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Valuation of Shares

Meaning of valuation of shares

The term valuation of shares refers to the process of ascertaining the intrinsic value or the market value or the face value of shares a company.

Circumstances where shares are to be valued

1) When amalgamation or absorption of the company
2) When block of shares purchased or sold
3) When one class of shares converted into other
4) When a company is nationalised
5) When shares are to be given as society for loans and advances
6) When shares are to be sold in absence of stock exchange
7) When shares are to be redeemed

Determinants of value of shares

1) The demand and supply of shares
2) The stability of earnings
3) The capacity of earnings of the company
4) Goodwill of the company
5) The nature of business
6) Progress of the company
7) The nature of competition
8) Reserves of the company
9) Dividend declared by the company
10) Economic and political condition of the

Methods of valuation of shares

There are 3 methods of valuation of shares

1) Intrinsic value or net asset method
2) Yield value method
3) Dual method or fair value method

INTRINSIC VALUE OR NET ASSET METHOD

Under this method shares are valued on basis of net asset value of the company
The following steps are following

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Step:1 Calculation of net asset available to equity shareholders[NATESH]

Particulars	Amt	Amt
All assets including goods & Non trading assets at their market	XXX	
Goodwill	XXX	
Land & Building	XXX	
Plant & Machinery	XXX	
Furniture	XXX	
Patents & Trade marks	XXX	
Motor vehicles	XXX	
Investments	XXX	
Cash in hand	XXX	
Sundry Debtors	XXX	
Cash at bank	XXX	
Bills Receivable	XXX	
Stock in trade	XXX	
Prepaid Expenses Etc	XXX	XXXX
Gross Market value of asset		XXXX
Less: Various Liabilities Payable to Outsiders		
Debentures	XXX	
Mortgage loans	XXX	
Unsecured loan	XXX	
Fixed deposit from payable	XXX	
Sundry Creditors	XXX	
Bills Payable	XXX	
Bank Overdraft	XXX	
Unclaimed dividend	XXX	
provisions for taxation	XXX	
Proposed dividend	XXX	
Employee provident fund	XXX	
Workmens SB account	XXX	
Depreciation fund Etc	XXX	XXXX
Net value of asset available to Share holders [NATESH]		XXXX
Less: Amounts Payable to Preference shareholders		
(a) Arrears of Preference Dividend	XXX	
(b) Preference share Capital	XXX	XXX
Net Assets Available to Equity share holders[NATESH]		XXXX

Note: While taking the assets do not considered fictitious assets like preliminary expenses. Discount on issue of shares (or) debentures underwriting commission & P&L account debit balance.

Step:2 Intrinsic value of Equity shares

$$\text{Intrensic value of Share} = \frac{\text{Net Assets Available Equity Shareholders (NATESH)}}{\text{Number of Equity Shares}}$$

MARKET VALUE METHOD/YIELD METHOD

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This method assumes that the company would continue to exist & would not liquidate. Under this method market value of asset and liabilities are not taken in to account for calculation of value of shares. But profit Available for Equity dividend are taken into account. While calculating the value of shares.

Step:1 Calculate Average Profits
Step:2 calculate Profits available to Equity dividend

Average Profit	XX	
(-) Transfer to various reserves	XX	
Profits Available for dividend		XXX
(-) Preference dividends	XX	
Profit Available for ESH		XXX

Step:3 Calculate Expected rate of return

$$\text{Expected Rate of Return} = \frac{Profit\ Available\ to\ Equityshareholders}{\text{Equity Capital}} * 100$$

Step: 4 Calculate Yield value per share

$$\text{Value of share} = \frac{\text{ERR}}{\text{NRR}} * \text{Paid up value per share}$$

FAIR VALUE PER SHARE

The fair value per preference share or equity share is the average of the intrensic value per share and the market price per share.

$$\text{Fair value per share} = \frac{\text{Intrinsic value} + \text{Market value per share}}{2}$$

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