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# INDIABULLS ASSET MANAGEMENT CO. LTD.

## Valuation Policy

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

Version Control Matrix :-

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<b>Particulars</b>	<b>Name</b>	<b>Designation</b>
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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 over-arching (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.

SEBI Circular no. SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019

SEBI Circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

## **B. Objective of Policy & Policy Coverage**

The objective of this Policy is to set the broad valuation norms to enable Indiabulls Asset Management Co. Ltd (IBAMC) to value the investments of the Schemes of Indiabulls Mutual Fund (IBMF) in accordance with the overarching principles of ‘fair valuation’ or such other principles/regulations as may be prescribed by SEBI from time to time so as to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time.

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. Deviations
8. Record keeping
9. Provisioning for Securities classified as below investment grade or default

#### **1. Valuation methodologies**

- a) The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets.
- b) Annexure I describe the methodologies for valuing each and every type of security held by the schemes.
- c) 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.
  - e. Events which lead to lack of availability of accurate or sufficient information to value the securities.
  - f. Valuation Agencies do not provide Valuation for Securities.
  - g. Any other event perceived to be exceptional by the Valuation Committee.

In case of exceptional events, the Valuation Committee of the AMC shall assess the situation and advise appropriate method of valuation for the impacted securities.

## **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.

## **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. Deviation from valuation guidelines:**

Investments shall be valued as per the methodologies mentioned in this Policy, which aim to enable true and fair valuation of securities. However, if the valuation of any particular asset/security does not result in fair/ appropriate valuation or under exceptional circumstances, the Valuation Committee would have the right to deviate from the established policies in order to value the asset/security at fair/appropriate value. Similarly, AMC may deviate from the indicative haircuts and/or valuation price for money market and debt securities rated below investment grade provided by the valuation agencies.

Aforesaid deviations from the valuation policy, if any, along with detailed rationale will be informed to the AMC and Trustee Board and will be communicated to the investors vide appropriate disclosures on the Mutual Fund's website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along with an exact link to the website wherein the details of all such instances of deviation are available.

## Valuation Policy: Annexure I

### A. Equity and related securities

Asset Class	Traded / Non-traded	Basis of Valuation
Equity Shares, Preference Shares ,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	<p>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.</p> <p>2. In all other cases</p> <p>a. <b>Equity Shares:</b> 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</p> <p>Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>iv) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.</li> <li>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</li> </ul>

		<p>companies shall be valued at zero.</p> <p>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 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 valuation<sup>206</sup>.</p> <p>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.</p> <p><b>b. Preference Shares:</b> 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.</p> <p>The value of convertible preference share can be arrived as follows,</p> <p>Value of Convertible Preference share = (Preference shares dividend/expected return on preference share) x (Face Value)</p> <p><b>c. Equity Warrants / Rights entitlement / Partly Paid up rights shares:</b> 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.</p> <p><b>d. Partly paid up shares</b> 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.</p> <p><b>e. Amalgamation/Merger/Demerger:</b></p>
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	Thinly Traded	<p>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.</p> <p>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.</p>
Futures & Options	Traded Non Traded	<p>On the valuation day, at the settlement price provided by (NSE).</p> <p>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.</p>
Initial Public Offering (IPO) Application (prior to allotment)	-	Valued at Bid Price

Qualified Institutional Placement (QIP) / Follow on Public Offer (FPO)	-	Valued at Bid price or Market price, whichever is lesser.
Inter-scheme transfers (IST)	Traded Non Traded	Valued at closing market price provided by NSE 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	
1. Government Securities	Government Securities (including T-bills) shall be valued on the basis of average of security level prices obtained from the agency(ies) appointed by AMFI for said purpose (hereinafter referred to as “valuation agencies”)
2. Money market and Debt Securities having maturity above 30 days	<p>All money market and debt securities including floating rate securities and bills purchased under rediscounting scheme, with residual maturity of over 30 days shall be valued at average of security level prices obtained from valuation agencies appointed by AMFI on each valuation day.</p> <p>In case security level prices given by valuation agencies appointed by AMFI are not available for a new security, then such security will be valued at purchase yield on the date of allotment / purchase.</p>
3. Money market and Debt Securities having maturity below or equal to 30 days	<p>Money market and debt securities including floating rate securities and bills purchased under rediscounting scheme, with residual maturity of upto 30 days will be valued by amortization on a straight line basis. Furthermore, the amortized price shall be compared with the reference price which shall be the average of the security level price of such security as provided by the valuation agencies. The amortized price shall be used for valuation only if it is within a threshold of <math>\pm 0.025\%</math> of the reference price. In case of deviation beyond this threshold, the price shall be adjusted to bring it within the threshold of <math>\pm 0.025\%</math> of the reference price.</p> <p>In case security level prices given by valuation agencies are not available for a security, then such security will be valued by amortization on a straight line basis on the date of allotment / purchase.</p>
4. Other money market / debt securities, short-term deposits with banks (pending deployment)	<p>Investments in short-term deposits with banks (pending deployment) and repurchase (repo) transactions (including tri-party repo i.e. TREPS) with tenor of upto 30 days, shall be valued on cost plus accrual basis.</p> <p>OTC derivatives and market linked debentures shall be valued as per average of prices obtained from valuation agencies (as and when they are mandated to be available).</p>
5. Securities with Put / Call option	<p>Securities with put / call option will be valued based on average of prices provided by the valuation agencies.</p> <p>If the put or call option is exercised and/or the residual maturity is up to 30 days, the said security shall be amortized till the put or call date respectively and subject to the approach followed in (B.3) above.</p> <p>In respect of securities which are rated below investment grade or default, such securities with put / call option shall be valued as per the approach in (B.6) below.</p>
6. Below investment grade securities	<p>Securities which are rated below investment grade or default shall be valued at the price provided by AMFI appointed valuation agencies.</p> <p>Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies. These indicative haircuts shall be applied</p>

	<p>on the date of credit event i.e. migration of the security to sub-investment grade and shall continue till the valuation agencies compute the valuation price of such securities. These haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.</p> <p>In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMC shall consider such traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.</p> <p>Treatment of accrued interest and future accrual of interest, in case of money market and debt securities classified as below investment grade or default.</p> <ul style="list-style-type: none"> <li>• The indicative haircut that has been applied to the principal will also be applied to any accrued interest.</li> <li>• In case of securities classified as below investment grade but not default, interest accrual will continue with the same haircut applied to the principal. In case of securities classified as default, no further interest accrual shall be made.</li> </ul> <p>Treatment of accounting of any future recovery in terms of principal or interest, in case of money market and debt securities classified as below investment grade or default.</p> <ul style="list-style-type: none"> <li>• Any recovery shall first be adjusted against the outstanding interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.</li> <li>• Any recovery in excess of the carried value (i.e. the value recognized in NAV) will be applied first towards amount of interest written off and then towards amount of principal written off.</li> </ul>
7. Units / shares of mutual funds	Units / shares of mutual funds will be valued at the last published NAV.
8. Inter-scheme transfers (IST)	AMC shall seek prices for IST of any money market or debt security (irrespective of maturity), from the valuation agencies.

### Other Securities

Asset Category	Valuation Methodology
Units of InvITs / REITs	<p><b>I. Allotted but Listing awaited</b> (i) Valuation of units of InvIT and REIT post allotment but awaiting listing- at allotment price.</p> <p><b>II. Listed and Traded/Non- Traded</b> a) Where units of InvIT and REIT are listed but not traded after initial listing, valuation will be determined by the Valuation Committee based on the principles of fair valuation. b) Valuation of units of InvIT and REIT will be based on the last quoted closing price on the principal stock exchange where such security</p>

	<p>is listed. The AMC has selected NSE as principal stock exchange, for all schemes other than Index based Funds/ETF. For index based schemes/ETF, the Principal stock exchange would be the exchange where the underlying benchmark index has been set up. If no trade is reported on the principal stock exchange on a particular valuation date, units of InvIT and REIT shall be valued at the last quoted closing price on other recognised stock exchange. For this purpose only NSE and BSE shall be considered as the recognized stock exchanges.</p> <p>c) When units of InvIT and REIT is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on any day immediately prior to valuation day or latest NAV declared by the investment manager of the trust, whichever is later, shall be considered for valuation provided that such date is not more than thirty days prior to the valuation date.</p> <p>d) Where units of InvIT and REIT are not traded on any stock exchange for a continuous period of 30 days then the valuation for such units of InvIT and REIT will be determined based on the price provided by an independent valuation agency(ies).</p> <p>e) Where the valuation for units of InvIT and REIT is not available from any independent valuation agency (ies), the valuation will be determined by the Valuation Committee based on the principles of fair valuation. Further, after reviewing the valuation of Units of InvITs / REITs, if the prices as per the above methodology does not represent fair price then the same may be ignored and the valuation in such cases would be decided by the Valuation Committee.</p>
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**Notes:**

1. Public Platforms and their order of preference for trade consideration:
  - a) FIMMDA
  - b) CBRICS
  - c) NSE WDM
  - d) BSE WDM
  - e) NDS-OM/CCIL: For Government securities & Treasury bills
  
2. Market Lot = 25 Cr & more – CP, CD & Tbills  
5 Cr & more - Bonds ,NCDs, ZCBs
  
3. Repo / Reverse Repo: Where instruments have been bought on 'repo' basis, the instrument must be valued at the resale price after deduction of applicable interest up to date of resale. Where an instrument has been sold on a 'repo' basis, adjustment must be made for the difference between the repurchase price (after deduction of applicable interest up to date of repurchase) and the value of the instrument. If the repurchase price

exceeds the value, the depreciation must be provided for and if the repurchase price is lower than the value, credit must be taken for the appreciation.

4. Haircuts for below investment grade securities.

Haircuts for senior, secured securities

Rating/sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
<b>BB</b>	15%	20%	25%
<b>B</b>	25%	40%	50%
<b>C</b>	35%	55%	70%
<b>D</b>	50%	75%	100%

Haircuts on subordinated and unsecured (or both) securities

Rating/sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
<b>BB</b>	25%	25%	25%
<b>B</b>	50%	50%	50%
<b>C</b>	70%	70%	70%
<b>D</b>	100%	100%	100%