

CASE STUDY ON

MEASURING INTANGIBLE ASSETS – INDIAN EXPERIENCE

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BEYOND BALANCE SHEETS...

Measuring Intangible assets- an Indian case study

“Just as you can't measure what you can't describe, you can't manage what you can't measure...”

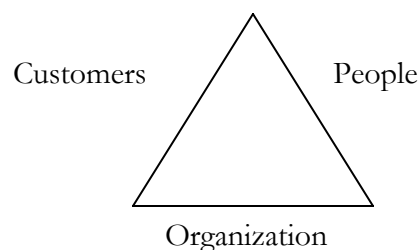
While many companies have strived to differentiate their annual reports and make them informative, attractive and easy to read, most still take a rear-view-mirror approach, focusing almost exclusively on history and analyses of past performance. But in today's world, as we have advanced into the Information Age, more companies will find that those assets most easily measured are not necessarily most valuable; increasingly they will be forced to measure intangible assets in a predictive way that is more reflective of how the company is actually run.

Today, even traditional manufacturing companies are finding themselves not simply selling a product, such as a car, but selling customer service, a lifestyle, convenience, and so much more. If we take the example of airline industry, it also provides another clear example of this phenomenon. Where airlines once had large tangible inventories of aircraft on their books, they now lease the equipment, changing the nature of the business to one built on intangible assets - landing rights, booking systems, customer service, and brand.

Unfortunately, knowledge itself cannot be "managed." But knowledge that is captured and converted into an asset (tangible or intangible) is indeed a commodity one can count on, literally, to improve the performance of the company and help generate profits.

No company can own either of the critical assets, neither the employees nor the customers. The value they provide to the company is only temporary and cannot be considered a measurable asset unless it is captured and converted into something the company can own - any new knowledge or skill that can be reused or applied in other areas, be it a new learning process or a new operating policy.

There is a three grid system in any organization that can be measured as intangible assets. They are Customers, People and organization.



However, there are also factors that may be revised during the years, such as certain investments and initiatives we need to focus on as they are implemented and developed. For example, the development of our IT capabilities, which at one time was a key measure when establishing new offices, is now monitored in relation to other investments in R&D and marketing. In the future, we expect other factors will periodically be measured to give an accurate assessment of our intangibles as the business evolves.

Before any company starts measuring their intangible assets, everyone has to be helped to understand what their intangible assets are, and what impact they have on the performance of the company. With this knowledge of the "big picture," employees can begin to see how individual performance affects organizational performance. For example, the managers understand the importance of assigning a new employee to a competence-enhancing client rather than an image-enhancing client.

In any case, the companies should use caution before jumping in and measuring the intangible assets. First, there must be a shared understanding internally of what the intangible assets are and what they mean to the overall performance of the company. With this knowledge, people are able to interpret the information and make effective decisions in line with the strategic plan. At the same time, they are developing their own extraordinary business sense - an essential key to how companies and employees can face challenges as an innovator in a global environment.

Reasons of initiating Intangible asset measurement

The pressure for more disclosure is already significant. A growing number of academics, consultants, and regulators see the lack of information on intangible assets as a major deficiency in the GAAP regime. And this has been one of the most important reasons of initiating the measurement of intangible assets in the balance sheet.

Leading companies in India are actively seeking ways of leveraging their "human capital" to develop a strategic advantage. They are moving from a departmental focus on human resources to a far more strategic and expansive focus on human capital management. Roles and responsibilities are in ever-changing as companies explore new ways of building and leveraging talent.

But Human Capital Assessment/Management is not limited to the enterprise itself. This new perspective also draws on the networks of talent that lie beyond immediate corporate boundaries. It is a key element of the ongoing drive toward "collaborative commerce" or "enterprise relationship management."

The payoff by using this method promises to be quite powerful. Watson Wyatt, a management consulting firm that has developed a Human Capital Index based on 30 key indices of effective human capital management, has observed that a significant improvement among the 400 publicly traded companies it studied was associated with a 30 percent increase in market value. Watson Wyatt monitored five key dimensions of effective HCM: recruiting excellence; clear rewards and accountability; a collegial and flexible workplace; communications integrity; and prudent use of resources. Companies that demonstrated the highest ratings on the index generated returns of 103 percent over five years.

This proves that Human accountability is certainly important. But the question arises of which department would be responsible for it. This is still a challenge that cannot be delegated to any person or department; in fact it becomes the responsibility of everyone in the organization. While HR has taken its share of criticism for not being business-focused, it's reasonable to assume that HR professionals generally have not been incentivized or encouraged by top leadership to play the strategic role that is now being sought. It's a matter of organizational design.

It still remains an enigma about whether the top level executives or lower level executives would be responsible for the accounting of the Human talent in the organization.

Measuring intellectual assets

These are some general techniques that are used to value intangible assets, specifically Human Valuation. The techniques change from company to company related to its importance in the functions.

1. Balanced scorecard.

Supplements traditional financial measures with three additional perspectives -- customers, internal business processes, and learning/growth. It was originated with a couple of Harvard Business School professors.

2. Competency models.

By observing and classifying the behaviors of "successful" employees ("competency models") and calculating the market value of their output, it's possible to assign a dollar value to the intellectual capital they create and use in their work.

3. Benchmarking.

Involves identifying companies that are recognized leaders in leveraging their intellectual assets, determining how well they score on relevant criteria, and then comparing your own company's performance against that of the leaders. Example of a relevant criterion: leaders systematically identify knowledge gaps and use well-defined processes to close them.

4. Business worth.

This approach centers on three questions. What would happen if the information we now use disappeared altogether? What would happen if we doubled the amount of key information available? How does the value of this information change after a day, a week, a year? Evaluation focuses on the cost of missing or underutilizing a business opportunity, avoiding or minimizing a threat.

5. "Calculated intangible value."

Compares a company's return on assets (ROA) with a published average ROA for the industry.

Brand valuation techniques that are usually in use by the Indian companies are as follows. A number of authors and consulting firms have proposed different methods for brand valuation.

1. The market value of the company's share
2. The difference between the market value and book value of the company's shares (market value added)
other firms quantify the brand's value as the difference between the shares' market value and adjusted book value or adjusted net worth (this difference is called goodwill).
3. The difference between the market value and book value of the company's shares minus the management teams managerial expertise (intellectual capital)
4. the brand replacement value
 - a. Present value of the historic investment in marketing and promotions
 - b. Estimation of an advertising investment required to achieve the present level of brand recognition
5. the difference between the value of the branded company and that of another similar company that sold unbranded products (generic products or private labels)
6. The present value of the company's free cash flow minus the assets employed multiplied by required return.

ROLTA INDIA PVT LTD

Rolta India limited is an Indian company operating in India and overseas. It provides software/information technology based engineering and geospatial solutions and services to customers across the world and has executed projects in more than 35 countries. Rolta is headquartered in Mumbai and operates through a network of twelve regional/branch offices in India and seven subsidiaries located in USA, Canada, UK, The Netherlands, Germany, Saudi Arabia and UAE. It is listed on the Bombay Stock Exchange and National Stock Exchange in India.

Rolta is India's leading provider of GIS/GeoEngineering solutions and services and one of the major AM/FM/GIS photogrammetry service providers in the world for segments such as Defense, Environment, Electric, Telecom, Gas, Emergency Services, Municipalities and Airports. The company's customer base for GIS projects is spread across 17 countries with multi million dollar projects executed in various parts of the world. Rolta is also leading provider of plant design automation solutions and services in India and one of the major plant information management services providers worldwide. The company's customer base for such business is spread across 22 countries with over 500 projects executed in various parts of the world. To move up the value chain in the engineering domain, the company has established a joint venture with Stone & Webster Inc., USA, namely SWRL- Stone & Webster Rolta Limited. SWRL has access to Stone & Webster's proprietary technology. This joint venture provides high quality engineering services worldwide and undertakes selective refinery, petrochemicals and power projects in India.

The company provides eSecurity implementation services, rapid application development and software testing services to its customers worldwide. In on-going partnership with CA's, the company has executed over 350 projects globally in 18 countries. Rolta globally has around 2500 employees. Nearly 75% of the company's workforce has engineering qualifications, including significant numbers with master's degrees or doctorates and Rolta ensures constant ongoing training to its professionals. The annual IDC-DQ best Employers Survey has consistently ranked the company as one of the top employers in the IT industry in India.

Rolta quality standards are benchmarked to world class levels, with top quality certifications such as ISO 9001:2000, BS 7799, and SEI CMM level 5. The British Standards Institution (BSI) has awarded Rolta the BS15000 certification for its entire range of IT service management processes. This unique accreditation has been bestowed on less than 25 companies globally.

Measuring the intangibles

A company's balance sheet discloses the financial position or rather health of the company. The financial position of an enterprise is influenced by the economic resources, financial structure, liquidity, solvency and its capacity to adapt to changes in the environment. However, it is becoming increasingly clear that intangible assets have a significant role in defining the growth of a company. So often, the search for the added value invariably leads us to calculating and evaluating the intangible assets of the business.

A Concept of Economic Value Added (EVA)

Economic Value Added (EVA) is the financial performance measure that aims to capture the true economic profit of an enterprise. EVA is developed to be a measure more directly linked to creation shareholder wealth over time. Hence, it focuses on maximizing the shareholders wealth and helps company management to create value for shareholders. EVA refers to the net operating profits of the company which is opportunity cost.

*EVA is calculated as Net operating Profit after tax (NOPAT) – (Capital*Cost of Capital)*

Generally, all intangible assets are being measured in terms of economic value added by those particular intangible assets.

Brand Value - an important intangible asset

Brands are more than just a name, a trademark for a product or a service mark for a service. A brand is a complex concept that creates organizational value and performs number of important functions for every enterprise. Brands and their combined Brand equity constitute a major economic force within the entire global economy, delivering market place value, shareholder wealth, livelihood, prosperity, and culture. Successful brands are recognized as rare and valuable assets that must be exploited carefully, with wise and knowledgeable management that retains their financial value, their economic power and their social significance.

A brand is a very special asset and in many businesses it is the most important asset. This is due to the far reaching economic impact that brands have on enterprise. Brands usually influence the choice of customers, employee's, investors and government authorities. In a world of abundant choices such influence is crucial for commercial success and creation of shareholder value. Brands have also demonstrated a unique durability and sustained competitive advantage unmatched by any other corporate asset.

Brand is an intangible asset and there are several methodologies suggested and prevalent for valuing brands. Some of these methods are cost, market value, economic use and royalty relief. Rolta utilizes “Economic Use” model. This model is one of the standard methodologies in brand valuation by companies in the software industry.

This method is basically a combination of market factors and financial parameters to arrive at the value of the brand. It uses **Brand Strength Model** which arrives at a brand strength score based on various market parameters. This score is multiplied by the net brand earnings to estimate the brand value. The Brand strength Model is used to determine the value of a brand based on the assumption that a strong brand is more reliable for future earnings with lesser risk.

Rolta has used the following method to calculate the brand valuation.

Table:1 Calculation of Brand Value of Rolta India Pvt.Ltd

Item No.	Particulars	2004-05	2003-04	2002-03
1	Profit Before Interest and Taxes	1,226	1,014	1,504
2	Less – Non Brand Income	103	88	57
3	Adjusted PBIT (1-2)=3	1,123	926	1,447
4	Profit for the brand and associated intangibles	1,123	926	1,447
5	Average capital employed	5,723	6,200	5,410
6	Remuneration to Capital %	5 %		
7	Remuneration to capital	289		
8	Profit attributable to Brand and Associated intangibles (4 – 7) = 8	834		
9	Income Tax	305		
10	Profit after tax attributable to Brand and associated intangibles	529		
11	Brand Multiple Applied	15.15		
12	Brand Value	8,011		

Firstly, the profit before interest and taxes of the company is adjusted for non-brand items.

Secondly, a charge on capital employed is deducted from the adjusted brand profits. Thus the profit after tax attributable to brand and other intangible items is arrived at.

Finally, this is multiplied by the brand multiple to arrive at the brand value as shown in the above table.

Some key assumptions were made here:

1. Total revenue excluding other income after adjusting for cost of earning such income is brand revenue, since this is an exercise to determine the brand value as a company and not for specific products or services.
2. 5 % of the average capital employed is estimated to be used for purpose other than promotion of brand.
3. Tax rate is at 36.5925% (Base rate of 35 %, Surcharge 2.5% on base rate and cess of 2%)

Brand Multiple Applied calculations:

Though the detailed calculation can not be shown on account of breach of privacy of the company and lack of authentic information, the overall view has been given by indicating the factors used for computing Brand Multiple Applied or Brand Strength Factor.

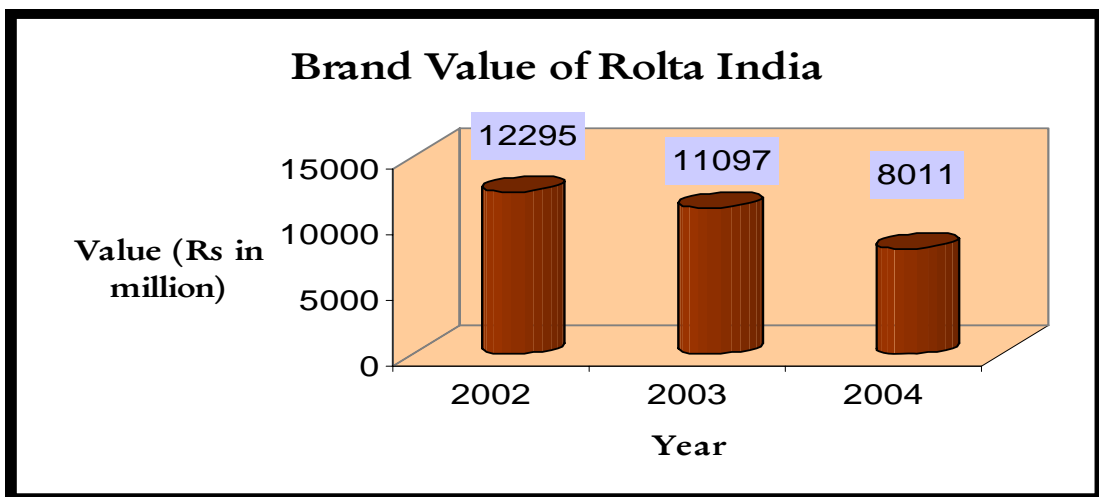
Factors considered while computing or Brand Multiple Applied or Brand Strength Factor is as follows. The higher the score of the factor, the stronger the brand is.

- A. Leadership – It signifies that the brand is more stable and has more value than another brand with a lower market share because leadership gives --
 - a. market influence,
 - b. the power to set prices,
 - c. control of distribution channels
 - d. greater resistance to competitors
- B. Stability – It signifies the brand's strength in terms of

- a. Degree of consumer loyalty
- C. Market – it signifies the brand strength in terms of
 - a. Growth in market
 - b. Consistency in sales
 - c. Level of entry barrier (High entry barrier will give more score)
- D. Internationality – it refers to the brand strength in terms of international presence. The higher the number of presence in the international market, the more will be the overall score.
- E. Trend – It implies the brand’s tendency to keep up-to-date and relevant for the consumer increases its value
- F. Support – It implies that the brands that have received investment and support must be considered to be more valuable than those that have not. The quantity and quality of this support is also considered.
- G. Protection – The robustness and breadth of the brand’s protection (“Legal Monopoly”) is critical factor in its valuation.

Weighted average of all factors has been considered to determine brand strength factor.

Figure 1 Brand Value of Rolta



The brand valuation process is very useful, since it helps identify and assess brand value drivers. This assessment consists of comparing a brand’s value drivers with other brands/companies, with the brand’s previous drivers and with the proposed goals. However, Rolta Ltd has focused on brand strength factors to determine overall brand value.

Rolta India Pvt. Ltd has found decreasing trend in the brand valuation majorly on account of decreasing trend in the Profit before interest and tax. For example, in FY 2002-03 and 2003-04 the PBIT was Rs. 1,504 million and Rs. 1,014 respectively where as its brand value is Rs. 12295 million and Rs. 11097 million in the same years. The

situation deteriorates when there was gross rise in PBIT of Rs. 112 million in FY 2004-05 there was decrease of Rs. 3086 million in brand value as compared to previous year 2003-04. It means that in spite of rise in PBIT at the rate of 20.90 % in FY 2004-05, the brand value declines at the rate of 45.16 %.

Critical Evaluation of Brand Strength Model

Quantifying the brand strength factor is highly subjective matter. Valuing any brand using this method seems highly subjective since parameters used; weights given and methodology of calculation are highly subjective. However, analyzing the strength factors for each brand enables comparisons to be made and may provide guidelines for identifying the brand's and company's main value driver, increasing the brand's strength and, therefore, its value.

HUMAN RESOURCE VALUATION

Human resource or human capital valuation refers to identifying and measuring the value of human resources of a company. Employees are the most valuable resources of companies in the services sector more so in knowledge based sectors. Like all other resources, employees possess value because they provide future services resulting in future earnings. There are various approaches/models that help in valuation of Human resources in a company like Historical cost method, Replacement cost method, Opportunity cost method. Rolta bases its calculation on Economic Approach Model.

According to this model, an estimate of the future earnings during the remaining life in the organization of the employee has to be forecasted.

Secondly, we have to arrive at the present value by discounting the estimated earnings at the employee's cost of capital which includes all direct and indirect benefits earned both in India and abroad. This will be called the Total Human Resource Value. A note of caution has to be maintained here. In order to estimate future earnings from total labor force, any organization can not go on a haphazard way. It can divide the human resources into homogenous groups such as skilled, semiskilled, technical, managerial staff etc. And in accordance with different classes and age groups, average earning stream for different classes and age groups are prepared separately for each groups or classes. Then the discounted present value for human capital is computed. The aggregate present value of different groups represents the capitalized future earnings of the firm as a whole which will be called as Total Value of Human Resources.

As a Third step, Total revenues will be divided by Total Human Resource Value. Here, an observer will find the per employee portion of revenue upon its value.

Finally, the Revenues per employee will be divided by per employee portion of revenue of its value. The derived value will be the value of human resource per employee.

Human Resources Valuation

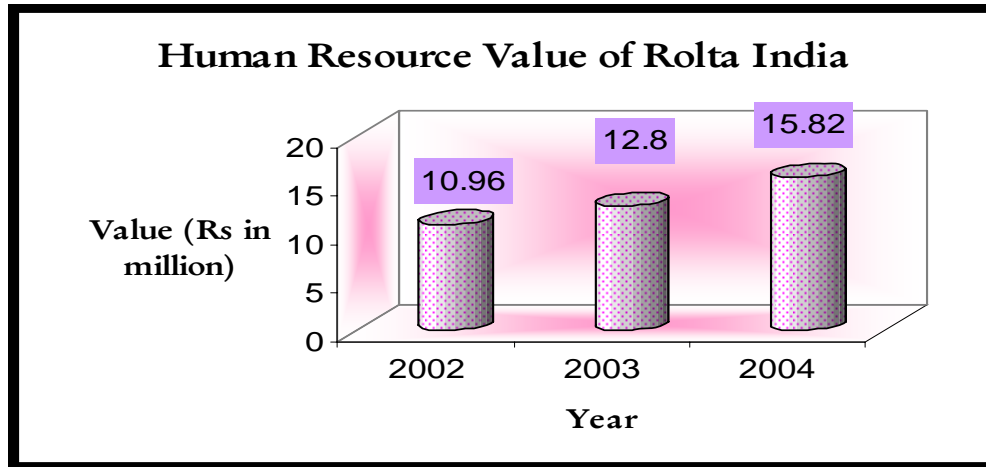
Table: 2 Human Resource Valuation

(Rs. in Million)

No.	Particulars	2002-03	2002-01	2001-00
1	Total value of Human Resources	21228	19278	14201
2	Total Revenue of the Company	3836	3015	2532
3	Net Profit After tax of the Company	1123	1055	934
4	Total Revenues/Total Value of Human Resources (2/1) = 4	0.18	0.16	0.18
5	Revenues per employee	2.31	1.71	1.52
6	Value of Human Resources per employee (5/4) = Value of HR	12.80	10.96	8.50

Human resource value of Rolta India Pvt. Ltd. over the years has found northwards movement. In FY 2002, the HR Value was Rs. 10.96 Million which grew at the rate of 16.78 % in 2003 and reached to the value of Rs. 12.8 Million. The growth in HR value found

Figure: 2 Human Resource Value of Rolta India



quantum jump of **23.59 %** in the FY 2004 as compared to FY 2003 where total human resource value was Rs. 12.8 million which reached to Rs. 15.82 million in 2004. The compounded growth rate of maximization of Human resources value is around **13 %** over the last three years under review.

Critical Evaluation of Human Resource Valuation Model

This model basically takes care of time value of money by taking into account future value of earnings. It takes into account the earning potential of the employees thus recognizing them as assets. However, the model is slightly far from practicability since it assumes that employees will stick to the same position, which is being currently, occupied thus ruling out the possibility of change in role because of promotion or demotion. Secondly, the method of calculation especially future forecast of earning capacities of employees in the remaining life of their employment is highly subjective and needs detailed calculation.

INFOSYS

Infosys Technologies Ltd. provides consulting and IT services to clients globally - as partners to conceptualize and realize technology driven business transformation initiatives. With over 58,000 employees worldwide, they use a low-risk Global Delivery Model (GDM) to accelerate schedules with a high degree of time and cost predictability.

As one of the pioneers in strategic offshore outsourcing of software services, Infosys has leveraged the global trend of offshore outsourcing. Even as many software outsourcing companies were blamed for diverting global jobs to cheaper offshore outsourcing destinations like India and China, Infosys was recently applauded by Wired magazine for its unique offshore outsourcing strategy — it singled out Infosys for turning the outsourcing myth around and bringing jobs back to the US.

Infosys provides end-to-end business solutions that leverage technology. They provide solutions for a dynamic environment where business and technology strategies converge. Their approach focuses on new ways of business combining IT innovation and adoption while also leveraging an organization's current IT assets. They work with large global corporations and new generation technology companies - to build new products or services and to implement prudent business and technology strategies in today's dynamic digital environment.

Infosys' Vision:

"To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, delivered by best-in-class people."

Infosys' Mission Statement :

"To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large."

The values that drive them: C-LIFE

Customer Delight: A commitment to surpassing our customer expectations.

Leadership by Example: A commitment to set standards in our business and transactions and be an exemplar for the industry and our own teams.

Integrity and Transparency: A commitment to be ethical, sincere and open in our dealings.

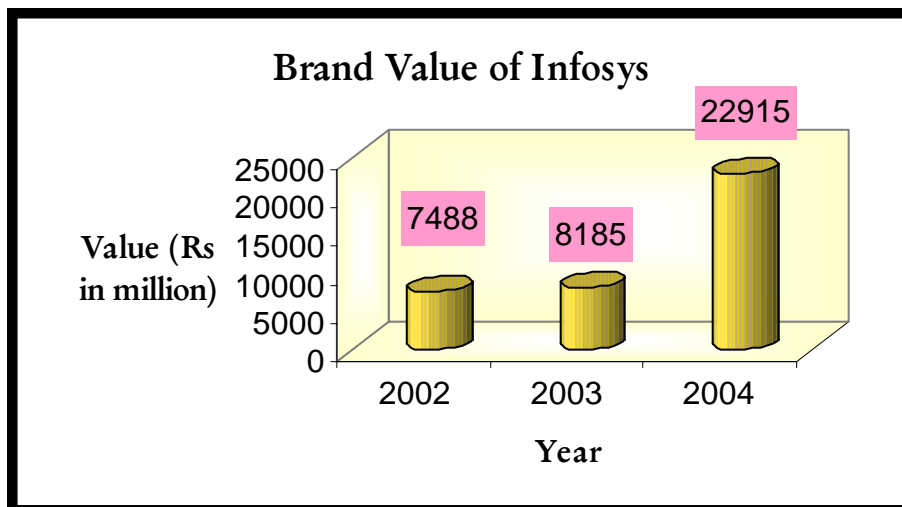
Fairness: A commitment to be objective and transaction-oriented, thereby earning trust and respect.

Pursuit of Excellence: A commitment to strive relentlessly, to constantly improve ourselves, our teams, our services and products so as to become the best.

Brand valuation of Infosys

The wave of brand acquisitions in the late 1980s exposed the hidden value in highly branded companies and brought brand valuation to the fore. Examples are Nestle buying Rowntree, United Biscuits buying Keebler, etc. Thus it is clear that companies are being acquired less for their tangible assets and more for their intangible assets. The values associated with a product or services are communicated to the consumer through the brand. Consumers no longer want just a product or service; they want a relationship based on trust and familiarity. A brand is much more than a trademark or a logo. It is a 'trust mark'-a promise of quality and authenticity that clients can rely on. Brand equity is the value addition provided to a product or a company by its brand name. It is the financial premium that a buyer is willing to pay for the brand over a generic or less worthy brand. Brand equity is not created overnight. It is the result of relentless pursuit of quality in manufacturing, selling, service, advertising and marketing. It is integral to the quality of client experiences in dealing with the company and its services over a sustained period. Corporate brands and service brands are often perceived to be interchangeable. Both types of brands aim at the enhancement of confidence and the reduction of uncertainty in the quality of what the company offers. Therefore, companies rely heavily on the image and personality they create for their brands, to communicate these qualities to the market place.

Figure 3 Brand value of Infosys



Source: www.infosys.com

Analysis:

Goodwill is a nebulous accounting concept that is defined as the premium paid to the tangible assets of a company. It is an umbrella concept that transcends components such as brand equity and human resources, and is the result of many corporate attributes including core competency, market leadership, copyrights, trademarks, Brands, superior earning power, excellence in management, outstanding workforce, competition, longevity and so on. Infosys has adapted the generic *brand earnings multiple* model to value their corporate brand “Infosys”. The methodology followed for valuing the brand is as follows:

Determine brand earnings

- Determine brand profits by eliminating the non-brand profits from the total profits of the company.
- Restate the historical profits at present day values.
- Provide for remuneration of capital to be used for purposes other than promotion of the brand.
- Adjust for taxes.

Determine the brand strength or brand earnings multiple

Brand strength multiple is a function of a multitude of factors such as leadership, stability, market, internationality, trend, support and protection. These factors have been evaluated on a scale 1 to 100 internally by the company, based on the information available within the organization.

HUMAN RESOURCE ACCOUNTING

Infosys uses the *Lev & Schwartz* model to compute the value of human resources. The evaluation is based on the present value of the future earnings of the employees and on the following assumptions:

- ✓ Employee compensation includes all direct and indirect benefits earned both in India and abroad.
- ✓ The incremental earnings based on group / age has been considered.
- ✓ The future earnings have been discounted at 13.63% (previous year – 14.09%), the cost of capital for us. Beta has been assumed at 0.98, the beta for us in India.

Table: 3 Value added statement

<u>Value added statement</u>		
Total revenue including other income	7,253.55	4976.33
Less: Software dev. Expenses (other than employee costs & provision for post sales client support)	604.48	393.68
Selling and marketing expenses (other than provisions)	181.99	131.86
General and administration expenses (other than provisions)	414.23	265.83
	<u>1200.70</u>	<u>791.37</u>
Total value added	6052.85	4184.96
<u>APPLIED TO MEET</u>		
Employee costs	3539.11	2450.96
Provision for post sales client support	31.10	0.30
Provision for investments	(0.10)	9.67
Income tax	325.58	227.54
Dividend (including div tax)	356.55	972.96
Minority interests	0.03	0.00
Retained in business	1776.85	507.40
<u>Total</u>	<u>6052.85</u>	<u>4184.96</u>

SATYAM COMPUTER SERVICES LIMITED

Satyam Computer Services Limited is also frontrunner in taking stock of and valuing the intangible assets. However, few progressive businesses worldwide tread such a path now. The conventional approach hardly reflects the true picture as it does not take into account the cumulative value of intangible assets that play such a decisive role in modern business building initiatives.

Intangible assets are those assets that create value beyond tangible assets. Typically, book values determine the value of hard assets of a particular business, while the process of valuation of intangible assets would help determine other value creators such as the potential, and the ability to earn.

Significantly, the computation of the true value of a company requires a comprehensive assessment of both tangible and intangible assets. Intangible assets such as brands, human resources value, etc. are beginning to for, and rightly so, the major percentage of the economic value of successful businesses. Satyam, with its vision high and steady, believes that the real strength of the balance sheet of a company is reflected only if its tangible as well as intangible assets are taken into account. Satyam, being in the knowledge based industry, with the global operations, valuation, of its human resources and brand is highly important and could be equally insightful to stakeholders.

As on March 31, 2006, Satyam's intangible assets (HR Value and Brand Value) constitute **87.72%** of the total assets value, as presented below.

Table - 4 Valuation of Intangibles

<i>Assets</i>	Rs. in Crore	% of Total Assets
Tangibles		
Net Fixed Assets and Investments	582.00	1.64
Net Current Assets	3761.70	10.63
Deferred Tax Assets	4.29	0.01
Intangibles		
Human Resource	5252.82	66.00
Brand Value	1728.33	21.72
Total % of intangibles assets		87.72
Total	7958.71	

Now, the question is to value those intangible assets.

BRAND VALUATION

As on March, 31, 2006, the Brand value of the company was Rs. 7,687.77 crore as computed below:

(Rs. in Crores)

Table 5 Brand Valuation

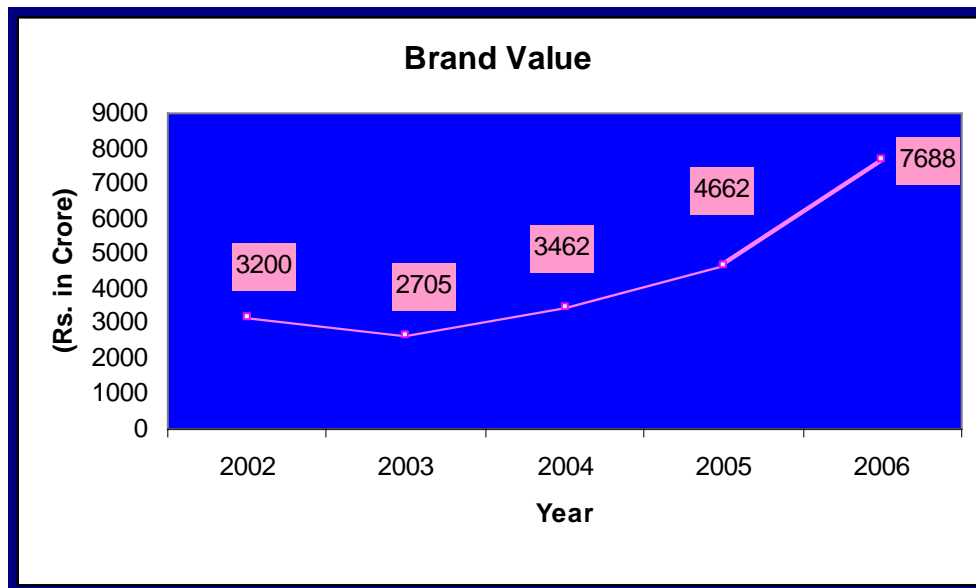
	Particulars	31/03/04	31/03/05	31/03/06
1	Profit Before Tax	661.94	867	1445.89
2	Add: Financial Charges	0.75	0.76	2.72
3		662.69	867.76	1448.61
4	Less: Non Branded Income	84.52	91.64	342.08
5	Adjusted Profit for Brand Valuation	578.17	776.12	1106.53
6	Inflation compound factor @ 5%(assumed)	1.1025	1.05	1
7	Present Value of profits before brand	637.43	814.93	1106.53
8	Weightage factor	1	2	3
9	Weighted profit			3319.59
10	Three year weighted average profit			931.15
11	Less: Remuneration of Capital (5% of avg.capital employed)			188.77
12	Brand-related profits			742.38
13	Less: Income Tax @ 33.66%			249.89
14	Brand Earnings			492.49
15	Multiple Applied			15.61
	Brand Value			7,687.77

1. PBIT reduced by non-branded income was taken as profit for brand valuation. Item No. 5 indicates the adjusted profit for brand valuation in the table-. The underlying reason for considering profit excluding non branded income is to take into account only profit earned from the sale of the particular brand.
2. Compounded Inflation factor (Item No.6) has been considered in order to arrive at present value of past profit.

3. Weighted factor has been assigned to each years profit considering the time value of money and significance of the past and present profit. (Item No.8)
4. Previous two years profits were considered at present value and weighted factor was applied to arrive at weighted profit.
5. 5% of average capital employed was provided for non brand purposes. This is the standard deduction made by assuming that 5% of the capital employed must have been utilized for the purpose of promotion of non brand causes. (Item No.11)
6. Income tax at current rate was provided
7. Brand Multiple was estimated based on certain parameters and internal evaluation discussed earlier.
8. Thus, the brand value of Satyam is arrived at by Rs. 7678.77 Crore.

Brand Value of Satyam Computer Services Ltd over the last five years is as follows

Figure 4 Brand Valuation of Satyam Computer services



Brand value, calculated as per above mentioned method for Satyam Computer, has maintained the northwards movements over the last five years. The compounded growth of the brand value over the five years is 19.16 %. The brand value dropped a little in the financial year 2003 from Rs. 3200 crore to 2705 registering the downfall of 15.46% in the same year. Then after, it started getting upward trends registering the growth of 27.98%, 34.66 %,

and 64.90 % respectively in the FY 2004, FY 2005, and FY 2006. The trend shows that the growth rate of brand value of Satyam Computer is unparalleled.

HUMAN RESOURCE VALUATION

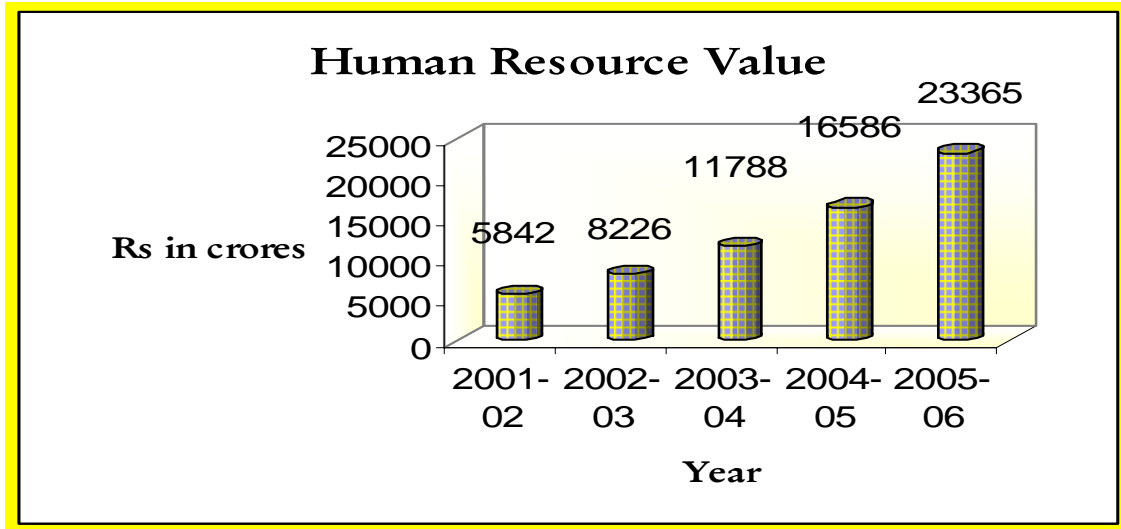
There are several models to evaluate the Human Resources (HR) value. Satyam, just like other sample companies have used the Lev & Schwartz model earnings are dependent on age alone.

Table 6 Summary of the HR value:

		<i>As at March 31, 2006</i>				<i>As at March 31, 2005</i>		
	Number of Associates	HR Value Rs. in crores	US\$ million	%	Number of Associates	HR Value Rs. in crores	US\$ million	%
Development	24,801	22,203.06	4991.70	95.03	17859	15886.31	3631.16	95.78
Support	1710	1161.49	261.12	4.97	1305	700.10	160.02	4.22
Total	26511	23364.55	5252.82	100	19164	16586.41	3791.18	100

The future earnings have been discounted at 17.01%, being the weighted Average Cost of Capital (WACC) for the past five years. The Associate cost for the year 2005-06 at Rs. 2700.67 crores, was 11.56% of the Human Resource Value.

Figure: 5 Human Resource Value for Satyam



The above figure-5 clearly shows an increase in the Human Resource Value for Satyam for the FY 2001-02 to FY 2005-06. Along with this, the brand value is also increasing since the past years. Thus it can be concluded that the intangible asset value has been on the increase consistently and would be on increase if the current practices in the organization continue.

Conclusion

Nobody can disagree over the fact that intangible assets have become far more important than its tangible counterparts especially in the service industry. Conventional methods of enterprise value such as market capitalization, profit margin, sales growth etc. have become somewhat obsolete since they do not portray the exact financial position of the firm where nearly 80 % of the assets are intangible – specifically speaking, human assets and brand image. However, evaluating such intangibles is what makes the brand valuation and human assets accounting a complex issue. Although renowned corporate entities have commenced their efforts to valuing their brands and assessing human resources value, such matters remain highly subjective and complex.. All in all, it's hard to build intangible assets competitively, but it's harder to value them.

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