

Valuation of equity shares

methods of valuation

Asset Backing

Net assets or

- intrinsic value
- multiples method
- Balance sheet m
- Book value
- Break up value

Profitability Based

- (a) distributed profit
 - div yield
 - div capitalisation
- (b) total earnings
 - earnings yield
 - earnings cap
- (c) productivity factors or ROCE

Market price Based

- 1) PE multiple
- 2) Book value multiple

Others

- 1) discounted cash flow method
- 2) Fair value method

Net assets method

Closing cap emp as per SH funds

(+) non trade invst as (→) i.e. now

(+) computed goodwill

(-) pref SH claim

(-) pref SH div (also)

NA for ESH

(+) notional call *

TNA for ESH

÷ NO shares

VPS (fully pd up)

Share application

money: refund (liab) allotted - capital

calls in advance: always liability

calls in arrears: add notional call to net assets

★ VPS (CIA) = VPS (fully pd up) - CIA (per share)

shares (diff face value): use equivalent no of shares
convert all shares of same FV Rs 10 — VPS 60
5 — 30
2 — 15

Partly paid shares (a) calls (with 12 mths) = CIA = notional call
(b) calls x made within 12 m = shares with div FV =
equivalent no of shares

pref share claim: x share in B/Ls (recorded & pd-
(diff) x impact in NA (b) decided & paid - check
(x impact if pd)

Dividend-yield / capitalisation

$$VPS = \frac{\text{CO's div rate}}{\text{ind. div rate}} \times \text{Pd up value P.C.}$$

$$= \frac{DPS}{\text{Ind div rate / NRR for div}}$$

(small shareholders)

Earnings yield / capitalisation

(A) Cap value = $\frac{FMP}{NRR} \times \text{earnings (4 ES)}$

(B) (+) non trade assets

$$VPS = \frac{\text{total assets (A+B)}}{NOS \text{ (take from 9th cal)}}$$

(large shareholders)

PE multiple

$$PE = \frac{MPS}{EPS} = \frac{\text{total mkt worth}}{\text{total earnings}}$$

$$\text{Value} = \text{mkt worth} = PE \times \text{earnings}$$

Productivity / ROCE method

① Find ROCE in past
= $\frac{PAT}{\text{Net worth}} = \frac{\text{earn profit}}{\text{total capital}}$
(conclude non trade inc & invst)

② assume same ROCE is earned in future

③ FMP = ROCE x Cl. cap emp.

$$\text{Cap value} = \frac{FMP}{NRR}$$

(+) non trade asset

$$= \frac{\text{total assets}}{NOS}$$

$$= VPS$$

same as earnings yield

discounted cash flow

1) estimate future CF

2) Find PV of CF

$$3) VPS = \frac{NPV}{NOS}$$

Valuation - pref shares

$$VPS = \frac{\text{pref div p.s (div rate x Pd up value)}}{NRR \text{ of pref div (NRR adj for pref div capitalisation)}}$$

participating pref shares

$$VPS = VPS + \text{surplus attributable to (div basis) then in NA}$$

NA for ESH

(-) Pd up cap ESH

Surplus (P+E)

$$\div \text{total Pd up (P+E)}$$

surplus per Rupee Pd up cap.

Surplus NO of P.S.