

SPECIAL VOLUME



NATIONAL SEMINAR

**DIFFERENT ASPECTS OF VALUATION WITH A
SPECIAL IMPORTANCE ON ESG**

2024

**RVO ESTATE MANAGERS AND APPRAISERS
FOUNDATION**



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TEAM RVO ESMA FOUNDATION

A NEW PERSPECTIVE TO LOOK AT, AN ADDITIONAL ANGLE TO LOOK THROUGH.

The valuers' view has different angles. Here we talk about some new additional angles. Valuers' perspectives have been changing slowly since 2020. The global pandemic taught the valuers to have holistic views that are sustainable. The angle of looking to see into possible risks and opportunities within the current business models, strategies, contexts and that suit the future models of thinking and approach. The new angle of view should be set also considering that 2020 brought new challenges to many businesses and communities, and it will not be the last time we face global adversity. ESG becomes the additional angle to see and understand value.

The articles have new food for thought.

In these articles, we try to bring the ESG angle into the limelight. We try to highlight the Business Responsibility and Sustainability Report a principle-based framework, mandated by SEBI. ESG reporting and Audit – an article would help understand the KPIs usage and results. A new article is on inspection/investigation in the process of valuation, focusing on the necessity of physical inspection which is being neglected grossly. Articles on the NCLT case and IBBI show the process and other details of CIRP, CIRP is the process of resolving the corporate insolvency of a corporate debtor by the provisions of the Code. The Case Study of Valuation of Plant & Machinery would help readers arrive at certain valuation bases, approaches, processes and other expenses.

Two articles, the endeavour to cover the new capital gain regime, its implication in valuation and Digitalisation of Land Documents and Transfer of Property Act,1882: Myth and Reality are also embedded with real gems.

RVO Estate Managers & Appraisers Foundation is a non-profit organisation and a stakeholder of IBBI. Our primary objective is to teach quality education on valuation and allied subjects to our members. This bouquet of articles is our small effort to look forward and we hope readers may find some provocative thoughts in these articles.



**Road Map for Valuation On ESG Perspective
A different angle to look at an additional perception.
ENVIRONMENTAL, SOCIAL AND GOVERNANCE' are becoming
a pivotal factor while valuing an asset.**

**Amitabha De
Director, RVO ESMA Foundation**

There are additional angles to look at the corporate

- Business Responsibility and Sustainability Report (BRSR)
- Corporate Social Responsibility (CSR)
- ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)
- Three major checks for Corporates' performance from similar aspects.
- BRSR is a mandatory disclosure mechanism for top 1000 listed companies as required by SEBI
- CSR is more or less looking at the corporates' philanthropic or good motive
- While ESG is looking at the future from the present framework or capacity in terms of business performance. **ESG** provides a more quantitative and qualitative measure of the sustainability of corporates.

In 2004 report from the United Nations – titled **Who Cares Wins*** – carried what is widely considered the first mainstream mention of **ESG**. In the modern context, this report is inclined to encourage all business stakeholders to embrace ESG in the long term. This inclination meant heavily in the long term.

The Security and Exchange Board of India has made **BRSR** reporting mandatory for the top 1000 listed Companies from 2022-23. SEBI also has Business Responsibility and Sustainability Report (BRSR*).

What is BRSR?

Compliance of BRSR is in g GENERAL DISCLOSURES about a company's Details of business activities, Products sold / services offered by the entity, Details of employees and workers *participation/inclusion/representation of women/grievance redressal mechanism for stakeholders* etc. But there are now many things to know about the company in **MANAGEMENT AND PROCESS DISCLOSURES** like Specific commitments, goals and targets set by the entity along with performance, if any Statement by the director responsible for the report to highlight **ESG issues**.

They have also followed some principles like

PRINCIPLE 1. Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable.

PRINCIPLE 2. Businesses should provide goods and services in a manner that is sustainable and safe.

PRINCIPLE 3. Businesses should respect and promote the well-being of all employees, including those in their value chains.

PRINCIPLE 4. Businesses should respect the interests of and be responsive to all its stakeholders.

PRINCIPLE 5. Businesses should respect and promote human rights,

PRINCIPLE 6 Businesses should respect and make efforts to protect and restore the environment.

1. The entity shall report the total electricity consumed, fuel consumed and energy consumed
2. Perform Achieve and Trade (PAT) scheme (“Scheme”) has been launched by the Bureau of Energy Efficiency under the National Mission for Enhanced Energy Efficiency (NMEEE)
3. The entity shall report the total water withdrawn for any use Like
 - Surface water- refers to water that occurs naturally on the Earth’s surface in ice sheets, ice caps, glaciers, icebergs, bogs, ponds, lakes, rivers, and streams
 - Groundwater – refers to water that is being held in, and that can be recovered from an underground formation
 - Third-party water – refers to municipal water and other private suppliers of water
 - Sea-water / desalinated water – refers to water in a sea or ocean
 - Other sources - Entities may specify the other sources, in case the same are significant.
 - The entity shall report the total water consumption
 - Zero Liquid Discharge policy
4. Details of greenhouse gas (GHG) emissions and GHG intensity
5. Details of waste generated, recycled & re-used and disposed off
6. Description of waste management practices
7. Details of Environmental Impact Assessments (EIA)
8. Break-up of the total energy consumed from renewable and non-renewable sources
9. Details of water discharged
10. Details of water withdrawn, consumed and discharged in areas of water stress
11. Scope 3 emissions
12. Impact on biodiversity

PRINCIPLE 7. Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent

PRINCIPLE 8. Businesses should promote inclusive growth and equitable development

PRINCIPLE 9. Businesses should engage with and provide value to their consumers in a responsible manner

As per SEBI guidelines, the **BRSR is a mandatory framework**, a disclosure mechanism **for the top 1000 listed companies**

A Valuer has to understand the difference between CSR and ESG.

CSR, generally speaking, is looking at the good work of a Corporate. The focuses on corporate volunteering, lowering carbon footprint, and engaging with charities.

While **ESG** provides a more quantitative measure of sustainability. That means, ESG considers the environmental, social, and governance factors.

What is ESG? ENVIRONMENT SOCIAL AND GOVERNANCE together establish a framework. These are the three pillars, that together establish a framework for assessing the impact of the sustainability, ethical practices and operations altogether performances of a Company. This consideration of ESG concept in the performance of a company pushes the boundary and looks for a wider market and society.

Environment

ESG adoption for better growth of business and sustainability. ESG, including ethical environment is essential for rational use of resources and sustainable business operations. Companies can consume less energy and water and produce less waste by adopting ESG. These types of cuttings in operation can lead to less carbon emissions and finally less harm to the environment.

Using renewable energy or more efficient systems, saving money through cost cutting and meeting goals are the main focus of ESG considerations.

Social

At present the business houses, who are displaying a clear commitment to ESG conduct consistently outperform business houses those do not display ethical conduct.

Attracting talented people to join organizations and the business houses who are looking at ESG properly, has ethical values can retain the talented people if they are taking care of its employees being equally dedicated in taking care of the organization.

The ESG climate matters to the employees, if any, the stakeholders, the clients. Organizations, who's taking care on ESG, also create an atmosphere that is trustworthy, making all willing to rely.

Presently, loyal Investors are concerned about Environment, social and proper governance in the Company which shows responsibility and reputation of the company. Investors are becoming more and more aware that an ESG climate provides a foundation for efficiency, productivity and profits.

Customer Satisfaction is a vital factor in successful business strategy. Establishment of creditability and enduring relationship of mutual respect are essential for the success of a business. This is achieved by a house or a professional person that adopts ESG practices. When a company, a professional because of its beliefs in high ESG practice is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration.

Basically, human rights and equity, non-gender biasness, non-racist relationship – an organization's relation with people, stakeholder as well as its policy and actions that impact individuals, groups and society.

Governance means

Governance is a framework or a system that identifies the authorities and its decisions, responsibilities and accountability of an organisation and its people who behave and perform on behalf of the organisation.

Good governance

The values of Transparency, accountability, responsibility and probability are the main factors of a business. These values should prevail in all aspects of governance and be displayed in all actions of a Company including decisions taken, process and performance.

Governance aspect: Data is reported on corporate governance such as preventing bribery, and corruption, Diversity of Board of Directors, executive compensation, cybersecurity and privacy practices, and management structure.

Transparency: Need a better way to structure sustainability initiatives, detail actions, and disclose ESG goals, from strategy to operations? The transparency for sustainability offers is the best way to get the into the desired result.

Accountability: Accountability is the acceptance of responsibility. An accountable person takes the responsibility of a job done by an organisation or company. An accountable person takes the responsibility of any wrong doing rather to hide.

Control: Looking to more effectively govern process execution, employee engagement, and compliance with rules and regulations.

Governance: Ensures a company uses accurate and transparent accounting methods, pursues integrity and diversity in selecting its leadership, and is accountability to shareholders. So that the investors may require assurances that companies avoid conflicts of interest in their choice of board members and senior executives, don't use political contributions to obtain preferential treatment or engage in illegal conduct.

This is to keep in mind that all the pillars of ESG be of same importance.

For a company, to deal with Environmental issues are more easier than Social and Governance as the scopes are varied and as a result companies are showing more initiatives on the said issue than other.

ESG disclosure is a non-financial disclosure report published by a corporate about its ESG performance, impacts, accounting, and future plans.

ESG Investors- a very latest term- motive: looking at the Company's Environmental, Social, and Governance (ESG) scores are quantitative assessments of companies' commitment to sustainability that have become extremely popular tools in the financial industry. Looking deeply into the ESG prospect or initiative is going to be the pivotal factor of ESG However, transparency in the ESG assessment process is still far from being achieved.

Investors evaluate corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals. Considerations may include direct and indirect greenhouse gas emissions, management of toxic waste, and compliance with environmental regulations.

How ESG Investing Works

ESG investing is to assess a company based on ESG criteria, investors look at a broad range of behaviours and policies. ESG investors seek to ensure the companies, they fund are responsible guards of the environment, good corporate citizens, and led by accountable managers based on criteria including: ESG investors' job is to help inform the investment choices of large institutional investors.

Why check ESG? Why important for valuers?

- 1. Most importantly, ESG improves the valuation of the business.**
- 2. Implementation of ESG has advantages and has a good effect on the valuation.**
- 3. There are a number of evidences where recognising and utilising ESG issues can over time, have a significant role in the business running thus, it has a huge role in the valuation.**

Valuer's Eye from ESG angle

The Effect of ESG Ratings on Property Value

High ESG scores/ratings help to increase the value of real properties. Nowadays ethical behaviour attracts good loyal investors. Properties with strong ESG scores draw more investors and tenants who care about sustainability and ethics. These properties often have lower costs towards borrowing as their risks are lower. They usually have high occupancy rates, can charge higher rent, and keep tenants longer for the ethical environment. They provide a healthier and more eco-friendly setting. Over time, buildings with strong ESG features are less affected by new laws. They often gain from incentives for their eco-friendly nature. This leads to a good demand and presence in the market and better financial results, raising the property's value.

Effect in plant & Machines

In plant & Machines, let's take example of vehicle, which has passed in pollution test can fetch better value than a pollution failed vehicle. The value even depends on the rating of carbon dioxide (CO₂), hydrocarbons (HC), carbon monoxide (CO), oxides of nitrogen (NO_x) and other emissions of a vehicle.

Machines which are eco-friendly, have a lower impact on the environment throughout their life cycle. Right from the raw materials used in their manufacturing, to their design, transport to the end-user, their length of use and their recycling capacity. From making disturbance in neighbourhood by sound pollution to non-compliance with the new law every point affects the value. The improper governance also has huge effect on value, while on the contrary they usually can fetch good value for the ethical environment in which they are being used. They provide a healthier and more eco-friendly setting. Over time, plant &

Machines with strong ESG features are less affected by new laws. Risk becomes lower. They often gain from incentives for their eco-friendly nature.

For valuers of financial assets.

The job is almost similar as ESG investor. Looking at the company from an ESG angle.

Understanding the extent to which companies' core business revenues are aligned to the Sustainable Development Goals, and by extension have the potential to contribute to real-world sustainable outcomes, is the next frontier of sustainability analysis. This is done through machine learning process of ESG. The strength and weakness are analysed from the view of ESG and look forward for sustainable eco-friendly growth. Total behaviour of the Company towards ethics that treats with auditors to shareholders, employees to clients.

Innovation in using ESG

For the development of ESG standards, some usage in real estate leads to innovation. It pushes the boundaries with the use of new tech and materials e.g. green building styles, innovative ideas on the adoption of using renewable energy replacing conventional fuel or using clean energy, rainwater harvesting. These factors can lead to a smart building with efficient resource management and cost-cutting and finally raising property value.

For Plant & Machines, endeavour to use materials and tech that are environment friendly and less energy consuming by Companies are presently the main driving force. Energy consumption is in two ways that is the material used in the building 1. less consumption of energy while using the material. 2. less consumption of energy while manufacturing the material.

For Financial Assets, also, a brand which is focusing on ESG can build value that is attractive to institutional investors, normal investors, partners, and tenants who want an ethical and green environment. So, ESG compliance can open new areas of growth, new chances and sustainability in long term.

Social Risks in ESG Issue

Real estate investments and management must see and understand social risks in environmental issues. These risks not only include performance abiding laws, dealing with climate change but also tenant health and relations in the community. Non-compliance of

laws and rules of Environment Social and Governance together as ESG or individual, can lead to fines and the mandatory changes which are costly. Avoiding social issues can result in lower tenant turnover and reputation. Ethical behaviour and ESG compliance can reduce these risks of good reputation and brand value.

For plant and machines, similar type of concerns to be considered including the health of the user of the machine.

On focusing on ESG, A valuer with its due diligence process can determine/opine the value of an asset which somehow more protective, more stable in long term for its client and intended users and investors even from the sudden challenges.

ESG's Future in valuation

Looking at the future, ESG is looked upon as one of the main parameters in valuation in investment choices. We can see that Environmental, other social laws, and laws on Governance are becoming more and more stringent, ESG will become one of the most important points to be considered while valuing a property. That will be of the most vital factors in highlighting top properties / other assets in the future world. It is obvious that in future the green and eco-friendly items will have huge demand for investment and tenancy.

How to check ESG

Checking carbon footprint to the transparency of how **ESG risks** are managed.

ESG Indices

Reporting to **ESG** indices demonstrates a company's willingness to be transparent and show that it is aware of its risks and opportunities, as well as its industry, supply chain, and operations as a whole. There are many reporting protocols to choose from, depending on a company's needs. These indices also provide a standardized way for investors, customers, and other stakeholders to assess and compare ESG performance.

ESG Standards

ESG standards are set to judge a company's impact on the environment, its social role, and how it is governed. They help ESG investors and others how a company handles probable risks and chances.

- **Environmental** standards rate how a company is looks and protects nature. This standard also covers energy use, waste handling, reducing pollution and saving natural resources.
- **Social** standard looks at the view of a Company towards people - like its workers, suppliers, customers, and the local and social community.
- **Governance** standard checks on the principle. It checks fairness of a company's leadership, executive pay, audits, controls, and treatment of shareholders.

Following ESG rules boosts a company's image. This is getting more important when looking at how an investment will do over time, mainly in real estate.

ESG ratings

ESG ratings are a very new key among the other keys which are setting the value of mainly commercial real estate. ESG ratings highlight a property's environment, social, and governance factors and has big effect on its market value/fair value. Real estate valuers can gain many benefits by applying ESG principles. These include sustainability in reducing risks and improving efficiency and resulting in good business.

Confusion in the reports produced by corporates

1. Corporate research sometimes fail to distinguish between Corporate Social Responsibility (CSR) and ESG. CSR efforts are philanthropic while ESG practice or efforts are more or less business strategy. Recent research has demonstrated that the stock market out performance depends on the company's strategy which is focussing on the ESG.
2. One of the major problems as many companies integrate ESG information with their financial information. That may create confusion and also **greenwash**. Greenwashing is a deceptive marketing strategy by which companies provide a piece of misleading information. very few companies are making their ESG data traceable from financial statements. Thus the return from ESG investment cannot be computed in general.

3. **ESG ratings** are now one of the main keys in setting the value of commercial assets/real estate. Where the institutional investors are involved. Valuers can gain many benefits by using ESG principles in valuation. *In fact, there is no full disclosure on how the ratings are computed. It is unfortunate that rating agencies determine ESG ratings (as a function of the E, S and G scores) through proprietary models, on which public knowledge is limited. Rating agencies are fully dependent on what the data provider chooses to disclose, that, in many cases and the rating is restricted only to the main ideas and essential principles of the procedure.*

ESG. KPI (Key Performance Indicator)

Examples of ESG KPIs? In an organisation

Environmental

- Energy demand and consumption
- Water demand and consumption
- **Greenhouse gas emissions (scopes 1, 2, and 3) ***, including metrics on emissions intensity and reduction
- Resource efficiency metrics, including energy, water, and other material resources

Social

- Worker health and safety practices
- Diversity and inclusion metrics
- Metrics related to human rights and labour policies

Governance

- Board and management diversity metrics
- Executive compensation (e.g., approved by shareholders, tied to ESG performance)
- Disclosure and reporting programs (e.g., does the company publish a sustainability report, set targets and report progress, engage with reporting frameworks?)

Global Reporting Initiative (GRI) and Sustainable Accounting Standard Board (SASB) are providing mechanism for proper reporting.

What Was There?

Sustainability check. Mainly on economic, social and environmental

Sustainable development —“*sustainable development*” was coined by the World Commission on Environment and Development (the Brundtland Commission) in 1987. The main key components in many policy discussions were on **economic, social and environmental** issues. In its report, the Brundtland Commission defined it as:

“Development which meets the needs of current generations without compromising the ability of future generations to meet their own needs.” The Commission's proposals were approved in 1992 by the United Nations Conference on Environment and Development at Rio de Janeiro leading to international attention, including the United Nations Commission for Sustainable Development.

Generally, sustainability means the capacity to endure. The focus was mainly on the environmental aspects of sustainability. It also had economic and social sides and many of the issues of economic sustainability may already has good impact on valuations. Indeed, economic concepts such as sustainable rental income or sustainable cash flow long pre-date the current uses. Resilience is the capacity to withstand, absorb and recover from shocks. Day by day the pressures on resources and natural systems have grown.

Now, the focus changes, sustainability means that is improving the quality of human life within the carrying capacity of supporting ecosystems.

Valuers must act within the limits of their professional skills and current market expectations. This will usually mean that valuer has a need to call on specialist for the certification and reports on a property's sustainability.

How to do?

Identify, describe and assess the relevant characteristics of properties;

Interpret and judge assessments of them.

Consider whether they are already taken into account so far as they are relevant to value.

Select the appropriate way to take any remaining points into account without double counting.

Checklist (as per European Valuation Standard)

- Construction materials
- Any contamination of properties
- Risks of natural disasters such as flooding, earthquakes, or avalanches;
- Compliance with relevant building standards;
- Insulation and related points and quality in terms of durability and building standards;
- Nature and complexity of building services;
- Age and quality (efficiency) of the equipment in the building for heating, cooling and other purposes and so the feasibility of maintaining or replacing specific building components if any (such as an oil-fired heating system compared with an alternative system that may reduce overall operating costs);
- Energy efficiency, EPC ratings and recommended measures for improving the property, energy sources (renewable?) and net energy demand
- Water efficiency, especially in locations with scarce water supplies, using grey water, recycling of water, rainwater harvesting, etc.;
- Operating expenses;
- Floor area in terms of usability, adaptability and cost-effectiveness;
- Impact on users' productivity and well-being;
- Likely timing and cost of refurbishment;
- Market attitudes towards sustainability and willingness to pay for green features;
- Requirements of legislation;
- Possible financial support;
- Relevant certifications or ratings;
- Terms of leases ("*green leases*").

"Energy performance" of a building' means the calculated or measured amount of energy needed to meet the energy demand associated with a typical use of the building, which includes, inter alia, energy used for heating, cooling, ventilation, hot water and lighting."

"Nearly zero-energy building' means a building that has very high energy performance. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby."

'Technical building system' *means technical equipment for space heating, space cooling, ventilation, domestic hot water, built-in lighting, building automation and control, on-site*

electricity generation, or for a combination thereof, including those systems using energy from renewable sources, of a building or building unit.”

Global investors recognise **SASB Standards** as essential requirements for companies seeking to make consistent and comparable sustainability disclosures

The SASB Standards play an important role in the first two IFRS Sustainability Disclosure Standards **IFRS S1 and IFRS S2**.

Popular reporting indices with their platform and protocol.

Why A valuer would be interested in the disclosures of a company?

The answer is: these Indices given below in the form of disclosures help the valuer and the intended users to understand the value including current and future expenditures on environment.

Standards or ESG, notable framework and initiative

CDP is a global non-profit that coordinates environmental impact disclosures for both companies and cities. Respondents complete a questionnaire and receive a score to benchmark ESG performance, with high performers recognized on the annual “A List.” CDP’s questionnaires are aligned with the TCFD recommendations and are available in the areas of Climate Change, Water Security, and Forests.

TCFD is the Financial Stability Board (FSB) created the **Task Force on Climate-related Financial Disclosures (TCFD)** in 2015 to improve and increase the reporting of climate-related financial information.

TCFD focuses on climate related risk

Governance

Strategy

Risk management

Metrics and targets

ECOVADIS Eco-Vadis’s sustainability assessment is a single questionnaire that results in a scorecard. The assessments are designed to help companies improve performance, share results with customers, and compare scores against competitors and peers.

GRESEB The GRESB assessments—a part of the Green Business Certification Inc. (GBCI) family—specifically target commercial real estate portfolios and assets. GRESB provides real

estate investors with access to key sustainability performance information such as energy consumption, GHG emissions, leadership management, and design and construction.

DJSI The Dow Jones Sustainability Indices (DJSI) are a family of indices that capture high-performing publicly traded companies based on their ESG practices. Select companies are invited to participate in the SAM Corporate Sustainability Assessment (CSA) each year, allowing them to self-report key sustainability metrics and benchmark performance.

Example of a Popular reporting index

We are discussing here **CDP*** to see the disclosures

3 **CDP** thematic questionnaires are namely- Climate Change, **Water Security***, and Forestry.

Many questions of **CDP** is overlapping the questionnaires of **BRSR**.

CDP disclosure, if available can be used and utilise while opine on valuation, but this is mainly on environmental issues.

Valuers also may check the other disclosures as given above from the Companies on the environmental part of ESG while opining on valuation which falls under technical due diligence.

Now, what if we do not get the data from above or any other recognised indices

A sample questionnaire is made to help the valuer which covers the ESG query.

Why these questionnaires are important for a valuer

To

- ⊙ Quantifying future costs and other liabilities.
- ⊙ Establishing the suitability of the property for its intended use or users
- ⊙ Try to provide a good foundation for price negotiations and
- ⊙ Try to provide a level of protection for institutional investors. As it is seen that the majority of large property owners are institutional investors who manage a portfolio of property assets on behalf of their beneficial owners.
- ⊙ It is therefore critical. Both valuers and their clients have to understand the issues, which may be considered in such reports and client/ intended users should have confidence in the due diligence process adopted by a Valuer.

First of all, mainly Climate issues

Science-based targets (SBTs) - are the target to reduce greenhouse gas (GHG) emissions that are compatible with current climate science and the goals of the 2015 Paris Agreement, which aims to limit global warming to 1.5°C above pre-industrial levels. **Official SBTs** must be validated by the **Science Based Targets initiative (SBTi*)** and adhere to the initiative's strict criteria. Adhered to climate, SBTs have grown in popularity over the past several years in a way for companies to demonstrate a good commitment to reducing emissions.

What International Valuation Standard says

1. Standard: IVS 2025 which is to be effective from 31.01.25, says : A10.06: ESG Factors and ESG regulatory environment should be considered in valuation to the extent that they are measurable and would be considered reasonable by the valuer applying professional judgement.

Questionnaires sample

Environment (made by RVOESMA)

Any Standard Science Based Target Initiative taken by the Company	
Use of Renewable Energy (RE)	
Use of water / water discharge of water in a FY	
Use of eco-friendly material	
Use of green building tech	
How the org deals with Air or water pollution if any	
Investigation Risks and opportunities including flooding, mining history etc.	

Zoning: investigation about the planning of local Government / Statutory Authority and whether the property falls under their purview.	
How the Company assess the risks of contamination or hazardous substances and remedy	
Waste management... how the waste is disposed	
Health Hazard out of any material used like asbestos, particular painting etc.	
Deforestation	
Hazard out of electrical equipment	
Classify the risk to environment and steps taken to overcome this.	

IVS suggests Examples of environmental factors may include but are not limited to the following:

Environment

air and water pollution	
Biodiversity	
climate change (current and future risks)	
clean water and sanitation	
carbon and other gas emissions	
Deforestation	
natural disaster	
resource scarcity or efficiency (e.g., energy, water and raw materials)	
waste management	

Social

Community relations in the neighbourhood	
Any conflict	
Customer's view on satisfaction	

How the org protects data and privacy	
Development human resource	
Engagement of employee highlight the benefits they are getting	
Gender and racial equality	
How the company is looking after the health and well-being of the employees	
Use of under aged labour	
How the company protects the human rights	
How the company is keeping the working conditions and environment	
Shareholders' view on satisfaction	
Views of Independent Directors, if any	
Donations	

Governance and strategy

Governance and strategy of the Company are crucial, It's about the sustainability and decarbonization strategy at the management level.	
Policy and Implementation of sustainable solutions to manage climate change-related issues.	
Decarbonizing the supply chain is crucial as a global report says that value chain emissions are 11.4 times greater than a company's direct carbon footprint.	
Audit committee structure	
Board diversity and structure	
Bribery and corruption	
Corporate Governance in all aspects	
Transparency in website	
ESG reporting standard	
Remuneration	

Strength of Institution	
Management succession plan	
Partnership (external agency?)	
Rule of the law (the principle under which all persons and entities are accountable)	
Transparency	
Scope of RTI	
Does the Company have any Whistleblower Scheme?	
Security system (physical and virtual)	

We believe that a valuer’s mind should be the measuring instrument, a valuation opinion can be said a measurement where the instrument is the human mind.

Notes

Who Cares Wins

The report is the output of a joint initiative of 18 leading financial institutions from 9 countries at the invitation of the UN Secretary-General Kofi Annan. An excerpt from the Executive Summary clearly outlines why these global financial institutions chose to endorse this report.

Business Responsibility and Sustainability Report (BRSR).

Business Responsibility and Sustainability Reporting (BRSR) is a reporting framework under which the top 1000 listed companies (by market capitalisation) are mandated to disclose their ESG performance in a quantitative and standardised format from FY 2022–23 onwards.

Water risk assessment?

From the manufacturing plant to the corporate office, all companies need water for their operations. While organizations with significant water impacts—such as agriculture and textiles—are vulnerable to more business risk, companies with relatively low water use still face major water-related risks.

A water risk assessment (WRA) can be a critical tool in identifying, managing, and/or mitigating water-related impacts from issues such as local water stress, potential water quantity and quality disruptions, to water-based political challenges while contributing to a larger company-wide risk management strategy.

SBTi

Established as a partnership between CDP, the UN Global Company, the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF), the Science Based Targets initiative (SBTi) works to help the private sector set and validate ambitious science-based targets. With its own set of specific criteria, SBTi validates science-based targets through a rigorous approval process, starting with a target application, conducting a thorough review, and providing feedback for companies that need to re-submit a revision.

Once approved, SBTs are publicly displayed and are often integrated into committed companies' annual reports, sustainability reports, and other forms of disclosure, including CDP.

According to SBTi, 3278 companies have set SBTs, with more than 2300 others setting net-zero commitments for the near future. Companies that have set SBTs through SBTi include Lenovo, Macerich, Sony Group, Nissan Motor, Chipotle, and more—from tech companies and financial institutions to agricultural giants and airports.

The requirements SBTs

1. Coverage

- **Organizational boundary:** Companies should submit targets at the parent- or group-level, rather than at the subsidiary level. It's best to be consistent with the organizational boundary used in the company's financial accounting and reporting.
- **GHG coverage:** Targets must cover company-wide greenhouse gas emissions as required by the GHG Protocol Corporate Standard.
- **Scope coverage:** All targets must cover scope 1 and 2 emissions. Targets must also cover scope 3 emissions if 1) relevant scope 3 emissions are 40% or more of total emissions, or 2) the company is involved in the sale or distribution of natural gas and/or fossil fuels.

- **Emissions coverage:** If 40% or more of a company’s total emissions are scope 3 emissions, that company is required to set a separate scope 3 target. These companies must set one or more targets that cover at least 67% of total scope 3 emissions.

2. Method

Targets must be modelled using up-to-date versions of SBTi-approved methods and tools.

3. Emissions accounting

SBTi has a number of specific emissions accounting requirements related to accounting approaches, scope 3 category screening, bioenergy accounting, and avoided emissions. The initiative also disallows the use of carbon credits toward the progress of a company’s SBTs.

4. Timeframe

Near-term targets must cover a minimum of five years and a maximum of ten years from the date of target submission. Targets that cover more than ten years are considered long-term targets. Base years must be no earlier than 2015. Near-term targets should be consistent with reaching net-zero by 2050 at the latest.

5. Ambition

Scope 1 and 2 targets must, at a minimum, be consistent with the level of decarbonisation required to keep global temperature increase to 1.5°C compared to pre-industrial levels. For scope 3 targets, the minimum ambition is well below 2°C compared to pre-industrial levels. SBTi also lays out specific criteria for supplier engagement targets, combined targets, renewable electricity sourcing targets, and fossil fuel industry participants.

6. Reporting

Newly approved targets must be announced on the SBTi website within six months of approval. On an annual basis, there should be full disclosure of the company-wide GHG emissions inventory and progress against targets.

7. Recalculation

Targets must be reviewed—and recalculated, if necessary—every five years at a minimum. Certain significant changes to a company’s GHG inventory, structure, and activities can also trigger a target recalculation.

8. Sector-specific criteria

SBTi maintains sector-specific requirements for certain sectors, including apparel and footwear, finance, buildings, chemicals, oil and gas, transport, and others. We dive deeper into sector-specific criteria in [this post on SBTi's framework for financial institutions](#).

What is an ESG KPI? (Key Performance Indicator)

KPIs are trackable figures which are meant to help firms understand the environmental, social and governance impact of their operations. For venture capital and private equity managers, ESG KPIs are integral in understanding the ESG impact of the companies they invest in or are thinking about investing in, and thus the impact of their funds.

Greenhouse gas emissions (scopes 1, 2, and 3)

To help improve transparency and manage both direct and indirect emission sources, the GHG Protocol's Corporate Standard introduces the concept of "scopes" of emissions.

Scope 1 emissions include direct GHG emissions from sources that are owned or controlled by the entity. Examples include emissions from fossil fuels burned on-site, emissions from entity-owned vehicles, and fugitive emissions from refrigerants.

Scope 2 emissions include indirect GHG emissions from the generation of purchased electricity, heating and cooling, or steam generated off-site.

Scope 3 emissions are indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity's activities. In other words, scope 3 emissions are emissions that occur in the value chain and are *not* already included in scope 2. For example, employee travel and commuting, transmission and distribution (T&D) losses associated with purchased electricity, leased space, vendor supply chains, and use of sold products are sources of scope 3 emissions.

CDP. (CARBON DISCLOSURE PROJECT)

CDP in India is keeping in tune with these policies and initiatives taken by the Government, who constantly evolve the processes of disclosures. The disclosure supports and drives companies, financial institutions (FIs), cities, states, and regions to measure and manage their risks and opportunities on climate change, water security and deforestation. This process at the same time gives them an understanding of the topics of decarbonisation.

Reporting also informs management and enables them to make strategic decisions integrating sustainability and decarbonisation.

Social sustainability is one of the three interrelated components of sustainability. For something to be truly sustainable, there must be equal consideration of social (people), environmental (planet), and economic (profit) factors. The social component of sustainability, at its most basic level, concerns the rights and well-being of all humans. In a business context, social sustainability encompasses a range of topics, including workplace diversity, fair labour practices, and positive community engagement. Social sustainability is a long-term, ongoing mission of ensuring social conditions and outcomes are optimized for generations to come

Social responsibility (sometimes called corporate social responsibility or CSR) refers to the ways organizations and governments should act on the overarching goal of social sustainability. As the word “responsibility” implies, it encompasses the role of these actors to ensure the upkeep of strong values and ethical behaviour. While social responsibility is grounded in the same principles as social sustainability, it attributes organizations and other entities to accountability. In other words, under social responsibility, these entities are deemed “corporate citizens” who are obliged to do their part for society.

SASB The **Sustainability Accounting Standards Board (SASB)** is a non-profit organization, founded in 2011 by Jean Rogers to develop sustainable accounting standards. Investors, lenders, insurance underwriters, and other providers of financial capital are increasingly attuned to the impact of environmental, social, and governance (ESG) factors on the financial performance of companies, driving the need for standardized reporting of ESG data..... Wikipedia.

The **SASB** Standards are a source of guidance for applying IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. The Sustainability Accounting Standards Board (SASB) under IFRS is an independent non-profit, whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors.

GRI is The **Global Reporting Initiative** (known as **GRI**) is an international independent standards organization that helps businesses, governments, and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption.

GRI's voluntary sustainability reporting framework has been adopted by multinational organizations, governments, small and medium enterprises (MSMEs), NGOs, and industry groups etc.

Sustainability check

1. Sustainable development —"*sustainable development*" was promoted by the World Commission on Environment and Development (the Brundtland Commission) in 1987. The main key components in many policy discussions were on economic, social and environmental issues. In its report, the Brundtland Commission defined it as:

"Development which meets the needs of current generations without compromising the ability of future generations to meet their own needs."

The Commission's proposals were approved by the United Nations Conference on Environment and Development at Rio de Janeiro in 1992 leading to both national and international attention, including the United Nations Commission for Sustainable Development.

2. At a general level, sustainability is the capacity to endure. We here focus on the environmental aspects of sustainability; it also has economic and social sides and many of the issues of economic sustainability may already have had good impact on valuations. Indeed, economic concepts such as sustainable rental income or sustainable cash flow long pre-date the current uses of the word. Resilience is the capacity to withstand, absorb and recover from shocks. Day by day the pressures on resources and natural systems have grown. The focus has changed, this now on environmental constraints which has led to one definition of sustainability that is improving the quality of human life within the carrying capacity of supporting ecosystems.
3. Valuers must act within the limits of their professional skills and current market expectations. This will usually mean that a valuer has a need to call on a specialist for the certification and reports on a property's sustainability.

How to do?

Identify, describe and assess the relevant characteristics of properties;

Interpret and judge assessments of them.

Consider whether they are already taken into account so far as they are relevant to value.

Select the appropriate way to take any remaining points in to account without double counting.

Checklist (as per EVS)

- Construction materials
- Any contamination of properties
- Risks of natural disasters such as flooding, earthquakes, or avalanches;
- Compliance with relevant building standards;
- Insulation and related points and quality in terms of durability and building standards;
- Nature and complexity of building services;
- Age and quality (efficiency) of the equipment in the building for heating, cooling and other purposes and so the feasibility of maintaining or replacing specific building components if any (such as an oil-fired heating system compared with an alternative system that may reduce overall operating costs);
- Energy efficiency, EPC ratings and recommended measures for improving the property, energy sources (renewable?) and net energy demand
- Water efficiency, especially in locations with scarce water supplies, using grey water, recycling of water, rainwater harvesting, etc.;
- Operating expenses;
- Floor area in terms of usability, adaptability and cost effectiveness;
- Impact on users' productivity and well-being;
- Likely timing and cost of refurbishment;
- Market attitudes towards sustainability and willingness to pay for green features;
- Requirements of legislation;
- Possible financial support;
- Relevant certifications or ratings;
- Terms of leases ("*green leases*").

"Energy performance" of a building' means the calculated or measured amount of energy needed to meet the energy demand associated with a typical use of the building, which includes, inter alia, energy used for heating, cooling, ventilation, hot water and lighting."

"Nearly zero-energy building' means a building that has very high energy performance as determined in accordance with Annex 1. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on site or nearby."

'Technical building system' means technical equipment for space heating, space cooling, ventilation, domestic hot water, built-in lighting, building automation and control, on-site electricity generation, or for a combination thereof, including those systems using energy from renewable sources, of a building or building unit."



FAQS RELEASED BY CBDT ON CAPITAL GAINS

Asit Kumar Mohapatra
Chief Commissioner of Income Tax (Retd.)

Synopsis of the Lecture

- In order to provide clarification on the proposed amendments related to the capital gains regime, the Central Board of Direct taxes (CBDT), under the Ministry of Finance (MoF) has issued Frequently Asked Questions (FAQs) vide its press release 2 dated 24 July 2024.
- The following clarifications are provided by the CBDT, in FAQ form, as regards to the various provisions under the Income-tax Act, 1961 (ITA) related to capital gains:

Q1. What are the major changes brought about in the taxation of capital gains by the FB 2024 ?

Answer: The taxation of capital gains has been rationalised and simplified. There are 5 broad parameters to this rationalisation and simplification, namely:-

1. Holding period has been simplified. There are only two holding periods now, viz. 1 year and 2 years
2. Rates have been rationalised and made uniform for majority of assets.
3. Indexation has been done away with, for ease of computation with simultaneous reduction of rate from 20% to 12.5%
4. Parity between Resident and Non-resident categories.
5. No change in roll over benefits.

Q2. What is the date when the new taxation provisions come into force ?

Answer: The new provisions for taxation of capital gains come into force from 23 July 2024 and shall apply to any transfer made on or after 23 July 2024.

Q3. How has the holding period been simplified ?

Answer: Earlier there were 3 holding periods to considering an asset to be classified as a long-term capital asset. Now, the holding period has been simplified. There are only two holding periods - for listed securities, it is 1 year, for all other assets, it is 2 years.

Q4. Who will benefit from the change in holding period ?

Answer: The holding period of all listed assets will now be 1 year. Therefore, for listed units of business trusts (ReITs, InvITs) the holding period is reduced from 36 months to 12 months. The holding period of gold, unlisted securities (other than unlisted shares) is also reduced from 36 months to 24 months.

Q5. What about the holding period of immovable property and unlisted shares ?

Answer: The holding period of immovable property and unlisted shares remains the same as earlier i.e. 24 months.

Q6. Please elaborate on change in the rate structure for STT paid capital assets ?

Answer: Rate for short-term STT paid on listed equity, equity oriented mutual fund and units of business trust (section 111A of the ITA) has been increased from 15% to 20%. Similarly, the rate for these assets for long-term (section 112A of ITA) has been increased from 10% to 12.5%.

Q7. Is there any change in the exemption limit for long-term capital gains under section 112A which was earlier INR 1 lakh ?

Answer: Yes. The exemption limit of INR 100,000 for LTCG on these assets has also been increased to INR 125,000. This increased exemption limit will apply for Financial Year (FY) 2024-25 and subsequent years.

Q8. Please elaborate on change in the rate structure for other long-term capital gains ?

Answer: The rate for other long-term capital gains on all assets has been rationalized to 12.5% without indexation (section 112 of the ITA). This rate was earlier 20% with indexation. This will ease in simplifying the taxation of capital gains and their easy computation.

Q9. Who will benefit by change in rate from 20% (with indexation) to 12.5% (without indexation)?

Answer: The reduction in the rate will benefit all category of assets. In most of the cases, the taxpayers will benefit substantially. But where the gain is limited vis-a vis inflation, the benefit will also be limited or absent in a few cases.

Q10. Can the taxpayer continue to avail the roll over benefits on capital gains?

Answer: Yes. The roll over benefits remains the same as earlier. There is no change in roll over benefits already available under the ITA. Therefore, taxpayers who want to save on LTCG tax even with low rates, can continue to avail the roll over benefits on fulfilment of conditions as applicable.

Q11. In which assets, can the long-term capital gains be invested for roll over benefits?

Answer: For roll over benefits, taxpayers can invest their gains in house under section 54 or section 54F or in certain bonds under section 54EC of the ITA. For complete details of all roll over benefits, please refer sections 54, 54B, 54D, 54EC 54F, 54G of the ITA.

Q12. What is amount up to which roll over benefit is available?

Answer: In investment of capital gain in 54EC bonds (up to INR 5 million) and in other cases, the capital gain is exempt from tax, subject to certain specified conditions.

Q13. What is the overall rationale for changes?

Answer: Simplification of any tax structure has benefits of ease of compliance viz computation, filing, maintenance of records. This also removes the differential rates for various classes.



PHYSICAL INSPECTION: THE INTEGRAL PART OF VALUATION FOR TANGIBLE ASSETS

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RVM, RVO ESMA Foundation

Physical Inspection of tangible assets is a very important support to compare and analyse the received data from documents with actual existing. As we all know valuation engagement, involves reliance on information supplied by other than the valuer. And based on the credible information consideration is taken to opine the Value.

Not only in the valuation profession but other professionals also believe that physical inspection plays a major role in the valuation process.

IBC also advised for physical verification

IBC about Inspection:

□ IBC says in “Valuation of assets intended to be sold” in 7.4-4 in Liquidation Process “The registered valuer will independently estimate the realizable value of assets computed based on internationally accepted valuation standards after **physical verification** of inventory and fixed assets of corporate data”

But when we go through the IVS, there we have a confusion about inspection. IVS says about inspection but not specified the inspection is physical or Virtual.

IVS Appertain to Inspection and Investigation

In The IVS 2025, which will be applicable from 31.01.2025, the Inspection and Investigation chapter has been withdrawn as a General Standard which was previously seen in IVS 2022 and IVS 2020.

IVS 2025 about Inspection

IVS states the following about inspection within the General Standards, IVS 101, Scope of work.

□ **IVS 101 Scope of Work says:**

20.01 The scope of work must specify the following -

(i) The nature and extent of the valuer’s work and any limitations thereon: Any limitations or restrictions on the inspection, enquiry or analysis of the value must be identified. If

relevant information is not available because the conditions of the valuation restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see **IVS 102** Bases of Value, paras 50.01-50.04) made as a result of the restriction must be identified.

(j) The nature and sources of information upon which the valuer relies:

The nature and source of significant information upon which the valuer relies and significant verification or controls to ensure the accuracy of that information.

In **IVS 400** for Real Property Interest, **IVS 300** for Plant and Equipment, and **IVS 410** for Property Development, it was mentioned that sufficient Investigation & inspection are must. **IVS 300** (in sections: 40.05, 40.06, 40.09 & 40.10), **IVS 400** (in sections: 40.02, 40.03, 40.06 & 40.07) and **IVS 410** (in sections: 40.01, 40.02, 40.05 & 40.06) say in Scope of work 40:

1. In addition to the requirements contained within IVS 101 Scope of Work, sections 20 and 30, investigations made during a valuation engagement must be appropriate for the intended use of the valuation engagement and the basis (es) of value.

2. Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation or analysis to ensure that the valuation is properly supported. When determining the extent of Investigations and evidence necessary, professional judgment is required to ensure it is fit for the valuation.

3. The intended use of the valuation, the basis of value, the extent and limits on the investigations and any sources of information that may be relied upon are part of the valuation engagement's scope of work that must be communicated to all parties to the valuation engagement (see IVS 101 Scope of Work).

4. If, during the course of a valuation assignment, it becomes clear that the investigations or limitations included in the scope of work will not result in a credible valuation or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations such as inspection are so substantial that it will not result in a valuation outcome that is adequate for the purpose of the valuation, the valuation must explicitly state that the valuation is not in compliance with IVS (see IVS 100 Valuation Framework, section 40 and IVS 101 Scope of Work, para 20.03).

□ **IVS 400 also says**

40.08 In addition to the requirements to state the extent of the investigation and the nature and source of the information to be relied upon in IVS 101 Scope of Work, the following matters should be considered:

- a) The evidence, if available, required to verify the real property interest and any relevant related interests,
- b) The extent of any inspection,
- c) Responsibility for information on the site area, site characteristics (e.g., ground condition), building characteristics or building floor areas,
- d) Responsibility for information on the area, characteristics (e.g., soil conditions) and productivity-generating attributes of land (e.g., fertility of the soil, plantation area),
- e) Responsibility for confirming the specification and condition of any building,
- f) Responsibility for confirming the specification and condition of the plantation, vegetation, forest or crop,
- g) the extent of investigation into the nature, specification and adequacy of services and facilities,
- h) Responsibility for the identification of actual or potential environmental factors, and
- i) Legal permissions or restrictions on the use of the property and any buildings, as well as any expected or potential changes to legal permissions and restrictions.

□ **IVS 410 also says**

110.01 In the valuation of development property, it is necessary to establish the suitability of the real property in question for the proposed development. Some matters may be within the valuer's knowledge and experience but some may require information or reports from other specialists. Matters that typically need to be considered for specific investigation when undertaking a valuation of a development property before a project commences include:

- a) whether or not there is a market for the proposed development,
- b) **whether the proposed development of the highest and best use of the property in the current market,**
- c) **whether there are other non-financial obligations that need to be considered** (political, environmental or social criteria),
- d) legal permissions or zoning, including any conditions or constraints on permitted development,

- e) limitations, encumbrances or conditions imposed on the relevant interest by private contract,
- f) **rights of access to public roads or other public areas,**
- g) **geotechnical conditions, including potential for contamination or other environmental risks,**
- h) the availability of, and requirements to, **provide or improve necessary services, e.g., water, drainage, sewerage and power,**
- i) the need for any off-site infrastructure improvements and the rights required to undertake this work,
- j) **any archaeological constraints or the need for archaeological investigations,**
- k) sustainability and any client requirements in relation to green buildings,
- l) economic conditions and trends and their potential impact on costs and receipts during the development period,
- m) current and projected supply and demand for the proposed future uses,
- n) the availability and cost of funding,
- o) the expected time required to deal with preparatory matters prior to starting work, for the completion of the work and, if appropriate, to rent or sell the completed property, and
- p) **any other risks associated with the proposed development.**

120. Data and Inputs

120.01 In accordance with IVS 104 Data and Inputs, **the valuer must maximise the of relevant and observable data to the degree that it is possible.**

□ **As per IVS 104, Data & Inputs:**

10.04 **The valuer is responsible for assessing and selecting the data, assumptions and adjustments to be used as inputs in the valuation based upon professional judgement and professional scepticism.**

The IVS 2022 & IVS 2020 about Inspection

20.1. Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value. References to a valuation or valuation assignment in this standard include a valuation review.

20.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When

determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation.

20.3. Limits may be agreed on the extent of the valuer's investigations. Any such limits must be noted in the scope of work. However, **IVS 105** Valuation Approaches and Methods, para **10.7 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose.** If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

And now the question is The Inspection physical or Virtual?

IVS says about inspection but not mentioned the inspection physical or Virtual. In Covid time there was a limitation in Physical Inspection and the valuers who deal with tangible assets they had done their inspection by Virtual meeting and with the help of technologies.

By using Satellite, Live stream video, Google Street view, photography feed, Photography by GPS camera, unmanned aircraft (Drone) etc. we can get an overall view. Even with the help of some technologies like AI, 360° camera view by Avatour app, Look around of Apple maps etc. we can also take our consideration.

How do these **Virtual Inspections** help us? where

- Property has some access issue
- Client's requirement
- Natural and topographical obstructions
- Needs a Review
- For portfolio valuation
- Already physical inspection done previously
- The subject asset's area (mainly land) is too large to demarcate properly.
- For time saving and reduce the cost for physical Inspection.
- Enhance safety for Inspector in hazardous condition.

With these advantages we can go to some extent of inspection but when the question comes "Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation or analysis to ensure that the valuation is properly supported" and "the valuer must maximise the characteristics of relevant and observable data to the degree that it is possible" as we found in **IVS 2025, IVS 2022 and IVS 2020** , there we need the physical Inspection to overcome the valuation risk.

Now if we go through the other standards ...

RICS about Inspection

A visit to a property or inspection of an asset, to examine it and obtain relevant information, in order to express a professional opinion of its value.

VPS 2 Inspections, investigations and records 1 Inspections and investigations

Inspections and investigations must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose. The valuer must take reasonable steps to **verify the information relied on in the preparation of the valuation.**

EVS about Inspection:

6.2 Property Inspection - As part of obtaining personal knowledge of the subject property, the valuer should make his own visual inspection of it. This will usually include

The interior of the buildings, the locality and the environment to record all matters which appear relevant to the value of the property. Exceptionally, if instructed or agreed by the client, there may be a more limited inspection or the valuer may be authorised to rely on an inspection report prepared by a third party but, in each case, this should then be recorded in the valuation report. A valuation relying on a third-party inspection carries risks as to the quality of that inspection and the interpretation that the valuer has made of it. **The valuer should draw attention to the fact that his conclusion may have been different if he had made a personal and proper inspection.**

The nature and scale of the property inspection(s) will depend on the purpose of the valuation and the basis agreed with the client. There may be circumstances, such as the provision of a portfolio valuation, where it is appropriate to restrict the inspection(s), for example, to the exterior and locality only or a desk valuation. If an inspection has not been made, or it was not carried out in a proper way to gather all necessary information, this fact and the reason for the restriction must be recorded in the valuation report or certificate as factors which could significantly affect the property's value may not have been identified.

Why Tangible Assets valuer needs Physical Inspection

- To identify the physical Existence of subject assets.
- To understand the valuation risk.
- To observe thoroughly the physical condition of assets.
- To compare the information received with real existing
- To verify the current and past use of the subject assets.

- To consider assumption and special assumption in a significant way.

As per IVS 400 **40.09** Typical examples of special assumptions that need to be agreed and confirmed in order to comply with IVS 101 Scope of Work, para 20.03 (k) and IVS 102 Bases of Value, para 50.04 include but are not limited to:

- a) That a defined physical change had occurred, e.g. a proposed building is valued as if complete at the valuation date,
- b) That there had been a change in the status of the property, e.g. a vacant building had been leased or a leased building had become vacant at the valuation date,
- c) That the interest is being valued without taking into account other existing interests,
- d) That the property is free from contamination or other environmental risks,

- To understand the obsolescence of the asset.
- To predict the expected future life.
- To measure the assets by qualitative and quantitatively by eye estimate.
- To identify major/minor defects
- To take the decision whether needs any critical inspection
- To identify the legal issues /threat for acquisition /demarcation and access issue etc.
- To assess the percentage of construction complete for under construction structure
- To get an idea of locality/surroundings
- To get an idea for upcoming/future development this may influence/impact on the bases of value.
- To get a clear picture regarding consideration of valuation assignment.

By physical inspection one can identify the disguised issue /complexity or whether there any uncertainty. A physical Inspection always provides a comprehensive and hands on examination of the assets to evaluate the condition of assets as well as identify all concerns.

With the help of advanced technology definitely we are stepping to the fore. But by physical inspection we can minimize the misconception of assignment related issues and create an understanding by means of reliance on information.



CASE STUDY OF VALUATION OF PLANT & MACHINERY

VR. Na. Arunn,
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The depreciated value will be never equal to the market value. Why??

General method of valuation:

1. Inspection of the machine
2. Recording its specifications
3. Ascertaining the date of purchase
4. Estimating the life span based on the performance of the machine elsewhere
5. Fixing off of the residual value at the end of the life period
6. Confirming it is only a residual value and not the scrap value
7. Ascertaining the replacement value either by market approach or by using Indices
8. Applying depreciation on a straight-line method and calculating the depreciation component
9. Deducting the depreciation component from replacement value to arrive at the market value

This is generally known as the present market value of the machine. But, we miss a lot of other components in this and they are Factors of Obsolescence, the condition of the machine

I. VALUATION OF INDIVIDUAL MACHINERY

1. Value is a function of purpose:

Valuation of plant and machinery also differs with purpose.

2. Value is a function of Time:

Obsolescence plays an important role while valuing the machines, the value arrived at on a particular day holds good on that day alone and cannot be decided for a particular period. For example, the value of HDPE/LDPE/PP processing units came down on the imposition of Jute Mandatory Act to pack types of cement in the 1980s.

3. Value is a function of usage:

Value depends on usage mainly.

The value of an idle/spare machine of the same capacity and configuration cannot be compared with the value of a machine that has been in continuous use.

Similarly, the value of a machine on a batch process cannot be compared with the value of a machine on a continuous process.

Likewise, the value of a standby generator in a less power-cut area might have worn out to a little extent when compared to a generator in the usage of power starving area.

4. Value is a function of maintenance.

The value depends on maintenance to a very great extent.

A machine, if maintained well by replacement of worn-out parts and with periodical overhauling values better when compared to the machine in a poorly maintained condition.

The housekeeping of the industry as a whole also plays an important role.

5. Value is a function of process:

Machines in a chemical plant might have suffered corrosion and the life span will be very less when compared to the machine of other use.

A motor of a coupled pump has better longevity than a motor of a mono-block pump.

6. Value is a factor of environment also:

Industry situated in a seashore or in an air-polluted area suffers on corrosion when compared to the industries of another belt.

For exercising the correct procedure and to ascertain the right value, the Valuer must be familiar with the on the following heads.

1. Lifespan:

Due to constant use leading to continuous deterioration, a stage may occur, beyond which it becomes uneconomical or unsafe to use or work with a machine. The period from the date of putting the asset to use till the date it reaches this stage is known as “*Lifespan*” or the “*Life expectancy*” of the asset.

Lifespan depends on various factors.

- Loading of the machine
- Working hours
- Environment
- Quality maintenance and care
- Timely replacement of worn - out parts
- Speed at which the machine is run
- Protection of machine from heat and dust
- Proper usage
- Usage of genuine and apt parts
- To retain proper safety devices required such as fuses or crumbling zones

To determine the lifespan the Valuer should be thorough about the process, the functions of the unit and the job extracted from the plant.

To ascertain these factors, he should have perused the following documents.

⇒ Log book of the machine.

⇒ Maintenance record from the date of installation.

⇒ Production record of the unit as a whole.

⇒ The profitability statement and the balance sheet to ensure the production rate.

Lifespan is not constant for all machines or even for a category of machines. It depends on several points discussed above and the Valuer should not have any thumb-rule for life span of any of the machinery.

The declared age of the machine by a Valuer in any valuation report or in any article could be considered as a suggestive age only and not as the age on all aspects.

2. Depreciation:

The Dictionary meaning of Depreciation is “*a decrease or loss in value because of wear, age, or other causes.*” It is also described as the “*fall in value*” or “*to become less worthy.*”

The decline in the value of asset is generally termed as depreciation and it can be classified under three major headings.

They are:

- Physical Deterioration
- Obsolescence
- Present condition of the machine.

Depreciation is neither constant for all the machines nor for a particular machine. It is a relative term, related to several aspects as discussed in this paper.

In a nutshell depreciation can be termed as “The Loss that cannot be restored by maintenance and that could result in, due to all factors, causing ultimate retirement of that machine”.

It is not to be generalized and considered as 10% per annum as done while accounting in the book of accounts. It also depends on the residual value of the machine, which in turn depends on the material of construction.

Depreciation due to physical deterioration may occur due to any one of the following reasons:

01. Wear and Tear due to usage: It is the value of portion worn out, due to usage in the useful life of the machine.

02. Effect of Deterioration due to corrosion: It is the value of portion corroded, due to usage in seashore area or in a chemical Industry in the useful life of the machine.

03. Effect of Deterioration due to aging: It may be, due to its inherent characteristics or due to external factors such as exposure to weather and soil conditions. It can be also be termed as Decay. It need not only be a result of wear and tear, whereas it might be due to its completion of its life on usage. In this case, the depreciated value could be either the salvage value or the scrap value.

3. Obsolescence:

The present value of machinery is decided not only by the working condition of the machinery, which accounts for depreciation, but also due to obsolescence that has a crucial importance since it greatly affects the value of the machinery. It could be classified as functional obsolescence and economic obsolescence.

3. a. Functional Obsolescence:

The machinery is seldom replaced for their wearing out nature. They are mostly because of the development in science that had paved way for a more efficient machine.

The new generation machine when compared to the existing one, may excel on the following accounts:

- ▶ Higher production.
- ▶ Better working environment.
- ▶ Easy to operate.
- ▶ Easy to maintain.
- ▶ Lesser requirement of space for installation.
- ▶ Lesser consumption of power.
- ▶ Lesser labour Intensive.
- ▶ Lesser risk management.
- ▶ Lesser storage time.
- ▶ Lesser rejection.
- ▶ Equipped with self control system.
- ▶ Pre - programmed operations.
- ▶ Quick work motion duration and so on.

In general, if a new machine could reduce the operational cost and offer better profit potential, it could be preferred. The factors said above pave the way for functional obsolescence. This could be denoted as F_f .

Examples: Electronic Equipments such as Computers, Bio-Medical Equipments, controlling devices of Electronic Equipments, Pouching Machines and Major Mechanical devices with Auto Controls.

3. b. Economic Obsolescence:

Economic obsolescence is forced on a machine; it is by the external factors and not due to its own inherent properties. It may be due to any one of the following reasons:

1. Change in planning policy of the Government.
2. Change in import policy of the Government allowing import of the product in abundance.

3. Change in the relationship between the States from where the product is manufactured and the place where it is used.

The examples of the above are:

- Banning of carry bags and restriction in usage of Plastic materials resulted in throw - away price of such Machinery.
- Import of palm oil had ruined the market of edible oil and the plants installed for Extraction and Refining are uncared.
- Rejection of certain products of Tamilnadu in Karnataka due to Cauvery water issue had made the Industry producing these parts sick.

Economic obsolescence is extremely difficult to evaluate, however it causes steep fall in value of the machinery that manufacture the products that are banned or that had lost the market share.

The machine may be perfectly in a working condition and produce such products at competitive rates. However, they may suffer in price in market and the factor behind it, is known as Economic obsolescence. This could be denoted as F_e .

4. PRESENT CONDITION:

The present worth can be arrived by applying a factor after depreciation. This is known as the “*Condition of the machine or equipment*”. To fix up this Factor and to substantiate his valuation, a Valuer should be thorough in the functioning of the machine and also in ascertaining the condition of the machine “*It is basically a result of good Maintenance*”.

By the performance, a machine could be classified under any one of the five conditions:

VERY GOOD CONDITION

GOOD CONDITION

FAIR CONDITION

POOR CONDITION

SCRAP CONDITION

Let a factor F_c be denoted as a factor of condition

APPLICATION OF THESE FACTORS TO ASCERTAIN THE PRESENT MARKET VALUE OF THE USED MACHINES.

The depreciated value due to physical Deterioration can be calculated as said above

Depreciated value for the purpose of valuation = Replacement value of the machinery - Depreciation value

“Present worth” is the value that a machine can fetch on sale in the open market, without any abnormal conditions of sale, between a willing Buyer and a willing Seller, both having prudent knowledge about the product

Let F_f be the Factor for functional Obsolescence, F_e be the Factor for Economical Obsolescence and F_c be the Factor of Condition.

Present worth = Depreciated value $\times F_f \times F_e \times F_c$ of the machine

Hence, the depreciated value of the machine can never be the market value

The above passage deals about individual machineries However in the case of an industrial unit several other factors are also to be considered.

II. VALUATION OF INDUSTRIAL UNIT AS A WHOLE

In an industrial unit as a whole value depends on several other factors, in addition to Land, Building and Machinery.

They are:

1. To consider the entire entity as a plant
2. Geographical advantage of the location
3. Availability of skilled Labour
4. Availability of power
5. Clearance from Pollution control board
6. Registration with concern Departments
7. License
8. Experience in running the plant
9. Adequate knowledge about the plant as a whole
10. Gestation of Time
11. Goodwill that has been earned
12. Amount spent on promoting the brand

In a nutshell, it is valuing a business and not only the asset.

To sight an example, if a bus route is to be valued, It is not merely the bus, but it is with the route.

Here, we don't value the bus alone; we consider, how busy the route is, the collection it makes, number of trips it is permitted and the collection it makes.

So as to say, if a car is valued, it is the car as a whole and we do never do a biopsy and value component wise such as value of engine, transmission shaft wheels and tyres

For Example, to highlight about the goodwill and the amount spent, ULTRATECH CEMENT LIMITED, Grasim cements, has spent in 2022-2023 477.22Cr. as advertisement charges to achieve a sales Target of 100.6 million Metric Tons for a turnover of Rs. 60,463 Cr.

where are we to observe this much of value?

It is also learnt that the investment cost of a Cement Mill is valued at Rs. 25,000/Ton of production and not by adding the value of individual assets such as value of Land, Building and Machinery.

In a similar way the investment in a sugar mill, without value of land component was estimated on a Thump rule basis for a crushing capacity of 2500 tons processing capacity, the cost of the plant and machinery is approximately Rs 40 to 50 Cr. In addition to the present, we have to add on real estate, structures, working capital, etc. The total expenditure required to fix an Indian sugar mill is at least Rs 125 C

Hence, doing a biopsy and valuing the machinery on by applying depreciation will never be the right method of doing a valuation of an industry. Once again **we have to value a business and not only the asset**

Hence, the Depreciated value of an individual machine or an industry as a whole will never be equal to the market value. Application of mind and the experience that a Valuer possess alone will take it to the nearest value.

Please find here below the tentative cost estimate for the erection of different sizes of Sugar Mills with the Co-Generation power plant and Distillation Alcohol Plant.

Cost Estimation for the erection of the Sugar Plant with the Co-Generation Power Plant and Distillation Alcohol Plant.

Sl.no	Description	Proposed Sugar Crushing Capacity (In Metric Tons of crushing per day TCD)	Size of the Co-Generation power plant. (In Mw)	Size of the Distillation Alcohol Plant (in Klpd)	Cost for the Proposed Sugar mill – Mill House and Boiling House (Rs in Crores)	Cost for the proposed Co Generation power plant. (Rs in Lacs)	Cost for the Proposed Distillation Alcohol Plant. (Rs in Crores)	Cost for the Infrastructur edevelopment such as office, ware house etc (Rs in Crores)	Gross Total Cost (Rs in Crores)	Erection Cost per Ton of Cane Crushing (Sugar mill # Co Gen & Distillery) (Rs in Crores)
1	Small Capacity Sugar Mills	2500 to 3000	10 to 12	30 to 40	250	125	85	40	500	16.67
2	Medium Capacity Sugar Mills	5000 to 6000	20 to 25	60 to 80	450	250	170	70	940	15.67
3	Large Capacity Sugar Mills	8000 to 10000	35 to 45	120 to 160	650	400	275	150	1475	14.75
5	Higher Capacity Sugar Mills	12000 to 15000	50 to 65	200 to 260	1000	600	425	225	2250	15

Assumptions:

Please note that these above estimates are approximate and may vary depending on the following various factors such as:

- a. Technology and equipment selection
- b. Location and logistics
- c. Labour and material costs
- d. Government policies and incentives
- e. Project implementation schedule.

The offers from the plant and Machinery are to be collected for arriving at the exact cost of the proposed sugar plant with the co-generation and Distillation Alcohol plant after finalizing the design of the plant and energy conservation practices to be implemented in the proposed plant.

Additional Costs:

The following additional cost (Approximately) shall be taken in to consideration while during the project preparation stages.

1. Land acquisition and development: 50-100 Crores
2. Working capital and contingency funds: 100-200 Crores
3. Interest and financing costs (during construction): 50-100 Crores

Approximate Break up prices for the Civil construction Cost:

Detailed Split Up Cost (Approx.) for the Civil Related expenditures for the erection of the Sugar Mill with the Co-Generation and Distillation Alcohol Plant.

Sugar Mills	Small Capacity	Medium Capacity Sugar Mills	Large Capacity Sugar Mills	Higher Capacity Sugar Mills
Descriptions	(2500 to 3000 tcd)	(5000 TO 6000 tcd)	(8000 to 10000 tcd)	(12000 to 15000 tcd)
1. Sugar Mill Building:	15-20 Cr	30-40 Cr	50-65 Cr	80-100 Cr
2. Boiler House	8-12 Cr	16-24 Cr	28-40 Cr	45-60 Cr
3. Turbine House	10-15 Cr	20-30 Cr	35-50 Cr	55-75 Cr
4. Distillation Plant Building	8-12 Cr	16-24 Cr	28-40 Cr	45-60 Cr
5. Storage Godowns	5-8 Cr	10-16 Cr	20-30 Cr	30-45 Cr
6. Office Building & Amenities	5-8 Cr	10-16 Cr	20-30 Cr	30-45 Cr
7. Roads, Drainage & Utilities	10-15 Cr	20-30 Cr	35-50 Cr	55-75 Cr
8. Foundations for Equipment	8-12 Cr	16-24 Cr	28-40 Cr	5-60 Cr
Grand Total Cost for the Civil Construction in a sugar Mill	69 to 112	138 to 224	244 to 375	385 to 555
	(In Rs Crores)			

Please Note:

- a. These estimates are approximate and may vary depending on location, soil conditions, and other factors.
- b. Costs are based on average rates in India and may fluctuate depending on region and market conditions.
- c. These estimates do not include costs for equipment, electrical, mechanical, and other works.
- d. To have a detailed Consultation with civil engineers, architects, and contractors for arriving at the more accurate estimate for your specific project.

Also, the following involved cost are also to be suitably considered for arriving at the Civil Cost for the erection of the Sugar Mill.

- a. Land acquisition and development costs
- b. Working capital and contingency funds
- c. Interest and financing costs (during construction)
- d. Other infrastructure costs (water supply, electricity, etc.)

Opinion of the valuer:

While doing valuation of Plant & machinery, if we value the land, Building & Machinery alone, by a method of biopsy, how will be able to value the features said above



ESG REPORTING AND AUDIT

Kanchan Dutta
Registered Valuer & IP, IBBI

The term ESG, or environmental, social and governance, in the context of an organisation is now well-known. It refers to a set of metrics used to measure an organization's environmental and social impact and has become increasingly important in investment decision-making over the years. But while the term ESG was first coined in 2004 by the United Nations Global Compact, the concept has been around for much longer.

ESG AT THE TURN OF THE MILLENNIUM

In 2000, the United Nations hosted world leaders in New York at the Millennium Summit to discuss their evolving role in the new millennia. Over the course of the three-day summit, leaders established guiding principles around topics like human rights, working conditions, the environment and anti-corruption. Following the summit, the Millennium Development Goals (MDGs) were created, outlining eight international development goals to be achieved by 2015. While meant to spark discussion, the MDGs ultimately set the stage for nations and corporations to discuss ESG factors more candidly.

That same year, the Carbon Disclosure Project (CDP) was founded. The CDP encouraged institutional investors to ask companies to report on their climate impact. This helped normalize the practice of ESG reporting and by 2002, 245 companies had responded to the 35 investors who asked for climate disclosures.

In the decade that followed, more principles and frameworks were created, providing further guidance on how companies can integrate and report on ESG factors. Some prominent examples include the Principles for Responsible Investment (PRI), the Climate Disclosure Standards Board (CDSB) and the Sustainability Accounting Standards Board (SASB). Today, companies and investors still rely on these principles and frameworks.

THE LAST DECADE: AN EVOLVING LANDSCAPE

By 2015, the Sustainable Development Goals (SDGs) replaced the MDGs. The SDGs outlined seventeen sustainability targets and set a global agenda for sustainable development with the hopes of improving quality of life and achieving a more sustainable future by 2030. While broader in their scope, the SDGs set specific targets—169, to be

exact—with unique indicators to track progress. With their adoption, the SDGs marked a shift in the socio-political mindset; ESG was no longer a talking point but something that could (and should) be measured.

Investors continued to demand climate-related financial disclosures from companies, so regulators responded with new reporting requirements. The Taskforce on Climate-related Financial Disclosure (TCFD) was founded in 2015 with the goal of providing standards for climate-related disclosure for financial institutions, as well as companies and investors.

Later, in 2017, a group of 140 CEOs gathered to sign the Compact for Responsive and Responsible Leadership (the Compact) which was drafted by the World Economic Forum. The signatories committed to working together to help achieve the UN's SDGs—a pledge that would be put to the test come 2020.

When the COVID-19 pandemic hit, many investors feared that companies would forego their ESG initiatives for the sake of staying afloat. And while this was the case in some instances, an interesting discovery was made: companies that had strong ESG performance were better equipped to weather the pandemic as they had already accounted for the possibility of disruption

ESG TODAY AND TOMORROW

ESG is no longer a fringe concept but a household initialism for both companies and investors. Today, ESG data is used to evaluate a company's performance on specific ESG issues. For instance, carbon emissions per unit of revenue are used to evaluate a businesses' environmental impact, while employee turnover rates are used to evaluate a company's labour practices.

ESG ratings and indices have also become more prevalent in recent years. Morgan Stanley Capital International (MSCI), for example, offers a range of ESG indices that allow investors to track companies based on their ESG performance. These indices have become popular with investors looking to integrate ESG factors into their portfolios.

As the world faces increasing challenges related to climate change and social issues, ESG considerations will continue to play a critical role in the way companies and investors operate and measure their performance.

INDIA'S JOURNEY IN ESG REPORTING

India's journey towards the Business Responsibility and Sustainability Report (BRSR) has been marked by a series of milestones, including:

- National Voluntary Guidelines (NVGs)
- In 2011, the Ministry of Corporate Affairs (MCA) released the NVGs, which were an early step towards defining ESG disclosure standards for companies.
- Business Responsibility Reports (BRR) In 2012, the Securities and Exchange Board of India (SEBI) introduced the BRR, requiring the top 100 listed companies to include it in their annual reports. In 2015, the requirement was extended to the top 500 listed companies.
- Business Responsibility and Sustainability Report (BRSR)
- In 2021, SEBI replaced the BRR with the BRSR, a more comprehensive ESG reporting framework. The BRSR aims to improve transparency and accountability by requiring companies to provide detailed reports on their sustainability efforts.

AUDIT OF ESG PARAMETERS

In July 23, SEBI published the BRSR Core which is a subset of the BRSR, consisting of a set of Key Performance Indicators (KPIs) /metrics under 9 ESG attributes. Keeping in view the relevance to the Indian / Emerging market context, few new KPIs had been identified over and above the ones already identified under BRSR for audit such as job creation in small towns, openness of business, gross wages paid to women etc. Further, for better global comparability intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) had been included.

Valuation Ecosystem – Changing Landscapes with Business Responsibility and Sustainability



Rana Ghosh
Director, RVO ESMA Foundation

An ecosystem is a community of living organisms (plants, animals and microbes) in a particular area. The term `eco' refers to a part of the world and `system' refers to the co-ordinating units. An ecosystem is a community of organisms and their physical environment interacting together.

ECO Meaning - ecological or environmental. not harmful to the environment: an eco-resort with no air conditioning.

Ecosystem, habitat, environment, biosphere, and ecology are all scientific terms that can refer to spaces or systems in which plants and animals (including humans) live in relationship with each other and with the surrounding physical conditions. environment is the most general term.

The word ecosystem refers to all of the organisms and physical conditions within a certain space, interacting with each other to form a complex, balanced web of relationships. It can be of any size: more often refers broadly to relationships between organisms and their environments in general, or to the science that studies these relationships.

Valuation is an essential pre-requisite in choosing investments for a portfolio, in deciding on the appropriate price to pay or receive in a takeover and in making investment, financing and dividend choices while running a business. Valuation is required throughout the life cycle of a business entity. From the time a company is incorporated with infusion of funds to the stage of its liquidation, valuation is a critical process at various stages of running of the company. Over the years, valuation has witnessed momentous changes and developments and it continues to evolve.

Technology has played a key role in changing the way businesses and investors approach valuation nowadays. Advanced technologies like machine learning, artificial intelligence and data analytics are increasingly being used to analyse data and identify trends that can impact the valuation of businesses and assets.

Moreover, with the emergence and increased adoption of digital assets nowadays, we are entering a new era of technology. Digital assets are anything that can be stored electronically and typically that have value such as currency, property titles, securities, and patents.

Considering the unique properties of digital assets and the quickly evolving state of technology, it is important to value digital assets in a standardized way. The valuation of digital assets is often done through the use of financial models, estimations, statistical analysis and other metrics. Although valuation of digital assets differs based on the type of asset and use, there are few common methods used to determine the value of a digital asset.

Environmental, Social and Governance (ESG) factors are becoming increasingly important in valuation. In India, ESG factors are gaining acceptance and companies are beginning to recognize their importance.

Valuation methods for mature companies depend mostly on financial factors but still there are several estimates and assumptions involved

VALUATION AND ITS GROWING IMPORTANCE

Ever since, the incorporation of Registered Valuer Organisation by the benign 3 Institutes as section 8 companies, the scope of valuation among the professional fraternity has never stopped mounting. The valuation techniques and objectives were streamlined based upon specialization and banks and other entities started relying on the professional valuers over to the contemporary practices. The scope of valuation expanded beyond boundaries and reached a limit such that it has become indispensable and inseparable part of business. It not only made the lenders to extend the credit, but also the incumbent stakeholders the decision to arrive on the investment and expansion strategies. Valuation also is a self-evaluation tool to the entrepreneur to boost up the existing business clientele and to take different track if it is not in line with the results in the books. It largely depends on the technical skill and experience of the valuer to determine the long run projection. A Valuer with considerable experience with a traditional method will only end up in a wrong conclusion and hence a 360 degree approach and sound knowledge on the area of operations is indispensable to value any kind of Asset.

Valuation, the cornerstone of financial decision-making, transcends national borders, influencing investment decisions, corporate strategies and policy by delving (detailed and careful search) into the regulatory frameworks that govern valuation practices, the prevalent valuation methodologies, the degree to which non-financial metrics like ESG (environmental, social, and governance) scores are integrated into these methodologies, standardisation of valuation practices, the training and accreditation required for professionals in the valuation industry, adoption of technological tools in valuation practices, implications of the diverse valuation practices for investors, businesses, and

policymakers, and the challenges and limitations inherent in the current valuation landscapes.

The increasing integration of non-financial metrics, such as ESG scores, and the adoption of advanced technological tools are notable trends shaping the future of valuation. For investors, businesses, and policymakers, understanding these diverse valuation landscapes is crucial for informed decision-making in a globalized economy.

During valuation, financial experts often rely on the data provided by the target company. As the investigation progresses, there are instances where the numbers appear questionable. It could be the case that the owner's salary appears relatively low, or the expenses seem unusually high. Doubts may also arise regarding the sales figures or benchmarks, especially when considering factors such as the industry, size, or location of the company. In instances where valuation experts observe significant discrepancies in the numbers, they may seek the expertise of a forensic auditor/forensic accountant with specialized skills in unravelling financial and compliance complexities. The support of a forensic auditor can be crucial in identifying concealed assets and revenue sources, as well as uncovering any misconduct by employees. Such revelations can substantially influence the overall valuation of the business.

While valuation primarily revolves around estimating the worth of an asset or company, a forensic audit is dedicated to investigating financial fraud or misconduct. Nevertheless, in instances of financial complexities, forensic auditors and valuers may collaborate on cases. The incorporation of forensic audit can enhance the accuracy and dependability of valuation methodologies, which are crucial instruments for assessing a company's value.

Environmental, Social and Governance (ESG) are three key factors used to measure a company's sustainability and social responsibility performance. ESG is more than good intentions. It's about creating a tangible, practical plan that achieves real results. Success is not about climate change, diversity and disclosures alone. It's about embedding these principles - and more across your business - from investment to sustainable innovation.

Bringing together your best people and smartest technology so you can see more, go deeper and act swiftly. Enabling you to tackle the biggest challenges of today – and capture the best opportunities of tomorrow. Investing responsibly, or considering environmental, social and corporate governance (ESG) criteria in investment valuations and assessment, can generate long-term competitive financial returns and positive societal impact. Hence,

organizations worldwide are developing and embedding environmental, social and governance strategies to build sustainable businesses.

Both global and Indian business operations have been undergoing significant changes amidst externalities such as climate change, finite resource availability, deteriorating ecosystems and evolving stakeholder expectations. The Covid-19 pandemic and associated business disruptions have only heightened and reinforced the need for action, making ESG a critical agenda for companies as they are focusing on long-term sustainable growth. In 2013, India became the first country to mandate corporate social responsibility with the Companies Act of 2013. This tenet was previously suggested in the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business released in 2011 before being included in the Companies Act 2013. Additionally, the top 500 listed firms in India by market cap were instructed by SEBI to disclose indicators of business responsibility and sustainability through Business Responsibility Reporting (BRR). SEBI in India plays the role of market regulator, regulating securities, and protecting the interests of the stakeholders in the market. SEBI is also responsible for the implementation of an efficient ESG policy mechanism. In 2021, SEBI issued a circular containing details of new sustainability related reporting requirements called the Business Responsibility and Sustainability Report (BRSR), which brings India's sustainability reporting to global reporting standards. The new Environment, Social, and Governance (ESG) reporting format outlines mandatory ESG policies and requirements for the top 1000 listed companies by market capitalization. The format is based on the nine principles stipulated in the "National Guidelines on Responsible Business Conduct" (RBC Guidelines). The RBC Guidelines addresses key sustainability matters, such as business ethics and transparency, human rights, environmental safety, and fair labour practices. The reporting format is mandatory from FY 2022- 23 but is voluntary for FY 2021-22. This is to provide companies with sufficient time to adapt to the new reporting compliance. The BRSR is aimed at securing transparent and standardized disclosures by companies on their ESG parameters and sustainability-related risks. This approach is expected to help companies better demonstrate their sustainability objectives, position, and performance to the market, resulting in long-term value creation and increasing the ability of investors to make informed ESG-related decisions

The current developments underline the imperatives for countries to make this planet a better place to live. The harsh truth for all countries, whether rich or poor, is that as long as society is economically unbalanced as well as unstable, fuelling sustainable economic

and social growth addressing all sections of the society and the environmental concerns is a pipe dream. The requirement is a sincere, open and inclusive mind set as well as gigantic effort, calling for a new model of development that will simultaneously give a push to positive economic advancement, provide a framework for sustainability in decent living for all in an inclusive manner and reverse the damage already caused to the environment at the least, failing which any endeavour towards SDG's are bound to be piecemeal and / or exclusive and / or inadequate. In this context, ESG through crystal clear policy measures is suggested as the route to be pursued for marching towards attaining Sustainable Development Goals (SDG's).

THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The SDGs 2030 is a global initiative by 193 Member Nations of the United Nations (UN) calling for bold initiatives towards sustainable development focusing on people, planet, peace and prosperity and they offer a globally accepted framework with uniform metrics for all countries against which to measure and compare progress². The SDGs identify 17 fields across 163 inter-connected indicators and push for alignment and collaborative as well as co-ordinated action among the stakeholders. It can be seen that the SDGs are ambitious goals targeting elimination, rather than reduction of malnutrition, poverty and the like. From an Indian perspective, there is a need to review and re-work the its development narrative so that no one is left behind as the country seeks to truly grow into a leadership

INDIA'S ESG FRAMEWORK

Starting with the earliest visible initiative in 2009, India has travelled quite a distance with respect to ESG, though a lot more needs to be done in supersonic speed to meet the SDG's by 2030.

Corporate Social Responsibility (CSR)

CSR is already an existing framework under the provisions of Companies Act, 2013 applicable to both listed companies as well as unlisted companies. CSR provisions are mandatorily applicable to a company based on thresholds of Profits, Turnover and Net Worth. Every company which fulfils any one of the following three criteria namely

- Net profits of Rs. 5 Crores or more in the preceding financial year or
- Turnover in the preceding financial year of Rs. 100 Crores or more or
- Net worth as at the end of the preceding financial year of Rs.500 Crores or more

is mandatorily required to have in place a CSR policy outlining the areas in which the company will spend for CSR related activities. The mandatory required quantum of CSR spend is 2 per cent of average net profits made in the preceding three financial years or for if it has not completed three years since its incorporation, then since incorporation. There are detailed provisions in the Companies Act, 2013 and the rules prescribed thereunder namely Companies (Corporate Social Responsibility Policy) Rules, 2014 to regulate the CSR spends by the companies.

Social Stock Exchange (SSE)

In the case of SSE, the Technical Group constituted by SEBI has issued a consultation paper in May 2021 inviting comments from stakeholders. The regulatory provisions for setting up of SSE and other related matters including Social Audit and reporting are yet to be prescribed. SSE is expected to create a major impact on the ESG scenario in India.

Business Responsibility Report (BRR) converging to Business Responsibility and Sustainable Report (BRSR)

BRR, which was prescribed to be effective from the financial years ending on or after 31st December, 2012 for 100 listed entities initially is currently applicable mandatorily to the top 1000 listed entities by market capitalisation. SEBI has extended the scope of this report by including the concepts of “Sustainability” under the framework of “Business Responsibility and Sustainability Reporting”. For the FY 2021-22, the reporting under the BRSR framework for the top 1000 listed entities and other entities is voluntary, but from FY 2022-23 onwards, BRSR reporting is mandatorily applicable to top 1000 listed entities and reporting under BRR framework will be discontinued from FY 2022-23,

ROLE OF STAKEHOLDERS IN ESG

ESG has now become an important indicator for most investment decisions and involves almost every component of the economy from the Regulator to the civil society. All these acts as stakeholders have some specific contributions to make in the fulfilment of the cause. The category wise roles of such stakeholders may be summarised as follows to understand how important they are in ensuring the success of this concept of “Green Governance”.

Companies: Companies are at the core of the ESG movement as they create the significant wealth for any economy. However, their participation in ESG has to be made part of their

business principles and governance policies. They are also required to present their reports on ESG related performance in a standard format and to provide information and reports on related performance in a more consistent and standardised format in the annual report or any communication with investors.

Investors: At the institutional level, asset managers could integrate research on ESG aspects while taking investment decisions.

Regulators: They shape the legal frameworks mandating the minimum degree of disclosure on ESG so that it could facilitate financial analysis by investors. The standards of the disclosure have also taken into consideration the existing initiatives in this direction like the Global Reporting Initiative or Standards set by Sustainability Accounting Standards Board. Further Stock exchanges can also be going forward by including ESG criteria for listing.

Analysts: They are expected to evaluate ESG factors and create tools and models based on existing know-how to include new industry sectors and asset classes. Academia and other research organisations also need to support the efforts of ESG analysts by providing high-level research and thought leadership.

Civil society: Non-Governmental organisations have been a very powerful driver of social reforms and could play an immense role in the enforcement of ESG standards. Many such agencies have been fighting for survivors of Industrial disasters across the world and could become instrumental in sharing their experience with both companies and regulators for strengthening the ESG regime.

The ever-increasing social and environmental challenges in this highly complicated and interconnected world are redefining the way businesses operate, investors think, Governments function and banking institutions mobilize capital. These countless challenges have intensified the focus of corporate stakeholders on the environmental, social, and governance (ESG) performance of an organization. ESG helps in gauging an organization's environmental and social impact, governance practices, and overall sustainability. It mainly reflects the way business interacts or connects with the stakeholders and the community at large. However, ESG not only relates to socially responsible business but captures a much broader concept as to how enterprises embrace sustainable practices as part of their core business process. Moreover, it

helps in explaining an organization's contribution and added value in these three domains namely environmental, social and governance. Each ESG element, i.e. 'E', 'S', and 'G' is considered as distinct pillar that further comprises sub parameters (outlined in Figure -1 below) that helps us to measure the non-financial performance of an organization in these three broad areas. The environmental factor (E) captures how enterprises use energy and resources and manage and control their environmental effects as stewards of the mother earth. This mainly involves a company's contribution and efforts towards curbing adverse environmental impacts. The social factor (S) covers the way enterprises foster their people and culture and how that has ripple effects on the society at large. It involves how companies treat and value their people and the impact they have on their employees, customers, suppliers, and the broader community. The governance factor (G) captures the internal policies and principles that enterprises adopt to govern themselves, comply with the law to avoid infringement, make effective decisions and serve the needs of stakeholders. It helps to ensure industry best practices and transparency and also to be in dialogue with regulators. In recent times, world economies are facing numerous social and environmental challenges, ranging from global warming, climate change and pollution to poverty and unemployment, which demand immediate attention. Now, the time has come when the conventional economic growth models are at a crossroads and require a new perspective where economic growth can be reconciled with the overall well-being of society. Such paradigm shift in the economic process can only be brought into fruition with the collective and cooperative action of all stakeholders so that every aspect of the decision-making process and investment analysis can better integrate with ESG factors. Moreover, during the past few years, ESG parameters have cut through from the periphery and have made inroads into the crux of the investment decision-making process throughout the world. Therefore, the interest of investors and other stakeholders in ESG issues has surged over the last few years. Consequently, the ESG landscape has evolved considerably in recent times.

BRSR - Business Responsibility Report (BRR) converging to Business Responsibility and Sustainable Report (BRSR)

A. Climate Change and Sustainability

- ESG compliance, Benchmarking and Capacity Building
- Net Zero Roadmaps for Business and Government
- Carbon Sequestration, Carbon footprint and Climate Bond Advisory

- Climate Risk Assessment and Management
- Carbon credits/ Carbon Financing/Climate Transparency
- Sustainability Performance and Disclosures
- GHG Emission Inventory and Energy Analysis
- Green Technology Initiatives
- Transport GHG Mitigation Actions
- Renewable Energy & Corporate Energy Strategy
- Perform Achieve Trade (PAT) Advisory
- Water Balancing/Water Neutrality/Water Footprint/Water Pollution
- Inclusive Economic Growth (IEG)
- National Clean Air Programme (NCAP)/Pollution Abatement

B. Solid Waste Management

Wet Waste / Compost / Bio-mechanisation / Dry Waste / MRF/Recycling / Legacy Waste Remediation / C&D Waste / Plastic and E-Waste / Hazardous Waste

C. Wastewater Management

Sanitation (Septic Tank, Soak pit etc.), Off-Site centralized network (Treatment Technology, Nature waste etc.), Municipal Sludge, Recycle & Reuse in Liquid Waste/promoting Circular Economy

D. Lake Rejuvenation

Preparation of technical reports (preliminary & feasibility), DPR for lake development, lake rejuvenation, and waterfront development.

ESG related Acts

Environment Protection Act, 1986

Air (Prevention and Control of Pollution), Act, 1981

Water (Prevention and Control of Pollution), Act, 1974

Hazardous Waste (Management Handling and Transboundary Movement) Rules, 2016

Factories Act, 1948

Industrial Relations Code

Occupational Safety

Health and Working Conditions Code

Companies Act, 2013

Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015

Prevention of Money Laundering Act, 2002

Prevention of Corruption Act, 1988

Challenges faced by MSME in India

Lack of Knowledge

1. Not understanding the benefits
2. Hiring costly third parties
3. Investing in staff expertise
4. Acquiring scientific and technical knowledge

Lack of Resources

1. Limited amount of staff
2. Restricted amount of time
3. Lack of stakeholder engagement
4. Limited budget/capital

Implementation

1. Changing management structure
2. Lack of suitable reporting tools
3. Dependence of managers

Future ESG trends

Compulsory BRSR ESG Reporting

Supply Chain Due Diligence

Data Privacy & Effective Management of IA

Transition to a Circular Plastic Economy

Greenwashing Scrutiny, regulation, and litigation will increase

Individual Responsibilities

- Reduce Energy Consumption
- Sustainable Transportation
- Conserve Water
- Waste Reduction
- Recycle and Compost

- Mindful Consumption
- Energy-Efficient Home
- Plant-Based Diet
- Educate

Reality Check on Sustainability – Environment Aspects

- ❖ The year 2003 marked the warmest temperature on Earth
- ❖ April 2024 marked the warmest April on record for the globe in 175 years
- ❖ Scientists have given a 1.5-degree Celsius threshold of global warming above pre-industrial level, after which there will be various adverse reactions.
- ❖ Effects include rise in sea level, climate change, will impact agriculture and resulting food storage, cause draught, natural disasters like storms, floods and wildfires, spreads of infectious diseases etc.
- ❖ We are already at 1.36 degree Celsius in the year 2023.

Application of AI for Sustainability

- ❖ Possibility of direct application of AI to all 17 SDG's.
- ❖ Core applicability of AI, like measuring, predicting and optimizing complex system are pivotal in addressing environmental challenges compared to traditional analytical method.
- ❖ Possibility of novel solution to climate change.
- ❖ Scalability of AI solution

BRSR - Business Responsibility Report (BRR) converging to Business Responsibility and Sustainable Report (BRSR)

The Securities and Exchange Board in India (SEBI) developed the Business Responsibility and Sustainability Reporting (BRSR) to mandate Indian companies to provide quantifiable metrics on sustainability-related factors, such as respect for human rights or environmental protection.

India's Business Responsibility and Sustainability Reporting (BRSR)

The Securities and Exchange Board in India (SEBI) developed the Business Responsibility and Sustainability Reporting (BRSR) to mandate Indian companies to provide quantifiable

metrics on sustainability-related factors, such as respect for human rights or environmental protection.

The foundation for India's ESG regulatory framework was laid with the introduction of Business Responsibility Reporting (BRR) guidelines in 2009. The new BRSR, in effect since 2023, is more closely aligned with globally accepted reporting frameworks like the GRI and TCFD. It requires the top 1,000 listed companies in India to respond to 140 questions, divided into 98 essential indicators (mandatory) and 42 leadership indicators (voluntary). The disclosure requirements are grouped into nine core categories, based on the principles of the National Guidelines for Responsible Business Conduct introduced by SEBI:

1. **Environmental protection:** Key performance indicators cover electricity consumption, water usage and air emissions.
2. **Human rights:** Focus on human rights violations and minimum and fair wages.
3. **Integrity:** Performance indicators include anti-corruption, anti-bribery and conflicts of interest policies.
4. **Employee well-being:** Metrics focused on parental benefits, employee accessibility and the percentage of unionized workers.
5. **Inclusive growth:** Policies favoring vulnerable and marginalized groups.
6. **Sustainable goods and services:** Information on investments in social and environmental impacts.
7. **Responsible consumer engagement:** KPIs encompass handling consumer complaints and feedback, product recall procedures and cybersecurity and data privacy policies.
8. **Stakeholder responsiveness:** Describing engagement with vulnerable and marginalized groups.
9. **Responsible public policy engagement:** Listing trade and industry affiliations and detailing issues relating to anticompetitive conduct. The BRSR report should be published as an integral part of a company's annual report, allowing for transparent disclosure of non-financial performance alongside the financial parameters.

Business Responsibility and Sustainability Reporting (BRSR) is a reporting framework under which the top 1000 listed companies (by market capitalisation) are mandated to disclose their ESG performance in a quantitative and standardised format from FY 2022–23 onwards.

The BRSR framework is a mandatory disclosure mechanism for top 1000 listed companies or businesses to report their performance on environmental, social and governance (ESG) aspects and demonstrate their commitment to responsible business practices.

BENEFITS

BRSR reporting can help companies create long-term value by promoting sustainable business practices. By considering the environmental and social impact of their operations, companies can identify opportunities to reduce costs, improve efficiency, and develop innovative products and services.

BRSR Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent. BRSR Principle 8: Businesses should promote inclusive growth and equitable development.

India's Business Responsibility and Sustainability Report (BRSR)—a framework for environmental, social, and governance (ESG) reporting—comes into effect in 2023. These new reporting standards represent an evolution from the voluntary guidelines that are first issued in 2009 by India's Ministry of Corporate Affairs, which were further refined in the Business Responsibility Report (BRR) of 2012.

The Securities Exchange Board of India (SEBI)—the regulatory body for securities markets in India—has now designed the new BRSR to be interoperable with other internationally accepted reporting frameworks. Such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD).

The BRSR is the first framework in India that requires Indian companies to provide quantitative metrics on sustainability-related factors, as of fiscal year 2023—for eligible companies, April 2022 to March 2023.

What are the three main disclosure areas under the BRSR?

SEBI's guidance document provides details on three kinds of disclosures—general, management and process, and “principle wise” (principle-based).

- **General disclosures encompass basic company information.** This includes addresses of offices and plants, details of products and services (these should account for 90% of total business turnover), exchanges where the company is listed, and reporting boundary, that is, whether disclosures refer to a stand-alone entity or part of a consolidated portfolio of companies. Employee counts and representation by gender, diversity, and inclusion and differently abled status are also required, along with data on employee turnover and number of complaints and grievances filed against the company.

- **Management and process disclosures provide evidence that companies are adhering to the structures, policies, and processes specified in the National Guidelines on Responsible Business Conduct (NGRBC).** Disclosures that are provided in this section are not about adherence to specific principles outlined in the NGRBC. But about higher-level policy and management processes, including statements by directors and boards regarding governance, leadership and oversight. Companies need to show that policies not only exist, but they have been approved and enacted in the context of time-bound company goals.

- **Principle wise performance disclosures are focused on more quantitative data relating to 9 basic principles of the National Guidelines on Responsible Business Conduct (NGRBC).** This set of disclosures within the BRSR is aimed at helping organizations demonstrate how their operations impact environmental and social metrics. Businesses need to demonstrate with clear data and examples on how they are integrating fundamental principles in their key processes and measuring these decisions through KPIs. To this end, companies need to disclose the percentage of R&D and capital expenditure investment as well.

Defining and quantifying adherence to principles

As mentioned earlier, the BRSR is based on nine principles that are defined in the BRR. But clarifies and adds detail regarding which companies must report (the top 1,000 NSE listed companies by market capitalization) and what they must report (various kinds of disclosures).

Each principle of wise disclosure has two components, essential indicators and leadership indicators. Essential indicators are mandatory and include data on environmental factors such as energy, emissions, water, and waste. As well as social impact of the company's operations, along with details of employee training around these principles.

Leadership indicators, on the other hand, are voluntary and aimed at companies "which aspire to progress to a higher level in their quest to be socially, environmentally and ethically responsible," as stated in the reporting framework. These include ethics awareness programs for value chain partners, product and service life-cycle assessments, employee protections such as insurance and transition programs. Leadership indicators also comprise advanced reporting on biodiversity, energy consumption, scope 3 greenhouse gas emissions and supply chain disclosures.

As of June 2023, the BRSR framework is composed of 140 questions—98 on essential indicators and 42 on leadership indicators.

The nine principles and their disclosures that are required in the BRSR are:

1. **Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable.** Performance indicators include having anti-corruption and anti-bribery policies in place, details of regulatory actions against the organization, and details of conflict-of-interest complaints.
2. **Businesses should provide goods and services in a manner that is sustainable and safe.** Performance indicators include investments to improve environmental and social impacts, details of reclamation, reuse, recycling and disposal procedures, and details of extended producer responsibility plans and life-cycle assessments.
3. **Businesses should respect and promote the well-being of all employees, including those in their value chains.** Performance indicators include the percentage of employees that are covered by health and accident insurance, paternity benefits, day care benefits and retirement benefits; amount of accessibility for differently abled workers and percentage of unionized workers.
4. **Businesses should respect the interests of and be responsive to all their stakeholders.** Performance indicators include having stakeholder groups that include vulnerable and marginalized people, number of communication channels used and frequency of engagement, and details of consultation processes.
5. **Businesses should respect and promote human rights.** Performance indicators include the percentage of employees who have received training on human rights issues, percentage of workers paid minimum wage, and board and management remuneration in comparison to industry medians.
6. **Businesses should respect and make efforts to protect and restore the environment.** Performance indicators include year-over-year electricity and fuel consumption, water withdrawal by source (such as surface water, groundwater, and seawater), air emissions (such as NO_x, SO_x and VOCs) and environmental impact assessments.
7. **Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.** Performance indicators include number of affiliations with trade and industry associations, details of issues related to anticompetitive conduct and details of public policy positions advocated by the organization.
8. **Businesses should promote inclusive growth and equitable development.** Performance indicators include details of social impact assessments, information on projects involving rehabilitation and resettlement and details of procurement policies that favor marginalized or vulnerable groups.
9. **Businesses should engage with and provide value to their consumers in a responsible manner.** Performance indicators include consumer complaint and feedback

mechanisms, details of safety-related product recalls and the existence of cybersecurity and data privacy policies.

As India moves to mandatory ESG reporting, the BRSR is aimed at improving compliance, consistency, and communication around nonfinancial disclosures.

IBM Envizi product suite can help organizations report to multiple ESG frameworks

With IBM® Envizi™, organizations can streamline the way that they collect, manage, and report their ESG data, allowing them to more efficiently comply with the requirements of different ESG reporting frameworks.

Envizi can help organizations to:

GUIDANCE NOTE FOR BUSINESS RESPONSIBILITY & SUSTAINABILITY

REPORTING FORMAT

I. GENERAL GUIDANCE

II. SECTION A: GENERAL DISCLOSURES

III. SECTION B: MANAGEMENT AND PROCESS DISCLOSURES

IV. SECTION C: PRINCIPLE WISE PERFORMANCE DISCLOSURE

- PRINCIPLE 1 Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable.
- PRINCIPLE 2 Businesses should provide goods and services in a manner that is sustainable and safe
- PRINCIPLE 3 Businesses should respect and promote the well-being of all employees, including those in their value chains
- PRINCIPLE 4: Businesses should respect the interests of and be responsive to all its stakeholders
- PRINCIPLE 5 Businesses should respect and promote human rights
- PRINCIPLE 6 Businesses should respect and make efforts to protect and restore the environment
- PRINCIPLE 7 Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent
- PRINCIPLE 8 Businesses should promote inclusive growth and equitable development
- PRINCIPLE 9 Businesses should engage with and provide value to their consumers in a responsible manner

I. GENERAL GUIDANCE

1. **Inter-operability of reporting framework-** Those listed entities which prepare and disclose sustainability reports (as part of annual report) based on internationally accepted

reporting frameworks such as GRI, SASB, TCFD, Integrated Reporting, can cross-reference the disclosures made under such framework to the disclosures sought under the BRSR. Further, in case the data sought in the reporting format is already disclosed in the annual report, the listed entity can provide a cross-reference to the same.

Thus, an entity need not disclose the same information twice in the annual report. However, the entity should specifically mention the page number of the annual report or sustainability report where the information sought under the BRSR format is disclosed as part of the report prepared based on an internationally accepted reporting framework.

2. Consistency in reporting boundary- The BRSR seeks disclosure of the reporting boundary i.e. whether the reporting is done for the entity on a stand-alone or consolidated basis (Reference: Question 13, Section A). Listed entities shall ensure consistency in reporting boundaries across the report.

3. Applicability- Some of the disclosures sought under the BRSR may not be applicable to certain industries, say the service industry. In such cases, the entity can state that such disclosure is not applicable along with reasons for the same.

4. The term “reporting period” refers to the financial year for which BRSR is being prepared.

5. The listed entity should endeavour to provide clear, complete and concise responses. The web-links to the relevant document may be provided, if available.

6. The information sought on complaints in the format is accompanied by a column of “Remarks” where entities can explain reasons for pending complaints (if any) or can give a brief on the nature of the complaints, wherever required

7. Concerning disclosures relating to gender, the format specifies male and female, however, in case the entity has employed persons who have not disclosed gender or belong to any other gender, a separate column of “Other” may be added for such disclosures.

8. The term “Principles” refers to the Principles 1 to 9 as laid down in the National Guidelines for Responsible Business Conduct.

9. In addition to the disclosures sought under the format, the entity may disclose any other relevant sustainability related information at appropriate places.

II. SECTION A: GENERAL DISCLOSURES

1. Details of business activities - The details of business activities shall be in line those given in Form MGT-7 prescribed by MCA.

2. Products sold /services offered by the entity - the top products manufactured or services provided by the listed entity that account for 90% of its turnover

3. Details of employees and workers - disclose the total number of employees and workers, along-with the associated break-up by gender (male / female) and into permanent / other than permanent. Various Acts and Definitions.
 4. Participation/inclusion / representation of women (including differently abled) – Define BOD and KMP.
 5. Turnover rate for permanent employees and workers – Turnover rate , Average rate of employee.
 6. Holding /subsidiary/associate / companies /joint ventures – Definitions under Companies Act, 2013.
 7. Grievance redressal mechanism for stakeholders – Define stakeholders / Grievance redressal mechanism / An organization’s value chain.
- Overview of the entity’s material responsible business conduct and sustainability issues - Sustainability as per National Guidelines on Responsible Business Conduct /
- Classify the risk/opportunity as environment or social and provide its description. For instance, risks arising from climate change can include impact on operations, worker health, demand for products or services etc. Climate change opportunities can include cost savings through resource efficiency, development of new products and services, access to new markets etc.
- The rationale for identifying the risk, which may include a description of the impact associated with the risk or opportunity.
 - In case of identified risks, approach to mitigate or adapt to the risk.
 - Indicate the positive and negative impact of such risk or opportunity on the financials of the company. The company shall make qualitative disclosures in this regard and should not include any forward-looking quantitative information. However, in the case of previous years, impact can be disclosed in quantitative terms. The entity may consider impact on parameters such as demand for products & services/ capital or operational costs/, investment opportunities etc.

III. SECTION B: MANAGEMENT AND PROCESS DISCLOSURES

1. Specific commitments, goals and targets set by the entity along-with performance, if any - entity may disclose if it has any specific commitment, goal or target against any of the principles. for goals and targets /Expected result or outcome, in quantitative or qualitative terms / Expected timeline/performance achieved.
2. Statement by the director responsible for the report to highlight ESG issues - overall vision and strategy / Strategic priorities and key topics etc.

3. Highest authority responsible for implementation and oversight of the Business Responsibility policy (ies) –
4. Does the entity have a specified Committee of the Board/ Director responsible for decision-making on sustainability-related issues? (Yes / No) –

IV. SECTION C: PRINCIPLE WISE PERFORMANCE DISCLOSURE

Principle 1 : Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable.

Essential Indicators

1. Details of fines/penalties/punishment/ award/compounding fees/ settlement amount - on the basis of materiality SEBI guidelines.
2. Details of anti-corruption or anti-bribery policy - procedures and internal Controls/mechanisms to deal / training on anti-corruption issues.

Leadership Indicators

Processes to avoid/ manage conflict of interests involving members of the Board/ KMPs –

Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe

Essential Indicators

1. Sustainable sourcing - refers to the integration of social, ethical and environmental performance factors into the process of selecting suppliers.
2. Processes in place to reclaim products for reuse, recycling and safe disposal of products at the end of life - collecting products and their packaging materials at the end of their useful lives, for reusing, or recycling or safe disposal.
3. Extended Producer Responsibility (EPR) plan - the responsibility of a producer for the environmentally sound management of the product until the end of its life. establish a system for collecting back the plastic waste generated.
4. Life cycle assessment - all the stages of a product from extraction or acquisition of raw materials through manufacturing and processing, distribution and transportation, use and reuse, recycling and disposal.
5. Recycled or reused input material as a percentage of total input material -Formula use

6. Reclaimed products and their packaging materials (as percentage of products sold) for each product category. –

Principle 3: Businesses should respect and promote the well-being of all employees, including those in their value chains

Essential Indicators

1. Measures for the well-being of employees and workers –
2. Accessibility of workplaces - wheelchair ramps, braille signage accessible restrooms, and digital accessibility
3. Return to work and Retention rates of permanent employees/workers that took parental leave – Parental leave refers to maternity and paternity leave.
4. Details of Training imparted to the employees and workers on health & safety measures and skill upgradation.
5. Details of performance and career development review imparted to employees and workers – Health and safety management system - Occupational health and safety risk hazardous situation or exposure, and the severity of injury or ill health.
6. Details of safety-related incidents - calculate the Lost Time Injury Frequency Rate (LTIFR) as follows: (No. of lost time injuries in FY x 1,000,000) / (Total hours worked by all staff in same FY) indicator of the loss of productivity for an organization.
7. Measures taken by the entity to ensure a safe and healthy work place – report the measures taken to prevent or mitigate significant negative health and safety impacts that are directly linked to its operations, products or services.

Leadership Indicators

Rehabilitation and suitable employment of employees / workers - workers having suffered high consequence injuries / ill-health, include family members of the affected employees / workers, who have been placed in suitable employment.

Principle 4: Businesses should respect the interests of and be responsive to all its Stakeholders

Essential Indicators

1. Process for identification of key stakeholders –

2. Key stakeholder groups - Vulnerable and Marginalized Groups refers to group of individuals who are unable to realize their rights or enjoy opportunities due to adverse physical, mental, social, economic, cultural, political, geographic or health circumstances.

Leadership Indicators

1. Using stakeholder consultation to support the identification and management of environmental, and social topics-
2. Details of instances of engagement with and actions taken to address the concerns of vulnerable/marginalized groups.

Principle 5 : Businesses should respect and promote human rights

Essential Indicators

1. Training on human rights issues and policies –
2. Details of remuneration/ salary/ wages (including differently abled) – Define salary, wages etc.
3. Disclosure of complaints made by employees and workers on sexual harassment, discrimination at workplace, Child Labour, Forced Labour/Involuntary Labour, Wages or other human rights related issues –

Principle 6 : Businesses should respect and make efforts to protect and restore the Environment

Essential Indicators

- 01.** Details of total energy consumption and energy intensity –
- 02.** PAT scheme of the Government of India - Perform Achieve and Trade (PAT) scheme (“Scheme”) has been launched by Bureau of Energy Efficiency under the National Mission for Enhanced Energy Efficiency (NMEEE)
- 03.** Details of total water withdrawn, consumed and water intensity ratio - Surface water / Ground water / Third party water / Sea-water / desalinated water / Other sources. Zero Liquid Discharge policy - A zero liquid discharge system involves using advanced
- 04.** waste-water treatment technologies to recycle, recover and then re-use the treated waste-water; towards ensuring that there is not discharge of the waste-water to the environment.

- 05. Disclosure of air emissions –
- 06. Details of Scope 1 and Scope 2 greenhouse gas (GHG) emissions and GHG intensity –
- 07. Details of waste generated, recycled & re-used and disposed off -
- 08. Description of waste management practices -# Improving materials selection and product design
 - Using recycled, re-used or renewable materials
 - Substituting inputs that have hazardous characteristics with inputs that are non-hazardous

Details of Environmental Impact Assessments (EIA) –

Leadership Indicators

- ❖ Break-up of the total energy consumed from renewable and non-renewable sources –
- ❖ Details of water discharged –
- ❖ Details of water withdrawn, consumed and discharged in areas of water stress –
- ❖ Scope 3 emissions - indirect GHG emissions (not included in energy indirect (Scope 2) GHG emissions) that occur outside of the organization, including both upstream and downstream emissions.
- ❖ Impact on biodiversity - ecologically sensitive areas reported by the entity –

Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent

Leadership Indicators

Details of public policy positions advocated by the entity –

Principle 8 : Businesses should promote inclusive growth and equitable development

Essential Indicators

- A. Details of Social Impact Assessments (SIA) - SIA in compliance with laws such as the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.
- B. Describe the mechanisms to receive grievances of the local community - defined as persons or groups of persons living and/or working in any areas that are economically, socially or environmentally impacted (positively or negatively) by an organization's operations.

- C. Percentage of inputs directly sourced from MSMEs / small producers - Micro: Investment in Plant and Machinery or Equipment not more than Rs.1 crore and Annual Turnover not more than Rs. 5 crore
- D. Small: Investment in Plant and Machinery or Equipment not more than Rs.10 crore and Annual Turnover not more than Rs. 50 crore
- E. Medium: Investment in Plant and Machinery or Equipment not more than Rs.50 crore and Annual Turnover not more than Rs. 250 crore

Leadership Indicators

- a) CSR projects undertaken in aspirational districts –
- b) Details of the benefits derived and shared from the intellectual properties owned or acquired by your company based on traditional knowledge shared –
- ✓ **Intellectual Properties:** Intellectual property refers to creations of the mind: such as inventions, literary, musical and artistic works, and symbols, names, images and designs used in commerce, for which the IP owners are granted certain exclusive rights under the corresponding national IP laws. Common types of IP include patents (inventions), copyrights, trademarks, industrial designs, software, geographic indications and trade secrets, etc.
- ✓ **Traditional Knowledge:** refers to any indigenous, technical, ecological, scientific, medical or cultural knowledge which is not necessarily documented but is in use by or generally known to communities. Typical examples include antiseptic properties of neem, turmeric, etc.
- ✓ Details of beneficiaries of CSR Projects - For each CSR Project undertaken by the company, enter:
 - (a) total number of beneficiaries,
 - (b) percentage of such beneficiaries belonging to vulnerable and marginalised groups.

Principle9: Businesses should engage with and provide value to their consumers in a responsible manner

Essential Indicators

Details of instances of product recall on account of safety issues - A product recall is a process of retrieving defective and/or potentially unsafe goods from consumers.

Leadership Indicators

Channels/platforms where information on goods and services of the business can be Accessed - Describe the Channels/platforms where information on goods and services of the business can be accessed. For Example, websites of the company, Mobile Apps, Help Desks, Call Centres, etc. Also, provide the link of the document containing such information if available in the public domain.



IMPLICATIONS OF NEW CAPITAL GAIN REGIME ON VALUATION

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1. PREAMBLE

Capital gains under tax laws are based on the financial concept. Only, when the assets are sold, the capital gains are referred to as having been realized. Profit earned on the sale of an asset that has increased in value over the period due to inflation.

Capital gain tax is a tax incurred on the growth in value of investments while selling those investments. The tax doesn't apply to unsold investments that may appreciate every year and will not incur capital gains taxes until they are sold. Whenever, there is any transfer of any capital asset, tax is computed under this head. Further, a capital asset may be classified as a long-term capital asset or a short-term capital asset, basis on the period held by the assessee.

2. MODE OF COMPUTATION

Determination of period of holding and inferring whether the capital asset is a long-term or a short-term capital asset is important as the mode of computation and tax rates for the gain on long-term capital assets differ from that of a short-term capital asset.

3. PERIOD OF HOLDING

For Immovable properties, as per section 2(42A), short term capital asset was defined as a capital asset held by an assessee for not more than thirty-six months immediately preceding the date of its transfer, if the asset is sold on or before 31.03.2017. From 01.04.2017, this provision to this section prescribed a period of holding of 24 months.

Particulars	Period of holding prior to Finance Act(2) 2024	Finance Act (2) 2024 Period of holding prior to Amendment	Finance Act (2) 2024 Period of holding after Amendment
Immovable property	24 months	24 months	24 months

4.THE FINANCE BILL (2) 2024

The finance bill (2) 2024 by the Hon'ble Finance Minister, Government of India on 23.07.2024, has proposed various amendments in the provisions related to Income computed under the head Capital Gains. The most significant of them is the changes in the tax rates and removal of the indexation benefit. The finance bill, made an amendment to the section 48 and restricted the indexation benefit only on the transfers prior to on or before 22nd July 2024 as well as section 112 on tax treatment.

5.TAX RATES

In order to rationalize the provisions, a new proviso is proposed to be added to the section 112 clause (a) that states about the resident Individuals/HUFs. Thus, it can be understood that the proviso is inserted only for the Resident Individuals and HUFs and not for any other categories of assessee like domestic companies or non – residents.

Section 112 was amended and the Long term capital gain on Immovable property asset rate specified as 20% was substituted as 12.5% for any transfers on or after 23rd July 2024. The tax rates under the capital gains head have also been amended as follows –

Section	Mode	Transfers on or before 22nd July 2024	Transfers on or after 23rd July 2024
112	Long term capital gain on Immovable property a	20%	12.50%

The proviso states that in case of transfer of a long term capital asset, being land or building or both, that is acquired on or before 22nd July 2024, where capital gain tax computed at the rate of 12.5% exceeds the tax computed in accordance with the provisions as they stood immediately before the amendment in Finance Bill, 2024, the excess shall be ignored.

So, any resident individual/ HUF who has acquired a property on or before 22nd July 2024, and transfers it on or after the said date, he can compute the tax as per the old provisions (20% with Indexation) as well as the new provisions (12.5% without indexation). If the tax payable as per the new provisions exceeds the tax as per the old provisions, the excess shall be ignored.

6. Amendment to Second proviso to section 48 indexation benefit

Indexation refers to recalculating the purchase price, after adjusting for inflation index, as

published by the CBDT. This benefit of indexation is available for long-term capital assets. Indexation intends to provide and counter the price increase over a time period. (i.e.) a relief towards inflation and profits earned for many years of holding the asset and taxed on the transfer year. This benefit of indexation is not available for short-term capital assets. This indexation benefit means to inflate the cost for the inflation index in the same proportion as Cost Inflation Index for the year in which the asset is transferred bears to the Cost Inflation Index for the first year in which the asset was held. In case of an asset acquired before 01.04.2001, the CII of 2001-02 will apply.

The second proviso to section 48 mentioned about the indexation benefit in case of transfer of long term capital assets. Thus, it stated that in case the transfer is of a long term capital asset, the cost of acquisition and improvement shall be indexed for the computation of the gain.

The Finance Bill (2) 2024 has proposed to remove the benefit of indexation on the transfer of any capital asset on or after 23rd July 2024. So, in respect of any transfer on or after 23rd July 2024, the mode of computation would be similar in case of both short- and long-term capital assets.

7. SECTION 48

Section 48, prescribes the mode of computation of income under the head capital gains. As per the said section long term capital gain from transfer of a capital asset is to be computed as follows –

Computation of capital gain as adopted on old regime	
Gross Sale Consideration	
Less: Transfer expenses	
Net Sales Consideration	
Less: Indexed Cost of acquisition	
Less: Indexed Cost of improvement	
Capital Gain	
Capital gain tax as per old regime including cess	20.80 %
Capital gain tax	

Computation of capital gain as adopted on new regime	
Gross Sale Consideration	
Less: Transfer expenses	
Net Sales Consideration	
Less: Cost of acquisition as on 01.04.2001(FMV)	
Less: Cost of improvement as on 01.04.2001(FMV)	
Capital Gain	
Capital gain tax as per new regime including cess	13.00 %
Capital gain tax	

8.0. CONCLUSION

It is pertinent to note here that there is no change proposed in section 48 that governs the mode of computation. It would be interesting to consider the impact of section 54 providing the exemption to the capital gains. As there has been no change in the provisions of section 54 or 48 of the ITA. The amendment made in the Finance Bill (2) 2024, indeed not affected the mode of computation for capital gain purposes for the valuer fraternity. Hence, it remains same as there is no change in the procedural assignment of the Registered Valuer. It is fit equation for the Chartered Accountants in determining the capital gain tax either to adopt old regime or new regime with respect to the sale transfer date.

Digitalisation of Land Documents and Transfer of Property Act,1882:



Myth and Reality

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Introduction:

Access to land or land rights has far-reaching implications on various aspects of life, including livelihoods, industrial development, and socio-economic progress. Land ownership is typically established through the possession of land, The possession is crucial as it safeguards the rights of the title holder from any competing claims made by others regarding the property. In India, land ownership is primarily established through a registered sale deed. other documents used to establish ownership include the record of rights like Chitta, Adangal property tax receipts, and survey documents. These records collectively contribute to establishing and validating land ownership in the country. However, these documents are not a government-guaranteed title to the property, but only a record of the transfer of property. During such transactions, the onus of checking past ownership records of a property is on the buyer.

Transfer of Property Act, of 1882 is the comprehensive legislation dealing with the transfer of property. This Transfer of Property Act, of 1882 stipulates that the right, title, or interest in an immovable property or land can only be transferred through a registered instrument. The Registration of documents is governed by the Registration Act, of 1908. Today the government's move to digitise land records is set to transform the country's age-old land management system is an initiative, under the 'Digital India' programme, which involves conversion of paper-based records into electronic formats. In Conveyancing the paper work is overwhelming. Property transactions involve many Physical documents, like property deeds, details of mortgages, charge etc. Digitalisation in Land documents if done well can speed up the process a lot. The success of the effort depends on the support from administrative and Legislative sides. This paper is on the Digitalisation of Land document and Transfer of property Act,1882 -Myth and Reality- discuss about the existing Statutory provision and Present effort of Digitisation of Land Records and also suggest measures to speed up the process

Transfer of Property Act, 1882

Transfer of Property Act, 1882 is a comprehensive legislation dealing with the transfer of property. Transfer of property is an “ Act by which a living person can convey the property, in present or in future, to one or more other living persons, or himself, or himself and one or more or other living persons, and to transfer property is to perform such act.” The Transfer of Property Act 1882 was enacted on the 17th of February 1882 and officially came into force on the 1st of July 1882. This Act covers both movable and immovable property, mostly it deals about immovable property. The following kinds of transfers are dealt with under this Act.(1) Sale(2) Mortgage(3) Lease(4) Exchange and (5) Gift. Here the transfer by sale discussed in detail.

Sale

Sale is defined as the **“transfer of ownership in exchange for a price paid, or promised, or part-paid and part-promised”**¹. This implies that a transaction amounts to a sale when one party transfers ownership to the other and the other party pays some amount or promises to pay some amount in return. A "transfer of ownership" by a person means a transfer by such person of his rights and interests in the property in full and permanently. Therefore, the two basic elements that constitute a sale are the transfer of ownership and money consideration. Further, this Section provides two specific methods for how a sale can be made and executed. According to this Section, a sale can be completed by a “registered instrument” in cases of the property where the value is more than Rs 100/-. If the property worth is, below Rs100/- then it may be transferred by handing over the Possession.

However, it is important to note that not all transactions require mandatory registration under the Registration Act, 1908. There are exceptions including land acquisition by the Government, court decrees, land orders, family Partitions, and property leases for durations less than one year. Due to the exemption of family partitions from registration, many property divisions remain unrecorded, leading to uncertainties regarding the 'true possession' of the property. This often results in legal disputes on ownership.

Registration Act, 1908

The Registration Act, 1908, is the primary law that regulates the registration of land-related documents. Therefore, currently, all sale deeds relating to land or immovable property

transfer are registered under the Registration Act, of 1908. As per the Registration Act, 1908² Rule 55 A states, if a document to be registered the following rules are to be complied

1. If the previous **original deed is lost**, the registering officer shall register it only on producing a non-traceable Certificate issued by the police, along with an advertisement published in the local newspaper as to the notice of loss of the previous original deed.

2. If the previous **original deed is not available** as the property is an ancestral one, the registering officer shall not register such document, unless any revenue record is produced evidencing the applicant's right over the subject property such as a patta copy issued by the Revenue Department or tax receipt.

3. If the property belongs to Government or statutory body producing the previous original deed shall not be necessary

As per first part of the rule if the original deed is lost, we have to file a complaint before the Police and obtain a non traceable certificate issued by the Police Department. We have to publish an advertisement in Local news papers as to the notice of loss of previous original deed.

As per second part of the rule if the original deed not available then we have to submit Revenue records like chitta, Adangal and Property tax receipts

Land Documents:

Today, land ownership can be determined through a set of documents stated as below

1. Record of Rights (RoR),
2. Spatial Land records (maps), and
3. Transaction details (sale deeds)

a). The record of rights (RoR) is the primary record that shows how rights on land are derived by the land owner and records of the property's transactions from time to time.

b). Survey maps (Spatial land records) It encompass specific information about a property that is visually represented on a map. These records include details such as land boundaries, plot area, connectivity with roads, presence of water bodies, information about the surrounding areas, land use classification (agricultural, residential, commercial, etc.), and the topography of the land.

² The Tamil nadu government had earlier passed a circular in this regard and it has been made a legal statute now after including it in the Tamil Nadu government Gazette,

c) The registered sale deed is to prove that the property has been sold from one person to the other. Showing details of ownership of Property.

Three different state departments Revenue, Registration and Survey and Settlement department are responsible for each of the above data on land records. In the presence of multiple agencies responsible for registration and maintenance of records, it is difficult to ensure that survey maps, textual data, and registration records match with each other and are updated. In addition, People have to approach several agencies to get complete information on land records. Most of these departments work separately and failure to update of records by any one of them makes the records of the others outdated.

Conclusion:

Over the past three decades, the central government has undertaken several initiatives to enhance the quality and accessibility of land records through the implementation of various schemes. One such scheme, was the Computerisation of Land Records scheme, which aimed to computerize land records across the country. In 2008, these individual schemes were consolidated into a centrally sponsored program known as the National Land Records Modernization Programme (NLRMP). Again the National Land Records Modernization Programme (NLRMP) has been renamed as the Digital India Land Records Modernization Programme (DILRMP) and is now a component of the broader Digital India initiative. In April 2016, the scheme was converted into a Central Sector Scheme, leading to its implementation by the central government with full funding from the centre. As per the recent updates 95% works completed. A coordinated effort between various departments, namely Archaeological, Survey, Revenue and Registration department of Central /State Government and Join committee oriented appraisal with the Assistance of Technology alone will make a real success, in this case it will lead from myth to Reality.

Reference:

1. Cabinet note, National Land Records Modernization Program 2008,
2. RoR in Practice and Coding Scheme in Major States, National Informatics Centre, .
... Ministry of Communications and Information technology, November 2008,
3. “Land Titling- A Road Map”, Report of the Expert Committee formed by Government of India, February 5, 2014.

NCLT CASE STUDIES FOR REGISTERED VALUER - LAND & BUILDING



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1. ABOUT IBBI & NCLT

1.1 IBBI - Insolvency and Bankruptcy Board of India

- The Insolvency and Bankruptcy Board of India was established on 1st October, 2016 under the Insolvency and Bankruptcy Code, 2016 (Code).
- It is a Single Regulatory body whose job is to oversee the process, the personnel and the adjudicating bodies related to Insolvency and Bankruptcy.
- It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities and Information Utilities.
- Structure of IBBI: It is Comprised of 10 Members
 - 1 Chairman,
 - 1 Member nominated by RBI,
 - 3 members of central government &
 - 5 members nominated by central government
- Advantages:
 - Defragmentation of Insolvency and Bankruptcy laws.
 - Fast Insolvency Resolution.
 - Different Adjudicating authorities.

1.2 NCLT - National Company Law Tribunal

- "The Central Government has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013 on 1st of June 2016.
- National Company Law Tribunal (NCLT) is a quasi-judicial body which was set up to resolve the disputes which are arising in Indian Companies. It is the successor to the Company Law Board. It is governed by the rules framed by the Central Government. NCLT is a special court where cases relating to civil court have been barred from the jurisdiction.
- Scope of National Company Law Tribunal
 - To dealing with corporate disputes that are of civil nature arising under the Companies Act. Pertaining to claims of oppression and mismanagement of a company, winding up of companies and all other powers prescribed under the Companies Act.

➤ Advantages for National Company Law Tribunal

- NCLT is a specialized court only for Corporates, i.e., companies registered in India.
- NCLT will reduce the multiplicity of litigation before different forums and courts.
- NCLT has multiple branches and is able to provide justice at a close range.
- NCLT consists of both judicial and technical members while deciding on matters.
- Speedy disposal of cases will help reduce the number of cases also has exclusive jurisdiction.

1.2.1 BENCHES IN NCLT

In the first phase the Ministry of Corporate Affairs has set up eleven Benches,

- One Principal Bench at New Delhi &
- Ten other Benches at New Delhi, Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata and Mumbai are headed by the President Chief Justice (Retd.) Ramalingam Sudhakar and comprises of sixteen Judicial Members and nine Technical Members at different locations. Subsequently, more Benches at Cuttack, Jaipur, Kochi, Amravati available.

1.2.2 PROCESS TYPE

- When a company is in state of insolvency, its creditors will have two options i.e. either recovery or resolution.
- In other words, when insolvency proceedings commence against a company, there are two possible outcomes i.e. the sale of the existing business as a going concern (known as Insolvency Resolution) or the sale of the assets of the company (Known as Liquidation).
- The IBC is a single consolidated law which provides provisions for both; insolvency resolution and liquidation.
- Corporate Insolvency Resolution Process (hereinafter referred to as “CIRP”) is a system incorporated in the Insolvency and Bankruptcy Code, 2016 (hereinafter referred to as “The Code”). In this, a corporate debtor that has defaulted in making payments to its creditors undergoes an insolvency process.

The intent behind CIRP is to make an attempt at reviving the corporate debtor instead of liquidating or winding it up to reimburse the creditors.

- The Code, and subsequent amendments, have designated a period in which CIRP has to be concluded. CIRP commencement date is the date on which the adjudicating authority passes an order to admit the CIRP application.
- Liquidation is a process in which the company is brought to an end. Also, the assets and property of the company are redistributed to the creditors and owners. Liquidation is also

referred to as winding-up or dissolution, although dissolution technically refers to the last stage of liquidation.

- Liquidation may either be compulsory or voluntary. The term liquidation is also used to describe that a company seeking it is ready to divest some of its assets. For instance, a retail chain may wish to close some of its stores.

2. IRP / RP & LIQUIDATOR

Interim Resolution Professional

- The adjudicating authority appoints a person on the commencement date of insolvency who will conduct the entire proceeding. This person is the Interim Resolution Professional (IRP).
- The IRP is responsible to conduct the proceedings of CIRP and also to ascertain the operations of the corporate debtor as a going concern.
 - As the term suggests, the IRP's appointment is temporary until a Resolution Professional is appointed by the Committee of Creditors (COC).
 - Duties of Interim Resolution Professional • Section 18 of the Code lays down the duties of the IRP in CIRP. The duties are as follows;
 - Collate information pertaining to the operations, assets and finances of the corporate debtor to understand its financial position;
 - Gather all the claims made by the creditors against the corporate debtor from the COC;
 - Manage finances and govern the operations of the corporate debtor as a going concern until an RP is appointed by the COC;
 - Take custody of all the assets, tangible or intangible, in the name of the corporate debtor until such process is in motion;
 - Any other duties as directed by the Insolvency and Bankruptcy Board of India (IBBI).
 - Appointment of Resolution Professional by COC
 - The IRP constitutes the COC by virtue of Section 18 of the Code. The COC's first order of business, after the commission of the committee, is to appoint the Resolution Professional. As per Section 22 of the Code, the COC holds its first meeting within 7 days of its constitution. In this meeting, the committee discusses if the IRP can be appointed as the Resolution Professional to continue to conduct the CIRP.
 - Then the committee takes a vote and if the majority is equal to or more than sixty-six per cent, then the IRP becomes the Resolution Professional.
 - However, the committee can also resolve to replace the IRP and appoint a difference licensed Resolution Professional to conduct the process. In this case, the committee applies to the adjudicating authority to appoint the Resolution Professional.

- The adjudicating authority subsequently chooses a Resolution Professional and forwards the choice to the IBBI for its approval. If the board does not approve the Resolution Professional as selected by the adjudicating authority, then the IRP resumes its position until IBBI appoints a person. This is also applicable in the case where the IBBI does not respond to the adjudicating authority within ten days of receiving the name.

Duties of Resolution Professional • The COC appoints the Resolution Professional who then conducts the CIRP. He is one of the most vital members of the entire process with several responsibilities and functions to perform.

3. Liquidator

- The liquidator is an insolvency professional on whom all the powers of the Board of Directors, key managerial personnel and the partners, as applicable, of the Corporate Debtor are vested by the Adjudicating Authority upon Liquidation order being passed under section 33 of the Insolvency and Bankruptcy Code, 2016. (The Code)
 - Where the Adjudicating Authority passes an order for Liquidation of a corporate Debtor initially under CIRP, the Resolution Professional appointed under CIRP shall act as the Liquidator for the purpose of Liquidation unless replaced by the Adjudicating Authority. As per Section 34(4) of the Code, the Adjudicating Authority may order to replace the Liquidator if:
 - The resolution plan submitted by the Resolution Professional under section 30 of the Code, was rejected for failure to meet the requirements as per Section 30(2).,
 - The Insolvency and Bankruptcy Board of India (The Board) recommends the replacement of the Resolution Professional for recorded reasons; or,
 - The Resolution professional fails to submit written consent for appointment as Liquidator.
 - For cases where the Resolution Professional is required to be replaced, the Adjudicating Authority may direct the Board to propose names of Insolvency Professionals eligible to be appointed as Liquidator along with written consent form within 10 days of the direction issued, and upon receipt of the proposal, the order of appointment of Liquidator is passed.

3.1 DUTIES OF LIQUIDATORS

Section 35 of the Code enumerates the Powers and Duties of the Liquidator

- To verify claims of all the creditors and consolidate them;
- To evaluate the assets and property of the corporate debtor in the manner and prepare a report;
- To sell the immovable and movable property and actionable claims of the corporate debtor in liquidation by public auction or private contract, with power to transfer such property

to any person or body corporate, or to sell the same in parcels, though transfer is subjected to section 52 and further the liquidator shall not sell the immovable and movable property or actionable claims to any person who is not eligible to be a resolution applicant.

- To draw, accept, make and endorse any negotiable instruments on behalf of the corporate debtor, with the same effect as if such instruments were drawn, accepted, made or endorsed by or on behalf of the corporate debtor in the ordinary course of its business;
- To invite and settle claims of creditors and claimants and distribute proceeds in accordance with the provisions of this Code;
- To institute or defend any suit, prosecution or other legal proceedings, civil or criminal, in the name of or on behalf of the corporate debtor;
- To investigate the financial affairs of the corporate debtor to determine undervalued or preferential transactions;
- To take all such actions, steps, or to sign, execute and verify any paper, deed, receipt document, application, petition, affidavit, bond or instrument and for such purpose to use the common seal, if any, as may be necessary for liquidation, distribution of assets and in discharge of his duties and obligations and functions as liquidator;
- To apply to the Adjudicating Authority for such orders or directions as may be necessary and to report the progress of the liquidation process in a manner as may be specified by the Board; and
- To perform such other functions as may be specified by the Board.

4. ROLES & RESPONSIBILITIES OF REGISTERED VALUER – LAND & BUILDING

4.1 Valuer & Valuation

A “valuer” is an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer.

Valuation

Under the Insolvency and Bankruptcy Code, 2016 (“IBC”), valuation of assets is one of the core features dealt with in a corporate insolvency resolution process (“CIRP”). The process of valuation conducted by “Registered Valuers” or valuation professionals helps determine the current value of the assets which are to be liquidated.

- Or The process of determining an opinion or conclusion of value of an asset on a stated basis of value at a specified date in compliance with IVS

- The requirement of valuation under the IBC is an important concern for Registered Valuers in all three asset classes: plant and machinery (“P&M”), land and building (“L&B”), as well as securities or financial assets.
- The importance of accurate valuation under IBC are as follows:
 - Valuation Report guides the actions of the Insolvency Professional, COC & NCLT;

Fair Value and Liquidation Value are frequently used by IBBI for statistical purpose to gauge performance of IBC;

- A Registered Valuer typically competes with market and endeavours to estimate a value which is more authentic than price of an asset;
- Valuation report is a common cause of dispute for Financial or Operational Creditor and may cause delay in Corporate Insolvency Resolution Process/ Liquidation Process;
- Difference in facts between two valuation reports can be trouble for IRP/RP.
- Few of the possible effects of under/ over valuation is as under:

(a) Possible effects of Under Valuation:

- (i) Abnormal gain by resolution applicant or Promoters of the company;
- (ii) Loss of Realizable Value for Financial and Operational Creditors;
- (iii) Possible loss of reputation for Registered Valuer.

(b) Possible effects of Over Valuation

- (i) Rejection of Resolution Plan which could have been approved;
- (ii) Delay in Liquidation Process due to requirement to repeat process;

QUOTE PART

- The IRP should invite the quotations from multiple Registered Valuers during the initial weeks of CIRP Commencement. IRP should use its wisdom to decide on the Registered Valuer for submitting the quotations depending upon the complexity and size of the Corporate Debtor.

➤ Seeking the Approval of COC:-

- Basis Regulation 34 of the CIRP Regulations, the professional fees payable to the Registered Valuers forms part of Insolvency Resolution Process Cost, therefore, the RP shall take the approval of Fees to be paid to the Registered Valuers.
- It does not require RP to take the approval for the appointment of specific Registered Valuer in the COC Meeting which states that the RP is free to decide on the Registered Valuer within the cost approved by the COC.

4.2 Appointment

- Regulation 27 of CIRP Regulations states that the Resolution Professional shall, within seven days of his appointment but not later than forty-seventh day from the insolvency commencement date, appoint two Registered Valuers to determine the fair value and the liquidation value of the corporate debtor. In case the Resolution Professional is not appointed, Interim Resolution Professional to continue to function as the Resolution Professional until appointment of Resolution Professional
- Statutory provisions enabling the appointment of Registered Valuers under IBC
 - Section 59(3)(b)(ii) of IBC states that where a proposal for Voluntary winding up has been made by a Company, the Declaration of Insolvency given by Directors shall be accompanied with the Valuation report issued by Registered Valuer.
 - Section 46(2) of IBC states that in an application for avoiding a transaction as 'undervalued', the Adjudicating Authority may require an independent expert to assess evidence relating to the value of the transactions.
 - Regulation 27 of the CIRP Regulations mandates the appointment of two registered valuers by the Resolution Professional within seven days of his appointment but not later than forty seventh day of CIRP Commencement date.
 - Regulation 35 of the CIRP Regulations states that: If the two estimates of a value in an asset class are significantly different
 - on receipt of a proposal to appoint a third Registered Valuer from the committee of creditors, the resolution professional may appoint a third Registered Valuer for an asset class; ("significantly different" means a difference of twenty-five per cent. in liquidation value under an asset class and the same shall be calculated as $(L1-L2)/L1$, where, L1= higher valuation of liquidation value & L2= lower valuation of liquidation value) the average of the two closest estimates of a value shall be considered the fair value or the liquidation value
 - Incorporating Confidentiality • During the Valuation Process, varied data of financial as well as non-financial nature is shared by the Insolvency Professional with the Registered Valuers, which may include propriety information.
 - It is necessary to incorporate a Non-disclosure Clause in the appointment letter of the Registered Valuers to avoid misuse of information.
 - The Non-disclosure clause may include but not limited to the following: -
 - Advise not to disclose any confidential information at any stage.
 - An undertaking to: maintain confidentiality; keeps confidential information safe and secure;

use confidential information solely for the purpose of considering, evaluating, negotiating or concluding purpose;

comply with provisions of law for the time being in force relating to confidentiality and insider trading;

protect any intellectual property of the Company;

not to disclose any confidential information / relevant information to any third party/person or entity with exceptions like it is made publicly available or is disclosed with consent or is required under law.

remain liable for any unauthorized disclosure by any such person or entity.

i Effective period for the confidentiality condition: It will remain valid even after the completion of the assignment.

ii Compliance to Regulation 27 of the CIRP Regulations

Regulation no. 27 restricts following person to be appointed as the Registered Valuer:

- ⊙ a relative of the resolution professional;
- ⊙ a related party of the corporate debtor;
- ⊙ an auditor of the corporate debtor at any time during the five years preceding the insolvency commencement date; or
- ⊙ a partner or director of the insolvency professional entity of which the resolution professional is a partner or director.
- ⊙ Resolution professional while appointing the Registered Valuers should take the declaration from them that they are complying to Regulation 27 and the same may be taken in the appointment letter itself.

4.3 DATA COLLECTION / PROPERTY VISIT

As per Section 17(2)(d) of IBC read with Regulation 4 of CIRP regulation on “Access to books”, RP has the access to all the books, records, information, and documents as required for discharge of the duties. Since, the RP has the access to all the records, hence, he is expected to share all the information for facilitating the valuation process.

Timely provision of information to the Registered Valuers would help in timely completion of valuation and thereby achieving the timely decision making in the CIRP and Liquidation Process.

Timelines for Completion of Valuation process, which requires timely action from RP for information sharing with the Registered Valuer.

4.4 DUE DILLIGENCE & STATUTORY APPROVALS

Authenticity of any Valuation Report depends upon the type of information shared with the Registered Valuer. Hence, the authenticity of the documents shared with the Registered Valuer needs to be verified as the Registered Valuer is not responsible and makes no representations for the accuracy, completeness or authenticity of the records or information available to him. Therefore, the IRP/RP shall provide reliable information.

Valuer needs to plan entire valuation process in terms of time, efforts and resources that are required for each assignment.

4.5 REPORT PREPARATION AS PER IVS STANDARD

Bases of Valuation ICAI Valuation Standard 102 defines valuation bases as the indication of the type of value being used in an engagement. Different valuation bases may lead to different conclusions of value. Therefore, it is important for the Registered Valuer to identify the bases of value pertinent to the engagement.

5. VALUATION APPROACHES AND METHODS

Consideration must be given to the relevant and appropriate valuation approaches. One or more valuation approaches may be used in order to arrive at the value in accordance with the basis of value. The principal valuation approaches are:

- (a) Market approach,
- (b) Income approach, and
- (c) Cost approach
 - Arriving at first stage valuation
 - All factors must be considered in the first appraisal such that further adjustments are either minimal or non-existent.
 - Drafting the valuation report
 - Once the valuation is arrived at, report needs to be prepared as a final deliverable for the client. The first draft of the report must be prepared extensively incorporating the specific elements of the assignment. Templatization in report creation should be avoided. Each report should be specific, relevant and to the point for the client.
 - Finalizing the report by revisiting it for completeness and accuracy
 - Valuer shall ensure that report must provide right perspective and all perspectives are covered during preparation.
 - The RP may adopt the procedure of getting a draft report/presentation from the valuers wherein valuer is able to give a draft report/presentation to the RP on the key assumptions

and methodology to be adopted by him. This will enable a check that the methodology and the assumptions adopted by both the valuers are not materially different to avoid delay in the process on account of the valuation.

- The existing legal provisions stipulate that valuation report is to be shared with the RP by the valuer and the RP on receipt of Resolution plan and undertaking of confidentiality should share the valuation report with the COC.
- The valuation report and the approach being adopted for the same may be shared by the RP and or RV concerned with other stakeholders keeping in mind emerging jurisprudence and prevalent legal/regulatory provisions
- A well drafted report not only serves the purpose of conveying the valuation mentioned in it, but also creates the goodwill in the mind of readers about the valuer and his firm.
- There is not a particular form or format of report; however, the report must be sufficient to communicate to the intended users the scope of the valuation assignment, the work performed, and the conclusions reached.

6. FEES COLLECTION

- It is the Most Important thing a valuer can did.
 - *Half-yearly Performance Review / Report To RVO*
 - Finally, a valuer must report their Quarterly/Half-Yearly Performance review about the NCLT Cases which is handled so far to RVO.
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