

Success Story of Registered Valuers

Anil Kumar Sharma – Registered Valuer (P&M)

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Brief about the assignment:

The Resolution Professional had requested the determination of the Fair Value and Liquidation Value of the assets of M/s XXX Power Ltd as per Regulation 35 of Insolvency and Bankruptcy Board of India (Insolvency Resolution Process) Regulations, 2016.

Scope and timelines:

M/s XXX Power Ltd was admitted in the process of Resolution by orders of NCLT as per IBC Code 2016, and Mr. Y, an Insolvency professional was appointed as the Resolution Professional on xx July, 2019. The Resolution Professional appointed our firm as one of the registered valuers for all the asset categories of the Company on 6th August 2019. Appointment was made under Regulation 35 of the IBBI (Resolution Process) regulations, 2016 for computing Fair Value and Liquidation Value of the assets of XXX Power Ltd. Valuation was limited to Phase 1 of the Project 600 MW *1 which had achieved COD in May 2016 but did not include the 2nd Phase 660 MW which had not been built. The report was initially planned to be submitted in 60 days but more time was made available on our request.

Challenges faced in executing the assignment

The plant involved valuation of the assets of a Sub Critical Coal Fired Thermal Power plant 1* 600 MW in size and had achieved COD since 2016, although the data was available to a large extent yet the data was incomplete in many respects and Valuers faced the following challenges.

1. Fixed Assets Register(FAR) was made available but at a sub system level. For instance the Coal Handling plant FAR was available comprising four subsystems.
2. A Diary with technical specifications of all equipment for main plant and Balance of plant was made available. No quantities were available at the machine level.
3. There were delays in completing the build out of the project and hence there was a high component of IDC (Finance costs and pre project, start-up costs) costs added to the FAR.
4. The FAR had been loaded with IDC costs before COD, and the breakup data was not known separately.
5. No break up of Costs was available in the first FAR shared by CD (i.e. Initially no break up of costs was available to separate FOB, CIF , Custom Duties, E & C , Testing, Designing costs etc.
6. Daily Project Report's were available indicating that plant had been envisaged for a Phase 1 and Phase 2 of a size 660 MW, the land was procured keeping in mind both phases and some common facilities were designed and engineered already keeping in mind both the phases and thus there were unknown over capacities.
7. The second phase project was shelved due to financial issues. The capacities of the 2nd Phase built as common were unknown.
8. Plant failure data was not provided.
9. Operational performance data for 3 years was available, which demonstrated wide ranging PLF making forecast of export generation difficult.
10. All Power Purchase Agreement's(PPA) were available to peruse and data of power sold during operational years was available however tariff determined via State Regulatory orders were not made

available. Some PPA's were combined tariff with fixed and variable based charges based only on Power exported while others were agreed based on separate fixed capacity charges and units actually sold separately.

11. Design Coal vs Actual coal specifications were requested and made available, there were unknown coal shortages due to supply side issues, transportation issues and working capital issues.
12. Notice was issued for environmental non-compliance. The Issues were not clearly known at the outset of assignment.
13. During the site survey the plant was found to be under a shutdown for annual maintenance for nearly a month, the survey could not be delayed as the Valuation report was to be submitted as per time lines.

How did Valuers overcome the challenges?

- The various challenges faced in carrying out the assignment were handled through a well-planned site survey along with meeting at site and head office and meeting with various management personnel:
- Close coordination was maintained right from the start with the Insolvency Professional and the CD's site Operations and Finance team, a plan for site survey was finalised for all asset categories including inventories and acted upon.
- At the start of the site survey a kick off meeting was held with the CD's CEO/ COO and his team, a presentation was given by CD's team to the Valuer team, the main challenges of the plant were at this stage uncovered and great insights were possible to gather as to what were some of the main business issues.
- Separate meetings with the Finance team were also held to get a walkthrough of the FAR , this meeting was preceded with a meeting with the CFO based at Delhi where FAR costs break up was requested urgently, to collect IDC break up in the FAR as allocated to each subsystem, Main contracts were requested to validate FAR costs reflected.
- Details of the custom duties paid were asked for however these could never be provided by the CD. A more detailed FAR with costs break up were made available, this data was previously not available to us
- A Railway siding project was Work in process for transportation of coal and details of the same were sought. Fuel Supply Contracts, water supply arrangements were made available.
- Billing data was made available by the sales team at site to understand the billing mechanism against each PPA and Tariff orders passed by State regulatory commission were also finally made available. This helped a great deal in Income approach valuation.
- Most large contracts both for Main plant and BOP were made available to us. Through evaluation of contracts, it became possible to know the rated capacities of sub systems. Cost break up of sub subsystems were available less custom duties with USD and Euro values.
- More clarity was given on outage data both planned and unplanned outages and thus a known total number of days of plant outage could be determined and more detailed information of environmental non-compliances were available.

Valuation approach followed and reasons therefor

All the following three approaches were used in the assignment;

1. Cost approach, including cost to capacity.
2. Income approach
3. Market approach

- Being a going concern, cost approach was least favoured and when applied yielded highest values out of all approaches, as the plant was only 4 years old and even though all known obsolescence factors were applied, despite that there was a 25% value difference between Cost approach and income approach.
- Power Load factor (PLF) was accounted for in both income and cost approaches since PLF of Thermal power plants had been sliding consistently for a decade, with no reasons to really climb again.
- Grids integration with Renewables was accounted for, Outage data was accounted for in terms of plant non availability both for planned and unplanned outages, Design and actual Station heat rates were adjusted in cost and income approaches. Any excess value attributed to second phase was removed.

Final outcome - CIRP / Liquidation:

It was known from Public information that a Bid was received close to the value determined by Valuers. A large Public Sector Undertaking made a successful Bid for the project in December 2019/ January 2020. Since soon after a successful bid was received, Covid pandemic however complicated the final outcome of the CIRP as is known to the Valuers.

Valuation steered the whole process of CIRP / Liquidation:

The Public sector organization which made a successful bid, beat the private sector organization with a better bid. The value determined by Valuers was vindicated. Valuers are sure it helped the Committee of Creditors realise the worth of Valuation in achieving a Resolution.

Learnings from the assignment

- Valuers must apply all approaches possible in CIRP when valuing a going concern. Income method must be based on a realistic forecast as best possible to estimate. It is important to obtain Operational data for a Going concern for evaluation of obsolescence and energy costs.
- Environmental non compliances can cost a high capital outlay and thus must be factored as much as best can be estimated on date of valuation.
- Excess capital cost that cannot be monetized must be removed.
- Break up of costs and FAR is crucial for Cost approach. IDC costs must be normalised and rationalised as generally applicable to industry.
- PPA and its' terms are crucial to valuation and applying income method and if plant has temporarily ceased to operate restart costs must be factored
- Covid 19 was a post event after the report was submitted thus it could not be factored.