VALUATION OF SHARES

NEED OR PURPOSE

- When two or more companies amalgamate or one company absorb another company.

- When a company has decided to undergo a process of reconstruction.

- When preference shares or debentures are converted into equity shares.

- Under a scheme of nationalization when the shares of a company are taken over by the government.

NEED OR PURPOSE

- Shares are often pledged as security for raising loans.

- When one company acquires majority of the shares of another company it is necessary to value such shares.

- The survivors of deceased person who get some shares of company made by will.

- To declare NAV by the Finance or an Investment Trust Company.

NEED OR PURPOSE

- When shares are held by the partners jointly in a company and dissolution takes place., it becomes necessary to value the shares for proper distribution of partnership property among the partners.

- Shares of a private companies are not listed on the stock exchange. If such shares are appraisable by the shareholders or if such shares are to be sold, the value of such shares will have to be ascertained.

- When shares are received as a gift, To determine the Gift Tax & Wealth Tax the value of such shares will have to be ascertained.

VALUES OF SHARES

- Face Value
- Book Value
- Cost Value
- Market Value
- Capitalised Value
- Fair Value

VALUES OF SHARES

- A Company my divide its capital into shares of @10 or @50 or @100 etc.
- Company's share capital is shown as per Face Value of Shares.
- Face Value of Share = $\dfrac{\text{Share Capital}}{\text{Total No of Share}}$
- This Face Value is printed on the share certificate.
- Share may be issued at less (or discount) or more (or premium) of face value.

❑Face Value

VALUES OF SHARES

❑Book Value

Book Value of Share = $\dfrac{\text{Book Value of Company}}{\text{Total No. of Shares}}$

Where,

Book Value of Company

= Share Capital

+ Reserves

+ Accumulated Profits

− Accumulated Losses

VALUES OF SHARES

❑ Intrinsic Value

Intrinsic Value of Share = $\dfrac{\text{Net Assets of Company}}{\text{Total No. of Shares}}$

where,

Net Assets =

Fixed Assets
+ Current Assets
+ Investments
- Outside Liabilities with Debentures
- Preference Share Capital

Capitalised Value

☐Capitalised Value

Capitalised Value of Share =

$$\text{Capitalised Value of Profit} \over \text{Total No. of Shares}$$

Fair Value

❑Fair Value

Fair Value of Share =

$$\frac{\text{Value of Share by NAV Method + Value of Share by Yield Method}}{\text{Total No. of Shares}}$$

VALUES OF SHARES

❑ Cost Value

Price on which the shares are purchased with purchase expenses such as Brokerage, Commission etc.

❑ Market Value

Price on which the shares are purchased or sold. This value may be more or less or equal than Face Value.

METHODS OF VALUATION

- Net Assets Value (NAV) Method

- Dividend Yield Method

- Earning Capacity (Capitalisation) Method

- Average (Fair Value) Method

METHODS OF VALUATION

❑ Net Assets Value (NAV) Method

- Aims to find out the possible value of share in at the time of liquidation of the company.

- Pessimistic Approach

- It starts with the calculation of Market Value of the company.

- Then amount paid off to Debentureholders, Preference Shareholders, Creditors and other Liabilities are deducted from the realised amount of assets.

- The reaming amount is available for Equity Shareholders.

METHODS OF VALUATION

❑Net Assets Value (NAV) Method

Intrinsic Value of Share = <u>Net Assets of Company</u>

                       Total No. of Shares

NET ASSETS =	NET ASSETS =
Equity Share Capital + Reserves & Surplus + Profit on Revaluation of Assets - Accumulated Losses - Fictitious Assets - Loss on Revaluation of Assets	Fixed Assets + Current Assets + Investments + Intangible Assets - Outside Liabilities with Debentures - Preference Share Capital

METHODS OF VALUATION

- Precautions of NAV Method

  ✓ Market Value of should be taken if given; or

  ✓ Book Value should be arrived at after charging adequate desperation.

  ✓ Intangible Assets should be included in Assets, whether they are appearing in the balance sheet or not.

  ✓ All Fictitious Assets must be ignored.

  ✓ Provision should be made for bad and doubtful debts on amount of sundry debtors.

METHODS OF VALUATION

- Precautions of NAV Method

  ✓ All Liabilities, whether appearing in the balance sheet or not, must be taken into account.

  ✓ Outstanding expenses and an appropriate amount of contingent liabilities must be taken into account.

  ✓ Adequate provision for taxation should be made.

  ✓ The Claim of Preference Shareholders must also be deducted from the Net Assets to ascertain the value of an Equity Share.

METHODS OF VALUATION

❑Dividend Yield Method

- Investors are interested in income.

- They have to price of a share upon the size of expected dividends.

- Value of share is calculated by comparing the Expected Rate of Dividend of a company with Normal Rate of Dividend as prevailing in that industry.

METHODS OF VALUATION

❑Dividend Yield Method

Value of Share

$$= \text{Expected Rate of Dividend}$$

_____   X Paid UP Value of Share

Normal Rate of Dividend

METHODS OF VALUATION

❏Dividend Yield

Method where,

PROFIT AVAILABLE FOR DIVIDEND TO EQUITY SHARE HOLDERS =	EXPECTED RATE OF DIVIDEND =
Profit of the Company - Income Tax - Transfer To Reserves - Transfer To Debenture Sinking Fund - Preference Dividend	$\dfrac{\text{Profit Available of Dividend}}{\text{Total Equity Paid Up Capital}} \times 100$

METHODS OF VALUATION

❑Earning Capacity (Capitalisation) Method

- Based on the assumption that the company will continue to operate the business.

- If a investor wish to obtain controlling interest then the shares value is calculated on the basis of Earnings rather than Dividend.

- Value of share is calculated by comparing the Rate of Earnings of a company with Normal Rate of Return as prevailing in that industry.

METHODS OF VALUATION

❑Earning Capacity (Capitalisation) Method

$$\text{Value of Share} = \frac{\text{Rate of Earnings}}{\text{Normal Rate of Return}} \times \text{Paid UP Value of Share}$$

METHODS OF VALUATION

❑Earning Capacity (Capitalisation) Method where,

RATE OF EARNINGS =	PROFIT EARNED =	NET CAPITAL EMPLOYED
Profit Earned ──────────── X 100 Net Capital Employed	Profit of the Company - Income Tax + Interest on Debenture + Preference Dividend	Fixed Assets at MV + Current Assets except Invest. - Current Liabilities

METHODS OF VALUATION

Average (Fair Value) Method

Fair Value of Share =

$$\frac{\text{Value of Share by NAV Method} + \text{Value of Share by Yield Method}}{\text{Total No. of Shares}}$$

THANK YOU