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YOUR INSIGHT JOURNAL

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

PROMOTED BY: THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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About ICMAI Registered Valuers Organisation

The Companies Act, 2013 brought into the light the concept of 'Registered Valuers' to regulate the practice of Valuation in India and to standardize the valuation in line with International Valuation Standards. Consequentially, The Ministry of Corporate Affairs (MCA) notified the provisions governing valuation by registered Valuers [section 247 of the Companies Act, 2013] and the Companies (Registered Valuers and Valuation) Rules, 2017, both came into effect from 18 October, 2017.

In view of the above, the Institute of Cost Accountants of India (Statutory body under an Act of Parliament) has promoted **ICMAI Registered Valuers Organisation (ICMAI RVO)**, a section 8 company under Companies Act, 2013 on 23rd February 2018, which is recognised under Insolvency and Bankruptcy Board of India (IBBI) to conduct educational courses on Valuation for three different asset classes - Land & Building, Plant & Machinery and Securities or Financial Assets and to act as frontline regulator as Registered Valuers Organisation.

ICMAI Registered Valuers Organisation is an Academic Member of International Valuation Standards Council.

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(Managing Director)

From the MD's Desk

Dear Readers,

Valuation is a process of appraisal or determination of the value of certain assets: tangible or intangible, securities, liabilities and a specific business as a going concern or any company listed or unlisted or other forms of organization, partnership or proprietorship. 'Value' is a term signifying the material or monetary worth of a thing, which can be estimated in terms of medium of exchange. Valuation is the analytical process of determining the current (or projected) worth of an asset or a company. Valuation of business plays a very vital role; therefore, a business owner or individual may need to know the value of a business. The fair market value standard consists of an independent buyer and seller having the requisite knowledge and facts, not under any undue influence or stressors and having access to all of the information to make an informed decision.

There is no doubt that COVID-19 does and will continue to pose significant problems for the valuation of assets, businesses and equities in the short to medium term. The traditional approaches to valuation need to be carefully reconsidered in the current environment. Valuers will need to conduct a more rigorous due diligence on the quality of financial forecasts provided to them and what normative adjustments, if any, should be made to earnings, multiples or discount rates. Those issues must be resolved on a case-by-case basis – there is unlikely to be a 'catch-all' approach which can be applied across businesses in all industries. It is exactly at these times that valuations done by a random application of a multiple to a number will be deemed irrelevant and much deeper professional expertise will be needed. Given the variability, closing deals and negotiating valuations in the midst of COVID-19 will remain an enigma.

Dr. S K Gupta
Managing Director
ICMAI Registered Valuers Organization

Professional Development Programs

Professional Development Programs

March'2021 to May'2021	
Date	PD Programs
02nd March	Master Class on Valuation
05th to 07th & 11th to 14th March	50 hours Valuation Course on securities or Financial Assets
06th March	Master Class on Valuation
08th March	Seminar on the occasion of international Women's Day
10th March	Enhancing Professional Effectiveness
14th March	Master Series on Case Studies on Valuation
17th March	Master class on Best Practices in Valuation
21th March	Master Class on All about fair Valuation
23rd March	Master Class on Myths of Valuation
28th March	What is Valuation all about
30th March	Master Class on Valuation
31st March	Master Class on Valuation
04th April	Master Class (Valuation in Times of COVID)
07th April	Master Class (The Essence of Valuation Report)
11th April	Second Edition of Master Series Case Studies on Valuation
15th April	Master Class Global Trends in Valuation
17th to 18th April & 24th to 25th April	Refresher Course on Valuation
18th April	Mastering Essentials of Valuation
21st April	Master Class Valuation in VUCA Scenario
23rd to 25th April 2021 & 29th April to 02nd May 2021	50 hours Valuation Course on securities or Financial Assets
25th April	Master Class Strategic Skills for Valuers
28th April	Master Class Revisiting Basics of Valuation
1st to 2nd May & 8th to 9th May	Refresher Course on Valuation
05th May	Master Class Practical Aspects of Valuation
08th to 9th May & 15th to 16th May	Refresher Course on Valuation
09th May	Master Class Valuation of Plant and Machinery
12th May	Master Class Valuation of Land and Building
14th to 20th May 2021	50 hours Valuation Course on securities or Financial Assets
16th May 2021	Third Edition of Master Series "Case Studies on Valuation
22nd May to 23rd May 2021	Master Class Essential Learnings in Valuation for IPs
22nd to 23rd May & 29th to 30th May	Refresher Course on Valuation

Upcoming Professional Development Programs

DATE	PD Programs
26th May 2021	Interactive Session Frequently Asked Questions and General Concerns in Valuation
28th to 30th May 2021 & 3rd to 06th June 2021	50 hours Valuation Course on Land and Building asset class.
28th to 30th May 2021 & 3rd to 06th June 2021	50 hours Valuation Course on Plant and Machinery asset class.
29th to 30th May 2021	Master Class Success Stories of Registered Valuers
29th May 2021	COP Program
02nd June 2021	Master Class on Valuation
05th to 6th June & 12th to 13th June 2021	Refresher Course on Valuation
6th June 2021	Master Class on Valuation
10th to 16th June 2021	50 hours Valuation Course on securities or Financial Assets

Articles

Valuations in the time of COVID

CMA(Dr.) S K Gupta
Managing Director
ICMAI Registered Valuers Organzation

Synopsis

The extensive economic changes provoked by the COVID-19-crisis have led to some urgent concerns regarding the business valuation and valuation of various asset classes has become challenging for asset managers given the current state of market uncertainty. As the world continues to grapple with the health and economic crises brought about by the Covid-19 pandemic, professional valuers are playing a key role in helping to stabilise, and bring confidence to business and financial markets by using some innovative valuation approaches. This article provides an insight into the strategic and practical considerations in valuation in time of Covid

The Perspective

The global spread of COVID-19 is having a significant impact on the global economy and financial markets, with increased volatility and business disruption worldwide. These unprecedented times do not only bring serious threats to the world's health, but also a number of economic challenges. As it stands today, the true impact of the crisis is impossible to measure: current market conditions may only be temporary, and it is difficult to estimate the time required for economic recovery. While some of the risks may be temporary and muted, other risks would be more heightened reflecting expectations of severe/permanent disruptions in these businesses and the sectors in which they operate.

The most relevant factors and risks to be referred to when valuing a company

Volatility in Global Markets: We have observed significant market convulsions and increased volatility over the past couple of months, and this will impact valuations in the form of higher discount rates. These rates will likely rise along with debt margins and betas as investors become more risk averse.

Uncertainty of Business specific Cash Flows: On a company level, the uncertainty surrounding the true economic impact of Covid-19 has resulted in corresponding difficulties with business plan forecasting. Forecast estimates would usually take the impact of the crisis into account. However, without reliable economic forecasts available, companies will need to look to other company-specific risks so as to produce a reasonable business forecast.

Financial Risk Factors: The ongoing operational and economic uncertainties will likely lead to an increase in counterparty risk, and we may see a number of companies defaulting on their outstanding obligations. This will further increase the risk of investing through counterparties that either operate in high-risk industries or have low credit ratings. Many companies are reporting a rise in liquidity risk as they find themselves unable to deliver on short term obligations. Due to these heightened risk factors, we will likely see a rise in debt covenant breaches, insolvencies and asset impairments in the short- and medium-term

Other Factors: How the crisis will affect revenues and company operations in the near term. How the crisis will affect the business the company is in and its standing in that business over the longer term. New probabilities for the company's "Failure Risk." How the crisis has affected the price of risk and likelihood of default by updating the ERP and default spreads.

General Valuation Considerations

The short-, medium- and long-term impacts of the crisis, whether they be macro-economic or business-specific, will need to be taken into consideration. The market disruption observed today may be temporary, and the adjustments we make could potentially overstate or understate the crisis' impact on the company's valuation.

- Fair value is based on what is known and knowable at the measurement date. The assumptions taken into consideration today may no longer be applicable tomorrow, which means that the procedures and rationale for any valuations you perform should be documented in full.
- Assessing the going concern status of companies' company based on what is known and knowable at the valuation date. will also be key, so valuations should focus on companies' short-term cash flows and liquidity needs
- Consider company specific premiums and liquidity risks in your discount rates. Greater market volatility and high levels of uncertainty in the recent past may mean higher betas and debt margins
- Consider scenarios adjusted based on market evidence in your business plans and financial metrics by integrating what is known and knowable at the valuation date.
- Widen the range of your valuations and monitor your assumptions regularly. The ranges themselves may be subject to volatility as the regular valuations you are performing will rely on projections that are subject to constant change. Robust documentation procedures are required as valuations may be performed based on assumptions that that may no longer be valid in the future.

How should valuation adjustments be applied

The value of an asset is intimately linked to its ability to generate future probable gains: however, in times of crisis, the future is much more uncertain and the field of possibilities much wider. Similarly, in times of crisis, common value approaches present their own set of difficulties. Despite these difficulties, not all valuation exercises can be postponed in the expectation that a business will soon gain visibility of when a crisis will end

Income Approach

- fair value is based on what is known and knowable at the measurement date. As such, it is recommended that companies estimate potential performance shortfalls for Q1, Q2 and beyond in so far as is possible.
- It may be judicious to consider adjusting your business to cater for performance shortfalls that result from supply chain disruption, volatility in commodity prices, workforce restrictions, temporary curtailment of operations or delays in payments by your customers.
- Financial projections and metrics should consider any government incentives and short-term measures applicable.

- As investors become more risk averse, adjustments to discount rates in the form of additional risk premiums may become necessary. The income from these risk premiums may set off the financial impact of any other company risk factors which aren't covered in forecast cash flows or market indicators. Care should be taken to avoid any double counting of risks, for example additional risk premiums aren't required for factors that have already been addressed in cash flows or included in market inputs.

Market Approach

- When applying market approach, ongoing metrics and earnings should be looked at on a market participant basis and therefore one-off impacts can be excluded.
- However, expected adverse performance in Q1 and Q2 2020 and beyond, if deemed one-time, would still impact cash balances and would be reflected as a deduction from enterprise value in estimating fair value.
- An appropriate multiple should be congruent with the metric to which it is applied. The percentage change in Market Capitalization of comparable companies may provide a good proxy for the magnitude of the change to be expected in the multiple.
- It may no longer be appropriate to consider application of recent transaction prices, especially those from before the expansion of the pandemic.
- Care should be taken to avoid any double counting with respect to downward adjustments (i.e. penalizing the metric as well as multiples considered)

Other Adjustments

- Investors and companies may need to reassess liquidity needs (i.e., likelihood of a debt covenant breaches, impact of the extended reduced cash flow, funding of working capital required).
- A re-assessment of credit quality and repayment risk needs to be considered for debt investments.
- Emphasis needs to be placed on scenario analysis

Multi Criteria Approach

The various valuation approaches are all affected by a global and pan -sectoral crisis. It is customary, in normal times, to recommend a "multi -criteria" approach to perform a valuation, a term used to designate a methodology consisting of:

- Consider all valuation approaches,
- Analyze them individually, dismiss them or retain them according to the adequacy of the approach considered in the particular context of the asset to be evaluated,
- Implement the selected approaches,
- Compare the different results obtained, gauge the advantages and disadvantages of each method,
- Finally exercise expert judgment in order to arbitrate a range of reasonable values. The underlying premise for such an approach is that no valuation method alone, is able to provide in all circumstances "the correct and accurate result". Thus, the implementation of several approaches is useful as it diversifies the pros and cons of each approach, it helps the valuation practitioner to identify the effects of each strength and weakness in the particular case that is being studied, so that they shall eventually better neutralize any flaws.

Parameters emulating the effects of the crisis

All valuations should match performance expectations, taking into account the risk-reward balance that may be associated to these expectations. Thus, reversely, market capitalizations may be rationalized as a series of flows (and their risk reward couple) in a DCF-like approach. The impact of the crisis may be calibrated through considering pre-crisis forecasts (that would then emulate crisis forecasts), so that, under identical risk reward couple, these new forecasts would match the post-crisis market capitalisation15. As to the transformations leading from pre-crisis forecasts to emulated crisis-forecasts, a compromise must be found between accuracy, practicalities, ability to reasonably calibrate the parameters of the said transformation. For illustrative purpose, the following may be contemplated:

- The initial magnitude (intensity) of the drop of performance: this intensity may differ from one company to the other, depending of the nature of the crisis and the business model etc.
- The duration of the crisis: such a parameter is more likely to be common to a whole sector, it is certainly a very sensitive parameter
- The possibility (or not) of a catch-up: the pre-crisis plan may be considered as indefinitely delayed (the delay would thus match the duration of the crisis); but in certain few sectors, it may be considered that a catch-up is possible (the parameter being then the required duration for actually catching-up)
- The possibility of an everlasting shift in the level of demand: such a situation should concern certain few sectors; some could on the contrary experience an upside thanks for example to demonstrated shortages in certain equipment that the crisis would have revealed.

Conclusion

For valuers, the uncertainty which permeates all markets will inevitably lead to challenges, not just in terms of carrying out valuations and determining value, but also in the reporting of those values in a way that is both helpful and informative to users. Don't abandon valuation fundamentals during the COVID-19 crisis. It is precisely times like these that they matter most, with so much uncertainty around companies' future earnings growth, cash flows, and even their ultimate survival, Pre-crisis historical financial data seem useless and there's a wide range of predictions about the economy and individual companies for 2020 and beyond. It's all going to be okay,Go back to basics and the fundamentals and be willing to live with uncertainty. If you're wrong, revisit your valuation.

If you value companies in a period like this, you are facing exactly the same kinds of uncertainties you face during any other period. The only thing is, you are more likely to be wrong—and guess what, everybody is facing the same scenario. You are just as uncertain as everybody else and you have to make your best judgment.

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VALUATION OF BIOLOGICAL ASSETS

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Registered Valuer (S &FA, P&M)

Synopsis

Accounting and financial reporting practices categorize many assets such as property, machines, equipment, buildings, and other assets. "Agricultural and Biological assets" are one of the categories of assets. The common examples of such assets include land, special building/ structures created and plant & machinery installed/ acquired for agriculture, animals such as goats, sheep, cows, buffaloes, calves, and fish. Biological assets include plants such as vegetables, crops, vineyards, trees, and fruit orchards. Generally accepted accounting standards do recognize agriculture and biological assets as income generating business assets and their measurement at fair value less costs of realisations. The generally accepted International Valuation Standards (IVS) do address the valuation standards covering valuations aspects of such properties in addition to conventional assets like immovable properties, real assets, intangible assets, plant and equipment's, etc. This paper discusses the general characteristics of agricultural and biological assets with special reference to their recognition by accounting standards and measurement of their values applying International Valuation Standards.

Defining agricultural and biological assets in valuation and accounting standards

Agricultural properties, which include but are not limited to, crop farms, perennial plantings, dairy farms, forestry/timberland, and aquaculture are key contributors to economic growth, especially for developing economies, where land and an active workforce are generally available. If combined, these resources of land and people can produce valuable natural commodities, such as palm oil, coffee, timber, livestock and milk.

Other than these more conventional commodities, 'biological assets' also include the use of bacteria in the production of dairy (yoghurt, cheese) or the cultivation of viruses to produce vaccines for the pharmaceutical industry, all of which are categorized as agriculture properties in the modern world.

Commodities (mineral and natural) are recognized as one of the core assets classes, together with cash, equities, bonds, real estate, gold/precious metals, and other alternative investments in International Valuation Standards (IVS). Each of these asset classes, however, has different characteristics and risk profiles.

From the perspective of the IVS Tangible Assets Board, agricultural property, within the context of this article, can be further defined as follows;

Agricultural properties comprise:

i. Land

ii. Structural improvements - i.e., buildings and site improvements (both permanent and/or semipermanent)

iii. Plant and machinery attached to the land e.g., processing plant

iv. Plant and machinery not attached to the land e.g., vehicles, heavy equipment

v. Biological asset attached to the land i.e., living plants

vi. Biological asset not attached to the land i.e., living animals

vii. Agricultural produce

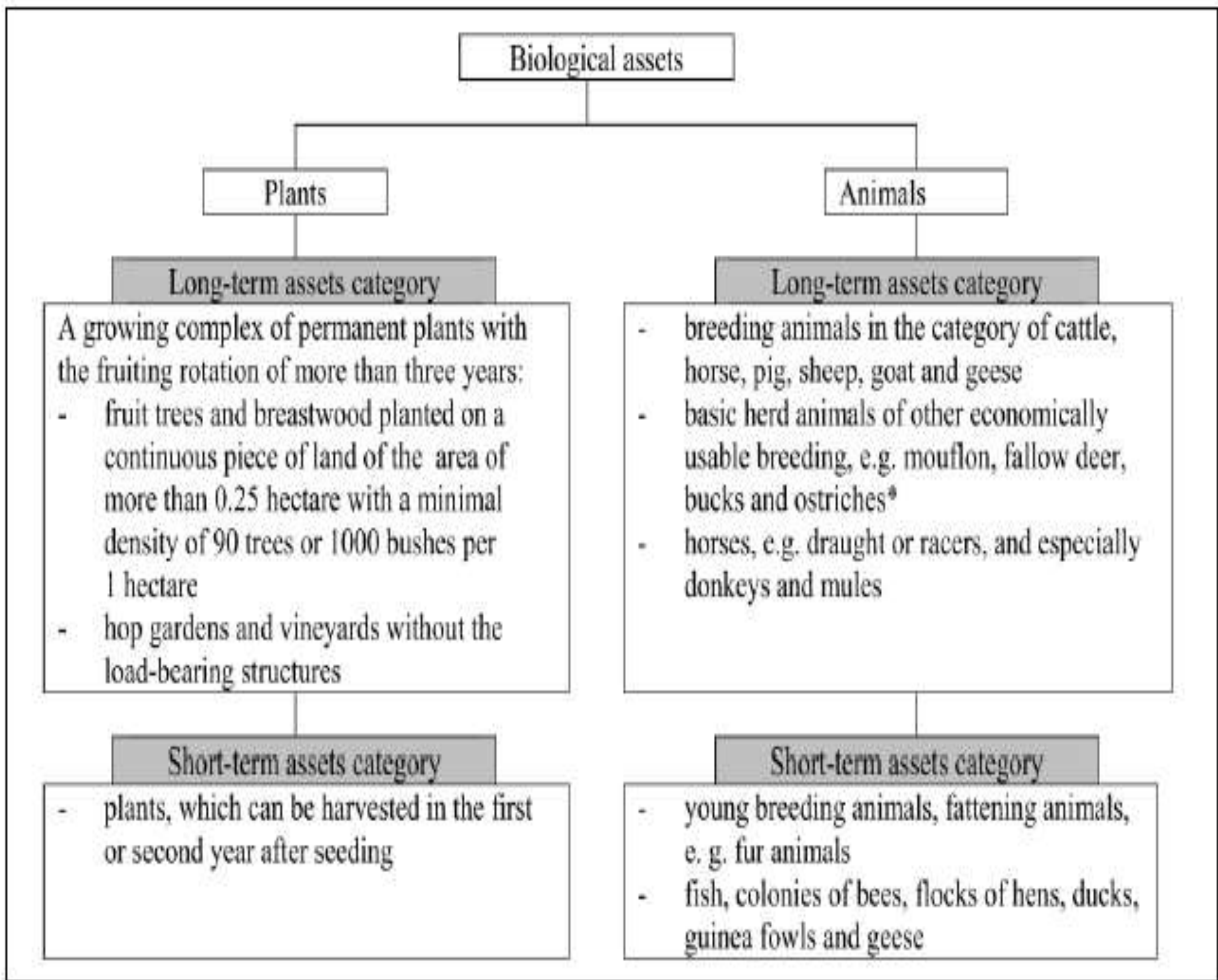

Figure 1: Biological assets classification scheme

The International Accounting Standard 41 (IAS 41) establishes accounting standards for agricultural activity. IAS 41 generally requires biological assets to be measured at Fair Value less costs of realisations and includes the following definitions;

'Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.'

'Agricultural produce is the harvested product of the entity's biological assets.'

'A biological asset is a living animal or plant.' 'Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.'

It should be noted, however, that while IAS 41 applies to:

a. Biological assets with the exception of bearer plants

b. Agricultural produce at the point of harvest, and

c. Government grants related to these biological assets.

It does not apply to land related to agricultural activity (which is covered in IAS 16 - Property, Plant and Equipment); intangible assets related to agricultural activity (which is covered in IAS 38 -Intangible Assets); government grants related to bearer plants, and bearer plants (IAS 16 - Property, Plant and Equipment). It also does not apply to agriculture produce which has been harvested from its bearer plants (IAS 2 -Inventories). The scope of IVS in respect of the valuation of Agricultural Properties, including Biological Assets, is therefore greater than the scope of IAS 41.

"Agricultural property is defined as all the rights interest and benefits attached in agriculture assets associated with the agricultural activity."

The challenge of inconsistent valuations and the case for new standards

The IVSC's Tangible Assets Standards Board and Business Valuation Standards Board ("the boards") have discussed the issues in valuation of agricultural properties and biological assets and have noted inconsistencies in the valuations carried out of these assets across all markets. This makes auditing these valuations extremely difficult, often resulting in the need for the biological assets/to be revalued as part of the audit process. Reliable and consistent valuations of agricultural properties are, however, essential. Robust valuations are vital in order to unlock the investment required to support a sustainable economy; to promote the productive use of agriculture property (including land) in sustainable economic growth; to maintain the confidence of capital markets; and to meet the requirements of financial reporting under IAS 41. The boards reviewed the valuation of agricultural properties to establish whether a separate chapter within IVS was needed to deal with these issues. The boards noted that the physical and economic characteristics of agricultural properties differ from those of common real property (residential or commercial properties) in urban areas, for the following reasons:

• Agricultural properties undergo a process called "biological transformation" where the biological asset is "nurtured" for either (IAS 41.5): -

Sale, or

- Agricultural produce, or

- Additional biological assets

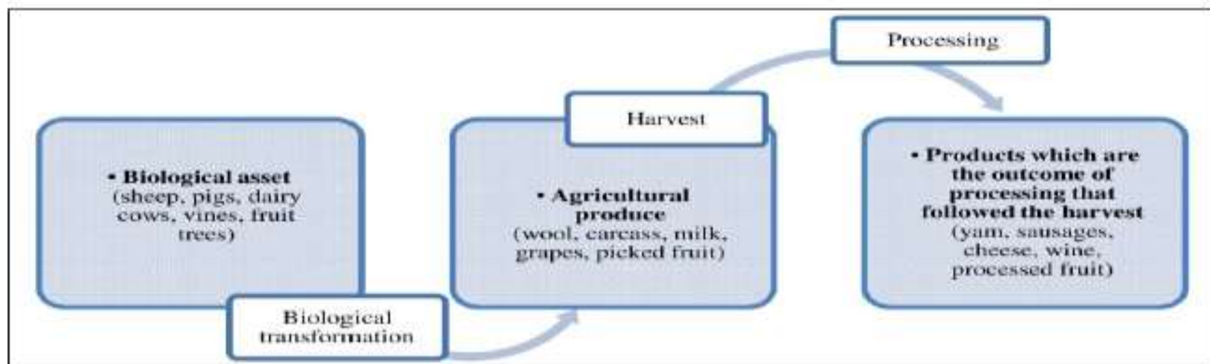

Figure 2: Process of agricultural activities

• Land in urban environments should be suitable for bearing the improvements erected on them, while for agricultural properties; the soil is the principal agent in production, varied in its capacity to support a given amount of a particular commodity or class of commodities.

• In urban environments, the economic use of a property may remain unchanged over a period of years and might be guaranteed by contractual arrangements. In agricultural properties, however the same use may extend over a long duration (oil palm plantations harvested within 20+ years, forestry harvested after >15+ years), and for others, the economic use may vary from year to year or crop cycle, depending on the Highest and Best Use commodities the land could produce. On the other hand, its economic use may be competition from other more financially profitable land uses such as industrial and residential.

The income stream associated with the agriculture property will vary according to the type of agriculture for which it is used, the commodities produced and the cyclical nature of the commodity markets.

• In the valuation of agricultural properties, the physical and environmental aspects to the property assume special importance, which include features such as climate, soil type (and their productive capability), the availability of water for irrigation and the feeding/carrying capacity for livestock. External factors to be considered include the availability and adequacy of support facilities required for storage, processing and transportation.

The boards also reviewed the purpose of valuation of agricultural properties and noted that agricultural property valuations were required for a number of purposes including:

1. Asset disposal/acquisition
2. Business M&A
3. Secured lending
4. Taxation
5. Financial reporting

A way forward

Following their discussions, the boards felt that majority of issues in relation to the valuation of biological assets revolved around the implementation of IAS 41 - Agriculture, especially in the area of measurement of agriculture produce and the allocation of value. However, agriculture property valuation should be seen as broader than those issues, not only is it an asset class which is critical in the socio-economic development, capital investment and overall aspect of the economy, but the asset class needs to be understood so that valuers may provide valuation by promoting prudent, transparent and consistent procedures.

The boards further noted that agriculture property differs distinctly from other real property valuations for a number of reasons, to include:

• Agricultural property goes through a biological transformation (growth)

• The economic use of agricultural property might vary from time to time dependent on the commodities /agriculture produce yielded from property.

In reviewing the issues in relation to the valuation of agricultural assets (including biological assets), the Business Valuation and Tangible Assets boards identified the following key issues:

- Allocation of value – land, improvements, business value, bearer plants, produce and intangibles
- Establishing Highest and Best Use – where there associated demand for more intensive use of land and how this is reflected in the total entity value and associated allocation.
- Apportionment of value during production – prior to crop/output reaching maturity.

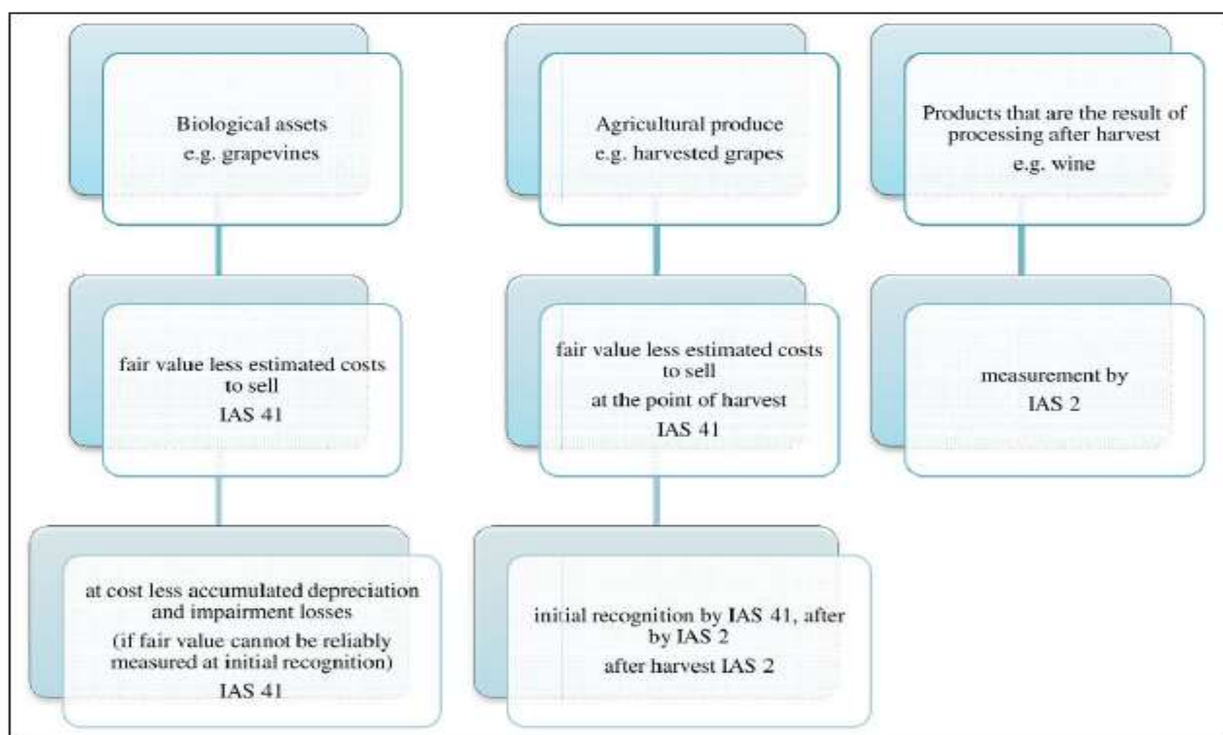

Figure 3: Measurement of biological assets and agricultural produce by IAS 41 and IAS 2

The boards felt that no additional guidance – beyond that which is already set out within IVS – was required for the valuation of agricultural properties and biological assets. The boards determined that IVS includes all the information needed to carry out robust valuations of these assets.

IVS 2017 is divided into two main sections, General Standards and Assets Standards. The General Standards apply to the valuation of all assets classes, including agricultural properties and biological assets and comprise the following chapters;

General Standards:

IVS 101 Scope of Works

IVS 102 Investigation and Compliance

IVS 103 Reporting

IVS 104 Bases of Value

IVS 105 Valuation Approaches and Methods

The General Standards provide all the information a valuer needs from instruction to final reporting. Two main bases of value for the valuation of Agricultural Properties are Market Value (MV) and Fair Value (FV). The basis used will largely depend on whether the valuation is required for asset disposal, acquisition or secured lending, where MV would be the correct basis of value or financial reporting purposes where FV (as defined by IFRS 13) is the correct basis of value to use.

Under IVS 104 Bases of Value it is the valuer's responsibility "to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value, whether those requirements are included as part of this standard (for IVS defined bases of value) or not (for non-IVSdefined bases of value)." The definitions for MV and FV contained within IVS 104 are shown below:

"Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

IFRS 13 defines Fair Value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"

MV, however, operates under the premise of value of "Highest and Best Use", which is defined within IVS 104 section 140 as follows:

"Highest and best use is the use, from a participant perspective, that would produce the highest value for an asset. Although the concept is most frequently applied to nonfinancial assets as many financial assets do not have alternative uses, there may be circumstances where the highest and the best use of financial assets needs to be considered."

In applying the Highest and Best Use analysis, the valuer will need to analyse and disclose in the report:

a. Whether the current land use reflects its Highest and Best Use or should be converted into other uses such as industrial or residential.

b. Whether the current agricultural use is to be continued, or should be converted to another, more profitable, type of agriculture.

IVS 2017 provides guidance on this matter and states that "the determination of the highest and best use involves consideration of the following: (a) To establish whether a use is physically possible, regard will be had to what would be considered reasonable by participants. (b) To reflect the requirement to be legally permissible, any legal restrictions on the use of the asset, e.g., town planning/zoning designations need to be taken into account as well as the likelihood that these restrictions will change. (c) The requirement that the use be financially feasible takes into account whether an alternative use that is physically possible and legally permissible will generate sufficient return to a typical participant, after taking into account the costs of conversion to that use, over and above the return on the existing use"

Therefore, when valuing An orchard at Market Value for secured lending purposes, the valuer must consider highest and best use and whether the cherry orchard could be better used for some other purpose, such as residential development. When making a decision, however the valuer must ensure that such a development is physically possible, legally permissible and finically feasible.

Once the correct basis of value has been chosen the valuer will need to refer to IVS 105 Valuation Approaches and Methods and "The principal valuation approaches within IVS 105 are: (a) Market approach, (b) Income approach, and (c) Cost approach." In order to correctly select the method for the valuation, IVS 105 states that: "the goal in selecting valuation approaches and methods for an asset is to find the most appropriate method under the particular circumstances. No one method is suitable in every possible situation. The selection process should consider, at a minimum:

(a) The appropriate basis(es) of value and premise(s) of value, determined by the terms and purpose of the valuation assignment;

(b) The respective strengths and weaknesses of the possible valuation approaches and methods;

(c) The appropriateness of each method in view of the nature of the asset, and the approaches or methods used by participants in the relevant market, and;

(d) The availability of reliable information needed to apply the method(s)."

In some instances, more than one method may be used or a method such as the Discounted Cash Flow ("DCF") may require inputs using elements of both the cost and market approach for quantification purposes such as rent or refurbishment/renewal costs.

IVS 105 does not however require the valuer to use more than one method and states:" Valuers are not required to use more than one method for the valuation of an asset, particularly when the valuer has a high degree of confidence in the accuracy and reliability of a single method, given the facts and circumstances of the valuation engagement. However, valuers should consider the use of multiple approaches and methods and more than one valuation approach or method should be considered and may be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. Where more than one approach and method is used, or even multiple methods within a single approach, the conclusion of value based on those multiple approaches and/or methods should be reasonable and the process of analysing and reconciling the differing values into a single conclusion, without averaging, should be described by the valuer in the report."

In some instances, several versions of the same method may be used. For example, oil palm plantation valuations using the DCF method may differ and the following models may be constructed.

1. A model based on a cash flow allowing for replanting of the palms and allowing for yield profiles of the palms to be properly reflected in the future cash flows, plus a terminal value.

2. A model may essentially be solely based on the current planting and a "reversion to bare site value" as the terminal value.

The use and structure of the model will largely depend on the agricultural property or biological asset to be valued and the professional judgement of the valuer.

In addition to adopting the General Standards within IVS 2017, the valuer must follow the Asset Standards in order to be IVS compliant.

The only exception to this rule is where there is a Departure, which is defined in IVS as follows; "A "departure" is a circumstance where specific legislative, regulatory or other authoritative requirements must be followed that differ for some of the requirements within IVS. Departures are mandatory in that valuer must comply with legislative, regulatory and other authoritative requirements appropriate to the purpose and jurisdiction of the valuation to be in compliance with IVS.

A valuer may still state that the valuation was performed in accordance with IVS when there are departures in these circumstances." The Assets Standards shown below are specialism specific, so if one is valuing an agricultural property, which could include a real property interest and plant and equipment then there is a need to comply not only with the General Standards IVS 101 to IVS 105, but also the relevant Asset Standards (ie. IVS 300 Plant and Equipment and IVS 400 Real Property Interests). Furthermore, if the agricultural property was being valued as a business and included some intangible assets such as brand or intellectual property then valuer would need to comply with IVS 200 Businesses and Business Interests and IVS 210 Intangible Assets.

Assets Standards

IVS 200 Businesses and Business Interests

IVS 210 Intangible Assets

IVS 300 Plant and Equipment

IVS 400 Real Property Interests

IVS 410 Development Property

IVS 500 Financial Instruments

Conclusions

In conclusion, IVS 2017 already includes all the elements required to the value agricultural properties and biological assets. However, care should be taken to ensure all of the relevant parts of IVS are considered and this will largely depend on the nature of the assets and the basis of value adopted.

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1. International financial Reporting standards

2. International Valuation Standards

Goodwill Assets of Professional Practices

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(IBBI/IPA-003/IP-N00031/2017-18/10259)

Abstract

This goodwill has always been an area of concern because of the lack of an understanding of what is goodwill, how it is created and how it should be valued. In this article the author tries to address how goodwill should be treated at by analyzing the difference between the business goodwill of the professional enterprise and the personal goodwill of the professional individual. Initially, the evolution of the concept of "professional goodwill" is discussed. Then, goodwill is reviewed from the perspective of economics and accounting -- the disciplines that have addressed it. Generally, economics has been used to explain why it exists, while accounting has been interested in measuring its value. The framework provided by economics and accounting are then used to distinguish between the business and personal goodwill of professional practices and how they should be treated.

Concept of Professional Goodwill

Goodwill in a business has long been recognized as property subject to division at separation. The legal concept of goodwill is based on an old English case, which held that "goodwill is the probability that customers will return." It is to include the tendency for customers to return to the same location or company because of its name or other reasons regardless of its location. This concept of goodwill expands its sources to include employees and suppliers. With the exception of monopoly power, the legal concept of goodwill focuses on the idea that goodwill is an asset which generates excess earnings. Mostly, the legal concept of goodwill is applied to businesses. Thus, goodwill in professional practices is to consider individuals as well as businesses.

What is Goodwill and How Should it Be Valued?

The concept above can be clarified by a systematic review of what is goodwill, how it is created and how it should be valued. Economics provides a framework for understanding goodwill and how it is created, while accounting has developed methods for evaluating it.

The Economic Concept

Our understanding of goodwill will be enhanced by a clearer understanding of assets, which is a synonym for property. From an economic perspective, goodwill is an asset, whose value -- as with all other assets -- depends upon the future returns that it will generate. For example, a share of common stock has a value based on the dividends that it will produce, while a house has a value based on the services that it will provide its occupants. It is important to recognize the difference between the value of an asset and future returns associated with it. A company's stock shares can have a high market value even though it is paying no current dividends because of the high dividends expected in the future. Even with no change in its current dividends the price of the stock will increase if the expected future dividends increase. Alternatively, things that will provide no returns in the future have no value. It is important to recognize that future returns are the key to current value. A solid, comfortable house that is going to be destroyed today to make way for a freeway has no value as a house.

Similarly, individuals can also be viewed as assets -- human capital -- based on the income stream that they can expect in the future. Human capital is a term used to describe the capitalized value of the increased stream of earnings that will flow to an individual who has been the recipient of an investment in skills or knowledge. In other words, human capital is an asset owned by an individual. In contrast to a share of common stock or a house, the stream of future income from human capital cannot be sold. Conceptually, however, they are all assets or property. Marketability has become a less common characteristic of assets because of the increase in the wealth consisting of their human capital. An asset has value not because it can be exchanged for money, but because it will provide a stream of future returns. Another concern about assets is the predictability of future returns. If the future returns are less predictable that does not mean that the asset does not exist, it just means that it will have a lower value because the expected future returns will be discounted at a higher rate. Our wealth or property at any moment consists of the assets that provide us with future returns.

While the shares of stock or the house can be evaluated in isolation that is not true for goodwill, which can only exist in conjunction with other assets. The economic concept of goodwill is introduced when the future revenues of an organization cannot be assigned to he contribution of a finite list of assets. Goodwill in the economic sense is another word for organization. To be more specific, the value of goodwill is derived from the economic benefits that a going concern may enjoy as compared with a new firm from (1) established relations with all the markets-both output and input, (2) established relations with government departments and other noncommercial bodies, and (3) personal relationships. These relationships cannot be separated from the business and they are sold with the business just like plant and machinery. Basically, the economic concept focuses on the fact that established businesses can make greater profits than new businesses. The greater profits are based on the established internal and external relationships of the older business. Since these relationships produce additional profits, which can be capitalized, it can be viewed as an asset of the business, i.e., goodwill.

Goodwill is created by the standard economic method of investing current resources to increase future profits. These additional profits result from either higher revenues or lower costs. Future revenues can be enhanced by a variety of promotional activities now ranging from lower prices to advertising. Meanwhile, future costs can be reduced by spending funds now on training the business's staff to increase their future efficiency. When the profits of a business are greater than those of another business, often new, in which similar investments have not occurred that business possesses goodwill.

It is important to realize that goodwill is an asset of the business, not of any individual. To the extent that a business is more profitable than its competitors because of the superior abilities or business connections of an individual, those profits are attributable to the individual, not the business. The individual should be able to capture the higher profits in higher wages or will move to a competitor. In either case, the profits of the firm will return to a normal level and any enhanced profits will disappear.

The Accounting Concept

The accounting concept of goodwill is directed not so much to the nature of goodwill as to its measurement. The general feeling is that verbal descriptions of goodwill are inadequate and that the only way to determine what is meant by goodwill is to observe the way that it is measured. The two criteria, either of which serves as evidence of the existence of goodwill, that serve as general guides for thinking about accounting goodwill are: (1) a payment in excess of an established value of a resource and (2) enhanced earning power. Essentially, these are the same thing approached from two different perspectives. The first approach goes directly to the asset value of goodwill. Since goodwill is an asset that is unique to each business, the most accurate calculation occurs if there is a market sale. If the business is sold, the difference between the market value of the identifiable assets and the sale price is attributable to unidentifiable intangible assets, i.e., goodwill.

The second approach is more appropriate because it considers an on going business that is not being sold. First, the balance sheet of the business has to be adjusted to reflect the current market value of the business's tangible assets. Then, the intangible assets, generally goodwill, have to be considered. Any rate of return in excess of a normal return on the tangible assets is attributable to these intangible assets. To give an asset value to the enhanced profits requires a capitalization rate. Goodwill is the capitalized value of these profits. So for example, if an established franchise has annual profits of Rs. 50,00,000 when new franchises with a similar investment have profits of only Rs. 40,00,000, it's enhanced profits are Rs. 10,00,000. The asset's value is based on the current value of the future enhanced profits. If those profits are expected to continue for an extended period, the asset's value is equal to the initial annual profits divided by the expected rate of return on the investment minus the expected growth rate of the profits. So in this case, if the expected rate of return is 20 percent and the enhanced profits are expected to grow by 10 percent per year, then the present value of these future enhanced profits, the goodwill, is worth Rs. 10,00,000/(0.2 - 0.1) = Rs. 1,00,00,000. The inverse of the denominator in this equation, e.g., 1 /(0.2 -0.1) = 10, is called the capitalization rate. This approach is used when the business is not being sold on the open market, e.g., the death of a partner or the continuation of a professional practice after a separation. Both of the accounting approaches to goodwill focus on the same thing, the unidentifiable intangible assets of an ongoing business.

Because goodwill is a residual remaining after a return has been assigned to other assets, its value may reflect the return to other unidentified assets. Accountants recognize a variety of intangible assets that benefit a business such as patents, copyrights, trademarks and leaseholds, but the value of these intangible assets often has not been computed, so their value is frequently attributed to goodwill.

In summary, based on the accounting and economic literature, goodwill is an asset based on the enhanced earnings of an established business. Traditionally, it has only been applied to businesses, although the concept can be extended to individuals. Business goodwill is based on the established relations with employees, customers, and suppliers that result in enhanced earnings for the business. In a similar manner, individuals could possess personal goodwill — professional goodwill in the case of a professional -- if they have enhanced earnings because of established relationships.

Goodwill in a Professional Practice

Economic and accounting analysis can be used to clarify how the goodwill of a professional practice should be considered at separation. Initially it is important to recognize that there can be two types of goodwill, as it has been traditionally defined in accounting and economics, in a professional practice: business goodwill and personal goodwill.

Business Goodwill

First, consider a professional practice with substantial business goodwill and little, if any, personal goodwill. It could be a clinic with no individual's name directly associated with it. Patients come to the clinic not because of any particular doctor, but because of the generally high quality of service that they have received in the past. In addition, it might have a laboratory associated with it that is well organized and provides rapid, high-quality service. The laboratory makes profits in excess of a normal return on its equipment. Because the patients do not return because of a particular doctor, none of the doctors -- including any who are owners of the business -- have any personal goodwill. If the clinic and the laboratory were sold, they would command a price in excess of the value of the identifiable assets reflecting the existence of business goodwill. If the value of the business has to be computed without a sale, then the enhanced earnings have to be capitalized. While business goodwill is a straightforward concept, its calculation still presents a challenge because of the ambiguity about the amount of the enhanced profits and the appropriate capitalization rate.

Personal Goodwill

At the other extreme is a professional practice with very limited opportunities for business goodwill, but the potential for personal goodwill. It could be a sole practitioner with a small office, even if well-organized. His patients come to the doctor because they receive high-quality service from him. His office operates smoothly, but he has only a limited number of employees and equally qualified people are available on the open market. A new doctor would not pay a price very much in excess of the market value of accounts receivable and tangible assets for the practice. Patients would not return to the same location just because they had gone to a doctor there before. While there is little business goodwill, personal goodwill can exist.

The identification and calculation of personal goodwill in a professional practice present many more problems than those associated with business goodwill. First, it is difficult to adapt the standard method for calculating business goodwill in an ongoing enterprise to individuals. This calculation consists of capitalizing the enhanced or excess profits that the firm is generating. These profits are relative to a similar business without goodwill. This can be a challenging calculation with a business, but almost impossible for individuals. Ordinarily the enhanced profits of a retail business can be calculated by comparing it to a similar but new one, which would be assumed to have no goodwill. The difference in their returns would then be attributed to goodwill. But with individuals, no two are alike. Each tends to be unique in terms of willingness to accept risk, qualifications, ambition, and so forth. For example, a common technique used in separation cases to estimate excess earnings of private practice doctors is to compare their earnings to those of doctors in salaried positions. However, the higher earnings will as likely reflect the inconveniences and risks inherent in private practice as the ability of the doctor to attract additional customers. Attempting to calculate the value of personal goodwill is an uncertain process. There are too many variables that can explain the difference between the incomes of salaried professionals and those in private practice and, also, among the private practitioners.

Another way of treating professional goodwill is just personal goodwill based on the individual's reputation. If that is the case, everyone has a reputation. If a doctor has a reputation, then so do salesmen, administrators, and to some extent everyone. In fact, housewives have reputations just as do wage-earners. Being married to an ex-Miss India may provide valuable returns both financial and psychological to her husband. Therefore, if reputation is property to be considered in a property settlement of a professional, it should be considered for all individuals.

Goodwill --business or personal-- only has value if it increases future earnings. When goodwill exists, the same effort as expended by businesses or individuals without goodwill produces higher earnings. Business goodwill exists when one franchise with the same investment, employees and hours as a new franchise makes higher profits. Similarly, personal goodwill can exist if an individual expending the same effort with the same skills as other individuals earns more because of better habits or a higher fee-paying clientele. One should emphasize that past efforts created goodwill, but its value is based on the future returns that it will produce.

Conclusion

The valuation of goodwill in professional practices may create substantial confusion. The first step towards a remedy is to clarify the distinction between business goodwill and personal goodwill. All businesses --professional and non-professional — potentially have business goodwill. Personal goodwill is associated with individuals, not businesses, and its analysis, computation and allocation present major problems. The answer probably lies with the limited recognition of human capital in contrast to other property.

The professional property values should also converse themselves with valuation of goodwill since they themselves carry lot of goodwill, both business as well as personal. Under the International Financial Reporting Standards (IFRS), whereby in India, all the entities will be covered in phased manner by 2014, the goodwill be find place in everybody's balance sheet. . It is worth noting that the service sector in India is contributing more than 50% in the National Gross Domestic Product (GDP). Further the valuation of goodwill is not only the premise of any special kind of valuers, but it is created/ generated out of factors. The valuers having knowledge of accounting finance and economics with basic technical expertise may prove to be better valuers for intangible assets.

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Formidable challenges in Valuation of Plant & Machinery

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Insolvency Professional (IP)
Registered Valuer (L&B, P&M) (RV)

Synopsis

"*Valuation of Plant machinery is always a challenge as we come across may anomalous complications. Apart for insufficient data/ document on plant machinery equipment there are several other factors pose challenge in arriving at appropriate FMV. Let's deal with a few aspects here in this article "*

It has always been a great challenge to arrive at FMV or liquidation value in respect of Plant and Machinery especially in a CIRP or Liquidation situation. Invariably the challenge for IP/ IRP/Liquidator is to furnish the vital basic documents to RV to facilitate and arrive at apt FMV or liquidation value

The following basic documents are essentially required.

- FAR (Fixed Asset Register) giving entire list of all plant machinery equipment spares
- Date and Rate of capitalization.... Gross block
- Invoices if available
- Maintenance records both Routine and Preventive
- Insurance policy. Any major Claim due to accident
- Major Repairs reconditioning Replacement Renovation Remodelling replenishment. etc
- List of Spares (Consumable and Non-Consumable)
- List of Current level of productivity (Production data)

It's very nice and ideal to seek all these data/ inputs. But usually in reality we hardly get all these inputs as the prevailing reality is very harsh. In fact, one hardly gets these data and most of the input may not be in place and never available. Even in case of a running unit. It's not easy to get these data especially in CIRP/ Liquidation. But in a manufacturing unit closed for few years, RV would perhaps not get any of these data. it's a tough challenge to evaluate machinery in the absence of the aforesaid vital essential inputs/data. Let's discuss the intricacies as to how to strategies and handle with utmost tact to get across to the inputs and accomplish this task Let me share a few following experiences.

Valuation based on discreet enquiries with old employees /Production manager

When we don't get the FAR, list of machinery but we usually get the latest audited Balance sheet revealing the following

1.Capacity
2.Revenue
3.Repairs Maintenance
4.Gross /net bloc
5.Insuarnce

If we focus sharply on the available existing installed Plant Machinery, and based on our discreet enquiry with old employees correlating with audited data, RV may be able to get some idea .RV may at least list out most of the major main machinery/ equipment with or without its name-plate serial number make model with mfg. year

if we succeed in this, it will be a major breakthrough and be of immense help. Usually, we do succeed in getting this major clue after substantial perseverance and with discreet enquiry with previously employed manager technocrats plant operators.

secondly Comparable brand /size make model of similar production units may have to be obtained to arrive at tangible credible conclusions. One needs to assume a very indicative presumptive price. it's possible to get the current market, the Replacement cost, provided the model is in vogue and not turned obsolete .and then duly provide for depreciation to get DRC (Depreciated Replacement cost) under cost approach.

Even if it is obsolete one has to guess/Estimate the Economic/Physical/useful life of the main machinery based on its productivity efficiency, RV should arrive at a very indicative approximate age and its future Life which help to arrive at FMV.

Another way to arrive at FMV, would be to get the cost/ Purchase price / depreciated value of P&M to be obtained from customer /its bankers/ROC, and compute DRC. (Depreciated Replacement Cost)

Furthermore, the performance indicators namely the production/ sales etc. can also be a vague guiding factor to figure out some value. *For Example, Sugar / Dairy unit considering its main Sales from Core Manufacturing can help to deduce the Capacity and arrive at Replacement Cost*. It's easier said than done for its a very very tricky exercise, it's a highly subjective opinion based on several intutionary assumptions which RV should spell out in detail

The approach and method of valuation, be it Comparative Sales method / Market approach or DRC based Cost approach or efficiency /productivity method under income approach all the three be adopted to arrive at some very indicative approximate value of the machinery.

Thus, the FMV and liquidation value of Plant machinery is based on several assumptions. The RV should declare various premise presumption on which the valuation model is built up and Value arrived at.

After adopting all standard established Methods / approaches of valuation, when RV arrive at FMV, the RP/IRP/Liquidator do not find the FMV acceptable as it is not comparable with quotes received from prospective RAs (Resolution plans)

After evaluating the assets under all three approaches /methods of valuation viz

a) Market approach, b) Cost approach and c) Income approach,

When RV arrives at FMV say Rs.100/, but when the RP gets a bid. /offer/quote from RA not more than Rs.70/, whereas RV has declared the FMV at Rs 100/. Thus, it does not truly reflect the realistic FMV under Market approach/Sales Comparison method. If all aspects factors are properly / fairly considered, in right earnest, then there should not be so much difference in RV declared FMV visavis the prevailing market quote at Just Rs 70/. There has to be some course correction to ensure that FMV by RV remain in line with the actual factual prevailing reality.

Valuation based on Audited balance sheet

RV may analyse the Fixed Asset Schedule especially Gross and Net block, the machinery as at recent year. Though RV may not the overall value can be obtained which could be an indicative approximate guiding the cost estimate for entire set of machinery This surely a smart way of basing the value on the data on P&M per audited Balance Sheets obtained from CD/ Bankers /ROC. After thorough analysis, RV arrive at FMV although RV may not get the value of individual item of P&M but the overall indicative approximate value is obtained

Leased Machinery fetch no Value

In case of Land + building the Lessor's or Lessee's rights can be valued separately, But, in case of Plant machinery, the ownership of the machinery matters. The ancillary equipment like Fan, DG set, the ancillary crane / the fans / a few more equipment etc in a mfg unit are usually taken on lease. RV cannot assign any value in case of CIRP/Liquidation.

Plant having outdated Technical specification bear only scrap Value

Let's consider an old ESP (Electro static precipitator) near a chimney in a cement /thermal or sugar plant boiler. The technical specification as stipulated by Pollution control board in line with current context, esp particulate matters etc is stiff and hence older Equipment (obsolete) may not fetch any value. This is because the tolerance limit for Particulate matter in PPM is stiffer and more stringent today than in the past If the ESP is designed five years ago, it can't be used today as it is outdated. Hence RV assign only scrap value viz only re-usable material content unless it is upgraded

Tools/ Dies /Moulds valuation is very tricky

The Ties/Tools / Moulds are consumable in nature and it is specifically tailor made to suit a particular end-use of specific customer say for a certain finished goods of a specific size and shape. Such Dies / Tools are made /financed either by manufacturer supplier or customer. Sometimes it is meant for specific numbers of units to be manufactured. It is usually amortised over certain period say 5-7 years.

To sum up, the basic deciding factors while valuing Tools dies Moulds are

a) Ownership,
b) Extent of use or
C) Future usability Plus extent of finance will help arrive at FMV of Dies Tools. Moulds

Conclusion

Thus, there are quite a few intricacies requiring Special attention due consideration before arriving at FMV. These are my own views based on my own experience. Should you need any further clarity contact email.ksa1954@gmail.com. Regards Thanks

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VALUATION OF INTANGIBLES

CA. Paras Savla , CA. Neerav Gala

Registered Valuer (S&FA)

Synopsis:

Wealth and growth in today's economy are driven primarily by intangible (intellectual) assets. Physical and financial assets are rapidly becoming commodities, yielding at best an average return on investment. Abnormal profits, dominant competitive positions, and sometimes even temporary monopolies are achieved by the sound deployment of intangibles, along with other types of assets.

Intangible or non-physical assets are becoming critical for business and they play an important role. In earlier years industrial companies derived their value from the tangible assets. However large number of new age companies are primarily deriving value from their intangible assets. Accounting rules usually fail to capture the true value of intangible into books of accounts. Non-recognising intangible assets into books may give distorted picture and/or underestimate the true value of the firm

As per Ind AS-38 – Intangible Assets, an intangible asset is an identifiable non-monetary asset without physical substance. We need to take here a note that, financial assets, such as stocks and bonds, which derive their value from contractual claims, are considered tangible assets.

Intangible assets, are recognized when they observe below attributes:

- ***Identifiability*** - they are separable or may arise from contractual or other legal rights;
- ***Future economic benefits*** – their existence depends on expectation of future benefit such as revenue or cost savings or other benefits resulting from their use; and
- ***Control*** - the owner can control the use or restrict the access to the future economic benefit

Intangible assets can be classified into definite or indefinite. Examples of definite Intangible Assets are Patents, and Licensing agreements which are worthless after their expiry unless renewed. On the other hand, Assets like Brand stay with the company as long as it continues with the business operations.

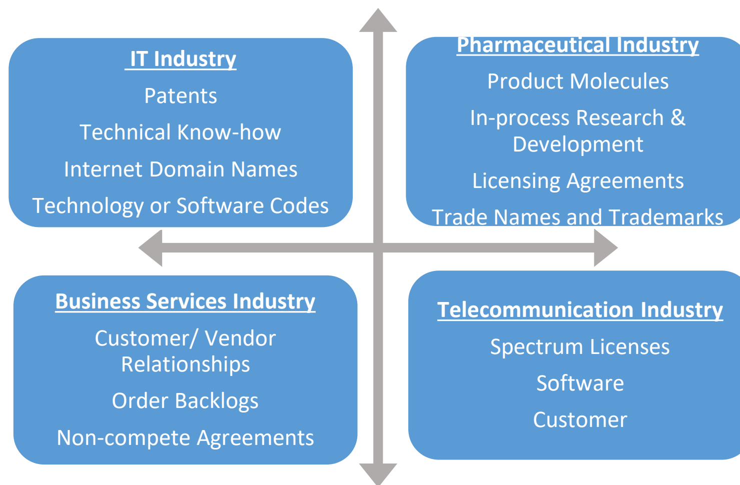
Not all the items meet the definition of an intangible asset, i.e. identifiability, control over a resource and existence of future economic benefits. If an identified intangible item does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date.

THE EIGHT KEY INTANGIBLE CATEGORIES

Goodwill, brand, copyright and trademarks are the usual types of intangible assets that comes to our mind. However, as per Raconteur Publishing, there are several different categories of intangibles assets as listed below:

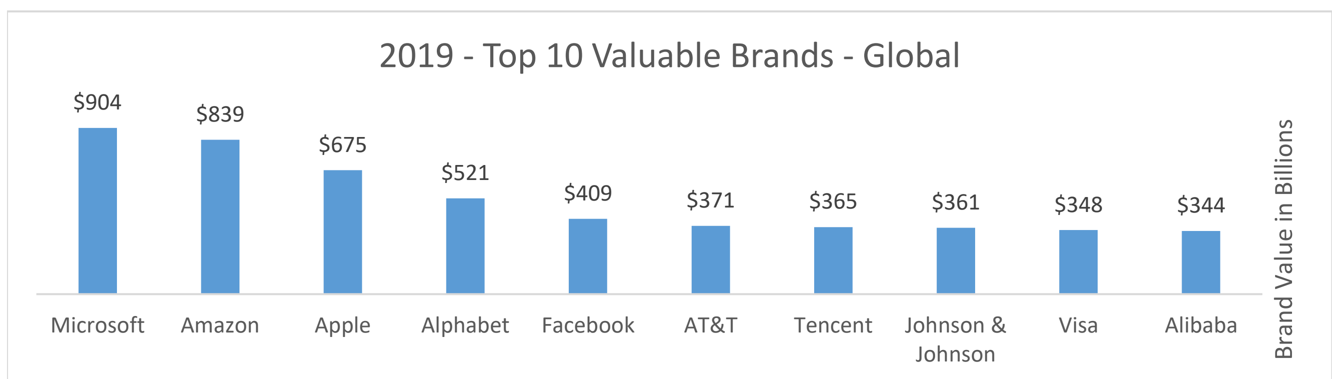
* *Although an assembled workforce cannot be considered an intangible asset, the value of the intellectual capital derived from specialized knowledge and experience that employees of an acquiree bring to their jobs may be captured in the value of other intangible assets in certain circumstance*

EXAMPLES OF INTANGIBLES ASSETS ACROSS INDUSTRIES

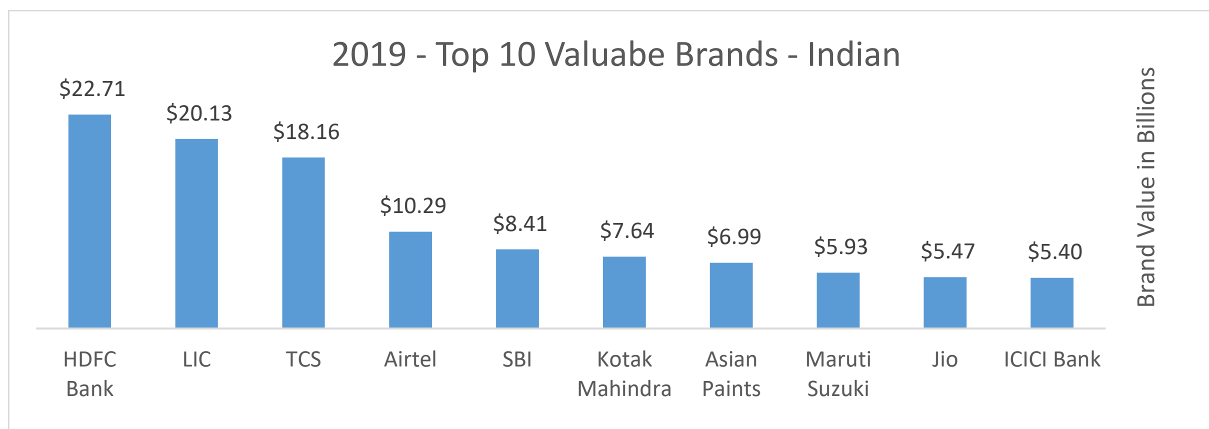


MOST VALUABLE BRANDS

Digital-centric sectors, such as internet & software and technology & IT, are heavily reliant on intangible assets.



Microsoft overtook Amazon for the top spot in the ranking for 2019, with $904B in intangible assets. The company has the largest commercial cloud business in the world. Pharma and healthcare companies are also prominent on the list, comprising four of the top 10. Their intangible value is largely driven by patents, as well as mergers and acquisitions. Johnson & Johnson, for example, reported $32B in patents and trademarks in their latest annual report.



HDFC Bank Limited was the most valued brand across India in 2019 according to BrandZ. valued at over 22 billion U.S. dollars that year. Life Insurance Corporation of India (LIC) followed the private financial institution with over 20 billion dollars-worth in brand value.

COMPANIES THAT ARE TOTALLY DEPENDENT ON INTANGIBLE ASSETS

For few companies, fair value of their intangible assets represents almost entire of its business valuation of 100% that is totally dependent on intangible assets.

IMPORTANCE OF VALUATION OF INTANGIBLE ASSETS

As per Ind AS 38, an Intangible Asset is recognized if the below conditions are met:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably

As we see above, in most of the scenarios (primarily in case of internally generated intangibles), expenses along the way of creating the intangible asset are expensed. Intangible assets created by a company do not appear on the balance sheet and have no recorded book value and hence not appropriately recognized as asset in financial statements. Thus, valuation of intangible assets is extremely desirable in below cases

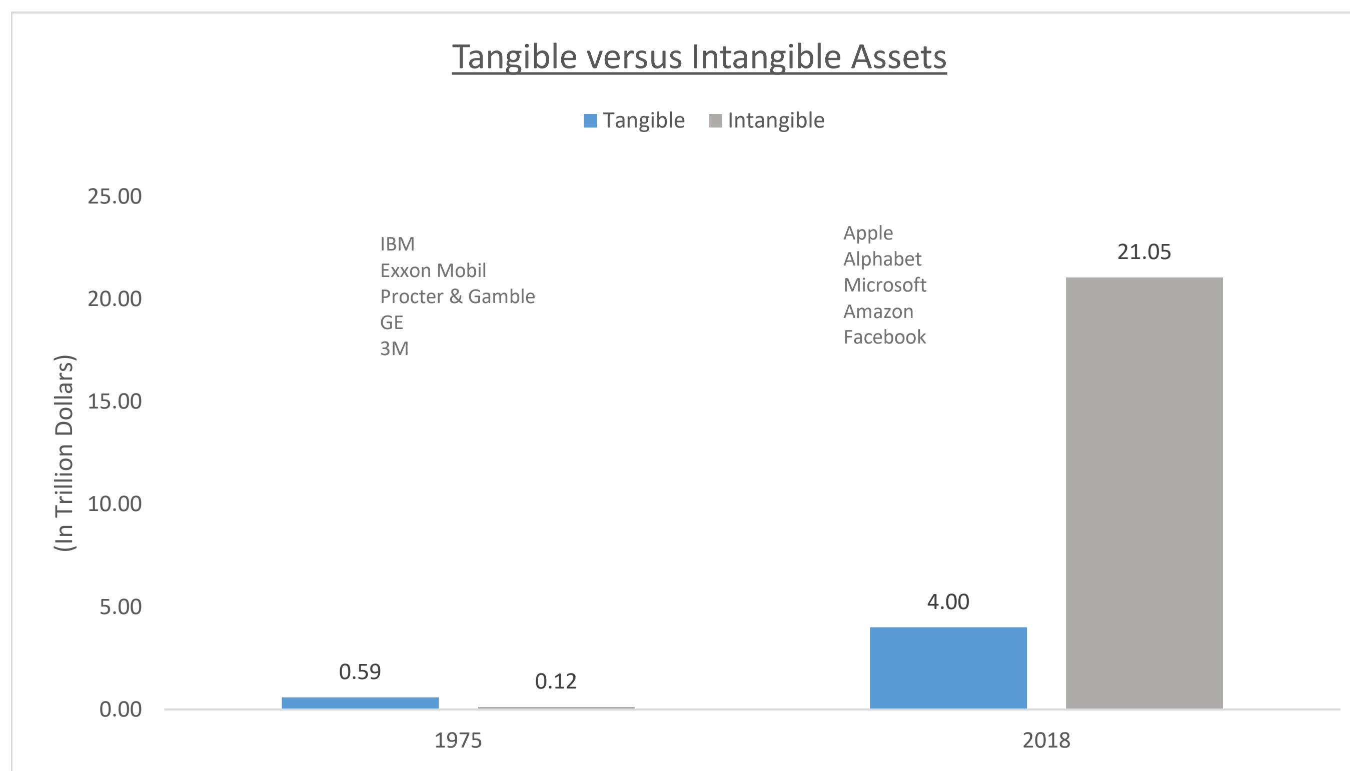
- Financial Reporting - Purchase Price Allocation
- M&A Decisions
- Business Formation and Business Dissolution
- Strategic Planning and Corporate Governance
- Licensing
- Tax Compliance and Planning
- Dispute Resolution

- Liquidation
- Litigations
- Fund Raising

Thus, Intangibles are an increasingly key component in determining the value of an enterprise, specifically in industries such as pharmaceuticals, technology, luxury, financial services and consumer centric sectors.

Additionally, the convergence of Indian Accounting Standards with IFRS has brought Valuation of intangible assets to the fore as they comprise a significant asset class in the allocation of the purchase price in case of Business Combinations under Ind AS 103 and Ind AS 38 which deal with the accounting treatment of intangible assets.

Intangibles used to play a much smaller role than they do now, with physical assets comprising the majority of value for most enterprise companies. However, an increasingly competitive and digital economy has placed the focus on things like intellectual property, as companies race to out-innovate one another. To measure this historical shift, Aon and the Ponemon Institute analyzed the value of intangible and tangible assets over nearly four and a half decades on the S&P 500. Here's how they stack up:



In the last 43 years, the role of intangible assets has shifted from traditional businesses to new-age tech companies. Intangibles have evolved from a supporting asset into a major consideration for investors – today, they make up 84% of all enterprise value on the S&P 500, a massive increase from just 17% in 1975.

VALUATION STANDARD

The ICAI valuation standard 302 deals with the valuation of intangibles. Standard lays following significant consideration for valuation of intangible assets:

(a) to determine the purpose and objective of the overall valuation assignment;
(b) to consider the legal rights of the intangible asset to be valued, for example, a registered trademark may have a higher value as compared to an unregistered trademark. However, an unpatented technology (as not in public domain) may have a higher value than a patented technology;
(c) to evaluate the highest and best use considerations;
(d) to assess the history and development of the intangible asset; or
(e) to consider any specific laws or regulations guiding the intangible asset valuation in the country, for example, royalty payments in India are regulated.

METHODS OF VALUATION OF INTANGIBLE ASSETS

IND AS 38 has recommended below valuation methods for valuation of Intangible Assets such as brands:

Market	Income	Cost
• Comparable Transaction Method	• Relief from Royalty Method • Multi-period Excess Earnings Method • With and Without Method / Premium Profits Method	• Historical Method • Replacement Cost Method

Let's understand each methodology in brief:

1) **<u>Comparable Transaction Method:</u>** Transactions occurring in a free and open market between knowledgeable and willing buyers and sellers conducted on an arm's length basis can be used to determine benchmark metrics for the purpose of valuing the comparable intangible asset. However, one needs to remember that while evaluating comparability, factors such as age of the asset, applicability of use, locational / geographical access or use, risk and expected return characteristics, etc. are to be adjusted as per facts and relevance. Typical benchmarks include multiples of revenue or profitability.

Though preferable, logical and easy to use method, it has its own limitations. Observable market-based transactions of identical or substantially similar intangible assets are generally difficult to obtain. Secondly, such comparable are generally confidential in nature as they involve other negotiated terms which are not publicly known. Thirdly, a further limitation is a lack of comparability. Usually, intangible assets, possess unique characteristics, which almost always required adjustments to be made to the benchmark metric.

Thus, one should use this method with utmost caution while using this method for valuation of Intangible Assets.

2) **Relief from Royalty Method (RRM):** The RRM calculates value based on the hypothetical royalty payments that would be saved by owning the asset rather than licensing it. The RRM is often used to value domain names, trademarks, licensed computer software, and in-progress R&D that can be tied to a specific revenue stream and where data on royalty and license fees from other market transactions are available. Below are the steps to value Intangible Assets using RRM:
    a. Projecting financial information for the overall enterprise, including revenue, growth rates, and tax rates and estimates. The underlying data is generally obtained from the entity's management.
    b. Estimating a suitable royalty rate for the intangible asset based on an analysis of royalty rates from publicly available information for similar domain names and of the industry in question. Royalty rate information is available on such databases as KtMINE, Royalty Source etc. Company filings for similar publicly traded companies can also be useful. In case if no reference royalty rate is available, one can use standard rate of 25% on gross or operating profits
    c. Applying the royalty rate to the estimated revenue stream.
    d. Estimating a discount rate for the after-tax royalty savings and discount to present value. Discount rate shall be indicative of the risk associated with cashflows from the intangible asset to be valued. Commonly used discount rates are WACC, cost of equity, cost of debt
    e. Estimating the useful life of the asset. As per Section 32 of Income Tax Act, 1961, Depreciation rate allowed on block of Intangible Assets is 25% thereby implying useful life of 4 years. Once should keep in mind that even Goodwill is considered as Intangible Asset eligible for depreciation u/s 32. (CIT vs. Smifs Securities Ltd (Supreme Court). Add the value of the tax amortisation benefit to the present value of cash flow.

Employing relevant royalty rate is a challenge and thus the valuer should cross-check with suitable up/down adjustment and in addition to other data sources to arrive at an appropriate royalty rate.

3) **Multiperiod Excess Earnings Method (MEEM):** The MEEM is a variation of discounted cash-flow analysis. Rather than focusing on the whole entity, the MEEM isolates the cash flows that can be associated with a single intangible asset and measures fair value by discounting them to present value. The MEEM tends to be applied in early stage enterprises and technology firms. The MEEM usually involves the following steps:
    a. Projecting financial information (PFI) — cash flows, revenue, expenses, etc. — for the entity.
    b. Subtracting the cash flows attributable to all other assets through a contributory asset charge (CAC). The CAC is a form of economic rent for the use of all other assets in generating total cash flows that is composed of the required rate of return on all other assets and an amount necessary to replace the fair value of certain contributory intangible assets.

c. Applying the royalty rate to the estimated revenue stream.
d. Estimating a discount rate for the after-tax royalty savings and discount to present value. Discount rate shall be indicative of the risk associated with cashflows from the intangible asset to be valued. Commonly used discount rates are WACC, cost of equity, cost of debt
e. Estimating the useful life of the asset. As per Section 32 of Income Tax Act, 1961, Depreciation rate allowed on block of Intangible Assets is 25% thereby implying useful life of 4 years. Once should keep in mind that even Goodwill is considered as Intangible Asset eligible for depreciation u/s 32. (CIT vs. Smifs Securities Ltd (Supreme Court). Add the value of the tax amortisation benefit to the present value of cash flow.

Employing relevant royalty rate is a challenge and thus the valuer should cross-check with suitable up/down adjustment and in addition to other data sources to arrive at an appropriate royalty rate.

4) **With and Without Method (WWM):** WWM measures the economic contribution of the asset by calculating the net present value of the incremental cash flows to be derived from the use of the asset. In this method one needs to calculate two sets of cash flows; one that represents the status quo for the business enterprise with the asset in place, and another without it. The difference could be either in terms of higher pricing that the product/service commands owing to brand or higher volume/units sold as it may have potential of higher penetration in the target markets. Here the focus is on the incremental cash flow that the asset is expected to generate owing to brand, noncompete agreements or such other kind of intangible asset that it possesses. The difference between the cash flows is assumed to be attributed to Intangibles.

5) **Historical Method:** This method considers the historic or sunk cost or purchase price to value the asset. This method does not consider future benefits arising out of the use of assets. Hence, it usually is not a good indicator of the true value of the intangible asset. Unless mandated by accounting standards, one should avoid this method as it does not reflect true value of the underlying Intangible asset and focuses more on book value rather than underlying intrinsic value of the asset.
6) **Replacement Cost Method:** The method considers estimating the costs to recreate / replace an asset with equivalent functionality at current prices and costs, including adjustments for factors like physical deterioration & functional / economic obsolescence, wherever applicable. It is based on the premise that a prudent third-party would pay no more for an asset than its replacement cost. However, one should keep in mind that in most of the cases, the prospective buyer would be willing to pay more than replacement price on account of competition, timing, uniqueness and other features. Thus, one should be very careful while arriving at fair value of Intangible Assets using replacement cost method.

SELECTION OF INTANGIBLE VALUATION APPROACH

According to AICPA, different valuation methods are preferable for each asset class of Intangible Assets as tabulated below:

Intangible Asset	Primary	Secondary	Tertiary
Patents	Income	Market	Cost
Technology	Income	Market	Cost
Copyrights	Income	Market	Cost
Assembled Workforce	Cost	Income	Market
Internally developed software	Cost	Market	Income
Brand name	Income	Market	Cost
Customer relationships	Income	Cost	Market

CHALLENGES AND COMMON MISTAKES

As we all know, valuation is complex exercise which is subject to biased judgements about the utility of the asset to be valued. Given the nature of Intangible Assets, the valuation exercise becomes even more complex and is prone to challenges and miss-outs. Valuers should ensure that all the assumptions should be reviewed and altered, if required, fairly so as to arrive at unbiased valuation of the Intangible Assets. Specifically, one should consider the below aspects for the valuation in case of Intangible Assets.

1) **Contributory Asset Charge (CAC)**: Assessing the CAC can be a challenge under MEEM method. The required returns on CAC must be consistent with an assessment of the risk of individual asset classes and should reconcile overall to the enterprise WACC. Also, the projection period for the PFI used in the model should reflect the estimated useful life of the subject asset. That may involve significant judgment and hence valuers should be meticulous under such instances.

2) **Tax Amortization Benefit (TAB)**: Based on the above-mentioned methodologies, the valuer arrives at the value of an asset on a stand-alone basis, which is its pre-tax value. However, tax jurisdictions allow an intangible asset to be amortized over its useful life. The present value of such tax benefit is considered in the fair Valuation of the asset. The process is iterative taking into account the amortization period, the discount factor and the applicable marginal tax rate to arrive at the fair value of the asset post TAB.

CONCLUSION

In today's world, the value provided by intangible assets must be captured in enterprise valuation. One should always arrive at fair value of Intangible Assets using multiple valuation methods as discussed above depending on the nature of the intangible asset and data availability. Identifying and rightly valuing intangible assets is extremely critical as we observe the growing prominence of value that Intangible Assets contribute to the total enterprise value of the company.

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Valuation Under IBC

Mr. Anil Kumar Sharma
Registered Valuer (P&M)
Insolvency Professional

Synopsis:

The Companies (Registered Valuers and Valuation) Rules, 2017 allows Valuation to be conducted by Individual valuers and Registered Valuer Entities, the award of work to Individual Valuers for related asset categories on one hand and on the other hand to Registered Valuer entities can lead to different Valuation results, the article tries to argue that the award of work to Registered Valuer Entities may lead to expected results as compared to placing the responsibility on individual valuers. It also raises an issue related to clarity on premises of values based on Going concern status of the Corporate Debtor while the scope of work is awarded

Quality Valuations are linked to the clarity in scope and perhaps nature of entity to whom, the work is awarded, under IBC 2016 The Companies (Registered Valuers and Valuation) Rules, 2017 were notified by the Central Government of India on October 18, 2017, by the Ministry of Corporate Affairs in exercise of its powers under Section 247, read with sections 458, 459 and 469 of the Companies Act, 2013 (18 of 2013).

These Rules permitted Valuers to be registered under various Asset classes and allowed both individuals as well as Partnerships and Companies to be Registered as Valuers as per Rules 3, 4 and 5 based on the Eligibility, Qualification and Experience criteria. Partnerships and Companies have to meet some necessary conditions such as Objects, minimum number of partners/directors and a minimum number of asset class valuers in the category.

The Rules 7(c) and (h) laid down the following conditions in respect of conduct of Valuation amongst other rules:

- Rule 7(c): In his capacity as a registered valuer, not conduct valuation of the assets or class(es) of assets other than for which he/it has been registered by the authority

- Rule 7(h): In case a partnership entity or company is the registered valuer, allow only the partner or director who is a registered valuer for the asset class(es) that is being valued to sign and act on behalf of it.

Rule 8 (2) regarding, conduct of valuation, mandates that the registered valuer may obtain inputs for his valuation report or get a separate valuation for an asset class conducted by another registered valuer. In that case, he shall fully disclose details of the inputs and particulars etc of the other registered valuer in the report and the liabilities against the resultant valuation, irrespective of the nature of inputs or valuation by the other registered valuer, shall remain of the first mentioned registered valuer.

Having read Rules 7(c) and 7(h) along with 8(2), one can infer that a partnership or an incorporated entity not registered for a class of assets cannot undertake valuation of assets of an excluded class from its registration. In case of assets class included in its registration only allows one each of those partners and directors to sign on behalf of the entity, who are registered for that particular class.

An individual valuer cannot Value assets unless he is registered in the category of those assets. However, he can take inputs and get a separate valuation for an asset class provided he assumes the liabilities against the resultant valuation, irrespective of the nature of inputs or valuation by another registered valuer. This means that the individual registered valuer can associate with other registered valuers of different asset classes and conduct valuations as long as, he is willing to take the responsibility of an assignment, including those of other classes.

In the context of these rules, let me raise some issues that concern us today around conduct of valuations by registered valuers of all 3 assets classes, namely Plant & Machinery (P&M); Land and Building; and Security and Financial Assets (SFA).

Let us assume that the target valuation is a Going concern valuation for a company under Corporate Insolvency Resolution Process (CIRP). Further, assume that the Valuation requires estimating the usual, the Fair Market value and Liquidation value. Assume that the Valuers began valuing assets individually under a Main valuer, the Land valuation is done by Sales comparisons method and Building assets on replacement cost basis. P &M valuation is done on replacement cost basis and SFA assets based on realizable values. Additionally, the Main Valuer has to ensure that all valuers have also assumed premises of value consistently.

The final values could be reported possibly by summing up the 3 asset classes values. Since the work has been awarded to the Main valuer, he will need to check if the sum of these values are supported against any earning potential for the enterprise, using Income method since valuation was based on a Going concern premise. Assume that the Main valuer has a reliable forecast and there are existing contracts or positive outcomes for sales of products of the Corporate Debtor enterprise, supporting the cash flow model. Let us say, that the Income valuation throws up a number notably lesser than the sum of all asset valuations, for legitimate reasons, the main valuer should use the results of Income method to report both the Fair Market Value and Liquidation value of the Company on a Going concern basis, discarding the value opinions reported by the other category valuers, even though he may choose to academically report the values arrived at, by other valuers using other methods, holding the income method value opinion.

However, when the same valuation of a Corporate Debtor has to be done by a Main valuer assuming a non-going concern, on an ex-situ-basis wherein Values are sought on piecemeal liquidation of assets, he perhaps has a choice to report the following values.

1. P & M assets on ex-situ-basis premise for its highest and best use employing most likely the Replacement cost method or Sales comparison method accounting for all disposal costs.
2. Land valued using Market method , the building or structures valued on salvage basis.

3. Realizable value to derive value of all current assets, investments and any intangible assets Here the Main valuer reports the values and takes responsibility of valuations conducted by others not discarding the values this time. The Final values being the sum of all the preceding values. .

In practice however, IBC valuations are being awarded by Resolution Professional or a Liquidator either to three individual valuers registered with IBBI in separate categories or to Registered Valuer Entities. Rarely do we come across cases where a Main valuer takes the responsibility for the other asset classes because of the inherent risks involved in assuming an overall responsibility. Thus, leaving the Resolution Professional to only sum up valuations of all asset categories.

Therefore, should the Valuation be awarded to Individual valuers without making one Main valuer responsible or awarding a Registered Valuer Entity to do the task, the results could easily lead to erroneous results and application of divergent premises of values for three asset categories, leading to grossly incorrect valuations

Now, the above process can be made fool proof in case work is awarded to a Registered Valuer Entity which allows the entity to substitute the main valuer, with a juristic entity and report the values on behalf of the entity even though individual partners/directors sign the valuation report for each class as Partners or Directors. This often results in convergence of premises of values by all asset category valuers and leads to consistency in assumptions and important factors being considered.

Individual valuers also do not enjoy the limited liability benefit of incorporated entities. While awarding work to an RVE will not permit escape from any instance of inducement/fraud/falsification/misconduct even though the Valuers conducting valuations are part of an incorporated or a constituted entity.

Further when an RVE reports an opinion of Value, it could be assumed, that all Valuers involved have converged on a single opinion of Value separately for all bases of values, finally being reported to the Resolution Professional or Liquidator. In practice, a single valuer or two valuers out of three may lead and provide guidance on key assumptions and factors. This may only lead to implicit agreement on opinions by the third asset class valuer. As there is no room for dissenting opinions or differing premise assumptions all generally converge on important factors and premises.

Another emerging issue is that of excessive broadening of scope by Resolution Professionals / Liquidators off late. It is based on the Regulation 32 in the IBBI (Liquidation Process) regulations 2016 related to the sale of assets, wherein scope of Valuation is expanded to encompass all Value premises based on Regulations 32(a) to 32 (f) leaving a lot of work on the Valuers table with usually a poor budget. This is mainly the result of lack of clarity in assessment of the Corporate Debtor as a Going concern by the Committee of Creditors under Regulation 39(C) of the IBBI (Insolvency process of Corporate Persons) Reg 2016. Note that Valuers are appointed by the 47th Day from commencement and in many instances, Resolution Professional assumes responsibility only after an Interim Resolution Professional makes way after the first COC meeting. In case of Liquidation, the award of work is discretionary but if required needs to be awarded by the 7th day from start of the Liquidation process. Both timelines offer insufficient duration to the Resolution Professional, the newly formed COC or the Liquidator to grasp the intensity of problems of the Corporate Debtors and arrive at a reliable conclusion for awarding a clear scope to the Valuers essential for a conclusion regarding premises of value.

Perhaps, the answers to all the issues raised above lie in streamlining some processes and timelines for award of Valuation work under IBC, more importantly assigning a clear scope around the premise of values along with assignment of clear responsibility to Valuers as RVE’s or as Main valuers

CASE LAWS ON VALUATION

CASE-1

Case Laws Compiled and Contributed by
CMA Padma Ganesh
IP & RV (SFA)

NATIONAL COMPANY LAW APPELLATE TRIBUNAL, NEW DELHI

Company Appeal (AT) (Insolvency) No. 1420 of 2019 in the matter of Mr. Karan Gambhir (Ex-Director, Forgings Pvt. Ltd.) Vs Mr. Sajeve Bhushan Deora (Liquidator for Forgings Pvt. Ltd.) & Ors.

With

Company Appeal (AT) (Insolvency) No. 1430 of 2019 in the matter of DD Real Estate Pvt. Ltd. (Holding Company of Forgings Pvt. Ltd.) Vs Mr. Sajeve Bhushan Deora (Liquidator for Forgings Pvt. Ltd.) & Ors.

Judgement Date: 17th August, 2020
The appellants filed the appeals against the order dated 04.12.2019 passed by NCLT, New Delhi. The Ld. Adjudicating Authority (AA) had dismissed the application and imposed a cost of Rs. 50000/-.
Brief facts of the case: A liquidation order was passed against the Corporate Debtor (CD), M/s. Forgings Pvt. Ltd., wherein, Mr. Sajeve Bhushan Deora (Resolution Professional) was appointed to act as a Liquidator. The Liquidator issued sale notice for the only asset of the CD which was a piece of land and building located at Faridabad, Haryana. This notice was challenged by the Ex-Director/Promoter Karan Gambhir (appellant) with a prayer to set aside the same alleging that the Reserve Price was very low. The valuation was challenged on the ground that valuers have proceeded on the basis of wrong assumption that the land in question was Agricultural in nature, while, it was an industrial land.

Though the AA granted an opportunity to the Appellant to place on record any evidence to support his claim of the land being industrial land and also to file his bid, in case he could get one for a better price, the Appellant neither produced any evidence nor produced any bidder with better price. The application was disposed off by AA and the order was challenged in the Appellate Tribunal. However, during the pendency of this appeal, 6 months had elapsed, and hence a fresh valuation was done followed by issue of fresh sale notice. As such the appeal was dismissed as withdrawn.
The appellant, Karan Gambhir, once again filed an application alleging that the realizable value of the land in question is much higher than the Reserve price. He also challenged the methodology used by the valuers. He sought that the valuation reports be set aside and another valuers be appointed to value the land in question.

The Liquidator submitted that the valuation reports were in accordance with the provisions of Regulation 35(3) of the IBBI (Liquidation Process) Regulations, 2016. The Appellant failed to produce any evidence showing that there was change of land use from agriculture to industrial and hence it could not be assumed that the land in question became industrial in nature.

The AA held that there was sufficient evidence showing that land in question was agricultural land irrespective of its use. The valuers could not have proceeded on the basis that land in question was industrial land as it would have resulted in misleading the prospective bidder. The application was dismissed and cost of Rs. 50000/- was imposed on the appellant for indulging in baseless litigation and delaying the Liquidation process.

Aggrieved with the order, appellants filed the appeals before NCLAT. Besides other submissions, the appellants submitted that the valuation reports have recorded the land being put to industrial use, however the Circle rate of the land, which was much higher than the Reserve price, has not been considered. In the valuation reports there was a reference to commercial use of land in question, however, it was nobody's case that the land in question was commercial in nature. It was further submitted that as per valuation reports, conversion fees Rs. 100 – 110 Crores was required to be paid to convert the land to industrial use. Actually, such fees was required to be paid for conversion of land to commercial use. Thus, the appellants submitted that the valuation reports were wrong and had to be set aside.

The Liquidator's counsel, among other submissions, stated that the valuation reports are internal documents and the valuers had concluded the valuation taking into consideration realization potential of the Asset if redeveloped as a commercial use property.

The sole Financial Creditor (FC) submitted that the valuation of land in question has been conducted by the registered valuers as per Regulation 35 of LPR on the basis of the evidence which was produced before the valuers and that the process of valuation was only to determine the Reserve price of the land in question and was only to indicate base price and such price was not outer limit and also not an impediment on the intending bidder bidding for higher amount.

Conclusion: The Appellate Authority observed that, considering the provisions governing the change of use of land in question, the land in question was Agricultural land though in the past, it was used as industrial land. However, as per Rules, use of land was not changed.

It was further observed that the two valuers have prepared a detailed reports in which they had mentioned that the land in question as per Municipal Corporation, Faridabad (MCF) record is agriculture land, however, earlier used for industrial purpose. NCLAT also observed that while determining the valuation, the valuers have considered the Circle Rate of agriculture land and they were of the view that as per by laws the land in question falls into High Potential Zones. Thus, the conversion of agriculture land, as commercial and not industrial, was considered viable option. Hence, NCLAT observed that it cannot be said that valuers had determined the valuation of the land in question on the basis that use of land in question was Agricultural.
NCLAT held that there was no defect in the valuation reports and that the reports were as per the Rules. They found no substance in the objections raised in the Appeals, in regard to valuation of land and Sale Notice.

NCLAT held that there was no ground to interfere in the impugned order. Hence, the Appeals were dismissed.

CASE-2

NATIONAL COMPANY LAW TRIBUNAL, AHMEDABAD BENCH.

IA 390 of 2020 in CP(IB) 81/9/NCLT/AHM/2019 in the matter of Mr. Dinesh Sugnomal Kanjani, RV Vs Mr. Sunil Kumar Agarwal, IRP and Mr. Vijay P. Lulla, RP of M/s H.M. Industrial Pvt. Ltd.

Judgement date: 01.03.2021

Application u/s 60(5) of IBC, 2016 r.w. Rule 11 of NCLT Rules, 2016 seeking for professional fees along with legal expenses incurred for filing of application.

Brief facts of the case: The IRP of the CD, M/s H.M. Industrial Pvt. Ltd., appointed the appellant to act as Valuer. The Valuer visited the site and asked the IRP to provide some details so as to ascertain 'Fair Value' and 'Liquidation Value' as per the Rules. Later, when the IRP was replaced by another RP, a communication was sent to the Regd. Valuer (RV) to furnish fresh quotation since his appointment had not been approved by the CoC. The RV responded back stating that his report was ready based on the available information and requested for further details for submission of the report. The RP, however, submitted that his appointment had not been approved by the CoC and hence the matter could not be settled. Since the correspondences continued to no avail, the present application was made by the RV.

Hon'ble NCLT went through the submissions made by the parties. The AA observed that the RV was appointed by the IRP which was as per the provisions of the IBC, 2016. There was no requirement under IBC, 2016 to take the approval of the CoC for such appointment. That the Valuer visited the site and did the ground work was not disputed. Also there was neither any limitation created nor caution given by the RP to the RV to not proceed with the work for want of approval from CoC. It was also noted that, as per the provision of the IBC, 2016, there was no requirement for the RP take the approval of the CoC for the appointment of the RV and RP was required to act as per the norms of IBBI.

Conclusion: The AA observed that it was most unfortunate that the professional in service of the CD under CIRP is not paid in this fashion. AA directed the RP/CoC to make payment within 7 days from the date of receipt of the order. Accordingly, the appeal was allowed.

CASE-3

NATIONAL COMPANY LAW APPELLATE TRIBUNAL, NEW DELHI

Company Appeal (AT) No. 171 of 2017
[Arising out of order dated 13th April, 2017 passed by the National Company Law Tribunal, Division Bench, Chennai in TP (HC)/CAA/4/2017, TP (HC)/CAA/5/2017 and TP(HC)/CAA/6/2017]
in the matter of Arvind Aggarwal & anr. Vs. Trinetra Cements Ltd. & Ors.

Judgement date: 12.09.2017

The appellants filed the appeal against the order of NCLT, Chennai Bench whereunder the modification of scheme of amalgamation as sought by the appellants was rejected and the 'Scheme of amalgamation' was approved.

Brief facts of the case : The Appellants who claimed to be minority shareholders to the extent of 2.37% of total shareholding in the Transferor Company (Trinetra Cement Limited), filed objections challenging the valuation arrived at by the Valuer on the ground that it was unfair and non transparent, among other issues. They also alleged non-compliance of SEBI Circulars as regards Valuation report and other matters. They further submitted that Valuation Report and the Fairness Opinion were not carried out independently since the Valuer and Merchant Banker were working in tandem in complete defiance of the Circulars issued by the statutory body (SEBI).

The Tribunal observed that the external institutions engaged for the purpose of providing the valuation and fairness opinions were all professionals and reputed institutions and also that SEBI Circulars as regards Valuation report and other matters were fully complied with. The Appellants, failed to show any illegality in the valuation made by the Valuer and that on mere allegation it cannot be interfered with.

The Tribunal further observed that the 'Surplus Assets' of 'Trinetra Cement Limited' had not been valued separately because the Company had to be treated as 'going concern'. It was in this premise, the valuation of both Trinetra Cement Limited' and The India Cements Limited'- the 'Net Asset Value method was not used. 'Trinetra Cement Limited' and 'The India Cements Limited', both had power plants, mining leases etc. which were their business assets - adding the market value of business assets of the enterprise value would be grossly erroneous as the very cash flows are generated using those business assets.

Conclusion: Based on the observations, the Tribunal held that the impugned order could not be interfered with and the appeal was dismissed.

CASE-4

NATIONAL COMPANY LAW APPELLATE TRIBUNAL, NEW DELHI

COMPANY APPEAL(AT) NO.238 OF 2018
(Arising Out Of Judgement And Order Dated 12th April, 2018 Passed In CP/159, 160, 161, 162, 163, 164 And 165/CAA/2017(CA 95, 96,97, 98, 99, 100 And 101/CAA.2017 By National Company Law Tribunal, Division Bench Chennai) in the matter of Ankit Mittal Vs Ankita Pratisthan Ltd. & Ors.
Judgement date: 29.11.2019

The present appeal was preferred by the appellant against the impugned order dated 12th April, 2018 passed by the National Company Law Tribunal, Chennai Bench, in Company Petitions No.CP/159/CAA/2017, CP/160/CAA/2017, CP/161/CAA/2017, CP/162/CAA/2017, CP/163/CAA/2017, CP/164/CAA/2017 and CP/165/CAA/2017 vide which the scheme of amalgamation submitted by the respondents was approved.

Brief facts of the case: 7 company petitions were filed for the purpose of amalgamation of 6 companies with the seventh company. After considering the report on the meetings of the shareholders, the amalgamation scheme was approved by the Learned NCLT.

The appellant was the constituted Power of Attorney holder of one Mr. Laxman Das who held shares in two of the amalgamated companies and hence was authorised to attend the general meetings of the said two companies, make representations to the saidcompanies pertaining to their proposed schemes of amalgamations and/or merger.

The appellant stated that the Scheme was impermissibly promoter oriented and anti-minority/public shareholders and was illegal, unlawful, unjust and against the public policy in India.

Among other issues, it was submitted that the Valuation Report of the Scheme had not been prepared by a Registered Valuer and was a completely unreasoned document. It was further submitted that the swap ratio of shares as contemplated under the scheme was absolutely illegal, unjust and one-sided. It was stated that while deciding the swap ratio, the intrinsic/market value of the individual shares was not considered.

The respondent companies in which Mr. Das held his shares, submitted that Mr. Das did receive a copy of the valuation report of the respective companies and that the valuation has been arrived at based on Market value approach. They further added that valuation is a wisdom of commercial experts and that the valuation report and swap ratio was correct.
Being aggrieved by the impugned order, a few Intervenors / applicants also sought impleadment in the matter and submitted that the valuation report had been rendered by a Chartered Accountant and the share entitlement ratio vis-à-vis the purported scheme had been determined based on market value approach. The applicants submitted that the valuation report had not been prepared by a Registered Valuer.

The applicants lastly prayed for rejection of the scheme of amalgamation and arrangement.

The Tribunal heard the parties, perused the record, noted the methodologies discussed by the valuer in his report and observed the importance of Valuer u/s 247 of Companies Act, 2013. The Tribunal noted that at the relevant time when the valuation in the subject case was done, Sec. 247 had not been notified. Nonetheless, the importance of the duties of a valuer in making an impartial, true and fair valuation of assets was noted. Having gone through the valuation report, the Tribunal observed that no valuation of each share in each of the Respondent companies had been done and the exchange ratio had been stated without any basis.

The Tribunal further observed that "Valuation report is circulated to all concerned so that the informed choice could be made by the person whose interest could be favourably or unfavourably impacted on the amalgamation. No such help is coming from the submitted valuation report being devoid of necessary details. In view of the serious compromises in the process of the valuation of shares the creditability of the exchange ratio recommended could at best be termed as guess work by the valuer. The scheme based on such a valuation report loss its creditability and will impact the entitlement of the
shareholders of the transferor companies"

Conclusion: The Tribunal held that the valuer made a valuation disregarding the methodology, methods or share entitlement ratio even as stated by him in his valuation report. No valuation of each share of every company had been done to arrive at the exchange ratio and that only the guess work had been done to arrive at share exchange ratio. It was further held that on the basis of the valuation report and for other reasons recorded, the amalgamation could not be termed as fair to all stakeholders and hence such a Scheme could not have been approved.

The Tribunal allowed the appeal filed by the appellant, the impugned order was quashed and set aside and the Scheme of Amalgamation (accepted by Impugned Order) was rejected.

International Valuation Standards (IVS)

Effective 31 January 2020

IVS 102 Investigations and Compliance

10. General Principle

10.1. To be compliant with IVS, valuation assignments, including valuation reviews, must be conducted in accordance with all of the principles set out in IVS that are appropriate for the purpose and the terms and conditions set out in the scope of work.

20. Investigations

20.1. Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value. References to a valuation or valuation assignment in this standard include a valuation review.

20.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation.

20.3. Limits may be agreed on the extent of the valuer's investigations. Any such limits must be noted in the scope of work. However, IVS 105 Valuation Approaches and Methods, para 10.7 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

20.4. When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration should be given as to whether the information is credible or that the information may otherwise by relied upon without adversely affecting the credibility of the valuation opinion. Significant inputs provided to the valuer (eg, by management/owners) should be considered, investigated and/or corroborated. In cases where credibility or reliability of information supplied cannot be supported, consideration should be given as to whether or how such information is used.

20.5. In considering the credibility and reliability of information provided, valuers should consider matters such as:

(a) the purpose of the valuation,

(b) the significance of the information to the valuation conclusion,

(c) the expertise of the source in relation to the subject matter, and

(d) whether the source is independent of either the subject asset and/or the recipient of the valuation (see IVS 101 Scope of Work, paras 20.3 (a))

20.6. The purpose of the valuation, the basis of value, the extent and limits on the investigations and any sources of information that may be relied upon are part of the valuation assignment's scope of work that must be communicated to all parties to the valuation assignment (see IVS 101 Scope of Work).

20.7. If, during the course of an assignment, it becomes clear that the investigations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation assignment will not comply with IVS.

30. Valuation Record

30.1. A record must be kept of the work performed during the valuation process and the basis for the work on which the conclusions were reached for a reasonable period after completion of the assignment, having regard to any relevant statutory, legal or regulatory requirements. Subject to any such requirements, this record should include the key inputs, all calculations, investigations and analyses relevant to the final conclusion, and a copy of any draft or final report(s) provided to the client.

40. Compliance with Other Standards

40.1. As noted in the IVS Framework, when statutory, legal, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS, a valuer must follow the statutory, legal, regulatory or other authoritative requirements (called a "departure"). Such a valuation has still been performed in overall compliance with IVS.

40.2. Most other sets of requirements, such as those written by Valuation Professional Organisations, other professional bodies, or firms' internal policies and procedures, will not contradict IVS and, instead, typically impose additional requirements on valuers. Such standards may be followed in addition to IVS without being seen as departures as long as all of the requirements in IVS are fulfilled.

IVS 103 Reporting

10. Introduction

10.1. It is essential that the valuation report communicates the information necessary for proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation.

10.2. To provide useful information, the report must set out a clear and accurate description of the scope of the assignment, its purpose and intended use (including any limitations on that use) and disclosure of any assumptions, special assumptions (IVS 104 Bases of Value, para 200.4), significant uncertainty or limiting conditions that directly affect the valuation.

10.3. This standard applies to all valuation reports or reports on the outcome of a valuation review which may range from comprehensive narrative reports to abbreviated summary reports.

10.4. For certain asset classes there may be variations from these standards or additional requirements to be reported upon. These are found in the relevant IVS Asset Standards.

20. General Requirements

20.1. The purpose of the valuation, the complexity of the asset being valued and the users' requirements will determine the level of detail appropriate to the valuation report. The format of the report should be agreed with all parties as part of establishing a scope of work (see IVS 101 Scope of Work).

20.2. Compliance with this standard does not require a particular form or format of report; however, the report must be sufficient to communicate to the intended users the scope of the valuation assignment, the work performed and the conclusions reached.

20.3. The report should also be sufficient for an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review the report and understand the items in paras 30.1and 40.1, as applicable

30. Valuation Reports

30.1. Where the report is the result of an assignment involving the valuation of an asset or assets, the report must convey the following, at a minimum:

(a) the scope of the work performed, including the elements noted in para 20.3 of IVS 101 Scope of Work, to the extent that each is applicable to the assignment

(b) the intended use,

(c) the approach or approaches adopted,

(d) the method or methods applied,

(e) the key inputs used,

(f) the assumptions made,

(g) the conclusion(s) of value and principal reasons for any conclusions reached, and

(h) the date of the report (which may differ from the valuation date).

30.2. Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc).

40. Valuation Review Reports

40.1. Where the report is the result of a valuation review, the report must convey the following, at a minimum:

(a) the scope of the review performed, including the elements noted in para 20.3 of IVS 101 Scope of Work to the extent each is applicable to the assignment,

(b) the valuation report being reviewed and the inputs and assumptions upon which that valuation was based,

(c) the reviewer's conclusions about the work under review, including supporting reasons, and

(d) the date of the report (which may differ from the valuation date).

40.2. Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (eg, engagement letters, scope of work documents, internal policies and procedures, etc).

VALUATION QUIZ

ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

PROMOTED BY: THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Multiple Choice Question

Fixed Income Securities

Q-1- If the coupon rate is equal to going rate of interest, then the bond will be sold

a. at par value
b. below its par value
c. more than its par value
d. seasoned par value

Q-2- Corporations borrow for the short term by issuing:

a. corporate bills.
b. corporate bonds.
c. bankers' acceptances.
d. commercial paper.

Q-3- What is used to quote the rates on Eurodollar deposits?

a. Discount rate.
b. Federal funds rate.
c. LIBOR.
d. Repo rate.

Q-4- Which of the following types of financial assets represents a creditor relationship with an entity?

a. Options.
b. Bonds.
c. Stocks.
d. Futures

Q-5- Financial assets are also called:

a. physical assets.
b. tangible assets.
c. securities.
d. real assets.

Q-6- The second mortgages pledged against bond's security are referred as

a. loan mortgages
b. medium mortgages
c. senior mortgages
d. junior mortgages

Q-7- The falling interest rate leads to change in bondholder income which is

a. reduction in income
b. increment in income
c. matured income
d. frequent income

Q-8- The treasury bonds are exposed to additional risks that are included

a. reinvestment risk
b. interest rate risk
c. investment risk
d. Both A and B

Q-9- The risk of fall in income due to fall in interest rates in future is classified as

a. income risk
b. investment risk
c. reinvestment risk
d. mature risk

Q-10- According to top rating agencies S&P the double-B and other lower grade bonds are classified as

a. development bonds
b. junk bonds
c. compounded bonds
d. discounted bonds

Q-11- The price of an outstanding bond increases when the market rate

a. never changes
b. increases
c. decreases
d. earned

Q-12- The type of bond which pays interest payment only when it earns is classified as

a. income bond
b. interest bond
c. payment bond
d. earning bond

Q-13- The type of bond in which the payments are made on the basis of inflation index is classified as

a. borrowed bond
b. purchasing power bond
c. surplus bond
d. deficit bond

Q-14- The legal document in which the rights of issuing corporation and bondholder's are stated is classified as

a. legal rights classification
b. indenture
c. ownership statement
d. guarantee statement

Q-15- The right held with the corporations to call the issued bonds for redemption is considered as

a. artificial provision
b. call provision
c. redeem provision
d. original provision

Answer Key

(1) a , (2) d , (3) c , (4) b , (5) c , (6) d , (7) a , (8) d , (9) c , (10) b

(11) c , (12) a , (13) b , (14) b , (15) b

Questions on IBC for Valuation Exam

1. Sec. 10 application can be filed by _______

(a) OC (b) FC (c) Workmen (d) Corporate applicant

2. U/s 12A, Withdrawal of application admitted u/s. 7, 9 or 10 is allowed with the approval of _______% of voting share of COC

(a) 66% (b) 90% (c) 75% (d) 100%

3. Time limit for completing CIRP including any extension or time taken in legal proceedings is ______days from ICD.

(a) 180 (b) 270 (c) 330 (d)365

4. Public announcement of CIRP is to be made not later than _____ days from the date of appointment of IRP.

(a) 3 (b) 5 (c) 7 (d) 30

5. The interim resolution professional shall file a report certifying constitution of the committee to the Adjudicating Authority within _____days of the verification of claims received under sub-regulation (1) of regulation 12.

(a) 2 (b) 3 (c) 5 (7)

6. The ____________shall act as the chairperson of the meeting of the committee.

(a) CD (b) FC (c) Manager of the CD (d) resolution professional

7. Essential goods and services referred to u/s 14(2) of IBC shall mean electricity, water, telecommunication services and ___________.

(a) Canteen (b) transport (c) Information technology (d) AMC

8. Where there are dues to numerous workmen or employees of the corporate debtor, an authorised representative may submit one claim with proof for all such dues on their behalf in Form ____of the Schedule.

(a) D (b) E (c) A (d) F

9. As per Reg. 11 of IBBI(Insolvency Resolution Process for Corporate Persons) Regulations, 2016, a _____shall bear the cost of proving the debt due to such creditor.

(a) Creditor (b) Corporate debtor (c) Financial creditor (d) Resolution professional

10. As per Reg. 11 of IBBI(Insolvency Resolution Process for Corporate Persons) Regulations, 2016, the interim resolution professional or the resolution professional, as the case may be, shall verify every claim, as on the insolvency commencement date, within _____ days from the last date of the receipt of the claims,

(a) 3 (b) 5 (c) 7 (d) 14

11. As per Reg 9(1) of IBBI(Voluntary Liquidation Process) Regulations, 2017, The liquidator shall submit a Preliminary Report to the corporate person within _____ days from the liquidation commencement date

(a) 7 (b) 14 (c) 30 (d) 45

12. As per Reg 25 of IBBI(Voluntary Liquidation Process) Regulations, 2017, the claims denominated in foreign currency shall be valued in Indian currency at the official ____ rate as on the liquidation commencement date.

(a) buying (b) selling (c) exchange (d) auction

13. Under Reg. 29(2) of IBBI(Voluntary Liquidation Process) Regulations, 2017, a creditor may appeal to the _________against the decision of the liquidator as per section 42 of the Code.

(a) IBBI (b) Financial creditor (c) CoC (d) Adjudicating Authority

14. The liquidation costs shall be _____before such distribution of realized proceeds is made.

(a) Added (b) billed (c) waived (d) deducted

15. As per IBC Code, "workmen'', in relation to a company, means the employees of the company, as defined in the Industrial Disputes Act, 1947

(a) Companies Act, 1956 (b) Companies Act, 2013 (c) ESIC Act (d) Industrial Disputes Act, 1947

Answer Key.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
d	**b**	**c**	**a**	**a**	**a**	**c**	**b**	**a**	**c**	**d**	**c**	**d**	**d**	**d**

Glossary of Valuation Terms

ICMAI REGISTERED VALUERS ORGANISATION

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Glossary of Valuation Terms

Net Book Value—with respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities as they appear on the balance sheet (synonymous with Shareholder's Equity). With respect to a specific asset, the capitalized cost less accumulated amortization or depreciation as it appears on the books of account of the business enterprise.

Net Present Value—the value, as of a specified date, of future cash inflows less all cash outflows (including the cost of investment) calculated using an appropriate discount rate.

Net Tangible Asset Value—the value of the business enterprise's tangible assets (excluding excess assets and non-operating assets) minus the value of its liabilities.

Non-Operating Assets—assets not necessary for ongoing operations of the business enterprise.

Normalized Earnings—economic benefits adjusted for nonrecurring, noneconomic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Normalized Financial Statements—financial statements adjusted for nonoperating assets and liabilities and/or for nonrecurring, noneconomic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Orderly Liquidation Value – liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

Premise of Value—an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g. going concern, liquidation.

Portfolio Discount—an amount or percentage deducted from the value of a business enterprise to reflect the fact that it owns dissimilar operations or assets that do not fit well together.

Price/Earnings Multiple—the price of a share of stock divided by its earnings per share.

Rate of Return—an amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Report Date—the date conclusions are transmitted to the client.

Replacement Cost New—the current cost of a similar new property having the nearest equivalent utility to the property being valued.

Required Rate of Return—the minimum rate of return acceptable by investors before they will commit money to an investment at a given level of risk.

Residual Value—the value as of the end of the discrete projection period in a discounted future earnings model.

Return on Equity—the amount, expressed as a percentage, earned on a company's common equity for a given period.

Return on Invested Capital—the amount, expressed as a percentage, earned on a company's total capital for a given period.

Risk-Free Rate—the rate of return available in the market on an investment free of default risk.

Risk Premium—a rate of return added to a risk-free rate to reflect risk.

Rule of Thumb—a mathematical formula developed from the relationship between price and certain variables based on experience, observation, hearsay, or a combination of these; usually industry specific.

Special Interest Purchasers – acquirers who believe they can enjoy post-acquisition economies of scale, synergies, or strategic advantages by combining the acquired business interest with their own.

Standard of Value – the identification of the type of value being utilized in a specific engagement; e.g. fair market value, fair value, investment value.

Sustaining Capital Reinvestment – the periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

Systematic Risk – the risk that is common to all risky securities and cannot be eliminated through diversification. The measure of systematic risk in stocks is the beta coefficient.

OPPORTUNITIES FOR REGISTERED VALUERS

Companies Act, 2013

- Private placement of shares
- Issue of Share on Preferential basis
- Issue of Shares for consideration other than cash
- Issue of Sweat Equity Shares
- Non- cash transaction involving directors
- Mergers and Aquisitions
- Demergers
- Scheme of compromise or arrangement with creditors/member
- Submission of report by company liquidator
- Purchase of minority shareholding

SEBI Regulations

- SEBI (Issue and listing of Securitised debt Instruments and Security receipts) Regulation,2008
- SEBI (Infrastructure Investment Trusts) Regulations, 2014
- SEBI (Real Estate Investment Trusts) Regulations,2014
- SEBI (Listing Obligations and Disclosure Requirements) Regulations,2015
- SEBI (Issue of capital and Disclosure requirements) regulations,2018
- SEBI(Appointment of Administrator and procedure for refunding to the investors) Regulations,2018

Insolvency and Bankruptcy Code 2016

- Determination of value of assets, realizable value, Fair value and liquidation value as the case may be

Process for becoming Register Valuer
1
• Meet eligibility requirements, qualification and experience prescribed under Rule 4 of the Companies (Registered Valuers and valuation) Rules, 2017
2
• Seek enrolment as a valuer member of ICMAI RVO
3
• Complete 50 Hours educational course
4
• Register and pass computer based Examination conducted by IBBI
5
• Submit requite Form along with fee in favour of IBBI and supporting documents to ICMAI RVO
6
• ICMAI RVO shall verify Form & other requirements and forward the same along with its recommendation to IBBI
7
• On receipt of Form along with recommendation of ICMAI RVO, fee and other documents, IBBI shall Process the application for registration
8
• After registration with IBBI, take up COP training with ICMAI RVO
9
• On completion of training ICMAI RVO shall issue a Certificate of Practice to the registered valuer
10
• Valuation certificate can be issued only after obtaining Certificate of Practice

EDUCATIONAL QUALIFICATION & EXPERIENCE For 50 Hours Educational Course

Asset Class	Eligibility/ Qualification	Experience in specified discipline.
Plant and Machinery	(I) Graduate in Mechanical, Electrical, Electronic and Communication, Electronic and Instrumentation, Production, Chemical, Textiles, Leather, Metallurgy, or Aeronautical Engineering, or Graduate in Valuation of Plant and Machinery or equivalent; (ii) Post Graduate on above courses.	(I) Five years (ii) Three years
Land and Building	(I)Graduate in Civil Engineering, Architecture, or Town Planning or equivalent; (ii) Post Graduate on above courses and also in valuation of land and building or Real Estate Valuation (a two-year full time post-graduation course).	(I) Five years (ii) Three years
Securities or Financial Assets	(I)Member of Institute of Chartered Accountants of India, Member of Institute of Company Secretaries of India, Member of the Institute of Cost Accountants of India, Master of Business Administration or Post Graduate Diploma in Business Management (specialisation in finance). (ii) Post Graduate in Finance	Three years

Any other asset class along with corresponding qualifications and experience in accordance with rule 4 as may be specified by the Central Government.

Note,:- The eligibility qualification means qualification obtained from a recognized Indian University or equivalent Institute whether in India or abroad.".

PROCESS FOR IBBI EXAMINITION

1. The candidate may enroll for the examination on payment of the fee as prescribed by IBBI
2. Online examination with objective multiple-choice questions
3. The duration of the examination is 2 hours
4. Wrong answer attracts a negative mark of 25% of the assigned for the question
5. A candidate needs to secure 60% of marks for passing.

Format and Frequency of Examination

Format and Frequency of Examination

a. The examination is conducted online (computer-based in a proctored environment) with objective multiple-choice questions;
b. The examination centers are available at various locations across the country;
c. The examination is available on every working day;
d. A candidate may choose the time, the date and the Examination Centre of his choice for taking the Examination. For this purpose, he needs to enroll and register at
e. https://certifications.nism.ac.in/nismaol/
f. A fee of Rs.1500 (One thousand five hundred rupees) is applicable on every enrolment;
g. The duration of the examination is 2 hours;
h. A candidate is required to answer all questions;
i. A wrong answer attracts a negative mark of 25% of the marks assigned for the question;
j. A candidate needs to secure 60 % of marks for passing;
k. A successful candidate is awarded a certificate by the Authority;
l. A candidate is issued a temporary mark sheet on submission of answer paper;
m. No workbook or study material is allowed or provided;
n. No electronic devices including mobile phones and smart watches are allowed; and
o. Use of only a non-memory-based calculator is permitted. Scientific Calculators (memory based or otherwise) are not allowed.

GUIDELINES FOR ARTICLES

The articles sent for publication in the journal "The Valuation Professional" should conform to the following parameters, which are crucial in selection of the article for publication:

- ✓ The article should be original, i.e. Not
- ✓ Published/ broadcasted/hosted elsewhere including any website.
- ✓ A declaration in this regard should be submitted to ICMAI-RVO in writing at the time of submission of article.
- ✓ The article should be topical and should discuss a matter of current interest to the professionals/readers.
- ✓ It should preferably expose the readers to new knowledge area and discuss a new or innovative idea that the professionals/readers should be aware of.
- ✓ The length of the article should not exceed 2500-3000 words.
- ✓ The article should also have an executive summary of around 100 words.
- ✓ The article should contain headings, which should be clear, short, catchy and interesting.
- ✓ The authors must provide the list of references, if any at the end of article.
- ✓ A brief profile of the author, e-mail ID, postal address and contact numbers and declaration regarding the originality of the article as mentioned above should be enclosed along with the article.
- ✓ In case the article is found not suitable for publication, the same shall be communicated to the members, by e-mail.

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