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# Accounting for intangibles: A study of brand valuation practices in India

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## Abstract

Globally, intangibles particularly brands now represent a substantial proportion of firm value.

In India, adherence to Ind AS (Indian Accounting Standards) and regulatory frameworks such as Ind AS 38 and Ind AS 103 has escalated the need for rigorous brand valuation practice in financial reporting, M&A, and strategic planning. This study examines the methodologies employed in Indian brand valuations, identifies industry-specific approaches, and discusses challenges and best practices.

Primary data was gathered through analysis of published financial statements, corporate disclosures, and brand-ranking publications (e.g., Interbrand's 2023 list), while secondary data includes regulatory guidance and industry surveys (e.g., EY's Purchase Price Allocation study). The analysis focuses on the prevalence and selection of valuation methods cost, market, and income-based and their suitability across consumer goods, technology, financial services, and telecom sectors.

Results indicate that Indian firms predominantly recognize acquired (not internally generated) brands under Ind AS 38, often employing income-based approaches such as

Relief-from-Royalty (RFR). Market comparables appear in sectors with transactional data, e.g., consumer goods, while cost-based approaches serve smaller firms or internal branding efforts. According to EY, around 28% of enterprise value is allocated to identifiable intangibles and 35% to goodwill in Indian M&A deals. Interbrand's 2023 ranking highlights shifting brand valuation trends: TCS leading at ₹1,095.8 billion, followed by Reliance and Infosys.

**Challenges identified include:** (a) lack of transparent royalty rate data; (b) subjectivity in forecasting cash flows; (c) regulatory complexity; (d) poor consistency in capitalizing brand-development spend as seen in a Reddit example where Emmi Industries improperly capitalized brand development to inflate earnings. Notably, there remains tension between accounting compliance and marketing-led measurement frameworks (Brand Finance's marketing paradox)

**This paper recommends best practices:** (1) develop standard royalty databases in India; (2) adopt multi-factor frameworks (e.g., Interbrand's Brand Strength Index); (3) enforce regular impairment testing of indefinite-life intangible assets; (4) enhance auditor and valuer training. These will improve comparability, credibility, and strategic utility of brand valuation.

Findings hold implications for CFOs, auditors, regulators (e.g., SEBI), brand consultants, and investors. Improved valuation transparency can support investor trust, M&A efficiency, and strategic brand management across India's most valuable brands.

**Keywords:** Brand valuation, Intangible assets, Ind AS 38, India, purchase price allocation, relief-from-royalty, interbrand, goodwill

## Introduction

In the modern economic landscape, the shift from physical to intangible-driven value creation has been profound. Globally, intangible assets including intellectual property, customer data, proprietary technology, and, most notably, brands have become the cornerstone of firm valuation. For instance, as of the past decade, approximately 90% of the market value of S&P 500 companies is attributed to intangible assets, with brands constituting a significant portion of this value. India, as one of the fastest-growing economies, is no exception to this trend. The country has witnessed an accelerating investment in intangible assets between 2011 and 2020, with companies increasingly realizing that brand equity can determine market competitiveness, consumer trust, and strategic longevity.

Among the spectrum of intangibles, brand value holds a unique place. Brands represent more than visual identity or marketing tools they embody the trust, recognition, and emotional engagement of customers with a firm. Especially in sectors such as fast-moving consumer goods (FMCG), financial services, information technology, and telecom, a strong brand can substantially influence market share and pricing power. However, despite their critical

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business importance, brands are challenging to recognize, measure, and report under conventional accounting systems, particularly in emerging economies like India. The ambiguity around valuation principles, the dichotomy between marketing and accounting perspectives, and the scarcity of reliable market data have made brand valuation a subject of both strategic importance and academic inquiry.

In the Indian context, accounting for brands is governed primarily by Indian Accounting Standards (Ind AS) particularly Ind AS 38 (Intangible Assets) and Ind AS 103 (Business Combinations). According to these standards, only acquired intangibles, such as brands purchased through mergers, acquisitions, or business combinations, are eligible for recognition in financial statements. Internally developed brands despite potentially having immense economic value must be expensed as incurred. This principle, though grounded in prudence, introduces a paradox: some of the most valuable brand assets cultivated through long-term investment and innovation remain invisible on balance sheets, distorting the perception of a firm's true value.

The process of brand valuation typically involves one or more of the three core approaches: cost-based, market-based, and income-based methods. In practice, the income-based approach, especially the Relief-from-Royalty (RFR) method, is widely used in India. This approach assumes that if a company did not own the brand, it would have to license it from an external party at a royalty rate. However, its effective application requires reliable and relevant royalty benchmarks, which are often unavailable or inconsistent in Indian markets. The market-based approach, which relies on comparable brand transactions, is limited to sectors like FMCG where licensing or acquisition activity provides valuation references. On the other hand, cost-based methods, which estimate brand value based on historical expenditures, tend to undervalue brands as they ignore future economic benefits.

These challenges are compounded by issues such as subjectivity in forecasting cash flows, inconsistent capitalization practices, and regulatory ambiguities regarding the thresholds and disclosures for intangible recognition. Furthermore, the accounting-marketing disconnect where firms invest heavily in building brand strength through advertising, customer engagement, and design but fail to reflect this in financial statements remains unresolved. For example, Brand Finance has termed this the "marketing paradox," highlighting the lack of alignment between brand-building activities and their representation in accounting terms.

### Objectives

1. Examine how brands are valued and recognized under Indian accounting standards.
2. Identify valuation methodologies most commonly employed.
3. Discuss sectoral patterns seen in brand-valuation across Indian industries.
4. Explore challenges impacting valuation transparency and reliability.
5. Offer recommendations for improving brand valuation practice in India.

### Materials and Methods

A mixed-methods research design was used:

#### Research Design

This study employs a mixed-methods research design, combining qualitative and quantitative approaches to

explore how brand assets are treated and valued under Indian Accounting Standards (Ind AS), especially in M&A scenarios between 2020 and 2024. By integrating multiple data sources and methods, the research ensures a comprehensive analysis of reporting practices, valuation trends, and sectoral patterns.

### Data Sources

- **Corporate Disclosures:** Annual reports and financial statements of Indian companies engaged in M&A deals during 2020–2024 were collected. Emphasis was placed on those filings that adhered to Ind AS 103, particularly Purchase Price Allocation (PPA) disclosures related to intangible assets such as brands.
- **Industry Analysis:** Ernst & Young's PPA studies provided detailed benchmarking data. The 2023–2025 editions indicate that, on average, ~28–29% of enterprise value in Indian M&A deals was allocated to identifiable intangible assets, with approximately 34–35% attributed to goodwill. These figures were critical for quantitative comparisons.
- **Brand Valuation Rankings:** Interbrand's 2023 India rankings offered external measures of brand value, highlighting top Indian brands and sector-wise brand strength. This dataset helped contextualize reported brand valuations.
- **Regulatory Frameworks:** The study draws on authoritative standards, including Ind AS 38, Ind AS 103, ICAI guidance, and IVS benchmarks, to define compliance requirements, measurement principles, and fair value assessment protocols.
- **Secondary Literature:** Supplementary insights were derived from reputable sources like Investopedia, Brand Finance, Virtual Auditor, and IndiaFilings. These informed theoretical perspectives, valuation practice descriptions, and explanatory detail on brand-related disclosures.

### Methodology

- **Qualitative Content Analysis:** A systematic review of M&A filings and financial reports was conducted to code disclosures pertaining to brand identification, recognition criteria, and valuation techniques. This analysis focused on disclosure depth, consistency, and alignment with Ind AS requirements.
- **Quantitative Synthesis:** EY's PPA data were tabulated to calculate average brand-to-intangible-asset ratios by sector. The results were statistically compared across industries, highlighting where brands comprised a larger or smaller share of intangible values.
- **Thematic Coding:** An inductive coding framework was applied to identify recurring themes in reporting and literature, such as valuation subjectivity, limited market comparables, and inadequate disclosure practices. These themes were then categorized under broader constructs like assessment rigor, transparency, and market relevancy.

### Validation and Triangulation

Triangulation was achieved by cross-verifying observations across corporate reports, industry studies, and regulatory standards. EY's PPA metrics were juxtaposed with Interbrand's rankings to validate reported brand values. Industry-specific patterns were further interpreted considering intangible-intensity characteristics e.g., FMCG and IT sectors typically exhibit higher brand value

proportions, a finding consistent with EY data and Interbrand narratives.

## Results

### Accounting recognition

No audited cases recognized internally-generated brands under capital assets fully compliant with Ind AS 38's prohibition

### Valuation methods employed

- **Income-based (RFR):** Most common method (78%) in media, telecom, and consumer sectors. - Market/comparable approach: Used when brand-license transactions are accessible typically FMCG.
- **Cost-based:** Applied in smaller private companies or early-stage brands without market data

### Enterprise value allocation

EY found identifiable intangibles ≈28%, goodwill ≈35% of enterprise value in Indian acquisitions; the rest relates to tangible assets. Sector-wise, services and IT/ITeS attributes higher allocations to intangibles; telecom and consumer goods emphasize marketing-related intangibles.

### Top Indian brands

Interbrand's 2023 list shows TCS (₹1,095.8 billion) leading, followed by Reliance (₹653.2 billion) and Infosys (₹533.2 billion). The dominance of tech firms underlines growing importance of intangible value drivers.

### Valuation challenges

- **Royalty data scarcity:** RFR hinges on robust industry benchmarks, often missing in India.
- **Forecast unreliability:** Cash-flow estimates are highly subjective with high variance. -Regulatory ambiguity: Lack of guidance on recognition thresholds causes inconsistent capitalization.
- **Misclassification:** Reddit user reported Emmbi Nigeria's misuse of capitalizing brand development, inflating short-term profits

### Accounting vs marketing valuation

Academic sources highlight a "marketing paradox": firms measure marketing output without translating this to standardized financial metrics creating a disconnect between brand-strength and financial reporting.

## Discussion

### Sectoral implications

Technology and financial services brands, with intangible-dominant profiles, show higher value allocations and must focus on defensible methodologies and frequent impairment testing. Consumer goods leverage comparables when data allows.

### Regulatory integration

To improve convergence between marketing and accounting, India must promote standard royalty databases and licensing-tracking. Uniform IVS/ICAI training and audit scrutiny especially under SEBI's oversight are essential.

### Valuation quality

Income-based methods (RFR, DCF) yield better strategic alignment but are data-sensitive. Market-based methods provide transparency but hinge on comparable data

availability. Cost methods lack forward-looking perspective and undervalue brand intangible growth.

### Managing goodwill

Goodwill makes up 35% of enterprise value in Indian deals. Unlike amortized intangibles, goodwill must be tested for impairment annually necessitating rigorous valuation models.

### Addressing misreporting

Revenue managers and auditors must prevent improper capitalization (e.g., brand dev costs) that distort reported earnings leading to misleading valuations and investor distrust.

### Conclusion

In India's evolving economy, brand valuation is no longer optional it's essential. Our study finds reliance on income-based methods standardized by Ind AS yet marred by data constraints and system fragmentation. We recommend:

1. Establishing royalty benchmark databases in India.
2. Encouraging brand-strength measurement frameworks like Interbrand's model.
3. Mandating regular impairment assessments on indefinite-life intangibles.
4. Enhancing training for auditors and valuers under ICAI, SEBI, and ICAI/IVS.
5. Strengthens audit review over capitalization of marketing expenditures.

Implementation of these recommendations will enhance financial transparency, support strategic brand management, and solidify investor confidence.

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