PUNE BRANCH OF WICASA OF ICAI

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NEWSLETTER

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Vice Chairman, Pune Branch of WIRC of ICAI (2020-21)
Chairman, Pune Branch of WICASA of ICAI

Dear Students,

It's always pleasure for me to communicate and interaction with Young Students and tomorrow's Member of our beloved Institute. First of all I wish you a very Happy New Year 2021. Last year 2020 was worst year for the whole world due to pandemic. We hope 2021will be the best for the world as **"हर अंधेरी रात के बाद रोशनीवाला दिन आता ही है"**

Some of you have opted out in exam due to Covid situation. Students who have opted out please use the time in best possible way and all the best for exam.

What a wonderful month indeed for a WICASA January, 2021. A full of enthusiasm and full month series programmes i.e. Industrial Visit to Bhimashankar, Youth Festival, Republic Day and many more. The most important is two days **National Conference** which is most awaited conference for each and every student and volunteer of WICASA.

Lot of obstacles here for arranging all these programmes. But our confident WICASA team believes in "**When there is Will, there is A Way**".

We will make every event successful.

Slogan of my life is "**FIGHT EVERY BATTLE UNTIL YOU WIN**".

Regards,
CA Sameer Ladda

Pushp Kumar Sahu
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Concept of Tax Information Exchange Agreement in India with Tax Havens and Secrecy Jurisdictions.

There is a great and importance of Tax Information Exchange Agreement in India because as per section 90(1) of Income Tax Act, 1961, Government of India i.e. Central Government can enter into Double Taxation Avoidance Agreement with other countries so as to avoid double taxation of income in both the countries. The basic concept behind DTAA is to ensure that there should not be undue hardship in the hands of tax payers i.e. income earned in one country should not be taxed twice because of source and residence criteria in both countries and most importantly DTAA contains article usually article no. 26 which deals with Exchange of Tax Information which provides for various tax and financial information about the resident persons who have invested or have any significance financial presence in that territory to the other territory.

But what about other countries where there is no provision of income tax for taxing the income i.e. Tax haven Countries and Secrecy Jurisdictions.

Yes, there are many countries and territories which exist in the world where there is no provision of taxation like Bermuda, Bahamas, British Virgin Islands, Cayman Islands, and Argentina etc. In such cases DTAA are of no use as there is no double taxation as income will be taxable

only in one country or territory. Also if there is no DTAA, there would be no exchange of Tax Information between the countries which results in tax evasion as person resident in one country can easily park their unaccounted money and wealth in other countries with which India has no DTAA, thereby leading to no exchange of Tax Information. Therefore the concept of TIEA's emerged so that India can easily have an access to sensitive information about their resident persons in other countries.

India has taken proactive steps to combat the menace of illicit funds generated both as a result of tax evasion and corruption. Firstly, the government of India increased the cooperation with other countries by entering into tax treaties i.e. DTAA's and Tax Information Exchange Agreements and secondly laying down anti avoidance regime like section 94A in jurisdictions where there is a lack of effective exchange of information.

Accordingly, India has entered into TIEA's with certain countries like Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Jersey etc. The move is in line with the decision taken in G-20, which took up the issue of Tax Havens and Tax Evasions. In this way concept of TIEA's introduced in India. TIEA's proved to be a boon for Indian Tax Administration by providing sensitive financial information about the residents of India who has accumulated wealth outside India in these countries.

Happy Reading!

Hardik Gujarathi
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Valuation of Company

What Is Valuation?

Valuation is the analytical process of determining the current worth of an asset or a company. There are many techniques used for doing a valuation.

An analyst placing a value on a company looks at the business's management, the composition of its capital structure, the prospect of future earnings, and the market value of its company, among other metrics.

What Does Valuation Tell You?

A valuation can be useful when trying to determine the fair value of a security, which is determined by what a buyer is willing to pay a seller, assuming both parties enter the transaction willingly.

Analysts do a valuation to determine whether a company or asset is overvalued or undervalued by market forces.

Two Main Categories of Valuation Methods

Absolute valuation attempt to find the "true" value of an investment based only on fundamentals. Looking at fundamentals simply means you would only focus on such things as dividends, cash flow, and the growth rate for a single company, and not worries about any other companies

Valuation models that fall into this category include the dividend discount model, discounted cash flow model, asset-based model.

Relative valuation operates by comparing the company in question to other similar companies. These methods involve calculating multiples and ratios, such as the price-to-earnings multiple, and comparing them to the multiples of similar companies. Valuation model that fall into this category is The comparable model.

The relative valuation model is a lot easier and quicker to calculate than the absolute valuation model

Valuation Methods

Dividend Discount Model (DDM)

The dividend discount model calculates the "true" value of a firm based on the dividends the company pays its shareholders. The justification for using dividends to value a company is that dividends represent the actual cash flows going to the shareholder, so valuing the present value of these cash flows should give you a value for how much the shares should be worth.

Discounted Cash Flow Model (DCF)

What if the company doesn't pay a dividend or its dividend pattern is irregular? In this case, move on to check if the company fits the criteria to use the discounted cash flows model. Instead of looking at dividends, the DCF model uses a firm's discounted future cash flows to value the business

The free cash flows are generally forecasted for five to 10 years, and then a terminal value is calculated to account for all the cash flows

beyond the forecasted period and discounted with weightage average cost of capital.

The Comparables Model

This model doesn't attempt to find an intrinsic value for the stock like the previous two valuation models. Instead, it compares the stock's price multiples to a benchmark to determine if the stock is relatively undervalued or overvalued.

The reason why the comparables model can be used in almost all circumstances is due to the vast number of multiples that can be used, such as the price-to-earnings (P/E), price-to-book (P/B), price-to-sales (P/S), price-to-cashflows (P/CF), and many others

Asset-Based Approach

The asset-based approach uses the value of assets to calculate a business entity's valuation. The asset-based value is equivalent to the company's book value or shareholders equity. The calculation is generated by from assets

<u>The Bottom Line</u>

No single valuation model fits every situation, but by knowing the characteristics of the company, you can select a valuation model that best suits the situation.

Additionally, investors are not limited to just using one model. Often, investors will perform several valuations to create a range of possible values or average all of the valuations into one.

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