Part B Valuation

When Valuation is required?

The following are some of the usual circumstances when valuation of shares or enterprise becomes essential:

1. When issuing shares to public either through an **initial public offer or by offer for sale of shares of promoters or for further issue of shares to public.**

2. When promoters want to invite strategic investors or for pricing a first issue or a further issue, whether a **preferential allotment or rights issue.**

3. In **making investment in a joint venture** by subscription or acquisition of shares or other securities convertible into shares.

4. For making an **'open offer for acquisition of shares'.**

5. When company intends to introduce **a 'buy back' or 'delisting of share'.**

6. If the scheme of **merger or demerger** involve issue of shares. In Schemes involving Mergers/Demergers, share valuation is resorted to in order to determine the consideration for the purpose of issue of shares or any other consideration to shareholders of transferor or demerged companies.

7. **On Directions of Company Law Board** or any other Tribunal or Authority or Arbitration Tribunals directs.

8. **For determining fair** price for effecting sale or transfer of shares as per Articles of Association of the Company.

9. As required by **the agreements between two parties**.

10. For **purposes of** arriving of Value of Shares for purposes of assessments under **the Wealth Tax Act.**

11. To determine purchase price of a 'block of shares', which may or may not give the holder thereof a controlling interest in the company.

12. **To value the interest of dissenting shareholders under a scheme of Amalgamation merger or reconstruction.**

13. **Conversion of Debt Instruments into Shares**.

14. **Advancing a loan against the security of shares of the company by the Bank/Financial Institution.**

15. As required by provisions of law :

   a. The Companies Act, 2013
   b. Foreign Exchange Management Act, 1999
   c. Income Tax Act, 1961

d. SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
e. SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999
f. SEBI (Buy Back of Securities) Regulations, 1998
g. Delisting Guidelines

Preliminary Steps in Valuation

A business/corporate valuation involves analytical and logical application/analysis of historical/future tangible and intangible attributes of business. The preliminary study to valuation involves the following aspects:

1. Analysis of Business History
2. Profit trends
3. Goodwill/Brand name in the market
4. Identifying economic factors directly affecting business
5. Study of Exchange risk involved
6. Study of Employee morale
7. Study of market capitalization aspects
8. Identification of hidden liabilities through analysis of material contracts.

Strategies Requiring Valuation – Examples

Determining the consideration for Acquisition
Determining the swap ratio for Merger/Demerger
Sale/Purchase of Intangible assets including brands, patents, copyrights, trademarks, rights
Determining the Fair value of shares for issuing ESOP
Disinvestment of PSU stocks by the Government
Liquidation /insolvency of company

SlumpSale 2(42c)

METHODS OF VALUATION (VALUATION TECHNIQUES)

The most popular methods of valuation amongst other includes

1. *Asset based valuation*
2. *Earnings based valuation*
3. *Market based valuation*

Part B Valuation

I. Valuation based on assets

1. Book value

2. Replacement cost

3. Appraised value

4. Excess earnings

Que: When Asset based valuation are useful ?

Ans : Asset based valuation are useful for the following purposes :

a. **For asset stripping :**
   - ✓ The process of buying an undervalued company with the intent to sell off its assets for a profit.
   - ✓ The individual assets of the company, such as its equipment and property, may be more valuable than the company as a whole due to such factors as poor management or poor economic conditions.
   - ✓ **For example**, imagine that a company has three distinct businesses: shoe manufacture, software and clothing. If the value of the company is currently Rs. 100 million but another company believes that it can sell each of its three businesses to other companies for Rs. 50 million each, an asset stripping opportunity exists. The purchasing company will then purchase the three-business company for Rs. 100 million and sell each company off, potentially making Rs. 50 million.

b. **To identify a minimum price in a takeover :**
   - ✓ Shareholders will be reluctant (not willing) to sell at a price less than the net asset valuation even if the prospect for income growth is poor.
   - ✓ A standard defensive tactic in a takeover battle is to revalue balance sheet assets to encourage a higher price.

- ✓ In a normal going-concern situation we value the assets at their replacement cost.
  - ✓ **To value property investment companies :** The market value of investment property has a close link to future cash flows and share values, i.e. discounted rental income determines the value of property assets and thus the company

II. Valuation based on earnings

P = EPS x P/E ratio

= i.e , Price = ~~EPS~~ x Market Price / ~~EPS~~

III.Market based valuation

Market based methods help the strategic buyer estimate the subject business value by **comparison to similar businesses.** Where the company is listed market price method that helps in evaluating on the price on the secondary market. Average of quoted price is considered as indicative of the value perception of the company by investors operating under free market conditions. To avoid chances of speculative pressures, it is suggested to adopt the Average quotations of sufficiently longer period.
The valuer will have to consider the effect of issue of bonus shares or rights shares during the period chosen for Average .

(i) Market Price Method is not relevant in the following cases:

- ✓ Valuation of a division of a company
- ✓ Where the share are not listed or are thinly traded
- ✓ In the case of a merger, where the shares of one of the companies under consideration are not listed on any stock exchange
- ✓ In case of companies, where there is an intention to liquidate it and to realise the assets and distribute the net proceeds.

(ii) In case of significant and unusual fluctuations in market price the market price may not be indicative of the true value of the share. At times, the valuer may also want to ignore this value, if according to the valuer, the market price is not a fair reflection of the company's underlying assets or profitability status. The Market Price Method may also be used as a back up for supporting the value arrived at by using the other methods.

Que : **Is the market price method be useful in case of unusual fluctuations in the market price of shares of a company ?**
Ans : **No.** In case of significant and unusual fluctuations in market price the market price may not be indicative of the true value of the share. At times, the valuer may also want to ignore this value, if according to the valuer, the market price is not a fair reflection of the company's underlying assets or profitability status.

(iii) It is important to note that Regulatory bodies have often considered market value as one of the very important basis — Preferential allotment, Buyback, Open offer price calculation under the Takeover Code.

Que : What are those cases for which the Regulatory bodies considered the market value methoad important ?
Ans : Regulatory bodies have often considered market value as one of the very important basis in following cases :
a. Preferential Allotment,
b. Buyback,
c. Open offer price calculation under the Takeover Code

(iv) In earlier days due to non-availability of data, while calculating the value under the market price method, high and low of monthly share prices where considered. Now with the support of technology, detailed data is available for stock prices. It is now a usual practice to consider weighted Average market price considering volume and value of each transaction reported at the stock exchange.

(v) If the period for which prices are considered also has impact on account of Bonus shares, Rights Issue, etc., the valuer needs to **adjust** the market prices for such corporate events.

MARKET comparables

This method is generally, **applied in case of unlisted entities**. This method estimates value by relating the same to underlying elements of similar companies for past years. It is based on market multiples of 'comparable companies'. For example

- ✓ Earnings/Revenue Multiples (Valuation of Pharmaceutical Brands)
- ✓ Book Value Multiples (Valuation of Financial Institution or Banks)
- ✓ Industry Specific Multiples (Valuation of cement companies based on Production capacities)
- ✓ Multiples from Recent M&A Transactions.

Though this method is easy to understand and quick to compute, it may not capture the intrinsic value and may give a distorted picture in case of short term volatility in the markets. There may often be difficulty in identifying the comparable companies.

Other aspects as to the methods of valuation

- ✓ **Valuation based on super profits**

Que **: Explain the super profit motive ?**
Ans :

✓ Super Profits are the profits earned above the normal profits.
✓ Goodwill is calculated on the basis of Super Profits i.e. the excess of actual profits over the average profits.

Steps for calculating Goodwill under this method are given below:

i. **Normal Profits** = R% of Capital Invested
ii. **Super Profits** = Actual Profits – Normal Profit
iii. **Goodwill** = Super Profits **X** No. of years purchased

For Example :

Normal rate of return = 20%

Investment = Rs. 1,00,000

Then, Normal Profits = 20 % of Rs. 100,000 = Rs. 20,000.

But if Net Profit earned = Rs. 23,000

Then Super Profit = Rs. 23,000 – Rs. 20,000= Rs.3000

- ✓ **Discounted cash flow valuation method**
- ✓ **Valuation by team of experts**

A. Market Price of Shares

B. Dividend Payout Ratio (DPR)

C. Price Earning Ratio (PER)

D. Net Assets Value (NAV)

- ✓ **Fair value of shares**

Fair value of shares = Value by net assets method + Value by yield method)/2

PRICING IN PUBLIC ISSUE AS PER SEBI(ICDR) 2009

Pricing

(1) An issuer **may** determine the price of specified securities in consultation with the lead merchant banker **or** through the book building process.

(2) An issuer may determine the coupon rate and conversion price of convertible debt instruments in consultation with the lead merchant banker **or** through the book building process

Differential pricing

An issuer may offer specified securities at different prices, subject to the following:

(a) retail individual investors or retail individual shareholders or employees of the issuer entitled for reservation made under regulation 42 making an application for specified securities of **value not more than two lakh rupees,** may be offered specified securities at a price lower than the price at which net offer is made to other categories of applicants: **Provided** that such difference shall not be more than ten per cent of the price at which specified securities are offered to other categories of applicant;

(b) In case of a book built issue, the price of the specified securities offered to an **anchor investor** shall **not** be lower than the price offered to other applicants;

(c) In case of a composite issue, the price of the specified securities offered in the public issue may be different from the price offered in rights issue and justification for such price difference shall be given in the offer document.

(d) In case the issuer opts for the alternate method of book building the issuer may offer specified securities to its employees at a price lower than the floor price: **Provided** that the difference between the floor price and the price at which specified securities are offered to employees **shall not be more than ten per cent. of the floor price.**

Price and price band

(1) The issuer may mention a price in the draft prospectus (in case of a fixed price issue) and floor rice or price band in the red herring prospectus (in case of *a book built issue*) and determine the **price** at a later date before registering the prospectus with the Registrar of Companies:

Provided that the prospectus registered with the Registrar of Companies shall contain only one price or the specified coupon rate, as the case may be.

(2) If the floor price or price band is **not mentioned in the red herring prospectus**, the issuer shall announce the floor price or price band at least 5 working days before the opening of the bid (in case of an initial public offer) **and** at least one working day before the opening of the bid (in case of a further public offer),by way of advertisement in **all the newspapers** in which the pre issue advertisement was released.

(3) The announcement shall contain relevant financial ratios computed for both upper and lower end of the price band and also a statement drawing attention of the investors to the section titled "basis of issue price" in the prospectus.

(4) *The cap on the price band shall be less than equal to one hundred and twenty per cent of the floor price.*

(5) The floor price or the final price shall not be less than the face value of the specified securities.
It may be noted that the "cap on the price band" includes cap on the coupon rate in case of convertible debt instruments.

Face value of equity shares

(1) Subject to the provisions of the Companies Act and the ICDR (Regulations), an issuer making an **initial public offer** may determine the face value of equity shares in the following manner:
(a) if the issue price per equity share is **five hundred rupees or more**, the issuer shall have the option to determine the face value **at less than ten rupees per equity share;**
Provided that the face value shall not be less than one rupee per equity share;

(b) if the issuer price per equity share **is less than five hundred rupees**, the face value of the equity shares shall be **ten rupees per equity share**:

(a) If listed for *more* than 6 months

If the equity shares of the issuer have been listed on a recognised stock exchange for a period of **six months or more** as on the relevant date, the equity shares shall be allotted **at *a price not less than higher of the following*:**

(a) The Average of the weekly high and low of the closing prices of the **related equity shares** quoted on the recognised stock exchange during the **six months preceding the relevant date;**

or

(b) The Average of the weekly high and low of the closing prices of the **related equity shares** quoted on a recognised stock exchange during the **two weeks preceding the relevant date**.

(b) If listed for *less* than 6 months

If the **equity shares** of the issuer have **been listed on a recognised stock exchange for a period of less than six months** as on the relevant date, the equity shares shall be allotted at a *price not less than the higher of the following:*
(a) the price at which equity shares were issued by the issuer in **its initial public offer** or the value per share arrived at in a scheme of arrangement under sections 391 to 394 of the

Companies Act, 1956, pursuant to which the equity shares of the issuer were **listed**, as the case may be;

or

(b) The Average of the weekly high and low of the closing prices of the related equity shares quoted on the recognised stock exchange during **the period shares have been listed** preceding the relevant date;

or

(c) The Average of the weekly high and low of the closing prices of the related equity shares quoted on a recognised stock exchange during the **two weeks preceding the relevant date**. This price shall be ***Re-computed*** by the issuer on completion of six months from the date of listing on a recognised stock exchange with reference to the Average of the weekly high and low of the closing prices of the related equity shares quoted on the recognised stock exchange during these six months and **if such recomputed price is higher than the price paid on allotment, the difference shall be paid by the allottees to the issuer.**

Valuation for the purpose of Issue of Sweat Equity Shares

Under the SEBI (Issue of Sweat Equity) Regulations, 2002, the price of sweat equity shares *shall not be less than the higher of the following:*

(a) The Average of the weekly high and low of the closing prices of the **related equity shares** quoted on the recognised stock exchange during the **six months preceding the relevant date;**

or

(b) The Average of the weekly high and low of the closing prices of the **related equity shares** quoted on a recognised stock exchange during the **two weeks preceding the relevant date**.

"Relevant date" for this purpose means the date which **is thirty days prior** to the date on which the meeting of the General Body of the shareholders is convened under 54

1. If the shares are listed on more than one stock exchange, but quoted only on one stock exchange on the **given date**, then the price on that stock exchange shall be considered.
2. If the share price is quoted on more than one stock exchange, then the stock exchange where there is highest trading volume during that date shall be considered.
3. If shares are not quoted on the **given date**, then the share price on the next trading day shall be considered.

Valuation of Shares under the Sweat Equity Unlisted Companies (Share Capital and Debentures) Rules, 2014 Companies act 2013

Under the Companies (Share Capital and Debentures) Rules, 2014, the sub rules of rule 8 Issue of sweat equity shares states that the:

- The sweat equity shares to be issued shall be valued at a price determined by a registered valuer as the fair price giving justification for such valuation.
- The valuation of intellectual property rights or of know how or value additions for which sweat equity shares are to be issued, shall be carried out by a registered valuer, who shall provide a proper report addressed to the Board of directors with justification for such valuation.
- A copy of list along with critical elements of the valuation report obtained under clause (6) and clause (7) shall be sent to the shareholders with the notice of the general meeting.
- Where sweat equity shares are issued for a **non-cash consideration** on the basis of a valuation report in respect thereof obtained from the registered valuer, such non-cash consideration shall be treated in the following manner in the books of account of the company-

(a) Where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the accounting standards; **or**

(b) Where clause (a) is not applicable, it shall be expensed as provided in the accounting standards

Valuation under SEBI (Share Based Employee Benefits) Regulations, 2014

The company granting option to its employees pursuant to ESOS will have the freedom to determine the exercise price subject to conforming to the accounting policies

Valuation under SEBI (Delisting of equity shares) Regulations 2009

(1) The offer price shall be determined through book building in the manner specified in Schedule II of these regulations, after fixation of floor price. The final offer price shall be determined as the price at which the maximum number of equity shares is tendered by the **public shareholders**. If the final price is accepted, then, the promoter shall accept all shares tendered where the corresponding bids placed are at the final price or at a price which is lesser than the final price. The promoter may, if he deems fit, fix a higher final price.

The floor price shall not be less than,

(a) where **the equity shares are frequently traded** in all the recognised stock exchanges where they are listed, the Average of the weekly high and low of the closing prices of the equity shares of the company during the twenty six weeks((6 months 180days/7 in all above cases it was 6 months BUT here Law used 26 weeks))

or two weeks preceding the date on which the recognised stock exchanges were notified of the board meeting in which the delisting proposal was considered, whichever is higher, as quoted on the recognised stock exchange where the equity shares of the company are most frequently traded;

(b) where the equity shares of the company **are Infrequently traded** in all the recognised stock exchanges where they are listed, the floor price determined in accordance with the provisions of sub-regulation (3); or,

(c) where the equity shares **are frequently traded in some recognised stock exchanges and infrequently traded in some other** recognised stock exchanges where they are listed, the **highest of the prices arrived at in accordance with clauses (a) and (b) above.**

It may be noted that equity shares shall be deemed to be infrequently traded, if on the recognised stock exchange, the annualised trading turnover in such shares during the **preceding six calendar months prior to month** in which the recognised stock exchanges were notified of the board meeting in which the delisting proposal was considered, is less than five per cent. (by number of equity shares) of the total listed equity shares **of that class** and the term 'frequently traded' shall be construed accordingly.

Offer Price(question from this can be asked from part A of paper III takeover lesson)

Offer price is the price at which the acquirer announces to acquire shares from the public shareholders under the open offer. The offer price shall not be less than the price as calculated under regulation 8 of the SAST Regulations, 2011 for frequently or infrequently traded shares.

If the target company's shares are **frequently traded** then the open offer price for acquisition of shares **under the minimum open offer shall be highest of the following:**

- ✓ Highest negotiated price per share under the share purchase agreement ("SPA") triggering the offer

- ✓ Volume weighted Average price of shares acquired by the acquirer during 52 weeks preceding the public announcement ("PA")
- ✓ Highest price paid for any acquisition by the acquirer during 26 weeks immediately preceding the PA
- ✓ Volume weighted Average market price for **sixty trading days**(weekly 5 trading days sat and sun off) preceding the PA.

If the target company's shares are infrequently traded then the open offer price for acquisition of shares under the minimum open offer shall be highest of the following:

- ✓ The price determined by the acquirer and the manager to the open offer after taking into account valuation parameters including book value, comparable trading multiples, and such other parameters that are customary for valuation of shares of such companies.

It may be noted that the Board(SEBI) may at the expense of the acquirer, require valuation of shares by an independent merchant banker other than the manager to the offer or any independent chartered accountant in practice having a minimum experience of 10 years.

Pricing under the Consolidated FDI Policy 2015

 Price of shares issued to persons **resident outside India** under the FDI Policy, shall not be less than –

a. the price worked out in accordance with the SEBI guidelines, as applicable, where the shares of the company are listed on any recognised stock exchange in India;

b. the fair valuation of shares done by a SEBI registered Merchant Banker or a Chartered Accountant as per any internationally accepted pricing methodology on arm's length basis, where the **shares of the company are not listed on any recognised stock exchange in India;** and

c. the price as applicable to transfer of shares from resident to non-resident as per the pricing guidelines laid down by the Reserve Bank from time to time, where the issue of shares is on preferential allotment.

However, where non-residents (including NRIs) are making investments in an Indian company in compliance with the provisions of the Companies Act, as applicable, **by way of subscription to its Memorandum of Association,** such investments may be made at face value subject to their eligibility to invest under the FDI scheme.

Issue of Foreign Currency Convertible Bonds (FCCBs) and Depository Receipts

The pricing of eligible securities to be issued or transferred to a foreign depository for the purpose of issuing depository receipts should not be at a price less than the price applicable to a **corresponding mode** of issue or transfer of such securities to domestic investors under the relevant regulations framed under FEMA, 1999.

Issue of Rights/Bonus Shares

The offer on right basis to the person resident outside India shall be:

(a) In the case of shares of a company listed on a recognized stock exchange in India, at a price as **determined by the company;**

(b)In the case of shares of a company not listed on a recognized stock exchange in India, at a price which is **not less than the price at which the offer on right basis is made to resident shareholders.**

Net Realisable Value Method

This method is generally used in case of liquidation. Where the business of the company is being liquidated, its assets have to be valued as if they were individually sold and not on a going concern basis. Liabilities are deducted from the liquidation value of the assets to determine the liquidation value of the business. One should also consider liabilities which will arise on closure such as retrenchment compensation, termination of critical contracts, etc. Tax consequences of liquidation should also be considered. Any distribution to the shareholders of the company on its liquidation, to the extent of accumulated profits of the company is regarded as deemed dividend. Dividend Distribution tax will have to be captured for such valuation.

Valuation of Slump Sale 2(42C)

'slump sale' MEANS transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities. Prior to the insertion of Section 2(42C), Courts have held that slump sale is a sale of a business on a going concern basis where the lumpsum price cannot be attributed to individual assets or liabilities. The undertaking has to be transferred as a result of sale. If an undertaking is transferred otherwise than by way of sale, say, by way of exchange, compulsory acquisition, extinguishment, inheritance by will, etc., the transaction may **not** be covered by Section 2(42C). The consideration for transfer is a lump sum consideration.

This consideration should be arrived at without assigning values to individual assets and liabilities.

As regards the valuation of slump sale it is appropriate to brief the provisions of Section 50B of the Income Tax Act, 1961. Section 50B provides the mechanism for computation of capital gains arising on slump sale. **Capital gains arising on slump sale are calculated as the difference between sale consideration and the net worth of the undertaking. Net worth is deemed to be the cost of acquisition and cost of improvement for the purpose of calculation of capital gains tax**.

Net worth is defined in Explanation 1 to Section 50B as the difference between 'the aggregate value of total assets of the undertaking or division' and 'the value of its liabilities as appearing in books of account'

The 'aggregate value of total assets of the undertaking or division' is the sum total of WDV as determined u/s.43(6)(c)(i)(C) **in case of depreciable assets**.

2. The book value in case of other assets.

> **Did You Know?**
> 48(2) NOT applicable for slumpsale ☹
> 48(2)- Indexation benefit NOT Applicable for slumpsale :o

Valuation of Assets in a Demerger

Valuation of demerger is based on **Section 19AA** of demerger under the Income Tax Act. As per Section 19AA "demerger", in relation to companies, means the transfer, pursuant to a scheme of arrangement under sections 391 to 394 of the Companies Act, by a demerged company of its one or more undertakings to any resulting company in such a manner that—

(i) all the property of the undertaking, being transferred by the demerged company, immediately before the demerger, becomes the property of the resulting company by virtue of the demerger;

(ii) all the liabilities relatable to the undertaking, being transferred by the demerged company, immediately before the demerger, become the liabilities of the resulting company by virtue of the demerger;

(iii) the property and the liabilities of the undertaking or undertakings being transferred by the demerged company are transferred at values appearing in its books of account immediately before the demerger;

(iv) the resulting company issues, in consideration of the demerger, its shares to the shareholders of the demerged company on a proportionate basis;

(v) the shareholders holding not less than three-fourths in value of the shares in the demerged company (other than shares already held therein immediately before the demerger, or by a nominee for, the resulting company or, its subsidiary) become share-holders of the resulting company or companies by virtue of the demerger, otherwise than as a result of the acquisition of the property or assets of the demerged company or any undertaking thereof by the resulting company;
(vi) the transfer of the undertaking is on a going concern basis;

In the context of a demerger scheme, a valuation exercise is mandatory in order to determine the number of shares to be issued to the shareholders of the transferor company in consideration for the spin off/demerger of the undertaking or undertakings If demerger is going to be in 'Shell Company', than valuation is primarily to determine the capital structure of the Transferee/Resultant Company.
If the demerged and resulting companies belong to same group of management and shareholders are common, share exchange ratio based on Net Asset Based valuation model may be adopted. Any other business valuation method may also be adopted considering the same shareholding as it will not impact value for the shareholders in demerged company post-demerger. In ideal situation like the companies are profitable and shareholders are different, it is recommendable to use Profit Based Valuation model for deciding on the share exchange ratio. While demerging to the shell company, there is no value of the shell company. Therefore, any no of shares may be issued to the shareholders of the demerged company as there will not be any impact on the shareholders' wealth.

There may be various situations and objectives wherein demerger schemes are implemented. Fair valuation only considers the status of the businesses and other macro factors but it also considers very big picture of implication of valuation/share exchange ratio. It does also consider costs such as stamp duty involved in adopting any valuation model.

DONT forget to write about benefit of 35DD

FREE FLOAT MARKET CAPITALIZATION/VALUATION

Free Float Market Capitalisation means Market Capitalisation or Market Value of the Company excluding promoter's share. As the name indicate "free float", it means shares which are freely available or freely tradeable in the market. Shares held by promoters are not freely tradeable in the market. There shares are subject to certain restriction as placed by SEBI.

Example: No. Of Total Equity Share = 1,00,000; MPS = 10; Promoter's Holding = 60%. Calculate Total & Free Float Market Capitalization.?

Solution: Total Market Value = 1,00,000 x 10 = 10,00,000

Free Float Market Value = 1,00,000 x 10 x 40% = 4,00,000

Leveraged BUY OUT means acquiring a Target company business(buying shares of Target company) from the Money Borrowed from Banks /FIs Read **Bharti-Zain deal**

$$\text{Gearing Ratio} = \frac{\text{Value of Preference Shares + Value of Debenture Stock}}{\text{Value of equity Shares}}$$

MARKET VALUE ADDED (MVA)

MVA =Current Value of the securities of the Company in the Market - Total Amount of Shareholder's Funds[Balance Sheet Fig.]

Note: Current Value of the securities of the Company in the Market = MPS x No. Of Equity Shares

Note: Shareholder's Funds[Balance Sheet Fig.]includes Equity Share Capital + Retained Earning - Accumulated Loss - P/L Account (Debit Balance)

QUESTION Supreme Industries has an equity market capitalisation of Rs. 3,400 crore in current year. Further that its equity share capital is Rs. 2,000 crore and its retained earnings are Rs. 600 crore. Determine the MVA and interpret it.

Solution : Market Value Added = (Rs. 3,400 crore - Rs. 2,600 crore) = Rs. 800 crore.

Thanks ...