

## **APPENDIX 6**

1. Notification issued by the Board of Investment (presently Bangladesh Investment Development Authority) for obtaining loan from abroad by industrial enterprises in Bangladesh in the private sector.
2. Policy guidelines for establishment of Drawing Arrangement between the Exchange Houses abroad and the Banks operating in Bangladesh.
3. Procedure for repatriation of sale proceeds of non-resident owned equity in unlisted companies purchased by residents.

**Govt. of The People's Republic of Bangladesh****Board of Investment****Prime Minister's Office**

Jiban Bima Tower, 10, Dilkusha Commercial Area, Dhaka-1000, Bangladesh.

Notification No. BOI/R&IM1/4(39)/81(Part)/1209

Date : 10.12.1998

**Sub: Procedure for approval of borrowing from abroad by industrial enterprises in Bangladesh in the private sector.**

In supersession of the instructions contained in the Board of Investment Notification No. BOI/FLO/4(30)/81/458 dated the 24th June, 1992, the undernoted guidelines and procedures shall henceforth be followed in the matter of approval of borrowing from abroad by industrial enterprises in Bangladesh in the private sector.

2 (a) All proposals for borrowing from abroad by private sector industrial enterprises in Bangladesh (including supplier's credits, financial loans from institutions or individuals and debt issues in capital markets abroad) shall require prior authorisation of the Board of Investment.

Short term credit accommodations of up to one year duration from suppliers/buyers abroad are, however, subject to the guidelines/instructions issued by Bangladesh Bank in regard to settlements for current commercial transactions and shall not be subject to the approval process laid down in this Notification.

(b) In examining the approval requests for the borrowing proposals the Board of Investment shall attach priority mainly to medium and longer term borrowing for installing new capacity, and for upgrading or expanding existing capacity for production of goods and services for export or for domestic use. Borrowing from abroad for building up of excessive capacity in relation to foreseeable immediate or medium term needs and borrowing for outlays of speculative nature in sectors such as real estate or commercial office building shall be discouraged. Shorter term borrowing proposals will normally not receive favorable consideration except those are temporary and unavoidable necessities as bridging arrangements prior to finalization of a medium or long term borrowing approved by the Board of Investment.

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(c) Approval requests for borrowing proposals must be supported by analyses and papers in regard to :-

- (i) the commercial viability of the project;
- (ii) the capacity of the project to service the proposed debt with income flows from the project;
- (iii) the cost competitiveness of the outputs from the project in the domestic and external markets;
- (iv) existing production capacity in Bangladesh in the industrial sector to which the borrowing proposal relates and the potential demand in the domestic and export markets given the estimated output cost structure;
- (v) existing indebtedness structure of the sponsors of the project, duly certified by report of their bankers and CIB of Bangladesh Bank as to their credit worthiness.

(d) The interest rate and other charges related to the borrowing should be reasonable compared to the prevailing lending rates in the international markets in the concerned currencies for the relevant tenure. Normally, the interest rate should be based on the prevailing government treasury bond rate in that currency for that tenure plus a reasonably modest country risk premium; excessively high risk premium margins will invite additional rigour in scrutiny in the approval process.

3. Applications as per proforma at Annexure-"A" for approval of proposals for borrowing from abroad should be submitted to the BOI with the analyses and supporting documents as indicated in para 02 (c) above. Fully documented proposals will be submitted to a Committee headed by Governor, Bangladesh Bank for final approval.

sd/-

**Zahid Hossain**

Member, Executive Council

Board of Investment

ANNEXURE-"A"

No. BOI/R&amp;I-1/4(39)/81(Part)

**APPLICATION FOR APPROVAL OF FOREIGN BORROWING AGREEMENT**

- |    |       |  |   |  |
|----|-------|--|---|--|
| 1. | a.    | Name, address and telephone  | : |  |
|    |       | Number of the firm   | : |  |
|    | b.i)  | Registration/Permission letter No.   | : |  |
|    | ii)   | Date   | : |  |
|    | iii)  | Issuing authority<br>(Please attach copy)                                    | : |  |
|    | c.    | Type of industry   | : |  |
|    | i)    | Export oriented and export linkage industries                                | : | <div style="text-align: right;">Please Tick</div> <input type="checkbox"/> |
|    | ii)   | Pioneering industries  | : | <input type="checkbox"/>   |
|    | iii)  | Industry based on new/<br>high Technology                                    | : | <input type="checkbox"/>   |
|    | iv)   | Industry that generates employment   | : | <input type="checkbox"/>   |
|    | v)    | Industry based on local natural resources and its diversified uses.          | : | <input type="checkbox"/>   |
|    | vi)   | Industry that involves high value added                                      | : | <input type="checkbox"/>   |
|    | vii)  | Increase industrial efficiency & productivity                                | : | <input type="checkbox"/>   |
|    | viii) | Employment opportunity   | : | <input type="checkbox"/>   |
| 2. | a.    | Name & address of the foreign firm(s) from whom borrowing has been proposed. | : |  |
|    | b.    | Principal amount of the borrowing  | : |  |
|    | c.    | Purpose of Borrowing   | : |  |
| 3. |       | Foreign Borrowing proposal   | : |  |
|    | a)    | Copy of Draft/Final Agreement should be attached                             | : |  |
|    | b)    | Effective rate of interest   | : |  |
|    | c)    | Repayment period   | : |  |
|    | d)    | Effective date   | : |  |
|    | e)    | Down payment, if any   | : |  |

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4. Type of Borrowing
- a) Loan :
- b) Supplier's Credit :
- c) Pay-As-You-Earn Scheme :
- d) Deferred Payment :
- e) Others (Please describe) :
5. Commercial viability report of project along with the analyses and papers in regards to
- a) Name of the sector/Sub-sector of the project with item of products. :
- b) The commercial viability of the project. :
- c) The capacity of the project to service the proposed debt with income flows from the project :
- d) The cost competitiveness of the outputs from the project in the domestic and external markets. :
- e) The existing production capacity in Bangladesh and demand of the products in local as well as export market abroad on the basis of market study. :
- f) Existing indebtedness structure of the sponsors of the project ; duly certified by report of their bankers as to their credit worthiness. :
6. Please outline the reasons for entering into agreement on foreign borrowing (Please attach separate sheet, if necessary). :
7. Schedule of Repayment in brief
8. Name and address of the firm's nominated Bank :
9. Please enclose the following papers :
- a) Certified copy of the Memorandum and Articles of Association.
- b) Board of Director's Resolution in favour of the loan proposal.
- c) Proforma Invoice of machinery to be imported

Please Tick


Signature .....

Name and designation of applicant .....

Date .....

Effective interest is the sum of the stated annual rate of interest and the annualized fee, such as, commitment fee, syndication fee, front-end fee, project appraisal fee etc.

**FOREIGN EXCHANGE POLICY DEPARTMENT**  
BANGLADESH BANK  
HEAD OFFICE  
DHAKA

**Bangladesh Bank Website : [www.bangladeshbank.org.bd](http://www.bangladeshbank.org.bd)**

Circular Letter No.-FEPD (LDA-1)147/2007-1468

Kartik 14, 1414

Date : -----

October 29, 2007

Head Office/Principal Office of all  
Authorized Dealer Banks in Bangladesh

Dear Sirs,

**"Policy regarding the establishment of Drawing Arrangement between the Exchange House abroad and the Bank operating in Bangladesh".**

In order to make monitoring set-up on Drawing Arrangements more intensive and effective and accord approval for establishment of Drawing Arrangement between the Exchange House abroad and the Commercial Bank operating in Bangladesh, the "Policy regarding the establishment of Drawing Arrangement between the Exchange House abroad and the Bank operating in Bangladesh" has been adopted (Copy enclosed).

You are advised to follow the policy having considered it to have taken effect from October 09, 2007 (Ashwin 24, 1414) and submit application to Bangladesh Bank for establishment of Drawing Arrangement having prepared it in the light of the texts as contained in the policy.

Yours faithfully,

Encl. : As stated.

(Sd)  
**(Khondaker Khalidur Rahman)**  
Deputy General Manager  
Phone : 7120375

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**FOREIGN EXCHANGE POLICY DEPARTMENT**

BANGLADESH BANK

HEAD OFFICE

DHAKA-1000

**"POLICY REGARDING THE ESTABLISHMENT OF DRAWING ARRANGEMENT BETWEEN THE EXCHANGE HOUSE ABROAD AND THE BANK OPERATING IN BANGLADESH"****[Amended as on June 2017]**

Money/remittance sent by expatriate Bangladeshi is one of the significant sources of inward flow of foreign exchange which plays an important role in the economy of the country. Approval is awarded by the Foreign Exchange Policy Department (FEPD) in respect of establishment of drawing arrangement between the exchange house abroad and bank in Bangladesh in order to collect remittances. Up to 30.06.2017, number of effective drawing arrangements of 47 banks was 1154 with 211 'Money Transfer Operators' i.e. exchange houses abroad. The undernoted policy guidelines shall have to be followed in order to make monitoring set-up on drawing arrangements more intensive and effective and accord approval for establishment of Drawing Arrangement between the exchange house abroad and the bank operating in Bangladesh.

**1. Eligibility of Exchange House**

- (i) The concern shall have to possess the license/approval from the Central Bank or concerned regulatory authority of the respective country to conduct money transfer business.
- (ii) The concern shall have to possess the license/approval/certificate as applicable from other authorities viz. ministry of commerce and industry, ministry of justice, chamber of commerce and industry, registrar of companies, municipality etc. to conduct the business.
- (iii) The concern shall have to bear the name that signifies its engagement in money transfer business such as the words like money transfer, exchange, remittance etc. shall have to be included therein.
- (iv) Without having permission/consent from the concerned bank operating in Bangladesh, the name of the bank or part of it (viz. Sonali, Rupali, Janata, Agrani etc.) shall not be used by the exchange house with its own name. However, the approval already given for drawing arrangement between the bank in Bangladesh and exchange house having name of Bangladeshi bank and remittance business is in operation under those approval shall though remain effective, the exchange house shall have to obtain permission from the concerned bank (whose name has been used) for establishment of drawing arrangement with other bank. If such consent is not awarded, the name of the exchange house shall have to be amended/changed accordingly.
- (v) Owner(s)/Director(s) of the exchange house shall have to be the citizen (or Foreigner thereof other than Bangladeshi without citizenship/residence permit) or the permanent resident of that country.

(vi) While considering approval for establishment of drawing arrangement, preference shall be awarded to the exchange house having at least 3 years of experience in money transfer business. The concern shall have to be financially strong (in terms of capital, liquid asset, fixed asset, profit etc.) enough to operate the business. If other eligibility of newly established exchange house is found to be acceptable, according approval for establishment of drawing arrangement with such new exchange house may specially be taken into consideration.

(vii) Minimum limit for remittance: As money laundering activities may become easier under cover of legality derived from the approved drawing arrangement, the minimum yearly limits for inward remittance under drawing arrangement presently remain prescribed for some countries. Region/country wise yearly limits are hereby revised as under:

Country/Region	Previous limit	Present prescribed limit
1. USA	USD 3.00 million	USD 3.00 million
2. UK	GBP 2.00 million	GBP 2.00 million
3. Italy	-----	EUR 2.00 million
4. Canada	USD 2.50 million	USD 2.50 million
5. Middle East (KSA, UAE, Qatar, Oman, Bahrain, Kuwait)	-----	USD 3.00 million
6. Middle East (other countries)	-----	USD 1.50 million
7. Other countries/Region	-----	USD 1.50 million

## **2. Exchange House(s) to Comply**

(i) The concern shall have to follow the exchange rate quoted by the bank concerned for the purpose of remittance.

(ii) The concern shall have to confirm the deposit of money of remittance collected from the remitter/of cover fund to NOSTRO account of the concerned bank within 24 hours of collection thereof.

(iii) The concern shall have to regularly provide statement containing number and amount of remittances sent to the concerned bank.

(iv) The concern shall not use monogram of Bangladesh Bank or words viz. "approved by Bangladesh Bank" in its publicity activities. No such scope of publicity shall be maintained that makes the concern appear to be licensed by the Bangladesh Bank.



(v) Conducting remittance business through branch offices thereof is allowed; however, the business of collection of remittance through sub-agent shall be allowed only with prior permission of Bangladesh Bank. Specific approval shall have to be obtained in respect of collection of remittances from more than one country under same/one drawing arrangement.

(vi) The existing rules and regulations in respect of sending remittances to Bangladesh or transactions thereof shall have to be strictly complied with.

### **3. Bank(s) to Comply**

(i) Related information as well as license/approval letter issued by the Central Bank or from the competent authority of the respective country, credit report from any reputed credit agency, 3 years' audited financial statements, profile of directors/owners of the concern, memorandum and articles of association etc., in support of/in assessing its eligibility, shall have to be collected at the time of establishment of drawing arrangement.

(ii) Letter of reference/certificate (must be favorable) from the Bangladesh Embassy/High Commission of the respective country shall have to be collected.

(iii) After having assessed the eligibility of the concern and submitted the required papers, approval of the Bangladesh Bank (from the Foreign Exchange Policy Department) shall have to be applied for.

(iv) The agreement for establishment of drawing arrangement with the exchange house shall have to be concluded having maintained therein the reflection of the terms and conditions as outlined in the letter of approval. In other words, the agreement for drawing arrangement shall contain the terms and conditions of the Bangladesh Bank's letter of approval and no such clause conflicting therewith shall be incorporated therein.

(v) One or more than one non-resident foreign currency account (NRFCA) and only one non-resident non-convertible taka account (NRTA) in the name of the concerned exchange house shall be allowed to be opened; but consent/permission of the Bangladesh Bank as regards the opening thereof (at the time of seeking approval) shall have to be obtained.

(vi) Having confirmed before commencement of transactions under drawing arrangement, the maintenance/collection of security deposit (Bank Guarantee, Security Deposit and minimum balance in NRTA) as stipulated in Bangladesh Bank's letter of approval, Bangladesh Bank shall have to be apprised of.

(vii) Payment shall have to be made to the beneficiary by debiting the concern's NRT account only after confirmation of the deposit of equivalent foreign currency/cover fund into the NOSTRO account of the respective bank in Bangladesh against the remittance sent thereby.

(viii) Under no circumstances, overdrawn facility shall be allowed in the account of the exchange house and no lead-time facility shall be awarded either.

(ix) As the concern shall have to follow the exchange rate quoted by the bank for sending remittance, the bank shall ensure intimation of the exchange rate regularly thereto.

(x) The bank shall monitor on daily basis the deposit of cover fund in the NOSTRO account against the remittance to be sent by the proposed exchange house. Bank shall remain alert so that the payment to the beneficiary is not delayed due to creation of outstanding in cover fund and no scope can be created for utilization of the collected remittance in speculative business or for transfer/diversion of fund to other business through delayed deposit of corresponding cover fund by the exchange house.

(xi) A compliance certificate (as per format provided by Bangladesh Bank) shall have to be sent to LDA Section, FEPD, Bangladesh Bank on monthly basis within 10th of the following month to the effect that there is no outstanding of cover fund with the exchange company.

(xii) Authorised dealers shall send their monthly remittance data in T\_ME\_M\_FRC\_TRN as usual and also remitters' district-wise remittances on daily transactions basis in the Rational Input Template named T\_ME\_D\_REMITTANCE to Statistics Department by 11 AM of the following working day. In addition, cumulative amount of daily remittance must be equal to total amount of monthly remittance. The AD must satisfy itself about full coverage of all NRB remittance data in RIT templates and in summary statement FCS-7 with specific schedule.

(xiii) After signing the agreement with the proposed exchange house, a copy of the signed agreement shall have to be sent to LDA Section, FEPD, Bangladesh Bank and soon after effecting the remittance business, effective date along with the full postal address containing phone number, fax number, e-mail etc. thereof, shall have to be notified to the LDA Section, FEPD, Bangladesh Bank.

(xiv) The bank shall not extend the validity of the agreement/drawing arrangement unless the validity of the approval of the central bank or the competent authority of concerned country is extended.

(xv) The prescribed time limit [2(two) working days] for disbursement of remittances received through drawing arrangement shall have to be followed. Besides, caution shall have to be exercised in respect of maintaining standard of the customer service having complied with the existing rules of transactions along with the strictest compliance of anti-money laundering measures as well.

(xvi) In order to prevent the fraud/forgery of foreign Demand Draft, specimen signature(s) (updated) of authorized officer(s) of the exchange house shall have to be maintained at each branch of the bank.

(xvii) Timely and accurate reporting shall have to be ensured.

(xviii) Any suspicion in transactions with the exchange house (viz. excessive remittances in the name of same beneficiary, remittance in the name of corporate instead of individual name, irregular replenishment of cover fund etc.) shall have to be brought to the notice of the FEPD, Bangladesh Bank.

#### **4. Security Deposit**

Considering the element of risk with regard to different types of transactions under the changed circumstances, security deposits are prescribed as under:

##### **(i) Draft Drawing**

Transactions under draft drawing arrangement (DD/TT etc.) involve a higher degree of risk as beneficiary hereunder, may be required to be paid with the proceeds of the remittance prior to receipt of cover fund in the NOSTRO account of the bank which implies the risk of creation of overdrawn position in the account of exchange house maintained with local bank and in many occasions risk remains in payment of fraudulent demand draft. Following amounts of security deposit shall be considered reasonable under draft drawing arrangement:

Type of security	Amount fixed previously	Amount fixed at present
1. Bank Guarantee/Cash deposit.(NRD account or term Deposit)	USD 25,000	USD 50,000
2. NRT Account	Tk. 0.20 million to Tk. 0.50 million	Tk. 1.00 million

##### **(ii) EFT**

Under the system of EFT as there is the scope of being instantly apprised of the deposit of the foreign currency collected from the remitter by the exchange house into the correspondent's/NOSTRO A/C abroad of the respective Bank in Bangladesh, the risk of creation of overdrawn position in the A/C of the exchange house maintained with local bank remains very low because of the scope of payment to the beneficiary in Bangladesh only after the credit to NOSTRO A/C abroad.

Therefore, the following amounts of security deposit shall be considered reasonable under the EFT:

Type of security	Amount fixed previously	Amount fixed at present
1. Bank Guarantee/Cash deposit. (NRD account or term Deposit)	USD 25,000	USD 10,000
2. NRT Account	Tk. 0.50 million	Tk. 0.20 million

##### **(iii) PIN Code**

Under some drawing arrangements, beneficiary can draw money by showing PIN Code to any branch of corresponding local banks and the concerned Money Transfer Company remit the total cover fund to NOSTRO account of corresponding local banks at the end of the day after ascertaining total transactions

settled by the banks from their on line system (for instance, Western Union, MoneyGram). Under the system of such drawing arrangement, overdrawn position is created in the account of the concerned Money Transfer Company due to procedural set-up. Therefore, following amounts of security deposit shall be considered reasonable under such arrangement:

Type of security	Previous amount	Present amount
1. Bank Guarantee/Cash deposit.(NRD account or term deposit)	Not prescribed	USD 50,000
2. NRT Account	---do----	Equivalent Taka of USD 25,000

Above all, the issue of amounts of bank guarantee in FC/deposit balance being proportionate/consistent with the expansion of branch network of the paying bank in Bangladesh and with the volume of transactions effected with the exchange house may also be taken into consideration. Under the existing drawing arrangements, where amount of security deposit/guarantee is inadequate, the same shall have to be increased to the consistent level in phases.

## **5. Disbursement Procedure**

(i) Existing drill of disbursement of inward remittance among beneficiary through the Branches of scheduled banks shall have to be followed. Besides, remittances received through banks can be disbursed through authorised agents/outlets of Mobile Financial Service Providers, NGOs and Corporate with prior permission of Bangladesh Bank.

(ii) Instant cash payment: Disbursement of remittances under Instant Cash Payment shall have to be fully pre-funded.

It shall have to be kept in mind that the steps shall be taken in phases to make the terms and conditions of this policy effective for the existing drawing arrangements.

6. Bangladesh Bank reserves the right to issue new instructions/advices and to amend/modify the policy/guidelines mentioned above, if required.

**Foreign Exchange Policy Department**

Bangladesh Bank  
Head Office  
Dhaka  
www.bb.org.bd

FE Circular No. 32

Date: August 31, 2014

All Authorized Dealers in  
Foreign Exchange in Bangladesh

Dear Sirs,

**Repatriation of sale proceeds of non-resident owned  
equity in unlisted companies purchased by residents**

Paragraph 3(B), chapter 9 of the Guidelines for Foreign Exchange Transactions-2009 currently states that the sale proceeds of non-resident equity investment in unlisted companies and private limited companies are repatriable abroad with prior Bangladesh Bank approval to the extent of net asset value of the shares as on the date of sales, based on latest audited financial statements.

02. It has now been decided that in such cases Bangladesh Bank will accept fair value of the shares as on the date of sale based on appropriate combination of three valuation approaches (viz. net asset value approach, market value approach and discounted cash flow approach) depending on the nature of the company.

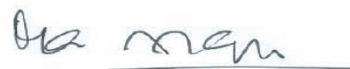
03. Application for repatriation of sale proceeds of shares shall be submitted to Foreign Exchange Investment Department at head office of Bangladesh Bank with a Valuation Certificate of shares issued by a Merchant banker licensed by BSEC or a Chartered Accountant experienced in company valuation. Annexure-A to this circular provides indicative guidelines for arriving at fair value.

04. The valuation certificates by eligible valuers will have to be supported by full explanation justifying the fair value arrived at. Full set of audited financial statements of the company will have to be submitted to Bangladesh Bank along with application for remittance approval. If not fully satisfied about appropriateness of the valuation arrived at, Bangladesh Bank reserves the right to obtain second opinion from another qualified valuer of its choice.

Please inform all your concerned constituents accordingly.

Enclosure: As stated

Yours faithfully,



**(Md. Abdul Mannan)**  
Deputy General Manager  
Phone: 9530319

**Annexure-A****Indicative guidelines on determination of fair value of shares of unlisted company**

Bangladesh Bank has decided to consider the market value approach and discounted cash flow approach alongwith currently used net asset value approach in determining the repatriable value of shares of an unlisted company. Following is an illustrative example in determining the fair value of shares of an unlisted company using the three mostly used approaches:

**Asset Based Approach**

The underlying principle of asset-based approach is equivalent to the fair value of its assets less the fair value of its liabilities. This method is considered most appropriate for resource firms, financial services firms, investment companies (real estate investment trusts, closed-end investment companies) and small businesses with limited intangible assets or early stage companies.

In this approach, net asset value of the target unlisted company (net assets after meeting all the liabilities) is estimated as the fair value.

Asset based approach often indicates the most conservative valuation as it does not take into account the value of intangible assets (such as goodwill).

For ‘The Sample Company’, asset based approach gives us a fair value of BDT 22,370 million derived from the Balance Sheet as follows:

<b>Balance Sheet (BDT million)</b>	<b>20AC</b>
<b>Current Assets</b>	
Cash & Cash Equivalent	981
Accounts Receivable & prepayments	3,561
Inventories	3,091
<b>Total Current Assets</b>	<b>7,633</b>
<b>Total Long Term Investment</b>	<b>5,103</b>
<b>Total Fixed Assets</b>	<b>14,520</b>
<b>Total Assets</b>	<b>27,256</b>

## Balance sheet (cont'd)

<b>Balance Sheet (BDT million)</b>	<b>20AC</b>
<b>Current Liabilities</b>	
Accounts Payable	7
Liabilities for other expense	1,426
Short Term Bank Loan	1,302
Current Portion of Long Term Debt	540
<b>Total Current Liabilities</b>	<b>3,275</b>
<b>Total Non-Current Liabilities</b>	<b>1,611</b>
<b>Total Liabilities</b>	<b>4,886</b>
<b>Shareholder's Equity</b>	
Share Capital (BDT 10 each)	3,708
Share Premium	2,035
Reserve	826
Retained Earnings	15,801
<b>Total Shareholder's Equity</b>	<b>22,370</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>27,256</b>

Net Asset Value of Equity = Total Assets – Total Liabilities  
 = BDT 27,256 m – BDT 4,886 m = BDT 22,370 m  
 Net Asset Value per share = BDT 22,370 m / 370.8 m = BDT 60.33

**Market Value Approach**

Multiple based analysis or comparable analysis is one of the widely used tools in private company valuation. Comparable company trading multiples analysis utilizes the valuation multiples of similar or comparable publicly or privately traded companies to value a target unlisted company. Peers can be grouped based on any number of criteria, such as industry focus, private company size, or growth.

The multiples can be equity based multiples like Price to Earnings (P/E), Price to Book Value of Equity (P/B) etc. The multiples derived from this type of analysis are for a given point in time and generally change over time.

The most popular equity based multiple is earnings multiple. The price-to-earnings (P/E) ratio, which is equal to a company's market price per share divided by its earnings per share (EPS), is the most widely used earnings multiple. It provides an indication of how much

investors are willing to pay for a company's earnings. For example, a company whose P/E ratio is 15 is said to be selling for 15 times of earnings i.e. fair market value of a share = EPS \* P/E Ratio.

It is often difficult to find out the right comparable listed companies. Hence, adjustments need to be made to reflect differences, such as business mix, geographic spread and capital structure. For instance, conglomerates may have unrelated lines of businesses that probably will require multiples from two different unique companies and then deriving a blended multiple. To select the comparable universe or peer group for a given unlisted company it must be ensured that its peers share similar industry, business, and financial characteristics.

Caution is also needed to get the correct valuation based on this method. It is advisable that at least three years average EPS of the target company to be used in valuation.

The fair value of 'The Sample Company' is as follows

<b>Income Statement (BDT million)</b>	<b>20AA</b>	<b>20AB</b>	<b>20AC</b>
<b>Sales</b>	<b>16,975</b>	<b>19,798</b>	<b>20,202</b>
Cost of Goods Sold	9,401	10,872	10,364
<b>Gross Profit</b>	<b>7,574</b>	<b>8,926</b>	<b>9,838</b>
Administrative Expenses	2,668	3,077	3,521
<b>EBITDA</b>	<b>4,906</b>	<b>5,849</b>	<b>6,317</b>
Depreciation	1,088	1,234	1,228
Other income	454	420	378
<b>EBIT</b>	<b>4,272</b>	<b>5,035</b>	<b>5,467</b>
WPPF	191	220	247
Interest Expenses (income)	310	465	357
<b>EBT</b>	<b>3,771</b>	<b>4,350</b>	<b>4,863</b>
TAX @ 40%	1,508	1,740	1,945
<b>Profit After Tax</b>	<b>2,263</b>	<b>2,610</b>	<b>2,918</b>
<b>No. Shares (in million)</b>	<b>196.20</b>	<b>264.80</b>	<b>370.80</b>
<b>EPS in BDT</b>	<b>11.53</b>	<b>9.86</b>	<b>7.87</b>
<b>Average EPS in BDT</b>	<b>9.75</b>		

P/E ratio of comparable company at the date of sale = 12

Fair Market Value per share = average EPS \* P/E Ratio  
= BDT 9.75\*12 = BDT 117.00



### **Income Approach**

Valuation of unlisted companies in the income approach is highly sensitive to assumptions of future cash flows. In practice, income approach is not used in isolation and used as one of the drivers to determine the final price.

Income approach is primarily driven by three key inputs i.e. Free Cash Flow (FCF), Terminal Value and Discount rate; valuer needs to carefully verify all the inputs, validating these with rational assumptions. Making valuation for the target company involves the following steps:

1. The last recorded free cash flow in the audited financial statement is assumed to be the terminal perpetual cash flow for future. The free cash flow will be arrived at by taking operating cash flow from audited financial statement minus capital expenditure. The valuer must ensure that all overdue liabilities are deducted while arriving at free cash flow.
2. The discount rate should be the Weighted Average Cost of Capital (WACC) or the yield rate on 20-year BGTB as on the date of sale, whichever is higher.
3. Trend cash flow growth of the company (g) will be the average of annual cash flow growth over the past 3-5 years according to audited financial statements.
4. The valuation of the company would then be calculated by

$$\text{Fair value} = \text{FCF}/(r-g)$$

Where FCF = Operating Cash Flow – Capital Expenditure

r = Discount rate

g = Average growth rate of free cash flow in last available five years

Following these steps, one may determine the fair value of ‘The Sample Company’ as below:

DCF (BDT million)	20AA	20AB	20AC
EBIT*(1-TAX) (1)	2,563	3,021	3,280
Depreciation (2)	1,088	1,234	1,228
Capital Expenditure (3)	600	1,200	1,250
Change in working capital (4)	200	49	37
Net Cash Flow (1+2-3-4) (5)	2,851	3,006	3,221
Terminal Free cash flow			3,221
Free Cash Flow (FCF) (6)	2,851	3,006	3,221
Growth of FCF	6.00%	5.43%	7.15%
Average Growth of FCF (g)			6.19%

Discount Rate = 12.50% (WACC which is higher than the yield rate of 20-year BGTB has been applied)

Fair Value =  $FCF/(r-g)$   
=  $3221 / (0.125 - 0.0619) = 51,046 \text{ m}$

Fair Value per share =  $51,046 / 370.80 = \text{BDT } 137.66$

Finally, after taking into account all three approaches, we derived three separate values for ‘The Sample Company’ as follows:

Asset based approach (Net asset value)	<b>BDT 60.33 per share</b>
Market value approach (Earnings to P/E)	<b>BDT 117.00 per share</b>
Income approach (Discounted cash flow)	<b>BDT 137.66 per share</b>

