Market Price Basis (MPB) method

MPB focuses on the market quotations of the relevant Stock Exchange, for determining the weighted average market value per share, after considering the traded value and the traded volume of transactions. This method is applicable to quoted companies only. Incidentally it may be mentioned that this method of valuation is adopted in determining the price to be offered to shareholders in a takeover bid.

Economic Based DCF method

The Economic Based DCF method is based on the premise that the value of a business is a direct function of its cash generating ability. This method values a business by discounting its Free Cash Flows (FCF) for a pre-determined forecast period to the present at a discount factor. For this purpose, FCF means the cash available for distribution to the capital providers, after considering the reinvestment required to sustain the operations and growth of the business. This captures all the elements of the value of a business. Compared to NAV and PECV approaches, the DCF method comprehends the values after considering capital investments and other cash flows required to sustain these earnings.

Issues in Valuation

- Valuation of intangibles
- Off Balance sheet items
- Deciding conversion ratio, premium
- Capitalization
- Stamp duty

Challenges in valuation

- The value context – for tangibles & intangibles
- Time period
- Free cash flows, terminal values
- Discounting rate
- Scale & scope of operations
- Accounting treatment – business purchase v/s pooling of interest method