

ASSIGNMENT 3 | BONDS, DEBENTURES INTRINSIC VALUE OF SHARES | B11024

BL KASHYAP AND SONS LIMITED

As per the annexure (12) to the annual report of BL Kashyap¹, it does not issue bonds and debentures, which says:

“The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4(xii) of the Order is not applicable”

AHLUWALIA CONTRACTS INDIA

According to annual report of 2011, it does not issue any bonds or debt securities/instruments, it states:

“According to the information and explanations given to us and based on the documents and records produced to us, the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.”

BL KASHYAP and Sons Ltd. have 205440000 equity shares of Rs 1 each in in FY 2011.

USING CONSTANT GROWTH DDM MODEL

BL KASHYAP AND SONS LTD.

Dividend of Rs. 0.10/- per share recommended by the Director on 28th May, 2011 is subject to declaration by the shareholders at the ensuing Annual General Meeting.

Financial year	Dividend Declaration	Dividend per share	Face value per share
2005-06	1th August, 2006	3.0	10
2006-07	21st September, 2007	3.5	10
2007-08	21st September, 2008	4.0	5
2008-09	19th September, 2009	1.0	5
2009-10	21st September, 2010	1.0	5
2010-11	-	0.1	1

$$D_0 = 0.10$$

$$g = 7.5\% \text{ (assumed)}$$

Expected rate of return, $K_e = 13\%$ (given)

$$\text{Therefore, calculating } D_1 = D_0 \cdot (1+g) = 0.10 \cdot 1.085 = .1085$$

$$P_0 = D_1 / (K_e - g) = .1075 / (.13 - .085) = \mathbf{Rs. 2.388}$$

Total intrinsic value of BLK = Rs $1.95 \cdot 205440000 = \text{Rs. } 4907733333$.

Value of BLK share checked at 9.35pm on 10/10/11 = **Rs. 8.85** (NSE)

- ✓ There is a difference of Rs. 6.462 in the expected and actual value which can be attributed to the conservative growth rate taken (8.5%).
- ✓ The company is growing at a much higher rate as compared to the economy .
- ✓ Also the expected rate of return taken (13%) may not always hold true.

AHLUWALIA CONTRACTS INDIA

According to Ahluwalia report the dividend is as follows

“The Board has recommended the dividend of `2.51 Crores of **0.40 paise** per Equity Share having a face value of ` 2/- each which is subject to the approval of the Shareholders. The Dividend, if declared at the AGM will be paid to those members, whose names are on the Register of Members of the Company as on closing hours of Monday, 18th September, 2011”

$$D_0 = 0.40$$

$$g = 8.5\% \text{ (assumed)}$$

Expected rate of return, $K_e = 13\%$ (given)

$$\text{Therefore, calculating } D_1 = D_0 \cdot (1+g) = 0.40 \cdot 1.085 = .434$$

$$P_0 = D_1 / (K_e - g) = .434 / (.13 - .085) = \mathbf{Rs. 9.644}$$

Total intrinsic value of Ahluwalia = Rs $9.644 \cdot 62762560 = \text{Rs. } 605.3100231$

Value of ACI share checked at 9.35pm on 10/10/11 = **Rs. 103.70** (NSE)

USING PHASED GROWTH DIVIDEND MODEL

BL KASHYAP AND SONS LTD.

Average growth till FY2010-11 is 32%. Assume the same growth rate for the next 6 years and thereafter assume a growth rate of 9%.

Year	2012	2013	2014	2015	2016	2017	2018
Growth Rate	32%	32%	32%	32%	32%	32%	9%
Dividend (expected)	0.132	0.174	0.231	.305	0.403	0.531	0.578
PV	0.116	0.136	0.160	0.187	0.219	0.255	0.246

$g_1 = 32\%$ for 6 years

$g_2 = 9\%$ after 6 years

$$PV(D_1) = 0.10 \cdot 1.32 / 1.13 = 0.116$$

$$PV(D_2) = D_1 \cdot 1.32 / 1.13^2 = 0.136$$

$$PV(D_3) = D_2 \cdot 1.32 / 1.13^3 = 0.160$$

$$PV(D_4) = D_3 \cdot 1.32 / 1.13^4 = 0.187$$

$$PV(D_5) = D_4 \cdot 1.32 / 1.13^5 = 0.219$$

$$PV(D_6) = D_5 \cdot 1.32 / 1.13^6 = 0.255$$

$$PV(P_7) = D_6 \cdot 1.09 \cdot 1.09 / [(0.13 - 0.9) \cdot 1.13^7] = 6.70$$

$$PV(\text{all future dividends} + \text{price at the end of 6 years}) = 0.116 + 0.136 + 0.160 + 0.187 + 0.219 + 0.255 + 6.15 = \text{Rs. } 7.773$$

$$\text{Total intrinsic value of BLK} = \text{Rs. } 7.73 \cdot 205440000 = \text{Rs. } 1596885120.$$

Value of BLK share checked at 9.35pm on 10/10/11 = **Rs. 8.85** (NSE)
AHLUWALIA

Analysis

The phased growth rate model gives a better estimate of the intrinsic value of shares of BLK. This shows that BLK follows phased growth. The difference between the intrinsic value and the market value indicates that the growth rate will continue to be high in the future.

AHLUWALIA CONTRACTS INDIA

Average growth till FY2010-11 is 30%. Assume the same growth rate for the next 6 years and thereafter assume a growth rate of 9%.

Year	2012	2013	2014	2015	2016	2017	2018
Growth Rate	30%	30%	30%	30%	30%	30%	9%
Dividend (expected)	0.52	0.676	0.879	1.14	1.49	1.93	2.10
PV	0.460	0.529	0.608	0.700	0.805	0.927	0.893

$g_1 = 30\%$ for 6 years

$g_2 = 9\%$ after 6 years

$PV(D_1) = 0.40 * 1.30 / 1.13 = 0.460$

$PV(D_2) = D_1 * 1.30 / 1.13^2 = 0.529$

$PV(D_3) = D_2 * 1.30 / 1.13^3 = 0.608$

$PV(D_4) = D_3 * 1.30 / 1.13^4 = 0.700$

$PV(D_5) = D_4 * 1.30 / 1.13^5 = 0.805$

$PV(D_6) = D_5 * 1.30 / 1.13^6 = 0.927$

$PV(P_7) = D_6 * 1.09 * 1.09 / [(0.13 - 0.9) * 1.13^7] = 24.366$

$PV(\text{all future dividends} + \text{price at the end of 6 years}) = 0.460 + 0.529 + 0.608 + 0.700 + 0.805 + 0.927 + 22.355 = \text{Rs. } 28.395$

Total intrinsic value of BLK = $\text{Rs. } 28.395 * 62762560 = \text{Rs. } 1782202516$.

Value of AHLUWALIA share checked at 9.35pm on 10/10/11 = **Rs. 103.70** (NSE)

Analysis

The phased growth rate model gives a better estimate of the intrinsic value of shares of Ahluwalia. This shows that Ahluwalia follows phased growth. The difference between the intrinsic value and the market value indicates that the growth rate will continue to be high in the future.

Liquidation valuation method

BL KASHYAP AND SONS LIMITED

(All values in Indian Rupees)

Total Assets	Total Liabilities	Net Worth	Number of Shares	Value per share
18,661,450,311	16,679,435,600	1,982,014,711	205440000	9.64

Intrinsic Value = $\text{Rs.}9.64 \times 205440000 = \text{Rs.}1982014711$

The value per share as per liquidation method is high as compared to the market value of BLK. This shows that BLK is less valued more by the market than its net worth.

AHLUWALIA CONTRACTS INDIA

(All values in Indian Rupees)

Total Assets	Total Liabilities	Net Worth	Number of Shares	Value per share
11559079033	8,277,453,249	3,281,625,784	62762560	52.28

Intrinsic Value = $52.28 \times 62762560 = 3281625784$

The value per share as per liquidation method is very low as compared to the market value of Ahluwalia. This shows that Ahluwalia Contracts India is valued more by the market than its net worth.

RELATIVE MULTIPLES P/E METHOD FOR BLK

Price per share/EPS = $1/R + \text{NPVGO/EPS}$

Data as on 31st March 2011:

EPS = 2.38

Dividend payout ratio = 4.90%

Discount rate = 13%

Return on retained earnings = 8.81%

Value per share of a single growth opportunity: Out of the earnings per share of Rs 2.38 at date 1, the firm retains Rs 2.26 (= 0.951*2.38) at that date. The firm earns Rs 0.11 (= 2.26*0.049) per year in perpetuity on that Rs 2.26 investment. The NPV from the investment is calculated as follows:

$$\text{NPV} = -\text{Rs } 2.26 + \text{Rs } 0.11/0.13 = \text{Rs } -1.41$$

Now assume growth rate = 7%

$$\begin{aligned} \text{Hence NPVGO} &= -1.41/1.13 - 1.41*1.07/1.13^2 - 1.41*1.07^2/1.13^3 + \dots \\ &= -1.41 / (0.13-0.07) = -23.5 \end{aligned}$$

Price per share = EPS/R + NPVGO

$$= 2.38/0.13 - 23.5 = -5.19.$$

As the value comes out to be negative, this model doesn't work here.

Industry P/E:

The industry P/E ratio is 13.37.

The EPS for BLK is 2.38.

Hence the price per share is 2.38*13.37=31.82.

Total intrinsic value = 31.82 * 205440000 = Rs. 6537100800

Analysis:

The value is very large as compared to market value. This shows that P/E ratio for BLK is very low as compared to industry P/E ratio.

RELATIVE MULTIPLES P/BV METHOD

Year	BLK	ACI	Unitech	Jaypee Infratech
P/BV	0.32	2.03	0.76	1.41

P/BV for industry is = (0.32+2.03+0.76+1.41)/3=1.13

Book value for BLK = 27.42.

Price per share of BLK = 1.13*27.42=30.98

Total intrinsic value = 30.98 * 205440000 = Rs. 6364531200

Analysis:

The value calculated is very large as compared to the market value of BLK. The valuation by both P/E and P/BV method is almost similar.

References

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- [Abbreviation used :ACI-Ahluwalia Contracts India](#)