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## THE RESILIENT EVOLUTION OF VALUATION IN INDIA: FROM ₹1,000 TO ₹1 TRILLION

### Introduction

Everyone or every entity, to be specific, has a unique USP. A Unique Selling Point (USP), also called a Unique Selling Proposition, is the essence of what makes your product or service better than competitors. For example, USA is known for its freedom, Great Britain is known as the empire where the sun never sets, Japan is known for its technological advancements, Brazil is known for its Football, China for communism, and Arab countries for oil. But do you know what India is known for? India is known for its value system which existed here long before the Muslim invasion or Christian era. The value system had shreds of evidence in the epics like Mahabharata, Ramayana, and Bhagwad Gita. In Mahabharata, the Kauravas brothers (being 100 in number) though being the stronger side on paper were outwitted by the Pandavas who were only five in number through the sheer power of

the existing value system. In Ramayana, the glory of the same value system prevailed when we saw Rama with the help of his brother Lakshmana and Vanarsena singlehandedly defeat the mighty 10-headed Ravana of Lanka for abducting his wife, Sita. We know from Bhagwad Gita that 'Karmanyeva Adhikaraste; MahaphalesuKadachana' which literally means that it is your right/responsibility to do the duty and not to follow the fruits of your deeds.

The theory and practice of valuation (especially the Land & Building category) though not directly, but indirectly had a deep-rooted history in the mythological base of India. Kautilya Arthashastra prescribed penal action & fines for every aspect of real estate deals/transaction. The Manusmritis although based on Dharma Shastras prescribed similar actions/penalties. But in the case of disputes/differences, the principles of Nitishastras based on Value Systems would prevail over the Dharma Shastras. The modern valuation practice in India is in a state of utter chaos where there is a lack of regulation or standardization be it in the case of fees or the role of valuers per se but

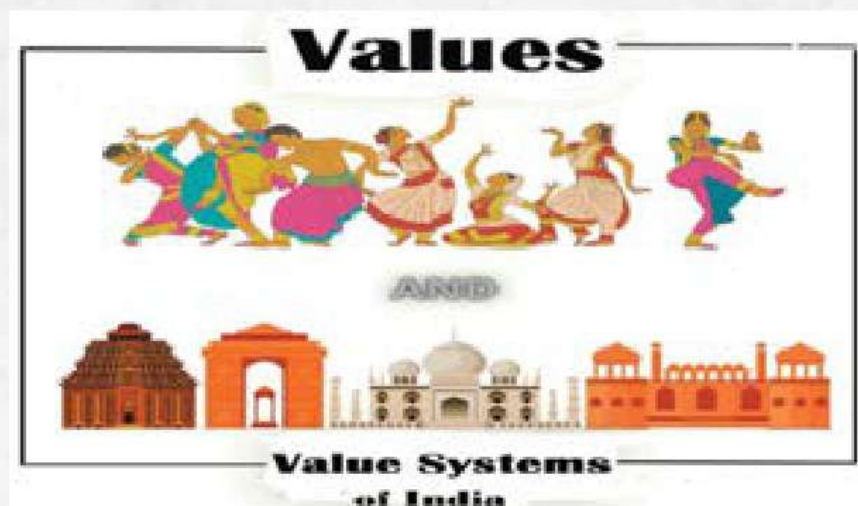


Fig.1: Schematic Diagram Showing the Relation between Value & Value Systems of India

the valuation of agricultural lands including taxation & rent were guided by Kautilya Arthashastra (Chapter 64) refers to Building Bylaws, easement rights to entry, drainage, light & ventilation, and Sale of Immovable Property(Chapter 65), Rules of Recovery of Debt(Chapter 67), Rules & Regulations regarding Deposits(Chapter 68), Rules regarding Mortgage(Chapter 69) and Rules regarding Ownership Rights(Chapter 69, Section 3).

## Brief Description

Unlike the UK where the Valuation principles evolved from the Rating theory in 1601 and the same was legally confirmed by the 'Poor Relief Act,' the practice of Valuation, which originated in India took a much longer time to surface considering our legacy for heritage value systems. Asset Valuation came into existence more than a century ago with the enactment of the Land Acquisition Act, 1894. Almost 70 years after Land Acquisition Act, the Estate Duty Act 1953 was sanctioned for the levy of Duty on the assets of deceased persons payable by their legal heirs. Estate duty was payable only if the total value of the inherited portion of the property exceeded the exclusion limit prescribed under the Estate Duty Act, 1953, and sometimes the duty was set at a rate as high as 85% (eighty-five percent). For the Banking systems in India, till recently, i.e., twenty to thirty years ago, Bank Managers used to do the Valuation for all types of Properties for loan securitization.

Here, the term 'value' refers to the market value, and this Act had a provision for the regulation of the Valuation Practitioners which earmarked the evolution of the Valuation profession in India. Section 4 of this Estate Duty Act states that the Central Government shall, within 12 months after the Commencement of this Act and may thereafter, from time to time, appoint a sufficient number of qualified persons to act as Valuers for the purposes of this Act and shall fix a scale of charges for the remuneration of such persons. But there were neither specific provisions on comprehensive Valuation methodologies nor were there any Standards of Valuation or Bases of Valuation to be followed in the valuations by the Registered Valuers. Within 4 years of the Estate Duty Act, the Wealth Tax (W.T) Act 1957 was passed in India to enable the Government to levy Wealth tax on the properties owned by the owners to gauge the fair market value of the assets.



Fig.3: Futuristic Valuation Calculator

Under these purviews, the concept of Fair Market Value became the maxim of Valuation for various purposes. Even courts referred to the concept of Fair Market Value in the adjudication of disputes with respect to the value of different classes of assets like K.P. Varghese vs the Income Tax, Supreme Court on 4 September 1981[1981 AIR 1922, 1982 SCR (1) 629]. A peculiar situation was formed where Valuations provided by Registered Valuers under the above two statutes for different classes of properties found acceptability in some other 3rd statutes like the Companies Act even though there were no specific statutory consents/ provisions in the respective acts. Major acceptability was also found in the Valuation for Cost of Construction under the I.T. Act and Valuation for Computation of Capital Gains Tax. Mortgage Valuations for Banks & FIs were another domain where the Valuation of different kinds of assets was used during the late 1980s which flourished during the past two decades and came under the aegis of the SARFAESI (Securitization & Reconstruction of Financial Assets & Enforcement of Securities Interest) Act in 2002.

The spread of lawsuits in the Valuation for Wealth Tax and computation of Wealth tax led to metamorphosis or evolution in the process for Valuation under ED & WT. Gradually the approaches & methodologies for computing the Values of assets, especially the immovable ones started coming into the practice of Valuation to bring in more clarity and interpretation of terminologies. The Central Board of Direct Taxes (CBDT) in the form of certain rules framed u/s 7(1) RULES FOR DETERMINING THE VALUE OF ASSETS, Schedule III of the Wealth Tax Act 1957 described methodologies for Valuation of different kinds of assets. Thus, the Valuation of assets under the W.T Act became a rule-based exercise differing from the erstwhile traditional methods of Valuation.

It may be noted that the Estate Duty Act was abolished in 1985 followed by the abolition of the W.T Act in the budget of 2015. But there was still a system of anarchy and chaos which existed due to the differences in the Valuation fee structure and the Valuers' credentials that were followed by different departments/ministries under the same Government. Also, the rapid increase of NPAs in the last decade or so stressed the need for bringing more transparency and robustness to the existing Credit appraisal process. This led to several challenging situations both in the regulatory and investment climate bringing in a sense of uncertainty and confusion among various stakeholders including regulators & end users with regard to the Valuation of assets. These led to serious self-retrospections of the quality standards and a need for bringing Consistency Valuation practices under the provisions u/s of various assesses & various stakeholders of the economy.

The sustainability of the Valuation ecosystem in India lies in the hands of our future generation. India had earlier not developed any educational system in the field of valuation. Till 1994 there was not a single university offering a course in valuation. The Sardar Patel University in Gujarat was the first to start, in 1994, a full-fledged 2 years post-Graduate course in Valuation of Real Estate as well as Valuation of Plant and Machinery and awarded the degree of M. Valuation. The Shivaji University in Maharashtra then started a similar course but in the Distant Learning Mode. Annamalai University has recently started M.Sc. (RE) and (PM) courses in valuation under distance learning but none of these are UGC approved. In such a large country where at least 100,000 academically qualified Valuers are required, there are today hardly 40,000 practicing Valuers albeit untrained, and less than 3000 trained academically qualified Valuers. Besides, there are no good books available by Indian authors on the subject of valuation from which a new entrant could learn and understand Valuation in Indian markets. What are available are copies of foreign books and foreign systems which do not work well in India.

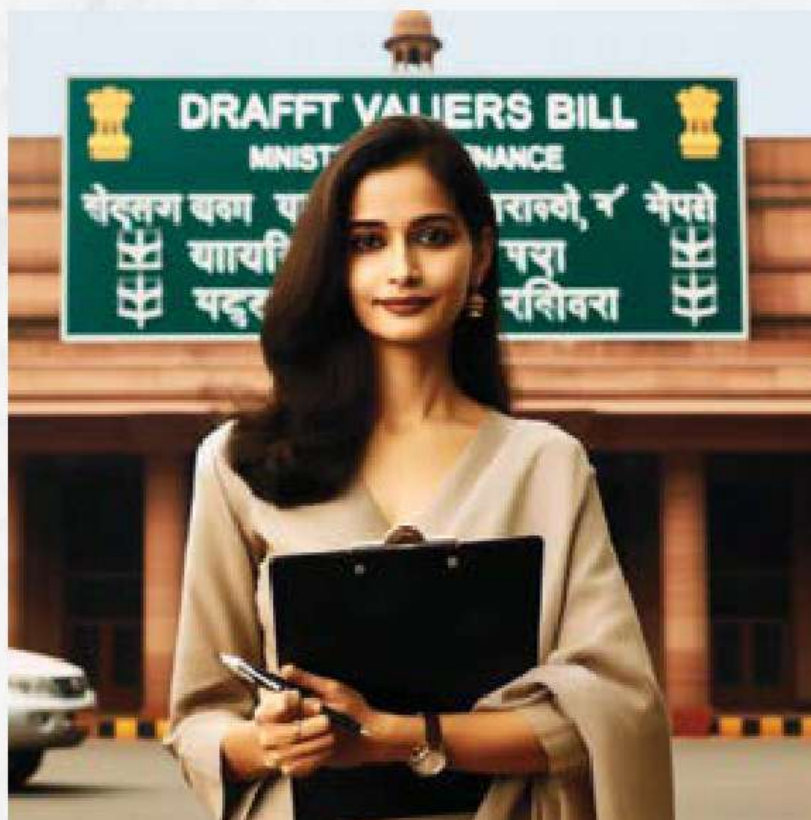


Fig.3: Will the Draft Valuers Bill see the light of the Day?

So, at the end of the day, we are all awaiting the 'Draft Valuers' Bill' in India. This is a draft bill that aims to regulate the valuation profession in India by establishing a

National Institute of Valuers (NIV) and providing certification and training for valuers. The bill is based on the recommendations of a committee of experts appointed by the Ministry of Corporate Affairs (MCA) in 2019. The bill is expected to enhance the quality and credibility of valuation services in India.

In conclusion, the evolution of valuation in India is a story of adaptation, innovation, and resilience. It mirrors the country's economic progress and its aspirations for the future. As India positions itself as a global economic powerhouse, the role of valuation will become even more critical, influencing investment decisions, shaping policy, and driving growth. The valuation profession in India, with its rich heritage and dynamic presence, is well-equipped to navigate the complexities of the modern economy and contribute to the nation's prosperity.

