



KATALYST  
ADVISORS

# Valuations in India

## Cassandra's Syndrome

---

When Commercial Value, Regulatory Value,  
and Tax Value Refuse to Agree

*Updated for Budget 2026*

Swipe →



# 01

## THE PROBLEM

### Three Valuations. One Transaction. NIL Shared Anchor.

---

Every corporate transaction sits at the intersection of three regimes: commercial, regulatory, and tax.

Angel Tax is gone. Buyback is now capital gains. But commercial realities, tax floor valuations, and regulations remain.

*Two anti-abuse continue at cross purposes with commercial objectives and regulations. Arm's length deals questioned.*

## CRT Divergence

commercial, regulatory, and tax:  
three regimes, no shared floor or ceiling



# 02

## WHAT CHANGED

### Angel Tax. Buyback Tax. Three Pivots.

---

2024: Angel Tax (misnomer, but nonetheless!) on investee companies on unjustified share premium repealed

2024 - 2026: Buyback Tax on Companies repealed → any buyback consideration treated as deemed dividend

*Budget 2026: Buyback reverts to capital gains. LTCCG 12.5%. Additional tax for promoters matching dividend tax. Floor valuation u/s 50CA applies.*

## Multi - Pivots

Angel Tax abolished; buyback taxation restructured three times: company tax → deemed dividend → capital gains



# 03

## SCENARIO 1: RIGHTS ISSUE

### Angel Tax Gone. But 56(2)(x) Remains.

---

Angel Tax Abolished: investee companies no longer face deemed income on excess premium.

But 56(2)(x) is untouched: if issue price is below adjusted NBV, the investor is taxable on the difference.

**Fallout:** *Disproportionate subscription (Mum ITAT in Sudhir Menon/ Subodh Menon) or renunciation can still trigger deemed income on investor if issuance below Adjusted Net Book Value.*

## 56(2)(x)

the investor's floor is still alive even though  
the investee company's ceiling is gone



# 04

## SCENARIO 2: PREFERENTIAL ISSUE – Unlisted Equity Shares

### The Ceiling Is Gone. The Floor Remains.

---

**Pre-Angel Tax Abolition:** If regulatory FMV floor (Companies Act / FEMA) exceeds angel tax ceiling → in deemed income tax on investee companies

**Post-abolition:** Investee problem resolved. But Floor Valuation issue u/s 56(2)(x) survives. Issue price below adjusted NBV? Taxed as deemed income

**Fallout:** *Distressed deals remain trapped: White knight invests at INR 10 in a company with adjusted NBV of INR 25 is taxed on INR 15.*

## Distressed Deals

Adjusted NBV = book value + reckoner value uplift + market value of listed securities → Formula divorced from commercial reality, yet determinative for tax



# 05

## SCENARIO 3: PREFERENTIAL ISSUE - LISTED EQUITY & CCPS/ CCD

### VWAP Trap. Conversion Trap. Two Date Mismatches.

---

**Listed Equity:** SEBI ICDR floor is higher of 90/10-day VWAP. Issuance Later → If allotment date price > board approval price → deemed income tax risk in the hands of acquirer

**CCPS/ CCD:** FEMA NDI Rules mandate conversion not below FMV at issuance. If FMV drops, conversion stays at old price.

**Fallout:** *At conversion, 56(2)(x) applies if issue/ conversion price is below FMV/ adjusted NBV at inception. Investor penalized.*

## Date Mismatch

board date v/s allotment date: listed equity;  
issuance FMV v/s conversion date FMV: CCPS / CCD



# 06

## SCENARIO 4: CAPITAL REDUCTION

### NCLT Approves. Tax Still Deems.

---

S. 50CA: If payout is less than adjusted NBV (equity shares) or FMV (for CCPS/ RPS/ OCRPS), the deemed FMV is deemed full value of consideration → deemed CG

**Non-residents:** NDI cap (i.e., actual FMV) on payout to NRs may be lower than adjusted NBV. Deemed income tax u/s 56(2)(x) → Rep assessee risk on Indian Company

**Fallout:** NCLT approval, valuation report, and statutory pricing cap under NDI Rules do not override S. 50CA.

## S. 50CA

Phantom Tax on capital reduction, if consideration lower → hindrance for genuine capital reduction (e.g.: for a distressed company)



# 07

## SCENARIO 5: BUYBACK TAX

### Capital Gains. Promoter Tax. S. 50CA Is Back.

Budget 2026: Buyback is capital gains now. LTCG at 12.5%.  
Cost deducted. Deemed dividend anomaly fixed.

For Promoters: Additional buyback tax → promoter  
additional tax equates overall tax to earlier dividend tax

**Fallout:** *Since buyback is now capital gains, S. 50CA floor  
valuation applies for unlisted companies. Price below  
adjusted NBV? NBV is deemed → deemed cap gains*

## S. 50CA + Buyback

buyback is now capital gains; S. 50CA's deemed  
consideration applies where it previously could not



# 08

## THE CONUNDRUMS

### Anti-Abuse Provisions Hitting Arm's Length Deals.

---

**Intent:** Floor Valuations u/s 56(2)(x) and 50CA were designed to prevent gift-based evasion and understated consideration.

**Inadvertent Fallout:** Genuine commercial transactions get caught within the net of such deemed valuations which are commercially divergent

**Need:** *The law must distinguish between abuse and legitimate divergence.*

**Anti-Abuse ≠ Anti-Deal**

*provisions designed to prevent tax evasion  
now penalise genuine commercial transactions*





# KATALYST ADVISORS

## The Takeaway

---

Floor Valuations under Tax continue to present a conundrum against commercial and regulatory valuations

### Transaction

Rights Issue

Pref. Issue (Unlisted)

Pref. Issue (Listed)

Conversion of CCPS / CCD

Capital Reduction

Buyback

### Current Conflict

56(2)(x) floor survives (no ceiling)

Distressed deals: Floor valuation taxes rescuer on notional gains

Board approval price vs issuance price

FEMA issuance: FMV vs 56(2)(x)

S. 50CA deems; NCLT + NDI cap ignored

Now CG: S. 50CA + promoter tax

*Map all three valuations before the term sheet.*

*Not after the assessment order.*

