



Market Approach to Valuation

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Topics

- ▶ Data collection
- ▶ Elements of comparability and application of appropriate weights to identified comparable to estimate value of subject asset.
- ▶ Instances when sales comparison method is not feasible and limitations of sales comparison method
- ▶

Three Approach

- ▶ Cost Approach
 - ▶ Replace Cost New
 - ▶ Remake cost new
- ▶ Market Approach
 - ▶ Sales Comparison Method
- ▶ Income Approach
 - ▶ Derive income from the asset.
 - ▶ Capitalise the income to a present value.

When to use

- ▶ A similar or same product is available in the secondary market.
- ▶ Sales Comparison Method.
- ▶ How to do
 - ▶ Get data of sales of similar products.
 - ▶ Compatibility with the subject asset.
 - ▶ Units is same or not to be ensured.
 - ▶ Do a comparison chart
 - ▶ Take a judgement.

Examples

- ▶ Cars
 - ▶ Secondary market is available.
- ▶ Standard Machines
 - ▶ Secondary market is there for most of the items.
- ▶ Construction Equipment
 - ▶ Large market is available.

Sold through

- Auctions
- Web sites
- Private Contracts.

Data about the asset

- ▶ Check the asset.
- ▶ Decide the key parameters the market uses
- ▶ Write them down & verify.
- ▶ Take pics.
- ▶ See documentation if any
 - ▶ Ownership
 - ▶ Maintenance
 - ▶ Insurance
 - ▶ Past record of ownership
 - ▶ Any legal tags.
 - ▶ Lease / HP is there or not.

Example

Car
Make
Model
Year of make
Kilo meters run
Appearance
Legal status
Location
Maintenance

DG Set
Make
Model
Year of make
Hours run
Appearance
Legal status
Location
Maintenance
Engine sound
Capacity

Standard Machine
Make
Model
Year of make
Hours run
Appearance
Legal status
Location
Maintenance
Accuracy
Attachments
Capacity

Construction Equipment
Make
Model
Year of make
Hours run
Appearance
Legal status
Location
Maintenance
Spares availability
Attachments
Capacity

Data Collection from Market

- ▶ Collect the data from the market
- ▶ 100% exact may not be available, so a near about is collected.
- ▶ Difference will be on specs, age, others.
- ▶ Note the differences.
 - ▶ Chronological age / effective age.
 - ▶ Condition of the equipment
 - ▶ Capacity – same or different.
 - ▶ Location
 - ▶ Quantity
 - ▶ Motivation of the parties
 - ▶ Time of sale
 - ▶ Type of sale

Chronological age / effective age

- ▶ Actual date and effective date may be different due to
 - ▶ Date of sale and usage
 - ▶ Maintenance that has been done
 - ▶ Usage pattern
 - ▶ Upgrades done or not.
- ▶ Both the ages influence price.

Condition of the equipment

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- ▶ How is the condition of the equipment
 - ▶ Accuracy
 - ▶ Looks
 - ▶ Is it complete or missing parts?
 - ▶ Does it have all the controls.
 - ▶ Energy consumption.



Capacity

- ▶ Same of different
- ▶ For similar products ?
- ▶ Tool change times?
- ▶ Other capacity restrictions that may be present.

Press

- 300T/325T
- Bed size 2mX 3M / 2.2M X 2.7m
- Clutch Type

Location

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- ▶ Price in Delhi may be different than in Chennai.
 - ▶ Some equipment may not be available in India.
- ▶ Where is the equipment in the plant?
 - ▶ Is it inside the shed or out side?
 - ▶ Is it closer to chemical treatment unit?
- ▶ Tool room machines are better than maintenance machines
 - ▶ More accuracy

Case Study

I was called to see why most of the metallic parts are corroding in a meat factory. Beautiful factory – all good. There was a open drain outside
There was a chemical plant close by.
Testing revealed that drain is highly acidic, & that is also evaporated in atmosphere.
Corrected by planting trees, and spraying mild OH solution

Quantity

- ▶ Is there a discount for bulk handling.
- ▶ Any other discounts / premium.

Smaller items – old laptops, mobile phones – may be available in bulk.

Industrial equipment – may not be.

Motivation of Parties

- ▶ Is the buyer and seller equally willing?
- ▶ Is there a desperate purchase or desperate sale?
- ▶ The parties are at arms length to each other?

Parties HAVE to act in their self interest (maximise profit).

They have to understand the asset well.

Working at arms length.

Time of sale

- ▶ Is it in season sale
 - ▶ Automobile sells more during festivals
- ▶ Or off season sale
 - ▶ Construction equipment sale is very low during rainy season.

Type of sale

- ▶ Cash down
- ▶ Credit period?
- ▶ With logistics or without
- ▶ Commissioning included or not?
- ▶ Leasing ?
- ▶ Under loan?

When Market Approach is NOT possible.

- ▶ If the asset is unique and no easy comparisons are there.
- ▶ The asset may not be selling regularly
- ▶ The time of sales may be far apart
- ▶ The buyer seller meet through the manufacturer only.

Doing a Comparison

Attribute	Asset under Valuation	Market Information	Importance / comment
Capacity	400T	380T	3/5
Age	18 years	20 years	1/5
Bed size	2m X 2 M	2.2M X 2.4M	4/5
Clutch	Mechanical	Pneumatic	4/5
Cushions	NA	Available	3/5
Location	Rajkot	Faridabad	2/5
Spares	Few available	Not available	2/5
Operating & Maintenance manuals	Available	Not available	4/5

Limitations

- ▶ This is an excellent method for land and property as sales transactions are happening frequently.
- ▶ For fast moving assets
- ▶ For standard assets sold as standard assets
- ▶ Also for asset like cars – frequent transactions, similar products.

BUT

- ▶ Quite difficult to get a good match of the original asset.
- ▶ This is less flexible
- ▶ The authenticity of data is a question mark.
- ▶ Most large assets are custom build.

Thanks

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