European Journal of Business & Social Sciences
Available at https://ejbss.org/
ISSN: 2235-767X
Volume 07 Issue 12
September 2019

Valuation Of Equity Shares At Monarch Networth Capital Ltd.

Arvapally Dakshayani, Master of Business Administration,

Mrs. E. Pranavi, Associate Professor, Department of Master of Business Administration,

DR. Venkata Rangaiah, Professor, HOD, Department of Master of Business Administration,

St. Martin's Engineering College, Hyderabad, Telangana – 500100.

1. INTRODUCTION:

Equity shares can be described more easily than fixed income securities. However, they are more difficult to analyze. Fixed income securities typically have a limited life and a well-defined cash flow stream. Equity shares have neither. While the basic principles of valuation are the same for fixed income securities as well as equity shares, the factors of growth and risk create greater complexity in the case of equity shares.

As our discussion of market efficiency suggested, identifying mispriced securities is not easy. Yet there are enough chinks in the efficient market hypothesis and hence the search for mispriced securities cannot be dismissed out of hand. Moreover, remember that is the ongoing search for mispriced securities by any army of equity analysts that contributes to a high degree of market efficiency.

Equity analysts employ two kinds of analysis. They are as follows:

- Fundamental Analysis
- Technical Analysis

Fundamental analysts assess the fair market value of equity shares by examining the assets, earnings prospects, cash flow projections, and dividend potential. Fundamental analysts differ from technical analysts who essentially rely on price and volume trends and other market indicators to identify trading opportunities.

Equity Valuation :

Equity valuation has different models .They are as follows.

Balance Sheet Valuation :

Balance sheet of the firm to get a handle on some valuation measures . The three measures derived from the balance sheet are as follows :

- Book Value
- Liquidation Value
- Replacement Cost

Dividend Discount Model :

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In Dividend discount model the dividends are paid annually and the first dividend is received one year after the equity share is bought.

- Single –period Valuation Model
- Expected Rate of Return
- Multi –period Valuation Model
- Zero Growth Model
- Constant Growth Model (Gordon Model)
- Two Stage Growth Model
- *H* Model
- Earnings Multiplier Approach
- Earnings-Price Ratio , Expected Return , And Growth

OBJECTIVES OF THE STUDY:

- To comprehend the conceptual determinants of equity by applying various approaches of valuation. .
- To focus on the intrinsic value of a stock using the zero growth model, the constant growth model, the two-stage growth model and the H model.
- To examine the growth of dividends and the earnings per share and its impact.
- To identify the price of the equity share and the required rate of return.
- To analyze the determinants of the P/E ratio and its effect on equity.

SCOPE OF THE STUDY:

The scope of the study is to describe the techniques and planning in present investment environment. Apart from this, the objective of this study is to keenly understand issues, examines all the essential analysis and techniques as to how to apply them successfully. Equity shares have neither while the basic principles of valuation are the same for fixed income securities as well as equity shares,

RESEARCH METHODOLOGY

STUDY TOOLS:

Data is collected from primary data and secondary data.

PRIMARY DATA:

- Data collected from Brokers and Magazines, Annual Reports.
- Data collected from Hyderabad Stock Exchange.

SECONDARY DATA

- Data collected from various Books, Newspapers and Internet.
- Data provided by Hyderabad Stock Exchange and Networth Stock Broking Limited as a Part of the class undertaken.
- Detailed calculation of different Equity Valuation Models has been given in Annexures.

LIMITATIONS:

- Duration of the project is only 45 days, so not possible to evaluate other sector performance also.

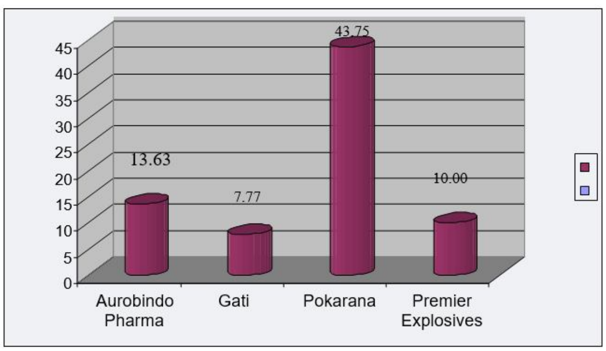
- There is a time frame for every company, like not taken historical daily records into consideration.

The information which I am going to mention is completely secondary data.

2. DATA ANALYSIS & INTERPRETATION

DETERMINANTS OF P/E RATIO

The above table has been depicted in the following graphical presentation:



INTERPRETATION:

In the Determinants Of P/E ratio, it has been observed that Pokarana Ltd and Premier has the highest Price Earning Ration of Rs 43.75% as compared to Gati Ltd and Premier Explosives Ltd. But Pokarana Ltd and Premier Explosives growth rate is Zero, whereas Gati Ltd growth rate is higher ie 0.5. But its P/E ratio is less i.e 7.77.

EARNINGS – PRICE RATIO, EXPECTED RETURN AND GROWTH

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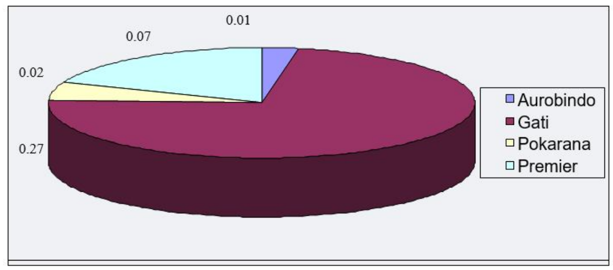
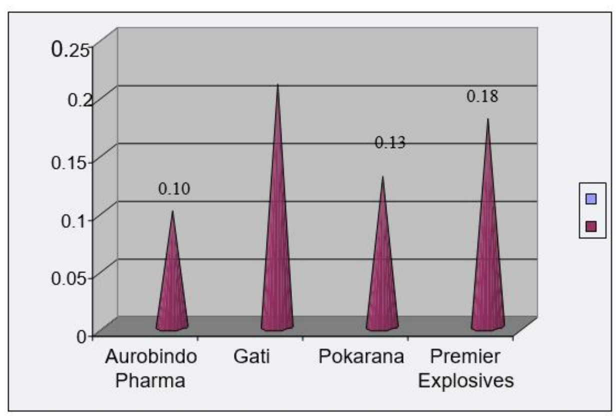
The above table has been depicted in the following graphical presentation



INTERPRETATION:

In this model, it is observed that Gati Ltd has an higher expected rate of return of 0.27% as compared to Aurobindo Pharma Ltd and Premier Explosives Ltd. Gati Ltd is recorded has the higher dividend as compared to Aurobindo Pharma**.**

The above table has been depicted in the following graphical presentation:



INTERPRETATION:

In this model it is observed that Gati Ltd has the higher expected rate of return of 0.21 as compared to Aurobindo Pharma Ltd and Pokarana Ltd. But Pokarana Ltd has the higher price earning rate of return is less i.e 0.13. Aurobindo PharmaLtd is recorded as the higher price of equity share ie 123.22 and less earning per share i.e 12.4 due to this it recorded less rate of return

3.FINDINGS OF THE STUDY

- Issue price of equity shares (Po) of scrip can be determined on P1 R, D1.
- In expected rate of return (r) can be determined on D1, Po and g.
- In multi-period valuation model the dividends are considered for three years for determining the price of the equity share.
- The dividend per share remains constant forever, implying that the growth rate is nil (zero growth model).
- The dividend per share grows at a constant rate per year forever (the constant growth model).
- The dividend per share grows at a constant extraordinary rate for a finite period, followed by a constant normal rate of growth forever thereafter (the two-stage model).
- The dividend per share, currently growing at an above-normal rate, experiences a gradually declining rate of growth for a while. Thereafter, it grows at a constant normal rate (the *H* model).
- While the current dividend growth rate, ga, is greater than gn, the normal long-run growth rate, the growth rate declines linearly for 2*H* years.
- As the expected growth in dividend increases, other things being equal, the expected return depends more on the capital gains yield and less on the dividend yield.
- As the expected growth rate in dividend increases, other things being equal, the price-earnings ratio increases.
- High dividend yield and low price – earnings ratio imply limited growth prospects.
- Low dividend yield and high price-earnings ratio imply considerable growth prospects
- The P/E ratio can be easily examined by the formula for the P/E ratio of the constant growth model
- In this model (r) expected return is determined on the basis of D1 E1 and Po

4. CONCLUSIONS

In the Determinants of P/E ratio, it has been observed that Pokarana Ltd and Premier has the highest Price Earning Ration of Rs 43.75% as compared to Gati Ltd and Premier Explosives Ltd. But Pokarana Ltd and Premier Explosives growth rate is Zero, whereas Gati Ltd growth rate is higher i.e 0.5. But its P/E ratio is less i.e 7.77.

In this model it is observed that Gati Ltd has the higher expected rate of return of 0.21 as compared to Aurobindo Pharma Ltd and Pokarana Ltd. But Pokarana Ltd has the higher price earning rate of return is less i.e 0.13. Aurobindo Pharma Ltd is recorded as the higher price of equity share ie 123.22 and less earning per share i.e 12.4 due to this it recorded less rate of return

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