Version 13

TATA MUTUAL FUND

VALUATION POLICY

As per SEBI Regulation / Guidelines, Tata Asset Management Limited (TAML) has adopted the below mentioned Valuation Policy for valuation of investment securities.

I EQUITY / EQUITY RELATED SECURITIES

A Equity Shares

1. **Traded Securities:** For the purpose of valuation, TAML has adopted National Stock Exchange (NSE) as the Primary Stock Exchange and Bombay Stock Exchange (BSE) as the Secondary Stock Exchange, except for Tata Index Fund – Sensex for which BSE will be considered as the Primary Stock Exchange and NSE will be considered as the Secondary Stock Exchange.
   (a) The securities shall be valued at the closing price on the Primary Stock Exchange.
   (b) When on a particular valuation day, a security has not been traded on the Primary Stock Exchange; the value at which it is traded on the Secondary Stock Exchange will be considered.
   (c) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected 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. If no price is available on any Stock Exchange for more than 30 days, than the security will be treated as a non-traded security and valued accordingly.

2. **Thinly Traded Equity / Equity Related Securities**.
   (a) When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than Rs.5 lacs and the total volume is less than 50,000 shares, it shall be considered as a thinly traded security and valued accordingly.
   (b) In order to determine whether a security is thinly traded or not, the volumes traded in all recognised stock exchanges in India may be taken into account.

3. **(i) Non-Traded Equity securities** When a security is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as a 'non traded' security.

   (ii) Non-traded / thinly traded equity securities:
   Non -traded /thinly traded securities shall be valued 'in good faith' by TAML on the basis of the valuation principles laid down below:

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

Methodology:

(b) Net Worth per share = [share capital+ free reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c, intangible assets and accumulated losses] Divided by No. of Paid up Shares.

(c) Average capitalization rate (P/E ratio) for the industry based upon either NSE or BSE data (which should be followed consistently and changes, if any, to be noted with proper justification thereof) 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 considered for this purpose.

(d) The value as per the net worth value per share and the capital earning value calculated as above shall be averaged so as to arrive at the fair value per share.

Conditions:

(e) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning.

(f) In case where 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.

(g) 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 should be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation".

(h) If the networth of the company is negative, the share would be marked down to zero.

(i) All calculation as aforesaid shall be based on audited accounts.

(iii) Unlisted equity shares:

At the discretion of the AMC and with the approval of the Trustees, an unlisted equity share may be valued at a price discounted by 5%, price to be derived using above methodology.

In the event that an unlisted equity share is given due to merger of companies, the average cost of the existing company should continue in the new unlisted company and the last market price of the existing company should be considered for valuation of the new unlisted company till such time that the shares are listed.

(iv) Tracking mechanism for 'thinly' / 'non-traded' securities:

Fund has appointed an independent agency for providing the data for thinly traded / non-traded securities.

(v) Initial Public Offer / Anchor investments / Other Public Offers:

Stocks allotted under IPO / Anchor investments / Other Public Offers will be held at cost until listing.

B Compulsory Convertible debentures (CCD)

(a) CCD shall be valued at the closing price available on the Primary Stock Exchange as on the valuation date.
(b) When on a particular valuation day, CCD has not been traded on the Primary Stock Exchange; the value at which it is traded on the Secondary Stock Exchange will be considered.
(c) When a CCD is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected 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. If no price is available on any Stock Exchange for more than 30 days, than the security will be treated as a non-traded security and valued accordingly.

CCD with implicit characteristics of a debenture will be considered as a NCD and valued accordingly.

C Preference Shares

(i) Preference shares are valued at cost till the time they are listed and traded on a stock exchange.
(ii) The Preference shares when traded shall be valued at the closing price on the Primary Stock Exchange.
(iii) When on a particular valuation day, a Preference share has not been traded on the Primary Stock Exchange; the value at which it is traded on the Secondary Stock Exchange will be used.
(iv) When a Preference share is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected 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. If no price is available on any Stock Exchange for more than 30 days, the Preference share will be valued at average cost.

D Warrants

(i) Warrants are valued at the value of the shares which would be obtained on exercise of the warrants as reduced by the amount which would be payable on exercise of the warrant.
(ii) The warrants when traded shall be valued at the closing price on the Primary Stock Exchange.
(iii) When on a particular valuation day, a warrant has not been traded on the Primary Stock Exchange; the value at which it is traded on the Secondary Stock Exchange will be considered.

E **Rights Shares**

(i) (a) Until they are traded, the value of the "rights" shares should be calculated as:

$$Vr = n/m \times (Pex - Pof)$$

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

(II) Where the rights are not treated pari-passu with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value

(iii) The rights when traded shall be valued at the closing price on the Primary Stock Exchange.

(iv) When on a particular valuation day, the rights have not been traded on the Primary Stock Exchange; the value at which it is traded on the Secondary Stock Exchange will be considered.

(v) When the underlying security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange, or any other stock exchange, as the case may be, on the earliest previous day may be used.

F **Merger /Demerger**

Merger

In case of merger, when company ‘A’ is merged with company ‘B’ and company ‘B’ continues to be listed, the proportionate shares allotted of ‘B’ company against company ‘A’ will be valued at the closing price of company ‘B’ on the stock exchange. The cost of company ‘A’ shares will be added to the cost of company ‘B’ shares.

In case of merger when company ‘A’ and company ‘B’ are merged to form company ‘C’, the value of unlisted company ‘C’ will be the total valuation price of company ‘A’ and company ‘B’ before the ex-date till the new entity company ‘C’ is listed and traded on a stock exchange. The cost of company ‘A’ and company ‘B’ shares will be added to derive the cost of company ‘C’ shares.

Demerger

In case where one entity is demerged into two or more entities and one of those entities continues to be listed, the value of unlisted entity will be calculated as the difference between the closing price of the security that continues to be listed on the ex-date (after demerger) and the previous trading day (before demerger). The difference in price of two dates will be the valuation price of the unlisted entity/entities proportionately, till they are listed and traded on a stock exchange. The cost price of new entity/entities would be derived proportionately from the cost price of parent entity and the same will be kept constant until listing.

The benefit of this method of valuation is that it is not a subject matter and is determined based on the market price.

In case of a demerger in which the resultant security is the same as the base security, then the price of the base security will be considered.

On merger / demerger, in case the company specifies any regulations / method for cost bifurcation or valuation the same will be adopted. In case there are no details available by the company, the same will be valued at fair value as determined by the valuation committee.

G Stock Split/ Face value change

In case of stock split, the face value of a stock is reduced and proportionately number of shares is increased. The valuation price will be derived on the basis of the closing price before the ex-date and adjusted in proportion of stock split, till the new stock split shares are listed and traded on a stock exchange. The cost of one share will be proportionately adjusted in line with stock split change, to derive the new cost of share.

On stock split/face value change, in case the company specifies any regulations/ method for cost bifurcation or valuation the same will be adopted.

H Derivative Product – Index and Stock Futures

(1) Valuation of Traded Futures
Futures are valued at the closing price on the valuation day provided by the respective stock exchanges.

(2) Valuation of Non -Traded Futures
When the 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 will be used.

Derivative Product – Index and Stock Options

(1) Valuation of Traded Options
Options are valued at the closing price on the valuation day provided by the respective stock exchanges.

(2) Valuation of Non -Traded Options
When the 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 will be used.

I Partly / Fully Convertible debentures and bonds.

In respect of convertible debentures, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional should also be factored in.

II Debt Securities including Bills Rediscounting

Instruments having maturity upto 30 days

Assets to be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent as long as their valuation remains within +/- 0.025%band of the reference price received from CRISIL and ICRA. In case aggregated price is beyond 0.025% of the amortised price, the valuation shall be adjusted to bring it within the band of +/-0.025% from the aggregated price. The price from where the security is amortised will remain fixed and will be changed only if there is a further purchase / sale of own trades aggregating to Rs.25 crores per day. In case of multiple trades of the same security, the trade with the highest yield will be selected and the lowest price will be considered for valuation.

Instruments having maturity greater than 30 days

Instruments having maturity greater than 30 days will be valued based on the aggregated prices calculated from the scrip level prices provided by CRISL and ICRA. If no price is provided by CRISIL and ICRA on the first day of purchase of an instrument having maturity greater than 30 days, the same will be valued at cost / yield, till such time the scrip level price is provided by the rating agencies.

Other Instruments:

Following assets will be valued at cost:

a) Bank Fixed Deposits
b) Collateral Borrowing and Lending Obligation (CBLO)Reverse Repo

The interest accruals / amortisation on the above instruments will be booked separately as income.

Guidelines for inter-scheme transfer of debt and money market instruments:

Inter Scheme Transfer

1. The traded price of the same or similar securities available on public platform before concluding inter scheme transfers should be verified. All inter-scheme transfer shall be done at weighted average YTM. Trades shall be spooled only after 12.00 p.m. reported on the public platform to be considered for inter scheme of any debt and money market instrument, after excluding any abnormal trades reported.

The weighted average YTM will be used only if the following criteria's are met:

For securities having maturity upto 1 year:
All trades with minimum traded lot of INR 25 crores of face value or more will be aggregated for same or similar security on a public platform

For securities having maturity of more than 1 year:
All trades with minimum traded lot of INR 5 crores of face value or more will be aggregated for same or similar security on a public platform.

In case a closed ended scheme is in need of liquidity for making payment of expenses only, where value of inter-scheme transfer will be upto 2 crores, above volume condition will not be applicable and price of a single trade in same or similar security irrespective of the volume will be considered for inter-scheme.

If same or similar security on a public platform is not available at the time of inter-scheme, previous day closing price would be used for valuation or any other method as may be approved by the valuation committee.

Criteria for identifying the similar securities:

For the purpose of valuation, similar security shall be identified by the following means:

[A] Securities having maturity upto 30 days:

1. Same issuer having maturity within +/- 15 days
2. In case of Private Bank CDs and CPs and NCDs issued by NBFC, manufacturing companies and PSUs:
    - Having long term rating of AAA and AA+ and short term rating of A1+ will be considered as comparable.
    - Having long term rating of AA and AA- and short term rating of A1+ will be considered as comparable.

   Securities having maturity within a period of +/- 15 days same calendar quarter* fulfilling the above criteria would be considered.

[B] Securities having maturity of more than 30 days:

1. Same issuer
2. Similar short term and long term rating
3. Similar industry
   We will classify the same into three sectors Banking, Manufacturing and Non-Banking Finance Companies (NBFC). Bank CDs will be inter-schemed against bank CDs (within bank CDs PSU CDs will be compared to PSU CDs and Private / Foreign bank CDs will be compared to Private / Foreign bank CDs, Manufacturing papers will be inter schemed against manufacturing papers and NBFC will be inter schemed against NBFC.
4. Similar characteristics e.g. Floating rate paper will be compared with another floating rate paper only
5. Maturity near to the maturity of the security being transferred as mentioned in the table below:

Sr. No.	Maturity of Security being transferred	Maturity of the benchmark security
1	Between 31 days to 91 days maturity	+/- 15 days from the maturity of security transferred provided the benchmark security is maturing in the same calendar quarter*
2	between 92 days to 365 days	+/-45 days from the maturity of security transferred
3	above 365 days - 1 - 3 Years - 3 years and above	 +/- 06 months from the maturity of security transferred +/- 12 months from the maturity of security transferred

*For example, if a security maturing on 28th June has to be transferred on 20th of June and traded price of 3rd July is available, It can never be fairly priced for inter-scheme because the yields of 28th June paper and 3rd July paper will be different. Today the yield of 28th June paper in market is 8.50% and that of 3rd July paper is 9.30%. Thus, in case the above safeguard is not incorporated the inter-scheme can happen at wrong prices. This happens at every quarter end.

Notes:

a. Public Platform refers to FTRAC / FIMMDA for commercial papers or certificate of deposits and NSE / BSE for corporate bonds / debentures (including securitized assets) and any other platform as available from time to time as may be notified. For Treasury bills and Government securities, it refers to NDS OM.
b. Units / shares of mutual funds will be valued at the last published NAV.
c. Weighted average YTM shall be rounded up to two digits after decimal point.
d. Outlier trades, if any, shall be ignored after suitable justification by Fund Managers is provided.

Non-Performing Assets (NPA):

An “asset” shall be classified as NPA, 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. All NPA’s shall be valued in accordance with the Guidelines for identification and Provisioning for Non-Performing Assets (Debt Securities) for Mutual Funds issued by SEBI and amended from time to time.

III SOVERIGN SECURITIES

Government Securities (GSec), State Development Loans (SDL) and Uday Bonds (UB):

GSec SDL and UB will be valued based on the aggregated prices provided by CRISL and ICRA.

Treasury Bills (TBills) and Cash Management Bills (CMB):

TBills and CMB having maturity greater than 30 days will be valued based on the aggregated prices provided by CRISL and ICRA. If no price is provided by CRISIL and ICRA on the first day of purchase of TBills or CMB having maturity greater than 30 days, the same will be valued at cost, till such time the scrip level price is provided by the rating agencies.

TBills having maturity upto 30 days are valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent as long as their valuation remains within +/- 0.025% band of the aggregated price provided by CRISIL and ICRA or other agencies). In case aggregated price is beyond 0.025% of the amortised price, the valuation shall be adjusted to bring it within the band of +/-0.025% from the benchmark rate.

The price from where the security is amortised will remain fixed and will be changed only if there is a further purchase / sale of own trades aggregating to Rs.25 crores per day. In case of multiple trades of the same security, the trade with the highest yield will be selected and the lowest price will be considered for valuation

Valuation of money market and debt securities which are rated below investment grade:

All money market and Debt Securities below investment grade shall be valued at a aggregated price provided by the Valuation Agencies.

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. 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. Further, these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.

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

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.

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

AMCs 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:

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

- 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.

- The rationale for deviation along-with details as mentioned above shall also be disclosed to investors. In this regard, all AMCs 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.

Inflation Index Bonds:

Inflation Index Bonds will be valued based on the aggregated prices provided by CRISIL and ICRA.

IV Foreign Securities

1 Includes

(a) ADRs/ GDRs issued by Indian or foreign companies
(b)Equity of overseas companies listed on recognized stock exchanges overseas
(c) Initial and follow on public offerings for listing at recognized Stock Exchanges Overseas
(d) Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/registered credit rating agencies.
(e) Money market instruments rated not below investment grade.
(f) Repos in the form of investment, where the counterparty is rated not below investment grade; repos should not however, involve any borrowing of funds by mutual funds.
(g) Government securities where the countries are rated not below investment grade.
(h) Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities
(i) Short term deposits with banks overseas where the issuer is rated not below investment grade
(j) Units/securities issued by overseas mutual funds or unit trusts registered with overseas regulators and investing in (a) aforesaid securities, (b) Real Estate Investment Trusts (REITs) listed in recognized stock exchanges overseas or (c) unlisted overseas securities (not exceeding 10% of their net assets).
(k) Overseas Exchange Traded Funds (ETFs).

2. Valuation of Foreign Securities

Valuation of traded securities:
On the valuation day, the securities issued outside India and listed on the stock exchanges outside India shall be valued at the closing price on the stock exchange at which it is listed or at the last traded price reported on Bloomberg or Reuter's terminal between 4 p.m. to 5 p.m. on the valuation day. However, in case a security is listed on more than one stock exchange, TAML reserves the right to determine the stock exchange, the price of which would be used for the purpose of valuation of that security.

Valuation of non-traded securities:
In case any particular security is not traded on the Valuation Day, the same shall be valued 'in good faith' by TAML on the basis of the valuation principles laid down by SEBI.

TAML invests in Units of overseas mutual fund scheme (Offshore Units). Such offshore units shall be valued at last available Net Asset Value (less exit charge if applicable).

On the valuation day, prices in foreign currency will be valued in Indian Rupees at the RBI reference rate as at the close of banking hours on that day in India.

Abnormal situations & market disruptions:

In normal situations the above methods may be used for valuation. 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. This could lead to, for example, an overvalued portfolio which could be used by some investors to redeem their holdings having an adverse impact on residual investors.

As by definition, abnormal events are abnormal, no prescriptive guidelines are proposed to value securities / portfolios during such events. Following type of events could be classified as exceptional events where current market information may not be available / sufficient for valuation of securities:

1) Major policy announcements by RBI or Central / State Government or SEBI or any other regulatory related event.
2) Unproportionate large redemptions.
3) Natural disasters, public disturbances, riots, war, global events etc. that may force the markets to close unexpectedly or not function normally.
4) Significant volatility in the stock markets
5) Events which lead to lack of availability of accurate or sufficient information to value the securities.

The above mentioned list is only indicative and may not reflect all the possible exceptional events / circumstances. In case of exceptional events / circumstances, the valuation committee shall assess the situation and recommend appropriate method of valuation of the impacted securities.

Deviations:

The investments of TMF schemes shall be valued as per the methodologies mentioned in this Valuation Policy, which shall endeavor true and fairness in valuing them. However, if the valuation of any particular security does not result in a fair valuation, the Valuation Committee would have the right to deviate from the established policies in order to value the security at fair value.

Deviations from the valuation policy and principles, if any, will be informed to the AMC and Trustee Boards and will be communicated to the unit holders' wide suitable disclosures on the fund website.

Conflict of interest:

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

Audit review:

The valuation policies and procedures shall be reviewed yearly by the internal auditors to ensure their continued appropriateness.

Applicable with effect from 20 June 2019.