MOTILAL OSWAL ASSET MANAGEMENT COMPANY LIMITED

INVESTMENT VALUATION MANUAL

APRIL 2018

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INTRODUCTION:

The Securities and Exchange Board of India (SEBI) has outlined investment valuation norms and accounting policies under SEBI (Mutual Funds) Regulations, 1996 as amended from time to time. The Investment Valuation Norms are defined in the Eighth Schedule of the regulations (Regulation 47) and circulars issued by SEBI from time to time.

Pursuant to the SEBI (Mutual Funds) (Amendment) Regulations, 2012, dated February 21, 2012, Regulation 47 of SEBI (MF) Regulations, 1996 was amended and it requires that Mutual Funds shall value their investments in accordance with the principles of Fair Valuation (Eighth Schedule of SEBI (MF) Regulations, 1996) so as to ensure fair treatment to all investors i.e. existing investors as well as investors seeking to subscribe or redeem units.

In order to further enhance transparency, SEBI has mandated for the AMCs to disclose the valuation policy and procedures as approved by the Board of AMC and Trustee on the website of AMC/Mutual Fund. The Valuation Policy shall be reviewed and changed as and when required.

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

VALUATION COMMITTEE:

In accordance with the SEBI Circular MFD/CIR No.010/024/2000 dated January 17, 2000 every AMC should formulate valuation committee to review investment valuation practices. Valuation committee of AMC would consist of CEO, Head of Operations, Head – Compliance, Head – Fixed Income, Head – Equity and Head- Risk. This committee would review the valuation policies on periodic basis and as and when any change is proposed. Head – Compliance would record the decisions and discussions of the meeting and wherever necessary this valuation manual would be updated accordingly.

OBJECTIVE OF THE MANUAL:

1.) All valuations would be carried out as per the guidelines laid down in this document and as per SEBI guidelines wherever applicable.

2.) This policy would be reviewed in the event of any new guidelines issued by SEBI, AMFI or any other regulatory organization.

3.) In order to ensure the appropriateness and accuracy of the methodologies as mentioned in this Policy and its effective implementation, a review at regular intervals shall be carried out by the Internal Auditors and the said report shall be placed before the Audit Committee of the Board of AMC and Trustee.

4.) It would be the responsibility of the Compliance Officer to keep the investment team, valuation committee, boards of AMC and trustees updated about new regulatory guidelines issued pertaining to valuations.

5.) In order to ensure transparency, the valuation procedures shall also be disclosed in the Statement of Additional Information (SAI) and on website(s) of the Mutual Fund.

Section I covers the Investment Valuation Norms for traded securities. This involves selection of a particular exchange to value the stocks of the Mutual Fund and laying down procedures to follow while determining the traded price.

Since all investments of the Mutual Fund are to be marked to market on a regular basis, the valuation of unlisted, thinly traded and non-traded securities becomes an important issue. Valuations of such investments have to reflect a true market value. The valuation methods must be objective, fair, transparent, simple and must employ publicly available information. SEBI has prescribed methods of valuation like the P/E method for shares, YTM method for debt instruments etc. The same has been explained in Section II in detail.

MOTILAL OSWAL ASSET MANAGEMENT COMPANY LIMITED

INVESTMENT VALUATION MANUAL

SECTION I

VALUATION NORMS FOR TRADED SECURITIES

INTRODUCTION:

Traded securities also include Thinly Traded securities and Suspended securities.

i) Thinly traded Equity/Equity Related Securities:

When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than Rs. 5 lacs and the total volume is less than 50,000 shares, it shall be considered as thinly traded security and valued accordingly. **Ref: SEBI Circular No. MFD/CIR/14 /088 / 2001 dated March 28, 2001**.
It is evident that any security to qualify as thinly traded security it should satisfy both the aforesaid conditions.

- **Process to be followed for determining whether security is thinly traded**
  - In order to determine whether a security is thinly traded or not, the volumes traded on all recognized Stock Exchanges in India for the last month are considered.
  - On the last day of the month service vendor viz. Bilav software Pvt. Ltd. send soft copy containing scrip-wise volume on BSE and NSE. This data is used to determine whether any of the equity security held in the portfolio is thinly traded.
  - Please refer to **Section II** for valuation of thinly traded equity/equity related securities.

ii) Thinly traded Debt securities:

A debt security (other than Government Securities) shall be considered as a thinly traded security if on the valuation date, there are no individual trades in that security in marketable lots (currently applicable) on the principal stock exchange or any other stock exchange. **Ref.: SEBI Circular No. MFD/CIR No.14/442/2002 dated February 20, 2002**.

- **Process to be followed while determining whether security is thinly traded:**
  - In order to determine whether a debt security is thinly traded or not, the volumes traded on NSE on the date of valuation should be considered since this is the only stock exchange, which has a Whole Sale Debt Market (**WDM**) segment. Volumes traded on NSE WDM can be obtained from service provider e.g. Bilav software Pvt. Ltd., or it can be obtained directly from the NSE site.
  - A thinly traded debt security as defined above would be valued as per the norms set for non-traded debt security. Please refer to **Section II** for valuation of thinly traded debt securities.

1. EQUITY AND EQUITY RELATED SECURITIES:

SEBI Regulations has prescribed following methodology for valuation of Equity and Equity related securities:
Traded Securities are to be valued at the last quoted closing price on the selected Stock Exchange. Where security is not traded on the selected stock exchange, the last quoted closing price of another Stock Exchange may be used. If a security 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 the earliest previous day may be used, provided such date is not more than thirty days prior to valuation date.
(Ref: SEBI (Mutual Fund) Regulations, 1996 Schedule VIII and amendments through SEBI Circular No. MFD/CIR No.14/442/2002 dated February 20, 2002.)

1 (a) 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 - 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 fully paid up shares after deducting unpaid liability shall be considered as the valuation price for partly paid up shares.

- **The steps involved in valuation of traded securities are:**

  (i) Selection of appropriate Stock Exchange by Asset Management Company (AMC) and valuing the security at the closing price on the date of valuation.
  (ii) Valuing security at the closing price of another Stock Exchange, if it is not traded on the valuation date on the Stock Exchange as selected at (i) above.
  (iii) Valuing security at the earliest previous day's quotes of selected stock exchange or any other stock exchange as the case may be (being not more than thirty days prior to valuation date).

- Clearly, for reasons of speed and regular flow of data in electronic form, our choice of stock exchange for trading is limited to the two premier exchanges of India - the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Both these exchanges have electronic trading, greater transparency, quicker and more efficient settlements, which enable better cash management, and are popular with other major institutions.

- **Process followed for valuation of traded equity and equity related securities by Motilal Oswal AMC would be as follows:**

  (i) For valuation purposes **NSE** has been selected as appropriate stock exchange for equity and equity related securities held by all the schemes.
  (ii) Wherever equity and equity related securities are not listed on NSE or are not traded on a certain day at NSE, the closing price at BSE should be considered, followed by any other regional exchanges.
  (iii) In case of securities which have been allotted under preferential / private allotment and are not listed or traded on both the stock exchanges, the scrip is valued at last quoted price on the Stock Exchange where it is traded (provided

the last quoted price is not more than thirty days prior to the valuation date.)

(iv) To summarise, if a not traded on NSE then refer BSE and if not traded on BSE then only refer other exchange wherethe security is traded provided the trade should have happened within 30 days prior to the valuation date.

(v) Similar methodology is to be used for valuation of traded preference shares.

(vi) If the equity securities are not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as `non-traded' scrip and should be valued as non-traded security as per the norms given separately by us in **Section II** and also in case of equity securities not listed on any stock exchange, the scrip is to be valued as per the norms given separately in **Section II.**

Change in the selected Stock Exchange:

In case selected stock exchange for valuation of any or all securities is to be changed, reasons for change have to be recorded in writing by the valuation committee and approved by the Board of AMC.

2. VALUATION OF FOREIGN SECURITIES & ADR/GDR:

Exchange to be considered for valuation of foreign securities and ADRs/GDRs is to be approved by the AMC Board. SEBI has not prescribed the method of valuation of foreign securities and ADR/GDR. Process of valuation to be followed by Motilal Oswal Mutual Fund would be as follows:

i. Receiving last quoted price:

If the security is listed in a time zone ahead of ours then the same day price as provided by Reuters would be used for valuation. If the security is listed in a time zone behind ours then the previous day’s price would be used for valuation. However in case a security is listed on more than one stock exchange, the AMC reserves the right to determine the stock exchange, the price of which would be used for the purpose of valuation of that security. The price of previous day should be used provided the price is not more than 30 days old. Further in case of extreme volatility or any other significant event in the international markets, the securities listed in those markets may be valued on a fair value basis.

In case of investment in foreign debt securities, on the Valuation Day, the securities shall be valued in line with the valuation norms specified by SEBI for Indian debt securities. However, in case valuation for a specific debt security is not covered by SEBI (MF) Regulations, then the security will be valued on fair value basis by the Valuation Committee of the AMC.

ii. Converting the price in Indian Rupees (INR):

Since these prices are in foreign currency these are to be converted in Indian Rupees by applying the exchange rate. Reuters Rate (11:30:00 GMT) can be used for converting the foreign currency prices in INR. This closing price in INR should also be used for valuation of foreign securities and ADR/GDR.

In case Reuters has not provided the conversion rate, the closing price of the security should be converted to INR at RBI reference rate. However, the AMC and Trustees reserve the right to change the source for determining the exchange rate.

3. STOCK AND INDEX DERIVATIVES:

3.1 Equity / Index Options Derivatives:

(i) Market values of traded open option contracts shall be determined with respect to the exchange on which it is contracted originally, i.e., an option contracted on the National Stock Exchange (NSE) would be valued at the closing option price on the NSE. The price of the same option series on the Bombay Stock Exchange (BSE) cannot be considered for the purpose of valuation, unless the option itself has been contracted on the BSE.

(ii) The Exchanges give daily settlement prices in respect of all derivates positions. These settlements prices would be adopted for the positions, which are not traded.

3.2 Equity / Index Futures Derivatives:

(i) Market values of traded futures contracts shall be determined with respect to the exchange on which contracted originally, i.e., futures position contracted on the National Stock Exchange (NSE) would be valued at the closing future price on the NSE. The price of the same futures contract on the Bombay Stock Exchange (BSE) cannot be considered for the purpose of valuation, unless the futures contract itself has been contracted on the BSE.

(ii) The Exchanges give daily settlement prices in respect of all derivates positions. These settlements prices would be adopted for the positions, which are not traded.

4. VALUATION OF GOVERNMENT SECURITIES:

All Government securities are to be valued at the prices released by an agency suggested by AMFI. Central Government Securities (CGs) and State Development Loans (SDLs) shall be valued at the average of the price received from approved agency/(ies) currently CRISIL and ICRA.

5. DEBT SECURITIES OTHER THAN GOVERNMENT SECURITIES:

AMFI Best Practice Guidelines Circular No. 135/BP/29/2012-13 dated May 15, 2012 read with AMFI Best Practice Guidelines Circular No.41/2013-14

Valuation of Non-Traded Securities/Thinly Traded securities:

Less than or upto 60 days

Instruments will be valued by amortization on a straight line basis to maturity from cost or last valuation price, whichever is more recent.

However, it will be ensured that the amortized price is a fair reflection of market conditions, by comparing it to a Reference Price.

Crisil and ICRA shall be providing reference yields for all securities with a residual maturity of less than 60 days. The yields would be provided in a matrix format based on the residual maturity and rating of debt instruments. The yields provided by both shall be aggregated and averaged.

This is done through software developed by Crisil (CRISIL Bond Valuer or CBV). Based on the relevant benchmark yield (which will be derived from the reference yield curve mentioned above based on the residual maturity and rating of each security) and a security specific spread, a reference yield for each security will be calculated on a daily basis. Security specific reference price will be calculated using the reference yield.

This reference price will then be compared with the amortized price of each security.

In case the difference between the reference price and the amortized price is within +-10 bps, the security will be continued to be valued through amortization. However if on any day the price difference is more than +-10 bps, the valuation of the security will be adjusted so as to bring the difference within a band of +-10 bps.

Benchmark yield curve:
The benchmark yield curve shall be constructed by Crisil and ICRA on a daily basis, based on market trades and polling of market participants. For construction of this benchmark yield curve, traded prices / yields across all public platforms will be considered. For practical reasons, the benchmark yields will be provided for each calendar fortnightly interval, for tenors up to 60 days. Like for securities currently above 60 days to maturity, the yield curve shall be constructed in a matrix format, where each issuer can be benchmarked based on the credit rating and time to maturity.

Security Specific Spread:

An acquisition of a less than 60 day security could happen in two ways.

a) Residual maturity of an existing security falling below 60 days.
b) Fresh purchase of the security with a residual maturity of up to 60 days.

For every security acquired through way (a) the illiquidity discount will be zero. For every security acquired through way (b) the difference between the yield of the security and benchmark yield curve will be captured. This difference as on the first day of acquisition will be the spread for that security.

The spread of the security over the benchmark yield curve will generally be kept constant through the life of the security and shall be changed only if there is a reasonable justification for the change.

The spread will be changed if there are market trades in the same security at yields which will result in significantly different spreads, vis a vis current spreads. For any reset along these lines, we will consider following aspects.

(i) There has to be sufficient volume of such transactions. The qualification of the same would be at least 3 trades aggregating to Rs. 100 crs or more.

Any decision to change the spread based on market trade would be taken by the Valuation Committee based on adequate documentation and justification presented by the portfolio management team and shall be presented in the subsequent valuation committee meeting for ratification.

The spread may also be changed if there is a change in credit profile of the underlying issuer which warrants a change in current spreads over benchmark yields.

The change in credit profile of an issuer may arise due to one or a combination of the following factors.
(i) Change in credit rating of the said issuer.
(ii) Change in the credit rating outlook.
(iii) Significant change in the business and / or financial risk profile.
(iv) The above three factors are not exhaustive. There can be other reasons which may be considered for evaluating the credit profile of an issuer, based on adequate data, market information and analysis.

Further, given the dynamic nature of the markets, and due to changing market conditions, the risk department (mid office), may choose to revisit spreads at any point in time, based on the inputs / information received from internal / external sources. If so, then these changes shall also be reported post facto to the valuation committee for their ratification.

Trades done by the fund in an existing holding, will lead to a change in valuation yield for that security, provided the trade is at least of a marketable lot. This would result in a change in the valuation price of the security which will be valued at the weighted average yield of all trades done by the fund on that day. The security will then start getting amortized from the new valuation price.

An own trade will also lead to a reset in spreads. Based on the traded yield, the new spread will be calculated, over the benchmark yield curve. The reference yield will then be the combination of the benchmark yield and the new spread.
Since all interscheme trades would be done at current market levels and follow the principle of fair valuation like any other own trade, hence such interscheme trades would be treated at par with own trades for valuation purpose.

For instruments maturity beyond 60 days

All Debt /Money market securities of more than 60 days would be valued based on the average of security level valuation to be provided by external agencies as recommended by AMFI & as approved by the Board. Such prices would also be provided for non-transaction day.

New securities purchased of more than 60 days maturity for which valuation price is not provided by external agencies on the date of purchase, would be valued based as below :-CP/CD/ZCB :- Amortization from Weighted average price.
NCD:- At cost.

Any decision on any given valuation day of overruling the external agency price would have to be approved by the Valuation Committee. The valuation would have to be suggested by the Fund Manager with the approval of Head of Fixed Income based on the market data and then sent to Fund Accountants for incorporating in the NAV Computation.

6. VALUATION OF OTHER INSTRUMENTS:

6.1 VALUATION OF NON-TRADED RIGHTS ENTITLEMENTS:

As per Schedule VIII of SEBI (Mutual Fund) Regulations

6.1.1 When Company announces rights to the existing equity shareholders, under its Listing Agreement with Stock Exchange; it has to declare ex-right date for the purpose of trading on the Stock Exchange. Ex-right date is a date from which the underlying shares, which are traded on the Stock Exchange, will not be entitled to the rights. These rights entitlements can also be renounced in favour of a willing buyer. These renunciations are in some cases traded on the Stock Exchange. In such case these should be valued as traded equity related securities as detailed at para 1 above.

6.1.2 Till the rights are subscribed, the entitlements as per Regulations have to be valued as under:

Valuation of non-traded rights entitlement is principally the difference between the right price and ex-right price. SEBI Regulations have explained this with the help of following formula:

$V_r = n / m \quad x \quad (P_{ex} – P_{of})$ Where

V_r = Value of Rights

n = Number of rights offered

m = Number of original shares held

P_{ex} = Ex-right price

P_{of} = Rights offer price

6.1.3 The following issues while valuing the rights entitlements have to be addressed:

i) In case original shares on which the right entitlement accrues are not traded on the Stock Exchange on an ex-right basis, right entitlement should not be recognised as investments.

ii) When rights are not treated pari passu 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.

iii) Where right entitlements are not subscribed to but are to be renounced, and where renouncements are being traded, the right entitlements have to be valued at traded renunciation value.

iv) Where right entitlements are not traded and it was decided not to subscribe the rights, the right entitlements have to be valued at zero.

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.

Until the right entitlements are traded, the value of the "rights" shares should be calculated as:

Value of rights entitlement = Ex-right price – Rights offer price

6.2 VALUATION OF SUSPENDED SECURITY:

6.2.1 In case trading in an equity security is suspended for trading on the stock exchange up to 30 days, then the last traded price would be considered for valuation of that security.

6.2.2 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.

6.3 VALUATION OF UNITS OF MUTUAL FUNDS:

(i) In case of traded Mutual Fund schemes, the units would be valued at closing price on the stock exchange on which they are traded like equity instruments. In case the units are not traded for more than 7 days, last declared NAV would be considered for valuation (NAV is declared by Mutual Fund on weekly basis in case of close-ended schemes.)

(ii) In case of non-traded Mutual Fund scheme, Closing NAV of the valuation date would be considered for valuation.

SECTION II

VALUATION NORMS FOR NON-TRADED SECURITIES

INTRODUCTION:

A. Two distinct definitions for recognition as non-traded securities are noted.

i) If the equity securities are not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as 'non-traded' scrip

ii) If the debt securities are not traded on any stock exchange for a period of fifteen days prior to the valuation date, the scrip must be treated as `non-traded' scrip.

B. Basic Conditions of valuation of Non-traded / Thinly traded Securities

The Regulations prescribe following conditions for valuation of non-traded securities:

i) Non-traded securities shall be valued in 'good faith' on the basis of the valuation principles laid down by SEBI.

ii) The basis should be appropriate valuation methods on the principles approved by Board of AMC.

iii) Such basis should be documented in Board minutes

iv) Methods used to arrive at good faith valuation should be periodically reviewed by the Trustees.

v) Methods used to arrive at good faith valuation should be such that the auditors' report the same as 'fair and reasonable' in their report on the annual accounts.

Additional conditions to be adhered to for valuation of non-traded securities:

vi) Same price needs to be considered for the particular security across the schemes

vii) Valuation needs to be done on trade date itself and not on settlement date

viii) Prices to be computed up to 4 decimals

1. EQUITY AND EQUITY RELATED SECURITIES:

1.1 APPLICATION MONEY FOR PRIMARY MARKET ISSUE:

i) Application money should be valued at cost up to 30 days from the closure of the issue. If the security is not allotted within 30 days from the closure of the issue, application money is to be valued as per the directives of valuation committee. Rationale of valuing such application money should also be recorded.

ii) Equity securities allotted and proposed to be listed, but not listed, are to be valued at cost till one month from the date of allotment and after two month, are to be valued as unlisted securities. Method of valuing unlisted equity is stated at para 1.3 below.

1.2 NON-TRADED / THINLY TRADED EQUITY:

1.) A List of thinly trade securities is taken from stock exchanges (i.e. NSE and BSE) and also from Bloomberg on a monthly basis at every month end.

2.) When a security is not traded in any of the stock exchange for the period of thirty days prior to the valuation date, it should be treated as Non-Traded Securities.

3.) Thinly traded / Non Traded securities are valued in "good faith" on the basis of the valuation principles laid down by SEBI.

A. As per SEBI Circular No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000 non traded / thinly traded equity is to be valued as follows:

(a) Based on the latest available Balance Sheet, net worth shall be calculated as follows:

(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.

(c) 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 (EPS) of the latest audited annual accounts will be considered for this purpose.

(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 at the fair value per share.

(e) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

(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.

(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.

B. In line with these guidelines issued by SEBI, non-traded / thinly traded securities should be valued as follows:

1.2.1 Net worth per share is computed as follows:

i) Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure, debit balance in Profit and Loss account and certain contingent liabilities.

ii) Net worth per share = (Net worth of the company / Number of paid up shares).

1.2.2 Computation of capitalised value of earning per share (EPS):

i) Determination of the Industry Price Earning Ratio (P/E) to which the company belongs.

- Classification of industries provided by AMFI should be adopted.
- Presently Industry P/E Ratio used is provided by NSE on a monthly basis. However, the P/E ratio data if not available from BSE/NSE, P/E provided by the Capital Market, Prowess (CMIE), Bloomberg etc. should be taken.

ii) Compute EPS from the latest audited annual accounts. In case the EPS is negative, EPS value shall be considered as zero

iii) Compute capitalised value of EPS at 75% discount
(P/E*0.25) * EPS

1.2.3 Computation of fair value per share to be considered for valuation at 10 % discount for illiquidity.
[(Net worth per share + Capitalised value of EPS) / 2] * 0.90

1.2.4 In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.

1.2.5 In case an individual non traded / thinly traded security as valued aforesaid, accounts for more than 5% of the total asset of the scheme, AMC should appoint an independent valuer. The security shall be valued on the basis of the valuation report of the valuer.

1.2.6 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.

1.3 VALUATION OF UNLISTED EQUITY:

A. SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002 has prescribed the method of valuation for unlisted equity securities. These guidelines are similar to the guidelines issued by SEBI for non traded / thinly traded securities mentioned above only except the following:

1.3.1 Computation of Net worth per share *as lower of (a) and (b)*:

(a) i) Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.

ii) Net worth per share = (Net worth of the company / Number of paid up shares).

(b) i) 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.

ii) Net worth per share = (Net worth of the company/{Number of paid-up shares + number of shares that would be obtained on conversion/exercise of outstanding warrants and options}).

If the net worth of the company is negative, the share should be marked down to Zero.

1.3.2 Computation of fair value per share to be considered for valuation **at 15 % discount** for illiquidity.
[(Net worth per share + Capitalised value of EPS) / 2] * 0.85

1.3.3 In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.

1.3.4 At the discretion of the AMC and with the approval of the trustees, unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology.

1.4 VALUATION OF NON -TRADED WARRANTS:
As per Eighth Schedule to SEBI (Mutual Fund) Regulations

- Warrants are the entitlements to subscribe for the shares at a predetermined price at a later date in future.
- In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued similarly to the valuation of convertible portion of debentures as mentioned in the paragraph 2.3, as reduced by the amount which would be payable on exercise of the warrant.
- However, as the warrants can be converted only after few years, it would be appropriate to discount the value of this entitlement and find out the present value of the warrants. (The benchmark that can be considered for discounting could be interest rate for the comparable period, prevailing in the market.)

  Value of Warrant = Present Value of [Value of underlying shares - exercise price]

- 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.

1.5 VALUATION OF PREFERENCE SHARES:

SEBI has not prescribed any methodology for valuation of preference shares. Valuation of non-traded preference shares would depend on the terms of issue of preference shares. i.e. convertible/non-convertible.
- Convertible preference shares should be valued like convertible debentures
- Non-convertible preference shares should be valued like debentures. However, if company does not pay dividend in any year, it would be treated like non-performing debentures.

1.6 VALUATION OF ILLIQUID SECURITY IN EXCESS OF 15% OF TOTAL ASSETS OF THE SCHEME
As per SEBI Circular No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000

- Illiquid security means securities defined as non-traded, thinly traded and unlisted equity shares.
- As per the SEBI Regulations aggregate value of Illiquid securities should not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned zero value.
  Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme shall within a period of two years bring down the ratio of illiquid securities within the prescribed limit of 15% in the following time frame:

(i) All the illiquid securities above 20% of total assets of the scheme shall be assigned zero value on September 30, 2001.
(ii) All the illiquid securities above 15% of total assets of the scheme shall be assigned zero value on September 30, 2002.

- In respect of close-ended funds, for the purpose of valuation of illiquid securities, the limits of 15% and 20% applicable to open-ended funds should be increased to 20% and 25% respectively.
- Wherever a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open ended funds and 20% in the case of closed ended funds, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value.

1.7 VALUATION OF SHARES ON DE-MERGER:

On de-merger following possibilities arise which influence valuation these are:

i. Both the shares are traded immediately on de-merger:
In this case both the shares are valued at respective traded prices.

ii. Shares of only one company continued to be traded on de-merger:
Traded shares is to be valued at traded price and the other security is to be valued at traded value on the day before the de merger less value of the traded security post de merger. In case value of the share of de merged company is equal or in excess of the value of the pre de merger share, then the non-traded share is to be valued at zero. The same would be reviewed by the valuation committee every 30 days if the security is not listed.

iii. Both the shares are not traded on de-merger:
Shares of de-merged companies are to be valued equal to the pre de merger value up to 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.
In case shares of both the companies are not traded for more than 30 days, these are to be valued as unlisted security. The same would be reviewed by the valuation committee every 30 days for the securities that are not listed.

2. DEBT SECURITIES:

2.1 SECURITIES PURCHASED ON PRIVATE PLACEMENT BASIS:

In case the security is purchased on private placement basis, the same would be valued at cost on the date of purchase. As per SEBI Regulations, such security can be valued at cost for 15 days. However, taking in to consideration the volatility in the market, it would be valued at cost on the date of purchase only and from the next day, valuation would be carried out like any other debt security.

2.2 VALUATION ON THE BASIS OF OWN TRADES WITH OUTSIDE PARTIES:

As per SEBI Regulations, a debt security (other than Government Securities) shall be considered as traded security if on the valuation date, there are individual trades in that security in marketable lots (currently Rs 5 Crore) on the principal stock exchange or any other stock exchange. However, debt securities are not traded on the exchange. The trades take place between two counterparties through the broker or without the broker. Broker is required to report the trades done through him to the National Stock Exchange within 48 hours. However, if broker does not report the trade or the trade is not done through the broker, the same does not get reported to exchange and the security is treated as non-traded security even when the Mutual Fund has traded in that security with the outside party. In such case, the traded price of the mutual fund may be considered for valuation of that security instead of valuing that security as non-traded security provided the Face value of traded security in one deal exceeds Rs. 5 crores.

2.3 VALUATION OF CONVERTIBLE DEBENTURES

As per Eighth Schedule of SEBI (Mutual Fund) Regulations method of valuation of convertible debentures is prescribed.

Non-convertible and convertible components are valued separately.

A. The non-convertible component shall be valued on the same basis as would be applicable to a non-convertible debt instrument mentioned at clause 2 above.

B. The convertible component to be valued as follows:

i) Ascertain
   - The number of shares to be received after conversion.
   - Whether the shares would be pari passu for dividend on conversion.
   - The rate of last declared dividend.
   - Whether the shares are presently traded or non traded/thinly traded.
   - Market rate of shares on the date of valuation

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 shares.

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 pari passu for dividend on conversion:
   a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate
   b) Determine the discount for non-tradability of the shares on the date of valuation.

   (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 Valuation Committee. Prevailing interest rate for the similar period could be considered as bench mark for determining the discount)

   Value = (a)*market rate [1-(b)]

iv) In case of optionally convertible debentures, two values must be determined assuming both, exercising the option and not exercising the option.
- 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;
- If the option rests with the investor, the higher of the two values shall be taken.

2.4 **Guidelines Identification, Provisioning and Valuation in respect of Non-Performing Assets (NPAs)**

An asset shall be classified as "Non-Performing" if the interest and / or principal amount have / has not been received or have / has remained outstanding for three months from the day such income / installment has fallen due.

Valuation in respect of Non Performing Assets (Debt Securities) will be done in accordance with “SEBI guidelines for identification and provisioning for NPAs” issued vide circular dated 18th September, 2000 bearing reference no. MFD/CIR/8/92/2000 as modified by SEBI circulars both dated 28th March, 2001 bearing reference no. MFD/CIR/13/087/2001 as well as MFD/CIR/14/088/2001 and will form a part of this valuation policy.

The Fund shall make scrip wise disclosures of NPAs on a half yearly basis along with the half yearly portfolio disclosure.

The total amount of provisions made against the NPAs shall be disclosed in addition to the total quantum of NPAs and their proportion of the assets of the Scheme. In the list of investments, an asterisk mark shall be given against such investments which are recognized as NPAs. Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not as investment, provided that where an investment is redeemable by installments that will be shown as an investment until all installments have become overdue.

The valuation guidelines as outlined above are as per the Regulations prevailing at present and are subject to change from time to time, in conformity with changes made by SEBI.

All other guidelines not covered above and as specified in the Mutual Fund Regulations, as well as any additions/modifications thereto as may be specified by SEBI from time to time, shall be adhered to for the purpose of valuation.

2 (a) VALUATION OF SECURITIES WITH PUT/CALL OPTIONS:
The option embedded securities would be valued as follows:

Securities with call option:
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.

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 instrument.

Securities with Put option:
The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option.

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.

Securities with both Put and Call option on the same day:
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.

3. VALUATION OF REVERSE REPO (PURCHASE AND SALE BACK) TRANSACTIONS:

Eighth Schedule to SEBI (Mutual Fund) Regulation has spelt out briefly the methodology for valuation of Repo Instruments.
This is an agreement under which on payment of a purchase price, the fund receives (purchases) securities from a seller who agrees to repurchase them at a specified time at a specified price. A repurchase agreement is similar in effect to a loan by the fund to the seller collateralised by the securities. The Mutual Fund does not record the purchase of securities received but records the repo transactions as if it were a loan. Repo instruments have to be valued at the resale price after deduction of applicable interest rate up to the date of resale. To put it differently, it is at the net consideration paid i.e., loan given plus interest accrued every day. The difference between repurchase and sale prices is accounted as interest income.

4. MONEY MARKET INSTRUMENTS:

4.1 INTRODUCTION:

4.1.1 Money market instruments has been inclusively defined in the Regulations, which is “Money market instruments includes commercial papers, commercial bills, treasury bills, government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time.”

4.1.2 Mutual Funds Regulations, 1996 prescribed a single method of valuation for all money market instruments where valuation was on the basis of quotations obtained from more than one Dealer or broker. The amendments made in 1998 to the Regulations divided these money market instruments into following categories:

i) Investments in call money, bills purchased under rediscounting scheme and short term deposits with banks.
ii) Traded money market instruments, other than above.
iii) Non traded instruments.

4.2 SHORT TERM DEPOSITS:

Short term deposits with banks to be valued at cost in line with the SEBI directives.

4.3 COLLATERALISED BORROWING AND LENDING OBLIGATIONS:

It would be valued at cost plus amortization.

4.4 TRADED MONEY MARKET INSTRUMENTS:

As per SEBI Regulations other money market instruments excluding Government Securities, which are traded, have to be valued at the price at which they are traded.

5. TREASURY BILLS:

Above 60 days: Aggregated T-Bill price to be considered.

Below 60 days:-T-Bill to be amortized in CRISIL BOND Valuer. For below 60 days T-Bill traded, NDS-OM platform to be considered with criteria of five (5) trades and INR 250 Crs face value.

6. VALUATION OF INTEREST RATE SWAPS (IRS):

Interest Rate Swaps shall be valued at the net present value by discounting the future cash flows. Future cash flows for Interest Rate Swaps contracts shall be computed daily based on the terms of the contract and discounted using suitable OIS rates sourced from Reuters, as approved by the Valuation Committee.

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