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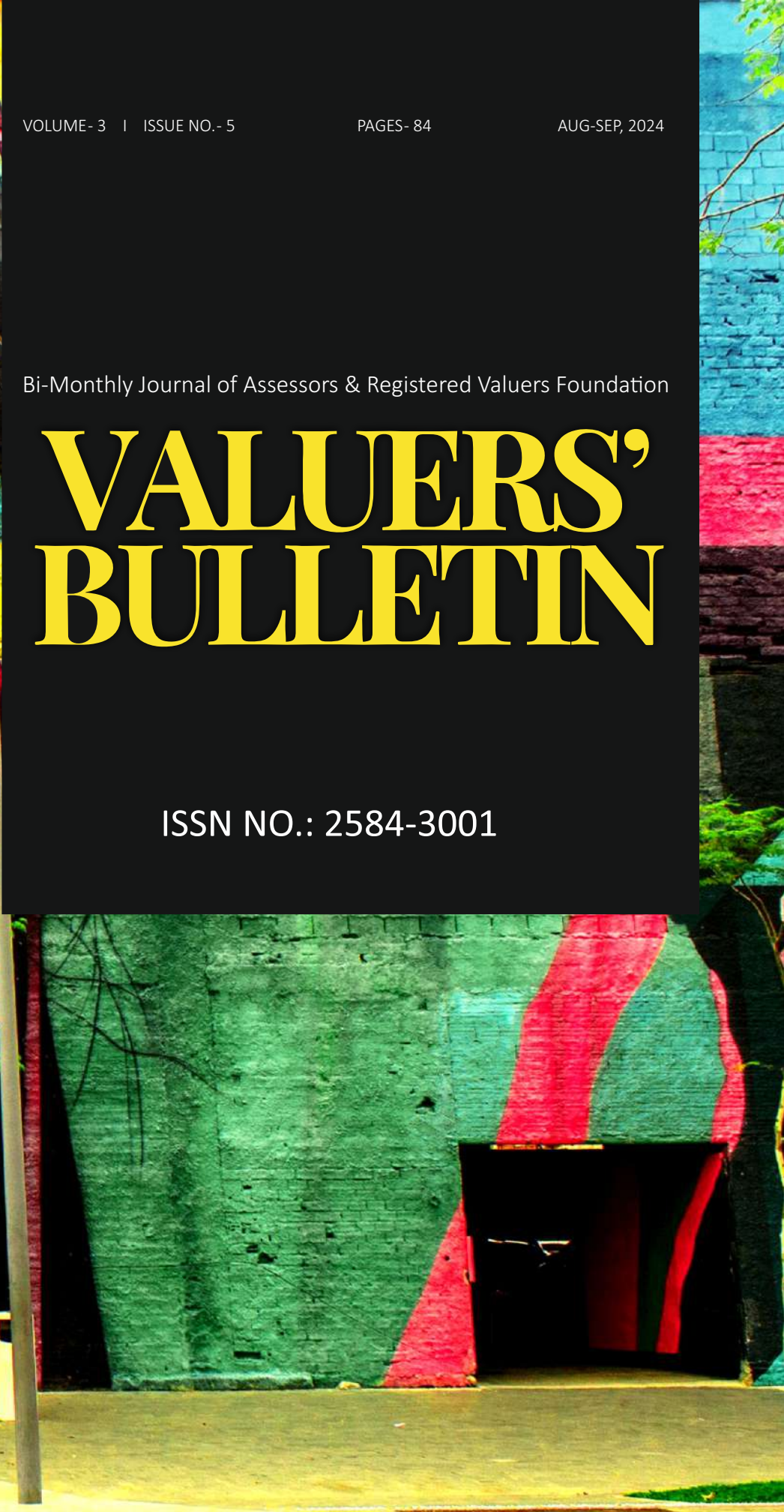
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Bi-Monthly Journal of Assessors & Registered Valuers Foundation

# VALUERS' BULLETIN

ISSN NO.: 2584-3001





*'Peace in the Clouds': An inspiring mural by Eduardo Kobra in Sao Paulo.*

*Sao Paulo, Brazil is considered the 'Capital of The Graffiti',  
and has produced some of the best Street Art artists in the world.  
Eduardo Kobra is one of such brilliant Brazilian Graffiti artist  
who combines bold shapes with bright colors to create his signature style artworks.*

*This Journal is inspired by Graffiti art of Eduardo Kobra.*

#### Contact Us

#### **ASSESSORS & REGISTERED VALUERS FOUNDATION (AARVF)**

Plot No.-13, Gate No. 7, Rani Jhansi Road, New Delhi - 110005.

**Website:** [www.aarvf.org](http://www.aarvf.org), [www.chooseaarvf.org](http://www.chooseaarvf.org) | **Email:** [editor@aarvf.org](mailto:editor@aarvf.org), [info@aarvf.org](mailto:info@aarvf.org)

**Contact No. :** 965 0206 047 (CAO, AaRVF)

# CONNECTING THE UNCONNECTED VALUERS' BULLETIN



Valuer's Bulletin is a peer-reviewed journal whose principal aim is to foster dialogue and innovation among valuers in the relative field. Since day one, Assessors and Registered Valuers Foundation has been at the forefront of the effort to bring fresh ideas and energy which can benefit our members and fellow valuers fraternity. This journal is one of such efforts.

The journal addresses a broad spectrum of concerns, suggestions and a wide range of perspectives, shared and proposed by the valuers and for the valuers.

Through this journal, we wish to reach out and connect with the valuers in India, and all over the world to exchange their thoughts and work together towards the betterment of the valuers fraternity.

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PHONE NO. - 9999 233 081

---

E-MAIL - [info@aarvf.org](mailto:info@aarvf.org) / [editor@aarvf.org](mailto:editor@aarvf.org)

---

WEBSITE - [www.aarvf.org](http://www.aarvf.org)

---

ADDRESS

Plot No.-13, Gate No. 7, Rani Jhansi Road,  
New Delhi - 110005.

---

---

## PUBLISHED BY

Dr. Vikram Gupta, Director at Assessors and Registered Valuers Foundation (AaRVF)

For/On Behalf of 'Assessors & Registered Valuers Foundation', Plot No.-13, Gate No. 7, Rani Jhansi Road, New Delhi - 110005.

Website : [www.aarvf.org](http://www.aarvf.org)

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## PRINTED BY

Color business center

Shop No.11, Braid Lane Road, Gole Market, New Delhi -110001

## MEET OUR EDITORIAL BOARD



**Dr. Vikram Gupta**  
**Publisher**  
[director@aarvf.org](mailto:director@aarvf.org)

[aarvf.org/vikramgupta](http://aarvf.org/vikramgupta)  
DSS NO 28 P, Sector 12  
Panchkula,  
Haryana-134112



**CA Dr. Gopal K. Raju**  
**Editor-In-Chief**  
[editor-chief@aarvf.org](mailto:editor-chief@aarvf.org)

[aarvf.org/gopalkrishnaraju](http://aarvf.org/gopalkrishnaraju)  
Plot No 13, Gate No 7,  
Rani Jhansi Road,  
New Delhi - 110005



**Vimal Shah**  
**Co-Editor-In-Chief**  
[coeditor-chief@aarvf.org](mailto:coeditor-chief@aarvf.org)

[aarvf.org/vimalshah](http://aarvf.org/vimalshah)  
Plot No 13, Gate No 7,  
Rani Jhansi Road,  
New Delhi - 110005



**CA Gurbinder Singh**  
**Associate Editor**  
[editor@aarvf.org](mailto:editor@aarvf.org)

[aarvf.org/gurbindersingh](http://aarvf.org/gurbindersingh)  
Plot No 13, Gate No 7,  
Rani Jhansi Road,  
New Delhi - 110005



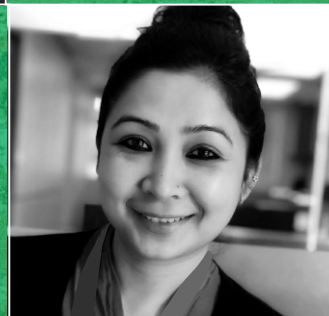
**Manasi Mewari**  
**Creative Director**  
[manasi.mewari@aarvf.org](mailto:manasi.mewari@aarvf.org)

[aarvf.org/manasimewari](http://aarvf.org/manasimewari)  
Plot No 13, Gate No 7,  
Rani Jhansi Road,  
New Delhi - 110005



**Saurabh Gupta**  
**Managing Editor**  
[saurabh@aarvf.org](mailto:saurabh@aarvf.org)

[aarvf.org/saurabhgupta](http://aarvf.org/saurabhgupta)  
Plot No 13, Gate No 7,  
Rani Jhansi Road,  
New Delhi - 110005



## DEAR ESTEEMED VALUERS

We extend our invitation to you for contributing to our bi-monthly journal. We welcome submissions of articles related to valuation, current news in the field, intriguing case studies, or samples of your valuation reports. We also encourage sharing short write-ups about your experiences during any assignment that could be of interest to our readers. Your submission will be published along with your name, qualification details, photograph, and email id.

Valuers are also invited to share their profiles, or the details of their firm/entity, explaining the nature of work. This can serve as a reference for our readers for any future assignments.

### GUIDELINES FOR SUBMISSION

- The article should be original and not published elsewhere prior to submission to AaRVF.
- The focus of the article should be on valuation, valuers, current challenges faced by valuers, solutions or suggestions, or information beneficial for aspirants or professionals.
- The length of an article can vary between one to four pages of an editable Word file, in Arial font, font size nine (9).
- Images/graphs should be shared separately in good resolution, in JPEG or PNG format, and properly named in coordination with the title given in the article.
- In suitable cases, a detailed list of Reference must be shared as a 'source' of the article.
- A passport size photograph in JPEG format, along with a short profile and email id, should be shared along with the article by the writer.
- The article published in 'Valuer's Bulletin' will be a copyright of the author and the AaRVF.

Submission, queries Or suggestions can be emailed to us at:

[editor@aarvf.org](mailto:editor@aarvf.org)



# THIS ISSUE

*As per the guidelines issued by the Insolvency and Bankruptcy Board of India (IBBI), Continuous Education Program (CEP) policy for Registered Valuers awards 4 credit hours for the publication of an article in a journal of the Board, an IPA, a RVO, a Professional Institute, or a referred national or international journal bearing an ISSN number.*

## D I S C L A I M E R

This journal comprises a compilation of insightful articles and updates pertaining to valuation and valuers. The views, opinions, and statements expressed in the articles are solely those of the authors, and AaRVF does not bear any responsibility for them.

Authors are required to ensure the submission of original, plagiarism-free articles to AaRVF. Failure to do so may result in rejection by the Editorial Board of the Assessors and Registered Valuers Foundation (AaRVF).

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FUTURE FOCUS :  
MILESTONES ACHIEVED  
SINCE 2021

Dear Readers,

As you read this, we have successfully concluded the V20 Summit in the vibrant city of São Paulo, Brazil. Organized by IBAPE in collaboration with AaRVF and IVSC; and supported by twenty one international organizations, this event has been a remarkable success. Congratulations to everyone who has been part of this incredible journey.

On behalf of AaRVF, I invite you to join us in future conferences, lined up for South-Africa and USA in 2025 and 2026, respectively.

This initiative is only growing bigger and impactful.

---

Let's embark on this journey through the stunning wall art of São Paulo, perfectly suited for this edition of the 'Valuers' Bulletin.'

Carlos Eduardo Fernandes Léo, widely known as Eduardo Kobra, began his street art career in 1987 in São Paulo. Over the years, he has created more than 3,000 murals across five continents, blending commissioned pieces with his own inspired creations. Kobra leads a team that crafts two to four murals each month, with his work deeply rooted in art history. He aims to insert himself into the historical narrative while spotlighting São Paulo.

His notable works include the 'Ethnic Groups' mural for the 2016 Olympics and a record-breaking 5,742 square meter mural in 2017. Kobra's portfolio boasts collaborations with major entities such as Coca-Cola, Nestlé, and Ford.

This journal aims to celebrate the Brazilian spirit by taking you on a stroll through the painted walls of Brazil, uncovering the stories of the V20 Summit and Conference.

*Manasi Mewari*

Manasi Mewari  
General Manager | [manasi.mewari@aarvf.org](mailto:manasi.mewari@aarvf.org)  
Brand Strategy, Communications, and Project Planning  
Assessors and Registered Valuers Foundation

Creative Director | [editor@aarvf.org](mailto:editor@aarvf.org)  
Editorial Board 'Valuers' Bulletin'

Organising Committee Member | [publication@aarvf.org](mailto:publication@aarvf.org)  
Valuation20: Summit & Conference





# VALUATION20

Sept 30th and October 1st-02, 2024

SÃO PAULO, THE 14TH MOST GLOBALIZED CITY ON THE PLANET, STANDS AS THE ECONOMIC HEART OF BRAZIL. BEYOND ITS IMMENSE ECONOMIC INFLUENCE, THE CITY'S ARCHITECTURE—ITS BUILDINGS, STREETS, AND BRIDGES—SERVES AS A VIBRANT STAGE FOR **EDUARDO KOBRA**'S STREET ART.

IN THIS COLORFUL CITY OF BRAZIL, V20-BRAZIL WAS WITNESSED BY REPRESENTATIVES FROM 21 INTERNATIONAL COUNTRIES. LET'S HAVE A *SNEAK PEEK* INTO IT.

The second V20 Summit and Conference, dated: September 30th to October 1st, 2024, at the CREA-SP Auditorium12, focussed on the theme "Valuation for Sustainability and Inclusive Growth: Bridging Finance and the Digital Divide".

Based on the foundations laid by Assessors and Registered Valuers Foundation – AaRVF, V20 Summit in New Delhi-India in 2023; this year V20 Brazil Conference is organized by the Brazilian Institute of Engineering Valuations and Expertise – IBAPE in conjunction with the AaRVF and the International Valuations Standard Council – IVSC.

This union aligns assessment practices with economic stability and the Sustainable Development Goals (SDGs), emphasizing reliable, trustworthy, and transparent assessment practices.

The creation of the Summit aims to elevate the importance of evaluation in G20 decision-making processes and the Conference provides access to leading figures in Global Valuation with the aim of improving the quality and effectiveness of valuation practices and promoting trust among stakeholders, inspiring sustainable and inclusive economic growth.

The event promises to be a significant platform for collaboration and innovation in the valuation field, with a distinguished panel of speakers from local as well as International organisations such as: Ben Elder-RICS, Gabriela Clivio-Business & Intangible Assets Board (IVSC) and Director of Business Valuation (Mazars), Malcolm McLelland Ph.D.-McLelland Financial Economics LLC, Lana Vukovljak-CEO & Executive Vice President - ASA, Christine Sawchuk-CBV Institute, Mustafa Aldraihem-Valuation Professional Expert Saudi Authority for Accredited Valuers, Sumi Ku-KAPA, Rebecca Malmquist-Executive Director IAAO, Reiner Lux-HypZert GmbH, Raymond Moran-Managing Director FON Advisors-LLC, Amelia Hodge-CEO Australian Property Institute, Dianne Beatrice de Wet-President SAIV.



This diverse lineup underscored the event's commitment to fostering global dialogue and advancing best practices in valuation, with the local speakers from Brazilian organisations, including IBAPE, KPMG, APSIS and more.

The authorities during the inaugural and valedictory session will include Luciano Ventura President-IBAPE, Nick Talbot CEO-IVSC, Saurabh Gupta Managing Director-AaRVF, Teodósio Cayo President-UPAV / ASATCH, Tercio Queiroz Coordinator- V20 Brasil, IBAPE, Amarilio Mattos, President-IBAPE.

Complete details on the event and panellists are available at V20 Brazil website: [valuation20.com.br/home-em-ingles/](https://valuation20.com.br/home-em-ingles/)



## WORLD MAP SHOWING PARTICIPATING COUNTRIES, V20

ALSO HAVE THE SUPPORT OF:



AFRICAN  
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EUROPEAN  
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ORGANISER : V20-BRAZIL



**IBAPE**  
INSTITUTO BRASILEIRO  
DE AVALIAÇÕES E PERÍCIAS DE ENGENHARIA



**IBAPE-SP**  
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DE AVALIAÇÕES E PERÍCIAS DE ENGENHARIA

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DO ESTADO DE SÃO PAULO

# VALUATION20 *DAIRY INSIGHTS*

FROM INDIA TO BRAZIL:  
THE V20 SUMMIT CONFERENCE'S  
GLOBAL JOURNEY CONTINUES.

*...and the best part is that this is just a beginning.*

## EXCERPTS FROM MY DIARY

## V20 SUMMIT AND CONFERENCE 2024-DAY 1: 30TH SEPTEMBER 2024

### SAURABH GUPTA

Managing Director

*Assessors and Registered Valuers Foundation*  
saurabh@aarvf.org

The first day of the V20 Summit and Conference kicked off with an incredible gathering of the global valuation community. Building on the success of last year's event in New Delhi, this year's conference opened with a focus on the theme "Valuing Livelihood, Land Use, and Habitat." Throughout the day, participants explored the critical role of Environmental, Social, and Governance (ESG) principles in shaping the future of valuation practices.

#### Inaugural Session:

The day began with a warm welcome by distinguished leaders from the valuation profession, including:

- Luciano Ventura, President, IBAPE
- Eng. Civ. Fabiana Albano, Director of Institutional Relations, CREA/SP
- Eng. Civ. Luis Chorilli Neto, Vice President, CREA/SP
- Raymond Moran, Managing Director, Fon Advisor
- Nick Talbot, CEO, IVSC
- Saurabh Gupta, Managing Director, AaRVF
- Octavio Galvão, ABNT
- Joel Krüger, President, Mútua Nacional
- Patrícia Sarquis Herden, President, CAU BR
- Teodósio Cayo, President, UPAV/AASATCH

The keynote address was delivered by Nick Talbot, CEO of IVSC, who emphasised the importance of standards in the valuation profession and how they ensure consistency, transparency, and reliability across global

markets.

Session 1: The Role of International and Local Valuation Standards in Influencing Valuation Practices in Emerging and Established Markets

This session focused on the impact of standards on valuation practices in both emerging and established markets. Panellists discussed how international and local standards can influence market behaviour, improve trust, and shape the way valuations are conducted.

#### Key Speakers:

- Arival Cidade, IBAPE
- Ben Elder, RICS
- Octavio Galvão, ABNT
- Osório Gatto, Director, Mercatto Assessoria e Avaliações

#### Session 2: Cost of Capital and Country Risk in Transnational Assessments

This session explored methodologies for adjusting the cost of capital in different markets and the impact of geopolitical risks on investment decisions. The panel discussed how country-specific risk factors are integrated into valuation models and their implications for transnational investments.

#### Key Speakers:

- Eduardo Rottmann, IBAPE
- Susana Furquim, Partner, Wulaia Consultoria
- Malcolm McLelland, Managing Member, McLelland Financial Economics LLC
- Gabriela Clivio, Founding Partner, Vios Consulting
- Fernando Mattar, Partner, KPMG
- Luís Eduardo Pereira de Carvalho, Director, ValuationSetape

#### Session 3: Importance of Qualification and Training of Valuers (Accreditation and Standardisation)

The final session of the day emphasised the need for

standardised qualifications for valuers globally and regionally. The panel discussed certification processes, the skills gap in valuation education, and how the digital age is transforming valuation training.

#### Key Speakers:

- Tercio Cesar de Queiroz Filho, Vice President, IBAPE NACIONAL
- Agnaldo Benvenho, Director, IBAPE
- Mustafa Aldraihem, Valuation Professional Expert, Saudi Authority for Accredited Valuers (TAQEEM)
- Christine Sawchuk, President & CEO, CBV Institute
- Lana Vukovljak, CEO & Executive Vice President, ASA
- Marcia Ferrari, Co-founder and Vice President, Infra Women Brazil

Day 1 set the stage for robust discussions and valuable insights into how valuation standards and practices are evolving globally, preparing the groundwork for the next day's sessions and the summit.

#### V20 Summit and Conference 2024—Day 2: 1st October 2024

The second day of the V20 Summit and Conference began with a recap of Day 1 delivered by Luiz Henrique Cappellano, summarising the impactful discussions around valuing livelihood, land use, and habitat, as well as the significance of ESG in shaping valuation practices.

#### Session 1: Mass Assessment for Taxation Purposes

The first session of Day 2 focused on mass assessment for taxation purposes, where the discussion covered the IBAPE/Sobrea norm on mass appraisal for tax purposes. Speakers highlighted how automated property valuations are being used for tax assessments, especially in the context of the new national tax system. Case studies were presented on successful implementations of mass appraisal, demonstrating how this approach is being applied to calculate property taxes efficiently and fairly.

#### Speakers:

- Antonio Sergio Liporoni, Director, CTA Consultoria Técnica e Assessoria LTDA
- Frederico Correia Lima, Counsellor, IBAPE
- Rebecca Malmquist, Executive Director, IAAO (International Association of Assessing Officers)
- Claudia M. De Cesare, Director, CMDDeCesare & Associados
- Sumi Ku-KAPA

#### Session 2: Social Interest Valuations

This session delved into the valuation of socially and environmentally significant areas, such as demarcated indigenous lands, areas of illegal deforestation, and permanent preservation areas. The speakers examined the unique challenges in valuing these lands, considering their environmental and social importance. Discussions also revolved around how valuation professionals can incorporate legal and ethical considerations when valuing lands under preservation or threatened by deforestation.

#### Speakers:

- Simone Feigelson, National Director, IBAPE
- Dianne Beatrice de Wet, President, South African Institute of Valuers (SAIV)
- Teodósio Cayo, President, UPAV/ASATCH
- Carlos Arantes, Director, IBAPE

#### Session 3: ESG in Valuations

The third session highlighted the growing influence of Environmental, Social, and Governance (ESG) factors on asset valuation. The speakers explored how ESG principles are reshaping the valuation landscape, particularly in the context of biological assets. Discussions provided insights into the integration of sustainability into valuation models and how these changes reflect a global shift towards environmentally responsible asset management.

**Speakers:**

- Amarilio Mattos, President, IBAPE Board Council
- Ana Carolina Nadalini, Director, IBAPE
- Reiner Lux – HypZert GmbH
- Luiz Paulo Silveira, APSIS
- Daniel Cifu, KPMG

**Session 4: Artificial Intelligence, Technology, and Data: Opportunities and Challenges**

The final session of Day 2 revolved around the impact of artificial intelligence (AI), technology, and data on valuation practices. Speakers discussed the growing role of automated valuation models (AVMs) under different international standards (IVS, RICS, USPAP) and how AI can be applied to forecast future performance across industries. The session also included case studies demonstrating how AI is being used for demand projection in industries such as fast-moving consumer goods (FMCG), highlighting the benefits and challenges of incorporating AI in valuation.

**Speakers:**

- Raymond Moran, Managing Director, FON Advisors LLC
- Filipe Verri, Professor, Instituto Tecnológico de Aeronáutica
- Amelia Hodge, CEO, Australian Property Institute Ltd.
- Carlos Cardoso, Partner, C.E. Cardoso Consultoria
- Carlos Antonio Nogueira, Partner, Fractals Ventures

**Valedictory Session**

The day concluded with a valedictory session where key speakers, including Luciano Ventura (IBAPE President), Tercio Queiroz/Amarilio Mattos (IBAPE), Saurabh Gupta (AaRVF), and Dianne Beatrice de Wet (SAIV), expressed their gratitude to the 250 participants, sponsors, and organizers. The valedictory session celebrated the success of the event, marking another milestone for the V20 Summit and Conference.

*This year, the prestigious Valuation 20 (V20) summit took place in São Paulo, Brazil, from September 30th to October 1st, 2024. Organized by the Brazilian Institute of Engineering Assessments and Expertise (IBAPE) in collaboration with the Assessors and Registered Valuers Foundation (AaRVF) from India and the International Valuations Standard Council (IVSC), the event focused on the theme "Valuation for Sustainability & Inclusive Growth: Bridging Finance and the Digital Divide."*

*Luciano Ventura, President of IBAPE Nacional, hailed it as a historic moment for Valuation Engineering in Brazil, reinforcing international practices.*

*"The first V20 summit was held in New Delhi, India, and aimed to align valuation practices with economic stability and the Sustainable Development Goals (SDGs). The São Paulo edition continued this mission, bringing together leaders, experts, and valuation professionals from around the world to discuss sustainable growth and inclusivity. Sharing a glimpse of the moments at V20 Brazil."*

*Here's the latest event update from **IBAPE's press release**, after the successful completion of V20.*



## VALUATION 20 SUMMIT (V20) GATHERS INTERNATIONAL LEADERS IN VALUATION FOR STRATEGIC MEETING ON SUSTAINABLE DEVELOPMENT

Post-Event/**Press Release**/Oct'24

By Eng. Camila Moreira Callegari, Director of Special Projects, IBAPE



São Paulo, October 2, 2024 — The Valuation 20 Summit (V20) brought global leaders in valuation from G20 member countries to São Paulo to discuss key issues and opportunities in the valuation profession.

Presided over by Ben Elder, Global Director of Valuation at RICS, with support from Secretary Raymond Moran, Coordinator of the Valuation 20 Summit, and hosted by Luciano Ventura, President of the Brazilian Institute of Valuations and Engineering Expertise (IBAPE Nacional), the meeting gathered representatives from 14 countries in addition to Brazil: South Africa, Germany, Saudi Arabia,

Australia, Canada, Chile, United States, Costa Rica, South Korea, India, Mexico, Peru, United Kingdom, and Uruguay.

The Summit is an initiative of the Assessors and Registered Valuers Foundation (AaRVF) of India and the International Valuation Standards Council (IVSC). In Brazil, it was organized by IBAPE Nacional with support from IBAPE São Paulo, CREA/SP – Regional Council of Engineering and Agronomy of São Paulo, Mútua - Assistance Fund for CREA Professionals, CONFEA – Federal Council of Engineering and Agronomy, MRS



Logística, Lead Gestão Fundiária e Setape Engenharia de Avaliações.

"It was a privilege to bring together experts from around the world to discuss the importance of valuation as a foundation for strategic decisions. This Summit marks a historic moment for Valuation Engineering in Brazil and strengthens valuation practices internationally," stated Luciano Ventura, President of IBAPE Nacional.

#### Meeting Highlights

In the days leading up to the Summit, the Valuation 20 Conference took place, coordinated by the President of IBAPE's Advisory Council, Amarilio Mattos Jr., and the Coordinator of V20 Brazil, Tercio Queiroz, gathering 250 participants in the CREA/SP auditorium. Attendees enjoyed lectures and debates with prominent national and international figures in the field of valuations and engineering expertise.

At the opening session, we had the privilege of having the President of Mútua Nacional, Joel Krügger, and the President of CAU/BR – Council of Architecture and Urbanism, Patrícia Sarquis Herden.

#### Key Agenda Highlights:

1. **Reaffirmation of the V20 Declaration:** Saurabh Gupta, AaRVF representative, presented a reminder of the V20 Declaration, in which representatives of Professional Valuation Organizations (VPOs) from the G20 committed to provide Trusted, Reliable, and Transparent (TRT) valuation advice to G20 countries. The declaration emphasizes the importance of ethical practices, methodological excellence and inclusion in valuation processes.
2. **Commitment to G20 Engagement:** The main goal of the meeting was to consolidate the status of V20 as an official Engagement Group of the G20. This initiative aims to support G20 Working Groups with transparent valuation information to enhance decision-making processes. Leaders outlined plans to promote the adoption of International Valuation Standards in alignment with the G20's sustainable development goals.
3. **Outcomes of the Summit:** The Summit followed the successful conference in São Paulo, where VPOs reaffirmed their commitment to the V20 Declaration. Participants shared insights and





reflections on the discussions, highlighting collaborative efforts and common goals among member nations.

4. Progress Updates: Representatives from various countries provided updates on engagement efforts, demonstrating a commitment to ongoing collaboration and knowledge sharing. Discussions included reflections on the recent conference held in São Paulo, focusing on lessons learned and positive takeaways.
5. Next Steps: Looking ahead, meeting participants agreed on the importance of early engagement

with the organizing committee for the G20 in South Africa for 2025 and the United States for 2026, ensuring that valuation standards continue to evolve in line with global needs.



*With contributions from 250 participants, the Summit reaffirmed the V20 Declaration, committing to ethical and transparent valuation practices aligned with G20's sustainable goals. Future engagements with G20 summits in South Africa (2025) and the United States (2026) were also outlined.*



Next year's V20 is planned in Cape Town, South Africa, hosted by the South African Institute of Valuers (SAIV), a body committed to promoting industry growth and maintaining international best practices.

*See you at*  
***Valuation 20***  
***South Africa 2025!!!***

# REAL VALUE CONFERENCE

THE CONFLUENCE OF VALUERS  
CONFERENCE GUESTS & SPEAKERS

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FOR RVS  
3 CPE POINTS  
FOR IPS**



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**Advocate  
Debasish Ghosh**  
Savior of Valuers  
in Court



**Mr. Siddharth  
Sarathi Sahu**  
Regional Head (Retail)  
ICICI Bank



**Mr. Bheem Rao  
Jaligama**  
President  
Telangana Valuers  
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# REAL VALUE CONFERENCE: THE CONFLUENCE OF VALUERS

## RVC - SECOND EDITION

Post-Event/Coverage Report

Event Date: 30th Aug'24, Venue: The Institution of Engineers, Kolkata

The "Real Value Conference: The Confluence of Valuers" (RVC), hosted by the **Assessors and Registered Valuers Foundation (AaRVF)**, in association with the **International Valuation Standards Council (IVSC)**, successfully concluded its second edition on **August 30, 2024**. Held in **Kolkata**, the conference gathered leading valuation professionals, insolvency experts, bankers, and representatives from financial institutions to discuss and explore critical issues affecting the valuation profession, with a particular focus on the banking industry.

This year's event was supported by **RICS** and **ACAE** as supporting organizations, with **Bangladesh Valuation Society** as the international partner. **iIBV (International Institute of Business Valuers)** and the **Institution of Surveyors** served as the knowledge partners, while the Principal Sponsor was **AAA Valuation**.

Building on the success of the **first edition in Chennai on January 8, 2023**, this year's RVC took a step forward by addressing the theme: "**Registered Valuers and Banking Industry**." The conference provided a platform for participants to engage in discussions that examined the synergy between valuers and the banking sector, focussing on mortgage valuations, non-performing asset (NPA) valuations, and industrial valuations. These topics are of paramount importance in the context of economic stability and financial decision-making.

### INAUGURAL SESSION

The conference began with a warm Welcome Address

by **Mr. Saurabh Gupta**, Managing Director of AaRVF, followed by the Guest of Honour, **Mr. Kalyan Mukherjee**, General Manager of Canara Bank. The Chief Guest, **Mr. Satyendra Kumar Singh**, Chief General Manager of State Bank of India, emphasised the importance of valuers in supporting financial institutions, particularly in managing assets effectively. **Mr. Ashwani Awasthi**, Managing Director, South Asia, Royal Institution of Chartered Surveyors, also delivered a speech as Guest of Honour, discussing international standards and practices. The event honoured **Syamales Datta**, a Senior Valuer in Kolkata, with a Lifetime Achievement Award, recognising his significant contributions to the profession. The Theme Speaker, **Mr. Sandip Kumar Deb**, Director, AaRVF, presented an insightful address on the theme of the conference, setting the tone for the discussions ahead. The session concluded with a Vote of Thanks by **Mr. Rahul Sharma**, CAO, AaRVF.

### TECHNICAL SESSIONS

#### Session 1: Valuers and Mortgage Valuation

- **Chairman:** **Mr. Dilip Mishra**, Deputy General Manager, Union Bank of India
- **Speakers:** **Basudeb Dey**, Registered Valuer and Gold Medallist, Sardar Patel University; **Sudip Kumar Sarkar**, Author of "ABCD of Plant & Machinery Valuation."

This session focused on the critical role of valuers in mortgage valuations, a fundamental service that

underpins secured lending in the banking sector. Mortgage valuations provide banks with an accurate assessment of the property or assets being used as collateral for loans. The speakers highlighted the importance of precision in valuations, as even small discrepancies can lead to significant financial risks for both lenders and borrowers. By following established best practices, valuers ensure that the properties are correctly appraised, reflecting the current market value and future potential.

The discussion delved into the best practices for mortgage valuations, including the use of standardized methodologies and adherence to regulatory guidelines. Valuers play a crucial role in ensuring the integrity of the loan process, as their assessments help determine the loan-to-value (LTV) ratios, which directly affect the amount a bank is willing to lend. Accurate valuations provide confidence to banks, allowing them to issue loans that are adequately secured by the mortgaged assets.

In addition to mitigating the risk of overvaluation, which can lead to bad loans, valuers also help safeguard against undervaluation, ensuring that property owners receive the full potential value of their assets. By enabling banks to make informed lending decisions, valuers help maintain the overall stability of the financial system. The speakers also emphasized how effective collaboration between valuers and banks can streamline the lending process, reduce non-performing assets (NPAs), and contribute to the long-term sustainability of the banking sector.

## Session 2: Valuers and NPA Valuation

- **Chairman: Mr. Dilip Pattanayak**, DGM (Zonal Recovery), Punjab National Bank
- **Speakers: Rajeeb Sarkar**, Senior Valuer and Former Vice Chairman, IOV Kolkata Branch; **Mr. Sandip Kumar Deb**, Director, AaRVF

This session delved into the complexities of NPA (Non-Performing Asset) Valuation, which is a critical function for banks and financial institutions dealing with distressed or defaulting assets. NPAs are loans or advances that have ceased to generate income for a bank, as borrowers have stopped making interest or principal repayments. Effectively managing NPAs is essential to ensuring the financial health of a bank, and accurate valuation of these assets plays a central role in this process.

The speakers discussed various methodologies used for valuing NPAs, which include factors such as the current market conditions, the potential for asset recovery, and the expected time frame for realizing value from the asset. These methodologies are designed to provide a realistic assessment of the asset's worth, taking into account the challenges associated with selling or recovering the value of distressed assets. They emphasized that each NPA carries unique risks, and thus, valuers must adopt a customized approach when determining the fair market value of these assets.

Accurate valuation is vital for banks to formulate effective recovery strategies. By having a clear understanding of an NPA's true value, financial institutions can make informed decisions about whether to restructure the loan, sell the asset, or pursue other means of recovery. Additionally, the speakers explored how these valuations are used to manage loan portfolios, helping banks to minimize losses and enhance their balance sheets. A well-executed NPA valuation provides insights that guide banks in making decisions on provisioning, recovery timelines, and even legal actions where necessary.

The session also highlighted the regulatory framework surrounding NPA management, as well as the importance of transparent and reliable valuation processes. Valuers act as key players in ensuring that financial institutions can manage their distressed assets in a way that is both compliant with regulations and

aligned with the institution's long-term financial health. Ultimately, this helps banks improve their performance and reduce their non-performing loan (NPL) ratios, contributing to greater economic stability.

### Session 3: Valuers and Industrial Valuation

- **Speakers:** **Biswajit Bhuiya**, Dy Vice President, HDFC Bank; **CA Ankit Goel**, Founder Partner, AAA Insolvency Professionals LLP; **Praveen Subramanya**, Managing Director, IACVS India Chapter

This session centered on the intricacies of industrial valuation, which involves the appraisal of large-scale industrial assets, such as factories, manufacturing plants, machinery, equipment, and industrial real estate. Industrial valuation is crucial for a wide range of financial activities, including securing loans, raising capital, investment planning, and mergers and acquisitions (M&A). The valuation of such assets often forms the backbone of key financial and investment decisions in industries that are capital-intensive.

The speakers highlighted the complexities involved in appraising industrial assets, given their unique characteristics. Unlike residential or commercial property, industrial assets can include specialized machinery and equipment that often require a deep understanding of the sector, technical expertise, and the ability to assess the asset's condition, functionality, and future performance. The speakers pointed out that factors such as the age of the machinery, maintenance history, technological obsolescence, and productivity levels must all be taken into consideration when determining the value.

Moreover, industrial real estate, such as factories, warehouses, and processing plants, presents its own set of challenges in valuation. Location, accessibility to transport infrastructure, environmental regulations, and the potential for expansion or modification can all impact the valuation. These factors are particularly important for

industries that rely on large-scale production and logistics, where proximity to raw materials, suppliers, and markets can significantly influence operational efficiency.

The session also explored how industrial valuations play a pivotal role in financing. Companies often use their industrial assets as collateral when seeking loans, and accurate valuations are essential for lenders to assess the risk and decide on loan terms. Industrial valuations are also critical in investment decisions, where potential investors need a precise understanding of the value of a company's physical assets before making acquisition offers or capital injections.

Furthermore, the speakers discussed the role of industrial valuations in mergers and acquisitions (M&A). In M&A transactions, the value of industrial assets can significantly affect the overall value of a company, influencing negotiation strategies and final deal terms. For example, in sectors like manufacturing, the operational efficiency and output of industrial machinery can be a decisive factor in assessing the company's profitability and long-term viability.

In conclusion, the session emphasized the need for valuers to have a comprehensive understanding of both the technical aspects of industrial machinery and the market conditions that affect real estate and infrastructure. As industries evolve with new technologies and market demands, valuers must adapt their approaches to ensure that their valuations are reflective of current and future market realities.

### Session 4: Coordination between Valuers and Bankers—Need of the Day

- **Chairman:** **Mr. Vijay Kulkarni**, Deputy General Manager, SBI
- **Moderator:** **Mr. Sandip Kumar Deb**, Director, AaRVF
- **Panellists:** **Adv. Debasish Ghosh**, Legal Expert; **Siddharth Sarathi Sahu**, Regional Head (Retail), ICICI

Bank; **Bheem Rao Jaligama**, President, Telangana Valuers Association

The final session of the day focused on the crucial collaboration between valuers and bankers, emphasizing the growing need for effective communication and coordination between these two professional groups. In today's fast-changing financial and economic landscape, the relationship between valuers and bankers is more important than ever. Asset valuations play a pivotal role in the banking industry, from determining loan-to-value ratios to assessing collateral for secured loans, and ultimately managing financial risks.

The panellists highlighted the current challenges faced by both bankers and valuers. One key issue discussed was the alignment of expectations between the two parties. Often, bankers rely on valuers to provide accurate, timely valuations that reflect market realities and guide their lending decisions. However, variances in understanding the scope of valuations, market conditions, and risk factors can sometimes lead to discrepancies in expectations and results. Bankers may focus on the financial and regulatory aspects, while valuers emphasize market trends, asset conditions, and industry-specific dynamics. This can create gaps that, if not addressed through proper coordination, might lead to issues such as overvaluation or undervaluation of assets.

The session also explored how improved coordination could help both valuers and bankers navigate the complexities of asset valuation, especially in markets prone to fluctuations. For instance, economic downturns or sudden market shifts can have a significant impact on asset values, and without clear communication, both parties might struggle to react appropriately. By working together more closely, valuers can provide the insights needed to adjust valuations based on real-time market data and emerging trends, enabling bankers to make more informed lending

decisions.

Additionally, the panellists discussed the role of valuers in helping banks manage non-performing assets (NPAs) and distressed assets. Accurate and reliable valuations are essential for banks to assess the recovery potential of these assets and develop strategies for managing them effectively. Banks depend on valuers to provide not only a snapshot of current asset values but also to offer insights into future market trajectories, which can influence decisions on whether to restructure loans, sell off assets, or pursue other recovery methods.

The discussion also touched upon the regulatory environment and the increasing scrutiny placed on banks in terms of risk management. Panellists noted that, as regulations become stricter, banks are more reliant on valuers to ensure that their asset valuations comply with regulatory standards and that they can provide adequate justification for the figures used in their financial assessments.

In **conclusion**, the session underscored the need for both valuers and bankers to foster open lines of communication, build mutual understanding, and work collaboratively to ensure that valuations not only reflect current market conditions but also account for potential risks. This partnership is key to strengthening the financial system and ensuring that both valuers and bankers can navigate the complexities of today's economic environment effectively and responsibly.

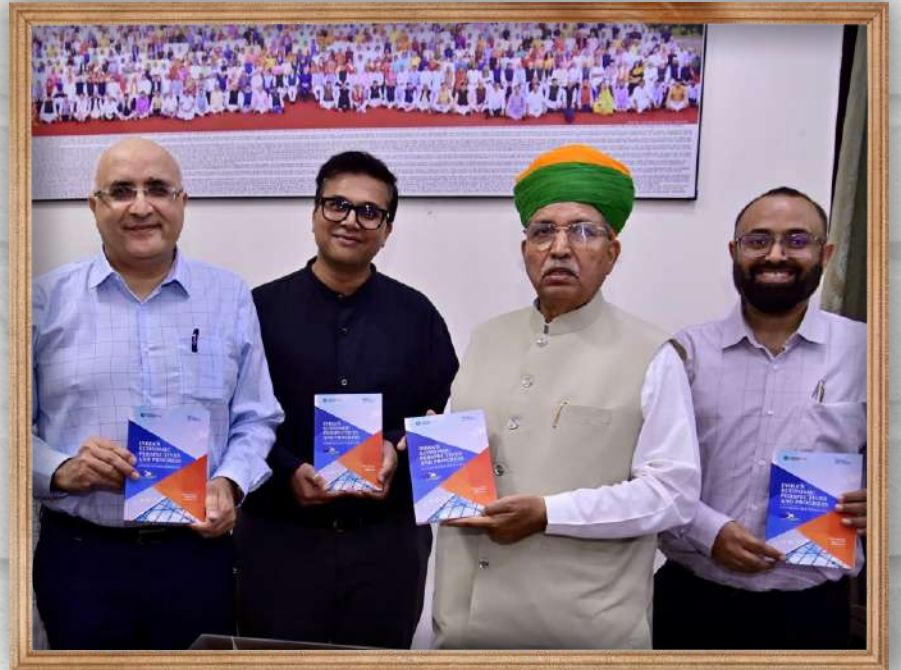
The Real Value Conference—The Confluence of Valuers (RVC) Second Edition successfully provided a forum for discussing critical topics related to valuation and its intersections with the banking sector. Through expert-led sessions, attendees gained valuable insights into mortgage and NPA valuations, industrial valuations, and the growing need for collaboration between valuers and bankers. The event highlighted the integral role valuers play in supporting financial institutions and ensuring economic stability.

This year's RVC was a resounding success, further solidifying its place as a key event in the valuation industry, with professionals eager to engage in meaningful dialogue and share best practices.

## EVENT HIGHLIGHTS



MILESTONES COVERED



## Memorable Moments with Notable Figures

Hon'ble Minister Shri Harsh Deep Malhotra generously shared his valuable time with AaRVF and IVSC representatives to discuss valuation standards and future endeavors in the field of Valuation.

Harsh Malhotra is an Indian politician elected as a Member of Parliament from East Delhi Lok Sabha constituency. He belongs to Bharatiya Janata Party. His extensive political journey is highlighted by significant roles including his impactful tenure as a councillor and subsequently the Mayor of the East Delhi Municipal Corporation.

Our sincere gratitude towards the minister for inspiring us to strive for greater achievements!

AaRVF expresses sincere gratitude to Hon'ble Union Minister Shri Arjun Ram Meghwal for unveiling our V20 Publication. Shri Meghwal, currently serving as Union Minister of State (I/C) for Law & Justice and Parliamentary Affairs in Lok Sabha since 2009, has bestowed an honor upon us by launching our Conference Proceeding of Valuation-20 in India, 2023.

Shri Arjun Ram Meghwal is an Indian politician who is currently serving as Minister of Law and Justice since 2024. A member of the Bharatiya Janata Party, Meghwal formerly served as Chief Whip, Minister of State for Heavy Industries and Public Enterprises from 2019 to 2021, Minister of State for Finance and Corporate Affairs from 2016 to 2017 and the Minister of State for Water Resources from 2016 to 2017. He is also a member of Lok Sabha since 2009 representing the Bikaner constituency, Rajasthan. He was awarded the Best Parliamentarian in 2013.

Thank you, Shri Meghwal, for your invaluable contribution to our launch!

AaRVF extends heartfelt thanks to Smt. Anita Shah Akella, Joint Secretary in the Ministry of Corporate Affairs, for graciously launching our V20 Publication. With a distinguished career, she has held key positions such as Director General in the C&AG Office, Financial Advisor for the Department of Atomic Energy, and Auditor for UNICEF. We deeply appreciate her valuable time and support in unveiling our v20 Publication.

Our heartfelt gratitude to Mr. Amit Pradhan, Regional Director-SEBI, and Ms. Kshama Wagherkar, Deputy GM-SEBI, for their invaluable time discussing 'Valuation Standards' with IVSC and AaRVF. Mr. Pradhan's domain expertise provides us with inspiration and direction.

We eagerly anticipate new endeavors together in the field of valuation.





# VALUATION SPECTRUM

A COMPILATION OF VALUERS' VIEW

*Sumi Ku, represented KAPA in V20.*

*She is the Chief Executive Officer of Sumi Ku Appraisal Office, based in Seoul, South Korea.*

*With a strong background in real estate appraisal and a commitment to excellence, she leads her team in providing accurate and reliable property valuations.*



# MASS ASSESSMENT FOR TAXATION: ADVANCING PROPERTY VALUATION IN KOREA

SUMI KU  
KAPA

In today's fast-paced real estate environment, mass assessment has emerged as a vital tool in efficiently valuing multiple properties simultaneously. In the context of taxation, this process is key for determining individual property values, ensuring fairness, transparency, and consistency across valuations. The successful application of mass assessment requires the support of both accurate cadastral surveys and geographic information systems (GIS), which together enable comprehensive data collection and analysis.

## THE KOREAN EXPERIENCE: A BRIEF HISTORY

South Korea's journey with mass assessment began post-Korean War, during the rebuilding phase of the country. In the 1960s, Gangnam, now one of the most fashionable districts in Seoul, was once a poor, rural area. Following a



Source:  
[http://blog.koreadaily.com/view/myhome.html?fod\\_style=B&med\\_usri d=korea3927&cid=828855&fod\\_no=53](http://blog.koreadaily.com/view/myhome.html?fod_style=B&med_usri d=korea3927&cid=828855&fod_no=53)

detailed cadastral survey, areas like Gangnam transformed from farmland into urban hubs, driving economic growth. This transformation allowed Korea to implement an effective mass assessment system.

## STEPS IN THE MASS ASSESSMENT PROCESS

In Korea, the mass assessment process follows a structured approach:

**Data Integration:** Public records, market data, and geographic information are combined to create a comprehensive database.

**Model Selection:** Based on the specific goals of the assessment, appropriate statistical models are chosen.

**Valuation Process:** The chosen models are applied to estimate property values across the country.

**Review and Adjustment:** Manual adjustments are made to account for unique property characteristics.

**Publication and Appeals:** The final assessed values are made public, allowing property owners to appeal if they find discrepancies.

Once the cadastral survey was completed, South Korea's land—approximately 100,000 square kilometres—was divided into about 39 million individual lots. By analysing factors like zoning, land use, accessibility, and topography, the Korean mass assessment process selects 500,000 reference lots that are reassessed annually by certified assessors. The values of these reference lots form the basis for the automatic calculation of surrounding land values.

### KEY PRICE FACTORS

Key factors that influence land value in Korea include zoning, lot use, street conditions, and land shape. For example, a corner lot with more frontage is generally more valuable than a lot in the middle of a block. In one example from Gangnam, a reference lot might be valued at \$23,000 per square meter, while a more desirable lot might be worth \$30,000 per square meter or higher, depending on its unique attributes.

### THE ROLE OF DATA

Data forms the backbone of mass assessment. Detailed information on each property—such as size, location, and structure—along with recent sales data, rental rates, and geographic information, is vital for accurate valuation. Broader economic factors like employment rates and regional development plans also play an



essential role. The data is continuously updated to ensure the models accurately reflect the market conditions.

### ADVANCED TECHNIQUES IN MASS ASSESSMENT

Korea employs several advanced techniques in mass assessment, including multiple regression analysis, artificial neural networks, and geospatial models. These

approaches enhance the accuracy of property valuations by identifying complex relationships between various factors. Machine learning and artificial intelligence (AI) are increasingly being used to improve model precision and account for non-linear relationships in the data.

BENEFITS OF MASS ASSESSMENT

The benefits of mass assessment extend beyond taxation. It supports urban planning, providing insights into land values that inform zoning decisions and infrastructure investments. Additionally, it plays a critical role in land acquisition compensation for public projects, ensuring fair compensation for private landowners. The mass assessment system in Korea focusses on efficiency and fairness by using standardised methods that minimise bias. The models are designed to be as objective as possible, offering a data-driven approach that enhances transparency and reduces the time required for traditional property appraisals.

FUTURE DIRECTIONS AND CHALLENGES

As the valuation industry evolves, future mass assessments may rely even more on artificial intelligence to provide real-time updates and improve accuracy. One of the key challenges going forward will be balancing the need for detailed data collection with concerns over data privacy. Additionally, as global environmental concerns rise, integrating ESG (Environmental, Social, and Governance) factors into valuation models will become increasingly important, particularly in areas vulnerable to climate change.

CONCLUSION

Mass assessment has revolutionised property valuation, particularly in Korea, where it has streamlined the process and enhanced fairness across the board. As this field continues to evolve, it will undoubtedly play a crucial role in ensuring that valuations remain accurate, efficient, and aligned with broader societal goals such as sustainability and urban development.

|             | Residential | Commercial | Combined | Industrial | Dry Field | Paddy Field | Forest |
|-------------|-------------|------------|----------|------------|-----------|-------------|--------|
| Residential | 1.00        | 1.34       | 1.22     | 0.98       | 0.76      | 0.76        | 0.61   |
| Commercial  | 0.75        | 1.00       | 0.91     | 0.73       | 0.56      | 0.56        | 0.38   |
| Combined    | 0.82        | 1.10       | 1.00     | 0.80       | 0.64      | 0.64        | 0.42   |
| Industrial  | 1.02        | 1.37       | 1.24     | 1.00       | 0.80      | 0.80        | 0.62   |
| Dry Field   | 1.26        | 1.72       | 1.56     | 1.25       | 1.00      | 1.00        | 0.65   |
| Paddy Field | 1.28        | 1.72       | 1.56     | 1.29       | 1.00      | 1.00        | 0.68   |
| Forest      | 1.96        | 2.03       | 2.39     | 1.92       | 1.53      | 1.53        | 1.00   |

|                                   | Backward | Corner lot with backroad | Corner lot with backroad / street | Street | Corner lot with street | Road | Corner lot with road | Drive | Corner lot with drive | Lane | Corner lot with lane | No road |
|-----------------------------------|----------|--------------------------|-----------------------------------|--------|------------------------|------|----------------------|-------|-----------------------|------|----------------------|---------|
| Backward                          | 1.00     | 1.06                     | 1.07                              | 0.96   | 0.99                   | 0.93 | 0.89                 | 0.80  | 0.82                  | 0.73 | 0.75                 | 0.70    |
| Corner lot with backroad          | 0.93     | 1.00                     | 0.98                              | 0.87   | 0.91                   | 0.79 | 0.82                 | 0.73  | 0.75                  | 0.67 | 0.69                 | 0.66    |
| Corner lot with backroad / street | 0.93     | 1.02                     | 1.00                              | 0.89   | 0.93                   | 0.79 | 0.83                 | 0.75  | 0.77                  | 0.68 | 0.70                 | 0.65    |
| Street                            | 1.05     | 1.16                     | 1.13                              | 1.00   | 1.04                   | 0.87 | 0.94                 | 0.84  | 0.86                  | 0.77 | 0.79                 | 0.74    |
| Corner lot with street            | 1.01     | 1.10                     | 1.08                              | 0.96   | 1.00                   | 0.94 | 0.90                 | 0.81  | 0.83                  | 0.74 | 0.76                 | 0.71    |
| Road                              | 1.20     | 1.31                     | 1.29                              | 1.14   | 1.18                   | 1.00 | 1.07                 | 0.95  | 0.99                  | 0.88 | 0.90                 | 0.84    |
| Corner lot with road              | 1.12     | 1.22                     | 1.20                              | 1.07   | 1.11                   | 0.93 | 1.00                 | 0.90  | 0.92                  | 0.82 | 0.84                 | 0.79    |
| Drive                             | 1.25     | 1.36                     | 1.34                              | 1.19   | 1.24                   | 1.04 | 1.11                 | 1.00  | 1.03                  | 0.91 | 0.94                 | 0.88    |
| Corner lot with drive             | 1.22     | 1.32                     | 1.30                              | 1.16   | 1.21                   | 1.01 | 1.09                 | 0.98  | 1.00                  | 0.89 | 0.91                 | 0.85    |
| Lane                              | 1.37     | 1.48                     | 1.47                              | 1.30   | 1.36                   | 1.14 | 1.22                 | 1.10  | 1.12                  | 1.00 | 1.03                 | 0.90    |
| Corner lot with lane              | 1.33     | 1.45                     | 1.43                              | 1.27   | 1.32                   | 1.11 | 1.19                 | 1.07  | 1.09                  | 0.97 | 1.00                 | 0.93    |
| No road                           | 1.43     | 1.56                     | 1.53                              | 1.36   | 1.41                   | 1.19 | 1.27                 | 1.14  | 1.17                  | 1.04 | 1.07                 | 1.00    |

|      | Land | Land | Land | Land | Land | Land |
|------|------|------|------|------|------|------|
| Land | 1.00 | 1.03 | 0.99 | 0.96 | 0.92 | 0.89 |
| Land | 0.97 | 1.00 | 0.96 | 0.93 | 0.89 | 0.78 |
| Land | 1.01 | 1.04 | 1.00 | 0.97 | 0.93 | 0.81 |
| Land | 1.04 | 1.07 | 1.03 | 1.00 | 0.96 | 0.83 |
| Land | 1.09 | 1.12 | 1.08 | 1.04 | 1.00 | 0.87 |
| Land | 1.26 | 1.29 | 1.24 | 1.20 | 1.16 | 1.09 |

*Kevin Brogan leads the Group Risk and Compliance function of Herron Todd White Australia (HTW) and is a well-respected market commentator within the Australian property industry. He has provided commentary for print, radio, and television media. With over 30 years of property experience, Kevin brings a rich history and unmatched depth of knowledge to HTW.*



# AN AUSTRALIAN VALUER'S PERSPECTIVE OF VALUATION STANDARDS

**KEVIN BROGAN**

NATIONAL DIRECTOR

Group Risk and Compliance function of Herron Todd White, Australia (HTW)

This is my third article in a series that started at the V20 Conference and Summit 2023 in Delhi. My first article discusses the role of global valuation standards.<sup>1</sup> The second article outlined the role of Valuation Professional Organisations.<sup>2</sup> This third article focuses on the critical role of the Valuer and how the Valuer looks to standards and regulations to provide them with essential support.

The opinions expressed in this article are my own, relate to the valuation of real property, and are presented in summarised form. I practice in Australia where the most commonly referenced VPO is the Australian Property Institute (API), I therefore refer to documentation published by the API, but I am not writing on behalf of the API. More detail on the issues addressed in this article can be obtained from the source material referred to.

There is a symbiotic relationship between the Valuer, VPOs, and the IVSC in delivering on common goals:

- The V20 mission statement is "Supporting Informed Decision-Making by the G20 through Trusted, Reliable, Transparent Valuation Advice."
- The IVSC states "We set International Valuation Standards which promote consistency and professionalism in the public interest"
- The Royal Institution of Chartered Surveyors (RICS) states "RICS develops and enforces leading international standards, protecting

consumers and businesses by ensuring the utmost level of professionalism is employed across the built and natural environment."

- The API states "...we set and maintain the highest standards of professional practice, education, ethics, and professional conduct for our Members. As a result, the work of the API raises the bar for the entire property profession".
- The (API Member) Valuer "...must undertake their professional services ethically, with honesty, and in good faith, without personal bias, and in a manner which upholds the values and reputation of the API".

These goals are all aligned and critical to the future and relevance of the valuation profession to ensure that clients, regulators, and market participants make informed decisions when using professional valuation advice in which they have trust and confidence. The Valuer practitioner is at the 'coal face' and often must explain professional valuation standards to clients who may have cost time, and other constraints. The role of the Valuer in this regard is not easy, as sometimes speed and cost are more important to a client than compliance with standards, so a client who places limitations and restrictions on a Valuer in their instructions must understand the impact that will have on the advice that is provided.

A Valuer has a unique role in society, as the Valuer is the only party to a real estate transaction who does not have a direct financial interest in the outcome of the transaction. The Valuer must uphold and act in the public interest (when giving professional valuation advice) by providing unbiased, properly researched, transparent, and impartial opinions of value based on established valuation fundamentals that are subject to review, refinement, and improvement by the valuation profession.

The majority of Valuers in Australia are regulated by the API and held to ethical principles and rules of conduct contained in the API Code of Ethics (Code)<sup>3</sup> and Rules of Professional Conduct (Rules)<sup>4</sup>.

The regulatory and disciplinary processes of a VPO reinforce professional standards and serve to foster confidence in the professional services of Valuers. This role is more important than ever in an environment where a variety of 'valuation services' are available, some of which may not comply with standards. There is no doubt that technology and AI will impact the valuation industry, but to what extent will they be featured in the valuation profession?

The regulatory environment for valuations is largely based on approaches, methods, and transparency of professional actions and judgment of the Valuer ("what the Valuer did"?). These attributes are also critical when a Valuer needs to defend their valuation against challenge (see Perez's case below). The introduction of 'black box' solutions into this regulatory environment is problematic. Valuers and clients need guidance on how to appropriately investigate the use of AI. The role of VPOs in this regard is critical to ensure the interests of Valuers, clients, and the public are in alignment. A recent article about the introduction of AI in

accountancy and auditing (by ICAEW)<sup>5</sup> has some important lessons for the valuation profession, stressing the importance of:

***"...a balanced approach that recognizes the immense potential of technological advancements while remaining vigilant against the dangers of over-reliance (driven by some very convincing sales pitches from vendors)."***

In my previous article, I discussed how some of these 'valuation services' may be appropriate for reliance by an instructing party that understands the limitations and restrictions that have been placed on the provision of that service and the fact that it may not be IVS compliant. My view is that it is incumbent upon VPOs to communicate clearly to their members, their members' clients, and the public to ensure that there is no ambiguity as to what is a valuation in its jurisdiction, and what is not. The publication of codes and rules alone is not sufficient, there needs to be education of market participants and advocacy for standards with regulators. Practitioners who do not comply with professional standards need to be held to account to protect the reputation and confidence of those who uphold the standards.

Simply put, the valuation process relates to 'what the Valuer did' (i.e. the work undertaken by the Valuer when providing valuation services). The ongoing commitment of the valuation profession is to provide competent and credible valuation advice based on diligent investigation and research, high-quality data, and information that is free from bias and based on standards, disciplines, and methods developed over time including legal precedents that underpin the valuation profession. By applying a best practice

approach, Valuers protect market participants including borrowers, prospective purchasers, investors, banks, and lenders from making uninformed decisions. As a consequence, Valuers also protect the wider economy from the potentially devastating collective impacts of these errors (uninformed decisions).

When undertaking a market valuation (market value or market rent) of a real property asset in Australia, an API Valuer;

- 1) Physically inspects the property
- 2) Collects relevant property information
- 3) Researches the market that the property would most likely transact in, including undertaking at least a kerbside inspection of the market evidence,
- 4) Analyse market transactions and other relevant information to identify metrics that can be applied to inform their opinion of value, and
- 5) Prepare a valuation report that is appropriate for the property and the agreed purpose of the valuation report.

The Valuer's opinion of value is the most likely price that the property would transact at in a hypothetical transaction at the valuation date following a valuation process that meets the standards set out by the VPO such as the API. The API states that it is committed to promoting best practices - in a practical sense, this means actively supporting Valuer members to achieve this.

The VPO can provide clarification and a higher standard in its jurisdiction with regard to the principles contained in IVS. The future of the valuation profession is too important to allow its direction to be dictated by ambiguity, misinterpretation, or misrepresentation of standards. In

Australia, valuation principles in determining market value are dictated by *Spencer v the Commonwealth* (1907). Sir Isaac Isaacs said:

***"I, therefore, consider that the personal physical inspection of a real property asset by the valuer to be essential to becoming 'perfectly acquainted with the land and cognisant of all circumstances that may affect its value...'"***

The importance of inspection by the Valuer was further reinforced in a recent NSW Supreme Court case *Perez v Ciabattoni* {2024} NSW Supreme Court 138 at para 34 the Judge said:

***"Her (the Valuer's) report, which is cogent and well-reasoned, is based on her inspection of the property on (a certain date)."***

The Judge, then went on to say (in para 35) that in forming a view of the value of the estate (property):

***"In doing so, I give far more weight to (the valuer's valuation), than I do to any other valuation evidence".***

In its August 2024 supervision newsletter, the European Central Bank<sup>6</sup> drew attention to the fact that

***"Some institutions were relying on valuations even though the valuers had not properly inspected the property or had only examined it externally without entering it. This led to material errors in the valuation samples reviewed during the on-site inspections".***

Australia continues to experience several issues that can significantly impact the value of a property asset (examples include, floods, hurricanes, bushfires, building

defects, and subsidence). My view is that by including clear definitions of 'valuation process' and 'desktop process' in its Rules, the API has taken a positive step to support its Valuer members, to protect client and public interests by providing a framework of clarity and transparency.

Although my work is exclusively based in Australia, I have taken a keen interest in valuation practice and standards internationally (as well as professional standards in other property-related disciplines). I have included a wide range of reference material and would encourage any readers with an interest in valuation to explore some of the websites and documents listed below to gain a greater understanding of how the valuation profession operates in Australia.

## REFERENCES

**1** AaRVF Valuers Bulletin Volume -2/ Issue No, - 5 Aug-Sep 2023

[\*The Global Valuation Ecosystem and its importance in upholding valuation standards\*](#)

K Brogan

**2** AaRVF Valuers Bulletin Volume -3/ Issue No, - 1 Dec-Jan 2024

[\*The Role of a Valuation Professional Organisation \(VPO\) in promoting trust, reliability and Transparency in valuation\*](#)

K Brogan

Australian Property Institute Website:

**3** API Code of Ethics:

[https://www.api.org.au/wp-content/uploads/2023/12/Code\\_of\\_Ethics\\_eff.31\\_March\\_2024-1.pdf](https://www.api.org.au/wp-content/uploads/2023/12/Code_of_Ethics_eff.31_March_2024-1.pdf)

**4** API Rules of Professional Conduct:

[https://www.api.org.au/wp-content/uploads/2023/12/Rules\\_of\\_Professional\\_Conduct\\_eff.31\\_March\\_2024.pdf](https://www.api.org.au/wp-content/uploads/2023/12/Rules_of_Professional_Conduct_eff.31_March_2024.pdf)

Other Reading:

**5** [\*Over-reliance on automation: a cautionary tale from Plato - Institute of Chartered Accountants England and Wales \(ICAEW\) May 2024\*](#)

**6** [\*European Central Bank Supervision Newsletter - Commercial real estate valuations\*](#)

[\*API Response to IVSC Perspectives Paper "Automated Valuation Models and Residential Valuations"\*](#)

[\*API Valuation Protocol "Valuation Protocol - Valuation Approaches and Methods"\*](#)

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Sanjay Patel's 15 years plus experience in the field of plant and machinery valuation has made him a trusted expert in the industry. He has worked with various industries, including power, steel, cement, pharmaceutical, textile, engineering, and infrastructure. His educational background includes a Bachelor of Engineering degree, which has equipped him with a strong technical foundation. To further enhance his skills in valuation, he has completed courses in Customs Valuation Laws Rules & Compliances, Merger, Acquisition & Corporate Restructure, and Business Statistics for Managers. Apart from his professional work, Sanjay Patel is also keen on sharing his expertise with others. He serves as an expert faculty for post-graduate courses, where he imparts his knowledge and experience to aspiring valuers. Additionally, he conducts seminars for educational purposes, keeping participants updated on the latest developments and best practices in the field of plant and machinery valuation.



# UNDERSTANDING OF PRICE INDEX & TRENDING METHOD

The paper discusses the concept of price index and the trending method employed to determine the reproduction cost of an asset for the purpose of valuation analysis. Additionally, it offers a summarized overview of the data collection process necessary for the development of the index number, along with a discussion of the various price indices utilized, including their respective limitations.

**SANJAY PATEL**

BENG., IBBI REGD. VALUER (P&M)

## 1. INTRODUCTION

The trending or indexation method in the valuation of plant, machinery, and equipment (PME) assets involves adjusting the historical cost of an asset to its current reproduction cost by applying a price escalation rate. The price escalation rate, often called the index or trend factor, considers changes in the price level of a class or group of assets or specific price movements relevant to PME assets. A historical cost means the cost of an asset when it was first acquired or put into service by its first owner.

The price index is an indicator of the average price movement over time of a fixed basket of goods and services. It can be obtained from officially published price indices, such as those provided by government agencies or statistical bureaus, which reflect the overall price level in the economy. Alternatively, it can be developed by analyzing historical data and price trends to create a custom index specific to the particular asset or market being considered.

It is important to select an appropriate trend factor that

correctly reflects the price movements of assets, and selecting an appropriate trend factor requires consideration of several factors, including the identification of the asset or class or group of assets, the origin of the country from which the asset was purchased, and the year in which the asset was first purchased or manufactured.

Government departments, agencies, or statistical bureaus of various countries regularly publish Producer Price Index (PPI) or Wholesale Price Index (WPI) data for a fixed basket of goods and services, including manufactured goods, which shows average changes in a price level over a time period.

## 2. WPI OF INDIA

- **About WPI**

The Wholesale Price Index (WPI) in India is compiled and released every month by the Office of Economic Adviser, Department of Industrial Policy and Promotion, Ministry of Commerce & Industry, and the Central Statistics Office, Ministry of Statistics & Programme Implementation, which

assists in the compilation of the index.

The Wholesale Price Index is designed to capture the price movements of goods at the wholesale level, which includes all bulk transactions of goods carried out in the domestic market. It represents the price changes at the first point of bulk sale in the domestic market.

The Wholesale Price Index series in India has been revised six times in the years 1952-53, 1961-62, 1970-71, 1981-82, 1993-94, and 2004-05. The current series of WPI is the seventh revision, which was introduced in 2011-12 and constitutes three major groups, namely primary articles, fuel & power, and manufactured products.

For manufactured products, ex-factory prices, inclusive of taxes and duties, were previously utilized as the initial point of bulk sale. However, in the 2011-12 WPI series, the effective prices for manufactured products used for compilation have been redefined as the 'basic price minus rebate or trade discount', thereby excluding any taxes and duties from the price definition. This adjustment aims to align the WPI more closely with the concept of the Producer Price Index (PPI) for manufactured products.

#### • Data Collection for WPI

Data collection for most items of the manufacturing goods (products) is conducted in accordance with the Collection of Statistics (CoS) Act, 2008. Apart from private manufacturing units, information is also gathered from select government agencies. To facilitate the seamless flow of price data, the Office of Economic Adviser has established an online data collection system. This system allows manufacturing units to directly access the website using their assigned passwords to submit price information.

#### • Calculation of WPI

The compilation process of the WPI is divided into two stages.

- The item level indices (elementary price index) are calculated using Jevons Index formula, which uses the Geometric Mean of Price Relatives. Price relatives are calculated as the percentage ratios, i.e. by dividing the current price by the base period price and multiplying the quotient by 100. These elementary indices are the lowest level of aggregation where prices are combined into price indices.
- An elementary price index is aggregated using weighted arithmetic mean to obtain higher level indices using Laspeyre's index formula, which has a fixed base year weighting diagram operative through the entire life span of the series.

An example of compilation of WPI for a particular item having 11 quotations is given below in the *illustration*:

The example shows that the price escalation ranged from 8.84% to 220.09% during the specific period, and

| Quotation No. | Base Price | Current Price | Price Relative =<br>(current price / base price)*100 |
|---------------|------------|---------------|------------------------------------------------------|
| 1             | 2,989.04   | 6,150.00      | 205.75                                               |
| 2             | 2,777.31   | 7,000.00      | 252.04                                               |
| 3             | 2,987.31   | 3,500.00      | 117.16                                               |
| 4             | 2,848.94   | 6,050.00      | 212.36                                               |
| 5             | 3,120.65   | 5,500.00      | 176.25                                               |
| 6             | 1,900.00   | 3,800.00      | 200.00                                               |
| 7             | 2,741.57   | 5,800.00      | 211.56                                               |
| 8             | 2,875.58   | 5,200.00      | 180.83                                               |

| Quotation No.                              | Base Price | Current Price | Price Relative =<br>(current price/ base price)*100 |
|--------------------------------------------|------------|---------------|-----------------------------------------------------|
| 9                                          | 2,639.90   | 6,300.00      | 238.65                                              |
| 10                                         | 2,710.38   | 2,950.00      | 108.84                                              |
| 11                                         | 1,343.37   | 4,300.00      | 320.09                                              |
| <b>Geometric Mean of Price Relatives =</b> |            |               | <b>193.78</b>                                       |

based on statistical analysis of the data set, the derived value is 93.78%. Therefore, using the price index can result in an average value range and may vary for individual items.

### 3. Producer Price Indices (PPI)

The majority of countries in the world publish Producer Price Indices, also referred to as Output Price Indices, for manufactured products and related services that are produced within their geographic boundaries. It typically covers a wide range of industries, including manufacturing, mining, and utilities.

- **United States of America (USA)**

As defined in the Handbook of Methods released by the Bureau of Labor Statistics, the Producer Price Index measures the average change over time in selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. Sellers' and purchasers' prices may differ due to government subsidies, sales and excise taxes, and distribution costs.

The Bureau of Labor Statistics collects pricing data from participating company reporters, which is utilized in three primary PPI classification frameworks: industry classification, commodity classification, and commodity-

based final demand-intermediate demand (FD-ID) system.

**Data Collection:** Industrial establishments are chosen for the PPI survey through systematic sampling of a comprehensive list of all companies within the industry. The PPI sample consists of more than 16,000 establishments that offer around 64,000 price quotations each month, with additional data from various sources included for certain regions. Participation in the survey by firms is entirely voluntary, and participating establishments submit price data securely online through a designated website.

**Index Calculation:** The Producer Price Index is calculated according to the modified Laspeyres formula.

### European Countries

As defined in European Price Statistics: An Overview, 2008 edition, producer price indices measure the gross monthly change in the trading price of products on the domestic and non-domestic markets at all stages of processing.

**Domestic producer price index:** this measures the average price development of all goods resulting from an economic activity and sold on the domestic market.

**Non-domestic producer price index:** this shows the average price development (converted to local currency) of all goods resulting from economic activity and sold outside the domestic market.

**Data Collection:** The PPI data are based on selling prices reported by establishments of all sizes selected as being representative of the whole population. Regular collection of price data normally flows from a sample of units and a sample of their products. Data are

increasingly collected by electronic means. On the domestic market, the sample of enterprises is normally drawn from the Statistical Business Register. The observation units for the PPI for the non-domestic market are very often selected from external trade data.

#### 4. SHIFTING OF BASE YEAR OF INDEX

The revision of the index basket is necessary to ensure that the indicators accurately reflect the changing composition of the economy. The revision of the index basket, base year, and weighting diagram is a regular exercise undertaken to ensure that macroeconomic indicators provide a precise representation of the economy. To improve the quality, coverage, and representativeness of the indices and to reflect structural changes in the economy, the government and relevant agencies or statistical bureaus regularly evaluate and amend the base year of the macroeconomic indicators.

#### 5. TRENDING METHOD (INDEXATION METHOD)

The trending method is a method of estimating an asset's reproduction cost as new in which an index or trend factor is applied to the asset's historical cost to convert the known cost into an indication of current cost. Historical cost means the price paid for an asset when it was first acquired or put into service by its first owner.

Government departments, agencies, or statistical bureaus in different countries publish WPI and PPI, and these indices typically consist of various groups and subgroups, further broken down into individual items or commodities. The seventh version of the WPI series of India has a total of 697 items, including 117 items for primary articles, 16 items for fuel & power, and 564 items for manufactured products. PME assets are covered

under the head of manufactured products and subgroups like manufacture of fabricated metal products, manufacture of electrical equipment, manufacture of machinery and equipment, etc.

Selection of the correct index number and trend factor is key, and doing so involves considering various factors such as identifying the specific asset, class, or group of assets, the country of origin from which the asset was acquired with the currency used in the transaction, and the year when the asset was initially bought or produced.

As an *illustration*, the index number and trend factor for boilers manufactured by domestic manufacturers (indigenous machines) in India are shown below.

| Year         | 2019  | 2020  | 2021 | 2022 | 2023  |
|--------------|-------|-------|------|------|-------|
| Index Number | 104.8 | 101.7 | 96.0 | 97.5 | 105.6 |
| Trend Factor | 1.00  | 0.97  | 0.92 | 0.93 | 1.01  |

The trend factor for imported machinery is calculated based on the combined impact of the index number of the Producer Price Index (PPI) or Wholesale Price Index (WPI) of the country of origin and changes in the foreign currency exchange rate involved in the transaction. Additionally, applicable import customs duties are required to be added.

For example, the trend factor for textile machinery purchased from a foreign country (imported machinery) can be calculated as shown in the *illustration* on the top left, (rft pg).

It is advisable to verify in the domestic market whether

| Year                   | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------------|-------|-------|-------|-------|-------|
| Index Number           | 103.1 | 102.4 | 102.2 | 108.0 | 113.7 |
| Trend Factor           | 1.00  | 0.99  | 0.99  | 1.05  | 1.10  |
| 1 Euro in INR          | 78.9  | 84.7  | 87.4  | 82.7  | 89.3  |
| Trend Factor           | 1.00  | 1.07  | 1.11  | 1.05  | 1.13  |
| Effective Trend Factor | 1.00  | 1.07  | 1.10  | 1.10  | 1.25  |

there is identical machinery available locally for imported machinery acquired with foreign currency. Over time, the same manufacturer may offer the machinery in the domestic market, allowing for transactions in local currency.

### Splicing of Index

Splicing is a statistical method used to combine or merge two or more index number series that have different base years but cover the same items have a common overlapping period and allow for the formation of a single continuous series. The splicing technique adjusts the index numbers in the overlapping period to ensure a smooth transition between the different base years. It may be forward splicing or backward splicing of different index number series with different base years.

The *illustration* on the right top side shows how the splicing of an index is calculated.

It is recommended to apply the determined trend factor to the historical factory price or ex-work price without applicable taxes of an asset rather than relying solely on the historical cost recorded in the books of account. A historical cost that has been recorded in the books of account can include a variety of direct and indirect

| Year | Index A    | Index B    | Calculation              | Spliced Index |
|------|------------|------------|--------------------------|---------------|
|      | 2011 = 100 | 2013 = 100 |                          | 2013 = 100    |
| 2011 | 120        |            | $(120 \times 100) / 150$ | 80            |
| 2012 | 125        |            | $(125 \times 100) / 150$ | 83            |
| 2013 | 150        | 100        | $(150 \times 100) / 150$ | 100           |
| 2014 |            | 115        |                          | 115           |
| 2015 |            | 120        |                          | 120           |

expenses, including foundation, interest, erection, packing, transportation, commissioning, and more. These expenses are important, but they might not necessarily correlate with a particular index.

### Example

The method for calculating the current reproduction cost new in 2023 for earth moving machinery, which was first purchased in 2019 from the domestic market (India) at an ex-work price (factory price) of INR 10,000, is described as follows, using the trending method.

The earth-moving machinery was purchased from the domestic market of India, and in order to determine the current reproduction cost using the trending method, it is essential to consider the Wholesale Price Index (WPI) number for earth-moving machinery of India, which is recorded at 100 in 2019 and 125 in 2023.

|                         |                                                                       |
|-------------------------|-----------------------------------------------------------------------|
| Reproduction Cost New = | (Index No. Current Year ÷ Index No. of Base Year) × (Historical Cost) |
| =                       | (Index No. of 2023 ÷ Index No. of 2019) × (Historical Cost)           |
| =                       | (125 ÷ 100) × 10,000                                                  |
| =                       | 1.25 × 10,000                                                         |
| Reproduction Cost New = | INR 12,500                                                            |

## 6. KEYNOTES

- The selection of an appropriate trend factor should be based on the specific asset or asset class/group.
- It is recommended to apply the trend factor to the historical factory price or ex-work price of the machine. The historical cost recorded in books of account includes both hard and soft costs, which may not be reflected in the index number.
- The application of the trending method is inappropriate for second-hand or used machines and should not be applied to the original cost.
- The application of the trending method is not appropriate for revalued amounts recorded in the accounting books.

- It is more suitable for recently purchased (chronological age below 5 years) assets, and it delivers erroneous results for assets that have been owned for a longer period.
- Index numbers are calculated based on a statistical average of a set of data points, and the price escalation of specific assets may deviate from the trends indicated by the statistically derived index number.
- The index factor needs to be in line with the underlying asset, and users should have a basic understanding of how the index is developed.

## REFERENCES

1 *International Valuation Standards (IVS), 2022*

2 *European Plant, Machinery & Equipment Valuation Standards : 1st Edition – 2022*

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*Rajeeb Sarkar is a distinguished registered valuer and a Civil Engineer, holding a degree from Jadavpur University. Alongside his technical prowess, he is also an advocate of the High Court, Calcutta, with an LLB to his name. Furthermore, Rajeeb has earned an M.Sc in Real Estate Valuation and a Master's in Valuation (Plant & Machinery), showcasing his comprehensive expertise in the field.*



# UNDERSTANDING NPA & NPA VALUATION

**RAJEEB SARKAR**

BE, LL.B, FIV, FICA

## WHAT IS AN NPA ?

As per The Reserve Bank of India (RBI), The Reserve Bank of India (RBI) defines a non-performing asset (NPA) as a loan or advance that has been overdue for more than 90 days. This includes interest and/or principal installments that are overdue or an account that is "out of order." The RBI implemented this 90-day norm in 2004 to align with international practices. Moreover, an asset becomes non-performing when it stops to generate income for the bank. The non-performing assets in public banks are valued at approximately \$62 billion, which represents 90% of the total NPA in India.

Bank-wise details of gross non-performing assets (NPAs) of public sector banks (PSBs) as of 30.09.2023 (provisional data) are detailed below (Annexure-1)

| Bank                  | Gross NPAs<br>(Amounts in Crore Rs.) |
|-----------------------|--------------------------------------|
| Bank of Baroda        | 33,968                               |
| Bank of India         | 31,719                               |
| Bank of Maharashtra   | 4,017                                |
| Canara Bank           | 43,956                               |
| Central Bank of India | 10,666                               |
| Indian Bank           | 24,488                               |
| Indian Overseas Bank  | 9,893                                |
| Punjab and Sind Bank  | 5,106                                |
| Punjab National Bank  | 65,563                               |
| State Bank of India   | 86,974                               |
| UCO Bank              | 6,939                                |
| Union Bank of India   | 54,012                               |
|                       | <b>377,301</b>                       |

Source: RBI (provisional data)

Debt assigned to the National Asset Reconstruction Company Limited by Public Sector Banks as of 30.11.2023.

| Bank                  | Gross NPAs<br>(Amounts in Crore Rs.) |
|-----------------------|--------------------------------------|
| Bank of Baroda        | 114                                  |
| Bank of India         | 49                                   |
| Bank of Maharashtra   | 796                                  |
| Canara Bank           | 1,858                                |
| Central Bank of India | 70                                   |
| Indian Bank           | 233                                  |
| Indian Overseas Bank  | 20                                   |
| Punjab National Bank  | 2,138                                |
| State Bank of India   | 4,508                                |
| Union Bank of India   | 1,831                                |
|                       | <b>11,617</b>                        |

Source: National Asset Reconstruction Company Limited

(Amount in crore Rs.)

| Bank                  | Agriculture and Allied Activities |               |                                 | Industry      |               |                                 |
|-----------------------|-----------------------------------|---------------|---------------------------------|---------------|---------------|---------------------------------|
|                       | FY 2021-22                        | FY 2022-23    | FY 2023-24<br>(up to 30.9.2023) | FY 2021-22    | FY 2022-23    | FY 2023-24<br>(up to 30.9.2023) |
| Bank of Baroda        | 2,344                             | 1,392         | 878                             | 2,943         | 2,135         | 673                             |
| Bank of India         | 1,667                             | 2,773         | 2,230                           | 1,683         | 2,379         | 1,038                           |
| Bank of Maharashtra   | 669                               | 578           | 298                             | 450           | 95            | 102                             |
| Canara Bank           | 696                               | 2,084         | 1,316                           | 1,738         | 2,597         | 2,104                           |
| Central Bank of India | 1,866                             | 980           | 576                             | 1,468         | 1,580         | 272                             |
| Indian Bank           | 783                               | 1,971         | 1,102                           | 2,627         | 1,635         | 1,080                           |
| Indian Overseas Bank  | 1,072                             | 653           | 157                             | 1,350         | 1,109         | 188                             |
| Punjab and Sind Bank  | 274                               | 333           | 206                             | 215           | 132           | 152                             |
| Punjab National Bank  | 5,948                             | 6,692         | 569                             | 7,958         | 2,908         | 934                             |
| State Bank of India   | 6,682                             | 4,802         | 3,681                           | 8,162         | 4,388         | 1,353                           |
| UCO Bank              | 1,103                             | 452           | 297                             | 855           | 373           | 55                              |
| Union Bank of India   | 3,559                             | 2,982         | 1,894                           | 6,239         | 2,415         | 1,041                           |
| <b>Total</b>          | <b>26,663</b>                     | <b>25,692</b> | <b>13,204</b>                   | <b>35,688</b> | <b>21,746</b> | <b>8,992</b>                    |

Source: RBI (provisional data as on 30.9.2023)

**DEFINITION AND CLASSIFICATION OF NPAS**

- Standard Assets: no payment in 1st 12 months
- Doubtful Assets: recovery is uncertain
- Loss Asset: implies that chances of recovery is almost "NIL"

**IMPACT OF NPA ON BANKS AND FI'S**

- Profitability of banks reduces due to provisioning, etc.
- Banks face liquidity crunch
- Taxation to borrowers increases due to increase in interest rates

**PURPOSE OF NPA VALUATION**

- One time section
- Auction purpose
- Sale by pvt. Treaty
- Restructuring of loans, etc.

**CHALLENGES FACED IN NPA VALUATION**

- Debtor cooperation is comparatively less in general
- Operational inefficiency
  - Too much paperwork related to mouja map, dag nos, etc., since documents are not available with asset recovery branches in general.

- Issues related to the conversion of land
- Slow back office workflows— data not easily available
- At times, could not measure the area due to inaccessibility.
- Poor data management
- Poor planning
- Issues related to the identification of the property, especially for undeclared properties
- Occupation by tenants/occupiers
  - Non-disclosure of rents by tenants or occupiers
- Asset valuation issues.
- Legal and regulatory headaches.
  - Protected Tenant—right Against Unfair Eviction.
  - Legal/illegal Occupiers
  - Sometimes Trespassers Occupy The Property.
  - Difficult To Assess Unauthorized Construction Due To Want Of Sanctioned Plan, Etc.
  - Sale Of The Asset After Marriage Without Knowledge Of The Bank Or Mortgage

#### **BEFORE ENTRUSTING THE WORK TO THE VALUER JOB TO BE DONE BY THE BANKER:**

1. To issue letter of entrustment to the valuer mentioning that the work is for npa management purpose.
2. To study the entire file by the concerned officer/manager
3. To prepare a layout plan of the landed property on a mouja map in the same scale through a local amin, etc., along with the demarcation of the landed area.
4. To visit the property along with the valuer on the date of inspection
5. To hand over the sanctioned plan of the structure, etc.
6. To identify the asset/pproperty since it is already

mortgaged by bank.

7. To provide the supporting documents, including:
  - a) Copy of the deed (s)
  - b) Copy of last search report by paneled advocate
  - c) Copy of previous valuation report to verify what kind of rights were valued previously
  - d) Layout plan of land / building readily available if any
  - e) Building sanctioned plan
  - f) Property tax & electricity bill in the name of the owners
  - g) If any dispute arises after the creation of mortgage, a fresh legal search report may be obtained
  - h) To handover copy of the 13/2 and 13/4 notices to the valuer

#### **VALUERS JOB FOR NPA VALUATION**

- To provide gps in the report
- To verify all the supporting documents from google, kmc, banglarbhumii.com, or any other websites, etc
- To visit the site/ppplot along with the banker, recovery agent, etc.

#### **CASE STUDY**

##### **CASE 1 [FRAUD CASE]**

- The original owner is the father who died. There were three brothers as legal heirs; one of them died, and two of the brothers are living. There was no participation decree available, and there was no legal heir certificate.
- Through false documentation, the elder brother arranged the ownership of his father for the property

in the name of his wife. The elder brother used to stay in the captioned premises along with his wife. His wife died, and the elder brother then sold the property to another person after the name of his wife was recorded in the b&lro municipality records.

- Another brother and the legal heirs of the deceived brother used to stay in another building in the nearby village.
- The purchaser came to bail for the mortgage of the property.
- When the valuer started the investigation, it was found that the sanctioned plan area and layout plan are different as compared to the actual size of the plot.

*Note: Proper investigation is necessary for valuing any property.*

#### **CASE 2 [FRAUD CASE]**

- There is a captioned flat no. 1 in a building in kolkata.
- It was mortgaged with bank "a".
- Cersai reflects flat no -1.
- The same flat is renamed as flat no. "a" and mortgaged again with bank "b." cersai has the reflection of the same flat as flat a.

*Note: Flat-1 & flat-a are one and the same yet have been mortgaged in two different banks at the same time.*

*LSR did not reflect the proper picture.*

#### **CASE STUDY: CASE 3**

- Mortgage valuation of development rights—equitable mortgage is created by deposit of title deed.
- For large-size projects, sometimes banks go funding the project without any proper mortgage.
- Recovery of such loans becomes very difficult once it goes out of gear.

*Note: the valuer should get a clear mandate from the bankers what to value, freehold property, or any specific right.*

#### **CASE STUDY: CASE 4 [NCLT]**

- There are two adjacent pvt. Ltd. Companies (same directors, sister companies) running factories for different products, both the accounts became NPA.
- While doing the valuation after NPA, it was found that there are additional areas in the name of the directors and their relatives, etc., and they are monetized by banks.
- RP and the bank insisted on going for a valuation of the area for the land that is earmarked for the companies only. The valuer could convince the rp & the bank that it will be a locked land once the land in the name of the directors, or relatives mortgaged with the bank is not taken into consideration as per NCLT norms, so to say.
- On appeal, NCLT accepted the request of the rp to sale the entire land in one go to realise the substantial value of the property.

*Note: a valuer is entitled to guide the banker and the RP in the right direction to maximise recovery.*

**LIMITATIONS OF THE VALUER**

- To provide caveats.
- Shali land already mortgaged with bank as a precedence.

*Note: in case the land is developed and there is a factory running, we may consider industrial value.*

**RECOVERY RATE OF NPA**

- The IBC has a recovery rate of 5 percent of the sum involved in NPA cases, compared to 14.5 percent under the SARFAESI Act.
- Banks have written off Rs 10.57 lakh crore during the last five financial years, of which Rs 5.52 lakh crore was in respect of loans pertaining to large industries, as per the government information.
- "As per RBI data, scheduled commercial banks (SCBs) have written off an aggregate loan amount of Rs 10.57 lakh crore during the last five financial years," Minister of State for Finance Bhagwat Karad said in reply to a question in the Rajya Sabha.
- The scheduled commercial banks have also recovered Rs 7.15 lakh crore of non-performing assets (NPAs) during the five-year period.
- "Comprehensive steps have been taken to recover NPAs, enabled by which SCBs have made an aggregate recovery of Rs. 7,15,507 crore (RBI provisional data for FY 2022-23) in NPA accounts, including written-off loans, during the last five financial years," he said.
- As of March 2024, the Reserve Bank of India (RBI) reported that Indian banks' gross non-performing assets (GNPA) ratio had reached a multi-year low of

2.8%, and their net non-performing assets (NNPA) ratio had fallen to 0.6%. The RBI's 29th Financial Stability Report also noted that the asset quality of scheduled commercial banks (SCBs) had improved and that the half-yearly slippage ratio had decreased across bank groups. The RBI also noted that the amount of write-offs had declined during the year, but the write-off ratio remained almost the same as the previous year due to a reduction in GNPA stock.

**INFORMATION ON SBI NPA – 2010 TO 2024**

- Overall, the gross NPA of SBI declined to `84,276 crore as of March 2024 from `90,928 crore in March 2023.
- The State Bank of India's (SBI) gross non-performing assets (NPAs) in 2014 were 61,605.35 crores, up from 19,534.89 crores in 2010.
- The bank's net NPAs were 2.57% in 2014, compared to 2.10% in 2013. SBI's provisioning coverage ratio for 2014 was 62.86%.

**DATA SOURCES**

- *The Economic Times*
- *RBI data from web site*
- *mint website*

*Sudip Kumar Sarkar boasts a robust academic and professional background, holding a B.Tech in Electrical Engineering and an MBA in Finance. He is a Fellow of the Institution of Valuers (FIV), a Chartered Engineer (C-Engg), and a Member of the Indian Management Association (MIMA). As a Registered Valuer specializing in Plant & Machinery, Sudip brings his expertise to the realm of management and engineering consulting.*



# THE PRACTICALITY OF METHODOLOGIES USED IN PLANT & MACHINERY VALUATION

**SUDIP KUMAR SARKAR**

B.Tech(Elect. Engg), MBA(Finance), FIV, C-Engg, MIMA  
Registered Valuer Plant & Machinery, Management & Engineering Consultant

## ABSTRACT

*The analytical process of figuring out an asset's or a company's present worth is called valuation. In a nutshell, valuation is the process of figuring out a property's current market value, whether it be residential, commercial, or otherwise. Its selling price and the amount of rent or revenue it can bring in are used to calculate its value. This report includes the methodology that has been approved by the government and validated by relevant field experts. The outcome of this paper is likely to have important implications in the valuation profession. This study directly introduces users to the actual practice of valuation carried out in the field so that they can compare the theories and actual methodology. Finding the fair value of the properties of the plant and machinery is the aim of this. These techniques assist the owner in understanding the true state of the industry and streamline the property's financing amount. Understanding the property's true rate is aided by its appraisal*

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The Companies Act 2013 in India brought out a defined process when valuation is carried out. The establishment of the "registered valuer" system was one of the actions

done by the Companies' Act of 2013. The Companies (Registered Valuers and Valuation) Rules 2017 provide the legal provisions pertaining to valuer supervision. This rule clarifies the concept of independent valuation that is carried out by a professional agency. It also outlines the appraisal process. In addition, the group keeps an eye on valuation firms all across the globe. An authority to assess the worth of assets or a certain type of assets is regarded as a registered valuer. Since its introduction, a suitable procedure has been used to carry out valuation processes.

The relevance of plant and machinery valuation in the industrial and economic development of a nation cannot be overemphasized. With respect to the British economy, Derry (1985) reported as follows:

*"There is no doubt that the management of the British manufacturing industry is showing an increased awareness of the importance of being fully informed of the realistic worth of their plant and machinery assets. Following the asset stripping takeovers of the sixties and seventies, the adoption of the Current Cost Accounting Standard, and a new awareness of the consequences of underinsurance, the advantage of sound professional advice with respect to the value of plant and machinery is now more fully appreciated, and the specialist valuer*

*can look forward to an increasingly important role in the future."*

Understanding the key distinctions between the various approaches to valuation is essential to choosing the appropriate one. Three widely used methods of valuation are recommended by the worldwide standards of valuation. The main methods of valuation that are employed are:

- Market Approach
- Income Approach
- Cost Approach/Asset-Based Approach

The aforementioned approaches to valuation indicate that there is no right or incorrect approach to appraisal. It is not feasible to use all of the valuation techniques at once, though. Because of this, an analysis is necessary to use the right approach in a given circumstance. This will vary based on the specifics of the item or transaction under consideration. A valuer should evaluate the practicalities before assessing the valuation methodologies, as one method may work well for one transaction but not be appropriate for another involving the same kind of instrument or asset.

## **METHODOLOGY**

The market, income, and cost approaches are the three accepted methods for determining value. Each has advantages and disadvantages, and how best to use them depends on the goal, the kind of property being valued, the state of the market, and the accessibility of certain information that valuers need to take into account for each project.

### **A. Market Approach**

The market approach is a method of valuation, also known as the market comparison approach or the market-based approach, that assesses the appraisal

value of assets, businesses, or business ownership interests by taking into account the market values of comparable assets or similar enterprises.

The market approach valuation method is based on a number of essential ideas. Initially, the premise is that an entity's fair value can be determined by examining the prices at which comparable entities have been purchased and sold. Only the present value is used for valuation on the valuation date in the market approach method; past values or future values converted to present values are not used.

### **Advantages:**

The market approach's main benefits stem from its foundation in publicly accessible data on similar transactions. It may therefore necessitate fewer arbitrary assumptions than other methods. The market approach's reflection of present market conditions and seller and buyer expectations is one of its key benefits. Instead of being based on speculative assumptions or projections, it is based on real transactions or market pricing. Because of this, the market approach may be more accurate and practical than other techniques like the income approach or the asset-based approach, which depend on potential cash flows or book values that might not accurately reflect a company's true worth. The market technique can also be easier to use and understand, as it takes less data and calculations than other methods. It can be helpful in determining the value of companies that operate in a transparent, competitive market with lots of like competitors and that have consistent, dependable performance.

### **Disadvantages:**

Finding comparable transactions or businesses is challenging. Generally speaking, there aren't enough similar businesses or transactions. In contrast with other

approaches, it is less flexible. The market approach does, however, have certain drawbacks that may compromise its validity and accuracy. Finding really comparable businesses with similar attributes, such as size, growth, profitability, risk, industry, location, and stage of development, can be challenging, which is one of the key drawbacks. Even if some firms are equivalent, various market conditions, times, or transaction terms may cause the businesses to have different valuation multiples. This can add a great deal of subjectivity and variability to the market approach, necessitating judgment calls and changes to take the variations into account. The market approach's potential failure to capture the distinct value drivers and competitive advantages of the target company, such as its special resources, skills, tactics, or synergies, is another drawback. External elements that may not be relevant or sustainable for the target firm, such as market cycles, trends, or anomalies, can also impact the market approach.

#### Use the market approach effectively.

It's critical to adhere to certain best practices and rules in order to apply the market strategy effectively. First, it's best to choose the most current and pertinent sources of comparable data from a variety of sources, including industry reports, private transactions, and public companies. Second, it is crucial to employ suitable valuation multiples, such as free cash flow (FCF) or earnings before interest, taxes, depreciation, and amortization (EBITDA), that accurately represent the performance and potential of the target business. Third, any disparities or variances in size, growth, risk, or profitability between the target business and similar businesses must be taken into account when adjusting the valuation multiples. Fourth, to account for the unpredictability and diversity of the market approach, it is advised to employ a variety of valuation multiples as

opposed to a single one. Fifth, in order to confirm and validate the target business's value, it is a good idea to compare the outcomes of the market strategy with those of other techniques, such as the income approach or the asset-based approach.

Value is determined by examining market exchanges involving comparable assets, such as machinery or plants. Analyzing the terms and sale prices of comparable properties that have recently sold on the open market is necessary for this.

#### **a) Direct Sales Comparison Method:**

- The Market Approach's most popular method for valuing plants and machinery is this one.
- The essential premise of this approach is that an informed buyer would never pay more for a product than it would have to pay to replace an existing one of equivalent utility.
- When assessing machinery and plants for which there is a well-established and active secondary market, this approach is recommended.
- In applying it under the 'in-use' premise, an allowance is then made to reflect the costs of delivery, installation, taxes, fees, and duties.
- Another type of direct sales comparison method is the use of market relationships, also known as the percent of cost method.

The five steps of this approach are: (1) researching the data, (2) verifying the data, (3) selecting units of comparison, (4) analyzing and adjusting the comparable, and (5) reconciling the value indications.

#### **b) Comparable Match Method**

This method works on the analysis of similar (but not identical) assets using some measure of utility, like size,

capacity, or year manufactured, as the basis of comparison.

The difference between this method and the direct sales comparison method is that the comparisons may not be similar in terms of model and year built but have other similarities, such as capacity, brand acceptance in the market, or the same country of origin.

Some adjustments have to be made on the comparable before the value of the asset can be derived.

## **B) INCOME APPROACH**

This approach's basic tenet is that a knowledgeable buyer would only pay as much as the current market value of projected future benefits (income) from the same or comparable property with comparable risk. If the economic life span of the equipment and machinery can be ascertained or the terminal value at the end of the useful life is known, then the income strategy makes sense.

The primary drawback of using the income technique is that overvaluation might occur. This occurs when plants and machinery are subject to the income method, which bases their earnings stream on a percentage of the total company. When valuing anything this way, it exaggerates things like goodwill.

Numerous estimations and assumptions are needed when using the revenue strategy. The income strategy involves making erroneous or unclear projections about a property's future income and expenses. In essence, it involves assigning a valuation date to the Plant and Machinery class of assets based on projected (assumed) data.

For assets that generate money, the income strategy is preferable; for ones that do not, the cost approach is

preferable. The type of property and the particular conditions will determine the best course of action.

### **a) Direct Method:**

Discounted future cash flow:

- It is the most convenient and applicable method in this approach.
- Also known as the Capitalization of Earnings Method.
- This method is applied to investment and general-use properties where there is an established and identifiable rental market or where a specific measurable stream of benefits may be attributed to the subject.
- In applying this method to plants and machinery, consideration is given to either the income-generating or cost-saving potential of the item and the associated risks and uncertainties.

### **b) Indirect methods:**

#### Market Price Method

- With this, the selling prices of comparable investments are compared to anticipated future benefits to derive an indication of the implicit rates of return. However, the problem is a general lack of market.
- Comparison of Quality Attributes Method
- The desirability of the subject is compared to those alternatives having known rates of return.

#### Build-Up Method

- Starts from a known risk-free rate to which factors are added for additional risks, the burdens of management, and the lack of liquidity to derive a suitable rate of return.

### The Weighted Average Return on Assets (WARA) Method

- This method is based on the assumption that a business is a portfolio of financial, physical, and intangible assets. The fair value of the long-term debt plus that of the equity is equal to the sum of the fair values of net working capital and fixed and intangible assets. WARA is the rate of return for each category weighted by its fair value.

#### **Advantages**

- Focuses on cash flows: The income approach captures the cash flows that investors care about.
- Flexibility: It can be used to value companies at different stages and natures.
- Simulates market price: It can simulate a market price even when there's no active market.
- Incorporates risk and growth: It can incorporate risk and growth expectations.
- Appropriate for stable businesses: It's appropriate for most stable operating businesses at all stages of their life cycle.

#### **Disadvantages**

- Requires projections: It requires a lot of information to be projected, and even small variations in assumptions can significantly impact the value.
- Relies on hypothetical projections: It relies on hypothetical projections.
- Uses a discount rate: It uses a discount rate with many variables to determine the appropriate figure.
- It may not account for market sentiment or risk.

### **C) COST APPROACH**

This strategy is founded on the idea of substitution, which

states that a wise investor would never purchase a property for more than what it would cost to create a comparable asset with the same level of utility. The cost approach, which determines the assets' replacement cost by using the prices of comparable goods as of right now. This approach accounts for elements like obsolescence and depreciation that could affect the equipment's value. When it comes to valuing plants and machinery utilizing the cost approach, the main focus is on determining how much it would cost to replace the asset with a similar one. This approach accounts for things like depreciation, the age of the machinery, and the going rate for new equipment on the market.

Using the cost approach, the asset's present worth is determined by factoring in wear and tear, enhancements or upgrades done over time, and the asset's original purchase price. Professional appraisers carefully examine each of these components to determine an appropriate valuation amount.

Businesses can learn more about the underlying value of their assets by applying this method, which bases asset valuation on replacement costs rather than market changes. For decision-making procedures pertaining to financial reporting, insurance coverage, and possible sale or purchase transactions, this approach offers a strong basis.

In a stable market, it works well for newly constructed homes with reasonably current designs. Because it is challenging to estimate the depreciation of older properties, it is less dependable for older properties. The initial cost of an asset as shown in its financial records is known as the historical cost principle. A lot of transactions are documented at cost in the financial records of a business.

- Physical deterioration is a type of depreciation in which a property's value or usefulness is reduced as a result of wear and tear, deterioration, exposure to different elements, physical stressors, and similar factors, resulting in the use-up or expiration of its useful life.
- Functional obsolescence is a type of depreciation in which a property's loss of value or usefulness is due to internal inadequacies or inefficiencies when compared to a less expensive or more efficient replacement property that has been generated by new technology. Excess running costs, excess building costs (excess capital costs), overcapacity, insufficiency, lack of utility, or similar circumstances are indicators that functional obsolescence is present.
- Economic obsolescence, also referred to as "external obsolescence," is a type of depreciation in which an asset's value decreases due to circumstances outside of the asset. The industry's economics, financing availability, labor and/or material shortages, new laws passed, ordinance modifications, rising labor, raw material, and utility costs (without corresponding increases in product prices), declining product demand, heightened competition, inflation, high interest rates, or other similar factors are a few examples.

When using the cost approach, the appraiser begins with the property's current replacement cost (or, in some cases, reproduction cost) and subtracts the value loss resulting from economic, functional, and physical obsolescence. These kinds of depreciation are further explained by the following definitions\*:

#### **a) Replacement new cost method:**

- The cost to reproduce or replace the subject with

the new asset, either identical (reproduction) or having the same utility (replacement), generates the highest amount a prudent investor is likely to pay for a new and unused property.

#### **Trending Method**

- The application of this method presumes that the current value of plant and equipment may be obtained from the original (historic) acquisition cost, which typically is recorded in the entity's records, by adjusting (multiplying) it by an appropriate price index.
- The trending method is suitable for large amounts of assets in a valuation engagement where direct pricing is not practical.

#### **Direct Pricing Method**

- It is the process of applying current new unit prices to the subject. Typically, they are obtained from current offers or quotations.

#### **b) Reproduction Cost Method:**

When an asset of similar features and qualities is produced, then this is considered reproduction. Thus, in the reproduction cost method, the valuation is obtained by reproducing the asset in the same form as the original asset.

#### **Advantages**

- The cost approach is simple and straightforward to apply. It does not require complex calculations or assumptions about future cash flows, growth rates, or discount rates. It only requires estimating the current cost of reproducing or replacing the asset with a similar one.

- The cost approach is objective and verifiable. It relies on observable and measurable data, such as the prices of materials, labor, and other inputs. It does not depend on the subjective opinions or preferences of buyers or sellers, which may vary widely and be influenced by emotions, biases, or expectations.
- The cost approach is appropriate for unique or specialized assets that have no comparable market transactions or have a limited market. For example, the cost approach can be used to value a custom-made machine, a historical building, a patent, or a trademark. These assets may have a value that is not reflected by their market prices or that cannot be determined by their market prices.
- The cost approach is useful for insurance purposes. It can help determine the amount of coverage needed to replace or restore an asset in case of damage or loss. It can also help settle claims or disputes between the insured and the insurer.

#### **Disadvantages of the cost approach**

- The cost approach may not reflect the true value of the asset. The cost of reproducing or replacing an asset may not be equal to its market value or its income-generating potential. For example, an old painting may have a high market value due to its rarity, artistic quality, or historical significance, but a low reproduction cost. Conversely, a new building may have a high replacement cost but a low market value due to oversupply, low demand, or poor location.
- The cost approach may not account for depreciation, obsolescence, or functional inefficiencies of the asset. The cost of reproducing or replacing an asset may not reflect the wear and tear,

the deterioration, or the outdatedness of the asset. For example, a computer may have a high reproduction cost but a low value due to its rapid technological obsolescence. Similarly, a factory may have a high replacement cost but a low value due to its inefficient design or layout.

- The cost approach may not capture the intangible value or goodwill of the asset. The cost of reproducing or replacing an asset may not include the value of the brand, the reputation, the customer loyalty, or the competitive advantage of the asset. For example, a restaurant may have a low reproduction cost but a high value due to its loyal customer base, its unique menu, or its favorable location.
- The cost approach may involve estimation errors or uncertainties. The cost of reproducing or replacing an asset may not be easy to determine or may change over time. It may depend on the availability, quality, and price of the inputs, as well as the methods, techniques, and standards used to measure them. It may also be affected by inflation, market conditions, or regulatory changes. For example, the cost of building a bridge may vary depending on the materials, labor, engineering, and environmental factors involved.

#### **Benefits of Proper Verification and Validation**

Businesses can profit greatly from proper plant and machinery verification and value. It assists in accurately valuing assets, empowering businesses to make wise financial decisions. Making sure that resources are used efficiently is another way that this method helps with asset management.

Furthermore, obtaining a recognized appraisal can

improve credibility with lenders and other stakeholders. It offers clarity and openness about the financial standing of the organization, which is essential for fostering confidence among the business community.

Accurate appraisals can also aid in risk management and strategic planning. Organizations can evaluate prospective risks and possibilities more effectively in the future when they are aware of the actual value of their assets.

Maintaining a competitive edge in the fast-paced corporate environment of today requires investing in appropriate verification and valuation processes.

### **The Importance Of Valuation Methods**

In the world of finance, valuation techniques serve as our compass when making difficult investment decisions, making financial plans, and adhering to legal and regulatory requirements. They serve as the cornerstone of responsible financial decision-making, enabling people and organizations to properly allocate resources, evaluate risks, and make well-informed decisions.

Here are some key reasons why valuation methods are significant:

#### **Investment Decision-Making:**

Investors can ascertain whether an asset is fairly priced, overvalued, or undervalued using valuation techniques. Subsequently, investors can employ these techniques to evaluate prospective investments and distribute their funds to optimize profits while mitigating hazards.

#### **Risk Management:**

An investor's decision-making regarding risk-adjusted returns might be influenced by their perception of an

asset's intrinsic value. This is especially crucial for managing a portfolio since it guarantees that assets are diversified and in line with an investor's risk tolerance.

#### **Capital Allocation:**

Valuation techniques are used by both individuals and businesses to allocate capital effectively. This entails choosing whether to repurchase their own shares, invest in new ventures, or buy out other businesses. In order to achieve their financial objectives, people might utilize valuation techniques to determine how much money to invest in stocks, bonds, real estate, and other assets on a personal basis.

#### **Mergers and Acquisitions:**

In mergers and acquisitions (M&A), valuation techniques are essential because they assist acquirers in figuring out how much to pay for a target company. Precise assessments are essential for bargaining over conditions, obtaining funding, and eventually guaranteeing the deal's success.

### **CONCLUSION**

To sum up, making strategic and well-informed decisions in finance requires a thorough understanding of the significance of valuation. The capacity to precisely determine the worth of investments and assets is a crucial talent for everyone working in finance, whether they are financial analysts, corporate executives, or investors. In addition to serving as a decision-making tool for investments, valuation is also essential for risk management, financial reporting, and strategic planning. A firm understanding of valuation concepts enables people and organizations to confidently negotiate the complexity and grab opportunities in the ever-changing world of finance, where unpredictability is a given. It's important because it provides prospective

buyers with an idea of how much they should pay for an asset or company and how much prospective sellers should sell for. The valuation of your plant and machinery aids in determining the value of your industrial assets. Businesses can utilize this precise information to help them decide whether to sell, reuse, or replace their equipment. In addition, it helps companies with transactions, insurance, financial planning, and legal compliance.

Plant and machinery appraisals are a difficult but necessary procedure for companies in a variety of sectors. Knowing the value of industrial assets is essential for transactions, insurance, and financial reporting since it guarantees correct financial statements, sufficient insurance coverage, and well-informed choices. Businesses can obtain accurate and trustworthy plant and machinery appraisals by using the right valuation techniques and taking into account all relevant factors.

It is advisable to derive the fair value of the plant and machinery class of assets using all three methods if necessary and sufficient data are available because it can give a more realistic fair value of the said assets on the valuation date.

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# THE ROLE OF REGISTERED VALUERS BEFORE AND AFTER THE IMPLEMENTATION OF THE INSOLVENCY & BANKRUPTCY CODE, 2016

**ARUN ANNAMALAI**

B.E. (Civil Engineering) and M.S. (Civil Engineering)



*Arun Annamalai is a registered valuer and the founder of M/s. Buildlink Associates, established in January 2020. With a background in Civil Engineering (B.E.) and M.S., he specializes in valuing immovable properties for various financial institutions and private entities. Arun brings a wealth of experience from his previous roles in multinational corporations, focusing on buildings, construction, and structural design.*

## INTRODUCTION

The Insolvency and Bankruptcy Code (IBC), 2016, has significantly changed how India deals with corporate insolvency. One of the key changes has been the role of registered values. This article explores their role before and after the IBC, showing their growing importance in the insolvency resolution process and how it has affected non-performing assets (NPAs).

## ROLE OF REGISTERED VALUERS BEFORE THE IBC, 2016

Before the IBC, the role of valuers in India was less structured and not as important as it is today. The valuation profession operated in a disorganized environment, with different laws and guidelines providing inconsistent directions.

1. *Limited Scope and Influence:* Valuers were often hired on an as-needed basis for specific tasks like mergers, acquisitions, taxation, and accounting. There was no standardization, leading to significant differences in valuation results.
2. *Regulatory Oversight:* Regulatory oversight was minimal. Different laws, such as the Companies Act and the Income Tax Act, etc., had their own guidelines, leading to a lack of consistency in the valuation profession. Before the IBC, valuers registered under the Wealth Tax Act, 1957, with the Income Tax Department, played a limited role in the broader insolvency framework.
3. *Professional Standards:* Without a central regulatory authority, there were no uniform professional standards or ethical guidelines governing valuers' conduct. This sometimes resulted in questionable valuation practices.

## ROLE OF REGISTERED VALUERS AFTER THE IBC, 2016

The introduction of the IBC in 2016 fundamentally changed the insolvency resolution landscape, making registered valuers crucial to the process. The Code created a structured and regulated framework, emphasizing accurate and standardized valuations.

1. *Structured and Standardized Valuation:* The Insolvency and Bankruptcy Board of India (IBBI) introduced comprehensive regulations for valuers' registration and conduct. This led to standardized valuation practices, ensuring consistency and reliability in valuation reports.
2. *Key Role in Insolvency Resolution:* Registered valuers are now integral to the Corporate Insolvency Resolution Process (CIRP). They determine the fair and liquidation value of assets, crucial for informed decision-making by creditors and resolution professionals.
3. *Regulatory Framework:* The IBBI, through the Companies (Registered Valuers and Valuation) Rules, 2017, established a strong regulatory framework. This includes eligibility criteria, educational qualifications, and a code of conduct, ensuring professionalism and ethical practices in the valuation profession.
4. *Enhanced Professionalism:* The mandatory registration and adherence to professional standards have made valuers more professional and accountable. This has increased the credibility and trust in valuation reports used in insolvency proceedings.
5. *Continuous Learning and Development:* The IBC framework emphasizes continuous professional development for valuers. This ensures they stay updated with the latest valuation techniques and regulatory changes, maintaining high standards of practice.

## KEY JUDICIAL RULINGS EMPHASIZING THE ROLE OF REGISTERED VALUERS

Several court decisions have underscored the importance of registered valuers in the insolvency resolution process under the IBC:

1. *Swiss Ribbons Pvt. Ltd. & Anr. v. Union of India & Ors.* (2019): The Supreme Court of India highlighted the crucial role of valuers in determining the fair and liquidation value of assets, which is essential for the resolution process.
2. *Binani Industries Limited v. Bank of Baroda & Anr.* (2018): The National Company Law Appellate Tribunal (NCLAT) reiterated the importance of transparent and fair valuation in the resolution process. The ruling stressed that accurate valuations are vital for creditors to make informed decisions.
3. *Essar Steel India Limited v. Satish Kumar Gupta & Ors.* (2019): The Supreme Court's judgment reinforced the significance of values in the CIRP. It highlighted how precise valuation reports are crucial for achieving fair and equitable resolutions for all stakeholders.

## ENHANCED ROLE AND RESPONSIBILITIES

The enhanced role of registered valuers post-IBC has brought about several new responsibilities:

1. **Fair and Transparent Valuation:** Valuers are required to provide fair and transparent valuations, ensuring that all stakeholders have a clear understanding of the value of the assets involved in the insolvency process.
2. **Compliance with Regulatory Standards:** Registered valuers must comply with the standards and guidelines set forth by the IBBI. This includes adhering to ethical practices, maintaining professional integrity, and ensuring accuracy in their valuation reports.

3. **Reporting Obligations:** Valuers have reporting obligations to the IBBI and other regulatory bodies. They must submit detailed valuation reports that are compliant with regulatory standards and provide all necessary disclosures.
4. **Continuous Professional Development:** The IBC framework requires valuers to engage in continuous professional development. This ensures that they stay updated with the latest developments in valuation techniques and regulatory changes.

## IMPACT ON NON-PERFORMING ASSETS (NPAs)

The implementation of the IBC has had a significant impact on the management and resolution of non-performing assets (NPAs).

1. **Reduction in NPAs:** According to data from the Reserve Bank of India (RBI), the gross NPAs of scheduled commercial banks peaked at 11.2% in March 2018. Following the implementation of the IBC, this number saw a significant reduction. By March 2020, the gross NPAs had reduced to 8.5%, showcasing the effectiveness of the IBC in resolving stressed assets.
2. **Enhanced Recovery Rates:** The recovery rates for distressed assets have improved post-IBC. The Economic Survey of India 2018-19 reported that the recovery rate under the IBC was around 43%, which was significantly higher compared to the recovery rates of previous mechanisms such as the SARFAESI Act and Debt Recovery Tribunals (DRTs).
3. **Timely Resolutions:** The IBC mandates strict timelines for the resolution process, typically 180 days, extendable by another 90 days. This has led to more timely resolutions of NPAs, reducing the burden on banks and helping them clean up their balance sheets.

## CONCLUSION

The implementation of the Insolvency and Bankruptcy Code, 2016, has significantly transformed the role of registered valuers in India. From a fragmented and inconsistent regulatory environment, the IBC has brought about a structured and standardized framework, elevating the importance of valuers in the insolvency resolution process. With increased professionalism, accountability, and regulatory oversight, registered valuers now play a critical role in ensuring fair and efficient insolvency resolutions.

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# ENHANCING ACCURACY IN PLANT & MACHINERY VALUATION IN INDIA

**R. SHYAMSUNDER**

IBBI Registered Valuer - Plant & Machinery



*Mr. Ramakrishnan Shyamsunder is a seasoned professional with over 17 years of international experience in the oil and gas industry and 23 years in nuclear, engineering, and process industries in India. As a Senior EPC Project Procurement/Contracts specialist, he has demonstrated strong commercial acumen, quick decision-making, and a commitment to stakeholders. His expertise spans from fasteners to critical process equipment, including site commissioning and related services. He is well-versed in industry codes, quality standards, and Approved Vendor Lists of reputed National Oil Companies in the GCC region. He has worked with local and overseas subcontractors, managed key project phases, and held managerial positions approved by leading clients like ADNOC, ADCO, PDO, and QP. Mr. Shyamsunder is also an ISO 9001:2015 Lead Auditor with direct expediting, quality assurance, and pre-qualification audit experience across India, UAE, Qatar, China, and Europe. Additionally, he is a registered valuer of plant and machinery under IBBI and a Social Auditor under ICAI SAO.*

## INTRODUCTION

Enhancing accuracy in the valuation process is crucial, as it significantly impacts the reported value and ensures reliable financial information. This article explores ways to improve the accuracy and examine the potential sources of bias of P&M valuation in India by examining potential sources of discrepancies and their consequences.

### 1. SOURCES OF BIAS IN P&M VALUATION

Several factors can introduce bias into the valuation process, potentially leading to an overvaluation or undervaluation of P&M. Some key sources are discussed below.

- *Valuer Selection Bias*

The selection of the valuer can significantly influence the outcome. In India, there's a growing pool of registered valuers, but some companies might choose valuers with a history of inflating valuations, especially in loan applications. This "confirmation bias" can lead to an overvalued asset on the books.

- *Data Availability and Quality*

Accurate valuation relies heavily on reliable data about the P&M's age, condition, functionality, and market comparable. Incomplete or inaccurate data can skew the valuation process. For instance, if a valuer lacks access to service history records, they might underestimate the remaining useful life of the machinery, leading to an undervaluation.

- *Valuation Methodology Bias*

Different valuation methodologies (e.g., market approach, income approach, cost approach) have their

strengths and weaknesses. Selecting an inappropriate methodology for a specific asset type can introduce bias. For example, using the cost approach for valuing specialized machinery with a limited market might lead to an inflated value due to the difficulty of finding comparable replacements.

- *Client pressure and Conflicts of Interest*

Valuers can face pressure from clients to achieve a desired valuation outcome, especially when valuations are used for loan applications or financial reporting. This "advocacy bias" can compromise the valuer's objectivity and lead to an inflated valuation to secure financing or appease investors.

- *Lack of transparency and standardization*

The valuation process in India can be opaque, with limited documentation and disclosure of the valuation methodology and assumptions used. This lack of transparency makes it difficult to identify and address potential biases. Additionally, the absence of standardized valuation practices can lead to inconsistencies and increase the risk of bias.

### 2. EXAMPLES OF BIASED VALUATIONS

Let's consider some real-world scenarios where bias in P&M valuation can have significant consequences:

- *Scenario-1: Loan Application*

A company seeking a loan might choose a valuer known for inflating valuations. The valuer, due to confirmation bias, overvalues the P&M, allowing the company to secure a larger loan than it could otherwise qualify for. However, if the company struggles to repay the loan, the bank might end up with collateral (the P&M) with a lower value than initially reported, impacting their recovery.

- *Scenario-2: Mergers and Acquisitions*

During a merger or acquisition, the buyer might use an under-valuation strategy to negotiate a lower purchase price. The valuer, under pressure from the buyer, might focus on the machinery's age and potential obsolescence, neglecting its remaining useful life and functionality. This undervaluation could disadvantage the seller and lead to a lower acquisition price.

- *Scenario-3: Financial Reporting*

A company might use outdated valuation methods or manipulate data to present a higher P&M value on its financial statements. This "earnings management" tactic can mislead investors and creditors about the company's true financial health. If the inflated valuation is discovered later, it could lead to a loss of investor confidence and regulatory scrutiny.

### 3. CONSEQUENCES OF BIAS IN P&M VALUATION

The consequences of bias in P&M valuation can be far-reaching, impacting various stakeholders during the process. The impact on a few major stakeholders is discussed below.

- *Financial Institutions*

An overvalued P&M can lead to increased credit risk for banks and other lenders, as collateral might not be worth the amount initially reported. This can lead to higher loan defaults and financial losses.

- *Investors*

Inaccurate valuations can mislead investors about a company's financial health and profitability. An overvalued P&M can create an illusion of financial strength, leading to poor investment decisions.

- *Regulatory Bodies*

Inaccurate valuations can undermine the integrity of financial reporting and make it difficult for regulators to monitor financial stability. Additionally, biased valuations can create an uneven playing field for businesses.

### 4. MITIGATING BIAS IN P&M VALUATION

Several measures can be taken to mitigate bias in P&M valuation in India

- *Strengthening Valuer Regulation*

The Insolvency and Bankruptcy Board of India (IBBI) can further strengthen regulations governing registered valuers. This includes stricter vetting processes, mandatory continuing education, and stricter penalties for biased valuations.

- *Promoting Transparency and Standardization*

The valuation profession in India can benefit from increased transparency in the valuation process. This includes mandating comprehensive valuation reports that clearly outline the methodology used, the data relied upon, and the key assumptions made. Additionally, developing standardised valuation practices for different P&M types can minimize inconsistencies and reduce the risk of bias. Few other factors that mitigate bias are as follows.

- *Enhancing Data Quality and Availability*

Improving access to reliable data sources is crucial for accurate valuations. This could involve encouraging companies to maintain detailed service records for their P&M and developing industry-wide databases with historical pricing information for used machinery. Additionally, valuers should critically evaluate the data they receive and be prepared to adjust their valuations

if the data quality is suspect.

- *Client Education and Ethical Practices*

Educating clients about the importance of unbiased valuations and the potential consequences of bias is essential. Promoting ethical practices within the valuation profession can help ensure valuers resist client pressure and maintain their objectivity. This could involve establishing a code of ethics for valuers and providing them with resources and training to identify and address potential biases.

## 5. TECHNOLOGY AND AUTOMATION

Utilizing technology tools like valuation software can help streamline the valuation process and minimize human error. Additionally, exploring the potential of advanced analytics and machine learning in P&M valuation could lead to more objective and data-driven valuations.

- *The Role of Technology and Automation*

While human expertise remains vital in P&M valuation, technology offers new possibilities for mitigating bias. Valuation software can automate tedious tasks like data collection and calculations, reducing the potential for human error. Additionally, the software can incorporate vast dataset of market information and historical trends, leading to more informed valuation decisions.

However, it's crucial to recognize the limitations of technology. The software is only as good as the data it's fed with, and biased data can lead to biased valuations even with automation. Therefore, human oversight and critical thinking are still necessary to ensure the software is used effectively and potential biases within the data are identified and addressed.

## 6. THE FUTURE OF P&M VALUATION IN INDIA

By implementing the measures outlined above, the Indian valuation profession can move towards a more robust and bias-mitigated approach to P&M valuation. This will benefit various stakeholders, including financial institutions, investors, regulatory bodies, and businesses themselves.

Looking ahead, continuous improvement in data quality, standardization of practices, and the responsible application of technology will be key drivers in achieving more objective and reliable P&M valuations in India. This will foster a more transparent and efficient financial ecosystem, ultimately contributing to the country's economic growth and stability.

The valuation profession in India is constantly evolving. Staying updated on new regulations, emerging technologies, and best practices will be essential for valuers to maintain their competence and provide unbiased and reliable valuations in the ever-changing economic landscape.

## 7. CONCLUSION

Bias in P&M valuation can have significant consequences for various stakeholders in the Indian financial system. By acknowledging the potential sources of bias and implementing effective mitigation strategies, the valuation profession can ensure more accurate and unbiased valuations. This will lead to a more transparent and efficient financial ecosystem, fostering economic growth and stability in India.

# BRAIN-TEASER



**B.K. ARUNA**

B.E., D.Arch (Hons.), A.I.V., M.I.E., C.E., M.I.S.T.E.  
Registered Valuer  
Chartered Engineer

Author Of The Book:  
"Let Us Refresh Our Knowledge"

## CLUES: ACROSS

2. For \_\_\_\_\_ security, quite often, the purpose of valuation is to certify the present worth, stage cost, cost on completion and to issue a completion certificate. (7)
5. According to the amendment made in the financial year 2017 – 18 in capital gains, \_\_\_\_\_ is the cost inflation index for 2001 – 02. (7)
9. As per \_\_\_\_\_ Act, the eviction right is with the landlord. (4,7)
10. Upset price is also called as \_\_\_\_\_ price. (7)
11. Capital gain is not applicable in the case of gift or \_\_\_\_\_. (4)
12. The first column in a valuation report must be the \_\_\_\_\_ of valuation. (7)

## CLUES: DOWN

1. Mr. X invests money Rs. 15,00,000/- in a bank, and he gets every month Rs. 10,000/- as monthly interest. The rate of interest is \_\_\_\_\_ percent. (5)
3. The extra price which is demanded by a vendor when he attaches certain sentiments to his property is known as \_\_\_\_\_ value, which has no relation with the market value. (11)
4. Any profit or gain arising from the transfer of a capital asset is called \_\_\_\_\_. (7,4)
6. \_\_\_\_\_ means the reduction in numbers or quantity. (9)
7. \_\_\_\_\_ is certified generally for primary securities. (4)
8. The \_\_\_\_\_'s rights will be more if the lease period is less. (6)

# CROSSWORD PUZZLE – 8

|    |   |   |  |   |  |  |  |   |  |    |   |  |   |
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| 2  |   |   |  |   |  |  |  |   |  |    |   |  | 3 |
|    |   |   |  |   |  |  |  |   |  |    | 4 |  |   |
|    |   | 5 |  |   |  |  |  | 6 |  |    |   |  |   |
|    |   |   |  |   |  |  |  |   |  |    |   |  |   |
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| 12 |   |   |  |   |  |  |  |   |  |    |   |  |   |

## ANSWER KEY

### ACROSS

- 2. PRIMARY
- 5. HUNDRED
- 9. RENTCONTROL
- 10. RESERVE
- 11. WILL
- 12. PURPOSE

### DOWN

- 1. EIGHT
- 3. SENTIMENTAL
- 4. CAPITALGAIN
- 6. DEPLETION
- 7. COST
- 8. LESSOR

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PUZZLE section has been *introduced by*  
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Dated: Jan'24

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