

## Insolvency and Bankruptcy Board of India

14<sup>th</sup> January, 2019

### Sub: Educational Courses for asset class: Plant and Machinery

In pursuance of the first proviso to rule 5 (1) of the Companies (Registered Valuers and Valuation) Rules, 2017, read with Rule 12 (2) (a) and Rule 14 (e), the Insolvency and Bankruptcy Board of India, being the Authority, hereby specifies the details of educational courses for the Asset Class of Plant and Machinery as under:

i. The curriculum for the educational course shall be as under:

#### Asset Class: Plant and Machinery

Sl. No.	Coverage	Hours of Training
1.	<b>Principles of Economics</b> <ul style="list-style-type: none"><li>• <b>Microeconomics</b><ul style="list-style-type: none"><li>- Consumption: Indifference Curve, Consumer's Surplus, Elasticity</li><li>- Price Mechanism: Determinants of Price Mechanism, Individual and Market Demand Schedules, Law of Demand &amp; its Conditions, Exceptions and Limitations of Law of Demand, Individual and Market Supply Schedules, Conditions and Limitations, Highest, Lowest and Equilibrium Price, Importance of Time Element</li><li>- Pricing of Products under different market conditions: Perfect and Imperfect Competition, Monopoly</li><li>- Factors of Production and their pricing: Land, Labour, Capital, Entrepreneur and other factors</li><li>- Theory of Rent</li><li>- Capital and Interest: Types of Capital, Gross Interest, Net Interest</li><li>- Organisation and Profit: Functions of Entrepreneur, Meaning of Profit and Theories of Profit</li></ul></li></ul>	2
	<ul style="list-style-type: none"><li>• <b>Macroeconomics</b><ul style="list-style-type: none"><li>- Functions &amp; Role of Money</li><li>- Inflation: Types of Inflation, Causes, Effects, Inflationary Gap, Control of Inflation, Monetary, Fiscal and Direct Measures</li><li>- Deflation: Causes, Effects, Deflationary Gap, Measures to Control Deflation, Deficit Financing</li><li>- Savings and Investment: Savings and Types of Savings, Determinants of Savings, Investment, Types of Investment, Determinants of Investment, Relationship between Savings and Investment</li></ul></li></ul>	2

	<ul style="list-style-type: none"> <li>- Components of Economy: Primary Sector, Secondary Sector, Tertiary Sector, Informal Sector in Urban Economy, Parasitic Components in Urban Economy</li> <li>- Concepts of GDP and GNP, Capital Formation</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Parallel Economy</b></li> <li>- Definition of Parallel Economy, Causes and Effects of Parallel Economy on use of Land and its Valuation</li> <li>- Its impact on Real Estate Market</li> <li>- Construction Industry and Parallel Economy</li> </ul>	1
2.	<p><b>Book Keeping and Accountancy</b></p> <ul style="list-style-type: none"> <li>- Meaning and objects of Book Keeping, Double Entry Book Keeping</li> <li>- Books of Prime Entry and Subsidiary Books: Cash Book, Bank Book, Journal, Ledger, Purchase and Sale Books, Debit and Credit Note Register, Writing of Books, Posting and Closing of Accounts</li> <li>- Trading Account, Profit and Loss Account, Income and Expenditure Account</li> <li>- Preliminary Analysis of Financial Statements</li> <li>- Cost, Costing and Elements of Cost, Fixed Expenses, Variable Expenses, Break-Even Point</li> </ul>	1.5
3.	<p><b>Law-General</b></p> <ul style="list-style-type: none"> <li>- Indian Legal System: Salient Features of the Indian Constitution, Fundamental Rights, Directive Principles of the State Policy</li> <li>- Government: Executive, Legislature and Judiciary</li> <li>- Laws of Contract: Formation of a Contract, Parties, Void, Voidable and Unenforceable Contract, Contingent Contract, Misrepresentation and Fraud and effect thereof, Termination of a Contract, Remedies for Breach, Performance of Contract, Indemnity and Guarantee, Law of Agency</li> <li>- Tort: General Principles of Tort, Tort affecting Valuation</li> <li>- Law of Arbitration and Conciliation: Salient Features</li> <li>- Auction: Authority of Auctioneer, Duties of Vendor, Purchaser and Public, Misdemeanor and Misrepresentation, Advertisements, Particulars and Catalogues, Statements on the Rostrum, Conduct of Sale, Reservation of Price and Right to Bid, Bidding Agreements. Memorandum of the Sale. The Deposit, Rights of Auctioneer against Vendor and Purchaser</li> <li>- Laws of Evidence: Burden of Proof, Presumptions, Conclusive Proof</li> </ul>	5
	<ul style="list-style-type: none"> <li>- Salient Features of the Insolvency and Bankruptcy Code, 2016 concerning Valuation</li> <li>- Salient Features of the Companies (Registered Valuers and Valuation) Rules, 2017</li> <li>- Salient Features of the Securitization and Reconstruction of the Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002) concerning Valuation</li> </ul>	1

	<ul style="list-style-type: none"> <li>- Section 5 (n) of the Banking Regulation Act, 1949 on “Secured Loan or Advance”</li> <li>- The Companies Act 2013: Section 192(2), 230 (1), 230 (2), 230 (3), 231, 232, 247 and 281(1)</li> </ul>	
4.	<p><b>Introduction to Statistics</b></p> <ul style="list-style-type: none"> <li>- Data Classification and Processing, Graphical Representation of Data, Frequency Distributions</li> <li>- Measures of Central Tendency, Dispersion and Skewness</li> <li>- Elementary Theory of Probability and Probability Distributions, Sampling and Sampling Distributions, Estimation</li> <li>- Simple Test of Significance, Regression and Correlation, Multiple Correlation Coefficient</li> <li>- Time Series</li> <li>- Index Numbers</li> </ul>	1
5.	<p><b>Environmental Issues in Valuation</b></p> <ul style="list-style-type: none"> <li>- Environment and Valuation - Differences between the Market Price and the Negative Value Consequent on Environmental Impact</li> <li>- Environmental Issues of Air Pollution, Water Pollution, Environmental Factors and their effects, Measures to Restore the Damage, Cost to Cure</li> <li>- Outlines of Environmental Legislations: The Indian Forest Act, 1927, The Water (Prevention and Control of Pollution) Act, 1974, The Air (Prevention and Control of Pollution) Act, 1981, The Environment (Protection) Act, 1986</li> <li>- Laws related to Industrial Health and Safety</li> </ul>	2
6.	<p><b>Professional Ethics and Standards</b></p> <ul style="list-style-type: none"> <li>- Model Code of Conduct as notified by Ministry of Corporate Affairs under the Companies (Registered Valuers and Valuation) Rules, 2017</li> <li>- Ethical considerations under terms of engagements</li> </ul>	1
7.	<p><b>Valuation of Plant and Machinery</b></p>	
	<ul style="list-style-type: none"> <li>- Role, Functions and Responsibilities of a Plant and Machinery Valuer</li> <li>- Cost, Price, Value and Valuation.</li> <li>- Types of Market, Demand and Supply Curve, Buyer’s and Seller’s Bell Curve for Overall Sales performance</li> <li>- Annuities, Capitalisation, Rate of Capitalisation, Years Purchase, Sinking Fund, Redemption of Capital, Reversionary Value</li> <li>- Construction and use of Valuation Tables</li> <li>• <b>Definitions of the various terms</b></li> <li>- Plant and Machinery, Furniture, Fixtures and Fittings – judicial interpretation of these terms</li> <li>- Market value, Highest and Best Use Value</li> <li>• <b>Meaning of the terms</b></li> <li>- Basis of Valuation, Value in Use, Value in Exchange, Value to the Buyer, Value to the Seller, Value to the Occupier, Value in</li> </ul>	3

	<p>Existing Use In-Situ, Value in Existing Use in Ex-Situ, Value in Alternative Use in In-Situ, Value in Alternative Use in ExSitu, Liquidation Value In-Situ/Ex--Situ, Orderly Liquidation Value, Forced Sale Value</p> <ul style="list-style-type: none"> <li>- Investment Property, Marketable Non-Investment Property, Non-Marketable Non-Investment Property with their characteristics and approaches to Value</li> <li>- Factors having direct bearing on Value (Valuation Maxims) like Physical, Legal, Social, Economic, Utility, Marketability, Transferability, Scarcity, Present Worth of Future Benefits and Intangible Rights</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Identification and Physical Verification of Plant, Machinery and Equipment (PME)</b></li> <li>- Inventory (Listing of Machinery) and data to be collected while taking inventory</li> <li>- Importance of Technical Specifications of Plant and Machinery in Valuation exercise</li> <li>- Assessment of Condition of Plant, Machinery and Equipment based on Visual Inspection</li> <li>- Comparing Inventory with Plant and Machinery Records maintained by the Company</li> <li>- Ascertaining Discrepancy</li> <li>- Identification of Productive, Non-Productive, Surplus and Off-Balance Sheet Assets</li> <li>- Age, Effective Age, Total Economic Life, Economic Balance Life, Physical Life and their importance in Valuation</li> <li>- Factors affecting Life, both in terms of years or hours of use, depending on type of assets and maintenance</li> <li>- Definition and distinction of the terms - Historical Cost, Acquisition Cost, Book Cost, Written Down Value and Net Book Value</li> <li>- Items in the nature of buildings to be treated as Plant and Machinery- like Chimneys to the Boiler, Brick, Concrete or RCC Foundation for Plant and Machinery, Water and Sewerage Installations, Effluent Treatment Plant etc.</li> </ul>	2
	<ul style="list-style-type: none"> <li>- Depreciation under The Income Tax Act, 1961 as well as The Companies Act, 2013</li> <li>- Useful Lives to compute depreciation as per Schedule II of The Companies Act, 2013</li> <li>- Factors to be considered for Componentization of Asset</li> <li>- Installed Capacity of the Plant, Actual Production, Raw Material Availability, Level of Technology used such as Current or Obsolete, Issues if any regards to these</li> <li>- Part, Fraction and Whole Valuation</li> <li>- Relationship of Earnings and Assets</li> <li>- Difference Between Business Specific Economic Viability and Economic Obsolescence</li> </ul>	1.5

	<ul style="list-style-type: none"> <li>- Efficiency of Plant Layout, Imbalances in different production sections and their relevance in valuation</li> </ul>	
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	<p><b>Three Approaches to Value: Cost, Market and Income</b></p> <ul style="list-style-type: none"> <li>• <b>Cost approach</b> <ul style="list-style-type: none"> <li>- Reproduction Cost New, Replacement Cost New, Depreciated Reproduction Cost/Depreciated Replacement Cost (DRC), Difference and similarity in DRC and Market Value</li> <li>- Difference between Reproduction Cost New and Replacement Cost New</li> <li>- Methods of Computation of Reproduction Cost New</li> <li>- Market Inquiry of Current Cost of Brand-New Machine with Identical Specifications from same manufacturer i.e. Replica Indexation and its limitations, Cost to Capacity Method and its limitation</li> <li>- Methods of Computation of Replacement Cost New when Identical Machine/Plant is not available i.e. Machine/Plant of like Kind and Type, and factors to be taken into consideration.</li> <li>- Direct and Indirect Costs for Estimation of Reproduction New /Replacement Cost New</li> <li>- Meaning of the term Depreciation for Wear and Tear, Factors influencing Depreciation-its measurements and application by Valuers of Plant and Machinery</li> <li>- Concept of Salvage Value and Scrap Value along with the basis of the same</li> <li>- Methods of Depreciation – Observed Deterioration, Straight Line, Diminishing Balance (WDV)</li> <li>- Difference between Accounting and Technical Depreciation.</li> <li>- Factors to be taken into consideration for selection of Depreciation Method</li> <li>- Obsolescence- Technological, Functional and Economic</li> <li>- Depreciated Replacement Cost (DRC) subject to Potential Profitability</li> <li>- Limitations of Cost Approach</li> </ul> </li> </ul>	3
	<ul style="list-style-type: none"> <li>• <b>Market Approach- Sales comparison method</b> <ul style="list-style-type: none"> <li>- Data Collection</li> <li>- Elements of Comparability and application of appropriate Weightages to Identified Comparable to Estimate Value of Subject Plant and Machinery Asset being valued. Instances when Sales Comparison Method is not feasible and limitations of Sales Comparison Method</li> </ul> </li> </ul>	1

	<ul style="list-style-type: none"> <li>• <b>Income Approach</b></li> <li>- The concept of Income Approach</li> <li>- Gross Income-Outgoings, Net Income and Year's Purchase</li> <li>- Actual Income Vs Potential Income</li> <li>- Terminal Income</li> <li>- Remunerative and Accumulative Rates of Interest and various methods of determining the same</li> <li>- Capitalization of Earnings Method</li> </ul>	1
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	<ul style="list-style-type: none"> <li>- Discounted Future Earnings Method (DCF Technique)</li> <li>- Pitfalls of DCF Technique</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Process of Valuation</b></li> <li>- Check List for Valuation of Plant and Machinery, documents to be studied prior to Plant Visit/Inspection, ABC analysis</li> <li>- The items to be treated as Plant and Machinery</li> <li>- The items to be treated as Land and Buildings</li> <li>- Physical Verification (Survey and Inspection)</li> <li>- Data Collection and Valuation Analysis under Replacement Cost New Method (Cost Approach)</li> </ul>	1.5
	<ul style="list-style-type: none"> <li>• <b>Broad categories of machines to be encountered by plant and machinery valuers in actual practice</b></li> <li>- Valuation of a machine for which current cost of identical brand-new machine is available</li> <li>- Valuation of a machine for which current cost of identical brand-new machine is not available</li> <li>- Valuation of a machine which is no longer manufactured</li> <li>- The reasons for the differences in the prices of the machines with same technical specifications and features by different manufacturers</li> <li>- The factors to be considered while adopting Cost Approach</li> <li>- Data Collection and Valuation Analysis under- Cost, Market and Income Approaches</li> </ul>	1

	<ul style="list-style-type: none"> <li>• <b>Leasing of plant and machinery</b> <ul style="list-style-type: none"> <li>- Definition of Lease</li> <li>- Leasing, Hiring and Renting</li> <li>- Obligations of Supplier of Asset, User of Asset, Hire Purchase Company/Lessor in cases of Loan, Supplier's Credit, Hire Purchase and Leasing</li> <li>- Leasing as an instance of Bailment, Nature of the Bailment Agreement, Features of Bailment, Contracts Law on Bailment. <ul style="list-style-type: none"> <li>- Leasing Rules</li> </ul> </li> <li>- Types of Leases and their characteristics</li> <li>- Steps in the structuring of a Lease Contract</li> <li>- Leasing from point of view of Lessor/Lessee</li> <li>- Limitations of Leasing</li> <li>- The structure of a Lease Agreement</li> <li>- Treatment of Leased Assets in Company Accounts – Accounting Practice for Leased Plant and Machinery as per Indian Accounting Standards</li> <li>- Assessment of Lease related risk</li> <li>- Risk and Return trade-off</li> <li>- Valuation of leased plant and machinery</li> </ul> </li> </ul>	1
	<ul style="list-style-type: none"> <li>• <b>Valuation of plant and machinery for following purposes</b> <ul style="list-style-type: none"> <li>- Mergers and Acquisitions (including Purchase Price Allocation)</li> <li>- Financial Statements</li> </ul> </li> </ul>	3

	<ul style="list-style-type: none"> <li>- Impairment</li> <li>- Auction</li> <li>- Insurance - Leasing - Disposal.</li> <li>- Capital Raising</li> <li>- Corporatization and Privatization</li> <li>- Stamp Duty</li> <li>- Any other purpose not referred above</li> <li>- Study of Valuation Standards as per the provisions of the Companies Act, 2013</li> <li>- Study of Indian Accounting Standards (Ind AS 16) as applicable to Valuation</li> <li>- Valuer as an Expert witness in Court</li> <li>- Valuers' Functions &amp; Responsibilities, Error of Judgement and Professional Negligence</li> </ul>	
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	<p><b>Case laws</b></p> <ul style="list-style-type: none"> <li>- Fixture - Holland Vs. Hodgson (1872) L.R.7 C.P.328 at 335 (Australia)</li> <li>- Plant and Machinery in nature of Land and Buildings – Duncan Industries Ltd. Vs. State of U.P. and Other AIR 2000 SC 355 - Obsolescence – Westinghouse Elect. Corporation 93 NC App. 710, 379 S.E.2D 37(1989) (U.S.A)</li> <li>- Just because a Plant and Machinery are fixed in the Earth for better functioning it does not automatically become an Immovable Property - Sirpur Paper Mills Pvt. Ltd. Vs. The Collector of the Central Excise, Hyderabad AIR (1998) 1 SCC 400: (1998 AIR SCW 366: AIR 1998 SC 1489)</li> <li>- Plant and Machinery in nature of Land and Buildings - Official Liquidator Vs. Sri Krishna Deo and Ors. (AIR 1959 All 247)</li> <li>- Valuation of specialized Plant and Machinery by Cost Approach is subject to Potential Profitability - Symex Holdings Ltd. Vs. Commissioner of State Revenue, Supreme Court of Victoria, Australia-(2007) VSC 159</li> </ul>	0.5
8.	<p><b>Law - Plant and Machinery</b></p> <ul style="list-style-type: none"> <li>- Sale of Goods and Agreements to Sell, Seller’s Obligations as to delivery Time, Title, Description, Fitness, Quality and Quantity; Exclusion of Obligations, Sales by Sample, Passing of Property in Goods, Transfer of Title by Non-owner, Remedies for Breach of Contract, Rights of Unpaid Seller against Goods</li> <li>- Licensing of Industries and regulation of industrial activities under various laws; viz. Industrial Licensing Laws etc</li> <li>- Salient features of various acts such as the Factory Act, 1948, the Electricity Act, 2003, Labour laws with regards to regulatory measures for industrial undertakings</li> </ul>	1.5
9.	<p><b>Principles of Insurance and Loss Assessment</b></p> <ul style="list-style-type: none"> <li>- Principles and legal concepts in relation to Insurance of Plant &amp; Machinery, The Contract of Insurance, Insurable Interests and Liability to Insure, Duties of the Insurer and the Insured</li> <li>- The types of Fire Policies -Reinstatement Value and Indemnity Policies and policies for other perils, Terms and Conditions, Perils, Beneficial And Restrictive Clauses</li> <li>- Value at Risk, Sum Insured and Condition of Average, Over and Under Insurance, Inflation Provisions, other contents, Depreciation, Obsolescence and Betterment</li> <li>- Preparation of Claim for Damages due to Insured Perils</li> <li>- Obligations and Rights of Insurer and Insured</li> </ul>	2



10.	<b>Machine Tools, Factory, Utility Equipment and Electrical Installations</b> <ul style="list-style-type: none"> <li>- Machine Tools - For Milling, Turning, Cutting, Drilling and Threading, Grinding, Shaping, Casting, Plastic deforming, Powder forming, Sheet metal, Welding, Fabrication</li> <li>- Factory Equipment - material handling and fire protection</li> <li>- Utility Equipment – for energy generation, energy consuming devices, for energy utilisation</li> <li>- Electrical Installations</li> </ul>	3
11.	<b>Industrial Processes</b> <ul style="list-style-type: none"> <li>- Factory Planning and layout: Types of Plant Layout, Production Techniques, Automation, Mass Production, Batch and One-Off Production</li> <li>- Principles of Industrial Processes: Material flow, process sequences, automation and process control</li> <li>- Industrial Processes: The Normal Processes, Methods of Manufacture, Plant and Machinery utilised, Flow Diagrams and Inventory Compilation for the following specific industries: Textiles, Dairy, Vegetable Oil, Iron, Steel &amp; Non-Ferrous Metal Production, Chemical and Pharmaceutical, Plastic and Rubber, Paper and Paper Products, Printing, Binding and Publishing, Food and Drink</li> <li>- The nature and function of trade specific machinery in the above industries</li> </ul>	3
12.	<b>Report writing</b> <ul style="list-style-type: none"> <li>- Reports-Quality, Structure, Style</li> <li>- Report writing for various purposes like Sale/Purchase, Mergers &amp; Acquisitions, Insurance, Liquidation and any other purposes for which a valuer is normally called upon for advice in general practice</li> <li>- Contents of the report: The Instructions (including basis of valuation) received from the clients showing scope of work, Date as on which valuation is made, Date of Report, Date of Inspection, Purpose of Valuation, Location of Assets, Valuation Definition considered, Approach/Method of Valuation, Procedure Adopted, Summary of Valuation, Assumptions and Limiting Conditions including Caveats, Schedule of Plant and Machinery with Make, Model, Description, Year, Condition, Values.</li> </ul>	1.5
13.	<b>Case Study</b> On valuation of plant and machinery mentioned under Part-7 above. This section will have a case study to test the ability to apply valuation techniques. There will be a comprehension narrating a transaction based on which questions will be asked.	4
	<b>Total</b>	50

- i. The educational course for the asset class shall be delivered by the registered valuer organisation in not less than 50 hours in classroom mode.

- ii. A candidate having the required qualification and experience and having completed the education course specified above shall be eligible for registration as a valuer on passing the valuation examination of the asset class conducted by the Authority.

2. The educational course will be reviewed on a yearly basis.

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