



Investment Valuation Policy

Background

The Eighth Schedule to the Securities and Exchange Board of India (SEBI) Mutual Funds Regulations, 1996, together with various circulars issued by SEBI from time to time, prescribed the norms, methodology and guiding principles for valuation of investments held by Mutual Fund schemes. Valuation of securities was done in conformity with these valuation norms.

SEBI, vide Gazette Notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012, has brought about certain amendments to Regulations 25 and 47 and to the Eighth Schedule to the Securities and Exchange Board of India (SEBI) Mutual Funds Regulations, 1996. The key highlights of these amendments are as below:

- a. The valuation of investments should be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets. The valuation should be done in good faith and in a true and fair manner, through appropriate valuation policies and procedures.
- b. The policies and procedures should identify the methodologies that will be used for valuing each type of security / asset held by the mutual fund schemes.
- c. Investment in new type of securities/assets by the mutual fund schemes should be made only after establishment of the valuation methodologies for such securities with the approval of the Investment and Valuation Committee.
- d. The assets held by mutual funds should be consistently valued according to policies and procedures.
- e. The valuation policies approved by the board of the Asset Management Company & Trustee Company should seek to address conflict of interest.
- f. The guidelines and procedures should describe the process to deal with exceptional events, where market quotations are no longer reliable for a particular security.
- g. The policies need to be approved by the Board of the Asset Management Company & Trustee Company.
- h. The valuation policies need to be periodically reviewed to ensure appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets. Board of the Trustee Company and Board of the Asset Management Company should be updated on the outcome of the review, at appropriate intervals.
- i. The valuation policies, guidelines and procedures may be reviewed at least once in a financial year, by an independent auditor, to assess and confirm their continued appropriateness.
- j. The Asset Management Company and the sponsor of the mutual fund will be liable to compensate the affected investors and/or the scheme for any unfair treatment to any investors as a result of inappropriate valuation.

While the amended regulations mandate AMCs to establish valuation policies and procedures, it also allows the AMC to deviate from these policies and procedures, where it is necessary and expedient to do so, to ensure a true and fair valuation. Accordingly, in the event of a conflict between the principles of fair valuation and valuation guidelines, the principles of fair valuation shall prevail. The rationale for deviation along-with details of such information about the security (ISIN, issuer name, rating etc), price at which the security was valued , impact of such deviation on Scheme NAV (in amount and

percentage terms) shall be reported to the Board of AMC and Trustees and relevant disclosures to be made on AMC Website and monthly & half-yearly portfolio statements for the relevant period along with an exact link to the AMC Website wherein the details of all such instances of deviation are available.

Valuation Methodology

The standard valuation methodology for valuing each type of security/asset is explained in Annexure 1.

The methodology adopted for valuation of securities/assets is drawn in conformance with the principles of fair valuation and the SEBI Valuation Guidelines and valuation is done in good faith, in a true and fair manner, to reflect the realizable value of the security/asset.

Any changes to the valuation policy, procedures and methodology set out in Annexure I, would be progressive and prospective, with a view to fine-tune the valuations, so as to align with the guiding principles of fair valuation.

All assets held by the Fund shall be consistently valued according to the defined valuation methodology. Where it is observed that the methodology as per Annexure 1 does not lead to fair valuation of securities / assets, the Investment and Valuation Committee may, on a prospective basis, deviate from the defined methodology and adopt alternate procedures/methods to arrive at the fair value. The rationale for any such deviations would be recorded in writing and placed before the Board of Directors of the Trustee Company and the Asset Management Company and appropriate disclosures to the investors would be made.

Investments in any new type of securities/assets by the mutual fund scheme would be made only after establishment of the valuation methodologies for such securities/ assets, with the approval of the Investment and Valuation Committee.

Annexure-1

Security Valuation & Interscheme Transfer Policy

1. Valuation of Equity and Equity related instruments

- Equity Shares
- Preference Shares
- Equity Warrants
- Rights entitlement / partly paid up rights shares
- Convertible debentures

Valuation of Traded Equity and Equity related Instruments

Traded securities are to be valued at the last quoted closing price on the exchange in which the security is listed.

- Where the security is listed on more than one exchange, the valuation will be at the last quoted closing price on primary exchange. (Primary exchange being NSE).
- When on a particular valuation day, a security has not been traded on the primary stock exchange, the value at which it is traded on Secondary stock exchange (BSE) will be used.
- When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the primary stock exchange or Secondary stock exchange as the case may be on the earliest previous day may be used provided such date is not more than 30 days prior to the valuation date.
- For valuation of securities held by Exchange Traded Funds (ETFs) and Index funds which are benchmarked to indices relating to a particular stock exchange, the primary stock exchange will be that exchange, e.g. for an Index Fund -Sensex or Sensex ETF, the primary stock exchange will be the BSE.

Valuation of Thinly traded /Non- Traded/unlisted Equity and Equity Related Instruments

When trading in a security in a month is both less than Rs.5 lakhs and the total volume is less than 50,000 shares, the security shall be considered as thinly traded security. In order to determine whether a security is thinly traded or not, the volumes traded in NSE and BSE (combined) are considered.

When a security is not traded on any stock exchange for a period of 30 days prior to the valuation date, the security must be treated as a "non-traded" security.

Thinly-traded/ Non-traded and Unlisted Securities are valued in "good faith" in accordance with SEBI norms as prescribed below:

• Valuation of Thinly-traded/ Non-traded Equity Shares:

Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:

- 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.

- Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (Source: Capital Line and Ace Equity) 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.
- 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.
- In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
- 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.
- 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.

• **Valuation of Unlisted Equity Shares:**

Based on the latest available audited balance sheet, Net Worth shall be calculated as the lower of item (1) and (2) below:

- Net Worth per share = [Share Capital + Free Reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares.
- After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [Share Capital + consideration on exercise of Option and/or Warrants received/receivable by the Company + Free Reserves (excluding Revaluation Reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares plus Number of Shares that would be obtained on conversion and/or exercise of Outstanding Warrants and Options.
- The lower of (1) and (2) above shall be used for calculation of Net Worth per share.
- Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data ((Source: Capital Line and Ace Equity)) 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 capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.
- 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 15 per cent for illiquidity so as to arrive at the fair value per share.

The above valuation methodology for calculating fair value shall be subject to the following conditions:

- All calculations shall be based on audited accounts.
- In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
- 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.
- If the Net Worth of the company is negative, the share would be marked down to zero.
- 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.

• **Valuation of Suspended Equity Shares**

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, valuation methodology laid down for thinly traded / non-traded equity will be used for calculating the fair value.

- **Valuation of Equity Warrants**

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. The value of the later instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments.

- **Valuation of Rights entitlement:**

Until they are traded, the value of the “rights” shares should be calculated as:

$$V_r = (P_{ex} - P_{of})$$

Where

V_r = Value of rights

P_{ex} = Ex-rights price

P_{of} = Rights Offer Price

Where the rights are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

- **Valuation of Convertible debentures:**

In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the later instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.

- **Valuation of Non-Traded Preference Shares:**

Intrinsic value will be considered.

- **Valuation of Equity shares on 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 weighted average price of the listed resultant company(s). 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.

2. Valuation of Debt and Money market Instruments

Debt and Money market Instruments includes the following Instruments.

- Central Government Securities
- State Development Loans
- Non-Convertible Debentures/Bonds/Floating Rate Note
- Zero Coupon /Deep discount Bonds
- Treasury Bills
- Certificate of deposits
- Commercial paper
- Cash Management Bills
- Bill Rediscounting(BRDS)
- Tri-party repo (TREPS) /Reverse Repo
- Fixed deposits

Securities purchased on primary market will be valued from Settlement date.

Valuation of Debt and Money market Instruments (other than TREPS/Reverse Repo & Fixed deposits) with Residual maturity more than 30 days

It would be valued at the average of prices provided by the agencies nominated by AMFI (currently CRISIL and ICRA.)

For new securities or first purchase, for which prices are not available in the valuation files provided by the agencies, such securities will be valued based on the weighted average price of own trades in case of coupon bearing securities. Similarly discounted instruments would be valued at their weighted average yield computed on the basis of own trades only till the prices are provided by CRISIL and ICRA.

In case put or call option is exercised and is not factored in the files provided by ICRA and CRISIL, security will be amortized to the nearest Put/call date & valuation prices as provided by independent agencies shall be ignored. It is clarified here that if the put / call option is not exercised, we shall continue to follow the average security level valuation as provided by CRISIL / ICRA.

Valuation of Debt and Money market Instruments (other than TREPS/Reverse Repo & Fixed deposits) with residual maturity upto 30 days

To be amortised on Straight Line Basis to maturity from cost or last valuation price whichever is more recent, provided the amortised price remains within the threshold of $\pm 0.025\%$ of the reference price (The 'reference price' shall be the average of the security level price of such security as provided by the agencies nominated by AMFI currently CRISIL and ICRA). In case the difference between the reference price and the amortized price is within $\pm 0.025\%$, the security will be continued to be valued through amortization. However, if on any day the price difference is more than $\pm 0.025\%$, the valuation of the security will be adjusted so as to bring the difference within the threshold of $\pm 0.025\%$. In case of subsequent trades by the fund in the same security, the valuation will reflect the most recent trade as long as the trade is of market lot (Rs.5 crore or more). The security amortised to maturity with such amortised prices to be in line with $\pm 0.025\%$ of the reference price as above.

For new securities or first purchase, for which prices are not available in the valuation files provided by the agencies, such securities will be valued based on the weighted average price of own trades in case of coupon bearing securities. Similarly discounted instruments would be valued at their weighted average yield computed on the basis of own trades only till the prices are provided by CRISIL and ICRA.

Valuation of Tri-party Repo (TREPS)/Reverse Repo & Fixed Deposits

Tri-party Repo (TREPS)/ Reverse Repo and Fixed Deposits will be valued at cost plus accruals / amortisation basis.

Valuation of Non-investment grade securities (money market and debt securities)

In case long-term rating of an instrument falls below BBB- or if its short-term rating falls below A3, the security gets classified as non-investment grade security. Such securities would be valued at average of prices provided by rating agencies (Currently, Crisil & ICRA).

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, immediately after such credit event.

In case during the interim period between date of credit event and the receipt of valuation price from the valuation agencies, AMCs shall consider such traded price, if any (subject to threshold of minimum size of the trade as determined by the rating agencies) if it is lower than the price post standard haircut, provided by these agencies. The said traded prices shall be considered for valuation till the valuation price is determined by the valuation agencies.

3. Valuation of Mutual Fund Units:

Investments in units of mutual fund schemes shall be valued at the net asset value of the respective schemes as on the valuation date.

4. Valuation of Units issued by Real Estate Investment Trust('REITs') & Infrastructure Investment Trust ('InvITs'):

On the valuation day, at the 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. In case if it's not traded on the valuation day the valuation committee would recommend appropriate valuation methodology to determine the fair value.

5. Valuation of Futures & Options/Interest Rate Futures

Such Instruments will be valued at the settlement price, published by the exchanges.

6. Non - Performing Assets (NPA)

An "asset" shall be classified as non-performing, if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income / installment has fallen due. The valuation of Non- Performing Assets (NPA) would be in accordance with SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000, SEBI Circular No. MFD/CIR/8(a)/104/2000 dated October 03, 2000 and SEBI Circular no. MFD / CIR /14 / 088 / 2001 dated March 28, 2001 as amended from time to time.

7. INTERSCHEME TRANSFER POLICY:

Interscheme Transfers of Equity and Equity Related Instruments

Any Interscheme transfer of Equity and Equity related instruments shall be valued at the prevailing spot market price for the quoted instrument at the time the transfer is effected.

Interscheme Transfers of Debt & Money Market Instruments (excluding Central Government Securities, State Development Loans and Treasury Bills)

Any Interscheme transfer of debt & money market security shall be done at current market prices provided the security satisfies the below mentioned criteria.

- **For securities with maturity > 1 year-** Weighted average yield of same/similar securities traded on public platform prior to the execution of the Interscheme transfer provided there are at least 2 trades aggregating to Rs.25 Crores or more, else previous day valued price to be considered.
- **For securities having maturity upto or equal to 1 year-**The weighted-average yield of same/similar security traded on a public platform, provided there are at least 3 trades aggregating to Rs.100 crores or more, else previous days price to be considered.
- If there is a trade by scheme of LIC Mutual Fund in marketable lot with the outside counter party, the traded price will be considered. Where both the market and the AMC trades qualify, market trade will be considered for the traded price.

For the purpose of valuation, similar security shall be identified by the following means:

Step 1

Same issuer with maturity date within ± 5 days for securities with residual maturity ≤ 91 days and within ± 30 days for securities with residual maturity > 91 days of security shall be considered first. When no such instance is available, then Step 2 shall be followed.

Step 2

Similar security from a different issuer within the same category (PSU Bank, Private Bank or Financial Institution etc.) and similar credit rating (both Short term and long term), with maturity date within ± 5 days for securities with residual maturity ≤ 91 days and within ± 30 days for securities with residual maturity > 91 days, provided the maturity dates are within the same calendar quarter.

Interscheme Transfers of Central Government Securities, State Development Loans and Treasury Bills:

Interscheme transfers of Central Government Securities, State Development Loans shall be done at last traded price on NDS OM (Regular Market).

Inter-scheme transfers of Treasury Bill shall be valued at last traded yield.

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