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Insolvency and Bankruptcy Board of India

V20 SUMMIT & CONFERENCE 2023

27TH, 28TH AND 29TH OCT 2023

V20 SOUVENIR EDITION

ORGANISED BY: ASSESSORS & REGISTERED VALUERS FOUNDATION
IN ASSOCIATION WITH: INSOLVENCY AND BANKRUPTCY BOARD OF INDIA
INTERNATIONAL VALUATION STANDARDS COUNCIL

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IN OCTOBER 2023, AT NEW DELHI, INDIA

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VALUER'S BULLETIN

Valuer's Bulletin is a peer-reviewed journal whose principal aim is to foster dialogue and innovation among valuers in the relative field. Since day one, Assessors and Registered Valuers Foundation has been at the forefront of the effort to bring fresh ideas and energy which can benefit our members and fellow valuers fraternity. This journal is one of such efforts.

The journal addresses a broad spectrum of concerns, suggestions and a wide range of perspectives, shared and proposed by the valuers and for the valuers.

Through this journal, we wish to reach out and connect with the valuers in India, and all over the world to exchange their thoughts and work together towards the betterment of the valuers fraternity.

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DEAR VALUERS

We invite you to share valuation-related articles, current valuation news, any interesting case study, sample of your valuation report, or maybe a short write-up about your experience during any assignment that can be of interest to valuers/readers. Your submission will be shared with your name, qualification details, photo, and email id.

Registered Valuers can also share their profile, or the details of your firm/entity, explaining the nature of work, to connect as a reference to the readers for any assignment(s) in future.

BASIC PARAMETER FOR A SUBMISSION INCLUDES

- The article should be original, and not published elsewhere before submitting to AaRVF.
- The article is mandatorily to be focussed on valuation/valuers/current challenges faced by valuers/solution or suggestion//benifiting information for aspirants or professionals.
- The length of an article can vary between one to four pages of editable World file, in Arial font, font size nine (9).
- The images/graphs are to be shared separately in good resolution, JPEG format or PNG and properly named in coordination to the title given in the article.
- In suitable cases, a detailed list of Reference must be shared as a 'source' of the article.
- A passport size photograph in JPEG format; along with a short profile and email id is to be shared along with the article, by the writer.
- The article published in 'Valuer's Bulletin' will be a copyright of the author and the AaRVF.

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API The Australian Property Institute

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DAY ONE

CONFERENCE SCHEDULE, 27th Oct 2023

8:00- 9:30	Registration
9:30- 11:00	Inaugural Session
11:00- 11:30	Key Note Address
11:30- 12:00	Tea
12:00-13:30	Technical Session 1: V20 for G20 *(Introduction of V20 & Identifying the Challenges and Issues of Member Countries)*
13:30- 14:30	Lunch
14:30-16:00	Technical Session 2 : Special Session for the Creditors for Addressing Challenges in Valuation
16:00-16:30	Tea
16:30- 18:00	Technical Session 3 : ESG & Its Impact on Valuation
19:00- 20:00	Incredible India *(Cultural Evening)*

DAY TWO

CONFERENCE SCHEDULE, 28th Oct 2023

10:00- 11:30	Technical Session 4: Challenges in Valuation for safe, resilient and sustainable settlements
11:30- 12:00	Tea
12:00-13:30	Technical Session 5: Legal Framework- Professional Ethics and Global Valuation Standards
13:30- 14:30	Lunch
14:30-16:00	Technical Session 6 : Exploring the Unexplored- New Opportunities
16:00-16:30	Tea
16:30- 18:00	V20 Declaration and Valedictory Session

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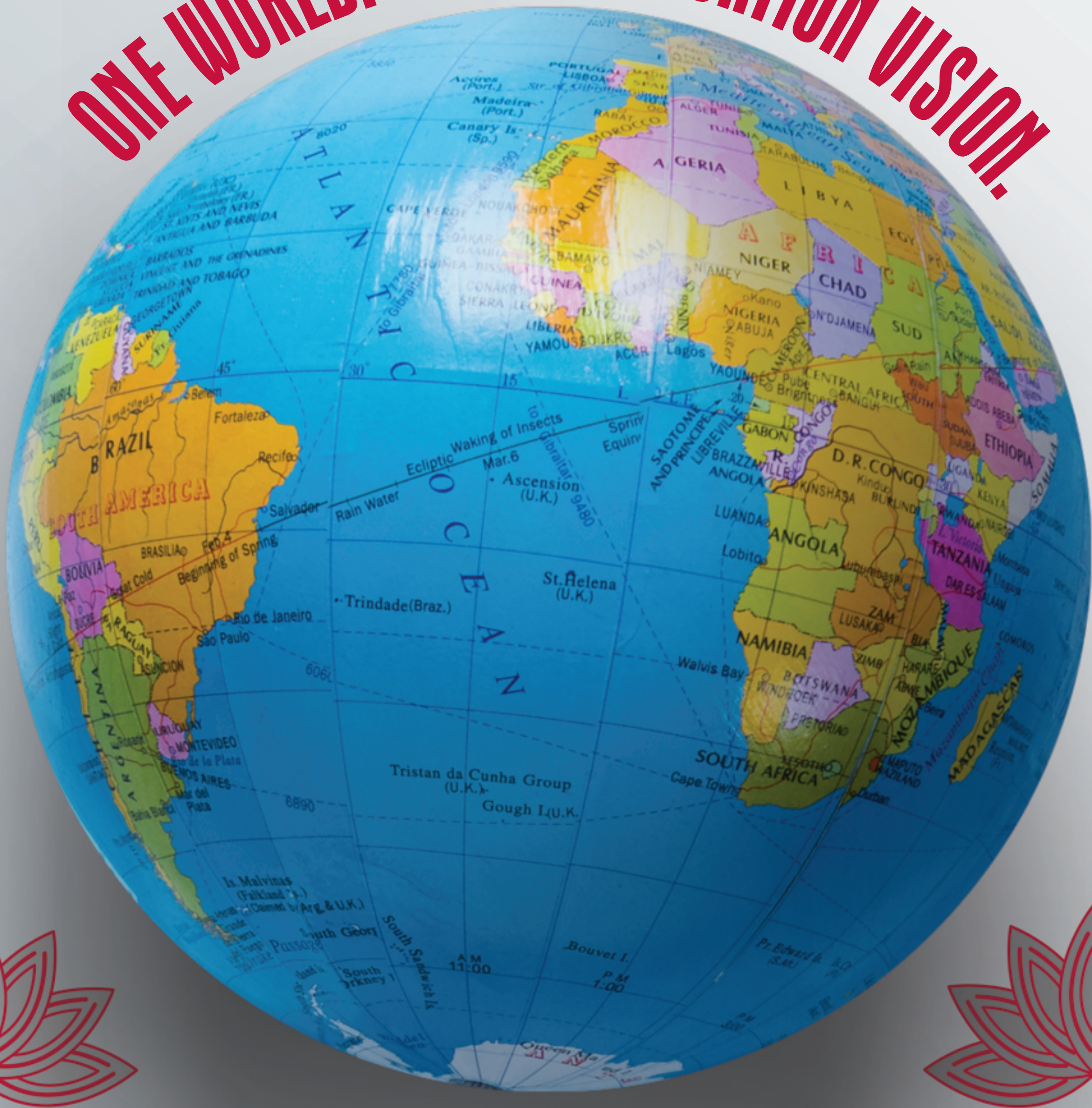

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VALUER'S VIEW POINT

Rengganis Kartomo Tinsley

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KJPP RENGGANIS, HAMID & REKAN

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Valuation & Advisory Services

Rengganis Kartomo is Managing Partner in KJPP Rengganis, Hamid & Rekan which forms a strategic alliance with CBRE. Rengganis holds both public valuer licenses for business valuation and property valuation, and has extensive experience of more than 20 years in valuation and advisory services with focus on the property sector and infrastructure. Rengganis received her Bachelor of Civil Engineering Degree from the University of Indonesia and Master's Degree in Property Valuation and Management from the University of Technology Malaysia as well as Master's Degree in Business Law at Gajah Mada University, Yogyakarta. She also has an investment management license issued by the Indonesian Financial Services Authority. She is former member in the Standards Board of the International Valuation Standards Council (IVSC), past chair and member of the Indonesian Valuation Standard Development Committee (KPSPI), Fellow member of the Royal Institute of Chartered Surveyor (RICS), Associate member of the Appraisal Institute USA and Member of International Associations of Consultants, Valuators & Analysts (IACVA).

AN INCONVENIENT TRUTH ABOUT THE EXPROPRIATION OF THE CUSTOMARY LAND RIGHTS OF THE INDIGENOUS PEOPLE OF INDONESIA

THE CASE OF REMPANG 'ECO-CITY'

INTRODUCTION

In Indonesia, there are many land conflicts associated with rapid economic development either from Government Infrastructure and Public Facilities projects or by private sector initiatives such as the development of a modern integrated city. A recent case that caught the public's attention in Indonesia, due to the massive and continuous social unrest surrounding it, involved the development of an integrated new township named "Eco City" on Rempang Island. Rempang is connected by bridge to Batam Island and is located in the Riau Archipelago where it enjoys a strategic location by being very close to Singapore and Malaysia. Rempang also benefits from its close proximity to the modern infrastructure located in Batam such as an International Airport, Seaport, and Ferry Terminal to/from Singapore and Johor Bahru-Malaysia. A further benefit for Rempang is the fact that Batam has also been granted the status of Special Economic Zone (SEZ) by the Indonesian Federal Government.

"Eco-City" is a mega proposal of mixed-use land development, which will be comprised, of an integrated industrial, trade, and tourism development on Rempang Island, which covers an area of around 17,000 ha, and involves a total investment of around $25.4 billion USD. One of the developments will be a major investment by Xinyi Glass Holdings (China) which plans to develop the second-biggest glass factory in the world. Rempang 'Eco City' is one of the National Strategic Projects spearheaded by the Indonesian Federal Government with the aim of improving Indonesia's economic competitiveness with Singapore and Malaysia.

Batam and Rempang Islands are managed by the Batam Authority (BP Batam), a government entity which under Presidential Decree No 41/1973 ("PD 41") is granted the Right to Manage (Hak Pengelolaan – HPL) all of the land on Batam Island, and including Rempang Island.

HPL has been given the task to ensure that there should be no excessive land ownership accumulation or land speculation by investors. As a result, land ownership in Batam is generally leasehold property and there is no recognition of individual land rights. However, before PD 41 was issued, there were already customary land rights (communal land) owned by the indigenous people, known as "Kampung Tua" or the "Old Village". The indigenous people have lived on Rempang Island for almost 200 years as documented in the London Treaty of 1824.

The conflict erupted because the indigenous people who lived on Rempang Island suddenly encountered land expropriation by outside entities. The local people of the "Old Village" refused to be relocated due to the fact that they have lived in this area since their ancestors' time. It will be an ideal outcome if the "Old Village" is protected and sustained as one of the tourism features in line with the resort development plan for "Eco City". However, if relocation is unpreventable, compensation must be 'fair and reasonable' so that these indigenous people could continue their life with an improved living standard today and for future generations.

LAND RIGHTS IN INDONESIA

Land tenure in Indonesia is regulated by Agrarian Law No 5/1960, whereby all lands are ultimately owned by the State in its role as the representative of the people, and managed for the optimum benefit of the people. This power has been translated into three types of land tenure in Indonesia:

1. **State Land**, which could be imposed with Right to Manage (HPL) given to government entities
2. **Individual Land Rights**, comprised of freehold (SHM) and leasehold lands (Hak Guna Bangunan-HGB, Hak Guna Usaha-HGU, Hak Pakai-HP) which could be owned by individuals or legal entities
3. **Customary Land** (communal land) owned by indigenous peoples as customary rights owners

The Interior Ministry issued a regulation in 2014 (Permendagri 52/2014) to provide Guidance for Recognition and Protection for the indigenous people, and this needs to be followed by local government in recognizing the customary land rights in their area. However, there is still a lack of local government awareness and initiatives towards the protection of customary land rights in Indonesia.

Customary land rights should be traced back and identified through careful observations on the following:

1. History
2. Cultural heritage
3. Natural signs and physical marks such as the age of hardwood planted trees
4. Acknowledgment and testimony from the traditional elders and customary institutions

PROBLEM IDENTIFICATION

The root of the problem of land expropriation in Indonesia towards Customary Land is the fact that there is no formal recognition by the government on the communal rights of the indigenous people because their land tenure is unregistered. Refer to Practice Manual for Valuation of Unregistered Land (UN-Habitat, 2021), customary land rights are not only assessed through economic value but also the non-economic value of the land rights to reflect social ties, cultural traditions, ancestral links, friendship bonds and so on. These may include social and cultural value, religious and spiritual value and environmental value.

Should indigenous people be relocated or displaced, the amount of compensation offered has mainly been based upon the physical assets (land and improvements) and not typically taken into account the non-economic impacts that have to be endured by these indigenous peoples. This omission in the compensation equation can eventually cause long-term impoverishment that does not achieve the stated sustainable development goals.

Based on FAO voluntary guidelines (section 9.5), it is said that "Where indigenous peoples and other communities with customary tenure systems have legitimate tenure rights to the ancestral lands on which they live, the State should recognize and protect these rights. Indigenous peoples and other communities with customary tenure systems should not be forcibly evicted from such ancestral lands".

VALUATION PERSPECTIVE

Currently, the International Valuation Standards (IVS) has acknowledged the unregistered real property interest as stated in IVS 400 Real Property Interests in paragraph 20.2:
"A real property interest is a right of ownership, control, use or occupation of land and buildings. A real property interest includes informal tenure rights for communal/community and or collective or tribal land and urban/rural informal settlements or transition economies, which can take the form of possession, occupation and rights to use".

Indonesian Valuation Standards (SPI) has discussed Valuation in Land Acquisition for the Development of Public Interest in SPI 204, which refers to Law No. 2/2012 on Land Expropriation for Public Use and Law No. 11/2020 on Jobs Creation where the amount of compensation is determined by an Independent Public Valuer.

Categories of compensation and basis of value are discussed below:

PHYSICAL LOSS COMPENSATION	**NON-PHYSICAL LOSS COMPENSATION***
1. Land 2. Space above ground and underground 3. Building 4. Plants 5. Other objects attached with land	1. Compensation for loss due to the rights release from the land owner which will be given in the form of cash (premium), which include matters related with: a. Loss of work or business which includes change of profession b. Emotional loss (solatium) or intangible loss related with property acquisition which has been occupied for generations c. Other types of loss that could be anticipated based on valid planning documents
	2. Transaction cost, where base assumptions are formed by moving cost, emptying cost, taxes and notary cost
	3. Waiting time compensation based on replacement of time difference between the date of valuation and date of payment
	4. Land severance
	5. Other non-physical loss
BASIS OF VALUE - IVS	
No Basis of Value mentioned	
No Basis of Value mentioned	Societal disruption maybe >> market value
BASIS OF VALUE – INDONESIAN VALUATION STANDARDS (SPI 204)	
Fair Replacement Value	
"Market Value" with special assumption that the customary land is registered	Loss payment and disturbance compensation for non-physical loss

** as stated in SPI 204*

When there has been mention on the emotional loss (solatium) in SPI 204, but it has not been clearly explained on how to measure the solatium, and it still simply discussed the solatium in relation with heritage residential property only.

It has not addressed the fact that customary land is related with broad socio-cultural aspects of the indigenous people such as their food sources, local knowledge of their habitat and landscape for many generations that could not be easily replicated in other locations. They might find difficulties to adapt in the places of relocation due to their lack of necessary skills to adapt to this new environment or the absence of 'local knowledge'.

Rao (2018) identifies sociocultural capital as:

- Security, including livelihood security; security of physical space and protection from eviction or relocation
- Self-identity through possessions; in terms of social status; through personalization of property, place and occupancy; as part of territorial identity. This might include traditional land use rights, including access to communal pasture, forests, fishing rights, medicine, natural resources, religious sites, infrastructure and services, such as transport routes, schools, health centers and community centers
- Social capital, including relationships and ownership as sociocultural status
- Social equity and empowerment (political, gender and social)
- Psychological well-being, personal comfort and convenience

Natural capital takes the form of ecosystem services.

Socioeconomic capital and natural capital are rarely, if ever traded in the market.

The valuation of sociocultural and natural capital remains an area that requires further research in the valuation field, as this falls outside the concept of economic value that is well understood by the valuation profession. In the future, it is likely that non-economic value will be an increasingly important aspect that should be considered by Valuers, especially when dealing with loss compensation in land expropriation.

Parallel with this, there are discussions by some experts aimed at quantifying Non-Economic Loss and damage (NELD) as related to climate change. A key UN **technical paper** commissioned after COP18 in 2012 discussed several 'quasi-economic' approaches: economic valuation, multi-criteria decision analysis (MCDA), composite risk indices, and semi-quantitative assessments.

Refer to FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forest in the Context of National Food Security (2022), policies and laws related to valuation should strive to ensure that valuation systems take into account non-market values, such as social, cultural, religious, spiritual and environmental values where applicable.

CONCLUSION

In closing, concerning the aforementioned case of "Eco City" on Rempang Island, the Indonesian Government should endeavor to protect the customary land rights of the Indigenous people. In the event that relocation is imminent, the compensation (Fair Replacement Value) should consist of not only the economic value (or market value) of the physical asset (assuming it is tradable in the market), and the economic loss, but it must be added with the non-economic value that is derived from the sociocultural capital and natural capital. Nevertheless, if there is no other option but the relocation of the Indigenous people, the compensation should be 'fair and just' to ensure that the "at risk" indigenous people could both sustain and retain their traditional lifestyle while simultaneously enjoying an improved living standard today and for future generations.

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Mc Dermott, Mike and Peter Wyatt (2021). Valuation of Unregistered Land – A Practice Manual. UN Habitat.

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Chris M. Mellen

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Chris M. Mellen is a Senior Managing Director with Valuation Research Corporation (VRC), leading its Boston office. Previously, he was president of Delphi Valuation Advisors, Inc., which he founded in 2000 and sold to VRC in 2015. Chris holds six professional valuation and M&A designations (ASA, MCBA, CVA, ICVS, ABAR, and CM&AA) and earned an MBA in Finance. His experience includes involvement in nearly 4,000 business and intangible asset valuations since 1989. He has served on several valuation committees, taught valuation courses worldwide, led over 100 seminars, published over 40 articles, and provided expert testimony in court. Chris is also the author of the third edition of a 480-page text book, Valuation for M&A: Building and Measuring Private Company Value, published by Wiley in 2018.

DRIVERS TO ENHANCE THE VALUE OF YOUR COMPANY

Although it has taken a dip in the past year, merger and acquisition activity continues to be robust as compared to historic levels. As a result, private company owners should always focus on factors that will improve their business value in the event of an opportunity to sell.

Ideally, business owners and their management team should begin monitoring the value of their business at least five to seven years before considering an exit. As a result, monitoring value is something that is done in both good times and bad. The urgency to do so is greater in times like today when M&A activity is healthy.

While valuation appears to be a quantitative science about financial statements, forecasts, multiples, and rates of return, it is actually more qualitative in nature. Valuation is a prophesy of future expectations for a business. To accurately reflect those expectations, it is critically important for a business owner to identify and understand the value drivers – which are factors that increase cash flows and reduce risk – associated with the business. There are hundreds of value drivers attributable to a business, some of which are industry-specific. For brevity, we will discuss ten of the most universal factors that we consider essential to increasing cash flows and reducing risk, thereby enhancing overall company value.

Capital Access. The smaller the company, the more limited its access to debt and equity capital. The company will need to assess the kind of capital needed to achieve its goals.

Questions to ask: How is the company currently leveraged? How do bank covenant restrictions impact the business and its future plans? Do shareholders have to provide equity or personally guarantee loans? Is bringing in an outside investor and issuing preferred stock a viable option?

Customer Base. A solid and diversified customer base is essential for the ongoing viability of a business. When companies grow and prosper by providing exceptional customer service to their largest customers, dependency may increase to the point where too great a percentage of revenues are concentrated with too few customers; companies must manage the allocation of customer concentration to reduce the risk of losing a large source of revenues.

1 This article is sourced from Chapter 3 of Mellen, Chris and Evans, Frank, Valuation for M&A: Building and Measuring Private Company Value, 3rd edition (Wiley 2018).

Questions to ask: What percentage of the company's revenues do its top five customers comprise? What amount of revenue is recurring? What is the economic useful life of its customer base?

Economies of Scale. As production output increases, businesses typically achieve lower costs per unit. Whether through quantity discounts or spreading capacity costs over higher volumes, larger companies possess distinct advantages in certain operations and markets.

Questions to ask: Is the company effectively exploiting its internal economies of scale (i.e., cost savings that accrue regardless of the economic environment or industry in which it operates)? What are the company's growth opportunities such that it can realize more economies of scale? Can the company enter into a consortium, joint venture, or outsource to increase buying power and reduce expenses?

Financial Performance. Financial analysis assists in measuring trends, identifying the assets and liabilities of a company, and comparing the financial performance and condition of the company to other, similarly positioned firms. Internally prepared and compiled financial statements may hamper management's assessment of performance, causing potential buyers to question the quality of this data.

Questions to ask: How does the company compare in terms of liquidity, activity, profitability, and solvency measures? What financial controls are in place? Are the financials audited or reviewed by an outside CPA?

Human Capital. A company's employees are at the heart of an organization. Key value drivers include the knowledge, skills, experience, training, and creative abilities that employees bring to a business and the health of its company culture.

Questions to ask: What are the quality control procedures? How effective are the production/service capabilities? How is the company managed? What is the depth and breadth of management? Are there any key person dependencies in terms of technical knowledge, production skills, or customer contacts? Is there a management succession plan? What rights do individual shareholders have?

Market Environment. Each business is impacted by economic trends and developments in the industry in which it operates. Management must understand how the industry is impacted by economic factors and how the industry is structured to minimize the impact of macro trends on the business.

Questions to ask: What is the company's market share? Where is it positioned in the market? Does management have an understanding of its niche and unique offering? Does it have diverse offerings that can modulate the impact of economic swings?

Marketing Strategy and Branding. Marketing is the link between customers' needs and their response to a company's products/services. Strong branding will not only improve company sales by increasing market recognition, but it will also provide a clear direction that will improve operational efficiency when tied to the company's mission.

Questions to ask: How does the company market itself? What are its marketing and sales capabilities and shortcomings? How effective and known is its brand? What is its social media presence? How effective is its website? Is the brand tied to the company's mission statement and its strategic direction?

Product/Service Offering. Specialty companies frequently derive their strength from focusing on niche markets, but concentration may create risks from lack of diversification and over dependence on limited markets. Some specialty companies may find their largest customers adopt a policy to deal only with suppliers who offer a broad range of products, forcing them to either expand their product offerings or sell out to a larger company. Increasing diversification reduces risk which improves value.

Questions to ask: What is the company's mix of offerings? How subject is any concentrated offering to economic and industry swings? What products/services can be offered that differ from existing ones but that use similar human capital, production capability, customer base, etc. to diversify? What opportunities exist for vertical or horizontal integration?

Strategic Vision. Most companies put together a one-year budget, but few attempt to put together a business plan or long-term forecast. Valuation is all about future expectations and company management needs a strategic vision to create value. Management must take a look at all the information they've gathered from reviewing their company to divulge a strategic vision that can be passed along to the future owner, which provides additional support and assurance of continuity of, and even increase, sales.

Questions to ask: What is management's long-term outlook? When did the company last put together a formal business plan? Is the company's strategy in tune with its customers' demographics, tenure, needs, and demands?

Technology. Companies with fewer monetary resources often lack adequate research and development resources, finding it difficult to keep pace with technological changes in their markets. Such companies often face an inescapable need to incur large amounts of capital expenditures in the near future or allocate resources to a limited number of product development projects. This inevitably results in product or service obsolescence, adverse impact on future growth, and loss in market share. In the meantime, larger companies are in a better position to demonstrate technological expertise by developing products that address emerging customer needs such that customers may choose their state-of-the-art products, despite the availability of lower-cost, lower-performance technology.

Questions to ask: How much resources does the company allocate to R&D? Is their use of technology up to date? Are there impending technological changes that could negatively impact the company's product/service offering?

CONCLUSION

Ongoing assessment of a company's value drivers is integral to its success. The valuation process involves both a quantitative and a qualitative assessment of a company that should be part of any business owner's standard operating procedure as a useful and important business management exercise. A valuation assessment can provide the business owner with meaningful and oftentimes actionable information that highlights the real intrinsic value of the firm, and ultimately maximize returns.

Kevin Brogan

NATIONAL DIRECTOR
GROUP RISK AND COMPLIANCE
AT HERRON TODD WHITE AUSTRALIA
VALUATION RESEARCH CORPORATION (VRC)

"I have enjoyed my career in property valuation and have managed to gain a broad range of valuation experience over almost 35 years. In the United Kingdom, I valued property for statutory purposes, taxation purposes, and compulsory acquisition. In Australia, I have also undertaken valuations for many purposes including statutory, mortgage security, financial reporting, insolvency, and more. The variety of property types has included residential, retail, industrial, an oil refinery, sewage treatment works, hotels, a casino, and a battleship simulator. My more recent experience in setting up and providing compliance services to clients has led me to take a keen interest in rules, standards, instructions, and guidelines."

THE GLOBAL VALUATION ECOSYSTEM AND ITS IMPORTANCE IN UPHOLDING VALUATION STANDARDS

A PERSONAL PERSPECTIVE

The V20's mission is to support informed decision-making by the G20 through trusted, reliable, and transparent valuation advice.

We know that valuation professionals, like many other professionals, face a myriad of challenges that require them to continuously adapt, innovate, and consistently uphold the highest professional standards. Despite the challenges, we should also have confidence that there is an important, influential, and effective valuation ecosystem that helps sustain and support the V20's mission.

While I'm not claiming that all challenges can be foreseen and that the ecosystem doesn't need to be constantly assessed, updated and in some cases challenged, it is important that we understand the various elements of the valuation ecosystem and why each one is important in terms of upholding the public interest by building confidence in valuation.

Regulatory changes, environmental concerns, and advancements in data and technology are continually impacting and reshaping our valuation ecosystem. The digital age is bringing forth new tools and platforms that can assist the valuer in the valuation process but has also raised concerns about whether they can be relied on as part of a valuation. This is particularly the case where systems are not transparent or understood by the valuer, or the valuer has not inspected the property.

Valuation professionals must not only understand and adapt to these technological advancements but also ensure that their practices remain compliant with valuation and ethical standards.

It is important to remember that although the environment in which we operate is evolving, the fundamental principles and concepts of valuation have not changed.

So what are the main elements of the valuation ecosystem and why do they matter?

For the purpose of this Conference Souvenir, I have highlighted what I believe to be the three main elements: first being global standards, secondly Valuation Professional Organisations, and lastly, valuation firms.

FIRST - GLOBAL STANDARDS

The International Valuation Standards Council (IVSC) sets global valuation standards to enhance the quality and credibility of valuation practice. The IVSC's mission is to ensure that valuation professionals, investors, and stakeholders can trust and rely on valuation standards across borders globally to foster confidence and transparency in valuation.

The Royal Institution of Chartered Surveyors (RICS) also plays a vitally important role through its publication of the RICS Global Valuation Standards ('Red Book') which applies the IVS within a broader framework of RICS standards as well as applying additional and important safeguards and protections to promote the highest levels of valuation professionalism and quality around the world.

To ensure that the overarching principles and concepts in valuation standards remain relevant, the various standards setters continuously review and update rules, standards, and guidelines. The IVSC released an exposure draft of the IVS in April 2023 and is currently considering feedback from stakeholders, including discussions at its recent meeting in Paris. The RICS is currently conducting a survey of views on the scope, application, and structure of the next edition of the Red Book.

Other relevant international standard setters include the International Property Measurement Standards Coalition and the International Ethics Standards Coalition.

SECOND - VALUATION PROFESSIONAL ORGANISATIONS (VPOS)

VPOs play a vitally important role in communicating rules, standards, and guidelines. Communication occurs through assessment, education, training, and a continual professional development framework. Many also play a critical role, some in conjunction with legislation or government bodies, in providing regulation to ensure compliance with professional, technical, and performance standards.

VPOs include the RICS as well as VPOs that are specific to a country or other jurisdiction such as the Australian Property Institute (API) in Australia, and many other organisations internationally like the Assessors and Registered Valuers Foundation (AaRVF) and the Practising Valuers Association (India).

These VPOs perform the essential role of setting and updating rules and valuation guidelines. They provide a local home for valuation professionals.

RICS is the global professional body for chartered surveyors that operates in countries around the world. RICS promotes and enforces the highest international standards in valuation as well as the development and management of land, real estate, construction, and infrastructure.

RICS assesses and certifies valuation professionals and provides valuable resources, training, and guidance to ensure that its members stay up to date with the latest industry developments and adhere to stringent ethical standards.

Through its extensive network of members and continuous research efforts including the Global Construction Monitor and Global Commercial Property Monitor, RICS also fosters an environment of collaboration and knowledge sharing among valuation professionals at a national and international level. This enables them to collectively address challenges and innovate their practices while maintaining the trust and confidence of clients.

RICS provides substantive support to uphold the quality of valuers through its continual professional development requirements, the Valuers Registration Scheme (which is mandatory in more than 200 countries), and Standards and Regulation work which provides an independent disciplinary regime that helps remove those valuers who do not comply with the rules.

The Australian Property Institute (API) plays a similar role alongside RICS in the Australian context. The API established the APIV Professional Standards Scheme (APIV) which is approved under professional standards legislation. The APIV scheme is required to monitor and enforce the compliance obligations of its corporate and individual valuer members. As a national professional body, the API is in the process of reviewing and updating its Code of Ethics and Rules of Professional Conduct.

National and local valuation professional organisations, like the API and RICS, play a vitally important role by adopting and promoting international standards, providing local perspectives, assessing, and certifying members, and providing professional development and local market and industry research.

These organisations all stand at the forefront of this dynamic industry, ensuring that valuation professionals not only meet but exceed the expectations of their clients and stakeholders helping to deliver and support the V20's mission.

THIRD - VALUATION FIRMS

As the National Director of Group Risk and Compliance at Herron Todd White Australia (HTW), one of the largest property valuation firms in Australia, I think it is essential to highlight the role of valuation firms in promoting and upholding valuation standards.

Valuation firms are another critical element in the valuation ecosystem. At HTW we strive to exemplify the commitment to excellence to which valuation professionals should aspire. We have a robust framework to provide policies, procedures, education, and quality assurance to lift the standard of our valuers and the valuations that they undertake. Valuers at HTW undergo rigorous training and adhere to the highest professional and industry standards. This ensures that clients can rely on their valuations for making informed decisions.

HTW has a deep-rooted focus on professionalism and a dedication to delivering professional valuation services for all classes of property from individual residential, agribusiness properties and commercial and government portfolios.

John Ruskin once wrote "Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction, and skillful execution; it represents the wise choice of many alternatives."

It is the continued commitment to each of these elements by individual valuers that feeds up into a true quality global valuation profession in which we can all have confidence.

Kevin Brogan FRICS FAPI is the National Director of Group Risk and Compliance at Herron Todd White, the Chair of the RICS Australasian Advisory Board, a member of the RICS APAC World Regional Board, and a contributing member of API standards working groups providing feedback to IVSC and drafting the API Code of Ethics and Rules of Professional Conduct.

Vikarth Kumar

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Vikarth has over two decades of experience in Business and Intangibles valuations spread across Grant Thornton, India and another big 4 firm. Vikarth joined Grant Thornton in 2004 and was part of the founding team for corporate finance services initially based out of Bangalore. He leads Valuation Services for North India. He specializes in Business and Intangible valuations and support clients from startups to multi-billion-dollar global conglomerates in their strategic objectives for unlocking value or on contentious matters pertaining to, JV or Shareholder disputes/ litigations or for compliance under statutory and financial reporting regulations. He has undertaken valuations for M&As; corporate restructuring; stock options cross border valuation engagements and portfolio of investments for private equity. He has been instrumental in setting up and driving the Global Delivery – Valuations practice for Grant Thornton, India to offer valuations offshoring services to member firms.

As a board member at International Valuation Standards Council (IVSC), he is involved in developing high-quality International Valuation Standards which ensure consistency, transparency and comparability. Professional memberships and certifications include - Registered Valuer with the Insolvency and Bankruptcy Board of India (IBBI), the ICVS (International Association of Certified Valuation Specialists) MRICS (Royal Institution of Chartered Surveyors), CFA Institute, USA and Indian Association of Investment Professionals (IAIP), Masters in Finance – University of Mumbai and Executive MBA, Indian Institute of Management (IIMB).

THE ART AND SCIENCE OF STARTUP VALUATION IN INDIA

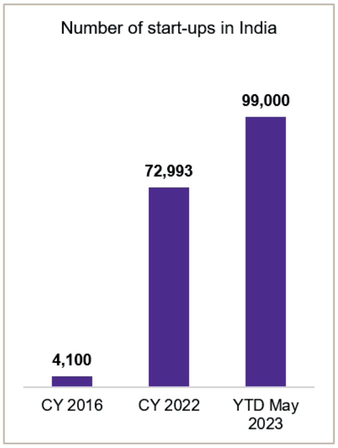
NAVIGATING THE INVESTMENT LANDSCAPE

INTRODUCTION

The Indian startup ecosystem has been experiencing a remarkable surge in recent years, attracting global attention and significant investments. As startups continue to disrupt traditional industries and innovate across various sectors, one crucial aspect of their journey is startup valuation. However, the process of valuing these startups remains a complex and often contentious task. Understanding how to accurately value a startup is essential for both founders and investors, as it directly impacts funding, equity distribution, and future growth prospects. In this article, we will explore the art and science of startup valuation in India, shedding light on the key considerations and methods that investors and entrepreneurs must understand in this ever-evolving ecosystem.

UNDERSTANDING THE INDIAN STARTUP ECOSYSTEM

Before diving into startup valuation, it's crucial to understand the context in which startups in India operate. The Indian startup ecosystem has grown rapidly in recent years, driven by factors like government initiatives, a burgeoning middle class, a skilled workforce, and increasing internet penetration. Key sectors such as e-commerce, fintech, edtech, health tech, and mobility have witnessed substantial growth.



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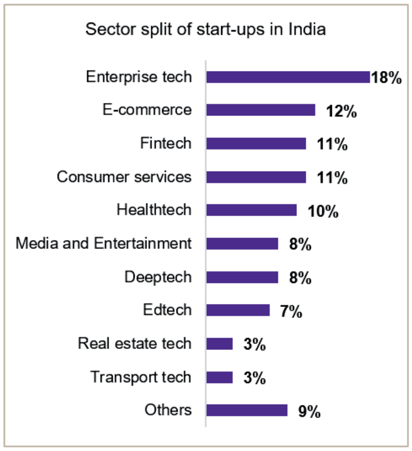

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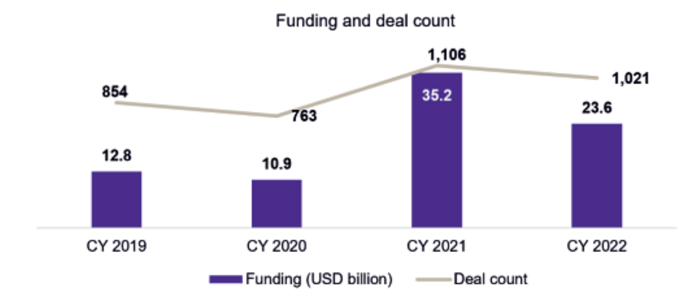
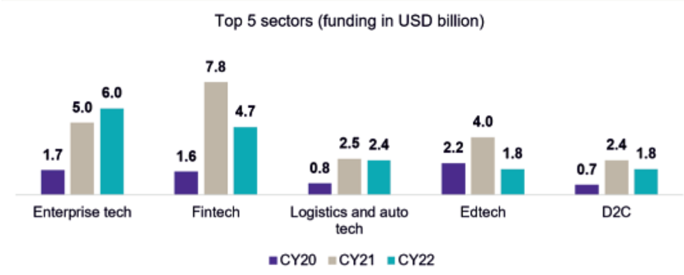
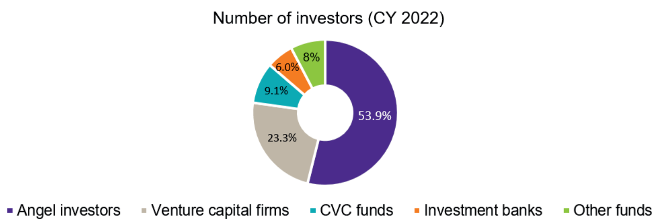


Source: Venture Intelligence



Source: Venture Intelligence



Source: Venture Intelligence

Investor interest, both domestic and foreign, has poured into India, fueling the growth of startups. This has created a competitive landscape where startups strive to attract capital for scaling their operations. In such a dynamic environment, valuation is a critical determinant for both entrepreneurs and investors.

FACTORS INFLUENCING STARTUP VALUATION IN INDIA

1. **Market Potential:** The size and growth potential of the target market significantly impact on a startup's valuation. India's vast and diverse market, coupled with its increasing adoption of technology, offers immense opportunities for startups. Investors keenly assess a startup's ability to tap into this market and its potential to scale.
2. **Revenue Traction:** Startups with a proven revenue model and consistent growth tend to command higher valuations. Investors often look for a clear path to profitability, as demonstrated by increasing sales, customer retention, or monetization strategies.
3. **Team and Expertise:** The quality of the founding

28 yrs.
Avg. age of Indian founders

#20
Bengaluru global start-up rank

~250
Number of incubators

~48%
Start-ups in metros

20%
Women entrepreneurs

Jobs created (2022)

team plays a crucial role in startup valuation. Investors evaluate the team's experience, skills, and their ability to execute the business plan effectively. A strong, visionary team can instill confidence in investors.

4. **Intellectual Property:** Startups with valuable intellectual property, such as patents or proprietary technology, are often considered more valuable. Intellectual property can provide a competitive edge and potential revenue streams.
5. **Competitive Landscape:** The level of competition in the startup's industry and its differentiation strategy influence valuation. A startup with a unique value proposition or a defensible market position may be valued higher.
6. **Traction with Investors:** Building relationships with reputable investors and securing investments from renowned venture capitalists can boost a startup's valuation. It signals trust and due diligence in the eyes of other potential investors.
7. **Regulatory Environment:** The Indian regulatory landscape can significantly impact startups. Understanding how regulations may evolve and impact a business is crucial. For example, changes in e-commerce rules or data protection regulations or even Angel Tax rules can affect a startup and consequently its valuation.
8. **Economic Cycles:** Like any other country, India experiences economic cycles. These cycles can influence consumer behavior, funding availability, and ultimately a startup's valuation.
9. **Tech Infrastructure:** The state of technology infrastructure in India can be both an advantage and a limitation. Access to technology and the ability to scale digitally can drive higher valuations.
10. **Customer Acquisition Costs:** Understanding the cost of customer acquisition and the lifetime value of a customer is essential. Startups with lower acquisition costs and higher customer retention may be valued more favorably.

VALUATION METHODS FOR INDIAN STARTUPS

Startup valuation in India is often more art than science, given the unique challenges and opportunities in the market. Several methods are commonly used for valuing startups:

1. **Discounted Cash Flow (DCF) Analysis:** DCF analysis involves projecting a startup's future cash flows and discounting them back to the present value. In India, using this method can be

challenging due to the uncertainty and risk associated with startups.

2. **Market Multiples:** Comparing a startup to similar companies who have had recent transactions of investments or acquisitions in the same or similar sector can be a useful approach. However, finding suitable comparable transactions in India can be tricky, as each startup's positioning, business profile, growth trajectory and risk profile may be unique and could differ significantly.
3. **Venture Capital Method:** it is used largely by venture capital funds/early-stage investors for valuing startup ventures. Typically, an investor will either try to obtain a return on his investment commensurate with the risk he perceives in the venture or will seek to monetize his exit at a certain multiple over and above his investment. The method starts by defining the Return on Investment (ROI) on the investment which is generally in the nature of 25-60% because of the high risk inherent in the startup.
4. **First Chicago Method:** First Chicago approach simply does three different projections: Success, Failure and Survival cases and assigns probability estimates to each. This method results in a separate valuation and pricing for each of the three outcomes. The weighted average valuation is determined with weights being the probability assigned to each case.
5. **Risk Factor Summation Method:** This method considers a much wider set of risk factors in arriving at a pre-money valuation giving regard to qualitative factors intrinsic in the start-up. The method starts off by using a pre-determined pre-money valuation number already arrived at for the said startup. Post that there are 12 risk parameters provided to assess the start-up. The parameters are given a range of points from -2 to +2 as shown below, based on the startup's evaluation of where it stands. The average pre-money valuation is then adjusted by $250,000 for every "1" point.
6. **Scorecard Valuation Method:** This method involves assigning scores to various aspects of a startup, such as team, technology, market, and competitive positioning. While it provides a structured framework, subjectivity remains in assigning scores. This method gives more weightage to the quality of the startup as of today rather than the uncertain sales that it can generate in the future.
7. **Berkus Method:** The Berkus method is a pre-revenue valuation approach based solely on qualitative methods, much like the Scorecard Valuation Method discussed before. This method is based on five key factors: sound idea, prototype, quality management team, strategic relationships, and product rollout or sales. Each factor has an assigned value, and the total score determines the valuation.
8. **Stage-Based Valuation:** Many investors in India rely on valuing startups based on the stage of development. Seed-stage startups may be valued differently from Series A or Series B stage startups, considering the progress made and associated risks.

CHALLENGES IN VALUING INDIAN STARTUPS

Despite the various methods available, startup valuation remains an art rather than a science. Several challenges complicate the process:

1. **Data Availability:** Indian startups, especially in the early stages, may lack robust financial data. Investors often rely on assumptions and projections, which can introduce significant

uncertainty.

2. **Evolving Business Models:** Many Indian startups operate in sectors with evolving business models. Valuing a startup with a rapidly changing model can be highly speculative.
3. **Regulatory Risks:** Changes in government policies or regulations can swiftly alter the competitive landscape and business environment. Valuation models need to account for these risks.
4. **Market Fragmentation:** The Indian market is highly fragmented, with regional differences that can impact business strategies and valuations.
5. **Access to Capital:** Startups in India often require multiple rounds of funding. The valuation at each stage can be influenced by the availability of capital and investor appetite.
6. **Global Competition:** Indian startups face competition not just from local peers but also from global players. This can influence the perceived valuation of a startup, especially in sectors like e-commerce.
7. **Talent Pool:** The availability of a skilled workforce in India is both an advantage and a challenge. A startup's ability to attract and retain talent can significantly impact its growth and valuation.
8. **Use of Hybrid or Complex Financial Instruments:** Investors often use hybrid or complex financial with complicated terms of conversion or return in order to protect their rights and liquidity preferences. These terms make valuing startups even more a complex exercise and a simple extrapolation of such valuation based on some other round of investment by 3rd party investor without adjusting for rights and preferences held by that 3rd party investor could lead to erroneous valuations for the stake of the investor being valued.

THE ROLE OF INVESTORS IN VALUATION

Investors play a pivotal role in determining a startup's valuation. They bring not only capital but also experience, industry knowledge, and networks. Here's how investors impact the valuation process in India:

1. **Negotiation Power:** Investors with a strong track record or those investing at a later stage have more negotiating power when it comes to valuation.
2. **Due Diligence:** In India, thorough due diligence is essential. Investors scrutinize a startup's financials, legal standing, intellectual property, and potential risks. Any red flag can impact the valuation.
3. **Market Access:** Strategic investors can bring more than just funds; they may offer access to a broader customer base, distribution networks, or international markets, which can influence valuation.
4. **Post-Investment Support:** Investors who provide mentorship, guidance, and operational support can justify higher valuations as they help startups navigate challenges and accelerate growth.
5. **Exit Strategy:** The investor's exit strategy, whether through acquisition, IPO, or secondary sale, can affect the valuation. Startups aligning with an investor's preferred exit strategy may receive more favorable valuations.

Startup valuation in India is not without its risks, and both investors and entrepreneurs should be aware of these:

1. **Overvaluation:** Fueled by the hype surrounding startups, there's a risk of overvaluation.

Overvalued startups may struggle to meet investor expectations, leading to down-rounds or even failure. Often there is a disconnect between "Price" and "Value" of an investment or a startup.

2. **Undervaluation:** Conversely, startups might undervalue themselves, leaving potential money on the table. This can be a concern, especially if they give away a substantial equity stake for minimal funding.
3. **Funding Gaps:** Valuations can be misaligned with a startup's actual financial needs. A startup that overvalues itself might struggle to secure adequate capital to support its growth.
4. **Investor-Founder Misalignment:** A significant divergence between the founder's and investor's expectations can lead to conflicts down the road. Managing these expectations is crucial for long-term success.
5. **Exit Challenges:** High valuations may lead to exit challenges, as potential acquirers or the public markets may not be willing to pay the premium. This can lead to difficulties in realizing returns.

CONCLUSION

Startup valuation in India is a dynamic and evolving field, influenced by a myriad of factors unique to the Indian market. Both investors and entrepreneurs need to tread carefully, balancing optimism with realism. While high valuations are exciting, they must be supported by sound business fundamentals and a clear path to profitability.

Looking ahead, trends such as the rise of deep tech startups, increased government support, and the growth of alternative investment platforms like crowdfunding and angel networks are expected to influence startup valuations in India. Moreover, as the ecosystem matures, there may be greater emphasis on sustainable business models and social impact, alongside traditional financial metrics.

Successful valuation in the Indian startup ecosystem involves a blend of financial analysis, market understanding, and a deep appreciation of the risks and challenges that Indian startups face. Striking the right balance between growth potential and risk management is key to making informed investment decisions or securing fair valuations as an entrepreneur. However, accurately valuing startups remains a challenge. Founders and investors must work collaboratively to strike a fair balance that aligns with the startup's potential, market conditions, and risk factors. With the right approach, India's startup ecosystem offers boundless opportunities for those who navigate it wisely.

As the Indian startup landscape continues to evolve, understanding the nuances of startup valuation will remain essential for success in this dynamic environment.

Jigar Kothari

ASSOCIATE DIRECTOR
RBSA ADVISORS

RBSA ADVISORS
BRONZE SPONSOR
FOR V20 EVENT

DEMYSTIFYING IVS ASSET STANDARD 300 (PLANT AND EQUIPMENT)

OVERVIEW

The valuation standard published by International Valuation Standard Council (IVSC), UK.

The Asset Standard IVS-300 is pertaining to valuation of Plant and Equipment which includes only modification, additional principles or specific examples of how the General Standards apply for valuation of Plant & Equipment.

WHAT IS PLANT AND EQUIPMENT?

Plant and Equipment are;

- Tangible Fixed Assets
- Use in the manufacturing/production or supply of goods or services
- To be used over a period of time
- Physically affixed to real property in whole or in part
- Capable of being moved or relocated
- Depreciate at a quicker or less linear rate
- Rapid technological change in particular market sectors

Plant and Equipment are being used for various purposes such as;

- **Manufacturing/ Production** like Steel, Cement, Power, Paper, Automobile, Textile etc.
- **Supply of Goods** like in Grocery stores, Jewellery showroom, shoe showroom etc.
- **Supply of Services** like Transportation, Port, Airport, Rail, Ships etc.
- **Rental** purpose like construction equipment, mining equipment, material handling equipment, Aircrafts, Helicopters, medical equipment etc.
- **Administrative** purpose like Vigilance System (CCTV), Fire hydrant system, HVAC system etc.

Plant and Equipment may be broadly divided into three categories.

1) **Plant:** Assets that are combined with others Eg. Cement plant, Steel Plant, Power Plant, Textile plant Etc.
2) **Machinery:** Individual, a fleet or system of, configured machines Eg. Pumps, Motors, vehicles, rail, shipping, and aircraft.
3) **Equipment:** Sundry machinery; tooling, fixtures, furniture and furnishings; trade fixtures and fittings and loose tools; that are used to assist the operation of the enterprise or entity.

The boundaries between these categories are not always easy to define, and the criteria used may vary according to the particular market sector the assets serve, the purpose of the valuation, and relevant national and international accounting standards.

RIGHT TO USE

This standard also covers the machinery and equipment subject to lease (right to use) like Aircraft, Helicopters, Medical equipment, Material handling equipment, Construction machinery, etc. The valuer is is expected to estimate the market value of an appropriate interest in the machinery which is taken on lease or given on lease considering the right to use of an asset. Further, the valuer is also expected to check and consider its service life and lease period because it may be possible that the service life of the assets is higher than the lease period therefore, the valuer needs to estimate the value of assets accordingly.

INTANGIBLE ASSETS

Intangible assets fall outside the classification of plant and equipment assets. However, the assets which are embedded with the operation of the plant are intangible in nature. In such cases, the valuation process will involve consideration of the inclusion of intangible assets and their impact on the valuation of the plant and equipment assets. For an example:

- Dies, molds used in automobile components manufacturing industry, electronic components manufacturing industry
- Technical know how for production of specialized chemicals, sponge iron production (Midrex, HYL-Mexico, Lurgi);
- Operating software like DCS, SCADA etc.

The report must also include comment on the impact on the reported value of any associated tangible or intangible assets excluded from the actual or assumed transaction scenario, eg,

- If an operating software is excluded for the valuation of CNC machine then the valuer is expected to disclose into the report and what will be the possible impact on the valuation of CNC machine in the absence of operating software.

FACTORS AFFECTING VALUATION OF PLANT AND EQUIPMENT

Valuation of plant and equipment will normally require consideration of a range of factors relating to the asset itself, its environment as well as physical, functional & economic potential. Therefore, to ascertain all the related factors, the valuer should physically inspect the plant and equipment.

a) Asset-related factors to be considered:

i. Technical specification: Name of Machinery, Make, Model, Type, Year of Manufacturer, capacity, rating etc.
ii. Condition: Assess the physical condition, working condition based on discussion with operator & maintenance history.
iii. Life: Remaining useful, Economic or Effective life, consideration of both preventive and predictive maintenance.
iv. Obsolescence:
   - Physical: Any loss of utility due to the physical deterioration of the asset or its components resulting from its age and usage i.e. wear & tear
   - Functional/Technological: Any loss of utility resulting from inefficiencies in the subject asset compared to its replacement such as its design, specification or technology being outdated. Eg. Excess Capacity, excess capital cost, excess operating cost etc.
v. Leased Machinery: Whenever the machinery is subject to lease then the valuer has to consider the Lease tenure, Renewal of lease, Possibilities of end of lease.
Vi. Leased premises: Whenever the machinery is installed in leased premises then the valuer has to consider the potential loss of machinery due to the difference in the lease tenure of the building and operating life of the machinery.
vii. Additional Cost: Cost of Additional equipment/Accessories; Cost of Transportation; Cost of installation and commissioning; Trial run, Etc.
viii. Ex-Situ: If the asset is not valued in its current location, the costs of decommissioning and removal, potential loss of asset due to decommissioning, and any costs associated with the asset's existing in-place location, such as installation and re-commissioning of assets to its operational status.
ix. No Historical Cost: In cases where the historical costs are not available for the machinery and equipment then the valuer can refer original EPC contract, purchase order, and Invoices to get the historical cost.

b) Environment-related factors to be considered:

i. Location: The location in relation to the source of raw material and market for the product. Eg, where raw materials are finite or where demand is transitory. Eg. Cement Plant near to limestone mines, Steel plant in proximity of availability of iron ore, automobile industry near to its end user location.
ii. Environment Impact: Any environmental or other legislation that either restricts utilization or imposes additional operating or decommissioning costs. Eg. flue gas desulfurization for Power Plant etc.
iii. Disposal of Assets: Radioactive substances that may be in certain machinery and equipment have a severe impact if not used or disposed of appropriately. This will have a major impact on expense consideration and the environment that is called Asset Retirement Obligation (ARO). Eg. Nuclear Power Plant
iv. Disposal of Waste: Toxic waste which may be chemical in the form of a solid, liquid or gaseous state must be professionally stored or disposed of. Eg. Provision of hazardous waste disposal like fly ash, STP/ETP, incinerator, pyrolysis plant, etc.
v. Approvals & Licenses: Licenses to operate certain machines. Eg. Boiler license, Fire & Safety

License, License for passenger lift etc.

c) Economic-related factors to be considered:

i. Potential Profitability: The actual or potential profitability of the asset based on comparison of operating costs with earnings or potential earnings to be considered to estimate economic obsolescence.

ii. Macro Economics Factors: The demand for the product manufactured by the plant with regard to both macro- and micro-economic factors could impact on demand.

iii. Highest & Best Use: The potential for the asset to be put to a more valuable use than the current use.

IDENTIFICATION OF ASSETS TO BE VALUED

To comply with the requirement to identify the assets to be valued, consideration must be given to the degree to which the asset is attached to, or integrated with, other assets. For example,

- Assets may be permanently attached to the land and could not be removed without substantial demolition of either the asset or any surrounding structure or building, Eg. Boiler, Blast Furnace, Kiln etc. Boiler can not be removed without demolition of its structure or buildings so the buildings & structures of boiler can be considered as a part of plant and equipment.

- An individual machine may be part of an integrated production line where its functionality is dependent upon other assets. Eg. Textile spinning Mill, Integrated Steel Plant, Bottling Plant etc. An individual machine out of the continuous processing line may not have the separate value so such machine can be considered along with the entire line only.

- An asset may be considered to be classified as a component of the real property (eg, a Heating, Ventilation and Air Conditioning System (HVAC)). Eg. Hotel premises, Cold storage, Textile Industries, Pharma Industry etc. The plant and equipment like HVAC, Electrical Installation, Lift, Elevators can be considered along with the valuation of buildings.

In such cases, it will be necessary to clearly define what is to be included or excluded as a plant and equipment valuer.

Plant and equipment usually included in valuations of the real property interest:

Plant and equipment connected with the supply or provision of services to a building are often integrated within the building and, once installed, are not separable from it. These items will normally form part of the real property interest. This will include:

- Items associated with the provision of services (gas, electricity, water, drainage, fire protection and security) to the property.
- Equipment for space heating, hot water and air conditioning, elevators not integral to any process and
- Structures and fixtures that are not an integral part of process equipment, for instance, chimneys, plant housings and railway tracks.

If the plant and equipment valuer asked to carry out valuation of such asset separately then, the scope of work must include a statement that the value of these items would normally be included in the real property interest and may not be separately realizable.

When different valuation assignments are undertaken to carry out valuations of the real property interest and plant and equipment assets at the same location, care is necessary to avoid either omissions or double counting.

ADDITIONAL ASSUMPTIONS

The scope of work should also include the additional assumption to describe the situation and circumstances in which the plant and equipment to be valued.

Examples of assumptions that may be appropriate in different circumstances for the plant and equipment include ;

Assumption	Situation	Circumstances
1	Whole, In Place*	Operating Business
2	Whole, In Place*	Business is not yet in production
3	Whole, In Place*	Business is closed
4	Whole, In Place*	Forced Sale
5	An individual items for removal from their current location	

* *Valuation based in whole and not part or fraction of plant and equipment. The assets are not subject to removal from it place.*

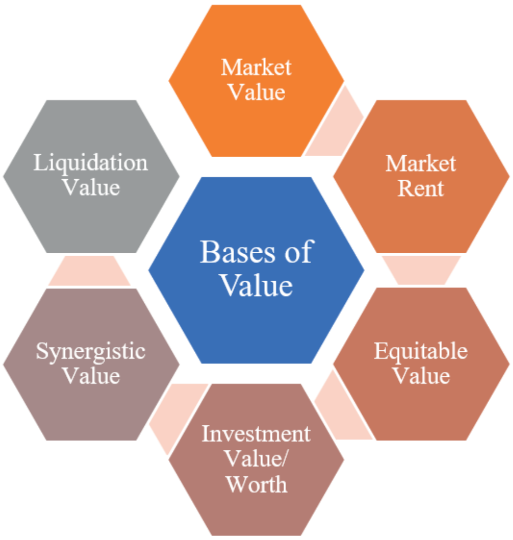
Based on the situation, the valuer may require to report value considering more than one assumption. Eg. The valuer may asked to value in two scenario like business as an operational and business as a closed. The valuer has to appropriately incorporate the same at the time of finalizing the scope of work.

PURPOSES OF VALUATION

Valuations of plant and equipment are often required for different purposes;

BASES OF VALUE

As per the IVS 104 Bases of Value,



A valuer must select the appropriate basis(es) of value when valuing plant and equipment.

PREMISE OF VALUE

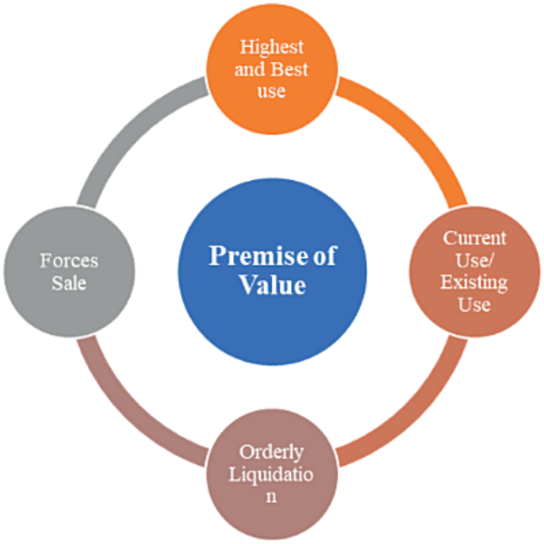
The use of appropriate Bases of Value and associated premise of value is crucial in the valuation of plant and equipment reason being the value is different for the same plant and equipment for different bases of value and premise of value.

For example of forced liquidation condition where the plant and equipment have to be removed from a property in a timeframe because the lease of the property is being terminated.

To advise on the likely realizable value of plant and equipment, it is necessary to consider the different alternative to sale from the current location such as the practicality and cost of removing the items for shifting to another location within a timeframe and any reduction in value due to moving the item from its working condition.

For example in any chemical plant where the most of plant and equipment are fabricated and assembled at the site only and when it will be dismantled then a majority of the plant and equipment cannot be assembled at different locations so it will impact on realization of the value of such plant and equipment in compared to its current working condition.

As per the IVS 104 Bases of Value, A premise of value or assumed use describes the circumstances of how an asset or liability is used. Some common premises of value are:



VALUATION APPROACHES AND METHODS

The three principal valuation approaches described in the IVS may all be applied to the valuation of plant and equipment assets depending on the nature of the assets, the information available, and the facts and circumstances surrounding the valuation.

Market Approach: It is commonly used when sufficient data of recent sales of similar assets are available.

The sales comparison method under the Market approach is used when a well-established secondhand market exists and Sale instances or quotes of similar or comparable assets are available. Aircraft, Helicopters, Ships, Vessels, Motor vehicles, certain types of construction equipment, etc. are examples of Market Approach.

The quoted price of an identical Asset from an active market is considered for the measurement purpose. If a quoted price of an identical asset is not available then, quoted prices of a similar asset in the active market are used and relevant adjustments are carried on such derived prices.

EXAMPLE FOR A REPRESENTATION PURPOSE

Subject Asset	Crude oil tanker was purchased from Hyundai Heavy Industries Co. Ltd. From Korea in Year 2003. Technical Specification: Gross Tonnage: 61978 Dead Weight Tonnage (DWT): 113913 Engine: 1 x 6S60MC
Comparable Asset	Price adopted from global market transactions with similar specifications and Manufacturer: The crude oil tanker is available for sale in the global market with similar specifications and the same year of build. Technical Specification: Gross Tonnage: 63661 DWT: 114761 Engine: 1 x 6S60MC, Asking Price is US $ 15,500,000.
Market Value	Market Value is estimated as US $ 13,085,000 post adjustment made on account of negotiation, DWT and year of build.

However, many types of plant and equipment are specialized and where direct sales evidence for such items will not be available; in such circumstances it may be appropriate to adopt either the income approach or the cost approach to the valuation.

Income Approach: It can be used for valuation of Plant and equipment;

- where specific cash flows can be identified for the asset or a group of assets, Eg, where a group of assets forming a process plant is operating to produce a marketable product. Like Oxygen Plant, Coke Oven Plant, Hot Strip Mill, Plate Mill etc. are the examples of group of assets wherein the group of assets are easily identified and having a separate marketable products.

The valuation must consider the cash flows expected to be generated over the life of the asset(s) as well as the value of the asset at the end of its life. However, some of the cash flows may be attributable to intangible assets and difficult to separate from the cash flow contribution of the plant and equipment. To ensure that elements of value relating to intangible assets, goodwill and other contributory assets is excluded.

Due to the limitation of availability of separate cashflow of an individual asset, the use of income approach is not normally practical for many individual items of plant or equipment; however, it can be utilised in assessing the existence and quantum of economic obsolescence for an asset or asset group.

Cost Approach: Depreciated replacement cost method under cost approach is commonly adopted for plant and equipment, particularly in the case of individual assets that are specialized or special-use facilities when available market data is poor or non-existent for valuation by market approach.

The Depreciated Replacement Cost is derived from the Current Reproduction / Replacement Cost after deduction of depreciation.

Estimation of the replacement cost: The replacement cost is the cost of obtaining an alternative asset of equivalent utility; this can either be a modern equivalent providing the same functionality or the cost of reproducing an exact replica of the subject asset.

The replacement cost of the assets either by obtaining the budgetary quote from the supplier/manufacturer or by applying price escalation indices to the original cost of plant & machinery or Capacity Benchmarking.

a) **Price from Supplier/Manufacturer:** Current basic price of the asset can be obtained from manufacturer/vendor by taking budgetary quotations. All other applicable costs such as non-recoverable taxes & duties, transportation, loading/unloading, insurance, erection and commissioning, foundation, etc. which are essential to put the asset into a commercial operation state, as applicable added to the basic price of the asset.

Example for a representation purpose:

Subject Asset	6-High Single Stand Reversing type Cold Rolling Mill was purchased from Hitachi in the year of 1987. Technical Specification: Width of Strip: 1000 mm Input Thickness: 1.8 mm to 3.5mm Output Thickness: 0.12 to 1.0 mm Maximum Speed: 1000 mpm Coil Weight: 20 tons

Subject Asset	Quotation invited from similar manufacturer of 6-High Cold Rolling Mill Manufacturer : CMI-FPE Price for Design, Manufacture and Supply of One (1) No. 6-High Single Stand Reversing type Cold Rolling suitable for 1000 mm wide strip x 1000 mpm max. speed Ex-work's Price : Rs. 48.20 Crores
Replacement Cost	Replacement cost is estimated as INR 57 Crores post adjustment made on account of Transportation, Erection & Commissioning, Technical Know How, Foundation, Consultancy fees, Technological Obsolescence etc.

a) Price Escalation Indices: The current replacement cost can be worked by applying appropriate price escalation indices published by the appropriate agencies to original cost / historical cost of plant & machinery. However, prior to using such historical cost information, the valuer should consider the following:

Timing and cost of the historical expenditures: Care must to taken while consider the historical date of purchase. It is possibility that the entity's cost and date may not be historical in nature due to prior purchase accounting or the purchase of used plant and equipment assets.

The basis of value: Care must be taken while consider the historical cost as it is possibility that the assets may produce in house and not included the profit margin.

Specific cost included: A valuer must consider all significant costs that have been included and whether those costs contribute to the value of the asset and for some bases of value, some amount of profit margin on costs incurred may be appropriate.

Preoperative expenses like administrative & general overheads, preliminary site survey, employee benefits, R&D cost, In-house development, interest during construction, profit on self fabricated equipment using in house workshop etc. may be an examples of specific cost.

Non-market components: Any costs, discounts or rebates that would not be incurred by, or available to, typical market participants should be excluded. Machinery procured under some government incentives like EPCG, EOU, any subsidy etc. may be an example of non-market components.

<u>Example for a representation purpose:</u>

Subject Asset	One 10 MVA Power Transformer with ratio 66kV/11kV was purchased in the year of 2012 and Ex-work's price was Rs. 67,06,758/-. 

Price Escalation Factor	Since, the valuation is doing in the year 2023 hence, the price escalation factor to be find out by using the whole sale price indices published by appropriate government agency. Therefore, considering the appropriate category of price indices, the price escalation factor is derived as 1.11.
Replacement Cost	Hence, the ex-work's price of Transformer under valuation in the year 2022 is estimated as 74,00,000/- Replacement cost is estimated as INR 90 Lacs post adjustment made on account of Transportation, Erection & Commissioning, Foundation etc.

c) Cost to capacity benchmarking: Under the cost-to-capacity method, the replacement cost of an asset with an actual or required capacity can be determined by reference to the cost of a similar asset with a different capacity.

This method may only be used as a check method unless there is an existence of an exact comparison plant of the same designed capacity that resides within the same geographical area.

It is noted that the relationship between cost and capacity is often not linear, so some form of exponential adjustment may also be required.

The following equation is used to Compute the Ex-works/Basic cost by C to C method:

$$\frac{Cb}{Ca} = \left(\frac{Sb}{Sa}\right) ^\wedge N$$

Cb = Approximate cost of equipment having Size Sb

Ca = Known cost of equipment having Size Sa

$\frac{Sa}{Sa}$ is the ratio known as the Size Factor

"N" is the exponent, and an analysis shows that the size factor's exponent is vary from 0.6 to 0.9. However,

- If N<1, there is an economy of scale means higher size has cost advantage
- If N>1, there are diseconomies of scale means higher size is more expensive
- If N=1, linear relationship between two size means no effect from size

Example to estimate the size factor;

Given Information

A quotation received from Sugar Mill manufacturer having different capacities and price details are as under:

S.No.	Capacity (in TCD)	Ex-works Price (In Crores)
A	1250	32
B	1500	37
C	2500	55

Objective

Based on above details, we can compute ex-works price for other unknown capacities 800, 1000, 1300, 1800, 2200 TCD.

Estimation of Exponent

Average Exponential factor has been derived as under:

	Capacity	Ex-works Price (In Crore)	Equation	Exponent Factor
A	1250	32	N= LOG((Ca/Cb))/ LOG((Sa/Sb))	0.8
B	1500	37	N=LOG((Cb/Cc))/ LOG ((Sb/Sc))	0.78
C	2500	55	N=LOG((Cc/Ca))/ LOG ((Sc/Sa))	0.78

Hence, average derived exponent factor for sugar mill is 0.78 and same is to be used to Compute the ex-works price for other capacities.

Estimation of Ex-works Price of Unknown capacities

Unknown Capacity (In TCD)	Ex-works price Sa, Ca	Ex-works price Sb, Cb	Ex-works price Sc, Cc
Cu			(In Crores)
800	22.59	22.66	22.61
1000	26.89	26.97	26.91
1300	32.99	33.09	33.03
1800	42.53	42.65	42.57
2200	49.73	49.88	49.78

We can see here is that there is not significant variation in cost estimation of unknown capacities while comparing with different knows size factor which represents the fairness of cost of known capacities.

Financing Arrangements: Generally, the value of an asset is independent of how it is financed. However, in some circumstances the way items of plant and equipment are financed, and the stability of that financing may need to be considered in valuation such as Leasing the assets or financing the assets.

In such cases and depending upon the purpose of valuation, it is appropriate to identify the assets and to report their values separately from the other assets.

E.g. The value of operating lease assets (right to use assets) identify and report their value separately.

Hence, prior to undertaking a valuation, the valuer should establish (in conjunction with Client and/or advisors) whether assets are subject to operating lease, finance lease or loan, or other secured lending. Accordingly, the separate value to be concluded in the valuation report.

Ben Elder

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GLOBAL HEAD OF VALUATION
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Ben Elder is the Global Director of Valuation at RICS and a Chartered Surveyor with a track record of creating high-level strategy to drive improved markets in the real estate sector. First class knowledge of Higher Education e-learning and awarding bodies, quality assurance processes and committee structures; and the ability to skillfully negotiate bureaucracies and government departments.

INTERNATIONAL STANDARDS KEY TO UNLOCKING THE VALUE OF ESG?

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In trying to understand ESG in real estate and the challenges that face us in delivering a sustainable real estate product, it is critical that we understand the context and delivery mechanisms within which the product is placed. By doing this we can focus efforts on the key change elements more effectively.

To this end it is important to recognise that the delivery of sustainable real estate is not happening in a vacuum and that technology and innovation are happening all around real estate and the pace of change is increasing.
There is no apology that the article's extensively from economic theory. Economics is defined in the Oxford English Dictionary as The branch of knowledge (now regarded as one of the social sciences) that deals with the production, distribution, consumption, and transfer of wealth; the application of this discipline to a particular sphere; (also) the condition of a state, etc., as regards material prosperity; the financial considerations attaching to a particular activity, commodity, etc.

PERFECT MARKET ASSUMPTIONS

Perfect market assumptions include equal access to information by all market participants, completely rational economic actors, and no transaction costs. However,

"PERFECT MARKET" CONDITIONS RARELY HOLD TRUE IN THE REAL WORLD

The conditions may not exist in the real world but we must endeavour to put in place improvements that move towards market efficiency.

We will examine how the development and introduction of International Standards into the marketplace assist in this drive. It is however important to understand the background before examining the detailed issues of the standards to fully understand the implications.

FREE MARKET V REGULATION

Although the perfect market does not exist the politics of many countries in the world has moved to the market being the principal method of allocating scarce resource between competing ends. The imperfections lead to the market not being 'fair' or 'nice'. It is a ruthless vehicle that allocates resources to competing needs on the information that is available to market at the time. The market can be a beast, as evidenced in 2008 when the global financial market came close to collapse. Following the global financial crisis every government have been trying to establish the correct balance between allowing the free market to allocate the scarce resources and imposing regulations to control the excesses of the market but without becoming too bureaucratic to stifle entrepreneurship and innovation.

A key part of regulating the excesses of the market is improving the transparency of the information in the market and key to this are International Standards.

ECONOMIC BENEFITS OF STANDARDISATION:

Most industries in market economies are continuously striving to reduce costs or produce the same output from fewer resources. Standardisation of product is a major contributor to this as it facilitates economies of scale and critically allows for the division of labor by codifying what each element of a job entails and the skills required to undertake that element of the process.

AS DESOTO SAID IN THE MYSTERY OF CAPITAL:

"If standard descriptions of assets were not readily available, anyone who wanted to buy, rent or give credit against an asset would have to expend enormous resources comparing and evaluating it against other assets- which would also lack standard descriptions." (Fungiability Mystery of Capital 2001)

INTERNATIONAL STANDARDS

Let us now focus on International standards and the benefits that they could have in securing sustainable real estate. What is an International Standard? Referring back to the natural fragmentation of the real estate industry because of its economic characteristics it is not surprising that 'Standard Setters' have appeared in many different markets – usually Nationally based as governments adopt standards developed by Professionals in their respective countries. As the markets expand across borders we have a situation where professionals are working to more than one standard and more than one standard means no standard. From this foundation standards-setting organisations throughout the world are coming together to develop international standards.

Let us look at some of the established International Standards associated with Real Estate.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

International Financial Reporting Standards (IFRS) are set by the International Accounting Standards Board (IASB) which is a not-for-profit public interest organisation with oversight by a Monitoring Board of public authorities. The mission of IASB is to develop IFRS Standards that bring transparency, accountability, and efficiency to the financial markets around the world. The work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. IFRS governance and due process are designed to keep the standards independent from special interests while ensuring accountability to stakeholders around the world.

INTERNATIONAL VALUATION STANDARDS (IVS)

International Valuation Standards are set by the International Valuation Standards Council (IVSC). IVSC is an independent not-for-profit organisation that produces and sets standards for the valuation of assets across the world in the public interest. The organisations mission is to establish and maintain effective, high-quality international valuation and professional standards, and to contribute to the development of the global valuation profession, thereby serving the public interest.

INTERNATIONAL ETHICS STANDARDS FOR THE REAL ESTATE AND RELATED PROFESSIONS (IES)

International Ethics Standards (IES) for real estate and related professions are set by the International Ethics Standards Coalition (IESC). IESC is a coalition of not-for-profit Professional Bodies that have come together to agree with a single set of Ethical Standards for real estate and related professions. The objective of IESC is to create a universal set of ethical principles for real estate and related professions that will provide assurance, consistency, and confidence to all users of professional services.

INTERNATIONAL PROPERTY MEASUREMENT STANDARDS:

International Property Measurement Standards(IPMS) are set by the International Property Measurement Consortium (IPMSC). This is a coalition of not-for-profit professional bodies who have come together to agree on a single set of measurement standards for the measurement of real estate by use class. This is the first time a single set of standards for the measurement of real estate has been introduced on an international scale. IPMSC is working to develop and embed a single property measurement standard. IPMS will ensure that property assets are measured in a consistent way, creating a more transparent marketplace, greater public trust, stronger investor confidence, and increased market stability.

INTERNATIONAL CONSTRUCTION MANAGEMENT STANDARDS (ICMS)

International Construction Management Standards are being developed and set by The International Construction Management Standards Coalition (ICMSC). ICMSC is a coalition of not-for-profit Professional Bodies who are working together to develop and implement international standards for benchmarking, measuring, and reporting construction project costs. At present, the way construction projects are reported and costs vary significantly between markets. These differences make it difficult to compare projects around the world, increasing investment risk and impeding transparency. The ICMSC seeks to develop and implement a common standard for construction management which will enhance transparency, investor confidence, and public trust in the sector.

CONCLUSION:

All the International Standards discussed above have the same objectives to act in the public interest by increasing transparency, fostering trust, growth, and long-term financial stability in the global economy. It is important to envisage the totality of the individual standards and how together they create a vastly improved transparency to the market which aids market efficiency.

The provision of more accurate information to the marketplace through international standards allows better-informed decisions to be made by the market. This will include more transparent reporting of how society and investors view the environmental characteristics of buildings reflecting them in the market price and is a key objective of the V20 for G20 initiative.

CA (Dr.) Gopal krishna Raju

DIRECTOR (RV)
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CA Dr. Gopal Krishna Raju, a Chartered Accountant, Insolvency Professional, Registered Valuer & Arbitrator with over 26 years of experience. He is also a visiting faculty at the Indian Institute of Management & Indian Institute of Corporate Affairs. Also Known as the "Rajnikant of Valuation" among peers.

CA Dr. Raju is associated with AaRVF as a Director (Registered Valuer).

ANGEL TAX - IT RULES FOR VALUING INVESTMENTS IN STARTUPS

CBDT NOTIFIES CHANGES TO RULE 11UA(2) IN RESPECT OF ANGEL TAX

Finance Act, 2023, brought in an amendment to bring the consideration received from non-residents for the issue of shares by an unlisted company within the ambit of section 56(2)(viib) of the Income-tax Act, 1961, which provides that if such consideration for issue of shares exceeds the Fair Market Value(FMV) of the shares, it shall be chargeable to income-tax to the issuer company under the head 'Income from other sources'.

Draft Valuation Rules: Keeping in line with the commitment of the Government to involve stakeholders in the drafting of the law, suggestions and feedback were invited from stakeholders and the general public on Draft Rule 11UA(2) for the valuation of methods for calculating the Fair Market Value {vide Press Release dated 19th May 2023}

Considering the suggestions received in this regard and detailed interactions held with stakeholders, Rule 11UA for the valuation of shares for the purposes of section 56(2)(viib) of the Act has been modified vide notification no. 81/2023 dated 25th September 2023.

The key highlights of the changes in Rule 11UA(2) are:

a) In addition to the two methods for the valuation of shares, namely, Discounted Cash Flow (DCF) and Net Asset Value (NAV) method, available to residents under Rule 11UA, five more valuation methods have been made available for non-resident investors, namely, Comparable Company Multiple Method (CCM), Probability Weighted Expected Return Method (PWERM), Option Pricing Method (OPM), Milestone Analysis Method (MAM), Replacement Cost Method (RCM).

b) Where any consideration is received for issue of shares from any non-resident entity notified by the Central Govt., the price of the equity shares corresponding to such consideration may be taken as the FMV of the equity shares for resident and non-resident investors, subject to the following:

   (i) To the extent the consideration from such FMV does not exceed the aggregate consideration that is received from the notified entity, and

   (ii) The consideration has been received by the company from the notified entity within a period of ninety days before or after the date of issue of shares which are the subject matter of valuation.

c) **Benchmarking price:** On similar lines, price matching for resident and non-resident investors would be available with reference to investment by Venture Capital Funds or Specified Funds.

d) **CCPS Valuation methods in sync with Equity Valuation methods:** Valuation methods for calculating the FMV of Compulsorily Convertible Preference Shares(CCPS) have also been provided.

e) **Safe harbour limit introduced:** Further, the price at which shares are issued is higher than the value determined per Rule 11UA, by not more than 10%, the issue price will be held as the FMV. This would take into account the foreign fluctuations, bidding processes and variations in other economic indicators, etc. which may affect the valuation of the unquoted shares.

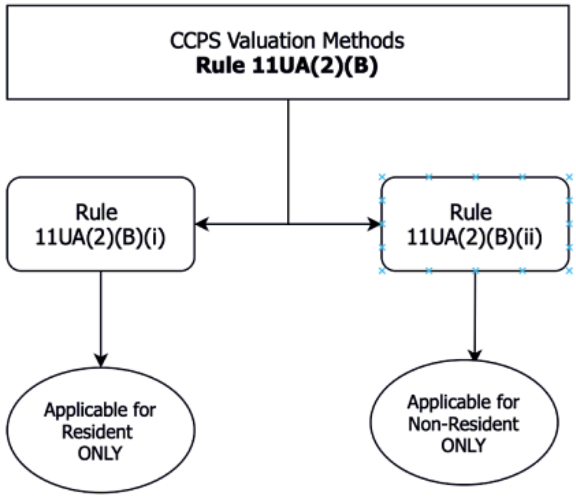
f) **Merchant Banker report to not be older than 90 days:** It has also been proposed that the valuation report by the Merchant Banker would be acceptable if it is of a date not more than 90 days prior to the date of issue of shares which are the subject matter of valuation.

g) **Broad Parity:** The notified Rule provides for expansion of the valuation methodologies to include globally accepted methodology and provide a broad parity to resident and non-resident investors.

H) **At the option of the assessee:** The new rules have given multiple options to the assessee, scope for valuers to explore, and comfort for investors to choose. In NINE places the words at the option of the assessee have been used for the first time in the history of the Income Tax Act.

VALUATION METHODS FOR NON-RESIDENTS

Mathematical Models / Scenario Analysis: Unlike derivatives and debt markets, mathematical option pricing models have not seen wide usage in the Private Capital marketplace. Such models are rarely used by Market Participants to determine the transaction price for an Investment. However, for certain early-stage Investments, option pricing models (OPM) or probability-weighted expected return models (PWERM) are deemed by some to provide a reliable indication of Fair Value where a limited number of discrete outcomes can be expected.



To the extent a Market Participant would determine the value of early-stage Enterprises using mathematical models or a scenario analysis, it would be appropriate to consider such Valuation Techniques in determining Fair Value. For example, Enterprise Value could be estimated by assigning probabilities to value increasing (future up round), value remaining the same (flat round), value decreasing (down round), and value eroding (zero return), taking into account anticipated dilution, if any, and then discounting the future funding event to the Measurement Date using an appropriate weighted average cost of capital. The Enterprise Value could then be allocated, again using estimated probabilities, to individual securities using a liquidation or exit approach meaningful for each scenario. It should be noted that selecting inputs for such techniques would be highly subjective.

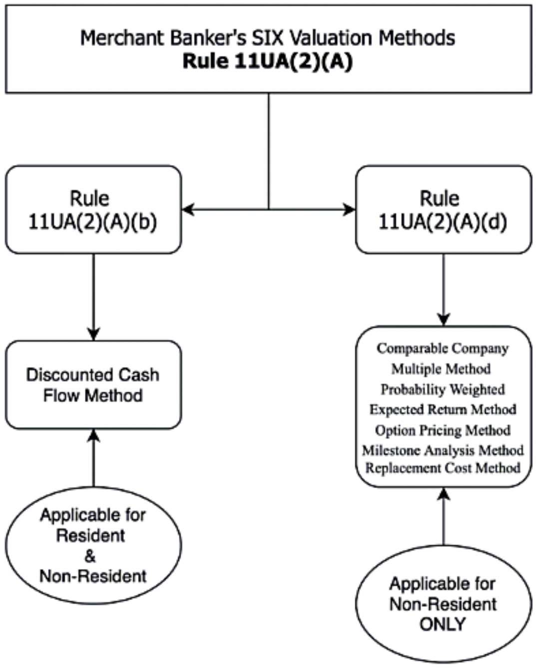
Valuing seed, start-up, and early-stage (pre-revenue/pre-earnings) Investments: Many seed, start-up, or early-stage Investments are valued using a milestone approach, or scenario analysis because there are no current and no short-term future earnings or positive cash flows. For these Enterprises, typically, it is difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts.

Consequently, the most appropriate approach to measure Fair Value may be a Valuation Technique that is based on market data and Market Participant assumptions as to the potential outcomes. Calibrating such scenarios or milestones may result in a Fair Value equal to the transaction value for a limited period of time. Often qualitative milestones provide a directional indication of the movement of Fair Value.

The following valuation techniques may be helpful in estimating Fair Value:

- scenario-based methods, a forward-looking method that considers one or more possible future scenarios. These methods include simplified scenario analysis and relative value scenario analysis, which tie to the fully diluted ("post-money") equity value, as well as full scenario analysis, also known as the probability-weighted expected return method (PWERM);
- the option pricing method (OPM), a forward-looking method that considers the current equity value and then allocates that value to the various classes of equity considering a continuous distribution of outcomes, rather than focusing on distinct future scenarios;

Replacement Cost Method: Replacement cost valuation is a method of estimating the value of an asset by determining how much it would cost to acquire or reproduce it in the current market. This approach is often used for tangible assets with no active or liquid market, such as real estate, machinery, or inventory. However, using replacement cost valuation in dynamic and uncertain markets can pose several challenges and risks for business owners, investors, and appraisers.



CONCLUSION

The inclusion of a tolerance threshold for minor valuation discrepancies further enhances efficiency and fairness in tax assessments, ultimately benefiting both taxpayers and the government. These changes offer taxpayers a broader range of valuation methods to choose from, including internationally recognized approaches, thereby attracting foreign investments and fostering clarity.

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LINKAGES BETWEEN URBANIZATION, SUSTAINABLE DEVELOPMENT AND VALUATION PRACTICES IN RURAL AREAS

Throughout history, soil and climate conditions have shaped migration patterns and influenced the spread of human capital and technology. Such settlement patterns can have a lasting impact on land use today. The rise of development in Indonesia's major cities can spur economic growth. As a result, these cities will become a magnet for people to come in search of work and housing. However, this urbanization causes various problems because there is no specific control.

The rise of development in big cities in Indonesia can spur economic growth. As a result, these cities will become a magnet for people to come looking for work and housing. However, this urbanization causes various problems because it needs more control. This is the problem that Indonesia is currently facing, namely a high concentration of population growth, even worse, the urbanization itself is at a slower pace than industrialization's development. This problem eventually led to the phenomenon of over-urbanization.

Urbanization is a severe problem. The uneven distribution of population between villages and cities will cause various issues in social life. What encourages people to urbanize is to be able to get a better life. In addition, the attractiveness of the destination area also determines the community to urbanize. Urbanites who only have skills in farming will find it challenging to find jobs in urban areas because employment in the city requires skills in their fields. In addition, there are also fewer and fewer jobs, so there is fierce competition in finding work. People who do not have skills can only work as manual laborers, housemaids, gardeners, and other jobs that rely more on muscles than brains. Meanwhile, people who do not have jobs generally only become homeless, unemployed, and homeless.

This excessive urbanization has caused various problems in Indonesia. Not only does it cause problems in the destinated cities, but it also causes problems in the villages that are left behind. Issues in cities include increased a slum area and urban crime. Problems will also arise in the village because the citizen are moved to the cities then the villages have lost the human resources for the development agenda.

The Sustainable Development Goals (SDGs) agreed upon before the UNFCCC Paris Agreement 2015, and the UN's 2030 agenda is for sustainable development. The SDG's will focus on 17 goals, which include eliminating poverty (no poverty), reducing inequality, and creating sustainable cities and communities.

The problem between rural development, urbanization, and rising residential property prices is a complex phenomenon that is difficult to solve with a single solution. However, the government can devise several solutions to overcome these problems. This issue is becoming increasingly important as more people move to cities and leave villages and as property prices in urban areas rise. The government should strengthen rural development programs that aim to improve the quality of infrastructure and accessibility, enhance the quality of life in villages, and reduce urbanization. Second, the government should also pay attention to sustainable urban development policies by considering the factors that affect residential property prices in the city by expanding the availability of land for housing, expanding the accessibility of the city, and implementing fair pricing policies for property developers. Finally, the government can build cooperation between local governments and the private sector to promote sustainable urban and rural development.

Adequate infrastructure is a critical factor in developing villages and attracting investment. Infrastructure development can cover various aspects, such as roads, electricity, clean water, and sanitation. Infrastructure development can open access to villages and facilitate community mobility. In addition, the government can also build sustainable city infrastructure by improving accessibility and public transportation. Thus, people cannot migrate to the city and can remain in the village.

Infrastructure development in villages is a crucial factor in reducing urbanization. Improving village infrastructure, such as roads, bridges, clean water, and sanitation, will attract people to stay in the village. Building businesses there will reduce pressure on cities, stabilizing residential property prices. In addition, the government can also create sustainable city infrastructure by improving accessibility and public transportation, thereby reducing dependence on private vehicles and easing pressure on property prices in the city center.

For example, a study (Bappenas, 2018) found that strengthening village development programs oriented towards local economic development can help reduce urbanization flows. The program also encourages improvements in infrastructure quality and accessibility, thereby improving the quality of life of village people. In addition, the government can increase the availability of land for housing by accelerating the licensing process and optimizing the use of existing land. It will help reduce property prices in the city and provide opportunities for people who want to buy houses in the town.

Limited market data in rural property valuation is an issue that often confronts valuers in rural environments. Rural areas often have less market data available than cities, which can result in less accurate property valuations. One of the main impacts of limited market data is the need to determine a property's actual value. Market data, such as previous property transactions, sales prices, and market trends, are crucial in assessing the value of a property. In rural areas, the frequency of these transactions is often much lower compared to urban areas. As a result, it isn't easy to find relevant direct comparisons for the property valuation. It can lead to significant valuation errors and uncertainty in determining the property's sale price or rental value. In addition, limited market data also affects landowners who wish to sell or rent out their property. They may need help to determine a fair price or to get a reasonable price. Sometimes, they may sell or rent their property at an undervalued price due to a lack of relevant market data. It makes the appraiser's risk even higher. Considering the link between controlling urbanization to achieve the Sustainable Development Goals (SDGs) and reducing the risk of appraisers practicing appraisal in rural areas is essential.

Further efforts may need in collecting market data in rural areas. The government and relevant agencies can play a role in managing and sharing market information regularly. In addition, property valuation professionals also need to develop more adaptive valuation methods to overcome market data limitations in rural areas. In this case, the valuation process may require more creativity and customization. In conclusion, more market data must be worth noting for rural property valuation. It can result in valuation errors and uncertainty in investment decisions. Further efforts in data collection and the development of adaptive valuation methods can help overcome this problem and improve the accuracy of rural property valuation.

In practice, sustainable development can moderate urbanization for more controlled and sustainable growth. For example, local governments can plan for wise land use, promote public transportation, encourage the use of renewable energy, and establish urban green spaces. These can contribute to more sustainable and less environmentally damaging urban development. Sustainable city development can also impact rural property valuations through improved infrastructure and accessibility. Better access to metropolitan areas through quality roads and efficient public transportation can make rural properties more attractive to those who want to live a rural lifestyle while still having access to urban amenities. In addition, successful sustainable development in cities can minimize damaging environmental impacts, such as air and water pollution. However, it can also increase people's concern for the rural environment.

As a result, properties that have preserved natural features, such as lakes, rivers, forests, or land suitable for renewable energy, can have increased value due to higher demand. Then, sustainable development in cities can create greater demand for properties in rural areas that meet sustainable criteria. Examples include land that is for organic farming, forest land, and land for ecotourism. In other words, sustainable development, or SGDs, will ultimately help the appraiser's performance. From this, there is a strong link between controlling the flow of urbanization to eradicate poverty and reduce inequality and the sustainable arrangement of cities and communities, which are part of the Sustainable Development goals and appraisal practices, which in turn can reduce the standard deviation between appraisers because there is an increase in the accuracy of market data and reduce the appraisal profession. The goal of this interrelationship is, of course, improved public welfare and an increased role for appraisers in the economy. It makes appraisal practice even more important in sustaining economic growth.

Molefi Kubuzie

BOARD MEMBER
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Molefi Kubuzie currently serves as a board member for the Tangible Asset Board of the IVSC. He served on numerous boards and held various senior executive positions in the Property, Infrastructure, and Valuation Profession. He is the former National President of the South African Council for the Property Valuers Profession and a former member of the Advisory Forum Working Group of the International Valuation Standard Council (IVSC). He is the former Deputy Managing Director for NAFCOC Properties, and Former Executive General Manager for the City of Johannesburg Asset and Property Management. He is a Former Chief Director in Portfolio Analysis and Director of Property Valuation for the National Department of Public Works. He served on the following boards Gauteng, Limpopo, and Ekangala Valuation Appeal Boards and Property Sector Charter Council.

G20 IVS DEPARTURE PRINCIPLE

When is a valuation deemed to be compliant or non-compliant with the departure principle of International Valuation Standards?

1. International Valuation Standard Council (ivsc)

It is a non-profit voluntary membership-based organization that sets International Valuation Standards to advance the quality of the valuation profession. Its membership comprises more than 200 members operating in 137 countries academic institutions, Voluntary Professional Organizations, Valuation Service Bodies, Corporates, Institutional members, regulators, practicing professionals, etc.

"Its primary objective is to build confidence and public trust in valuation by producing standards and securing their universal adoption and implementation for the valuation of assets across the world"

Valuation practices around the world are diversified and complex. The complexity is also triggered by a myriad of different legislative prescripts and or laws of each member country. This therefore brings to the fore the issue of how member countries ensure compliance with the International Valuation Standard.

The International Valuation Standard is principle-based and applies to all asset classes. There are three distinct technical Asset Boards, namely the Tangible Asset Board, the Intangible Asset Board, and the Business Valuation Board develops and sets asset-specific standards.

Given the diversity of laws in different world jurisdictions, how does the International Valuation Standard guarantee and provide for full compliance of valuation reports from members and countries with diversified legal prescripts and or laws?

"Its primary objective is to build confidence and public trust in valuation by producing standards and securing their universal adoption and implementation for the valuation of assets across the world"

2. International Valuation Standard (IVS)

The International Valuation Standard comprises the General Framework and Asset Standards. The General Framework is mandatory to all asset class standards, be they tangible, intangible, or business valuation whereas the asset-specific standard applies to a specific asset class namely tangible, intangible asset, or business valuations. The asset standards are more technical and specific to a particular asset class.

3. IVSC recognises the following fundamental principles

a) The sanctity and independence of legislators and regulators in member countries in setting and developing their own applicable laws within their own jurisdictions

b) Acknowledging the sovereignty and legislative authority of various governments both at the local, provincial/state, or national levels of countries.

c) Sovereign equality of States

d) Encouraging compliance with local laws, regulations, and or authoritative requirements of independent regulators and or state organs.

4. Compliance with IVS

All valuations that are performed and referred to as being compliant with IVS must fully comply with all the provisions of the International Valuation Standards, that is compliance with both the general framework and the applicable asset standard for that valuation. The valuer is expected to comply fully with both the general framework and the applicable asset class standard.

5. Can a valuer deviate from the International Valuation Standard but still claim compliance with IVS?

Yes, the IVS does permit a deviation from IVS in cases where the departure principle is applicable.

5.1 Operative Key conditions for the Departure Principle in line with paragraphs 60.1, 60.2 60.3, and 60.4 of the IVS

60.1 "Departure is a circumstance where specific legislative, regulatory, or other authoritative requirements must be followed that differ from some of the requirements within IVS. Departures are mandatory in that a valuer must comply with legislative, regulatory, and other authoritative requirements appropriate to the purpose and jurisdiction of the valuation to follow IVS. A valuer may still state that the valuation was performed in accordance with IVS when there are departures in these circumstances. To depart

60.2 The requirement to depart from IVS pursuant to legislative, regulatory, or other authoritative requirements takes precedence over all other IVS requirements.

60.3 As required by IVS 101 Scope of Work, paragraph 20.3 (n) and IVS 103Reporting para 10.2 the nature of any departures must be identified (for example identifying that the valuation was performed in accordance with IVS and local tax regulations. If there are any departures that significantly affect the nature of procedures performed, inputs and assumptions used, and or valuation conclusion (s), a valuer must also disclose the specific legislative, regulatory, or other authoritative requirements and the significant ways in which they differ from the requirements of IVS (e.g. identifying that the relevant jurisdiction requires the use of only a market approach in a circumstance where IVS would indicate that the income approach should be used.

60.4 Departure deviations from IVS that are not the result of legislative, regulatory, or other authoritative requirements are not permitted in valuations performed in accordance with IVS

5.2 Is departure permissible in IVS

Yes, departure is permissible in IVS, provided there is full compliance with paragraphs 60.1 to 60.4.

Only permissible in instances where valuers must comply with applicable local laws, regulations, and other authoritative requirements.

Compulsory disclosure of the relevant and mandatory laws, regulations, or other authoritative requirements is a must. Therefore, a valuer is obliged to prove compliance to some law, regulation/s, or other authoritative requirements as a basis necessitating deviation from the provision and compliance to IVS. Otherwise, the valuation report cannot be referred to us complying with IVS.

Departure from standard to comply with legislative and regulatory requirements that conflict with the standards are allowed only if they fully comply with section 60 of IVS"

A valuer can only depart from the International Valuation Standards (IVS) as described in section 60 of the General Standards Framework, which is mandatory due to legislative requirements or other authoritative requirements but still claim compliance to IVS.

Non-compliance to the provision of section 60 of the IVS renders a valuation non-compliant to IVS.

Dr. Sopon Pornchokchai

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Dr. Sopon gained a PhD in land and housing from AIT and had further property valuation training from LRTI-Lincoln Institute of Land Policy and housing from KU Leuven (Belgium). Currently, he is the President of FIABCI Thai, the Thai Appraisal and Estate Agents Foundation and the Agency for Real Estate Affairs and Director of Thai Real Estate Business School

His research master pieces include the discovery of 1,020 Bangkok slums (1985), computer-assisterd mass appraisal modeling (1990), forecasting of 300,000 unoccupied housing units (1995 and 1998), study for property information centre (2000), roadmap for valuation, Ministry of Finance, Vietnam (2006), Ministry of Finance, Indonesia (2008), World Bank Indonesia (2010), Ministry of Finance, Cambodia (2012), UN World Cities (2015), ASEAN Property Surveys (2017), Global Municipal (2017), and Bangkok Zoo relocation (2019).

SUSTAINABLE SOLUTION FOR SQUATTER SETTLEMENTS BY VALUATION APPROACHES

This study proposes alternative solutions for housing squatters in Kathmandu by the body of knowledge of property valuation. It is proved that a slum house is worth a substantial amount of money if an authority compensates them adequately also with removal costs, they would be willing to move away. The site of a squatter settlement can alternatively be used for other activities such as educational institutions, public parks with urban farming or other real estate developments for cost recovery and for well-planned zoning of the city.

Kathmandu as another metropolis in development possesses a lot of slums and squatter settlements. The number of slum dwellers has been increased substantially in the past years. In this paper, it is an attempt to solve the slum problem sustainable.

1. Income Approach to Value

For the financial analysis, the Income Approach to Value is used. According to Investopia <1> "the income approach is a type of real estate appraisal method that allows investors to estimate the value of a property based on the income the property generates. It's used by taking the net operating income (NOI) of the rent collected and dividing it by the capitalization rate".

The capitalization rate is "used in the world of commercial real estate to indicate the rate of return that is expected to be generated on a real estate investment property. This measure is computed based on the net income that the property is expected to generate and is calculated by dividing net operating income by property asset value and is expressed as a percentage. It is used to estimate the investor's potential return on their investment in the real estate market".

Value = Net Operating Income / Capitalization Rate.

For Example, if a slum housing unit (a room) is rented at a net rent (net operating income – excluding expenses) of 4,000 rupees per month and if the capitalization rate is the government bond of 8.5%.

The value would be
= 4,000 rupee per month x 12 months / 8.5%
= 564,706 rupee.

However, the existence of a slum might be insecure. There is an insured land tenure. For example, it is assumed that a slum would last for a period of 20 years (some might be there for so long time). Hence, the risk per year is 5% (where 100% is for 20 years). In this case, the capitalization rate would be 13.5% (government bond 8.5% plus risk of 5% per annum). The value would be down for

= 4,000 rupee per month x 12 months / 13.5% or = 555,556 rupee.

Likewise, in the case of the value of a housing unit or a development project, it consists of hard costs and soft costs. Hard costs are land and buildings as well as improvements; whereas, soft costs include management fees, interest, taxes, net profit, and the like. Soft costs tend to be some 20-40% depending on the type and size of the project. The rest is for those soft costs.

2. Valuation of a Slum House

In order to make any decision to tackle the problem of slum and squatter settlements in Kathmandu, a valuation of a slum house must be conducted. It is a challenge to value a slum house in Kathmandu. The approach is the Income Approach to Value.

According to our thorough surveys of many slums, we estimate that the potential monthly rent of a slum house is 4,500 rupees per month (Line 4). Actually, a room in a house would be rented for 2,000 – 4,000 rupees. Therefore, 4,500 rupees is estimated to be an ample monthly rent. This would also be considered the net rent with no further expenses on renting the unit. *(Table 1)*

The capitalization rate to convert rent to value is estimated at 8.5% <2> (Line 5) The reliable rate should be the government bond rate. This figure is an average government bond rate. Deposit or lending rates of commercial banks are not used because they are somewhat less reliable and might be distorted in this context. In addition, any lending rate also includes the cost of management and risk premium.

Therefore, the value of a slum house is estimated at 635,294 rupees (Line 6) where the income (a monthly rent, 4,500 rupees multiplied by 12 months and divided by 8.5% It should be noted that this is a value of a perpetual period. No risk of eviction is considered. It is believed that if an authority compensates them at this amount, they would be willing to move away from their current location. Perhaps, they might move back to their homes upcountry. However, the authority must not allow them to settle down in another slum. Otherwise, the problem would be recurring.

A	B	C	D
2	**Table 1: Actual Value of A Slum House**		
3	Item	Figure	Remarks
4	Potential monthly rent (Rupee)	4,500	Estimated
5	Capitalization Rate (Govt Bond)	8.50%	https://bit.ly/3ROUhwm
6	Value of a slum house (Rupee)	635,294	=C4*12/C5
7	With risk of eviction	5%	Possible stay 20 years
8	Adjusted capitalization rate	13.50%	=C5+C7
9	Forced sale value of a slum house (Rupee)	400,000	=C4*12/C8
10	% of forces sale/market value	63%	=C9/C6
11	Monthly Apartment rent in the city (1 room)	15,831	https://bit.ly/3xg9z3Q
12	Value of a small apartment unit (Rupee)	2,234,994	=C11*12/C5
13	% of a slum house value to an apartment	28%	=C6/C12

However, with the risk or threat of eviction, the value could be less than 635,294 rupee to be only 400,000 rupee. It is assumed that a squatter settlement might last for only 20 years; whereas some might be in existence for over 40 years or more. However, currently, the authorities might try a lot to evict them.

Therefore, it is our opinion that the potential life of a slum might be 20 years. As a result, the risk is 5% per annum (100% is for 20 years). Then the capitalization rate would increase to 13.5% (8.5% + 5.0%). This brings the value of a slum house down to 400,000 rupees (4,500 x 12 / 13.5%) or some 63% of the value appraised earlier (Line 10). If the expected life of a slum is estimated to be only 15 years, the value might become 356,044 rupees or 56% of the original value appraised. It is also believed that this amount of 356,044 to 400,000 rupees would still be attractive for slum dwellers to move away from the site.

Currently, the minimum wage in Nepal is 15,000 rupees <3>. This implies that the slum house price of 635,294 rupees is some 42 months of the minimum wage. It would be 24 months of the wage in the case of the price at 356,044 or 27 months of the wage in the case of the price at 400,000 rupees. If a slum dweller earns this amount of money (24 to 42 months of the minimum wage), they may be willing to move away from the site. The authority may add some more money such as some other 100,000 rupees for removal costs.

3. Compensation for the Dwellers

On one hand, dwellers in a squatter settlement illegally occupy land, they should not be compensated for relocation. They have been staying there for free for years. On the other hand, they should be compensated to ease the relocation process. Basically, there are certain costs to move away from their properties, costs for alternative housing, additional costs of traveling, and the like. Hence, compensation is needed. *(Table 2)*

In this case, it is assumed to relocate a squatter settlement of 126 housing units on a piece of land of 104 anna (6.5 ropani). It is located in Jadibutti Suburb beside the Manohara River in Kathmandu. It is estimated there are approximately 126 housing units (a room or two per unit). Since a slum house is valued at 635,294 rupees, the compensation to 126 housing units is 80,086,500 rupees. The estimated land area for this settlement is around 104 anna or 6.5 ropani. Therefore, the land value per anna here is 770,063 rupees.

Subdivided plots adjacent to this settlement are sold at a market value between 6.0 to 6.5 million rupees per anna. This unsubdivided site (raw land) of this settlement still has no subdivision for some 20% for road and other infrastructure. Therefore, it is

Table 2: The value of slum land compared to market value

Item	Option 1	Option 2	Option 3
A slum house value (rupee)	635,294	400,000	356,044
Estimated No. of housing units	126		
Total compensation (rupee)	80,086,500	50,424,833	44,883,648
Estimated Land area (anna)	104		
Land value per anna	770,063	484,854	431,574
Average market land price/anna		5,000,000	
% of slum land value to the market	15%	10%	9%

estimated to be 5 million rupees per anna (6 million / 120%). Therefore, 770,063 rupee is only 15% of the market value. It is a very reasonable value for an authority to acquire for other developments.

The site can alternatively be used for other activities such as educational institutions, public parks, or other real estate developments for cost recovery and for well-planned zoning of the city. As observed, the site is located near the Tribhuvan International Airport and on Arankiko Highway (H03) which is one of the largest highways in Kathmandu, many supporting activities can utilize this site as well.

4. Alternative Use of the Site: A Public Park

This site can become a public park for local uses. There are some similar parks nearby such as the Apple Ground Public Park Narephat which is located some 1.2 kilometers south of the site of the squatter settlement.

It is estimated that if this squatter settlement is converted to be a public park in a residential area with high density, there might be some 800 visitors of all ages to use the park every day. They came for exercise and recreation which would be good for their health. *(Table 3)*

According to the website of expatistan.com, the price of one month of gym membership in a business district in Kathmandu is 1,979 rupees (see the table). However, the facilities of the park might not be as good as a fitness center. Therefore, the income of this park is estimated to be only 40% of the above fee. This amount of money is considered worthwhile for maintaining good health. Therefore, there will be little risk for illness which needs a lot more cost to cure in the future.

This makes the annual income to the park to be 7,599,360 rupees (800 persons per day, 40% of the 1,979 rupees per month by 12 months). This park could generate this income which must be a lot lower than the cost to cure for illness (if people have no exercise). In addition, there might be some value in relaxation and amusement which is not to be calculated here.

Considering the capitalization rate, normally, it should be the government bond of 8.5% per annum. However, a park is not commercial property and could be very perpetual and sustainable; therefore, the capitalization rate is estimated at 4.25% or half of the government bond rate.

Hence, the value of the park proposed is estimated at 178,808,471 rupees (7,599,360 / 4.25%). The size of the park is 104 anna. The value of the site per anna is thus 1,719,312 million. On the one hand, it is a lot lower than subdivided plots which are sold at 6 million rupees per

A	B	C	D
2	**Table 3: Actual Value of A Slum House**		
3	Item	Figure	Remarks
4	No. of visitors to the park per day	800	Estimated
5	Expenses if no park (rupee per month)	1,979	https://bit.ly/3K1u23Y
6	% of the actual income of the park	40%	Estimated
7	Annual income from the park	7,599,360	=C4*C5*30%*12
8	Capitalization Rate (50% of the govt bond)	4.25%	https://bit.ly/3ROUhwm
9	Value of the park	178,808,471	=C7/C8
10	Size of the park (anna)	104	Estimated
11	Alternative land value per anna	1,719,312	=C9/C10

anna. On the other hand, it is a lot higher than the compensation cost at 770,063 rupees per anna. Therefore, developing a public park on this site is an acceptable alternative land use.

It should be noted that there are costs to build a public park and costs for maintenance as well. They are not included in this simplified model. On the contrary, there are also opportunities for earning some money for the park to organize some activities as well. In addition, this park can imply a new public park concept of urban farming.

Urban farming can be a source of "food production in a community park. Actually, urban dwellers become more aware of the environmental impacts of food production and transportation, as well as the origin and security of what they consume, urban agriculture is bound to grow and attract public and political eyes". <4> It brings food production closer and more sustainable.

5. Relocation of the Squatters to the Vicinity

In the case that the government needs to use this piece of land for other public purposes such as recreation, river expansion, and the like, this whole slum has to be relocated. The following is some exploration of the feasibility.

It must be perfect if these slum dwellers could be relocated to an adjacent area so that there are few negative effects to their normal life. Subsequently they would be willing to move away from the existing squatter settlement. The following table shows a preliminary financial analysis of this scheme. *(Table 4)*

It is assumed that a big piece of land of an adjacent land subdivision project is used for relocation. The proposed site is some 26 anna. Normally, the cost of land is 6 million rupees per anna. However, this is a big

A	B	C	D
2	**Table 4: Value of a Slum Relocation Project**		
3	Item	Figure	Remarks
4	Adjacent land area (in anna)	26	Estimated
5	Cost of land per anna (rupee)	5,000,000	Small plots at 6 mil anna
6	Total land cost	130,000,000	=C4*C5
7	Adjacent land area (in sq.f)	8,899	1 anna = 342.25 sq.f
8	Floor Area Ratio	4	Estimated
9	Buildable area	35,594	=C7*C8
10	% of usable area	85%	Estimated
11	Lettable area (sq.f)	30,255	=C9*C10
12	Cost of construction for low-cost apartment	2,250	(rupee/sq.f)
13	Total cost of construction	68,073,525	=C11*C12
14	Hard costs of the development	198,073,525	=C6+C13
15	% of hard cost to the total value	85%	Estimated
16	Total project value (rupee)	233,027,676	=C14/C15
17	Value per sq.foot (rupee)	7,702	=C16/C11
18	Estimated size of a slum housing unit	240	Estimated in sq.f.
19	Total value of each slum housing unit (rupee)	1,848,515	=C17*C18
20	Total number of housing units constructed	126	=C11/C18
21	Average building coverage area to land	85%	Estmimated
22	Total land area (anna)	104	=C18*C20/C21/342.25

piece of land so it could be 5 million rupees per anna. Hence, the land cost would be 130 million rupees.

The floor area ratio is assumed to be 4:1. Therefore, the buildable area would be 35,594 sq. feet. However, the usable area is estimated to be 85% or 30,255 sq. feet. The cost of construction is 2,250 rupee which is the lowest possible for low-cost housing resulting in the total construction cost of 68,073,525 rupee. When land cost is added, the total hard cost (land and building) is 198,073,525 rupees. There are also some soft costs (e.g. management and the like) of 15%. Therefore, the total value of the scheme is 233,027,676 rupees or 7,702 rupees per sq. feet of usable area.

The estimated size of a slum housing unit is 240 sq. feet. Hence, the total value of each unit is 1,848,515 rupees. This price of housing cannot be found in an open market today. The lowest possible housing units offered in the market might be 3 million rupees. However, the government can get the site of the squatter settlement of 104 anna (6.5 ropani) back at the value of 5 million per anna (compared to adjacent land value – if it is used for conventional residential or commercial uses) or altogether 530 million which is higher than the value of this project of 233 million rupee. It is still worthwhile relocating them to an adjacent area and acquire this piece of land.

6. Conclusions & Recommendations

An observation is that land prices increase substantially in Kathmandu at some 8% - 15%; whereas the minimum wage in Nepal is increased only 6% per annum. Relocated slum dwellers should be educated that if they could legally occupy housing units, their properties would increase in price and could be their savings and investment.

Land of slums and squatter settlements in the inner-city area is considered land in prime location which could be for commercial uses. If the dwellers are compensated at an ample amount, they should be happy to move away. If the government provides housing for the poor on a cross-subsidy basis or with public-private partnerships, the government could solve the problem of slums.

NOTES

<1> Income Approach: What It Is, How It's Calculated, Example.
Https://www.investopedia.com/terms/i/income-approach.asp

<2> Nepal Long Term Interest Rate.
Https://www.ceicdata.com/en/indicator/nepal/long-term-interest-rate

<3> Minimum Wage Nepal.
Https://wageindicator.org/salary/minimum-wage/nepal

<4> Urban Farming: Food Production in Community Parks and Private Gardens.
https://www.archdaily.com/916757/urban-farming-food-production-in-community-parks-and-private-gardens

REFERENCE

Minimum wage: 250 rupees per day.
Anna 1 = 342.25 sq.feet or 31.7961 sq.metres. Ropani 1 = 16 anna = 5,476 sq.feet = 508.7368 sq.metre.

Dr. S K Gupta

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Dr. S K Gupta is a highly experienced professional with over 42 years of corporate expertise in Finance, Costing, Internal Audit, Legal, and Company Secretarial functions. He holds a Ph.D. in Corporate Governance and is a Gold Medalist Post Graduate in Commerce. With a wide range of skills in areas like Mergers and Acquisitions, Corporate Restructuring, and Business Valuations, Dr. Gupta has played leadership roles in both public and private organizations. He is currently the Managing Director of ICMAI Registered Valuers organization and serves as an Independent Director on several company boards. Dr. Gupta has a strong academic background and has contributed significantly to various professional journals with over 275 research papers and articles. He is a sought-after mentor, speaker, and judge at esteemed business schools and conferences, focusing on Valuation, Finance, Corporate Governance, and Corporate Laws. Additionally, Dr. Gupta regularly conducts Management Development Programs for companies.

ESG AND VALUATION A STUDY OF INEXTRICABLE INTERRELATION

THE PERSPECTIVE

When nearly two-thirds of investors globally say they want sustainability reporting to describe the impact a company has on the environment and society, it's time to listen. There is a growing recognition that, over time, externalities will become internalised and directly affect a company's cash flows, its access to finance, and, therefore, its enterprise value. There is some concern that today's valuation models might not adequately capture sustainability factors, even if they have the potential to affect cash flows or the cost of capital. ESG factors represent one of the fundamental components in determining the long-term prospects and financial performance of a firm.

From a valuation perspective, traditional business valuation approaches are more inclined to financial indicators and metrics, neglecting the ESG impacts on long-term value creation or degradation. Hence, an ESG-integrated valuation model that can systematically value a company by considering different scenarios and outcomes may benefit investors by developing a rounded-out investment and optimizing the risk-return characteristics.

ESG FACTORS AND COMPANY VALUATION

A lot of people would describe ESG as an organization's capacity to do good. But that's really a vague and very subjective concept. I prefer to think of ESG as a concept in which an organization shifts its focus from short-term profit-making to longer-term sustainability of profits. Building business resilience: so very much anchored in financial metrics. ESG in truth is not one holistic topic. It's a concept that's made up of many different facets. ESG factors can have a significant impact on company valuation.

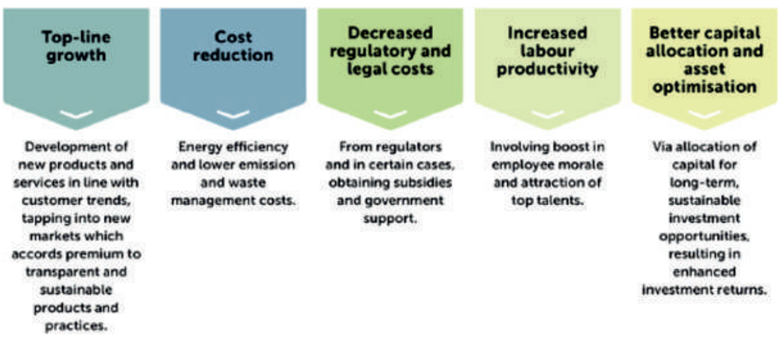
Environmental factors, for example, can affect a company's reputation and long-term viability. A company that has a poor environmental track record may face regulatory action or public backlash, which can result in lost revenue and a lower valuation. On the other hand, a company with a strong environmental record may attract socially responsible investors and receive positive media coverage, which can result in increased revenue and a higher valuation.

Social factors, such as labor practices and diversity, can also impact company valuation. Companies that treat their employees well and have diverse and inclusive workforces are likely to be more productive and innovative, which can lead to increased revenue and a higher valuation. Companies that have a poor track record in these areas may face negative publicity, which can result in lost revenue and a lower valuation.

Governance factors, such as board diversity and executive compensation, can also impact company valuation. Companies that have transparent and accountable governance structures are more likely to attract investors and have a higher valuation. Conversely, companies that have poor governance structures, such as excessive executive compensation or a lack of board diversity, may face regulatory action and negative publicity, which can result in lost revenue and a lower valuation.

ESG CAN ENHANCE CORPORATE VALUE

ESG can therefore be viewed as a set of intertwined, qualitative, and non-financial factors that are used by the markets to understand the impact and sustainability of a company's actions. Based on various publicly available sources, there are five (5) principal ways in which good ESG practices, in aggregate, affect economic performance and valuation: *Figure below (Left corner)*



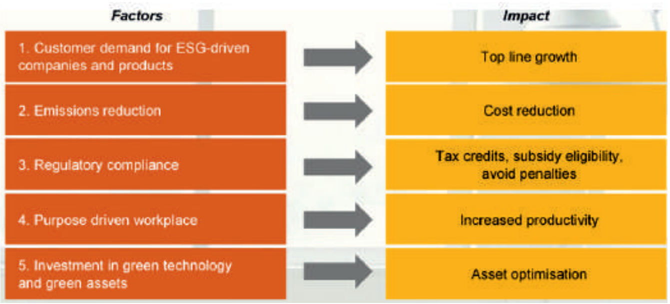
According to the IVSC, there is a common misconception that ESG disclosures are typically non-financial by nature and hence, do not have a financial impact. It added that this ignores the fact that ESG represents a myriad of factors that evaluate the long-term financial viability and sustainability of an enterprise. When assessing such factors, an analysis will therefore need to shift away from the traditional detailed "price x quantity" into an examination of how it allows enterprises to create value in the medium to long-term. In recognising ESG factors in valuation, the IVSC laid out that it should be a matter of embedding them into the current valuation methods and procedures.

In the Perspective Paper: ESG and Business Valuation, IVSC highlighted the importance of recognizing ESG as "Pre-financial" information rather than "Non-financial" information. Given the intertwined linkage between ESG factors and enterprises' long-term financial resiliency, the analysis shall be set aside from the traditional valuation metrics, such as typical cash flows, price-to-earnings, and EBITDA measurements, but comprising a multitude of factors instead.

APPLICATION OF ESG CONSIDERATIONS IN VALUATION

Generally, when performing a business valuation regarding ESG, it is important to identify the relevant risks and opportunities for the business model of the company to be valued. ESG ratings, corporate and sustainability reports as well and analyst evaluations can be used as sources. The impact of the identified factors on the operating business, financing, and cash flow should then be assessed and quantified for each company on a case-by-case basis.

The increasing relevance of ESG implies that ESG factors should be included in the valuation process from the very beginning. As part of a DCF or income approach, it should first be assessed to what extent the ESG risks and opportunities identified by the valuation specialist have already been considered in the company's business plan. This is often difficult, but essential in order to avoid double counting. If ESG factors are not included yet, the planned cash flows should be adjusted accordingly. For example, a reduction in sales revenue due to poor reputation, an increase in taxes due to legal requirements, or increased CAPEX to reduce ESG risks could be taken into account.



In addition, it is possible to add risk premiums to the discount rate applied. The first step is to identify the drivers of the business model and their risks in connection with ESG factors. An analysis of the comparable companies (peer group analysis), which includes the relevant ESG criteria, can be used to derive a company-specific risk factor, which in turn is incorporated into the appropriate discount rate. This risk factor is intended to reflect fluctuations in returns due to ESG opportunities and risks. For example, companies with a poor ESG score have, on average, a higher risk profile and thus a higher discount rate, which again leads to a lower enterprise value in the DCF analysis.

THE INCOME APPROACH

The Income approach, best known as the discounted cash flow (DCF) model, values a business by determining the present value of its expected future cash flows. To account for ESG considerations, valuation under the income approach should consider its impact on the discount rate or cash flows itself.

INCORPORATION INTO THE DISCOUNT RATE

This entails the screening and analysis of comparable companies, incorporating into the screening process to account for specific ESG considerations relevant to the industry in which the subject entity is operating. Therefore, a company that scores poorly in terms of ESG practices by comparison to its peers operating in the same industry would be accorded a higher discount rate, and vice versa. When integrating ESG-related risks into the discount rate, extra attention is needed to prevent the issue of double counting. Due to the possibility of overlapping ESG factors with other pre-financial information, valuers might have already addressed some ESG-related risks implicitly in calculating the risk-adjusted discount rate.

For Beta, similar to the market approach, ESG factors may need to be considered when selecting comparable companies. For terminal growth rate, strong ESG criteria are likely to be positively correlated to the long-term growth rate. Valuers may need to consider adjusting the terminal growth rate by assessing the subject company's performance on ESG factors.

THE MARKET APPROACH

To account for ESG considerations, valuation under the market approach should: Identify and assess ESG practices for comparable companies and industries, Assess the performance of the subject company for such criteria, Calibrate the market inputs to the subject entity to take into account the relevant performance as compared to the comparable companies.

VALUATION MULTIPLE

Based on assessing the company's exposure to ESG issues and strategic plan and governance related to managing the issues, the analyst can adjust (Premium or discount) price multiples in valuing a company compared to peer companies. For example, an ESG risk may depress the company's bottom line by 10% compared to peers (assuming all the other factors are unchanged); the analyst can adjust 10% in market multiple. Similarly, an FMCG company is spending heavily on developing a packaging waste collection system while its peers are not doing anything significant, demanding a premium on valuation multiple.

HOW TO CIRCUMVENT THE SUBJECTIVITY OF ESG?

Given the potentially subjective nature of the assessment of the materiality and application of ESG-related adjustments on the cash flows and the discount rate, these adjustments could also be applied in varying degrees under different scenarios, wherein each scenario would reflect the impact of a particular material ESG factor on the business. The final valuation outcome could be a weighted-scenario outcome wherein probabilities and weightings (based on materiality) are attached to the various ESG scenarios based on materiality.

CONCLUSION

Given the implications of ESG factors on the long-term sustainability and financial viability of a company, there should be a paradigm shift among practitioners to take into account the long-term benefits of having businesses operate in a sustainable manner, while simultaneously balancing the need to achieve short-term financial goals. Valuation has a pivotal role to play in quantifying and realizing the benefits of sustainable practices. However, due to the lack of standardisation, insufficient data, and an unclear correlation between ESG factors and a company's returns the findings currently still involve a lot of uncertainty. Nonetheless, taking into account ESG factors, both for the operational planning of companies and for company valuations, should not be overlooked as it will become increasingly important in the future. Business valuation outcomes are a reflection of the storyline of the financial figures that serve as input for these valuations.

Given the new and expanding view on risks and opportunities associated with businesses, viewing the development of industry and market forces not just with a financial lens but also with an ESG-lens, and incorporating them in the cash flows and discount-rate analysis, is a need of-the-hour. ESG is likely to have increasing significance in the years to come. Continuous efforts are required to achieve consensus on a standardised approach to incorporate ESG into the valuation. Valuation has a pivotal role to play in quantifying and realising the benefits of sustainable practices.

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LEARNINGS FROM IBBI VALUATIONS

In this article, I want to shed light on important Risks and challenges faced by Registered Valuers while evaluating assets under Insolvency and Bankruptcy proceedings with the help of some case studies.

The Insolvency and Bankruptcy Code 2016 came into force on 28th May 2016. It deals with the provisions of bankruptcy i.e. a state when an individual fails to repay its creditors and facilitates a procedure for recovering the debt. It is not only applicable to the organization but also to individuals. In the case where a corporate body fails to repay the loans, the insolvency proceeding is known as corporate insolvency.

It makes the process of liquidation more efficient and handles it rapidly and swiftly. A collective mechanism for the resolution of insolvencies has been laid down in the IBC 2016 to preserve the economic value of the process in a timely manner. The Insolvency and Bankruptcy Code 2016 provides a time-stipulated process by which creditors and borrowers must make decisions within the time frame of 180 days. In case of a default in repayment, the creditor gains control over the borrower's assets and both make decisions to resolve the insolvency.

THE POWER OF INSOLVENCY AND BANKRUPTCY CODE 2016 - A NEW ERA IN CORPORATE RESTRUCTURING

In the ever-evolving landscape of business and finance, it is crucial to have robust legislation that addresses the challenges faced by corporate bodies, partnership firms, and individual entities when it comes to insolvency and restructuring procedures. Prior to the enactment of the Insolvency and Bankruptcy Code 2016 (IBC), these matters were dealt with by a combination of different laws.

- The Companies Act 1956,
- The Sick Industrial Companies (Special Provisions) Act 1985 (SICA),
- The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act), and
- The Recovery of Debts due to Banks and Financial Institutions Act (RDDBFI Act) were some of the key legislations governing insolvency proceedings.

However, with the introduction of IBC in 2016, a new era emerged in corporate restructuring. The IBC aimed to consolidate all existing laws related to insolvency into a single comprehensive legislation. Its primary objective was to provide an efficient and time-bound mechanism for resolving insolvencies, protecting stakeholders' interests, promoting entrepreneurship, and facilitating ease of doing business.

WHY THE VALUATION IS SO IMPORTANT?

As per the provisions outlined in the IBC, asset valuation holds significant weight during a corporate insolvency resolution process (CIRP). This process involves the assessment of assets i.e. Land & Building (L&B), Plant & Machinery (P&M), and Securities & Financial Assets (SFA) by qualified professionals i.e. Registered Valuers (RV). Their expertise enables them to ascertain the current market value of assets held by a company undergoing insolvency proceedings which guides the Committee of Creditors (COC), Insolvency Professional, and NCLT in decision-making.

CASE STUDY - ONE - Industrial Land & building were taken by a Corporate Debtor (CD) from Karnataka Industrial Areas Development Board (KIADB) for a lease period of 10 years in the year 2010 and accordingly constructed a factory building and Erected machinery thereon. At the time of the Insolvency Commencement date, only 6 months were left before the expiry of the lease period of land.

POINTS CONSIDERED WHILE ASSESSING THE FV & LV –

1. Here, if the Lessee becomes insolvent then the termination clause was mentioned in the lease cum sale agreement. After the expiration of the lease period, the buildings along with the land will revert back to the lessor i.e., KIADB and if the valuation is supposed to be given in accordance with the remaining lease period, the fair value fetched for the entire land & building would be negligible. In this scenario I visited the KIADB concerned office to gather information regarding KIADB's stand on renewal/extension of lease considering the corporate debtor is under insolvency proceeding. However, the concerned officials verbally informed that, the CD has to clear all the liabilities, follow due procedure by submitting requisite documents. As observed from the Lease Deed, there was no clarity on extension/renewal of lease cum sale deed from such type of government authorities in the event of insolvency.
2. In this scenario, I had considered one of the key objectives in the CIRP process is the "Maximization of Value" of assets of the 'Corporate Debtor'. So, I had presumed that KIADB would grant an extension / renewal of the lease for the further term either to the corporate debtor or successful Resolution Applicant after clearing the liabilities and difference between the prevailing allotment prices. Also, if a prospective Lease takes any land from KIADB then the Lease will get only undeveloped land. However, if a prospective Lease transfers the subject property, then he will get developed land.

SUGGESTIONS/ COMMENTS –

Therefore to avoid such a situation, it was suggested that bankers/ financial institutions should insist on a 99/999-year lease while advancing finance to leasehold properties and the Lease period should be in proportion to the loan amount.

CASE STUDY - TWO

The land on which the metal processing plant was constructed, and the plant & machinery were installed was taken on rent from its Sister Concern Company by Corporate Debtor. Only the Industrial Shed and machinery were owned by the Corporate Debtor.

POINTS CONSIDERED WHILE ASSESSING THE FV & LV –

1. Fair Value assessed is 'in-situ' and on a 'going

concern' basis which assumes that the company shall continue to operate and run its business and that specified fixed asset shall continue to have economic utility.

2. Under this assessment, I had assumed that the prospective Resolution Applicant for the unit would comprehend the requirement of necessary industrial infrastructure (including other indirect costs which are typically allowed for capitalization) that is required for the operations of the industry.

3. The Fair Value of the assets has been assessed on the basis of the aforementioned premise.

SUGGESTIONS/ COMMENTS –

1. To avoid such kind of situation, while financing these types of projects, banks/ financial institutions should check for single ownership in respective of land parcel and building structures constructed thereon. Land, Industrial Sheds/ Buildings, and machinery are financed together and must be in the name of a single owner/ company.

CASE STUDY - THREE

The net Book Value mentioned in the balance sheet for machinery installed in the Cold Storage Plant was less as compared to the Fair Value and Liquidation Value of the same. I evaluated machinery based on its working condition, age, maintenance, location of plant, etc. According to the IP, the Fair Value of cold storage machinery i.e. Rs.5.41 Cr, and the Liquidation value i.e. Rs. 3.49 Cr are much higher than its Net Book Value i.e Rs.73 Lacs of Corporate Debtor.

POINTS CONSIDERED WHILE ASSESSING THE FV & LV –

1. At the time of our site visit, the subject cold storage plant was in working condition.

2. Only the Fixed Asset Register and MIDC lease documents were provided by the RP. Relevant invoices of "Processing /Freezing & Cold Storage machinery" were not made available for evaluation of machinery. In the absence of machinery invoices & machinery purchase details, I had considered current market prices as well as new/resale prices of the movable assets of similar specifications as available on web portals for the current evaluation of machinery.

3. Depreciation was charged after giving regard to parameters such as age, physical condition of the components, remaining useful life, technical obsolescence, etc. of individual components.

SUGGESTIONS/ COMMENTS –

1. Here, I would like to mention that Physical depreciation is different than accounting depreciation. Physical depreciation is a measure of the decrease in the market value of an asset over time from influential economic factors. With physical depreciation an asset's decreases in value are not necessarily uniform or scheduled but rather based on influential economic, technical & physical factors. However, in Accounting Depreciation, a tangible asset's value decreases over time based on a set depreciation schedule mentioned in the Companies Act.

2. According to Investopedia, "The book value of an asset and the market value of an asset is usually very different. The economic value or market value of an asset may not be reported on financial statements, but it is the value a company could potentially get if they chose to sell it". Therefore, while evaluating secondhand machinery items, one should consider physical depreciation based on visual inspection of the machinery rather than

accounting depreciation calculated based on the figures mentioned in the financial statements of the CD.

CASE STUDY - FOUR

The Corporate Debtor who is a builder/developer started multiple construction sites on CRZ Influential Lands in the Mumbai Suburban Area. I had been appointed to ascertain the feasibility of the proposed redevelopment projects being developed on land that was falling under the Coastal Regulatory Zone (CRZ) influential area in Versova, Andheri.

POINTS CONSIDERED WHILE ASSESSING THE FV & LV –

After going through the proposed redevelopment projects in CRZ areas, CRZ norms, etc; I concluded that this redevelopment project may not be feasible at the time of valuation. However, in the future, if the requisite NOCs from MOEF & MCZMA are provided, then this project can be reviewed further as per the reconstruction norms stated in DCPR 2034.

SUGGESTIONS/ COMMENTS –

Construction under CRZ norms is very stringent and complicated which includes a lot of government compliance work such as NOCs from the Ministry of Environment and Forests (MOEF) & Maharashtra Coastal Zone Management Authority (MCZMA) and permissions from local regulatory authorities. Hence, banks should consider these factors while mortgaging such types of lands.

FACTS OF THE CASE - PROPOSED UNDER-CONSTRUCTION RESIDENTIAL PROJECT

Here the existing society entered into a development agreement with a Corporate Debtor, for the redevelopment of a plot by demolishing the existing building structures and a ground-floor chawl.

- The plot under reference derives access from 9.00 meters. Wide sanctioned Road Line on the south side. However, it was observed that the Road Line has not been fully implemented on the site and the road width of 9.00 meters is not fully available on site.
- At the time of the site visit 35% of the total construction work was completed however, there was a stay order on further construction initiated by the officials of the Local Authority on account of the area of the subject plot going under road widening as per DP remarks.

CASE STUDY - FIVE

Where one of the Directors of the company was given one part of the land undervaluation to its company for 20 years lease period vide unregistered "Lease Agreement Letter" without paying any stamp duty & registration charges to the Government Authorities. Subsequently, the Owner/ Director of the subject land has given another part of the land on rent to the Corporate Debtor by virtue of the unregistered "Leave & License Agreement" for the period of 36 months. These land parcels has to be evaluated along with factory land. Here, factory was constructed on the land which has no demarcation and combined with land under plant by construction of stone compound wall.

POINTS CONSIDERED WHILE ASSESSING THE FV & LV –

1. As observed there are multiple discrepancies in the land documents which are unregistered. Both documents are contradictory to each other and are currently expired and not renewed by the landowner. Also, the lease agreement has to be registered by depositing actual stamp duty & registration charges to the Government Authorities for 99 / 999 years.

2. All these contradictions related to land under the proposed project must be verified by concerned bank officials before lending money because the subject land under the proposed project is in the personal name of the Owner/Director. Therefore, without a clear title of the land subject advancing of loan is not feasible.

SUGGESTIONS/ COMMENTS –

1. It is advisable to transfer the land in the name of the Corporate Debtor/ Company so that the land becomes freehold and the company should have a clear & marketable title of land. Bank can also explore the way to mortgage both lands with a Tripartite Agreement i.e, 1)Owner/ Director 2) Company, and 3) The Bank

CASE STUDY - SIX

The land was given by the Lessor to a Corporate Debtor (Developer/Builder) on B.O.T (Build, Operate & Transfer) basis for the construction of Hotel premises. Further, separate lease agreements for transfer of tenancy have been executed for the Hotel between Lessor and corporate Debtor (Lessee). These commercial properties are income-generating properties and the balance lease period of above-mentioned Shops and offices is around 17 to 20 years as of date of Valuation.

POINTS CONSIDERED WHILE ASSESSING THE FV & LV –

1. Hotel premises were never functional since completion of civil work. So, data regarding profit / loss of Hotel were not available.
2. Further, cost approach cannot be adopted as the land has been given to Corporate Debtor on B.O.T. Basis.
3. Also, there is no clarity about terms & conditions regarding renewal of lease. So, the balance lease period is relatively short & sale transactions of similar Hotel having comparable balance lease period was not available.
4. Hence, we have adopted Income approach for Valuation of Hotel assuming that hotel will generate income assuming the hotel will be operational in nearby future. While evaluating Hotel Building by Income approach, I had assumed that total outgoings to remain constant throughout the balance lease period as the relevant information was not available.

SUGGESTIONS/ COMMENTS –

- Therefore to avoid such type of situation, it was suggested that bankers/ financial institutions should insists for 99/ 999 years lease while advancing finance to such type of properties and Lease period should be in proportion to the loan amount.
- It is a conventional Public-Private Partnership model in which a private partner is responsible to design, build, operate (during the contracted period) and transfer back the facility to the public sector where private sector partner has to bring the finance for the project and take the responsibility to construct and maintain it. In this case, the financing institution lending money to such type of project should assess the revenue potential of a project in the cycle of certain years in early stages.

CASE STUDY - SEVEN

The corporate Debtor has a business in Digital Marketing but when going under insolvency proceedings, only the stock of shoes, a few old machinery and furniture & office equipment where asked for assessment under CIRP proceedings. Here, the directors of the subject company have multiple assets all over India in his personal name which we cannot evaluate under insolvency proceedings because under IBC, 2016, only those assets are accountable which are in the name of the Corporate Debtor. Although other properties which are kept as collateral security owned by the directors, they don't come under IBC valuations. Even the personal property of the other Guarantors of the loan could not be assessed under the Corporate Insolvency Resolution Process of the Corporate Debtor, even though, their properties were mortgaged with the Financial Creditors as they come under SARFAESI Act, 2002.

SUGGESTIONS/ COMMENTS –

To avoid such kind of situation, while financing these types of projects, banks/ financial institutions should thoroughly check title of the immovable assets being mortgaged. Assets such as land, building, plant & machineries owned by the company only should be mortgaged while lending the money to the company. Land, Industrial Sheds/ Buildings and machineries financed together and must be in the name of single owner/ company.

SUMMING UP –

Asset valuation plays a crucial role in the insolvency proceedings against corporate debtors. However, Registered Valuers are facing numerous complexities and limitations when determining accurate property values. In this article, I explored the challenges and limitations faced by me while evaluating L&B and P&M such as the lack of availability of requisite documentation & reliable data, the influence of market trends & fluctuations, uniqueness & characteristics of each property, Legal and Regulatory Considerations, conflict of interests, etc. and subsequently discussed some of the strategies to overcome them with help of several case studies.

Some of the valuable insights/ suggestions are as follows -

1. Banks/ Financial Institutions should have thoroughly checked the track record and financial viability of the borrower while financing such types of projects.
2. Banks/ NBFC's should take immovable assets as collateral as a way to recover their loan in the event the borrower fails to pay as planned.
3. Banks/ Financial Institutions/ Insolvency Professionals should provide all the requisite documents to Property Valuers at the time of valuation.
4. Having a good credit history, cash flow, collateral properties, repayment capacity of the company and clear documents should be a priority for banks when granting a business loan application.
5. Banks should insist borrowers invest more of their own capital in the business because if, the owner is not investing in his own business, why should the bank? Also, when owners have more personal capital in the business, they will fight harder and sacrifice more to save the business and repay their debts.

Real estate property valuation is a challenging task due to numerous reasons and Valuers must continuously adapt to changing market dynamics and seek reliable data sources to ensure accurate valuations. Therefore, by recognising and addressing these challenges, Professional Valuers can provide Banks/ NBFC's & Insolvency Professionals with valuable insights and support decision-making under insolvency proceedings.

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VALUATION OF UNREGISTERED LAND OF INDIGENOUS PEOPLE

A NOVEL APPROACH

INTRODUCTION

Indigenous people are always endangered species in every country irrespective of their nature whether developed, developing, or underdeveloped. Most of the time they are the most marginalised and vulnerable segments of the population. They belong to the social groups with identities and livelihoods that are distinct from dominant groups in national societies. They have limited economic, social and legal capacity to defend their rights to and interest in lands and resources.

The Land is absolutely central to infrastructure, especially in Asian countries where the population is growing exponentially and the pace of urbanization is also increasing quite rapidly. Generally, roads, water supply, sewer, power grids, airports, telecommunications etc. are considered to be essential urban infrastructures. As investments in these areas require a substantial amount of money and no immediate and certain returns are guaranteed, we hardly find private investments in such infrastructure development. Moreover, when private parties are left to aggregate the land to build any particular infrastructure, it would take them so long that they would never be willing to do it. Under these circumstances, the government is always under tremendous pressure to acquire land for the development of infrastructure. But forced land acquisition for infrastructure and industrial facilities - both of which are crucial for a country's economic development - is frequently dogged with controversy. Land acquisition (India, Indonesia), Eminent Domain (United States), Compulsory Purchase (United Kingdom), Compulsory Acquisition (Australia) or Expropriation (Canada, South Africa) is the power of the state to take private property for public purpose.

The Majority of the nations have their own land acquisition act and speaking mechanism of payment of compensation under those acts for the owners of the registered lands. But the indigenous people in most of the countries reside in remote areas located in the boundaries of forests or mountains or rivers. Though they have been living and farming on these lands generations after generations but do not have any ownership rights with them. Therefore, when these lands are required by the government for the construction of large infrastructure viz. roads, dams, barrages etc. the relocation of the indigenous people and payment of compensation to them becomes a big question. Not only the statutes of different countries but the international funding organisations also do not have any clear policy for payment of compensation to the indigenous land losers for their unregistered lands. This is causing huge problems in the proper rehabilitation and resettlement of these people following chaos in the implementation of such large infrastructure projects.

COMPULSORY LAND ACQUISITION VALUATION – PRESENT SCENARIO

The legal frameworks of different countries provide different guidance for land acquisition valuation. Mostly they prefer the market approach and sales comparison method to estimate the market value of the subject land for the purpose of compulsory acquisition. Then further additions are done on the following heads –

- Addition for the damage caused by the person interested by reason of taking away any standing crops or trees which may be on the land at the time of taking possession thereof;
- Addition for the damage (if any) sustained by the person interested, at the time of taking possession of the land by reason of severing such land from his other land;
- Addition for the damage (if any) sustained by the person interested, at the time of the taking possession of the land, by reason of the acquisition injuriously affecting his other property, movable or immovable in any other manner, or his earnings;
- Addition for if as a consequence of the acquisition of the land, the person interested is compelled to change his residence or place of business, the reasonable expenses (incidental to such change);
- Addition for the damage (if any) bona fide resulting from diminution of the profits of the land between the time of the publication of the declaration and the time of the taking possession of the land and;
- Addition for the loss of earnings, if any, caused to the person interested in consequence of the acquisition of land where earning was derived directly from such land.
- Addition under the head 'Solatium'.

The service of valuers is required during the time of estimation of market value by the acquisition authority as well by the affected party when the award is challenged at the court of law. But all these approaches, methods and techniques are applicable for registered land valuation.

CRITICAL ISSUES IN VALUATION OF UNREGISTERED LANDS OF INDIGENOUS PEOPLE

When a valuer estimates the market value of an immovable property, he doesn't value the bricks and mortars but estimate the value of the rights and interests embedded in the property. Therefore, the major difficulty faced by a valuer while estimating the market value of the unregistered land of an indigenous person is that the rights and interests embedded in such lands belong to the state and not to the indigenous person. As per the valuation principles, the market value the farm land which the affected person has been cultivating for generation after generation will not fetch any money to him if it is acquired by the state for public purpose.

Sale evidence of unregistered land is never available. To apply sales comparison method under market approach, the valuer may take resort of evidence of sale of registered lands in the neighbourhood or even of far-flung areas. But the discount provided due to the unregistered nature of the land shall always be point of dispute.

Therefore, application of sales comparison method under market approach may not be suitable for valuation of unregistered lands.

VALUATION APPROACH AND METHODOLOGY FOR UNREGISTERED LAND VALUATION OF INDIGENOUS PEOPLE

Although the ownership of the unregistered farm lands cultivated by the indigenous people from time immemorial, is with the state but the right to harvesting is with the indigenous farmers. Therefore, estimation of market value of these farm lands by the application of discounted cash flow method under income approach is very much possible.

Once the market value of these unregistered farm lands is ascertained then the next question arises, how to estimate the market value of the rights and interests of these indigenous people? It is already discussed that these indigenous people do not have ownership of this unregistered land but have farming right. To solve this issue, let us take the help of a legal document of this Indian Sub-continent. This is known as Land Reforms Act. This statute of India, Bangladesh and Sri Lanka provides us with a direction how the crops shall be divided between the Bargadar (Share cropper) and the Rayat (Owner). In India, the produce of any land cultivated by a bargadar, who also bears all costs of cultivation, is divided as between the bargadar and the person whose land he cultivates in the proportion of 75:25. Taking clue from this, the market value of the right of the indigenous people having farming right over an unregistered land shall be the 3/4th of the market value of the subject land estimated by the application income approach.

ILLUSTRATION

Calculation of market value of the rights and interest of an indigenous family cultivating half acre two cropped maize producing government land for five generations on the river bank of a hilly terrain in India. The land is notified for acquisition for the purpose of construction of a hydel power project.

(Table is on the next page)

CONCLUSION

Market value estimation of unregistered land is always a challenge for valuers throughout the world. The valuer is to be very cautious about the land laws of the country in which the estimation is to be done. If no such land law is available there, the valuer has to opine about the division of produce between the share cropper and the owner of land citing related land laws of neighbouring countries and then to draw the conclusion on estimated value. Please remember that in the job of estimation of market value for the purpose of land acquisition, valuer's role ends once the market value is determined. Determination of compensation package is not the job of a valuer unless additionally assigned.

S.No	Description	Unit	Quantity	Rate	Total Cost
A	Variable Costs				
1	Energy Costs				
	Labour Costs				
	Main Land Preparation	Mandays	10.00	600.00	6000.00
	Fertilizer and Compost Application	Mandays	5.00	600.00	3000.00
	Weed Control	Mandays	30.00	600.00	18000.00
	Irrigation	Mandays	3.00	600.00	1800.00
	Plant Protection	Mandays	3.00	600.00	1800.00
	Harvesting / Bundling	Mandays	10.00	600.00	6000.00
	Threshing Winnowing & Storage	Mandays	10.00	600.00	6000.00
	Sub Total - Labour Cost		71.00	600.00	42600.00
	Bullock Labour	Days	5.00	1000.00	5000.00
	Machine Labour Used	Hours	7.00	1200.00	8400.00
	Total Energy Costs				56000.00
2	Raw Material Costs				
	Seeds	Kg	60.00	40.00	2400.00
	Manure & Compost	Kg	7200.00	1.00	7200.00
	Chemical Fertilizers				
	Urea	Kg	100.00	25.00	2500.00
	DAP	Kg	60.00	52.00	3120.00
	Potash	Kg	1.00	37.00	37.00
	Chemical & Bio Pesticides	Lumpsum	1.00	2000.00	2000.00
	Irrigation	Lumpsum	1.00	1000.00	1000.00
	Sub Total - Raw Material Cost				18257.00
B	Fixed Costs				
	Land Tax	Lumpsum	1.00	250.00	250.00
	Total Fixed Cost				250.00
C	Total Cost of Cultivation per Hectare				74507.00
D	Estimated Yield of Maize	Kgs	3000.00	35.00	105000.00
	Fodder Yield	Kgs	4500.00	8.00	36000.00
	Total Revenues per Hectare				141000.00
E	Net Income				66493.00
F	EBIDTA				66493.00
	Terminal Value by Income Capitalization				
	EBIDTA / Risk Free Rate Per Hectare	Risk Free Rate	1.25%		₹53,19,440
3	Market Value of Family's interest		75%		₹8,07,607

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13) World Bank Land Acquisition and Resettlement Policy Framework

PJ Patel

CO-CEO AND
SENIOR MANAGING DIRECTOR
VALUATION RESEARCH CORPORATION (VRC)

PJ Patel is co-CEO and senior managing director and is a member of VRC's board of directors. Mr. Patel specializes in the valuation of businesses, assets, and liabilities for financial reporting purposes. He also leads the global valuation services of VRC's international network, Valuation Research Group (VRG), in addition to other strategic growth initiatives and relationships for VRC as the U.S.-based partner of the globally focused group. Mr. Patel holds the designations of chartered financial analyst (CFA) and accredited senior appraiser (ASA). He is an active member of the AITF and is a member of the Appraisal Foundation's Working Group, having prepared an industry Practice Aid for valuing customer-related assets. A frequent presenter on valuation issues for financial reporting purposes, he is often quoted in the press regarding valuation issues.

About VRC and VRG: Valuation Research Corporation is a full-service, independent, global valuation firm. Since 1975, our network of nearly 1,500 valuation professionals, which includes VRC's 250 U.S.-based colleagues, has provided objective, supportable conclusions of value to domestic and international clients. Valuation Research Group (VRG) is a global valuation practice that furnishes expert and independent opinions of value for solvency, fairness, business enterprises, intangible assets, capital stock, equity interests, real estate and fixed assets. VRG's international network offices span five continents with over 50 office locations across North, South, and Central America, Europe, Asia, and Australia.

VRC

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GLOBAL VALUATION INSIGHTS:

A CONVERSATION WITH PJ PATEL

Q. Who is VRC?

A. Valuation Research Corporation is a full-service, independent firm focusing exclusively on valuations and advisory services with a staff of 275+ professionals in the U.S. who have been providing objective, supportable conclusions of value since 1975.

VRC's international and domestic clients range from Fortune 500 companies to private companies, private debt and private equity sponsors, private equity portfolio companies, hedge funds, business development companies, venture capital firms, and more. This client base covers a broad range of industries, enabling us to track industry trends and deeply understand unique and specific client needs within various business segments. Further, this allows us to add an independent viewpoint and an extra layer of support and transparency with more robust valuation policies that conform to best practices as a third-party assessor.

We deliver well-supported valuation conclusions and reports that comply with the relevant reporting standards and substantiation to withstand possible scrutiny. VRC's core services include valuation opinions concerning fairness, solvency, and capital adequacy related to deal transactions and financial and tax reporting. We also have a full portfolio valuation practice that provides fair market values for their private investment portfolios, including equity, debt, structured credit, and complex securities.

Q. How do clients benefit from a relationship with VRC?

A. VRC is foremost a valuation firm—in our case, it's all we do. That means we aren't distracted or conflicted by advisory or audit engagements.

Firm-wide, we believe the importance of consistency in client relationships and service is paramount. VRC takes great pride in its industry-leading colleague retention rates, making us the reliable third-party partner clients trust. The fabric of our team builds upon a cultural foundation that values clear and open communication, collaboration, and innovation.

We are motivated to succeed by an ever-accessible, interconnected senior leadership team and emphasize a multi-level, proprietary internal training program that rewards hard work and dedication to one another and our clients. Evidence of this comes from our client relationships' longevity and satisfaction with our work product.

Q. In addition to your practice at VRC, you lead VRG's executive committee. Can you talk about how VRG formed?

A. VRG started in the mid-to-late '90s. As VRC's U.S. clients ramped up their international strategic activity, we saw the need for boots on the ground in major markets to support them. The initial construct was a hub-and-spoke model, with the U.S. at the center and tapping partners in different countries for valuation work—usually on straightforward, tangible assets like PP&E—as needed.

Q. What differentiates VRG's capabilities, and how do you build and maintain a culture of practical cooperation, ensure best practices, and consistently deliver value to clients?

A. Over time, we've seen deals get more extensive and complex, with trickier tax and regulatory hurdles and often featuring more intangible assets as the driver of value. There's also been a significant and consistent uptick in activity from non-U.S. companies seeking to execute cross-border deals.

As a result of these market evolutions, we've built the VRG team with partners who can deliver sophisticated capabilities. Likewise, we continue to identify and onboard new members with similar abilities to handle complex engagements in new geographies.

It didn't take long for VRG's historical hub-and-spoke model to evolve into something much more powerful and dynamic—we are a network of equals who practice valuation to a global standard while bringing deep expertise in the nuances of their home markets. That's a stark contrast to many international professional services firms that recreate their structure and approaches in every office they open, and it's a contrast we are proud to highlight. VRG has been successful because of the culture of trust and accountability we've carefully and purposefully built over the years.

It takes discipline and commitment to bring everybody together as we do, crossing oceans and time zones. Still, this leads directly to constructive day-to-day interactions that are crucial to turning what could be a nominal affiliation into a shared trust and partnership reliability that ultimately produces client results worldwide. We all feel deep accountability for each other. Strong relationships form the bedrock of VRG and are the driving force behind our ability to serve our global clients effectively.

Q. Can you illustrate an instance of where the real intrinsic value of VRG was applied to a client's valuation engagement?

A. Certainly. In support of a $7.8 billion acquisition of Groupe Danone's global biscuit business by Kraft Foods, VRG was engaged to value all of the acquired intangible assets, real property, and machinery and equipment. Groupe Danone's biscuit business included many leading biscuit brands, such as LU, Tuc, and Prince, and operations and assets in more than 20 countries, including 32 manufacturing facilities.

The acquisition accelerated Kraft's growth strategy by strengthening its lead in the company's fastest-growing global segment and significantly expanding its presence and scale in both developed and emerging markets. Kraft is now the world's leading biscuit company, with a strong portfolio of iconic brands. Biscuits became the company's largest global business, representing approximately 20 percent of total Kraft revenues. Kraft's business nearly doubled in China, and the company gained a presence in both Indonesia and Malaysia.

Material fixed assets and major manufacturing plants were located throughout Europe, Africa, China, and

Asia. VRC was engaged as the sole valuation firm. We, in turn, brought in VRG's global members to lead their in-country valuations of the various assets. In addition to financial reporting under U.S. GAAP, our valuations were also in support of tax reporting.

The client, as is the case with nearly all such large acquisitions, engaged the services of a third-party accounting firm for due diligence support. We commonly work alongside these due diligence firms during early project stages as part of the overall deal team. Our clients have generally—as we do not provide non-valuation due diligence services—determined it best to engage due diligence firms to do what they do best and to engage us for what we do best: the valuation component of any acquisition.

Kraft arranged for a project kick-off week of meetings in Europe with our professionals and their finance leaders from each of their major geographic regions around the world. These meetings detailed the scope of work, the expectations for support and information from each region, and the schedule—including which plants and other locations were to be inspected on-site. The structure and requirements of each region were also discussed, including how valuations were to be developed for and by a legal entity. Our U.S. project team also met with Kraft Foods and Groupe Danone managers in other European country locations to gather information and conduct management interviews.

Q. One of the themes of this year's V20 Valuation Summit focuses on professional capacity and advancing valuation competence; what do you find motivating about this topic?

A. Reflecting on my 25-plus-year career in this field, I've learned that key traits for success in this industry include fostering a mentorship mindset, inspiring and enabling others to drive inclusive and forward-thinking change, and aligning market needs with a valuation professional's skill set to ensure our ongoing relevance and potential.

I think it's imperative for our organizations to provide consistent support and pathways for industry professionals, creating an environment that encourages lifelong learning and, in doing so, garners increased respect and regard for credentialed valuation professionals. Equally motivating is the commitment our organizations have made to connect those involved in the valuation industry with both current and future leaders while also enhancing awareness of our profession's capacity to address critical issues and industry trends.

In today's global business community, the collective leadership and impact of professionals from organizations like those represented at the V20 Valuation Summit and Conference are more crucial than ever. We have exceptional opportunities to reshape the present into a future of boundless potential and growth for this esteemed profession. As an active member and leader within the ASA, AITF, and Appraisal Foundation, I focus on advancing our profession's best interests, emphasizing forward-thinking approaches for the next generation of leaders.

INTERNATIONAL INSTITUTE OF BUSINESS VALUERS

The International Institute of Business Valuers (iiBV) www.iibv.org is a not-for-profit organization of valuational professional organizations, who collaborate to develop quality professional education. We promote consistent professional ethics and standards, facilitate the exchange of ideas, and encourage international co-operation and communication. Our member organizations include AaRVF (India), ANEVAR (Romania), BV Resources (USA), CAS (China), CBV Institute (Canada), IACVS (Canada), NAVS (Serbia), TAQEEM (Saudi Arabia), and the ASA (USA). We're proud and excited to be a knowledge partner of the V20, support and endorse its goals and objectives, and are committed to the V20 movement on behalf of the valuation profession. We have several Board members and instructors attending and presenting at V20, including Raymond Moran, Peter Ott, and Chris Mellen, and looking forward to meeting with and interacting with participants at the V20 Summit and Conference.

There are several items of interest regarding the iiBV and its member organizations that may interest V20 attendees and AaRVF members, and we're pleased to have the opportunity to share them. These include our newest member organization, the Business Valuation Institute of the United Kingdom; the global need to attract university students to the valuation profession, where the University Challenge program developed by the Chartered Business Valuation Institute (CBV Institute) in Canada is a great example of a successful program; and the ASA's Accredited Member designation program; We'll discuss each in the following paragraphs.

The Business Valuation Institute UK (BVIUK) was founded on 1st January 2023, as a response to an identified gap in the UK business valuation market. Their motto is: Connecting Experts, Teaching Excellence. The aim was to create and establish a virtual platform of business valuation resources, with particular emphasis on offering networking opportunities to high-profile BV professionals, and on high quality teaching.

The founders of BVIUK had four main objectives:

1. To open a stagnated and sleepy British BV market to the innovations, techniques, and opportunities from the US and Canada.

T2. To make BV resources more easily available to anyone passionate about business valuation – from academics and high-level practitioners to students and enthusiasts.

3. To introduce the UK market to BV learning opportunities in form of expert-led webinars, expert-written articles, videos, interviews, and panel discussions. In due course, we plan to offer fully accredited training in business valuation, leading to the successful candidates achieving worldwide recognised BV credentials.

4. To improve the quality of business valuation practice in the UK

After one year of existence, BVIUK has become a clear leader in the UK business valuation market, offering services not previously available in the country. Since their inception, BVIUK established its presence with a modern, dynamic, interactive platform of resources (available to view at www.bviuk.com), as well as in social media. Notable accomplishments include their rapidly expanding subscriber list to their newsletter, active social media presence through LinkedIn, support from global organizations including the IVSC, iiBV, ASA, NACVA, GACVA and BVR; and the creation of their Expert Network, providing resources for BVIUK's successful webinars.

CBV Chartered Business Valuators Institute | L'Institut des experts en évaluation d'entreprises

At the end of last year, CBV Institute https://cbvinstitute.com/ held a very successful Business Valuation Challenge 2022 (BV Challenge), with teams from 19 Canadian business schools competing for cash awards for 1st, 2nd, and 3rd places. Nineteen teams comprised of two to four undergraduate students from across the country were given the opportunity to compete with students from other business schools in a test of their business valuation skills. Business Valuation Challenge 2023 is now open for registration, expanding to 25 teams, with the contest taking place on November 8 & 9, 2023 over Zoom. The winning team will be awarded $10,000, and second and third place will receive $5,000 and $2,500, respectively.

The business valuation case study was developed by a team of highly respected CBVs and refined for an undergraduate student audience. All participants will have the opportunity to attend a training session to learn the basics of business valuation, that will then be applied to the case study.

ASA™ Providing Value Worldwide

Valuation designations are usually granted by local valuation organizations such as the AaRVF, incorporating local legal rulings and guidelines, regulatory and practice issues. Many valuers work in cross-border engagements and assignments, and are looking to supplement their local designation with global best practices and procedures. This knowledge can be demonstrated to clients and peers through designations from global organizations, such as the iiBV member VPO's. One of them, The ASA https://www.appraisers.org/is a co-founder of the iiBV and is a multi-discipline, non-profit, international organization of professional appraisers representing all appraisal disciplines: Appraisal Review and

Management, Business Valuation, Gems and Jewelry, Machinery and Technical Specialties, Personal Property and Real Property. Their mission is to foster the public trust of their members and the appraisal profession through compliance with the highest levels of ethical and professional standards. The ASA is over 80 years old, has 5,000 members worldwide, and is active within the global valuation profession.

Recognizing the need for an improved process, the ASA recently streamlined the requirements for the Accredited Member (AM) designation in an effort to encourage increased global involvement and education. The requirements include completion of iiBV education courses 101

Principles of Business Valuation, 102 Income Approach and the International Cost of Capital, 103 Business Valuation Comprehensive Case Study, and 104 Advanced Topics in Business Valuation; submit a copy of your university degree; demonstrate 2 years of full-time valuation experience for the AM designation; and submit the application forms. They have deleted the requirement to submit sample valuation reports for review. The process of obtaining the Accredited Member designation is discussed in a recent video with Trey Stevens, an ASA and iiBV Instructor, member of both organizations' education committees, and past Chair of the ASA Board of Examiners.

Membership in the ASA, and holding The AM and/or ASA designations are very complimentary to the Registered Valuer designation and benefits available to Indian valuers through the AaRVF, as ASA membership is further demonstration of your commitment to professional standards and ethics, and access to a global network of thought leadership, best practices, and fellow member experts offering expanded client referrals and/or career advancement opportunities. Current topics under discussion include Environmental, Societal and Government (ESG) and incorporating those issues in valuations; brand value; and goodwill and impairment. Together with the AaRVF, we'll be announcing additional details of how AaRVF members can obtain the Accredited Member designation.

We look forward to launching this program, and hope to see you there.
Sincerely,

Raymond Moran, ASA, MRICS
Chair, iiBV Marketing Committee

Assessors and Registered Valuers Foundation
is delighted and honoured to represent INDIA
to host the very first

V20 Summit and Conference

under the theme
"Economically Stable World to Achieve
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On 27th-28th October 2023 at New Delhi.

Next V20 will be hosted by
IBAPE, in our friend country BRAZIL.

Congratulations

IBAPE
INSTITUTO BRASILEIRO
DE AVALIAÇÕES E PERÍCIAS DE ENGENHARIA

Amarilio S. Mattos

ASA, MCBA, CVA, CM&AA

SENIOR MANAGING DIRECTOR
VALUATION RESEARCH CORPORATION (VRC)

Founded in 1957, IBAPE (Instituto Brasileiro de Avaliações e Perícias de Engenharia) is a National Brazilian Entity of technical nature with an outstanding institutional history built through pioneering actions, closely linked to the development of the activities of engineering and architectural professionals working in the fields of asset valuations and expertise.

Made up of thousands of engineers and architects from 25 state-wide institutes affiliated to the National Entity, the professional segment represented by IBAPE, originally focused on the State and Federal Justice Courts activities, today also operates in the real estate and financial markets, in the consolidation of company assets, in arbitrations and in several other segments of the economy.

From the elaboration of the first Brazilian standard for urban property valuation to the holding of numerous technical events, with emphasis on several Brazilian Congresses on Valuation and Expertise Engineering, IBAPE has been at the forefront of all the main initiatives related to the dissemination of technical knowledge, training and improvement of a professional category that is gaining importance every day in Brazilian society.

At the international level, IBAPE maintains affiliation with the UPAV Pan-American Union of Valuation Associations and the IVSC – International Valuation Standards Council and, through these bodies, has participated in the most important actions to consolidate, at continental and global levels, concepts and procedures that should regulate the preparation of evaluation work.

With the aim of raising the quality of assessments and expertise to levels of excellence, IBAPE, which is part of the College of Entities of the CONFEA - Federal Council of Engineering and Agronomy, in addition to stimulating and participating in university teaching at postgraduate level, implemented and has managed a successful professional certification program.

The Institute is currently presided over by Chemical Engineer, Amarilio S. Mattos with tenure till the end of 2023. Amarilio has a corporate career in an International Chemical Company for more than 29 years in several fields (Manufacturing, Logistics, Quality, Environment, ERP Implementation (SAP), Project Management, and Purchasing). Amarilio joined IBAPE Bahia in 2011 and has worked as an Expert in State and Federal Justice Courts. Has an MBA in Business and completed a Post Grad in Valuation and Expertise in 2014.

During his mandate, President Amarilio has been working hard to protect society against realtors who can only give an opinion on buying and selling real estate values, but not a technical assessment report based on standards.

The main objectives of IBAPE typically includes:

Establishing Technical Standards: IBAPE aims to establish technical standards and guidelines for engineering assessments and expertise to ensure quality, auditability, traceability, and reliability in these services.

Promoting Professional Development: The organization provides training and development opportunities for engineers and professionals in the field.

Disseminating Best Practices: IBAPE promotes the dissemination of best practices and up-to-date knowledge in the field of engineering assessments and expertise, contributing to continuous improvement in the industry.

Fostering Research and Development: IBAPE encourages research and development of new techniques and methods related to engineering assessments, seeking continuous improvement in the

Advocating Institutional Representation: The organization acts as an institutional representative for professionals on engineering valuation and expertise, guaranteed by legislation (Law 5.194/1066), advocating recognition of the importance of these services to society.

Supporting Legal Standardization: IBAPE works to support the creation and updating of regulations and standards, including a partnership with ABNT (Brazilian Association of Technical Standards) related to asset valuation.

In summary, IBAPE typically plays a crucial role in promoting the quality and integrity of engineering assessments, asset valuation, and expertise in Brazil. They achieve this through professional development, knowledge dissemination, representation, and advocacy for industry standards and best practices.

IBAPE has signed a Technical Cooperation Agreement with the National Agency of Government Assets (SPU), confirming the recognition of the Federal Government in our knowledge of asset valuation.

The work of our professionals is recognized as being of high technical quality by those requiring expertise and valuation services, such as real estate credit banks, real estate investment funds, public and government organizations and agencies, private companies, and the judiciary. We envision IBAPE best practices will permeate across those organizations to be recognized as the entity with the best professionals to perform asset valuation in Brazil.

IBAPE has participated in the creation of the main technical standard of asset valuation in Brazil, the ABNT NBR 14653, which consists of the following parts, under the general title "Asset Valuation":

- Part 1: General procedures;
- Part 2: Urban properties;
- Part 3: Rural properties;
- Part 4: Enterprises;
- Part 5: Machines, equipment, installations, and industrial goods in general;
- Part 6: Natural and environmental resources;
- Part 7: Historical heritage.

IBAPE is embracing ESG - Environmental, Social, and Governance, where it interacts with valuation and is used to assess investment risk, which brings new opportunities for social development.

It should be noted that IBAPE, the most important valuation entity in Brazil, is committed to the guiding principles of V20, providing reliable and transparent valuation advice.

Finally, IBAPE is committed to being part of the V20 Valuation Team in the next decades, providing knowledge and exchanging norms, regulations, and standards across the globe.

Technical Due Diligence

Proficiency in investigating and analyzing the technical aspects covering compliance to approvals, codes, construction progress, financial estimation linked with the construction, cost due diligence, market intelligence, complete audit of asset among other requirements.

Financial Due Diligence

Expertise in examining the financial facets such as inflows and outflows in different kinds of bank accounts, audit verification of direct and indirect taxes, interests paid to lenders, returns paid in various forms to investors, revenue audit, cost audit as per books of accounts, and any other crucial financial variables that may impact the project.

Strategic Consulting

Providing holistic solutions and risks to address strategic, operational, financial reporting, regulatory, compliance and other related activities for Real Estate and Infrastructure Projects.

Appraisal Services

Team of Registered Valuers along with tie-up with a reputed Registered Valuation Entity who are proficient technical experts for Land & Building, Plant & Machinery and Securities & Financial asset classes.

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Our best wishes to the organising RVO

Assessors and Registered Valuers Foundation

for this significant milestone in addressing valuation issues on a global scale

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