

## **| PREFACE |**

1. Practising Valuers Association (India) is once again coming forward by introducing the Indian Valuation Standards after a prolonged deliberations by an active participation of fifty one leading valuation practitioners situated in various cities of India.
2. We all are of the opinion that, technically our findings are invariably on a sound footing so, for a long it was felt necessary that, we should follow the uniform standards of professional practice, which was introduced in the year 1998 and it is noted with great pleasure that, all our members are very comfortable with the uniform standards.
3. For further advancement to the acceptability of our findings and reports, a group was set up to study the International Valuation Standards in the year 2003. Few of our members started following the standards simultaneously, while they were studying the standards and have realized that, we can also follow these

standards in our country. So, a large group was activated to participate in these deliberations and introduction of these standards with a necessary modifications, so that, our findings should have a common base and the deviations are not far and wide, reporting pattern should be comparable with that of a international valuation standards.

4. All the group participants were unanimous on one point i.e. every one should be a professionally qualified person (i.e. an Engineer OR an Architect OR a Chartered Accountant basically) and then he should learn and practice the application of specialized knowledge to arrive at an estimated value for a specific purpose.
5. Valuation is a time frame related and purpose oriented and so, it is absolutely mandatory for one and all who are in field of practicing valuation, has to keep himself abreast of the latest developments of economic reforms, technology, various taxations and restrictive provisions incorporated by the legislation.
6. To meet with this requirements, leading practitioners are aggressively practicing and guiding the delegates in their Residential Continuing Education Programme every year. Coinciding with the Continuing Education Programme in the year 2007 at Goa, limited editions of the Indian Valuation Standards were introduced and circulated.
7. During the past ten months, it was felt necessary that, it should be redrafted to suit the convenience of understanding in the context of Indian Economics and various legislations which are influencing and affecting the findings.
8. These standards would also be playing a very important role of governing the fraternity of valuers.

9. Today, we are very happy to come out with First Revised Indian Valuation Standards which are compatible with the International Valuation Standards.
10. Along with these standards, we have included common words and phrases under the title “Glossary”. The words included in the Glossary are also commonly used by the International Community of Valuers. Every word has a specific meaning attributed with reference to its context and so, we are confident that, the fraternity of Valuers shall prepare a document of Valuation Report which will stand to the test of time when contested and cannot be misinterpreted to mislead the end users.
11. We hope, these standards and the glossary would be definitely beneficial to the end users of the services of the valuers and would simultaneously make valuers more accountable to the end users because these standards also encompasses the code of conduct and ethics and disclosures of assumptions and limiting conditions. Their findings should never be misleading.
12. We are open to receive any suggestions OR improvement / modifications to these standards, besides, the constructive criticism.
13. It is a proud privilege of the Practising Valuers Association (India) to launch these standards and approach the various authorities to accept them for implementation.
14. We hope, we would be successful in this attempt.

**S.V. Joglekar**  
**Founder President (PVAI)**



## | INTRODUCTION |

The Valuation Profession without being designated as specifically 'profession of valuation' has been an existence for well over 200 years now and the skills of a valuers were being demonstrated in claiming the compensation even in those days whenever the Government authority had to acquire the lands etc. Every time the claimants had to substantiate their claims basically with reference to 'demand and supply', the importance of location, other special privilege of the location, etc.

During the colonial time, compensation awards were given invariably after settlement at Higher Courts, as such, While going through various documents and judgement delivered in those days, it was found that, even the judges had appreciated the **concept of the potentiality of particular** locations as was being used and as could have been used such reference are available in many of the judgements delivered by the High Court in those days.

One of the excellent citation was the case under reference of **Premchand Burrel and Another** versus **Collector of Calcutta**. The judgement was delivered in the year 1876 well ahead of the Enactment of Land Acquisition Act i.e. the Act of 1894 and in this judgement the principle of potentiality has been recognized. Similar citation is also available in a popular case i.e. **“Chemudu Case”** wherein the recording is very critical and the claimants views were appreciated by the Hon’ble High Court which originally were rejected by the Subordinate Judges.

After the Enactment, of Land Acquisition Act in 1894 compensations were being offered at market value. However, there were restrictive covenants in the Enactments also under different sections clearly indicating what factors should be taken into account while arriving at the compensation and determining the market value and what factors should not be taken into account while giving the compensation and determining the market value.

Whatever the situation, it is an admitted fact that, there is an element of subjectivity, while arriving at the quantity of market value. There have been attempts to reduce the impact of the subjectivity. It was very much advocated that, all such subjective findings should be supported by objective parameters and so, different methods of valuation were being followed. As the time advances, it was felt necessary that, we should have uniformity in such findings and such findings should never be misleading and so, some more efforts were being done.

Nonetheless, till recent past there was no consensus about these standards determined by the Professional Practising Valuation. Lobby in reality a great scope was there to have such consensus, because, in the era of Estate Duty Act, the registered valuers were recognized by the Enactment and that also under one authority.

After the Estate Duty Act was repealed, these registered valuers had to go in for fresh registrations under the Wealth Tax Act in the year 1986. By then, it was very clear and well admitted, understood and followed that, valuations are **time frame related** and **purpose oriented**, because, then the requirement of valuation certification i.e. third party opinion was constantly increasing for different purposes like Insurance, financial assistance from the bank, besides, the important purpose of un-earthen-ing the undisclosed income invested.

In the year 1986, the finance bill was introduced with a new provisions of getting an Income Tax clearance before registration of documents and it was further amended in the subsequent years and a new section was introduced wherein the preemptive acquisitions were introduced. The significance and importance of the valuer went on increasing as the economy was becoming parallel i.e. lot of investments were made out of unaccounted incomes. In fact, the matter was so aggravated that, besides the preemptive acquisition provisions, Government had to introduce voluntarily disclosure system three times in continuation to get the desired impact.

While this economy was booming and advancing, the banking sector also started feeling the heat of the same and has started realizing that their exposure is much more than the security they hold. This has become very significant in the period of recession during 1994 and the problem of non performing assets aggravated beyond any proportions.

While these things were happening, Government had introduced a liberal economic policies after signing an agreement with WTO and GAT i.e. Liberal Imports and inducement to overseas investors. Considering the impact of various necessities and it was the need of overseas investors to truly understand the net worth of the project, companies and the stocks.

They were keen to ensure that, the financial reporting is subjected to standards which are compatible with International Accounting Standards so that they can take a well informed decisions.

Under these circumstances, at an organized level many new things were being introduced and it was high time that, practicing valuers also should have uniform standards which are compatible with the standards followed in advanced countries and so, we as PVAI also started working on the same since 1997 and in the year 2005, we approached the International Valuation Standards Committee (IVSC) to allow us to become the member and have the necessary access views to informaton & which will enable us to introduce such standards and the benefits of such standards would naturally accrve to the endusers.

Practising Valuers Association (India) had incorporated a group of practising valuer members to study the InVS which are being followed in all advance countries and explore the possibility of implementing these standards in our country.

All the members made efforts in the direction of evolving such standards, which could be practically implemented in India keeping an eye on the '**InVS**' so that, we introduce the standards which are very close to the 'InVS'.

The committee deliberated on five occasions with an appropriate intervals, and have discussed the various points suggested by the members visa-vis. the standards followed by '**IVSC**'. The outcome of these deliberations had been the definitions of various values attributed under different enactments, was one of the influencing factors which was creating confusion and was appearing to be misleading and so, it was unanimously agreed by the Committee that, wherever there is a

specific meaning attributed to the '**definition of value**' and if the restrictive covenants are provided in the enactment, they will override the standards recorded herein. This particular clarity is evolved and recorded here to clearly demonstrate that, the law of the soil will prevail over the findings arrived at by the valuers, by clearly implementing the provisions of the enactment so that, all the issues are properly addressed before a valuer arrives at a particular '**figure of value**' / (or a particular quantour of value)?.

After considering this particular aspect and the principle of valuation, it was felt quite just and also very fair to adopt the 'InVS' '**as it is**' and in place so that, any user of the report should not create a confusion about the findings of the valuer.

The '**IVSC**' has also incorporated the basic principles of Code of Conduct & Ethics which members of PVAI are following since 1997 and they are in compliance with the fundamental concept of generally accepted valuation principles and Uniform Standards of Professional Appraisal Practice.

These codes of conduct and the fundamental concepts are also recorded in the annexures to these standards as they are being followed for the past few years by all the member of PVAI and for the information of the users of this book.

It would not be out of place and it would be an appropriate act on the part of PVAI to record the names of the member of PVAI who have very actively participated in the deliberation while arriving at the consensus to adopt the compatible valuation standards (*users are requested to take the note of “\*\*” which connotes the deviation from the International Valuation Standards with reference to definition OR meaning OR restriction etc.*)



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## **OBJECTIVES AND SCOPE OF THE STANDARDS**

PVAI is in 100% concurrence with the objectives of the introduction of the InVS by IVSC as such they are being recorded hereunder:

To facilitate cross-state border transactions and contribute to the viability of international property markets by promoting transparency in financial reporting as well as the reliability of valuations performed to secure loans and mortgages, for transactions involving transfers of ownership, and for settlements in litigation or tax matters;

To serve as a professional benchmark, or beacon, for Valuers from India thereby enabling them to respond to the demands of international property markets for reliable valuations and to meet the financial reporting requirements of the *global business community*; and

To provide '**Standards of Valuation Practice**' and '**Financial Reporting**' that will meet the requirements of our developing rapid Industrialisation and over all needs of National Economy.

Users of valuations under InVS should be able to rely on our valuation reports as having been carried out by competent professionals, who subscribe to high standards of ethical conduct. As the scope of 'valuation practice' becomes broader, the term *\*\*property valuation* has gained currency over the more restrictive term **asset valuation**, a term referring to valuations performed primarily for use in financial reporting.

After the adoption of these standards all the professional valuers will commonly address the tangible as also intangible assets as the **"Property"** only. (and will not use the term **'assets'**).

A professional property (tangible and/or intangible assets) valuer is a person who possess necessary **qualifications**, ability and experience to estimate property value for different purposes including the transactions involving transfer of the property ownerships, property as collateral security and mortgages, property subject to litigation OR pending settlement on taxes and / OR property treaty as an asset in financial reporting.

A professional property (tangible and intangible assets) valuer may also possess the specific expertise to perform the valuations of other category of properties i.e. personal property, businesses and financial interest.

Indian Valuation Standards represents the best practice in valuation profession which is also known and considered as, generally accepted valuation principles. Indian Valuation Standards advocates that, if there are any deviations in the statements AND / OR applications between the standards followed and the Indian Valuation Standards, it must be disclosed.

A valuer sometimes is required to follow an approach i.e. different from the Indian Valuation Standards in order to be in compliance with the local practices AND/ OR national regulations AND/ OR specific enactments/ restrictive covenants.

InVS encourages all professional valuers to update themselves by regularly participating in continuing education programmes conducted by PVAI and prescribes what valuers should do rather than explain how specific procedure OR methodologies are applied.

InVS recognizes that, every application is faced with specific valuation problem, the solution of which depends on the valuers ability to select the relevant techniques and exercise appropriate judgement.

Wherever, the standards of other disciplines, such as accounting, may apply to valuations, valuers are advised to understand clearly the accounting use to which their valuations are put. e.g. A valuation if required to be done for Impairment of Asset for incorporating its finding in its audit report, valuer is expected to address two specific parameters suggested in the Accounting Standard i.e. whether the investment supports the income generated by the Machines & Equipment OR if they are required to be sold, will the sale fetch atleast the value attributed in the books of accounts.

When financial reporting or other accounting application is expected to be made of **'the Valuation Report'**, the valuer shall comply with both the standards i.e. Accounting and Property Valuation Standards. However, if there is any conflict between these two sets of standards the valuer must will make the disclosure of **'THE SITUATION'** in his report.

Professional valuers are following generally accepted valuation principles which are well understood and established for the use of all the stakeholders and so, the standards which are recorded hereunder are in the concept forms and they are to be understood with other common elements i.e. Code of Conduct, the manner of reporting the valuations and the restrictive use of the report for which specific purpose it has been addressed.

Thus, the reader would benefit most from reading the entire document which is expected to be completely read as mandatory. Part of the document reading AND/ OR reporting may be misleading and so, whenever the report is to be read, it is to be read for all its elements collectively and not in isolation.

This book is just enumerating the standards and the generally accepted valuation principles as also the code of conduct; whereas the application and guidance notes are being published separately, addressing different issues, This **may kindly be noted.**

## **IMPORTANT TERMS OF REFERENCES REQUIRED TO BE UNDERSTOOD BEFORE WE PROCEED TO THE STANDARDS**

The property

Types of properties

Bases of Valuations

Standard – 1 Market Value

Standard – 2 Non Market Value

Standard – 3 Valuation Reporting

For the convenience of the users, it is suggested that, they may refer to the glossary of valuers commonly used by professional valuers to infer an appropriate meaning attributed to specific words.

It may be also noted that, valuations of the same asset will have a different numerical finding depending on the purpose for which the exercise is being done. It is a time frame related finding and is expected to change. However, for the convenience of the users,

**separately we have recorded different purposes for which a valuer is required to exercise his skills.**

The property – While introducing these standards, it has become imperative for us to little this elaborate term, “The Property” which is commonly referred in the standards and its reporting patterns. Because, till these standards become popular, by virtue of the practice followed, fundamentally, we have been classifying the properties as, tangible and intangible assets. That is to say tangible assets are the physical assets which are visible. In these tangible assets also there is sub classification referred as Fixed Assets, moveable and Fixed Assets Immoveable which implies machines and equipment AND land and building respectively.

The intangible assets includes the royalties for technologies, intellectual property rights, good will, brand, etc. which are not apparently visible and has a value.

In these standards the word property is commonly referred to both the tangible and intangible asset i.e. land and building, plant and machinery, good will, intellectual property rights, copy rights, trade mark, etc.

Once again we would like to emphasis to the users of these standards, please understand the term property recorded hereinabove very clearly so that, while reading the standards, understanding the standard, interpreting the terms of reference under the standards are not misunderstood.

Property is a legal concept encompassing all interest, rights and benefits related to the ownership. To distinguish between the Real Estate, which is a physical entity and its ownership, which is a legal

concept, the ownership of real estate is called the Real Property. The combination of rights together with the ownership of the real property is also referred as “Bundle of Rights”, it is comparable with the bundle of sticks and each stick representing a distinct and a separate right of the property owner e.g. Right to use, to sell, to lease, to give away OR to chose to exercise, all OR none of the rights.

**Personal Property** : Ownership of an interest in items *other than real estate* is referred to as a Personal Property and so, the word **\*\*Property** used without further qualification OR identification may refer to real property, personal property OR other types of property such as, business and financial interest OR a combination of them.

Property Valuers are those who are professional qualified and have acquired special knowledge in the discipline of economic and has the ability and an experience to prepare and report the valuations.

Let us understand few more terms i.e. types of the properties:

**Real Estate** – It is the physical land and those humanly made items which are attached to the lands. It is the physical, tangible thing which can be seen and touched together with all additions on, above and below the ground. Local laws within each state / local bodies prescribes the basis for distinguishing a Real Estate from the personal property.

**Real Property** – It includes all the rights, interest and benefits related to the ownership of the real estate. An interest OR interests in the real property is documented by some evidence of ownership e.g. Title Deed which is separate from physical real estate. Thus, the real property is non physical concept.

**Personal Property** - It includes interest in tangible as well as intangible items which are not Real Estate. Items of tangible personal property are not permanently fixed to the Real Estate and are generally referred to as the moveable assets.

**Current Assets** - These assets are not intended for use on a continuous basis in the activities of an enterprise e.g. Stocks, obligations owned to the entity, short term investments, cash and bank balance, etc. However, under typical circumstances a real estate which is normally considered as a fixed assets, is to be considered as a current asset i.e. a land bank OR properties ready for possession OR sale in the accounts of the builders/ developers.

**Property, Plant and Equipment** - It is considered as an asset for use on continuing basis in an activity of an enterprise. Plant and equipment and other categories of an asset are suitably identified and necessary depreciation, etc. are provided for and they are tangible i.e. physical assets.

**Depreciation** - This term is used in different context in valuation and in financial reporting. In the context of asset valuation, depreciation, refers to the adjustments made to the cost of reproducing OR replacing the assets to reflect the physical deterioration and functional (technical) and economic (external) obsolescence in order to estimate the value of an asset in a hypothetical exchange when there is no direct sale evidence available. In the financial reporting, it refers to the charge made against income to reflect the systematic allocation of depreciable amount of an asset over its useful life to the enterprise. It is specific to particular enterprise and its utilization of assets, and is not necessary affected by the market.

It is necessary for us to clearly understand four important terms, price, cost, market and value. These terms have specific meaning

within a given discipline. However, commonly they are used interchangeably. We are attributing a specific meaning to these words which are recorded hereunder:

**Price** - It is an amount asked, offered OR paid for goods OR services. Sale Price is an historical fact, whether it is publicly disclosed OR kept confidential. Because of the financial capabilities, motivations OR special interest of a given buyer AND/ OR a seller, the price paid for goods OR services, may OR may not have any relation to the value which might be ascribed to the goods OR services by others. Thus, price is an indication of a relative value to a particular buyer AND/ OR seller under particular circumstances.

**Cost** - Cost is a price paid for goods OR services OR the amount required to create OR produce goods and services. When that goods and services has been completed, its cost is an historical cost. The price paid for goods and services becomes its cost to the buyer.

**The Market** - It is an environment wherein goods and services are traded between buyers and sellers through a price mechanism. The concept of market implies that, there are no undue restrictions on these trades. Each party will respond to supply and demand relationship and other price setting factors as well as the parties own capacities and knowledge, understanding of the relative utility of the goods and services and individual needs and desires. Geographically a market could be local, regional, national OR international.

**Value** - It is a concept referring to the price, most likely to be concluded by the buyers and sellers of goods and services that is available for purchase. Value is not a fact, it is a concept, but an estimate of the likely price to be paid for goods and services at a given time, in accordance with a particular definition of value. The

economic concept of value reflects market's view of the benefit that can accrue to the one who owns the goods and services as of the effective date of valuation.

**Market Value** – Again, it is a concept and the concept of Market Value reflects the collective perceptions and actions of a market and is the basis of valuing most resources in a market based economics. Although the precise definition may vary, the market value concept is commonly understood and applied. It is defined as, “The estimated amount for which a property should exchange on a given date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowingly, prudently and without compulsion”

It is a concept perused by a valuer while estimating the market value. It is defined as, “The most probable use of the property which is physically possibly, appropriately justified, legally permissible, financial feasible and which results in the highest value of the property which is being assessed”

Other important concepts which needs to be understood as the pre-requisites while we are proceeding to under take the study of Standards are the basis of valuation. Broadly, there are two approaches of valuation i.e. Based on the “Market” and Based on “Non-market”.

Further, the market based valuation approach has got three elements

- (a) Sales Comparison Approach
- (b) Income Capitalization Approach
- (c) Cost Approach.

**Sales Comparison Approach** – It is a comparative approach, it addresses the sale of similar OR substitute properties and the related market data and establishes a value estimate by process involving comparison. In general, a property being valued (the subject matter) is compared with the sales of similar properties that have been transacted in the market (historical fact). Listing and offering may also be considered to arrive at an estimated value.

**Income Capitalization Approach** – This process may consider a direct relationship i.e. Capitalization rate either by yield OR discount rates i.e. measurement of return on investment OR both. The principle of substitution holds that, the income stream which produces the highest return commensurate with the risk leads to the most probable value. Here, the income and expense data is compared with the comparative properties and then capitalized.

**Cost Approach** – This is a method of substitution for the purchase of a given property, one could construct another property i.e. either replica of the original OR one could deliver equal utility. In the real estate context, one would normally not be justified in paying more for a given property than the cost of acquiring an equivalent land and constructing an alternative structure, unless, undue time, inconvenience and risk are involved. In this approach, an estimation for depreciation of older OR less functional property is also taken into account where an estimate of cost of new unreasonably exceeds the likely price that would be estimated for the property under reference. Normally, this approach is used for financial reporting and is referred as, “Depreciated Replacement Cost” i.e. (DRC)

**Non-Market Value** - The non-market based valuation has only one concept, which typically involves, a purpose other than establishing

a market value, while using the approaches recorded in the market based valuations e.g. a land owner may pay a premium price for an adjacent property i.e. a special purchase value OR an investor may apply a rate of return i.e. non market and particular only to that investor.

Indian Valuation Standards very strongly advocate that, the valuer must comply with OR must adhere to the clause of competency before undertaking an assignment of valuation of a particular class of asset i.e. an immovable property other than agricultural land, agricultural land, plantation for tea, coffee and cardamom land, forest land, jewellery, work of art, valuation of life interest, metallurgical mining, stocks, shares, debentures and securities, plant, machines and equipment, etc.

The expected qualifications, experience and exposure is recorded in detail in this book.