

About The Author –

C.S Joshi – B.E (MECH), P.G.D.S.T, M.I.E., M.I.M.E, P.M.P, Custom Empaneled, Chartered Engineer

Challenges Faced in Inspection of Movable Assets in IBC Cases

Introduction: Many of us have done valuation assignments for IBC cases and would have faced few challenges. The challenges start with non-availability of Fixed Asset Register (FAR) and sometime ends with non-availability of the movable assets themselves. So, let's discuss how to overcome these challenges for each step.

When a new plant is commissioned about 35% to 40% of the capital goes in purchasing plant and machinery items and balance in WIP (about 35% to 40%) and fixed asset (20% to 25%). But when the plant winds up, most of the WIP is vanished and the plant & machinery is bad condition wiping about 70% to 80% of the value of that plant.

Challenges:

We face many challenges while carrying out the plant and machinery valuation for IBC cases and let's discuss them one by one with probable solution in the following table.

Sr. No.	Challenge	Probable Solution
1.	Non-Availability of FAR – In almost all cases FAR is not available with the RP / IP / Liquidator.	Ask for the Last Balance Sheet to the IP. In this last balance sheet, the schedule of fixed assets can give you good guidance of the various types of movable assets available such as: 1. Plant & Machinery, 2. Furniture & Fixtures, 3. Electrical Equipment, 4. Office Equipment, 5. Mobile / Telephones, 6. Vehicles, 7. Air Conditioners and 8. Computers, etc. If the balance sheet does not have any of the above then please make note of that category

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		and check it while carrying out the actual inspection.
2.	Flow process chart of the processes not available	<p>PI understand the industry of the Corporate Debtor (CD) and then search for the flow process chart for that type of industry.</p> <p>Try to fit the above movable asset items in this flow process chart and prepare a blank template as shown in the Annexure-I to record the details of all the machinery items.</p> <p>For example, for a ferrous foundry, think about following sections:</p> <ol style="list-style-type: none"> 1. Raw Material Stores (consisting of EOT crane, etc.), 2. Meting Section comprising of: <ol style="list-style-type: none"> a. Feeding Trolleys, b. Melting Furnaces, c. Holding Furnaces, 3. Casting Section comprising of: <ol style="list-style-type: none"> a. Moulding Station, b. Poring Station, c. Cooling conveyor, d. Shake-Off lines 4. Sand Cooling and Preparation Line 5. Core Making Line 6. Laboratory <ol style="list-style-type: none"> a. Spectrometer, b. Lecometer, etc. 7. Utilities such as <ol style="list-style-type: none"> a. Compressors b. Cooling Towers, etc.
3.	Remembering sequence of machines inspected	<p>We can adopt various methods for this:</p> <ol style="list-style-type: none"> 1. If possible, take overall photo of the complete area. 2. Before entering any room / area, take the photo of that room / area nameplate 3. Take a video shooting of the sequence in which you inspected all the machines at the end of complete inspection. 4. The above step 3 can also serve purpose of re-checking all the machines if they have been inspected or not.
4.	Ill-illuminated place	PI note that the electric supply of unit has been disconnected long back, so take re-

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		chargeable 9W or 11W LED light bulbs (instead of torch) which are commonly available now as the torch has limited illuminated area and it is very difficult to inspect the machine using torch. Also if possible you may purchase head-torch used by trekkers so that both of your hands are free for inspection while you use the head-torch. Pl make sure to carry a stick (to make noise while entering into any room to scare reptiles) and safety shoes.
5.	Machines without nameplates	<p>Try to segregate machines into two parts machines which could repaired and which cannot be repaired.</p> <ol style="list-style-type: none"> 1. For machines which could be repaired, search for make, model and approximate year of manufacture by reverse search of images (https://images.google.com/). From this search you can get make and model. Many a times companies change model after some time, so based on results you may roughly estimate the year of manufacturing also. 2. For machine which cannot be repaired, try to search make and model to estimate their weight and hence the salvage value
6.	Machinery as per the balance sheet not present	Make a note of these details. If possible, you can take photographs of the machine foundations from where machines are lifted and add these details separately in your report.
7.	Original Machines have been replaced with some shady machines	<p>In one case I saw that the CD had taken out good machines and replaced them with old, obsolete and junk machines. For identifying such case, I relied on following information:</p> <ol style="list-style-type: none"> 1. If all the machines have proper foundation for them 2. Check if the machines have proper electrical connection 3. Check if there is sufficient area around machines for movement of men and material

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		4. Generally, some raw material, scrap material would be left on the machines and area around them. If they are placed then the machines may not have these vital signs of working machines closed suddenly (but this is not sure-shot method).
8.	Very cramped area	When machined are cramped or there is no sufficient area to inspect machines, then please use high resolution professional camera which can take photos is zoomed out form so that you can take proper photos inside the factory / unit and then later on zoom them in to see the details.
9.	Machines not present	If machines are not present as per standard industry practice (which you have searched in above step 2), then make a note of it and record those details in your inspection and finally in valuation report.

Conclusion: Even though the machines comprise about 35% to 40% of the plant set up cost, since the machines are movable and get rusted or rodents, etc. can cut wires and make the machines in non-workable condition, they do not fetch more than 5% to 30% of the initial cost (overall 1% to 12% of the initial plant capital expenditure). So, the IP / RP / Liquidators don't look to machines as cash cows instead they try to get all the recovery by selling the fixed asset as generally the land appreciates.

Due to the above reasons even though the Plant & Machinery valuer has to put in very high efforts, they relatively get very less fees. However, if we strive to adopt best practices and make the IP aware of the efforts, then I am sure even our fees structure would also increase commensurate with our efforts (and would be linked with the value of the machine)

ANNEXURE – I

Sr. No.	Machine Description	Make	Model	Sr. No.	Year Of Mfg	Remarks
1.						
2.						