



IIFCL MUTUAL FUND (IDF)

Valuation Manual

Board of Trustees

Chairman – BOT (CGM, IIFCL)
Independent Trustees

Asset Management Company

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1.1 INTRODUCTION

IIFCL Asset Management Company Limited is an Asset Management Company (AMC) of IIFCL Mutual Fund (IDF). The AMC is responsible for managing the schemes launched by IIFCL Mutual Fund (IDF).

The Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, circulars issued by SEBI etc. from time to time prescribe the norms, methodology and guiding principles for valuation of investments held by Mutual Fund Schemes.

As per Eighth Schedule to SEBI Mutual Funds Regulations, 1996 the valuation of investments shall be based on the “Principles of Fair Valuation” i.e., valuation shall be reflective of the realizable value of the securities/assets. The valuation shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures.

In the event of a conflict between the principles of fair valuation and valuation guidelines, the principles of fair valuation shall prevail.

Valuation Manual was last reviewed in September 2019.

1.2 OBJECTIVE

The objective/purpose of the Valuation Manual adopted by the AMC for valuation of securities and assets held by IIFCL Mutual Fund (IDF) is to:

- a) describe the methodologies used for valuing each type of securities/assets held by the scheme(s);(detailed security/asset wise valuation norms is enclosed as **Annexure-I**)
- b) ensure that the securities/ assets are consistently valued as per the approved methodology/ies;
- c) lay down the process to deal with exceptional circumstances.
- d) address the instances of conflict of interest, if any.
- e) set a process to detect and prevent incorrect valuation.
- f) ensure transparency by making appropriate disclosures.

Thus, the main objective/purpose is to value investments in a fair manner to ensure fair treatment to all investors in the scheme(s) of IIFCL Mutual Fund (IDF).

1.3 TARGET ADDRESSEES

This Manual should be readily accessible to Fund Accounting team and the Investment team and other officials of IAMCL. The latest manual should always be disclosed on the website of IIFCL

Mutual Fund (IDF) or any other place where SEBI may specify from time to time to ensure transparency of valuation norms adopted.

1.4 LIST OF ABBREVIATIONS

ABBREVIATIONS	FULL FORM
SEBI	Securities and Exchange Board of India
AMFI	Association of Mutual Funds in India
AMC	Asset Management Company
IAMCL	IIFCL Asset Management Company Limited
BOD	Board of Directors of IAMCL
BOT	Board of Trustees of IIFCL Mutual Fund (IDF)
G-Sec	Government Security
T-Bills	Treasury Bills
CBLO	Collateralized Borrowing and Lending Obligation

1.5 SCOPE AND COVERAGE

The following items are covered within the scope of this Valuation Manual:

- Defining valuation procedures/ methodologies for various types of securities/assets.
- Review of valuation policies and procedures and reporting to the various stakeholders.
- Recording of deviations in the form of Valuation Committee minutes from established policies and procedures and rationale for same.

The Valuation Committee would conduct a periodic review of the Manual to confirm its completeness & appropriateness and suggest any suitable amendments. Such changes need to be placed before the BOD and BOT for approval, as appropriate.

All securities/ assets held by the Fund shall be consistently valued according to the defined valuation methodology. If the above-defined methodology does not lead to fair valuation of securities / assets, then the Valuation Committee may on a prospective basis deviate from the defined methodology and adopt alternate procedures / methods to arrive at the fair value.

The responsibility of true and fairness of valuation and correct NAV shall be of the Asset Management Company, irrespective of disclosure of the approved valuation manual i.e., if the established manual of valuation do not result in fair/ appropriate valuation, the asset management company shall deviate from the established manual in order to value the assets/ securities at fair value. Provided that any deviation from the disclosed valuation Manual may be allowed with appropriate reporting to Board of Trustees and the Board of the Asset Management Company and appropriate disclosures to investors.

1.6 CONFLICT OF INTEREST

The valuation policy, procedures and methodologies laid down in this manual would be uniformly followed to ensure consistency in valuation of securities / assets across all Funds except during exceptional events.

The Valuation Committee shall be responsible to identify areas of conflict of interest (including potential areas, if any). Some of the key areas where a potential conflict of interest may arise and the mitigatory measures are indicated below:

- Inter-Scheme Trades
- Investments in Associate/Group Companies

1.7 EXCEPTIONAL EVENT

Exceptional events are events on which dependency cannot, reasonably and in good faith, be placed on the available market information for a fair valuation of securities.

- These events generally lead to artificial, unsustainable prices and may therefore warrant a departure from the established valuation methodology/ procedures and adoption of alternate methods/ judgment to reflect the realizable value of the securities/ assets in conformity with the principles of fair valuation.
- The Valuation Committee may assess the situation and decide on the valuation methods and document the same as detailed above in clause “Deviation from Valuation Guideline”.
- Following are the illustrative events which may be classified as exceptional events:
 - Major policy announcements by the SEBI, Reserve Bank of India, the Government or Regulator.
 - Natural disasters or public disturbances that force markets to close unexpectedly.
 - Absence of trading in specific security.
 - Significant volatility in the capital markets.
 - Liquidity crunch in debt markets.
 - Heavy redemption pressures.
 - Credit events affecting a company or sector falling below the investment grade.
 - Valuation Agency does not provide valuation of security.
 - Deviation from the indicative haircuts and/or the valuation price.

Given the exceptional nature of these events and the lack of clarity on how it would impact the markets, it is not possible to define a standard methodology to be adopted for fair valuation of securities for such events.

1.8 VALUATION COMMITTEE

The AMC is required to constitute a Valuation Committee, which is responsible for on-going review of the valuation manual adopted to assess their appropriateness and accuracy in determining the fair value of securities/assets.

IIFCL Mutual Fund's (IDF) Valuation Committee comprises the following:

Chief Investment Officer
Head Company Secretariat & Compliances
Head Finance & CFO

The Role and Responsibilities of Valuation Committee of IIFCL Mutual Fund (IDF) will include:

- Reviewing and recommending the Valuation Manual to the Board of Directors of AMC and Board of Trustees of Fund for their noting/approval.
- Review of accuracy and appropriateness of methods adopted for valuation of securities.
- Defining valuation procedure / methodology for new types of securities /assets.
- Determining fair valuation of securities / assets during exceptional events where the defined procedures /methods for valuation do not yield a fair value of the securities / assets.
- Identifying and addressing potential conflicts of interest situations in valuation of securities.
- Reporting any deviations / incorrect valuations to the Board of Directors of AMC and Board of Trustees of Fund and appropriate disclosures to the investors.
- Review of regulatory amendments with regards to valuation and implementation of the same subject to approval/ ratification by the Board of Directors of AMC and Board of Trustees of Fund.

1.9 PERIODIC REVIEW

The AMC shall provide for the periodic review of the valuation manual ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets. The BOD and BOT be updated of these developments at appropriate intervals. The valuation manual shall be regularly reviewed by an independent auditor to ensure their continued appropriateness.

1.10 DISCLOSURE

In order to ensure transparency of valuation norms adopted by IIFCL Mutual Fund (IDF), the Valuation Manual shall be disclosed in the Statement of Additional Information (SAI) and on the website (www.iifclmf.com)

VALUATION NORMS• **FIXED INCOME AND RELATED INSTRUMENTS**

Category	Policy
Debt and Money Market Instruments other than Government Securities	<ul style="list-style-type: none"> Irrespective of residual maturity, all money market and debt securities shall be valued at average of security level prices provided by AMFI approved valuation agencies (presently CRISIL and ICRA) Provided that, if the price is provided by only one valuation agency, the same will be considered for valuation. In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued on amortization basis on the date of allotment/ purchase.
Government Securities	<ul style="list-style-type: none"> Government Securities shall be valued at average of the prices provided by AMFI approved valuation agencies (presently CRISIL and ICRA)
Money Market and Debt Securities/Instruments rated Below Investment Grade	<ul style="list-style-type: none"> All money market and debt securities/instruments that are rated below investment grade (below BBB- for long term rating and below A3 for short term rating) shall be valued at the price provided by valuation agencies.
Overnight Money (Reverse Repo/Treps)	<ul style="list-style-type: none"> Overnight money deployed for less than 30 days shall be valued at cost plus accrual. Overnight money deployed for more than 30 days shall be valued at average prices provided by AMFI approved valuation agencies.
Short Term Deposits with Banks	<ul style="list-style-type: none"> Investment in short term deposits with banks shall be valued at cost plus accrual basis
Self-Trades	<ul style="list-style-type: none"> A self-traded security having a single trade with face value of at least INR 5 Crore, will be recognized at weighted average YTM for valuation across all schemes
Inter Scheme Transfers	<ul style="list-style-type: none"> Inter-Schemes transfers would not be done.

• **EQUITY AND EQUITY RELATED INSTRUMENT**

Asset Class	Traded / Non Traded	Basis of Valuation
Equity Shares, Preference Shares, Equity Warrants	Traded	On the valuation day, at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange.
	Non Traded	<ul style="list-style-type: none"> ✓ When a security is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / any other SE will be used, provided such closing price is not exceeding a period of 30 calendar days. ✓ In all other cases <ul style="list-style-type: none"> a. Equity Shares: Valuation price will be in accordance with the norms prescribed, i.e. valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE), further discounted for illiquidity. b. Preference Shares: Intrinsic value will be considered c. Equity Warrants / Rights entitlement / partly paid up rights shares: Valuation price will be arrived, after applying appropriate discount (valuation committee delegated the power to decide the discount factor), after reducing the exercise price / issuance price from the closing price of the underlying cash equity security. d. Demerger: Where at least one resultant company is not immediately listed, valuation price will be worked out by using cum-price, before demerger reduced for quoted price of the listed resultant company(s). OR In case of a demerger pending listing, the resultant company/ies shall be valued at the intrinsic value arrived at on the date of corporate action
	Thinly Traded	<p>Valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE), further discounted for illiquidity.</p> <p>Definition of thinly traded equity/ equity related security: When trading in an equity/equity related security in a calendar month is both less than INR 5 lacs and the total volume is less than 50,000 shares, it shall be considered as a thinly traded security</p>
Futures & Options	Traded	On the valuation day, at the closing price provided by the respective stock exchanges.
	Non Traded	When a security is not traded on the respective stock exchange on the date of valuation, then the settlement price / any other derived price provided by the respective stock exchange.

Notes:

1. Public Platform refers to:
 - a) F-Trac: For corporate bonds / debentures, commercial papers, certificate of deposits and securitized debts
2. Following assets will be valued at cost plus accruals / amortization using 31st day price:
 - a) Bank Fixed Deposits
 - b) CBLO / Reverse Repo
 - c) CP/CD, SDL, Government Securities and Treasury Bills – for below 30 days to maturity
 - d) NCDs - for below 30 days to maturity
3. Units / shares of mutual funds will be valued at the last published NAV.
4. CP/CD, SDL, Government Securities and Treasury Bills above 30 days to maturity will be valued at aggregated price of CRISIL & ICRA .
5. Weighted average YTM shall be rounded up to two digits after decimal point.
6. Securities with Put/Call Options
 - a) Securities with Put option/(s): At higher of the prices obtained by valuing the security to final maturity date and valuing the security to put option date/(s).
 - b) Securities with Call option/(s): At lower of the prices obtained by valuing the security to final maturity date and valuing the security to call option date/(s).
 - c) Securities with both Put/Call option: 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.
