.<br>iii) Where right entitlements are not subscribed to but |

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| | | are to be renounced, and where renouncements are being traded, the right entitlements have to be valued at traded renunciation value.<br>iv) Where right entitlements are not traded and it is decided not to subscribe the rights, the right entitlements have to be valued at zero.<br>v) In case the Rights Offer Price is greater than the ex-rights price, the value of the rights share is to be taken as zero. |
| Suspended Security | | In case trading in an equity security is suspended for trading on the stock exchange up to 30days, then the last traded price would be considered for valuation of that security.<br>If an equity security is suspended for trading on the stock exchange for more than 30 days, then it would be considered as non traded and valued accordingly. |
| Partly Paid-up Equity Shares: | **Traded** | If the partly paid-up equity shares are traded in market separately then the same shall be valued at traded price (like any other equity instrument). |
| | **Non - traded** | Non traded partly paid-up equity shares shall be valued at Underlying Equity price as reduced by the balance call money payable or zero, whichever is higher. |
| Shares tendered for Buyback | | On tendering the shares for buyback: Valued normally at the NSE / BSE closing price.<br>**Acceptance of offer**: On receipt of the information from the custodian / company, the quantity accepted would be removed from the holding at the buyback price. |
| Valuation of Shares on Merger,<br>De-merger and Other Corporate<br>Action Events: | | Merger:<br>On merger following possibilities arise which influence valuation, these are:<br>• Shares held of a continued entity, which is traded:<br>At traded prices of continued entity.<br><br>• Shares held of discontinued entity :<br><br>Price of continued entity based on the conversion ratio.<br>• Shares of a new entity:<br>Valuation of merged entity will be arrived at by considering the closing price of the premerged entities adjusted for conversion ratio.<br><br>**De-merger:**<br>On de-merger following possibilities arise which influence valuation, these are:<br>• Both the shares are traded immediately on de-merger:<br>In this case both the shares are valued at respective traded prices.<br><br>• Shares of only one company continued to be traded on de-merger:<br>In such a scenario, the shares of Non-Traded / Unlisted would be fairly valued in good faith by valuation committee on case to case basis. Traded share shall be valued at traded price.<br><br>• Both the shares are not traded on de-merger: |

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| | | Shares of de-merged companies are to be valued equal to the pre de-merger value upto a period of 30 days from the date of de-merger. The market price of the shares of the de-merged company one day prior to ex-date can be bifurcated over the de-merged shares. The market value of the shares can be bifurcated in the ratio of cost of shares.<br><br>In case shares of both the companies are not traded for more than 30 days, then the AMC shall provide the fair valuation for the same.<br><br>**Other corporate action event:**<br><br>In case of any other type of capital corporate action event, the same shall be valued at fair price on case to case basis as may be determined by the Valuation Committee. |
| Valuation of Warrants | Traded | If the warrants are traded, the traded price will be considered for valuation. |
| | Non Traded | In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant; If the amount payable on exercise of the warrants is higher than the value of the share, the value of the warrants should be taken as zero.<br><br>Value of Warrant = Max [(Price of Underlying Security - Exercise Price), 0]<br><br>An illiquidity discount, as appropriate shall be taken into account for valuation. |
| Investment Grade and Non-Performing or Non Investment Grade and Non-Performing Securities | | All Non-Performing Asset shall be valued in accordance with the Guidelines for identification and provisioning for Non Performing Assets (Debt Securities) issued by SEBI. |
| Convertible Debentures / Bond | | Non-convertible and convertible components are valued separately.<br>A. The non-convertible component shall be valued on the same basis as would be applicable to a non-convertible debt instrument<br>B. The convertible component to be valued as follows:<br>i) Ascertain<br>_ The number of shares to be received after conversion.<br>_ Whether the shares would be *paripassu* for dividend on conversion.<br>_ The rate of last declared dividend.<br>_ Whether the shares are presently traded or non traded / thinly traded.<br>_ Market rate of shares on the date of valuation |

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| | | ii) In case the shares to be received are, on the date of valuation, are thinly traded /non-traded, these shares to be received on conversion are to be valued as thinly traded / non-traded equity shares.<br><br>iii) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation and would be traded *paripassu* for dividend on conversion:<br>a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate<br>b) Determine the discount for non-tradability of the shares on the date of valuation<br>(This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the Board of AMC)<br>Value = (a)*market rate [1-(b)]<br><br>iv) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation but would not be traded *paripassu* for dividend on conversion:<br><br>a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate<br>b) Arrive at the market value of the shares on the date of valuation by reducing the amount of last paid dividend.<br>c) Determine the discount for non-tradability of the shares on the date of valuation<br>(This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the Board of AMC)<br>Value = (a)*{b- [1- (c)]}<br>v) In case of optionally convertible debentures, two values must be determined assuming both, exercising the option and not exercising the option.<br>• If the option rests with the issuer, the lower of the two values shall be taken as the valuation of the optionally convertible portion, and;<br>• If the option rests with the investor, the higher of the two values shall be taken. |
| Inter Scheme Transfer | **Equity and related securities** | IST in Equity and related securities is restricted. |
| | **Debt and related Securities** | All inter-scheme transactions shall be undertaken on a fair value basis at the time of IST, with adequate rationale for both schemes.<br>It may be noted that, the traded price and the end of day valuation price can be different since end of the day valuation shall be as per the Valuation Methodology specified for that particular security in this policy. |