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WIRC BULLETIN

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Theme : Valuation

Happy Diwali

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Inside Bulletin

WESTERN INDIA REGIONAL COUNCIL
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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From the Desk of Chairman . . . . . .

Satisfaction lies in the effort, not in the attainment. ~ Mahatma Gandhi

My last communiqué outlined the areas to focus in the coming times viz. #Agenda21.

With that objective in mind two initial steps taken are:

1. Creation of Dedicated email IDs, contact Mobile Numbers for each forum;
2. Designating Official contact person for each forum;

These steps are expected to ensure:

1. Two ways Communication;
2. Definitive time bound action;
3. Perpetuity and
4. Area specific Data Bank creation.

People associated with each Forum may change; like New Members may join the Team, some may opt-out or opt for a change, Designated Officials may change etc. but continuity in functioning of the Forums will be ensured.

This is expected to create long lasting benefits to our Profession. Activities, Plans, Programs, etc. of all the Forums will be published in the Bulletin on a continuous basis. We have designated an Official to ensure that.

Your Regional Council requests CMAs to come forward and extend support in improving Professional Development and Development of Profession. You may please contact any RCM or respective Designated Official for this purpose. You may also choose to communicate with designated email id chairman@icmai-wirc.in

As, Neil Armstrong on reaching the surface of Moon said "That's one small step for man, one giant leap for mankind". We, at WIRC feel that with activities and such steps we will reach our goal.

Jai Hind

CMA Harshad S. Deshpande
Chairman, ICAI-WIRC.

Task Force : Their Roles and functioning

Name	Role	Designated Official	Contact Details
Task Force for Members in Practice (No. of Meetings till date: 1)	A Professional Institute is recognised by the strength of its Practicing members. This Task Force would be focusing mainly upon creating opportunities for the CMA Practitioners and to provide them with adequate handholding in order to ensure that the CMA Practitioner gets the required guidance, assistance & technical material.	Mrs. Gauri Phadke	E-mail: mip@icmai-wirc.in Mobile: 9372045191
Task Force for Members in Industry (No. of Meetings till date: 1)	More than 90% of our members of the Institute are working in the Industry. This task force would be concentrating on the need of the members who are working as employees in an organisation. Their needs like specialised training, placement assistance, resume writing & other soft skills would be taken care by the members of this task force. Moreover, the Members achieving excellence also need to be given proper recognition from the Institute.	Mr. K.P. Unnikrishan	E-mail: mii@icmai-wirc.in Mobile: 9892025045
Task Force for Women Empowerment (No. of Meetings till date: 2)	This task force would take care of various aspects that Woman CMA member would like to be provided by the Institute. CMAs either working as an employee or practicing or in academics does have to face certain difficulties in their attainment of their goals. This Task force comprising of only WOMEN will attempt to resolve such difficulties and provide them facilitation in order to excel in their vocation.	Mrs. Kanchan Shrivastava	E-mail : wem@icmai-wirc.in Mobile: 8828051444

Social Media Army (No. of Meetings till date: 2)	New Normal is going to be carrying out the activities wherever possible in an online mode. Social Media platforms create the image & impression of the Institute. This task force will be dedicated to handling various social media mediums and create positivity and Branding of the Institute in coming days.	Ms. Aditi Vora	E-mail : sma@icmai-wirc.in Mobile: 9930127998
Task Force for Empowering Young CMAs (No. of Meetings till date: 1)	We always recollect help when we need the most. Our next generation entering this competitive professional world is in practice or in employment need to be empowered with the requisite skills sets and endowed with the technical knowledge. This Task force is dedicated to assist and mentor our Gennext so that they should be able to stand on their own feet and prosper	Mr. Tanmay More	E-mail : ycma@icmai-wirc.in Mobile: 8828061444
Task Force for Members in Academics (No. of Meetings till date: 1)	This newly created task force is focused to cater to the need of members who are in academics. These members are linking the three arms which are the Institute, Members & the Students. Their expectations are somewhat different which would be taken care by the members of the Task Force. This alignment would not only help the members in academics but will be great help to our Students' community & provide us the Branding of an erudite Institute.	Mr. D. G. Vanjari	E-mail : mia@icmai-wirc.in Mobile: 9892185588

Designated email for Webinar/Seminar : wirc.admin@icmai.in – Designated Official : Mrs. Gauri Phadke – Mob.: 93720 45191

Activities undertaken during October 2020

- Webinar on SAP Co. Series Part I - 9, 10 & 11th October 2020 - CMA Jayesh Desai
- Webinar on E Invoicing – Understanding the System & FAQ from GSTN officials - 13th October, 2020 jointly with Tax Research Department of the Institute.
- Webinar on An Analysis of Companies (Amendment) Act, 2020 – CMA Dr. P. V .S. Jagan Mohan Rao, Advisor & Immediate Past President SAFA &Past President ICSI - 14th October 2020
- Webinar on Innovations in Finance – Dr. Girish Jakhotiya - 16th October 2020
- Webinar Series for Women : Worship - Nine Avatars of MAA Durga – 17th October to 24th October 2020.
- Webinar on GST Annual Return (GSTR-9) and GST Audit (GSTR-9C) – 25th October 2020 on the occasion of Dussehra. The Chief Guest was Shri Arvind Bhansali, Head GST - Reliance industries Ltd and Reliance Retail Ltd. The Keynote Speaker was Shri Samir Bajaj, Commissioner CGST Bhiwandi, Mumbai Zone. The other Speaker was CMA (Dr). Shailendra Saxena.
- Online Crash Course for Intermediate & Final students appearing for December 2020 Examination from 1st November 2020 to 12th November 2020.
  - Visit to Office of ROC, Mumbai.
  - Visit to Regional Director of MCA, Govt of India.
  - Visit to Bank of Maharashtra, Pune.

What all we achieved of #Agenda 21 in the month of October

 # Agenda17 Crash Courses / Exam Preparations sessions for WIRC students
Started the Crash Course for Intermediate and Final. We had 2500 + registration for Intermediate 800 + for Final students.

 # Agenda18 Effective use of Technology for the benefit of members & students- Revamp of Website Mobile App Digitalization of members & Students Services
Effectively communicating all the events via online Platforms like Zoom, Gotowebinar.com & YouTube Live so that we can reach Students & Members across the corners of the region.

 # Agenda19 Empowering Woman CMAs through focused programs throughout year

Navratri Event by Task Force for Women Empowerment was well received. It had a record participation of 600 + for the event. (Partial Completion)

 # Agenda 21 Sports, Music, Trekking and other extra-curricular activities like Organising Sports events, Trekking events, Cycle tour, Music / Art workshops, etc.

We had meetings of All Task Force & Committees within one month. Navratri Event had mix of unique programs like Annapurna, Smart CMA, Leadership skills, Health is Wealth. (Partial Completion)

From Desk of Chief Editor . . . . . .

Dear CMA Professional Colleagues,

After relaxation of various due dates by GOI and decrease in COVID cases, Hope you all are enjoying festive season.

Valuation is one of the most promising and emerging area for Cost and Management Accountants. CMA's have to play a pivotal role in the field of valuation. Many CMA's are currently qualified as register valuer and are doing good practice as register valuer. Theme of this bulletin is "Valuation". We have received excellent response from members. We have received 14 articles on the theme of Valuation. We are very much thankful to CMA Rammohan Bhave and CMA R K Patel for helping us in getting good number of articles with excellent content. Articles on the theme are published as cover story.

We had started publishing hardcopy of bulletin from the month of October 2020 after a gap of six months. Hence, we have to restrict our bulletin upto 52 pages. We have published articles related on theme only in this bulletin due to limitation of number of pages. Articles on other professional matters which are received this month will be published in next bulletin. I am thankful to all authors for providing articles and making WIRC bulletin a Knowledge Pack.

We have also start publishing interview of CMAs who had reached a respectable position like CFO, VP, Director etc. Objective of the same to share their experience with CMA fraternity. It will inspire young CMAs for making their future brighter. In this bulletin, we have published interview of CMA Vinod Shete. I request our proud CMAs who reach at highest position during their career to share their experience with CMA fraternity. Place reach us so that we can conduct interview.

Women empowerment is also one of the needs of the hour. We have also decided to publish at least one article from lady CMA. We are getting regular articles from lady CMA's.

We have started "GST Corner" in the bulletin. GST corner will contain major update related to GST during past month and due dates of GST for next month. I am thankful to CMA Vandit Trivedi to take responsibility for compiling the updates.

I urge the members to share knowledge by way of article to make WIRC Bulletins Knowledge Pack.

We welcome suggestions and feedback for betterment of WIRC Bulletin.

Wish You Happy and Safe Diwali!!!!!!

Happy Reading !!!

With Ward Regards

CMA Ashish Bhavsar
Chairman, Editorial Board

Valuation of ESOPs

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An employee stock option plan (ESOP) is an employee benefit plan that gives employees a right to ownership interest in the company.

It is a right (not an obligation) offered by the company to its employees to purchase equity shares of the company at a pre-determined price at a future date.

ESOPs are an effective way to attract, retain and reward human capital. The employee feels entitlement of ownership and participation in wealth creation. ESOP is a deferred compensation strategy wherein options granted are vested to employees only on fulfillment of service conditions and/or performance conditions.

ESOP compensation cost is a non-cash expenditure, and thus does not affect the cash profits of the organization.

ESOPs are an effective tool to attract talent by an early stage company which constantly faces cash flow pressure. For mature companies, ESOPs as a compensation strategy is effective to retain and reward senior employees and key managerial persons.

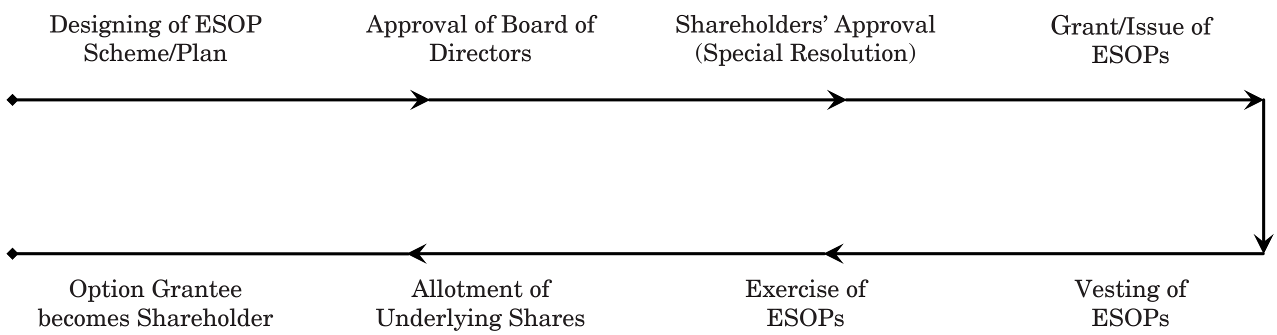
In either case, ESOPs act as motivation and improves longevity of employee's association with the organization.

Important Terms/Concepts

Grant Date	The date on which the Board approves the grant of options
Vesting Date	The date on which the employee becomes entitled to receive the benefit of grant made to him
Vesting Period	The time period between grant date and vesting date
Exercise Price	The price payable by the employee for exercising the option
Exercise Period	The time period after vesting within which an employee should exercise his/her right to apply for shares against the vested options
Exercise Date	The date on which employee exercises his/her vested options

e.g. ABC Ltd grants 1,000 options to Mr. X (an employee of the Company) at an exercise price of INR 50 on April 1, 2020. The options vest after two years from the date of grant (service condition) and exercisable within one year from vesting. Mr. X becomes an option grantee and these options will vest to him on April 1, 2022. He can exercise these options on or before April 1, 2023.

ESOP Life Cycle



Laws / Regulations governing grant/issuance of ESOPs

Section 62 (1) (b) of the Companies Act, 2013 provides that further issue of share capital to employees under a scheme of employee's stock option is subject to special resolution passed by company and such conditions as prescribed under Regulation 12 of the Companies (Share Capital and Debentures) Rules, 2014. If a listed company plans to grant ESOPs, it has to also comply with SEBI (Share Based Employee Benefits) Regulations, 2014.

Measurement (Valuation) of ESOPs

ESOPs provide a right – not an obligation – to the employees to purchase equity shares of the company at a pre-determine price at a future date. ESOPs are financial instruments with characteristics identical to that of a "Call" option wherein the holder of the option has the right, but not the obligation, to exercise the option. The employee will exercise the option only if the share price on the date of exercise is greater than the exercise price (In-the-Money).

In the example mentioned above, Mr. X will exercise his vested options between April 1, 2022 and April 1, 2023 only if the share price of the company is above INR 50. If the share price during the exercise period remains less than the exercise price of INR 50 (Out-of-the-Money), the employee will not exercise his vested options and allow them to lapse.

The logic behind this action is Mr. X can purchase the shares of the company in the open market (stock exchange) at a lower price, rather than the exercising the option and purchasing shares at exercise price from the company.

The value of ESOPs is estimated on the date of grant (i.e. measurement date) and ESOP compensation cost (Value per ESOP x No. of ESOPs Granted) is amortized over the vesting period. Ind AS 102 (Share Based Payment) prescribes Fair Value Method of accounting for entities following Ind AS. Whereas, Guidance Note on Accounting for Employee Share-based Payments prescribes Intrinsic Value Method or Fair Value Method of accounting for entities following Indian GAAP.

Intrinsic Value is the amount by which the share price exceeds the exercise price of the option. The quoted market price of the underlying share in case of a listed entity or the value of the underlying share determined by an independent valuer in case of unlisted entity is considered as the share price.

Intrinsic Value = Share Price – Exercise Price of an Option

In the aforementioned example, if the share price of ABC Ltd on the date of grant is INR 55, then the intrinsic value of ESOPs granted to Mr. X will be INR 55 – INR 50 = INR 5. The ESOP compensation cost with respect to ESOPs granted to Mr. X (INR 5 x 1,000 options i.e. INR 5,000) is amortized over the vesting period (i.e. between April 1, 2020 and April 1, 2022). If the share price of ABC Ltd on the date of grant is below INR 50, then the intrinsic value of the option will be "zero", because value of the option cannot be negative. In other words, intrinsic value of option is Max (S0 – K, 0) where S0 is the share price and K is the exercise price.

The biggest drawback of Intrinsic Value method is it ignores time value of option. Even if the option is at-the-money or out-of-the-money at thme of grant (i.e. intrinsic value of the option is zero), the options have time value because they are exercisable over a period of time. In mathematical terms, Value of Option = Intrinsic Value + Time Value.

Fair Value of options granted is estimated by applying an option pricing model such as Black-Scholes-Merton formula or Binomial model. All option pricing models take into account, as a minimum, the following factors:

(a) the exercise price of the option (K)

(b) the life of the option (T)

(c) the current price of the underlying shares (S0)

(d) the expected volatility of the share price (ó)

(e) the dividends expected on the shares (if appropriate); and

(f) the risk-free interest rate for the life of the option (r)

Black-Scholes-Merton (BSM) model is one of the most widely used option pricing model to value employee stock options. The above mentioned factors/variables significantly influence the fair value of option any change in these variables could significantly affect the fair value of the option.

$$c = S_0 N(d_1) - Ke^{-rT} N(d_2)$$

$$p = Ke^{-rT} N(-d_2) - S_0 N(-d_1)$$

$$d_1 = \frac{\ln(S_0/K) + (r + \sigma^2/2)T}{\sigma\sqrt{T}}$$

$$d_2 = \frac{\ln(S_0/K) + (r - \sigma^2/2)T}{\sigma\sqrt{T}} = d_1 - \sigma\sqrt{T}$$

Without getting into the derivation of Black-Scholes-Merton model, let's apply the BSM formula to our example for estimating the fair value of options.

Variables	Inputs	
Share Price (INR)	55.00	Share Price on the date of grant
Exercise Price (INR)	50.00	Exercise Price of the ESOPs granted
Expected Life (In Years)	2.50	Average of Minimum Life and Maximum Life
Risk-free Rate (%)	5.28	Govt Bond Yield (corresponding to expected life)
Volatility (%)	20.00	Assumed to be 20%
Dividend Yield (%)	0.00	Assumed to be zero dividend

The fair value of ESOPs granted using the Black-Scholes-Merton formula with variables/inputs mentioned above comes to INR 13.32. The ESOP compensation cost (based on fair value method) with respect to ESOPs granted to Mr. X (INR 13.32 x 1,000 options i.e. INR 13,320) is amortized over the vesting period (i.e. between April 1, 2020 and April 1, 2022).

If you recall, the intrinsic value of the ESOP was INR 5.00. Hence, the time value component of the value of ESOP is approximately INR 8.32.

The Black-Scholes-Merton model operates under simplifying assumptions, resulting in significant limitations in real-world scenarios such as underestimation of extreme moves (tail risk), assumption of no transaction costs, assumption of continuous time and assumption of constant volatility. Nonetheless, the Black-Scholes-Merton model is used globally to estimate the fair value of ESOPs because of its simplicity and ease of use.

Valuation of assets for Material Damage Insurance

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Introduction

The insurance is an effective mechanism of protection of property unless the insurance policies respond in full measure in case of claims against inadequacies in scope of coverage and sum insured. Therefore, there is a need to properly understand the relation between the indemnity provided and the sum insured under the insurance policies. The indemnity provided can be on market value, reinstatement value or agreed value basis. The principle of average will apply if the sum insured does not correctly reflect the value of assets and the same is treated as under insured. Hence Proper valuation of asset for the purpose of fixing sum insured is very important. This article discussed the various methods of valuation in general and specifically those related to material damages under fire and engineering insurance policies.

Why insurance?

The insurance provides protection to the properties against damages caused due to perils like fire, natural calamities, machinery breakdown, theft/ burglary, etc. as covered under the insurance policy. The physical assets are insured for one of the following two reasons:

1) The replacement of asset or income or both lost through the occurrence of specified contingencies / perils.
2) Relief from legal liabilities incurred through the occurrence of specified contingencies / perils.

The first category covers all property insurance, e.g. fire, machinery break down, motor, marine, etc. and the second category covers all liability coverages. This article is confined to the asset valuation for fixing sum insured, under fire and engineering insurances for building, plant & machinery and stock.

The sum insured and its adequacy

The sum insured under an insurance policy serves as:

a) an amount on which premium is charged,
b) the maximum liability of the insurance company (the insurer) within the policy, and
c) the basis for the calculation of under insurance in the event of claim

Insurance provides full protection only when the sum insured is adequate both when the insurance is first purchased as also at every subsequent renewals. The adequacy of sum insured is very critical to the insured if the policy is "subject to condition of average". The implications of no adequacy of sum issued are:

1. If the sum insured is too low (under insurance), the insured would end up receiving a settlement which would be substantially less than the full settlement of the claim thereby defeating the very purpose of insurance.
2. Over insurance would only mean over payment of premium and anyway no benefits will accrue at the time of claim.

The adequacy of sum insured is not only of great concern from the view of the insured but also from the view of point of the insurers. The insured feels cheated if he does not get adequate indemnity because of under insurance and it may strain the insurer's relationship with clients. Clients expect necessary advice on this account from the insurer who they believe are experts and must exhibit professionalism. However, there is tendency on the part of the insured also to save on premium. But the insurers are also expected to render their part of the duty on advising on sum insured to avoid stress in relationship with the insured at the time of claim and at the same time building image of the insurance company in the market.

Asset Valuation

The assets are required to be valued for different purposes like taxes, balance sheet, merger and acquisition, etc., so as for insurance. Though there exist various methods of valuation, appropriate valuation method depends upon the purpose of valuation as also on the nature of assets involved. The various methods employed for valuation are reviewed here and then examined the current practices being followed in respect of valuation of assets for the purpose of insurance. The various methods used for valuation are as under:

1. **Valuation based on replacement cost basis:** Here the cost of a new machine of similar nature, make and capacity if available is found out. This cost will represent the value on replacement cost basis.
2. **Good as new:** There are situation where machine / plant is working satisfactorily because of good maintenance. In such situation, this valuation method is used which represents the original actual cost less depreciation but adding back the maintenance cost.
3. **Sum of part valuation:** This method of valuation is used where the equipment is not of composite nature. In this method all the different units / component are valued separately and then added up to arrive at the composite value. But this method has the inherent risk of technological process in that if one part is damaged but not available, the entire assembly becomes scrap. The loss in such situation is not limited to that part only.

4 **Fair value method:** This represents the value in exchange. This method of valuation is applicable to assets that can be currently exchanged in the market for value e.g. whatever may be the cost of production of an item, its value in the market for sale in exchange for cash is the fair value.

5 **Depreciation methods:**

a) **Book Value:** This represents the written down value of the assets in the books of accounts. In the first year of acquisition, this represents the actual cost of the asset and with each passing year appropriate depreciation is charged and the value of the asset is reduced accordingly. Over a period of time, the asset value become so low that it will not reflect the true worth of asset.

b) **Market Value:** In this method depreciation is allowed on current replacement value of the asset for the number of years it has been in use to arrive at market value.

Asset valuation for fixing sum insured

For insurance purpose generally market value concept is employed. However, incidentally in its first year the book value and the market value may be the same. Market value represents the amount at which assets of the same age and specification can be bought and sold. It generally takes into account depreciation because of use and appreciation because of inflation. The depreciation may also take into accident technological obsolesce.

Fixing of sum insured must take into account covering complete indemnity in case of claim. The basis of indemnity under fire and engineering class of business is generally provided on either of the following two methods:

(1) Indemnity basis

(2) Reinstatement value basis

Under certain circumstances and if agreed upon by the insurance company the indemnity is also provided on "Agreed Value" basis.

Indemnity Basis: The value here is related to the age, present condition and suitability for use of the asset and hence depreciation because of age and use is taken into account. In case of claim, there will be financial strain on the insured.

Reinstatement value basis: No depreciation is deducted and the settlement of claim is on "new for old" basis. It will reflect the cost of replacing the existing asset by a new asset of similar kind, capacity and utility. The insured here will have least financial strain.

Agreed value basis: Under special circumstances policies are issued on agreed value also e.g. residual value insurance.

For the purpose of valuation of assets for fixing sum insured under material damage insurance policies, the assets are generally divided into the following groups:

1) Building, furniture, fixture, etc.
2) Plant & machinery
3) Stocks

This division is useful because each group has its own peculiarities & characteristics and hence need a separate treatment for valuation purpose.

Building, Furniture, Fixtures & Fittings(FFF), etc.

For insurance of building –

- Value of the land is to be excluded.
- The plinth and foundation do not get damaged in fire and hence may be excluded. Value of compound wall is to be included. But for earthquake extension, the same is to be insured as a separate item without corresponding insurance against fire perils.
- Sum insured of building above ground level building should be the same for both earthquake extension and the main fire policy.
- The value of embedded items either under the ground or in the walls/ roofs should form part of the valuation and by way of suitable wordings in the policy this intent should be reflected and made clear.

The buildings are generally insured on one of the following basis by the insured

1) Original cost basis
2) Book value basis
3) Market value basis
4) Reinstatement value basis

Original cost basis for buildings, FFF, etc.

This is the historical cost at which the building was acquired / constructed and capitalized. This can be the basis of sum insured during the first year of its acquisition / construction. With the passage of time this value has to be adjusted for depreciation due to its age and appreciation in value due to inflation.

Book value basis for buildings, FFF, etc.

The book value represents the written down value of assets after providing for depreciation on the original cost from year to year basis. This will lead to heavy under insurance with the passage of time except in case of new building in its first year of insurance.

Market value basis for buildings, FFF, etc.

This represents the amount at which property of the same age and condition can be bought or sold. This value takes into account both depreciation to the physical asset and appreciation due to inflation. The current cost of construction of similar building is taken and depreciation is applied for age, usage, maintenance, wear & tear, etc. The generally accepted method currently in use for building is to apply unit cost rate to the gross external areas of the building or cubic measurement of building and adjust subsequently to suit particular circumstances (built up area and construction specifications).

Reinstatement value basis for buildings, FFF, etc.

This represents the value of similar new property – No depreciation is charged and hence if the fire policy is taken under "reinstatement values" clause the property will be replaced without financial strain to the insured.

From the above it is clear that for a new building during its first year any valuation method would do for the purpose of insurance. But in subsequent years, it has to be preferably on reinstatement value basis.

Plant & machinery

Working out the sum insured for plant and machinery especially old one pose serious problems. For brand new plant and machinery for its first year of insurance, the original capital cost may be adequate. But this cost may require upword revision at the time of renewal of the very first insurance. However in case of very large industrial risks, which takes years to complete, the capitalized cost in the first year itself may not be sufficient to cover the replacement cost in case of claim. Insurance companies generally insure plant and machinery on either "market value basis" or "reinstatement value basis."

Market value for P & M

This method is suitable for machines of common type, used for general purposes, freely available in the market for sale / purchase. On the current replacement cost of the machines / plant is applied suitable depreciation (for age, use, wear and tear, etc.) to arrive at market value. The market value, thus, refers to the cost at the current price level of the asset of similar type and nature. Obviously this method is not suitable for plant and machinery of special nature that are not regularly bought and sold in the market.

Reinstatement value basis for P & M

The reinstatement value is represented by the cost of replacing the asset by new items of similar nature and capacity. Thus it gives new price of an old machine if available as new today. In case of old plant and machinery, we have serious problems in working out the reinstatement value i.e. the price cost of the original plant and machinery on current day replacement cost of a new similar plant and machinery. Obviously original cost of capitalization can not be a basis for sum insured. The problems associated with such exercise are:

1) Manufacturer stopping production of such machines
2) Manufacturer could have gone out of existence
3) Technological improvements taking place in the machines resulting
   a. Higher output / productivity
   b. Lesser manpower requirement
   c. Lesser fuel consumption and operating cost
   d. Additional range of function / compactness of machine, etc.
4) The machinery and technology may have become obsolete
   a. Functional obsolescence: Improved and efficient new version of the machine replaces the older machines that suffer from functional obsolescence.
   b. Economic obsolescence: External factors (such as government planning & industrial policy, legal environment, indigenous developments, etc.) which brings about absence of demand for products / machine thereby creating economic obsolescence.

Special treatment required in working out reinstatement value of P & M when:

1) The current price of similar machine / plant is available:

   Suitable adjustment to be made for technological advancements from the current price of similar machine / plant to which is added current landed cost plus installation costs, etc.
2) The current price of similar machine / plant is not available:

In such situation, use is made of what is called escalation method. If the insured's capital block account is maintained up-to-date, the appropriate replacement cost of the entire plant and machinery can be computed by applying a rate of escalation which is in tune with RBI index and which takes care of concerns on account of custom duty / rate of exchange, etc.

Insurance on Residual Value

For very old plant & machinery, which has run its life as per manufacturers prescription may have reached zero value. But because of good maintenance the plant and machinery is performing its duty. In such situation the insurance is sometimes done on residual value, which represent 25% to 50% of the actual cost, the balance being treated as depreciation. Such policies in insurance parlance are treated as agreed value basis. There can also be agreed value policies covering work of art, etc.

Stocks:

Valuations of stock for insurance do not pose much difficulty. Stocks are normally categorized into:

- Raw material
- Stock in process
- Finished goods

Raw materials are valued at net cost of acquisition at which the raw material is available to the insured.

Stocks in process are valued at – the maximum value of stock in process – the cost of raw materials, other inputs and processing cost at any given time.

Finished goods are valued at – Net manufacturing cost including factory overheads.

Valuation for Insurance -- Art, Science & Practice

From the above, it is clear that asset valuation for the purpose of insurance is a complicated and tricky affair. While theoretically it is easy to work out an algorithm for calculating the sum insured and its revision at every renewal, in practice it is a time consuming complicated job calling for acumen and specialized skill.

Fire insurance policies are generally sold on either market value (indemnity) basis or reinstatement value basis. As far as insurance company is concerned, it only wants the sum insured figure to be declared by the insured. In any case, the onus of proof lies with the insured in the event of the claims. Inadequate sum insured, therefore, has serious implication for the insured.

In case of old plant of high value and specialized nature fixing of sum insured, is of critical nature and should be handled carefully. There is therefore a need to engage a trained professionally approved valuer for this job. It has many advantages:

1) Confirmation that it has been assessed in accordance with good practice and sound methodology.
2) The valuation will provide an accurate basis for adjusting the sum insured at subsequent renewals of policies.
3) Take care of the avoidable outgo of premium because of over insurance and inadequate compensation because of under insurance in the event of claim.
4) While carrying out the valuation exercise, measurements, details of construction, important information about machinery and installation and other critical details are recorded can be of great use in the event of claim.
5) Valuation done by a professional valuer becomes a sound basis for negotiation of claims.
6) Valuation of each building separately provides basis for calculation of fire premium which depends upon type of construction and occupancies.

Periodicity of Asset Valuation for Insurance

It is desirable that organization have a program to revalue assets every five years and review those at every renewal. Review should include assessment of the assets current condition, required maintenance and estimated remaining useful life. This is an exercise which should form part of the risk management approach of the organizations. Inflationary trend should be kept in mind while adjusting sum insured.

Conclusion

The author has made an attempt to highlight the importance of adequacy of sum insured which has serious implication for the insured. The insurers would be failing in their professional duty towards their clients if they do not educate and inform them on this account. Insurance policies are issued on market value i.e. indemnity basis or reinstatement value basis. Special situation will require specific special approach. There cannot be "fit all" approach for all eventualities and situation keeping in view the principle of indemnity. In complex situations, "valuation" by an outside professional expert will certainty extend great comfort to both the insurers as well as the insureds. The author has experienced that most of the insureds, while settlement of claims, have faced the problem of under insurance having not covered adequate value of insured sum for the properties.

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Nine Avtars of MAA Durga - Webinar Series

Woman is considered as source of power and worshiped in the form of Maa Durga and her Nine Avtars. She is all-rounder and can handle all situations very strongly. She is the pillar of family who holds everyone under one roof.

To salute womanhood and spread Urja in the society, Women Empowerment Taskforce- WIRC- had arranged series of webinars on the auspicious occasion of Navratri from 17th to 24th October, 2020.

It is not only to appreciate the milestones that women have achieved on the professional fronts but also to show how efficiently they manage their work, life and their dear families.

The program was successfully executed under Guidance of Chairman WIRC- CMA Harshad Deshpande. Women Taskforce members CMA Minal Sonaje, CMA Poonam Shah, CMA Sakshi Jain and Student Representative Ms. Shreya and team had smartly arranged the program. The Program was graced by Honourable President-CMA Biswarup Basu and Honourable Vice-President-CMA P. Raju Iyer.

Business Valuation Part I - Valuation of Bonds

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(Some illustrations & explanations have been taken from the book "Simply Finance: Business Valuation" by the Author)

"A debt is like an enemy. As one should destroy his enemy without any trace, a debt should be paid till the penny."

Acharya Chanakya

Disclaimer

No investment recommendations are being made by the author. This is neither an invitation to invest, nor an encouragement to follow any particular style of investment.

The portfolio shown is purely for illustrative purposes & not a suggestion. The returns shown are just numbers included at random, not actual returns on these shares.

Every tool is only as good as the person wielding it. There is no error-proof tool or investment theory. All market investments carry risk.

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Introduction

Valuing a company is never easy. The assumptions, the expectations, the uncertainties, the governance issues – phew!

There are different approaches to assessing the true worth of an organization (not one is 100% accurate). However, we agree that the capital structure comprises debt & equity. It is therefore possible to have a reasonable estimate by first ascribing a value to the firm based on one or more methods; & then considering the value of debt. The total firm value minus market value of debt is the value of equity.

$V = D + E$

$V – D = E$

Where:

V = overall value of the organization

D = market value of debt

E = value of equity

This is the first of three articles – in Part I, we discuss valuation of bonds: & in Part II, we shall consider methods by which equity is valued. In Part III, we shall study methods of valuation of the entire business.

Recently, investors have lost money in a number of companies where they were bond-holders (including highly-rated entities, & secured debentures). Some debt mutual fund schemes were also hit by the downgrades in & defaults by companies in their portfolios.

Valuation of bonds is vital in valuing a business - whether it is for investment, acquisition, or insolvency.

The Name's Bond…Volatile Bond

"The price of a G-Sec, like other financial instruments, keeps fluctuating in the secondary market. The price is determined by demand and supply of the securities. Specifically, the prices of G-Secs are influenced by the level and changes in interest rates in the economy and other macro-economic factors, such as, expected rate of inflation, liquidity in the market, etc. Developments in other markets like money, foreign exchange, credit, commodity and capital markets also affect the price of the G-Secs. Further, developments in international bond markets, specifically the US Treasuries affect prices of G-Secs in India. Policy actions by RBI (e.g., announcements regarding changes in policy interest rates like Repo Rate, Cash Reserve Ratio, Open Market Operations, etc.) also affect the prices of G-Secs."

https://m.rbi.org.in/Scripts/PublicationsView.aspx?id=16413

It is obvious from the above that contrary to popular opinion, bond prices can be extremely volatile. If one has erred in valuation, the results can be disastrous.

Characteristics of Bonds

Interest Bearing Debt Securities

Price changes inversely with market interest rates (as interest rates increase, price of existing bonds fall: market price of existing bonds rise when market interest rates fall)

Interest is generally paid semi-annually

Face Value is paid out on maturity

YTM

Yield to Maturity is a fair measure of bond returns. However, the assumptions underlying it must be reiterated:

No Default

Bond Held to Maturity

Coupons Reinvested at the YTM

Other measures (not as widely used)

Current Yield (coupon / investment as a %age)

Yield to Call (in case the bond has a call option)

Realized Yield / Horizon Yield (yield actually obtained when the bond is sold)

Risk in Bonds

Default Risk (also known as Credit Risk)

Interest Rate Risk

Market Risk

Higher the risk, higher will be the required return from the bonds.

Bond Valuation

Zero coupon bonds: special bonds: no periodic payment. They are sold at a discounted price. The interest rate is implied by the difference between face value (FV) & issue price, given the life of the bond. (Called Deep Discount Bonds in India)

$$Zero\,Coupon\,Bond\,Value = \frac{F}{(1+r)^t}$$

$$F = \;face\;value\;of\;bond$$
$$r = rate\;or\;yield$$
$$t = time\;to\;maturity$$

Example

Zero Coupon Bond		
Market Yield % p.a.	11%	
Face Value Rs.	1000	
Life yrs	4	
Issue Price Rs.	?	
$\frac{1000}{(1.11)^4}$ =		658.73 Rs. yly compounding
$\frac{1000}{(1.055)^8}$ =		651.60 Rs. hly compounding

For an Interest Bearing Bond, the Price (Present Value) is:

$$PV = \sum_{t=1}^{N} \frac{PMT}{(1+i)^t} + \frac{FV}{(1+i)^N}$$

- Present of the Bond = Present value of interest payments + Present Value of Principal

PV of Annuity (pmt, I, N) + PV (FV, I, N)

Where N = time to maturity
i= market interest rate
PMT = semiannual interest payment
FV = face value

FV of Bond	1000	
Coupon	9%	
Frequency	2 (half-yearly)	
Residual Life	4.5 years	
Market Yield	9% (payable hly)	
Price	?	
Period	**Cash Flow**	**PV @ 4.5%**
1	45	43.0622
2	45	41.2078
3	45	39.4333
4	45	37.7353
5	45	36.1103
6	45	34.5553
7	45	33.0673
8	45	31.6433
9	1045	703.1851
	Price	**1000**

Bond Price = Face Value when Coupon Rate = Market Yield

FV of Bond	1000	
Coupon	9%	
Frequency	2 (half-yearly)	
Residual Life	4.5 years	
Market Yield	11% (payable hly)	
Price	?	
Period	**Cash Flow**	**PV @ 5.5%**
1	45	42.6540
2	45	40.4304
3	45	38.3226
4	45	36.3248
5	45	34.4310
6	45	32.6361
7	45	30.9347
8	45	29.3219
9	1045	645.4226
	Price	**930.48**

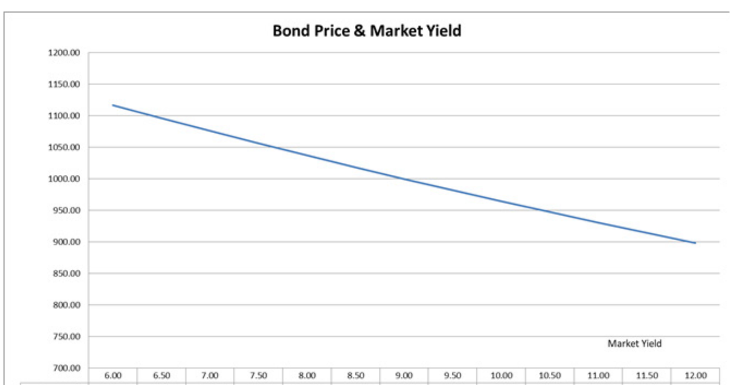
Bond Price < Face Value when Coupon Rate < Market Yield

FV of Bond	1000	
Coupon	9%	
Frequency	2 (half-yearly)	
Residual Life	4.5 years	
Market Yield	8% (payable hly)	
Price	?	
Period	Cash Flow	PV @ 4%
1	45	43.2692
2	45	41.6050
3	45	40.0048
4	45	38.4662
5	45	36.9867
6	45	35.5642
7	45	34.1963
8	45	32.8811
9	1045	734.2031
	Price	**1037.18**

Bond Price > Face Value when Coupon Rate > Market Yield

For this particular bond - FV [1] 1,000; coupon 9%; payable half-yearly; with residual life of 4.5 years, the inverse relationship between market yield & expected market price of the bond is depicted below.

Market Yield %	Bond Price ₹
6.00	1116.79
6.50	1096.20
7.00	1076.08
7.50	1056.41
8.00	1037.18
8.50	1018.38
9.00	1000.00
9.50	982.03
10.00	964.46
10.50	947.28
11.00	930.48
11.50	914.05
12.00	897.97



Quick Quiz

Market price of a bond is	1050
Coupon Rate is	12%
Redemption is at FV	1000
Interest paid annually	
Years to maturity	5

What is the

a) Current Yield ?

b) Yield to Maturity?

Hint: Please use YTM quick formula

$$\textbf{YTM} = \frac{\textbf{I + (F-P)/N}}{\textbf{(F+P)/2}}$$

I	Interest
F	FV or redemption amount
P	Price
N	Residual life of the bond

Current Yield (120/1050)*100 **11.43%**

$$\textbf{YTM} = \frac{\textbf{I + (F-P)/N}}{\textbf{(F+P)/2}}$$

$$\textbf{YTM} = \frac{120+(1000-1050)/5}{(1000+1050)/2} \quad \textbf{10.73\%}$$

this formula gives a fairly accurate YTM

The precise YTM, using excel financial function is as follows

RATE(5,-120,1050,-1000) **10.66%**

Till Debt Do Us Part

"Global debt surged to a record $258 trillion in the first quarter of 2020 as economies around the world shut down to contain the coronavirus pandemic, and debt levels are continuing to rise, the Institute for International Finance said on Thursday in a report.

The IIF, which represents global banks and financial institutions, said the first-quarter debt-to-GDP ratio jumped by over 10 percentage points, the largest quarterly surge on record, to reach a record 331%." Reuters Last Updated: Jul 16, 2020, 05:56 PM IST

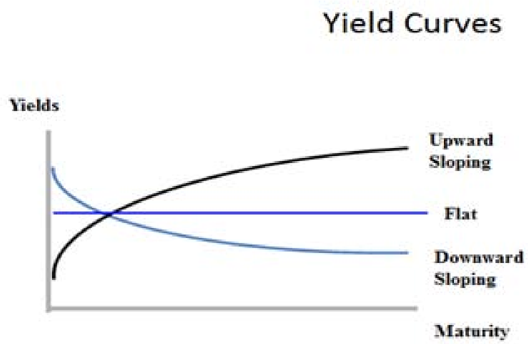
https://economictimes.indiatimes.com/news/international/business/global-debt-hits-record-high-of-331-of-gdp-in-q1-iif/articleshow/77000231.cms?from=mdr

Term Structure of Interest Rates

(A brief note on Term Structure of Interest Rates follows, as an introduction, not as a detailed study).

* The yield on bonds with similar risk profiles changes with their terms. This is the term structure of interest rates.

* The yield curve is a graphical depiction of the relationship between the YTM to the Term (Maturity)
* Information on expected future short term rates can be implied from the yield curve.



Three Characteristics of (Normal) Term Structure

* The change in yields of different term bonds tends to move in the same direction.
* The yields on short-term bonds are more volatile than yields on long-term bonds.
* The yields on long-term bonds tend to be higher than those on short-term bonds

Three Explanations for Term Structure of Interest Rates

* **Expectations Theory :** Longer-term interest rates are the result of expected short-term rates. The yield on a two year bond equals the one-year bond yield today, combined with the expected yield on a one year bond, purchased one year from today.
* **Liquidity Preference Theory :** Investors prefer liquidity & in general, shorter-term investments, to long-term investments. They wish to be compensated for the risk associated with committing their money for the long-term. Hence, as interest-rate risk increases with term to maturity, the yield premium (normally) increases with maturity.
* **Market Segmentation Theory :** Supply & demand in different maturity sectors determine interest rates for those time horizons. For e.g. a life insurance company would have extremely long-term funds to invest & would prefer bonds with a residual life of 10-30 years & above. More attractive interest rates in shorter-term bonds may not tempt it to alter its investment plan. Similarly, banks with short-term deposits are in the market for investments which mature in the near future. They will not risk a cash flow mismatch or a liquidity crisis, by investing short-term funds in long-term bonds, simply to take advantage of higher interest rates.

No single theory can fully explain the market & interest rate movements.

Parting Thought

"I try not to borrow, first you borrow then you beg."

Ernest Hemingway

****

DIRECT TAX – COMPLIANCE CALENDAR

The CBDT has further extended the due dates for furnishing of tax audit report and filling of Income tax Return for the Assessment Year 2020-21. The new due dates have been enumerated in the below table.

Nature of Compliance	Assesement Year	Oroginal due date	Last extend-ed due date	New due date
Belated Return of Income	2019-20	31-03-2020	30-09-2020	30-11-2020
Revised Return of Income	2019-20	31-03-2020	30-09-2020	30-11-2020
Return of Income (in case of TP Audit)	2020-21	30-11-2020	---	31-01-2021
Return of Income (Company Assessee)	2020-21	31-10-2020	30-11-2020	31-01-2021
Return of Income (Where audit is mandatory)	2020-21	31-10-2020	30-11-2020	31-01-2021
Return of Income (In case of partner in a firm whose audit is mandatory)	2020-21	31-10-2020	30-11-2020	31-01-2021
Return of Income (In any other case)	2020-21	31-07-2020	30-11-2020	31-12-2020
Filling of tax audit report and all other reports	2020-21	30-09-2020	31-10-2020	31-12-2020

Source - Taxmann.Com

Premise of Valuation - Going Concern and Liquidation

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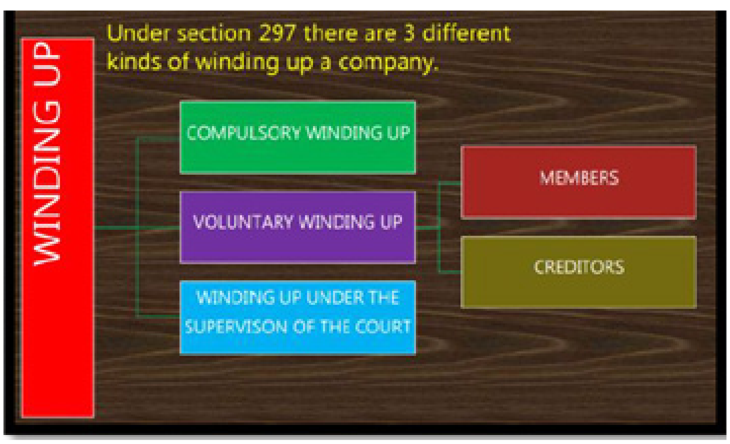
The statement of assumed estimation in knowledge of companies when liquidation state and going on concern state, the following article describes the company's situation when and what leads to liquidation and what can be the solutions in around.

The existence of a corporation is often terminated by means of completing. The process of which the corporate is dissolved is understood as completing of a corporation. The winding up of a company is a proceeding in which the co business is closed down sell off its asset and the creditor are paid. the balance of asset is distributed to the members.

The winding up of a company is a proceeding in which the co business is closed down and ceases to exist anymore, sell off its asset and the creditor are paid, the balance of asset is distribute to the members. And if any amounts after the proceedings will be used to discharge on liabilities on a priority basis.

Modes of the Winding up of the Company:



(Source: https://www.slideshare.net/kalimshahab/winding-up-of-a-company)

A. COMPULSORY COMPLETING BY COURT:

Two things as to be presented before the courts to be continued on the winding up order on petition:

I. That the petitioner had the right an attending the petition.

II. That on the ground set out in the act as account for. As per the court under Section.305, the company will be wound up on the basis of the following factors:

1. If the company has, by special directive
2. If the company has, by special directives, resolved that the directives should be wound up by the court.
3. If the company is inapt to pay the debts.
4. The company does not cradle its business within a year from its incorporation, or breaks off its business for a halfway year.
5. When the period fixed for span of the co by memorandum or articles passes.
6. The court is of opinion that it is just and even-handed that the co should be petered.
7. The company has been used for unlawful intent or any intent hostile to in agreeable with peace, welfare, security, public order, good order virtue.

The companies which are not categorically wound up as per the court under Section. 305, will be followed by any one of these factors:

I. Where the substance of accompany has failed.

II. Where the company has been formed to carry out a fraud or to hold on an illegal business.

III. If the corporate may be a bubble i.e. if it never had any business or assets.

PETITION & APPLICATION FOR WINDING UP:

- Who may petition for winding up: Sec 309 provides the subsequent persons may petition for winding up of a company.

1) The corporate itself an application to the court for completing of a corporation shall be by petition.

APPLICATION BY THE COMPANY:

- Allows the company to refer to have itself imperative wound up. the general meeting is the requisite organ to ponder that the company be wound up.
- Application by a company for its imperative wounding up. As voluntary winding up is even freak. It is member entail to liquidate their company. They will do and does not involve a court concealing and it's so cheaper.

2) Any creditor possessing a contingent or awaited creditor an application to the court for completing of a corporation shall be presented by a contingent or prospective creditor.

EFFECTS OF WINDING UP STIMULI OF WINDING UP ORDER:

The effect of order is:

1. Every transfer or shares or revision in the status of a member made after the cradle of winding up is ineffective unless the court otherwise orders.
2. Any impart of property made within one year before

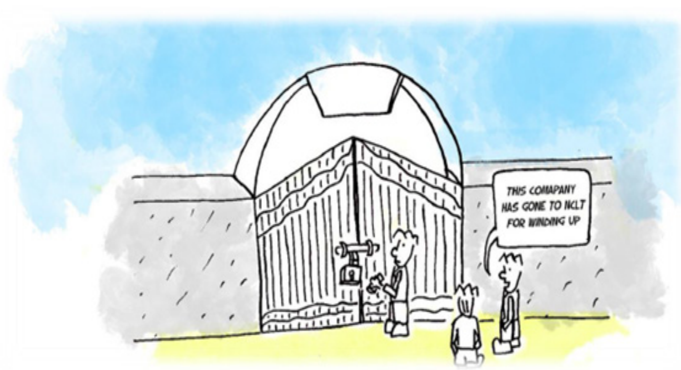
presentation of winding up petition is invalid unless otherwise ordered by the court.

3. On winding up order interim manager ceases to hold office unless the court adjures otherwise.

DIFFERENCE BETWEEN MEMBERS AND CREDITORS WINDING UP

MEMBERS WINDING UP	CREDITORS WINDING UP
1. There is no committee	1. May appoint a committee
2. There is no meeting of creditors	2. Meeting of contributor and there'll be corresponding meeting of the creditors also
3. Liquidator appointed by the company in the general meeting	3. Both the member and creditor nominatethe liquidator.
4. Power can be exercised by the liquidator with the allowance of special resolution passed at the general meeting	4. The authority will be exerted with the granted permission of the tribunals or at the meeting with creditors
5.Controlled by the members themselves.	5. Controlled by the creditor Members voluntary winding up Creditor voluntary winding up
6. It is based on members of the company	6. It is based on the Creditors of the company

A liquidator is appointed and he takes regulator of the company, collects its debts and eventually assorts any surplus among the members in accordance with their rights. Thus, winding-up is that the method by which management of a company's affairs is taken out of its directors' hands, its assets are realized by a liquidator and its debts are squeezed off out of proceeds of ongoing. Any excess of assets which wrecks after such redundancy is returned to its members or shareholders.



The main intent of winding up of a company is to ascertain the assets and pay the debts of the company expeditiously and rather in conformity with the law. However, the purpose must not be imposed for the advantage of any class or person endorsed to submit petition for winding up of a company. It may be noted that on winding up, the company does not lapse to exist as such except when it is vague.

The administrative medium of the company gets changed as the administration is conferred in the hands of the liquidator. Even after cradle of the winding-up, the property and assets of the company belong to the company until cleavage takes place. On cleavage the company ceases to endure as a separate existent and becomes inapt of keeping property being used. Thus in between the winding up and cleavage, the legal status of the company continues and it can be claimed in the court of law.

Following are some of the effects of ruin of an individual or a firm and winding up of a company:

1. In the case of an individual, the administration of his property by the Official Assignee or the Official Receiver occurs only if he is declared an deprived by the Court. But the proposition of the directors powers by the liquidator, occurs albeit the corporate is fully hard-up. Liquidation or winding up, even of a solvent company can be proceeded with the aid of the court, as in voluntary winding up.

2. In Insolvency, an insolvent individual can obtain his discharge and continue living and dealing free from the burden of his debts. A company in liquidation cannot obtain its hail and continue free from the burden of its debts. The liquidator winds up its affairs and then wraps up it through dissolution.

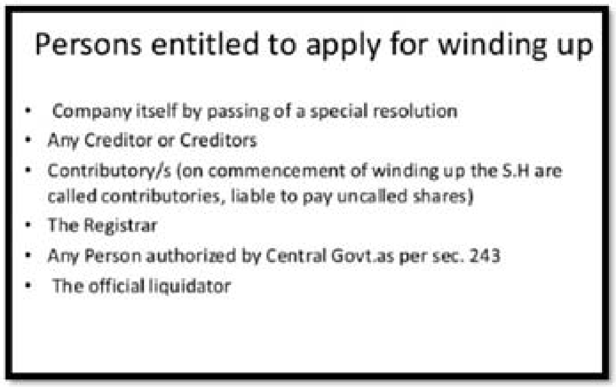
WINDING UP AND DISSOLUTION:

Winding up altogether cases doesn't culminate in dissolution. Even after paying all the creditors there should be a surplus; company may earn profits during the course of beneficial winding up; there could also be a scheme of compromise with creditors while company is in completing and altogether such events the corporate will altogether probability begin of completing and fork over back to shareholders/old management. Dissolution is an act which puts an end to the lifetime of the corporate.

WINDING UP BY THE COURT:

1. Winding up by the Court or incumbent winding up is versed by an application by way of desire to the appropriate Court for a winding up order. A winding up desire n has to be resorted to only when other means of recovery an invalid company are of absolutely no avail. Remedies are provided by the statute on matters as regards the management and running of company. The outmost and hopeless step of winding up must be resorted to only in very forceful effects.

2. It is initially the High Court which has the regime to wind up companies under Section- 10 of the Companies Act, 1956 in commerce to the place at which registered office of the company anxious is situated except to the extent to which regime has been awarded on any District or District Courts subordinate to the High Court. The Central Government may empower any District Court to exercise that jurisdiction, apparently to reduce the burden of the High Court, only in respect of small companies with the paid-up capital of less than one lakh rupees and having their registered office within the District, with a view to achieving quick and efficient disposal of winding up cases.



(Source: https://www.slideshare.net/dwarakeshbalaji/winding-up-45734899)

I B C (Insolvency and Bankruptcy Court):

i) Inability to pay debts:

$\geq$ 100000 debt (If any creditors ask you to pay his amount and gives 21 days' notice. (good tool to service provider / creditor to get payment).

ii) Acts against Sovereignty: It is a body with high supreme power. It makes it own rules and own role for itself as a body.

Basically, as a company there are individual and act which is against the systems or supreme power on against the country.

- Interest of the state
- Security of the state
- Public Order / Morality

iii) Sick Company (BIFR): Board of Industrial and Financial Reconstruction – And this tribunal will refer the company. Company has ale to satisfy e50% of its secured creditors at any stage of its controlled life of the company.

Company can't go to BIFR on its own it should be referred.

BIFR – They will see which part of yours is in liquidated and take reconstruction if you have precautions.

iv) Fraudulent Conduct of business affairs / in an unlawful manners:

When the company is engaging unlawful business taking the lawful business in unlawful manner or to default your creditors the way you are achieving your objective is unlawful.

v) Default in filling financial statement in the preceding 5 years:

You cannot do non-compliance here because you use public fund.

vi) Just it is Equitable: To windup the company.

Equity: Everybody in the same place.

- Deadlock in management (On its own can bleeding manner internally might go / for demerger.
- Lock of Stratum (Objective) – Goal is finish in coal mine where you do business).
- Losses – but not more apprehension (actual losses that the company is making.
- Operation of minority- Less than to shares, after 96 amendment, minority

CREDITOR APPLICATION:

APPLICATION BY THE CREDITOR:

- Authorizes a creditor a contingent or a viewpoint creditor to apply for imperative winding up even though their debts are not directly due and owed at the date of application.

CONTINGENT AND IMMINENT CREDITORS WHAT IS CONTINGENT CREDITOR:

A contingent is a person to whom an arrears is staggered, payment of which is only due on the circumstance of some future event.

WHAT IS PROSPECTIVE CREDITOR: A subsequent creditor is a creditor to whom a debt is due but no instantly overdue.

Case Study on the above discussed article

Mecamidi S.A. vs. Flovel Mecamidi Energy (P.) Ltd. and Others (05.09.2011 - CLB) The shares were valued by KPMG, France by moderate cash flow method – this method has been internationally reputable and accepted by RBI (FEMA and notifications and circulars). However, the petitioner was extent by principle of waiver, estoppels etc., hence after must pay in conformity to the valuation report prepared by S Rawle (which projects the company in sad state of affairs), considering the petitioner had already accepted the report.

Valuation of Real Estate Investment Trusts (REITs) in India

– With reference to REIT Regulations notified by SEBI

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Abstracts

The Securities and Exchange Board of India (SEBI), on 26th September 2014, has issued SEBI (Real Estate Investment Trusts) Regulations, 2014. This paper discusses the framework of proposed regulations of REITs in India, role of valuers & approaches to valuations of REITs are discussed.

Introduction

India's real estate sector has witnessed rapid growth in recent years underlined by robust economic growth in the country. The growing scale of operations of the corporate sector has increased the demand for commercial buildings and space including modern offices, warehouses, shopping centres, conference centres, etc. For such rapidly growing industry, it is crucial that investment vehicles such as Real Estate Investment Trusts (REITs) evolve in the country.

Globally, REITs invest primarily in completed, revenue generating real estate assets and distribute major part of the earning among their investors. Typically, most of such investments are in completed properties which provide regular income to the investors from the rentals received from such properties.

By the very nature of REITs, it is beneficial to both the investors and the industry in different ways. On one hand, REITs provide the investors with an investment avenue, which is comparatively less risky than investing in under-construction properties and provides regular income. On the other hand, REITs provide the sponsor (usually a developer or a private equity fund) avenues of exit thus providing liquidity and enable them to invest in other projects.

Globally, framework for REIT exists in several countries including United States of America, Australia, Singapore, Japan, France, United Kingdom, etc. In most of these countries, REITs appear to have the following features:

- REITs are managed by professional managers which usually have diverse skill bases in property development, redevelopment, acquisitions, leasing and management, etc.
- In countries where REITs are available for retail investors, they provide an avenue to such investors in properties which they otherwise would not have been able to take an exposure.
- REITs are also a popular investment option for long term pools of capital such as pension funds and insurance companies primarily since the regular stream of income helps them in managing regular outflow to their investors.
- Listed REITs provide liquidity thus providing easy exit to the investors.
- REITs bring in transparency and accountability in the real estate sector.
- All these reasons have made REIT one of the preferred investment vehicles around the world.

Proposed REITs Regulatory Framework in India

Considering the important role that REITs play, a separate regulatory framework under draft SEBI (Real Estate Investment Trusts) Regulations, 2013 (referred to as "Regulations" hereafter) has been proposed for introducing REITs in India. Salient features of the proposed framework are as under:

A. Structure of the REIT

1. The REIT shall be set up as a Trust under the provisions of the Indian Trusts Act, 1882. REITs shall not launch any schemes.
2. The REIT shall have parties such as trustee (registered with SEBI), sponsor, manager and principal valuer.

B. Regulation of REIT

1. The Trust shall initially apply for registration with SEBI as a REIT in the specified format. It shall fulfil eligibility criteria as specified in the draft Regulations.
2. SEBI, on being satisfied that the eligibility conditions are satisfied, shall grant the REIT certificate of registration.

C. Offer of Units to the Public and Listing of Units

1. After registration, the REIT shall raise funds initially through an initial offer and once listed, may subsequently raise funds through follow-on offers.
2. Listing of units shall be mandatory for all REITs. The units of the REIT shall continue to be listed on the exchange unless delisted under the Regulations. Provisions for delisting have also been specified in the Regulations.
3. For coming out with initial offer, it has been specified that the size of the assets under the REIT shall not be less than Rs. 1000 crore which is expected to ensure that initially only large assets and established players enter the market.
4. Further, minimum initial offer size of Rs. 250 crore and minimum public float of 25% is specified to ensure adequate public participation and float in the units.
5. General procedure for initial/follow-on offer, filing of offer document/follow-on offer document, allotment and

listing of units has been specified in the Regulations. Detailed disclosures required in the offer document/ follow-on offer document have also been specified in the Regulations.

6. The REIT may raise funds from any investors, resident or foreign. However, initially, till the market develops, it is proposed that the units of the REITs may be offered only to HNIs/institutions and therefore, it is proposed that the minimum subscription size shall be Rs. 2 lakhs and the unit size shall be Rs. 1 lakh.

D. Responsibilities of Various Parties to the REIT

Responsibilities of the Trustee

1. The Trustee shall be independent of sponsor and manager and hold the REIT assets in the name of the REIT for the benefit of the investors in accordance with the Trust Deed and the proposed Regulations. The role of Trustee is primarily supervisory in nature.
2. The Trustee shall ensure that the activity of the REIT is being operated in accordance with the proposed Regulations. For achieving the same, certain specific obligations are also imposed on the Trustee, details of which have been provided in the proposed Regulations.
3. The right and obligation to convene meetings of the investors shall lie with the Trustee and he shall follow procedures for holding such meetings as specified in the proposed Regulations.

Responsibilities of the manager

1. The manager shall primarily assume all the operational responsibilities with respect to the activity of the REIT. Roles and responsibilities of the manager shall be specified in the agreement entered into between the trustee and the manager.
2. To ensure that the activities of the REIT are managed professionally, it has been specified that the manager needs to have atleast 5 years of related experience coupled with other requirements such as minimum networth, manpower with sufficient relevant experience, etc.
3. Responsibilities of manager shall range throughout the life of the REIT right from the application for registration, issue and listing of units of REIT, day to day operation and management of the assets of REIT till the delisting of units, if any. Manager shall be responsible for various operational aspects including appointment of various parties to the REIT, procedural aspects of issue and listing of the REIT units, investment decisions, disclosures and reporting, distribution of dividends etc.

Responsibilities of sponsor and the valuers

1. The sponsor's responsibilities shall primarily pertain to setting up of the REIT including appointment of the Trustee. The sponsor shall also be obligated to maintain a certain percentage holding in the REIT to ensure a 'skin-in-the-game' at all times. Even in those cases where the sponsor sells its units it shall arrange for another person/entity to act as the re-designated sponsor.
2. Further, a minimum net worth and experience criteria have also been laid down for the sponsor in the proposed Regulations.
3. For ensuring fair and transparent valuation of the assets, the valuers have been obligated to follow valuation principles, have robust internal controls, have manpower with sufficient relevant experience, etc.

E. Investment Conditions and Dividend Policy

1. In line with the nature of the REIT to invest primarily in completed revenue generating properties, it has been mandated that at least 90% of the value of the REIT assets shall be in completed revenue generating properties. In order to provide flexibility, it has been allowed to invest the remaining 10% in other assets as specified in the proposed Regulations.
2. To ensure regular income to the investors, it has been mandated to distribute atleast 90% of the net distributable income after tax of the REIT to the investors.
3. REITs have been allowed to invest in the properties directly or through special purpose vehicles, wherein such special purpose vehicles (SPV) hold not less than 90% of their assets directly in such properties. However, in such cases, it has been mandated that REIT shall have control over the SPV so that the interest of the investors of the REIT are not jeopardised.
4. The REIT shall not invest in vacant land or agricultural land or mortgages other than mortgage backed securities. Further, the REIT shall only invest in assets based in India.
5. Investment upto100% of the corpus of the REIT has been permitted in one project subject to the condition that minimum size of such asset is not less than Rs. 1000 crore.
6. Other detailed investment conditions are provided in the proposed Regulations.

F. Related Party Transactions

1. All related party transactions shall be on an arms-length basis, in the best interest of the investors, consistent with the strategy & investment objectives of the REIT and shall be disclosed to the exchanges and investors periodically in accordance with the listing agreement and the proposed Regulations.
2. Stringent conditions have been imposed on related party transactions including detailed disclosures, valuation requirements, approval from majority of investors, related party abstaining from voting, restrictions on leasing of assets to related parties, requirement of fairness opinion for lease, etc.
3. For any related party transactions for acquisitions/sale of properties, valuation reports from 2 independent valuers shall be obtained and the transaction for purchase/sale of such properties shall be at a price

not greater / less than average of the two independent valuations.

4. Investors' approval is required for all the related party transactions wherein the value is above a threshold as provided in the proposed regulations.

G. Borrowings and deferred payments

To avoid excessive leverage, the aggregate consolidated borrowings and deferred payments of the REIT have been capped at 50% of the value of the REIT assets. If the same exceeds 25%, requirement of credit rating from a credit rating agency and approval of majority of investors has been specified.

H. Valuation of assets

1. To ensure that the underlying assets of REIT are valued accurately, requirement of a full valuation including a physical inspection of the properties has been specified at least once a year. Further, a six monthly updation in the valuation capturing key changes in the last six months has also been specified. Consequently, the NAV shall be declared at least twice in a year. Provisions have also been specified for valuation in case of any material development.
2. Detailed disclosures have been specified for the annual and half-yearly valuation reports.
3. Further, for any purchase of a new property or sale of an existing property, it has been required that a full valuation be undertaken and the value of the transaction shall be not less than 90%/ not more than 110% of the assessed value of the property for sale/ purchase of assets respectively.

I. Rights of investors

1. In order to ensure safeguarding of interests of the investors, several rights have been provided to the investors in order to empower them.
2. The investors shall have right to remove the manager, auditor, principal valuer, seek delisting of units, apply to SEBI for change in trustee, etc.
3. Further, an annual meeting of all investors is mandatory to be convened by the Trustee wherein matters such as latest annual accounts, valuation reports, performance of the REIT, approval of auditors & their fees, appointment of principal valuer, etc. shall be discussed.
4. Further, approval of investors has been made mandatory in special cases such as certain related party transactions, any transaction with value exceeding 15% of the REIT assets, borrowing exceeding 25%, change in manager/ sponsor, change in investment strategy, delisting of units, etc.
5. In order to ensure that a related party does not influence the decision, it has been specified that any person who is a party to any transaction as well as associates of such person(s) shall not participate in voting on the specific issue.

J. Disclosures

1. Keeping in mind that transparency has been a cornerstone of the REIT industry globally, detailed disclosure requirements have been specified in the proposed Regulations.
2. Minimum disclosure requirements in the offer document/follow-on offer document have been specified in the proposed Regulations. Further, minimum disclosures have also been specified for the annual and half-yearly reports to be sent to the investors.
3. Certain event-based disclosures have also been specified. Further, the REIT shall additionally be bound by periodical disclosure requirements required under the listing agreement with the exchanges

Defination of Valuer under " SECURITIES AND EXCHANGE BOARD OF INDIA (REAL ESTATE INVESTMENT TRUSTS) REGULATIONS, 2014"

zz) "valuer" means any person who is a "registered valuer" under section 247 of the Companies Act, 2013 [or as defined hereunder] and who has [/have] been appointed by the manager to undertake [both financial and technical] valuation of the REIT assets:

["(a) a valuer in respect of financial valuation, means,- (i) a chartered accountant, company secretary or cost accountant who is in whole-time practice, or retired member of Indian Corporate Law Service or any person holding equivalent Indian or foreign qualification as the Ministry of Corporate Affairs may recognize by an order: Provided that such foreign qualification is acquired by Indian citizen.

(ii) a Merchant Banker registered with the Securities and Exchange Board of India, and who has in his employment person(s) having qualifications prescribed under (i) above to carry out valuation by such qualified persons;

(b) a valuer in respect of technical asset valuation, means members of the following institutions for specific asset categories,- (i) Institution of Valuers; (ii) Institution of Surveyors (Valuation Branch); (iii) Institution of Government Approved Valuers; (iv) Practicing Valuers Association of India; (v) Centre for Valuation Studies, Research and Training; (vi) Royal Institution of Chartered Surveyors, UK; (vii) American Society of Appraisers, United States; (viii) Appraisal Institute, United States; (ix) Institute of Engineers; (x) Council of Architecture or the Indian Institute of Architects:

Provided that, the persons referred to in sub-sub-clause (i) and qualified person referred to in sub-sub-clause (ii) of sub-clause (a) above, shall have not less than five years continuous experience after acquiring membership of respective institutions: Provided further that, the persons referred to in sub-sub-clauses (i) to (x) of sub-clause (b) above, shall have a minimum working experience of five years in relevant areas of valuation practice and in relation to relevant asset value and categories; and be citizens of India;]

Rights and Responsibilities of Valuers

All valuers including the principal valuer shall comply with the following conditions at all times;

a) The valuer shall ensure that the valuation of the real estate assets is impartial, true and fair and is in accordance with regulation 21 of these Regulations;

b) The valuer shall ensure adequate and robust internal controls to ensure the integrity of its valuation reports;

c) The valuer shall ensure that it has sufficient key personnel with adequate experience and qualification to perform property valuations at all times;

d) The valuer shall not invest in units of the REIT;

e) The valuer shall conduct his business with utmost transparency and fairness and shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment;

f) The valuer shall act with the strictest independence, objectivity and impartiality in performing the valuation;

g) The valuer shall discharge its duties towards the REIT in an efficient and competent manner, utilizing its knowledge, skills and experience in best possible way to complete given assignment;

h) The valuer shall not accept remuneration, in any form, for performing a valuation of the REIT assets from any person other than the REIT or its authorized representative;

i) The valuer shall before accepting any assignment, disclose to the REIT the existence of any direct or indirect monetary interest which the valuer may have in respect of such assignment;

j) The valuer shall verify all critical information relevant to the valuation, supplied by the REIT or any other person, including appropriate qualification or confirmation from an independent source;

k) The valuer shall not make false, misleading or exaggerated claims in order to secure assignments;

l) The valuer shall not provide misleading valuation, either by providing incorrect information or by withholding relevant information;

m) The valuer shall not accept an assignment that includes reporting of the outcome based on predetermined opinions and conclusions required by the REIT;

n) The valuer shall, prior to performing a valuation, will acquaint itself in terms of all laws/regulations relevant to such valuation

Valuation of REIT

REITs are the same as stocks, only the business is different. Common stocks are ownership shares in manufacturing or service businesses. REITs are engaged in holding real estate assets for rental income, rather than manufactured product income. In both cases, the shareholder is paid what is left over after business expenses, interest/principal, and preferred shareholders' dividends are paid out. Common stockholders are always last in line for distributions, making earnings highly variable. Because common stock returns are so unpredictable, they demand higher expected returns. Equity financing is the highest-cost of capital available, whether for a C corporation or for a REIT.

REITs are a bit more like direct investment in real estate, and a bit less like other types of stocks, from the perspectives of diversification and liquidity. Correlations between REITs and the overall stock market have fallen. REITs continue to be less liquid compared to other comparable-size stocks. Institutional investment in REITs continue to grow, but still at levels well below those of comparable stocks.

The difference between REIT stocks and growth stocks, as defined by their P/E ratios and price-to-cash flow ratio, appears to be strongly associated with respective earnings surprises. Analysts generally underestimate EPS of REIT stocks and overestimate the EPS of growth stocks, reflecting the tendency for investors to extrapolate past EPS trends into the future, however, the annual changes in EPS resembles a random walk or mean reversion tendency. REIT stocks generally outperform comparable-size growth stocks on a risk-adjusted basis.

REIT - Intrinsic Value

Like all companies whose stocks are publicly traded, REIT intrinsic share prices are determined by :

- Management quality;
- Anticipated total return from the stock, income return and capital appreciation.
- Current prevailing dividend yield relative to other investments (e.g., bonds, utility
- stocks);
- Dividend coverage from funds from operations;
- Anticipated growth (or lack thereof) in funds from operations per share;
- Underlying asset value of the real estate and/or mortgages, and other assets.

Methods of Valuation of REIT

There are three primary methods used by Wall Street analyst's to value REIT shares:

(1) Funds from Operations (FFO) Multiple,

(2) Net Asset Value (NAV), and

(3) Discounted Cash Flow (DCF).

Based on these approaches, a valuer determines the intrinsic value of the firm. If the intrinsic value is higher than the current stock price, a "Buy" recommendation is given; if the intrinsic value is lower than the current stock price, a "Sell" recommendation is given.

FFO Multiple Approach

FFO is defined as net income (computed in accordance with generally accepted accounting principles) excluding gains or losses from sales of property or debt restructuring, and adding back depreciation of real estate. Once FFO is calculated for the current period or forecast, it is divide by the number of shares outstanding, or projected number of shares outstanding, to arrive at the FFO per share. Many securities analysts judge a REIT's performance according to its FFO growth.

The FFO Multiple approach to valuing REIT stocks is one of the most popular methods used most of the valuers/analysts. The FFO Multiple approach is similar to the Price-Earning (P/E) Multiple approach used. The value of a REIT stock is determined by multiplying the FFO Multiple by FFO Per Share, similar to multiplying the P/E Multiple by Earnings Per Share (EPS) for the company. Determining the value of the stock price is based on arriving at an appropriate FFO Multiple and FFO Per Share for the company.

REIT Stock Value = FFO Multiple x FFO Per Share

FFO Multiples are determined by:

1. the company's historical multiple,
2. future earnings prospects, and
3. peer group and industry multiples.

Multiple expansions in an industry sector or for a given firm will drive up REIT stock valuations. Based on this analysis, management can focus on these financial and operating factors to maximize firm value.

Net Asset Value (NAV) Approach

REIT investors often compare current stock prices to the net asset value (NAV) of a company's shares. Net Asset Value is the per share measure of the market value of a company's net assets. Net Asset Value is calculated by aggregating stabilized Net Operating Income (NOI) or FFO for the entire company divided by an appropriate blended Capitalization (Cap) Rate for the company's real estate assets.

The Cap Rate is a discount factor (opportunity cost of capital) measured in many different ways: 1) Return on Capital + Return of Capital; 2) Weighted Average Cost of Capital (WACC) for the firm; 3) or expected or required rate of income return for the asset after taking into consideration new supply risk, stability and durability of income streams, functional and physical obsolesance, locational factors and other property amenities.

$$\text{REIT Market Value} = \text{NAV} = \frac{\text{Sum Net Operating Income} = \text{NOI}}{\text{Blended Cap Rate i}}$$

$$\text{REIT Stock Value} = \text{NAV Per Share} = \frac{\text{Net Asset Value of Firm}}{\text{Number of Shares Outstanding}}$$

The more appropriate method of calculating NAV is to determine current or forecast NOI FFO of each property in the portfolio, divide each property by a specific Cap Rate, and aggregate the NAV for each property up to the portfolio level. Once the portfolio NAV is calculated, it is divided by the current or future total number of shares outstanding, to arrive at a NAV per share. At times, the stock price of a REIT may be more or less than its NAV.

NAV premiums over the current stock price (Franchise Value) are a reflection of: 1) the company's superior historical and future earnings capabilities, 2) quality of management, and 3) organizational and operating efficiencies. NAV discounts below the current stock price are reflections of: 1) poor current and future prospects for firm earnings, 2) mistakes in financing (dilution) and operations (investment in poor performing assets), and 3) oversold nature of the REIT capital markets due to negative spread perceptions (IRR – WACC = - SPREAD).

Dividend Discount Model Approach

The last, more labor intensive, approach to valuing REIT stocks is the standard Dividend Discount Model Approach. The valuer starts with a standard income statement, and supplemental reports provided by the company, to build the cash flow model. Assumptions are put into the model pertaining to variables such as: 1) rental revenue projections for the properties, metro area and submarket by real estate asset class (office, industrial, apartments, retail, etc.); 2) other revenues; 3) vacancy loss factors; 4) discounts or concessions; and 5) expense growth rates by line item.

Net Operating Income (NOI/FFO) is determined for each year going out to year ten. In year ten the NOI/FFO is capitalized at a terminal cap rate to arrive at a terminal value for the asset. This principle value along with NOIs per year is discounted back at an appropriate discount rate to arrive at a Present Value for the firm. The Present Value of the firm is divided by the current or future number of shares outstanding to arriving at a present value per share. The appropriate discount rate can be derived through many different methods: 1) require internal rate of return, 2) Weighted Average Cost of Capital, or 3) using various methods of calculating equity cost of capital (CAPM, Risk Premium, etc.).

$$\text{PV REIT Value} = \text{Sum } [NOI1/(1+R)1 + NOI2/(1+R)2 + \ldots\ldots\ldots \; NOI10/(1+R)10 + [\{NOI10/i\}/(1+R)10]]$$

$$\text{REIT Stock Value} = \text{PV Per Share} = \frac{\text{Present Value Net Operating Income}}{\text{Number of Shares Outstanding}}$$

Note: Other discount methods to arrive at REIT Valuations are:

- PV Per Share/R or
- PV Per Share / (i – g)

Where,

PV = the present value of income streams over life of the holding period

i10 = the terminal cap rate

NOI1 = the annual net operating income

R = the discount rate

g = growth rate of future earnings

CONCLUSIONS

REITs are knocking doors of India. The Real Estate Valuers would find great opportunities. This paper has made an attempt to describe common approaches of valuations of REITs.

Revaluation and Impairment of Assets for Financial Reporting

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Abstracts

Revaluation and impairment; with thin line difference; both require the company to evaluate the assets for their fair value, and then take appropriate action making adjustments in the books of accounts. The revaluation is made either to increase or decrease the value to market value of the asset in the books of accounts. The impairment, on the other hand, refers to decrease in the market value which is then written down in books of accounts. Since the Companies Act, 2013 recognizes the technical valuers and there are stringent penal action or strict penalty provisions under the Act, the author has made an attempt to explain the concepts of revaluation and impairment for the valuers undertaking such valuation assignments.

Key terms: *Fixed Assets, Revaluation, Impairment, Fair Value, Net Selling Price, Value in Use, Recoverable Value, Cash Generating Unit, Carrying Value*

Preamble

Fixed assets such as property, plant, machinery, tools, equipment are tangible long term assets used in the production of goods and services, rather to say that are not sold. They are recorded in the books of accounts at cost price and then frequently showed at their true and fair market value. Indian Accounting Standards (IndAS), International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS) require fixed assets to be initially recorded at cost but allow two models for subsequent accounting for fixed assets, namely the cost model and the revaluation model; say asset value management.

Revaluations and impairments are related directly to the 'measurement of asset carrying values after recognition', whether the cost model or the revaluation model is adopted. Revaluation of fixed assets is the process of increasing or decreasing their carrying value in case of there are major changes in fair market value of the fixed asset(s). Revaluation is a technique that helps determine the true and fair market value of a fixed asset. Impairment occurs when the economic value of an asset falls below its carrying value or net book value. This means the current carrying value of the asset may not be economically recovered in its current circumstances over its remaining useful life.

There could be instances in which a fixed asset loses its value and needs to be written off in the accounting books of the firm. An asset can become impaired for a number of reasons, which include becoming obsolete, failing to meet regulatory standards, damages to the asset, changing market conditions, etc. Other assets such as goodwill and accounts receivable can also become impaired. Firms are required to conduct regular or periodical tests on asset impairment.

Revaluation

IndAS 16 "Property, Plant and Equipment" provides for two acceptable alternative approaches to accounting for long-lived tangible assets. The first one is the historical cost model, under which acquisition or construction cost is used for initial recognition, subject to depreciation over the expected economic life and to possible write-down in the event of a permanent impairment in value, and the other one is the revaluation model.

Revaluation helps to determine and account a fixed asset at the true and fair market value. When a revaluation is done, the asset's recorded value (historical cost value in the ledger) will be adjusted to the market value. The historical values recorded in the books are not accurate since the market value of the asset will fluctuate and may be higher or lower over time. A revaluation will be done to establish the most accurate accounting information regarding the asset's value.

In the revaluation model, the fair value (defined as the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction), it is used in order to make comparison and to determine the differences that will be registered like revaluations adjustments. Usually, the fair value is determined by appraisers, using market-based evidence. Market values can also be used for property, plant, machinery and equipment, but since such items often do not have readily determinable market values, particularly if intended for specialized applications, they may be valued at depreciated replacement cost.

The revaluation must be done by valuation specialists who will have to study markets carefully where such assets are sold in order to determine the accurate market value. Besides determining the true market value of a fixed asset, revaluation can be used to set funds aside for the replacement of the asset, to negotiate prices in a merger or acquisition, for taking loans my mortgaging fixed assets, for regulatory reasons, etc.

Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. If an item is revalued, the entire class of assets to which that asset belongs should be revalued.

Accounting for Revaluation Adjustments

If a revaluation results in an increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus/ reserve" unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it should be recognized as income. A decrease arising as a result of a revaluation should be recognized as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset.

When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading revaluation surplus. The transfer to retained earnings should not be made through the income statement (that is, no "recycling" through profit or loss).

So, generally, revaluation adjustments are to be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. If a revalued asset is subsequently found to be impaired, the impairment provision is first offset against the revaluation surplus, and only when that has been exhausted is it expensed. Equally, if an asset carried at historical cost had been impaired, but was subsequently revalued above historical cost, because of some dramatic change in economic circumstances, the previous impairment provision would flow back through profit, and only the increase above historical cost would be recognized in other comprehensive income and accumulated in equity.

Under the provisions of IndAS 16, the amount credited to revaluation surplus can either be transferred to retained earnings, but not through profit or loss, as the asset is being used by an entity, or it can be held in the surplus account until such time as the asset is disposed of or retired from service. If some of the surplus is transferred as the asset is used, the amount of surplus transferred is limited to the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's historical cost.

Example for revaluation adjustments

At the beginning of the year a company purchased a building with a carrying value of Rs. 40,00,000 and a useful life of 25 years and the company uses straight line depreciation. So, yearly depreciation is 40,00,000/20, i.e. Rs.2,00,000. Accumulated depreciation after 4 years is 2,00,000*4, i.e. Rs. 8,00,000 and the carrying amount is 44,00,000 minus 80,000, i.e. Rs. 32,00,000. Assume that at this moment the company use revaluation model and carries out a revaluation exercise which estimates the fair value of the building to be Rs. 38,00,000 as at this date. The carrying amount at the date is Rs. 32,00,000 and revalued amount is Rs. 38,00,000 so the an upward adjustment of Rs. 6,00,000 is required to the building account. Further the Revaluation Surplus/ Reserve is accounted for Rs. 6,00,000/-.

This Upward revaluation is not considered a normal gain/ profit and is not recorded in income statement rather it is directly credited to an equity account called revaluation surplus/ reserve. Revaluation surplus holds all the upward revaluations of a company's assets until those assets are disposed of.

The depreciation in periods after revaluation is based on the revalued amount. In case of the same example depreciation for the next year shall be the new carrying amount divided by the remaining useful life or 38,00,000/17; i.e. Rs. 2,23,530.

If a revalued asset is subsequently valued down due to impairment, the loss is first written off against any balance available in the revaluation surplus and if the loss exceeds the revaluation surplus balance of the same asset the difference is charged to income statement as impairment loss. Suppose after 2 years the company revalues the building again to find out that the fair value should be Rs. 32,00,000. Carrying amount as at this moment is Rs. 38,00,000 minus 2 years depreciation of Rs. 4,47,060 which amounts to Rs. 33,52,940.

The carrying amount exceeds the fair value by Rs. 1,52,940, so the account balance should be reduced by that amount. Already, there is a balance of Rs. 6,00,000 in the revaluation surplus account related to the same building, so no impairment loss shall go to income statement, but the revaluation surplus account will be reduced by Rs. 1,52,960.

Otherwise, had the fair value been Rs. 26,00,000 the excess of carrying amount over fair value would have been 8,52,940. In that situation the Revaluation Surplus account would have been reduced by Rs. 6,00,000 and the balance Rs. 2,52,940 would have been provided as Impairment Loss and written off in the profit and loss account of the current . This impairment loss will be accumulated and the same can be written back against there is any increase in value during revaluation.

Impairment

Impairment is the other aspect of changing the value of an asset, there may be instances in which a fixed asset loses its value and needs to be written down in the accounting books of the firm. In such an instance, the value will be written down to its true market price or will be sold. An asset that loses its value and needs to be written down is referred to as an impaired asset. Once an asset has been impaired, there is very little possibility for the asset to be written up; therefore, the asset must be carefully evaluated before it is categorized as an impaired asset.

IndAS 36 "Impairment of Assets" defines impairment as the excess of carrying value over recoverable amount, and defines recoverable amount as the greater of two alternative measures, net selling price and value in use. At each balance sheet date, review all assets to look for any indication that an asset may be impaired, its carrying amount may be in excess of the greater of its net selling price and its value in use. IndAS 36 has a list of external and internal indicators of impairment. If there is an indication that an asset may be impaired, then one must calculate the asset's recoverable amount. An asset can become impaired for a number of reasons, which include becoming obsolete, failing to meet regulatory standards, damages to the asset, changing market conditions, etc. Other company accounts such as a goodwill and accounts receivable can also become impaired. Firms are required to conduct regular tests on asset impairment and any impairment then will be written off. Indications of impairment could be from external sources (market value declines, negative changes in technology, markets, and economy, or laws, increases in market interest rates, company stock price is below book value) or from internal sources (obsolescence or physical damage, asset is part of a restructuring or held for disposal, worse economic performance than expected).

The following external and internal signs of possible impairment are to be given consideration:

1. Market value declines for specific assets or cash generating units, beyond the declines expected as a function of asset aging and use;
2. Significant changes in the technological, market, economic, or legal environments in which the enterprise operates, or the specific market to which the asset is dedicated;
3. Increases in the market interest rate or other market-oriented rate of return such that increases in the discount rate to be employed in determining value in use can be anticipated, with a resultant enhanced likelihood that impairments will emerge;
4. Declines in the (publicly owned) entity's market capitalization suggest that the aggregate carrying value of assets exceeds the perceived value of the enterprise taken as a whole;

5. There is specific evidence of obsolescence or of physical damage to an asset or group of assets;
6. There have been significant internal changes to the organization or its operations, such as product discontinuation decisions or restructurings, so that the expected remaining useful life or utility of the asset has seemingly been reduced; and
7. Internal reporting data suggest that the economic performance of the asset or group of assets is, or will become, worse than previously anticipated.

The mere fact that one or more of the foregoing indicators suggests that there might be cause for concern about possible asset impairment does not necessarily mean that formal impairment testing must proceed in every instance, although in the absence of a plausible explanation why the signals of possible impairment should not be further considered, the implication would be that some follow-up investigation is needed. These lists are not intended to be exhaustive. Further, an indication that an asset may be impaired may indicate that the asset's useful life, depreciation method, or residual value may need to be reviewed and adjusted.

The recoverable amount of an asset is the greater of its 'fair value less costs to sell' and its 'value in use'.

To measure impairment, the asset's carrying amount is compared with its recoverable amount. Recoverable amount is higher of fair value less costs to sell and value in use.

Determining recoverable amount

- If fair value less costs to sell or value in use is more than carrying amount, it is not necessary to calculate the other amount. The asset is not impaired.
- If fair value less costs to sell cannot be determined, then recoverable amount is value in use.
- For assets to be disposed of, recoverable amount is fair value less costs to sell.
- If there is a binding sale agreement, use the price under that agreement less costs of disposal.
- If there is an active market for that type of asset, use market price less costs of disposal. Market price means current bid price if available, otherwise the price in the most recent transaction.
- If there is no active market, use the best estimate of the asset's selling price less costs of disposal.
- Costs of disposal are the direct added costs only (not existing costs or overhead).

Value in use

The calculation of value in use should reflect the following elements:

- an estimate of the future cash flows the entity expects to derive from the asset
- expectations about possible variations in the amount or timing of those future cash flows
- the time value of money, represented by the current market risk-free rate of interest
- the price for bearing the uncertainty inherent in the asset
- other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset

Cash flow projections should be based on reasonable and supportable assumptions, the most recent budgets and forecasts, and extrapolation for periods beyond budgeted projections. IndAS 36 presumes that budgets and forecasts should not go beyond five years; for periods after five years, extrapolate from the earlier budgets. Management should assess the reasonableness of its assumptions by examining the causes of differences between past cash flow projections and actual cash flows.

Cash flow projections should relate to the asset in its current condition – future restructurings to which the entity is not committed and expenditures to improve or enhance the asset's performance should not be anticipated.

Estimates of future cash flows should not include cash inflows or outflows from financing activities, or income tax receipts or payments.

Discount rate

In measuring value in use, the discount rate used should be the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset.

For impairment of an individual asset or portfolio of assets, the discount rate is the rate the entity would pay in a current market transaction to borrow money to buy that specific asset or portfolio. If a market-determined asset-specific rate is not available, a surrogate must be used that reflects the time value of money over the asset's life as well as country risk, currency risk, price risk, and cash flow risk. The following would normally be considered:

- the entity's own weighted average cost of capital;
- the entity's incremental borrowing rate; and
- other market borrowing rates.

Cash-generating units

Recoverable amount should be determined for the individual asset, if possible. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then determine recoverable amount for the asset's cash-generating unit (CGU). The CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

When carried out, the test is applied to the smallest group of assets for which the entity has identifiable cash flows, called a "cash generating unit." The carrying amount of the asset or assets in the cash generating unit (cash generating unit) is compared with the fair value and the present value of the cash flows expected to be generated by using the asset ("value in use"). If the higher of these future values is lower than the carrying amount, an impairment is recognized for the difference. The standard provides a set of indicators of potential impairment and suggests that these represent a minimum array of factors to be given consideration. Other more industry-or entity-specific gauges could be devised by the reporting enterprise.

Recognition of an impairment loss

- An impairment loss should be recognized whenever recoverable amount is below carrying amount.

- The impairment loss is an expense in the income statement (unless it relates to a revalued asset where the value changes are recognized directly in equity).
- Adjust depreciation for future periods.

The objective is to recognize an impairment when the economic value of an asset (or cash generating unit comprised of a group of assets) is truly below its book (carrying) value. In theory, and for the most part in practice also, an entity making rational choices would sell an asset if its net selling price (fair value less costs of disposal) were greater than the asset's value in use, and would continue to employ the asset if value in use exceeded salvage value. Thus, the economic value of an asset is most meaningfully measured with reference to the greater of these two amounts, since the entity will either retain or dispose of the asset, consistent with what appears to be its highest and best use. Once recoverable amount has been determined, this is to be compared to carrying value; if recoverable amount is lower, the asset has been impaired, and this impairment must be given accounting recognition. It should be noted that value in use is an entity-specific value, in contrast to fair value, which is based on market price. Value in use is thus a much more subjective measurement than is fair value, since it takes account of factors available only to the individual business, which may be difficult to validate. The determination of the fair value less costs to sell (i.e., net selling price) and the value in use of the asset being evaluated will typically present some difficulties. For actively traded assets, fair value can be ascertained by reference to publicly available information (e.g., from price lists or dealer quotations), and costs of disposal will either be implicitly factored into those amounts (such as when a dealer quote includes pick-up, shipping, etc.) or else can be readily estimated. Most common productive tangible assets, such as machinery and equipment, will not easily be priced, however, since active markets for used items will either not exist or be relatively illiquid. It will often be necessary to reason by analogy (i.e., to draw inferences from recent transactions in similar asset), making adjustments for age, condition, productive capacity, and other variables.

Example for impairments

At the beginning of a year a company purchased a building for Rs. 20 crores. Its estimated useful life at that date was 20 years and the company uses straight line depreciation method. After 5 years the government embarked on a plan to construct a fly-over adjacent to the building and the related installation reduced the access to the building thereby decreasing the value of the building. The company estimated that it can sell the company for Rs. 10 crores but it has to incur costs of Rs. 50 lacs. Alternatively, it if continues to use it the present value of the net cash flows the building will help in generating is Rs. 12 crores. The basic rule is to recognize impairment if carrying amount exceeds the recoverable amount.

First, it is necessary to determine the carrying amount. The building has a cost of Rs. 20 crores, useful life of 20 years and is used for 5 years so far. This means that accumulated depreciation is 20/20*5, i.e. Rs. 5 crores. Carrying amount is Rs. 20 crores minus Rs. 5 crores; i.e. Rs. 15 crores.

Second, it is necessary to determine the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. Fair value less costs to sell in this scenario is Rs. 10 crores minus Rs. 50 lacs, i.e. Rs. 9.5 crores. Value in use is the present value of future cash flows which amounts to Rs. 12 crores. Recoverable amount is the higher of Rs. 9.5 crores and 12 crores.

Carrying amount is Rs. 15 crores while recoverable amount is Rs. 12 crores. An impairment loss of Rs. 3 crores is to be recognized.

If due to any event the impaired asset regains its value the gain is recorded in income statement to the extent of original impairment loss and any excess is considered a revaluation and is credited to revaluation surplus.

In the next year, the government constructed a service road parallel to the high way which improved the recoverable amount to Rs. 14 crores. Depreciation for this year is Rs. 1.2 crore. Carrying amount as at the end of the year is Rs. 12 crores minus Rs. 1.2 crore; i.e. Rs. 10.8 crores. The recoverable amount is Rs. 14 crores which shows that the building has to be appreciated by Rs. 3.2 crores. Rs. 3 crores of this amount is to be credited to income statement (because the original impairment loss routed through income statement was Rs. 3 crores). The additional Rs. 0.2 crore million will be credited to revaluation reserve.

Conclusion

Revaluation and impairment both require the company to evaluate the assets for their true market value, and then take appropriate action in updating the books of accounts. The major difference between the two is that a revaluation can be made upwards (to increase the value of the asset to market value) or downwards (to decrease the value). An impairment, on the other hand, only refers to fall in the market value which is then written down. Revaluation and impairment is a special topic that accounting deals with. It is very sensitive problem, because the volume of revaluation surpluses / shortages and the amount of impairments accounted for influences the total volume of assets and liabilities disclosed in financial statements also with the final influence on profit or loss. The valuers undertaking valuations for financial reporting are required to understand these concepts clearly keeping in view the stringent penal action and strict penalty provisions under the Companies Act, 2013.

References

1. Indian Accounting Standards (IndAS 16 , IndAS 36)
2. International Valuation Standards
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Liquidation as a Going Concern

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IBBI vide notification dt. 25 Jul 2019 inserted Regulation 32A in the Liquidation Regulations whereby the Liquidator may sell the Corporate Debtor, or the business thereof, as a going concern. This was supposed to be a welcome move, as it is generally known that the economic value of a going concern business is higher than the value of assets. Hence, this move was supposed to increase the economic worth of national assets under Liquidation.

However, it has been repeatedly mentioned in the Regulation that under such a mechanism, the **"assets and liabilities"** of the business will be sold as a going concern, which opens a Pandora's Box for the buyers under such a scheme.

As per the data published by IBBI1, as of 30 Jun 2020, 957 cases had resulted in liquidation with a total liquidation value of Rs. 40 kCr. Against this, the total claims were Rs. 5.46 lac Cr, i.e. the total liquidation value of the 957 cases in liquidation was a mere 7% of the total claim amount. If these companies were to be sold as going concerns, what would happen to the remaining 93% of the claims being Rs. 5.07 lac Cr? Does the company as a going concern get sold with all those liabilities? Assuming the proceeds of this liquidation value are distributed among the creditors in the Waterfall mechanism of Section 53 of the IBC, what action would the creditors take to recover these remaining dues, which have been sold to a new buyer? Are we staring at another round of CIRP for these remaining dues?

The Corporate Debtor in liquidation is already one which has gone through the process of insolvency and has failed to find a resolution. If the Corporate Debtor is left again in the economic playing field with 93% of its liabilities, it is highly unlikely that it'll survive and won't fall into the trap of insolvency again.

Our view is that once the liquidation process is initiated and completed, either by sale of assets or sale of business or sale as going concern, and the proceeds have been distributed to the claimants as per Section 53 of the IBC, the Liquidator cannot take responsibility for any pending claims. The liabilities of the Corporate Debtor are already converted to claims under the CIRP and Liquidation processes. The liabilities, if unclaimed or unsettled, cannot turn live again because their claims had not been submitted in the insolvency or liquidation processes.

But more important than that, the sale of liabilities under liquidation as a going concern is in complete violence to Section 53 itself, which speaks of settlement of claims under liquidation. If the liabilities were to come live once again even after receiving proceeds from liquidation, then the liquidation process itself is deemed to have been failed. However, one may still argue that in case of liquidation as a going concern, Section 53 of the IBC does not apply and the proceeds of liquidation shall simply be used to reduce the liabilities rather than to settle them completely.

It should also be understood that at certain times, the assets are inherently linked to certain liabilities and their separation is not possible for a going concern. Examples include long-term supply contracts where the goods are to be called off over a period as required, certain infrastructure contracts which require submission of performance guarantees, indemnification obligations etc. These are pecuniary liabilities which are essential for the operations of the going concern. Such liabilities cannot be settled under Section 53 of the IBC if the Corporate Debtor is to be sold as a going concern.

In conclusion, the transfer of liabilities in liquidation as a going concern does not do justice to the spirit of the IBC. However, there is a need of clarity from the IBBI whether the liabilities are necessary to be required to be transferred during sale as a going concern. Meanwhile, all eyes will be on the future course of legal proceedings on this issue. The Adjudicating Authority may take a view that is contrary to ours, which it has the right to do and settle the matter. However, the same Adjudicating Authority may make use of its generic powers under Section 60(5) of the IBC to clear the matter and bring a unique opportunity of liquidation as going concern giving a real resolution to the strained Corporate Debtor.

(Endnotes)

[1] *https://www.ibbi.gov.in/uploads/whatsnew/a98a313021b1250be5ca3b9301626f25.pdf*

Special Economic Zones In India (Valuation Approach And Methodology)

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Abstracts

The paper discusses the basics of SEZs, SEZ Act 2005, SEZ Rules 2006, features of developments of SEZs and infrastructural requirements/ obligations of the SEZs. The author analyses the approaches and mythologies which could be appropriate for valuation of sepcialised SEZ assets.

Introduction

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000, intending to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1/11/2000 to 09/02/2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

To instill confidence in investors the Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. The main objectives of the SEZ Act are:

1. generation of additional economic activity;
2. promotion of exports of goods and services;
3. promotion of investment from domestic and foreign sources;
4. creation of employment opportunities;
5. development of infrastructure facilities

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

SEZ ACT 2005 and SEZ RULES 2006

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.

The SEZ Rules 2006 provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

The SEZ Rules provide for :

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification

Incentives and facilities offered to SEZs

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax under section 115JB of the Income Tax Act.
- External commercial borrowing by SEZ units upto US $ 500 million in a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective State Governments.

The major incentives and facilities available to SEZ developers include:-

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BoA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
- Exemption from dividend distribution tax under Section 115O of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).

SEZs – statewise and sectorwise distribution

Almost 315 SEZs have been notified in 17 states with highest 67 in Andhra Pradesh followed by 51 in Maharashtra, 49 in Tamil Nadu, 29 in Gujarat, 29 in Haryana and 27 in Karnataka as on 30th June 2008. These SEZs have covered about 29 industrial sectors, like, information technology, textiles, pharma, petrochemicals, engineering, metals, food processing, power, airports, seaports, etc.

Benefits derived from SEZs

Benefit derived from SEZs is evident from the investment, employment, exports and infrastructural developments additionally generated. The benefits derived from multiplier effect of the investments and additional economic activity in the SEZs and the employment generated thus will far outweigh the tax exemptions and the losses on account of land acquisition. Since SEZ Act came in force, the values of exports from functioning SEZs have been Rs. 22,840 crores, Rs. 34,615 crores and Rs. 66,638 crores respectively in 2005-06, 2006-07 and 2007-08 showing growth rate of 25%, 52% and 92% over previous years respectively.

Impact of SEZ Schemes

The overwhelming response to the SEZ scheme is evident from the flow of investment and creation of additional employment in the country. The SEZ scheme has generated tremendous response amongst the investors, both in India and abroad, which is evident from the list of Developers who have set up SEZs.

Main features of development plan of SEZs

Development Plan shall be prepared for the SEZ by an agency designated for this purpose. The planning of the SEZ shall be on the concept of continuity, compactness and self – containment. Each part of the SEZ while being self-sufficient in it should form an integral part of the town as a whole having clear functional linkages with the mother city and other urban centers in the region. The planning of SEZs may adopt different kind of development i.e. low-rise and low-density development/high rise medium density or high-rise and high-density urban form depending on the availability of land and requirement of the units operating.

The planning of the SEZs shall address environmental sustainability issues, green buildings and disaster mitigation aspects. In this regard, the SEZs may evolve norms and space standards flexible enough to meet the socio-economic, physical and environment needs. Incremental approach in providing for infrastructure/facilities and services needs to be adopted so as to have rational and judicious use of scarce resources both in form of land and fiscal resources. The Development Plan for SEZ with a perspective of 20-25 years, shall be broken up into short-term Action Plans of five years each. Both these plans need to be adequately backed by investment plans/programmes for infrastructure to be implemented in a phased manner so that the cost of development may match the availability of funds from various sources such as Central/State Governments, institutional agencies, public-private partnerships and internal revenue through taxes, user charges etc. The Development Plan should also provide a frame-work for programming of infrastructure investment in the SEZ.

The Development Plan shall include the following:

a) Site analysis and assessment of physical and natural resources. Broad spatial plan showing land use pattern, road and other infrastructure network.
b) Activity nodes for location of industrial, commercial, trade and commerce and other employment generating activities serving as nucleus for development around which other activities are likely to come up.
c) Sectoral infrastructure plan including fast track and efficient linkages/ provision of transportation with the mother city and other urban centers of the region.
d) Phasing and prioritisation of the Plan both temporal and spatial.
e) Investment Plan as per the phasing of development.
f) Resources mobilization plan including identification of all the agencies involved in development, their investment proposals and priorities and plans for private sector participation.
g) An institutional/legal frame-work for assigning responsibilities, coordination
h) between government agencies, private sector, NGO's, CBO's and community development groups.

Requirement of Land

The area requirement for the development of SEZs differs as per type of industries. According to SEZ Act, 2005, the area for multi-product SEZs shall have a contiguous area of 1000 hectares or more. Further, in case a SEZ is proposed to be set up in North-eastern States and hill States like J&K, Sikkim, Himachal Pradesh, Uttaranchal and other States like Goa and Union Territories, the area shall be 200 hectares or more. The area requirements as per various activities are Information Technology and Enabled Services - 100 ha, Free Trade Ware Housing - 40 ha, Biotechnology and Gem & Jewelry - 10 ha.

Land Acquisition

Least productive land shall be utilized by acquisition/ through negotiation. Incentives like provision of developed plots to land owners and, engagement of dependents of landowners in jobs in SEZ is required to be taken into account. The agency taking up the development of SEZ may take over the total land required for the project before starting development.

Development Control

Development Control includes coverage, floor area ratio (FAR), height, parking norms, setbacks, open spaces, number of units in various uses like Dwelling Units, shops, industrial units etc. Development regulations adopted in mother city may be extended here with provision for incentive zoning.

Land Regulations

Land use regulations are required to be framed for implementation and enforcement of proposals under each land use category, contained in the Development Plan. Various uses and activities that are permissible, permissible on application to the competent Authority and prohibited are listed in the regulation, which may be finalized by respective State Governments through State Town & Country Planning Departments.

SEZ comprises processing area and non-processing areas. The land use regulations have to keep in view the requirements of both these areas according to the activities envisaged. The purpose of the land use regulations is to promote quality of life of the people by organizing appropriate development of land in accordance with the development policies and land use proposals of Development Plan of SEZ. Therefore, the land use/sub use distribution is required to be shown in the Development Plan of SEZ as processing area and non-processing areas. The uses/activities under different land uses are suggested as follows.

Processing Area

The Processing area may be used for the following activities:-

- Industries/manufacturing;
- Retail Trade and commerce;
- Godowns and warehousing;
- Port and port related activities;
- Airport and related uses, rail, road and inland waterway and spaces for parking etc;
- Public utilities and any other essential services;
- Incidental and other activities for safety and security; and
- Governmental use/activities to manage the proper functioning of such processing areas.

Non-Processing Areas

Areas other than processing area of SEZ are to be planned for various uses and activities, mainly as an industrial town/ township including residential, commercial, recreational and activities related to social infrastructure like education, health care, and socio-cultural facilities.

Physical Infrastructure

a) Water Supply

The standard of provision, distribution and storage are the three important aspects for the planning of water supply. Standards have to take care of the socio-economic profile of the proposed SEZ. It would be appropriate to plan for a potable water supply of 180-235 litres per capita per day, which should meet both residential and non-residential demand of water in the city. If water for consumption is drawn in bulk from an existing water supply system, the storage reservoir may suitably be sited.

b) Storm Water Network

The drainage system shall be designed based on the soil conditions i.e. water absorption capacity of the soil, area of open spaces and other non-residential uses. The storm water drainage system shall be designed for 1.2 cm to 2.5 cm of rainfall per hour.

c) Sewerage

The sewerage system shall be selected based on the following factors:

Ground Water conditions: If the ground water is located very deep or the water is not potable, the possibility for community level septic tanks may be Economic Viability: The economic viability of the sewerage system shall be assessed with respect to the extension of trunk services and the proposed development in the surrounding pockets of the selected site.

Water Availability: The areas provided with full flushing system for disposal shall be ensured with a minimum water supply of 135 Ipcd. At the time of project formulation, if it is found difficult to ensure the desired standards of water supply for the provision of sewerage system, innovative approaches with lower water consumption such as two-pit system may be adopted. For the two-pit system technical assistance may be provided for the proper and efficient construction.

Sewerage Treatment Plant: facilities may be provided for the SEZ as a whole. The prevailing wind direction should also be considered while orienting the development in the pockets adjoining sewerage treatment plant. For pockets adjoining sewerage treatment plants, thick clusters of trees should be planted to act as buffer.

d) Solid Waste Management

i. Properly designed enclosures at suitable places in the SEZ shall be provided for depositing segregated solid waste.

ii. Appropriate landfill sites away from the SEZ shall be earmarked.

e) Public Conveniences

Adequate provision for Public conveniences shall be made in all public parks, open spaces, commercial complexes where there would be congregation of people. They should be well designed by incorporating appropriate technology and camouflaged and at the same time be easily accessible.

f) Power Supply

It would be appropriate that the SEZs shall be self-dependent on power supply and the SEZs should be able to provide 24 hours uninterrupted quality power supply. A minimum of 500 MW of power supply has to be ensured. The power supply should be based on multiple supply lines and not liable to single line point failures. It would be desirable to plan for captive power plants. Overhead lines need to be minimized. Besides, all buildings should have built in provisions for Solar energy use and maximum use of solar energy may be made through Solar energy powered systems for heating and lighting purposes for industrial, institutional buildings and public buildings/places.

g) Telecommunications

It shall be ensured that the provision is made for state-of-the art high speed data communication (HSDC) links through international gateways at specified locations, International Private leased Circuits from 64 kbps to 2 Mbps, TCP/ IP networks with full access to Internet, International video conferencing services and start up space for incubation infrastructure.

Social Infrastructure

The overall quantum of social infrastructure to be provided in the SEZ of 2-3 lakh population, as per tentative guidelines, may be divided into two level of facilities:

i. SEZ Level Facilities: meant to serve the overall population requiring them to be located centrally in one or more than one location.

ii. Local Level Facilities: meant to serve smaller pockets.

Functionally all social infrastructure facilities to be provided in the SEZs at the above said cited level may be classified under the following categories.

- Educational Facilities,
- Health Facilities,
- Commercial Facilities,
- Community Centres,
- Recreational Facilities,
- Socio-Cultural and Entertainment Facilities,

There are guidelines provided for minimum area to be provided for the social infrastructure in relation to population threshold. The indicative norms and standards for distribution of land use shows about 20% of total land of SEZ for residential, 4% for commercial, 40% industrial, 8% for public & semipublic, 18% for recreational and 12% for transportation & communication. It also provides that population density 200-300 persons per hectare and building by-laws as applicable in mother city.

Valuation approach and methodology for specialaised “SEZ” assets

The approach and methodology for the valuation of property assets, including specialised infrastructure assets, is well established. When valuing an SEZ for performance or pricing purposes, the valuation required is an existing use valuation provided this use is the highest and best use for the property.

The Opportunity Cost Approach is not appropriate for property assets of an SEZ because of its emphasis on consideration of alternative usages of the assets. In the current exercise the opportunity cost approach should apply only to returns on capital employed and not property assets.

The Current Existing Use Value considers the value today as an SEZ and requires the summation of the various specialised property components. The internationally accepted approach to the valuation of specialised infrastructure assets for existing use purposes is the Depreciated Replacement Cost method.

Historical costs can only be considered as proxies for current costs provided the historical figures are indexed to present day figures and depreciated for condition. Furthermore, if adjusted historic costs are used, they should be applied consistently across all property asset types.

Optimisation is accepted as a sound practice where asset utility is being valued. However the extension of this concept to exclude all assets that are not “used or useful” from a valuation exercise is too prescriptive and does not take account of the fact that asset demand is continuously changing.

If the Opportunity Cost approach is adopted for specialised assets then the existing specialised infrastructure has no value. This means that the value of an oil refinery would be the land value only and the value of a sports stadium excludes the value of the stands.

Valuation Approaches

Prior to selecting the valuation methodology it is necessary to consider the valuation problem and the type of value required. Thereafter an examination of the property will result in the selection of its most probable use. Once the value definition and the probable (highest and best) use have been determined, the appropriate methodology is applied to arrive at the value.

In the case of SEZ, the valuation is required as a basis for assessing charges for SEZ services and consequently it is logical to restrict consideration of use to that of an SEZ and to value the property assets as part of an SEZ operation. This is referred to as an existing use or in-use valuation.

In addition, the substantial infrastructure assets of a functional SEZ, which are possibly worth more than the land value, mean that the highest and best use is the continuation of the existing use. This confirms the requirement of a current value based on its existing usage.

Consequently any valuation methodology must focus on the valuation of a developed SEZ as its current and most probable usage. Accordingly the valuation approach required for SEZ exercise is the Current Existing Use Value.

Existing Use Valuation Approach

The Existing Use Valuation Approach is a market based approach but the most probable purchaser is considered to be a body that will continue the use of the property as an SEZ. Hence it is inappropriate to consider the value of alternative uses within the valuation exercise. As alternative uses are not applicable, the opportunity cost approach is not a valid approach; this is confirmed by the need to exclude the valuation of sunk assets within the opportunity cost approach. Obviously the exclusion of the sunk improvements from an SEZ's value (or other infrastructure assets such as oil refineries, rail corridors, and sewerage treatment works or sports stadiums) is unavoidable.

In fact the infrastructure assets should be valued on an 'in-use' basis provided they are effectively performing the purpose for which they were constructed. Because of the specialised nature of these property assets there is no open market for these properties and no comparable sales to form the basis for an exchange value.

Opportunity Cost Approach

By definition opportunity cost examines "the highest alternative use value". It has been shown above that the valuation approach for specialised airfield assets should not consider the alternative use of these assets as an existing use value is required.

If the opportunity cost approach is adopted for specialised assets then the existing specialized infrastructure has no value. This means that the value of an oil refinery is the land value only and the value of a sports stadium excludes the value of the stands.

While investment funds may well be evaluated on an opportunity cost approach, this is not appropriate for specialised property assets of SEZs. The inappropriateness of applying opportunity cost to these may result in following discrepancies:

- Costs of initial land development (getting the land to SEZ usage) are not included in the land value or the improvement value. Clearly these costs must form part of the property asset base.
- Specialised assets not been treated as sunk assets and given a nil value

Valuation Methodologies

There are three core valuation methodologies for property being the Comparative (Market), Cost and Investment techniques. Because there is no open market for SEZ properties and the investment method results in a circular exercise, the logical approach is the cost method. Valuation Standards in most developed countries of the world emphasise that the preferred approach for the valuation of infrastructure assets is the cost approach. In the USA the Appraisal Manual of the Appraisal Institute states:

The cost approach is used to estimate the market value of proposed construction, special-purpose or specialty properties, and other properties that are not frequently exchanged in the market. Buyers of these properties often measure the price they will pay for an existing building against the cost to build a replacement, minus depreciation, or the cost to purchase an existing structure and make the necessary modifications.

The cost approach requires a summation of the land and improvement values. While the land is valued, whenever possible, in relation to comparative market evidence, the improvements are assessed at their current value.

The International Valuation Standards state:

All specialised owner-occupied properties and other specialised property shall be valued on the Depreciated Replacement Cost basis except when Market Value methods can be applied.

Replacement Cost Method for Improvements

Current cost is defined as: the cost of an asset measured by reference to the lowest cost at which the gross service potential of that asset could currently be obtained in the normal course of business. For depreciable assets, this amount will be the lower of the replacement cost and reproduction cost of the service potential remaining in the asset.

Depreciated replacement cost is defined as: Depreciated replacement cost is based on an estimate of the current market value of land for its existing use plus the current gross replacement (or reproduction) costs of improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

The current value of the improvements is usually assessed using a depreciated replacement cost approach. This depreciated (and possibly optimised) replacement cost approach is the standard that is conveyed to valuers, throughout the world, as the most appropriate method to assess the current value of improvements. The depreciation function may incorporate optimisation while taking account of functional obsolescence.

The writer has found little evidence in the valuation literature for the recommendation that adjusted historic cost can result in a more equitable or accurate "current value" than adjusted replacement cost. The International Valuation Standards states:

Where there does not exist an identical asset or an asset with equivalent service potential, the current cost would be:

- the reproduction cost of an identical asset; or
- the replacement cost of a modern equivalent asset prorated for any differences between the practical capacity of the existing asset and reference asset with the appropriate amount selected on the basis of which amount reflects the lower cost per unit of service potential.

The major concern with the usage of adjusted historic costs is the inability to determine an equitable comparison between different properties. This can be discussed in the context of the economic efficiency of the ODRC (optimised depreciated replacement cost) method and an adjusted historic cost method. The emphasis is that the four major advantages of the ODRC method are 'it helps replicate the desirable outcomes of a competitive market, maintains market based value movement, and restricts overvaluation and permits optimisation'.

Historic Cost of Improvements

If historic costs are considered as part of a valuation exercise there is always reference to the need to index the historic cost to current cost. The reason for excluding historic cost indexation is given as the incorporation of the inflation rate in the discount rate. However this does not equate to the use of current values, which, in the opinion of the writer, is the only basis for fair comparison.

The writer has not found support in the valuation literature for using an unadjusted historic cost within a current value exercise. If the historic cost figures are not adjusted they are incapable of realistic comparison to assets of other properties. The effect of using an unadjusted historic cost figure for improvement values is that the values, and therefore the charges, will be based on age or date of acquisition rather than on quality of facilities.

Furthermore if historic costs are considered to be a good measure of current cost then there appears no reason to exclude the land valuation component from this exercise. Put simply, the writer does not consider that this approach should be used either for the value of the land or the improvements. As a valuation exercise, an historic cost can be used as a check on the current cost figure provided it is correctly adjusted for the change in cost over the intervening time period – this should then relate to the replacement cost.

Optimisation

Optimisation is accepted as a sound practice where asset utility is being valued. The use of optimisation as "the adjustment of replacement cost to reflect changes in the required deployment or scale of the assets to achieve the same level of services is acknowledged as appropriate. However the extension of this concept to exclude all assets that are not "used or useful" from a valuation exercise is too prescriptive and does not take account of the fact that asset demand is continuously changing.

The justification of optimisation is to "prevent moral hazards (lack of responsibility) emerging for poor investment decisions" in SEZs. However forward planning cannot be considered as a poor investment decision. Major construction developments take several years to complete and are extremely disruptive. Astute decision makers will anticipate demand and hence plan for expansion. It is noted that SEZ developers have the master plans that encompasses the next twenty years.

The writer considers that the words "used and useful" are too restrictive and recommends that optimisation should only exclude assets that, based on reasoned assumptions, will not be used or useful over the short to medium term future, say two to five years.

Performance evaluation using social cost benefit analysis

Private sector firms had traditionally been evaluated using financial analysis tools such as discounted cash flow. As the recent global financial crisis illustrated, such tools have failed. Further, conventionally, for private industry the owners embark on a project with a view to making profits and they bear the risks. As we have seen recently this is no longer true. When the private industrialists failed, the whole society is burdened with the loss. Hence, more appropriate methods ought to be used for the evaluation of private sector projects. One such method is Social Cost Benefit Analysis (SCBA). SCBA has traditionally been a tool of welfare economics to appraise the efficient use of the country's resources from the view point of its society. Generally SCBA is used for the evaluation of public sector projects. It differs from traditional financial analysis tools where all relevant costs and benefits are measured in observed market prices. In SCBA, the prices are corrected for possible market distortions. Since the SEZs having highly used the resources of the society and enjoyed, enjoying and continuing to enjoy fiscal incentives, a thought of SCBA is invited.

Concluding Comments

It has been shown that the appropriate valuation required for SEZ is the Current Existing Use Value. There is substantial evidence from the valuation literature that specialist properties should be valued on a cost based methodology; particularly when an existing use valuation is being undertaken.

The cost method applied to the improvements relies primarily on the calculation of the optimised depreciated replacement cost of the improvements.

The writer believes that the focus on opportunity cost is definitely not appropriate for specialist property assets like SEZs.

Valuers should follow logical valuation methodology and not be required to substitute historic costs for reasonable current costs, or have their valuation figures arbitrarily amended. In addition the use of optimisation should take account of anticipated growth in the medium term and not be confined to currently used and useful assets.

Lastly, from the point of view of society at large, another aspect of valuation Social Cost Benefit Analysis may be considered for optimization of depreciated replacement cost.

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Inventory Management

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Now a days every business organisation, all functions are interlinked and connected to each other's. Some of the key aspects like supply chain management, Logistics, Inventory, Finance etc. are backbone of business delivery functions. Therefore these functions are extremely important for future growth & prospects.

- Out of all major function, Inventory Management is equally important for any organisation which determines supply chain management as well as financial management. Every organization constantly strives to maintain optimum inventory to be able to meet its requirements and avoid over or under inventory that can impact the financial figures.
- Inventory management requires constant and careful evaluation of external and internal factors and control through planning and review. Most of the organizations have a separate department called inventory planners who continuously monitor, control and review inventory and interface with production, procurement and finance departments.

Definition of Inventory

- All organizations engaged in production or sale of products hold inventory in one form or other.
- Inventory can be in complete state or incomplete state.
- Inventory is held to facilitate future consumption, sale or further processing/value addition.
- All inventoried resources have economic value and can be considered as assets of the organization.

Different Types of Inventory

Inventory of materials occurs at various stages and departments of an organization.

A manufacturing organization holds inventory of **raw materials and consumables** required for production. It also holds inventory of **semi-finished goods** at various stages in the plant with various departments. **Finished goods** inventory is held at plant, FG Stores, distribution centers etc.

Further both raw materials and finished goods those that are in transit at various locations also form a part of inventory depending upon who owns the inventory at the particular point of sale. Finished goods inventory is held by the organization at various stocking points or with dealers and stockiest until it reaches the market and end customers. (**Goods in Transit**)

Besides Raw materials and finished goods, organizations also hold inventories of **spare parts** to service the products. Defective products, defective parts and scrap also form a part of inventory as long as these items are inventoried in the books of the company and have economic value.

Need for Inventory Management -
Why do Companies hold Inventories ?

Inventory is a necessary evil that every organization would have to maintain for various purposes. Optimum inventory management is the goal of every inventory planner. Over inventory or under inventory both cause financial impact and health of the business as well as effect business opportunities.

Inventory holding is resorted to by organizations as hedge against various external and internal factors:-

- As precaution
- As opportunity
- As a need and for speculative purposes.

Reasons why organizations maintain Raw Material Inventory?

Most of the organizations have raw material inventory warehouses attached to the production facilities where raw materials, consumables and packing materials are stored and issue for production on JIT basis. The reasons for holding inventories can vary from case to case basis.

- Meet variation in Production Demand
- Cater to Cyclical and Seasonal Demand
- Economies of Scale in Procurement
- Take advantage of Price Increase and Quantity Discounts
- Reduce Transit Cost and Transit Times
- Long Lead and High demand items need to be held in Inventory

Why and when do Organizations hold Finished Goods Inventories?

All Manufacturing and Marketing Companies hold Finished Goods inventories in various locations and all through FG Supply Chain. While finished Goods move through the supply chain from the point of manufacturing until it reaches the end customer, depending upon the sales and delivery model, the inventories may be owned and held by the company or by intermediaries associated with the sales channels such as traders, trading partners, stockiest, distributors and dealers, C & F Agents etc.

- Markets and Supply Chain Design
- Production Strategy necessitates Inventory holding
- Market penetration
- Market Size, location and supply design
- Transportation and Physical Barriers
- Local tax and other Govt. Rules
- Production lead times
- Speculative gain

Why and When to avoid Holding Inventories

Every business organization that is engaged in manufacturing, trading or dealing with saleable products holds inventories in one form another. Inventory is held in the form of raw materials or in the form of saleable goods. Since every unit of inventoried item has an economic value and is itemized in the books of account of the company, inventory can be considered to be an asset of the company.

Inventory Management is a critical function performed by planners to balance the inventory holding so as to ensure that optimum inventory levels are maintained. Any excess inventory will result in incremental costs of maintaining inventory and affects the financials of the company as it blocks working capital. Under inventory on the other hand can seriously hamper the market share. Any customer order that is not fulfilled due to a stock out is not at all a good sign. Therefore the responsibility of striking a fine balance in holding lean inventory calls for smart planning and continuous monitoring of the inventory levels coupled with quick decision-making. Due to the above factors all organizations generally tend to avoid holding inventories except at certain times.

Inventory Build-up Can be a Sign of Hidden Problems

Stock build up can occur as a solution to cover up supplier inefficiencies. If the vendors are not reliable and the flow of raw materials cannot be ensured, there results a trend to hold buffer inventories in the form of raw materials or semi manufactured Work in Process inventories.

In other cases inventory build-up can happen due to bad quality. The inventory cost increase and resultant inventory storage cost can be attributed to cost of quality. If the production is not consistent with quality, the goods produced will get rejected leading to an increase in rejected inventory. Secondly, to make up for the loss due to quality rejection, one would have to increase production and hold finished goods inventory.

In other cases production delays can lead to build-up of inventories too. Production delays can be attributed to varied reasons such as bad design of the product, production layout inefficiencies, production stoppage due to breakdowns, Lengthy process times etc.

Such inventory build-ups not only block the working capital and increase unnecessary cost of maintaining and storing the inventories, but also hide the problems which can cause serious threat to the business. Management should be watchful to identify any such inventory build-up and investigate into the root cause and solve such problems. Inventory build-ups affect the bottom line figures of financial statement.

More importantly inventory over a period of time is susceptible to loss, theft, pilferage and shrinkage. It can also become obsolete and deteriorate over a period of time if not used within the shelf life.

Hence inventory levels are always on the radar of not only finance controllers, but of the top management as well.

Inventory Costs

Inventory procurement, storage and management is associated with huge costs associated with each these functions.

Inventory costs are basically categorized into three headings:

1. Ordering Cost
2. Carrying Cost
3. Shortage or stock out Cost & Cost of Replenishment
   a) Cost of Loss, pilferage, shrinkage and obsolescence etc.
   b) Cost of Logistics
   c) Sales Discounts, Volume discounts and other related costs.

Ordering Cost

Cost of procurement and inbound logistics costs form a part of Ordering Cost. Ordering Cost is dependant and varies based on two factors - The cost of ordering excess and the Cost of ordering too less.

Both these factors move in opposite directions to each other. Ordering excess quantity will result in carrying cost of inventory. Whereas ordering less will result in increase of replenishment cost and ordering costs.

This functional analysis and cost implications form the basis of determining the Inventory Procurement decision by answering the two basic fundamental questions - How Much to Order and When to Order.

How much to order is determined by arriving at the Economic Order Quantity or EOQ.

Carrying Cost

Inventory storage and maintenance involves various types of costs namely:

- Inventory Storage Cost
- Cost of Capital

Inventory carrying involves Inventory storage and management either using in house facilities or external warehouses owned and managed by third party vendors. In both cases, inventory management and process involves extensive use of Building, Material Handling Equipments, IT Software applications and Hardware Equipments coupled managed by Operations and Management Staff resources.

a) **Inventory Storage Cost:-** Inventory storage costs typically include Cost of Building Rental and facility maintenance and related costs. Cost of Material Handling Equipments, IT Hardware and applications, including cost of purchase, depreciation or rental or lease as the case may be. Further costs include operational costs, consumables, communication costs and utilities, besides the cost of human resources employed in operations as well as management.

b) **Cost of Capital:-**Includes the costs of investments, interest on working capital, taxes on inventory paid, insurance costs and other costs associate with legal liabilities.

Inventory Control

Inventory is a necessary evil in any organization engaged in production, sale or trading of products. Inventory is held in various forms including Raw Materials, Semi Finished Goods, Finished Goods and Spares.

Every unit of inventory has an economic value and is considered an asset of the organization irrespective of where the inventory is located or in which form it is available. Even scrap has residual economic value attached to it.

Inventory Controllers are engaged in managing Inventory. Inventory management involves several critical areas. Primary focus of inventory controllers is to maintain optimum inventory levels and determine order/replenishment schedules and quantities. They try to balance inventory all the time and maintain optimum levels to avoid excess inventory or lower inventory, which can cause damage to the business.

ABC Classification

Inventory in any organization can run in thousands of part numbers or classifications and millions of part numbers in quantity. Therefore inventory is required to be classified with some logic to be able to manage the same.

In most of the organizations inventory is categorized according to ABC Classification Method, which is based on pareto principle. Here the inventory is classified based on the value of the units. The principle applied here is based on 80/20 principles. Accordingly the classification can be as under:

A Category Items Comprise 20% of SKU & Contribute to 80% of Total spends.

B Category Items Comprise 30% of SKU & Contribute to 15% of Total spends.

C Category Items Comprise 50% of SKU & Contribute to 5% of Total spends.

Advantages of ABC Classification

- This kind of categorization of inventory helps one manage the entire volume and assign relative priority to the right category. For Example A Class items are the high value items. Hence one is able to monitor the inventory of this category closely to ensure the inventory level is maintained at optimum levels for any excess inventory can have huge adverse impact in terms of overall value.
- **A Category Items:** Helps one identify these stocks as high value items and ensure tight control in terms of process control, physical security as well as audit frequency.It helps the managers and inventory planners to maintain accurate records and draw management's attention to the issue on hand to facilitate instant decision-making.
- **B Category Items:** These can be given second priority with lesser frequency of review and less tightly controls with adequate documentation, audit controls in place.
- **C Category Items:** Can be managed with basic and simple records. Inventory quantities can be larger with very few periodic reviews.

Inventory control is also required as an operational process requirement. Inventory is has two different dimensions to it. **On one level** it is physical and involves physical transactions and movement of inventory. **While on the other hand**, inventory is recognizable by the book stock and the system stocks maintained. This necessitates inventory control mechanism to be implemented to ensure the book stocks and the physical stocks match at all times.

Inventory control is exercised through **inventory audits and cycle counts**. An inventory audit essentially comprises of auditing the books stocks and transactions and matching physical stocks with the book stock. **Cycle counts:** Cycle count refers to the process of counting inventory items available in physical locations. Depending upon the nature of inventory, number of transactions and the value of items, cycle count can be carried on periodically or perpetually.

Theme for December 2020

Theme of December 2020 is **Insolvency Profession.** Editorial board invitees' articles/papers on Insolvency Profession for the WIRC Bulletin for the month of December 2020. Sub theme of **Insolvency Profession** is as below:

Sub Theme

1. **Recent Amendments**
2. **Resolution Plan**
3. **Success Stories of IBC**
4. **CMA as Insolvency Professionals**
5. **Benefit of IBC to all Stakeholders**

Regular articles/papers on other professional matter are also going to be published in WIRC Bulletin apart from articles/papers on respective theme. Editorial board also invitees' articles/papers on other professional matters.

Kindly send your articles on or before **25th November 2020 by email to WIRC: wirc.admin@icmai.in**

Minimum Criteria for Selection of Article/Paper for WIRC Bulletin

1. Type of Article: Related to theme of the month or any other professional matter.
2. Font: Arial/ Time New Roman/Calibri
3. Font Size: 11
4. Minimum length of the Article: 1000 Words (Other than graphs/tables/figure/pictures)

Pls. note the final decision to consider Article/Paper is left with Chairman - Editorial Board.

Use of Caveats, Limitations and Disclaimers by the Registered Valuers in Valuation Reports – IBBI Guidelines

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The IBBI has issued Guidelines called the Insolvency and Bankruptcy Board of India (Use of Caveats, Limitations, and Disclaimers in Valuation Reports) Guidelines, 2020.

The Guidelines are issued in exercise of the powers under Rule 14(i) of **the Companies (Registered Valuers and Valuation) Rules, 2017** which designates IBBI as the authority for development and regulation of the valuation profession. Rule 8 of the Companies (Registered Valuers and Valuation) Rules, 2017 mandates that the Registered Valuers (RVs) shall state "Caveats, Limitations and Disclaimers" to the extent they explain or elucidates the limitations faced by the Valuer, which shall not be for the purpose of limiting his/her responsibility for the valuation report or make the valuation unsuitable for the purpose for which the valuation was conducted.

Proposed Draft Valuers Bill, 2020 also stress the importance on this. Section 59 (7) of Draft Valuer Bill, 2020 states, A valuation report shall not carry a Disclaimer or Condition, which has potential to dilute the responsibility of the valuer under this Act or make the Valuation unsuitable for the purpose for which the valuation was conducted and the valuation report shall be admissible as expert evidence within the meaning of Section 45 of Evidence Act, 1872. The Valuation report should contain Caveats and Disclaimers which has potential of not diluting the purpose for which the valuation was conducted. The Valuation reports should be capable of being tested through the crucible of legal evidence in judicial proceedings.

The said Guidelines shall come into force in respect of valuation reports in respect of Valuations completed by Registered Valuers (RVs) on or after 1st October, 2020. So any valuation exercise started prior to October 01, 2020 but completed on or after 1st October, 2020 are also covered. Appointment letter may be prior to 1st. October, 2020, but they are covered.

The objective of the said Guidelines is to provide guidance to the RVs in the use of Caveats, Limitations, and Disclaimers in the interest of credibility of the valuation reports. These also provide an illustrative list of the Caveats, Limitations, and Disclaimers which shall not be used in a valuation report.

As per the Guidelines;

(i) **An RV shall prepare valuations reports under rule 8 of the Rules in adherence to these Guidelines.**

(ii) **An RVO shall monitor adherence to these Guidelines through scrutiny of the valuation reports.**

Need for Caveats, Limitations, and Disclaimers

The valuation of an asset is an estimate of the worth of that asset which is arrived at after factoring in multiple parameters and externalities. This may not be the actual price of that asset and the market may discover a different price for that asset. Sometimes different RVs arrive at different estimates of value for the same asset. While this may be possible when the purposes of valuation are different, such variance is often observed even when the purposes as also the circumstances in which the valuation is undertaken are the same. In such a situation, the market may question the ability of the RVs and the integrity of the valuation process. This is not in the interest of the stakeholders where crucial economic and commercial decisions are taken on the basis of the valuation reports.

Rule 8(3) (I) provides that RV shall include Caveats, Limitation and Disclosures to the Extent they explain or elucidates the limitations faced by RV, which shall not be for the purpose of limiting his responsibility for the Valuation report.

A limitation arises if the RV is unable to obtain sufficient information and explanations considered necessary for the purpose of the valuation. Where such limitation results in the RV being unable to carry out the valuation in accordance with the normal approach to valuation, the valuation report shall be modified with a paragraph setting out the nature of circumstances, giving rise to the limitation.

A disclaimer is required in a valuation report to mitigate the potential risk of the RV.The reasons for providing disclaimers in a valuation report are as under:

a) A disclaimer protects the rights of a RV by cautioning and dissuading others when using the contents of a valuation report.

b) A disclaimer limits the liability of a RV since it serves both as a warning and a way to mitigate risk, a disclaimer protects a RV from liability. Anyone who reads the disclaimers should understand the risks involved in using the valuation report or acting upon the information that it contains.

c) A disclaimer protects the RV from incurring liability or limits the liability of the RV from the actions of the company or management or insolvency professional at whose instructions the valuation has been carried out.

A valuation report should not carry a disclaimer, which has potential to dilute the responsibility of the RV or makes the valuation unsuitable for the purpose for which the valuation was conducted. The valuation reports should be capable of being tested through the crucible of legal evidence in judicial proceedings. The following points may be considered while providing disclaimers in a valuation report. An RV may:

a) identify the rights he/she wants to protect;

b) identify the areas where he/she might be subject to liability;

c) clarify that the contents of the valuation report pertain to specific use by the company; and

d) caution the reader of the potential risks.

However, a disclaimer will not, by itself, be able to exclude an RV s liability in respect of negligence in performance of his duties.

These Guidelines are divided into three sections. The first section elaborates on the need for Caveats, Limitations, and Disclaimers in a valuation report. The second section provides a guidance note on the use of Caveats, Limitations, and Disclaimers, while the third section provides an illustrative list of Caveats, Limitations, and Disclaimers for each asset class provided in the Rules.

Requirements from a Valuation Report

A detailed and fully reasoned valuation report should be prepared in every case of Valuation done in respect of both mandatory and discretionary valuation, where an RV is appointed. The following aspects need to be considered during the preparation of a valuation report:

- Contents of a Valuation report.
- Procedures involved in preparation of a valuation report.
- Caveats, Limitations and Disclosures.

Considering the interests of stakeholders and the need for transparency and principles of Good Corporate Governance, the under noted matters should compulsorily be covered in the Valuation Report, in a clear, unambiguous and non-misleading manner, consistent with the need to maintain confidentiality :

a. Background information of the asset being valued;
b. Purpose of Valuation and appointing authority;
c. Bases of Value ;(International Valuation Standards "IVS")
d. Premise of Value ; (IVS)
e. Identity of the RV and any other experts involved in the valuation;
f. Intended Users of the Valuation ; (IVS)
g. Disclosure of RV interest or conflict, if any;
h. Date of appointment, Valuation date and date of report;
i. Inspections and / or Investigations undertaken;
j. Business Interest, Ownership characteristics ; (IVS)
k. Nature and source information;
l. Significant Assumptions, if any ; (IVS)
m. Procedures adopted in carrying out the valuation and valuation standards followed ;
n. Restriction on use of report, if any;
o. Major Factors that were undertaken during valuation ;
p. Conclusions;
q. Caveats, Limitations and Disclosures.

Procedures Involved in preparation of Valuation Report

i. The procedures adopted in carrying out a valuation may vary with circumstances, nature and purpose of valuation as well as information and time available. The principle procedures adopted by the RV in carrying out the valuation should be set out briefly in the report. Such procedures may typically include :

   Review of past financials:
   - Review and analysis of financial projections;
   - Industry Analysis;
   - SWOT Analysis;
   - Comparison with Similar transactions;
   - Comparison with other similar listed Companies;
   - Discussion with Management;
   - Review of Principal Agreements/Documents etc;
   - Site Visit (external, internal or both) or desktop valuation;

ii. The RV should also use affirmative statements on the information and data provided by the management and also the adequacy of the information and time available to carry out the assignment.

While Caveat, limitations and disclaimers have different connotations, in the context of a valuation, the clauses may get used in an interchangeable manner as limitation or disclaimer by a RV could be caveat for the user of the report. Hence it is imperative that the users of the report are familiarized about the same to enable them to assess the impact of the disclaimer / caveat/ limitation on the credibility and reliability of the report. Any Caveats, limiting condition or other disclaimers to the report must be clearly stated with appropriate specificity.

In the preparation of a Valuation report, the RV shall not disclaim liability for his expertise or deny his duty of " due care". However, it is recognised that a RV, shall prepare a Valuation report, of the Company based on information and records concerned as provided by the management. The management remains liable for the Correctness and veracity thereof. However, significant inputs provided to the RV by the management / owners should be considered, investigated and / or corroborated . In cases where credibility of Information supplied cannot be supported, considered should be given as to whether or how such information is used.

The efforts, diligence and level of expertise applied by the relevant Registered Valuer, need to be stated in the Valuation Report.

The IBBI guidelines provide the Illustrative list of CLD's Not to be used.

Few are listed below:

a. **Business Plan/ Forecast received from Client:** RV giving disclaimer for the Business Plan, forecast received from client without applying test of reasonability and due diligence.
b. **Physical Verification :** RV giving disclaimer that he has not physically verified the tangible assets in case where engagement is for providing liquidation value.
c. **Market related data:** RV giving disclaimer for the market related data employed in his reports e.g. beta, discounting factor, comparable transactions, comparable companies, valuation metrics without testing appropriateness of the same.
d. **One Approach:** RV giving valuation conclusion based on only one approach without giving any reasoning as to why the other two approaches were not considered in his valuation.

As observed above CLD's given in the report dilute the usability, but the Users can play an important role in getting CLD's reduced by doing the following:

a. Clarifying scope of work and limiting CLD's before hand.
b. Providing all possible documents / information to the Valuer.
c. Providing detailed Fixed Asset Register/ inventory list for focus of Valuer on verification / analysis and not Listing of Assets.
d. Providing following facilities with co-ordination with the CD or otherwise to the valuer during physical verification
   i. Personal Presence / Supervision or insuring proper information sharing
   ii. Facilities to test / weigh tangible assets, where feasible

To conclude, would like to state that as an RV, it is our duty to put efforts in our valuation assignments and do justice to the users by limiting our Caveats, Limitations and Disclaimers and provide meaningful and purposeful report without any dilution. ■

Changing Map and Facets of Valuation Profession Present Legal Framework in Valuation

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Rationale of Registered Valuer Concept

Registered Valuer Concept (RVC) has emerged with the introduction of Section 247 of the Companies Act, 2013 with an objectives:

- To regulate the valuation of the various assets and liabilities related to a Company;
- To standardise the procedures of valuation; and
- To introduce and synchronize the best practices in the valuation compatible to the International Valuation Standards.

Valuation by Registered Valuers

Section 247 (1) of the Companies Act, 2013 provides: "Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience, registered as a valuer and being a member of an organisation recognised, in such manner, on such terms and conditions as may be prescribed, and appointed by the audit committee or in its absence by the Board of Directors of that company.

Registered valuers are, thus, empowered under Section 247 of the Act that specifies that any valuation requirements under the Act shall be fulfilled by a person having the prescribed qualifications and experience and is registered as a valuer with the Registration Authority under the Act. The appointment of registered valuers, of course, need to be done only either by the Audit Committee or in its absence by the Board of Directors of the Company.

Registered Valuers and Valuation) Rules

- The Central Government has, accordingly, notified the Companies (Registered Valuers and Valuation) Rules, 2017, in exercise of powers conferred by section 247 read with sections 458, 459 and 469 of the Companies Act, 2013 (18 of 2013) to conduct and regulate the valuation by the Registered Valuers.
- These rules came into force on 18th October 2017 and are amended four times, last being the 13th November 2018.

Transitional Stage

- Section 247 of the Companies Act, 2013 and the Companies (Registered Valuers and Valuation) Rules, 2017, both notified and came into effect from 18 October, 2017.
- In accordance with these rules, only a registered valuer will be entitled to conduct the valuation of assets and liabilities wherever it is required under the various provisions of the Companies Act, 2013 with effect from 18th October 2017,
- The transitional period, in fact, was relaxed twice and extended upto 31st January due to paucity of Qualified Registered Valuers to conduct the valuation.
- Consequent to these relaxation, any person who was rendering valuation services under the Companies Act 2013, on the date of commencement of the rules, will continue to render such valuation services without a certificate of registration under these rules upto 31st January, 2019.

Applicability of Section 247 & Valuation Rules for valuation under other laws

- Valuation of assets or liabilities or other property or net worth of the Company may also be required for some specific purpose under other laws or regulatory authority such as FEMA, SEBI etc.
- MCA has also clarified, in such cases, that conduct of valuation by any person under any law other than the Companies Act 2013, or these rules shall not be effected by reason or virtue of coming into effect of these rules unless the relevant other laws or other regulatory bodies require valuation by such person in accordance with these rules in which case these rules shall apply for such valuation also from the date specified under the laws or by the regulatory bodies.

Effective Implementation

With effect from February 01, 2019, the valuation reports as required under the (i) Companies Act, 2013 and (ii) Insolvency and Bankruptcy Code, 2016 and as specified hereunder, has to be obtained from Registered Valuers registered with IBBI in terms of rules 3, 4, 5 and 6 regarding examination, eligibility, qualification and registration of valuers under the Companies (Registered Valuers and Valuation) Rules, 2017.

1. **Companies Act, 2013 (Few examples)**
    - Further issue of capital under Section 62(1) (c) of the Companies Act, 2013 read with Rule 13(1) of the Companies (Share Capital and Debentures) Rules, 2014.
    - Restriction on non-cash transactions involving directors under Section 192(1) and 192(2).
    - Power to make compromise or arrangement with the creditors under Section 230 (2) (c) (v) and Section 230 (3).

- Merger and amalgamation of companies under Section 232 (2) (d) and Section 232 (3) (h) (B).
- Purchase of minority shareholdings under Section 236(2).
- Issue of sweat equity shares under Section 53 read with Rule 8(6), (7), (9) and (12) of the Companies (Share Capital and Debentures) Rules, 2014.
- Others

2. **Insolvency and Bankruptcy Code, 2016**
    - For Corporate Insolvency Resolution Process (CIRP) and
    - Liquidation Process

Any person may, however, continue to render valuation services under any other law such as FEMA, Income Tax Act or any other law, which has not specifically as of now stipulated requirement for valuation to be undertaken by a registered valuer(s).

Registered Valuers.

- A registered valuer means a person registered with the Registration Authority under Rule 7(6) of the Companies (Registered Valuers and Valuation) Rules, 2017 for carrying out valuation of assets belonging to a class or classes of assets. {Rule 3(j)}
- The registered valuer has to comply with the code of conduct as prescribed (as per Annexure-I of these rules) under rule 7 (g) read with rule 12 (2) (d) of the valuation Rules 2017, during the conduct of their professional assignment as registered valuer.
- Any violation of provisions of section 247 or any of the rules framed thereunder will attract the penalty to the extent as provided under section 247(3) of the Companies Act 2013.

Administering Authority

Insolvency and Bankruptcy Board of India (IBBI) has been specified by way of notification dated 23rd October, 2017 as the an Authority under Rule 2 (1) (b) of the Companies (Registered Valuers and Valuation) Rules, 2017, by the Central Government under section 458 of the Companies Act, 2013, to administer and perform functions under the said rules, as the an Authority (Registration Authority) to regulate and administer the registered valuers.

Eligibility to be registered as a valuer under the Companies Act, 2013?

An individual, a partnership entity or a company are eligible for registration as registered valuers subject to complying the eligibility requirements provided for in rule 3 of the Companies (Registered Valuers and Valuation) Rules, 2017.

Subject to meeting other requirements provided in rule 3, rule 4 and 5 (1) of Companies (Registered Valuers and Valuation) Rules, 2017:

1. **An individual is eligible to be a registered valuer, if he**
    - Is a fit and proper person; (Rule 3 (1) (k)
    - Has the necessary qualification and experience; (Rule 4)
    - Is a valuer member of a Registered Valuer Organisation (RVO);
    - Has completed a recognised educational course as member of a RVO;
    - Has passed the valuation examination conducted by the IBBI under Rule 5, and
    - Is recommended by the RVO for registration as a valuer.
2. **A Partnership entity or Company**
    - A partnership entity or a Company need to comply with the other additional conditions as specified under Rule 3 (2) of the Companies (Registered Valuers and Valuation) Rules, 2017, for being eligible to be a registered valuer.

Registered Valuer Organisation (RVO)

- Registered Valuers Organisation (RVO) is an organisation recognised under sub-rule (5) of rule 13 of the Companies (Registered Valuers and Valuation) Rules, 2017
- RVO is the first line of regulators who grant membership.
- An applicant (Perspective Registered Valuer) has to be first a member with an RVO before seeking registration as a registered valuer with IBBI under rule 6 of the Companies (Registered Valuers and Valuation) Rules, 2017.

Conditions for Registration with Authority (IBBI)

The detailed process of application for registration as Registered Valuer with the Registration Authority coupled with the conditions for such registration are provided under various Rules of Companies (Registered Valuers and Valuation) Rules, 2017:

- For an individual: Rules 7 to 11 and
- Partnership entity or a Company - Rules 12 to 15

Valuation Standards (Rule 2(1)(i)

- A registered valuer shall make valuations as per the Valuation Standards notified from time to time by the Central Government as provided in Rule 18(1) read with rule 8(1) (a) (b).
- Until such time as the Valuation Standards are notified by the Central Government, a valuer shall make valuations as required under Rule 8 as per:
    a. an internationally accepted valuation methodology;
    b. valuation standards adopted by any valuation professional organisation; or

Class of Assets

Rule 2 (1) (c) defines the "Asset Class" as a distinct group of assets, such as land and building, machinery and equipment, displaying similar characteristics, that can be classified and requires separate set of valuers for valuation. Registered valuers can be registered for three class of assets. The three class of assets are:

1. Land and Building;
2. Plant and Machinery
3. Securities or Financial Assets (SFA).

Conduct of Valuation

A registered valuer can undertake valuation of assets only for the class of asset for which he/she/it is registered for after meeting the eligibility criteria specified for such asset class.

Prospective Development in Valuation

The Draft Valuers Bill, 2020

Government of India has proposed to place before the parliament the bill "Draft Valuers Bill, 2020", which has been drafted to establish a National Institute of Valuers (NIV) and to create an institutional framework to regulate and develop valuation as a profession.

The Draft Valuers Bill, 2020 envisages to establish National Institute of Valuers (NIV) along with a separate regulator to administer the conduct, profession of Registered Valuers and regulate the market of valuation services. The rationale behind establishing the NIV is to promoting practices and standards of professional conduct, including implementing knowledge based valuation standards for valuers.

An individual will have to complete either a national or graduate valuation programme to be registered as a valuer, and such programmes will range from two to four years, depending on the educational qualifications of the applicant.

Streamlining the Legal Framework

The existing Companies (Registered Valuers and Valuation) Rules, 2017 provides a law and structure for regulation of valuation as a profession. The rules encompass framework for valuation under the Companies Act, 2013 and the IBC 2016 only. The Draft Valuers Bill, 2020 is in contrast aimed at covering all valuation related services in the country. Therefore, for the purposes of such unification, Section 247 of the Companies Act 2013, which provides for valuation by registered users, may have to be modified or undergo a major change or the pre-existing valuation rules will have to be rescinded and replaced by the new set of rules under the proposed Bill.

Feature and Scope of valuation under New Bill

The Draft Valuers Bill, 2020 has proposed pethora of new features in the valuation profession such as:

1. Will promote and develop valuation services as full fledge profession like ICAI, ICSI, ICMAI enhancing huge academic as well as employment opportunities in the country.
2. Valuation related educational course, Admission, Examination, Recognition etc. will witness a new shape and color under new framework.
3. Will bring the whole of valuation profession and field into one net i.e. new framework may encompass valuations under other laws in a phased manner reasoned by the experience and the needs of the time in due course.
4. In fact, proposed framework will consolidate valuation services required in various laws and bring them under one umbrella.
5. Asset class may see an entry of new class of asset i.e. **"Intangible Assets"** in line with the happening in the world over with respect to the role and impact of valuation of intangibles in the enterprises value.
6. Constructive and novice provisions to promote, develop, regulate the profession of valuers, valuation services and to protect the interests of users of valuation services in India.

Future of valuation profession in the country - Presence in world map

The development of valuation as a profession would bring the country at par with systems and valuation framework in other countries of the world, but certain hindrances or constrains are nevertheless exist such as fast changing world of financial modelling, technological advancement or automation and its usage in valuation process, complex structure of Indian economy, absence of competition, mind-set of people etc.

As we all witnessing, valuation profession is in itself experiencing swift changes in its structure globally. The structural changes as proposed in the bill will take care of such hindrances or hiccups in the due course either based on adopting the best practices prevalent in world or learning from the experience, as the time passes and valuation profession gets matured.

The Draft Valuers Bill, 2020, is expected to open not only a new avenue of profession, but will create conducive environment for enhanced employment generation measures for existing and growing workforce of the country. At the optimistic scenario, technological transition will play supporting role in strengthening the rationale behind the bill. However it cast a major shift in the mind-set and the responsibility of the profession and its members collectively to adapt it holistically in the furtherance of objectives of proposed Bill.

Valuation as a career for CMA

CMA Rammohan Bhave

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Valuation career

"Behind any successful business, there is a CMA."

To keep up this tradition it is necessary for a CMA to be updated always not just with knowledge but even partner at right moment as to where the business growth is coming from. My compliments to editorial board to aptly choose this topic for current issue

It has been well-known facts that particularly 21st Century, the business growth shifted from organic to inorganic as the name of the game became "marketing" then "acquiring market share" and therefore, acquiring "Corporates" itself.

I worked in corporates for 30 years and in consulting for last 10 years. Ask me one field in which I earned maximum compliments, growth, money and maximum satisfaction as well. It is M & A and Valuation.

Why?

1. Creative and never monotonous
2. Unstructured
3. Futuristic and thought provoking
4. Learning for ever
5. Analytical, not mundane
6. Channelizes energies to productive growth of economy than making and creating huge non-value-adding compliance work
7. Career path is secured as M and As happen whether it is boom or recession (or covid or NO-COVID). In boom there are big pockets to buy companies while in recession, there are acquisitions possible at throw-away prices)

Signing authority or attestation function is a professional privilege arising out of excellence in the field. No wonder MCA and IBBI has reposed faith in CMAs with 3 years' experience to be eligible to become registered valuer.

This article aims at motivating CMAs young or old, to enter into this lucrative profession.

1. **Background** - Companies Act 2013 brought concept of registered valuer. Then MCA and IBBI started mandatory training followed by exam which makes a professional to become member and hold Certificate of practice as registered valuer only 2 years back. There are 3 classes of valuers. But we are focusing on "securities and financial assets" (SFA) valuers (and not other two classes that land and building and plant and machinery for which engineers are eligible). But we very well know that a sizable number of cost and management accountants are engineers as well and with 5 years' experience they can also be valuers in other two categories. We should be proud to see that a few of them have become dual and triple qualified here as well.
2. Who is eligible? CMA or CA or CS or MBA finance with 3 years membership.
3. How to start? Take 50 hours mandatory training from Sec 8 company registered with IBBI as RVO (registered valuers organisation)
4. How is exam and when? One can appear for exam after mandatory training in any of NISM center online on computers for 2 hours MCQ for 100 marks with 60 passing. Beware there is negative marking of -0.25.
5. Cost? Rather ROI is not even 3 months
6. How many times one can appear? As many times
7. How many have passed and become members as of now 1280 (SFA) as Oct 2020
8. Generally people have passed in how many attempts - to our understanding most of them passed in first attempts who had seriously appeared with say studies 100 hours and remaining have passed in second or third attempt. Certainly, it is not as tough as your basic qualification of CMA. Or I would say "one who has done CMA of India can never find any other examination difficult in finance and accounting field.
9. How, as a registered valuer, one can get professional opportunities and obviously earn for oneself? Bread, butter and Jam as well, even pasta and pizza as well. The course provides signing authority under Companies act, SEBI, Insolvency. Banks have started insisting and registering in panels. All these along-with valuations under Ind AS, intangibles, startups and ESOPs, the scope is wide and huge.
10. My perception is that, in past around 20,000 people were doing valuation which number is now just 1,280 and could become 2,000. While number of valuations required were in my estimate 1 lakh assignments have now become 5 lakhs (SFA alone) is a broad perception.
11. Over and above that on passing of draft valuation bill into valuation act which is expected to happen in coming winter or summer session another 12 acts like income tax, FEMA, wealth tax, securities contract regulations, banking regulation, insurance regulatory IRDA, SARFAESIA, money laundering, LLP, pension fund, black money and many other laws.

This course has huge demand in market right now & will give you huge benefit.

So even job-seekers will find that job-providers have this skill-set at the top of the chart.

So, my DEAR CMA, wake up in time and have pioneer and first-mover advantage, rather than discussing 2 years later on WhatsApp university about what institute should have done.

p.s.: Author has trained few thousand students of RV course in 17 cities with more than 200 days lectures for a youngest 3 years post-professional at age of 25 to even up to 75. SO, AGE IS NO BAR. I am sure every CMA is capable of investing maximum 30 thousand rupees and 100 hours.

So, this is an option with least cost & fastest PAYBACK and biggest ROI as the moment.

Why Most Valuation Professionals Are Worried About Draft Valuer Bill, 2020 ?

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Ministry of Corporate Affairs (MCA) has submitted a Draft Valuer Bill,2020 under expert committee on April 2020. It offered for consideration to found the National Institute of valuers (NIV) in accordance with the models of ICMA,ICSI and ICAI. Now, valuation experts make valuation of Plant & machinery, Land & Building and Securities or Financial Assets. At present, Companies (Registered Valuers and Valuation) Rules, 2017 monitors valuation process for above mentioned assets. At present, there is no ecosystem for these valuation professionals who may be CMA, CA and Engineers for technical valuation. Currently, they work on valuation assignments on case to case basis and on part-time. Their main profession is something else. Accordingly, Valuation Professionals need some regulatory structure for uniformity and credibility of their profession. National Institute of valuers (NIV) will be that regulatory body. NIV will be apex body of Regulation with status of quasi judicial authority. MCA, in the mean time, asked for comments and suggestions from citizens on different clauses of Draft Valuer Bill, 2020.

There are 69 Sections in Draft Valuers Bill,2020 and Five Schedules.Terms of reference of Committee of Experts headed by Dr. M. S. Sahoo, IBBI – Chairperson are as follows -

a. Development of Profession
b. Regulation of Profession
c. Regulation of Market for Valuation Services
d. Regulatory Architecture
e. Transitional Arrangement

a. **Development of Profession :** For the long range development of the valuation profession, the Draft Bill proposed very specialised professional courses coupled with compulsory internship for entry level into the course. These courses will be conducted by Valuers Institutes, registered with the National Institute of valuers (NIV). NIV will run the examinations for these specified courses.

b. **Regulation of Profession :** Smooth regulating this profession is required for ensuring professional standards. This may be successful with (a) appropriate entry level rules and (b) laying down rules of conduct and strictly following up its compliance. As per the Draft Bill, before providing valuation services, the concerned person need to get specialised certificates for registration. Thereafter. the eligibility criteria of practising as a valuation professional will depend on the type of assets to be valued. Moreover, one will need to abide by number of codes of conduct. In case of default, there will be strict penalties.

c. **Regulating the Market for Valuation Services:** The Draft Bill prescribed a uniform rule of law for the rendering of valuation services, so that only registered professionals under the proposed structure are allowed to perform. When Draft Bill will be in place, it will standardrize practices of valuation for transactions among different statutes and boost the market for valuation services. Moreover, this sort of standardization will also give rise to several pluses for the Indian economy in the many years to come.

d. **Regulatory Architecture:** The Draft Bill calls for a two-tier model for regulating of the profession. At the first tier, it calls for the founding of National Institute of Valuers,(NIV) as the main regulatory body with a structure, consisting of a chairperson, whole-time members, part-time members and ex-officio members. At the second tier, Valuer Professional Organisations (VPO) shall operate for the development of the profession

e. Transitional Arrangement

Category	Particulars	Remarks
Registered Valuers (under Valuation Rules)	Automatic transition	
New Registration (till implementation of new framework)	As per Valuation Rules.	Initial 2 years only.
Valuers in practice (not having qualification under Valuation Rules)	Registration after undertaking Limited Valuation Course and passing Valuation examination.	Initial 3 years only
RVOs (REGISTERED VALUER ORGANI-SATIONS).	Automatic transition as VPOs (Valuers Professional Organisation)	
Authority (during the transitionary period)	IBBI during the transitionary period only	

Source:https://ecpl.live/icai/28042020/A_Draft_Valuer_Bill_2020.pdf

Why Most Valuation Professionals Are Worried About Draft Valuer Bill, 2020 ?

1. **Valuation Professionals Registered under the Weath Tax Act and Institution of Valuers (IOV) have been denied direct Membership in Proposed Set Up.**

Born in 1968, Institution of Valuers with 20,000 Members at present is not a statutory institution like ICMA. ICAI and ICSI. They are governed by Institution of Valuers and some provisions of . Wealth-Tax Act and Rules, 1957. Rule 8A of the Wealth Tax Rules, 1957 have mentioned the qualifications of these Valuers. I reproduced the said section and rules as follows —

(QUOTE) Rule : 8A - Qualifications of registered valuers under Wealth-Tax Rules, 1957 as per Wealth Tax Act,1957.

(1) For the purposes of sub-section (2) of section 34AB, the qualifications for registration as valuers of different classes of asset shall be as specified in sub-rules (2) to (11).

(UNQUOTE) Sub-rules (2) to (11) are very exhaustive with mention of qualifications of different streams of Engineers and CMA,CA and CS with relevant experience along with other qualifications. This Rule 8A of sub-section (2) of section 34AB is still prevalent in Legislation.

The Draft Valuers Bill, 2020's, has suggested formation of NIV, Valuers, Valuer Institutes and Valuation Professional Organisation completely ignoring the Institution of Valuers (IOV) and Rule 8A of the Wealth Tax Rules, 1957 (WT Act). Refusal of automatic membership of such valuers into the NIV is ultra vires against their fundamental rights of valuers. As per the Constitution of India (Allocation of Business) Rules, 1961, only the Ministry of Finance has jurisdiction over a number of areas which are closely related to valuers and valuation. They feel, the company affairs ministry has no jurisdiction to rescind and abrogate an existing 20,000 membership of valuers to practice under Section 34AB of the Wealth Tax Act,1957. As a result, valuation experts with more than 15 years experience or others to now go through training for 50 hours and then face a test. Hence, under no option situation, some of such members of IOV lodged cases against the Draft Valuer Bill,2020 in High Courts of Tamil Nadu and Karnataka.

2. **Complaint Against any Valuer is One Way Traffic (Section 40)**

   Other grievance is that any individual can lodge a complaint against any valuer or a company (which is in valuation profession) and surprising fact is that the concerned person will not have legal obligation if the complaint is proved false. On the other hand, if complaint is true, valuer or a company will be subjected to for all punishment for infringement of law. This is unfortunately one way traffic. As a result, IOV suggested amendments in Section 40 –(Show-cause notice) - After Clause (8) of this Section, following may be inserted as Clause (9). Based upon the Reports of Inspection Or Investigation or both, if the complaint is found to be misleading or mischievous or malafide in nature, the Institute may initiate legal action against the Complainant. Complainant bears the burden of establishing the bonafides of complaint.

3. **Allowing Eligibility of Non Technical Person (Section 49)**

   The Draft Bill enabled those who have been successful in Higher Secondary Examination to start a graduate valuation programme under Section 49 (1) (a). An individual shall be eligible for registration as a valuer in respect of an asset class, if he- (a) has completed the national valuation programme of the relevant asset class after having completed Higher Secondary Education and under section 49 (1) (b) has completed the graduate valuation programme of the relevant asset class after having a degree or equivalent qualification in any of the specified disciplines of the draft Bill. The new draft bill also permits non-technical individuals into the profession. This will be considered by current valuation experts a sour taste in their mouth. For instance, if a non-technical valuer (passed H.S.Examination as explained above) is asked by a bank to assess capability and efficiency of a machine which is in operation, will he deliver the output as per assignment? The answer is big "NO'. Because he needs a Engineering Degree along with other relevant experience of particular industry. Why candidates who are not graduates of any stream are being allowed to enter the profession as per clauses in this draft valuer bill,2020 ?

4. **Quantum of Professional Fee**

   On the question of professional fees (what can be charged by a valuer), the new Bill is evasive, while it is specified for those working under the WT Act. As per Draft Valuer Bill,2020, the fee has to be market-determined in case to case basis.

As per Rule 8C of the Wealth Tax Rules, 1957 - Scale of fees to be charged by a registered valuer.

1) Subject to the provisions of sub-rules (2) and (3), the fees to be charged by a registered valuer for valuation of any asset shall not exceed the amount calculated at the following rates, namely:—
   a) On the first Rs. 5,00,000 of the asset as valued, 1/2 per cent of the value;
   b) On the next Rs. 10 lakhs of the asset as valued, 1/5 per cent of the value;
   c) On the next Rs. 40 lakhs of the asset as valued, 1/10 per cent of the value;
   d) On the balance of the asset as valued, 1/20 per cent of the value.

Normally, professionals with vast experience should be rewarded with handsome fee. However, there should be a benchmark for minimum fee.

5. **Penalty on Resultant Loss - Disposal of show-cause notice- Section 41**

   Other likely trouble is that valuation experts refer to Section 41 of the draft Bill, wherein it is assumed that the valuer is mostly wrong and feel that the user of the services is always appropriate. In case of such allegation, examination will be done by a law executive or Valuation Professional Organisation. If found guilty, the Bill permits for financial penalty up to Rs 2 lakh or multiplied by THREE the amount of resulting loss.

Accordingly, Institution of Valuer suggested amendments to delink penalty from Resultant Loss as follows - Section 41- Disposal of show-cause notice –

Clause (4) (a) (vii): monetary penalty which may extend to two lakh rupees (Suggested amendment - any penalty should not be linked with the Resultant Loss)

Clause (4) (b) (vi) monetary penalty which may extend to ten lakh rupees (Suggested amendment - any penalty should not be linked with the Resultant Loss)

Clause (4) (b) (vii) monetary penalty which may extend to ten lakh rupees (Suggested amendment - any penalty should not be linked with any unlawful gain)

For inspection, visits of regulator every year or other periodicity is too much. It does not happen to CMAs, CAs or CSs. Valuers give subjective opinion as an expert. Hence, it requires to get more than one opinion so that biasness is eliminated as is done in M&A. In case of Credit Rating, can Triple AAA company ensure 100% liquidity? All such companies give disclaimers. Regular Inspection clause in draft bill should be definitely amended suitably.

6. **This Draft Bill will invite more Corporates causing stiff competition**

Some of valuers feel, once implemented, will lead to cut throat competition in future in valuation field when full Valuer Bill will be in place. It transpires that amendments of legislation are being so designed so that more corporates are accommodated and participation of new overseas holding companies and subsidiaries in the valuation process is exepedited as they are not eligible to be valuers under existing statute of India.

7. **Avoid Nontechnical Member in Committee (Section 21 - Valuation Standards Committee)**

Provisions of the bill 2020	Suggested Changes
Section 21,Clause (2) (a) the Chairperson	The Chairperson, who shall be a valuer;
Section 21,Clause (2) (c): three valuers each from an Asset Class, as nominated by the Council;	Five valuers each from an Asset Class, as nominated by the Council;
Section 21,Clause (2) (e): four eminent citizens, as nominated by the Central Government. Provided that no associate valuer shall be nominated to the committee under clause (c) after five years from the commencement of this Act.	Should be deleted of Clause (2) (e) (As this is purely a technical committee, it is advisable not to include any non-technical citizen)

Source: https://www.institutionofvaluers.net/upload/news/newspdf/bill2020.pdf

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Report on Webinar on GST Annual Return (GSTR-9) and GST Audit (GSTR-9C) & quot

WIRC -PD Committee organized a Webinar on Annual Return and Audit /reconciliation GSTR 9 and 9C Practical aspects on 25.10.2020. Webinar was addressed Shri Arvind Bhansali, Head of GST of Reliance industries ltd and Reliance Retail as chief guest. He explained practical difficulties in GSTR 9 for awareness of all and deptt. Webinar was addressed by Shri Samir Bajaj Commissioner GST Bhiwandi Mumbai Zone as key note speaker and he explained the linkage of GSTR 1, 3 B and 9 and care to be taken by industries for better compliance.

CMA Harshad Deshpande, Chairman WIRC is his welcoming address he thanks Shri Arvind Bhansali, Chief Guest and Shri Samir Bajaj, keynote speaker for accepting invitation and sparing their valuable time. He also informed about recent webinar organized with GSTN and NIC on e-invoicing. CMA Mahendra Bhombe, Chairman P.D. Committee introduced CMA Shailendra Saxena, Faculty. CMA Shailendra Saxena had explained the GSTR 9 & 9C in detail, especially on scope of CMA in GSTR 9 C. He also explained important point to be checked giving reference of high court landmark judgments. Question Answer session was very interactive, and all the participant had taken active part in clarifying the doubts. CMA Rajendra Rathi coordinated the Webinar. CMA Bhanwar Lal Gurjar proposed vote of thanks.

Opportunity for CMAs as Valuer

CMA Devika Dave

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CMAs are driving force in all economic activities, as they are the value creator, value enabler, value preserver and value reporter.

In this globalized world, organizations require professionals who have specialized knowledge on business strategy, regulatory function, financial reporting and value creation. CMA professionals used their special subjective knowledge for conscious and rational procedure by Accountants for accumulating costs and relating such costs to specific products or departments which helps management to take wise & corrective decisions. They add values to providing information by which analyses past, present and future data to provide the basis decision making. Cost Accounts are keys to economy in manufacture and are indispensable to the intelligent and economical management of a factory.

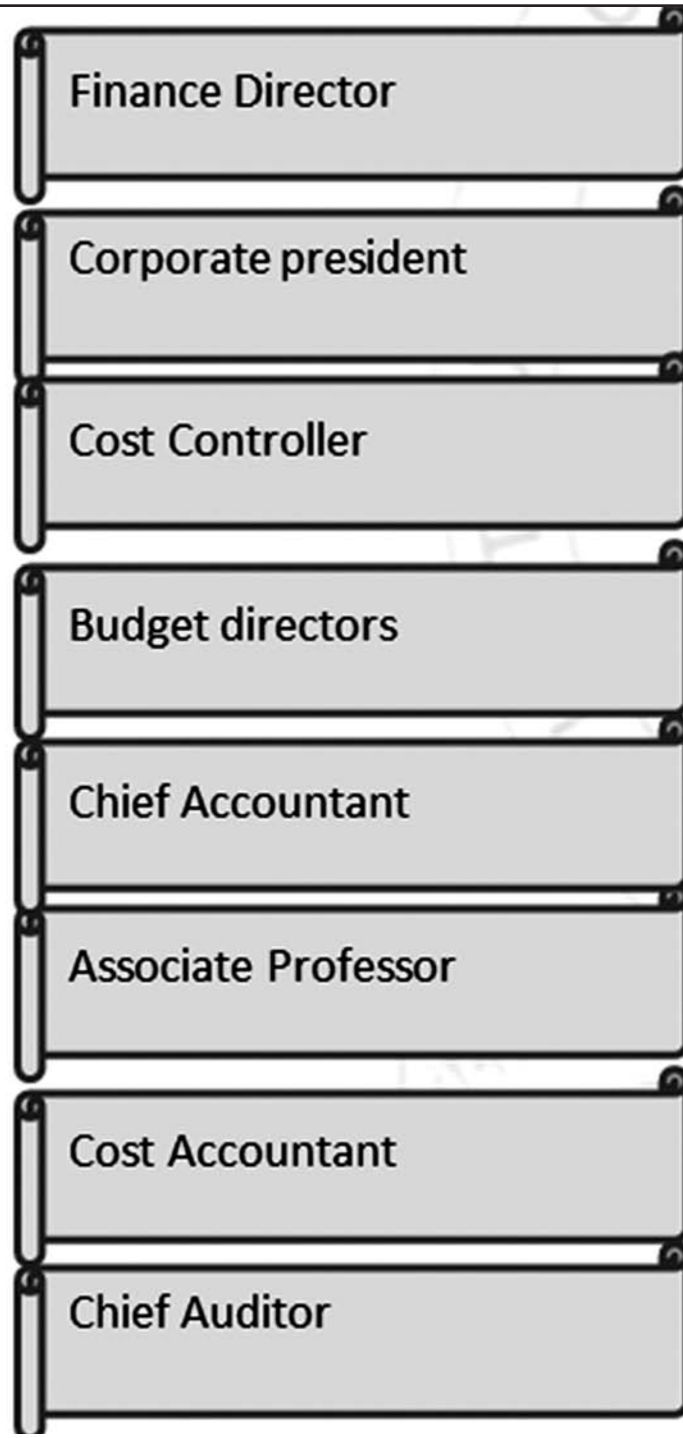
Now a days their existence in any organization are important because it can identify where a company is spending its money, how much it earns, and where money is being lost. Cost accountant aims to report, analyze, and lead to the improvement of internal cost controls and efficiency to make strategically decisions.

Be A CMA, Be an Enable for SELF-RELIANT INDIA

Earlier it was a set of mind that COST ACCOUNTANT is requires only in manufacturing industries. But day by day significantly CMA professions gets more & more opportunities in all sectors like Pharmaceuticals, banking & finance sector, Steal business, Petroleum, audit firms, development agencies, education and training sectors, government sector, private enterprises etc.

Many large organizations like ONGC,Powergrid,Reliance,L & T, Tata Motors ,Capegemini,ITC,CITCO,Infosys,Nestl e,Hero,Accenture,Vedanta,TVS,BEML,Godrej,Mahindra ,PWC,Coca-Cola,wipro, GST Suvidha, Kalpataru Power Transmission Ltd, Express Roadways Pvt Ltd, Ford Motor Pvt Ltd, Federal Bank, Dr. Balabhai Nanava Hospital, ABB India Ltd, Phamra industries like; Torrent, Sun, Abbot, Ranbaxy, Intas, Zydus etc. are coming forward for Campus placements for Cost Accountants with various vital positions;

Many from above organizations are recruit the cost accountant even after completions of their intermediate as a Trainee or Executive/Sr executive level. The Institute of Cost accountant of India has a strong support to the students for placement & adding their values as cost accountant in organization.



Day by day opportunities are increasing in current pandemic position as every organization's focus on actual competitive cost for taking strategic decisions.

Behind Every Successful Business Decision, there is always a CMA

CFO Speaks

CMA Vinod Vasant Shete

***Interview by* CMA Prashant Vaze,** *Member - Editorial Board*

CMA Vinod Shete studied at Pune University, gaining a Bachelor of Commerce degree. He is a qualified Cost and Management Accountant & Associate Member of Institute of Cost Accountants of India

He began his career with Lawkim Limited (Godrej& Boyce) and has accumulated a wealth of experience in managing finance functions at various capacities with major national and international companies such as INA Bearing, Godrej& Boyce, Deepak Fertiliser, Symphony Services, Concentric Pumps AB, Baker Gauges and Worthington Armstrong Ventureboth in India and abroad.

He has rich experience of 24 years in the field of Accounts / Costing / Finance / Taxation / legal / Commercial Operations in various Industries.

He has written many articles on Working Capital Management, Pricing Strategy, Lean Management and GST published in well known professional magazine like Vyapari Mitra, BULLETIN of Western India Regional Council of the Institute of Cost Accountants of India (WIRC) and Institute of Company Secretaries Pune Chapter. Articles on GST: A Driver of Growth Engine for the Nation, Reverse Charge Mechanism, Input Tax Credit etc were published by WIRC bulletin and also in National Seminars conducted by Institute Of Cost Accountants of India. Articles on GST Tax Planning ,GST Input Credit Tax and Digitization in Supply Chain Management were published by Indian Institute of Material Management and CAknowledge.Com. Has served as Keynote speaker at various management institute and Corporate . Conducted Corporate Training on GST and Financial Management . Honorary faculty member at ICICI skill development program centre (Initiative of ICICI Bank). Associated with various management institutes .

1. **What do feel about your role as CFO of a Multinational company and Domestic company?**

   Both roles are challenging. The main responsibility is to manage the Company's finances, policies & procedures, strategic planning, compliances as well as Financial Reporting to Senior Management & Board. In addition to this, risk management is an integral part of my role. I would say that more complex role in multinational company as compared to the later, is especially in Global Strategy of group and its impact on Indian operations. A larger share of operations / business of group come to India on the basis of competitive cost and operational efficiency and growth potentials in domestic market. We are living in a VUCA world (volatility, uncertainty, complexity and ambiguity), where change and disruption are the new normal. While in domestic role my main emphasis is on managing finance and reduce the cost of fund. Further, in today's complex financial investment environment; we must emphasize on Return on Investment and Return of investment too. According to me, earlier CFO role was divided into three areas viz Reporting, Liquidity and Return on Investment but under VUCA environment; CFO role becomes dynamic and is required to ensure that the company remains competitive in the current environment.

2. **What are your main constraints/ challenges you face as CFO of a multinational company?**

   Let me thank you for this question. Working with multinational is really challenging; representing company on global platform. Main challenge is to maintain our plant at cost competitive level and higher desire rate of return on investment as compare to other globe partners. In recent past years, major reforms have been made in business environment, Government policy and Indirect & Direct Taxes. It was a real challenge to present before board about the changes made in laws & business environment and its impact on Indian operations and at a global level as well. Another challenge is compliance and highest standards of governance are non-negotiable and continue to be the core requirements that businesses must adhere to.

3. **What inspire you to pursing CMA with other professional qualification?**

   When I was doing my graduation, many of my friends chose to purse CA but myself and my close friends Mr. Godbole and Mr. Apte decided to purse ICWAI (CMA) . Being a Cost conscious person, I realized the importance of cost in our day to day life and business as well. It drove me to purse CMA. Further, One of my close relatives had given me reference of Late Shri Chaware Sir to get details of ICWAI course. During that time, he was the senior most Cost Accountant in Pune and Founder member of Pune Chapter of Cost Accountants of India.

4. **How the CMA qualification helps you in your career path?**

   I would say that CMA qualification is like a strong pillar in my career path; sustain me like tall building standing years to years on the strong pillars. Unique feature in CMA course that it develops techno commercial knowledge since beginning of your professional career and continuous accumulation of knowledge thereafter. It helps in understanding of business very well. It is very vital and crucial for taking business decision. Many times it proves that "Behind Every Successful Business Decision, There is always a CMA."

5. **How would you evaluate the role of CMA in manufacturing industry?**

   CMA role in manufacturing industry is very vital. Raw material cost is highest cost element in the total cost of the product. On and average, raw material cost is around 60% to 65% of the total cost of the product. Continuous monitoring of raw Material cost is required by consumption analysis i.e. Actual Consumption V/s Standard Consumption and find out variances. Discuss same with operational team and accordingly prepare action plan to reduce the cost of material consumption by way of reengineering of process and material as well to avoid wastages. Further, reduce the material cost by initiating price negotiations with help of SCM. Even 1% to 2% saving in material cost results in heavy amount of positive impact on company's bottom line. Age wise analysis of inventory and its continuous monitoring will ease the pressure on the working capital of the Company. The Cost of working will reduce and ultimately causing positive impact on bottom line. Further, CMA plays Key role in the product mix planning as a part of Sales Strategy.

6. **How a CMA can helpful to industry in Cost Control and Cost Saving, specially engineering industry?**

As I said earlier that, CMA role is very crucial in the Cost Control and Cost Saving in manufacturing industry. In my opinion, if possible, apply the Activity Base Costing to determine the Overheads like manufacturing, administrative, Selling and distribution. Activity-based costing systems are more accurate than traditional costing systems. It will provide more accurate break up of indirect cost. To control cost, ABC analysis will help to distinguish between Value Added and Non Value Added activities. The cost of non value added can be saved from the analyzing activities thoroughly and prepare action plan on the basis of outcome from ABC reports. Monitoring cost on month to month basis would be helpful to control and save the cost by analyzing the Overheads commensurate with activities in the company. CMA can work out various overheads ratios to monitor and control the cost. If we take out non value added activities from the entire production process; cost saving will be automatically done. CMA plays critical role to remain cost competitive in the industry. I quote "Price is Policy But Cost is Fact"

7. **How the CMA can be helpful in direct taxation to tax payer as well as government?**

Good knowledge of direct taxation will be helpful to CMA to analyze the financial performance of the company from tax perspective. There are various tax provisions applicable to company. CMA can work out the correct deductions / rebate on the prevailing provisions in the tax laws. Especially in the case of transfer pricing, right from applicability of suitable method and up to working out margins as per applicable method selected. Role of CMA will be helpful to Taxpayer and Government as well. There will not be any confusion between Tax Payer and Government about the basis of calculation and transparency about transactions.

8. Is the Cost Audit create value addition for industry?

Absolutely True. The Cost Audit is not merely Audit as per statute but it adds Value to Industry. Professional Management always see that Cost Audit is nothing but Value Addition Tool to the Company rather than merely compliance Audit for statutory purpose. I would say that Cost Audit is truly Value Creation TOOL. Many insights of Material, Men and Machines / Resources utilization etc are highlighted in Cost Audit.

9. **How the performance appraisal report by cost auditor which is laid down in earlier rules 2011 will be useful to industry?**

As I said earlier, Cost Audit is Value Addition Tool for the Company. Performance Appraisal report by Cost Auditor will definitely be useful to the Company for improving KEY Areas in the Company. The intention of the law appears to assign a role to the cost auditor to provide an independent view of the performance of the company to enable the management to take corrective steps wherever necessary. It will help in overall improvement of efficiency in the company operations.

10. **What are the key challenges for auditee and auditor for completing audit task under this pandemic situation of COVID?**

There are many challenges before Auditee and Auditor in respect of complete Audit. In my opinion resources is the KEY constraint for both. Secondly, records / documents are required to substantiate the transactions and last but not the least are physical meetings. We can overcome this key challenges by chalking out Audit Programme by considering abnormalities factors, arranging meeting via Google meet or any suitable mode, Audits with minimal physical documents. In my opinion, in today's scenario Digitalization plays key role in Audits.

11. **What are the positives of new normal?**

As countries around the world ease their lockdown restrictions, workers are looking forward to getting back to normal keeping all the restrictions in mind. Companies will be forced towards revisiting business plans and targets in view of loss of demand.

With social distancing rules likely to continue, more and more businesses are accelerating their automation efforts in order to reduce close human contact to a minimum, free up employees to manage crisis response and focus on providing essential services. Naturally, online activities will also play a big role in helping boost the growth of companies and connecting them with customers around the world.

12. **What is the Future role of CFO in 2020?**

In my opinion, KEY Role of CFO in 2020

Revisiting Business Plans & Targets, Cost Optimization & rationalization, Cash Management, strategy for System Digitalization. The most important Role is to Manage the Cash. The CFO must take measures to conserve cash by revisiting payment terms to its suppliers & making efforts in enhancing the sales collections. After all "Cash is King"

13. **What are the challenges & opportunities to banking industry in the years to come?**

I would say that, main challenge before banking industry is to loan recovery. There may be possibilities of increase in NPAs. Therefore, it will be worrisome situation to the bank mainly due to erode margin and pressure on reserves as well. Many banks may go for restructuring of loans to their customers rather than going for NPAs. There is a Huge potential for new credit lines to various sectors for revamping the business operations.

14. **Your message to young CMAs.**

MY young CMAs friends please remember mantra "Work Smartly". 'Winners don't do different things. They do things differently,' is the famous quote by Shiv Khera in his book You Can Win. Continuous update of your Skill & knowledge is required not only in the areas of Cost & Management but also in areas like Banking, Commercials, Taxation, Systems and last but not the least Digitalization. I would say that, Knowledge and skills add value in your career.

My Best wishes are always with you!!!!!

"Behind Every Successful Business Decision, there is always a CMA"

GST Corner

Compiled by CMA Vandit Trivedi

- 31st December 2020 is the revised date for filing of GSTR 9/9A & GSTR 9C for F.Y. 2018-19. (Notification - 80/2020-Central Tax dated 28.10.2020)
- Introduce new facility for filing of "Nil" – GSTR 3B/ GSTR-1/ CMP-08 through Short Message System (SMS) on GST Portal.
- Threshold limit of aggregate turnover increased up to Rupees Five Crores for filing of GSTR 9C for F.Y. 2018-19 & 2019-20.
- Removal of restriction for issuance of PART -A of E-way bill for non-filing of GST Returns (CMP-08/GSTR-1/GSTR-3B) for a consecutive two months from 20th March to 15th October '2020.

  (Notification - 79/2020-Central Tax dated 15.10.2020)
- Aggregate Turnover of Preceding F.Y. is a parameter to determine the number of Harmonised System of Nomenclature Code (HSN Code) will be furnished in a Tax Invoice (w.e.f. 1st April 2020)

Aggregate Turnover in Preceding F.Y.	Number of HSN Code
Less than rupees One Crores Fifty Lacs	Nil
More than rupees One Crores Fifty Lacs and upto rupees five crores	4
More than rupess Five Cores	6

(Notification - 78/2020-Central Tax dated 15.10.2020)

- Optional to file GST Annual return (GSTR 9) for turnover less five crores in F.Y. 2019-20

  (Notification No. - 77/2020-Central Tax dated 15.10.2020)
- Due Date of GSTR-3B

Forms	Period	Due Date
Turnover More than rupees Five Crores	October 2020 to March 2021	20th of the succeeding month
Turnover up to rupees Five Crores		22th of the succeeding month*
		24th of the succeeding month**

*State-I (refer state wise list in compliance calendar)

**State -II (refer state wise list in compliance calendar)

(**Notification No. - 76/2020-Central Tax dated 15.10.2020)**

Forms	Period	Due Date
GSTR - 1 (monthly) [Turnover More than rupees One Crores Fifty Lacs]*	October 2020 to March 2021	11th of the succeeding month
GSTR -1 (quarterly) [Turnover upto rupees One Crores Fifty Lacs]**	October'20 to January'21	13th January'2020
	January'21 to March'21	13th April '2020

- **Due Date of GSTR -1:**

  *(Notification - 75/2020-Central Tax dated 15.10.2020)

  **(Notification - 74/2020-Central Tax dated 15.10.2020)

- E-Invoicing: The Taxpayer is able to generate Invoice Reference Number (IRN) within 30 day time limit from the date of invoices, which are issued from 1st October to 30th October 2020.

  (Notification No. - 73/2020-Central Tax dated 15.10.2020)
- Impact of Rule 36(4) of CGST Rules:
  - Due to COVID -19 pandemic, the effect of rule 36(4) of CGST Rules from February to August 2020 was kept in abeyance.
  - As a result of it, the taxpayer shall require reconcile ITC availed in GSTR -3B v/s the balance appearing in GSTR-2A cumulatively during such period and shall require to reflect correct impact of excess ITC availed during such period in GSTR -3B of August 2020.
  - Total value of eligible ITC is sum of total value of Invoices & Debit note uploaded by the supplier through GSTR -1 during such period only. The same is appearing as GSTR -2A on GST Poral of the service recipient.
  - Taxpayer can avail ITC up to 110% of value of ITC appearing in GSTR -2A during such period.
  - In case of excess ITC availed, then the taxpayer can require for suo moto reversal of ITC through GSTR-3B of August 2020 in September 2020.
  - In future any reversal of excess ITC from February to August 2020 will consider as ITC for September 2020 and in accordance to it the interest shall be levied.

    (Circular No. 142/12/2020-GST)
- **Compliance Calendar:**

Nature of Compliance	Due Date / Extended Due Date
GSTR-7 (TDS Deductor) for the month of Oct. 2020.	10 Nov. 2020
GSTR-8 (TCS Collector) for the month of Oct. 2020.	10 Nov. 2020
GSTR-1(for turnover of more than 1.5 cr.)for Oct. 2020.	11 Nov. 2020
GSTR-6 (Input Service Distributor) for October 2020.	13 Nov. 2020
GSTR-3B (for turnover more than 5 Cr.) for Oct. 2020.	20 Nov. 2020
GSTR-5 (Non-Resident Taxable Person) for Oct. 2020.	20 Nov. 2020
GSTR-5A (OIDAR Service Provider) for Oct. 2020.	20 Nov. 2020
GSTR-3B (for turnover up to 5 Crore) for October 2020 for State category I.	22 Nov. 2020
GSTR-3B (for turnover up to 5 Crore) for October 2020 for State category II.	24 Nov. 2020

State Category I: Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana or Andhra Pradesh or the Union territories of Daman and Diu and Dadra and Nagar Haveli, Puducherry, Andaman, and the Nicobar Islands and Lakshadweep.

State Category II: Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam, West Bengal, Jharkhand or Odisha or the Union territories of Jammu and Kashmir, Ladakh, Chandigarh, and Delhi.

CHAPTER NEWS

AHMEDABAD

Webinar on 'Mock Test and Online Exam Process for Intermediate'

Chapter arranged a Webinar on 'Mock Test and Online Exam Process for Intermediate' on 23rd October 2020. Faculty CMA Sunil Tejwani, Member of Task Force for Members in Academics of WIRC briefed students about the features of online exams. CMA Haren Bhatt, Chairman of the Chapter gave his welcomed address. CMA A G Dalwadi-CCM interacted with students and other participants and explained about benefits of online exams. The program received overwhelming response from students, parents, and faculties.

WEBINT on 'CMA Online Exam Welcome to The New Normal' -31st October 2020.

The main object to arrange this WEBINT was to clear the doubts and/or queries of online exam and to welcome the change initiated by the Institute of online exam. The program was graced by CMA Biswarup Basu, President, CMA P. Raju Iyer, Vice president and Immediate Past President and Chairman of Training and Education facilities and Placement Committee CMA Balwinder Singh, CMA Ashwin Dalwadi –CCM and CMA Ashish Bhavsar, Secretary of WIRC. CMA Haren Bhatt, Chairman of the Ahmedabad chapter welcomed all the dignitaries and participants. CMA Biswarup Basu President, CMA P. Raju Iyer, Vice President and CMA Ashwin Dalwadi -CCM shared their thoughts regarding online exam with the participants. CMA Balwinder Singh, Immediate Past President explained the methods; pattern, other features of online examinations and answered questions raised by the CMA students of Intermediate and final. The program proved a soother for students, parents, and faculties in understanding the practical details of online examination of Intermediate and Final, which is being held for the 1st time in history of professional examinations in India. CMA Ashish Bhavsar – Secretary WIRC proposed a vote of thanks.

BARODA

1. Webinar on 'GST – E commerce, Job work, TDS & TCS' on 04th July 2020. The speaker was Shri Sanjay Sarswat. More than 43 members and students have been benefited from the said session.
2. Webinar on "GST" on 05th July 2020. The speaker was Shri D S Mahajani. More than 30 members and students have been benefited from the said session.
3. Webinar on 'Practical Aspect of Refund Claim' on '06th July 2020". The speaker was Ca Jenil Shah. More than 30 members and students have been benefited from the said session.
4. Webinar on "Legal Aspects under GST" on 07th July 2020. The speaker was CMA Dilip Athawale. More than 20 members and students have been benefited from the said session
5. Webinar on "Supply, Composite & Mix Supply" on 08th July 2020. The speaker was CMA Dhaval Shah. More than 44 members and students have been benefited from the said session
6. Webinar on "Time & Valuation under GST" on 09th July 2020. The speaker was CMA Dhaval Shah. More than 30members and students have been benefited from the said session
7. Webinar on "GST on Pharma Sector" 10th July 2020. The speaker was CMA Vandit Trivedi. More than 29 members and students have been benefited from the said session
8. Webinar on 'Import of Goods' on 11th July 2020. The speaker was. Shri Ram Kaza. More than 40 members and students have been benefited from the said session
9. Webinar on "Import of Service Tax" on 08th August 2020. The speaker was Shri Ram Kaza. More than 35 members and students have been benefited from the said session
10. Webinar on "Cost Records and Audit Reports reflections for Companies using IND AS" on 17th October 2020. The speaker was Shri Milind Date. More than 25 members and students have been benefited from the said session
11. Meeting with Government Nominee Mr. Nalin Thakkar (Nagar Prathamik Shikshan Samiti) for inclusion of CMA name in internal audit and job opening.
12. Webinar on Career guidance. CMA Mihir Vyas – Secretary of the Chapter has delivered his valuable speech to the participants on 18th August 2020.

NASIK OJHAR

Live interactive session on "Labour Code"

The Rajya Sabha recently passed three labour Codes on 23rd September. 2020. To have a better understanding of related provisions under the codes, Chapter had organized a session for CMA members and students on 15th October 2020 through the google meet. Speaker for the session was CMA Prakash Nath Mishra, well known Practicing Cost Accountant from Nashik. The program was coordinated by CMA Maithli Malpure. CMA Prakash Nath Mishra nicely explained the amendments to all participants. Vote of thanks was given by CMA Dipak Jagtap. All Managing Committee Members actively participated in said programme.

Live Interactive session on "Product Costing in SAP"

Chapter organised a live session on "Product Costing in SAP" on 24th October,2020. The speakers for the session were CMA Neeraj Joshi, CCM and CMA Chaitanya Moharir - RCM. CMA Kailas Shinde (Chairman of Nashik Ojhar Chapter) welcomed the speakers and participants. CMA Maithili Malpure introduced the speakers. CMA Neeraj Joshi & CMA Chaitanya Moharir explained various T-Codes and Standards Reports in CO Module useful in day to day life of members in SAP. They also explained the difference between ECC v/s S/4 HANA. They also explained Inventory valuation with accounting entries, concept and use of COPA, Costing Run & Release. Participants also asked various questions and the speakers answered their questions.

PIMPRI-CHINCHWAD-AKURDI

Webinar on Saturday 10th October 2020

Chapter conducted the webinar on “Lean Six Sigma” on Saturday, October 10, 2020 at 6:00 pm to 8:30pm through Google Meet platform. CMA Dhananjay Kumar Vatsyayan, Vice-Chairman – PCA Chapter has welcomed and introduced the speaker CMA Ashish Deshmukh, Practicing Cost Accountant & Past Chairman – PCA Chapter of ICAI and CMA Ashish Deshmukh has introduced Mr. Sameer Kulkarni, Vice-President – Operations, Parekhplast.

CMA Ashish Deshmukh in his speech focused on basics of Lean Six Sigma. Mr. Sameer Kulkarni in his speech explained about what makes accounts & finance professional ideal users of Lean Six Sigma, Applicability of Lean Six Sigma for Accounting & Finance Process.

Webinar on Saturday 11th October 2020

Chapter conducted the webinar on “Microsoft Excel Tools” on Sunday, October 11, 2020 at 11:00 pm to 13:30 pm through Google Meet platform. CMA Sagar Malpure – P D Committee Member, PCA Chapter has welcomed and introduced the speaker CMA Tripti Patwa, Senior Process Analyst, R2R, Finance Operations Centre, SKF India Limited. CMA Tripti in her speech briefed on various types of Key Function which everyone can be used in his/her daily work.

Webinar on Saturday 17th October 2020

Chapter conducted the webinar on “Demystifying the Role of Purchase Finance Controller in Purchase Management” on Saturday, October 17, 2020 at 6:00 pm to 8:30 pm through Google Meet platform. CMA Pradeep Deshpande, Secretary – PCA Chapter has welcomed all the participants and introduced the guest speaker CMA Himanshu Dhar, Head – Business Finance, Supply Chain, Tata Motors Ltd. He covered the topics such as Key factors influencing Purchase Price -New Product Profitability, Price Amendment impact tracker –An approach, Case Study 1 –Base Metals, Case Study 2 –FCF etc. during the session. – CMA Sagar Malpure, P D Committee Member gave the vote of thanks.

Webinar on Saturday 24th October 2020

Chapter conducted the webinar on “Data Analytics” on Saturday, October 24, 2020 at 6.00 pm to 8.30 pm through Google Meet platform. CMA Dr. Shilpa Parkhi, Practicing Cost Accountant was the speaker.

Webinar on Saturday 31st October 2020

Chapter conducted the webinar on “Beyond Breath – A Stress Relief Session” on Saturday, October 31, 2020 at 6:00pm to 8.30 p.m. through Google Meet platform. Mr. Saurabh Ratnakar, IITian, Life Coach Trainer, Art of Living was the speaker.

PUNE

Webinar on “Outreach program on E-invoicing”

Chapter arranged Webinar for members on 3rd October 2020 on the topic “Outreach program on E-invoicing”. Shri Rajiv Kapoor, Commissioner Central Taxes was Chief Guest, Ms. Shruthee Srinivasan, Assistant Commissioner, was the Speaker for the session. CMA Waman Parkhi (Practicing Professional) and CMA Rajesh Shukla (Industry Representative) were also speakers for the webinar. CMA Narhar Nimkar, Past Chairman, Pune Chapter welcomed & introduced the Speaker.CMA Rahul Chincholkar, Chairman Students Co-ordination Committee, Pune Chapter proposed vote of thanks.

Webinar on “Focus – Value Creation – Growth Vs Survival Strategy” : Chapter arranged Webinar for members on Saturday, 10th October 2020 on the topic “Focus – Value Creation – Growth Vs Survival Strategy”. Speaker for the session was CMA Chandrashekar Chincholkar. Very lucid lecture given by Speaker. It was very Informative and useful for participants. CMA Shrikant Ippalpalli Member of Pune Chapter welcomed & introduced the Speaker and participants. CMA Smita Kulkarni, Secretary, Pune Chapter proposed vote of thanks.

Webinar on “Advantage India - Business Climate & Economic Policies” : Chapter organized Webinar for members on Saturday, 17th October 2020 on the topic “Advantage India - Business Climate & Economic Policies”. Speaker for the session was CMA Amit Apte, former President, ICAI. Very revealing lecture addressed by the speaker for participants. CMA Rahul Chincholkar, Chairman Students Co-ordination Committee of Pune Chapter welcomed & introduced the Speaker to participants. Vote of thanks given by CMA Shrikant Ippalpalli.

Google Meet with students of Intermediate & Final Stage : In this pandemic situation ICAI has declared the online exam mode for December 2020. After this declaration there were so many questions & queries raised in student’s mind. To interact with Intermediate & Final Stage students & to know their problems ICAI Pune Chapter arranged meeting with students on 19th October 2020. CMA Rahul Chincholkar, Chairman Students Co-ordination Committee of Pune Chapter had a talk with students & appeal to send their queries through text or mail to Pune Chapter. Accordingly the queries received by students were compiled and forwarded to ICAI Head Quarter.

Webinar on “Know the Cost of water” : Chapter organized Webinar for members on 24th October 2020 on the topic “Know the Cost of water”. Speaker for the session was Mr. Upendra Dhonde (Senior Scientist and Social Activist). Very informative lecture given by Speaker. He shared his experience with participants. Lecture was very knowledge sharing and fruitful for participants. CMA Rahul Chincholkar, Chairman Students Co-ordination Committee of Pune Chapter welcomed & introduced the Speaker to participants. CMA Nilesh Kekan, Chairman, Professional Development Committee, ICAI-Pune Chapter proposed vote of thanks.

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May your life also be filled with colors and lights of happiness

Happy Diwali

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