

Valuation ...

Dividend Discount Model: Computation of today's share price which states that share value equals the present value of all expected future dividends

Suppose, a Co-operative Sugar Unit in Uttar Pradesh is up for sale/divestment ... how do you value it?

- Book Value Model: Net worth of a firm according to the balance sheet
- Liquidation Model: Net proceeds that would be realized by selling the firm's assets and paying off its creditors ■

Valuation ...

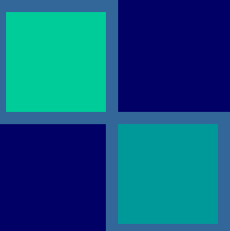

- Market Value Balance Sheet: Financial statement that uses market value of assets and liabilities
- Price/Earnings Ratio Model ■
- Price/Book Value Ratio Model

But, firms are more valuable as going concerns (??) and their ability to generate future cash flows. Market values are more relevant for finance.

- Discounted Cash Flow Model

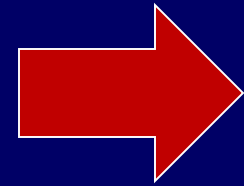


FCF and PV

- Free Cash Flows (FCF) = Earnings – Net investments;
 - Net investments = Capital expenditure – Depreciation
 - FCF should be the theoretical basis for all PV calculations
 - FCF is a more accurate measurement of PV than either Div or EPS
 - The market price does not always reflect the PV of FCF
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Valuation of Sugar Mill										
Year	1	2	3	4	5	6	7	8	9	10
Capex	10	5	1	1	1	1	1	1	1	1
Depreciat	2	2	2	2	2	2	2	2	2	2
PAT	-4	-2	2	4	8	10	11	12	13	14
FCF	-12	-5	3	5	9	11	12	13	14	15
Terminal Value										70
FCF incl.	-12	-5	3	5	9	11	12	13	14	85

Valuing a business




- The value of a business is usually computed as the discounted value of FCF out to a *valuation horizon* (H)
- The *valuation horizon* is sometimes called the terminal value
- So
- Valuing a business is similar to valuing a common stock



Book Value

- An accounting measure and can be established easily

But,



- Accounting conventions and policies are subject to a lot of subjectivity and arbitrariness
 - Also, historical figures are quite divergent from current economic value/earnings power
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Liquidation Value

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- Though it is more realistic than book value

But,

- It is difficult to estimate the amounts to be realized from the liquidation of various assets
 - It also does not reflect earnings capacity of the business
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List of Sugar Mills in U.P.

Bajaj Hindustan	New Swadeshi Sugar Mills
Balrampur Chini Mills	Oswal Overseas
Basti Sugar Mills	Oudh Sugar Mills
Birla Sugar Mills	Pratappur Sugar & Ind..
Chilwaria Sugars	Ramalal Sahakari Chini Mills
Daya Sugar	Rosa Sugar Works.
Dwarikesh Sugar Industry	Saraya Sugar Mills
Govind Nagar Sugar Mills	Seksaria Biswan Sugar Factory
H.M.P.Sugar Ltd	Shravasti Kisan Sahakari Chini Mills
ISGEC	Simbhaoli Sugar Mills
J.K.Sugar	The Bharat Sugar Mills
K.M.Sugar Mills	The Saraswati Sugar Mills
Kasturi Sugar Mills	The United Provinces Sugar Chemic
Kisan Sahakari Chini Mills	Titawi Sugar Complex.
Mahalakshmi Sugar Mills	Tulsipur Sugar Co.
Mawana Sugar Mills	U.P.State Sugar Corporation
Motilal Padampat Udyog	Upper Doab Sugar Mills
New India Sugar Mills	Upper Ganges Sugar Ind.

From Y'days Newspaper	Price	BV	PIBV	EPS	P/EPS
Upper Ganges Sugar	78	144	0.5	41.0	1.9
Dwarikesh Sugar	58	97	0.6	13.4	4.3
Riga Sugar	25	51	0.5	15.0	1.7
K M Sugar	21	36	0.6	6.7	3.1
Rana Sugar	17	26	0.6	3.8	4.3
Mawana Sugar	28	57	0.5	2.5	11.2
			0.56		4.43

Jan. 2013	Price	BV	P/BV	EPS	P/EPS
Upper Ganges Sugar	45	54	0.8		
Dwarikesh Sugar	35	67	0.5		
Riga Sugar	31	76	0.4	1.2	25.8
K M Sugar	2				
Rana Sugar	4	14	0.3	0.1	53.6
Mawana Sugar	15	23	0.7		
			0.54		39.70