

About the Author -

Athalye Pramod Subhash - Registered with (IBBI/RV/02/2019/12148) (Plant & Machinery), Government Registered Valuer, FIV, Chartered Engineer

IMPORTANCE OF IDENTIFICATION AND PHYSICAL VERIFICATION OF PLANT, MACHINERY & EQUIPMENT W.R.TO DOCUMENTS RECEIVED BEFORE VISIT

Introduction:

Company VAL is valuation team and the Bank assigned the assignment of valuation of Plant and Machinery at XYZ company who is in the business of Steel Forging & subsequent Machining of the forgings according to its client requirement. VAL got letter of assignment mentioning the details of company, its location, address and contact person. As usual, VAL sent a mail mentioning requirement which included:

- Company profile
- Product details and installed capacity
- Capacity Utilization in last 3 years
- Balance sheet of last at least 3 years
- List of machinery, equipment at various sections of the company with technical specifications
- Copy of Fixed Asset Register (FAR)/ Tax Invoices of above machinery
- List of common utilities
- Name of technical and finance representatives those would be accompanying during visit; date of visit to be decided suitable to both

Process followed for carrying out the Physical Inspection:

XYZ provided the data. VAL team studied the data to get overview of the assets, its nature, quantity and get an idea of time that would be required for site visit and thereafter visit was planned. XYZ provided FAR which was then referred for inspection of the machines. There were many no. of machines in quantity. Hence VAL decided to do ABC analysis (though ABC analysis is used for stock items, it is convenient and comparatively easy method to classify) so as to identify critical machines, auxiliary machines, supporting machines, tools, dies fixtures etc.

- Category A included the machinery directly producing the forgings and also included machines those were machining these forgings viz. machinery that was of critical nature
- Category B included some tool room machinery responsible for producing dies and also maintenance set up, material handling equipment such as pallet trucks, forklifts and utilities such as compressors, DG sets, pipelines etc. viz. machinery those can be alternately made available easily within less time
- Category C included fixtures, tooling, spares viz. for which alternatives are generally available

The category wise gross block observed during analysis at VAL office was as follows:

Category	No of Machines, Nos./ sets	Gross Block observed, Rs. Cr.
----------	----------------------------	-------------------------------

A	264	450.00
B	394	100.00
C	656	50.00
Total	1314	600.00

VAL planned a team of technical experienced personnel for visit and requested representatives of XYZ to arrange their accompanying personnel according to above categorization who are responsible for that particular area of operations.

In the introduction meeting and during subsequent discussion, it was observed that, the list provided by XYZ was of whole group which contained machinery at company's 4 locations nearby. Since the assignment was related to the assets at only one location where team VAL was visiting, VAL team revised the categories with the help of XYZ team and observed as follows:

Category	No of Machines, Nos./ sets	Gross Block observed, Rs. Cr.
A	171	227.00
B	241	74.00
C	409	19.00
Total	821	320.00

VAL team prepared inspection plan of assets by different teams; the quantity decided was as follows:

Category	No of Machines, Nos./ sets	Gross Block observed, Rs. Cr.	% inspection planned	Effective inspection qnty. Nos./ sets
A	171	227.00	100%	171
B	241	74.00	60%	145
C	409	19.00	25%	102
Total	821	320.00		418

During physical inspection and subsequent study of FAR, it was observed that, some entries in it were not actually capital expenses and were related to repairs and maintenance those were capitalized and those can be taken as error of understanding. Hence team VAL worked with team XYZ and observed that, Rs.8 Cr of Category A and Rs.5 Cr of Category B are expensed towards repair and maintenance. The necessary effect was given to these figures during valuation and taken for working. Thus, identification and physical verification was carried out for 2 days, it was concluded with team XYZ and minutes were signed off by both teams of VAL and XYZ.

onclusion:

- Receipt of documents before site visit helped to understand the nature of assets and also enabled pre-preparation in co-ordination with the company.
- The systematic approach of adopting ABC analysis could help to highlight that, some machinery was not available at the plant under consideration of the assignment. Hence, Gross Block was revised from Rs.600 Cr to Rs.320 Cr. Otherwise, unnecessarily these might have been considered by error.
- The total no. of machines was come down from 1314 nos. to 821 nos., thereby reducing the no. of machines to be inspected and hence reducing the expected time of inspection.
- Through systematic approach of adopting sample inspection, the entries those were not related to capital expenditure could be observed.
- The interest of the Lender was safeguarded.
- It was also helped company staff to focus on machines identified during sampling and locate them in the plant well in advance.
- It was also helpful to identify/ co-relate the specifications of machines.