



THE Valuer

COMPREHENDING VALUATION

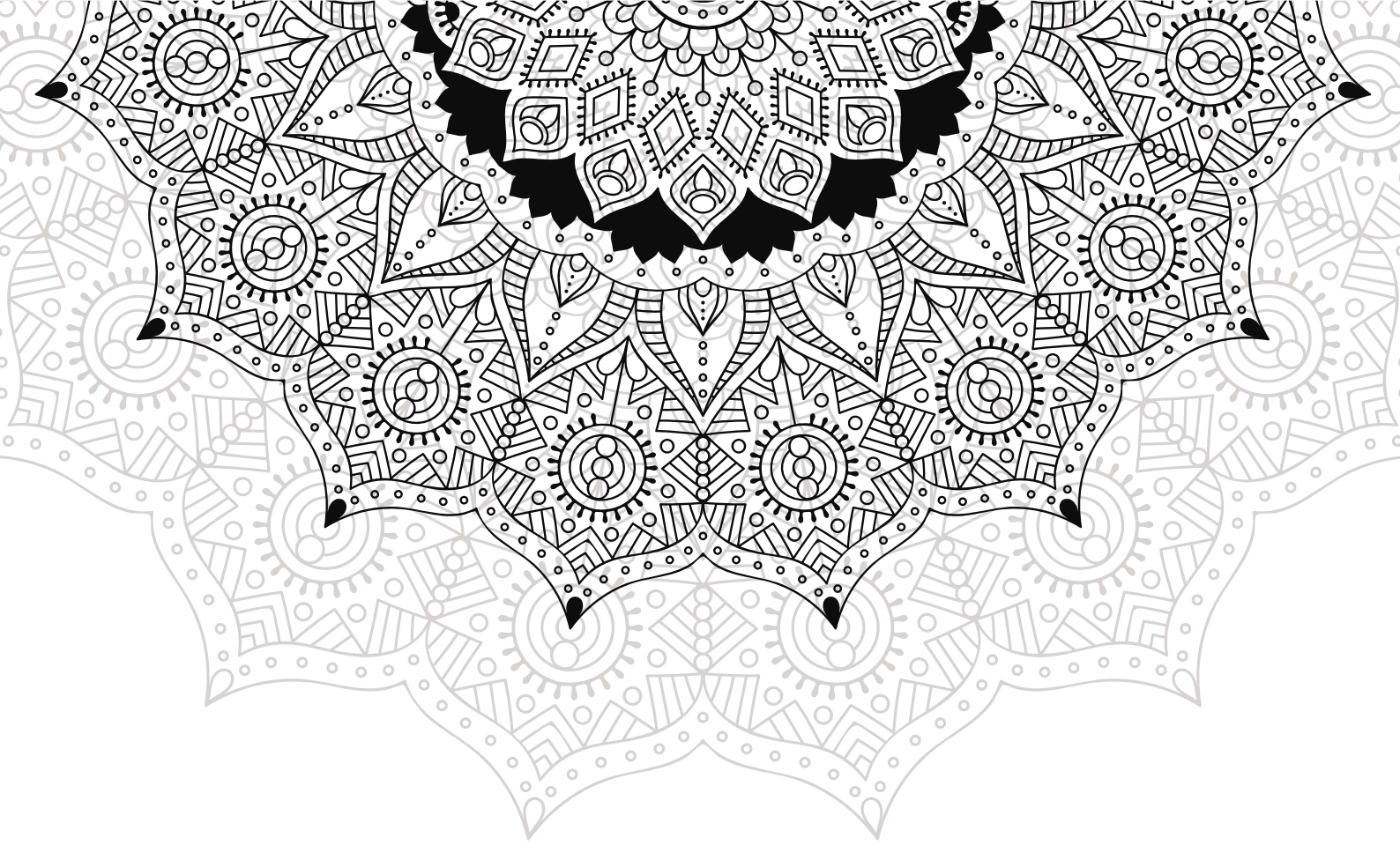
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Celebrating
three years of progress...

This issue is dedicated to our Valuer Members of First Year
who continued their trust in us.



www.iovrvf.org
www.iovrvfhub.org



MANDALA

Mandala is an art form, first appeared in Buddhist art that were produced in India during the first century.

In New Age, the mandala is a diagram, chart or geometric pattern that represents the cosmos metaphysically or symbolically; which originally meant to represent as an aid for meditation and trance induction.

The circular designs symbolizes the idea that life is never ending and everything is connected.

The Mandala issue is our way of sharing positivity among us all. While it's difficult to be entirely optimistic, we must believe,

'This too shall pass...'

FRAME OF REFERENCE

GOVERNING BOARD MEMBERS
FROM THE DESK OF MD/CEO
CHAIRMAN'S COLUMN

VOX-POPULI
VYSHNAVI DEVANAHALLI NAGARAJ
PUMESH BAHETI
CA MUNISH AGGARWAL
MONA CHAWLA
Vr. ANBAZHAGAN APPANDAIRAJAN
ABHAY KUMAR
R. K. PATEL

EDITOR'S WORD
THE UPDATES
WHERE DO WE STAND
MEP PERFORMANCE AT A GLANCE

CREDITS

EDITOR
TANUJ KUMAR BHATNAGAR

CREATIVE TEAM
MANASI MEWARI
GUNJAN PAUL

DISCLAIMER

The articles published in this issue are the statements and opinions of the authors only and are not necessarily endorsed by IOV-RVF as an organisation. The Editor/ IOV-RVF assumes no responsibility for the statements and opinions expressed herein.

**Heartfelt appreciation
to the respected Governing Board Members
for their continued support, guidance, and vision
during the journey.**

**They inspire and motivate us with their experience and wisdom
for furthering the development and growth of IOV-RVF.**



To know more about the members,
Please check our website

https://iovrvf.org/pages/directors_list



Presently, the profession of Valuation is scaling new horizon of recognitions and demand, thanks to the efforts of **IOV REGISTERED VALUER FOUNDATION (IOV-RVF)**. It is a section-8 not for profit company formed and wholly supported by **INSTITUTION OF VALUERS (IOV)**. The **INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (IBBI)** recognised IOV-RVF as the first registered valuer organisation (RVO) on 27th December 2017 starting its operations. It has been three year since IOV-RVF initiated to launch and conduct **first ever 50hrs educational training programme of Valuation** in the country on 8th of MAY, 2018.

“TO EXPRESS GRATITUDE TO ALL CONCERNED IS BEST OF THE VIRTUES”

This is the most opportune moment to express gratitude and remember the dedicated and relentless efforts of numerous personalities in the journey of taking Valuation Profession to such heights through various promotional activities of IOV. Their contribution in such activities have made it possible for the organisations to achieve its objective of promoting the development and growth of the Valuation profession. For all that thanks to a person, whose insight led him to institutionalise, a lesser-known profession of **Valuation**. The person being **Late Mr. P.C. Goel**, fondly remembered as **FATHER OF INDIAN VALUERS**. Thanks to his unparalleled efforts in founding and establishing the pioneer and largest organisation in Valuation “**INSTITUTION OF VALUERS (IOV)**” of INDIA in the year 1968. Today, the Institution enjoys the patronisation of some 30,000 Valuers of all classes of assets and from across the country.

Thanks to the esteemed, eminent, and learned Valuers and Academicians, members of IOV likes of Late Mr. Nanavavati, Late Dr. P.C. Gupta, Dr. Ashok Nain, Mr. C. H. Gopinatha, Mr. Buddhabati, Mr. Hardiker, Mr. S. Pichaiya, Mr. R. K. Patel, Mr. S. Deb, Mr. Jigesh Mehta and numerous others of matching talent; their contribution in developing the profession, through writing articles in **INDIAN VALUER** and presenting papers during seminars, workshops and lectures organised by IOV over the last more than 50 years, has helped in building and enhancing professional capabilities and capacities of the Valuers; Not only that, their role in the success story of IOV-RVF, by working towards making the organisation a pioneer in academic field for Valuation is unparalleled and commendable.

IOV-RVF is indebted to:

- **Dr. M.S.Sahoo**, chairman, IBBI, for his unparalleled contributory role in guiding the Profession on a journey of being regulated and streamlined. It is because of this, the Profession has started gaining the deserving respect, dignity, and demand.



VINAY GOEL
MD & CEO

“Let all soar high and work for the growth and development of valuation profession, creating the demand for valuers and their quality opinions.”



FROM THE DESK OF MD/CEO



Declaring '**48th INDIAN VALUERS CONGRESS**', 2017 at, '0' milestone in the journey of Valuation profession, Dr. Sahoo commended IOV for leading the profession to newer directions; him for his continuous, unconditional and promotional efforts for furthering the growth of the profession has started yielding the desired results.

Continuing with his efforts in further development of the profession, Dr. Sahoo tabled his **Draft Valuers bill-2020** to the GOVERNMENT OF INDIA. Through this draft he recommended for the enactment of an Act to establish and institutionalise the profession of Valuation.

- Eminent Members of the **Council of IOV**, presided by the honourable **Shri. P. K. Thiagarajan**, for their vision and impeccable advices have served the purpose in fulfilment of the objectives as purported by both the organisations.
- The **Governing Board of IOV-RVF** comprising of highly reputed and eminent Directors, chaired by an eminent academician and scholar **Dr. Goutam Sengupta**, for their guidance and directions aimed at for the overall growth of organisation and profession within the framework of COMPANIES RULES.
- Highly motivated **IOV-RVF Work Force**, for their continuing dedicated efforts since the beginning of operations 3 years ago. It has resulted in making the organisation most successful in acquiring the status of being the largest and pioneer.
- Abundantly aspiring **+30K members of IOV** and **+1.60K RV members of IOV-RVF**, for their quest of gaining self-knowledge and growth to acquire required proficiency in rendering quality Professional services. This quest is motivating for both organisations to match their aspirations.

In order to build and enhance capacities and capabilities of existing and fresh entrants in the field of Valuation, IOV-RVF has been taking several measures to provide best of the facilities and paraphernalia. There always remains a scope of improvement in the systems and need to address present day requirements of Registered Valuers/ Entities, new entrants, and others for smoother and easier access to all such facilities.

It is our endeavour at IOV-RVF to keep on upgrading the management systems. Measures to obtain sustainable systems, focus is on to -

- Maximise digitalisation with more user-friendly processes.
- Bringing more transparency by providing better informative systems in place.
- Reducing the use of natural resources like paper and time taken in communication
- Introducing latest technological tools to maximise the availability of information for all online training programs.
- Provide more user-friendly reference materials.

So, continuing to work further in that direction, it is a proud moment for all at IOV-RVF to announce the launch of a new WEBSITE '**IOV-RVF HUB**' an exclusive site dedicated to our esteemed members.

The new platform will benefit the members with the below mentioned features –

- The new dashboard in the member's panel will show the step-by-step journey of members in the new system.
- Completely new user-friendly registration process with ability to access information regarding batches' schedules and joining these batches.



OUR JOURNEY

A SNEAK-PEAK AT OUR NEW WEBSITE 'HUB' (above)

- Members will be able to receive auto-generated Certificates for batch completion, membership and Practice in their designated member's areas.
- Introduction of a completely new module for the members to know about their status related to Form A (registration process with IBBI)
- The members can now access their payment history at one place and will be able to view and download GST invoices.
- Even Registration and all related processes for Entities is available for the First Time in this system.
- The members will be able to access schedule and enrolment for training programs including CEPs, Year wise segregation of CEP certificates, earned, required and pending credit points on their dashboard, helping them to easily comply with the mandatory requirements as per the Rules.
- A dedicated module has been created for registration of the upcoming CEPs, by the members from other RVOs as well. The non-members will be able to download GST Invoices and participation certificates from their login area. This is the first time that any RVO has created an ease in joining any programme for the non-member.
- IOV-RVF was first to start issuing **VRN (Valuation Reference Number)** to RVs for it to be mentioned in their Valuation reports. Obtaining renewed VRN module involves filling of information in two stages -1) Pre engagement form for obtaining the VRN and 2) Post engagement form on completion of the assignment . Using and filling for VRN will lead to member's M4 form being filled automatically.
- **INTEGRATED LEARNING MANAGEMENT SYSTEM** on IOV-RVF HUB will provide the members a seamless platform for them to be able to attend classes, access to all study resources including prescribed course materials, schedules, video recordings, MCQs for practice and interactive facility with faculties.

In addition to all the above, IOV-RVF is the first one again to Launch its **Mobile App** through which the members would be able to access all facilities like registering for events and their member's area. This is not all and more is in pipeline where IOV-RVF endeavours to meet the aspirations of Professionals for upgrading the facilities to the entire and mutual benefit of the FRATERNITY.



CHAIRMAN'S COLUMN



PROF (DR) GOUTAM SENGUPTA

PhD, PGDM (XLRI), BME, FIE
Chartered Engineer (IE), FCRIMM
Life Time Certification (ISM-USA)
Chairman, IOV-RVF

“Since 2018, IOV-RVF has grown and evolved enormously. The evolution has been remarkable in the journey of becoming a technically equipped RVO in the country. To get at this place, IOV-RVF has consistently worked to achieve goals through integrated initiatives that place a high priority on moving forward simultaneously on multiple fronts.

‘HUB’ is one of such examples. Wishing IOV-RVF to continue this glorifying journey ahead.”

WHY WE NEED VALUATIONS?

Valuations are required for a number of purposes including the buying and selling of property, development appraisal, monitoring the level of property performance, loan security, tax matters, company accounts and insurance reinstatement. The lack of a central trading market and the opaqueness of the market mean that investors in real estate are not able immediately to obtain a valuation of their asset. Instead, investors rely on independent valuers to provide this service. The purpose of the valuation and the type of property that is to be valued will determine the basis of the valuation and the techniques that should be employed.

The main requirement of the major investors is for performance measurement and valuations provide the data for this to be carried out. Information on capital value, Market Rent and the components which have driven performance, such as yield shift and rental growth, provide the level of information needed to analyse the performance of real estate investments over different time periods.

Some of the principal reasons why we need valuations are enumerated below:

1. Valuations provide a baseline. Just like getting an annual physical at the doctor's office, regular valuations provide a baseline. They serve as an indication of what you're doing right and what you could be doing better. Some years your value may be up, other years it may be down a little bit (particularly in the event of a market correction). But without knowing your baseline, you have no solid evidence of how you're doing. Think of a valuation as a health metric for your business that serves to measure your business's blood pressure.
2. Valuations help chart the course for the future. Simply put, you don't know where to go if you don't know where you are. Valuations can help you determine ways to improve the business. Perhaps a valuation will indicate the need for a technology investment or hiring an employee. Maybe you'll come to the realization that an expense can be reduced or eliminated. Valuations can often help an owner make a change to the business or assist with a decision they may have been having difficulty with.
3. Valuations measure progress. Performed regularly, valuations provide a pretty good measure of how you're doing compared to the path you've set for your business. To be most effective,

valuations should be utilized in tandem with your strategic business plan and should be referred to as a component of any significant decision.

4. Valuations can identify gaps. A comprehensive valuation will utilize key performance indicators (KPIs) to look at the non-financial aspects of a business that are actually the underlying value drivers. Examples are corporate structure, client demographics, technology usage, and firm infrastructure. KPIs are instrumental in identifying areas of potential improvement for the business – and ultimately provide ways to increase value.
5. Valuations help you manage your business. Valuations can and should be used as a powerful driver of how you manage your business. The purpose of a valuation is to track the effectiveness of your strategic decision-making process and provide the ability to track performance in terms of estimated change in value, not just in revenue. This helps you to take a holistic look at your business and make decisions that are highly impactful for your bottom line. It allows you to understand the subtle dynamics of your business and avoid unforeseen consequences of seemingly insignificant decisions.
6. Valuations create accountability. Now that you've utilized a valuation to identify gaps and set a path for the future (with measurable goals), you have, in essence, made yourself accountable for achieving those goals and can create discipline around them. Remember, this should be used as a component of your strategic business plan – because if you can measure it, you can manage it.
7. Valuations provide a benchmark. With little to no public data available on what businesses in this industry sell for (the vast majority of deals are never published), knowing your baseline value can allow you to benchmark yourself (via KPIs) against your peers, as well as “Best Practices” standards.
8. Valuations provide a perspective on price. When it comes times to transition (and all businesses will eventually transition), your historical valuations (remember, valuations should be an ongoing exercise) provide a starting point for price. Whether it's an external sale or internal nextgenerational transfer, you now have an idea of what your business could be worth to a prospective buyer (though price is only one component of a deal). Owners often have an unrealistic valuation expectation – having a baseline valuation and understanding what drives that value can help eliminate any surprises down the road.
9. Valuations can provide the gateway to capital. If you are considering borrowing capital for an acquisition or other business investment, any lender will want to know what leverage lies in your business. Your valuation is the first step in the process of securing capital.
10. Valuations are part of your estate plan. For an owner, the business value typically represents 50-70% of their personal net worth. More often than not, owners fail to diversify the concentrated stock position they hold in their own business. Knowing how the business value impacts your personal financials can help you better plan for your family's future.

Unquestionably, valuations serve many purposes and go well beyond “what someone would pay for your business”. Used properly, valuations allow you to see the inner-workings of what's really going on in your business. That insight puts you in a competitive position as you strive to strengthen and increase the value and overall performance of the business

VOX-POPULI

CONTRIBUTION BY FEW OF OUR OLDEST VALUER MEMBERS

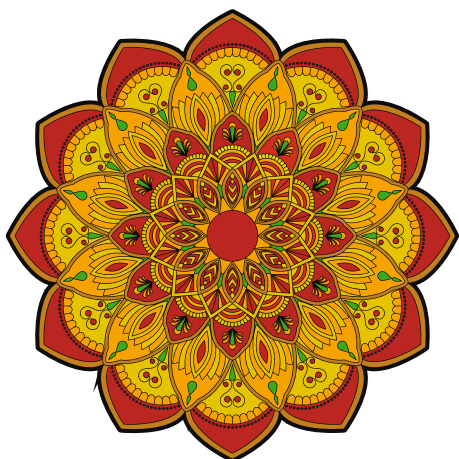


**VYSHNAVI DEVANAHALLI
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ETHICS...

MY 2 CENTS
(OR ACRES?)

When I first started to pen my thoughts on this topic (should I say controversial!!!), I asked myself is this really required? Are we all not bound by this very basis, is this not what we are supposed to do day-in and day-out with our assignments?

Ethics is very difficult to define, but very easy to know what is unethical.

Investing people place their faith in us. Valuers are the professionals on whom the Bankers, Resolution Professionals and other stakeholders place their TRUST when it comes to determining the value of the assets.

Our engagements are always simple; Registered Valuers are appointed by the stakeholders and asked to carry out the valuation of the assets. But seldom are these engagements simple!! Sometimes Registered Valuers are under pressure by one of the parties or sometimes even by both the parties to achieve a certain result. Asset values can be and at times be manipulated to unfairly enrich/help/support a few people, like Bankers/Lenders, Borrowers, Buyers or Investors.

What is the limit for this manipulation? How far are we ready to go so as to please the client? Can any bias ever be justified?

The answer as we all know is overwhelmingly NO. But.....

We can see that there are 2 aspects to ethics – one Professional and another Personal. This leads to the oft debated questions: "Is there any difference between personal or professional ethics? Can we take any decisions which are professionally acceptable but against our personal morality? Similarly is it possible to take decisions which are personally acceptable but professionally unacceptable?"

Professional ethics is something which is not new. The compensation we can expect as a result of ethical behaviour is TRUST, which is arguably the most valuable form of payment available.

The question which leads next is - Why do we choose to act in an unethical way?

We always try to rationalize the unethical behaviour:

- There isn't anything unlawful in the thing I am doing
- Everyone's best interest is due to my behaviour
- What I have done will not be found out by anybody
- The system or the association will protect me

There appears to be 3 factors which generally lead to unethical behaviour: An individual's personal moral standards, Peer professional relationships and Values and Opportunity.

An individual's personal moral development can sometimes explain why individuals make different choices when faced with the same ethical dilemma. Sometimes individuals make decisions based on the avoidance of punishment. Decision making is often attached to the endorsement of others and is connected with our societies or peers or professional standards. Another choice is characterized by a high degree of personal conviction and rationality, with little regard for self-interest, or the views of others or of authority. When faced with the same ethical problem, obviously people having different moral development could make different choices, with each feeling that his or her choice is correct.

The attitudes and actions of our co-workers or fellow professionals can also influence our ethical behaviour. We can influence our co-workers and fellow professionals through our professional behaviour. Experienced Valuers should recognize the concept of leadership and accept this professional responsibility of guiding the new incoming valuers for ethical behaviour.

The third factor identified is "opportunity." This factor has significant implications for the Professional Valuer. There are people who feel that the professional environment is unique, having its own rules and circumstances. The ability to apply these rules, even when not in alignment with our personal ethics, is held as an essential element of success, leading to Mandate Snatching and Convenience Valuations.

There is a particular concept found throughout the Code of Professional Ethics - not "knowingly" doing harm. This concept is very important, as it clearly removes the inevitable human phenomenon, known as mistakes, from the heading of ethics. Mistakes, or standards violations, may be viewed in a more favourable light than ethical digressions. As is known, it is simpler to educate a person than to change a person's inherently flawed character.

Valuers need to have as much ethical standards as is demanded. We have to face constant pressure from various quarters in our day-to-day work. We do not work for a particular client but a lot of faceless others who may be victims if the assessment is not done ethically and professionally. Our wrong ethics, morals and failure to perform our proper actions will cost others dearly.

Carry out duties diligently without fear or favour. Our reports are our brand ambassadors. Let's be transparent and bring out all the material facts in our reports. Being ethical is not an extra skill we have to acquire but it should be a part and parcel of our being itself. We can be smiling, friendly, amicable, smooth talking, approachable, flexible but still be firm when handling ethical questions related to work.

The valuation profession is increasingly becoming dynamic. Technological advances, as well as the changes in the regulatory environment, will change the way we carry out this profession. The result of these changes will be new ethical dilemmas. Our individual and collective ability to react to these new changes with the highest level of ethical and moral guidelines will permit us to be considered providers of a value-added service. Earlier in this article I alluded to the value of TRUST. To those cynics who say, "Attempt to eat TRUST," I would like to respond by saying, "See how long our profession exists without TRUST." This is one of those things that may not seem important to the thinkers of short-term goals, but its value in the long term is very clear. Let us challenge ourselves to adopt the doctrine "primum-non-nocere" (which means "above all, not knowingly to do harm") and conduct our practices accordingly.

TO CONCLUDE Let us put into practice this learning from the epitome of knowledge "Bhagavad Gita"

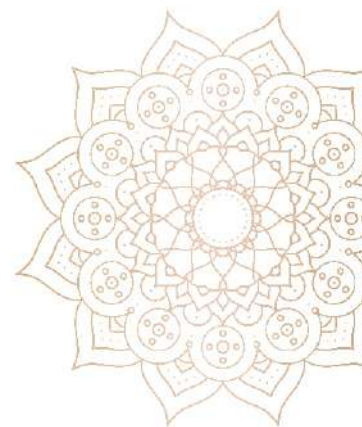
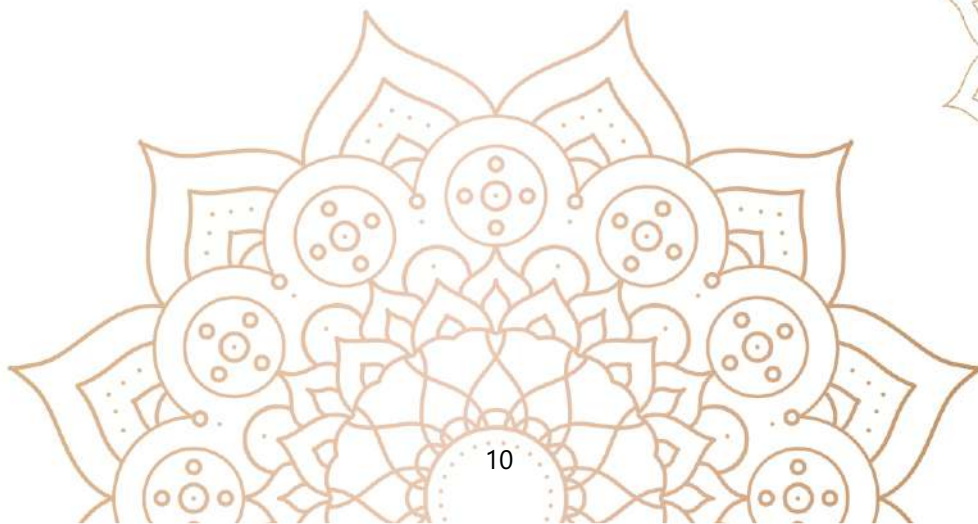
Chapter 3: Karma-Yoga

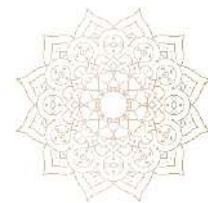
TEXT 25

saktah karmany avidvamso
yatha kurvanti bhārata
kuryad vidvams tathasaktas
cikirsur loka-sangraham

TRANSLATION

As the ignorant perform their duties with attachment to results,
similarly the learned may also act, but without attachment,
for the sake of leading people on the right path.





INTRODUCTION

For conducting any business operation, entity utilizes the assets which are either owned or taken on lease. The acquisition of assets on ownership, may requires a sizeable capital investment at initial level, to save on this initial investment very often the entities acquires the assets on lease.

Under IBC 2016, the start of liquidation process mandates the liquidator to form a liquidation estate of the assets of corporate debtor available for auction and on successful completion of auction distribute the sale proceeds among the various creditors as per the provisions of act.

The valuer of the respective asset class is appointed by the liquidator to estimate the Fair value & Liquidation value of assets & the first step for the valuer is to identify the interest / rights in the assets to be valued & hence it is extremely important to analyze the various provisions of IBC 2016 to ascertain that whether the assets taken on lease by the corporate debtor would form a part of its liquidation estate or not?

LIQUIDATION ESTATE

The scope of liquidation estate has been laid down under section 36 of IBC & NCLT can order for liquidation under Section 33 of the IBC;

For the purposes of liquidation, the liquidator shall form an estate of assets which shall be called "Liquidation Estate". Section 36 (4) is the relevant section dealing with the exclusions-

The following shall not be included in the liquidation estate assets and shall not be used for recovery in the liquidation:-

1. Assets owned by a third party which are in possession of the corporate debtor, including-
 - a. assets held in trust for any third party;
 - b. bailment contracts;
 - c. all sums due to any workman or employee from the provident fund, the pension fund and the gratuity fund;
 - d. other contractual arrangements which do not stipulate transfer of title but only use of the assets; and
 - e. such other assets as may be notified by the Central Government in consultation with any financial sector regulator.



PUMESH BAHETI

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"IOV-RVF is an institution for the Professionals, by the Professionals, and of the Professionals."

VALUATION OF LEASED ASSETS IN LIQUIDATION ESTATE OF CD

Lease

As per the new leases accounting standard, notified by the [Ministry of Corporate Affairs \(MCA\) on 30th March 2019 with the effective date of its application from 1st April 2019, Ind AS -116 replaces the current guidance in Ind AS-17, & Ind AS 116](#) defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

As per the section 105 in the transfer of property act, 1882, lease is defined as:

A lease of immoveable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms.

Thus, the definitions of LEASE as cited above clearly reflects that, under a lease arrangement, the ownership of the asset rests with the lessor and only the right to use / possession of the asset is transferred to the lessee, as per the terms & conditions agreed between the lessee & lessor & a lease transaction usually does not by itself result into a transfer of ownership / title of the asset, unless a provision to transfer the title / ownership of the asset, by paying a consideration at the end of term of lease, is clearly mentioned in the lease deed.

Further, under IBC, the definition of secured creditor & security interest is:

1. "secured creditor" means a creditor in favor of whom security interest is created;
2. "security interest" means right, title or interest or a claim to property, created in favor of, or provided for a secured creditor by a transaction which secures payment or performance of an obligation and includes mortgage, charge, hypothecation, assignment and encumbrance or any other agreement or arrangement securing payment or performance of any obligation of any person: Provided that security interest shall not include a performance guarantee;

In normal loan transactions, the borrower creates a security interest on the asset in favor of the lender in the form of mortgage, hypothecation, pledge etc. However, in case of a lease transaction the lessor continues to be the owner of the asset throughout the lease tenure & the secured creditor has the security interest over only the rights / interest transferred by the lessor to the lessee, i.e. right to use / possession.

FRAMEWORK OF VALUATION UNDER IBC

The term Fair Value and Liquidation Value have been defined under CIRP Regulations as follows:

Clause 2(hb): "Fair Value" means the estimated realizable value of the assets of the corporate debtor, if they were to be exchanged on the insolvency commencement date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.

Clause 2(k): "Liquidation Value" means the estimated realizable value of the assets of the corporate debtor, if the corporate debtor were to be liquidated on the insolvency commencement date.

In the definition of FAIR VALUE it is explicitly mentioned that the estimated value of assets must be the value in exchange & the definitions of LEASE explicitly demonstrates that the asset is leased for use & ownership / title is not transferable, which implies that the non-transferable leased assets have only the value in use, the terms value in use & value in exchange are different terms which operates in different spheres.

Conclusion

In the light of discussion & the provisions of various legislation, it can be opine that under the IBC law, leased assets which do not stipulate transfer of title but only right to use is transferred, shall be excluded from the liquidation estate of the lessee & as the title / ownership of the assets is non-transferable, the leased assets have only the value in use & not in exchange.

Internet sources for reference:

<https://taxguru.in> <https://www.pwc.com> <https://www.legistify.com> <https://www.lawinsider.com>

I belong from The Blue City Jodhpur Rajasthan. The Journey of Registered Valuer started from a form published in March 2018 edition of Journal of IOV for those who were interested in Valuation under Companies Act 2013. With a zero idea of what changes were going to be in near future related to this profession filled the form with a progressive thinking and for expansion of knowledge. After having my 50 Hour Education Program in second Batch of IOV-RVF in New Delhi, I appeared for the Exam announced in Ahmedabad location. When I cleared the exam in my first attempt, I did not have the idea that I was in the few ones who would be honored to receive the Certificates from Shri. P.P Chaudhary, Union Minister of State for the [Ministry of Law and Justice](#) & [Ministry of Corporate Affairs](#). It was my first interaction with Shri Vinay Goel Sir on that Day. My special

thanks to Shri Vinay Goel, Shri Sanjay Dungarwal and Mr. Saurabh Gupta, who are actively working for the Goal to come true.

I personally feel Institute IOV-RVF is working in the right Direction to establish this so-called unorganized profession into one of the finest professions. Valuer should set their Professional Ethics extremely High to meet the Current requirements of the Bill.

"With great power comes great responsibility".



VIPIN SINGH GEHLOT
IBBI/RV/02/2018/10013
(Registered on 18th July 2018)

Approved Valuer: - F-24936
Government Registered Valuer:
CCIT/JDH/ITO (TECH.)/2015-
16/34AB/02/47



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**FACTOR
ANALYSIS:
VALUATION OF
TRADE
RECEIVABLES
UNDER CIRP**

Companies (Registered Valuers and Valuation) Rules, 2017 has recognized three asset classes- Land & Building, Plant & Machinery and Securities Or Financial Assets.

There is no definition of Securities Or financial assets, neither in the IBC Code, 2016 nor in the Companies (Registered valuers & valuation) Rules, 2017.

According to Ind AS: 32 Financial Instruments: Presentation, "A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments."

Therefore, trade receivables can be classified as financial asset hence, to be valued by a Securities Or financial assets registered valuer. In this article, I will focus on a self-devised scientific approach to value trade receivables.

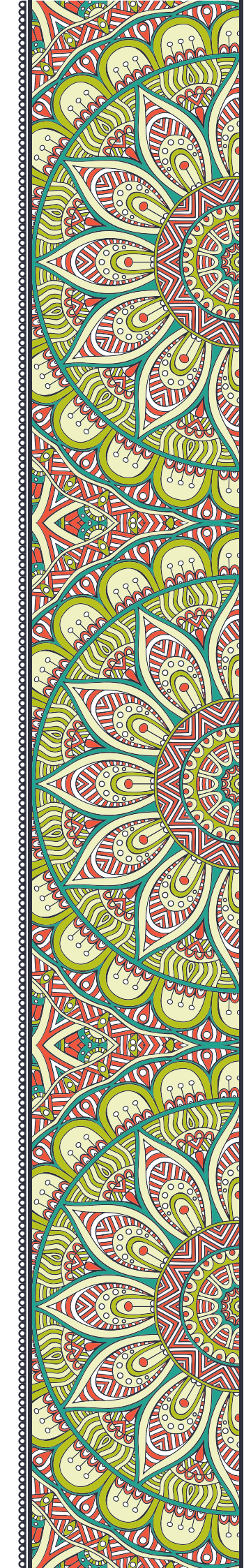
FACTOR ANALYSIS: VALUATION OF TRADE RECEIVABLES UNDER CIRP

Considering the above factors and regulatory framework, the following key factors are suggested while valuing the trade receivables, which are as follows:

- A) Accuracy of amount
 - This factor considers whether the parties and the balance shown against it, is accurate or not? Investigations need to be

undertaken to determine genuineness of the parties standing as trade receivables viz. Bogus firms, list of defaulters on trade tax sites, Google search etc. Moreover, by performing ledger scrutiny of the parties under the accounting data and last audited financials, we can satisfy ourselves that the balance of all the debtors in the list is arithmetically correct or not.

- B) Balance Confirmation reached or not?
- This factor considers sending balance confirmations to all the parties at all the available addresses by speed post.
 - If balance confirmation has reached, it means party is traceable and there is high probability of recovery from the party.
 - If response to the balance confirmation is received then, valuation is done for that party as per the response received from such party.
- C) Corporate entity or not?
- This factor focus on the fact that whether the trade receivable is corporate entity or not. Corporate entity means entity covered under Companies Act and LLP Act.
 - Recovery from corporate entity is more feasible because Explanation 2 to the Section-11 of the Insolvency & Bankruptcy Code, 2016 states that- the CIRP proceedings can be initiated against other corporate debtors for the recovery of dues, whereas for unregistered entity, recovery proceedings can be very time-consuming and challenging as it is through the process of local court proceedings.
- D) Date of its last filled returns
- The factor considers the last filled statutory return by the trade receivable party. Check for the last filed returns and event based forms under different Acts or Regulations like under The Companies Act, 2013, The Income Tax Act, 1961, Goods and Service Tax Laws, etc.
 - Remember, there are more chances of recovery from the trade receivable party which is a going concern entity.
- E) Amount greater than the certain threshold?
- This factor considers the concept the materiality. If the amount due from a trade receivable is below the certain threshold, then cost-benefit analysis does not justifies to initiate the recovery proceedings.
 - For example: if a debtor with amount Rs. 1,96,762, then, it will not be considered for valuation since the amount is not material and recovery proceedings can be very time-consuming and challenging.
- F) Ageing Analysis as on CIRP commencement date
- This factor focuses on the importance of Ageing analysis of trade receivable parties. It is simply a time-based analysis with reference to due date to determine either how much time is left until due date or how much time has passed since due date. Most of the time age or aged or ageing analysis refers to the second type of analysis i.e. how much time has passed since due date and this analysis is used in context of receivables to determine steps required to recover debts from debtors.

- 
- I suggest to age debtors on the basis of outstanding balance – for less than one year, more than one year but less than three years and more than three years, considering the provision of the limitation Act, 1963.
 - The Limitation Act, 1963 defines limitation periods to impose time limits within which a party must bring a claim, or give notice of a claim to the other party. Note that the amount outstanding for more than three years is not recoverable as it is time-barred.
- G) Subsequent transactions or not?
- This factor focuses on the fact that whether trade receivables parties are in constant contact with the corporate debtor. Subsequent transaction refers to the transactions occurred in respect of realisation of amount after the date of commencement of the CIRP proceedings. There may be few such transactions between corporate debtor and persons in the list of trade receivables, in cases when corporate debtor is a going concern.
 - If the amount is subsequently realised after the date of valuation means there is a high probability of recovery of remaining balance also.
- H) Related party or not?
- This factor classifies the trade receivables parties into related party and non-related parties - as per the definition of related party in the Companies Act, 2013 and the Insolvency and Bankruptcy Code, 2016.
- I) Charge on assets is created or not?
- This factor is considered important to consider the recoverability from the person in the list of trade receivables as only secured creditors/ charge holder can realize the assets on which charge is created.
 - If a company has charge on its assets, the recoverability would be less. Operational creditor- the realization amount is only liquidation value which is very less than the actual amount to be received.
- J) Credit Rating Available or not?
- Credit ratings are one of the important factors on the basis of which banks provide loans to the companies and therefore companies need to acquire these ratings from the authorized credit rating agencies. But not all banks have this as a pre-requisite condition for the provision of loans. Also, Companies Act, 2013 requires the prescribed companies to acquire credit ratings from the specified agencies like as per the provisions of Chapter V – Acceptance of Deposits by Companies. Therefore, it can be one of the factors indicating chances of recovery from the trade receivable party

Factors of Analysis	SCORECARD		Exceptions
	1	0	
Accuracy of Amount	If balance confirmations reached	Otherwise	If response for the balance confirmation is received, then in that case valuation of fair and liquidation will be according to such reply received from such person, ignoring this analysis
Balance confirmation reached or not	If balance confirmations reached	Otherwise	
Corporate entity or not	If such person is a company or LLP	Otherwise	
Date of last filled returns	Latest financials available in accordance with CIRP commencement date	Otherwise	
Amount greater than certain threshold	If amount is greater than Rs. 5,00,000	If amount is greater than Rs. 2,00,000 but less than Rs. 5,00,000	If amount is less than Rs. 2,00,000, then the fair and liquidation to be considered as 'zero'
Ageing Analysis	If the outstanding amount is due for less than one year	If the outstanding amount is due for more than one year but less than three years	If the outstanding amount is due for more than three years, then the fair and liquidation to be considered as 'zero'
Subsequent transactions or not	If there are subsequent transactions with such person	If there is no subsequent transaction with such person	
Related Party or not	If a related party of the CD	If not a related party of the CD	
Charge on assets is created or not	If there is no charge created on such person's assets	If there is charge created on such person's assets	
Credit rating available or not	If credit rating is available	If credit rating is not available	

CONCLUSION

The key objective of the IBC Code is maximisation of the value of assets of the persons in distress. One needs transparent and credible determination of value of the assets to facilitate comparison and informed decision making. The valuations serve as reference for evaluation of choices, including liquidation, and selection of the choices that decides the fate of the firm. If valuation is not right, a viable firm could be liquidated and an unviable firm could be rehabilitated, which could be unfortunate for an economy. Trade receivables constitute a major portion of total assets of the companies especially when loan is advanced against the hypothecation of trade receivables.

Therefore, correct valuation methodology to value trade receivables helps in achieving the above stated key objective of the code- "Maximisation of value". Taking into consideration above factors while valuing trade receivables under IBC and liquidation can be good reference points.

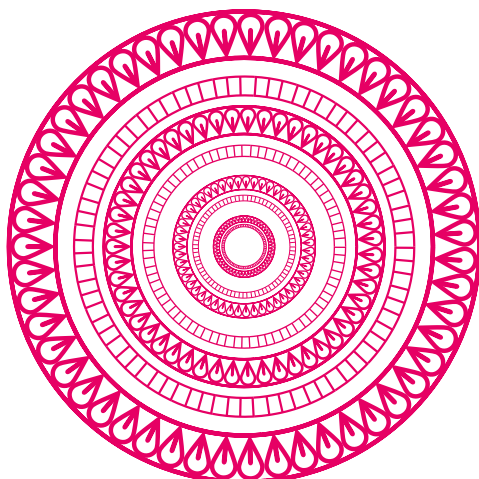


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**DUE DILIGENCE
IN VALUATION**

An experience

Due Diligence in Valuation – An Experience

1. In the September 2009, I was assigned a valuation of outstation property by a Public Sector Bank with salient features as below
 - a. Account was on the verge of becoming N.P.A.
 - b. Subject Property was mortgaged in some outstation branch of the Bank hence property ownership papers were not available with the local branch assigning the valuation.
 - c. The only documents available - were 2 valuation reports. One was 5 years old and the other being of May-2008.
 - d. As per details available in the old valuation reports, the details of the property were
 - i. A printing press with freehold land of 1672.24 sq.m.
 - ii. Located on State Highway.
 - iii. Having shops facing the State highway.
 - e. Indications were given by the bank officials that the party might turn hostile during the site visit, hence owner / party not being informed about the site visit in advance.
2. As per the agreed program, I reached the site and started the process of identification of property and demarcating its boundaries. The site looked quite different from the mental picture I had on the basis of data contained in the old valuation reports. The major observations at site were
 - a. The row of the shops facing state highway were constructed by covering a wide 'nala' running parallel to the state highway.
 - b. Printing press building could be approached by a 15 to 18 feet wide lane topped with concrete interlocking tiles. It looked like a colony road & continued beyond the boundary of Printing Press providing access to the other buildings as well.
 - c. Other side of Colony road opposite the printing press was a temple and UPSEB office with electrical installations.
 - d. Down the street were other building having the nameplates of the owners.
 - e. While the exact demarcation of plot of 1672.24 sq.m. was the technical requirement to be met, it was felt that any attempt to obtain exact measurements will attract attention of local residents and might lead to no measurements at all.
 - f. Thus, it was decided to walk the colony roads around the

printing press and with an eye on the natural markers to estimate the sides. Various permutations / combinations were to be worked out at the site to make a mental picture of the demarcation of land with area approx. matching the area in the papers.

3. The preliminary conclusions arrived by various permutations / combinations were that combined area of:

- UPSEB Office,
- Temple,
- The lane between temple and printing press
- 3 buildings on the colony road adjoining the printing press and
- Printing press will approx. match the land area in the papers.

4. Moving on to Local enquiry

a. Temple priest was the first stop. He informed that the temple was around 30 years old and he has been there for almost the whole period. Information relevant to valuation during the conversation with him can be summarized as

- i. Temple is located on the land owned by the owner of Printing press.
- ii. UPSEB office is on rent and owned by the same person. At the moment some dispute existed between the department and the owner over vacating the property.
- iii. The Printing press property had been subdivided and sold to different parties, two of them having constructed independent houses, about 10 years back.
- iv. One particular piece of land having single storey building in state of despair is sub-judice with a doctor claiming the property rights.

b. Local property dealers were contacted, who confirmed the prevailing market rates in the area and the story in bits and pieces depending on the duration of their working in the area.

5. The report was made on the basis of findings / assessment at site. Thus only 330 sq.m. land with construction housing printing press could be assigned present replacement value approx. 70 lacs and submitted to the bank. All the others areas were valued as NIL because of the fact that portions were

- a. Not in the clear possession of the party
- b. Had been given for public good (like temple and Colony Lane)
- c. In Disputes / sub-judice and the time frame for resolution was any body's guess.

6. Since the bank had quite high exposure based on earlier valuations of property running in crores. It was a consensus opinion in the bank that probably I had visited the wrong property.

7. Ultimately the valuation was assigned to the local valuer to value the property. When his team visited site, they faced a stiff resistance from the local residents and No measurements could be taken at site.

8. Eventually bank realized that

- a. the facts stated in my reports were accurate
- b. In the short-term probability of recovering the due amount by auctioning property was low
- c. Necessary damage control in line with the prevailing reality has to be initiated with urgency.



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Comparison of the Valuers with Doctors, Chartered Accountants & Advocates, is that fair ??

Many times, the Valuation profession is compared with the profession of Doctors, CAs & Advocates. Even the executive summary of the Draft Valuation Bill 2020 does the same. Not a fair comparison. In those professions the Service providers make their best attempt to keep the Users satisfied & happy (by Curing their disease, reducing the tax burden, resolving the legal dispute, etc) But for the Valuer who does the Valuation of a Tangible Asset, the possible Users are the Asset Owner, the Banker, the Insolvency Professional, the Tax Assessee, etc., if the Valuer does Ethical Valuation following the Standards, Guidelines & Best Practices the End Result may not always make the "Users" satisfied (because of their short term needs), they will remain aggrieved as it may not match the "Convenient Valuation Figure" in their minds or that they need at that point of time. So the dynamics between Valuer & Valuation User is completely different from the dynamics that are there between Professionals like Doctors, CAs, Advocates, and the Users of their services. So, it is NOT fair to have such comparisons.

The Only profession that can be compared with Valuation Profession.

The valuation profession is a Unique Profession that cannot be compared with the other profession based on its working dynamics, if at all a Comparison has to be made, a Valuer can only be compared with a Judge. A Judge after hearing the arguments, examining & analysing the case applies his mind based on the Laws in force and pronounces his Judgement, he cannot think about the Satisfaction of the Users of the Services (the Convicts & Litigants)

COMPARING APPLES AND ORANGES





TESTIMONIAL

“My journey as a member, faculty & a committee member.”



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Insolvency Professional
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IBBI/RV/02/2018/10303&10304
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My membership of IOV-RVF denotes integrity, transparency and excellence and establishes confidence as a Registered Valuer under the Companies Act. Being a member of IOV-RVF I am groomed as a professional and I try to maintain the highest level of standards and ethics. IOV-RVF is committed and ensures continuous process of learning as well as development for its members. This organization never fails to impact users of valuation services of its members, governments, financial institutions, and other stakeholders by understanding key responsibilities and commitments to the society. My involvements with IOV-RVF have been as a teaching faculty as well as a member of many other committees. These committees show a great leadership of the Board of Directors and top executives being fully responsible for the oversight along with strategic planning of IOV-RVF (a not-for-profit organization, in a similar fashion to for-profit organizations formulating key policies about the direction and strategy of the organization in keeping with the nonprofit's mission and objectives of IOV-RVF)



Similarly, a Tangible Asset Valuer collects the necessary records, inspects the Asset physically, Calculates, Analyses, Compares, consider multiple Intrinsic Factors (like Black Money, Sentimental Factors like Vaastu, Stigma Factors like Devils presence that cannot be seen during inspection), and by following Ethics, Standards & Guidelines then come up with a Value and that too within an unrealistic timeline fixed by the “Ever Urgent Valuation User”. Despite all these, the end result may keep the Valuation User aggrieved as the Users may not have got the “Convenient Value” they perceived to address their short-term needs. Valuers acts as custodian of public money; every thought should be in these lines always.

Its high time that Valuers should introspect their unique & special role of safeguarding public money and feel their worth and act accordingly, only then their self-respect will increase, only then the world around will respect our noble profession & the Valuers.

Few Quotes worth revisiting at this juncture-

“Never be bullied into silence. Never allow yourself to be made a victim. Accept no one's definition of your life, but define yourself.” –Harvey Fierstein

Our Indian culture gives very great importance to self respect. The great Tamil Saint & Poet Thiruvalluvar says that **“A man losing his self-respect does not have even right to live”**.

Please remember Bhima's words in Mahabharath, **“Even by losing life , I would protect my self-respect, for life is temporary but self-respect would live as long as sun and moon”**.



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**ALL ABOUT MRO
INVENTORY &
VALUATION**

Balance sheet lists inventory as an asset, because money is spent on it and it has a value. Too much or too less of Inventory may cripple business. Maintenance, Repair & Operation (MRO) type of inventory requires better attention for asset intensive plant and so is their optimization. Apart from reason for fast buildup of MRO inventory and subsequent creation of dead inventory, this article also discusses MRO Inventory accounting and need for skilled Valuer.

INTRODUCTION

Inventory is the major part of a Company's working capital that necessitates their optimization. There are mainly four types of inventory such as Raw material, Work in Progress, Finished Goods and Maintenance, Repair & Operation (MRO) stores. Some organization treats packing materials as fifth type of Inventory. In general, inventory is classified as current assets because it is typically consumed within a year as part of the production process.

MRO inventory is all about materials, equipment and supplies used in the production process at a manufacturing plant but are not part of the finished goods being produced so does not become part of Cost of Goods Sold (COGS). They may include consumables like Gloves, masks, safety equipment and other stores like Valves, motors, industrial equipment, Repair tools, Laboratory equipment, electronic cards, proprietary spares etc.

Inventory management for most manufacturing companies is focused around a combination of raw materials, work-in-process (WIP), and finished goods. Manufacturers try to optimize by following lean or just in time practices. However, in asset-intensive businesses and in the maintenance operations of traditional manufacturing, MRO inventory management takes on a whole different flavour. When downtime is especially costly, the last thing a business needs is to have production halted while waiting for spare parts for repairs. At the same time there is the necessity to perform periodic maintenance, either preventive or predictive, which requires maintenance of certain level of MRO inventory. When a company buys set of machines, they are supplied with certain percentage of critical spares and most companies embrace the OEMs' recommendations, then adjust upwards/downwards if

experience shows those levels are inadequate/adequate. However, in reality they rarely adjust downwards. In this way level of spares under MRO category keeps on increasing in due course of time and become a problem both in terms of their storage, their usability as well as a major cost component in the balance sheet.

Further, during the course of the life of the plant & machinery, it is quite common for equipment to be replaced or modernized, particularly due to advent of new technology. In certain areas like electronic & software-based systems, planned end of life also plays into the equation as OEMs try to phase out to remove clutter of multiple versions of equipment and their difficulty to support, forcing investments in newer generation equipment. This creates an environment of serious mismatch of spares with existing footprint of the installed equipment. This leads to holding of dead inventory of spare parts affecting overall performance of an organization.

TREATMENT OF MRO INVENTORY IN ACCOUNTING

During the normal running of a company, there are some materials which are consumed as part of the daily operations, but cannot be considered as part of actual cost of goods sold (COGS) rather, their consumption is shown as an expense in the PL statement, under other expenses. These are materials in stores- like indirect consumable, spares parts (used for maintenance of equipment) etc. Since they are basically assets of the company and are most likely consumed in a year, they have to be recorded as current assets, and therefore logically in the inventory stores and spares are also sometimes capitalized in the balance sheet along with the fixed asset (like machinery) for which they are consumed. In general, repairable spare parts are classified as other non-current assets similar to property, plant and equipment, rather than inventory because such parts are repaired and re-used over a long period of time, may be the same period over which such parts are amortized.

Ind AS Provision: Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with Ind AS 16 when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory hence their fair value measurement shall be as per the provisions of Ind AS 2.

SPARE PARTS VALUATION FOR FAIR MARKET VALUE MEASUREMENT

All three approaches to valuation can be applied to Inventory valuation. Valuer should use judgment in making the determination of specific method depending upon the purpose of valuation and those methods can fall under Cost Approach, Market Approach, and Income Approach. Before deciding the approach and methods, valuer is required to understand the state of affair with detailed analysis in case of MRO inventory. Some of the obvious questions related to MRO inventory would be:

- Status of in-house inventory verification with the help of user department & their findings.
- Classification of inventory in terms of Critical, Insurance, General etc.

- Further classification of inventory falling under General Category with regard to Fast Moving, Slow Moving and Non-moving.
- Standard Operating Procedure pertaining to storage and classification of MRO Inventory.
- Status of dead inventory.

It is seen that company will not discard spares under critical & insurance category even if they are non-moving unless and until related equipment has met with end of life. However, chances of non-moving inventory under general category to get classified under dead inventory is quite high.

So based on above findings (again not exhaustive and may require further in-depth analysis), a valuer may proceed the valuation of MRO inventory using valuation approaches and methods applicable to them. Steps could be different than the valuation of manufacturing inventories (raw material, work in progress, finished goods) and this may not even match with valuation of assets like Plant & Machinery. This happens because of MRO Inventory being unique, may have unusual cost, having limited usability by others, sometime proprietary in nature and also limited availability. In spite of all these facts they have unique value to the organization and so to determine their right value requires special skill and industrial experience from the valuer side.

CONCLUSION

Buildup of spare inventory in an organization depends on organizational philosophy & nature. These centralized inventories require regular attention & decluttering exercise from the user department. Level of MRO inventory & their treatment may vary in different sectors. Proper assessment of their value during course of time is one of the challenging exercise and require services of Skilled Valuation Professionals.

I had cleared the exam, in 2018; during initial stages with one of the best experiences with IOV-RVF. The assistance throughout has been wonderful by the experienced staff at IOV-RVF, who are friendly yet so professional. Tremendous support by each faculty, who never said a no to any query, help or problems raised by us and always resolved it with a smile. Excellent coordination and time management has helped a person like me, with 60 years of age, to clear my exam with such an ease. In fact, even today, for any CEP queries, team IOV-RVF is ready to take calls on a holiday to sort out any issue. I am thankful to the whole dedicated team and the faculties for the support in my journey as a registered valuer.



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GENERAL OBSERVATIONS

COVID-19 has had a major impact across both the “real” economy as well as in the financial and credit markets in last one and half years and still continued with uncertainty. With such uncertainty as to when the dislocations will resolve themselves, companies need to begin proactively assessing what this means for the value of their assets, with impairment considerations being a focal point. While owners of assets often focus on goodwill when considering impairment, it is equally important for companies to evaluate other assets that may be impaired such as; property, plant and equipment, definite and indefinite-lived intangibles, inventory, trade receivables, right of use assets, debt and equity investments. Evaluating these assets and ensuring that the appropriate basis is reflected in a company's financial statements requires a well coordinated effort with cross-functional multi-disciplinary expertise.

HOW DOES IT MATTER?

It is expected that the majority of companies will be required to acknowledge that the ongoing and evolving COVID impact will make it difficult for a companies and their auditors to address financial reporting matters differently than usual bringing in impact of COVID. Specifically, the company or its auditors will need to consult with experts to determine how the evolved/ evolving COVID situation may impact its assets, including impairment of goodwill or other assets, it should consider engaging with those experts promptly so that its reporting remains timely as well as complete and accurate.

In addition to the time line pressure, companies would need to assess whether there has been a triggering event for goodwill or other long-lived assets. Companies should note that such triggers are not just due to stock price movements as the majority focus on real economy impacts. If there is triggering event for impairment, then impairment test as per Indian Accounting Standard – 36 (IndAS 36) is required.

IF THERE IS A TRIGGERING EVENT

If there is a triggering event and it is ultimately determined, based on a given impairment model, that a valuation is needed, companies should properly sequence their valuation.



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IMPACT OF COVID ON ACCOUNTING AND VALUATION FOR IMPAIRMENTS

Such sequencing will help companies avoid inadvertently shielding certain assets. For example, if a company were to assess its goodwill for impairment prior to assessing its asset groups, then the resultant book value ascribed to goodwill, after taking into consideration the impairment, might be understated while the other assets in the asset group may be overstated.

IMPAIRMENT EVALUATION SEQUENCING

- 1) Other assets, including Receivables and inventory.
- 2) Long-lived assets, such as property, plant and equipment (PPE), finite-lived intangible assets and asset groups.
- 3) Goodwill of a reporting unit containing any of the above assets.

A substantial decline in equity value and/or worsening macro economic factors are likely triggering events that companies need to be accustomed to. Getting ahead of these assessments will help provide time to react and be deliberate in the messaging of any impacts to investors and creditors. Additionally, triggers only apply to certain assets and there can be multiple triggers. Others, such as account receivable, need to be looked at regardless at every balance sheet date.

Additionally, companies should consider initiating conversations with their auditors early in the process as this will help avoid any surprises both in terms of the assumptions used in their impairment evaluations and the application of IndAS. Companies will need to ensure that they have the appropriate documentation in place supporting their conclusions both in terms of their prospective financial information underlying the valuations as well as the application of the impairment models with respect to the company's specific facts and circumstances.

VALUATION CONSIDERATIONS IN THE TIME OF COVID

Given the uncertainty with respect to the duration and severity of COVID and its related economic impacts, it is likely that companies will need to employ even more careful considerations and judgment as they work through impairment assessments pertaining to assets such as goodwill, PPE, and equity method investments. Management should apply informed judgment as it relates to these impacts on financial reporting matters.

Key inputs to valuation models, such as cash flow forecasts and/or inputs into the discount rates, are likely to change, especially in industries where there is likely to be a shift in demand, disruptions in supply chain, etc. It is likely to be an iterative process as management works to reflect the risk and uncertainty in its cash flow forecasts and its determination of an appropriate discount rate, given new facts and circumstances in the wake of COVID.

To quantify risk, consider applying different forecast scenarios with assigned probabilities to provide a framework for analyzing and adjusting a range of events and outcomes, rather than attempting to

compress all the complexity into a single forecast. While it might be challenging for companies to update prior forecasts that have been rendered obsolete due to the impact of COVID, it will be critical for companies to develop robust, defensible and up-to-date cash flow projections to confidently communicate the expected impact on its business in the current environment. Scenario forecasting also facilitates a company's compliance with their risk and control framework with respect to prospective financial information.

In some instances, detailed scenario planning may not be possible or feasible given time constraints. For public companies, consider inferring investor expectations about future cash flows based on current market capitalization. Include a company-specific risk factor in the discount rate, which, when applied to company provided forecasts, reconciles present value to enterprise value as traded (plus a reasonable control premium).

WILL THERE BE AN IMPAIRMENT IN THE CARRYING VALUE OF MY ASSETS LIKE GOODWILL, INTANGIBLE ASSETS, PPE, ETC.?

Assessment of impairment in Goodwill and other intangible assets are governed by IndAS 36. It is important to note that the details provided in the IndAS focus on their recoverability of the asset and hence, it implicitly requires taking a long-term view. This involves a careful reading of the temporary as well as permanent changes in the macroeconomic factors. Any structural changes in these factors caused in the wake of this uncertainty needs to be appropriately factored in the valuation analysis. For example, in the Value-in-use method, the near-term cash flows may be affected, but the long-term cash flow expectations may remain unaffected, which may not lead to any impairment. To reasonably ascertain conclusion on the impairment, a robust stress testing analysis of valuation models needs to be carried out. This will include testing valuation-related assumptions such as long-term growth rate, profit margins and discount rates, etc., along with changing the assumptions behind the projections to understand the results in the worst-case scenarios. The analysis would help professionals understand the valuation 'cushion' over the carrying amount of the investment. Further, another aspect which the companies may look at while testing goodwill for impairment is the applicability of control premium. Since the unit of account in a goodwill impairment test is at the CGU (cash generating unit) or a reporting unit level, its fair value is implicitly on a control basis. Hence, in arriving at the CGU/ reporting units' fair value, one might take into account an appropriate control premium. This will however require judgments and supporting documentation.

CONCLUSION

With a focus on the accounting and valuation details, companies need to assess the impact of the current business disruptions due to COVID on assets. The details often involve complex scenario planning as well as valuation and accounting challenges associated with impairment, including how to best document the findings.



VINEESH VIDYADHARAN

IBBI/RV/02/2018/10437
(Registered on 24th Dec 2018)

It gives me immense pleasure to share my experience with IOV RVF for the last 3 years. Before proceeding further, I would like to place on record my profound gratitude to IOV-RVF for this opportunity. I have no hesitation to say that my journey from the mandatory education programme participant to the Faculty at MEP, CEP and COP programmes has played a vital role in improving my professional competence as a Registered Valuer for which I am indeed obliged to IOV-RVF and to the respected Managing Director Ar. Vinay Goel Sir. We all know that Learning is a never-ending process and the different CEP programmes enables us to upgrade and update our knowledge and wisdom regularly. I was also fortunate to be a member in the Membership Committee of IOV-RVF which provided me an opportunity to interact with the senior most Valuers of our country. I have seen magnanimous effort taken by the leaders of IOV-RVF to retain the registered Valuers who have not been able to complete the CEP requirements by providing further chances to comply with the requirements to retain as a Registered Valuer. My heartfelt gratitude to the General Manager Sri Saurab Gupta, Manager Manasi, other staff members Praveen, Keshav etc. all for their wholehearted support.

IOV-RVF has already produced innumerable Registered Valuers and wishing for more.



JUDGEBIR SINGH WALIA

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I am extremely happy that IOV-RVF is publishing the online newsletter. I am extending my good wishes for this commendable effort to whole team of IOV-RVF especially Shri Vinay Goel Ji and other board members. This online newsletter can act as an innovative and informative bridge between Valuation professional across the globe, not only for their educational insights but also to enhance their professional expertise.

I feel immense pleasure being the member of this esteem organization which is providing us the platform to share our experience with each other and update us on the latest regulatory changes and technological advancement.



G V APPA RAO

IBBI/RV/02/2018/10365
(Registered on 13th Dec 2018)

I am a proud member of IOV-RVF, which is one of first and Premier RVO in our Country. The evolution of this is clearly visible right from becoming the member, the training sessions, the CEP conducted by reputed professionals.

We are incredibly happy to attend and be part of International Valuation Seminar organised during these three years.

I wish our RVO to continue strength to strength in the progress of Valuation in our country.

It was a time when Insolvency and Bankruptcy board of India announced mandatory educational programs and exam for valuers to bring the profession in a unified manner. Being a member of IOVRVF and undergone MEP's (Let me express my highest gratitude to Trichy Centre and Sabapathy sir). I was confident of facing the exam. However, there were only a few centres in India – especially in metro cities – to appear for the exam at that phase. My state was undergoing terrific floods which caused heavy human causality as well as physical damages. There was no means for conveyance irrespective of road, rail, or air. All the airport runways were damaged in the state, trains are cut off from district to district and roads & bridges damaged which became a nightmare to travel. I was totally disappointed by the situation and waited for right time to book my tickets and get registered for the exam. Knowing grave situation, I am facing, a gentleman from SEBI, Mumbai (where I must appear for exam) helped me to adjust my exam date as and when airports open occasionally.

Finally, Kochi International Airport opened for a couple of days and fortunately I managed to get to & fro ticket. I reached Mumbai on a Monday morning and totally exhausted because of delay in flight, long transit hours etc. Finally, I reached the centre in time and surprised by the cosmopolitan atmosphere at the centre. The staff were so accommodating that my nervousness eased. As the exam progressed, I felt confident and able to finish it half an hour early.

Later a lady showed me queue where another staff is announcing the result of the candidate. As I approached him, my heart was pounding with unknown fear. Suddenly a door opened, and a gentleman appeared in front of me. He looked at me with hesitation and asked my name. He smiled and took my hall ticket number to check the result himself. I really felt an emotion as if some unknown power blessing me as he announced my result with a passionate smile.

Thus, I was the first person from Kerala to register with IBBI in 'Land & Building' asset class. This is one of my cherished memories in my life.



KUMAR P R

IBBI/RV/02/2018/10195
(Registered on 02nd Nov 2018)

“Magical moment
in my chronicle”

Testimonials



EDITOR'S WORD



TANUJ KUMAR BHATNAGAR

FIE, CFA
Registered Valuer (L&B)

IBBI/RV/02/2018/10404
(Registered on 18th Dec 2018)

THREE YEARS & ON ...

Greeting to Valuers' fraternity on completing three years of glittering performance by your Institute IOV-RVF. It was a journey against all odds where people from different professional backgrounds and places have collaborated, cooperated and delivered for making the Valuation profession- a sought after profession. The Valuer members, the faculty, the management and workforce, the Board of Director of IOV-RVF and the regulating officers of IBBI have all contributed in establishing this progressive Institution called IOV-RVF. The thrust on keeping its members updated & upgraded by way of various online CEPs, MEPs and interaction with experts from across the globe on concepts of valuation has kept the motivations high. The Institute is continuously upgrading its technological platforms for ease of interaction with its Valuer members and lowering the rigor of compliance. Accordingly, online portal IOV-RVF HUB has been created and launched in April 2021.

I am elated to carry forward this journey with yet another edition of our journal. Explore the intrigue of profession with plethora of insights from experience of fellow valuers in Vox Populi section.

Happy Reading.

VALUATION REFERENCE NUMBER (VRN)

1. VRN

It is a unique number, generated on the IOV-RVF portal, required to be mentioned on every valuation Report prepared and submitted by a Registered Valuer (RV) of IOV-RVF in accordance with clause-16, annexure-III, Model Bye laws, Part-I of COMPANIES (REGISTERED VALUERS AND VALUATION) RULES, 2017 and as per the Monitoring policy of IOV-RVF.

2. REQUIREMENT & IMPORTANCE TO GENERATE VRN

IOV-RVF initiated this unique concept of generating VRN to be obtained and used by RVs in all of their communications with the Clients and other Stakeholders in order to:

- a) Comply with the provisions of Point no.16 of Annexure III of the Companies (Registered Valuers and Valuation Rules, 2017), where it is stated that:

"A member shall submit information about ongoing and concluded engagements as a registered valuer, in the manner and format specified by the Organisation, at least twice a year stating inter alia, the date of assignment, date of completion and reference number of valuation assignment and valuation report.

THE UPDATES

Here the Organisation refers to "RVO i.e. IOV-RVF" and Reference number of valuation assignment refers to "VRN".

- b) Reduce the chances of conflicts, mentioning of VRN on all communications, not only the Valuation Reports become unique to RVs, who are conducting the Particular Assignment, but also to the Clients and other Stakeholders. This also reduces the chances of forgery, misuse and misrepresentation by third persons posing as Registered Valuers who may forge signatures on false documents to mislead authorities and the clients, thus protecting RVs and all others.
- c) Ensure the genuinity and compliance related issues regarding RVs to the Clients and other Stakeholders. It will help in building more confidence in the services provided by the Registered Valuers, who are members of IOVRVF.
- d) Submit the six monthly mandatory M-4 Form automatically filled because of already filled VRN Forms. RV has to just submit without putting any extra efforts to fill it.
- e) Help in addressal of any false Grievances against RVs without the disclosure of his identity to another concerned person.
- f) Ensure the authenticity of Valuation Report delivered by RV through any means. IOVRVF will be able to ensure the validity of any document issued to any concerned authority regarding RVs.

3) STEPS TO GENERATE VRN (REFER THE SCREEN SHOTS)

- a) Go to IOV-RVF website by clicking <https://iovrvfhub.org/>
- b) RVs can log in his/her account using his/her id and password. (Refer Fig.1)



Fig. 1

- c) After Login dashboard will appear, Click on VRN (Refer Fig. 2)

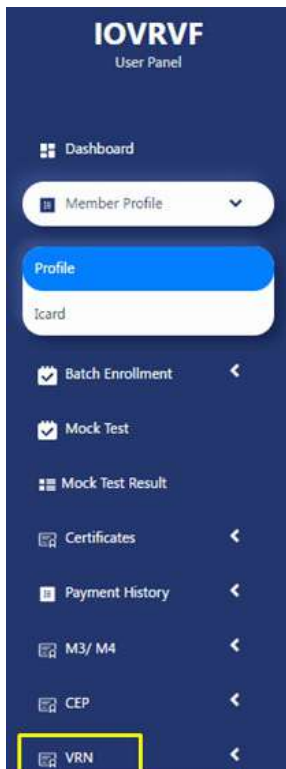


Fig. 2

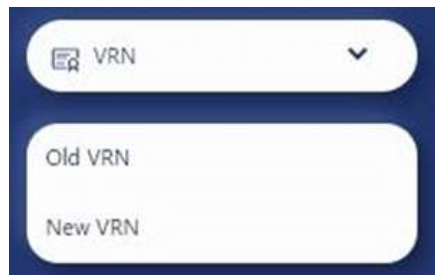


Fig. 3

- d) Click on New VRN (Refer Fig.3)

Old VRN: taken by RVs till March 31, 2021

New VRN: shall be generated for the assignments taken up after April 01, 2021



- e) Click "New VRN", new window shall appear, click on "Add VRN" (Refer Fig. 4)

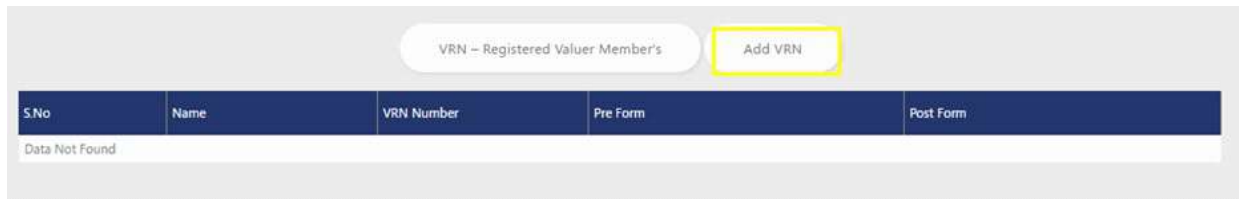


Fig. 4

- f) Click Add new VRN Pre- Form (Refer Fig.5)

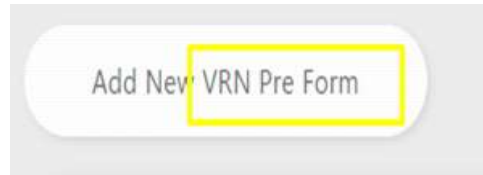


Fig. 5

- g) After filing the VRN Pre- form, click "Submit" (Refer Fig.6)



Fig. 6

- h) After submission, a VRN No. shall be issued to the Rvs.

4. STAGES/FORMS IN THE VRN

The VRN Form has been alienated into two stages/forms i.e. VRN Pre form and VRN Post form. (Refer Fig. 7)



Fig. 7

Once the RV fills the VRN Pre-form, a VRN is generated for every particular Valuation Assignment; RV is required to mention that VRN on the Valuation Report as submitted RV becomes eligible to fill the VRN-Post Form.

VRN- PRE- FORM: RV is required to fill this Pre form within 15 days of getting the valuation assignment from the client; RV has to fill the details, like Appointing Authority, Provisions under which Valuation is to be done, purpose of Valuation, etc, in the Pre-Form to obtain VRN.

VRN POST FORM: RV is required to fill this VRN Post-form within 15 days of the submission of the Valuation Report for which VRN had been obtained; RV has to fill details such as Valuation Date,

Valuation Conclusion, brief details of Asset Valued etc.

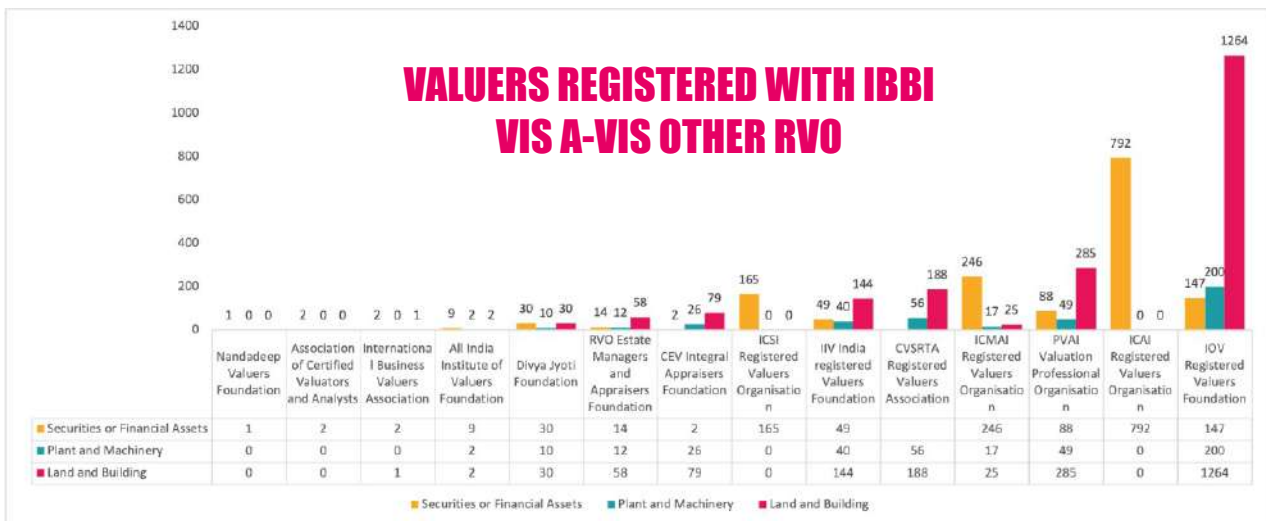
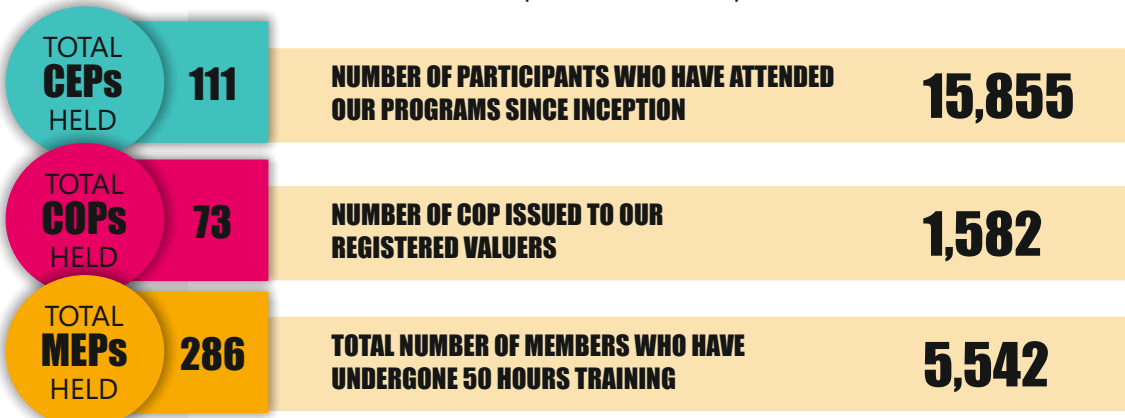
Note: For authentication of VRN, both the VRN forms need to be filled by RVs each and every assignments undertaken by the RV. In case only VRN Pre Form is filed, then it means that the particular valuation assignment is in an ongoing stage and has not been completed yet.

5) CANCELLATION OR MODIFICATION IN VRN

Once a VRN for a particular document has been generated, the details of the document, corresponding with the VRN cannot be modified in any manner. However, there may be a situation where the documents may either require certain changes or cancellation altogether. In such a situation, the VRN may be cancelled by sending a request on **cop@iovrvf.org**. Note that a reason for revocation will need to be provided.

We strive to provide excellence with each and every step that we take in. This is a reflection of what we do and where we stand. We aim to continue to raise this slope and touch the skies.

(All the data provided is till April 2021)



IOV-RVF MEP WEBINARS: PERFORMANCE AT A GLANCE

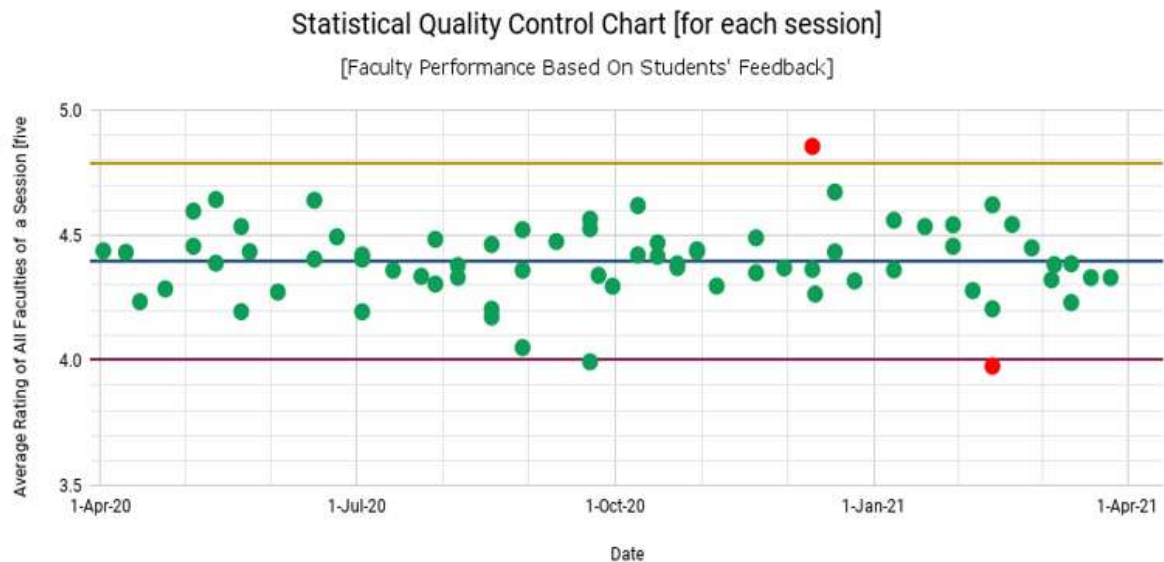
Prepared by

Atanu Mazumdar, Statistician (IOV-RVF)

IOV-RVF started online 50 Hrs MEP training from April 2020 onwards to facilitate valuation aspirants to get uninterrupted training despite the disruptions caused by COVID 19 pandemic. IOV-RVF has successfully conducted 70 such MEP batches during April 2020-March 2021. As a part of the strict quality control measure enforced by IOV-RVF, the everyday performance of each faculty is evaluated by the participating students. The performance of a faculty is rated against four quality parameters (communication, presentation, participation and clarity of objectives), each on a five-point Likert scale (best to worst through 5 to 1). Apart from assessing the session-wise average ratings of individual faculties, an average rating is also deduced for the entire session and placed on a statistical quality control chart to check if it falls within desired confidence limits.

Exhibit 1 presents the statistical quality control chart for all sessions conducted from April 2020 to March 2021. The running average being 4.4 (out of 5) and standard deviation 0.15, the lower and upper bounds of the session average coincides with the 99% confidence interval (4.00 - 4.79) of the normal distribution with the same running average and standard deviation. The normality assumption with a 99% confidence interval makes the process more stringent than the six-sigma standard. The quality control chart maintained by IOV-RVF has the limiting lines 2.58 times the standard deviation away from the central mean line, whereas the factor is taken as three for a standard six-sigma chart.

Exhibit



We observed that ratings of two sessions out of the seventy sessions fell outside the limiting range, once in December 2020 when it shot above the upper bound and next in February 2021 when it dropped below the lower bound. Two out-of-bounds ratings in 70 sessions are perfectly in line with the expected one in 100 sessions (p -value= 0.365, z -test). The scatter plot of the session-wise average ratings against the backdrop of the quality control chart implies that IOV-RVF has been maintaining a consistent quality of its MEP webinar throughout the year.

Sustenance of consistent quality of the webinar MEP programme is also validated by the one-year trend chart (Exhibit-2) of monthly ratings (average ratings of all sessions that started in a month), which does not show any monotonous trend. The ratings fluctuate around 4.4 (which is the running average of all session-wise ratings), with most of the points falling on the mean line. However, a slight concern is raised by the run of two falling averages. Statistically, though it is still within control, it may be the beginning of some systemic conditions which needs to be probed.

Exhibit 2

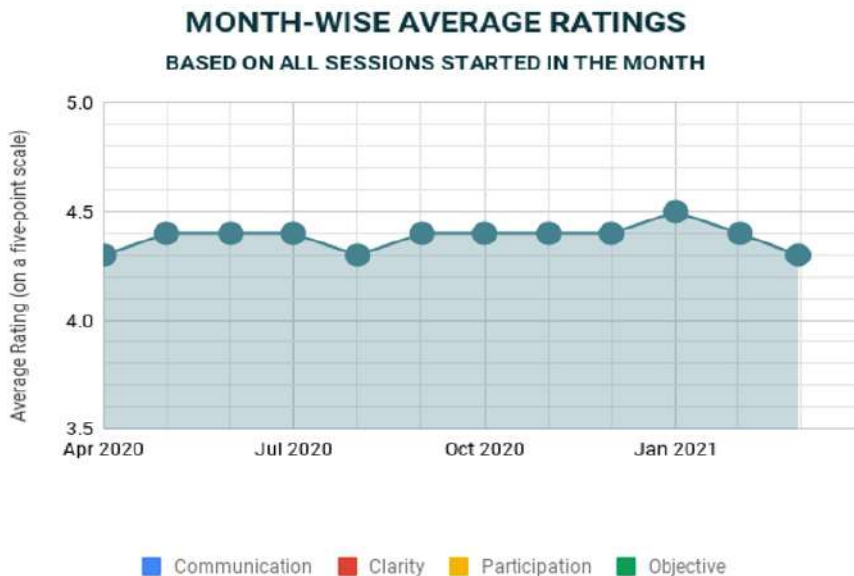
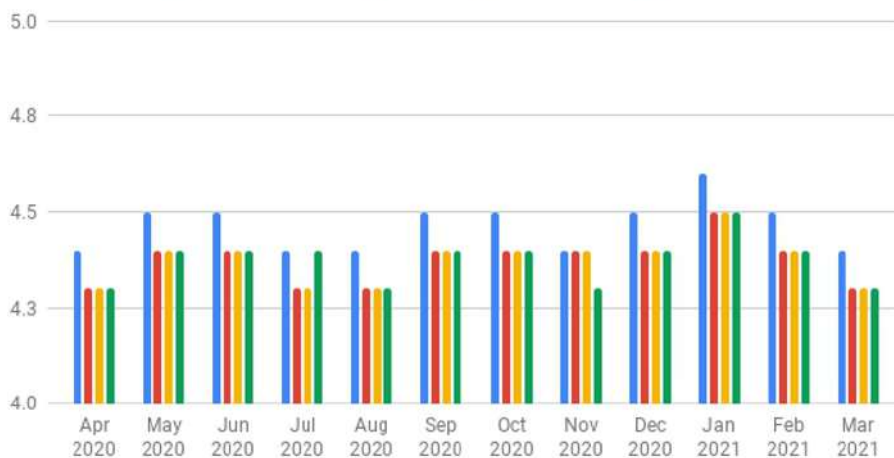


Exhibit 3



This observation leads us to think that the ratings given by the students against four different quality parameters are highly correlated (in reality, they are, ref table below), and in such cases, one single rating for a faculty (instead of four) by all students on a particular day will provide as good results as the average of four ratings against four parameters.

	Communication	Presentation	Participation	Clarity of Objective
Communication	1	0.79	0.72	0.75
Presentation		1	0.77	0.76
Participation			1	0.74
Clarity of Objective				



THE Valuer

COMPREHENDING VALUATION

ANNOUNCING OUR THEME FOR NEXT ISSUE

'SOUTH INDIA'



MEMBERS OF *SOUTH-INDIA ARE INVITED
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YOU CAN CONTRIBUTE

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- TESTIMONIAL
- AWARD RECOGNITION IN VALUATION FIELD

THE ARTICLE SHOULD BE STRICTLY ORIGINAL.
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creative.desk@iovrvfhub.org

NEXT REGION TO BE COVERED - WESTERN INDIA
(GUJARAT, RAJASTHAN, MAHARASHTRA, GOA)

STAY CREATIVE.

*SOUTH INDIA WILL COVER ANDHRA PRADESH, KARNATAKA, KERALA, LAKSHADWEEP, PUDUCHERRY, TAMIL NADU, TELANGANA.

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1. The article should be strictly original (no plagiarism).
2. Format for article/submission must be in:
 - Word document (.doc, .docx)
 - Language: English
 - Font: Times New Roman
 - Font size: 11 pts.
 - Line spacing: 1.5
 - Paragraph in 'justify'
 - Preferred word limit: 500 to 800 words
 - File name format should be: 'TheValuer-Submission_YourName'
 - The cover page of the article should contain:
 - a. Title of the article
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 - c. IBBI registration number Or IOV-RVF's membership number
 - d. E-Mail / contact number (if required)
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