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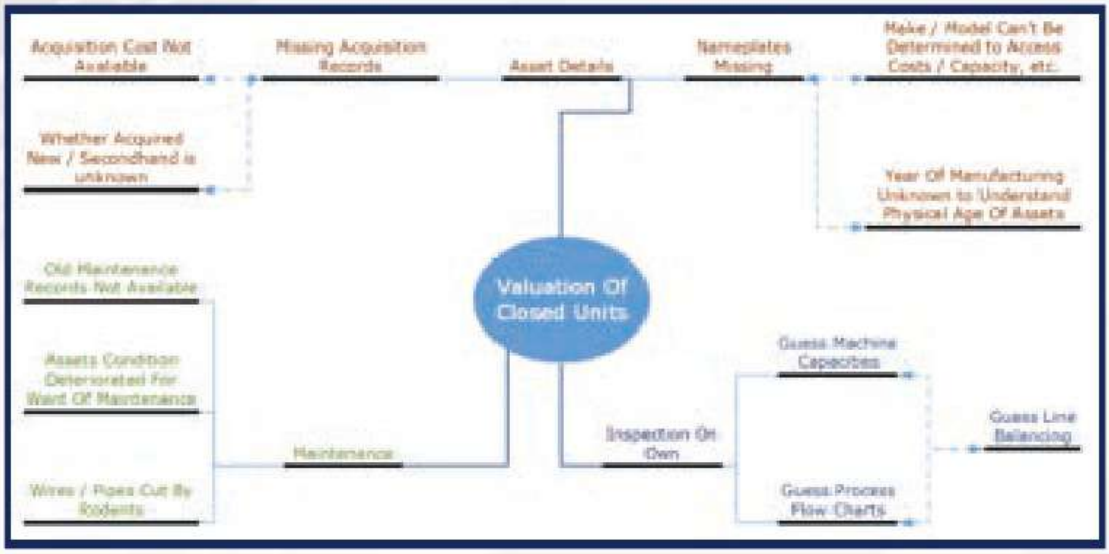
Movable Assets Valuation In Closed Units

In our professional life, many a times the tangible movable asset valuer gets assignments from Banks or Insolvency Professionals or Asset Reconstruction companies to carry out valuations of manufacturing companies which are closed from few weeks to few years and that time, we as a plant and machinery valuers' knowledge, experience, skills, etc. needs to be applied in correct way to get best possible valuation of those tangible movable assets. For a going concern company the asset valuation does not pose many of these challenges as the assets are in goodcondition and the borrowers / organizations are ready to share most of the details sought by the valuers.

When a company is closed the valuers don't have any reliable data available and lots of guess works needs to be done for the valuations. In this article I am going to discuss various issues related to valuation of such closed units. I already wrote an article about this topic in March 2022 issue of The Valuer. Post that topic I carried out more inspections and points observed during these inspections have been added in this topic. So this article does not repeat what was discussed in that article. We, the valuers, have to discuss various issues related to valuations of closed units so that things become more crystal clear from Indian context and better valuations can be done.

Analysis:

I tried to analyse few of the issue and created a mind mapping diagram which is shown below:



The above analysis is based on the practical situations faced during the inspection and valuation of the movable assets. Let's discuss each of the issues in detail and may be jointly the valuers can come up with some action plan or standard operating procedure for carrying out valuation of these movable assets.

Asset Details:

Vital details of movable assets such as acquisition records are not available. Most of the times, the IPs do not have these records or they do not have inclination to share these records with the valuers. Same is the case with the banks also. Most of the times the asset acquisitiondetails shared by IP / Banks do not match the assets physically available at the inspection location. The assets present are many a times totally different from the invoices shared with the valuers. The ownership of the assets present at the site cannot be verified using the shared invoice copies. There is disconnect between the corporate debtor and IP / Bank and we, the valuers, haveto suffer for it. Also there is a misconception among bankers / IP that movable assets would not fetch any value compared to the immovable assets. In couple of cases where the author did the valuation, plant and machinery assets got sold off quickly compared to the land and building assets giving the IP much needed money.

So in order to avoid such scenario, the valuers have to add a clause that the assets inspected by us at the site are assumed to be owned by the Corporate Debtor in case if they are not, then the valuation of such assets need not be considered. This is important as sometimes the vendors / customers of the corporate debtors could haveplaced their machines in the premises of the corporate debtor and the valuer carrying out valuations of such machines.

So in order to avoid such scenario, the valuers have to add a clause that the assets inspected by us at the site are assumed to be owned by the Corporate Debtor in case if they are not, then the valuation of such assets need not be considered. This is important as sometimes the vendors / customers of the corporate debtors could have placed their machines in the premises of the corporate debtor and the valuer carrying out valuations of such machines. Most of the times, the corporate debtors remove machine nameplates intentionally or unintentionally resulting in missing vital information of the machines such as their make, model, year of manufacturing, etc.

The author asked the reasons for this nameplate removal to the management of many corporate debtors and they told the author that many a times their competitors visit their plant and in order to not show the machine details they remove the nameplates. Sometime those are removed deliberately by some of them when they want to sell the old machine to another buyer so that the new buyer would not know the age of the machine and may give them higher price. The new buyers get the machines without nameplates so they carry on with these missing nameplates. Sometimes, the corporate debtors purchase old machines, remove their nameplates and paint them to show to the bank officials that they have purchased new machines and get higher loan amount. Naturally since the loan amount is high it cannot be serviced and the account shortly becomes NPA account and subsequently an insolvency case.

Since the nameplates are missing, the physical age of the assets cannot be determined, it become difficult to locate the exact model and year of manufacture of similar machine from the database for valuation purpose and there are chances that the valuation may not be very correct.

Maintenance:

Machine maintenance in India is still at vary basic stage. Barring some MNC and few Indian companies, no company follows machine maintenance practices as prescribed by the machine manufacturers. Majority of the companies have never heard of predictive maintenance and hardly any follow Preventive maintenance practices. Most of the companies rely only on break-down maintenance practices. For break-down also many a times, since the OEM parts are not available on time, substitute parts may be of dubious quality are used. If substitute parts are not available then, for worn out parts welding is carried out to make the worn out surface and subsequently it is machined to make it in good working condition. Since welding is done, the welded surface becomes hard, it changes the grain structure of the original parts and in the long run such parts may not perform as designed giving issues in the machine reliability. There is no scientific / technical way of repairing the parts is followed as production is stopped and everyone is following up with maintenance team to make the machines in running conditions. I have hardly seen overhauling of complete machines to refurbish them after say 20 / 25 years of life by the maintenance teams. For whatever maintenance is carried out, the records of these maintenance activities are not properly maintained and shared with the valuers. IPs / Banks are not interested in getting such records as they are not aware of the importance of these records and hence never pass on such details to the valuers. So the valuers have to run their imagination horses wild enough to guess the maintenance activities and based on them the remaining economic life and hence value associated with it. Many a times, when the valuer carries out inspection, the valuer has to look at high value items such as motors, etc. to see their year of manufacturing, paint colour on the motor, etc. If the motor colour appears to be original and the motor and many parts of that machine have same / similar country of origin, then the valuer can estimate that the motors of those machines are not replaced. If the paint of the machine as well as motor does not appear to be original then the valuer has to look into details of that machine about the probable maintenance activities carried out on that machine and estimate the cost and expected life thereof. When the valuer visits the closed plants for inspection, those plant have been shut down from few weeks to few years. In that shut down condition rodents eat wires, hoses, pipes, etc. relatively soft items (sometimes they cut softer metals such

as aluminium also) to take care of their ever growing teeth. So it is very difficult to assess the damage done just by visual inspection in short span of time in insufficient lights. Considering this, the valuers have to be conservative while carrying out the valuation of such machines and may consider the cost of rewiring or putting new hoses in place to arrive at the fair market value of the machines. Sometimes, the valuer has to consider significant cost to make the machines in working condition to arrive at the fair market value, such cost needs to be deducted from the expected fair market value of the machines.

Inspection On Own:

There is no expert or factory employee who can show us the valuers around the factory. So the valuers has to carry out the inspection on their own. While carrying out the inspection since there are no nameplates, the valuers have to note down the details of the machines take as much photographs of the machines as possible. Later on reverse image search for those photographs to arrive at the probable machines and guess the capacities of those various machines. Based on these guessed capacities the valuers have to carry out the value and line balancing estimation. This appears to be bit crazy and accuracy of the guess depends upon the experience of the valuer in carrying out valuation in similar domain. bit crazy and accuracy of the guess depends upon the experience of the valuer in carrying out valuation in similar domain. Since nobody is there the material flow to convert raw material into finished goods is unknown and we have to guess it. If the corporate debtor has only couple of finished goods products then guessing the flow chart and doing the line balancing is relatively easy but if the number of finished goods products are high and that too getting finished at different stages then guessing the line balancing is very complex.

Fees:

Once the valuer properly inspect a closed plant (which takes about one day or more for a team of that valuer) then the carrying out the above activities takes at least one person week to up to 2 or 3 person months and the fees offered by the banks / IP does not commensurate with the efforts. So in order to cope up with this issue, most the valuers cut corners in the above steps and give the report. Banks / IPs are more interested in getting the valuation at least fees so the overall quality of the valuation report is impacted.