

Abstract

Valuation under insolvency – had always been a riddle for common man and even valuers. Standardising methodology is essential in nation interest, failing which disputed cases continue to mount.

Valuation under Insolvency



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Insolvency valuation is always a challenge. Here is a humble attempt to make some suggestions to current issues

What are issues?

IBC 2016 has resolved 1000+ cases

And pending cases are 12000+

While a great work has been carried out to achieve realization of assets, enough impact is not seen in economy. Significant recoveries are also affected. Then what is missing.

1. There is no standard for valuation under insolvency. Is it required? While valuation standards have been prescribed for different classes of assets and even liabilities. The valuation standards are not prescribed for specific situations. However when such situations become common there is a need to rethink whether separate standard is needed.
2. One more such example is start-up valuation, where traditional models do not so well. Similarly BFSI sector, cyclical industry, insurance, investment companies and of course, insolvency have different factors which need special consideration as they are not on beaten path of traditional valuation methods.
3. Going forward accounting standards normally apply for going concern while liquidation accounts are prescribed for insolvency. If that be the case, will valuation standards of traditional nature justify? Obviously No

Hence here is proposed method

1. Under insolvency also, the primary objective should be whether turnaround is possible. Therefore, valuers be entrusted with work of trying valuation by both the method “fair value” as well as “liquidation value”
2. The current process of individual assets valuation that too by 2 valuers each of the classes land and building, plant & equipment and securities & financial assets, necessarily is a prescription of closing the business. Whole purpose of doing all activities in a timely manner to try and get value to business and creditors gets lost in the process
3. Reason being the goodwill, the synergy benefits, the intangible assets and control premium get lost as they are not valued anywhere. Refer my article in magazine valuers professional insights vol I on 94 types of intangible assets.
4. Should valuer get into seat of CEO or a turnaround specialist and a company-closing champion or is that a job of insolvency professional. Should insolvency professional primarily focus on how to quickly wind up.
5. Is hair cut becoming head cut, body-cut or at least bald head. This gives rise to thought process of IP and RV jointly playing a role of turnaround specialist than closure champions, which will be in national interest.
6. It is expected that enterprise valuation concept will be included soon by IBBI, which will amount to first step in right direction
7. Having said that, it is not easy for enterprise valuation to think of innovative ideas of turnaround. But for mis-governance cases the finding of limiting factor, which resulted finally into cash-flow crunch, may or may not have solution.

A few cases out of practical experience are elaborated below

1. A very good blue-chip company went in trouble as they had no non-funded limits of bank guarantees required to be given for government tenders. But for that it had huge valuation
2. Another company got jammed because almost 100 cr were stuck in government disputed receivables.
3. 3rd company had income model valuation of 130 crores while cost model was 119 crores. But if investment of 20 cr is put for balancing equipment, it could have produced income model valuation of 330 cr. Now is it possible for a valuer to recommend such things and then who will implement. Will COC take risk???

So it gives rise to new issues. But it is better to raise issues and handle them than keeping them under carpet.

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