

INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

[Authority delegated by the Central Government vide notification no. GSR 1316(E) dated 18.10.2017 under section 458 of the Companies Act, 2013 read with rule 2(1)(b) of the Companies (Registered Valuers and Valuation) Rules, 2017]

IBBI/Valuation/Disc./16/2023

17th May 2023

ORDER

This Order disposes the Show Cause Notice (SCN) No. RV-13012/2/2022-IBBI/296/96, dated 27th January 2023 issued to Mr. Sudhindra Rao H R under rule 17 read with rule 15 of the Companies (Registered Valuers and Valuation) Rules, 2017 (Valuation Rules). The Insolvency and Bankruptcy Board of India (IBBI/Board) has been delegated by the Central Government to perform the functions of the Authority under the Valuation Rules. Mr. Sudhindra Rao H R is registered with IBBI as a valuer of Plant and Machinery Assets (P&M), with the registration number IBBI/RV/02/2020/13140 on 08th July 2020.

1. Issuance of Show Cause Notice (SCN) and hearing before the Authority

- 1.1 Rule 17(1) of the Valuation Rules provides that based on findings of an inspection, if the authorised officer is of the prima facie opinion that sufficient cause exists to cancel or suspend the registration of a valuer, it shall issue a SCN to the valuer.
- 1.2 In this regard, an Inspecting Authority (IA) was appointed to conduct inspection of the valuation report submitted by Mr. Sudhindra Rao H R in the Corporate Insolvency Resolution Process (CIRP) of V3 Engineers Pvt Limited (Corporate Debtor/CD) to examine compliance with section 247 of the Companies Act, 2013 read with relevant provisions of the Valuation Rules.
- 1.3 Based on the findings of the inspection, a *prima facie* opinion was formed that sufficient cause exists to consider actions under sub-rule (5) of rule 17 of the Valuation Rules and accordingly SCN dated 27th January 2023 was issued to RV for contravention of the rules 8(3),(h) and (j) of the Valuation Rules, 2017. The written reply was sought from the RV and an opportunity of personal hearing was accorded to him. Mr. Sudhindra Rao H R in his mail dated 09th May 2023 stated that he had responded to the SCN on 09th March 2023 and also provided the copy of reply of his SCN. The matter was referred to this Authority for disposal of the SCN where Mr. Sudhindra Rao H R availed the opportunity of personal hearing on 15th May 2023.

2. Examination of contraventions alleged in the SCN

The contravention alleged in the SCN, the response of RV and the findings of the Authority are summarised as follows:

2.1 Issues regarding Methodology adopted for Valuation.

2.1.1 It is mentioned in the SCN that the RV has stated in point 7 of Appendix- I of his valuation report that,

“while estimating market Value of Plant & Machinery, due considerations have been given to following attributes:

- *Age of the machines/Equipment*
- *Make & Model*
- *Year of Manufacturing*
- *Balance economic life*
- *Working conditions of the machines*
- *maintenance schedule & records*
- *availability of spares/accessories*
- *balancing between machines*
- *AMC/Insurance (if any)*
- *benefits under Export/Import including charges over assets if any relating to this present economic status of the industries located in the neighborhood and its sustainability”*

2.1.2 The SCN further stated that the valuation report also mentions that *“No cost indexing has been provided to Equipment’s acquisition cost under the assumptions that the same is set of against technological obsolescence of the plant & equipment. Further as per valuation standards/convention, it is not recommended to apply cost indexing for period over 10 years.”*

2.1.3 The SCN notes that the RV has estimated the fair value of the assets to be 29.88 lakh and liquidation value at 22.30 lakh as on 02nd March 2020. However, the SCN alleges that there appears to be no convergence between methodology indicated by in the report and the final valuation figures estimated therein. The report claims to have taken into account, various factors while estimating the value of machines. However, the summary sheet contains fair value and liquidation value of two set of machines/equipment without any justification on how he has abruptly reached those figures. There has been hardly any effort by the RV to connect the methodology indicated with the final figures derived by the RV.

2.1.4 The SCN further alleges that points that are conceptually important in the entire exercise such as ‘base value’ ‘rate of depreciation due to wear & tear’, ‘rate at which obsolescence factor is accounted for’ etc. are missing in the calculation/estimation part. This gives the impression that the figures estimated by the RV are more arbitrary in nature instead of being based on the factors indicated by him in the Report.

2.1.5 This according to the SCN is allegedly in violation of Rule 8(3) (h) and (j) of the Valuation Rules.

2.2 **Submission of the RV**

2.2.1 The RV in his response has submitted that he has estimated the fair value and liquidation value of assets by duly following all the procedure under principles of Plant and

Machinery valuation as follows. Valuation Standards published by American Society of Appraisers do not recommend application of indexing in respect of older machines with age over 10 years as it only escalates gross value of machine as such can result in wrong conclusion. The RV had to use ASA principles in his exercise in the absence of machinery valuation standards published in India.

2.2.2 The RV has further submitted that though fair value and liquidation value are determined systematically by following principles of valuation and value arrived at are after due calculations, it escaped the attention of RV to attach calculation sheet to his initial report which has now been provided by the RV in his reply to SCN.

2.3 Findings of the Authority

2.3.1 The RV has placed on record the calculation sheet utilised by him in preparing the valuation report. The calculation sheet provided by the RV contains the details of the assets and the assumptions made by him is calculating the discounting factors for depreciation, refurbishment cost, etc. Although the calculations have been disintegrated into different items showing discounting for each factor, the basis for arriving at such discounting values is not clarified. Further, the calculation sheet does not provide detailed calculation for arriving at liquidation value of the assets. It is well understood that the valuer has the liberty to exercise his professional judgment while estimating the value, however, the assumptions with respect to the discounting factors must rest on some logical basis which should be recorded in the valuation report for consideration of its stakeholders.

3. Order

3.1 The valuation report is based on the professional opinion of the valuer backed by his expertise and skills. Therefore, a valuation report is inherently remains subjective in nature. However, it must be kept in mind that the reliability of the valuation report increases with enhanced reliance on objective criteria. Therefore, it is necessary that all the relevant information considered by the valuer during the conduct of valuation is disclosed in the valuation report itself. This gives comfort to the stakeholders while taking economic decisions on the basis of valuation report. The report must clearly lay down the assumptions made in the report as well as the logic and basis of such assumptions to safeguard the reliability of valuation estimate provided by him. In view of the foregoing, after considering the allegations made in the SCN, the detailed reply provided by the RV and the materials available on record, the Authority therefore disposes of this SCN with the direction to the RV to be cautious, in future, in preparation of the valuation report on the basis of reliable assumptions and documentation there off.

3.2 In terms of the directions in para 3.1 above, this Order shall come into force with immediate effect.

- 3.3 A copy of this order shall be forwarded to IOV Registered Valuers Foundation where Mr. Sudhindra Rao H R is enrolled as a member.
- 3.4 Accordingly, the show cause notice is disposed of.

Dated: 17th May 2023
Place: New Delhi

Sd/-
(Sudhaker Shukla)
Whole Time Member, IBBI