# INDIABULLS ASSET MANAGEMENT CO. LTD.

# Valuation Policy

# ( INVESTMENT VALUATION POLICY & PROCEDURE FOR SECURITIES AND OTHER ASSETS)

**Version Control Matrix**

| **Policy Version** | 5.0 |
|---|---|
| **Board Approval Date** | 22-09-2017 |

**Review Frequency: - Annual**

## A. Background

SEBI has amended Regulation 47 and the Eighth Schedule relating to valuation of investments on February 21, 2012 to introduce overriding principles in the form of "Principles of Fair Valuation". Prior to this amendment, Eighth schedule and various circulars issued from time to time provided detailed guidelines on valuation of traded securities, non-traded securities, thinly traded securities, etc. The amended regulations require that mutual funds shall value their investments in accordance with principles of fair valuation so as to ensure fair treatment to all investors i.e. existing investors as well as investors seeking to subscribe or redeem units.

It further prescribes that the valuation shall be reflective of the realizable value of securities and shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures approved by the Board of the asset management company (AMC).

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.

Further, in accordance with AMFI Best Practice Guidelines Circular No. 47/ 2014-15 – Guidelines on Valuation of BRDS dated May 26, 2014 seek clarification regarding valuation of Bills Rediscounting (BRDS) instruments & follow mark to market methodology for valuation of these instruments for maturities above 60 days.

BRDS is issued in physical form in the form of usance promissory note. Sec 45U of the Reserve Bank of India (Amendment) Act, 2006 defines BRDS as a money market instrument. SEBI Regulations also defines BRDS as money market instrument. As BRDS is termed as a money market instrument and is a negotiable instrument, it has been recommended by AMFI Valuation Committee that BRDS should be valued similar to other money market instruments as per the extant Valuation policies.

## B. Policy Coverage

This policy shall cover the following:

1. Valuation methodologies for particular types of securities
2. Inter-scheme transfers
3. Composition and role of the Valuation Committee
4. Periodic review
5. Conflict of interest
6. Exceptional events
7. Record keeping
8. Provisioning for Non -Performing Asset (NPA)

**1. Valuation methodologies**

a) Annexure I describe the methodologies for valuing each and every type of security held by the schemes.

b) 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 the AMC.

**2. Inter-scheme transfers**

a) Inter-scheme transfers shall be done as per regulations and internal policy at prevailing market price (essentially fair valuation price).

b) Annexure I describe the methodology to determine the fair valuation of securities which are intended to be transferred from one scheme to another.

**3. Valuation Committee**

In accordance with the SEBI circular MFD/CIR No. 010/024/2000 dated January 17, 2000 every Asset Management Company should formulate Valuation Committee to review investment valuation practices. Valuation Committee comprising of the CEO, Heads of Investment, Head of Compliance and the Head of Operations of the AMC will review and recommend matters pertaining to the valuation of securities in which the various schemes of Indiabulls Mutual Fund has invested or may invest.

**4. Periodic Review**

The valuation committee shall be responsible for ongoing review of the valuation methodologies in terms of its appropriateness and accuracy in determining the fair value of each and every security. As per the provision of Eighth Schedule of SEBI(Mutual Funds) Regulations, 1996, Valuation Policy and procedures shall be reviewed at least once in a financial year by an independent auditor to ensure its continued appropriateness.

**5. Conflict of Interest**

The valuation committee shall be responsible for ongoing review of areas of conflict (including potential areas, if any) and should recommend to the AMC Board the procedures to mitigate it.

**6. Exceptional Events**

1. Following types of events could be classified as Exceptional events where current market information may not be available / sufficient for valuation of securities:

    a. Major policy announcements by the Central Bank, the Government or the Regulator.
    b. Natural disasters or public disturbances that force the markets to close unexpectedly.
    c. Absence of trading in a specific security or similar securities.
    d. Significant volatility in the capital markets.

2. **Escalation Procedure:**
    a. Valuation Committee shall be responsible for monitoring Exceptional events and recommending appropriate valuation methods under the circumstances with due guidance from the AMC Board.
    b. Under such circumstances, Valuation committee shall seek the guidance of the AMC Board in deciding the appropriate methodology for valuation of affected securities.
    c. Deviations from the valuation policy and principles, if any, will be communicated to the unit holders' wide suitable disclosures on the fund website.

**7. Record keeping**

Policy document should be updated in SID / SAI, website and other documents as prescribed by the SEBI regulations and guidelines. All the documents which form the basis of valuation including inter-scheme transfers (the approval notes & supporting documents) should be maintained in electronic form or physical papers. Above records will be preserved in accordance with the norms prescribed by the SEBI regulations and guidelines.

**8. Provisioning for Non -Performing Asset (NPA)**

Classification of an asset as an NPA for debt securities, provisioning and valuation of same would be done as per SEBI circular MFD/ CIR/ 8 / 92/ 2000, dated September 18, 2000.

An asset will be classified as an NPA after a quarter past due date of interest. E.g. if the due date for interest is 31.03.2015, it will be classified as NPA from 01.07.2015. After the expiry of the first quarter from the date the income has fallen due, there will be no further interest accrual on the asset. E.g. if the due date for interest falls on 31.03.2015 and if the interest is not received, accrual will continue till 30.06.2015 after which there will be no further accrual of income. Full provision will also be made for interest accrued and outstanding as on 31.03.2015

Once an investment has been recognized as NPA, provisioning would be made in a manner to ensure full provisioning prior to the closure of the scheme or the scheduled phasing whichever is earlier. The provisioning should be made at the following rates:

- 10% of the book value of the asset should be provided for after 6 months past due date of interest i.e. 3 months from the date of classification of the asset as NPA.
- 20% of the book value of the asset should be provided for after 9 months past due date of interest i.e. 6 months from the date of classification of the asset as NPA.
- Another 20% of the book value of the assets should be provided for after 12 months past due date of interest i.e 9 months form the date of classification of the asset as NPA.
- Another 25% of the book value of the assets should be provided for after 15 months past due date of interest i.e. 12 months from the date of classification of the asset as NPA.
- The balance 25% of the book value of the asset should be provided for after 18 months past due date of the interest i.e. 15 months form the date of classification of the assets as NPA.

Thus, in one and half years past the due date of income, the ‘asset’ will be fully provided for.

**Valuation Policy: Annexure I**

The revised policy is to be implemented from September 25, 2017 and will stand modified to the extent it is inconsistent with any regulatory pronouncements thereafter:

**A. Equity and related securities**

| Asset Class | Traded / Non-traded | Basis of Valuation |
|---|---|---|
| Equity Shares, Preference Share s, Equity Warrants & Rights | Traded | On the valuation day, at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange. |
| | Non Traded | 1. When a security is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / any other Stock Exchange will be used, provided such closing price is not exceeding a period of 30 calendar days.<br><br>2. In all other cases<br>a. **Equity Shares:** Valuation price will be in accordance with the norms prescribed as per SEBI Circular no. MFD/CIR/8/92/2000 dated September 18, 2000 as detailed below<br>Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:<br>i) Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.<br>ii) Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent i.e. only 25 per cent. Of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts shall be considered for this purpose.<br>iii) 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 per cent. for illiquidity so as to arrive at the fair value per share.<br>iv) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.<br>v) 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>vi) 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. To determine if a security accounts for more than 5 per cent. Of the total assets of the scheme, it |

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| | | shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation206.<br>vii) In case trading in an equity security is suspended up to thirty days, then the last traded price shall be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the AMC(s) or Trustees shall decide the valuation norms to be followed and such norms shall be documented and recorded.<br><br>b. **Preference Shares:** Preference shares can be convertible or non-convertible. The non-convertible preference share will be valued at the present value of all the future expected dividend payments and the maturity value, discounted at the expected return on preference share.<br><br>The value of convertible preference share can be arrived as follows,<br><br>Value of Convertible Preference share = (Preference shares dividend/expected return on preference share) x (Face Value)<br><br>d. **Equity Warrants / Rights entitlement / Partly Paid up rights shares:** Valuation price will be arrived, after applying appropriate discount (valuation committee delegated the power to decide the discount factor), after reducing the exercise price / issuance price from the closing price of the underlying cash equity security. The ratio of rights i.e. (no of rights offered / no. of original shares held) will be adjusted in the quantity directly while booking the rights and hence not considered again for valuation.<br>e. Partly paid up shares.<br>Uncalled liability per share shall be reduced from the value of fully paid share, if traded to derive price of non-traded partly paid shares. Suitable illiquidity discounts shall be considered as for any other illiquid shares. Price of underlying shares of fully paid up after deducting uncalled liability shall be considered as the valuation price for partly paid up shares.<br><br>d. **Demerger:** Where at least one resultant company is not immediately listed, valuation price will be worked out by using cum-price, before demerger reduced for quoted price of the listed resultant company (ies). OR In case of a demerger pending listing, the resultant company/ies shall be valued at the intrinsic value arrived at on the date of corporate action.<br><br>e. **Amalgamation/Merger /Spin off/ Differential voting rights:** Valuation for the same shall be arrived at |

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| | | in good faith by the Valuation Committee of the AMC. |
| | Thinly Traded | Valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE), further discounted for illiquidity.<br>Definition of thinly traded equity/ equity related security: When trading in an equity/equity related security in a calendar month is both less than INR 5 lacs and the total volume is less than 50,000 shares, it shall be considered as a thinly traded security. The valuation shall be as per guidelines specified vide SEBI Circular no. MFD/CIR/8/92/2000 dated September 18, 2000 as listed under 'Non-traded' section above. |
| Futures & Options | Traded<br>Non Traded | On the valuation day, at the closing price provided by (NSE).<br>When a security is not traded on the respective stock exchange on the date of valuation, then the settlement price / any other derived price provided by the respective stock exchange. |

## B. Fixed Income and related securities

| **Asset Category** | **Valuation Policy w.e.f. September 25, 2017** |
|---|---|
| Debt Securities having maturity above 60 days | In cases, where Security Level pricing is provided by the Agency/Agencies appointed by the AMC, simple average of the prices provided by the agencies proposed by AMFI (Currently CRISIL & ICRA) to be used on each valuation day.<br>In cases, where Security Level pricing is not available from the agencies, if the security is traded in the market, market price should be considered. If the market price is not available, purchase price will be considered.<br>***Valuation Methodology*** |

| **In case of T+0 trade, where the Agency/Agencies do not provide the prices on trade date** | |
|---|---|
| Money Market Instruments (CP/CD/ZCB/ BRDS ) | Price arrived with linear amortization (Market price or Purchase Price + One day Amortisation Income) |
| Coupon bearing securities( Bond) | Market Price or Purchase Price |

| **In case of T+N trade, where the Agency/Agencies do not provide the prices on trade date** | |
|---|---|
| Money Market Instruments (CP/CD/ZCB/ BRDS ) | Market Price or Purchase Price till settlement date |
| | E.g. New security bought on Friday with settlement date Monday. |
| | Friday to Sunday Valuation @ Market Price or Purchase Price |
| | Monday Valuation @ SLP |
| Coupon bearing securities( Bond) | Market Price or Purchase Price till settlement date |
| | E.g. New security bought on Friday with settlement date Monday. |

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| | Friday to Sunday Valuation @ Market Price or Purchase Price<br>Monday Valuation @ SLP |
| Debt Securities having maturity below or equal to 60 days | Instruments will be valued by amortisation on a straight line basis to maturity from cost or last valuation price whichever is more recent as long as it is within ±0.10% of the reference price. Benchmark yields for calculating reference price to be provided by CRISIL/ICRA.<br><br>Illiquidity Changes:At the time of first purchase and additional transaction the spread between the purchase yield (or transaction yield as the case may be) and the benchmark yield should be fixed. The spread would be kept constant through the life of the instrument and will be changed only if there is justification for the change and the same will be recorded. In case the variance exceeds ±0.10%, the valuation shall be adjusted to bring it within the ±0.10% band.<br><br>Qualification criteria for considering the trades on the public platform: at least 5 trades aggregating to Rs. 250 crores or more.<br>If market trades satisfying the above criteria are not available on the public platforms, AMC's own trade to be considered.<br><br>Qualification criteria for considering AMC's own trades: trade of market lot or more i.e. Rs. 5 crore or more. In case of AMC's own trades of less than Rs 5 Cr, then the previous day's valuation price will be used.<br><br>Pricing of all the scrips would be uniform across all the Schemes. |
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**Notes:**

1. Public Platform refers to:

    a)FIMMDA / CBRICS

    b)NSE WDM

    c) BSE WDM

    d) NDS-OM/CCIL: For Government securities &Treasury bills

2. Government Securities and Treasury bills (> 60 days of residual maturity) will be valued at simple average of prices provided by the agencies proposed by AMFI (Currently CRISIL & ICRA) on each valuation day.

3. Government Securities and Treasury bill (<= 60 days of residual maturity) will be valued at the amortized price based on straight line basis to maturity from cost or last valuation price whichever is more recent as long as it is within ±0.10% of the reference price. Benchmark yields for calculating reference price to be provided by the agencies proposed by AMFI (Currently CRISIL & ICRA). In case the variance exceeds ±0.10%, the valuation shall be adjusted to bring it within the ±0.10% band.

4. CBLO / Reverse Repo : will be valued at cost plus accruals / amortization:

5. Bank Fixed Deposits – Fixed deposits will be valued at cost

6. Units / shares of mutual funds will be valued at the last published NAV.

7. Weighted average YTM shall be rounded up to four digits after decimal point.