Case study on the Valuation Report - Securities and Financial Assets (SFA)

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PARTHA KAMAL SEN
B.A. (HONS.), FCA, ACS, DCG (ICSI), LLB, DIM
INSOLVENCY PROFESSIONAL
PRACTICING COMPANY SECRETARY
MOBILE 9830263352
E-MAIL PARTHA_KAMAL@YAHOO.COM

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- The content of this article is intended to provide a general view to the subject matter and the views expressed are purely of the presenter.
- No reference should be made from here in respect of any matter and for any judicial proceeding and specialist advice should be sought for under specific circumstances.
- The interpretation made is purely the personal interpretation of the presenter, the same may be interpreted differently by any person in any other way.

Objective of IBC :-

In the preamble it is said that
"An Act to consolidate and amend the laws relating to re-organisation and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders including alteration in the order of priority of payment of Government dues and to establish an Insolvency and Bankruptcy Board of India, and for matters connected therewith or incidental thereto.
BE it enacted by Parliament in the Sixty-seventh Year of the Republic of India as follows: -"

Valuation of Assets under IBC

Valuation is an important part of the Corporate Insolvency Resolution Process. A proper understanding of "Fair Value" and "Liquidation value is essential for protecting the interests of stakeholders and to come up with a proper Resolution Plan, which is the objective of the Code.

Appropriate and credible valuation is critical for IBC matters, otherwise a viable firm may get pushed into liquidation, or an unviable firm may remain alive. Both the situations would lead to inefficient social and economic outcomes.

Different types of Assets

- Valuation of assets is a key factor for an informed decision making under the Code.
- The key objective of valuation under the Code is to be transparent and have credible determination of value of the assets to facilitate comparison and informed decision making by the Committee of Creditors, Stakeholders' Consultation Committee, Adjudicating Authorities.
- The Registered Valuers are certified to value assets in three category of asset classes

a. **Land and Building** : Depends on the sort of building, its structure, durability, location, size, shape, frontage, types and quality of building materials used and cost of these materials;

b. **Plant and Machinery** : Calculate market value of the plant and machinery which helps in running the day to day business of the organization;

c. **Securities or Financial Assets** : Securities are tradable financial instruments used to raise capital in public and private markets. There are primarily three types of securities : (i) equity shares – which provides ownership rights to the holders; (ii) Debt – essentialy loans repaid with periodic payments; and (iii) hybrids.

Fair Value and Liquidation Value

The term ‘fair value’ and ‘liquidation value’ have been defined under the Code as follows:-

Fair Value means the estimated realisable value of the assets of the CD if they are to be exchanged on the insolvency commencement date between a willing buyer and a willing seller in an Arm’s Length Transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.[Regulation 2(1)(hb) of IBBI CIRP Regulations 2016].

Liquidation Value means the estimated realizable value of the assets of the CD, if the CD were to be liquidated on the insolvency commencement date. [Regulation 2(1)(k) of IBBI CIRP Regulations 2016].

Case Study

Valuation methodology for valuation of Securities and Financial Assets (SFA)
Regulation 35(1)(a) of the IBBI CIRP Regulations, 2016.

There are various methods adopted for valuation of assets/instruments including financial assets/instruments of an entity. Certain methods are based on asset/instrument value while certain other methods are based on the earnings potential of the asset/ instrument.

Each method proceeds on different fundamental assumptions which have greater or lesser relevance and at times even no relevance, to a given situation. Thus, the methods to be adopted for a Particulars valuation exercise must be judiciously chosen.

The valuation approaches and methods shall be selected in a manner which would maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Case Study

Cost Approach

The cost approach reflects the amount that would be required currently to replace the service capacity of an asset. Often, the value of the asset/instrument is driven in terms of the investment that would be required to replace the assets they have assembled.

Net Asset Value ("NAV") Method

The Net Assets Value Method represents the value with reference to historical cost of assets owned by the company and the attached liabilities as on the valuation date. Such value generally represents the support value in case of profit-making business.

Income Approach

Income approach is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income, cost savings and expenses) to a single current (i.e., discounted or capitalised) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

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Discounted Cash Flow ("DCF") Method

The DCF method values the asset by discounting the cash flows expected to be generated by the asset or instrument for the explicit forecast period and also the perpetuity value (or terminal value) in case of assets/instruments with indefinite life. The DCF method is one of the most common methods for valuing various assets/ instruments such as shares, debt instruments, etc.

This method involves discounting of future cash flows expected to be generated by an asset/ instrument over its life using an appropriate discount rate to arrive at the present value.

The following are important inputs for the DCF method:

Cash flows; Discount rate; and Terminal value

Case Study

Market Approach

Market approach is a valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e.,similar) assets and instruments.

The following are some of the instances where a valuer applies the market approach:

(a)where the asset/ instrument to be valued or a comparable or identical asset/instrument is traded in the active market; (b) there is a recent, orderly transaction in the asset/ instrument to be valued; or (c) there are recent comparable orderly transactions in identical or comparable asset(s)/ instrument(s) and information for the same is available and reliable.

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Market Price Method

Under Market Price method the traded price observed over a reasonable period while valuing assets/ instruments which are traded in the active market is considered. The market price of an asset/ instrument as quoted in an active market is normally considered as the fair value of said asset/instrument where such quotations are arising from the asset instrument being regularly and freely traded in, subject to the element of speculative support that maybe inbuilt in the value of the asset/ instrument.

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Valuation Analysis

Valuation exercise involves estimating a fair and liquidation values of assets based upon reliable and observable inputs/ information made available to the valuer.

The following value estimates are based upon such limited information gathered from corporate debtor, resolution professional/Liquidator and provisional financial statements as on valuation date and best professional judgement of the valuer.

We have adopted the adjusted NAV Method under cost approach for determining the value of assets under SFA segment. Adjustment as appropriate have been made to the respective book values considering inter alia ageing analysis, the nature of the assets, other relevant factors and discussion with the management.

Case Study

Valuation Analysis (contd.)

The valuer had sought for the following information form the resolution professional, with regards to, assets subject to valuation under the Securities and Financial Assets (SFA) class and appearing on the face of the latest available unaudited financial statements of the Company i.e. for the year ended 31st March 2024.

We have been provided with the financial statement of as of 31st March 20124 only, and financials as on valuation date April 03rd, 2024 has not been provided. The IRP has also confirmed that there has not been any material change since the last available financial statements.

Hence, due to the lack of financials as of the valuation date and based on representation given by the resolution professional, (We have considered financials as of 31.03.2024 as the proxy for the financial position as of the valuation date, valuation report may change post availability of such information).

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12.3 SFA SUMMARY - [redacted]

(In INR Lacs)

S. No	Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
1	Investment in subsidiaries	1.20	0.97	0.78	Refer 12.3.1
2	Other Financial Assets	87.23	42.73	34.18	Refer 12.3.2
3	Deferred Tax Assets	-	0.00	0.00	Refer 12.3.3
4	Non-current Tax Assets	142.62	120.69	82.74	Refer 12.3.4
5	Other Non-current Assets	22.39	22.39	22.39	Refer 12.3.5
6	Cash & Bank Balances	361.42	353.00	353.00	Refer 12.3.6
7	Loans	9,389.98	87.08	69.66	Refer 12.3.7
8	Other current Financial Assets	2,877.37	1.00	0.80	Refer 12.3.8
9	Other current assets	1,496.47	838.26	0.00	Refer 12.3.9
10	Inventories (Excluding Finished stock and construction work in progress)	1,014.07	0	0	Refer 12.3.10
Total		**15,392.75**	[redacted]		

We have been provided with the financial statement of [redacted] as of March 31^{st}, 2024 only, and financials as on valuation date April 03rd, 2024 has not been provided. The IRP has also confirmed that there has not been any material change since the last available financial statements. Hence, due to the lack of financials as of the valuation date and based on representation given by the resolution professional, (We have considered financials as of 31.03.2024 as the proxy for the financial position as of the valuation date, valuation report may change post availability of such information).

12.3.1 Investment in subsidiaries

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Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
Investment in subsidiaries	1.20	0.97	0.78	Refer table below
Total	**1.20**	**0.97**	**0.78**	

Investment in equity shares	No. of Shares	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
Equity shares in [redacted] Pvt Ltd (being 90% of shares issued), fully paid (including Rs. 660.08 towards fair value of financial guarantee)	9,00,000	750.08	Indeterminable	Indeterminable	We have not been provided with the financial statements as of CIRP date. Hence, we are unable to ascribe fair and liquidation value.
Equity shares in [redacted] Developers Private Limited (being 99.99% of shares issued), fully paid	11,999	1.20	0.97	0.78	Refer Annexure (March 23 Balance sheet available) We have applied the adjusted NAV method to determine the fair value and liquidation value has been considered after 20% discount on fair value.
Investment in preference shares					
[redacted] Convertible Preference Shares in BBT Elevated Road Pvt Ltd, fully paid	11,34,50,000	11,345.00	Indeterminable	Indeterminable	We have not been provided with the financial statements as of CIRP date. Hence, we are unable to ascribe fair and liquidation value.

12.3.2 Other Financial Assets

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
Security Deposit	87.23	42.73	34.18	We were provided the detailed schedule of various types of security deposits like security deposits given for Rent, Labor Security Deposit, Electricity Deposit, Telephone Deposit, EMD and some deposits for the appeals in different appellate authorities etc. We held discussions with the management of the company to understand the nature and purpose of the security deposits, seek their opinion on the recoverability of all the deposits and status of the respective projects. We have ascribed the 100% fair value to the electricity and telephone deposits being the nature of those deposits are refundable and adjustable. We have not provided any value to those deposits which are deposited under any appeals due to uncertainty of the outcome. Liquidation value has been arrived after 20% discount on the fair values.
Total	**87.23**	**42.73**	**34.18**	

12.3.3 Security Deposit

Name of the Parties	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024
[redacted] Consumer Disputer Residential Forum Raqigad Alibag	41,75,000.00	indeterminable	indeterminable
Cesc Limited	26,44,601.00	26,44,601.00	21,15,680.80
Cesc Limited	1,27,246.00	1,27,246.00	1,01,796.80
Cesc Limited	2,76,300.00	2,76,300.00	2,21,040.00
Cesc Limited	4,59,000.00	4,59,000.00	3,67,200.00
Hiland Projects Limited	31,328.00	31,328.00	25,062.40
Bharti Airtel Ltd	5,000.00	5,000.00	4,000.00
Cesc Limited	67,667.00	67,667.00	54,133.60
Axis Bank	1,000.00	1,000.00	800.00
Cesc Limited	1,000.00	1,000.00	800.00
Cesc Limited	2,39,105.00	2,39,105.00	1,91,284.00
Cesc Limited	3,80,392.00	3,80,392.00	3,04,313.60
Vodafone East Ltd	10,000.00	10,000.00	8,000.00
Softel Telecom Pvt. Ltd.	2,750.00	2,750.00	2,200.00
Reliance Jio Infocom Ltd	2,500.00	2,500.00	2,000.00
Registrar, State Commission, West Bengal	35,000.00	indeterminable	indeterminable
"West Bengal Appellate Tribunal, Kolkata "	2,39,900.00	indeterminable	indeterminable
Coffee Day Global Ltd.	25,000.00	25,000.00	20,000.00
Total	**87,22,789.00**	**42,72,889.00**	**34,18,311.20**

12.3.4 Non-current Tax Assets

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
Advanced Payment of Income Tax (Net of provisions)	142.62	120.69	60.35	Refer Annexure We requested the management to provide Tax Reconciliation, intimations u/s 143 and 153A Order specifying net amount payable/refundable. The management has provided the said data. We found some discrepancies in the book value and the information received.
Total	**142.62**	**120.69**	**60.35**	

12.3.4.1 Advanced Payment of Income Tax (Net of provisions)

Details of Income Tax refundable	Amount	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
IT REFUNDABLE AY 2014-15	31,64,100	31,64,100	15,82,050	We have been provided with the copy of reconciliation applications and the assessment order copies. The amount is refundable as per the copy of 153A order computation sheet as well and hence we have taken the fair value equals to its book value. We applied a liquidation discount 50.0% to derive the liquidation value of TDS Recoverable. We are of the opinion that in the case of liquidation scenario, the Company will find it difficult to claim the amount from the taxation authorities.
IT REFUNDABLE AY 2015-16	9,51,484	Indeterminable	Indeterminable	We have been provided with the copy of PAN surrender and letters to the department. We have been also given to understand that it has been merged with its [redacted] entity. Since, we have not received any letter or confirmation of the refund merge with the other entity. Hence, we have not ascribed any fair and liquidation value.
IT REFUNDABLE AY 2016-17	13,61,105	13,16,702	6,58,351	We have been provided with the copy of rectification application. As per the copy of 153A computation sheet, they have wrongly calculated the tax liability of 13,16,702 due to some error in the calculation of set off of losses and hence we have taken the fair value equals to its book value. We applied a liquidation discount 50.0% to derive the liquidation value of TDS

[redacted]

12.3.5 Other Non-current Assets

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
Deposit against demand under dispute	22.39	22.39	22.39	We have been provided with the copy of appeal filed with the Customs, Excise and Service Tax Appellate Tribunal filed on 27th June 2017, along with the demand order of Service Tax dated 28th March 2017. Company has service tax demands of INR 265.47 Lacs which is much more than the amount deposited. We have ascribed full value to deposits against demand under dispute as same would be netted off against payment of service tax demand in future.
Total	**22.39**	**22.39**	**22.39**	

12.3.6 Cash & Bank Balances

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks

12.3.6 Cash & Bank Balances

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
Cash on hand	1.60	1.09	1.09	We have been provided with the 3 cash certificates of different sites dated 03.04.2024. These amounts have been considered for fair and liquidation value.
Balance in Current accounts	70.66	351.90	351.90	We have been provided the bank statements as on 03.04.2024. We have considered the fair and liquidation value as per these statements.
Balance in Escrow account	289.16			
Total	**361.42**	**353.00**	**353.00**	

12.3.7 Loans

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
Loans given to related party	8,113.72	21.68	17.34	Refer Annexure
Loans given to others	2,445.56	61.65	49.32	Refer Annexure
Loans to employees	3.75	3.75	3.00	Loan to employees are generally adjustable against their salaries, hence we have given the fair value equals to its book value and liquidation value has been arrived after 20% discount on the fair value.
Less: Provision for	(1,173.05)			

12.3.7.1 Loans Given

Particulars	Closing Principal Balance as on 31-03-24	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
[redacted] Housing Llp	7,40,302	Indeterminable	Indeterminable	We have not been provided with the financial statements as of CIRP date and recoverability/non recoverability rationality by the RP. Hence we are unable to ascribe the fair and liquidation value.
[redacted] Elevated Road Pvt. Ltd.	11,73,04,958	Indeterminable	Indeterminable	
[redacted] Advisory Services Llp	-	Indeterminable	Indeterminable	
[redacted] Solutions Pvt. Ltd.	68,90,50,919	Indeterminable	Indeterminable	
[redacted]nfra Realty Llp	-	Indeterminable	Indeterminable	
[redacted] Commercial Pvt. Ltd.	-	Indeterminable	Indeterminable	
[redacted] Owners Association, [redacted]	52,678	Indeterminable	Indeterminable	
[redacted]Real Estate Developers Pvt. Ltd.	31,669	Indeterminable	Indeterminable	
[redacted] Projects Limited	49,63,214	21,67,853	17,34,282.40	Since, the amount of ICD given is more than the ICD received, we have ascribed the value up to the amount of ICD received and still outstanding as on CIRP date.
[redacted]Finance and Securities Pvt Ltd.	24,38,15,244	61,64,742	49,31,793.60	
Total	**1,05,59,58,984**	**83,32,595.00**	**66,66,076.00**	

12.3.8 Other current financial assets

12.3.8.3 Other receivables from related parties

[redacted] Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
[redacted] (Invm)	11,87,00,000.00	Indeterminable	Indeterminable	We have not been provided with the financial statements as of CIRP date and recoverability/non recoverability rationality by the RP. Hence we are unable to ascribe the fair and liquidation value.
[redacted] Housing Ltd.	25,79,186.00	Indeterminable	Indeterminable	
[redacted] Housing Ltd	3,09,375.40	Indeterminable	Indeterminable	
Calcutta [redacted] Limited	44,98,576.00	Indeterminable	Indeterminable	
[redacted] Projects Ltd.	3,56,332.00	Indeterminable	Indeterminable	
Total	**12,64,43,469**	**Indeterminable**	**Indeterminable**	

12.3.8.4 Other Receivables

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
[redacted] Limited	13,302.26	Indeterminable	Indeterminable	We have not been provided with the recoverability/non recoverability rationality by the RP. Hence we are unable to ascribe the fair and liquidation value.
[redacted] Limited	17,07,286.00	Indeterminable	Indeterminable	
[redacted].	99,254.00	Indeterminable	Indeterminable	
[redacted] Private Limited	65,167.65	Indeterminable	Indeterminable	
[redacted] Services	6,29,540.00	Indeterminable	Indeterminable	
[redacted] Limited	1,22,636.68	Indeterminable	Indeterminable	
[redacted] Llp	9,10,00,000.00	Indeterminable	Indeterminable	
[redacted].	7,30,175.00	Indeterminable	Indeterminable	
Total	**9,43,67,361.59**	**Indeterminable**	**Indeterminable**	

12.3.8.5 Security Deposits

Particulars	Book Value as on 31 March 2024	Fair Value as on 03 April 2024	Liquidation Value as on 03 April 2024	Remarks
[redacted] Ltd.	99,900.00	99,900.00	79,920.00	We have been given to understand that these are for security deposit for Lease of AJC Bose Road Kolkata property agreement dated 15.06.2021 Hence, we have taken the fair value equals to its book value.

Supreme Court observations on the valuation method so adopted

Renuka Datla Vs. Solvay Pharmaceutical B.V. and Ors.

[Special Leave Petition (C) No. 18035 of 2000 with Interlocutory Application No. 2 of 2002 with S.L.P. (C) Nos. 18041-18042/2000 with I.A. Nos. 3 and 4/2002]

- The valuation approaches and methods shall be selected in a manner which would maximise the use of relevant observable inputs and minimise the use of unobservable inputs. In the given case the Valuer didn't select the DCF method as adequate inputs i.e. the projected cash flows were not available from an independent party and also there were vast discrepancies between the projections given by the parties.

- Further DCF method was not considered by Valuer due to unavailability of independent projections. In respect of projections, the Valuer had chosen the best possible method by capitalizing past earning and considering maintainable profits

Supreme Court observations on the valuation method so adopted

Renuka Datla Vs. Solvay Pharmaceutical B.V. and Ors. (contd.)

An explanation on Valuation Methodology applied to arrive at a specific valuation and ‘selection’ of any particular method or for ‘disregarding’ any approach shall always be included in a valuation report. In the given case the Valuer, clearly shared the logic and understanding behind the selection of Valuation Methodology and assignment of weightage in his Valuation Report. This surely helped him when his Valuation Report was being tested by the Court.

Thank You