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Importance of Valuation – Building Aatm-Nirbhar India

This year's Economic Survey (2022-23) predicts that India is likely to be a US \$ 5 trillion economy by 2025-26. India is expected to have one of the highest GDP growth rates of ~ 6.5-7% in the world. This is an achievement which would make every Indian proud. Would this happen automatically, magically? Certainly, not! Apart from the enabling policies of the Government, every section of the Indian society has to contribute towards making such a powerful, AatmNirbhar (Self-Sufficient) India. What role valuers, as professionals, could play in realization of this grand vision? We know that economy requires capital as input. This capital needs to be infused in productive enterprises to as input.

This capital needs to be infused in productive enterprises to make India an economic and technological superpower. The avenues for investment of capital in right places and in right amount, therefore, needs to be identified. Herein comes the role of a professional valuer.

Role of Valuer in the Economy
A valuer, who is not only skilled in the general principles of valuation, but also understands the strategic aspects of the business, can most accurately ascertain the potential worth of any asset or company. A skilled, professional valuer can help identify the future winners and signal the investors and creditors as to where to deploy their funds.




Funds getting into right kind of hands would generate huge employment, train, and develop the competent workforce, create productive capabilities, and bestow competitive advantage to the Indian economy.

These worthy companies and management would also yield taxes for the government, earn foreign exchange, and empower consumers in the economy with quality products and services at affordable cost.

Valuer as Strategic Resource
So, how to produce such brand of professional valuers? How valuers and valuation profession can actualize the vision outlined above? To achieve that, valuation profession would need to By:

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transform itself from the one providing services for merely regulatory compliance to the one providing services for strategic needs of the businesses.



Valuation, as a strategic service, can help fuel the growth of the Indian economy in the following ways;

a) Valuation for IPO – We have seen so many IPOs floated recently in the Indian capital market. IPOs are important inflection point in the journey of a company whereafter it becomes a public company from private one. A company whose secondary shares trade in the stock market has much greater discovery of its price compared to an unlisted company. IPO pricing, therefore, becomes critical. This is where the role of a professional valuer comes. An independent valuer could discover the price for retail investors and group of minority shareholders. This would ensure that these small investors are not for surprise and disappointment post listing of the shares. We saw what happened with IPOs of 'Zomato', 'PayTM', 'Nykaa' and many other IPOs. The current share price of these stocks is at significant discounts to their IPO price. Investors lost money1 On the other hand, there were other IPOs where investors were rewarded2.

The valuer can neither predict the prospects of a company, nor the movements of the stock market. However, the valuer can critically gauge the industry in which the company operates, the company's fundamentals, professionalism of its management, corporate governance.

practices and potential risks to the company. A good understanding and study of these factors would lead to a fair valuation which is likely to protect the retail investors. Such an informed valuation would assist the investors in neither missing a good opportunity nor getting locked in a costly IPO.

b) Valuation for Startups – Registered valuers are now doing the valuation of startups. However, most of it are still done for the compliance purposes. Informally, the valuer is supposed to prepare the valuation report and justify the valuation numbers which are already decided between the angel investor/venture capitalists (VCs) and the startup company's founders. VCs have their own internal team which carries out the valuation of the prospective startups for funding. However, the startup funding scene is witnessing new trends. The pool

1<https://twitter.com/AswathDarmodaran/status/1552395437872599040>
2 <https://rb.gy/pkwn9n>

of angel investors is increasing. Trend of crowd funding is also there and with onset of blockchains, more

For the retail high net worth individuals

3<https://inc42.com/features/growth-stage-startup-funding-trends-that-will-dominate-the-most-of-2023/>
4<https://rb.gy/idslni>

proved successful in the end where the real estate of AI was housed in a separate company and the airline and the aviation rights were divested to a strategic buyer.

Thus, the job of a valuer, in case of divestment, is not merely to value the individual assets. The valuer must create scenarios of asset combinations and modes of sale. The Government then would've option of trying out the other modes of sale if one mode of disinvestment doesn't succeed. Valuers, therefore, must be knowledgeable about economic mechanism design and auction strategies. The valuer must be cognizant of the fact that Govt's objective is not only to maximize the one-time fair price obtained in sales but also the efficient management of the said PSU for the times to come.

d) Valuation for Distressed Assets Insolvency and Bankruptcy Code, 2016 with its many amendments is a potent tool for restructuring of the companies. There are other mechanisms too to rescue a company from distress such as 'SARFAESI Act',



'RBI's prudential norms on recognition and classification of NPAs,' 'Corporate debt restructuring,' 'Pre-package insolvency' etc. As in the case of a startup, a professional valuer can appropriately and fairly value the distressed company. A buyer would be interested in a distressed company where he could recover more than he invests in reviving the company. This analysis, though, is not straightforward.

It requires multi-pronged investigation and due diligence. A professional valuer could point out the deficiencies and areas of further investigation by legal/audit/technical team of the potential buyers. Therefore, the valuer's expertise should be tapped into by the users i.e.; bankers, investors and companies looking to acquire distressed assets. Similarly, the valuer has to understand the enormity of his task and specialize in few sectors apart from being the master of generic skill of valuation. However, there is still no uniformity in qualification criteria of valuers across acts. SARFAESI Act asks for wealth tax registered valuers whereas the Companies Act and IBC Code ask for IBBI registered valuers.

Disparate requirements for qualification of valuers under different acts put undue pressure and cost burden on the users of the valuation report. e) Valuation for MSME – MSMEs play very important role in the economy. They provide local employment. They establish the culture of entrepreneurship. They become vendors to the Government and other bigger companies. That's the reason Government promotes various schemes for development of MSMEs. However, credit to MSMEs cannot be unconditional and without cost. Therefore, the valuer's role becomes important to identify the MSMEs which are promising and professionally run with competent management. Also, MSMEs are less protected against the economic shocks such as Covid-19. It is important therefore to identify the MSMEs which are genuinely distressed due to external economic shocks from the MSMEs which are not run professionally and where the creditors' money would be wasted. As there are large no. of MSMEs, unchecked lending to MSMEs could create another NPA time bomb⁵ Valuers are therefore, important stakeholder in the MSME eco system

Imperatives for the Valuers and the



Government We have seen that a professional valuer is an important player in the economy and helps unleash productive forces for the growth of the nation. However, there are certain conditions as mentioned below which need to be fulfilled to realize the full potential of the valuers

- i) Valuer bill needs to be passed to have a single nationwide regulator for all classes of valuation professionals
- ii) The qualification criteria for the valuers need to be made uniform so that a valuer could operate across various acts i.e.; Wealth tax, Companies act, FEMA etc. This would enable ease of business for the users of the valuation services as they would not have to get multiple reports for different acts pertaining to the same transaction
- iii) There needs to be a single registration for the valuers with the national regulator. This is to prevent the wastage of time and resources in multiple registrations across various acts.

This would broaden the available pool of the valuers, would enhance the competition among the valuers, enable them to gain wider experience across different acts and help improve the services for the end users

[5https://rb.gy/xpia5i](https://rb.gy/xpia5i)

- iv) Valuers need to specialize in few sectors so that they could offer valuation as strategic service to the clients in those sectors and not merely act as intermediary for regulatory compliance
- v) Valuers need to be multifaceted professionals in touch with shifting strategic landscape & global macroeconomics. Valuers, hence, need to constantly learn & sharpen their skill-knif.

