

Success story of a Registered Valuers

Assignment: Valuation of a vehicle sales and service industry (under CIRP)

Purpose and Scope of the work: to estimate the fair and liquidation value of the plant and machinery and other non-productive assets of the corporate debtor

Mandate: The resolution professional of the CIRP of the corporate debtor issued the mandate to me

Basis of valuation: fair value

Premise of value: Highest and best use

CIRP Commencement date: 2nd week of March 2020

Valuation mandate date: 3rd week of September 2020

Physical inspection date: 4th week of November 2020

Time stipulation of the assignment: Two weeks w.e.f. the mandate date

Reason for the delay in physical inspection: Total non-cooperation from the suspended directors of the corporate debtor and site non-readiness

Team of physical inspectors and others: Two valuers each from land and building and plant and machinery, state bank of India representative, Resolution Professional (total 6 persons)

Brief description about inspection at site no 1

- We reached at the industrial town which is approx 180 km from kolkata at around 11 am. We found that the site was under the control of security staff.
- The plant gate was found locked, though the staff was sitting at the gate inside. After several request from the RP and the bank representative, he did not open the gate.
- So, we could not enter the premises. The security in charge was called on by the bank representative after some time.
- He came at the site after 30 minutes, but he told that he had no permission from the director to open the gate.
- It was a highest degree of audacity and indiscipline on the part of the corporate debtor, while the CIRP was already ordered by NCLT a few months back and the financial creditor and resolution professional and we the valuers travelled 180 km and arrived at the site for physical verification of the assets, but we were not even allowed to enter the premises.
- We then took a few photo snaps from outside the gate only and from the other portions of the boundary walls. Few furniture and air conditioners were visible from outside. Two nos vehicles were visible on the outside premises in broken condition.

- We asked the gatekeeper, he told that those two vehicles were not the property of the company.
- He also told that there are practically no asset inside the service station and that almost all the assets including spares and tools were shifted to site no 2 a few months back.
- With this information, we left the site and proceeded to site no 2 which was 30 km away from site no 1

Brief description about inspection at site no 2

- We reached the site no 2 at around 2 pm. the sales and service station were found in running condition.
- It appeared that a few employees of the corporate debtor were running the operation unauthorisedly.
- They were not fully aware about the facts and regulations of the CIRP. they first thought that we might be some new customers.
- The RP and the bank-representative started talking with the - then operation in charge inside the station-office.
- In the meantime, I had a quick round on the ground floor operations where three luxury vehicles were under servicing on the service platforms.
- I took the photo snaps rapidly. I then went upstairs to the 1st floor and took the snaps of furniture and office equipment and air conditioners and came downstairs.
- By this time the employees group came to understand that we went there to inspect the site and that the RP is willing to take charge of the site.
- So, they became agitated and ferocious. The operation in charge challenged me why I took the photo snaps and he urged to me to delete the snaps immediately. His attitude was very rough and unlawful also.
- Within a few minutes all of us were virtually compelled to come out from the service station even though the RP and bank-representative were with us.
- However, that 25 minutes quick view of the station equipment and assets and the photo snaps enabled me to make a consolidated list of assets based on which I did the valuation of the plant and machinery assets of the Corporate Debtor.
- I could not see the inventory and I was not allowed to see.
- It was clear that the group of people i.e. The old and existing group of staffs were Continuing the business at site no 2 and for doing business some inventory stock is required. However, the employees' group did not allow me to check the inventory.

Visit to the Corporate office of the CD

- On 7th December 2020, at around 11 am, I visited the corporate office of the Corporate Debtor at kolkata and found that there was

- No nameplate on the entry door of the office in name of the Corporate Debtor. However, a nameplate was seen in name of abcdefgh.
- I entered the office and asked few staff whether that is the office of the Corporate Debtor. One staff replied that it is no more the Office of the Corporate Debtor.
- And that the office of the CD Is at site no 2 now. I came out and took two photo snaps of the entry gate.

Approach of valuation followed for the assignment and the reason

The cost approach was adopted for this valuation.

- As the inspection was incomplete, the technical specification of the assets could not be taken during inspection. Also, the client did not cooperate and did not provide any detailed fixed asset list before or after inspection. So, the valuation could not be done as per market approach.
- Also, the industry was virtually a closed industry and the operation was stopped for last 3 years. Because a running industry will surely have an audited balance sheet. This industry had its last balance sheet in 2017. Therefore, the future income stream could not also be known. So, the income approach valuation was also not possible.
- Therefore, the only option left was the cost approach based on estimated current replacement cost and then applying depreciation on it.

The valuation report was submitted to the Resolution Professional in next one week time.

Following were the key challenges in this assignment :

1. No fixed asset list was provided / made available from / by the client.
2. The client that means the suspended directors were neither cooperating with the Resolution Professional and the valuers to do the physical inspection at site nor allowing to enter and remain in the premises.
3. No provisional balance sheet was available as on CIRP date.
4. Valuation was to be done based on last audited balance sheet of 2017 and the quick visual inspection which was also hindered.
5. The Resolution Professional himself was in trouble and could not take over the control of the sites due to non co - operation from the suspended directors.
6. However, in spite of the above challenges, I could complete my valuation report and submit to RP.
7. The Resolution Professional made use of this report and circulated the report to the financial creditors and the NCLT.

Final Outcome of the assignment

- However, because of the non co - operation of the corporate debtor and non-submission of any resolution plan in next 2 months' time, the NCLT passed an order for liquidation of the corporate debtor.
- Therefore, the valuation report of CIRP, though prepared in a very challenging atmosphere, was of use to the honorable NCLT who then was able to pass order for liquidation of the corporate debtor
- As it is an IBC case under NCLT due to confidentiality clause imposed on me during accepting the assignment, I cannot divulge the name of the Corporate Debtor