



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: BBA (DM)

SUBJECT: SECURITY AND PORTFOLIO MANAGEMENT

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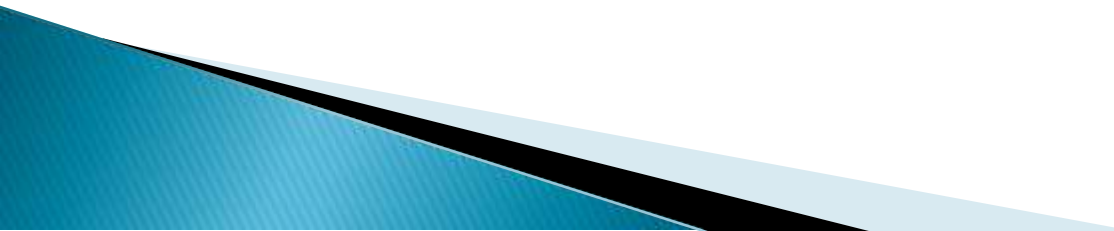
Valuation Techniques

▶ **There are the following techniques of Equity Valuation:**

1. Net Asset Value (NAV) Method
2. Discounted Cash Flow Method
3. Profit or Dividend Yield Method
4. PE Ratio Method

Net Asset Value (NAV) Method

- ▶ Net Asset represent Net worth of the Company. After reduction of preference share Capital value from net worth of the Company we get value of company to the Equity share holders. Figures of net assets from last audited balance sheet can be taken.



Discounted Cash Flow Method

- ▶ Discounted Cash Flow Method (DCF) is a complex calculation however it considers not just Companies present situation but also take in to figure, future of the Company. DCF also works for start-up Companies Valuations which do not have track records but has valuation based on business idea & current resources.
- ▶ Value of firm derived by discounting future cash flows to the company by expected rate of return of Equity & Debt holders. Valuation through DCF imbibe expectation of owners & lenders by considering expected rate of return of both Equity & Debt holders.

Profit or Dividend Yield Method

- ▶ Profit after tax or dividend is divided by Normal rate of return to derive Capitalized Value & the same is divided by number of shares to get value per share.
- ▶ Capitalize Value = (Profit / Dividend) / Normal Rate of Return
- ▶ Value per Share = Capitalize Value / Number of shares
- ▶ Generally We take Average profit of 5 years to rule out higher or lower side valuation.
- ▶ Preference Share Dividend to be subtracted from profit to find profit attributable to equity share holders.

PE Ratio Method

- ▶ This method is generally used to calculate listed Company Share Value. It uses Earning Per Share (EPS) & Market Price of Share (MPS) to calculate value of share.
- ▶ PE Ratio is determined as follow– MPS / EPS
- ▶ Investor can average out PE Ratio Companies in same sector to rule out higher or lower side valuation based on one company data.
- ▶ Value per share – $EPS \times P/E \text{ Ratio}$
- ▶ Whenever Company declare its Qrtly results & EPS, Investor by using particular sector PE Ratio can find Value of Share to take investment decision.

Selection of Method Decision

- ▶ Discounted Cash Flow Method & Net Assets Value Method are the most used methods to value Shares since both method uses wide range of data & capture lot of figures to derive Value of Share.
 - ▶ It is always advisable to Value Share by Earning OR Market Based Method i.e. Discounted Cash Flow Method for Companies in to Manufacturing & Service. Net Asset Value Method is used by Investment Companies.
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