

## **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./17/2023

17<sup>th</sup> May 2023

### **ORDER**

**This Order disposes the Show Cause Notice (SCN) No. RV-13012/2/2022-IBBI/295/95, dated 27<sup>th</sup> January 2023 issued to Mr. Pulianda Chengappa Achaya 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. Pulianda Chengappa Achaya is registered with IBBI as a valuer of Plant and Machinery Assets (P&M), with the registration number IBBI/RV/08/2019/11497 on 03<sup>rd</sup> May 2019.**

#### **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. Pulianda Chengappa Achaya 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 27<sup>th</sup> January 2023 was issued to RV for contravention of the rules 8(3),(h) and (j) of the Valuation Rules. The written reply was sought from the RV and an opportunity of personal hearing was accorded to him. Mr. Pulianda Chengappa Achaya responded to the SCN on 10<sup>th</sup> March 2023. The matter was referred to this Authority for disposal of the SCN where Mr. Mr. Pulianda Chengappa Achaya availed the opportunity of personal hearing on 15<sup>th</sup> 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 The SCN states that the RV in page 5 and page 6 of his report has mentioned that –

*“As per the list of machines given to us, Machine at Sl. No.3 (Manual Edge Banding Machine) was not available for inspection. It is also learned during our discussions that the machines under Sl. No. 2 and 4 cannot be repaired factoring these points and the condition and the status of the machines as observed. ....*

*In the absence of details as regards to detailed specifications of each asset/fixture, this value estimate is done taking into consideration current condition/status of assets/fixtures that were present in the above location on as it where it basis. The valuation is based on the Physical availability of machines which have been inspected by us on the date of visit. The present valuation of assets/machinery is on the basis of their present status/usage. The present value prevailing for these types of Assets/Fixtures, their Marketability, Age of the Assets, Depreciation, Present Working Condition/Status, Wear and Tear, Periodical Maintenance done, further useful life of the assets etc. are the aspects that are given due consideration while compiling this report.*

2.1.2 The SCN notes that there appears to be a lot of contradictions in the report in the methodology part itself. On the one hand, it is said that *“since the machines in the unit are Special Purpose machines, there are very few market instances of sale of such machinery and assets and direct market comparison may not be possible.”* On the other hand, the RV claims to have *inter-alia* also taken into account the marketability of the asset while compiling the report. The SCN alleges that there appears to be no convergence between methodology indicated by the RV and the final valuation figures reported by him. The book value of the asset is also missing. There is no justification for fair value, liquidation value indicated for 3 different types of machines in the report. This gives the impression that the figures estimated by the RV are more arbitrary instead of being based on any concrete logical ground. This 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 under approach to valuation in page 3 of his report he had explicitly mentioned that the machines are special purpose machines with very few market instances as such direct market comparison may not be possible. The contention of mentioning this statement was in the absence of enough comparable market data it is not possible to draw any matrix through weightage score method. He has submitted that he had explained that cost approach is used/adopted in determination of plant and machinery value. The machinery value conclusion arrived and indicated by him in his report was not arbitrary and was based on calculations under cost approach with appropriate treatment for condition of asset. The RV has however admitted that it escaped his attention to attach work sheet of calculations with the report.

2.2.2 The RV has averred that from the above submission it is clear that there is sound convergence between the methodology adopted for value conclusion that culminates in justification of fair value and liquidation value. He further submits that in page 3 of his report, he has explicitly mentioned that he has not been made available with copy of fixed assets register, it is a fact that book value of an asset is carrying cost so asset in the books

of accounts on the company post application of periodical depreciation. Book value of individual assets are available only in fixed assets register. Book value of individual asset could not be recorded in hi valuation report due to non-availability of fixed assets register extract.

### 2.3 Findings of the Authority

2.3.1 The RV has placed on record the work sheet of calculations utilised by him in preparing the valuation report. The work sheet of the calculations reflects that the RV has taken certain assumptions with respect to discounting on the basis of obsolescence, salvage value, fair value, liquidation value, etc., based on which the valuation estimates of the assets have been provided by the RV. However, the work sheet does not provide the basis for arriving at such discounting rates. 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 A valuation report hinges largely on the subjective opinion of the professional based on his expertise and skills. However, as International Valuation Standards 2022 opine, “*the process of valuation requires the valuer to make impartial judgements as to the reliability of inputs and assumptions. For a valuation to be credible, it is important that those judgements are made in a way that promotes transparency and minimises the influence of any subjective factors on the process. Judgement used in a valuation must be applied objectively to avoid biased analyses, opinions and conclusions.*” Therefore, it becomes necessary for a valuer to include all necessary information assessed by him while conducting valuation. The report must clearly lay down the assumptions and 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 has arrived at the conclusion that due diligence on part of the valuer has not been up to the mark. Appending notes with calculation sheet would have been helpful in understanding the reasoning behind the conclusion. However, keeping in view that extensive areas have been covered in the calculation sheet, a lenient view is being taken. Therefore, the Authority disposes of this SCN with the direction to the RV to be cautious in preparation of the valuation report. He should henceforth endeavour to record all the relevant facts in the report itself.
- 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 CVSRTA Registered Valuers Association where Mr. Pulianda Chengappa Achaya is enrolled as a member.
- 3.4 Accordingly, the show cause notice is disposed of.

Dated: 17<sup>th</sup> May 2023  
Place: New Delhi

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