



IIV-India Registered Valuers Foundation

Preliminary Review of Valuation Reports 2021-22

Findings and Suggestions – Asset Class - Land & Building

Introduction:

The few members valuation reports reviewed and following finding and suggestions given for the improvements in the valuation report of the Registered Valuers.

The Review and analysis were undertaken based on the present regulation Rule 8 of Companies (Registered Valuers and Valuation) Rules, 2017 mandates every Registered Valuer to comply with valuation standards as notified by the Central Government. The peer review conducted and presented by IIV-RVF in IBBI during Feb 2022 also taken into consideration for the review.

Importance of Rule & Standards

As per the rule we need to follow the standards as mentioned in the Companies (Registered Valuers and Valuation) Rules, 2017

- (a) Internationally accepted valuation standards;
- (b) Valuation standards adopted by any registered valuers organization

Accordingly, IVS 2022 guidelines also considered for the review. All valuers require too aware of the IVS 2022 basics on

IVS Framework

IVS General Standards

IVS Asset standards

IIV RVF has made a point that in every CEP one session on IVS is conducted regularly for the benefit of the members. The importance on IBBI Circular dated 01.09.2020 discussed in every CEP and insisted members to follow the circular.

The Valuation report to state with the following

- (a) Background Information of the asset being valued;
- (b) Purpose of valuation and appointing authority;
- (c) Bases of Value;
- (d) Premise of Value;
- (e) Identity of the RV and any other experts involved in the valuation;
- (f) Intended Users of the Valuation;
- (g) Disclosure of RV interest or conflict, if any;
- (h) Date of appointment, valuation date and date of report;
- (i) Inspections and /or investigations undertaken;
- (j) Business interest, ownership characteristics;
- (k) Nature and sources of information;
- (l) Significant Assumptions, if any;
- (m) Procedures adopted in carrying out the valuation and valuation standards followed; (n) Restrictions on use of report, if any;
- (o) Major factors that were taken into account during valuation;
- (p) Conclusion; and
- (q) Caveats, limitations and disclaimers.

The following are the findings & suggestions from the analysis and review of the Reports.

Findings from reports

1. Back ground information on asset not detailed
2. Bases & premise value to be given also lacking explanation of how the methodology was applied to the subject property
3. Date of appointment, Date of Inspection, Date of valuation and Date of Valuation Report to be given.
4. In some reports identity of valuer missing, the valuer has to mention his IBBI RV no / COP No to be mentioned in the report.

5. Business interest, ownership characteristics not detailed Inconsistencies, contradictions within the report
6. Assumptions not clearly stated
7. Errors in grammar, math, logic
8. Insufficient explanation of supporting evidence
9. No statement or disclosure on conflict of Interest is specifically mentioned.
10. Some important sources for land ownership not detailed or indicated.
11. In some report Purpose of Valuation is mentioned however name of appointing authority is not mentioned.
12. No mention of restrictions on use of the report, if any.
13. Some report Partly indicates the major factors that were taken into account during the valuation, valuer need to indicate the same in details.
14. Instead of conclusion paragraph, some reports with declaration and certification, Conclusion is not provided. Conclusion paragraph to be provided in the report.

Suggestions of the Reviewers:

- (a) Scope and purpose of the report to be given clearly
- (b) Sources of information to be mentioned
- (c) Approach and Methodology to be detailed in the report (IVS 105)
- (d) The report should specify the Basis of value
- (e) Sec 35 of IBBI (CIRP) Regulations, 2016. Definition of "Fair Value" and "Liquidation Value" should be provided in the Report and since the corporate debtor is under CIRP, the report should consider Ongoing Liquidation Value Basis.
- (f) Departure – Deviation from IVS standard is permitted under limited cases like Legislative, regulatory authorities, local bye-laws and
- (g) Date of order, Date of the report, inspection date, and valuation date to be carefully mentioned as required.
- (h) Source of information and Documents collected to be mentioned in the report.
- (i) Location GPS and site photos to be attached mentioning the view.

(j) In the preparation of a valuation report, the valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in the public domain and not generated by the valuer. (Annexure1- Model code of Conduct for RV Professional competence and due care (9)) Hence valuers required care to prepare his report.

(k) Valuation sheet prepared to be without any arithmetical error and steps to be very clear and easily understandable to the end-user.

(l) Comparable sale evidence to be attached if available.

(m) Procedures involved in preparation of a valuation report – guide lines as per IBBI circular dated 01.09.2020 to be considered or followed for the valuation assignment.

The sample Check List for Inspection and collection of data are enclosed below for Information.

a. Land and Building

b. Land Only

Hope this will be more useful to the valuers of Asset class Land & Building.

Check List for Collection Data for valuation work during Inspection:

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Suggested Check List for Inspection of the Asset

INSPECTION - CHECK LIST				
FOR THE VALUATION OF LAND & BUILDING/ APARTMENT/				
S.NO	DETAILS TO BE VERIFIED DURING INSPECTION	DETAILS TAKEN		REMARKS
1	Date of Visit	YES	NO	
2	Name of the person who Visited the site	YES	NO	
3	Representative Accompanied	YES	NO	
4	Copy of the Property Tax in case of Flats & Buildings	YES	NO	
5	Copy of Electricity Bill/Telephone Bill	YES	NO	
6	Copy of the Sale Deed/Sale Agreement	YES	NO	
7	Copy of Construction Agreement/Development Agreement	YES	NO	
8	Copy of Lease Agreement	YES	NO	
9	Copy of Layout Approval (In case of land)	YES	NO	
10	Copy of Approval Plan (In case of Building/Apartment)	YES	NO	
11	Check for the Demarcation stone of the said Land for measurement (In case of Land)	YES	NO	
12	Check the Building is as per the plan approval	YES	NO	
13	Check for the Approval on number of floors	YES	NO	
14	Check for the Set Back of the building. Confirm whether this is as per approval	YES	NO	
15	Check for the Boundary Wall/Fence - Make/Construction specifications	YES	NO	
16	Check for the Location (Nearby Landmark, Latitude and Longitude with North Direction)	YES	NO	
17	Check for the Nearby market Survey (Ad Board, Local Broker Name and Number)	YES	NO	
18	Check for the Photos with Main Building Entrance with House Number, Main Door Entrance with Number, All Room Entrance and inside, photo with owner or bank any other authorized person visited	YES	NO	
19	Check the Boundaries of the Building/Land on all the sides	YES	NO	
20	Check for the Amenities in the Building (Any Wardrobes, Special finishes inside the flat, Other Amenities inside the Apartment like Swimming Pool, Garden, Play Area, Car Park, STP etc.,)	YES	NO	

21	Check the Width of the Road (Surrounding/in front of the Property)	YES	NO	
22	Check for the Year of Construction (In case of Building old building need to take str.advise please take the same.)	YES	NO	
23	Check for the type of Structure (RCC/Load bearing/Steel structure/Precast)	YES	NO	
24	Check the Topography of the land (In case of Land)	YES	NO	
25	Check the finishes of the Building/Apartment	YES	NO	
26	Check for the Electrical connections (concealed/3 Phase), Water Connection (Bore well/Metro water), Sewerage Connection (Connection to Main Drain or STP)	YES	NO	
27	Check for additional Amenities like UG Sump, OH Tank, STP, ETP, Gym, Community Hall, Club House, RWH, Trenches, paver, compound wall type. Terrace work details etc.,	YES	NO	
28	Condition of the Building (Any cracks, Terrace floor water proof. etc.)	YES	NO	
29	Take google location, small sketch if required, if measured than details in rough sketch.	YES	NO	
Date :				Signature
Place:				
Job No:				

(Please if any points required for check list)

Findings and Suggestions – Asset Class – Plant & Machinery

Cursory glance of a few Valuation reports and relevant observations to improvise

Given below is the feedback after review of a valuation report on a **plant in south India.**

1. Discrepancy in valuation date and inspection date. Valuation date is earlier than inspection date
2. Liquidation value to fair market value is taken as 70% but not specified. What is the rationale behind the assumption? The assessed plant was in a dilapidated condition, completely rusted and is nearly impossible to restore/ recover anything from the plant.
3. Quotes from local scrap dealers would have given an insight into the real value at which the junked machinery would have been sold.
4. The approach how the assumed net weight of the plant and machinery is arrived at, has to be explained. As per the report no records are available.
5. A detailed definition of valuation approaches of Market, Income and Cost is not needed as elaborate definitions are available in IVS standards. Only the approach in the current scenario needs to be briefly mentioned, otherwise it will add only to the bulk of the report.
6. Thirty days validity for the valuation is not relevant as the value is as of the date of valuation.
7. There is no mention of an inventory in the report. The unit was a running company before closure. Some inventory ought to have been there. The valuer must have concluded that they were also stolen along with the vital parts of machinery.
8. Any investigations made during the course of valuation have to be mentioned.
9. Scope of work is given but not the intended purpose, and its users are not specified.

Feedback after reviewing the valuation report on a **plant in North India.**

1. The report clearly mentions that there is no proper approach access to the premises. This aspect might have been taken into consideration in arriving at the valuation, instead of purely relying on depreciated replacement cost method.
2. Liquidation value is taken as 80% of fair value. Basis to be explained.
3. A multiplication factor of 0.75 and or 0.5 is taken to accommodate deterioration and obsolescence of the plant and machinery. The ground on which such factor is taken into consideration has to be stated.
4. The valuer may explore the feasibility of the plant brought back to life by providing additional investments in this case and value the unit as a going concern that will fetch a much better value than a liquidation value.