



RNC[®]

Valuing your Invaluables!

MUMBAI | NEW DELHI | VADODARA | AHMEDABAD | SURAT

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The background of the slide is a photograph of a man in a dark suit standing on a balcony, looking out over a city skyline. The man is seen from behind, with his arms resting on the balcony railing. The city skyline is filled with various skyscrapers and buildings under a clear sky. On the left side of the image, there are large, stylized arrow shapes pointing to the right, one in light blue and one in light yellow, partially overlapping the text box.

Presenter Profile

PRESENTER PROFILE



- Sahil Narula (IBBI registered Valuer - Plant and Machinery) is the managing partner of RNC Valuecon LLP.
- Vineet Rathi (IBBI registered Valuer – Securities or Financial Assets) is the partner of RNC Valuecon LLP.
- RNC Valuecon LLP is an IBBI RVE for all three asset classes.
- RNC has been has successfully completed valuation of more than 125 IBC mandates with debt amounting to more than Rs 3.5 Lakh crore.

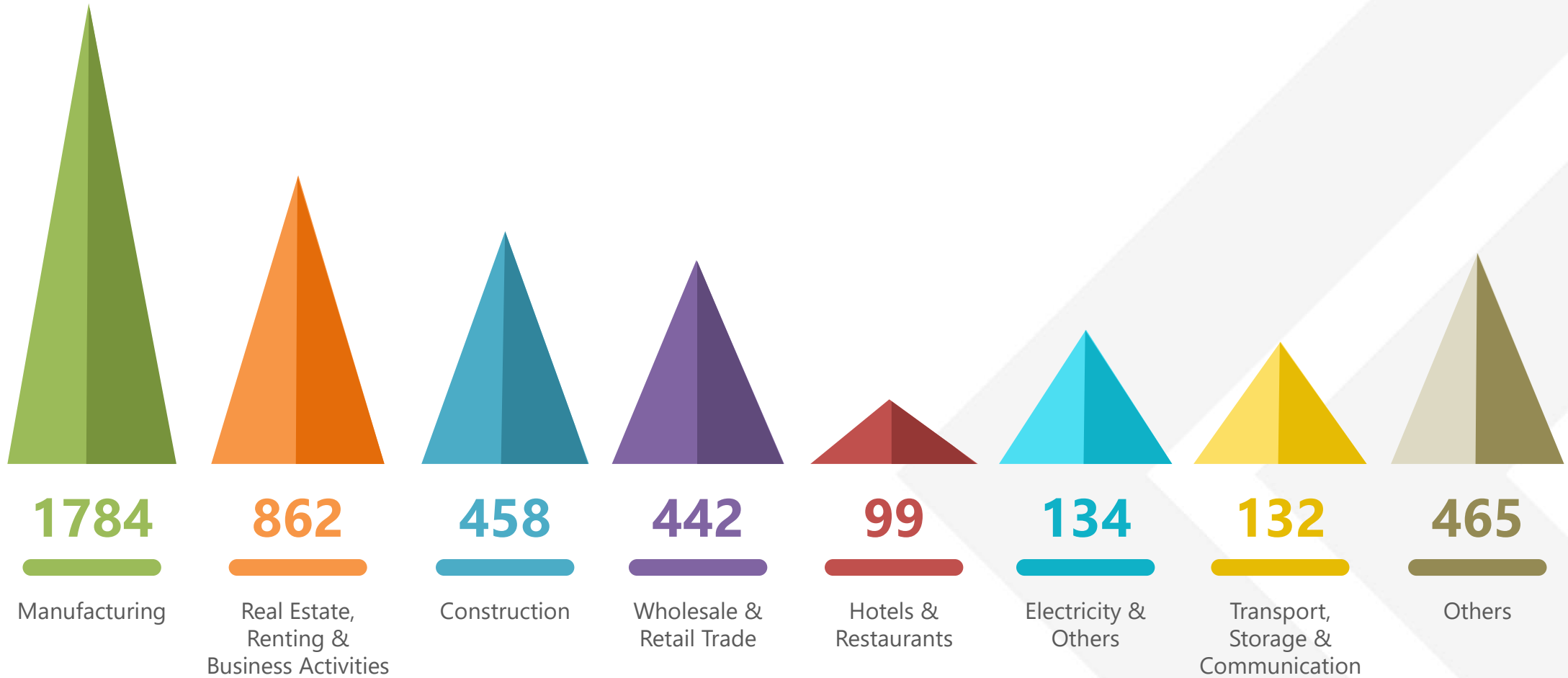
TABLE OF CONTENTS

- Presenter Profile
- Sector Wise IBC Cases
- Total Numbers Of Registered Valuers
- Valuation Required In IBC Frame Work
- Governing Regulations for Valuation
- Typical Process of Valuation
 1. Selection and Appointment of Valuer
 2. Typical Information Requisition List (IRL)
 3. Site Inspection
 4. Basis of Valuation
 5. Approaches for Valuation
 6. Challenges Faced in Execution
 7. Contents of Valuation Report
 8. Illustrative Limitations in a Valuation Report Specific to Tangible Assets
 9. Illustrative Caveats, Limitations and Disclaimers in a Valuation Report

The background of the slide is a photograph of a modern office interior. It features a long, dark conference table surrounded by several beige office chairs. The room has large floor-to-ceiling windows that offer a view of a cityscape. The ceiling is a grid-style drop ceiling with recessed lighting. A semi-transparent white box with a blue and yellow geometric pattern on its left side is overlaid on the image, containing the main title.

Sector Wise IBC Cases

SECTOR WISE IBC CASES TILL 31ST MARCH,2021



*Source: IBBI Newsletter

Total Number of Registered Valuers / Valuer Entities

TOTAL NUMBER OF REGISTERED VALUERS

| Registered Valuers under various asset class as on 31/03/2021* | | | | |
|--|-----------------|-------------------|--------------------------------|-------|
| | Asset Class | | | Total |
| | Land & Building | Plant & Machinery | Securities or Financial Assets | |
| Registered Valuers | 2038 | 407 | 1522 | 3967 |

*Source: IBBI Newsletter

TOTAL NUMBER OF REGISTERED VALUER ENTITIES

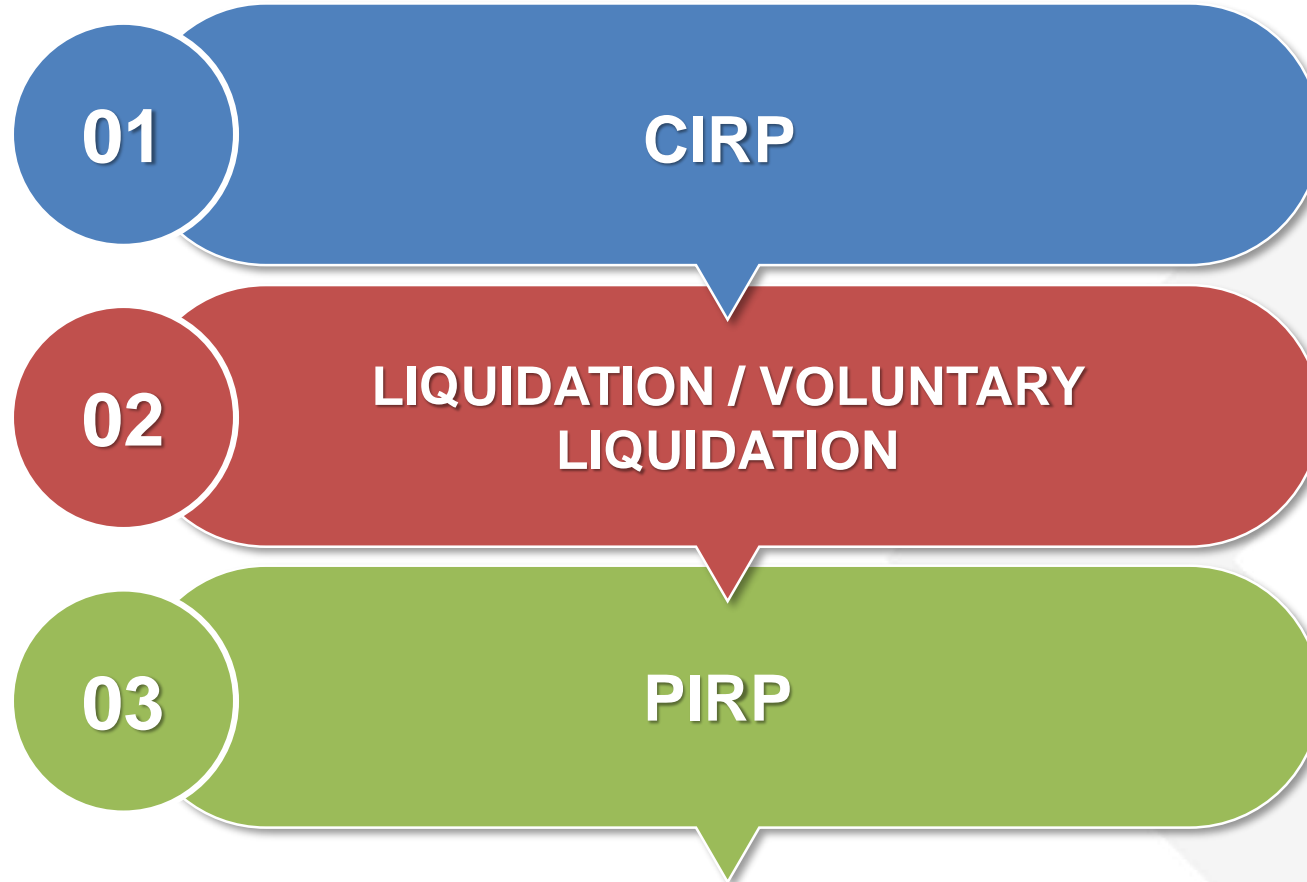
| Registered Valuer Entities under various asset class as on 31/03/2021* | | | | | | | | |
|--|-------------------------|-------------------------|--------------------------------------|-------------|-------------|-------------|-------------------------|-------|
| | Asset Class | | | | | | | Total |
| | Land and Building (L&B) | Plant & Machinery (P&M) | Securities or Financial Assets (SFA) | L&B and P&M | P&M and SFA | L&B and SFA | All three Asset Classes | |
| Registered Valuer Entities | 3 | 0 | 15 | 3 | 1 | 1 | 17 | 40 |

*Source: IBBI Website, till 31st March 2021, IBBI website

Valuation Required in IBC Frame Work

VALUATION REQUIRED IN IBC FRAME WORK

Valuation under IBC is required for following processes:



Governing Regulations for Valuation

GOVERNING REGULATIONS FOR VALUATION



(1) CIRP

Covered under: Insolvency and Bankruptcy Board of India (Insolvency resolution process for Corporate Persons) Regulations, 2016.

Relevant regulations:

Regulation 27 - The resolution professional shall within seven days of his appointment, but not later than forty-seventh day from the insolvency commencement date, appoint two registered valuers to determine the fair value and the liquidation value of the corporate debtor in accordance with regulation 35.

Regulation 35 - Fair value and Liquidation value.

(1) Fair value and liquidation value shall be determined in the following manner:-

(a) The two registered valuers appointed under regulation 27 shall submit to the resolution professional an estimate of the fair value and of the liquidation value computed in accordance with internationally accepted valuation standards, after physical verification of the inventory and fixed assets of the corporate debtor;

GOVERNING REGULATIONS FOR VALUATION



- (b) If in the opinion of the resolution professional, the two estimates of a value are significantly different, he may appoint another registered valuer who shall submit an estimate of the value computed in the same manner; and
 - (c) The average of the two closest estimates of a value shall be considered the fair value or the liquidation value, as the case may be
- (2) After the receipt of resolution plans in accordance with the Code and these regulations, the resolution professional shall provide the fair value and the liquidation value to every member of the committee in electronic form, on receiving an undertaking from the member to the effect that such member shall maintain confidentiality of the fair value and the liquidation value and shall not use such values to cause an undue gain or undue loss to itself or any other person and comply with the requirements under sub-section (2) of section 29:
- (3) The resolution professional and registered valuers shall maintain confidentiality of the fair value and the liquidation value.

GOVERNING REGULATIONS FOR VALUATION

2) Liquidation process

Under Insolvency and Bankruptcy Board of India (Liquidation Process) Regulations, 2016.

Regulation 35

- (1) Where the valuation has been conducted under regulation 35 of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 or regulation 34 of the Insolvency and Bankruptcy Board of India (Fast Track Insolvency Resolution Process for Corporate Persons) Regulations, 2017, as the case may be, the liquidator shall consider the average of the estimates of the values arrived under those provisions for the purposes of valuations under these regulations.
- (2) In cases not covered under sub-regulation (1) or where the liquidator is of the opinion that fresh valuation is required under the circumstances, he shall within seven days of the liquidation commencement date, appoint two registered valuers to determine the realisable value of the assets or businesses under clauses (a) to (f) of regulation 32 of the corporate debtor:

GOVERNING REGULATIONS FOR VALUATION

Regulation 32 Sale of Assets, etc.

The liquidator may sell-

- (a) An asset on a standalone basis;
- (b) The assets in a slump sale;
- (c) A set of assets collectively;
- (d) The assets in parcels;
- (e) The corporate debtor as a going concern; or
- (f) The business(s) of the corporate debtor as a going concern:

Provided that where an asset is subject to security interest, it shall not be sold under any of the clauses (a) to (f) unless the security interest therein has been relinquished to the liquidation estate.

GOVERNING REGULATIONS FOR VALUATION

3) PIRP

Under regulation 38 and 39 of INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (PRE-PACKAGED INSOLVENCY RESOLUTION PROCESS) REGULATIONS, 2021.

Regulation 38. Appointment of registered valuers. The resolution professional shall within three days of his appointment, appoint two registered valuers to determine the fair value and the liquidation value of the corporate debtor:

Regulation 39. Fair value and liquidation value.

(1) Fair value and liquidation value shall be determined in the following manner:-

- (a) The registered valuers appointed under regulation 38 shall submit to the resolution professional an estimate of the fair value and of the liquidation value computed in accordance with internationally accepted valuation standards, after physical verification of the inventory and fixed assets of the corporate debtor;
- (b) The average of the value determined by the two registered valuers shall be considered the fair value or the liquidation value, as the case maybe.

The background of the slide shows a person in a light blue shirt sitting at a desk. They are holding a pen in their right hand and pointing with their left hand towards a laptop screen. The scene is brightly lit, suggesting a window in the background. The overall tone is professional and focused.

Typical Process of Valuation

TYPICAL PROCESS OF VALUATION

1. Selection and Appointment of Valuer

2. Typical IRL (Information Requisition List)

3. Site Inspection

4. Basis of Valuation

5. Approaches for Valuation

6. Challenges Faced in Execution

7. Contents of Valuation Report

8. Illustrative Limitations in a Valuation Report
Specific to Tangible Assets

9. Illustrative Caveats, Limitations and Disclaimers in
a Valuation Report



1. SELECTION AND APPOINTMENT OF VALUER

General criteria of selection of valuers may include the following:

- Technical expertise
- Geographical presence
- Past experience
- Complexity of case
- Valuer's infrastructure and resources
- Valuation fees

Appointment of valuer:

- Signing of NDA
- Issue of engagement letter
- Non-Conflict of interest



2. TYPICAL INFORMATION REQUISITION LIST (IRL)

| Category | Sr. No. | Description |
|----------|---------|--|
| General | 1 | Current Status of the Company; Idle or Operational |
| | 2 | Audited Balance Sheet as on Insolvency Commencement Date |
| | 3 | Details of Manufacturing processes and end products |
| | 4 | Agreement or any other special type of licenses |
| | 5 | Complete list of locations to be covered and containing – addresses, name and contact details of the respective contact persons. |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| Category | Sr. No. | Description |
|-----------------------------|---------|---|
| Fixed Asset Register | 1 | As on insolvency commencement date, Fixed Asset Register in Excel Format covering details of assets like date of capitalization, country of import, gross block and net book matching with Audited financials of company. |
| | 2 | Cost bifurcation of assets- basic cost, taxes and duties, preliminary and preoperative expenses, etc. |
| Immovable Assets | 1 | Summary of Total land / properties with location and area statement. |
| | 3 | Sale Deed / Lease Deed |
| | 4 | NA order for Land Parcel |
| | 5 | Revenue Survey Map for each property |
| | 6 | 7/12 extract for all the land parcel |
| | 7 | Details of any disputes on the property |
| | 8 | Approved Building / Civil structure / construction Plans, Sections, Elevation drawings with built up area statement of each floor. |
| | 9 | Year of construction for Each Building / Civil structure |
| | 10 | Type of construction specification for all the buildings and structures |
| | 11 | Approved Plot plan with FSI statements and Building name. |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| Category | Sr. No. | Description |
|---|---------|---|
| Plant & Machinery and other assets | 1 | Process Technology and manufacturing Capacity of various products |
| | 2 | Make, Model, Capacity and other relevant information for the major equipment |
| | 3 | Information related to purchase whether New or Used |
| | 4 | Any exemption of applicable duties or taxes for equipment purchased in the specified industrial area, with document supporting the exemption. |
| | 5 | Identification and details of any assets taken on lease or given on lease to any third parties with details on lease terms, (if applicable) as capitalized in FAR |
| | 6 | Whether any old plant has been taking over or capitalized on a new date. |
| | 7 | Idle equipment or equipment about to be scrapped to be identified in FAR. List of any plant and machinery scrapped/removed from service but included in book value. |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| | Category | Sr. No. | Information to be asked |
|--------------------------------|--|---------|--|
| Non-Current Assets | | | |
| Fixed Asset | Intangible-Softwares | 1 | Detailed break up of the softwares |
| | | 2 | Whether the licenses of such softwares are transferable? |
| | | 3 | Date of purchase and expiry of the license term |
| | Intangible-Other Intangibles | 1 | Based on the nature of intangible asset |
| Non-Current Investments | Investment in Subsidiary companies/ Associates/ Joint Ventures | 1 | Audited / Provisional Balance Sheet as on CIRP Date / Latest Audited financial statements |
| | | 2 | Current status of operations of the entities |
| | | 3 | Projections for future periods, if the subsidiary is a cash generating entity |
| | | 4 | Details of assets sold during the CIRP period |
| | Non-Current Investments-Other Investment | 1 | Documentary Evidence of the investment (Such as Demat Statement, Shareholding Certificate, etc.) |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| | Category | Sr. No. | Information to be asked |
|--|-------------------|---------|--|
| Non-Current Assets | | | |
| Long Term & Short Term Loans and Advances | Loans given | 1 | Detailed Break up of the loans |
| | | 2 | Purpose of the loans given |
| | | 3 | Ageing of the loans |
| | | 4 | Subsequent recovery of the loans post CIRP till date |
| | Capital Advances | 1 | Detailed Break up of the advances |
| | | 2 | Purpose of the advances given |
| | | 3 | Ageing of the advance |
| | | 4 | Subsequent recovery of the advance post CIRP till date |
| | Security Deposits | 1 | Detailed Break up of the deposits |
| | | 2 | Ageing of the deposits |
| | | 3 | Subsequent realisation of deposits post CIRP till date |
| | | 4 | Contractual agreement for these deposits |
| | | 5 | Documentary evidence of the deposits |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| | Category | Sr. No. | Information to be asked |
|--------------------------|-------------------|---------|---|
| Current Assets | | | |
| Inventories | Inventories | 1 | Item wise detailed break-up of the balance including locations |
| | | 2 | Whether any inventory verification has been conducted by any third party/ management recently? If yes, provide the copy of such inventory verification report |
| | | 3 | Detailed movement of inventory after CIRP till date |
| | | 4 | Ageing of inventories as on CIRP date |
| | | 5 | Whether any inventory was lying with any third party as on CIRP date? If yes, provide a confirmation from such party for the possession of such inventories |
| Trade Receivables | Trade Receivables | 1 | Party wise detailed break-up of the balance |
| | | 2 | Ageing of the balance outstanding as on CIRP date |
| | | 3 | Balance confirmations from the respective debtors for balance as on CIRP date |
| | | 4 | Subsequent billing and realisation from the parties post CIRP date |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| | Category | Sr. No. | Information to be asked |
|----------------------------------|--|---------------------------------|---|
| Current Assets | | | |
| Cash and Cash Equivalents | Bank Accounts | 1 | Details break up of these balances |
| | | 2 | Bank Reconciliation Statement as on the CIRP date |
| | | 3 | Bank Balance Confirmations/ Bank Statements as on the CIRP date |
| | Short Term Deposits | 1 | Detailed break up of these deposits as on CIRP Date |
| | | 2 | Bank Balance Confirmations/ Bank Statements as on the CIRP date |
| | Cheques on hand | 1 | Date of issue of cheques |
| | | 2 | Details of issuer of cheque - Name, PAN, amount, purpose of issue |
| | | 3 | Subsequent realisation, if not realised then reason for not encashing |
| | | 4 | Bank statement in which such cheques have been subsequently realised |
| | Margin money deposit with banks | Margin money deposit with banks | 1 |
| 2 | | | Bank Balance Confirmations/ Bank Statements as on the CIRP date |
| Term Deposits | Term Deposits | 1 | Detailed break up of these deposits as on CIRP Date |
| | | 2 | Bank Balance Confirmations/ Bank Statements as on the CIRP date |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| | Category | Sr. No. | Information to be asked |
|--------------------------------------|----------------------------------|---------|---|
| Current Assets | | | |
| Short Term Loans and Advances | Taxes Paid in Advance | 1 | Year wise break up of these tax balances |
| | | 2 | Year wise Reconciliation of Taxes (Books and ITRs) |
| | | 3 | Current status of assessment for each assessment year |
| | | 4 | Current Status of Demand from Income Tax Portal |
| | | 5 | Copy of Income Tax Returns, Form 26AS and Intimations / Assessment orders |
| | Balance with Revenue Authorities | 1 | Detailed Break up of these balances |
| | | 2 | Nature and purpose of the balances (Balance of Input Credits / Deposits for appeals/ any other purpose) |
| | | 3 | Ageing of the balances |
| | | 4 | Subsequent realisation of balances post CIRP till date |
| | | 5 | Copy of Electronic Credit Ledger from the CIRP Date till latest |
| | | 6 | Copy of Electronic Cash Ledger from the CIRP Date till latest |
| | | 7 | Current Status of assessments/ appeals related to such deposits |
| | | 8 | Copy of orders received for these balances |

TYPICAL INFORMATION REQUISITION LIST (IRL)

| | Category | Sr. No. | Information to be asked |
|--------------------------------------|---------------------------------------|---------|--|
| Current Assets | | | |
| Short Term Loans and Advances | Interest Accrued on security deposits | 1 | Detailed calculation of the interest accrued |
| | | 2 | Documentary evidence of the deposit (FD Receipt, Bank Statement, Interest Certificate, etc.) |
| | Advance to Suppliers | 1 | Detailed Break up of the advances |
| | | 2 | Purpose of the advances given |
| | | 3 | Ageing of the advance |
| | | 4 | Subsequent recovery of materials / services/ refunds against these post CIRP till date |

3.SITE INSPECTION

Purpose:

- Compliance with the code regarding the physical verification of assets
- Property demarcation and identification
- Market Study of surrounding area
- Verification of assets as per relevant documents provided
- General observation of condition of assets
- Collection of other data relevant to valuation exercise



4. BASIS OF VALUATION

Definitions as per Insolvency and Bankruptcy Board of India (Corporate Persons) Regulations, 2016:

FAIR VALUE : “Fair value” means the estimated realizable value of the assets of the corporate debtor, if they were to be exchanged on the insolvency commencement date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.

LIQUIDATION VALUE: “Liquidation value” means the estimated realizable value of the assets of the corporate debtor, if the corporate debtor were to be liquidated on the insolvency commencement date.



5. APPROACHES FOR VALUATION

COST APPROACH



Provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility

MARKET APPROACH



Provides estimate of value by comparing the asset with identical or comparable (similar) asset for which information of price is available from reliable source

INCOME APPROACH



Provides estimate of value by converting future cash flows into present value

6. CHALLENGES FACED IN EXECUTION



7. CONTENTS OF VALUATION REPORT

Background Information of the asset being valued

Purpose of valuation and appointing authority

Bases of Value

Premise of Value

Identity of the RV and any other experts involved in the valuation

Intended Users of the Valuation

Disclosure of RV interest or conflict, if any

Date of appointment, valuation date and date of report

Inspections and /or investigations undertaken

Business interest, ownership characteristics

Nature and sources of information

Significant Assumptions, if any

Procedures adopted in carrying out the valuation and valuation standards followed

Restrictions on use of report, if any

Major factors that were taken into account during valuation

Conclusion

Caveats, limitations and disclaimers

8. ILLUSTRATIVE LIMITATIONS IN A VALUATION REPORT SPECIFIC TO TANGIBLE ASSETS

- i. Title deeds of properties
- ii. Legal and other issues
- iii. Sketch plans and photographs
- iv. Latent defects affecting the Value
- v. RVs observations are not a warranty
- vi. Hazardous conditions/material
- vii. Accuracy of architectural plans
- viii. Validity of permits and licenses
- ix. Continuation of subject business
- x. Independent Third Party
- xi. Valuation assumptions made by us



9. ILLUSTRATIVE CAVEATS, LIMITATIONS AND DISCLAIMERS IN A VALUATION REPORT

- i. Restriction on use of Valuation Report
- ii. Responsibility of RV
- iii. Accuracy of Information
- iv. Achievability of the forecast results
- v. Post Valuation Date Events (This should be disclosed while defining valuation date)
- vi. Range of Value Estimate
- vii. No Responsibility to the Actual Price of the subject asset if sold or transferred/ exchanged
- viii. Reliance on the representations of the owners/clients, their management and other third parties
- ix. No procedure performed to corroborate information taken from reliable external sources
- x. Compliance with relevant laws
- xi. Multiple factors affecting the Valuation Report
- xii. Future services including but not limited to Testimony or attendance in courts/ tribunals/ authorities for the opinion of value in the Valuation Report
- xiii. Unavailability of information as on Valuation Date

Q & A