Valuation of Share

① **Net Assets basis :-**
Where Equity Shares are of same nominal value and are fully paid up.

		₹
A	Total Assets at current value including G/W & Non-Trade Assets	XXX
B.	Outsider's liab (Long or short term including unrecorded liab) (eg. DDT, prop. dividend, pro. for Tax, Bank o/d, debenture etc)	XXX
C.	Net Assets available for shareholders (A - B)	XXX
D.	Claims of pref. shareholders (pref. share cap & Arrears of cum pref. div. etc.)	XXX
E	Net Assets for Equity holder's (C - D)	XXX
F.	No. of Equity	
	Intrinsic value (F/E)	XXX

Cum dividend value = Ex-div. value + prop. Eq. div. per share

Rate of prop. Eq. Dividend = $\frac{\text{Prop. Eq. Div.}}{\text{Paid up. Eq. Share Cap.}} \times 100$

Prop. Eq. Div. per share = Paid up. value of share × Rate of prop. Eq. Div.

Alternate method of calculating Net Assets for equity shareholder's (from liability side)

	₹
A. Paid up Equity Share Cap.	xxx
B. Reserve & Surplus	xxx
C. Net profit on Rev. of Asset & Liab.	xxx
D. Net Loss " " " " "	xxx
E. Unamortized Expenses	xxx
F. Net Assets for Equity shareholder's (A+B+C−D−E)	xxx

[where called up but there are calls in arrears on some shares]

A. Add a notional call equivalent to call in arrears to the net Assets.

B. Calculate the value of shares as if partly paid up shares are notionally fully paidup

C. value of partly paidup shares = value of fully paid up share − Calls in arrears.

Where all equity shares are of same Nominal value but of different paid up value.

₹

A. Same as previous.
B. Same " "
C. value of partly-up share = value of fully paid up share - Uncalled am

valuation of Earning bases :-

① calculate weighted avg. Earning (including income) from non-trade investment available for equity holders

		₹
A.	Avg. Earning	xxx
B.	Future adjustment	
	Less: Inc. in MD remuneration P.A.	xxx
	Less: Addit. Dep. on inc. in value of F.Asset	xxx
	Add: Advantage from contract P.A.	xxx
	EBT	xxx
	Less: Tax	xxx
	EAT	xxx
	Less: Appropriations (eg)	
	Transfer to Reserve xxx	
	Pref. Div. xxx	
	DDT on Pref. Div. xxx	xxx
	Earning for eq. holders	xx

② Calculate Total paid up value of all Eq. Shares
③ Calculate Avg. Rate of Earning (weighted if Inc./Dec.)

$$\text{Avg. rate of Earning} = \frac{\text{Avg. Earnings}}{\text{Total paid up value of Eq. Share}} \times 100$$

④ Calculate normal rate of expectation for the company.
⑤ Value of Equity shares as follows :-

$$\text{Yield value of an equity share (value per share)} = \frac{\text{Avg. rate of Earning}}{\text{Normal rate of Expectation}} \times \text{Paid-up value of an Eq. share}$$

Fixed interest and fixed Dividend coverage :-

$$= \frac{\text{PB Interest but after Tax}}{\text{fixed int \& fix div.}}$$

Capital Gearing ratio

$$= \frac{\text{Pref. Share cap. + Debenture}}{\text{Eq. Share cap. + Net Reserve \& Surplus}}$$

Valuation of Equity Shares on Dividend basis

① Calculate Avg. rate of Dividend.

$$\text{Avg. rate of Div.} = \frac{\text{Weighted rate of Div.}}{\text{Total weight}}$$

② Calculate normal rate of Expectations in the same industry.
③ Calculate value of Eq. Shares :-

$$\text{Value of an Eq. Share} = \frac{\text{Avg. rate of Div.}}{\text{Normal rate of Expectation}} \times \text{Paid up value of an Eq. share}$$

Fair Value / Mean Value / Dual Method

① Calculate Net Assets value.
② Calculate Earning yield base value (EYBV)
③ Calculate fair value :-

$$\text{Fair value of a Share} = \frac{\text{Net Asset value} + \text{EYBV}}{2}$$

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Price Earning valuation

Market Price = EPS x P/E ratio

Valuation of Preference Shares

Factors to be considered while valuing Preference Shares:-

1. Risk free rate plus small risk prem.
2. Ability to pay dividend on regular basis. Its judged by Pref. Div. coverage ratio. (PDCR)

PDCR = PAT / Pref. Div.

* PDCR	Risk
High →	Low
Low →	High

3. Ability to company redeem Pref. Share Cap. Its judge by Assets backing ratio. (ABR)

$$ABR = \frac{\text{Net Assets available for shareholders (class)}}{\text{Pref. Share capital}}$$

ABR	Risk
High	Low
Low	High

(4) If company is a Going Concern – shares valued on Div. b

If company is Liquidating concern – shares valued on NAB (Net Assets basi