# SBI MUTUAL FUND

## VALUATION POLICY

**Version 10.00**

# INDEX

**A. Scope of the policy**

**The investment Valuation Policy aims to provide broad valuation guidelines to be followed for each type of security. The same shall be reviewed annually by the Valuation Committee and also by an independent Chartered Accountant firm.**

**Any introduction/modification / changes in the Valuation Policy for a new or an existing asset type shall be approved by the Valuation Committee and incorporated thereafter in the Valuation Policy.**

**Frequency of review: The policy shall be reviewed annually or more frequently, if required, either due to change in Regulations or business environment.**

**Following SEBI Circulars / Guidelines / Amendment Regulations are taken into account for valuation purpose**

The following are the guiding circulars / schedules/guidelines/amendments for framing the Valuation Policy.

1. EIGHTH SCHEDULE SEBI(MUTUAL FUNDS) REGULATIONS,1996
2. Circular No MFD/CIR/010/024/2000 dated 17-01-2000 inter-alia on Valuation committee)
3. Circular No MFD/CIR/6/73/2000 dated 27-07-2000
4. Circular No MFD/CIR/8/92/2000 dated 18-09-2000
5. Circular No MFD/CIR/8(a)/104/2000 dated 03-10-2000
6. Circular No MFD/CIR/14/088/2001 dated 28-03-2001
7. Circular No MFD/CIR/14/442/2002 dated 20-02-2002
8. Circular No MFD/CIR/03/526/2002 dated 09-05- 2002
9. Circular No MFD/CIR No .23/066/2003 dated 07-03-2003
10. Circular No MFD/CIR No.9/141601/08 dated 18-10-2008
11. Circular No MFD/CIR No.2/166256/2009 dated 12-06-2009
12. Circular No IMD/CIR No.16/193388/2010 dated 02-02-2010
13. Circular No IMD/DF/4/2010 dated 21-06-2010
14. SEBI MUTUAL FUNDS (AMENDMENT) (REGULATIONS),2012 dated 21-02-2012
15. Circular No IMD/DF/6/2012 dated 28-02-2012
16. AMFI Best Practice Guidelines Circular No.135/BP/29/2012-13 dated 15th May 2012
17. AMFI Best Practice Guidelines Circular No.35P/MEM-COR/3/12-13 dated 30th May 2012
18. Circular No SEBI/HO/IMD/DF4/CIR/P/2019/41 dated 22-03-2019
19. Master Circular for Mutual Funds issued on July 10, 2018

## B. VALUATION COMMITTEE

All decisions pertaining to valuation, in conformity with the policy guidelines, shall be taken by the Valuation Committee. The constitution of the Valuation Committee is as under:

**Constitution:**

The Valuation Committee will comprise of the following members:

Chief Operating Officer

Chief Investment Officer

Chief Risk Officer

Head – Compliance & Company Secretary

Head – Operations

Fund Managers

Designated Officers from Risk, Investments and Operations

**Frequency of Valuation committee meeting:**

The Valuation Committee shall meet on a quarterly basis or more often, if required in order to deliberate on specific proposals. The Committee shall be responsible for addressing areas of conflict of interest and thereafter recommend changes if any in policy/methodology.

**Functions of the Valuation Committee:**

- to provide guidelines on valuation within the regulatory framework,
- decide on specific cases as may be referred to the Committee,
- appoint/recommend the appointment of third party agencies for valuation,
- evaluate the performance of such agencies on a periodic basis,
- review the valuation policy.

**As prescribed by SEBI, valuation guidelines shall attempt to adhere to the principles of fair valuation, in order to ensure that securities are valued at prices/yields that are close to realisable/market values.**

**Investment in new type of securities shall be made only after the valuation guidelines for such securities are established and approved by the AMC Board.**

## 1. Definitions

### 1.1 Traded Equity Securities

An equity and / or equity related securities (such as preference shares, convertible debentures, equity warrants etc.) would be considered as traded if:

a) The security is traded on any stock exchange within a period of 30 days including the date of valuation and if:
b) the aggregate value of trade during such period is more than Rs. 5,00,000; or
c) the total volume of trade during such period is more than 50,000 shares.

### 1.2 Thinly Traded Equity Securities

An equity and / or equity related securities (such as preference shares, convertible debentures, equity warrants etc.) would be considered as thinly traded if in a previous calendar month:

a) the aggregate value of trade in such security is less than Rs. 5,00,000; and
b) the total volume of trade in such security is less than 50,000 shares, in recognised stock exchange in India.

For example, if the volume of trade is 1,00,000 and value is Rs.4,00,000, the shares do not qualify as thinly traded. Also, if the volume traded is 40,000, but the value of trades is Rs.6,00,000, the shares do not qualify as thinly traded.

### 1.3 Traded Debt Securities

A debt security (other than government securities) would be considered as traded if:

a) The security is traded on any stock exchange within a period of 30 days including the date of valuation; and
b) On the valuation date, there are at least one individual trade in that security in marketable lots (currently applicable) on the principal stock exchange or any other stock exchange.

### 1.4 Thinly Traded Debt Securities

A debt security (other than government securities) would be considered as thinly traded if:

a) 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.

A thinly traded debt security as defined above shall be valued as per the norms for non-traded debt security.

### 1.5 Non-Traded Securities

When a security (other than government securities) is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non-traded security.

## 1.6 Unlisted Securities

If on a valuation date a security is not listed on any of the stock exchanges, it would be considered as unlisted security.

## 1.7 Recognized Stock Exchange

National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) would be considered as recognized stock exchanges in India.

## 1.8 Principal Stock Exchange

National Stock Exchange (NSE) would be considered as principal stock exchange.

## 1.9 Secondary Stock Exchange

Bombay Stock Exchange (BSE) would be considered as secondary stock exchange.

## 2. Valuation of Equity and Equity related Instrument

### 2.1 Valuation of Equity Shares

**a) Traded Securities**

i) On a valuation day, traded securities are to be valued at the last quoted closing price on the principal stock exchange.

ii) When on a particular valuation day, a security has not been traded on the principal stock exchange; the value at which it is traded on secondary stock exchange may be used.

iii) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal 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 30 days prior to valuation date.

iv) On a valuation day, ETFs and Index Funds are to be valued at the last quoted closing price on the stock exchange of the underlying index.

**b) Thinly Traded / Non-Traded Securities**

Thinly Traded / Non-Traded securities are valued in “good faith” on the basis of the valuation principles laid down below:

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

Net Worth per share = [share capital + reserves (excluding revaluation reserves) – Miscellaneous expenditure and Debit Balance in P&L A/c] Divided by Number of Paid up Shares.

ii) Average capitalisation rate (P/E ratio) for the industry based on either NSE or BSE data shall be taken and discounted by 75% i.e. only 25% of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share of the latest audited annual accounts will be consistently considered for this purpose.

iii) 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 illiquidity so as to arrive at the fair value per share.

**c) Unlisted Securities**

Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:

i) Based on the latest available Audited Balance Sheet, Net Worth shall be calculated as lower of (1) and (2) below:

1. Net Worth per share = [share capital + free reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.

2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [share capital + consideration on

exercise of Option/Warrants received/receivable by the Company + free reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options.

3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (iii) below.

ii) Average capitalisation rate (P/E ratio) for the industry based upon either NSE or BSE data 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 of the latest audited annual accounts will be considered for this purpose.

iii) The value as per the Net Worth value per share and the Capital Earning value calculated as above shall be averaged and further discounted by 15% for illiquidity so as to arrive at the fair value per share.

The above valuation methodology for Thinly Traded, Non-Traded and Unlisted Securities shall be subject to the following conditions:

- All calculation shall be based on audited accounts.

- If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.

- If the Net Worth of company is negative, the shares of such companies shall be valued at zero.

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

- 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. To determine if a security accounts for more than 5% of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation.

- At the discretion of the AMC and with the approval of the Trustees, an unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology.

## 2.2 Valuation of Partly Paid-up Equity Shares

### a) Traded Securities

In case the partly paid-up equity shares are traded separately they would be valued as per the valuation guidelines applicable to any other equity shares.

### b) Thinly Traded / Non-Traded / Unlisted Securities

i) The partly paid-up equity shares will be valued at lower of the following two prices:

- Value of the underlying fully paid-up equity shares as reduced by the amount of balance call money payable.

- Value of the partly paid-up equity shares, if traded on the valuation day. If not traded on any stock exchange on a particular valuation day, the value at which it was traded on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date

ii) Valuation guidelines related to equity shares would be applicable for the valuation of underlying fully paid-up equity shares.

iii) In case the trade price of the partly paid-up equity shares were not available for last 30 days or in case of unlisted partly paid-up equity shares, it will be valued at the value of the underlying fully paid-up equity share as reduced by the amount of balance call money payable.

## 2.3 Valuation of Warrants

### a) Traded Securities

In case the warrants are traded separately they would be valued as per the valuation guidelines applicable to equity shares.

### b) Thinly Traded / Non-Traded / Unlisted Securities

i) In respect of warrants to subscribe for equity shares attached to instruments, the warrants would be valued at the value of the equity share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant.

ii) Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares.

iii) An appropriate discount for non-tradability of the equity shares shall be deducted to account for the period which must elapse before the warrant can be exercised.

## 2.4 Valuation of Preference Shares

### a) Traded Securities

In case the preference shares are qualified as traded then they would be valued as per the valuation guidelines applicable to equity shares.

### b) Thinly Traded / Non-Traded / Unlisted Securities

i) Redeemable Preference Shares would be valued on the basis of norms governing the valuation of Non-Convertible Debentures and Bonds under valuation of Debt Security category.

ii) Convertible Preference shares would be valued at the value of the equity share which would be obtained on conversion. Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares. An appropriate discount for non-tradability of the equity shares shall be deducted to account for the period which must elapse before the conversion can be exercised.

## 2.5 Valuation of Convertible Debentures

### a) Traded Securities

In case the convertible debentures are qualified as traded then they would be valued as per the valuation guidelines applicable to equity shares and valued at cum-interest trade price.

### b) Thinly Traded / Non-Traded / Unlisted Securities

Non-Convertible and Convertible components would be valued separately.

i) Non-Convertible component would be valued on the basis of norms governing the valuation of Non-Convertible Debentures and Bonds under valuation of Debt Security category.

ii) Convertible component would be valued at the value of the equity share which would be obtained on conversion. Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares. An appropriate discount for non-tradability of the equity shares would be deducted to account for the period which must elapse before the conversion can be exercised.

## 2.6 Valuation of Rights

i) Where it is decided not to subscribe to the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

ii)

- Until, rights are traded, or
- after the expiry of trading window on the exchange and rights are not renounced till that date,

the value of "rights" shares should be calculated as:

$$Vr = n / m * (Pex – Pof),$$

Where,

| | |
|---|---|
| Vr | = Value of rights |
| n | = no. of rights offered |
| m | = no. of original shares held |
| Pex | = Ex – Rights Price |
| Pof | = Rights Offer Price |

iii) Ex-right price of underlying security will be considered separately for each valuation day.

iv) In case the Offer price is higher than the Ex-right price then the rights would be valued at Zero.

v) If the rights are on non-traded shares or unlisted shares then the rights would be valued at Zero.

vi) Where it is decided to subscribe the rights, the valuation of rights entitlement will be done as per the guidelines stated in clause (ii) to (v) above.

vii) Valuation guidelines related to equity shares would be applicable from the date rights are subscribed.

**2.7 Valuation of QIP (Qualified Institutional Placement – Equity Shares)**

The equity shares allotted through QIP process should be considered on the same lines as the existing listed equity shares and hence should be valued at the market/traded price of the existing listed equity shares.

**2.8 Valuation of Initial Public Offering (IPO) Allotment**

Securities awaiting listing on account of IPO is to be valued at allotment price.

**2.9 Valuation of Indian Depositories Receipts (IDR)**

Valuation of IDRs listed on the India Stock Exchange would follow the valuation guidelines adopted for the Listed Indian Equity Shares. In case the IDRs are classified as thinly traded / non-traded, the criteria, as laid above for Listed Indian Equity Shares shall be applied taking into consideration the relevant Company's Balance Sheet.

**2.10 Valuation of Suspended Security**

i) In case trading in an equity security is suspended upto 30 days, then the last traded price would be considered for valuation of that security.

ii) If an equity security is suspended for more than 30 days, then the fair valuation of Thinly Traded / Non-Traded Security as above would be applied.

## 2.11 Valuation of Illiquid Security

Illiquid securities shall be valued in good faith. Aggregate value of "illiquid securities" of scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall 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.

# 3. Corporate Action

## 3.1 De-merger, Merger, Amalgamation and Scheme of Arrangement

On corporate action, above valuation guidelines may be difficult to adopt due to non-availability of the Balance Sheet of the restructured entities in public domain or the resultant securities come up for listing after few days while the valuation required to be carried out effective on the date of the corporate action itself. Besides, in such case there are generally no comparative parameters readily available for carrying out the valuation exercise. Following broad valuation guidelines would be used for the valuation of securities resulting from the corporate actions:

### a) De-Merger

i) In case both the shares are traded immediately on de-merger, both the shares would be valued at respective traded prices.

ii) In case 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 shares post de-merger. If value of the share of de-merged company is equal or in excess of the value of pre de-merger share, then the non-traded share is to be valued at Zero.

iii) In case both the shares are not traded on de-merger:

Based on the traded price of the shares of the de-merged company prior to de-merger, the value of the shares of the de-merged and resulting companies will be computed. Hence, the share price of the de-merged company prior to de-merger will be allocated between the post de-merger companies on an appropriate basis like Price Earnings Ratio, or Net Worth, or any other appropriate measure.

iv) Cost allocation would be done proportionate to the derived value of the resultant scrips or other appropriate basis to be decided on case to case basis depending on the terms of de-merger.

### b) Merger

In case of merger, if the shares of the merged entity are not listed / traded, then valuation of the merged entity will be decided on case to case basis depending on the terms of merger and may be valued at previous day closing price of the respective companies prior to merger.

## 3.2 Buy-back of Securities

If a company offers to buy-back hundred percent of the shares tendered then shares will be valued at the price of buy-back and ignoring the market price. Else, market price of the shares will be considered for valuation till formal confirmation of acceptance of shares tendered under the buy-back schemes. Quantum of shares accepted under buy-back will be accounted as a sale trade.

## 4. Valuation of Futures and Options

i) On the valuation day, settlement price will be considered for valuation.

ii) If the settlement price is not available, then closing price for the security will be considered for the valuation.

iii) In case of Futures MTM is computed on daily basis.

iv) MTM Gain/Loss = Current day settlement/Closing price- Previous day settlement/Closing price (If scrip is purchased first time then it is a Current day settlement / Closing price-Weighted Average Price (WAP)).

v) MTM is computed on scrip wise and series wise.

## 5. Valuation of Securities Lent under Securities Lending Scheme

The valuation of securities lent under Securities Lending Scheme shall be valued as per the valuation guideline of the respective security as mentioned in this document. The lending fees received for the securities lent out would be accrued in a proportionate manner till maturity of the contract.

## 6. Valuation of American Depository Receipt (ADR), Global Depository Receipt (GDR) and all Overseas Securities

### a) Traded Securities

i) Traded foreign securities will be valued at latest available closing price of the stock exchange on which the security is traded.

ii) In case the security is traded on more than one stock exchange, the security will be valued at the latest available closing price of the principal stock exchange. Principal stock exchange will be decided by the AMC at the time of purchase of securities and the reason for the selection will be recorded in writing. Any subsequent change in principal stock exchange selected for valuation will be necessarily backed by reasons for such change being recorded in writing by the AMC and approved by the Valuation Committee.

iii) When on a particular valuation day, a security has not been traded on the principal stock exchange; the value at which it is traded on secondary stock exchange may be used.

iv) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal 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 30 days prior to valuation date.

v) Due to differences in the time zones across different markets, the AMC would consider a cut off time of 5.00 PM (IST) for availability of the closing market price for the purpose of valuation i.e. if any market closes on or before 5.00 pm (IST) that day's last closing price will be considered for valuation else the previous day's closing price of that stock exchange will be considered. Accordingly, the valuation of the securities will be done based on T day prices or T-1 day prices, depending upon the closure of business hours of the stock exchange on which the particular securities are traded / listed.

vi) The price in local currency would be obtained and the closing RBI reference rate would be used to calculate the closing price in INR. If the security is listed in currency for which RBI reference rate is not available, the exchange rate available on Bloomberg/Reuter's would be considered. In case the direct exchange rates are not available on Bloomberg/Reuter's, then cross currency with USD would be considered and converted as per INR/USD RBI reference rate.

**b) Non-Traded Securities**

A non-traded foreign security will be valued by the AMC using the principles of fair valuation after considering relevant factors on case to case basis.

In case of any extra-ordinary event in other markets post the closure of the relevant markets, the AMC will value the security at suitable fair value as determined by the Valuation Committee.

All the corporate action for foreign securities will be recorded on the same basis as valuation of foreign securities by considering a cut off time of 5.00 PM (IST). The corporate action of the securities will be recorded on T day or T+1 day, depending upon the closure of business hours of the stock exchange on which the particular securities are traded / listed.

## 7. Valuation of Gold

Gold held by a gold exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to the following:

a) adjustment for conversion to metric measure as per standard conversion rates;

b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and

c) In addition of:-

(i) transportation and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and

(ii) notional customs duty and other applicable taxes and levies, except to the extent set off is available, that may be normally incurred to bring the gold from the London to the place where it is actually stored on behalf of the mutual fund;

Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund;

Provided further that where the gold held by a gold exchange traded fund scheme has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this sub-paragraph.

If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of above subparagraph.

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.

## 8. Valuation of Investment Grade Debt Securities (other than government securities)

### 8.1 Debt Securities including Money Market Securities

**Debt Securities are classified into following 2 categories:**

i) **Coupon bearing securities like Non-Convertible Debentures (NCD), Bonds, etc.**
ii) **Discounted securities like Zero Coupon Bonds (ZCB), Commercial Papers (CP), Certificate of Deposits (CD), Bills Purchased under Rediscounted (BRDS) etc.**

**a) Instruments having maturity greater than 30 days**

The securities will be valued on the basis of average of scrip level prices released by CRISIL and ICRA being the external agencies as recommended by AMFI for providing scrip level prices for the securities.

In case of new security purchased, CRISIL and ICRA are providing scrip level prices from T+1 date. Such securities are valued on the basis of weighted average price (for coupon bearing securities) / weighted average yield (for discounted securities) at which the securities are purchased. The principle of T+1 valuation is followed to value such discounted securities.

The valuation committee may, in exceptional circumstances decide to value a security at a price other than the average of the CRISIL and ICRA prices by recording justification for the same. The valuation would have to be suggested by the Fund Manager with the approval of Head of Fixed Income / Chief Investment Officer based on the market data and other relevant data and then sent to Fund Accountant for incorporating in NAV computation.

**b) Instruments maturing upto 30 days**

The securities will be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent as long as it is within ±0.025% (i.e. ± 2.5 basis points) of the reference price.

The reference price shall be the average of the security level price of such security as provided by the agency(ies) appointed by AMFI for said purpose, currently CRISIL and ICRA (hereinafter referred to as "valuation agencies"). The amortised price shall be used for valuation only if it is within a threshold of ±0.025% of the reference price. In case of deviation beyond this threshold, the price shall be adjusted to bring it within the threshold of ±0.025% of the reference price.

In case variance exceeds ±0.025%, the valuation shall then be adjusted to bring it within ±0.025% such that:

- If the amortized price is greater than the reference price +0.025%, the valuation shall be done at reference price +0.025%, or within the band of reference price +0.025% with proper justification for the same.
- If the amortized price is less than the reference price - 0.025%, the valuation shall be done at reference price - 0.025%, or within the band of reference price -0.025% with proper justification for the same.

At the time of first purchase of security with its residual maturity of < 30 days, valuation price will be based on weighted average purchase yield and the derived valuation price shall be compared with the reference price as above. The principle of T+1 valuation is followed to value such securities.

In case of subsequent trades in the same security by the fund (i.e. AMC's own trades), the valuation must reflect price considering weighted average yield as long as the trades are of market lot. Market lot is defined as a single deal of face value of Rs.5 crores or more. The principal of T+1 valuation is followed to value such securities. The security will then start getting amortized from the new valuation price. In case the subsequent trades in the same security by the fund are not meeting the own trades criteria (i.e. none of the deals are of face value of Rs. 5 crores or more) then the amortization price will be computed without considering such additional purchase.

While considering own trades, inter scheme trades shall be excluded if inter-scheme transfers are at previous day's valuation price.

In case of floating rate securities with floor and caps on coupon rate, the same shall be valued on amortization basis taking the coupon rate as floor.

**8.2 Floating Rate Securities with Floor & Cap on coupon rate**

a) If security has residual maturity of more than 30 days, then security will be valued on the basis of average of scrip level prices released by CRISIL and ICRA on the same basis as debt securities maturing greater than 30 days.

b) If security has residual maturity upto 30 days, then security will be valued through amortization on the same basis as debt securities maturing upto 30 days taking coupon rate as floor.

**8.3 Valuation of securities with Put/Call Options**

a) Security having residual maturity more than 30 days is valued on the basis of average of scrip level prices released by CRISIL and ICRA on the same basis as debt securities maturing greater than 30 days.

b) Security having residual maturity upto 30 days is valued through amortization on the same basis as debt securities maturing upto 30 days.

c) 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.

d) 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.

e) 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.

### 8.4 Valuation of Pass Through Certificate

a) If security has residual maturity of more than 30 days, then security will be valued on the basis of average of scrip level prices released by CRISIL and ICRA on the same basis as debt securities maturing greater than 30 days.

b) If security has residual maturity upto 30 days, then security will be valued through amortization on the same basis as debt securities maturing upto 30 days.

c) Periodical cash flow is considered for valuation of security.

### 8.5 Valuation of Reset Papers

a) If security has residual maturity of more than 30 days, then security will be valued on the basis of average of scrip level prices released by CRISIL and ICRA on the same basis as debt securities maturing greater than 30 days.

b) If security has residual maturity upto 30 days, then security will be valued through amortization on the same basis as debt securities maturing upto 30 days.

### 8.6 Valuation Policy on Interest Rate Swaps (IRS)

**a) Swaps with more than 30 days:**
Interest Rate Swap (IRS) contracts will be valued at net present value after discounting the expected future cash flows. Future cash Flows for IRS contracts will be computed daily based on the terms of the contract and discounted by suitable Overnight Index Swap (OIS) rate available on Reuters / Bloomberg / any other provider.

**b) Swaps with upto 30 days:**
Interest Rate Swap (IRS) contracts with residual maturity of up to 30 days will be valued by amortization on a straight-line basis to maturity from cost or last valuation price, whichever is more recent as long as it is within ± 0.025% (i.e. ± 2.5 basis points) of the reference price. The reference price is the price derived from daily OIS rates for relevant maturity from Bloomberg / Reuters / any other provider.

In case such variance exceeds ±0.025%, the valuation shall then be adjusted to bring it within ±0.025% such that:

- If the amortized price is greater than the reference price +0.025%, the valuation shall be done at reference price +0.025%, or within the band of reference price +0.025% with proper justification for the same.

- If the amortized price is less than the reference price - 0.025%, the valuation shall be done at reference price - 0.025%, or within the band of reference price -0.025% with proper justification for the same.

## 8.7 Valuation Policy on Interest Rate Futures (IRF)

The Interest Rate Futures (IRF) would be valued at the daily settlement price of the exchange.

## 9. Valuation of money market and debt securities which are rated below investment grade

a) All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies as appointed by AMFI for said purpose.

b) 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 as listed in the Table below. 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.

**Trade Price for valuation**

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

d) 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.

e) The trades referred above shall be of a minimum size as determined by valuation agencies.

**AMC right to deviate from the indicative haircut and/or the valuation price provided by the valuation agencies**

f) AMC 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:

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

   ii) 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

   iii) The rationale for deviation along-with details as mentioned at para above shall also be disclosed to investors. In this regard, AMC shall immediately disclose instances of deviations under a separate head on their website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

**Provision on Interest Accrued / Receivable on money market and debt securities which are rated below investment grade**

g) Provision on Interest Accrued / Receivable on money market and debt securities which are rated below investment grade shall be based on the haircut rate specified in the table below.

**Haircut Table:**

**Standard haircut for sub-investment grade debt securities** provided by valuation agencies and finalized by the AMFI Valuation Committee are as follow:

**1. Haircuts for senior, secured securities**

| Rating/ Sector | Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals | | Other Manufacturing and Financial Institutions | | Trading, Gems & Jewellery and Others | |
|---|---|---|---|---|---|---|
| | Haircut for valuation | Haircut for Interest | Haircut for valuation | Haircut for Interest | Haircut for valuation | Haircut for Interest |
| **BB** | 15% | 15% | 20% | 20% | 25% | 25% |
| **B** | 25% | 25% | 40% | 40% | 50% | 50% |
| **C** | 35% | 35% | 55% | 55% | 70% | 70% |
| **D*** | 50% | 100% | 75% | 100% | 100% | 100% |

**2. Haircuts on subordinated and unsecured (or both) securities**

| Rating/ Sector | Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals | | Other Manufacturing and Financial Institutions | | Trading, Gems & Jewellery and Others | |
|---|---|---|---|---|---|---|
| | Haircut for valuation | Haircut for Interest | Haircut for valuation | Haircut for Interest | Haircut for valuation | Haircut for Interest |
| **BB** | 25% | 25% | 25% | 25% | 25% | 25% |
| **B** | 50% | 50% | 50% | 50% | 50% | 50% |
| **C** | 70% | 70% | 70% | 70% | 70% | 70% |
| **D*** | 100% | 100% | 100% | 100% | 100% | 100% |

* For “D” rated securities, future Interest accrual will be stopped 100% and provision on existing intertest accruals/receivable will also be done at 100%.

Further in case valuation agencies has adopted rating (say “D” rating) different from the rating given by Credit Rating Agency (say “C” rating) for valuation of security, the rating adopted by valuation agencies (i.e. “D” rating) shall be considered for the purpose of provisioning of Interest accrual.

## 10. Government Securities

Government Securities includes:
i) Central Government Securities
ii) State Government Securities / Loans (SDL)
iii) Treasury Bills (TBills)
iv) Cash Management Bills (CMB)
v) Inflation Index Bonds (IIBs)

a) If security has residual maturity of more than 30 days, then security will be valued on the basis of average of scrip level prices released by CRISIL and ICRA on the same basis as debt securities maturing greater than 30 days.

b) If security has residual maturity upto 30 days, then security will be valued through amortization on the same basis as debt securities maturing upto 30 days.

## 11. Inter-Scheme Transfers (IST)

As per the regulations of SEBI contained in the seventh schedule of the SEBI (Mutual Funds) Regulations 1996, transfer of investments from one scheme to another scheme in the same mutual fund shall be allowed only if:

a) Such transfers are done at the prevailing market price for quoted instruments on spot basis;

b) The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.

**Equity Securities:**

Inter-scheme transfer of equity securities would be effected at the prevailing spot market price of the security at the time the transfer is effected.

For this purpose, at the time of effecting the inter-scheme transfer, a record of the prices for the security quoted in the relative stock exchange (i.e. NSE/BSE) or Bloomberg Terminal in which it is traded or reported would be obtained, which would indicate the date, time and the currently quoted price. The price given in the quotation of the stock exchange would be the effective price for the inter-scheme transfer.

**Debt and Money Market Securities:**

For Debt and Money Market Securities following procedure will be followed:

a) Where there are market trades of the same security on the date of IST reported on Public Platform, weighted average price till the time of IST shall be considered provided the market trade satisfy the following qualifying criteria:
   i. For instruments maturing above 1 year, the traded price may be taken if there are at least two trades aggregating to face value of Rs. 25 crores or more.
   ii. For instruments maturing upto 1 year, the traded price may be taken if there are at least three trades aggregating to face value of Rs. 100 crores or more.

b) In the absence of market trades upto the time of IST, where AMC has traded (equivalent to a market lot, i.e. face value of Rs. 5 crores or more) in the same security prior to effecting the IST, such price shall be considered for the inter-scheme transfer.

c) Outlier trades, if any, shall be ignored after suitable justification provided by Fund Managers.

d) In the absence of prices at (a) & (b) above, inter-scheme transfer shall be valued at previous day's valuation price.

**Note:**
Public Platform for the above purpose will be RBI NDS-OM for G-Sec, Treasury Bills, SDL, IIB and CMB. FIMDAA F-trac for CP and CD, and NSE / BSE reporting platform for other debt instruments (including any other reporting platform as permitted by regulatory authority from time to time).

**12. Valuation of Mutual Fund Units**

i) Mutual Fund units listed and traded on exchange (NSE or BSE) would be valued at closing traded price as on the valuation date.

ii) Unlisted Mutual Fund units or listed but not traded mutual fund units would be valued at the Net Assets Value (NAV) as on the valuation date.

**13. Valuation of Collateral Borrowing and Lending Obligation (CBLO)**

CBLO will be valued at cost plus accrual basis.

**14. Valuation of Reverse Repo**

Reverse Repo will be valued at cost plus accruals basis. All securities taken under Reverse Repo will not be considered for valuation. Only the interest income earned would be considered for NAV calculation.

**15. Valuation of Fixed Deposits**

Fixed Deposits will be valued at cost plus accrual basis.

**16. Valuation of Infrastructure Investment Trust (InvITs) & Real Estate Investment Trust (ReITs)**

i. On a valuation day, traded units of InvIT/ReITs are to be valued at the last quoted closing price on the principal stock exchange.

ii. When on a particular valuation day, units of InvIT/ReITs has not been traded on the principal stock exchange; the value at which it is traded on secondary stock exchange may be used.

iii. When units of InvIT/ReITs is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal 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 30 days prior to valuation date.

iv. Where units of InvIT and ReIT are not traded on any stock exchange for continuous period of 30 days than the valuation for such units of InvIT and ReIT will be determined based on the price provided by an independent valuation agency(ies) or at latest NAV declared by Investment managers of the trust, as the case may be. The selection of the independent valuation agency(ies) will be approved by the Valuation Committee.

v. Where the valuation of units of InvIT and ReIT is not available from any independent valuation agency(ies), the valuation will be determined by the Fund Manager on the principles of fair valuation.

**17. Abnormal situations & market disruptions**

In normal situations the valuation methods detailed above shall be used. 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.

The following occurrences would normally be considered as abnormal situations:

- Major Policy announcements by Central Government, State Government, SEBI or RBI.
- Geo-political situations (Natural disasters, terror attacks, public disturbances, riots, wars) that may force the market to function abnormally.
- Absence in trading in specific securities or equivalent.
- Significant volatility in capital markets.
- Significant illiquidity in fixed income markets.
- Global events like Sovereign bankruptcy, corporate bankruptcy, closure of stock markets, disruptive political scenario that may impact the markets.
- Events which lead to lack of availability of accurate information to value a security.
- Technological breakdown in trading systems.
- Errors and omissions with respect to transaction processing.
- Large redemptions in the fund.
- Quarter-ending & tax-related liquidity tightness.

The events mentioned above are only indicative and may not reflect all possible exceptional events or circumstances. In case of any exceptional circumstances, the Valuation Committee may assess the situation and decide on the valuation methods and document the same.

**18. Non - Performing Assets (NPA)**

An "asset" shall be classified as non-performing, if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income / instalment has fallen due. The valuation of Non- Performing Assets (NPA) would be in accordance with SEBI Circular No. MFD/CIR/8/92/2000 dated September18, 2000, SEBI Circular No. MFD/CIR/8(a)/104/2000 dated October 03, 2000 and SEBI Circular no. MFD / CIR /14 / 088 / 2001 dated March 28, 2001 as amended from time to time.

**19. Valuation of securities not covered under the current Valuation Policy**

In case of security/ies purchased by the fund does not fall within the current framework of the valuation of securities then the same shall be reported immediately to AMFI. Further, at the time of investment AMC shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

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