MOTILAL OSWAL ASSET MANAGEMENT COMPANY LIMITED

INVESTMENT VALUATION MANUAL

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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.

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 Statutory 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 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.

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. sends 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.

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.

Process followed for valuation of traded equity and equity related securities by Motilal Oswal Mutual Fund 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 If a security is not traded on any stock exchange (NSE/BSE) on a particular valuation day, the last quoted closing price on NSE or BSE (in the order of priority mentioned above) on the earliest previous day would be used, provided such day is not more than thirty days prior to the valuation day.

(iii) In case of securities which have been allotted under preferential / private allotment and are 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) Similar methodology is to be used for valuation of traded preference shares.

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. The valuation norms for non-traded security and unlisted security has been provided 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 universal close 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 cases where valuation of Foreign Debt securities is not covered by SEBI (MF) Regulations, then the security will be valued on fair value basis as decided 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 last quoted closing price in INR should also be used for valuation of foreign securities and ADR/GDR.

In case conversion rate is not available at the Reuters, 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. DEBT SECURITIES (including Treasury bills/ Central & State 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.41/2013-14read with SEBI Circular SEBI/HO/IMD/DF4/CIR/P/2019/41 dated 22/03/2019

a) Valuation of Non-Traded /Traded Securities (including TreasuryBills /Central & State Government Securities,& Cash Management Bills)

Crisil and ICRA shall be providing reference prices for all securities. The prices would be provided by both agencies and the same shall be aggregated and averaged.

AMFI circular dated 18th November 2019

Definition of marketable lots to be considered for valuation by valuation agencies for traded securities is defined by AMFI best practice circular dated 18th November 2019 and the same would be as follows :- (effective date 16th Feb 2020)

Parameter	Minimum Volume Criteria for marketable lot
Primary	INR 25 Cr for both Bonds/NCD/CP/ CD and other money market instruments
Secondary	INR 25 Cr for CP/ CD, T-Bills and other money market instruments
Secondary	INR 5 Cr for Bonds/NCD/ G-secs

Valuation of securities with Put / Call Options:

a) Securities with put / call options on the same day and having the different put and call option price to be deemed not to mature on same day.
b) In case of multiple Put options highest price of all put compared to maturity be considered
c) In case of multiple Call options lowest price of all call compared to maturity to be considered
d) In both the scenarios of the Put & Call option trigger Earliest date of Put & Call trigger Dates to be considered

Any decision on any given valuation day of overruling the external agency price would have to be approved by the Valuation Committee and the same will be sent to Fund Accountants

5. Valuation of money market and debt securities which are rated below investment grade:

Definition of whether the security is below investment grade is in case where any security where the long term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short term rating of the security is below A3. If the interest and / or principal amount has not been

received, on the day such amount was due or when such security has been downgraded to “Default” grade by a CRA

All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies (i.e ICRA & Crisil). 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 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. Indicative haircut as applied by valuation agencies on principal to be applied on accrued interest in the same proportion. Further, these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.

In case of Default, future accrual of interest to be ceased. If only rating goes below investment grade but no default, future accrual of interest to continue using the same haircut applied as that of principal. Any recovery towards outstanding interest/ principal to be first adjusted against interest and subsequently towards Principal receivable. Further, any recovery excess over the receivable (Interest/principal) to be adjusted first against interest and subsequently towards Principal written-off

Consideration of traded price for valuation:

In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMCs 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.

In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly. The trades referred above shall be of a minimum size as determined by valuation agencies.

AMCs may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:

The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.

The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

6. **Valuation of bonds issued under Basel III frame-work.:**

SEBI, vide circular No. SEBI/HO/IMD/DF4/CIR/P/2021/034 dated March 22, 2021 has decided that the deemed residual maturity for the purpose of valuation of existing as well as new bonds issued under Basel III framework shall be as below

Time Period	**Deemed Residual Maturity of Basel III AT-1 bonds (Years)**	**Deemed Residual Maturity of Basel III Tier 2 Bonds (Years)**
Till March 31, 2022	10	10 years or Contractual Maturity whichever is earlier
April 01, 2022 – September 30, 2022	20	Contractual Maturity
October 01, 2022 – March 31, 2023	30	Contractual Maturity
April 01, 2023 onwards	100 *	Contractual Maturity

*100 years from the date of issuance of bond.

Macaulay Duration for bonds issued under Basel III framework shall be calculated based on the deemed residual maturity as mentioned in the above table.

Further, if the issuer does not exercise call option for any ISIN then the valuation and calculation of Macaulay Duration shall be done considering maturity of 100 years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINs of the issuer. In addition to the above, if the non-exercise of call option is due to the financial stress of the issuer or if there is any adverse news, the same shall be reflected in the valuation.

Further the valuation agencies shall carry out valuation of the said bonds basis AMFI guidelines mentioned in the circular vide AMFI Best Practices Guidelines Circular No. 91/ 2020 - 21

7. VALUATION OF OTHER INSTRUMENTS:

VALUATION OF RIGHTS ENTITLEMENTS:

As per Schedule VIII of SEBI (Mutual Fund) Regulations

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.

a) Right Entitlements (Non-Traded)

The right entitlements shall be valued using the below mentioned formulae:
Valuation Price = (Closing Price- Right Offer Price) of Underlying Equity Shares.
In case where the closing price falls below the right offer price, right entitlements value shall be considered as becomes zero. In case the right entitlement is traded on the stock exchanges then the close price shall be considered for valuation of entitlements.

b) Right Shares (Traded)

The listed right shares are to be valued as per methodology adopted for listed equity shares.
The cost price considered for the right shares would be the offer price paid for the right shares.

8. VALUATION OF SUSPENDED SHARES:

If a listed security is suspended for a certain period, then up to thirty days the last traded price would be used for valuation and after thirty days the valuation methodology would be decided on a case to case basis and approved by the valuation committee

9. VALUATION OF UNITS OF MUTUAL FUNDS:

(i) In case of Exchange traded Mutual Fund schemes units will be valued at market price of underlying units as traded on the principal stock exchange. In case the units get classified as non- traded the same may be valued as per the underlying NAV of the Underlying Scheme.

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

SECTION II

VALUATION NORMS FOR NON-TRADED SECURITIES

A. 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

1.1 NON-TRADED / THINLY TRADED EQUITY:

1) A List of thinly traded securities is taken from stock exchanges (i.e. NSE and BSE) 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.

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)-Miscellaneous expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares.

(c) Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as 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.

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.

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 Earnings 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) 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.

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

(b) 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.

(c) 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.

EQUITY AND EQUITY RELATED SECURITIES:

1.4 APPLICATION MONEY FOR Initial Public Offering (IPO):

Valuation methodology to be followed would be same as in the case of traded securities from the date of listing of securities on the stock exchange. The securities shall be valued at the allotment/Bid price (i.e. cost) for the interim period between allotment date and listing date.

1.5 APPLICATION MONEY FOR QIP /Follow on Public Offer:

Valuation methodology to be followed would be same as in the case of Listed Equity Shares from the date of allotment.

1.6 VALUATION OF NON -TRADED /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.

Listed Warrants: On a particular valuation day, these securities will be valued at the last quoted closing price on the principle Stock Exchange i.e. National Stock Exchange (NSE). If a security is not traded on NSE, it will be valued at the last quoted closing price on the BSE Limited (BSE). If a security is not traded on any stock exchange on a particular valuation day, the last quoted closing price on NSE or BSE (in the order of priority mentioned above) on the earliest previous day would be used, provided such day is not more than thirty days prior to the valuation day.

1.7 VALUATION OF PREFERENCE SHARES/ INVIT'S (INFRASTRUCTURE INVESTMENT TRUST UNITS)/REIT (REAL ESTATE INVESTMENT TRUST):

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.

Listed Preference shares / INVIT'S (Infrastructure Investment trust units)/REIT: On a particular valuation day, these securities will be valued at the last quoted closing price on the principle Stock Exchange i.e. National Stock Exchange (NSE). If a security is not traded on NSE, it will be valued at the last quoted closing price on the BSE Limited (BSE).If a security is not traded on any stock exchange on a particular valuation day, the last quoted closing price on NSE or BSE or (in the order of priority)) on the earliest previous day would be used, provided such day is not more than thirty days prior to the valuation day.

1.8 VALUATION OF SHARES ON DE-MERGER:

On de-merger following possibilities arise which influence valuation:

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 ratio of cost of shares as may be obtained by prescribed demerger ratio.

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.

1.9 VALUATION OF MERGER/AMALGAMATION:

Scenario I: In case shares are traded on amalgamation, the valuation methodology adopted would be the same as in the case of listed equity shares.

Scenario II:

In case where shares are not traded on merger, shares of merged company are to be valued equal to the pre merger value (one trading day prior to the ex-date) upto a period of thirty days from the date of merger. The valuation of shares of these companies would be reviewed by the Valuation committee every thirty days if the security is not listed.

2. VALUATION OF CONVERTIBLE DEBENTURES

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

2.2 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 debt instrument.

B. The convertible component to be valued as follows:

i) Ascertain the following:

- 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.

3.

4. VALUATION OF SECURITIES WITH PUT/CALL OPTIONS:

The option embedded securities would be valued as follows:

4.1 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.

4.2 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.

4.3 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.

5. 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.

6. SHORT TERM DEPOSITS:

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

7. Tri-Party Repo (TREPS)

It would be valued at cost plus amortization.

8. VALUATION OF INTEREST RATE SWAPS (IRS):

All SWAP/ FRA's will be valued at net present value after discounting the future cash flows. Future cash flows for SWAP/FRA contract will be computed daily based as per terms ofcontract and discounted by suitable OIS(Overnight Index Swaps) rates available on Reuters/Bloomberg/ any other provider as approved by Valuation Committee. The valuation of SWAP/RFA beyond 30 days will done on the basis of the above mentioned rates. For SWAP/FRA with residual maturity of 30 days and below the gain/loss as on 31st day would be amortized till maturity.

9. VALUATION OF GOLD:

The gold acquired by the scheme is in the form of standard bars and its value as on a particular day is determined as under:

a. The London Bullion Market Association's (LBMA) AM fixing price per troy ounce is increased with the Cost, Insurance, Freight premium and the LBMA fixing charges.
b. This value arrived at in (a) above is then converted to the equivalent price for 1 kg gold of 0.995 fineness by applying the conversion factor.
c. The RBI reference rate is applied to convert the price from US dollars to Indian Rupees.
d. The Indian levies in the form of customs duty, stamp duty, octroi etc., as applicable are added to arrive at the final landed price of gold.
e. If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday, then the immediately previous day's prices are applied for the purpose of calculating the value of gold.

10. VALUATION OF TO BE LISTED EQUITY SHARES AND EQUITY RELATED INSTRUMENTS/PRE-IPO ALLOTMENT

10.1 Shares classified as to be listed/awaiting listing will be valued at cost. If such shares do not get listed on recognized stock exchange within 60 days of allotment, shares so acquired will be valued as per the fair value guidelines applicable for unlisted shares.

10.2 In case of shares under lock-in post-listing, security shall be valued based on last quoted closing price after applying suitable discount for illiquidity as given below in appended table.

10.3 Discount for shares under lock-in

Mutual Funds are permitted to have exposure to equity shares which are listed and/or proposed to be listed^. While Anchor investments may have a lock in of 30 days post listing, pre-Anchor investments i.e. pre-IPO placement (to be listed) currently have a minimum lock in of 1 year from date of listing. The following valuation methodology is adopted to ensure uniform and fair valuation for the following categories:

Category	Pre Listing	Post Listing
Anchor investor in IPO (lock-in post listing)	At cost	Closing price
Pre Anchor investor prior to IPO (lock-in post listing)	At cost	Discount* to closing price

* To reflect the correct realizable (fair) value of shares post listing, a illiquidity discount of 1% per month be applied on shares acquired as anchor investor through pre IPO placement as shown in the table below. The broad basis for arriving at this discount is the expected cost of equity capital of around 12% p.a

Residual Lock-in period from the date of listing	Discount to last traded price on recognised stock exchange
11-12 months	12%
10-11 months	11%
9-10 months	10%
8-9 months	9%
7-8 months	8%
6-7 months	7%
5-6 months	6%
4-5 months	5%
3-4 months	4%
2-3 months	3%

1-2 months	2%
0-1 months	1%

10.4 In the event of any other specific lock in period prescribed on account of regulatory actions by SEBI, RBI or any other regulator, this illiquidity discount shall not apply and the valuation committee may decide the illiquidity discount based on the facts of the case.

^ SEBI MF Regulations have not specifically defined the term “proposed to be listed”, however SEBI (Prohibition of Insider Trading) Regulations, 2015 have defined “proposed to be listed” as follows:

“proposed to be listed” shall include securities of an unlisted company:
(i) if such unlisted company has filed offer documents or other documents, as the case may be, with the Board, stock exchange(s) or registrar of companies in connection with the listing; or
(ii) if such unlisted company is getting listed pursuant to any merger or amalgamation and has filed a copy of such scheme of merger or amalgamation under the Companies Act, 2013.

10.5 **Abnormal situations & market disruptions:**

In normal situations the above methods may be used for valuation. However, in abnormal market conditions, due to lack of market trading or otherwise it may not be possible to obtain fair valuation using “normal” means. In such situations, the realizable value may be substantially different from the benchmark-based prices obtained. This could lead to, for example, an overvalued portfolio which could be used by some investors to redeem their holdings having an adverse impact on residual investors.

As by definition, abnormal events are abnormal, no prescriptive guidelines are proposed to value securities / portfolios during such events. Following type of events could be classified as exceptional events where current market information may not be available / sufficient for valuation of securities:

1. Major policy announcements by RBI or Central / State Government or SEBI or any other regulatory related event.
2. Unproportionate large redemptions.
3. Natural disasters, public disturbances, riots, war, global events etc. that may force the markets to close unexpectedly or not function normally.
4. Significant volatility in the stock markets
5. Events which lead to lack of availability of accurate or sufficient information to value the securities.

The above mentioned list is only indicative and may not reflect all the possible exceptional events / circumstances. In case of exceptional events / circumstances, the valuation committee shall assess the situation and recommend appropriate method of valuation of the impacted securities.