# VALUATION POLICY FOR SCHEMES OF UTI MUTUAL FUND

## Introduction :

SEBI vide Gazette Notification no. LAD-NRO/GN/2011-12/38/4290, dated February 21, 2012 amended Regulation 25, 47 and the Eighth Schedule titled 'Investment Valuation Norms' under SEBI (Mutual Funds) Regulations, 1996 to introduce the overarching principles namely 'Principles of Fair Valuation' .

These principles require mutual funds to ensure fair treatment to all investors (existing as well as new investors) seeking to purchase or redeem the units of the scheme(s) at all points of time. It further prescribes that the valuation shall be reflective of the realizable value of securities and shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures approved by the Board of the Asset Management Company (AMC). Further as per the amendment in case of any conflict between the principles of fair valuation and valuation guidelines as per Eighth Schedule and circulars issued by SEBI, the Principles of Fair Valuation shall prevail.

In order to ensure transparency of valuation norms to be adopted it is mandated by SEBI for AMC to disclose their valuation policy and procedures as approved by the Board of AMC on the website of the AMC/Mutual Fund.

In this context the Investment Valuation Policy & Procedures is hereby disclosed for the benefit of investors. This Investment Valuation Policy & Procedures is subject to review and change from time to time.

# Valuation Policy and Procedures

## Equity and Equity related Securities:

### (a) Traded Securities

**( Equity shares and equity related securities like rights, warrants , preference shares etc.)**

A security is treated as 'traded' in the following circumstances:

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

these are valued at the closing prices on NSE, (and if NSE price is not available BSE price is considered). The principle stock exchange for valuation of equity shares is NSE. The equity shares held in the UTI SENSEX ETF will be valued at their closing prices as per the BSE.

### (b) Non traded / Thinly traded / Unlisted equity shares:

Investments in securities, which have not been traded on any stock exchange in the aforesaid manner, are stated at fair value as determined by UTI AMC in accordance with the provisions of the SEBI (Mutual Fund) Regulations, 1996 as detailed below.

Based on the latest available Balance Sheet, net worth shall be calculated as follows:

Share Capital

Plus: Reserves (excluding revaluation Reserve)

Less: Miscellaneous Expenditure

Less: Intangible Assets (in case of unlisted securities)

Less: P & L Accounts (Debit Balance)

The resultant figure is the Net Worth of the Company, which when divided by the numbers of shares outstanding gives the net worth per share.

Capitalized earning price will be arrived at by multiplying the earnings per share with the discounted industry P/E ratio. Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data shall be taken and discounted by 75%. Earnings per share of the latest audited annual accounts will be considered for this purpose. The value as per the net worth value per share and capital earning value calculated as above shall be averaged and further discounted by 10% for illiquidity so as to arrive at the fair value. In case of unlisted equity shares the discount factor will be 15% instead of 10%.

In case, the Earning per share (EPS) is –ve, EPS value for that year shall be taken as zero for arriving at capitalized earning. In case latest balance sheet is not available within 6 months from the close of the year, the shares of such companies shall be valued at zero. If the net worth of the company is –ve the share would be marked down to zero. 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.

In case the fair value price so arrived is higher than the latest available quote price, then quote price is considered, provided the quote price is not older than 30 days.

**(c) *Non traded / Thinly traded / Unlisted* rights share/Debt in the form of Rights and warrants :**

Rights shares /warrants are valued at underlying equity share price minus exercise price. In case the exercise price is greater than the ex-rights price, the value of the rights share is to be taken as zero. In case exercise price is payable in more than one installment, then the rights shares are valued at underlying equity share price minus uncalled liability. Where the rights/warrants are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights/warrants. In case of unlisted company, the rights share value is taken into consideration after their allotment by way of recomputing the fair value of the equity shares , after considering the allotment of rights. If Debt securities in the form of rights are issued, the same is valued as per the debt valuation norms, from the date of allotment of the securities. Till such time they are valued at face value - exercise price or as suggested by the valuation committee..

**(d) Non traded / Thinly traded / Unlisted Preference shares:**

Non convertible preference shares are valued at the present value of future expected dividend payments and maturity value, discounted at the expected rate of return on preference shares. The valuation committee will decide upon variables like expected future dividend , expected rate of return etc. on a case to case basis depending on the terms of issue of the preference shares.

Convertible preference shares will be valued based on the underlying equity, further discounted for illiquidity at an appropriate percentage . The illiquidity percentage will be decided by the Valuation Committee on a case to case basis.

The valuation committee may in specific cases decide to use a different method for valuation of preference shares by assigning reasons therefor.

**(e) Corporate Action:**

In case of demerger if Shares of only one company continue to be traded on de-merger , the other security is valued at traded value on the day before the de merger less value of the traded security post de merger. The valuation committee may decide to apply appropriate illiquidity discount on a case to case basis. If post demerger value of the share of de merged and traded company is equal or in excess of the value of the pre de merger share, then the non traded share is to be valued at zero.

If both the shares are not traded on de-merger: the traded price prior to demerger, will be allocated between the post-demerger companies on an appropriate basis like Price Earnings ratio, net worth or any other measure, as per the decision of the Valuation Committee.

The untraded/unlisted shares resulting from demerger will be valued on fair valuation basis after the audited annual financial results of the demerged company are available.

In case of corporate actions like bonus shares having differential voting rights, bonus debentures (where terms of security like coupon, maturity date etc., are not known )etc., these are referred to the valuation committee to discover the prices of such securities.

In case of merger, if the shares of the merged entity are not listed/traded , then valuation of merged entity shall be arrived at based on the terms of merger and previous days closing price of the respective companies prior to merger.

The price of the unlisted shares arising out of corporate actions as arrived at above , will be reviewed by the valuation committee at half yearly intervals till such time that the audited annual financial results of the company are available.

**(f) Initial Public Offering ('IPO') application.**

IPO application awaiting allotment would be valued at allotment price / bid price

**Debt papers / Asset Backed securities and CP/CDs :**

**A) Debt/Asset Backed Securities and CP/CD with residual maturity > 60 days**

Debt / Asset Backed securities and CP/CDs with residual maturity > 60 days will be valued at the average of prices provided by CRISIL and ICRA

If on any day, the price for any security is not provided by CRISIL and ICRA then the security will be valued as follows –

1) If the security is newly purchased, till such time that the prices are not provided by CRISIL and ICRA then

- Debt papers / Bonds will be valued at weighted average trade price of the deals in that security done by schemes of UTI Mutual Fund for latest trade day.
- CP/CDs will be valued at the price computed on T+1 basis w.r.t the valuation day considering the weighted average traded yield of the deals for that security done by schemes of UTI Mutual Fund for the latest trade day.

2) In other case, it will be valued as per the price approved by the valuation committee.

The valuation committee may , in exceptional circumstances decide to value a security at a price other than the average of CRISIL and ICRA prices by recording justification for the same.

In case a put / call option has been exercised , then the security will be valued as per the residual maturity of the put / call date from the date of exercise of such option across all schemes of UTI MF.

**B) Debt/Asset Backed Securities and CP/CD with residual maturity < = 60 days**

**(1) Traded papers**

**(a) Debt papers having residual maturity of < = 60 days** will be valued as follows

1) The weighted average price at which they are traded by any scheme of the UTI Mutual Fund shall be computed

2) This will include deals done as Inter Scheme Transfers

3) Only deals done in a market lot size will be considered for such computation. Market lot for this purpose has been defined as face value of Rs.5 crores or more

Further the traded price is valid for trade day only in respect of all traded debt securities as mentioned in (a) (1) and (a) (2) above

**(b) Money market securities like CP, CD papers having residual maturity of <= 60days** will be valued as follows:

1) The T+1 price computed based on the weighted average yield at which they are traded by any scheme of UTI Mutual fund.

2) This will also include deals done as ISTs and primary market trades.

3) Only deals having face value of Rs.5 crores and above will be considered for such trade price computation.

The traded price is valid for trade day only in respect of all money market securities like CP/CDs as mentioned in (b) (1) and (b) (2) above

**(2) Non Traded Papers**

Debt/Asset Backed/Money market instruments such as CP/CDs may be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent provided such valuation price is within +/- 0.10 % of the reference price.

In case there is a deal in any scheme of UTI Mutual Fund of the face value less than Rs.5 crores and the same paper is held in any scheme on the prior day then the amortisation price will be computed without considering such additional purchase.

If in case of a CP/CD with residual maturity < 60 days , on the valuation day there are outstanding unsettled trades from the earlier days and there are no fresh trades for the current valuation day then its valuation price will be computed on T+1 basis for such valuation day considering the yield at which the CP/CD was valued on the earlier day.

The reference price refers to the price calculated based on the benchmark yield to maturity provided by CRISIL/ICRA plus/minus the security specific spread.

The security specific spread will be determined as follows:

a) In case of a paper which is continued since its residual maturity was > 60 days, the spread assigned as the difference between the yield at which the security was valued on the

61st day and the yield corresponding to the rating-maturity bucket in which the paper falls on the 60th day.

b) The spread is fixed/ reset when the paper is purchased/sold by any scheme of UTI Mutual Fund or when the security is valued at reference price +/-.10%

c) All primary/secondary market deals/ISTs of the schemes of UTI Mutual Fund for a face value of Rs.5 crores and above will be considered for spread fixing.

**d)** The spread will be fixed as the difference between the weighted average traded yield of the paper on that day or yield of the reference price based price applied for the day and the corresponding matrix yield for that day.

e) The spread may be subsequently reviewed and reset by the valuation committee.

If the amortised price is greater than the reference price by 0.10 % of the reference price or more then the security will be valued at reference price plus 0.10 % of the reference price.

If the amortised price is lesser than the reference price by 0.10 % of the reference price or more then the security will be valued at reference price less 0.10 % of the reference price.

**Government Securities:**

**(1) Government Securities with residual maturity greater than 60 days :**

Government securities with residual maturity greater than 60 days are valued as on the valuation date at the average of prices released by CRISIL and ICRA, which are approved by the Association of Mutual Funds in India (AMFI) for providing such prices.

If on any day, the price for any security is not provided by CRISIL and ICRA then the security will be valued as follows –

1) If the security is newly purchased, till such time that the prices are not provided by CRISIL and ICRA then at weighted average trade price of the deals in that security done by schemes of UTI Mutual Fund for latest trade day.
2) In other case, it will be valued as per the price approved by the valuation committee.

The valuation committee may , in exceptional circumstances decide to value a security at a price other than the average of CRISIL and ICRA prices by recording justification for the same.

**(2) Government Securities with residual maturity upto 60 days :**

Government Securities with residual maturity of upto 60 days may be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent provided such valuation price is within +/- 0.10 % of the reference price.

The reference price refers to the average of prices released by CRISIL and ICRA for the valuation date.

In case there are deals in any scheme of UTI Mutual Fund of the face value of Rs.5 crores or more, then the government security will be valued at the weighted average traded price of such deals for that valuation date.

In case there is a deal in any scheme of UTI Mutual Fund of the face value less than Rs.5 crores and the same Gsec is held in any scheme on the prior day then the amortisation price will be computed without considering such additional purchase.

**Treasury Bills :**

**(1) Treasury Bills with residual maturity greater than 60 days :**

Treasury Bills with residual maturity of greater than 60 days are valued at the average of prices released by CRISIL and ICRA, which are approved by the Association of Mutual Funds in India (AMFI) for providing such prices.

**(2) Treasury Bills with residual maturity upto 60 days :**

**(a) Traded Tbills < 60 days :**

Traded treasury Bills with residual maturity of upto 60 days may be valued as follows:

1) The T+1 price computed based on the weighted average yield at which they are traded by any scheme of UTI Mutual fund.

2) This will also include deals done as ISTs and primary market trades.

3) Only deals having face value of Rs.5 crores and above will be considered for such trade price computation.

The traded price is valid for the trade day only

**(b) Non Traded Tbills < 60 days :**

Treasury Bills with residual maturity of upto 60 days may be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent provided such valuation price is within +/- 0.10 % of the reference price.

In case there is a deal in any scheme of UTI Mutual Fund of the face value less than Rs.5 crores and the same TBill is held in any scheme on the prior day then the amortisation price will be computed without considering such additional purchase.

If in case of a treasury bill with residual maturity < 60 days , on the valuation day there are outstanding unsettled trades from the earlier days and there are no fresh trades for the current valuation day then its valuation price will be computed on T+1 basis for such valuation day considering the yield at which the treasury bill was valued on the earlier day

The reference price refers to the price calculated based on the benchmark yield to maturity provided by CRISIL/ICRA plus/minus the TBill specific spread.

The TBill specific spread will be determined as follows:

a. The spread is fixed/ reset when the paper is purchased/sold by any scheme of UTI Mutual Fund or when the security is valued at reference price +/-.10%

b. All primary/secondary market deals/ISTs of the schemes of UTI Mutual Fund for a face value of Rs.5 crores and above will be considered for spread fixing.

c. The spread will be fixed as the difference between the weighted average traded yield of the paper on that day / yield of the reference price based price applied for the day and the corresponding matrix yield for that day.

d. The spread may be subsequently reviewed and reset by the valuation committee.

e. If the amortised price is greater than the reference price by 0.10 % of the reference price or more, then the TBill will be valued at reference price plus 0.10 % of the reference price.

If the amortised price is lesser than the reference price by 0.10 % of the reference price or more, then the TBill will be valued at reference price less 0.10 % of the reference price.

Cash Management Bills being akin treasury bills, same methodology as above will be applied.

**BRDS:**

**BRDS > 60 days**

BRDS with residual maturity > 60 days will be valued at the average of prices provided by CRISIL and ICRA

If on any day ,the price for any BRDS paper is not provided by CRISIL and ICRA .then the security will be valued as follows –

1) If the paper is newly purchased, till such time that the prices are not provided by CRISIL and ICRA then it will be valued at the price computed on T+1 basis w.r.t the valuation day considering the weighted average traded yield of the deals for that security done by schemes of UTI Mutual Fund for the latest trade day.

2) In other case, it will be valued as per the price approved by the valuation committee.

The valuation committee may , in exceptional circumstances decide to value a paper at a price other than the average of CRISIL and ICRA prices by recording justification for the same.

***BRDS < = 60 days***

BRDS with residual maturity of upto 60 days may be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent provided such valuation price is within +/- 0.10 % of the reference price.

In case there is a deal in any scheme of UTI Mutual Fund of the face value less than Rs.5 crores and the BRDS is held in any scheme on the prior day then the amortisation price will be computed without considering such additional purchase.

If in case of a BRDS with residual maturity < 60 days , on the valuation day there are outstanding unsettled trades from the earlier days and there are no fresh trades for the current valuation day then its valuation price will be computed on T+1 basis for such valuation day considering the yield at which the BRDS was valued on the earlier day.

The reference price refers to the price calculated based on the benchmark yield to maturity provided by CRISIL/ICRA plus/minus the BRDS specific spread. For this purpose, internal rating will be assigned by the valuation committee to the BRDS.

The BRDS specific spread will be determined as follows:

a) In case of a paper which is continued since its residual maturity was > 60 days, the spread assigned as the difference between the yield at which the security was valued on the 61st day and the yield corresponding to the rating-maturity bucket in which the paper falls on the 60th day.

b) The spread is fixed/ reset when the paper is purchased/sold by any scheme of UTI Mutual Fund or when the security is valued at reference price +/-.10%

c) All primary/secondary market deals/ISTs of the schemes of UTI Mutual Fund for a face value of Rs.5 crores and above will be considered for spread fixing.

d) The spread will be fixed as the difference between the weighted average traded yield of the paper on that day / yield of the reference price based price applied for the day and the corresponding matrix yield for that day.

e) The spread may be subsequently reviewed and reset by the valuation committee.

If the amortised price is greater than the reference price by 0.10 % of the reference price or more, then the BRDS will be valued at reference price plus 0.10 % of the reference price.

If the amortised price is lesser than the reference price by 0.10 % of the reference price or more then the BRDS will be valued at reference price less 0.10 % of the reference price.

**Money market Instruments like Repos, CBLOs etc:**

Money market instruments like Repos, CBLOs will be valued on cost + accrual basis.

**Short Term Deposits / Fixed Deposits :**

Short Term Deposits / Fixed Deposits are valued at cost.

**Future and Options:**

(a) Index/ Stock / Interest Rate Futures are valued at settlement price declared by the Stock Exchange as on the valuation date.

(b) Index/ Stock Options are valued at the closing premium quote / exercise price declared by the Stock Exchange as on the valuation date.

**SWAPS:**

**SWAP with residual tenor > 60 days :**

Daily MTM in respect of Overnight Indexed Swaps (OIS) is computed as the present value of the difference between the interest calculated at the fixed rate and MIOIS rate (average of bid and ask rate) applicable to the balance tenor + agreed spread. The discount rate used for computing the present value is the average of bid and ask MIOIS rate applicable to the balance tenor of the OIS contract + agreed spread.

**SWAP with residual tenor < = 60 days :**

In case of SWAPS with residual tenor < = 60 days the unrealised gain/loss account as on the 61$^{st}$ Day is amortised over the balance tenor of the swap.

**Gold:**

The valuation of gold held in the Gold Exchange Traded Fund is arrived at as follows:

a) The London Bullion Market Association's (LBMA) AM fixing price per troy ounce is increased with the CIF premium and the LBMA fixing charge.

b) This price is then converted to the equivalent price for 1 kg gold of 0.995fineness by applying the conversion factor.

c) The RBI reference rate is applied to convert the price from US dollars to Indian Rupees.

d) The Indian levies in the form of customs duty, stamp duty, octroi, VAT, etc. are added to arrive at the final landed price of gold. If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday, etc. then the immediately previous day's prices are applied for the purpose of calculating the value of gold.

**Mutual Fund Units**

MF Units listed and Traded would be valued at the closing traded price as on the valuation date. If the units are not traded on the valuation day, the closing price of earliest previous day on which they have been traded may be used provided such price is not prior than 30 days.

Unlisted MF Units and listed-but-not-traded MF Units would be valued at the NAV as on the valuation date.

**Non Performing Assets**

The principal amount not fallen due of the NPA security is shown at cost less investment provision.

**Inter Scheme Transfers**

**Equity Securities :**

In respect of inter scheme transfer of equity securities, the spot/current market price available from Bloomberg terminal on a continuous basis is considered.

**Debt and Money Market Securities :**

In respect of debt and money market securities the following procedure is followed :

I. If inter scheme transfer is of the face value < 5 crores, the same will be done at previous day's valuation price

II. If inter scheme transfer is of the face value > = 5 crores following procedure will be followed :

a. In case of market trades of the same security on the date of IST on Public Platform#, weighted average price/yield* till the time of IST shall be considered provided the market trades satisfy the following qualifying criteria:

1. For instruments maturing above 1 year, the traded price/yield* may be taken if there are at least two trades aggregating to face value Rs.25 crores or more.

2. For instruments maturing upto 1 year, the traded price/yield* 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/yield* shall be considered for the inter-scheme transfer.

c. In the absence of prices at (a) & (b) above, such transfers shall be valued at previous day's valuation price.

* In respect of (a) and (b) above, if the IST is for discounted papers like DDBs/CP/CD then the IST will be done at the T+0 price computed based on the weighted average yield considered , as explained in (a) and (b) above. In all other cases IST will be done at the weighted average price, as explained in (a) and (b) above.

# Presently the Public Platform considered for the above purpose is F-trac.

**Government Securities and TBills:**

**<u>IST pricing of  Sovereign Securities with residual maturities upto 90 days & T-Bills</u>**

(a) ISTs shall be executed at the last traded yield at which the security is traded in one or more marketable lot on NDS-OM.
(b) If there is no market trade reported upto the time of the IST on that day, IST shall be executed based on previous day's valuation price/yield.

If the methodology at (a) & (b), does not represent fair price then IST would be carried out based on input from the fund management team, duly approved by the Valuation Committee.

**<u>IST pricing of Sovereign Securities with residual maturities over 90 days(other than T-Bills)</u>**

(a) ISTs shall be executed at the last traded price at which the security is traded in one or more marketable lot on NDS –OM.
(b) If there are no market trades reported upto the time of the IST on that day, IST shall be executed based on the previous day's valuation price./(Average of prices furnished by CRISIL and ICRA).

Further after reviewing the IST prices , if the prices provided by CRISIL and/or ICRA does not represent fair price or in case CRISIL/ICRA do not provide price, in such cases, IST would be carried out based on the inputs from the fund management team, duly approved by the Valuation Committee.

**General Principle :**

While the fund will follow the above guidelines on an ongoing basis, there may be extraneous situations under which, in the interest of fair reflection and fair valuations, there may be deviations to the above guidelines.  The decision on any such deviation will rest with the Valuation Committee based on the justification and adequate documentations.

**Abnormal conditions:**

The valuation committee may determine the valuation methodology to be adopted in case of abnormal market conditions.

**Periodic Review**

The Valuation policy shall be reviewed at least annually and any modification shall be approved by the AMC and Trustee Boards. The Valuation Policy shall also be reviewed by Independent Auditors at least once in a Financial Year to ensure the appropriateness of the valuation methodologies.

**Conflict of Interest**

If any situation arises that leads to conflict of interest, the same shall be raised to the Valuation Committee and the Committee shall endeavour to resolve the same such that the valuation provides for fair treatment to all investors including existing and prospective investors.