

Varying Valuation

Experts were united in their worries about the accuracy of liquidation value.

A strong deterrent for bidders is the lack of clarity on the actual value of the company and its assets, Nitika Agarwal, partner at distressed advisory company Successroute, told Bloomberg Quint. She explained that the price-discovery process under IBC has its challenges. For instance, valuations of assets, especially of land, are often suspect and need to be taken with a pinch of salt.

But valuation is not a strict maths—it applies scientific methods and varies with perception as well as evidence, Rajeev Shah, managing director and chief executive officer of RBSA Advisors, the valuation firm that valued 10 of the “dirty dozen” companies, told Bloomberg Quint.

Shah explained the practical issues he faced while valuing top IBC assets. In a large textile company, he said, advances and receivables worth Rs 20,000 crore had been pending for years, some of which were understood to be fictitious. The law mandates that valuers verify each entry and aspect of the balance sheet physically, but what are the means to verify something that doesn't exist, he questioned.

“We reached out to the counter-parties and promoters for confirmation but in 90 percent of the cases, we receive no response or data. Receivables are depicted as assets in the balance sheet and as a valuer, one must make judgment calls to determine whether a receivable is fictitious and would never really be realised by the company.”

Rajeev Shah, MD & CEO, RBSA Advisors

Similarly, he pointed out, there are many inter-company or group company transactions where money has been given to or taken from various related companies or sister concerns. Many of these companies aren't traceable or the promoters aren't cooperative and valuers are left to decode a web of transactions to ascertain their legitimacy and evaluate if these indeed are “assets” as depicted in the book of accounts, he explained.

Advisors, valuers and even the resolution professional often don't have access to relevant information such as balance sheets of these companies, Shah said.

Another issue surrounding valuation experts pointed out was the contentious transactions which are in the midst of litigation or arbitration. It's impossible to ascertain what a court or tribunal decides and so, it is up to the valuer's judgment to decide how to account for it while arriving at the liquidation value, but the buyer will most certainly discount it, they said.

“Assets like Essar, Bhushan and Binani are few and far between where there is competition to acquire them because they are prized assets. The rest 99.9 percent attract few bidders-maybe 1 or 2, if at all. Buyer has the upper hand and will be in the position to bid close to or sometimes below the liquidation value because he knows that he would still be the last option.”

Rajeev Shah, MD & CEO, RBSA Advisors

The subjectivity around valuation can be attributed to lack of uniform standards, Samir Nath, chief executive officer of Institute of Chartered Accountants of India, told Bloomberg Quint. ICAI has been designated as a registered valuer organisation by the IBBI. “IBBI is keen to regulate and monitor valuers and fix a common standard which will lead to higher accuracy in valuations and better standards for professionals,” he pointed out.