Chapter 3

Valuation of Sugar Mills

In any sale process, valuation of the assets involved is pre-requisite and important activity. Valuation determines threshold amount or Reserve Price which a seller considers adequate for sale of his assets/ business. The Disinvestment Guidelines provided for valuation of assets by two independent, reputed valuers and fixation of a Reserve Price. The Guidelines also suggested four methodologies, viz. Discounted Cash Flow Method (DCF), Balance Sheet Method, Market Multiple Method and Assets Valuation Method for valuation of business to be sold. **(*Annexure 7*)**.

Valuation of mills- UPSSCL

3.1 In July 2009 UPSSCL appointed S. R. Botliboi and K. R. Bedmutha as Asset Valuers for valuation of 11 operating mills of UPSSCL. They were given the directions to submit their valuation reports for each of sugar mill as per four methodologies suggested in the guidelines.

Two Valuers appointed in July 2009 for valuation of mills, submitted their valuation reports in August 2009.

The Advisor (IFCI) engaged for the purpose of slump sale* of sugar mills was given the responsibility of examination and presentation of valuation reports submitted by the Valuers, to the CGD. The CGD was responsible for making final recommendations for Reserve Price to Cabinet/CCD after due deliberations.

In August 2009 the Valuers submitted Reports on valuation of all the 11 operating sugar mills of UPSSCL on the basis of Annual Accounts of respective mills for the year 2008-09. As the Mohiuddinpur sugar mill was not sold, our findings are limited to the ten sold sugar mills.

Method of valuation by Valuers

3.1.1 S. R. Botliboi (SRB) and K.R. Bedmutha (KRB) submitted their valuation reports after valuing different assets of the mills on the basis of following assumptions;

Land Valuation

SRB considered the prevailing Government Guidelines on Disinvestment, value of different site and holding rights.

KRB had taken in to account the following assumptions for land valuation;

- the supply demand position of the properties in the locality,
- the restrictive covenants about the use of land, its transferability, the master plan, civic regulations, court matters etc. The necessary factor has to be given due consideration over and above the valuation arrived at.
- while arriving at market value, discounted value at appropriate rate whenever properties were in dispute and matter was pending with Judicial Authority.
- Proper weightage had been given for recommendations, suggestion, observation given in Due Diligence Report (Legal) carried out by the

* Sale of a unit with all its assets and liabilities excluding the liabilities to be retained by UPSSCL/UPRCGVNL.

Chitale and Chitale Partners, Advocate and Legal Consultant, which was provided.

Building Valuation

SRB assessed the value of the buildings on the basis of assets available, their condition, obsolescence etc. and their current replacement value.

KRB stated "the value of building is arrived at by its replacement cost and the necessary depreciation has been deducted according to the existing age of the building, life of the building, maintenance of building and the market value is arrived".

Plant and Machinery Valuation

SRB stated that assets valuation exercise had been carried out to assess the current replacement cost of similar type of equipment. For this purpose the value of similar new equipment along with its pre-operative/ preliminary expenses was taken as base. The base figure was thereafter discounted on consideration of its condition, productivity obsolescence, estimated future economic life etc.

KRB stated to have applied the replacement method and appropriate depreciation as applicable. While arriving the realizable fair market value, if sold as sugar machinery, the age of installed machinery, present value of similar plant and machinery, residual life, cost of erection, commissioning and installation, appropriate depreciation applied, condition of plant and machinery and capital expenditure done from time to time, had been considered.

The value of Land, Building and Plant and Machinery and other assets as assessed by the Valuers is given below:

(₹ in crore)

Sugar Mills	Land			Building			Plant and machinery		
	1			2			3		
	SRB	KRB	Average	SRB	KRB	Average	SRB	KRB	Average
Amroha	15.52	19.76	17.64	14.90	19.29	17.10	9.32	11.25	10.28
Bijnore	127.69	138.29	132.99	7.66	11.47	9.57	8.41	13.30	10.86
Bulandsahar	147.22	164.38	155.80	6.02	18.90	12.46	31.56	13.30	22.43
Chandpur	9.31	31.54	20.43	10.25	15.40*	12.83	12.67	10.64	11.65
Jarwal Road	5.39	2.15	3.77	7.20	11.13	9.17	15.66	9.50	12.58
Khadda	11.57	5.54	8.56	3.59	13.51	8.55	11.43	6.25	8.84
Rohankalan	26.68	23.09	24.88	13.80	25.39	19.60	2.96	9.48	6.22
Saharanpur	258.06	309.22	283.64	11.85	33.54*	22.70	15.28	11.41	13.35
Sakotitanda	34.57	26.33	30.45	13.52	23.56*	18.54	6.46	7.25	6.85
Siswa Bazar	42.09	40.98	41.53	6.38	12.35	9.37	14.30	9.50	11.90
Total	**678.10**	**761.28**	**719.69**	**95.17**	**184.54**	**139.89♥**	**128.05**	**101.88**	**114.96**

* *Although KRB valued the building of Chandpur, Saharanpur and Sakotitanda at ₹ 15.14 crore, ₹ 21.37 crore and ₹ 13.94 crore respectively, the Advisor considered the values of building of above three mills in his report at ₹ 15.40 crore, ₹ 33.54 crore and ₹ 23.56 crore respectively.*

♥ *The advisor considered the average value of the building of both valuers ₹ 139.89 crore instead of ₹ 139.86 crore.*

Sugar Mills	Other assets			Total assets value		
	4			5		
	SRB	KRB	Average	SRB	KRB	Average
Amroha	0.18	0.08	0.13	39.92	50.38	45.15
Bijnore	0.22	0.15	0.18	143.98	163.21	153.60
Bulandsahar	0.27	0.15	0.21	185.07	196.73	190.90
Chandpur	0.17	------	0.08	32.40	57.58	44.99
Jarwal Road	0.20	0.05	0.13	28.45	22.83	25.64
Khadda	0.20	0.12	0.16	26.79	25.42	26.10
Rohankalan	0.20	0.10	0.15	43.64	58.06	50.85
Saharanpur	0.59	0.88	0.74	285.78	355.05	320.42
Sakotitanda	0.01	0.13	0.07	54.56	57.27	55.91
Siswa Bazar	0.19	0.17	0.18	62.96	63.00	62.98
Total	**2.23**	**1.83**	**2.03**	**903.55**	**1049.53**	**976.54**

Recommendations of the Valuers

3.1.2 SRB presented their valuation report on the basis of four methods viz Discounted Cash Flow Method (DCF), Balance Sheet Method, Market Multiple Method and Assets Valuation Method for valuation of business. **KRB,** however, presented their valuation report on the basis of three methods viz. Discounted Cash Flow Method (DCF), Balance Sheet Method, and Assets Valuation Method and did not value the mills based on Market Multiple Method on the plea that there were no comparable companies with the units under valuation.

The values recommended by the Valuer for ten mills by applying each of the suggested methodology are given in the table below:

(₹ in crore)

Valuers	Asset Valuation Method					DCF Method	Market Multiple Method	Balance Sheet Method
	Land	Building	Plant and Machinery	Other assets	Total			
SRB	678.10	95.17	128.05	2.23	903.55	278.34[9]	232.95	320.63
KRB	761.28	184.54	101.88	1.83	1049.53	246.94[10]	-----[11]	153.39
Difference	**83.18**	**89.37**	**26.17**	**0.40**	**145.98**	**31.40**		

As it can be noticed from the table that there were vast differences in the valuation of mills done under different methods by two Valuers.

Adoption of weightage by Valuers

3.1.3 SRB stated that due to lack of availability of standard data, the accuracy of approaches like DCF Method, Market Multiple Method etc. might not be achieved to desired level. SRB, therefore, opined that the results of tangible asset valuation which was entirely an off balance sheet exercise were more applicable and relevant. Accordingly, SRB had assigned more weightage to the values derived under 'Assets Valuation Method' than other methods while assessing the values of the mills for the purpose of sale. In the context of the above, the summarized valuation of each unit had been computed by them adopting the following weightage;

(Figures in percentage)

Methodology	Assets Valuation Method	Balance Sheet Method	DCF Method	Market Multiple Method
Weightage assigned	50	20	20	10
Weightage when DCF is negative	50	30	--	20

KRB recommended enterprise value on the following weightage without assigning any further reasons:

(Figures in percentage)

Methodology	Assets Valuation Method	Balance Sheet Method	DCF Method	Market Multiple Method
Weightage assigned	80	--	20	--
Weightage when DCF is negative	100	--	--	--

9 This includes valuation in respect of eight sugar mills only as Jarwal Road and Rohan Kalan mills had negative DCF value.

10 This includes valuation in respect of six sugar mills only as Saharanpur, Jarwal Road, Khadda and Rohan Kalan mills had negative DCF value.

11 The valuer did not submit valuation as per Market Multiple method assigning reason that there were no comparable Companies.

Recommendation by Advisor /CGD

3.2 The summarised value of sugar mills as suggested by Valuers/Advisor and approved by CGD from time to time is given below:

(₹ in crore)

Sugar mill	Value of land (Average of both Valuers)	Average of enterprise value by the two Assets Valuers (after considering Net Current Assets and other adjustments as on 31 March 2010)	Enterprise value recommended by Advisor as on 20 August 2009 at 11 AM (after considering Net Current Assets and other adjustments as on 31 March 2009)	Enterprise value recommended by CGD on 20 August 2009 at 6.30 PM (after considering Net Current Assets as on 30 June 2009 and other adjustments as on 31 March 2009)	Final enterprise value recommended by CGD on 08 May 2010 (after considering Net Current Assets and other adjustments as on 31 March 2010)
	A	B	C	D	E
Amroha	17.64	34.76	38.72	18.55	16.70
Bijnore	132.99	182.08	184.24	141.89	161.85
Bulandsahar	155.80	144.00	116.05	65.32	58.80
Chandpur	20.43	76.16	81.74	78.45	83.35
Jarwal Road	3.77	39.11	27.28	11.78	25.67
Khadda	8.56	30.76	29.93	25.25	20.07
Rohankalan	24.88	53.30	48.15	42.04	41.00
Saharanpur	283.64	252.49	213.28	85.73	70.90
Sakoti Tanda	30.45	52.63	73.79	47.77	41.10
Siswa Bazar	41.53	59.55	71.26	45.85	32.55
Total	**719.69**	**924.84**	**884.44**	**562.63**	**551.99**
Reference to		**Annexure-8**	**Annexure-9**	**Annexure-10**	**Annexure-11**

Note: Other Adjustment includes voluntarily Retirement Scheme (VRS) liabilities, Transaction Development Cost (TDC) and Contingent liabilities.

The table above depicts valuations of each mill at different stages. The column wise details depicted are :

- (A) The average value of land (₹ 719.69 crore)
- (B) The average valuation (₹ 924.84 crore) of each of the ten mills as per the valuation made by the Valuers.
- (C) Enterprise value (₹ 884.44 crore) recommended by the Advisor on 20 August 2009 at 11 AM taking:
  - value of land after applying 3 to 30 *per cent* discount on account of dispute in respect of four mills (Amroha, Bijnore, Bulandsahar and Saharanpur),
  - weightage of one-third for valuation of DCF and two-thirds for land value so arrived; and
  - value of Plant and Machinery as scrap.
- (D) Enterprise value (₹ 562.63 crore) recommended by CGD on 20 August 2009 at 6.30 PM after allowing:
  - 3 to 30 *per cent* discount on value of land being disputed,
  - discount of 25 *per cent* on the value of land so arrived as well as on buildings on account of restricted land use, large area of land and stamp duty etc,
  - weightage of two-thirds to DCF method and one-third to discounted value of land and building; and
  - the value of Plant and Machinery as scrap.
- (E) Final enterprise value (₹ 551.99 crore) after adjusting change in value of net current assets of value arrived at “D” which took place during 2009-10 and other adjustments.

Our examination of valuation reports submitted by the Valuers, reports of Advisor and final decision taken thereon revealed following:

Reduction in the Value of Land

3.3. S. R. Botliboi (SRB) and K. R. Bedmutha (KRB), assigned the value of Land of ten mills as ₹ 678.10 crore and ₹ 761.28 crore respectively. SRB mentioned that in case of land they had taken prevailing Government Guidelines, value of different site and holding rights. KRB mentioned in their reports that while arriving at the market value of land, they had discounted the value at appropriate rate in cases where the property was in dispute and if any matter was pending with any judicial authority. Thus, both the valuers took into account the fact of disputes/ unclear title on the land of mills while assigning a value to it.

The Advisor reduced the valuation of land as worked out by the valuers, by 3 to 30 *per cent* based on the factors already considered by the Valuers.

We noticed that on 20 August 2009 (11:00 AM) the Advisor further reduced (ranging from 3 *per cent* to 30 *per cent*) the valuation of land as worked out by the Valuers. This reduction amounted to ₹ 90 crore (₹ 719.69 crore *minus* ₹ 629.69 crore) in case of four sugar mills[12] on the ground of dispute over the land as detailed in ***Annexure 11***. We feel that since the valuers had already taken this aspect into consideration during their valuation process, further reduction in the value of land by Advisor was not justified.

(Cane Yard of Sakoti Tanda Mill)

(Cane Yard of Rohankalan Mill)

The Management of UPSSCL responded (August 2011) to our observation by stating that SRB did not provide any discount and KRB though mentioned the discount in their valuation report did not give discount on the disputed land. Thus only one discount was given at the level of the Advisor.

The reply was not acceptable as though the Valuers had not specifically mentioned the discount figures, both the Valuers had clearly stated that the facts of land holding rights/ land dispute etc. were properly taken care of while valuing land.

Revision in methodology for valuation of mills

3.3.1 After submission of the recommendation on the valuation of the mills by the Advisor on 20 August 2009 (at 11.00 AM), Advisor further revised (20 August 2009) the methodology of valuing the mills on the same day (i.e. on 20 August 2009 at 06.30 PM) based on the deliberations of the meeting with the CGD and adopted the following major changes:

- Additional discount of 25 *per cent* was allowed on the average land value,
- Discount of 25 *per cent* was allowed on the building value

---

12 Amroha, Bijnore, Bulandsahar and Saharanpur.

- Discounted value of land and building so arrived were clubbed for the purpose of deriving the final value of mills
- Final value was worked out by adopting one-third of the said clubbed values of land and building together and two-thirds of the value of DCF method. (i.e in 1:2 ratio instead of 2:1 ratio adopted earlier in the morning hours of 20 August 2009 for asset valuation and DCF valuation respectively).

The above changes of allowing more weightage to DCF valuation were given on the plea that DCF valuation was more relevant from prospective buyers' point of view. The impact of the above changes has been discussed in the succeeding paragraphs.

Additional discount on the value of Land and Building

3.3.2 The Advisor suggested further discount of 25 *per cent* on the valuation done by the valuers for arriving at realizable value of fixed assets on the grounds that:

- land was to be used for the purpose of running sugar mills,
- land had large area,
- most of buildings of sugar mills were very old,
- Civil structure of buildings might have to be pulled down as it could not be useful for new plant lay- out requirement.

(Administrative Building of Jarwal Road mill)


(Administrative Building of Amroha mill)

This additional discount had the impact of reduction of the Expected Price by ₹ 192.48 crore (₹ 769.58 crore *minus* ₹ 577.10 crore) as detailed in the ***Annexure 11.***

The Advisor gave a further discount of 25 *per cent* on the valuation done by the valuers for arriving at realizable value of fixed assets.

We feel that this reduction in valuation of land was not justified in view of the fact that Valuers had already valued the land at its real market value which was indicative of the fact that all above factors were already taken into account by the Valuers while assessing the land and building values of the mills.

Application of more weightage to Discounted Cash Flow Method

3.3.3 As provided in the guidelines and terms of appointment of the Valuers, valuation of operating sugar mills was also done using Discounted Cash Flow method (DCF). Initially, CGD had decided to give weight of two-thirds and one-third to land value and the corrected DCF value respectively and to consider realisable value

On the plea that DCF value was more relevant from point of view of the prospective buyers, the advisor and CGD increased the weightage of DCF value to 2:1 from 1:2.

of buildings separately for arriving at the value of each mill. However in a subsequent meeting (20 August 2009) on the plea that DCF value was more relevant from the point of view of prospective buyers, CGD changed the weightage to two-thirds to DCF Method and one-third to the values of land as well as building in respect of mills giving positive DCF value. Thus the over-all impact due to revision in the methodology of valuation of the mills by the Advisor at the instance of CGD, was to the extent of ₹ 243.48 crore (₹ 646.64 crore *minus* ₹ 403.16 crore) as detailed in the ***Annexure 12.*** This included the impact of ₹ 192.48 crore on account of additional discount (25 *per cent*) on the land and building values and clubbing of building with land value for deriving final value of mills.

The Management of UPSSCL replied (August 2011) that maximum weightage was given for DCF method as the sale of sugar mills had been made on the assumption of going concern units.

The reply was not acceptable as application of higher weightage to DCF method resulted in significant reduction in the expected price of the mills. Further, we noticed that on 20 August 2009 (11 A.M) the Advisor and CGD had agreed and stated as follows;

"As the units are in operation and are expected to be run as a sugar mill, for the benefit of cane growers and employees, the business value of the units would be more relevant for any prospective buyer. The business valuation based on earning capacities of the units, are very low or even negative in many units. At the same time these units have high market value of land which is a potential asset, though not captured in earning method. Therefore weightage to both methods should be provided. CGD directed advisor that valuation exercise may be carried out taking weightage of 2:1 for the land value and corrected DCF value respectively."

Subsequently the weightage were changed to 1:2 for the land value and Corrected DCF value respectively at 6.30 PM on the same day at the instance of CGD by considering that

"it was consensus that from prospective buyers' point of view DCF value was more relevant."

We are of the opinion that the full value of land other than that occupied by building, plant and machinery should have been considered along with DCF valuation for each enterprise. Considering this the earlier decision of allocating the 2:1 ratio for land and DCF was the appropriate one.

Valuation of Plant and Machinery at Scrap Value

3.4 Both the Valuers initially considered average realizable market value of Plant and Machinery at ₹ 114.96 crore (***Annexure 13***) but subsequently based on the direction of CGD, SRB and KRB valued (August 2009) the Plant and Machinery of ten sugar mills at scrap value of ₹ 26.69 crore and ₹ 22.45 crore respectively.

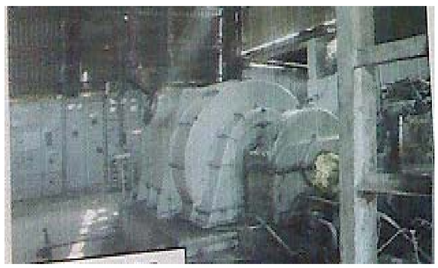
The average market value of Plant and Machinery initially valued at ₹ 114.96 crore by valuers was revalued as scrap at ₹ 32.88 crore.

The CGD decided (14 August 2009) to take scrap value of Plant and Machinery and accordingly the scarp value of ₹ 32.88 crore of ten mills was included in final Expected Price by the Advisor. We noticed that scrap value of Plant and Machinery was taken despite the fact that:

- All the mills were in operation till 2009-10 (***Annexure 14***),

- Three mills[14] were in Profit after Tax during 2008-09 and 2009-10 (***Annexure 15***),
- Jarwal Road, Saharanpur and Siswa Bazar mills earned Profit during 2008-09 and Khadda mills earned profit during 2009-10.
- No basis was recorded in the valuation report to arrive at the scrap value of Plant and Machinery by the Asset Valuers.

Thus, in our view the Plant and Machinery was undervalued by ₹ 82.08 crore (₹ 114.96 crore *minus* ₹ 32.88 crore) in the Expected Price of ten mills as detailed in the ***Annexure 13*****.**



(Power Turbine of Sakoti Tanda mill)

(Electric Panel of Sakoti Tanda mill)

The Management of UPSSCL replied (August 2011) that plant and machinery of the mills were obsolete, except one mill all other mills of the capacity of 2500 TCD would not be viable as mills of at least of 5000 TCD was viable and purchasers would have to replace the old plant and machinery with machinery having higher capacity and new technology. Therefore, CGD decided (August 2009) to value the plant and machinery at scrap value.

The reply of UPSSCL was not acceptable in view of the following:

- in the valuation of mills more weightage was given to the DCF method. This method takes into account present value of future earning capacity based on the operational condition of the Plant and Machinery, and hence, implied that the condition of the Plant and Machinery of the mills was reasonably fair.
- The records of the ten operating mills for the year 2010-11 show that all the mills were operated at capacity utilization ranging between 61 *per cent* (Jarwal Road) to 95 *per cent* (Khadda)without any additional capital expenditure. In fact the average capacity utilization of these mills actually increased from 67 *per cent* to 81 *per cent* after sale.

These facts underscore our contention that the valuation of Plant and Machinery at scrap value was not justified.

Reduction in valuation due to clubbing of land of old and new mills

3.5 Saharanpur mill had land (27.8640 hectare) of old sugar mill where no production activity was being carried out after a new mill was set up at new place (13 km away from old mill). In the sale process both the mills were taken together and sold.

[14] Bijnore, Bulandsahar and Chandpur.

We noticed that the land of the old mill alone was valued at ₹ 251.36 crore[15] if sold as separately from the operating mill. There was no compulsion to club the old inoperative mill with the new operating mill and sell both as a going concern. By not de-linking the same the Management lost the opportunity to realize ₹ 251.36 crore. In this case due to combining the two plots of land and the sale of the entire land as a going concern basis, valuation of land was reduced by application of discount of 25 *per cent* and weightage given to the DCF method and as a result the realization received for the land was only ₹ 27.64 crore[16]. Thus, due to combining the two land areas, the valuation reduced to the extent of ₹ 223.72 crore (₹ 251.36 crore *minus* ₹ 27.64 crore).

Land measuring 27.8640 hectare valued at ₹ 251.36 crore situated 13 km away from the mill was clubbed with the mill for valuation.

The Management of UPSSCL stated (August 2011) that the realizable value of land can not be at par with the real estate as the use of land is restricted for operation of sugar mills only. Reply was not acceptable as the value of old land adopted in our observation has been taken from the value assessed by two valuers duly taking into account the restrictive use of land.

Conclusion

The following summarises irregular reduction in valuation of ten sugar mills at different stages:

- **reduction in the value of land by 3 to 30 *per cent* by the Advisor on the ground of disputes over the land despite the fact that this factor had already been considered by the Valuers;**
- **additional discount of 25 *per cent* on land and buildings allowed by the Advisor on the grounds of restricted land use, large size of land etc.;**
- **application of DCF method and more weightage to it for valuation despite there being no guarantee of running the sugar mills in future;**
- **valuation of plant and machinery as scrap despite it being operational; and**
- **clubbing of land of old and non-operating mill with that of new sugar mill.**

All these resulted in reduction of valuation of sugar mills by ₹ 639.28 crore and lowering of Expected Price to the extent as summarized in the table below:

Our observations on	Impact (₹ in crore)
Reduction in value of land of sugar mills	90.00
Additional discount on land and buildings of sugar mills (₹192.48 crore included in ₹243.48 crore)	
Application of more weightage to discounted cash flow method	243.48
Valuation of plant and machinery as scrap	82.08
Reduction in valuation due to clubbing of land of old and new mills	223.72
Total	639.28

15 Average of valuation done by the two valuers for the land of old mill.

16 Calculated on the basis of land value included in the expected value and proportion of bid price to the expected price.

Valuation of mills- UPRCGVNL

3.6 Tech Mech International Private Limited (TMI) and R. B. Shah & Associates (RBS) were appointed (July 2010) by UPSSCL (Nodal Agency) for valuation of the 11 closed mills of UPRCGVNL. The mills were to be sold on "as is where is" basis as non operating/closed mills. The CGD decided (June 2010) to apply only Assets Valuation Method and Balance Sheet Method for valuation as the mills of UPRCGNL were closed/ non-operating. Accordingly, they were asked to apply these two methods for valuation of the mills. TMI and RBS submitted their Valuation Report in July 2010 and August 2010 respectively.

Two valuers were appointed for valuation of mills who submitted their reports in July 2010 and August 2010.

TMI valued:

- Land of the mills on the basis of the market rate as surveyed by them,
- Building and civil works by applying different plinth area rates for different types of construction, considering age, residual life, assessment of depreciation, and
- Plant and Machinery as scrap.

RBS valued:

- Land on the basis of the market rate as surveyed by them,
- Building and civil works on the basis of depreciated replacement cost method considering utility and design of the buildings, type of constructions, age, limited marketability etc, and
- Plant and Machinery on the basis of depreciated replacement cost as discounted by ten *per cent*.

The market value of Land, Building, Plant and Machinery and Other Fixed Assets as valued by the Valuers is given in the following tables:

(₹ in crore)

Name of the Sugar Mill	Land (Market Value)			Building			Plant and Machinery			Other fixed Assets	Average net fixed Assets
	RBS	TMI	Average	RBS	TMI	Average	RBS	TMI	Average		
Baitalpur	23.83	28.50	26.17	0.48	1.26	0.87	4.22	3.08	3.65	0.03	30.72
Barabanki	21.25	24.68	22.97	1.11	1.61	1.36	3.95	2.91	3.43	0.12	27.93
Bareilly	26.50	28.37	27.43	1.59	1.78	1.68	4.00	3.08	3.54	0.05	32.73
Bhatni	5.27	7.49	6.38	0.51	1.60	1.05	4.24	3.08	3.66	0.05	11.16
Chhitauni	1.53	1.24	1.38	1.26	1.27	1.27	3.55	2.82	3.19	0.05	5.90
Deoria	25.99	28.67	27.33	0.79	1.26	1.02	4.07	3.08	3.57	0.05	32.00
Ghooghli	2.93	4.20	3.56	1.26	1.35	1.31	4.55	2.91	3.73	0.05	8.68
Hardoi	9.83	12.25	11.04	3.07	3.58	3.33	7.40	3.42	5.41	0.05	19.85
Laxmiganj	2.39	2.15	2.27	1.19	2.23	1.71	4.80	3.08	3.94	0.05	7.99
Ramkola	5.71	5.39	5.55	0.70	1.54	1.12	3.76	3.08	3.42	0.04	10.15
Shahganj	16.67	19.59	18.13	0.89	1.60	1.24	3.90	3.08	3.49	0.05	22.93
Total	**141.90**	**162.53**	**152.21**	**12.85**	**19.08**	**15.96**	**48.44**	**33.62**	**41.03**	**0.59**	**210.04**

The two Valuers also submitted the valuation of land of the mills on the basis of circle rate of that area **(*Annexure 16*)**

Difference in Valuation of Assets

3.6.1 The following table depicts valuation of mills as per two method of valuation done by the Valuers:

(₹ in crore)

Valuers	Asset Valuation Method					Balance Sheet method
	Land (valued at Circle Rate)	Land (as per Market Value)	Value of Building and Civil Work	Value of Plant and Machinery	Total value	
1	2	3	4	5	6= (3+4+5)	7
RB Shah	802.06	141.90	12.85	48.44	203.19	205.41
Tech Mech International	426.62	162.53	19.08	33.62	215.23	1.61
Difference (in value)	**375.44**	**20.63**	**6.23**	**14.82**	**12.04**	**203.80**
Difference (in percentage)	**88.00**	**14.53**	**48.48**	**44.08**		**12658**

As would be seen in the table, difference in the values assessed by two Valuers in the items like land, building and civil work and plant and machinery ranged from 14.53 *per cent* to 48.48 *per cent*.

Revision in Valuation at the instance of Advisor

3.6.2 The Advisor and CGD observed considerable difference in the valuation of land by the two Valuers. The Valuers, therefore, revised the valuation of the land in case of four mills as given below:

(₹ in crore)

Name of the unit	RB Shah , Valuer			TMI, Valuer			Net effect
	Market value of land initially assessed by the Valuer	Revised Market value of land	Difference	Market value of land initially assessed by the Valuer	Revised Market value of land	Difference	
1	2	3	4=(3-2)	5	6	7=(6-5)	8=(7-4)
Baitalpur	17.63	23.83	6.20	47.51	28.50	-19.01	-12.81
Bhatni	3. 95	5.27	1.32	17.34	7.49	-9.85	-8.53
Deoria	18.42	25.99	7.57	46.45	28.67	-17.78	-10.21
Shahganj	13.08	16.67	3.59	29.93	19.59	-10.34	-6.75
Total of four mills	**53.08**	**71.76**	**18.68**	**141.23**	**84.25**	**-56.98**	**-38.30**
Total value of land of 11 mills		**141.90**			**162.53**		
Average of the two valuer (141.90 + 162.53) / 2 =							**152.21**

The basis of this revision of valuation of land was not furnished by the valuers.

Fixation of Expected Price

3.7 The CGD on the recommendations of the Advisor considered only the Asset Valuation Method for deriving Expected Price assigning the reason that valuations of fixed assets arrived at by using Balance Sheet Method were not representative of market valuation.

The following table depicts average valuation (Asset Valuation Method) of the 11 sugar mills as per the Valuers, discount allowed by the Advisor to arrive at the Expected Price and final Expected Price as accepted by CGD (***Annexure 17***):

(₹ in crore)

Name of the Sugar Mill	Total Assets Value (average of both valuers)	Less adjustment (by valuers)	Net value after adjustment as on 26 August 2010	Discount- five *per cent* for TDC such as stamp duty, Registration charges etc.	Net value After discount	Additional Discount @ Ten *per cent* (by advisor)	Expected Price As on 26 August 2010
1	2	3	4=(2-3)	5	6=(4-5)	7	8=(6-7)
Baitalpur	30.93	0.76	30.17	1.51	28.67	2.87	25.80
Barabanki	28.05	0.81	27.24	1.36	25.88	2.59	23.29
Bareilly	32.81	0.64	32.17	1.61	30.56	3.06	27.50
Bhatni	11.70	1.18	10.52	0.53	10.00	1.00	9.00
Chhitauni	6.01	0.55	5.46	0.27	5.18	0.52	4.67
Deoria	32.29	0.88	31.41	1.57	29.84	2.98	26.86
Ghooghli	8.88	0.76	8.12	0.41	7.71	0.77	6.94
Hardoi	19.98	1.12	18.86	0.94	17.91	1.79	16.12
Lxmiganj	8.33	0.76	7.57	0.38	7.19	0.72	6.47
Ramkola	10.24	0.93	9.31	0.47	8.84	0.88	7.96
Shahganj	22.98	0.73	22.25	1.11	21.14	2.11	19.02
Total	**212.20**[17]	**9.12**	**203.08**	**10.16**	**192.92**	**19.29**	**173.63**

We noticed the following irregularities with respect to the valuation as done by the valuers and Expected Price accepted by the CGD:

[17] This includes market value of land as assessed by the Valuers in 2009-10.

Undue haste for Revisions in valuation

3.7.1 The Advisor submitted to the CGD his observations (26 August 2010) after the valuations by the two Valuers. On the same day the following events took place:

- The Valuers were requested to have a re-look on the valuations.
- The Valuers submitted revised valuations having the net effect of reduction of ₹ 38.30 crore in the original average valuation.
- The Advisor derived Expected Price based on the revised valuations and after allowing further discount of five *per cent* (₹ 10.16 crore) on account of transaction cost, stamp duty, registration charges etc. and ten *per cent* (₹ 19.29 crore) on account of large size of land and not ready marketability and sent his recommendations of Expected Price to CGD.
- CGD approved the Expected Price on the same day.

Thus, revision in the valuation by valuers and determination of Expected Price by the Advisor were all done in haste. It is evident that due consideration to all aspects on such important issues was not possible in this short time. This creates apprehension on the appropriateness of this revised valuation and the Expected Price.

Unjustified reduction in the market value of Land

3.7.2 The Valuers appointed in first phase of disinvestment process for valuation of 33 mills of UPSSCL and UPRCGVNL in 2007-08, had valued the land of 11 sugar mills of UPRCGVNL at market rate at ₹ 280.62 crore (***Annexure 16***).

The average market value of land as per the 2007-08 report of valuers was ₹ 280.62 crore while average market value of land considered by the valuers in 2009-10 was ₹152.21 crore.

We observed that in normal course, the value of land registers significant appreciation by passage of time. However in this case, an overall reduction in market value of land was seen to the extent of ₹ 128.41 crore (₹ 280.62 crore *minus* ₹ 152.21 crore) which is not understandable and creates doubts on the authenticity of valuation done by two valuers based on market value of 2009-10.

Our observation is further reinforced by the fact that in case of operating mills in the land valuation by successive valuers the value of land had appreciated from ₹ 358.70 crore in 2007-08 to ₹ 719.69 crore (***Annexure 11***) in 2009-10.

Non consideration of prevalent circle rate for valuation

3.7.3 At the prevalent circle rates the average value of land alone was worked out as ₹ 614.34 crore by the two Valuers (***Annexure 16***) whereas the average market value of land was considered only ₹ 152.21 crore. The difference of ₹ 462.13 crore (₹ 614.34 crore *minus* ₹ 152.21 crore) is 75 *per cent* of the value of land at the prevalent circle rates. This does not appear justified in view of the fact that only two (Laxmiganj and Chhitauni) out of 11 sugar mills come under the rural area and rest of the mills are located under the respective urban or regulated areas and, therefore, merit for valuation as per applicable circle rates.

Inaccuracies in circle rates of land

3.7.4 When examining the prevalent circle rates of these areas we noticed that in the case of six mills[18] even the valuation by the Valuers on basis of circle

[18] Baitalpur, Barabanki, Bhatni, Chittauni, Laxmiganj and Ramkola.

rate was incorrect. The valuation of land for these six mills as per the actual prevalent circle rates was ₹ 355.20 crore and not ₹ 198.04 crore as valued by the Valuers (***Annexure-23***). Thus, the Valuers had not adopted any appropriate method for valuation as per circle rates.

Undue discount for stamp duty and registration fees

3.8 The discount of five *per cent* allowed on account of stamp duty, registration fee etc. by the Advisor in working out the Expected Price is not justified as these elements do not affect the realistic value of assets and normally a purchaser consider these expenditure over and above the realistic value of assets. This resulted in undue reduction in Expected Price by ₹ 10.16 crore (***Annexure-17***).

Discount of five *per cent* was allowed on account of stamp duty, registration fee etc. by the advisor.

Discount for large size of land and non-marketability

3.8.1 The Advisor deducted 10 *per cent* from the average value of assets so arrived by assigning the following reasons:

- Tech Mech International had not considered discount on account of " large size of land" but RB Shah had considered the same; and
- Tech Mech International had considered discount on account of "not ready marketability" but RB Shah did not consider the same.

This additional discount was not justified as the two factors ("large size of land" and "not ready marketability") are related and in effect same thing. Thus, additional reduction by Advisor had the effect of reducing Expected Price by ₹ 19.29 crore (***Annexure-17*)**.

Valuation of Plant and Machinery at low scrap value

3.9 The Company sold the assets and certain liabilities of each mill as per respective mill's Balance Sheet under slump sale process on "as is where is basis" to the successful bidders. RB Shah valued the plant and machinery at its salvage value at 20 *per cent* of the gross current replacement cost whereas the other Valuer Tech Mech valued it at the rate of ₹ 19000 per Tonnes Crushing per Day (TCD) and allowing the rebate of 10 *per cent* in market value to arrive at the realizable value on account of not readily saleability at the time of need.

We noticed that Plant and Machinery of 11 mills were taken as average scrap value (₹ 41.03 crore) by the two Valuers despite the fact that:

- In normal course the plant and machinery should be disposed of as scrap by weight. Hence, this should have been valued considering the weight of plant and machinery which depends on its capacity (TCD).
- The scrap included mild steel components, Gun metal and Brass which had different scrap value.
- The Advisor suggested in a presentation (March 2009) the rate of scrap value of Plant and Machinery at the rate of ₹ 75000 per TCD. However, the Advisor accepted the scrap value of plant and machinery as submitted by the two Valuers. On this basis the value of scrap worked out to ₹ 84.23 crore[19].

[19] Total capacity 11230 TCD (Annexure-2) X ₹ 75000 per TCD

Thus, valuation of plant and machinery at scrap value lower than that suggested by the Adviser resulted in reduction of Expected Price by ₹ 43.20 crore.

Clubbing of land

3.10 Baitalpur and Shahganj mills had land admeasuring 2,92,560 sq. meter and 2,060 sq. meter respectively outside the factory premises at different locations. As these areas were away from the main mill, there was no rationale for clubbing these areas with the closed mill area as a whole. The clubbing of the land obviously had adversely affected the bid price because of lower marketability of assets of the mill area.

Conclusion

The following summaries reduction in valuation of 11 closed sugar mills of UPRCGVNL:

- **Valuation of Land of closed sugar mills was much lower than that assessed in 2007-08 by the Valuers during first attempt of disinvestment/ sale of sugar mills,**
- **undue reduction of five *per cent* in the valuation on account of stamp duty, registration fees etc.,**
- **further unjustified reduction of ten *per cent* on account of large size of land and non marketability, and**
- **valuation of Plant and Machinery of the mills at lower scrap value**

All these resulted in reduction in valuation of sugar mills by ₹ 201.06 crore and lowering the Expected Price to the extent as summarised in table below:

Our observations on	Impact (₹ in crore)
Unjustified reduction in market value of land	128.41
Non-consideration of prevalent circle rate for valuation and inaccuracies in taking circle rates (₹ 600.18 crore not included in impact)	
Undue discount for stamp duty and registration fees	10.16
Discount for large size of land and non-marketability	19.29
Valuation of plant and machinery as a scrap	43.20
Total	201.06

Thus, in respect of ten operating mills of UPSSCL and 11 closed mills of UPRCGVNL, there was reduction of ₹ 840.34 crore in valuation and Expected Price.