The unspent CSR amount will be transferred by the company to any fund included in schedule VII of the Companies Act.

Every entity who intends to undertake any CSR activity needs to register itself with the Central Government by filing the form CSR-1 electronically with the Registrar, with effect from 01.04.2021.

4.13 Business Responsibility Reporting (Amended)

Introduction

In 2012, the Securities Exchange Board of India (SEBI) passed a circular amongst the top 100 companies based on market capitalization, making it mandatory for firms to report their environmental, social and governance initiatives. This report, Business Responsibility Report (BRR), has to be filed as part of their annual reports based on nine principles of National Voluntary Guidelines (NVG). At the time of introduction, only the top-100 BSE-listed firms were required to present BRRs as part of annual reports. In 2016, after signing a memorandum of understanding (MoU) with Global Reporting Initiative, the mandate was extended to top-500 BSE listed companies. Against this backdrop, SEBI vide its gazette notification1 dated 26.12.2019 issued Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2019 extending the applicability of BRR to top 1000 listed entities based on market capitalization from the present requirement of top 500 listed entities. The proposal was approved by SEBI in its meeting held on November 20, 2019.

Currently, top 1,000 listed companies in India are required to furnish a Business Responsibility Report (BRR) to the stock exchanges as a part of their annual reports. The BRR should describe the initiatives taken by the listed companies from an Environmental, Social and Governance (ESG) perspective, in the format as specified by the Securities and Exchange Board of India (SEBI). Other listed companies may submit the BRR voluntarily.

New development

SEBI through a notification dated 5 May 2021 has made amendments to certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR). Among various amendments, one relates to discontinuance of the requirement of submitting BRR by listed companies after FY2021-22. As per the notification, companies would be required to submit a new report on ESG parameters, namely Business Responsibility and Sustainability Report (BRSR) in the following manner

- **Mandatory from FY2022-23**: For top 1,000 listed companies by market capitalisation
- **Voluntary for FY2021-22:** For top 1,000 listed companies by market capitalisation
- **Voluntary for other companies:** Listed companies (other than top 1,000) and companies which have listed their specified securities on the Small and Medium Enterprises (SME) exchange may voluntarily submit BRSR in place of BRR effective FY2021-22 onwards.

Additionally, SEBI through a notification dated 10 May 2021 has prescribed the format of new report, BRSR along with the guidance note to enable companies to interpret the scope of disclosures required to be made in the report.

Those listed entities which prepare and disclose sustainability reports (as part of annual report) based on internationally accepted reporting frameworks such as Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), can cross-reference the disclosures made under such framework to the disclosures sought under the BRSR. Further, in case the data sought in the reporting format is already disclosed in the annual report, the listed entity can provide a cross-reference to the same.

Thus, an entity need not disclose the same information twice in the annual report. However, the entity should specifically mention the page number of the annual report or sustainability report where the information sought under the BRSR format is disclosed as part of the report prepared based on internationally accepted reporting framework.

Business Responsibility and Sustainability Report (BRSR)

There are three sections (A, B and C) in the suggested format and guidance note. [ANNEXURE I and II to SEBI Circular]

SECTION A: General Disclosures

I. Details of the listed entity
II. Products/services
III. Operations
IV. Employees
V. Holding, Subsidiary and Associate Companies (including joint ventures)
VI. CSR Details
VII. Transparency and Disclosures Compliances

SECTION B: MANAGEMENT AND PROCESS DISCLOSURES

This section is aimed at helping businesses demonstrate the structures, policies and processes put in place towards adopting the NGRBC (The National Guidelines on Responsible Business. Conduct, 2018) Principles and Core Elements.

SECTION C: PRINCIPLE WISE PERFORMANCE DISCLOSURE

This section is aimed at helping entities demonstrate their performance in integrating the Principles and Core Elements with key processes and decisions. The information sought is categorized as “Essential” and “Leadership”. While the essential indicators are expected to be disclosed by every entity that is mandated to file this report, the leadership indicators may be voluntarily disclosed by entities which aspire to progress to a higher level in their quest to be socially, environmentally and ethically responsible.

PRINCIPLE 1: Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable.

PRINCIPLE 2: Businesses should provide goods and services in a manner that is sustainable and safe

PRINCIPLE 3: Businesses should respect and promote the well-being of all employees, including those in their value chains

PRINCIPLE 4: Businesses should respect the interests of and be responsive to all its stakeholders

PRINCIPLE 5: Businesses should respect and promote human rights

PRINCIPLE 6: Businesses should respect and make efforts to protect and restore the environment

PRINCIPLE 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent

PRINCIPLE 8: Businesses should promote inclusive growth and equitable development.

PRINCIPLE 9: Businesses should engage with and provide value to their consumers in a responsible manner.

Study Note - 5

VALUATION, ACCOUNTING AND REPORTING OF FINANCIAL INSTRUMENTS AND OTHERS

5.1 Recognition & Valuation Financial Instruments (Ind AS)

5.2 GST Accounting (Matters added for updation and more clarity)

5.3 NBFC – Provisioning Norms and Accounting

5.4 Valuation of Shares (Addendum)

5.5 Valuation of Goodwill

5.2 Goods and Services Tax (GST) Accounting (Matters added for updation and more clarity)

GST: Input Tax Credit adjustment against Output Tax liability

1. **To pay IGST –** First IGST credit will be used followed by CGST or SGST as per the taxpayer's preference.
2. **For paying CGST –** Starting from CGST credit and then IGST credit will be used
3. **To pay SGST – First** SGST credit and the IGST credit will be used

5.4 Valuation of Shares (Addendum)

For valuation of Business and shares two new approaches are presented below:

4. Discounted Cash Flow (DCF) model

5. Market Approach

4. Discounted Cash Flow (DCF) model

It indicates the fair market value of a business (or Equity) based on the value of cash flows that the business (or Equity) is expected to earn in future. This method involves the estimation of Net Operating Profits Adjusted Tax (NOPAT) for the projected period, the business's requirement of reinvestment in terms of capital expenditure and incremental working capital and appropriate cost of capital that reflects the risks of the corresponding return.

(a) Merits of DCF model:

(i) Cash flows are unaffected by any differences of accounting policies, principles, conventions and methods.

(ii) It provides the intrinsic or economic value unaffected by market forces.

(b) De-merits of DCF model:

It is hard

(i) to estimate future cash flows, and

(ii) to apply appropriate rate of discounting

(c) Computation of value per share = Value of Equity/ No. of equity shares

Value of Equity = Value of the business less value of Debt Capital

Value of business = Aggregate of future cash flows (or Free Cash flows) discounted at its present worth

(d) Let us see how cash flows are computed so that future cash flows can be projected.

a. Cash Flows (CF) = NOPAT + Depreciation, amortisation, impairment etc. (non-cash expenses charged against profits) + (-) Decrease (Increase) in non-cash working capital
Net Operating Profits Adjusted Tax (NOPAT) = EBIT×(1 - t)
EBIT (Earnings Before Interest and Tax) is Net Operating Profits.
t = Tax Rate = Tax expenses/Earning Before Tax (EBT)

b. Free Cash Flows are of two types: (1) Free Cash Flows to the Firm (FCFF) and (2) Free Cash Flows to the Equity (FCFE)

b1. FCFF = CF – Capex (Capex means capital expenditures made within the business for expansion, replacement etc.)

b2. FCFE {Free Cash Flow to the Equity} = FCFE = Net Income – Increase in non-cash WC – Net Capex + Net Debt Issue
Or, FCFE = FCFF – Interest net of tax + Net Debt Issued
Interest net of tax = Interest × (1 – t)

(e) Terminal Value or continuing value:

As business is a going concern, at the end of the limited period for which future cash flows (CF, FCFF or FCFE) are projected, the terminal value has to be computed by aggregating the discounted cash flows from that moment till infinity. Thus, Terminal Value = ΣDCF commencing from the end of projection period continued up to infinity.

(i) Two assumptions are made for finding terminal value for business valuation:

a. There is an infinite series of cash flows (CF, FCFF or FCFE)
b. Cash flows are either (a) constant or (b) growing at a constant rate

(f) Value of business = Aggregate of future cash flows (or Free Cash flows) discounted at its present worth = ΣDCF (for the period future cash flows are projected) + Terminal Value (Continuing Value) discounted at its present worth

Terminal Value (Continuing Value) at constant cash flows assumption = TV_n = CF(n+1)/k, where, k is the discounting rate

Terminal Value (Continuing Value) at constant growth rate of cash flows assumption

= TV_n

= CF(n+1)/ (k – g), where, k = WACC is the discounting rate, g = growth rate in cash flows.

(g) Value of Equity = Value of Business – Debt Capital [based on CF or FCFF]

Alternatively, the value obtained by aggregating FCFE discounted at cost of equity.

Illustrative examples of Discounted Cash Flow (DCF) model:

Illustration 1

Yr.	2018	2019	2020	2021	2022 ………..
CF (₹)	2,000	2,400	2,500	3,000	3,000 continued at 3,000

(a) Find value of the business on 01.01.2021, given that WACC = 12%.

(b) Find value of the business on 01.01.2020, given that WACC = 12%.

(c) Find value of the business on 01.01.2019, given that WACC = 12%.

Solution:

(a) From the date of valuation all future cash flows are constant at ₹800. Thus, in accordance with the formula of Continuing value is (V_0 = CF1/k) : V1-1-21 = CF2021/WACC = 3,000/12% = ₹25,000

(b) From the date of valuation future cash flows for 2020 is projected at ₹2,500 and on 01.01.2021 we may apply the formula of Terminal Value which we already found in part (a) at ₹ 25,000. Thus, in accordance with the formula, business value is

V_1-1-20 = ₹2,500/(1.1) + ₹25,000/(1.1) [DCF for 2020 + PV of the Terminal Value] = ₹2,232 + ₹22,321 = ₹24,554

(c) From the date of valuation future cash flows for 2019 and 2020 are projected at ₹2,400 and ₹2,500 and on 01.01.2021 we may apply the formula of Terminal Value which we already found in part (a) at ₹25,000. Thus, in accordance with the formula, business value is

V_1-1-19 = ₹2,400/(1.1) + ₹2,500/(1.1)^2 + ₹25,000/(1.1)^2 [DCF for 2019 and 2020 + PV of the Terminal Value]

= ₹2,143 + ₹1,993 + ₹19,930 = **₹24,066 (Approx.)**

Workings:

(₹ in Lakh)

	Particulars	01.01.2019	2019	2020	2021 onwards continued to infinity
	CF		2,400	2,500	3,000
	Terminal Value (TV)			25,000	
	DCF of 2019	2,143			
	DCF of 2020	1,993			
	TV on 01.01.2021			25,000	
	PV of TV	19,930			
(c)	$V_0$1.01.2019	24,066			
(b)	$V_0$1.01.2020				
	PV of TV		22,321		
	DCF of 2020		2,232		
	$V_0$1.01.2020		24,554		
(a)	$V_0$1.01.2021			25,000	

Illustration 2.

Forest Ltd. is contemplating to acquire an equity stake in Tree Ltd. and requires to know the intrinsic value of its shares on 01.04.2019 based on FCFF.

The following data of Twilight Ltd. are available:

(₹' 000)

Year	2018-19	2019-20	2020-21	2021-22
Actual/projected EBIT	500	600	800	1,000
Interest	75	75	100	100
Depreciation	100	120	125	130
Increase in Current Assets	95	110	100	120
Increase in Current Liabilities	15	20	30	40
Capital Expenditure	140	150	160	170
Debt Capital at the end of the year	3,000	3,000	4,000	4,000
Number of equity shares outstanding = 100000; WACC = 10%; Cost of equity = 15%; Effective tax rate = 25%; FCFF is expected to grow at (I) 0% and at (II)3% p.a. for infinite time from the year 2022-23.				

Solution:

(₹'000)

Year	2018-19	2019-20	2020-21	2021-22
NOPAT [EBIT*(1 – t)]	375	450	600	750
Cash Flow [NOPAT + Dep – Increase in WC]	395	480	655	1035
FCFF [Cash Flow – Capex]	255	330	495	630
DCF at 01.04.2019		295	395	
Terminal Value at zero growth			5,250	
Terminal Value at 3% growth			7,000	
PV of TV (zero growth)	4,185			
PV of TV (3% growth)	5,580			
Value of Business (zero growth)	4,875			
Value of Business (3% growth)	6,270			
Value of Equity (zero growth)	1,875			
Value of Equity (3% growth)	3,270			
Value per share zero growth	18.75			
Value per share 3% growth	32.70			

Note: Past FCFF, Interest and K_e are not relevant. Terminal Value (TV) at 31.03.2021 at zero growth = 630/12%; at 3% growth = 630/(12% - 3%)

B. Market Approach

Under market approach, value of equity is determined by applying relative or multiple to the base value of the company. Relative or multiple is the ratio of market price to some accounting variable of the company taken as the base value.

Most common multiples are price-earnings (P/E) ratio, price-sales (P/S) ratio, price-cash flow from operations (P/CFO) ratio etc. Important point is the relatives have to be computed for the peer group of companies to find the average relationship between the base value and market price. After obtaining the average relationship through relative or multiple, the company finds its calculated market price by applying the average relative to its base value.

The steps involved to find value per share based on market approach:

1. Market capitalisation of each of the peer group of companies is related to any fundamental element of that company (called base value such as Profits, Cash Flows, Net assets, Sales). The ratio obtained is called relative or multiple.
2. To decide what will be the base value on which multiple will be applied. More than one multiple is usually considered in practice.
3. To compute the average of the multiples of the peer group of companies (we call it as Comparator) for each base value.
4. To apply the average multiple (Comparator) to a particular base value of the required company for valuation of its equity for that base. Then to find average of the different equity values based on different base values.
5. To divide average value of equity by the no. of shares in order to find value per share.

Market capitalisation is the product of market price of shares and the no. of shares outstanding. Thus, it represents market value of equity. In computation of relative we may find some popular ratios also such as Price Earnings ratio where base value is Earnings and Market to Book Value ratio where base value is Net Assets. But in all circumstances the base values are related to market value of equity.

Relative or multiple = Market Capitalisation/Base value. [where, alternative base values are EAT, EBIT, NOPAT, CF, FCFF, FCFE, Net Assets, Enterprise Value, Sales, or any other fundamental variable]

Problem 3.

X Ltd. has EPS ₹ 15 and no. of shares 1,200. Its CF ₹ 15,600 and Sales ₹ 90,000. Find value per share of X Ltd. using simple average of market values based on three base values (PAT, CF and Sales) of similar other companies as provided below:

Companies	PAT (₹)	CF (₹)	Sales (₹)	MC (₹)
A	24,000	30,000	1,50,000	1,80,000
B	18,000	20,000	1,80,000	2,16,000
C	30,000	36,000	1,60,000	1,80,000
D	20,000	25,000	1,50,000	1,80,000

Solution:

PAT of X Ltd. = EPS* No. of shares = ₹15*1200 = ₹18,000

For the 4 companies in the peer group Relatives are computed as MC/ Base Value

For PAT as base value M_1 is the multiple.

For CF as base value M_2 is the multiple.

For Sales as base value M_3 is the multiple.

Comparator is the average value of the multiples for the 4 companies.

Value of equity of X for each base = Base Value of X*Comparator

					Multiples		
Companies	**PAT (₹)**	**CF (₹)**	**Sales (₹)**	**MC (₹)**	**M_1=MC/PAT**	**M_1=MC/CF**	**M_1=MC/Sales**
A	24,000	30,000	1,50,000	1,80,000	7.5	6	1.2
B	18,000	20,000	1,80,000	2,16,000	12	10.8	1.2
C	30,000	36,000	1,60,000	1,80,000	6	5	1.125
D	20,000	25,000	1,50,000	1,80,000	9	7.2	1.2
Comparator					8.625	7.25	1.18125
Baser Value of X					18,000	15,600	90,000
Value of equity of X					1,55,250	1,13,100	1,06,312.5
No. of equity shares					1,200	1,200	1,200
Value per share based on Base Value					129.375	94.25	88.59375
Average value per share					104.072917		

Calculated market value of Equity of X = Comparator × Base Value of X.