

# **PVAI VALUATION PROFESSIONAL ORGANISATION**

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## **PRELIMINARY ANALYSIS PROCESS**

In a analysis , a valuer is required to review valuation report .

The process of analysing valuation report is not limited simply to identifying possible calculation errors in the analysis.

It also requires the analyser to determine if the report being analysed was developed consistent with generally accepted valuation practices and applicable standards.

Similarly, analyser should also adhere to applicable standards when conducting the analysis.

OR A process of developing and communicating an opinion about the quality of all or part of the work Using Glossary of IVS 2017. A “*valuation reviewer*” is a professional *valuer* engaged to review the work of another *valuer*.

As part of a valuation review, that professional is required to perform certain valuation procedures and/or provide an opinion of value

It is intended to provide information to the intended users about the credibility of the work under review.

## **STANDARD REFERED TO**

1. While The report is being analysed , the reviewer follow applicable professional standards for valuation review, development, and reporting. These include IVS, USPAP, Red book, Standards by ICAI or AICPA
2. PVAI has not framed its independent valuation standards and has chosen to adopt International Valuation Standard (IVS).
3. PVAI is the first member association to represent India at IVSC.
4. At PVAI: All RV members (L&B/P&M) to adopt IVS, for valuation reports prepared under IBC OR Companies Act 2013.
5. We have also given a confirmation to IBBI of us adopting IVS as our Valuation standard.

As per Std 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:

1. 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,
2. the Approach and Methods adopted,
3. the key inputs used,
4. the assumptions made,
5. the conclusion(s) of value and principal reasons for any conclusions reached, and
6. the date of the report (which may differ from the valuation date)

### **PARA 20.3, IVS 101: SCOPE OF WORK**

7. Identity of the *valuer*: The *valuer* may be an individual, group of individuals or a firm. If the *valuer* has any material connection or involvement with the subject *asset* or the other parties to the valuation assignment, or if there are any other factors that could limit the *valuer's* ability to provide an unbiased and objective valuation, such factors *must* be disclosed at the outset. If such disclosure does not take place, the valuation assignment is not in compliance with IVS. If the *valuer* needs to seek *material* assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance *must* be made clear.
8. Identity of the *client(s)* (if any):
9. Identity of other intended users (if any):
10. *Asset(s)* being valued:
11. The valuation currency
12. Purpose of the valuation:
13. Basis/bases of value used
14. Valuation date
15. The nature and extent of the *valuer's* work and any limitations thereon
16. The nature and sources of information upon relied upon:
17. *Significant* assumptions and/or special assumptions:
18. The type of report being prepared:
19. Restrictions on use, distribution/ publication of report:
20. That the valuation will be prepared in compliance with IVS and that the *valuer* will assess the appropriateness of all *significant* inputs:

### **OBSERVATIONS IN VARIOUS VALUATION REPORTS**

21. Although all RVs claimed to have prepared their valuation report in compliance with IVS, most reports lacked an explicit declaration stating the same.
22. We also noted of deviations from IVS. The deviations generally observed when reviewing the valuation reports pertain to the following: Use of different valuation standards: We observed that in some tangible asset valuation reports, references were drawn to ICAI valuation standards and definitions used from that standard, which was in contravention to adoption of IVS.
23. Scope of work was not elaborately captured in engagement letter NOR in transmittal letter/ Executive summary for valuation.

IVS requires any a Valuer to communicate the Scope of Work to its client that would include amongst many things, the identity of Valuer, purpose, intended use and user, asset identification, valuation date etc. Which is found lacking in many valuation reports.

PVAI VPO is in favour of preparing a standardized offer letter covering the all aspects of IVS Scope of work as well as IBC rules and the same should be adhered to by all Registered Valuers ..

A] Under IBC, each report needs to address two bases of Value viz. Fair Value and Liquidation Value. The definition of value i.e. bases of value and source of the definition was not stated in some reports.

B] Some valuation reports still mention Fair Market Value/ Realizable Value and Liquidation Value, when these terms and bases of value are not the reporting requirements under IBC.

C] A discussion on generally accepted valuation methods: It was observed that most reports still follow the tabular form of reporting wherein they miss out on addressing this aspect. The reports do not confirm

having ‘Considered’ all three generic approaches to value and do not cite reasons for ‘selection’ of any particular method or for ‘disregarding’ any approach.

D] Value conclusion: A separate section where Valuer ‘Reconciles’ values estimated using one or more approaches and to finally arrive at a single value opinion is absent in the many reports.

E] Liquidation value (LV): In the absence of data relating to liquidation sales, valuers normally provide a discount to Fair Value to arrive at LV. The discounts offered are arbitrary without proper justification. It is our opinion that we need to have a white paper on LV, its sub-sets viz. Forced liquidation/ Orderly liquidation, its applicability and how it affects the various classes of assets.

F] Under IBC, the entire asset side of Corporate Debtor’s (CD) balance sheet is to be valued. It was noted that when reporting, most valuers do not record their FV/LV opinions against Book values of the CD.

G] Assumptions and Disclosures: There is no standardization in the disclosures required to be made OR assumptions used in preparing the report.

H] Restrictions on the use of report: A statement explicitly restricting the end use of the report to intended user and for intended purpose only was missing from most of the valuation reports.

I] Lack of Comparable data/ Inadequate representation: Mathematical accuracy was not observed to be a cause of concern. However, some reports submitted were noted to be without back-up calculations for their value conclusion. We also noted that comparable instances involving wrong asset class was used or there was incorrect choice in documenting method of valuation.

J] Description of the subject: Inadequate, since reports still follow tabular format and instead of describing the subject, one-word replies are used against a particular column.

K] Infirmities observed in Report writing: Valuers are primarily from technical background and in our opinion specific training to hone report writing skills would be of immense help e.g. Use of grammatically correct language, Short yet cogent sentences for descriptions etc. Similarly, quality of presentation of the reports is an area that needs to be improved upon e.g. we observed use of varying fonts, text size etc

L] Use of Company name instead of individual RV name for preparation of report. Some valuers who were mid -way though the assignment were asked to rectify the erroneous documentation.

M] During the early periods of registration, a few instances were also observed when Valuers accepted assignments even before obtaining COP from RVO.

N] Date of Valuation: As on date of commencement of CIRP or date of commencement of Liquidation Process or as may be required by the Liquidator needs to be adhered to

O] It was observed that Major changes in Accounting Policies over the Previous Year was not highlighted.

P] In some report it was observed that Inventories are being valued based purely on management representation without physical verification/ random sampling.

In short we have analysed valuation reports for various short comings and has prepared a chart covering at least 37 points that can be checked to ensure that these omissions are avoided . This chart is already put up on our web site for all valuers to follow.