

CHAPTER NO. III
FINANCIAL ANALYSIS OF SELECTED
COMPANIES

Sr. No.	Title	Page No.
3.1	INTRODUCTION	73
3.2	ATV PROJECTS INDIA LTD.	78
3.3	AURANGABAD PAPER MILLS LTD	89
3.4	BHARATI TELECOM LTD	96
3.5	BOMBAY SUBURBAN ELECTRIC LTD	102
3.6	H. D. F. C. LTD	110
3.7	I. C. I. C. I. LTD	117
3.8	JAMNA AUTO INDUSTRIES LTD	124
3.9	KHATAU JUNKAR LTD	132
3.10	LLOYED STEEL INDUSTRIES LTD	140
3.11	MAX INDIA LTD	149
3.12	MODERN WOLLENS LTD	158
3.13	NARANG INDUSTRIES LTD	167
3.14	NIVAS SPINNING MILLS LTD	174

Sr. No.	Title	Page No.
3.15	ONIDA SAVAK LTD	184
3.16	OSWAL SPINNING & WEAVING LTD	195
3.17	PRAKASH INDUSTRIES LTD.	204
3.18	PRIYADARSHINI SPINNING MILLS LTD	214
3.19	PUNJAB CONCAST STEEL LTD	221
3.20	SHREE KRISHNA PATRO YARN LTD	228
3.21	S. M. DYECHAM LTD	237
3.22	THE DHAMPUR SUGAR MILLS LTD	246
3.23	VARUN SHIPPING CO. LTD	253
3.24	VIDEOCON APPLIANCES LTD	262
3.25	VIDEOCON INTERNATIONAL LTD	271
3.26	VISAKA INDUSTRIES LTD	280

CHAPTER : 3

3.1 INTRODUCTION :

This chapter is devoted to analysis, calculations and write up based on accounting information collected from primary and secondary sources. A company is regarded as eligible for inclusion in the study if it made a public issue of equity shares at premium or issue of fully convertible debentures (to be converted into equity shares at premium) during the financial year 1990-91 and 1991-92.

The majority of the data is collected from the prospectus of the concerned issue and Official Directory of Bombay Stock Exchange. The prospectus of the issues were collected from the Bombay Stock Exchange, Bombay. The informations related to market price was collected from the software package, namely, "Metastock" of the Transpeck Finance Company located at Baroda.

The accounting informations so collected was inserted in the CCI based format for calculation of fair value. To calculate fair value per share one has to calculate Net Asset Value per share and Profit Earning Capacity Value per share. The average of PECV and NAV is the fair value. The NAV per share can be worked out by dividing Net Worth by number of paid-up equity shares. The PECV can be worked out by dividing Earning Per Share by the applicable capitalisation rate. The EPS is calculated by dividing average Profit After Tax by number of paid up equity shares. The average profit after tax is either three year's weighted average profit or five year's simple average profit, preceding the issue depending on the trends of the profit of three year or five years, as the case may be. To know amount of the chargeable premium, face value of the equity share is deducted from the fair value of the share.

The Pre-issue average market price is calculated by following method. First, the average of high and low market prices of each month for six months preceding the issue is calculated. Then, the average of each month arrived at is again totalled and divided by the number of months to know the average price of six months. Then, the average of yearly high and low market price of each year for three years preceding the issue is calculated. Lastly, the average price of each year and average price of

six month is totalled and simple average is calculated to arrive at pre-issue average market price

To verify adherence to the prescribed guidelines of the office of the CCI, comparison of issue price with fairvalue at different capitalisation rate and with average market price are made with one another, in the attached write up of each company

To present the Post-issue prospects of the company Calculation of EPS after taking into account potentially dilutive securities of the company is made. Such a EPS is called Primary Earning Per Share(PEPS), if it covers only part-A of the Fully Convertible Debenture(FCD), but if it covers both parts of the F.C.D., it is called Fully Diluted Earning Per Share(FDEPS). Such dilutive securities are also called Equity Shares Equivalents(ESES). The PEPS and FDEPS include dilutive ESES which are convertible within one year and within three years from the date of allotment of ESES (i.e., here it is F.C.D.) respectively. Based on the PEPS and FDEPS, fair value at 15%, 12%, 10% and 8% capitalisation rate are worked out. One can notice that because of increase in equity share (owing to potentially dilutive securities) in denominator, EPS and NAV are reduced considerably, which in turn has reduced the fair values considerably. Based on the PEPS and FDEPS calculation the company can charge less premium or in some of the cases the company may have to offer its security at discount.

The statements No. A, B, C and D are prepared on the basis of the C.C.I. method. It differs from the CCI guidelines in respect of definition of basic elements on the basis of which fair values are calculated. For example, Profit after tax may include return on new capital (be it equity or debentures) or networth may include potentially dilutive securities. The basic approach of the CCI method and capitalisation rate is not changed. All the four statements apparently look alike, but in fact they are different from one another.

The networth shown in the statement No. A includes part A of the convertible debenture at face value and part A of the convertible debenture at the offer price i.e. face value plus share premium. The profit after tax shown in the same statement includes return on the convertible debentures which are included in networth at 50%,

75% and 100% of the existing rate of return on network. The total Number of equity shares are inclusive of Equity Share Equivalents of part A of the convertible debentures.

The network shown in the statement No B is inclusive of both parts of the convertible debenture at face value and both parts of the convertible debentures at the offer price. The profit after tax shown in the same statement includes return on the convertible debentures which are included in the network at 50%, 75% and 100% of the existing rate of return on the network. The total number of equity shares are inclusive of Equity Shares Equivalents of both parts of the convertible debentures. Because of increase in network, increase in profit after tax and increase in number of equity shares, NAV per share, EPS and PEV are increased. i.e. fair values of statement A are less than the fair values of statement B at the same capitalisation rate.

In case of the statement No C, the network and profit after tax shown in the statement No A is taken. But the total number of equity shares do not include Equity Shares Equivalents of the part A of the FCD, i.e. network and profit after tax is divided by existing number of paid up equity shares before the issue. Similarly in the case of statement No D, the network and profit after tax shown in the statement No B is taken. But the total number of equity shares do not include Equity Share Equivalents of both the parts of the FCD.

At the end of each statement serial No J defines the serial Nos D, G, H and I. In the statement No C and D, the fair values are more than the fair values shown in the statement No A and B. Because number of equity shares in denominator is not increased, in case of statement No C and B.

On the basis of these statements, we can conclude that, if total paid up equity share increases, the fair value per share decreases. Similarly, if network increases, without corresponding increase in number of equity shares, the fair value per share increases. In the same way, if profit after tax increases, keeping number of equity shares unchanged, the EPS would increase, which in turn enhances fair value. It means there is direct and positive relationship between the network and fair value, profit after tax

and earning per share, profit after tax and fair value, profit after tax and profit earning capacity value. There is inverse relationship between number of equity shares and fair value, number of equity shares and net asset value per share, number of equity shares and profit earning capacity value. There is also inverse relationship between fair values and capitalisation rate.

In case of equity issues, as per the CCI guidelines, new equity shares are included in the total paid up equity shares while calculating NAV per share and EPS. But in case of the FCD issue, the paid up equity shares can not be increased as per the CCI guidelines. But in this study, we have included potentially convertible securities or Equity Share Equivalents in the total paid up equity shares. The reason for the same is that the convertible debentures either in part or in full lost its status of debenture on the date of Conversion. Secondly, investors should be informed of the real Earning Per Share that will prevail if earning remains same and number of equity shares increases owing to Conversion of debentures.

The return on new capital is calculated at 50%, 75% and 100% of the existing rate of return on networth, because the capital invested in the existing line of business would generate return, be it in equity form or in debenture form.

While calculating net asset value per share, the new capital at face value is added in the networth on the ground that networth always include paid up share capital. According to another view, the share premium collected in the new capital is also included in the networth with a consideration that the share premium account is also a type of reserve account. Secondly, the company can issue bonus shares out of the share premium account.

The difference among all these fair values are noticed owing to :

- 1.Exclusion/inclusion of number of new Equity Shares Equivalents as a result of Conversion of the debentures.
- 2.Exclusion/inclusion of return on the new capital in the profit after tax.
- 3.Exclusion/inclusion of the share premium of fresh issue in calculation of the networth.
- 4.Different capitalisation rate applied.

The Security and Exchange Board of India (SEBI) has replaced the office of the CCI. Even then there is no specific method prescribed by the SEBI for calculation of premium on equity share. The instructions issued by the SEBI are descriptive in nature. Hence, premium calculations could not be carried out on the basis of SEBI guidelines. The SEBI merely prescribes certain code of conduct to be followed while issuing securities at premium, for the issuers, lead managers and merchant bankers to the issues. Infact, all the 25 issues were entered in the capital market before the abolition of the office of the CCI. Hence, it is improper to see that whether these companies followed the SEBI guidelines or not.

Now, let us go through the write up and analysis of each company. Firstly, a **write up** on each company is given. Secondly, the **calculations as per the CCI guidelines** are performed. Thirdly, **calculations as per the U.S.A reporting system** (with Indian touch) are performed. Lastly, the fair values are calculated based on **different combinations** of networth, PAT, capitalisation rate and number of equity shares and profit after tax.

3.2 : ATV PROJECTS INDIA LIMITED

3.2.1 : COMPANY BACKGROUND:

ATV PROJECTS INDIA LIMITED was incorporated on 26th February, 1987 with the object of taking over Anand Tanks & Vessels Pvt. Limited - a company executing projects on a turnkey basis under a scheme of Amalgamation. The Anand Tanks & Vessels Pvt. Limited was amalgamated with the company effective from 28th September 1987. The main objectives of the company are fabrication and manufacture of all full range of tanks and vessels for sugar and other industries, manufacture of effluent treatment plants, LPG storage etc. The object of the issue was to finance the project of Thermoplastic Elastomer.

3.2.2 : ISSUE HIGHLIGHTS:

The company made a right cum public issue of 50,59,400 15% secured fully convertible debentures of Rs. 192.00 each for cash at par aggregating to Rs. 9714.00 lacs. As per the Conversion terms given in the prospectus, each debenture would be automatically and compulsorily converted into equity shares in two stages. The first, portion of the debenture would be converted into two equity shares of Rs. 10.00 each for cash at a premium of Rs. 16.00 per equity share on the expiry of 6 months from the date of allotment. The second portion would be converted into four equity share of Rs. 10.00 each for cash at a premium of Rs. 25.00 per equity share on the expiry of 18 months from the date of allotment.

3.2.3 : OVERALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs. 30.93, Rs. 34.84, Rs. 38.75 and Rs. 44.61 showing underpricing by 15.93%, 25.37%, 32.90% and 41.71% respectively for Part-A of the debenture. For Part B of the debenture, the issue price was overpriced at 15% and 12% capitalisation rate by 13.15% and 0.45% and underpriced at 10% and 8% capitalisation rate by 10.71% and 21.54% respectively based on the above fair values.

The fairvalue per share at 15%, 12%, 10% and 8% capitalisation as a percentage of pre-issue average market price was 65.94%, 74.28%, 82.62% and 95.11% respectively. That is, the fair value at 15% and 12% capitalisation rate were not within the range of 80.00% to 100.00% of the pre-issue average market price. While the fair values at 10% and 8% capitalisation rate is within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is a manufacturing concern. At 15% capitalisation rate the issue price of Part A and Part B of the debenture were 84.07% and 113.15% of the fair value respectively, i.e. Part A of the debenture was moderately underpriced. The offer price as a percentage of pre-issue average market price for Part 'A' of the debenture and for part 'B' of the debenture was 55.43% and 74.62% respectively.

Those investors who were lucky enough to receive allotment, got minimum return of 34.61% and maximum return 246.15% per equity share during the year 1992. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate, meaning thereby that the company has collected less amount by (Rs. 6.42), Rs. 17.08, Rs. 40.50 and Rs. 75.66 per F.C.D. respectively.

A close look at the market price before and after the issue, throws light on possibility of price-rigging. The company came out with public issue in the month of Jan. 1992 and the allotment could have been finalised by April, 1992. The pre-issue six monthly market price were in the range of Rs. 40.00 to Rs. 60.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in Statement No. U-1, the P.E.P.S. and F.D.E.P.S. stood at Rs. 2.47 and Rs. 1.27 respectively. The company could have charged premium of Rs. 6.27, Rs. 8.33, Rs. 10.39 and Rs. 13.47 at the capitalisation rate of 15%, 12%, 10% and 6% respectively on the basis of P.E.P.S. While on the basis of F.D.E.P.S. the company could have charged premium of Rs. 2.06 at 8% capitalisation rate only.

The statement No A-1 to D-1 shows that the company could have offered its equity share in the range of Rs 12.35 to Rs 76.65 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., number of equity shares etc.

3.2.4 : OBSERVATIONS OF HYPOTHESIS :

It is seen that, initial offer price for Part 'A' of the debenture sanctioned by the office of the C.C.I. was conservative. But for Part 'B' of the debenture, it was not conservative.

It is also seen that, for this company too, the office of the CCI has followed uniform premium fixation method. It is found that the offer price for Part A of F.C.D. fixed by the office of C.C.I. was underpriced by 15.93%, 25.37%, 32.90% and 41.71% at 15%, 12%, 10% and 8% capitalisation rate. The offer price of Part B of the F.C.D. was overpriced at 15% and 12% capitalisation rate by 13.15% and 0.45% while it was underpriced by 10.71% and 21.54% at 10% and 8% capitalisation rate respectively.

It is also found that offer price of Part A of F.C.D. as a percentage of book value and pre-issue market price was 84.96% and 55.43%. For Part B of the F.C.D. same was 114.37% and 74.62%. The offer price was disproportionate to the market price.

ANNEXURE 1 - X
NET ASSET VALUE (NAV)
Name of the Company : **ATV Projects India Ltd.**
According to the audited balance sheet as at 30th June 1991.

	Rs		Rs
	(Lacs)		(Lacs)
Total Assets	9476 18	Shareholders fund	..
Deduct all liabilities		(1) Equity Capital	1121.09
1 Preference capital	nil	(2) Free reserves	2309.74
2. Secured & unsecured borrowings	5022 62	Total	3430 83
3 Current liabilities	1022 73	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>3430 83</u>	Net worth	<u>3430 83</u>
Add			
(1) Fresh capital Issue at Face Value			nil
Total			3430 83
Number of shares including Fresh and bonus issue			112.10
NAV per share			30 60

ANNEXURE 1-Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1989	390 15	299 24	150 80
2 March 1990	543.30	428 30	130 74
3 March 1991	702 16	667 16	182 72
Simple Average	<u>545 20</u>	<u>464 90</u>	
or			
Weighted Average	597 20	526 22	

Average profit before tax(on the basis of weighted average) 597.20

Deduct:

Provisions for taxation at 70 83

Average profit after tax 526 22

Deduct Preference dividend nil

Net profit after tax 526 22

Add Contribution to profit by fresh issue if any nil

Total profit after tax 526 22

Number of equity share including fresh and bonus issue 112 10

Earning per share(EPS) 4 69

Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)

15%	31.27
12%	39.08
10%	46.90
8%	58.62

FAIR VALUE CALCULATION						Remarks
Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	
1	2	3	4	5	6	
1	15 %	31.27	30.60	61.87	30.93	
2	12 %	39.08	30.60	69.68	34.84	
3	10 %	46.90	30.60	77.50	38.75	
4	8 %	58.62	30.60	89.22	44.61	

ANNEXURE 1 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		58.25	33.00		45.62		
2	1990		48.75	38.00		43.37		
3	1991		62.50	37.50		50.00		
4		May '91	51.25	43.75	47.50			
5		Jun '91	52.00	42.50	47.25			
6		July '91	53.75	42.00	47.87		48.60	46.90
7		Aug '91	48.50	40.00	44.25			
8		Sep '91	60.00	42.50	51.25			
9		Oct '91	57.00	50.00	53.50			
Total of Col. No 6 Divided by months			291.62			Total of Col No 7 & 8 Divided by no of items	187.60	
			6				4	
			= 48.60				= 46.60	

STATEMENT NO. U - 1
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(Fig in Lacs)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity shares at the time of issue	112 10	112 10
Add. Part 'A' Conversion	101.19	101 19
Part 'B' Conversion		202 38
	213 29	415 67
Profit After Tax	526 22	526 22
Earning Per Share (PEPS)	2 47	
" " (FDEPS)		1 27
Profit Earning Capacity Value		
At 15 % Capitalisation Rate	16 46	8 47
At 12 % -do- -do-	20 58	10 58
At 10 % -do- -do-	24.70	12 70
At 8 % -do- -do-	30.87	15 88
Net Worth	3430 83	3430 83
Net Asset Value Per Share	16 08	8 25
Fair Value		
• At 15 % Capitalisation rate	16 27	8 36
• At 12 % -do-	18.33	9 41
• At 10 % -do-	20 39	10 47
• At 8 % -do-	23 47	12 06

STATEMENT NO. A - 1

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	*182.11	182.11	182.11	182.11	182.11	182.11
	Add Conversion of Part 'A' Debenture	101.19	101.19	101.19	101.19	101.19	101.19
	Conversion of Part 'B' Debenture	---	---	---	---	---	---
B	Total No of Shares	283.30	283.30	283.30	283.30	283.30	283.30
	Net Worth	3430.83	3430.83	3430.83	3430.83	3430.83	3430.83
	Add Face Value of the total No of new equity shares	*1711.95	1711.95	1711.95	1711.95	1711.95	1711.95
	- Shares premium of the total No. of New Equity shares				1619.00	1619.00	1619.00
C	New Net Worth	5142.78	5142.78	5142.78	6761.78	6761.78	6761.78
D	Net Asset Value Per Share	18.15	18.15	18.15	23.86	23.86	23.86
E	Profit After Tax As per CCI	526.22	526.22	526.22	526.22	526.22	526.22
	Add Return on New Capital	98.35	147.53	196.70	255.72	383.58	511.44
F	New P A T	624.57	673.75	722.92	781.94	909.80	1037.66
G	Earning per share	2.20	2.38	2.55	2.76	3.21	3.66
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	14.67	15.87	17.00	18.40	21.40	24.40
	-At 12 % " "	18.33	19.83	21.25	23.00	26.75	30.50
	-At 10 % " "	22.00	23.80	25.50	27.60	32.10	36.60
	-At 8 % " "	27.50	29.75	31.88	34.50	40.13	45.75
I	Fairvalue Based on the above PL:CV and NAV						
	-At 15 % Cap Rate	16.41	17.01	17.58	21.03	22.53	24.03
	-At 12 % " "	18.24	18.99	19.70	23.33	25.21	27.08
	-At 10 % " "	20.08	20.98	21.83	25.63	27.88	30.13
	-At 8 % " "	22.83	23.95	25.02	29.08	31.90	34.71
J	D = C/B G = F/B H =			G			
					* 100	I=(D + H) /2	
					Respective Capitalisation rate		

* Includes "C" series Conversion

STATEMENT NO. B - 1

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	*182.11	182.11	182.11	182.11	182.11	182.11
	Add Conversion of Part 'A' Debenture	101.19	101.19	101.19	101.19	101.19	101.19
	Conversion of Part 'B' Debenture	202.38	202.38	202.38	202.38	202.38	202.38
B	Total No of Shares	485.68	485.68	485.68	485.68	485.68	485.68
	Net Worth	3430.83	3430.83	3430.83	3430.83	3430.83	3430.83
	Add Face Value of the total No of new equity shares	*3735.71	3735.71	3735.71	3735.71	3735.71	3735.71
	- Shares premium of the total No of New Equity shares				6678.40	6678.40	6678.40
C	New Net Worth	7166.54	7166.54	7166.54	13844.94	13844.94	13844.94
D	Net Asset Value Per Share	14.76	14.76	14.76	28.50	28.50	28.50
I.	Profit After Tax As per CCI	526.22	526.22	526.22	526.22	526.22	526.22
	Add Return on New Capital	196.70	295.06	393.41	688.48	1032.72	1376.97
F	New P A T	722.92	821.28	919.63	1214.70	1558.94	1903.19
G	Earning per share	1.49	1.69	1.89	2.50	3.21	3.92
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	9.93	11.27	12.60	16.67	21.40	26.13
	-At 12 % " "	12.42	14.08	15.75	20.83	26.75	32.07
	-At 10 % " "	14.90	16.90	18.90	25.00	32.10	39.20
	-At 8 % " "	18.63	21.13	23.63	31.25	40.13	49.00
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap Rate	12.35	13.02	13.68	22.55	24.95	27.32
	-At 12 % " "	13.59	14.42	15.26	24.67	27.63	30.59
	-At 10 % " "	14.83	15.83	16.83	26.75	30.30	33.85
	-At 8 % " "	16.70	17.95	19.20	29.88	34.32	38.75

J D = C/B G = F/B H =

G

* 100

I=(D + H) /2

Respective Capitalisation rate

* Includes "C" series Conversion

STATEMENT NO. C - 1

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	182.11	182.11	182.11	182.11	182.11	182.11
	Add: Con of Part 'A' Debenture	---	---	---	---	---	---
	Con. of Part 'B' Debenture.	---	---	---	---	---	---
B	Total No of Shares	182.11	182.11	182.11	182.11	182.11	182.11
C	Net Worth	4130.90	4130.90	4130.90	4130.90	4130.90	4130.90
D	Net Asset Value Per Share	22.68	22.68	22.68	22.68	22.68	22.68
E	Profit After Tax As per CCI	526.22	526.22	526.22	526.22	526.22	526.22
	Add Return on New Capital Part A	98.35	147.53	196.70	98.35	147.53	196.70
	Return on Premium Amount of new Capital Part A	---	---	---	157.37	236.05	314.74
F	New P.A T	624.57	673.75	722.92	781.94	909.80	1037.66
G	Earning per share	3.43	3.70	3.97	4.29	4.99	5.70
H	Profit Earning Capacity Value						
	-At 15 % Cap. Rate	22.87	24.66	26.47	28.60	33.27	38.00
	-At 12 % " "	28.58	30.83	33.08	35.75	41.58	47.50
	-At 10 % " "	34.30	37.00	39.70	42.90	49.90	57.00
	-At 8 % " "	42.87	46.25	49.62	53.62	62.37	71.25
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap Rate	22.77	23.67	24.57	25.64	27.97	30.34
	-At 12 % " "	25.63	26.75	27.88	29.21	32.13	35.09
	-At 10 % " "	28.49	29.84	31.19	32.79	36.29	39.84
	-At 8 % " "	32.77	34.46	36.15	38.15	42.52	46.96
G							
J D = C/B G = F/B H = _____ * 100 I = (D + H) / 2							
Respective Capitalisation rate							

STATEMENT NO. D - 1

Sr No	Particulars.	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	182.11	182.11	182.11	182.11	182.11	182.11
	Add: Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Debenture.	---	---	---	---	---	---
B	Total No of Shares	182.11	182.11	182.11	182.11	182.11	182.11
C	Net Worth	4130.90	4130.90	4130.90	4130.90	4130.90	4130.90
D	Net Asset Value Per Share	22.68	22.68	22.68	22.68	22.68	22.68
E	Profit After Tax As per CCI	526.22	526.22	526.22	526.22	526.22	526.22
	Add: Return on New Capital Part A	196.70	295.06	393.41	196.70	295.06	393.41
	Return on Premium Amount of new Capital Both Part	---	---	---	491.78	737.66	983.56
F	New P A T	722.92	821.28	919.63	1214.70	1558.94	1903.19
G	Earning per share	3.97	4.51	5.05	6.67	8.56	10.45
H	Profit Earning Capacity Value						
	-At 15 % Capitalisation rate	26.47	30.06	33.67	44.47	57.07	69.67
	-At 12 % " "	33.08	37.58	42.08	55.58	71.33	87.08
	-At 10 % " "	39.70	45.10	50.50	66.70	85.60	104.50
	-At 8 % " "	49.62	56.37	63.12	83.37	107.00	130.62
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Capitalisation rate	24.57	26.37	28.17	33.57	39.87	46.17
	-At 12 % " "	27.88	30.13	32.38	39.13	47.00	54.88
	-At 10 % " "	31.19	33.89	36.59	44.69	54.14	63.59
	-At 8 % " "	36.15	39.52	42.90	53.02	64.84	76.65
G							
J D = C/B · G = F/B H = ----- * 100 : I = (D + H) / 2							
Respective Capitalisation rate							

3.3 : AURANGABAD PAPER MILLS LIMITED

3.3.1 : COMPANY BACKGROUND:

AURANGABAD PAPER MILLS LIMITED was incorporated as a private limited company on 4th December 1974 at Bombay and converted in to a public limited company on 6th January 1977. The company manufactures pulp, paper and board of all kinds. This issue was made with a view to part finance its cost reduction plan.

3.3.2 : ISSUE HIGHLIGHTS:

During January 1991, the company came out with Right-cum-Public issue of 15,79,925 equity shares of Rs 10.00 each for cash at premium of Rs. 10.00 per share aggregating to Rs 315.96 lacs.

3.3.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fair value at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 21.98, Rs 24.98, Rs 27.97 and Rs 32.45, showing under-pricing by 9.00%, 19.93%, 28.49% and 38.36% respectively. The fair value per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue market price was 68.15%, 77.45%, 86.72% and 100.62% respectively. That is, except the fair value at 10.00% capitalisation rate, none of these fair values were in the range of 80.00% to 100.00% of the pre-issue average market price. As per the CCI guidelines, the applicable capitalisation rate was 15.00% as the company is a manufacturing concern. The issue price was 90.99% of the fair value at 15.00% capitalisation rate. The issue price as a percentage of pre-issue average market price was 62.01%.

The investor who were lucky enough to receive allotment, got minimum return of 87.50% and maximum return of 443.75% during the year 1991. Similarly, during the year 1992, the investors could have realised minimum return of 250.00% and maximum return of 850.00%, respectively. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs 1.98, Rs 4.98, Rs 7.97 and Rs 12.45 per equity share respectively.

A close look at the market price before and after the issue throw light on possibility of price rigging. The company came out with the public issue in the month of January 1991 and the allotment could have been finalised by April 1991. The pre-issue 6 monthly market prices were in the range of Rs 41 00 to Rs 63 00. The post issue yearly high and low market price also revealed that the company or its promoters had not resorted to price rigging exercise.

The PEPS and FDEPS calculations can not be worked out as the issue was only Equity issue. The statement No A-2 and B-2 show that the company could have offered its equity shares in the range of Rs 21 95 to Rs 50 15 being minimum and maximum fair values respectively which are worked out based on different combinations of EPS, NAV, PE CV, R.O.N.W, capitalisation rate, No of equity shares etc.

3.3.4 : OBSERVATIONS OF HYPOTHESIS:

It is observed that the initial offer price sanctioned by the office of the CCI was conservative for this company too.

It is seen that the office of the CCI has followed uniform premium fixation method for this company too.

It is observed that the office of the CCI has underpriced the offer price at 15%, 12%, 10% and 8% capitalisation rate by 9 00%, 19 93%, 28 49% and 38 36% respectively.

It is also observed that the initial offer price as a percentage of book value per share and pre-issue average market price was 99 80% and 62 01%, respectively. So the offer price was disproportionate to the market price.

ANNEXURE 2-X
NET ASSET VALUE (NAV)
Name of the Company : **AURANGABAD PAPER MILLS LTD.**
According to the audited balance sheet as at 31st March 1990.

	Rs		Rs
	(Lacs)		(Lacs)
Total Assets	1219 78	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	116 50
1 Preference capital	nil	(2) Free reserves	275 71
2 Secured & unsecured borrowings	441 73	Total	392 21
3 Current liabilities	385 84	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>392.21</u>	Net worth	<u>392 21</u>
Add			
(1) Fresh capital Issue at Face Value			158 00
Total			550.21
Number of shares including Fresh and bonus issue			27 45
NAV per share			20 04
Calculation of profit on Fresh Capital			
1/2 * Fresh Capital * Exist PAT/Exist NAV			
1/2 * 158 00 * 107 98 / 392 21 = Rs	21 75		

ANNEXURE 2-Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 December 1985	166 46	166 46	---
2 December 1986	90 09	90 09	---
3 March 1998	(25 92)	(25.92)	11 65
4 March 1989	53 06	44 70	23.3
5 March 1990	166.98	107 98	23 91
Simple Average	<u>90 13</u>	<u>76 66</u>	
or			
Weighted Average	----	----	----

Average profit before tax (on the basis of simple average)	90.13
Deduct	
Provisions for taxation at	13 47
Average profit after tax	76 66
Deduct Preference dividend	nil
Net profit after tax	76 66

Add Contribution to profit by fresh issue if any	21 75
Total profit after tax	98 41
Number of equity share including fresh and bonus issue	27 45
Earning per share(EPS)	3 59
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
15%	23 93
12%	29 92
10%	35 90
8%	44 87

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No.(3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	23 93	20 04	43 97	21 98	
2	12 %	29 92	20 04	49 96	24 98	
3	10 %	35 90	20 04	55 94	27 97	
4	8 %	44 87	20 04	64 91	32 45	

ANNEXURE 2 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average Monthly Average	of Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		7 00	7 00		7 00		
2	1989		16 00	10 00		13 00		
3	1990		100 00	21 00		60 50		
4		Jun 90	47 00	41 00	44 00			
5		Jul 90	40 00	42 00	41 00			
6		Aug 90	48 00	41 00	44 50		48 50	32 25
7		Sep 90	61 00	44 00	52 50			
8		Oct 90	63 00	53 00	58 00			
9		Nov 90	58 00	44 00	51 00			
Total of Col No 6 Divided by months			291 62 ----- 6 = 48 60	Total of Col No. 7 & 8 Divided by no of items			129 00 ----- 4 = 32 25	

STATEMENT NO. A-2

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	11.65	11.65	11.65	11.65	11.65	11.65
	Add. Con. of Part 'A' Debenture	15.80	15.80	15.80	15.80	15.80	15.80
	Con. of Part 'B' Deb	---	---	---	---	---	---
B	Total No. of Shares	27.45	27.45	27.45	27.45	27.45	27.45
	Net Worth	392.21	392.21	392.21	392.21	392.21	392.21
	Add. Face Value of the total No. of new equity shares	158.00	158.00	158.00	158.00	158.00	158.00
	- Shares premium of the total No. of New Equity shares				158.00	158.00	158.00
C	New Net Worth	550.21	550.21	550.21	708.21	708.21	708.21
D	Net Asset Value Per Share	20.04	20.04	20.04	25.80	25.80	25.80
E	Profit After Tax As per CCI	76.66	76.66	76.66	76.66	76.66	76.66
	Add. Return on New Capital	21.75	32.61	43.50	21.75	32.61	43.50
F	New P A T	98.41	109.27	120.16	98.41	109.27	120.16
G	Earning per share	3.58	3.98	4.37	3.58	3.98	4.37
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	23.87	26.53	29.13	23.87	26.53	29.13
	-At 12 % " "	29.83	33.16	36.41	29.83	33.16	36.41
	-At 10 % " "	35.80	39.80	43.70	35.80	39.80	43.70
	-At 8 % " "	44.75	49.75	54.62	44.75	49.75	54.62
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	21.95	23.28	24.58	24.83	26.16	27.46
	-At 12 % " "	24.93	26.60	28.22	27.81	29.48	31.10
	-At 10 % " "	27.92	29.92	31.87	30.80	32.80	34.75
	-At 8 % " "	32.39	34.89	37.33	35.27	37.77	40.21

$$J = D = C/B \quad G = F/B \quad H =$$

G

----- * 100
Respective Capitalisation rate

$$I = (D + H) / 2$$

STATEMENT NO. B-2

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	11 65	11.65	11 65	11.65	11.65	11 65
	Add Con of Part 'A' Debenture	15 80	15 80	15 80	15.80	15 80	15.80
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No. of Shares	27 45	27 45	27 45	27.45	27 45	27 45
	Net Worth	392 21	392 21	392.21	392 21	392.21	392 21
	Add Face Value of the total No of new equity shares	158 00	158 00	158 00	158.00	158.00	158.00
	Shares premium of the total No of New Equity shares				158 00	158 00	158.00
C	New net Worth	550 21	550 21	550 21	708 21	708 21	708 21
D	Net Asset Value per share	20.04	20.04	20.04	25.80	25 80	25 80
E	Profit After Tax As per CCI	76 66	76 66	76 66	76 66	76.66	76 66
	Add Return on New Capital	43 50	65 22	86 99	43.50	65.22	86 99
F	New P.A.T	120 16	141 88	163 65	120.16	141.88	163 65
G	Earning per share	4 37	5 16	5 96	4 37	5 16	5.96
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	29.13	34 40	39.73	29 13	34 40	39.73
	-At 12 % " "	36 41	43 00	49.67	36 41	43 00	49.67
	-At 10 % " "	43 70	51 60	59 60	43 70	51 60	59 60
	-At 8 % " "	54 92	64 50	74.50	54 92	64 50	74 50
I	Fairvalue Based on the above P/E:CV and NAV						
	-At 15 % Cap rate	24 58	27 22	29 88	27 46	30 10	32 76
	-At 12 % " "	28 22	31.52	34 87	31 10	34.40	37 73
	-At 10 % " "	31 87	35 82	39.82	34 75	38.70	42.70
	-At 8 % " "	37 48	42 27	47.27	40 36	45 15	50.15

G

$$J \quad D = C/B \quad G = F/B \quad H = \frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.4 : BHARATI TELECOM LIMITED

3.4.1 : COMPANY BACKGROUND:

BHARATI TELECOM LIMITED was incorporated as a public limited company on July 29, 1985. The main objectives of the company are to manufacture, develop, export, import, sell, distribute, repair, convert, alter, install, erect, maintain, let on hire and otherwise deal in all kinds of electronic voice data and video communication systems including EPABX systems etc. The object of the issue was to part finance its expansion project.

3.4.2 : ISSUE HIGHLIGHTS:

The company came out with the Public issue of 18,36,250 equity shares of Rs. 10.00 each for cash at premium of Rs 15.00 each aggregating to Rs.4,59,06,250.

3.4.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fair values at 15%, 12%, and 10% capitalisation rate stood at Rs.18.07, Rs.20.52 and Rs.22.97 showing overpricing by 38.35%, 21.83% and 8.83% respectively. But the issue was nearly properly priced at 8% capitalisation rate. The fair value per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price was 41.78%, 47.44%, 53.10% and 61.61% respectively. That is, none of these fair values were within the range of 80.00% to 100.00% of the pre-issue average market price. It seems that at this point there was breach of the CCI guidelines.

As per the CCI guidelines, the applicable capitalisation rate was 15% as the company is engaged in manufacturing activity. The issue price was 138.35% of the fair value at 15% capitalisation rate, i.e., the issue was overpriced.

Those investors who receive allotment of shares, got minimum return of 32.00% and maximum return of 180.00% per equity share during the year 1991. Similarly, during the year 1992 and 1993, the investors could have realised minimum return of 40.00% and (8.00%) and maximum return of 380.00% and 124.00%, respectively. As said earlier, the issue was overpriced at 15%, 12% and 10% capitalisation rate,

meaning there by that the company has collected excess amount by Rs 6.93, Rs. 4.48 and Rs 2.03 per equity share respectively

A close look at the market price before and after the issue, throw light on possibility of price rigging. The company came out with the public issue in the month of April 1991 and the allotment could have been finalised by August 1991. The post-issue monthly market price was not available. The pre-issue 6 monthly market price was in the range of Rs 36.00 to Rs 56.00. The post issue yearly high and low market price also show that the company or its promoters had not resorted to price rigging.

The PEPS and FDEPS calculations can not be worked out as the issue is only equity issue. The statement No A-3 and B-3 shows that the company could have offered its equity shares in the range of Rs 18.07 to Rs 53.97 being minimum and maximum fair values respectively, which are worked out based on different combinations of EPS, NAV, PE CV, RONW, capitalisation rate, No. of equity shares etc.

3.4.4 OBSERVATIONS OF HYPOTHESIS:

It is observed that the offer price fixed by the office of the CCI was not conservative for this company.

It is also seen that the office of the CCI has followed uniform premium fixation method for this company. The offer price fixed by the office of the CCI was overpriced at 15%, 12% and 10% capitalisation rate by 38.35%, 21.83% and 8.83% respectively, while at 8% capitalisation rate, the offer price was underpriced by 6.19%.

The offer price fixed by the office of the CCI was disproportionate to the market price and book value of the share. The offer price as a percentage to pre issue market price was 57.80% and offer price as a percentage of book value was 151.05%.

ANNEXURE 3 - X
NET ASSET VALUE (NAV)

Name of the Company : **BHARATI TELECOM LTD.**
According to the audited balance sheet as at 31st March 1990.

	Rs (Lacs)		Rs (Lacs)
Total Assets	1112 87	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	165 00
1 Preference capital	nil	(2) Free reserves	228 09
2 Secured & unsecured borrowings	429 59	Total	393 09
3 Current liabilities	290 19	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>393 09</u>	Net worth	<u>393 09</u>
Add			
(1) Fresh capital Issue at Face Value			183 62
Total			576 71
Number of shares including Fresh and bonus issue			34 86
NAV per share			16 55
Calculation of Profit on Fresh Capital			
1/2 * Fresh Capital * Exist PAT / Exist NAV			
1/2 * 183 62 * 139 80 / 393 09 = Rs 32 65			

ANNEXURE 3-Y
PROFIT EARNING CAPACITY VALUE (PECV)
(Rs. in Lacs)

Year	Profit before tax	Profit after tax	Dividend declared
1 June 1986	nil	nil	
2 June 1987	00.04	00 03	
3 June 1988	(7.25)	(7 25)	
4 June 1989	*171 99	*146 49	
5 June 1990	164 40	139 80	29 70
Simple Average or	82 29	69 77	
Weighted Average			
* 12 Month Adjusted figures			

Average profit before tax(on the basis of average)	82.29
Deduct	
Provisions for taxation at	12.52
Average profit after tax	69.77
Deduct Preference dividend	nil
Net profit after tax	69.77
Add Contribution to profit by fresh issue if any	32.65
Total profit after tax	102.42
Number of equity share including fresh and bonus issue	34.86
Earning per share(LPS)	2.94
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying LPS by 66)	
15%	19.59
12%	24.50
10%	29.40
8%	36.75

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	19.59	16.55	36.14	18.07	
2	12 %	24.50	16.55	41.05	20.52	
3	10 %	29.40	16.55	45.95	22.97	
4	8 %	36.75	16.55	53.30	26.65	

ANNEXURE 3 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average Monthly Average	of	Average Market Price
1	2	3	4	5	6	7	8		9
1	1988		25.00	7.50			16.25		
2	1989		81.00	15.00			48.00		
3	1990		85.00	44.00			64.50		
4		Sep 90	56.00	47.00	51.50				
5		Oct 90	52.00	38.00	45.00				
6		Nov 90	48.00	38.00	43.00			44.25	43.25
7		Dec 90	48.00	41.00	44.50				
8		Jan 91	42.00	36.00	39.00				
9		Feb 91	48.00	37.00	42.50				
Total of Col No 6 Divided by months			265.50	-----	Total of Col No 7 & 8 Divided by no. of items		173.00	-----	
			6				4		
			= 44.25				= 43.25		

STATEMENT NO. A-3

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	16 50	16 50	16 50	16 50	16 50	16 50
	Add Con of Part 'A' Debenture	18 36	18 36	18 36	18.36	18.36	18.36
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	34 86	34 86	34 86	34 86	34 86	34 86
	Net Worth	393 09	393 09	393 09	393 09	393 09	393 09
	Add Face Value of the total No of new equity shares	183 62	183 62	183 62	183 62	183 62	183 62
	- Shares premium of the total No of New Equity shares				275 47	275 47	275 47
C	New Net Worth	576 71	576 71	576 71	852 15	852 15	852 15
D	Net Asset Value Per Share	16 55	16 55	16 55	24 45	24.45	24.45
I	Profit After Tax As per CCI	69 77	69 77	69 77	69 77	69 77	69 77
	Add Return on New Capital	81 62	122 45	163 25	81 62	122 45	163 25
F	New P A T	151 39	192 22	233 02	151 39	192 22	233.02
G	Earning per share	4 34	5 51	6 68	4 34	5 51	6 68
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	28 93	36 73	44 53	28 93	36 73	44 53
	-At 12 % " "	36 17	45 92	55 67	36 17	45 92	55 67
	-At 10 % " "	43 40	55 10	66 80	43 40	55.10	66 80
	-At 8 % " "	54 25	66 87	83 50	54 25	66 87	83 50
I	Fair value Based on the above P/E CV and NAV						
	-At 15 % Cap Rate	22 74	26 64	30 54	26 69	30 59	34 49
	-At 12 % " "	26 36	31 23	36 11	30.11	35 18	40 06
	-At 10 % " "	29 97	35 82	41 67	33 92	39 77	45.62
	-At 8 % " "	35 40	42 71	50 02	39.35	46 66	53.97

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

* 100

$$I = (D + H) / 2$$

Respective Capitalisation rate

STATEMENT NO. B - 3

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAI includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	16 50	16 50	16 50	16 50	16 50	16 50
	Add New Equity Issue	18 36	18 36	18 36	18 36	18.36	18 36
B	Total No. of Shares	34 86	34 86	34 86	34 86	34 86	34.86
	Net Worth	393 09	393 09	393 09	393 09	393 09	393 09
	Face Value of the Total	183 62	183 62	183 62	183 62	183 62	183 62
	No of New equity shares						
	Share premium of the total no of New equity shares				275 47	275 47	275.47
C	New Net Worth	576 71	576 71	576 71	852 15	852.15	852 15
D	Net Asset value per share	16 55	16.55	16 55	24.45	24 45	24 45
E	Profit After Tax as per C C I	69 77	69 77	69 77	69 77	69 77	69 77
	Add Return on new capital	32 65	48 97	65 30	32 65	48 97	65 30
F	New P A T	102 42	118 74	135 07	102 42	118 74	135.07
G	Earning per share	2 94	3 41	3 87	2 94	3 41	3.87
H	Profit Earning Capacity Value						
	At 15% Cap Rate	19 60	22 73	25 80	19 60	22.73	25 80
	At 12% " "	24 50	28 42	32 25	24 50	28 42	32 25
	-At 10 % " "	29 40	34 10	38 70	29 40	34 10	38 70
	-At 8 % " "	36 75	42 62	48 37	36 75	42 62	48 37
I	Fairvalue Based on the above PFCV and NAV						
	-At 15% Cap Rate	18 07	19 64	21 17	22 02	23 59	25.12
	-At 12 % " "	20 52	22 48	24 40	24 47	26 43	28.35
	-At 10 % " "	22 97	25 32	27 62	26 92	29 27	31 57
	-At 8 % " "	26 65	29 58	32 46	30 60	33 53	36 41

J D = C / B · G = F / B H =

G

----- * 100 : I = (D + H) / 2
Respective Capitalisation rate

3.5 : BOMBAY SUBURBAN ELECTRIC SUPPLY LIMITED

3.5.1 : COMPANY BACKGROUND:

BOMBAY SUBURBAN ELECTRIC SUPPLY LIMITED company was incorporated as a public limited company on 1st October 1929 under the Companies Act VII of 1913. The main objectives of the company are to generate electric power and light, to accumulate, distribute and supply electricity, to construct, lay down, establish fix and carry out all necessary power stations, cables, wires, lines, accumulators lamps and works. The object of this issue was to part finance the power project.

3.5.2 : ISSUE HIGHLIGHTS:

The company came out with Right-cum-Public issue of 80,00,000, 12.5% secured fully convertible debenture of Rs 125.00 each for cash at par aggregating to Rs. 10000.00 lacs. The said debenture was to be converted automatically and compulsorily into five equity shares of the face value of Rs 10.00 at premium of Rs. 15.00 per share at the end of 12 months from the date of allotment.

3.5.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fair values of equity share were Rs 74.22, Rs 81.18, Rs 88.15 and Rs 98.60 at the capitalisation rate of 15%, 12%, 10%, and 8% respectively showing underpricing by 66.31%, 69.20%, 71.63% and 74.64% respectively. The fair value per share at 15%, 12%, 10% and 8% capitalisation as a percentage of pre-issue average market price was 34.14%, 37.34%, 40.55% and 45.36% respectively. That is none of these fair values were in the range of 80.00% to 100.00% of the pre-issue average market price. As per the CCI guidelines, the applicable capitalisation rate was 15%, the company being a manufacturing concern. At 15% capitalisation rate the issue price was 33.68% of the fair value, i.e., It was highly underpriced. The issue price as a percentage of pre issue average market price was 11.50% only.

Those investors who were lucky enough to receive allotment, got minimum return of 120.00% and maximum return of 1800.00% per equity share during the year 1992. Similarly during the year 1993, the investors could have realised minimum and

maximum return of 300.00% and 635.00% respectively. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount of Rs 246.10, Rs 280.90, Rs 315.75 and Rs 368.00 per F.C.D. respectively

A close look at the market price before and after the issue throw light on possibility of price rigging. The company came out with public issue in the month of April 1991 and the allotment could have been finalised by July 1991. The pre-issue 6 monthly market prices were in the range of Rs. 71.00 to Rs 121.00. The post issue yearly high and low market prices also reveal that the company or its promoters had not resorted to price rigging.

According to the calculations shown in statement No U-4, the PEPS stood at Rs. 1.89. Accordingly, the company could have charged premium of Rs. 6.79, Rs 8.36, Rs 9.94 and Rs 12.30 at the capitalisation rate of 15%, 12%, 10%, and 8% respectively.

The statement No A-4 and C-4 shows that company could have offered its equity share in the range of Rs 20.96 to Rs 138.29 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., N.A.V., P.E.C.V., R.O.N.W., capitalisation rate, No of equity shares etc.

3.5.4 : OBSERVATIONS OF HYPOTHESIS:

It is observed that the offer price fixed by the office of the CCI was conservative for this company.

For this company also, the office of the CCI has followed uniform premium fixation method.

The offer price fixed by the office of the CCI was underpriced at 15%, 12%, 10% and 8% capitalisation rate by 66.31%, 69.20%, 71.63% and 74.64% respectively.

The offer price fixed by the office of the CCI was highly disproportionate to the market price and book value of the share. It is observed that the issue price as a

percentage of pre-issue market price and book value was 11.50% and 26.96% only respectively

**ANNEXURE 4 - X
NET ASSET VALUE (NAV)**

Name of the Company : BOMBAY SUBURBAN ELECTRIC LIMITED
According to the audited balance sheet as at 30th September 1990.

	Rs (Lacs)		Rs (Lacs)
Total Assets	34727.71	shareholders' fund	
Deduct all liabilities		(1) Equity Capital	1170.35
1. Preference capital	98.00	(2) Free reserves	9680.21
2. Secured & unsecured borrowings	9229.71	Total	10850.56
3. Current liabilities	14549.44	Deduct contingent liabilities	nil
4. Contingent liabilities	nil		
Net worth	<u>10850.56</u>	Net worth	<u>10850.56</u>
Add			
(1) Fresh capital issue at face value			nil
Total			10850.56
Number of shares including Fresh and bonus issue			117.03
NAV per share			92.71

**ANNEXURE 4 - Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1988	747.61	612.61	117.04 Eq Div 14.69 Pr Div
2 March 1989	853.61	853.61	117.04 Eq Div 14.69 Pr Div
3 March 1990	1204.47	1204.47	210.67 Eq Div 14.69 Pr Div
4 September 1990	806.45	806.45	210.67 Eq Div 14.69 Pr Div
Simple Average	<u>1032.04</u>	<u>993.46</u>	
or Weighted Average			

Average profit before tax (on the basis of Simple average)	1032.04
Deduct	
Provisions for taxation at	38.58
Average profit after tax	993.46
Deduct Preference dividend	14.69
Net profit after tax	978.77
Add Contribution to profit by fresh issue if any	nil
Total profit after tax	978.77
Number of equity share including fresh and bonus issue	117.03
Earning per share (EPS)	8.36
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
	15% 55.73
	12% 69.66
	10% 83.60
	8% 104.50

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col. No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	55.73	92.71	148.44	74.22	
2	12 %	69.66	92.71	162.37	81.18	
3	10 %	83.60	92.71	176.31	88.15	
4	8 %	104.50	92.71	197.21	98.60	

ANNEXURE 4 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		350.00	150.00		250.00		
2	1989		800.00	69.50		434.25		
3	1990		152.50	35.00		93.75		
4		Sep 90	121.00	71.00	96.00			
5		Oct 90	121.00	83.00	102.00			
6		Nov 90	111.00	83.00	97.00		91.50	217.37
7		Dec 90	90.00	81.00	85.50			
8		Jan 91	83.00	75.00	79.00			
9		Feb 91	101.00	78.00	89.50			
Total of Col No 6 Divided by months			549.00	Total of Col No 7 & 8 Divided by no. of items			869.50	
			6				4	
			=91.50				=217.37	

STATEMENT NO. U - 4
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM

	(Fig. in Lacs)
	P.E.P.S
Number of Equity shares at the time of issue	117.03
Add Full Conversion of the Debentures	400.00
Total Number of Shares	517.03
Profit After Tax	978.77
Earning Per Share (EPS)	1.89
Profit Earning Capacity Value	
At 15 % Capitalisation Rate	12.60
At 12 % - do - - do -	15.75
At 10 % - do - - do -	18.90
At 8 % - do - - do -	23.62
Net Worth	10850.56
Net Asset Value Per Share	20.98
Fair Value	
At 15 % Capitalisation Rate	16.79
At 12 % - do - - do -	18.36
At 10 % - do - - do -	19.94
At 8 % - do - - do -	22.30

STATEMENT NO. A-4

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	117.03	117.03	117.03	117.03	117.03	117.03
	Add Con of Part 'A' Debenture	400.00	400.00	400.00	400.00	400.00	400.00
	Con of Part 'B' Debenture	---	---	---	---	---	---
B	Total No of Shares	517.03	517.03	517.03	517.03	517.03	517.03
	Net Worth	10850.56	10850.56	10850.56	10850.56	10850.56	10850.56
	Add Face Value of the total No of new equity shares	4000.00	4000.00	4000.00	4000.00	4000.00	4000.00
	- Shares premium of the total No of New Equity shares				6000.00	6000.00	6000.00
C	New Net Worth	14850.56	14850.56	14850.56	20850.56	20850.56	20850.56
D	Net Asset Value Per Share	28.72	28.72	28.72	40.32	40.32	40.32
E	Profit After Tax As per CCI	978.77	978.77	978.77	978.77	978.77	978.77
	Add Return on New Capital	148.40	222.80	297.20	371.00	557.00	743.00
F	New P A T	1027.17	1201.57	1275.97	1349.77	1535.77	1721.77
G	Earning per share	1.98	2.32	2.46	2.61	2.97	3.33
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	13.20	15.47	16.40	17.40	19.80	22.20
	-At 12 % " "	16.50	19.33	20.50	21.75	24.75	27.75
	-At 10 % " "	19.80	23.20	24.60	26.10	29.70	33.30
	-At 8 % " "	24.75	29.00	30.75	32.62	37.12	41.62
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap Rate	20.96	22.09	22.56	28.86	30.06	31.26
	-At 12 % " "	22.61	24.02	24.61	31.03	32.53	34.03
	-At 10 % " "	24.26	25.96	26.66	33.21	35.01	36.81
	-At 8 % " "	26.73	28.86	29.73	36.47	38.72	40.97

J D = C / B G = F / B · H =

G

$$\frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100$$

I = (D + H) / 2

STATEMENT NO. C - 4

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	117 03	117 03	117 03	117.03	117 03	117 03
	Add Con of Part 'A' Debenture	--	--	--	--	--	--
	Con of Part 'B' Deb						
B	Total No of Shares	117 03	117.03	117 03	117 03	117.03	117 03
C	Net Worth	10850 56	10850 56	10850 56	10850.56	10850 56	10850 56
D	Net Asset Value per share	92 71	92 71	92 71	92 71	92 71	92.71
E	Profit After Tax As per CCI	978 77	978 77	978 77	978 77	978 77	978 77
	Add Return on New Capital Part 'A'	148 40	222 80	297 20	148 40	222.80	297 20
	Return on premium amount of new capital Part 'A'	---	---	---	222.60	334 20	445 80
I	New P A T	1027 17	1201 97	1275 97	1349 77	1535 77	1721 77
G	Earning Per share	8 77	10 26	10 90	11.53	13 12	14 71
H	Profit Earning Capacity Value						
	At 15% Cap Rate	58 47	68 40	72 67	78 87	87 46	98 06
	At 12% " "	73 08	85.50	90 83	96 08	109.33	122 58
	At 10% " "	87 70	102 60	109 00	115.30	131 20	147 10
	At 8 % " "	109 62	128 25	136 25	144 12	164.00	183.87
I	Fair Value Based on the above PE/CV and NAV						
	At 15% Cap Rate	75 59	80 55	82 69	85 79	90 08	95 38
	At 12% " "	82 89	89 10	91 77	94 39	101.02	107 64
	At 10% " "	90 20	97 65	100 85	104 00	111 95	119 90
	At 8 % " "	101 16	110 48	114 48	118 41	128 35	138 29

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

$$\frac{\text{-----} * 100}{\text{Respective Capitalisation rate}}$$

$$I = (D + H) / 2$$

3.6: HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

3.6.1 : COMPANY BACKGROUND:

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED was incorporated as a public limited company on 17th October 1977 under the Companies Act 1956. The main objectives of the company are to provide institutional facilities for meeting the needs for long term loans on moderate terms for construction, purchase, individual ownership of houses or apartments and to provide funds for construction of offices, shopping complexes, nursing home etc, which go with housing scheme. The corporation has wholly owned subsidiary, HDFC developers limited to undertake housing projects on selective basis. The proposed issue was for the purpose of augmenting the long term resources of the corporation.

3.6.2 :ISSUE HIGHLIGHTS:

The company came out with the Right-cum-Public Issue of 25,00,000 equity shares of Rs 100.00 each for cash at premium of Rs 75.00 per share to the existing shareholders and at the premium of Rs 85.00 per equity share to the public, aggregating to Rs. 4520.00 lacs.

3.6.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fair values at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 292.39, Rs 334.95, Rs 377.50 and Rs 441.32 showing underpricing by 40.14%, 47.75%, 53.64% and 60.34% respectively for the existing shareholders and by 36.72%, 44.76%, 50.99% and 58.08% respectively for the public. The fair value per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of average market price was 121.01%, 138.63%, 156.24% and 182.65% respectively. That is, none of these fair values were within the range of 80.00% to 100.00% of the pre-issue average market price. Infact, all the fair values were more than 100.00% of the pre-issue average market price. It seems that at this point there was breach of the CCI guidelines.

As per the CCI guidelines, the applicable capitalisation rate was neither 15% or 12% as the company do not fall into the category of manufacturing or trading company. The

issue price was 41.91% of the fair value at 8% capitalisation rate, i.e. the issue was highly underpriced.

Those investors who were lucky enough to receive allotment of shares, got minimum return of 24.32% and maximum return of 197.29% per equity share during the year 1991. Similarly, during the year 1992 and 1993, the investors could have realised minimum return of 267.56% and 424.32% and maximum return of 1467.56% and 1345.94% respectively. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate, meaning thereby that the company has collected less amount by Rs.107.39, Rs.149.95, Rs.192.50 and Rs.256.32 per equity share respectively.

A close look at the market price before and after the issue, throw light on possibility of price rigging. The company came out with the public issue in the month of October 1990 and the allotment could have been finalised by January 1991. The pre-issue 6 monthly market price was in the range of Rs.325.00 to Rs.475.00. The post issue yearly high and low market price also revealed that the company or its promoters had not resorted to price rigging. Infact, the company is financially so sound that it need not resort to price rigging to sell the issue.

The P.E.P.S. and F.D.E.P.S. calculations can not be worked out as the issue is only equity issue. The statement No. A-5 and B-5 shows that the company could have offered its equity shares in the range of Rs.187.95 to Rs.378.26 minimum and maximum fair values respectively, which are worked out based on different combinations of E.P.S., N.A.V., P.E.C.V., R.O.N.W., capitalisation rate, No. of equity shares etc.

3.6.4 : OBSERVATIONS OF HYPOTHESIS :

It is observed that the offer price fixed by the office of the CCI was conservative for this company.

It is also seen that the office of the CCI has followed uniform premium fixation method for this company.

The offer price fixed by the office of the CCI was underpriced at 15%, 12% 10% and 8% capitalisation rate by 36.72%, 44.76%, 50.99% and 58.08% respectively.

The offer price fixed by the office of the CCI was disproportionate to the market price and book value of the share. It is found that, the offer price as a percentage of pre-issue market price was 76.56% and offer price as a percentage of book value was 75.69%.

**ANNEXURE 5 -X
NET ASSET VALUE (NAV)**

**Name of the Company : HOUSING DEVELOPMENT FINANCE CORPORATION LTD
According to the audited balance sheet as at 31st March 1990.**

	Rs (Lacs)		Rs (Lacs)
Total Assets	146427.20	shareholders fund	
Deduct all liabilities		(1) Equity Capital	1999.52
1 Preference capital	- ml	(2) Free reserves	6498.19
2 Secured & unsecured borrowings	130062.56	Total	8497.71
3 Current liabilities	7866.93	Deduct contingent liabilities	ml
4 Contingent liabilities	ml		
Net worth	<u>8497.71</u>	Net worth	<u>8497.71</u>
Add			
(1) Fresh capital Issue at Face Value			2500.00
Total			10997.71
Number of shares including Fresh and bonus issue			45.00
NAV per share			244.39
Calculation of Profit on fresh capital			
$1/2 \times \text{Fresh capital} \times \text{Existing P.A.T.} / \text{Existing N.A.V.}$			
$1/2 \times 2500.00 \times 2472.02 / 8497.71 = 363.63$			

**ANNEXURE 5 -Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1988	1708.92	1329.92	340.00
2 March 1989	1720.49	1429.49	280.00
3 March 1990	3072.02	2472.02	399.81
Simple Average	2167.14	1743.81	
or	2394.33	1934.16	
Weighted Average			

Average profit before tax (on the basis of Weighted Average)	2394.33
Deduct	
Provisions for taxation	460.17
Average profit after tax	1934.16
Deduct Preference dividend	nil
Net profit after tax	1934.16
Add Contribution to profit by fresh issue if any	363.63
Total profit after tax	2297.79
Number of equity share including fresh and bonus issue	45.00
Earning per share(EPS)	51.06
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
	15% 340.40
	12% 425.50
	10% 510.60
	8% 638.25

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col. No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	340.40	244.39	534.79	292.39	
2	12 %	425.50	244.39	669.89	334.95	
3	10 %	510.60	244.39	754.99	377.50	
4	8 %	638.25	244.39	882.64	441.32	

ANNEXURE 5 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1987		147.50	115.00		131.25		
2	1988		180.00	140.00		160.00		
3	1989		345.00	175.00		260.00		
4		Apr 90	360.00	337.50	348.75			
5		May 90	470.00	325.00	397.50			
6		Jun 90	440.00	400.00	420.00		415.20	241.61
7		Jul 90	475.00	410.00	442.50			
8		Aug 90	475.00	450.00	462.50			
9		Sep 90	440.00	400.00	420.00			
Total of Col. No. 6			2491.25	Total of Col. No. 7 & 8 Divided by no. of items			966.45	
Divided by months			6				4	
			=415.20				=241.61	

STATEMENT NO. A - 5

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	45 00	45 00	45 00	45 00	45.00	45 00
	Add Con of Part 'A' Debenture	25 00	25 00	25 00	25 00	25 00	25 00
	Con of Part 'B' Debenture	---	---	---	---	---	---
B	Total No of Shares	70 00	70 00	70 00	70 00	70.00	70 00
	Net Worth	8497 71	8497 71	8497 71	8497 71	8497 71	8497 71
	Add Face Value of the total No of new equity shares	2500 00	2500 00	2500 00	2500 00	2500 00	2500 00
	- Shares premium of the total No of New Equity shares				1875 00	1875 00	1875 00
C	New Net Worth	10997 71	10997 71	10997.71	12872 71	12872 71	12872 71
D	N A V Per Share	157 11	157 11	157 11	183 90	183 90	183 90
F	Profit After Tax As per CCI	1934 16	1934 16	1934 16	1934 16	1934 16	1934 16
	Add Return on New Capital	363 63	545 44	727 26	363 63	545 44	727 26
I	New P A T	2297 79	2479 60	2661 42	2297 79	2479 60	2661 42
G	Earning per share	32 82	35 42	38.02	32 82	35.42	38 02
H	Profit Earning Capacity Value						
	-At 15 % Capital rate	218 80	236 13	253 47	218 80	236 13	253 47
	-At 12 % " "	273 50	295 17	316 83	273 50	295 17	316 83
	-At 10 % " "	328 20	354.20	380 20	328 20	354 20	380 20
	-At 8 % " "	410 25	442 75	475 25	410 25	442 75	475 25
I	Fairvalue Based on the above Pl:CV and NAV						
	-At 15 % Capital rate	187 95	196.62	205 29	201 35	210 01	218 08
	-At 12 % " "	215.20	226 14	236 97	228.70	239.53	250 36
	-At 10 % " "	242 65	255 65	268 15	256.05	269 05	282 05
	-At 8 % " "	283 68	299 93	316.18	297 07	313 32	329.57

J D = C / B G = F / B H =

G

----- * 100
Respective Capitalisation rate

I = (D + H) / 2

STATEMENT NO. B - 5

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	45 00	45 00	45 00	45.00	45 00	45 00
	Add Con of Part 'A' Debenture	25 00	25 00	25 00	25 00	25 00	25 00
	Con of Part 'B' Debenture	---	---	---	---	---	---
B	Total No of Shares	70 00	70 00	70 00	70 00	70 00	70 00
	Net Worth	8497 71	8497 71	8497 71	8497 71	8497 71	8497 71
	Add Face Value of the total No of new equity shares	2500 00	2500 00	2500 00	2500.00	2500 00	2500 00
	- Shares premium of the total No of New Equity shares				1875 00	1875 00	1875 00
C	New Net Worth	10997 71	10997 71	10997 71	12872 71	12872 71	12872 71
D	Net Asset Value Per Share	157 11	157 11	157 11	183 90	183 90	183 90
E	Profit After Tax As per CCI	1934 16	1934 16	1934 16	1934 16	1934 16	1934 16
	Add Return on New Capital	636 35	954 53	1272 71	636 35	954 53	1272 71
F	New P.A.T	2570 51	2888 69	3206 87	2570 51	2888 69	3206.87
G	Earning per share	36 72	41 28	45 81	36.72	41 28	45 81
H	Profit Earning Capacity Value						
	-At 15 % Capita Rate	244 80	275 20	305 40	244 80	275 20	305 40
	-At 12 % " "	306 00	344 00	381 75	306 00	344 00	381 75
	-At 10 % " "	367 20	412 80	458 10	367 20	412.80	458 10
	-At 8 % " "	459 00	516 00	572 62	459 00	516.00	572 62
I	Fairvalue Based on the above P/E/CV and NAV						
	-At 15 % Capita Rate	200 95	216 15	231 25	214 35	229 55	244 65
	-At 12 % " "	231 55	250 55	269 43	244 95	263 95	282.82
	-At 10 % " "	262 15	284 95	307 66	275.45	298 35	321 00
	-At 8 % " "	308 05	336 55	364 86	321 45	349 95	378.26

J D = C / B G = F / B H =

G

----- * 100
Respective Capitalisation rate

I = (D + H) / 2

3.7: INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

3.7.1 : COMPANY BACKGROUND:

INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA was incorporated on 5th January 1955 at Bombay. The main objectives of the company are to provide institutional facilities for meeting the needs of industry for long term loans on moderate terms. The main activities of the company are assisting industrial enterprises within the private sector in India in general by-

1. assisting in creation, expansion and modernisation of such enterprises.
2. encouraging and promoting the participation of private capital, both internal and external, in such enterprises.
3. encouraging and promoting private ownership of industrial enterprises.

The corporation also carries on leasing business, since 1983. The object of the issue was to increase resources of the company.

3.7.2 : ISSUE HIGHLIGHTS:

The company came out with the Right-cum-Public issue of 56,59,788 equity shares of Rs 100.00 each for cash at premium of Rs.100.00 each aggregating to Rs.11319.57 lacs. Out of these shares, 9,44,788 shares were offered on the Right basis to the then equity shareholders. and 47,15,000 shares were offered to the public.

3.7.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.382.87, Rs.433.56, Rs.484.25 and Rs.560.29 showing underpricing by 47.76%, 53.87%, 58.70% and 64.30% respectively. The fairvalue at 15%, 12%, 10% and 8% capitalisation rate as a percentage of average market price was 141.47%, 160.20%, 178.94% and 207.03% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price. Infact, all the fairvalues were more than 100.00% of the pre-issue average market price. It seems that at this point there was breach of the CCI guidelines.

As per the CCI guidelines, the applicable capitalisation rate was neither 15% or 20% as the company is not covered in the definition of manufacturing or trading company. The issue price was 35.70% of the fair value at 8% capitalisation rate, i.e. the issue was highly underpriced.

Those investors who were lucky enough to receive allotment of shares, got minimum return of 0.00% and maximum return of 262.50% per equity share during the year 1991. Similarly, during the year 1992, the investors could have realised minimum return of 177.50% and maximum return of 1500.00% respectively. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate, meaning thereby that the company has collected less amount by Rs.182.87, Rs.233.56, Rs.284.25 and Rs.360.29 per equity share respectively.

A close look at the market price before and after the issue, throw light on possibility of price rigging. The company came out with the public issue in the month of February 1991 and the allotment could have been finalised by May 1991. The pre-issue 6 monthly market price were in the range of Rs.210.00 to Rs.390.00. The post issue yearly high and low market price also revealed that the company or its promoters had not resorted to price rigging. Infact, the company is financially so sound that it need not resort to price rigging to sell the issue.

The PEPS and FDEPS calculations can not be worked out as the issue is only equity issue. The statement No A-6 and B-6 shows that the company could have offered its equity shares in the range of Rs.382.84 to Rs.652.20 being minimum and maximum fairvalues respectively, which are worked out based on different combinations of EPS, NAV, PECV, RONW, capitalisation rate, No. of equity shares etc.

3.7.4 :OBSERVATIONS OF HYPOTHESIS:

It is observed that the offer price fixed by the office of the CCI was conservative for this company also.

It is also seen that the office of the CCI has followed uniform premium fixation method for this company, disregarding type of industry.

The offer price fixed by the office of the CCI was underpriced at 15%, 12%, 10% and 8% capitalisation rate by 47.76%, 53.87%, 58.70% and 64.30% respectively.

The offer price fixed by the office of the CCI was disproportionate to the market price and book value of the share. It is found that, the offer price as a percentage of pre-issue market price and book value was 73.90% and 55.52% respectively.

ANNEXURE 6 -X
NET ASSET VALUE (NAV)

Name of the Company : THE INDUSTRIAL CREDIT & INVESTMENT CORPORATION OF INDIA LTD

According to the audited balance sheet as at 31st March 1990.

	Rs (Lacs)		Rs (Lacs)
Total Assets	590172 19	shareholders fund	.
Deduct all liabilities		(1) Equity Capital	9155 97
1 Preference capital	nil	(2) Free reserves	38552 03
2 Secured & unsecured borrowings	177788 96	Total	47708 00
3 Current liabilities	64675 23	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>47708 00</u>	Net worth	<u>47708 00</u>
Add			
(1) Fresh capital Issue at Face Value			5659 79
Total			53367 79
Number of shares including Fresh and bonus issue			148 16
NAV per share			360 21
Calculation of Profit on fresh capital			
$1/2 \times \text{Fresh capital} \times \text{Existing P A T} / \text{Existing N A V}$			
$1/2 \times 2500 00 \times 2472 02 / 8497 71 = 363 63$			

ANNEXURE 6 -Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1988	9265 56	7712 12	1666 32
2 March 1989	9393 01	7893 01	1520 94
3 March 1990	11804 94	9704 94	1605 37
Simple Average	10154 50	8436 69	
or	----	-----	
Weighted Average			

Average profit before tax (on the basis of Simple Average)	10154 50
Deduct	
Provisions for taxation	1717 81
Average profit after tax	8436 69
Deduct Preference dividend	nil
Net profit after tax	8436 69
Add Contribution to profit by fresh issue if any	575 67
Total profit after tax	9012 36
Number of equity share including fresh and bonus issue	148 16
Earning per share(EPS)	60 83
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
	15% 405 53
	12% 506 92
	10% 608 30
	8% 760 37

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	405 53	360 21	765 74	382 87	
2	12 %	506 92	360 21	867 13	433 56	
3	10 %	608 30	360 21	968 51	484.25	
4	8 %	760 37	360 21	1120 58	560.29	

ANNEXURE 6 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		180 00	135 00		157 50		
2	1989		235 00	140 00		187 50		
3	1990		725 00	200 00		462 50		
4		July 90	210 00	210 00	210 00			
5		Aug 90	230 00	210 00	220 00			
6		Sep 90	370 00	250 00	310 00		275 00	270 62
7		Oct 90	390 00	300 00	345 00			
8		Nov 90	370 00	230 50	300.00			
9		Dec 90	290 00	240 00	265 00			
Total of Col. No. 6			1650.00	Total of Col. No. 7 & 8 Divided by no. of items			1082.50	
Divided by months			6				4	
			=275.00				=270.62	

STATEMENT NO. A - 6

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	91 56	91 56	91 56	91 56	91 56	91 56
	Add Con of Part 'A' Debenture	56 60	56 60	56 60	56 60	56 60	56 60
B	Total No of Shares	148 16	148 16	148 16	148 16	148 16	148 16
	Net Worth	47708 00	47708 00	47708 00	47708 00	47708 00	47708 00
	Add Face Value of the total No of new equity shares	5660 00	5660 00	5660 00	5660 00	5660 00	5660 00
	- Shares premium of the total No of New Equity shares	---	---	---	5660 00	5660 00	5660 00
C	New Net Worth	53368 00	53368 00	53368 00	59028 00	59028 00	59028 00
D	N A V Per Share	360 21	360 21	360 21	398 40	398 40	398 40
E	P A T As per CCI	8436 69	8436 69	8436 69	8436 69	8436 69	8436 69
	Add Return on New Capital	1151 37	1727 05	2302 74	1151 37	1727 05	2302 74
F	New P A T	9588 06	10163 74	10739 43	9588 06	10163 74	10739 43
G	Earning per share	64 71	68 60	72 48	64 71	68 60	72 48
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	431 40	457 33	483 20	431 40	457 33	483 20
	-At 12 % " "	539 25	571 67	604 00	539 25	571 67	604 00
	-At 10 % " "	647 10	686 00	724 80	647 10	686 00	724 80
	-At 8 % " "	808 87	857 50	906 00	808 87	857 50	906 00
I	Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	395 80	408 77	421 70	414.90	427.86	440.80
	-At 12 % " "	449 73	465.94	482 10	468 80	485 03	501 20
	-At 10 % " "	503 65	523 10	542 50	522 75	542 20	561 60
	-At 8 % " "	584 54	608 85	633 10	603 63	627.95	652 20

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

* 100

$$I = (D + H) / 2$$

Respective Capitalisation rate

STATEMENT NO. B - 6

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	91 56	91 56	91 56	91 56	91 56	91 56
	Add Equity Issue	56 60	56 60	56 60	56 60	56 60	56 60
B	Total No of Shares	148 60	148 60	148 60	148 60	148 60	148 60
	Net Worth	47708 00	47708 00	47708 00	47708 00	47708 00	47708 00
	Add Face Value of the total No of new equity shares	5660 00	5660 00	5660 00	5660 00	5660 00	5660 00
	- Shares premium of the total No of New Equity shares	---	---	---	5660 00	5660 00	5660 00
C	New Net Worth	53368 00	53368 00	53368 00	59028 00	59028 00	59028 00
D	N A V Per Share	360 21	360 21	360 21	398 40	398 40	398 40
E	P A Tax As per CCI	8436 69	8436 69	8436 69	8436 69	8436 69	8436 69
	Add Return on New Capital	575 69	863 53	1151 37	575 69	863 53	1151 37
F	New P A T	9012 38	9300 22	9588 06	9012 38	9300 22	9588 06
G	Earning per share	60 82	62 77	64 71	60 82	62 77	64 71
H	Profit Earning Capacity Value						
	-At 15 % capita Rate	405 47	418 47	431 40	405 47	418 47	431 40
	-At 12 % " "	506 83	523 08	539 25	506 83	523 08	539 25
	-At 10 % " "	608 20	627 70	647 10	608 20	627 70	647 10
	-At 8 % " "	760 25	784 62	808 87	760 25	784 62	808 87
I	Fairvalue Based on the above P/E:CV and NAV						
	-At 15 % Caplet Rate	382 84	389 34	395 80	401 93	408 43	414 90
	-At 12 % " "	433 52	441 64	449 73	452 61	460 74	468 82
	-At 10 % " "	484 20	493 95	503 65	503 30	513 05	522 75
	-At 8 % " "	560 23	572 41	584 54	579 32	591 51	603 63

J D = C / B G = F / B H =

G

----- * 100
Respective Capitalisation rate

I = (D + H) / 2

3.8: JAMNA AUTO INDUSTRIES

3.8.1: COMPANY BACKGROUND:

JAMNA AUTO INDUSTRIES was founded in 1955 as a partnership firm. It was taken over on 1st October 1982 by Jamna Auto Industries Private Limited as a running business and converted into a public company with the name "Jamna Auto Industries Limited" on 5th November 1985. The main objectives of the company are to import, export, indent, trade in, buy, sell, let on hire, repair, clean, store, exchange, alter, improve, manipulate or otherwise deal in all kinds of automobile machineries and spare parts, tools accessories etc. The object of the issue was to finance the new unit at Malanpur to manufacture tapered/parabolic springs, stabiliser bars and coil spring for automobile suspension systems.

3.8.2 : ISSUE HIGHLIGHTS:

The company came out with the Right-cum-Public issue of 10,53,000 12.5% Fully Convertible Debentures of Rs 200.00 each for cash at par aggregating to Rs.2106.00 lacs. As per the terms of Conversion, each debenture would be compulsorily converted into 5 equity shares of the face value of Rs.10.00 each at a premium of Rs 30.00 per share on the expiry of 6 months from the date of allotment of the debenture.

3.8.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.50.52, Rs.58.73, Rs.66.94 and Rs.79.25 showing underpricing by 20.82%, 31.89%, 40.24% and 49.52% respectively. The fair values per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price were 74.95%, 87.13%, 99.31% and 117.58% respectively. That is the fair values at 12% and 10% are within the range of 80.00% to 100.00% of the pre-issue average market price. While the fairvalues at 15% and 8% capitalisation rate were not within the said range.

As per the CCI guidelines, the applicable capitalisation rate was 15% as the company is engaged in manufacturing activity. The issue price was 79.17% of the fair value at

15% capitalisation rate The offer price per equity share as a percentage of the average pre-issue market price was 59.34%

Those investors who were lucky enough to receive allotment of shares, got minimum return of 50.00% and maximum return of 350.00% per equity share during the year 1992. Similarly, during the year 1993, the investors could have realised minimum return of (12.50%) and maximum return of 87.50% per equity share. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate, meaning thereby that the company has collected less amount by Rs.52.60, Rs.93.65, Rs.134.70 and Rs.198.75 per F.C.D respectively.

A close look at the market price before and after the issue, throw light on possibility of price rigging. The company came out with the public issue in the month of February 1992 and the allotment could have been finalised by May 1992. The pre-issue 6 monthly market price was in the range of Rs.75.00 to Rs.125.00. The post issue yearly high and low market price also revealed that the company or its promoters had not resorted to price rigging.

According to the calculations shown in statement No.U-7, the PEPS stood at 2.08. The company could have charged premium of Rs.2.39, Rs.4.13 and Rs.6.73 per equity share at the capitalisation rate of 12%, 10%, and 8% respectively. Based on the PEPS, the company can not charge premium at 15% capitalisation rate.

The statement No. A-7 and C-7 shows that the company could have offered its equity shares in the range of Rs.19.07 to Rs.398.44 being minimum and maximum fairvalues respectively, which are worked out based on different combinations of EPS, NAV, PECV, RONW, capitalisation rate, No. of equity shares etc.

3.8.4 : OBSERVATIONS OF HYPOTHESIS:

It is found that the offer price fixed by the office of the CCI was conservative for this company.

It is also seen that the office of the CCI has followed uniform premium fixation method for this company.

It is also observed that, the offer price fixed by the office of the CCI was underpriced at 15%, 12%, 10% and 8% capitalisation rate by 20 82%, 31 89%, 40 24% and 49 52% respectively

It is also found that the offer price fixed by the office of the CCI was disproportionate to the market price and book value of the share. The offer price as a percentage to pre issue market price and book value were 59 34% and 113.05% respectively.

ANNEXURE 7 - X
NET ASSET VALUE (NAV)
Name of the Company : JAMNA AUTO INDUSTRIES
According to the audited balance sheet as at 31st March 1991.

	Rs (Lacs)		Rs (Lacs)
Total Assets	2043 47	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	140.46
1 Preference capital	nil	(2) Free reserves	357.44
2 Secured & unsecured borrowings	1200 03	Total	497 90
3 Current liabilities	345 54	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>497 90</u>	Net worth	<u>497 90</u>
Add			
(1) Fresh capital Issue at Face Value		Nil	
Total		497 90	
Number of shares including Fresh and bonus issue		14 07	
NAV per share		35 38	

ANNEXURE 7 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1989	139 09	116 99	33 43
2 March 1990	152 95	128 95	33 62
3 March 1991	181 93	169 93	35 02
Simple Average	<u>157 99</u>	<u>138 62</u>	
or	---	---	
Weighted Average			

Average profit before tax (on the basis of Simple Average)	157.99
Deduct	
Provisions for taxation	19 37
Average profit after tax	138 62
Deduct Preference dividend	nil
Net profit after tax	138 62
Add Contribution to profit by fresh issue if any	nil
Total profit after tax	138 62
Number of equity share including fresh and bonus issue	14 07
Earning per share(EPS)	9 85
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
	15% 65 66
	12% 82 08
	10% 98 50
	8% 123 12

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No. (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	65 66	35 38	101 04	50.52	
2	12 %	82 08	35 38	117.46	58 73	
3	10 %	98 50	35 38	133 88	66 94	
4	8 %	123 12	35 38	158 50	79.25	

ANNEXURE 7 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		60 00	12 00		36 00		
2	1990		90 00	50 00		70 00		
3		Jun 91	90 00	75 00	82 50			
4		July 91	92 00	82 50	87.25			
5		Aug 91	110 00	90 00	100 00		96 20	67 40
6		Sep 91	125 00	100 00	112 50			
7		Oct 91	125 00	80 00	102 05			
8		Nov 91	105 00	80 00	92 50			
Total of Col. No. 6			577.25	Total of Col. No. 7 & 8 Divided by no. of items			202.20	
Divided by months			6				3	
			= 96.20				= 67.40	

STATEMENT NO U - 7
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORK OUT AS PER
U.S.A. REPORTING SYSTEM.

(FIG IN LACS)	
	P.E.P.S.
Number of Equity Shares at the time of Time of Issue	14 07
Add Full Conversion	52 65
	66 72
Profit After Tax	138 62
Earning Per Share (PEPS)	2 08
Profit Earning Capacity Value	
At 15 % Capitalisation	13 87
At 12 % "	17 33
At 10 % "	20 80
At 8 % "	26 00
Net Worth	497 90
Net Asset Value Per Share	7 46
Fair Value	
At 15 % Capitalisation Rate	10 66
At 12 % "	12.39
At 10 % "	14 13
At 8 % "	16 73

STATEMENT NO. A - 7

(Fig in Laacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	14 07	14 07	14 07	14 07	14 07	14 07
	Add Con of Part 'A' Debenture	52 65	52.65	52 65	52 65	52.65	52.65
B	Total No of Shares	66 72	66 72	66 72	66 72	66.72	66 72
	Net Worth	497 90	497 90	497 90	497 90	497 90	497 90
	Add Face Value of the total No of new equity shares	526 50	526 50	526 50	526 50	526 50	526 50
	- Shares premium of the total No of New Equity shares	---	---	---	1579 50	1579 50	1579 50
C	New Net Worth	1024 40	1024 40	1024 40	2603 90	2603 90	2603 90
D	N A V Per Share	15 35	15 35	15 35	39 02	39.02	39 02
E	P A T As per CCI	138 62	138 62	138 62	138 62	138.62	138 62
	Add Return on New Capital	89 82	134 73	179 64	359 28	538 92	718 56
F	New P A T	228 74	273 35	318 26	497 90	677 54	857.18
G	Earning per share	3 42	4 10	4 77	7 46	10 15	12.85
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	22 80	27 33	31 80	49 73	67 66	85 67
	-At 12 % " "	28 50	34 17	39 75	62 16	84 58	107 08
	-At 10 % " "	34 20	41 00	47 70	74 60	101 50	128 50
	-At 8 % " "	42 75	51 25	59 62	93 25	126 87	160 62
I	Fairvalue Based on the above PL:CV and NAV						
	-At 15 % Cap rate	19 07	21 34	23 57	44 37	53 34	62 34
	-At 12 % " "	21 92	24 76	27 55	50 59	61 80	73.05
	-At 10 % " "	24 77	28 17	31 52	56.81	70 26	83 76
	-At 8 % " "	29 05	33 30	37 48	66 13	82 94	99 82

$$J \quad D = C / B \quad G = F / B \quad H =$$

.. G

$$\frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100$$

$$I = (D + H) / 2$$

STATEMENT NO. C - 7

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	14 07	14 07	14 07	14 07	14 07	14 07
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	14 07	14 07	14 07	14 07	14 07	14 07
C	Net Worth	497 90	497 90	497 90	497 90	497 90	497 90
D	N A V Per Share	35 38	35 38	35 38	35 38	35 38	35 38
E	P A T As per CCI	138 62	138 62	138 62	138 62	138 62	138 62
	Add Return on New Capital Part A	89 82	134 73	179 64	89 82	134 73	179 64
	Return on Premium Amount of new Capital Part A	---	---	---	269 46	404 19	538 92
F	New P A T	228 74	273 35	318 26	497 90	677 54	857 18
G	Earning per share	16 25	19 42	22 62	35 38	48 15	60 92
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	108 33	129 47	150 80	235 87	321 00	406 13
	-At 12 % " "	135 41	161 83	188 50	294 83	401 25	507 67
	-At 10 % " "	162 50	194 20	226 20	353 80	481 50	609 20
	-At 8 % " "	203 12	242 75	282 75	442 25	601 87	761 50
I	Fairvalue Based on the above P/B, CV and NAV						
	-At 15 % Cap rate	71 85	82 42	93 09	135 62	178 19	220 75
	-At 12 % " "	85 39	98 60	111 94	165 10	218 31	271 52
	-At 10 % " "	98 94	114 79	130 79	194 59	258 44	322 29
	-At 8 % " "	119 25	139 07	159 06	238 81	318 62	398 44

G

J $D = C / B$ $G = F / B$ $H = \frac{G}{\text{Respective Capitalisation rate}} * 100$ $I = (D + H) / 2$

3.9 : KHATAU JUNKER LIMITED

3.9.1 : COMPANY BACKGROUND:

KHATAU JUNKER LIMITED was incorporated as a private limited company on 22nd December 1964 at Bombay and became a deemed public limited company on 27th January 1966. Subsequently, the company became a full flagged public limited company in 1979. The objectives of the company are to manufacture power capacitors, condensers, malathion technical and metallised P P condensers. The object of this issue was to part finance its modernisation plan.

3.9.2 : ISSUE HIGHLIGHTS:

The company came out with Right-cum-Public issue of 18,22,942, 14.00% secured fully convertible debenture of Rs.68.00 each for cash at par aggregating to Rs. 1239 60 lacs. The said debenture would be converted automatically and compulsorily into 2 equity shares of the face value of Rs 10.00 at premium of Rs.24.00 per share at the end of 9 months from the date of allotment of the debentures.

3.9.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fair values of equity share were Rs 27.07, Rs 29.41, Rs 31.75 and Rs 35.26 at the capitalisation rate of 15%, 12%, 10% and 8% respectively showing overpricing by 25.60%, 15.60%, and 7.08% respectively. At 8% capitalisation rate the offer price was nearly properly priced. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price was 53.30%, 57.91%, 62.52% and 69.43% respectively, i.e., none of these fair values were in the range of 80.00% to 100.00% of the pre-issue average market price. As per the CCI guidelines, the applicable capitalisation rate was 15%, the company being a manufacturing concern. At 15% capitalisation rate the issue price was 125.60% of the fairvalue, i.e., the issue was overpriced. The issue price as a percentage of pre-issue average market price was 66.95%.

Those investors who were lucky enough to receive allotment, got minimum return of 43.38% and maximum return of 157.35% per equity share during the year 1991. Similarly, during the year 1992, the investors could have realised minimum and maximum return of 10.29% and 458.82% respectively. As said earlier, the issue was overpriced at 15%, 12% and 10% capitalisation rate meaning thereby that the company has collected excess amount by Rs 13.86, Rs 9.18 and Rs 4.50 per F C D respectively.

A close look at the market price before and after the issue throw light on possibility of price rigging. The company came out with public issue in the month of February 1991 and the allotment could have been finalised by May 1991. The pre-issue 6 monthly market prices were in the range of Rs 37.00 to Rs.44.00. Right from the May 1991 to February 1992, the market price of the company's share was in the range of Rs 51.25 to Rs.87.50. The post issue yearly high and low market prices also reveal that the company or its promoters had not resorted to price rigging.

According to the calculations shown in statement No U-8, the PEPS stood at Rs. 0.58. Accordingly, the company can not charged premium at all. In fact the company could have issued the debentures at discount, based on P.E.P.S. calculations.

The statement No A-8 and C-8 shows that the company could have offered its equity share in the range of Rs 12.60 to Rs 220.95 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E P S, N A V, PECV, R O N W., capitalisation rate, No of equity shares etc.

3.9.4 : OBSERVATIONS OF HYPOTHESIS:

It is observed that the offer price fixed by the office of the CCI was not conservative for this company.

For this company also, the office of the CCI has followed uniform premium fixation method.

It is seen that the offer price fixed by the office of the CCI was overpriced at 15%, 12%, and 10% capitalisation rate by 25.60%, 15.60%, and 7.08% respectively, but it was underpriced at 8% capitalisation rate by 3.57% only

The offer price fixed by the office of the CCI was highly disproportionate to the market price of the share. It is also observed that the issue price as a percentage of pre-issue market price and book value was 68.92% and 96.01% respectively

ANNEXURE 8 - X
NET ASSET VALUE (NAV)
Name of the Company : KHATAU JUNKAR LIMITED
According to the audited balance sheet as at 31st March 1990.

	Rs (Lacs)		Rs (Lacs)
Total Assets	1347 92	shareholders fund	...
Deduct all liabilities		(1) Equity Capital	95 61
1 Preference capital	nil	(2) Free reserves	242 98
2 Secured & unsecured borrowings	66 47	Total	338 59
3 Current liabilities	942 86	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>338 59</u>	Net worth	<u>338 59</u>
Add			
(1) Fresh capital Issue at Face Value		Nil	
Total		338 59	
Number of shares including Fresh and bonus issue		9 56	
NAV per share		35 41	

ANNEXURE 8 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 December 1985	23 63	23 63	7 13
2 December 1986	12 59	12 59	---
3 December 1987	0 22	0 17	---
4 March 1989	24 19	20 37	14 34
5 March 1990	98 12	77 62	23 90
Simple Average	<u>31 75</u>	<u>26 87</u>	
or	---	---	
Weighted Average			

Average profit before tax (on the basis of Simple Average)	31 75
Deduct	
Provisions for taxation	4 88
Average profit after tax	26 87
Deduct Preference dividend	nil
Net profit after tax	26 87
Add Contribution to profit by fresh issue if any	nil
Total profit after tax	26 87
Number of equity share including fresh and bonus issue	9 56
Earning per share(EPS)	2 81
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
	15% 18 73
	12% 23 42
	10% 28 10
	8% 35 12

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No. (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	18 73	35 41	54 14	27 07	
2	12 %	23 42	35 41	58 83	29 41	
3	10 %	28 10	35 41	63 51	31 75	
4	8 %	35 12	35 41	70 53	35 26	

ANNEXURE 8 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		43 00	9 00		26 00		
2	1989		70 00	20 00		45 00		
3	1990		130 00	51 25		90 62		
4		Jul 90	40 00	37 00	38 50			
5		Aug 90	40 00	38 00	39 00			
6		Sep 90	48 00	40 00	44 00		41 50	50 78
7		Oct 90	48 00	40 00	44 00			
8		Nov 90	43 00	41 00	42 00			
9		Dec 90	43 00	40 00	41 50			
Total of Col. No. 6			249.00	Total of Col. No. 7 & 8 Divided by no. of items			203.12	
Divided by months			6				4	
			= 41.50				= 50.78	

STATEMENT NO. U - 8
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

(FIG IN LACS)	
	P.E.P.S.
Number of Equity Shares at the time of Time of Issue	9 56
Add Full Conversion	36.45
	<u>46 01</u>
Profit After Tax	26 87
Earning Per Share (PEPS)	0 58
Profit Earning Capacity Value	
At 15 % Capitalisation	3 86
At 12 % "	4 83
At 10 % "	5 80
At 8 % "	7 25
Net Worth	338 59
Net Asset Value Per Share	7.36
Fair Value	
At 15 % Capitalisation Rate	5 61
At 12 % "	6 09
At 10 % "	6.58
At 8 % "	7 30

STATEMENT NO. A - 8

(Fig in Lacs)

Sl No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital A1			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital A1		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	9.56	9.56	9.56	9.56	9.56	9.56
	Add Con of Part 'A' Debenture	36.46	36.46	36.46	36.46	36.46	36.46
B	Total No of Shares	46.02	46.02	46.02	46.02	46.02	46.02
	Net Worth	338.59	338.59	338.59	338.59	338.59	338.59
	Add Face Value of the total No of new equity shares	364.60	364.60	364.60	364.60	364.60	364.60
	- Shares premium of the total No of New Equity shares	---	---	---	875.00	875.00	875.00
C	New Net Worth	703.19	703.19	703.19	703.19	703.19	703.19
D	N A V Per Share	15.28	15.28	15.28	34.29	34.29	34.29
E	P A Tax As per CCI	26.87	26.87	26.87	26.87	26.87	26.87
	Add Return on New Capital	41.78	62.67	83.56	142.05	213.08	284.11
I	New P A T	68.85	89.54	110.43	168.92	239.95	310.98
G	Earning per share	1.49	1.94	2.40	3.67	5.21	6.75
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	9.93	12.93	16.00	24.47	34.73	45.00
	-At 12 % " "	12.41	16.16	20.00	30.58	43.41	56.25
	-At 10 % " "	14.90	19.40	24.00	36.70	52.10	67.50
	-At 8 % " "	18.62	24.25	30.00	45.87	65.12	84.37
I	Fairvalue Based on the above P/E, C/V and NAV						
	-At 15 % Cap rate	12.60	14.10	15.64	29.38	34.51	39.64
	-At 12 % " "	13.84	15.72	17.64	32.43	38.85	45.27
	-At 10 % " "	15.09	17.34	19.64	35.49	43.19	50.89
	-At 8 % " "	16.95	19.76	22.82	40.08	49.70	59.33

$$J \quad D = C / B \quad G = I / B \quad H =$$

G

$$I = (D + H) / 2 \quad \text{Respective Capitalisation rate} \quad * 100$$

STATEMENT NO. C - 8

(Fig in Laacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	9 56	9 56	9 56	9 56	9 56	9 56
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	9 56	9 56	9 56	9 56	9 56	9 56
C	Net Worth	338 59	338 59	338 59	338 59	338 59	338 59
D	N A V Per Share	35 41	35 41	35 41	35 41	35 41	35 41
E	P A 1 As per CCI	26 87	26 87	26 87	26 87	26 87	26 87
	Add Return on New Capital Part A	41 78	62 67	83 56	41 78	62 67	83 56
	Return on Premium Amount of new Capital Part A	---	---	---	100 27	150.41	200 55
I	New P A 1	68 65	89 54	110 43	168 92	239 95	310 98
G	Earning per share	7 18	9 36	11 55	17 66	25 09	32 52
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	47 86	62 40	77 00	117 73	167 26	216 80
	-At 12 % " "	59 83	78 00	96 25	147 16	209 08	217 00
	-At 10 % " "	71.80	93 60	115 50	176 60	250 90	325 20
	-At 8 % " "	89 75	117 00	144 37	220 75	313 62	406 50
	I Fairvalue Based on the above P/E CV and NAV						
	-At 15 % Cap rate	41 63	48 90	56 20	76 57	101 33	126 10
	-At 12 % " "	47 62	56 70	65 83	91 28	122.24	153 20
	-At 10 % " "	53 60	64 50	75 45	106 00	143 15	180 30
	-At 8 % " "	62 58	76 20	89 89	128 08	174 51	220.95

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.10 : LLOYDS STEEL INDUSTRIES LIMITED

3.10.1 : COMPANY BACKGROUND:

LLOYDS STEEL INDUSTRIES LIMITED was incorporated as a private limited company on 27th April 1970 and converted in to a public limited company on 3rd June 1986 under the Companies Act 1956. The main objectives of the company are to carry on business as manufacturers, importers, exporters, dealers, distributors, commission agents, wholesale and retail dealers in E.R.W. Tubes, iron and steel metal, steel alloys, scrap, pipes etc. The object of the issue was to part finance the integrated steel plant to manufacture flat products

3.10.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 32,91,854, 14% secured fully convertible debentures of Rs.350 00 each for cash at par aggregating to Rs. 11521.49 lacs. As per the Conversion terms given in the prospectus part-I of Rs. 175 00 of each debenture would be automatically and compulsorily converted into 5 fully paid up equity shares of the face value of Rs 10 00 each for cash at a premium of Rs 25 00 per equity share on the expiry of 9 months from the date of allotment. The part-II of Rs.175 00 would be converted into such number of equity shares of Rs.10 00 each at such premium to be determined by the office of the CCI after 24 months from the date of allotment

3.10.3 : OVERALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 30.54, Rs. 35 11, Rs 38.17 and Rs. 46.52 showing overpricing by 14.60% and underpricing by 0.31%, 8.30%, and 24.76% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price was 53.57%, 61.59%, 66.96% and 81.61% respectively. That is, except the fairvalue at 8% capitalisation rate, none of the fairvalue were within the range of 80.00% to 100.00% of the pre-issue average market price

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 114.60% of the fairvalue, i.e., it was moderately overpriced. The offer price as percentage of pre-issue average market price was 61.40%.

Those investors who were lucky enough to receive allotment, got minimum return of (2.85%) and maximum return of 257.14% per equity share during the year 1992. As said earlier, the issue was overpriced at 15% and underpriced at 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected excess amount by Rs 44.60 and less amount by Rs 1.10, Rs.31.70 and Rs.115.20 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of October 1990 and the allotment could have been finalised by January 1991. The pre-issue six monthly market price were in the range of Rs.36.00 to Rs.44.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No U-9, the P.E.P.S. and F.D.E.P.S. stood at Rs 1.29 and Rs 0.73 respectively. Accordingly, the company could not charge premium at the capitalisation rate of 15%, 12%, and 10% on the basis of P.E.P.S. calculations. The company could have charged premium of Rs.0.95 only at 8% capitalisation rate based on the P.E.P.S. calculations, While on the basis of F.D.E.P.S., the company has to issue its share at discount.

The statement No A-9 to D-9 shows that the company could have offered its equity share in the range of Rs 12.63 to Rs 464.15 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no. of equity shares etc.

3.10.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was conservative based on the fairvalue calculations.

It is also seen that, for this company too, the office of the CCI has followed uniform premium fixation method

It is found that the offer price fixed by the office of the CCI was overpriced by 14.60% and underpriced by 0.31%, 8.30%, and 24.76% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue average market price were 142.56% and 61.40%. The offer price were disproportionate to the average market price and book value per share

ANNEXURE 9 - X
NET ASSET VALUE (NAV)

Name of the Company : LLOYDS STEEL INDUSTRIES LTD
According to the audited balance sheet as at 31st March 1990.

	Rs (1 lacs)		Rs (Lacs)
Total Assets	7338 70	shareholders fund	.
Deduct all liabilities		(1) Equity Capital	506 25
1 Preference capital	nil	(2) Free reserves	736 75
2 Secured & unsecured borrowings	1374 37	Total	1243 00
3 Current liabilities	4721 33	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>1243 00</u>	Net worth	<u>1243 00</u>
Add			
(1) Fresh capital issue at Face Value			Nil
Total			1243 00
Number of shares including Fresh and bonus issue			50 62
NAV per share			24 55

ANNEXURE 9 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1988	127 87	85 87	74 25
2 March 1989	321 46	241 46	84 37
3 March 1990	437 03	365 03	126 56
Simple Average	<u>295 45</u>	<u>230 79</u>	
or			
Weighted Average	346 98	277 31	
Average profit before tax (on the basis of Weighted Average)		346 98	
Deduct			
Provisions for taxation		69 67	
Average profit after tax		277 31	
Deduct Preference dividend		nil	
Net profit after tax		277 31	
Add Contribution to profit by fresh issue if any		nil	
Total profit after tax		277 31	
Number of equity share including fresh and bonus issue		50 62	
Earning per share (EPS)		5 48	
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	36 53
		12%	45 67
		10%	51 80
		8%	68 50

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	36 53	24 55	61 08	30 54	
2	12 %	45 67	24 55	70 22	35 11	
3	10 %	51 80	24 55	76 34	38 17	
4	8 %	68 50	24 55	93 04	46 52	

ANNEXURE 9 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		46 00	17 00		31 50		
2	1989		125 00	38 00		81 50		
3	1990		100 00	51 00		75 50		
4		March 90	43 00	36 00	39 50			
5		April 90	44 00	38 00	41 00			
6		May 90	41 00	37 00	39 00		39 50	57 00
7		June 90	39 00	37 00	38 00			
8		July 90	41 00	38 00	39 50			
9		Aug 90	43 00	37 00	40 00			
Total of Col. No. 6			237.00	Total of Col. No. 7 &			228.00	
Divided by months			-----	8 Divided by no. of			-----	
			6	items			4	
			= 39.50				= 57.00	

STATEMENT NO. U- 9
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	50 62	50 62
Add Part A Conversion	164 59	164 59
Part B Conversion		164 59
	215 21	379 80
Profit After Tax	277 31	277 31
Earning Per Share (PEPS)	1 29	
Earning Per Share (FDEPS)		0 73
Profit Earning Capacity Value		
At 15 % Capitalisation	8 60	4 87
At 12 % "	10 75	6 08
At 10 % "	12 90	7 30
At 8 % "	16 12	9 12
Net Worth	1243 00	1243 00
Net Asset Value Per Share	5 78	3 27
Fair Value		
At 15 % Capitalisation Rate	7 19	4 07
At 12 % "	8 26	4 67
At 10 % "	9 34	5 29
At 8 % "	10 95	6 19

STATEMENT NO. A - 9

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	50.62	50.62	50.62	50.62	50.62	50.62
	Add Con of Part 'A' Debenture	164.59	164.59	164.59	164.59	164.59	164.59
B	Total No of Shares	215.21	215.21	215.21	215.21	215.21	215.21
	Net Worth	1243.00	1243.00	1243.00	1243.00	1243.00	1243.00
	Add Face Value of the total No of new equity shares	1645.92	1645.92	1645.92	1645.92	1645.92	1645.92
	- Shares premium of the total No. of New Equity shares	---	---	---	4114.83	4114.83	4114.83
C	New Net Worth	2888.92	2888.92	2888.92	7003.75	7003.75	7003.75
D	N A V Per Share	13.42	13.42	13.42	32.54	32.54	32.54
E	P A Tax As per CCI	277.31	277.31	277.31	277.31	277.31	277.31
	Add Return on New Capital	241.62	362.10	483.24	845.70	1268.51	1694.40
F	New P A T	518.13	639.41	760.55	1123.01	1545.82	1968.71
G	Earning per share	2.40	2.97	3.54	5.21	7.18	9.14
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	16.00	19.80	23.60	34.73	47.87	60.93
	-At 12 % " "	20.00	24.75	29.50	43.41	59.83	76.17
	-At 10 % " "	24.00	29.70	35.40	52.10	71.80	91.40
	-At 8 % " "	30.00	37.12	44.25	65.12	89.75	114.25
I	Fairvalue Based on the above P/E/CV and NAV						
	-At 15 % Cap rate	14.71	16.61	18.51	33.61	40.20	46.73
	-At 12 % " "	16.71	10.08	21.46	37.97	46.18	54.35
	-At 10 % " "	18.71	21.56	24.41	42.32	52.17	61.97
	-At 8 % " "	21.71	25.27	28.83	48.83	61.14	73.39

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

$$\frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100$$

$$I = (D + H) / 2$$

STATEMENT NO. B - 9

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	50 62	50 62	50 62	50 62	50.62	50 62
	Add Con of Part 'A' Debenture	164 59	164 59	164 59	164 59	164 59	164 59
	Con of Part 'B' Deb	164 59	164 59	164 59	164 59	164 59	164 59
B	Total No of Shares	379 80	379 80	379 80	379 80	379 80	379 80
	Net Worth	1243 00	1243 00	1243.00	1243 00	1243.00	1243.00
	Add Face Value of the total No of new equity shares	3291 80	3291 80	3291 80	3291 80	3291.80	3291 80
	- Shares premium of the total No of New Equity shares	---	---	---	8229 70	8229 70	8229 70
C	New Net Worth	4534 80	4534 80	4534 80	12764 50	12764 50	12764 50
D	N. A V Per Share	11 94	11 94	11 94	33 56	33 56	33 56
E	P. A. Tax As per CCI	277 31	277 31	277 31	277 31	277 31	277 31
	Add Return on New Capital	483 24	724 20	966 48	1691 40	2537 02	3382 80
F	New P A T	760 55	1001 51	1243 79	1698 71	2814 33	3660 11
G	Earning per share	2 00	2 64	3 27	4 47	7 41	9 63
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	13 33	17 60	21 80	29 80	49 40	64 20
	-At 12 % " "	16 67	22 00	27 25	37 25	61 75	80 25
	-At 10 % " "	20 00	26 40	32 70	44 70	74 10	96 30
	-At 8 % " "	25 00	33 00	40 87	55 87	92 62	120 37
I	Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	12 63	14 77	16 87	33 68	41 48	48 88
	-At 12 % " "	14 30	16 97	19 59	35 40	47 65	56 90
	-At 10 % " "	15 97	19 17	22 32	39 13	53 83	64 93
	-At 8 % " "	18 47	22 47	26 40	44 71	63 09	76 96

J D = C / B G = F / B H =

G

* 100

Respective Capitalisation rate

I = (D + H) / 2

STATEMENT NO. C - 9

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	50 62	50 62	50 62	50 62	50 62	50 62
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	50 62	50 62	50 62	50 62	50 62	50 62
C	Net Worth	1243 00	1243 00	1243 00	1243 00	1243 00	1243 00
D	N A V Per Share	24 55	24 55	24 55	24 55	24 55	24 55
E	P A T As per CCI	277 31	277 31	277 31	277 31	277 31	277 31
	Add Return on New Capital Part A	241 62	362 10	483 24	241 62	362 10	483 24
	Return on Premium Amount of new Capital Part A	---	---	---	604 08	906 41	1208 16
I	New P A T	518 13	639 41	760 55	1123 01	1545 82	1968 71
G	Earning per share	10 23	12 63	15 02	22 18	30 53	38 89
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	68 20	84 20	100 13	147 87	203 53	259 26
	-At 12 % " "	85 25	105 25	125 16	184 83	254 41	324 08
	-At 10 % " "	102 30	126 30	150 20	221 80	305 30	388 90
	-At 8 % " "	127 87	157 87	187 75	277 25	381 62	486 12
	I Fairvalue Based on the above P/E CV and NAV						
	-At 15 % Cap rate	46 37	54 37	62 34	86 21	114 04	141 90
	-At 12 % " "	54 90	64 90	74 85	104 69	139 48	174 31
	-At 10 % " "	63 42	75 42	87 37	123 17	164 92	206 72
	-At 8 % " "	76 21	91 21	106 15	150 90	203 08	255 33

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 9

(Fig in Laacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and it's profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	50 62	50 62	50 62	50 62	50 62	50 62
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	50 62	50 62	50 62	50 62	50 62	50 62
C	Net Worth	1243.00	1243 00	1243 00	1243 00	1243.00	1243.00
D	N A V Per Share	24 55	24 55	24 55	24 55	24.55	24.55
E	P A T As per CCI	277.31	277 31	277 31	277 31	277 31	277 31
	Add Return on New Capital Part A	483 24	724 20	966 48	1208 16	1812 82	2416 32
	Return on Premium Amount of new Capital Part A	---	---	---	1691 40	2537 02	3382 80
F	New P A T	760.55	1001 51	1243 79	1968 71	2814.33	3660 11
G	Earning per share	15 02	19 78	24 57	38 89	55 59	72 30
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	100 13	131 87	163 80	259 26	370 60	482 00
	-At 12 % " "	125 16	164 83	204 57	324 08	463 25	602 50
	-At 10 % " "	150 02	197 80	245 70	388 90	555 90	723 00
	-At 8 % " "	187 75	247.25	307 12	486 12	694 87	903 75
	I Fairvalue Based on the above P/CV and NAV						
	-At 15 % Cap rate	62 34	78.21	94.17	141 90	197 57	253 27
	-At 12 % " "	74 85	94 69	114 56	174.31	243 90	313 52
	-At 10 % " "	87 28	111 17	135 12	206 72	290.22	373.77
	-At 8 % " "	106 15	135 90	165 83	255.33	359 71	464 15

G

J D = C / B G = F / B H = $\frac{G}{\text{Respective Capitalisation rate}} \times 100$ I = (D + H) / 2

3.11 : MAX INDIA LIMITED

3.11.1 : COMPANY BACKGROUND:

MAX INDIA LIMITED was incorporated as a public limited company on 5th February 1982 at Punjab under the Companies Act 1956. The company is engaged in manufacture of 6-Amino penicillanic Acid (6-APA) a drug intermediate used in the manufacture of semi-synthetic penicilline and of Amoxycillin Trihydrate. The object of the issue was to part finance its diversification plan.

3.11.2 :ISSUE HIGHLIGHTS :

The company made a Right-cum-Public issue of 16,76,475, 12.5% secured fully convertible debentures of Rs 80.00 each for cash at par aggregating to Rs.1341.18 lacs. As per the terms of offer, part-I of each fully paid up debenture would be automatically and compulsorily converted into one fully paid up equity share of the face value of Rs.10.00 each for cash at a premium of Rs 30.00 per equity share on expiry of 6 months from the date of allotment. Similarly, part-II of the debenture representing Rs.40.00 would be converted into one fully paid up equity share of the face value of Rs 10.00 each at premium of Rs 30.00 on expiry of 12 months from the date of allotment of the said debenture.

3.11.3 :OVERALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 33.26, Rs 38.81, Rs.44.36 and Rs.52.69 showing overpricing by 20.26% and 3.06% and underpricing by 9.82% and 31.72% respectively. The fairvalue per share at 15%,12%,10% and 8% capitalisation rate as a percentage of pre-issue average market price was 47.47%, 55.39%, 63.31% and 75.20% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 120.26% of the fairvalue, i.e., it was overpriced. The offer price as percentage of pre-issue average market price was 57.09%.

Those investors who were lucky enough to receive allotment, got minimum return of 300.00% and maximum return of 837.50% per equity share during the year 1992. Similarly during the year 1993, the investors could have realised return in the range of 200.00% to 475.00%. As said earlier, the issue was overpriced at 15% and 12% capitalisation rate and underpriced at 10% and 8% capitalisation rate meaning thereby that the company has collected excess amount by Rs.13.48 and Rs.2.38 and less amount by Rs 8.72 and Rs 25.38 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of February 1991 and the allotment could have been finalised by May 1991. The pre-issue six monthly market prices were in the range of Rs.65.00 to Rs 105.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No U-10, the P.E.P.S. and F.D.E.P.S. stood at Rs.4.15 and Rs.3.02 respectively. Accordingly, the company could have charged premium of Rs.10.74, Rs 14.20, Rs.17.66 and Rs.22.84 per share at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations. While on the basis of F.D.E.P.S. calculations, the company could have charged premium of Rs.5.09, Rs 7.60, Rs.10.12 and Rs.13.90 at 15%, 12%, 10% and 8% capitalisation rate respectively.

The statement No A-10 to D-10 shows that the company could have offered its equity share in the range of Rs 20.18 to Rs.131.44 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no. of equity shares etc.

3.11.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was not conservative based on the fairvalue calculations.

It is also seen that, disregarding the type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I. was overpriced at 15% and 12% capitalisation rate by 20.26% and 3.06%, while the same was underpriced at 10% and 8% capitalisation rate by 9.82% and 31.72%.

It is also observed that the offer price as a percentage of book value and pre issue market price were 180.75% and 57.09%. The offer price were disproportionate to the average market price and book value per share.

ANNEXURE 10 - X
NET ASSET VALUE (NAV)
Name of the Company : MAX INDIA LIMITED
According to the audited balance sheet as at 31st March 1990.

	Rs (Lacs)		Rs (Lacs)
Total Assets	3420 02	shareholders fund	
Deduct all liabilities		(1) Equity Capital	278.75
1 Preference capital	nil	(2) Free reserves	338.06
2 Secured & unsecured borrowings	515 25	Total	616.81
3 Current liabilities	2287 96	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>616 81</u>	Net worth	<u>616 81</u>
Add			
(1) Fresh capital issue at Face Value		Nil	
Total		616 81	
Number of shares including Fresh and bonus issue		27 87	
NAV per share		22 13	

ANNEXURE 10 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1987	120.10	101 10	36.00
2 March 1988	165 26	139 26	55 75
3 March 1990	288 68	244.68	83 63
Simple Average	<u>191 35</u>	<u>161 68</u>	
or			
Weighted Average	219 44	185 61	
Average profit before tax (on the basis of Weighted Average)			
			219 44
Deduct			
Provisions for taxation			33.83
Average profit after tax			185 61
Deduct. Preference dividend			nil
Net profit after tax			185.61
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			185 61
Number of equity share including fresh and bonus issue			27 87
Earning per share(EPS)			6.66
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate			
(i.e. by multiplying EPS by 66)			
		15%	44 40
		12%	55 50
		10%	66 60
		8%	83 25

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	44 40	22 13	66 53	33 26	
2	12 %	55 50	22 13	77 63	38 81	
3	10 %	66 60	22 13	88 73	44.36	
4	8 %	83 25	22 13	105 36	52 69	

ANNEXURE 10 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		58 00	30 00		44 00		
2	1989		94 00	53 00		73 50		
3	1990		105.00	65 00		85 00		
4		Julv 90	72 00	67.00	69 50		77.75	70.06
5		Aug 90	80 00	65 00	72 50			
6		Sept 90	100 00	70 00	85 00			
7		Oct 90	105 00	70 00	87.50			
8		Nov 90	87.00	72 00	79 50			
9		Dec 90	80 00	65 00	72 50			
Total of Col. No. 6			466.50	Total of Col. No. 7 & 8			280.25	
Divided by months			-----	Divided by no. of items			-----	
			6				4	
			= 77.75				= 70.06	

STATEMENT NO. U - 10
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG. IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	27 88	27 88
Add Part 'A' Conversion	16 76	16 76
Part 'B' Conversion		16 76
	44 64	61 40
Profit After Tax	185 61	185 61
Earning Per Share (PEPS)	4 15	
Earning Per Share (FDEPS)		3.02
Profit Earning Capacity Value		
At 15 % Capitalisation	27 67	20 13
At 12 % "	34 58	25.16
At 10 % "	41 50	30 20
At 8 % "	51 87	37 75
Net Worth	616 81	616 81
Net Asset Value Per Share	13 82	10.05
Fair Value		
At 15 % Capitalisation Rate	20 74	15 09
At 12 % "	24 20	17.60
At 10 % "	27 66	20 12
At 8 % "	32 84	23 90

STATEMENT NO. A - 10

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	27 88	27 88	27 88	27 88	27 88	27 88
	Add. Con. of Part 'A' Debenture	16 76	16.76	16 76	16 76	16 76	16 76
B	Total No of Shares	44 64	44 64	44 64	44 64	44.64	44.64
	Net Worth	616 81	616 81	616 81	616 81	616.81	616 81
	Add Face Value of the total No of new equity shares	167 60	167 60	167 60	167.60	167 60	167 60
	- Shares premium of the total No of New Equity shares	---	---	---	502 80	502 80	502.80
C	New Net Worth	784 41	784 41	784 41	1287 21	1287 21	1287.21
D	N. A V Per Share	17 57	17 57	17 57	28.83	28 83	28 83
E	P A Tax As per CCI	185.61	185 61	185 61	185.61	185.61	185 61
	Add Return on New Capital	21 96	32 93	43 92	87.82	131.73	175 71
F	New P A T	207 57	218 54	229 23	273 43	317 34	361 32
G	Earning per share	4 65	4 89	5 13	6 12	7.12	8.09
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	31 00	32.60	34 20	40 80	47.33	53 93
	-At 12 % " "	38 75	40 75	42 75	51 00	59.16	67 41
	-At 10 % " "	46 50	48 90	51.30	61 20	71.00	80 90
	-At 8 % " "	58 12	61 12	64 12	76.50	88.75	101 12
I	Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	24 28	25 08	25 88	34.81	32 57	41.38
	-At 12 % " "	28 16	29 16	30 16	39 91	43.99	48.12
	-At 10 % " "	32 03	33 23	34 43	45 01	49 91	54 86
	-At 8 % " "	37 84	39 34	40 84	52 66	58 79	64.97

J D = C / B G = F / B H =

G

* 100

I = (D + H) / 2

Respective Capitalisation rate

STATEMENT NO. B - 10

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	27 88	27 88	27 88	27 88	27 88	27 88
	Add Con of Part 'A' Debenture	16 76	16 76	16 76	16 76	16 76	16 76
	Con of Part 'B' Deb	16 76	16 76	16 76	16 76	16 76	16 76
B	Total No of Shares	61 40	61 40	61 40	61 40	61 40	61 40
	Net Worth	616 81	616 81	616 81	616 81	616 81	616 81
	Add Face Value of the total No of new equity shares	335 20	335 20	335 20	335 20	335 20	335 20
	- Shares premium of the total No of New Equity shares	---	---	---	1005 60	1005 60	1005 60
C	New Net Worth	952 01	952 01	952 01	1957 61	1957 61	1957 61
D	N A V Per Share	15 50	15 50	15 50	31.88	31 88	31 88
E	P A Tax As per CCI	185 61	185 61	185 61	185 61	185 61	185 61
	Add Return on New Capital	43.91	65 86	87.86	175 64	262 46	351 42
F	New P A T	229 52	251 47	273 47	361 25	449 07	537 03
G	Earning per share	3 73	4 09	4 45	5 88	7 31	8 74
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	24 86	27.27	29 67	39 20	48 73	58 26
	-At 12 % " "	31 08	34 08	37.08	49 00	60.91	72 83
	-At 10 % " "	37 30	40 90	44 50	58 88	73 10	87 40
	-At 8 % " "	46 62	51 12	55 62	73 50	91 37	109 25
I	Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	20 18	21 38	22 58	35 54	40 30	45 07
	-At 12 % " "	23 29	24 79	26 29	40 44	46 39	52 35
	-At 10 % " "	26 40	28 20	30 00	45 38	52 46	59 64
	-At 8 % " "	31 06	33 31	35 56	52 69	61 62	70 56
J D = C / B G = F / B H =		G			I = (D + H) / 2		
		----- * 100					
		Respective Capitalisation rate					

STATEMENT NO. C - 10

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A. Number of Equity Share at the time of issue	27.88	27.88	27.88	27.88	27.88	27.88
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb.	---	---	---	---	---	---
B	Total No of Shares	27.88	27.88	27.88	27.88	27.88	27.88
C	Net Worth	616.81	616.81	616.81	616.81	616.81	616.81
D	N A V Per Share	22.13	22.13	22.13	22.13	22.13	22.13
E	P A T As per CCI	185.61	185.61	185.61	185.61	185.61	185.61
	Add Return on New Capital Part A	21.96	32.93	43.92	21.96	32.93	43.92
	Return on Premium Amount of new Capital Part A	---	---	---	65.88	98.80	131.76
F	New P A T	207.57	218.54	229.23	273.45	317.34	361.29
G	Earning per share	7.44	7.83	8.22	9.80	11.38	12.95
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	49.60	52.20	54.80	65.33	75.87	86.33
	-At 12 % " "	62.00	65.25	68.50	81.67	94.83	107.91
	-At 10 % " "	74.40	78.30	82.20	98.00	113.80	129.50
	-At 8 % " "	93.00	97.87	102.75	122.50	142.25	161.87
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	35.86	37.16	38.46	43.73	49.00	54.23
	-At 12 % " "	42.06	43.69	45.31	51.90	58.48	65.02
	-At 10 % " "	48.26	50.21	52.16	60.06	67.96	75.81
	-At 8 % " "	57.56	60.00	62.44	72.31	82.19	92.00

G

$$J = D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO.D - 10

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	27.88	27.88	27.88	27.88	27.88	27.88
	Add: Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No. of Shares	27.88	27.88	27.88	27.88	27.88	27.88
C	Net Worth	616.81	616.81	616.81	616.81	616.81	616.81
D	N A V Per Share	22.13	22.13	22.13	22.13	22.13	22.13
E	P A T As per CCI	185.61	185.61	185.61	185.61	185.61	185.61
	Add Return on New Capital Part A	43.92	65.86	87.84	43.92	65.86	87.84
	Return on Premium Amount of new Capital Part A	---	---	---	131.76	197.60	263.58
F	New P A.T	229.52	251.47	273.45	361.29	449.07	537.03
G	Earning per share	8.23	9.02	9.80	12.95	16.10	19.26
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	54.86	60.13	65.33	86.33	107.33	128.40
	-At 12 % " "	68.58	75.16	81.67	107.91	134.16	160.50
	-At 10 % " "	82.30	90.20	98.00	129.50	161.00	192.60
	-At 8 % " "	102.87	112.75	122.50	161.87	201.25	240.75
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	38.49	41.13	43.73	54.23	64.73	75.26
	-At 12 % " "	45.35	48.64	51.90	65.02	78.14	91.31
	-At 10 % " "	52.21	56.16	60.06	75.81	91.56	107.36
	-At 8 % " "	62.50	67.44	72.31	92.00	111.69	131.44

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.12 : MODERN WOLLENS LIMITED

3.12.1 : COMPANY BACKGROUND:

MODERN WOLLENS LIMITED was incorporated on 13th August 1976 in the name of Modern Wollens Private Limited and converted in to public limited company on 14th March 1986 pursuant to the special resolution passed on March 3rd 1986. The company has two subsidiaries, namely, Suneel Textiles Mills Limited and Modern Wollen Carpets Limited. The main objectives of the company are to manufacture, process, spin, comb, weave, sell, buy, import, export or deal in all kinds of industrial fabrics, woolen fabrics, woolen carpet yarn, woolen hosiery yarn and hosiery goods etc. The object of the issue was to part finance it's 100% export oriented unit for the manufacture of 5000 tones per annum of Terry Towels

3.12.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 60,00,000, 15% secured fully convertible debentures of Rs.120.00 each for cash at par aggregating to Rs.720.00 lacs As per the terms of offer, part-I of each fully paid up debenture would be automatically and compulsorily converted into two fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.20.00 per equity share on expiry of 6 months from the date of allotment Similarly, part-II of the debenture representing Rs 60.00 would be converted into two fully paid up equity shares of the face value of Rs 10.00 each at premium of Rs.20.00 on expiry of 18 months from the date of allotment of the said debenture.

3.12.3 : OVERALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 26.78, Rs 29.81, Rs.32.83 and Rs 37.35 showing overpricing by 12.02% and 0.64% and underpricing by 8.62% and 19.67% respectively The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price was 61.49%, 68.45%, 75.38% and 85.76% respectively. That is, except the fairvalue at 8% capitalisation, none of these

fairvalues were with in the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 112.02% of the fairvalue, i.e., it was overpriced. The offer price as percentage of pre-issue average market price was 68.89%. It seems that, there is breach of the CCI guidelines at this point. At 12% capitalisation rate the issue is nearly properly priced, but at 8% capitalisation rate the issue is underpriced.

Those investors who were lucky enough to receive allotment, got minimum return of (8.33%) and maximum return of 45.00% per equity share during the year 1993. As said earlier, the issue is overpriced at 15% capitalisation rate and underpriced at 10% and 8% capitalisation rate meaning thereby that the company has collected excess amount by Rs.12.88 and less amount by Rs.11.32 and Rs.29.40 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of February 1992 and the allotment could have been finalised by May 1992. The pre-issue six monthly market price were in the range of Rs.34.25 to Rs.61.50. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price rigging.

According to the calculations shown in statement No U-11, the P.E.P.S. and F.D.E.P.S stood at Rs.1.88 and Rs.1.27 respectively. Accordingly, the company could have charged premium of Rs.3.94, Rs.5.51, Rs.7.07 and Rs.9.42 per share at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations. While on the basis of F.D.E.P.S. calculations, the company could have charged premium of Rs.1.53 and Rs.3.12 at 10% and 8% capitalisation rate respectively.

The statement No A-11 to D-11 shows that the company could have offered its equity share in the range of Rs.14.04 to Rs.98.17 being minimum and maximum

fairvalues respectively which are worked out based on different combinations of E.P S., PECV, N.A V., capitalisation rate, R O N.W., no.of equity shares etc.

3.12.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C C.I. was not conservative based on the fairvalue calculations.

It is also seen that, disregarding the type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is also found that the offer price fixed by the office of the C.C.I. was overpriced at 15% and 12% capitalisation rate by 12.02% and 0.64%, while the same was underpriced at 10% and 8% capitalisation rate by 8.62% and 19.67% respectively.

It is also observed that the offer price as a percentage of book value and pre-issue market price were 101.83% and 68.86%. The offer price was disproportionate to the pre-issue market price

ANNEXURE 11 - X
NET ASSET VALUE (NAV)
Name of the Company : MODERN WOOLENS LIMITED
According to the audited balance sheet as at 30th Sept. 1991.

	Rs (Lacs)		Rs (Lacs)
Total Assets	7447 04	shareholders fund	..
Deduct all liabilities		(1) Equity Capital	1196.12
1 Preference capital	125 00	(2) Free reserves	2550 41
2 Secured & unsecured borrowings	2808 97	Total	3524 52
3 Current liabilities	988 55	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	3524 52	Net worth	3524 52
Add			
(1) Fresh capital Issue at Face Value		Nil	
Total		3524 52	
Number of shares including Fresh and bonus issue		119 61	
NAV per share		29 46	

ANNEXURE 11 -Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 Sept 1989	227 48	227 48	47 07
2 Sept 1990	284 96	284 96	74.50
3 Sept 1991	606 70	606 70	185 00
Simple Average			
or			
Weighted Average	436 25	436 25	
Average profit before tax (on the basis of Weighted Average)			
			436 25
Deduct			
Provisions for taxation			nil
Average profit after tax			436.25
Deduct Preference dividend			3.69
Net profit after tax			432.56
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			432 56
Number of equity share including fresh and bonus issue			119 61
Earning per share(EPS)			3 62
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	24 11
		12%	30 17
		10%	36 20
		8%	45 25

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	24.11	29 46	53 57	26 78	
2	12 %	30 17	29 46	59 63	29 81	
3	10 %	36 20	29 46	65 66	32 83	
4	8 %	45 25	29 46	74 71	37 35	

ANNEXURE 11 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		49.75	5 00		27 38		
2	1990		80 00	36 00		58.00		
3	1991		55 00	34 00		44 50		
4		July 91	51 00	40 00	45 50			
5		Aug 91	40 00	35 50	37 75			
6		Sept 91	40 00	34 25	37.12		44.37	43 55
7		Oct 91	46 00	35 25	40.62			
8		Nov 91	56 00	43 50	49.75			
9		Dec 91	61 50	49 50	55 50			
Total of Col No 6 Divided by months			266 24		Total of Col. No 7 & 8 Divided by no of items		174 23	
			6				4	
			= 44 37				= 43 55	

STATEMENT NO. U - 11
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG IN LACS.)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	119 61	119 61
Add Part 'A' Conversion	110 00	110.00
Part 'B' Conversion		110.00
	229.61	339 61
Profit After Tax	432 56	432.56
Earning Per Share (PEPS)	1.88	
Earning Per Share (FDEPS)		1 27
Profit Earning Capacity Value		
At 15 % Capitalisation	12 53	8.47
At 12 % "	15 67	10.58
At 10 % "	18 80	12.70
At 8 % "	23 50	15.88
Net Worth	3524.52	3524 52
Net Asset Value Per Share	15 35	10 37
Fair Value		
At 15 % Capitalisation Rate	13.94	9 42
At 12 % "	15.51	10 47
At 10 % "	17 07	11 53
At 8 % "	19.42	13.12

STATEMENT NO. A - 11

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	119.61	119.61	119.61	119.61	119.61	119.61
	Add Con of Part 'A' Debenture	120.00	120.00	120.00	120.00	120.00	120.00
B	Total No of Shares	239.61	239.61	239.61	239.61	239.61	239.61
	Net Worth	3524.52	3524.52	3524.52	3524.52	3524.52	3524.52
	Add Face Value of the total No of new equity shares	1200.00	1200.00	1200.00	1200.00	1200.00	1200.00
	- Shares premium of the total No of New Equity shares	---	---	---	2400.00	2400.00	2400.00
C	New Net Worth	4724.52	4724.52	4724.52	7124.52	7124.52	7124.52
D	N A V Per Share	19.72	19.72	19.72	29.73	29.73	29.73
E	P A T As per CCI	432.56	432.56	432.56	432.56	432.56	432.56
	Add Return on New Capital	97.08	145.62	194.16	291.24	436.86	582.48
F	New P A T.	529.64	578.18	626.76	723.80	869.42	1015.04
G	Earning per share	2.21	2.41	2.61	3.02	3.63	4.24
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	14.73	16.07	17.40	20.13	24.20	28.27
	-At 12 % " "	18.42	20.08	21.75	25.17	30.25	35.33
	-At 10 % " "	22.10	24.10	26.10	30.20	36.30	42.40
	-At 8 % " "	27.63	30.13	32.63	37.75	45.38	53.00
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	17.23	17.90	18.56	24.93	26.97	29.00
	-At 12 % " "	19.07	19.90	20.74	27.45	29.99	32.53
	-At 10 % " "	20.91	21.91	22.91	29.97	33.02	36.07
	-At 8 % " "	23.63	24.93	26.18	33.74	37.56	41.36

J D = C / B G = F / B H =

G

----- * 100
Respective Capitalisation rate

I = (D + H) / 2

STATEMENT NO. B - 11

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	119.61	119.61	119.61	119.61	119.61	119.61
	Add Con of Part 'A' Debenture	120.00	120.00	120.00	120.00	120.00	120.00
	Con of Part 'B' Deb	120.00	120.00	120.00	120.00	120.00	120.00
B	Total No. of Shares	359.61	359.61	359.61	359.61	359.61	359.61
	Net Worth	3524.52	3524.52	3524.52	3524.52	3524.52	3524.52
	Add Face Value of the total No of new equity shares	2400.00	2400.00	2400.00	2400.00	2400.00	2400.00
	- Shares premium of the total No. of New Equity shares	---	---	---	4800.00	4800.00	4800.00
C	New Net Worth	5924.52	5924.52	5924.52	10724.52	10724.52	10724.52
D	N A V Per Share	16.47	16.47	16.47	29.82	29.82	29.82
E	P A T As per CCI	432.56	432.56	432.56	432.56	432.56	432.56
	Add. Return on New Capital	194.16	291.24	388.32	582.48	873.72	1164.96
F	New P A T	627.12	723.80	820.88	1015.04	1306.28	1597.52
G	Earning per share	1.74	2.01	2.28	2.82	3.63	4.44
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	11.60	13.40	15.20	18.80	24.20	29.60
	-At 12 % " "	14.50	16.75	19.00	23.50	30.25	37.00
	-At 10 % " "	17.40	20.10	22.80	28.20	36.30	44.40
	-At 8 % " "	21.75	25.13	28.50	35.25	45.38	55.50
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	14.04	14.94	15.84	24.31	27.01	29.71
	-At 12 % " "	15.49	15.84	17.74	26.66	30.04	33.41
	-At 10 % " "	16.94	18.29	19.64	29.01	33.06	37.11
	-At 8 % " "	19.11	20.80	22.49	32.54	37.60	42.66

J D = C / B G = F / B H =

G

$$\frac{G}{\text{Respective Capitalisation rate}} \times 100$$

I = (D + H) / 2

STATEMENT NO. C - 11

(Fig in Lacs)

Sr No	Particulars.	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	119.61	119.61	119.61	119.61	119.61	119.61
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No. of Shares	119.61	119.61	119.61	119.61	119.61	119.61
C	Net Worth	3524.52	3524.52	3524.52	3524.52	3524.52	3524.52
D	N A V Per Share	29.46	29.46	29.46	29.46	29.46	29.46
E	P A T As per CCI	432.56	432.56	432.56	432.56	432.56	432.56
	Add Return on New Capital Part A	97.08	145.62	194.16	97.08	145.62	194.16
	Return on Premium Amount of new Capital Part A	---	---	---	194.16	291.24	388.32
F	New P A T	529.64	578.18	626.76	723.80	869.42	1015.04
G	Earning per share	4.43	4.83	5.24	6.05	7.27	8.48
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	29.53	32.20	34.93	40.33	48.47	56.53
	-At 12 % " "	36.92	40.25	43.67	50.42	60.58	70.67
	-At 10 % " "	44.30	48.30	52.40	60.50	72.70	84.80
	-At 8 % " "	55.37	60.37	65.50	75.62	90.87	106.00
	I Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	29.50	30.83	32.20	34.90	38.97	43.00
	-At 12 % " "	33.19	34.86	36.57	39.94	45.02	50.07
	-At 10 % " "	36.88	38.88	40.93	44.98	51.08	57.13
	-At 8 % " "	42.42	44.92	47.48	52.54	60.17	67.73

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 11

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	119.61	119.61	119.61	119.61	119.61	119.61
	Add. Con. of Part 'A' Debenture	---	---	---	---	---	---
	Con. of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	119.61	119.61	119.61	119.61	119.61	119.61
C	Net Worth	3524.52	3524.52	3524.52	3524.52	3524.52	3524.52
D	N A V. Per Share	29.46	29.46	29.46	29.46	29.46	29.46
E	P A T As per CCI	432.56	432.56	432.56	432.56	432.56	432.56
	Add Return on New Capital Part A	194.16	291.24	388.32	194.16	291.24	388.32
	Return on Premium Amount of new Capital Part A	---	---	---	388.32	582.48	776.64
F	New P A T	627.12	723.80	820.88	1015.04	1306.28	1597.52
G	Earning per share	5.24	6.05	6.86	8.48	10.92	13.35
H	Profit Earning Capacity Value						
	-At 15 % Cap. rate	34.93	40.33	45.73	56.53	72.80	89.00
	-At 12 % " "	43.67	50.42	57.17	70.67	91.00	111.25
	-At 10 % " "	52.40	60.50	68.60	84.80	109.20	133.50
	-At 8 % " "	65.50	75.62	85.75	106.00	136.50	166.87
	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	32.20	34.90	37.60	43.00	51.13	59.23
	-At 12 % " "	36.57	39.94	43.32	50.07	60.23	70.36
	-At 10 % " "	40.93	44.98	49.03	57.13	69.33	81.48
	-At 8 % " "	47.48	52.54	57.61	67.73	82.98	98.17

$$J = \frac{D}{C} \cdot \frac{G}{F} \cdot \frac{H}{B} = \frac{G}{\text{Respective Capitalisation rate}} \cdot 100 \quad \cdot \quad I = (D + H) / 2$$

3.13 : THE NARANG INDUSTRIES LIMITED

3.13.1 : COMPANY BACKGROUND:

THE NARANG INDUSTRIES LIMITED was incorporated as a public limited company on 24th October 1942 under the Indian Companies Act VII of 1913. The company manufactures industrial and potable alcohol and beer. The company also has a plant for manufacturing malt spirit. The object of the issue was to part finance the modernisation program.

3.13.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 2,38,100, 14% secured fully convertible debentures of Rs.200.00 each for cash at par aggregating to Rs.476.20 lacs. As per the Conversion terms given in the prospectus, each debenture would be automatically and compulsorily converted into ten fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.10.00 per equity share on the expiry of 9 months from the date of allotment.

3.13.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.35.98, Rs.39.59, Rs.43.20 and Rs.48.61 showing underpricing by 44.41%, 49.48%, 53.70% and 58.85% respectively. The fairvalues per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price were 123.47%, 135.86%, 148.24% and 166.81% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 55.58% of the fairvalue, i.e. it was highly underpriced. The offer price as percentage of pre-issue average market price was 68.63%.

Those investors who were lucky enough to receive allotment, got minimum return of (50.00%) and maximum return of 125 00% per equity share during the year 1993. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs.15.98, Rs 19.59, Rs 23 20 and Rs.28.61 per F.C.D. respectively

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of January 1992 and the allotment could have been finalised by April 1992. The pre-issue six monthly market price were in the range of Rs.18.00 to Rs.61 00. The post-issue yearly high and low market price also revealed that the company or it's promoters had not resorted to price-rigging

According to the calculations shown in statement No U-12, the P.E.P.S. stood at Rs 1 24. Accordingly, the company could have charged premium of Rs.0 29, Rs.1.32, Rs 2 36, and Rs 3 91 at the capitalisation rate of 15%, 12%, 10% and 8% respectively.

The statement No. A-12 and C-12 shows that the company could have offered it's equity share in the range of Rs.16.03 to Rs 105 92 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P S., PECV, N.A V., capitalisation rate, R.O.N.W., no.of equity shares etc.

3.13.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company also the office of the CCI has followed uniform premium fixation method

It is observed that the offer price fixed by the office of the C.C.I. was underpriced by 44.41%, 49.48%, 53 70% and 58 85% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre issue average market price were 46.40% and 68.63% respectively which were highly disproportionate

ANNEXURE 12 - X
NET ASSET VALUE (NAV)
Name of the Company : NARANG INDUSTRIES LIMITED
According to the audited balance sheet as at 31st March 1991.

	Rs (Lacs)		Rs (Lacs)
Total Assets	1125 89	shareholders fund	.
Deduct all liabilities		(1) Equity Capital	104 72
1 Preference capital	nil	(2) Free reserves	306.18
2 Secured & unsecured borrowings	176 78	Total	410 90
3 Current liabilities	538 21	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>410 90</u>	Net worth	<u>410 90</u>
Add			
(1) Fresh capital issue at Face Value		Nil	
Total		410 90	
Number of shares including Fresh and bonus issue		9 53	
NAV per share		43 10	

ANNEXURE 12 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1989	9 51	7 91	3 07
2 March 1990	47 62	26 62	7 74
3 March 1991	<u>75 49</u>	<u>75 49</u>	<u>18 66</u>
Simple Average			
or			
Weighted Average	55 20	47 94	
Average profit before tax (on the basis of Weighted Average)			55 20
Deduct			
Provisions for taxation			7 26
Average profit after tax			47 94
Deduct Preference dividend			6.66
Net profit after tax			41 28
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			41.28
Number of equity share including fresh and bonus issue			9 53
Earning per share(EPS)			4 33
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	28 87
		12%	36 08
		10%	43 30
		8%	54 12

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	28 87	43 10	71 97	35 98	
2	12 %	36 08	43 10	79 18	39 59	
3	10 %	43 30	43 10	86 40	43 20	
4	8 %	54 12	43 10	97 22	48.61	

ANNEXURE 12 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		18 00	16 00		17.00		
2	1990		18 00	16 00		17 00		
3	1991		63.00	16 00		39.50		
4		Jun 91	38 00	18 00	28 00			
5		Jul 91	38 00	18 00	28.00			
6		Aug 91	38 00	18 00	28 00		43 08	29 14
7		Sep 91	55.00	54 00	54.50			
8		Oct 91	63 00	55 00	59 00			
9		Nov 91	61 00	61 00	61 00			
Total of Col. No. 6			258.50	Total of Col. No. 7 & 8			116.58	
Divided by months			-----	Divided by no. of items			-----	
			6				4	
			= 43.08				= 29.14	

STATEMENT NO. U - 12
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

(FIG. IN LACS)

	P.E.P.S.
Number of Equity Shares at the time of Time of Issue	9.53
Add Full Conversion	23 81
	33 34
Profit After Tax	41 28
Earning Per Share (PEPS)	1 24
Earning Per Share (FDEPS)	
Profit Earning Capacity Value	
At 15 % Capitalisation	8 27
At 12 % "	10 33
At 10 % "	12 40
At 8 % "	15.50
Net Worth	410 90
Net Asset Value Per Share	12 32
Fair Value	
At 15 % Capitalisation Rate	10 29
At 12 % "	11 32
At 10 % "	12 36
At 8 % "	13 91

STATEMENT NO. A - 12

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	9 53	9 53	9 53	9 53	9 53	9 53
	Add Con of Part 'A' Debenture	23 81	23 81	23.81	23 81	23.81	23 81
B	Total No of Shares	33 34	33 34	33 34	33 34	33 34	33.34
	Net Worth	410.90	410 90	410 90	410 90	410 90	410 90
	Add Face Value of the total No of new equity shares	238.10	238 10	238 10	238 10	238.10	238 10
	- Shares premium of the total No of New Equity shares	---	---	---	238.10	238 10	238.10
C	New Net Worth	649 00	649 00	649 00	887 10	887 10	887 10
D	N A V Per Share	19 46	19 46	19.46	26 60	26 60	26.60
E	P A T As per CCI	41 28	41 28	41 28	41 28	41.28	41 28
	Add Return on New Capital	21 85	32 78	43 73	43 73	65 57	87 47
F	New P A T	63 13	74 06	85 01	85 01	106.85	128 75
G	Earning per share	1 89	2 22	2 55	2 55	3 20	3 86
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	12 60	14 80	17 00	17 00	21 33	25 73
	-At 12 % " "	15 75	18 50	21 25	21 25	26.67	32 17
	-At 10 % " "	18 90	22 20	25.50	25.50	32.00	38 60
	-At 8 % " "	23 62	27 75	31 87	31.87	40 00	48 25
I	fairvalue Based on the above P/E:CV and NAV						
	-At 15 % Cap rate	16 03	17 13	18.23	21 80	23.96	26.16
	-At 12 % " "	17 60	18 98	20 35	23 92	26 63	29.38
	-At 10 % " "	19 18	20 83	22 48	26 05	29 30	32 60
	-At 8 % " "	21 54	23 60	25 66	29 23	33.30	37.42

J D = C / B G = F / B H =

G

$$\frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100$$

I = (D + H) / 2

STATEMENT NO. C - 12

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	9 53	9 53	9 53	9.53	9 53	9 53
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	9.53	9 53	9 53	9 53	9 53	9 53
C	Net Worth	410 90	410 90	410 90	410 90	410.90	410.90
D	N A V Per Share	43 10	43 10	43.10	43 10	43.10	43 10
E	P A T As per CCI	41 28	41 28	41 28	41.28	41.28	41 28
	Add Return on New Capital Part A	21 85	32 78	43 73	21.85	32 78	43.73
	Return on Premium Amount of new Capital Part A	---	---	---	21 88	32.79	43 74
F	New P A T	63 13	74 06	85 01	85.01	106 85	128 75
G	Earning per share	6.62	7 77	8 92	8.92	11.21	13.50
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	44 13	51 80	59.46	59.46	74.73	90.00
	-At 12 % " "	55 16	64 75	74 33	74.33	93.41	112.50
	-At 10 % " "	66 20	77.70	89.20	89.20	112.10	135.00
	-At 8 % " "	82 75	97 12	111 50	111 50	140.12	168 75
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	43 61	47.45	51 28	51.28	58.91	66.55
	-At 12 % " "	49.13	53 92	58.71	58.71	68.25	77.80
	-At 10 % " "	54 65	60 40	66 15	66 15	77 60	89 05
	-At 8 % " "	62 92	70 11	77 30	77 30	91.61	105 92

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad ; \quad I = (D + H) / 2$$

3.14 : NIVAS SPINNING MILLS LIMITED

3.14.1 : COMPANY BACKGROUND:

NIVAS SPINNING MILLS LIMITED was incorporated as a private limited company on 19th April 1984 and converted in to a public limited company on 18th June 1986 under the Companies Act 1956. The main objectives of the company are to manufacture process, all types of yarn both, cotton and synthetic, cloth, fabrics, textiles etc. The object of the issue was to part finance the expansion plan.

3.14.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 12,50,000, 14% secured fully convertible debentures of Rs.60.00 each for cash at par aggregating to Rs.750 00 lacs. As per the Conversion terms given in the prospectus part-I of each fully paid up debenture would be automatically and compulsorily converted into one fully paid up equity shares of the face value of Rs 10 00 each for cash at a premium of Rs.10.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs 40 00 would be converted into two equity shares of the face value of Rs.10.00 each at a premium of Rs.10 00 each at the end of 12 months from the date of allotment.

3.14.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.18.61, Rs.21.24, Rs.23.86 and Rs.27.80 showing overpricing by 7.46% and underpricing by 5.83%, 16.17% and 28.05% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 46.03%, 52.53%, 59.01% and 68.76% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was

107.46% of the fairvalue, i.e., it was moderately overpriced. The offer price as percentage of pre-issue average market price was 49.46%.

Those investors who were lucky enough to receive allotment, got minimum return of (10.00%) and maximum return of 125.00% per equity share during the year 1993. As said earlier, the issue was overpriced at 15% and underpriced at 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected excess amount by Rs.4.17 and less amount by Rs.3.72, Rs.11.58 and Rs. 23.40 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of February 1992 and the allotment could have been finalised by May 1992. The pre-issue six monthly market price were in the range of Rs.30.00 to Rs.50.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-13, the P.E.P.S. and F.D.E.P.S. stood at Rs 1.80 and Rs.0.97 respectively. Accordingly, the company could have charged premium of Rs.0.64, Rs.2.14, Rs.3.64 and Rs.5.89 at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations. While on the basis of F.D.E.P.S., the company could have issued its share at discount.

The statement No. A-13 to D-13 shows that the company could have offered its equity share in the range of Rs.11.99 to Rs.95.73 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., PECD, N.A.V., capitalisation rate, R.O.N.W., no of equity shares etc.

3.14.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was not conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I. was overpriced by 7.46% and underpriced by 5.83%, 16.17%, and 28.05% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue market price were 123.22% and 49.46%. The offer price were disproportionate to the average market price and book value per share.

ANNEXURE 13 - X
NET ASSET VALUE (NAV)

Name of the Company : NIVAS SPINNING MILLS LIMITED
According to the audited balance sheet as at 30th June 1991.

	Rs (Lacs)		Rs. (Lacs)
Total Assets	738 13	shareholders fund
Deduct all liabilities		(1) Equity Capital	166.94
1 Preference capital	nil	(2) Free reserves	103 97
2 Secured & unsecured borrowings	308 00	Total	270.91
3 Current liabilities	158 32	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>270 91</u>	Net worth	<u>270 91</u>
Add.			
(1) Fresh capital issue at Face Value		Nil	
Total		270.91	
Number of shares including Fresh and bonus issue		16 69	
NAV per share		16 23	

ANNEXURE 13 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 June 1989	40 74	40 74	24.55
2 June 1990	51 12	51 12	21.05
3 June 1991	65 64	65 64	33.39
Simple Average	<u>52 50</u>	<u>52 50</u>	
or			
Weighted Average			
Average profit before tax (on the basis of Simple Average)			52 50
Deduct			
Provisions for taxation			nil
Average profit after tax			52 50
Deduct Preference dividend			nil
Net profit after tax			52 50
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			52 50
Number of equity share including fresh and bonus issue			16 69
Earning per share(EPS)			3 15
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	21.00
		12%	26 25
		10%	31 50
		8%	39 37

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col. No (3) & (4)	Fair Value Col No. (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	21 00	16.23	37.23	18.61	
2	12 %	26 25	16 23	42 48	21 24	
3	10 %	31.50	16 23	47 73	23 86	
4	8 %	39 37	16 23	55 60	27 80	

ANNEXURE 13 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1990		57 50	17 50		37 50		
2	1991		60 00	25 00		42 50		
3		May 91	42 00	38 00	40 00			
4		Jun 91	41 00	37 50	39 25			
5		Jul. 91	50 00	37 00	43 50		41 29	40 43
6		Aug 91	50 00	45 00	47 50			
7		Sep 91	45 00	37 50	41.25			
8		Oct 91	42 50	30 00	36 25			
Total of Col. No. 6			247.75	Total of Col. No. 7 &			121.29	
Divided by months			-----	8 Divided by no.of			-----	
			6	items			3	
			= 41.29				= 40.43	

STATEMENT NO. U - 13
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	16 69	16.69
Add Part 'A' Conversion	12 50	12.50
Part 'B' Conversion		25 00
	<u>29 19</u>	<u>54 19</u>
Profit After Tax	52 50	52 50
Earning Per Share (PEPS)	1 80	
Earning Per Share (FDEPS)		0 97
Profit Earning Capacity Value		
At 15 % Capitalisation	12 00	6.47
At 12 % "	15 00	8 08
At 10 % "	18 00	9.70
At 8 % "	22 50	12 12
Net Worth	270.91	270.91
Net Asset Value Per Share	9 78	5 00
Fair Value		
At 15 % Capitalisation Rate	10 64	5 74
At 12 % "	12 14	6.54
At 10 % "	13 64	7 35
At 8 % "	15 89	8 56

STATEMENT NO. A - 13

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	16.70	16.70	16.70	16.70	16.70	16.70
	Add Con of Part 'A' Debenture	12.50	12.50	12.50	12.50	12.50	12.50
B	Total No of Shares	29.20	29.20	29.20	29.20	29.20	29.20
	Net Worth	270.91	270.91	270.91	270.91	270.91	270.91
	Add Face Value of the total No of new equity shares	125.00	125.00	125.00	125.00	125.00	125.00
	- Shares premium of the total No of New Equity shares	---	---	---	125.00	125.00	125.00
C	New Net Worth	395.91	395.91	395.91	520.91	520.91	520.91
D	N A V Per Share	13.56	13.56	13.56	17.84	17.84	17.84
E	P A T As per CCI	52.50	52.50	52.50	52.50	52.50	52.50
	Add Return on New Capital	15.14	22.71	30.27	30.27	45.42	60.54
F	New P A T	67.64	75.21	82.77	82.77	97.92	113.04
G	Earning per share	2.32	2.58	2.83	2.83	3.35	3.87
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	15.46	17.20	18.87	18.87	22.33	25.80
	-At 12 % " "	19.33	21.50	23.58	23.58	27.92	32.25
	-At 10 % " "	23.20	25.80	28.30	28.30	33.35	38.70
	-At 8 % " "	29.00	32.25	35.37	35.37	41.87	48.37
I	Fairvalue Based on the above PE:CV and NAV						
	-At 15 % Cap rate	14.51	15.38	16.21	18.35	20.08	21.82
	-At 12 % " "	16.44	17.53	18.57	20.71	22.88	25.04
	-At 10 % " "	18.38	19.68	20.93	22.07	25.67	28.27
	-At 8 % " "	21.28	22.90	24.46	26.60	29.85	33.10

$$J = D = C / B \quad G = F / B \quad H =$$

G

$$\frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. B - 13

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAI includes return on new capital AI			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAI includes return on new capital AI		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	16 70	16 70	16 70	16 70	16 70	16 70
	Add Con of Part 'A' Debenture	12 50	12 50	12 50	12 50	12 50	12 50
	Con of Part 'B' Deb	25 00	25 00	25 00	25 00	25 00	25 00
B	Total No of Shares	54 20	54 20	54 20	54 20	54 20	54 20
	Net Worth	270 91	270 91	270 91	270 91	270 91	270 91
	Add Face Value of the total No of new equity shares	375 00	375 00	375 00	375 00	375 00	375 00
	- Shares premium of the total No of New Equity shares	---	---	---	375 00	375 00	375 00
C	New Net Worth	645 91	645 91	645 91	1020 91	1020 91	1020 91
D	N A V Per Share	11 92	11 92	11 92	18 83	18 83	18 83
E	P A Tax As per CCI	52 50	52 50	52 50	52 50	52 50	52 50
	Add Return on New Capital	45 41	68 13	90 82	90 82	136 27	181 65
F	New PAI	97 91	120 63	143 32	143 32	188 77	234 15
G	Earning per share	1 81	2 23	2 64	2 64	3 48	4 32
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	12 07	14 87	17 60	17 60	23 20	28 80
	-At 12 % " "	15 08	18 58	22 00	22 00	29 00	36 00
	-At 10 % " "	18 10	22 30	26 40	26 40	34 80	43 20
	-At 8 % " "	22 62	27 87	33 00	33 00	43 50	54 00
I	Fairvalue Based on the above P/CV and NAV						
	-At 15 % Cap rate	11 99	13 40	14 76	18 21	21 01	23 81
	-At 12 % " "	13 50	15 25	16 96	20 41	23 91	27 41
	-At 10 % " "	15 01	17 11	19 16	22 61	26 81	31 01
	-At 8 % " "	17 27	19 89	22 46	25 91	31 16	36 41

$$I = D + C / B \quad G = I / B \quad H =$$

G

* 100

$$I = (D + H) / 2$$

Respective Capitalisation rate

STATEMENT NO. C - 13

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	16 70	16 70	16 70	16 70	16 70	16 70
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	16.70	16 70	16 70	16 70	16.70	16 70
C	Net Worth	270 91	270 91	270 91	270 91	270 91	270 91
D	N A V Per Share	16 22	16 22	16 22	16 22	16.22	16.22
E	P A T As per CCI	52 50	52 50	52 50	52.50	52 50	52 50
	Add Return on face value of new capital part 'A'	15 14	22 71	30 27	15 14	22 71	30.27
	Return on Premium Amount of new Capital Part A	---	---	---	15 13	22 71	30 27
I	New P A T	67 64	75 21	82 77	82 77	97.92	113 04
G	Earning per share	4.05	4 50	4 95	4 95	5 86	6 76
II	Profit Earning Capacity Value						
	-At 15 % Cap rate	27 00	30 00	33 00	33 00	39.07	45 07
	-At 12 % " "	33 75	37 50	41 25	41 25	48 83	56 33
	-At 10 % " "	40 50	45 00	49 50	49 50	58 60	67 60
	-At 8 % " "	50 62	56 25	61 87	61 87	73 25	84.50
	Fairvalue Based on the above P/E/CV and NAV						
	-At 15 % Cap rate	21 61	23 11	24 61	24 61	27 64	30 64
	-At 12 % " "	24 98	26 86	28 73	28 73	32 52	36.27
	-At 10 % " "	28 36	30 61	32 86	32.86	37 41	41.91
	-At 8 % " "	33 42	36 23	39 04	39 04	44 73	50 36

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 13

(Fig in Laacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	16 70	16 70	16 70	16 70	16 70	16 70
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	16 70	16 70	16.70	16 70	16 70	16.70
C	Net Worth	270.91	270 91	270 91	270.91	270 91	270.91
D	N A V. Per Share	16 22	16.22	16 22	16.22	16 22	16 22
E	P A T As per CCI	52 50	52 50	52 50	52 50	52 50	52 50
	Add Return on face value of new capital part 'A'	45 41	68 13	90 82	45 41	68 13	90.82
	Return on Premium Amount of new Capital Part A	---	---	---	45 41	68 14	90 83
F	New P A T	97 91	120 63	143 32	143.32	188.77	234 15
G	Earning per share	5 86	7 22	8 58	8 58	11 30	14 02
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	39 07	48 13	57 20	57 20	75 33	93 47
	-At 12 % " "	48 83	60 17	71 50	71 50	84.17	116 83
	-At 10 % " "	58 60	72 20	85 80	85 80	113 00	140 20
	-At 8 % " "	73 25	90 25	107 25	107 25	141 25	175 25
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	27 64	32 17	36 71	36 71	45 77	54.84
	-At 12 % " "	32 52	38 19	43 86	43 86	55 19	66 52
	-At 10 % " "	37 41	44 21	51 01	51 01	64 61	78.21
	-At 8 % " "	44 73	53 23	61 73	61 73	78 73	95 73

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.15 : ONIDA SAVAK LIMITED

3.15.1: COMPANY BACKGROUND:

ONIDA SAVAK LIMITED was originally incorporated on 26th February 1987 under the name of Savak Electronics (private) Limited on 25th August 1989 and changed its name to Onida Savak Limited pursuant to fresh certificate of incorporation. The main objectives of the company are to manufacture, assemble, import, export, deal, alter, exchange, let on hire all types of electronics equipment and electricals products. The object of the issue was to partly finance the scheme for upgradation of colour television and washing machine facilities.

3.15.2: ISSUE HIGHLIGHTS:

The company made a Public issue of 29,95,200 equity shares of Rs.10.00 each at a premium of Rs 15.00 per share aggregating to Rs.7,48,80,000 and 14,51,200, 14% secured fully convertible debentures of Rs 100.00 each for cash at par aggregating to Rs 1451.20 lacs. As per the Conversion terms given in the prospectus part-I of each debenture would be automatically and compulsorily converted into two fully paid up equity shares of the face value of Rs 10.00 each for cash at a premium of Rs 15.00 per equity share on the expiry of 6 months from the date of allotment. Similarly, The part-II of Rs 50.00 would be converted into two equity shares of Rs 10.00 each at a premium of Rs 15.00 on expiry of 18 months from the date of allotment.

3.15.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 16.28, Rs.18.73, Rs 21.18 and Rs.24.85 showing overpricing by 53.56%, 33.47%, 18.03% and 0.60% respectively. The fairvalues per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price were 16.22%, 18.67%, 21.11% and 24.77% respectively. That is, none of these fairvalue were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 153.56% of the fairvalue, i.e, it was highly overpriced. The offer price as percentage of pre-issue average market price was 24.92%.

Those investors who were lucky enough to receive allotment, got minimum return of 10.00% and (25.00%) and maximum return of 420.00% and 40.00% per equity share during the year 1992 and 1993. As said earlier, the issue was overpriced at 15%,12%,10% and 8% capitalisation rate meaning thereby that the company has collected excess amount by Rs.34.88, Rs 25.08, Rs.15.28 and Rs.0.60 per F.C.D. respectively

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of March 1992 and the allotment could have been finalised by June 1992. The pre-issue six monthly market price were in the range of Rs.80.00 to Rs.131.00. The post-issue yearly high and low market price also revealed that the company or it's promoters. had not resorted to price-rigging.

According to the calculations shown in statement No.U-14, the P.E.P.S. and F.D.E.P.S stood at Rs.2.12 and Rs.1.65 respectively Accordingly, the company could have charged premium of Rs.1.73, Rs 3.50, Rs.5.27 and Rs.7.92 at 15%, 12%, 10% and 8% capitalisation rate based on the P.E.P.S. calculations, While on the basis of F.D.E.P.S., the company could have charged premium of Rs.1.90 and Rs.3.96 at 10% and 8% capitalisation rate.

The statement No A-14 to D-14 shows that the company could have offered it's equity share in the range of Rs.11.26 to Rs.60.81 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., PECV, N.A.V., capitalisation rate, R.O.N W., no.of equity shares etc.

3.15.4: OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was not conservative based on the fairvalue calculations.

It is also seen that, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I. was overpriced by 53.56%, 33.47%, 18.03% and 0.60% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue market price were 192.90% and 24.92%. The offer price were disproportionate to the average market price and book value per share.

**ANNEXURE 14 - X
NET ASSET VALUE (NAV)**

**Name of the Company : ONIDA SAVAK LIMITED
According to the audited balance sheet as at 31st March 1991.**

	Rs (Lacs)		Rs. (Lacs)
Total Assets	2645 29	shareholders fund	
Deduct all liabilities		(1) Equity Capital	352.50
1 Preference capital	nil	(2) Free reserves	318 32
2 Secured & unsecured borrowings	1143 98	Total	670.82
3 Current liabilities	830 49	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>670 82</u>	Net worth	<u>670.82</u>
Add			
(1) Fresh capital issue at Face Value		299 52	
Total		970.34	
Number of shares including Fresh and bonus issue		74.86	
NAV per share		12 96	
Calculation of Profit on Fresh Capital			
$1/2 * \text{Fresh Capital} * \text{Exist PAT} / \text{Exist NAV}$			
$1/2 * 299 52 * 236 37 / 670.82 = \text{Rs } 52 77$			

**ANNEXURE 14 - Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1989	33 35	20 60	
2 March 1990	166 10	136 52	15.24
3 March 1991	<u>288 54</u>	<u>236.37</u>	59 93
Simple Average			
or			
Weighted Average	205 19	167.12	
Average profit before tax (on the basis of Weighted Average)			205.19
Deduct			
Provisions for taxation			38.07
Average profit after tax			167.12
Deduct Preference dividend			nil
Net profit after tax			167 12
Add Contribution to profit by fresh issue if any			52 77
Total profit after tax			219 89
Number of equity share including fresh and bonus issue			74 86
Earning per share(EPS)			2.94
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
	15%	19 60	
	12%	24.50	
	10%	29 40	
	8%	36 75	

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col. No.(3) & (4)	Fair Value Col. No. (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	19 60	12 96	32 56	16 28	
2	12 %	24.50	12 96	37.46	18.73	
3	10 %	29 40	12 96	42.36	21 18	
4	8 %	36 75	12 96	49 71	24.85	

ANNEXURE 14 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1990		180.00	37 50		108.75		
2	1991		131 00	41.00		86 00		
3		Aug 91	131 00	80 00	105 50			
4		Sep 91	124.00	100 00	112.00			
5		Oct 91	115 00	100.00	107.50		106.21	100.32
6		Nov. 91	109 00	103.00	106 00			
7		Dec 91	105 00	100.00	102.50			
8		Jan 92	125.00	82 50	103 75			
Total of Col. No. 6			637.25	Total of Col. No. 7 & 8 Divided by no.of items			300.96	
Divided by months			----- 6				----- 3	
			= 106.21				= 100.32	

STATEMENT NO. U - 14
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	74.86	74.86
Add Part 'A' Conversion	29.02	29.02
Part 'B' Conversion	"	29.02
	103.88	132.90
Profit After Tax	219.89	219.89
Earning Per Share (PEPS)	2.12	
Earning Per Share (FDEPS)		1.65
Profit Earning Capacity Value		
At 15 % Capitalisation	14.13	11.00
At 12 % "	17.66	13.75
At 10 % "	21.20	16.50
At 8 % "	26.50	20.62
Net Worth	970.34	970.34
Net Asset Value Per Share	9.34	7.30
Fair Value		
At 15 % Capitalisation Rate	11.73	9.15
At 12 % "	13.50	10.52
At 10 % "	15.27	11.90
At 8 % "	17.92	13.96

STATEMENT NO. A - 14

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	74.86	74.86	74.86	74.86	74.86	74.86
	Add New Equity Issue	29.95	29.95	29.95	29.95	29.95	29.95
	Con. of Part 'A' Deb	29.02	29.02	29.02	29.02	29.02	29.02
B	Total No of Shares	133.83	133.83	133.83	133.83	133.83	133.83
	Net Worth	670.82	670.82	670.82	670.82	670.82	670.82
	Add Face Value of the total No of new equity shares	589.72	589.72	589.72	589.72	589.72	589.72
	- Shares premium of the total No. of New Equity shares	---	---	---	884.58	884.58	884.58
C	New Net Worth	1260.54	1260.54	1260.54	2145.12	2145.12	2145.12
D	N A V Per Share	9.42	9.42	9.42	16.02	16.02	16.02
E	P A Tax As per CCI	167.13	167.13	167.13	167.13	167.13	167.13
	Add Return on New Capital	103.87	155.80	207.74	259.77	389.66	519.54
F	New P.A.T	271.00	322.93	374.87	426.90	566.79	686.67
G	Earning per share	2.02	2.41	2.80	3.19	4.16	5.14
H	Profit Earning Capacity Value						
	-At 15 % Cap. Rate	13.47	16.07	18.67	21.27	27.73	34.27
	-At 12 % " "	16.83	20.08	23.33	26.58	34.67	42.83
	-At 10 % " "	20.20	24.10	28.00	31.90	41.60	51.40
	-At 8 % " "	25.25	30.13	35.00	39.88	52.00	64.25
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	11.45	12.75	14.05	18.65	21.88	25.15
	-At 12 % " "	13.13	14.75	16.38	21.30	25.35	29.43
	-At 10 % " "	14.81	16.76	18.71	23.96	28.81	33.71
	-At 8 % " "	17.34	19.78	22.21	27.95	34.01	40.14

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

$$\frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. B - 14

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	74.86	74.86	74.86	74.86	74.86	74.86
	Add New Equity Issue	29.95	29.95	29.95	29.95	29.95	29.95
	Con of Both parts of F.C.D	58.04	58.04	58.04	58.04	58.04	58.04
B	Total No of Shares	162.85	162.85	162.85	162.85	162.85	162.85
	Net Worth	670.82	670.82	670.82	670.82	670.82	670.82
	Add Face Value of the total No. of new equity shares	879.92	879.92	879.92	879.92	879.92	879.92
	- Shares premium of the total No. of New Equity shares	---	---	---	1319.88	1319.88	1319.88
C	New Net Worth	1550.74	1550.74	1550.74	2870.82	2870.82	2870.82
D	N. A V Per Share	9.52	9.52	9.52	17.63	17.63	17.63
E	P. A Tax As per CCI	167.13	167.13	167.13	167.13	167.13	167.13
	Add Return on New Capital	155.04	232.56	310.08	387.60	581.40	775.21
F	New P.A.T	322.17	399.69	477.21	554.73	784.53	942.34
G	Earning per share	1.98	2.45	2.93	3.41	4.60	5.78
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	13.00	16.33	19.53	22.73	30.67	38.52
	-At 12 % " "	16.50	20.42	24.42	28.42	38.33	48.17
	-At 10 % " "	19.80	24.50	29.30	34.10	46.00	57.80
	-At 8 % " "	24.75	30.63	36.62	42.63	57.50	72.25
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	11.26	12.93	14.53	20.18	24.15	28.08
	-At 12 % " "	13.01	14.97	16.97	23.03	27.98	32.90
	-At 10 % " "	14.66	17.01	19.41	25.87	31.82	37.71
	-At 8 % " "	17.14	20.08	23.07	30.13	37.77	44.94

$$J = D = C / B \quad G = F / B \quad H =$$

G

$$\frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. C - 14

(Fig in Laacs)

Sr No	Particulars.	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	74 86	74 86	74 86	74 86	74 86	74 86
	Add New Equity Issue	29 95	29 95	29.95	29 95	29.95	29 95
	Con of Part 'A' & 'B' of Deb	---	---	---	---	---	---
B	Total No of Shares	104 81	104 81	104.81	104.81	104 81	104.81
C	Net Worth	970 34	970 34	970.34	970 34	970 34	970.34
D	N A V. Per Share	9 26	9 26	9 26	9.26	9.26	9 26
E	P A T As per CCI	167 13	167 13	167 13	167 13	167 13	167.13
	Add Return on face value of new capital part 'A'	103.87	155 80	207 74	103 87	155 80	207.74
	Return on Premium Amount of new Capital Part A	---	---	---	155 90	233.86	311 80
F	New P.A.T.	271 00	322 93	374 87	426.90	556.79	686.67
G	Earning per share	2 58	3 08	3 57	4.07	5.31	6.55
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	17 20	20 53	23 80	27 13	35.40	43.67
	-At 12 % " "	21 50	25 67	29.75	33 91	44 25	54.58
	-At 10 % " "	25 80	30 80	35 70	40 70	53 10	65.50
	-At 8 % " "	32.25	38.50	44.62	50 87	66 37	81 87
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	13 23	14 89	16.53	18.37	22.33	26.46
	-At 12 % " "	15 38	17.46	19 50	21 76	26 75	31 92
	-At 10 % " "	17.53	20 03	22.48	24 98	31.18	37.38
	-At 8 % " "	20.75	23.88	26 94	30.06	37.81	45.56

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad : \quad I = (D + H) / 2$$

STATEMENT NO. D - 14

(Fig in Lacs)

Sr No	Particulars.	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	74.86	74.86	74.86	74.86	74.86	74.86
	Add New Equity Issue	29.95	29.95	29.95	29.95	29.95	29.95
	Con of Part 'A' & 'B' of Deb	---	---	---	---	---	---
B	Total No of Shares	104.81	104.81	104.81	104.81	104.81	104.81
C	Net Worth	970.34	970.34	970.34	970.34	970.34	970.34
D	N A V Per Share	9.26	9.26	9.26	9.26	9.26	9.26
E	P A T As per CCI	167.13	167.13	167.13	167.13	167.13	167.13
	Add, Return on face value of new capital part A	155.04	232.56	310.08	155.04	232.56	310.08
	Return on Premium Amount of new Capital Part A	---	---	---	232.56	348.84	465.13
F	New P A T.	322.71	399.69	477.21	554.73	784.53	942.34
G	Earning per share	3.07	3.81	4.55	5.29	7.14	8.99
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	20.47	25.40	30.33	35.27	47.60	59.93
	-At 12 % " "	25.58	31.75	37.92	44.08	59.50	74.92
	-At 10 % " "	30.70	38.10	45.50	52.90	71.40	89.90
	-At 8 % " "	38.37	47.62	56.87	66.12	89.25	112.37
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	14.86	17.33	19.79	22.26	28.43	34.59
	-At 12 % " "	17.42	20.50	23.59	26.67	34.38	42.11
	-At 10 % " "	19.98	23.68	27.38	31.08	40.33	49.58
	-At 8 % " "	23.81	28.44	33.06	37.69	49.25	60.81

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. E - 14

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	74.86	74.86	74.86	74.86	74.86	74.86
	Add. New Equity Issue	29.95	29.95	29.95	29.95	29.95	29.95
B	Total No of Shares	104.81	104.81	104.81	104.81	104.81	104.81
	Net Worth	670.82	670.82	670.82	670.82	670.82	670.82
	Add. Face Value of the total No of new equity shares	299.52	299.52	299.52	299.52	299.52	299.52
	- Shares premium of the total No of New Equity shares	---	---	---	449.28	449.28	449.28
C	New Net Worth	970.34	970.34	970.34	1419.62	1419.62	1419.62
D	N A V Per Share	9.26	9.26	9.26	13.54	13.54	13.54
E	P A Tax As per CCI	167.13	167.13	167.13	167.13	167.13	167.13
	Add Return on New Capital	52.77	79.15	105.54	131.94	197.91	263.88
I	New P A T	219.90	246.28	272.67	299.07	365.04	431.01
G	Earning per share	2.10	2.35	2.60	2.85	3.48	4.11
II	Profit Earning Capacity Value						
	-At 15 % Cap. Rate	14.00	15.67	17.33	19.00	23.20	27.40
	-At 12 % " "	17.50	19.58	21.67	23.75	29.00	34.25
	-At 10 % " "	21.00	23.50	26.00	28.50	34.80	41.10
	-At 8 % " "	26.25	29.38	32.50	35.63	43.50	51.38
I	Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	11.63	12.47	13.30	16.27	18.37	20.47
	-At 12 % " "	13.38	14.42	15.47	18.65	21.27	23.90
	-At 10 % " "	15.13	16.38	17.63	21.02	24.17	27.32
	-At 8 % " "	17.76	19.32	20.88	24.59	28.52	32.46

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

$$* 100 \quad I = (D + H) / 2$$

Respective Capitalisation rate

3.16 : OSWAL SPINNING & WEAVING MILLS LIMITED

3.16.1 : COMPANY BACKGROUND:

OSWAL SPINNING & WEAVING MILLS LIMITED was incorporated under Indian Companies Act 1913 on 19th September 1955 under the name Oswal Cotton Spinning & Weaving Mills Limited and fresh certificate of incorporation was obtained on 26th February 1965 consequent to change of name as Oswal Spinning & Weaving Mills Limited. The main objectives of the company are to manufacture textiles, acrylic/woolen yarns, vanaspati ghee and alloy casting. The object of the issue was to part finance the expansion and modernisation plan.

3.16.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 3,84,380, 14% secured fully convertible debentures of Rs.200.00 each for cash at par aggregating to Rs.768.76 lacs. As per the Conversion terms given in the prospectus part-I of each fully paid up debenture would be automatically and compulsorily converted into five fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.10.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs.100.00 would be converted into five equity shares of the face value of Rs.10.00 each at a premium of Rs.10.00 each at the end of 18 months from the date of allotment.

3.16.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.44.95, Rs. 48.49, Rs.52.03 and Rs.57.34 showing underpricing by 55.55%, 58.75%, 61.56% and 65.12% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 131.08%, 141.41%, 151.73% and 167.22% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was

44.49% of the fairvalue, i.e., it was highly underpriced. The offer price as percentage of pre-issue average market price was 58.32% i.e. This was highly underpriced.

Those investors who were lucky enough to receive allotment, got minimum return of 35.00% and maximum return of 275.00% per equity share during the year 1991. Similarly, during the year 1992, the investors could have realised minimum return of 93.75% and maximum return of 650.00% per equity share. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs.249.50, Rs.284.90, Rs.320.30 and Rs.373.40 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of September 1990 and the allotment could have been finalised by December 1990.

The pre-issue six monthly average market price were in the range of Rs 22.00 to Rs 26.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-15, the P.E.P.S. and F.D.E.P.S. stood at Rs 1.77 and Rs 1.12 respectively. Accordingly, the company could have charged premium of Rs 8.73, Rs 10.21, Rs.11.68 and Rs.13.89 at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations; while on the basis of F.D.E.P.S., the company could have charged premium of Rs. 1.84, Rs 2.77, Rs.3.71 and Rs 5.11 at 15%, 12%, 10% and 8% capitalisation rate.

The statement No A-15 to D-15 shows that the company could have offered its equity share in the range of Rs 16.49 to Rs.85.47 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no.of equity shares etc.

3.16.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method

It is found that the offer price fixed by the office of the C.C.I. was underpriced by 55.55%, 58.75%, 61.56% and 65.12% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue market price were 32.48% and 58.32% which were highly disproportionate

**ANNEXURE 15- X
NET ASSET VALUE (NAV)**

**Name of the Company : OSWAL SPINNING & WEAVING MILLS LIMITED
According to the audited balance sheet as at 31st March 1990.**

	Rs (Lacs)		Rs (Lacs)
Total Assets	1609.53	shareholders fund	
Deduct all liabilities		(1) Equity Capital	137.36
1 Preference capital	nil	(2) Free reserves	708.71
2 Secured & unsecured borrowings	534.16	Total	846.07
3 Current liabilities	229.30	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>846.07</u>	Net worth	<u>846.07</u>
Add			
(1) Fresh capital issue at Face Value		nil	
Total		846.07	
Number of shares including Fresh and bonus issue		13.74	
NAV per share		61.57	

**ANNEXURE 15- Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1988	29.55	29.55	8.67
2 March 1989	63.31	57.91	24.62
3 March 1990	<u>78.26</u>	<u>68.26</u>	
Simple Average			
or			
Weighted Average	65.15	58.36	
Average profit before tax (on the basis of Weighted Average)			
			65.15
Deduct			
Provisions for taxation			6.79
Average profit after tax			58.36
Deduct Preference dividend			nil
Net profit after tax			58.36
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			58.36
Number of equity share including fresh and bonus issue			13.74
Earning per share(EPS)			4.25
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	28.33
		12%	35.42
		10%	42.50
		8%	53.12

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	28.33	61.57	89.90	44.95	
2	12 %	35.42	61.57	96.99	48.49	
3	10 %	42.50	61.57	104.07	52.03	
4	8 %	53.12	61.57	114.69	57.34	

ANNEXURE 15 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		41 00	19 00		30 00		
2	1989		52 50	24 00		38 25		
3	1990		60 00	30 00		45 00		
4		Feb 90	23 00	22 00	22 50		23 92	34 29
5		Mar 90	24 00	22 00	23 00			
6		Apr 90	26 00	23 00	24 50			
7		May 90	26 00	23 00	24 50			
8		Jun 90	25 00	23 00	24 00			
9		Jul 90	26 00	24 00	25 00			
Total of Col. No. 6			143.50	Total of Col. No. 7 & 8 Divided by no. of items			137.17	
Divided by months			6				4	
			= 23.92				= 34.29	

STATEMENT NO. U - 15
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER U.S.A. REPORTING SYSTEM.

	(FIG IN LACS.)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	13 73	13 73
Add Part 'A' Conversion	19 22	19 22
Part 'B' Conversion		19 22
	32 95	52 17
Profit After Tax	58 36	58 36
Earning Per Share (PEPS)	1 77	
Earning Per Share (FDEPS)		1 12
Profit Earning Capacity Value		
At 15 % Capitalisation	11 80	7.47
At 12 % "	14 75	9 33
At 10 % "	17 70	11 20
At 8 % "	22 12	14 00
Net Worth	846 07	846.07
Net Asset Value Per Share	25 67	16 22
Fair Value		
At 15 % Capitalisation Rate	18 73	11 84
At 12 % "	20 21	12.77
At 10 % "	21 68	13 71
At 8 % "	23 89	15.11

STATEMENT NO. A - 15

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	13.74	13.74	13.74	13.74	13.74	13.74
	Add Conv of Part 'A' Deb	19.22	19.22	19.22	19.22	19.22	19.22
	Conv of Part 'B' Deb	--	--	--	--	--	--
B	Total No of Shares	32.96	32.96	32.96	32.96	32.96	32.96
	Net Worth	846.07	846.07	846.07	846.07	846.07	846.07
	Add Face Value of the total No of new equity shares	192.19	192.19	192.19	192.19	192.19	192.19
	- Shares premium of the total No of New Equity shares	---	---	---	192.19	192.19	192.19
C	New Net Worth	1038.26	1038.26	1038.26	1230.45	1230.45	1230.45
D	N A V Per Share	31.50	31.50	31.50	37.33	37.33	37.33
E	Profit After Tax As per CCI	58.36	58.36	58.36	58.36	58.36	58.36
	Add Return on New Capital	7.74	11.62	15.49	15.49	23.25	30.98
F	New P A I	66.10	69.98	73.85	73.85	81.61	89.34
G	Earning per share	2.00	2.12	2.24	2.24	2.47	2.71
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	13.33	14.13	14.93	14.93	16.47	18.07
	-At 12 % " "	16.67	17.67	18.67	18.67	20.58	22.58
	-At 10 % " "	20.00	21.20	22.40	22.40	24.70	27.10
	-At 8 % " "	25.00	26.50	28.00	28.00	30.87	33.87
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	22.41	22.81	23.21	26.13	26.90	27.70
	-At 12 % " "	24.08	24.58	25.08	28.00	28.95	28.95
	-At 10 % " "	25.75	26.35	26.95	29.86	31.01	32.21
	-At 8 % " "	28.25	29.00	29.75	32.66	34.10	35.60

$$J = D / B \quad G = F / B \quad H =$$

G

$$\frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. B - 15

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	13.74	13.74	13.74	13.74	13.74	13.74
	Add Conv. of Part "A" Deb	19.22	19.22	19.22	19.22	19.22	19.22
	Con of Part 'B' Deb	19.22	19.22	19.22	19.22	19.22	19.22
B	Total No of Shares	52.18	52.18	52.18	52.18	52.18	52.18
	Net Worth	846.07	846.07	846.07	846.07	846.07	846.07
	Add Face Value of the total No of new equity shares	384.38	384.38	384.38	384.38	384.38	384.38
	- Shares premium of the total No of New Equity shares	---	---	---	384.38	384.38	384.38
C	New Net Worth	1230.45	1230.45	1230.45	1614.83	1614.83	1614.83
D	N A V Per Share	23.58	23.58	23.58	30.94	30.94	30.94
E	P A T As per CCI	58.36	58.36	58.36	58.36	58.36	58.36
	Add Return on New Capital	15.49	23.25	30.98	30.98	46.50	61.96
F	New P A T	73.85	81.61	89.34	89.34	104.86	120.32
G	Earning per share	1.41	1.56	1.71	1.71	2.00	2.30
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	9.40	10.40	11.40	11.40	13.33	15.33
	-At 12 % " "	11.75	13.00	14.25	14.25	16.67	19.17
	-At 10 % " "	14.10	15.60	17.10	17.10	20.00	23.00
	-At 8 % " "	17.62	19.50	21.37	21.37	25.00	28.75
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	16.49	16.99	17.49	21.17	22.13	23.13
	-At 12 % " "	17.66	18.29	18.91	22.59	23.80	25.05
	-At 10 % " "	18.84	19.59	20.34	24.02	25.47	26.97
	-At 8 % " "	20.60	21.54	22.47	26.15	27.97	29.84

$$J = D / B \quad G = F / B \quad H =$$

G

$$I = (D + H) / 2$$

Respective Capitalisation rate

STATEMENT NO. C - 15

(Fig in Lacs)

Sr. No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	13.74	13.74	13.74	13.74	13.74	13.74
	Add: Con. of Part 'A' Deb	--	--	--	--	--	--
	Con of Part 'B' Deb	--	--	--	--	--	--
B	Total No of Shares	13.74	13.74	13.74	13.74	13.74	13.74
C	Net Worth	846.07	846.07	846.07	846.07	846.07	846.07
D	N. A V. Per Share	61.57	61.57	61.57	61.57	61.57	61.57
E	P. A T. As per CCI	58.36	58.36	58.36	58.36	58.36	58.36
	Add Return on face value of new capital part 'A'	7.74	11.62	15.49	7.74	11.62	15.49
	Return on Premium Amount of new Capital Part A	--	--	--	7.75	11.63	15.49
F	New P A T	66.10	69.98	73.85	73.85	81.61	89.34
G	Earning per share	4.81	5.09	5.37	5.37	5.94	6.50
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	32.06	33.93	35.80	35.80	39.60	43.33
	-At 12 % " "	40.08	42.41	44.75	44.75	49.50	54.17
	-At 10 % " "	48.10	50.90	53.70	53.70	59.40	65.00
	-At 8 % " "	60.12	63.62	67.12	67.12	74.25	81.25
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	46.87	47.75	48.68	48.68	50.58	52.45
	-At 12 % " "	50.82	51.99	53.16	53.16	55.53	57.87
	-At 10 % " "	54.83	56.23	57.63	57.63	60.48	63.28
	-At 8 % " "	60.84	62.59	64.34	64.34	67.91	71.41

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 15

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	13.74	13.74	13.74	13.74	13.74	13.74
	Con of Part 'A' Deb	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No. of Shares	13.74	13.74	13.74	13.74	13.74	13.74
C	Net Worth	846.07	846.07	846.07	846.07	846.07	846.07
D	N A V Per Share	61.57	61.57	61.57	61.57	61.57	61.57
E	P A T As per CCI	58.36	58.36	58.36	58.36	58.36	58.36
	Add Return on face value of new capital part 'A'	15.49	23.25	30.98	15.49	23.25	30.98
	Return on Premium Amount of new Capital Part A	---	---	---	15.49	23.25	30.98
F	New P.A.T.	73.85	81.61	89.34	89.34	104.86	120.32
G	Earning per share	5.37	5.94	6.50	6.50	7.63	8.75
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	35.80	39.60	43.33	43.33	50.86	58.33
	-At 12 % " "	44.75	49.50	54.17	54.17	63.58	72.91
	-At 10 % " "	53.70	59.40	65.00	65.00	76.30	87.50
	-At 8 % " "	67.12	74.25	81.25	81.25	95.37	109.37
	I Fairvalue Based on the above P/E/CV and NAV						
	-At 15 % Cap rate	48.68	50.58	52.45	52.45	56.21	59.95
	-At 12 % " "	53.16	55.53	57.87	57.87	62.57	67.24
	-At 10 % " "	57.63	60.48	63.28	63.28	68.93	74.53
	-At 8 % " "	64.34	67.91	71.41	71.41	78.47	85.47

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.17 : PRAKASH INDUSTRIES LIMITED

3.17.1 : COMPANY BACKGROUND:

PRAKASH INDUSTRIES LIMITED was incorporated as Prakash Pipes and Industries Limited on 31st July 1980. In view of its diversified activities, the name of the company was also changed to Prakash Industries Limited and a fresh certificate of incorporation was obtained on 1st November 1990. The company is engaged in manufacture of PVC pipes, B & W. picture tubes, video tubes and cassettes. The object of the issue was to part finance the proposed sponge iron project.

3.17.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 14,36,804, 14% secured fully convertible debentures of Rs.280.00 each for cash at par aggregating to Rs.4023.05 lacs. As per the Conversion terms given in the prospectus part-I of Rs.140.00 of each fully paid up debenture would be automatically and compulsorily converted into five fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.18.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs.140.00 would be converted into five equity shares of the face value of Rs.10.00 each at a premium of Rs.18.00 each at the end of 18 months from the date of allotment.

3.17.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.33.36, Rs.36.69, Rs.40.02 and Rs.45.02 showing underpricing by 16.06%, 23.68%, 30.03% and 37.80% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 75.76%, 83.32%, 90.89% and 102.24% respectively. That is, the fair values at 12% and 10% capitalisation rate were within the range of 80.00% to 100.00% of the pre issue average market price; while the fair values at 15% and 8% capitalisation rate were not within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 83.94% of the fairvalue, i.e., it was moderately underpriced. The offer price as percentage of pre-issue average market price was 63.59%.

Those investors who were lucky enough to receive allotment, got minimum return of 20.53% and maximum return of 507.14% per equity share during the year 1992. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs.53.60, Rs. 86.90, Rs.120.20, and Rs.170.20 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of November 1991 and the allotment could have been finalised by February 1992. The pre-issue six monthly market price were in the range of Rs.15.00 to Rs.58.50. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No U-16, the P.E.P.S. and F.D.E.P.S. stood at Rs.1.94 and Rs.1.28 respectively. Accordingly, the company could have charged premium of Rs.6.18, Rs.7.80, Rs.9.41 and Rs.11.84 at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations, while on the basis of F.D.E.P.S., the company could have charged premium of Rs. 1.75, Rs. 2.81 and Rs.4.41 at 12%, 10% and 8% capitalisation rate.

The statement No A-16 to D-16 shows that the company could have offered its equity share in the range of Rs.16.18 to Rs.113.27 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no. of equity shares etc.

3.17.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method

It is found that the offer price fixed by the office of the CCI was underpriced by 16.06%, 23.68%, 30.03% and 37.80% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue market price were 62.42% and 63.59% which were highly disproportionate.

ANNEXURE 16 - X
NET ASSET VALUE (NAV)

Name of the Company : PRAKASH INDUSTRIES LIMITED
According to the audited balance sheet as at 31st March 1991.

	Rs (Lacs)		Rs (Lacs)
Total Assets	10899.61	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	676.95
1 Preference capital	nil	(2) Free reserves	2034.56
2 Secured & unsecured borrowings	6024.87	Total	2711.51
3 Current liabilities	2163.24	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>2711.51</u>	Net worth	<u>2711.51</u>
Add			
(1) Fresh capital Issue at Face Value		nil	
Total		2711.51	
Number of shares including fresh and bonus issue		67.70	
NAV per share		40.05	

ANNEXURE 16 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 Dece 1986	86.89	86.89	13.50
2 Dece 1987	104.90	88.30	33.52
3 Dece 1988	506.09	506.09	79.41
4 March 1990	220.65	175.65	151.29
5 March 1991	538.46	498.46	169.71
Simple Average	291.39	271.07	
or			
Weighted Average			

Average profit before tax (on the basis of Simple Average)	291 39
Deduct	
Provisions for taxation	20 32
Average profit after tax	271 07
Deduct Preference dividend	nil
Net profit after tax	271 07
Add Contribution to profit by fresh issue if any	nil
Total profit after tax	271 07
Number of equity share including fresh and bonus issue	67 70
Earning per share(EPS)	4 00
Profit Earning Capacity Value (PFCV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
	15% 26 67
	12% 33 33
	10% 40 00
	8% 50 00

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	26 67	40 05	66 72	33 36	
2	12 %	33 33	40 05	73 38	36 69	
3	10 %	40 00	40 05	80 05	40 02	
4	8 %	50 00	40 05	90 05	45 02	

ANNEXURE 16 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1990		80 00	37 00		58 50		
2	1991		45 00	26 75		35 87		
3	1992		58 50	30 00		44 25		
4		May 91	17 00	15 00	16 00			
5		Jun 91	20 00	15 00	17 50			
6		Jul 91	46 00	40 50	43 25		37 50	44 03
7		Aug 91	47 50	41 00	44 25			
8		Sep 91	57 50	42 00	49 75			
9		Oct 91	58 50	50 00	54 25			
Total of Col. No. 6			240.00	Total of Col. No. 7 & 8			176.12	
Divided by months			6	Divided by no. of items			4	
			= 37.50				= 44.03	

STATEMENT NO. U - 16
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

(FIG IN LACS)

	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	67 70	67.70
Add Part A Conversion	71 84	71 84
Part B Conversion		71 84
	<u>139 54</u>	<u>211 38</u>
Profit After Tax	271 07	271 07
Earning Per Share (PEPS)	1 94	
Earning Per Share (FDEPS)		1 28
Profit Earning Capacity Value		
At 15 % Capitalisation Rate	12 93	8 53
At 12 % " "	16 17	10 67
At 10 % " "	19 40	12 80
At 8 % " "	24 25	16 00
Net Worth	2711 51	2711 51
Net Asset Value Per Share	19 43	12.83
Fair Value		
At 15 % Capitalisation Rate	16 18	10 68
At 12 % " "	17 80	11 75
At 10 % " "	19 41	12 81
At 8 % " "	21 84	14 41

STATEMENT NO. A - 16

(Fig in Lacs)

S	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	67.69	67.69	67.69	67.69	67.69	67.69
	Add Conv of Part 'A' Deb	71.84	71.84	71.84	71.84	71.84	71.84
	Conv of Part 'B' Deb	--	--	--	--	--	--
B	Total No of Shares	139.53	139.53	139.53	139.53	139.53	139.53
	Net Worth	2711.51	2711.51	2711.51	2711.51	2711.51	2711.51
	Add Face Value of the total No of new equity shares	718.40	718.40	718.40	718.40	718.40	718.40
	- Shares premium of the total No of New Equity shares	---	---	---	1293.13	1293.13	1293.13
C	New Net Worth	3429.91	3429.91	3429.91	4723.04	4723.04	4723.04
D	N A V. Per Share	24.58	24.58	24.58	33.85	33.85	33.85
E	Profit After Tax As per CCI	271.08	271.08	271.08	271.08	271.08	271.08
	Add Return on New Capital	66.02	99.05	132.04	184.85	277.39	369.72
F	New P A T	337.10	370.13	403.12	455.93	548.47	640.80
G	Earning per share	2.42	2.65	2.89	3.27	3.93	4.59
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	16.13	17.67	19.27	21.80	26.20	30.60
	-At 12 % " "	20.17	22.08	24.08	27.25	32.75	38.25
	-At 10 % " "	24.20	26.50	28.90	32.70	39.30	45.90
	-At 8 % " "	30.25	33.13	36.13	40.88	49.13	57.38
I	Fairvalue Based on the above PLCV and NAV						
	-At 15 % Cap rate	20.36	21.13	21.93	27.83	30.03	32.23
	-At 12 % " "	22.38	23.33	24.33	30.55	33.30	36.05
	-At 10 % " "	24.39	25.54	26.74	33.28	36.58	39.88
	-At 8 % " "	27.42	28.86	30.36	37.37	41.49	45.62

J D = C / B G = F / B H =

G

----- * 100 I = (D + H) / 2
Respective Capitalisation rate

STATEMENT NO. B - 16

(Fig in Laes)

1	2	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	67 69	67 69	67 69	67 69	67 69	67.69
	Add Conv of Part 'A' Deb	71 84	71 84	71 84	71 84	71 84	71.84
	Conv of Part 'B' Deb	71 84	71 84	71 84	71.84	71 84	71 84
B	Total No of Shares	211 37	211 37	211 37	211 37	211 37	211 37
	Net Worth	2711 51	2711.51	2711 51	2711.51	2711 51	2711 51
	Add Face Value of the total No of new equity shares	1436 80	1436 80	1436 80	1436 80	1436 80	1436 80
	- Shares premium of the total No of New Equity shares	---	---	---	2586.26	2586 26	2586 26
C	New Net Worth	4148 31	4148 31	4148 31	6734 57	6734 57	6734 57
D	N A V Per Share	19.63	19 63	19 63	31 86	31 86	31 86
F	Profit After Tax As per CCI	271 08	271 08	271 08	271 08	271 08	271 08
	Add Return on New Capital	132 04	198 13	264 08	369 72	554 78	739 44
I	New P A T	403 12	469 21	535 16	640 80	825.86	1010 52
G	Earning per share	1 91	2 22	2.53	3 03	3 91	4 78
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	12 73	14 80	16.87	20 20	26 07	31 87
	-At 12 % " "	15 92	18 50	21 08	25 25	32 58	39 83
	-At 10 % " "	19 10	22 20	25 30	30 30	39 10	47 80
	-At 8 % " "	23 88	27 75	31 63	37 88	48.88	59 75
I	Fairvalue Based on the above P/E:CV and NAV						
	-At 15 % Cap rate	16 18	17 22	18 25	26 03	28 97	31.87
	-At 12 % " "	17 78	19.07	20 36	28 56	32.22	35 85
	-At 10 % " "	19 37	20 92	22 47	31.08	35 48	39 83
	-At 8 %	21 76	23 69	25 63	34 87	40 37	45 81

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

$$\text{Respective Capitalisation rate} = \frac{G}{D + H} \times 100 \quad I = (D + H) / 2$$

STATEMENT NO. C - 16

(Fig in Laes)

Sr No	Particulars.	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	67 69	67 69	67 69	67 69	67 69	67 69
	Add Con of Part 'A' Deb	--	--	--	--	--	--
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No. of Shares	67 69	67 69	67 69	67 69	67 69	67 69
C	Net Worth	2711 51	2711 51	2711 51	2711 51	2711 51	2711 51
D	N A V Per Share	40 05	40 05	40 05	40 05	40 05	40 05
E	P A T As per CCI	271 08	271 08	271 08	271 08	271 08	271 08
	Add Return on face value of new capital part A	66 02	99 05	132 04	66 02	99 05	132 04
	Return on Premium Amount of new Capital Part A	---	---	---	118 13	178 34	237 68
I	New P A T	337 10	370 13	403 12	455 93	548 47	640 80
G	Earning per share	4 98	5 46	5 95	6.73	8 10	9.46
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	33 20	36 40	39 67	44 87	54 00	63 06
	-At 12 % " "	41 50	45 50	49 58	56 08	67 50	78 83
	-At 10 % " "	49 80	54 60	59 50	67 30	81 00	94 60
	-At 8 % " "	62 25	68 25	74 37	84 12	101 25	118 25
	Fairvalue Based on the above P A T and NAV						
	-At 15 % Cap rate	36 62	38 22	39 86	42 46	47 02	51 55
	-At 12 % " "	40 77	42 77	44 81	48 06	53 77	59 44
	-At 10 % " "	44 92	47 32	49 77	53 67	60 52	67 32
	-At 8 % " "	51 15	54 15	57 21	62 08	70 65	79 15

$$J = D / B \quad G = I / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 16

(Fig in Laacs)

Sl No	Particulars.	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	67 69	67 69	67 69	67 69	67 69	67 69
	Add Con of Part 'A' Deb	--	--	--	--	--	--
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	67 69	67 69	67 69	67 69	67 69	67 69
C	Net Worth	2711 51	2711 51	2711 51	2711 51	2711 51	2711 51
D	N A V Per Share	40 05	40 05	40 05	40 05	40 05	40 05
E	P A T As per CCI	271 08	271 08	271 08	271 08	271 08	271 08
	Add Return on face value of new capital part A	132 04	198 13	264 08	132 04	198 13	264 08
	Return on Premium Amount of new Capital Part A	---	---	---	237 68	356 65	475 36
F	New P A T	403 12	469 21	535 16	640 80	825 86	1010 52
G	Earning per share	5 95	6 93	7 90	9 47	12 20	14 92
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	39 67	46 20	52 67	63 13	81 33	99 47
	-At 12 %	49 58	57 75	65 83	78 91	101 67	124 33
	-At 10 %	59 50	69 30	79 00	94 70	122 00	149 20
	-At 8 %	74 37	86 62	98 75	118 37	152 50	186 50
	I Fairvalue Based on the above P/E/CV and NAV						
	-At 15 % Cap rate	39 86	43 12	46 36	51 59	60 69	69 76
	-At 12 %	44 81	48 90	52 94	59 48	70 86	82 19
	-At 10 %	49 77	54 67	59 52	67 37	81 02	94 62
	-At 8 %	57 21	63 33	69 40	79 21	96 27	113 27

G

$$J = D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.18 : PRIYADARSHINI SPINNING MILLS LIMITED

3.18.1 : COMPANY BACKGROUND:

PRIYADARSHINI SPINNING MILLS LIMITED was incorporated as a public limited company on 14th May 1981 under the Companies Act 1956. The main objectives of the company are to manufacture, deal in all kinds of cotton and synthetic hosiery goods, worsted and woolen goods and goods made of jute, hemp, flax, cellulosic fibers, synthetic polymers, metallic fibers and glass fibers. The object of the issue was to part finance the cost of setting up a new division for the manufacture of cotton yarn.

3.18.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 2,00,000, 14% secured fully convertible debentures of Rs 250.00 each for cash at par aggregating to Rs.500.00 lacs. As per the Conversion terms given in the prospectus, each fully paid up debenture would be automatically and compulsorily converted into ten fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.15.00 per equity share on the expiry of 6 months from the date of allotment.

3.18.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 30.07, Rs.34.96, Rs 39.85 and Rs 47.19 showing underpricing by 16.86%, 28.48%, 37.26% and 47.02% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 78.06%, 90.75%, 103.45% and 122.50% respectively. That is, except the fairvalue at 12% capitalisation rate, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is a manufacturing concern. At 15% capitalisation rate the issue price was 83.13% of the fairvalue, i.e. it was moderately underpriced. The offer price as a percentage of pre-issue average market price was 64.90%.

Those investors who were lucky enough to receive allotment, got minimum return of (30.00%) and maximum return of 113.00% per equity share during the year 1993. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs.50.70, Rs.99.60, Rs.148.50 and Rs.221.90 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of March 1992 and the allotment could have been finalised by June 1992. The pre-issue six monthly market price were in the range of Rs.40.50 to Rs.65.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No U-17, the P.E.P.S. stood at Rs. 3.91. Accordingly, the company could have charged premium of Rs.10.03, Rs.13.29, Rs.16.55 and Rs.21.43 at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations. While on the basis of F.D.E.P.S., the company has to issue its share at discount.

The statement No A-17 and C-17 shows that the company could have offered its equity share in the range of Rs.23.97 to Rs.79.06 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no of equity shares etc.

3.18.4 : OBSERVATIONS OF HYPOTHESIS:-

It is seen that, initial offer price sanctioned by the office of the C.C.I. was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the C.C.I. has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I. was underpriced by 16.86%, 28.48%, 37.26% and 47.02% at 15%, 12%, 10% and 8% capitalisation rate respectively.

It is also observed that the offer price as a percentage of book value and pre issue average market price were 118.99% and 64.90%. The offer price was disproportionate to the average market price.

**ANNEXURE 17 - X
NET ASSET VALUE (NAV)**

Name of the Company : PRIYADARSHINI SPINNING MILLS LIMITED
According to the audited balance sheet as at 31st March 1991.

	Rs (Lacs)		Rs (Lacs)
Total Assets	3109.44	Shareholders' fund	
Deduct all liabilities		(1) Equity Capital	400.00
1 Preference capital	nil	(2) Free reserves	440.42
2 Secured & unsecured borrowings	1446.62	Total	840.42
3 Current liabilities	822.40	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net-worth	<u>840.42</u>	Net worth	<u>840.42</u>
Add			
(1) Fresh capital issue at Face Value		nil	
Total		840.42	
Number of shares including Fresh and bonus issue		40.00	
NAV per share		21.01	

**ANNEXURE 17 - Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1989	77.09	77.09	
2 March 1990	180.22	151.01	39.97
3 March 1991	<u>373.40</u>	<u>343.28</u>	<u>60.00</u>
Simple Average			
or			
Weighted Average	259.62	234.82	
Average profit before tax (on the basis of Simple Average)		259.62	
Deduct			
Provisions for taxation		24.80	
Average profit after tax		234.82	
Deduct Preference dividend		nil	
Net profit after tax		234.82	
Add Contribution to profit by fresh issue if any		nil	
Total profit after tax		234.82	
Number of equity share including fresh and bonus issue		40.00	
Earning per share (EPS)		5.87	
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	39.14
		12%	48.92
		10%	58.70
		8%	73.37

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	39.14	21.01	60.15	30.07	
2	12 %	48.92	21.01	69.93	34.96	
3	10 %	58.70	21.01	79.71	39.85	
4	8 %	73.37	21.01	94.38	47.19	

ANNEXURE 17 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		23.75	9.00		16.37		
2	1990		60.00	16.75		38.37		
3	1991		65.00	27.50		46.25		
4		Jul 91	52.50	42.50	47.50			
5		Aug. 91	65.00	51.25	58.12			
6		Sep 91	65.00	60.00	62.50		53.10	38.52
7		Oct 91	60.00	48.00	54.00			
8		Nov 91	55.00	45.00	50.00			
9		Dec. 91	52.50	40.50	46.50			
Total of Col. No. 6			318.62	Total of Col. No. 7 & 8			154.09	
Divided by months			-----	Divided by no. of items			-----	
			6				4	
			= 53.10				= 38.52	

STATEMENT NO. U - 17
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

		(FIG IN LACS)
		P.E.P.S.
Number of Equity Shares at the time of Time of Issue		40 00
Add Part 'A' Conversion		20 00
Part 'B' Conversion		
		<u>60 00</u>
Profit After Tax		234 82
Earning Per Share (PEPS)		3.91
Earning Per Share (FDEPS)		
Profit Earning Capacity Value		
At 15 % Capitalisation		26.07
At 12 % "		32 58
At 10 % "		39 10
At 8 % "		48 87
Net Worth		840 42
Net Asset Value Per Share		14.00
Fair Value		
At 15 % Capitalisation Rate		20 03
At 12 % "		23 29
At 10 % "		26.55
At 8 % "		31 43

STATEMENT NO. A - 17

(Fig in Laos)

1	2	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAI includes return on new capital AI			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAI includes return on new capital AI		
		50% of ROWN	75% of ROWN	100% of ROWN	50% of ROWN	75% of ROWN	100% of ROWN
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	40 00	40 00	40 00	40 00	40 00	40 00
	Add Conv of Part 'A' Deb	20 00	20 00	20 00	20 00	20 00	20 00
	Conv of Part 'B' Deb	--	--	--	--	--	--
B	Total No of Shares	60 00	60 00	60 00	60 00	60 00	60 00
	Net Worth	840 42	840 42	840 42	840 42	840 42	840 42
	Add Face Value of the total No of new equity shares	200 00	200 00	200 00	200 00	200 00	200 00
	- Shares premium of the total No of New Equity shares	---	---	---	300 00	300 00	300 00
C	New Net Worth	1040 42	1040 42	1040 42	1040 42	1040 42	1040 42
D	NAV Per Share	17 34	17 34	17 34	22 34	22 34	22 34
E	Profit After Tax As per CCI	234 82	234 82	234 82	234 82	234 82	234 82
	Add Return on New Capital	40 80	61 26	81 68	102 10	153 15	204 20
F	New PAI	275 62	296 08	316 50	336 92	387 97	439 02
G	Earning per Share	4 59	4 93	5 27	5 61	6 46	7 31
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	30 60	32 86	35 13	37 40	43 06	48 73
	-At 12 %	38 25	41 08	43 91	46 75	53 83	60 91
	-At 10 %	45 90	49 30	52 70	56 10	64 60	73 10
	-At 8 %	57 37	61 62	65 87	70 12	80 75	91 37
I	Fairvalue Based on the above P/E CV and NAV						
	-At 15 % Cap rate	23 97	25 10	26 23	29 87	32 70	35 53
	-At 12 %	27 79	29 21	30 62	34 54	38 08	41 62
	-At 10 %	31 62	33 32	35 02	39 22	43 47	47 72
	-At 8 %	37 35	39 48	41 60	46 23	51 54	56 85

$$I = D = C / B \quad G = F / B \quad H =$$

G

$$\frac{\text{Respective Capitalisation rate}}{\text{Respective Capitalisation rate}} * 100$$

$$I = (D + H) / 2$$

STATEMENT NO. C - 17

(Fig in Laacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	40 00	40 00	40 00	40.00	40 00	40 00
	Add Con of Part 'A' Deb	--	--	--	--	--	--
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	40.00	40 00	40 00	40 00	40 00	40 00
C	Net Worth	840 42	840 42	840 42	840.42	840 42	840 42
D	N A V Per Share	21 01	21 01	21 01	21 01	21 01	21 01
E	P A T As per CCI	234 82	234 82	234 82	234 82	234.82	234.82
	Add Return on face value of new capital part A	40 80	61 26	81 68	40 80	61 26	81 68
	Return on Premium Amount of new Capital Part A	---	---	---	61 30	91 89	122 52
I	New P A T	275 62	296 08	316 50	336 92	387 97	439 02
G	Earning per share	6 89	7 40	7.91	8.42	9 70	10 97
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	45 93	49 33	52 73	56 13	64.67	73 13
	-At 12 % " "	57 41	61 67	65 91	70.16	80 83	91 41
	-At 10 % " "	68 90	74 00	79 10	84.20	97.00	109 70
	-At 8 % " "	86 12	92 50	98 87	105 25	121.25	137.12
	I Fairvalue Based on the above P/E, CV and NAV						
	-At 15 % Cap rate	33 47	35 17	36 87	38 57	42 84	47.07
	-At 12 % " "	39 21	41 34	43 46	45 58	50.92	56.21
	-At 10 % " "	44 95	47 50	50 05	52.60	59 00	65 35
	-At 8 % " "	53 56	56 75	59 94	63.13	71.13	79.03

G

$$J = D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.19 : PUNJAB CON-CAST STEELS LIMITED

3.19.1 : COMPANY BACKGROUND:

PUNJAB CON-CAST STEELS LIMITED was incorporated as a public limited company on 27th June 1970 under the Companies Act 1956. The company is engaged in manufacturing of mild, high tensile and spring steel ingots/billets by continuous casting process. The object of the issue was to part finance the diversification plan.

3.19.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 21,38,925, 12% secured fully convertible debentures of Rs 160.00 each for cash at par aggregating to Rs 3064.16 lacs. As per the Conversion terms given in the prospectus, each fully paid up debenture would be automatically and compulsorily converted into two fully paid up equity shares of the face value of Rs 10.00 each for cash at a premium of Rs.70.00 per equity share on the expiry of 6 months from the date of allotment.

3.19.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 67.35, Rs 76.32, Rs.85.30 and Rs.98.76 showing overpricing by 18.78% and 4.82% and underpricing by 6.21% and 18.99% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 21.31%, 24.15%, 27.00% and 31.25% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 118.78% of the fairvalue, i.e., it was moderately overpriced. The offer price as percentage of pre-issue average market price was 25.32%.

Those investors who were lucky enough to receive allotment, got minimum return of (18.75%) and maximum return of 16.25% per equity share during the year 1993.

Similarly, during the year 1994, the investors could have realised minimum and maximum return of (30.00%) and 75.00 respectively. As said earlier the issue was overpriced at 15% and 12% capitalisation rate and under priced at 10% and 8% capitalisation rate meaning thereby that the company has collected excess amount by Rs 25.30 and Rs 7.36 and less amount by Rs 10.60 and Rs 37.52 per F.C.D respectively.

(A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of February 1992 and the allotment could have been finalised by May 1992. The pre-issue six monthly market price were in the range of Rs 150.00 to Rs.680.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No U-18, the P.E P S. stood at Rs 3.83. Accordingly, the company could have charged premium of Rs.13.93, Rs.17.92, Rs 20.31 and Rs 25.30 at the capitalisation rate of 15%, 12%, 10% and 8% respectively.

The statement No A-18 and C-18 shows that the company could have offered its equity share in the range of Rs.28.15 to Rs 183.63 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E P S , PECV, N A V , capitalisation rate, R O.N W , no of equity shares etc.

3.19.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C C I was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C C.I. was overpriced by 18.78% and 4.82% and underpriced by 6.21%, and 18.99% at 15%,12%,10% and 8% capitalisation rate respectively.

It is also observed that the offer price as a percentage of book value and pre-issue average market price were 127.18% and 25.32%. The offer price as a percentage of average market price was highly disproportionate.

ANNEXURE 18 - X
NET ASSET VALUE (NAV)

Name of the Company : PUNJAB CONCAST STEEL LIMITED
According to the audited balance sheet as at 31st March 1991.

	Rs (Lacs)		Rs (Lacs)
Total Assets	5259 05	Shareholders fund	.. .
Deduct all liabilities		(1) Equity Capital	117 78
1 Preference capital	nil	(2) Free reserves	1363 96
2 Secured & unsecured borrowings	361 23	Total	1481.74
3 Current liabilities	3416 08	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>1481 74</u>	Net worth	<u>1481.74</u>
Add			
(1) Fresh capital Issue at Face Value		nil	
Total		1481.74	
Number of shares including Fresh and bonus issue		23 55	
NAV per share		62.90	

ANNEXURE 18 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 June 1987	96.22	92 47	
2 June 1988	384 93	384 93	29.45
3 March 1989	587.57	437.57	29 45
4 March 1990	295 78	215.78	41 22
5 March 1991	263 61	138 61	41 22
Simple Average	<u>325 62</u>	<u>253.87</u>	
or			
Weighted Average			
Average profit before tax (on the basis of Simple Average)		325.62	
Deduct			
Provisions for taxation		71 75	
Average profit after tax		253.87	
Deduct Preference dividend		nil	
Net profit after tax		253.87	
Add Contribution to profit by fresh issue if any		nil	
Total profit after tax		253.87	
Number of equity share including fresh and bonus issue		23 55	
Earning per share(EPS)		10 77	
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
	15%	71 80	
	12%	89.75	
	10%	107.70	
	8%	134 62	

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No.(3) &.(4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	71 80	62 90	134 70	67 35	
2	12 %	89 75	62 90	152 65	76 32	
3	10 %	107 70	62 90	170 60	85 30	
4	8 %	134 62	62 90	197 52	98 76	

ANNEXURE 18 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		380 00	125 00		252 50		
2	1990		350 00	155 00		252 50		
3	1991		680 00	150 00		415.00		
4		Jul 90	180.00	150 00	165 00			
5		Aug 90	325 00	180 00	252 50			
6		Sep 90	360 00	320 00	340 00		343 75	315 94
7		Oct 90	380 00	350 00	365 00			
8		Nov 90	450 00	350.00	400 00			
9		Dec 90	680 00	400 00	540 00			
Total of Col. No. 6			2062.50	Total of Col. No. 7 & 8 Divided by no.of items		1263.75		
Divided by months			6			4		
			= 343.75			= 315.94		

STATEMENT NO. U-18 CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER U.S.A. REPORTING SYSTEM (FIG IN LACS)

	P.E.P.S.
Number of Equity Shares at the time of Time of Issue	23 55
Add Part 'A' Conversion	42 77
Part 'B' Conversion	
	<u>66 32</u>
Profit After Tax	253 87
Earning Per Share (PEPS)	3 83
Profit Earning Capacity Value	
At 15 % Capitalisation Rate	25 53
At 12 % " "	31 92
At 10 % " "	38 30
At 8 % " "	47 87
Net Worth	1481 74
Net Asset Value Per Share	22 33
Fair Value	
At 15 % Capitalisation Rate	23 93
At 12 % " "	27 12
At 10 % " "	30 31
At 8 % " "	35 10

STATEMENT NO. A - 18

(Fig in Lacs)

Particulars		Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	23 55	23 55	23.55	23 55	23.55	23 55
	Add Conv of Part 'A' Deb	42 77	42 77	42 77	42 77	42 77	42 77
B	Total No of Shares	66 32	66 32	66 32	66 32	66 32	66 32
	Net Worth	1481 74	1481 74	1481 74	1481 74	1481.74	1481 74
	Add Face Value of the total No of new equity shares	427 78	427 78	427 78	427 78	427 78	427 78
	- Shares premium of the total No of New Equity shares	---	---	---	2994 46	2994 46	2994 46
C	New Net Worth	1909 52	1909 52	1909 52	1909 52	1909 52	1909 52
D	N A V Per Share	28 78	28 78	28 78	73 92	73 92	73 92
I	Profit After Tax As per CCI	253 87	253 87	253 87	253 87	253 87	253 87
	Add Return on New Capital	19 97	29 98	39 99	159 81	239 90	319.98
I	New P A I	273 84	283 65	293 86	413 68	493.77	573 85
G	Earning per share	4 13	4 28	4 43	6 23	7.44	8 65
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	27 53	28 53	29 53	41 53	49 60	57.66
	-At 12 % " "	34 41	35 67	36 91	51 91	62 00	72 08
	-At 10 % " "	41 30	42 80	44 30	62 30	74 40	86 50
	-At 8 % " "	51 62	53 50	55 37	77.87	93 00	108.12
I	Fairvalue Based on the above P I C V and NAV						
	-At 15 % Cap rate	28 15	28 65	29 15	57 72	61 76	65 79
	-At 12 % " "	31 59	32 22	32 84	62 91	67 96	73 00
	-At 10 % " "	35 04	35 79	36 54	68 11	74 16	80 21
	-At 8 % " "	40 20	41 14	42 07	73 89	83 46	91 02

J D = C / B G = F / B H =

G

* 100

I = (D + H) / 2

Respective Capitalisation rate

STATEMENT NO. C - 18

(Fig in Laes)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue ~	23 55	23 55	23 55	23.55	23.55	23 55
	Add Con of Part A Deb	-	-	-	-	-	-
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	23 55	23 55	23 55	23 55	23 55	23 55
C	Net Worth	1481 74	1481 74	1481 74	1481 74	1481 74	1481 74
D	N. A V Per Share	62 90	62 90	62 90	62.90	62 90	62 90
I	P A T As per CCI	253 87	253 87	253 87	253 87	253 87	253 87
	Add Return on face value of new capital part A	19 97	29 98	39.99	19 97	29 98	39.99
	Return on Premium Amount of new Capital Part A	---	---	---	139 84	209 92	279 99
J	New P A I	273 84	283 85	293 86	413 86	493 77	573 85
G	Earning per share	11 62	12 05	12 47	17 55	20 95	24 35
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	77.46	80 33	83 13	117 00	139 67	162.33
	-At 12 % " "	96 83	100.41	103 91	146.25	174.58	202 91
	-At 10 %	116 20	120 50	124 70	175 50	209.50	243 50
	-At 8 %	145 25	150 62	155 87	219.37	261 87	303 37
	Fairvalue Based on the above P.I.C.V and NAV						
	-At 15 % Cap rate	70 18	71 61	73 01	89 95	101 28	112 61
	-At 12 % " "	79 86	81 65	83 40	104.57	118 74	132.90
	-At 10 % " "	89 55	91 70	93 80	119 20	136 20	153 20
	-At 8 % " "	104 07	106 76	109 38	141 13	162.38	183 63

G

$$J = D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.20 : SHREE KRISHNA PETRO YARNS LIMITED

3.20.1 : COMPANY BACKGROUND:

SHREE KRISHNA PETRO YARNS LIMITED was incorporated on 24th April 1987 under the name and style of Shree Krishna Petro Yarns and Processors Private Limited. The name of the company was changed to Shree Krishna Petro Yarns Private Limited on 4th January 1989 and converted into public limited company on 19th January 1989. The main objectives of the company are twisting and texturising of polyester yarn. The object of the issue was to part finance growing working capital requirements.

3.20.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 1,95,020, 14% secured fully convertible debentures of Rs 250.00 each for cash at par aggregating to Rs 487.55 lacs. As per the Conversion terms given in the prospectus, part-I of each fully paid up debenture would be automatically and compulsorily converted into five fully paid up equity shares of the face value of Rs 10.00 each for cash at a premium of Rs 15.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs 100.00 would be converted into five equity shares of the face value of Rs 10.00 each at a premium of Rs 15.00 each at the end of 12 months from the date of allotment.

3.20.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 27.08, Rs 31.47, Rs 35.85 and Rs 42.43 showing underpricing by 7.68%, 20.55%, 30.26% and 41.07% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 59.42%, 69.05%, 78.67% and 93.10% respectively. That is, except the fairvalue at 8% capitalisation rate, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 92.32% of the fairvalue, i.e., it was nearly properly priced. The offer price as percentage of pre-issue average market price was 54.86%.

Those investors who were lucky enough to receive allotment, got minimum return of 210.00% and maximum return of 820.00% per equity share during the year 1992. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs 20.80, Rs.64.70, Rs 108.50 and Rs 174.30 per F.C.D respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of August 1991 and the allotment could have been finalised by November 1991. The pre-issue six monthly market price were in the range of Rs 33.00 to Rs.57.50. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-19, the P.E.P.S. and F.D.E.P.S. stood at Rs 2.66 and Rs 1.78 respectively. Accordingly, the company could have charged premium of Rs 3.70, Rs 5.92, Rs 8.14 and Rs.11.46 at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations, while on the basis of F.D.E.P.S., the company could have charged premium of Rs.2.14 and Rs 4.37 at 10% and 8% capitalisation rate respectively.

The statement No A-19 to D-19 shows that the company could have offered its equity share in the range of Rs.16.31 to Rs.148.24 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no.of equity shares etc.

3.20.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C I. was underpriced by 7.68%, 20.55%, 30.26% and 41.07% at 15%,12%,10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre issue market price were 130.82% and 54.86% which were highly disproportionate.

ANNEXURE 19 - X
NET ASSET VALUE (NAV)

Name of the Company : SHREE KRISHNA PTERO YARNS LIMITED
According to the audited balance sheet as at 31st March 1991.

	Rs (Lacs)		Rs. (Lacs)
Total Assets	920.48	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	100.02
1 Preference capital	nil	(2) Free reserves	91.46
2 Secured & unsecured borrowings	61.52	Total	191.48
3 Current liabilities	667.68	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>191.48</u>	Net worth	<u>191.48</u>
Add			
(1) Fresh capital issue at Face Value		nil	
Total		191.48	
Number of shares including fresh and bonus issue		10.02	
NAV per share		19.11	

ANNEXURE 19 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1989	16.99	14.43	
2 March 1990	62.33	50.48	20.00
3 March 1991	<u>75.35</u>	<u>66.89</u>	<u>20.00</u>
Simple Average			
or			
Weighted Average	61.23	52.68	
Average profit before tax (on the basis of Weighted Average)			61.23
Deduct			
Provisions for taxation			8.55
Average profit after tax			52.68
Deduct Preference dividend			nil
Net profit after tax			52.68
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			52.68
Number of equity share including fresh and bonus issue			10.02
Earning per share (EPS)			5.26
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	35.06
		12%	43.83
		10%	52.60
		8%	65.75

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	35.06	19.11	54.17	27.08	
2	12 %	43.83	19.11	62.94	31.47	
3	10 %	52.60	19.11	71.71	35.85	
4	8 %	65.75	19.11	84.86	42.43	

ANNEXURE 19 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		34 00	13 00		23 50		
2	1990		80 00	23 00		51 50		
3	1991		96 25	33 50		64 87		
4		Jan 91	N A.	N A				
5		Feb 91	N.A	N A				
6		Mar 91	45 00	35 00	40 00		41 18	45 26
7		Apr 91	39.00	33 00	36.00			
8		May 91	57 50	35 00	46.25			
9		Jun 91	45.00	40 00	42 50			
Total of Col. No. 6			164.75	Total of Col. No. 7 & 8 Divided by no. of items			181.05	
Divided by months			-----				-----	
			4				4	
			= 41.18				= 45.26	

STATEMENT NO. U - 19
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

(FIG. IN LACS)

	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	10 02	10 02
Add Part 'A' Conversion	9 75	9 75
Part 'B' Conversion		9 75
	19 77	29 52
Profit After Tax	52 68	52.68
Earning Per Share (PEPS)	2 66	
Earning Per Share (FDEPS)		1 78
Profit Earning Capacity Value		
At 15 % Capitalisation	17 73	11 87
At 12 % "	22 16	14 83
At 10 % "	26.60	17.80
At 8 % "	33 25	22.25
Net Worth	191 48	191.48
Net Asset Value Per Share	9 68	6 49
Fair Value		
At 15 % Capitalisation Rate	13 70	9.18
At 12 % "	15 92	10.66
At 10 % "	18 14	12.14
At 8 % "	21 46	14.37

STATEMENT NO. A - 19

(Fig in Lacs)

	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	10.02	10.02	10.02	10.02	10.02	10.02
	Add, Conv of Part 'A' Deb	9.75	9.75	9.75	9.75	9.75	9.75
B	Total No of Shares	19.77	19.77	19.77	19.77	19.77	19.77
	Net Worth	191.48	191.48	191.48	191.48	191.48	191.48
	Add Face Value of the total No of new equity shares	97.50	97.50	97.50	97.50	97.50	97.50
	- Shares premium of the total No. of New Equity shares	---	---	---	146.27	146.27	146.27
C	New Net Worth	288.98	288.98	288.98	435.25	435.25	435.25
D	N A V Per Share	14.61	14.61	14.61	22.01	22.01	22.01
E	Profit After Tax As per CCI	52.68	52.68	52.68	52.68	52.68	52.68
	Add Return on New Capital	17.02	25.53	34.05	42.56	63.48	85.14
F	New P A T	69.70	78.21	86.73	95.24	116.52	137.82
G	Earning per share	3.52	3.95	4.38	4.81	5.89	6.97
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	23.46	26.33	29.20	32.06	39.26	46.46
	-At 12 % " "	29.33	32.91	36.50	40.08	49.08	58.08
	-At 10 % " "	35.20	39.50	43.80	48.10	58.90	69.70
	-At 8 % " "	44.00	49.37	54.75	60.12	73.62	87.12
I	Fairvalue Based on the above PE:CV and NAV						
	-At 15 % Cap. rate	19.03	20.47	21.90	27.03	30.63	34.23
	-At 12 % " "	21.97	23.76	25.55	31.04	35.54	40.04
	-At 10 % " "	24.90	27.05	29.20	35.05	40.45	45.85
	-At 8 % " "	29.30	31.99	34.68	41.06	47.81	54.56

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

Respective Capitalisation rate * 100

$$I = (D + H) / 2$$

STATEMENT NO. B - 19

(Fig in Lacs.)

1	2	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	10.02	10 02	10 02	10 02	10.02	10 02
	Add Conv. of Part 'A' Deb	9 75	9.75	9 75	9 75	9 75	9.75
	Conv. of Part 'B' Deb	9.75	9 75	9 75	9.75	9 75	9.75
B	Total No of Shares	29.52	29 52	29 52	29 52	29 52	29 52
	Net Worth	191.48	191 48	191 48	191 48	191.48	191.48
	Add. Face Value of the total No of new equity shares	195 00	195 00	195.00	195 00	195 00	195 00
	- Shares premium of the total No of New Equity shares	---	---	---	292 54	292 54	292 54
C	New Net Worth	386 48	386 48	386.48	679 02	679.02	679 02
D	N A V Per Share	13 09	13 09	13 09	23.00	23 00	22.01
E	Profit After Tax As per CCI	52 68	52.68	52 68	52.68	52.68	52.68
	Add Return on New Capital	34 04	51 06	68 10	95 12	127 68	170.28
F	New P A.T	86 72	103 74	120 78	137 80	180.36	222.96
G	Earning per share	2.93	3.51	4.09	4 66	6.10	7 55
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	19 53	23 40	27 27	31.06	40.66	50 33
	-At 12 % " "	24.41	29 25	34 08	38 83	50 83	62 91
	-At 10 % " "	29 30	35 10	40 90	46 60	61.00	75 50
	-At 8 % " "	36 62	43 87	51 12	58 25	76 25	94 37
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	16.31	18 24	20 18	27 03	31.83	36 66
	-At 12 % " "	18 75	21 17	23 58	30.91	36 91	42 95
	-At 10 % " "	21 19	24 09	26 99	34.80	42 00	49 25
	-At 8 % " "	24 85	28 48	32.10	40.62	49 62	58.68

J D = C / B . G = F / B H =

G

* 100 . I = (D + H) / 2
Respective Capitalisation rate

STATEMENT NO. C - 19

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
I	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	10.02	10.02	10.02	10.02	10.02	10.02
	Add. Con. of Part 'A'	--	--	--	--	--	--
	Deb. Con. of Part 'B'	---	---	---	---	---	---
B	Total No of Shares	10.02	10.02	10.02	10.02	10.02	10.02
C	Net Worth	191.48	191.48	191.48	191.48	191.48	191.48
D	N A V Per Share	19.11	19.11	19.11	19.11	19.11	19.11
E	P A T As per CCI	52.68	52.68	52.68	52.68	52.68	52.68
	Add. Return on face value of new capital part 'A'	17.02	25.53	34.05	17.02	25.53	34.05
	Return on Premium Amount of new Capital Part A	---	---	---	25.54	37.95	51.09
F	New P A T	69.70	78.21	86.73	95.24	116.52	137.82
G	Earning per share	6.95	7.80	8.65	9.50	11.62	13.75
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	46.33	52.00	57.66	63.33	77.47	91.67
	-At 12 % " "	57.91	65.00	72.08	79.17	96.83	114.58
	-At 10 % " "	69.50	78.00	86.50	95.00	116.20	137.50
	-At 8 % " "	86.87	97.50	108.12	118.75	145.25	171.87
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	32.72	35.55	38.38	41.22	48.29	55.39
	-At 12 % " "	38.51	42.05	45.59	49.14	57.97	66.84
	-At 10 % " "	44.30	48.55	52.80	57.05	67.65	78.30
	-At 8 % " "	52.99	58.30	63.61	68.93	82.18	95.49

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 19

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	10.02	10.02	10.02	10.02	10.02	10.02
	Add: Con. of Part A Deb	--	--	--	--	--	--
	Con. of Part B Deb	---	---	---	---	---	---
B	Total No of Shares	10.02	10.02	10.02	10.02	10.02	10.02
C	Net Worth	191.48	191.48	191.48	191.48	191.48	191.48
D	NAV Per Share	19.11	19.11	19.11	19.11	19.11	19.11
E	P.A.I. As per CCI	52.68	52.68	52.68	52.68	52.68	52.68
	Add: Return on face value of new capital part A	34.04	51.06	68.10	34.04	51.06	68.10
	Return on Premium Amount of new Capital Part A	---	---	---	61.08	76.62	102.18
F	New P.A.I.	86.72	103.74	120.78	137.80	180.36	222.96
G	Earning per share	8.65	10.35	12.05	13.75	18.00	22.19
H	Profit Earning Capacity Value						
	-At 15 % Cap. rate	57.66	69.00	80.33	91.67	120.00	147.93
	-At 12 % " "	72.08	86.25	100.41	114.58	150.00	184.91
	-At 10 % " "	86.50	103.50	120.50	137.50	180.00	221.90
	-At 8 % " "	108.12	129.37	150.62	171.87	225.00	277.37
	I Fairvalue Based on the above P.I.C.V and NAV						
	-At 15 % Cap. rate	38.38	44.05	49.72	55.39	69.55	83.52
	-At 12 % " "	45.59	52.68	59.76	66.84	84.55	102.01
	-At 10 % " "	52.80	61.30	69.80	78.30	99.55	120.50
	-At 8 % " "	63.61	74.24	84.86	95.49	122.05	148.24

G

$$J = \frac{D + C}{B} \quad G = \frac{I}{B} \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.21 : S. M. DYECHEM LIMITED

3.21.1 : COMPANY BACKGROUND:

S M DYECHEM LIMITED was incorporated under The Companies Act 1956 on 3rd June 1982 as a private limited company and was converted in to a public limited company on 25th October 1985. The company is engaged in the business of manufacturing and marketing of speciality chemicals which have applications in Textiles, Pharmaceuticals, Pesticides, Leather, man-made fibers, Paper, Surfactants, Disinfectants etc. The object of the issue was to part finance the EO/MEG project of the company.

3.21.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 51,84,687, 14% secured fully convertible debentures of Rs 150.00 each for cash at par aggregating to Rs 7777.03 lacs. As per the Conversion terms given in the prospectus, part-I of Rs 60.00 of each fully paid up debenture would be automatically and compulsorily converted in to two fully paid up equity shares of the face value of Rs 10.00 each for cash at a premium of Rs 20.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs 90.00 would be converted into such number of equity shares of the face value of Rs 10.00 each at such a premium to be decided by the office of the CCI, at the end of 24 months from the date of allotment.

3.21.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 36.31, Rs 41.84, Rs.47.37 and Rs 55.67 showing underpricing by 17.37%, 28.29%, 36.66% and 46.11% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 68.34%, 78.75%, 89.15% and 104.78% respectively. That is, except the fairvalue at 10% capitalisation rate, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 82.63% of the fairvalue, i.e., it was moderately underpriced. The offer price as percentage of pre-issue average market price was 56.46%

Those investors who were lucky enough to receive allotment, got minimum return of 93.33% and maximum return of 283.00% per equity share during the year 1991. Similarly, during the year 1992 and 1993, the investors could realise minimum return of 36.67% and (16.67%) and maximum return of 500.00% and 100.00% per equity share respectively. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs 31.55, Rs 59.20, Rs 86.85 and Rs 128.35 per F.C.D respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of October 1990 and the allotment could have been finalised by January 1991. The pre-issue six monthly market price were in the range of Rs.45.00 to Rs.55.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No U-20, the P.E.P.S and F.D.E.P.S stood at Rs.1.77 and Rs 0.97. Accordingly, the company could have charged premium of Rs.1.15, Rs 2.63 and Rs.4.18 at the capitalisation rate of 12%, 10% and 8% on the basis of P.E.P.S calculations; while on the basis of F.D.E.P.S, the company could not charge premium altogether.

The statement No A-20 to D-20 shows that the company could have offered its equity share in the range of Rs 14.07 to Rs 462.61 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no. of equity shares etc.

3.21.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C I was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method

It is found that the offer price fixed by the office of the C.C.I. was underpriced by 16.06%, 23.68%, 30.03% and 37.80% at 15%,12%,10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue market price were 105.82% and 56.46% The offer price was highly disproportionate to the pre-issue average market price

ANNEXURE 20 - X
NET ASSET VALUE (NAV)
Name of the Company : S M DYECHEM LIMITED
According to the audited balance sheet as at 30th June 1990.

	Rs (Lacs)		Rs (Lacs)
Total Assets	5490 84	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	377.40
1 Preference capital	nil	(2) Free reserves	692 30
2 Secured & unsecured borrowings	3756 16	Total	1069 70
3 Current liabilities	664 98	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>1069 70</u>	Net worth	<u>1069 70</u>
Add			
(1) Fresh capital issue at face Value			nil
Total			1069 70
Number of shares including Fresh and bonus issue			37 74
NAV per share			28 35

ANNEXURE 20 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 Aug 1987	60 18	50 18	23 76
2 Feb 1989	219 61	219 61	66 53
3 Feb 1990	403 10	338 10	113.22
Simple Average	227.63	202 63	
or			
Weighted Average	284 78	250 62	
Average profit before tax (on the basis of Weighted Average)			284.78
Deduct			
Provisions for taxation			34 16
Average profit after tax			250 62
Deduct Preference dividend			nil
Net profit after tax			250 62
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			250 62
Number of equity share including fresh and bonus issue			37 74
Earning per share (EPS)			6 64
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	44.27
		12%	55 33
		10%	66 40
		8%	83 00

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	44 27	28 35	72 62	36 31	
2	12 %	55 33	28 35	83 68	41 84	
3	10 %	66 40	28 35	94 75	47 37	
4	8 %	83 00	28 35	111 35	55 67	

ANNEXURE 20 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr. No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		57 00	19.50		38 25		
2	1989		94 00	47 00		70 50		
3		Mar 90	53 00	48 00	50 50			
4		Apr 90	54 00	50 00	52 00			
5		May 90	52.00	48 00	50 00		50 16	53 13
6		Jun 90	49 00	45 00	47 00			
7		Jul 90	55 00	47 00	51 00			
8		Aug 90	53 00	48 00	50 50			
Total of Col. No. 6			301.00	Total of Col. No. 7 & 8			159.41	
Divided by months			-----	Divided by no. of items			-----	
			6				4	
			= 50.16				= 53.13	

STATEMENT NO. U - 20
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	37.74	37 74
Add Part 'A' Conversion	103.69	103 69
Part 'B' Conversion		116 66
	<u>141 43</u>	<u>258 09</u>
Profit After Tax	250 62	250.62
Earning Per Share (PEPS)	1 77	
Earning Per Share (FDEPS)		0 97
Profit Earning Capacity Value		
At 15 % Capitalisation Rate	11 80	6 47
At 12 % " "	14 75	8.08
At 10 % " "	17 70	9.70
At 8 % " "	22 12	12 12
Net Worth	1069 70	1069 70
Net Asset Value Per Share	7 56	4.15
Fair Value		
At 15 % Capitalisation Rate	9 68	5.31
At 12 % " "	11 15	6 11
At 10 % " "	12 63	6 92
At 8 % " "	14.18	8.13

STATEMENT NO. A - 20

(Fig in Lacs)

1	2	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	37.74	37.74	37.74	37.74	37.74	37.74
	Add. Conv. of Part 'A' Deb	103.69	103.69	103.69	103.69	103.69	103.69
B	Total No of Shares	141.43	141.43	141.43	141.43	141.43	141.43
	Net Worth	1069.70	1069.70	1069.70	1069.70	1069.70	1069.70
	Add. Face Value of the total No. of new equity shares	1036.90	1036.90	1036.90	1036.90	1036.90	1036.90
	- Shares premium of the total No. of New Equity shares	---	---	---	2073.80	2073.80	2073.80
C	New Net Worth	2106.60	2106.60	2106.60	4180.40	4180.40	4180.40
D	N A V Per Share	14.90	14.90	14.90	29.55	29.55	29.55
E	Profit After Tax As per CCI	250.62	250.62	250.62	250.62	250.62	250.62
	Add. Return on New Capital	163.83	245.74	327.66	491.49	737.23	982.98
F	New P A T	414.45	496.36	578.28	742.11	987.85	1233.60
G	Earning per share	2.93	3.51	4.08	5.24	6.98	8.72
H	Profit Earning Capacity Value						
	-At 15 % Cap. Rate	19.53	23.40	27.20	34.93	46.53	58.13
	-At 12 % " "	24.41	29.25	34.00	43.67	58.17	72.66
	-At 10 % " "	29.30	35.10	40.80	52.40	69.80	87.20
	-At 8 % " "	36.62	43.87	51.00	65.50	87.25	109.00
I	Fairvalue Based on the above P.L.C.V. and NAV						
	-At 15 % Cap. rate	17.21	19.15	21.05	32.24	38.04	43.84
	-At 12 % " "	19.65	22.07	24.45	36.61	43.26	51.10
	-At 10 % " "	22.10	25.00	27.85	40.97	49.67	58.37
	-At 8 % " "	25.76	29.38	32.95	47.52	58.40	69.27

J D = C / B * G = F / B * H =

G

----- * 100 ; I = (D + H) / 2
Respective Capitalisation rate

STATEMENT NO. B - 20

(Fig in Lacs)

1	2	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	37.74	37.74	37.74	37.74	37.74	37.74
	Add Conv. of Part 'A' Deb	103.69	103.69	103.69	103.69	103.69	103.69
	Conv of Part 'B' Deb	116.66	116.66	116.66	116.66	116.66	116.66
B	Total No of Shares	258.09	258.09	258.09	258.09	258.09	258.09
	Net Worth	1069.70	1069.70	1069.70	1069.70	1069.70	1069.70
	Add Face Value of the total No of new equity shares	2203.50	2203.50	2203.50	2203.50	2203.50	2203.50
	- Shares premium of the total No of New Equity shares	---	---	---	3499.80	3499.80	3499.80
C	New Net Worth	3273.20	3273.20	3273.20	8846.80	8846.80	8846.80
D	N A V Per Share	12.68	12.68	12.68	34.27	34.27	34.27
E	Profit After Tax As per CCI	250.62	250.62	250.62	250.62	250.62	250.62
	Add. Return on New Capital	348.15	522.22	696.13	1228.78	1843.17	2457.56
F	New P A T	598.77	772.84	946.92	1479.40	2093.79	2708.18
G	Earning per share	2.32	2.99	3.66	5.73	8.11	10.49
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	15.46	19.93	24.40	38.20	54.06	69.93
	-At 12 % " "	19.33	24.91	30.50	47.75	67.58	87.41
	-At 10 % " "	23.20	29.90	36.60	57.30	81.10	104.90
	-At 8 % " "	29.00	37.37	45.75	71.62	101.37	131.12
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	14.07	16.30	18.54	36.23	44.16	52.10
	-At 12 % " "	16.00	18.79	21.59	41.01	50.92	60.84
	-At 10 % " "	17.94	21.29	24.64	45.78	57.68	69.58
	-At 8 % " "	20.84	25.02	29.21	51.94	67.82	82.69

J D = C / B G = F / B H =

G

* 100 ; I = (D + H) / 2

- Respective Capitalisation rate

STATEMENT NO. C - 20

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	37 74	37 74	37 74	37.74	37 74	37 74
	Add Con of Part 'A' Deb	--	--	--	--	--	--
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	37 74	37 74	37 74	37 74	37 74	37 74
C	Net Worth	1069 70	1069 70	1069 70	1069 70	1069 70	1069 70
D	N A V Per Share	28 35	28 35	28 35	28 35	28 35	28 35
E	P A T As per CCI	250 62	250 62	250 62	250.62	250.62	250 62
	Add Return on face value of new capital part 'A'	163 83	245 74	327.66	163.83	245.74	327 66
	Return on Premium Amount of new Capital Part A	---	---	---	327.66	491 49	655 32
F	New P.A T	414 45	496 36	578 28	742.11	987.85	1233 60
G	Earning per share	10 98	13 15	15 32	19.66	26.17	32.68
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	73 20	87 67	102.13	131.06	174 46	217.86
	-At 12 % " "	91 50	109.58	127.66	163.83	218 08	272 33
	-At 10 % " "	109 80	131 50	153 20	196.60	261.70	326 80
	-At 8 % " "	137 25	164 37	191 50	245 75	327.12	408 50
	I Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	50 77	58 01	65 24	79.70	101 40	123 10
	-At 12 % " "	59.92	68 96	78 00	96.09	123 21	150 34
	-At 10 % " "	69 07	79 92	90 77	112 47	145 02	177.57
	-At 8 % " "	82 80	96 36	109 92	137.05	177 73	218 42

G

$$J \quad D = C / B \quad G = F / B \cdot H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 20

(Fig in Laes)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	37 74	37.74	37 74	37.74	37 74	37 74
	Add Con of Part 'A' Deb	--	--	--	--	--	--
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	37 74	37 74	37 74	37.74	37 74	37 74
C	Net Worth	1069 70	1069 70	1069 70	1069 70	1069 70	1069 70
D	N A V Per Share	28 35	28 35	28.35	28 35	28 35	28 35
E	P A T As per CCI	250 62	250 62	250 62	250.62	250 62	250 62
	Add Return on face value of new capital part 'A'	348 15	522 22	696 30	348 15	522 22	696.30
	Return on Premium Amount of new Capital Part A	---	---	---	880 63	1320.95	1761 26
F	New P A T	598 77	772 84	946 92	1479 40	2093 79	2708 18
G	Earning per share	15 86	20 47	25 09	39 19	55 47	71 75
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	105 73	136 46	167 26	261 26	369 80	478 33
	-At 12 % " "	132 16	170 58	209 08	326 58	462 85	597 91
	-At 10 % " "	158 60	204 70	250 90	391 90	554 70	717 50
	-At 8 % " "	198 25	255 87	313 62	489.87	693 37	896 87
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	67 04	82 40	97 80	144 80	199 07	253 34
	-At 12 % " "	80 25	99 46	118 71	177 46	245 30	313 13
	-At 10 % " "	93 47	116 52	139 62	210 12	291 52	372 92
	-At 8 % " "	113 30	142 11	170.98	259 11	360 86	462 61

$$J = D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.22 : THE DHAMPUR SUGAR MILLS LIMITED

3.22.1 : COMPANY BACKGROUND:

THE DHAMPUR SUGAR MILLS LIMITED was incorporated under Indian Companies Act 1913 in 1933 at Dhampur. The company is engaged in manufacturing of sugar molasses, board, paper and farm produce. The object of the issue was to part finance the project of new sugar mill.

3.22.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 8,88,875, 14% secured fully convertible debentures of Rs.180.00 each for cash at par aggregating to Rs 1599.97 lacs. As per the Conversion terms given in the prospectus, each fully paid up debenture would be automatically and compulsorily converted into two fully paid up equity shares of the face value of Rs 10.00 each for cash at a premium of Rs 80.00 per equity share on the expiry of 6 months from the date of allotment.

3.22.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs 218.52, Rs 249.80, Rs 281.09 and Rs 328.01 showing underpricing by 58.81%, 63.97%, 67.98% and 72.56% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 119.14%, 136.20%, 153.25% and 178.84% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is a manufacturing concern. At 15% capitalisation rate the issue price was 41.19% of the fairvalue, i.e., it was highly underpriced. The offer price as percentage of pre-issue average market price was 49.07%.

Those investors who were lucky enough to receive allotment, got minimum return of 19.44% and maximum return of 244.44% per equity share during the year 1993. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate.

meaning thereby that the company has collected less amount by Rs 257.04, Rs.319 60, Rs 382 18 and Rs 476.02 per F.C D respectively

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of January 1992 and the allotment could have been finalised by April 1992. The pre-issue six monthly market price were in the range of Rs 172 00 to Rs.388 00 The post-issue yearly high and low market price also revealed that the company or it's promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-21, the P.E P S. stood at Rs 15 12. Accordingly, the company could have charged premium of Rs 10.63, Rs 23 23 and Rs 42 13 at the capitalisation rate of 12%,10% and 8%, respectively.

The statement No A-21 and C-21 shows that the company could have offered it's equity share in the range of Rs 93.55 to Rs 539 20 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E P S , PECV, N.A.V., capitalisation rate, R.O N.W , no of equity shares etc.

3.22.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was conservative based on the fairvalue calculations

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method

It is found that the offer price fixed by the office of the C.C I. was underpriced by 58.61%, 63.97%, 67.98% and 72.56% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue average market price were 48.18% and 49.07% which were highly disproportionate

**ANNEXURE 21 - X
NET ASSET VALUE (NAV)**

**Name of the Company : THE DHAMPUR SUGAR MILLS LIMITED
According to the audited balance sheet as at 31st March, 1991.**

	Rs (Lacs)		Rs. (Lacs)
Total Assets	11061 77	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	120 00
1 Preference capital	nil	(2) Free reserves	2121 42
2 Secured & unsecured borrowings	5474 51	Total	2241 42
3 Current liabilities	3345 84	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>2241 42</u>	Net worth	<u>2241 42</u>
Add			
(1) Fresh capital Issue at Face Value		nil	
Total		2241 42	
Number of shares including Fresh and bonus issue		12.00	
NAV per share		186.78	

**ANNEXURE 21 - Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 Dec 1986	308 09	307 90	---
2 Dec. 1987	152.10	151.86	2.34
3 Mar 1989	547 38	487 38	3 17
2 Mar 1990	807 16	647.16	12 18
3 Mar 1991	<u>514.07</u>	<u>514.07</u>	25 20
Simple Average	465 76	421 67	
or			
Weighted Average			
Average profit before tax (on the basis of Simple Average)			
		465 76	
Deduct			
Provisions for taxation		15 23	
Average profit after tax		450 53	
Deduct. Preference dividend		nil	
Net profit after tax		450 53	
Add Contribution to profit by fresh issue if any		nil	
Total profit after tax		450.53	
Number of equity share including fresh and bonus issue		12.00	
Earning per share(EPS)		37 54	
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
	15%	250 27	
	12%	312 83	
	10%	375 40	
	8%	469 25	

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No. (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	250 27	186 78	437 05	218 52	
2	12 %	312 83	186 78	499 61	249 80	
3	10 %	375 40	186 78	562 18	281 09	
4	8 %	469 25	186.78	656.03	328 01	

ANNEXURE 21 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		100 00	12 00		56.00		
2	1990		280 00	100 00		190 00		
3	1991		388.00	172 00		280.00		
4		May 91	330 00	300 00	315 00			
5		Jun 91	342 00	330 00	336 00			
6		Jul 91	360 00	335 00	347 50		307 64	183 41
7		Aug. 91	385 00	340 00	362.50			
8	cb	Sep 91	388.00	385 00	386 50			
9	xb	Sep 91	205.00	172.00	188.50			
10		Oct. 91	235 00	200 00	217 50			
Total of Col. No. 6			2153.50	Total of Col. No. 7 & 8		733.64		
Divided by months			7	Divided by no.of items		4		
			= 307.64			= 183.41		

TATEMENT NO. U - 21 CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER U.S.A. REPORTING SYSTEM.

(FIG IN LACS)	
	P.E.P.S.
Number of Equity Shares at the time of Time of Issue	12 00
Add Part 'A' Conversion	17.78
Part 'B' Conversion	—
	<u>29 78</u>
Profit After Tax	450 53
Earning Per Share (PEPS)	15.12
Earning Per Share (FDEPS)	—
Profit Earning Capacity Value	
At 15 % Capitalisation	100 85
At 12 % "	126 00
At 10 % "	151 20
At 8 % "	189 00
Net Worth	2241 42
Net Asset Value Per Share	75 27
Fair Value	
At 15 % Capitalisation Rate	88 06
At 12 % "	100 63
At 10 % "	113 23
At 8 % "	132 13

STATEMENT NO. A - 21

(Fig in Lacs)

Particulars		Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	12 00	12 00	12 00	12 00	12 00	12.00
	Add Conv. of Part 'A' Deb	17 78	17 78	17 78	17.78	17.78	17 78
B	Total No of Shares	29.78	29 78	29.78	29 78	29 78	29 78
	Net Worth	2241 42	2241 42	2241 42	2241 42	2241.42	2241 42
	Add Face Value of the total No of new equity shares	177 75	177.75	177 75	177.75	177.75	177 75
	- Shares premium of the total No of New Equity shares	---	---	---	1422 22	1422.22	1422 22
C	New Net Worth	2419.17	2419 17	2419 17	3841 39	3841 39	3841 39
D	N A V. Per Share	81 23	81 23	81.23	128 99	128 99	128 99
E	Profit After Tax As per CCI	450 53	450 53	450 53	450.53	450.53	450 53
	Add Return on New Capital	22.52	33 79	45 04	202 72	304.15	405.43
F	New P A T	473.05	484 32	495 57	653.25	754.88	855 96
G	Earning per share	15.88	16 26	16.64	21.94	25 34	28 74
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	105 87	108 40	110.93	146 27	168 93	191 60
	-At 12 % " "	132 33	135 50	138 67	182.83	211 17	239 50
	-At 10 % " "	158 80	162 60	166 40	219 40	253 40	287 40
	-At 8 % " "	198.50	203 25	208 00	274 25	316 75	359 25
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	93.55	94.82	96 08	137 63	148.96	160.90
	-At 12 % " "	106 78	108 37	109 95	155 91	170 08	184 25
	-At 10 % " "	120.02	121 92	123 82	174.19	191.20	208.20
	-At 8 % " "	139 87	142 24	144 62	201.62	222 87	244 12

$$J \quad D = C / B \quad G = F / B \quad H =$$

G

$$* 100 : \quad I = (D + H) / 2$$

Respective Capitalisation rate

STATEMENT NO. C - 21

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	12.00	12.00	12.00	12.00	12.00	12.00
	Add: Con. of Part 'A' Deb	--	--	--	--	--	--
	Con. of Part 'B' Deb.	---	---	---	---	---	---
B	Total No. of Shares	12.00	12.00	12.00	12.00	12.00	12.00
C	Net Worth	2241.42	2241.42	2241.42	2241.42	2241.42	2241.42
D	N. A V. Per Share	186.78	186.78	186.78	186.78	186.78	186.78
E	P. A. T. As per CCI	450.53	450.53	450.53	450.53	450.53	450.53
	Add: Return on face value of new capital part 'A'	22.52	33.79	45.04	22.52	33.79	45.04
	Return on Premium Amount of new Capital Part A	---	---	---	180.20	270.36	360.39
F	New P.A.T.	473.05	484.31	495.57	653.25	754.68	855.96
G	Earning per share	39.42	40.36	41.30	54.43	62.89	71.33
H	Profit Earning Capacity Value						
	-At 15 % Cap. rate	262.80	269.07	275.33	362.87	419.27	475.53
	-At 12 % " "	328.50	336.33	344.17	453.58	524.08	594.41
	-At 10 % " "	394.20	403.60	413.00	544.30	628.90	713.30
	-At 8 % " "	492.75	504.50	516.25	680.37	786.12	891.62
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	224.64	227.92	231.05	274.82	303.02	331.15
	-At 12 % " "	257.64	261.55	265.47	320.18	355.43	390.59
	-At 10 % " "	290.49	295.19	299.89	365.54	407.84	450.04
	-At 8 % " "	339.76	345.64	351.51	433.57	486.45	539.20

G

$$J \quad D = C/B : G = F/B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.23 : VARUN SHIPPING COMPANY LIMITED

3.23.1 : COMPANY BACKGROUND:

VARUN SHIPPING COMPANY LIMITED was incorporated as a private limited company on 29th January 1971 and was converted in to a public limited company on 18th February 1972. The company has so far been engaged in the owning and operating of petroleum product tankers, chemical and edible oil tankers and offshore supply vessels. The object of the issue was to part finance the ship acquisition project and also to meet the additional long term working capital requirements.

3.23.1 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 22,66,154, 14% secured fully convertible debentures of Rs.200.00 each for cash at par aggregating to Rs.4532.30 lacs. As per the Conversion terms given in the prospectus, part-I of Rs.100.00 of each fully paid up debenture would be automatically and compulsorily converted into five fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.10.00 per equity share on the expiry of 6 months from the date of allotment or on 1-8-1991 whichever is later. The part-II of Rs.100.00 would be converted into five equity shares of the face value of Rs.10.00 each at a premium of Rs.10.00 each on 1-6-1992 but not later than 18 months from the date of allotment.

3.23.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.20.93, Rs.23.95, Rs.26.97 and Rs.31.49 showing underpricing by 4.44%, 16.49%, 25.84% and 36.48% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 88.83%, 101.65%, 114.47% and 133.65% respectively. That is, except the fairvalue at 15% capitalisation rate, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price

As per the CCI guidelines, the applicable capitalisation rate was 12%, as the company is manufacturing concern. At 12% capitalisation rate the issue price was 83.51% of the fairvalue, i.e., it was moderately underpriced. The offer price as percentage of pre-issue average market price was 84.88%.

Those investors who were lucky enough to receive allotment, got minimum return of 0.00% and maximum return of 90.00% per equity share during the year 1991. Similarly, during the year 1992, the investors could have realised minimum return of 55.00% and maximum return of 450.00% per equity share. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs.9.30, Rs.39.50, Rs.69.70 and Rs.114.90 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of April 1991 and the allotment could have been finalised by July 1991. The pre-issue six monthly market price were in the range of Rs.20.00 to Rs.25.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-22, the P.E.P.S. and F.D.E.P.S. stood at Rs.1.59 and Rs.1.01 respectively. Accordingly, the company could have charged premium of Rs.1.84, and Rs.3.84 at the capitalisation rate of 10% and 8% on the basis of P.E.P.S. calculations, while on the basis of F.D.E.P.S., the company can not charge premium altogether. Infact, on the basis of F.D.E.P.S., the company has to offer its security at discount.

The statement No. A-22 to D-22 shows that the company could have offered its equity share in the range of Rs.12.95 to Rs.123.87 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., PECV, N.A.V., capitalisation rate, R.O.N.W., no.of equity shares etc.

3.23.4 : OBSERVATION OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was conservative based on the fairvalue calculations

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I. was underpriced by 4.44%, 16.49%, 25.84% and 36.48% at 15%, 12%, 10% and 8% capitalisation rate respectively.

It is also observed that the offer price as a percentage of book value and pre-issue market price were 112.73% and 84.88% respectively

ANNEXURE 22 - X
NET ASSET VALUE (NAV)

Name of the Company : **VARUN SHIPPING CO. LIMITED**
According to the audited balance sheet as at 31st March, 1990.

	Rs (Lacs)		Rs (Lacs)
Total Assets	7927.69	Shareholders fund
Deduct all liabilities		(1) Equity Capital	886 71
1. Preference capital	nil	(2) Free reserves	687 02
2 Secured & unsecured borrowings	5262 03	Total	1573 73
3 Current liabilities	1091 93	Deduct contingent liabilities	nil
4. Contingent liabilities	nil		
Net worth	<u>1573 73</u>	Net worth	<u>1573.73</u>
Add			
(1) Fresh capital issue at Face Value		nil	
Total		1573 73	
Number of shares including Fresh and bonus issue		88 67	
NAV per share		17 74	

ANNEXURE 22 -Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 Nov 1987	103.38	87 10	67.00
2 Mar 1989	280 19	236 44	155.52
3 Mar 1990	543 04	455 23	221 80
Simple Average	308.87	259 59	
or			
Weighted Average	382.15	320 95	
Average profit before tax (on the basis of weighted Average)			
			382.15
Deduct			
Provisions for taxation			61 20
Average profit after tax			320.95
Deduct Preference dividend			nil
Net profit after tax			320 95
Add: Contribution to profit by fresh issue if any			nil
Total profit after tax			320 95
Number of equity share including fresh and bonus issue			88.67
Earning per share(EPS)			3 62
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e by multiplying EPS by 66)			
		15%	24.13
		12%	30.16
		10%	36.20
		8%	45.25

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	24 13	17.74	41 86	20.93	
2	12 %	30 16	17.74	47.90	23.95	
3	10 %	36 20	17 74	53 94	26.97	
4	8 %	45 25	17 74	62.99	31 49	

ANNEXURE 22 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		28.00	11.00		19.50		
2	1989		28.50	16.50		22.50		
3	1990		37.50	22.50		30.00		
4		Sep 90	25.00	23.00	24.00		22.25	23.56
5		Oct 90	24.00	21.00	22.50			
6		Nov 90	24.00	21.00	22.50			
7		Dec 90	23.00	20.00	21.50			
8		Jan 91	22.00	20.00	21.00			
9		Feb 91	24.00	20.00	22.00			
Total of Col.No.6			133.50	Total of Col. No. 7 &			94.25	
Divided by months			-----	8 Divided by no.of			-----	
			6	items			4	
			= 22.25				= 23.56	

STATEMENT NO U - 22
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	88.67	88.67
Add : Part 'A' Conversion	113.30	113.30
Part 'B' Conversion		113.30
	201.97	315.27
Profit After Tax	320.95	320.95
Earning Per Share (PEPS)	1.59	
Earning Per Share (FDEPS)		1.01
Profit Earning Capacity Value		
At 15 % Capitalisation	10.60	6.73
At 12 % "	13.25	8.41
At 10 % "	15.90	10.10
At 8 % "	19.87	12.62
Net Worth	1573.73	1573.73
Net Asset Value Per Share	7.79	4.99
Fair Value		
At 15 % Capitalisation Rate	9.19	5.86
At 12 % "	10.52	6.70
At 10 % "	11.84	7.54
At 8 % "	13.83	8.80

STATEMENT NO. A - 22

(Fig in Lacs)

	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	88.67	88.67	88.67	88.67	88.67	88.67
	Add: Conv of Part 'A' Deb	113.31	113.31	113.31	113.31	113.31	113.31
B	Total No of Shares	201.98	201.98	201.98	201.98	201.98	201.98
	Net Worth	1573.73	1573.73	1573.73	1573.73	1573.73	1573.73
	Add: Face Value of the total No of new equity shares	1133.10	1133.10	1133.10	1133.10	1133.10	1133.10
	- Shares premium of the total No of New Equity shares	---	---	---	1133.10	1133.10	1133.10
C	New Net Worth	2706.83	2706.83	2706.83	3839.93	3839.93	3839.93
D	N. A V Per Share	13.40	13.40	13.40	19.01	19.01	19.01
E	Profit After Tax As per CCI	320.95	320.95	320.95	320.95	320.95	320.95
	Add: Return on New Capital	163.84	245.76	327.69	327.69	491.53	655.38
F	New P.A T	484.79	566.71	648.64	648.64	812.48	976.33
G	Earning per share	2.40	2.80	3.21	3.21	4.02	4.83
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	16.00	18.67	21.40	21.40	26.80	32.20
	-At 12 % " "	20.00	23.33	26.75	26.75	33.50	40.25
	-At 10 % " "	24.00	28.00	32.10	32.10	40.20	48.30
	-At 8 % " "	30.00	35.00	40.12	40.12	50.25	60.73
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	14.70	16.03	17.40	20.20	22.90	25.60
	-At 12 % " "	16.70	18.36	20.07	22.88	26.25	29.63
	-At 10 % " "	18.70	20.70	22.75	25.55	29.60	33.65
	-At 8 % " "	21.70	24.20	26.76	29.56	34.63	39.69

$$J \quad D = C / B \cdot G = F / B \cdot H =$$

G

$$\text{Respective Capitalisation rate} = \frac{D}{G} \times 100 : \quad I = (D + H) / 2$$

STATEMENT NO. B - 22

(Fig in Lacs)

1	2	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	88.67	88.67	88.67	88.67	88.67	88.67
	Add Conv of Part 'A' Deb	113.31	113.31	113.31	113.31	113.31	113.31
	Conv. of Part 'B' Deb	113.31	113.31	113.31	113.31	113.31	113.31
B	Total No. of Shares	315.29	315.29	315.29	315.29	315.29	315.29
	Net Worth	1573.73	1573.73	1573.73	1573.73	1573.73	1573.73
	Add Face Value of the total No. of new equity shares	2266.20	2266.20	2266.20	2266.20	2266.20	2266.20
	- Shares premium of the total No. of New Equity shares	---	---	---	2266.20	2266.20	2266.20
C	New Net Worth	3839.93	3839.93	3839.93	6106.13	6106.13	6106.13
D	N A V Per Share	12.17	12.17	12.17	19.36	19.36	19.36
E	Profit After Tax As per CCI	320.95	320.95	320.95	320.95	320.95	320.95
	Add. Return on New Capital	327.69	491.53	655.38	655.38	983.07	1310.77
F	New P A T	648.64	812.48	976.33	976.33	1304.02	1631.72
G	Earning per share	2.06	2.57	3.10	3.10	4.13	5.17
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	13.73	17.13	20.67	20.67	27.53	36.46
	-At 12 % " "	17.17	21.41	25.83	25.83	34.41	43.08
	-At 10 % " "	20.60	25.70	31.00	31.00	41.30	51.70
	-At 8 % " "	25.75	32.12	38.75	38.75	51.62	64.62
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	12.95	14.65	16.42	20.01	23.44	26.91
	-At 12 % " "	14.67	16.79	19.00	22.59	26.88	31.22
	-At 10 % " "	16.38	18.93	21.58	25.18	30.33	35.53
	-At 8 % " "	18.96	22.14	25.46	29.05	35.49	41.99

$$J \quad D = C / B : G = F / B \quad H =$$

G

$$\text{Respective Capitalisation rate} = \frac{G}{D + H} \times 100 \quad I = (D + H) / 2$$

STATEMENT NO. C - 22

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
I	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	88.67	88.67	88.67	88.67	88.67	88.67
	Add. Con. of Part 'A' Deb	---	---	---	---	---	---
	Con of Part 'B' Deb.	---	---	---	---	---	---
B	Total No of Shares	88.67	88.67	88.67	88.67	88.67	88.67
C	Net Worth	1573.73	1573.73	1573.73	1573.73	1573.73	1573.73
D	N. A. V. Per Share	17.74	17.74	17.74	17.74	17.74	17.74
E	P. A. T. As per CCI	320.95	320.95	320.95	320.95	320.95	320.95
	Add Return on face value of new capital part 'A'	163.84	245.76	327.69	163.84	245.76	327.69
	Return on Premium Amount of new Capital Part A	---	---	---	163.85	245.77	327.69
F	New P.A.T.	484.79	566.71	648.84	648.84	812.48	976.33
G	Earning per share	5.46	6.39	7.31	7.31	9.16	11.01
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	36.40	42.60	48.73	48.73	61.07	73.40
	-At 12 % " "	45.50	53.25	60.91	60.91	76.33	91.75
	-At 10 % " "	54.60	63.90	73.10	73.10	91.60	110.10
	-At 8 % " "	68.25	79.87	91.37	91.37	114.50	137.62
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	27.07	30.17	33.23	33.23	39.40	45.57
	-At 12 % " "	31.62	35.49	39.32	39.32	47.03	54.74
	-At 10 % " "	36.17	40.82	45.42	45.42	54.67	63.92
	-At 8 % " "	42.99	48.80	54.55	54.55	66.12	77.68

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation Rate}} * 100 \quad I = (D + H) / 2$$

STATEMENT NO. D - 22

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	88.67	88.67	88.67	88.67	88.67	88.67
	Add Con of Part 'A' Deb	--	--	--	--	--	--
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No. of Shares	88.67	88.67	88.67	88.67	88.67	88.67
C	Net Worth	1573.73	1573.73	1573.73	1573.73	1573.73	1573.73
D	N A V. Per Share	17.74	17.74	17.74	17.74	17.74	17.74
E	P. A T As per CCI	320.95	320.95	320.95	320.95	320.95	320.95
	Add. Return on face value of new capital part 'A'	327.69	491.53	655.38	327.69	491.53	655.38
	Return on Premium Amount of new Capital Part A	---	---	---	327.69	491.54	655.39
F	New P.A T	648.64	812.48	976.33	976.33	1304.02	1631.72
G	Earning per share	7.31	9.16	11.01	11.01	14.70	18.40
II	Profit Earning Capacity Value						
	-At 15 % Cap. rate	48.73	61.07	73.40	73.40	98.00	122.66
	-At 12 % " "	60.91	76.33	91.75	91.75	122.50	153.33
	-At 10 % " "	73.10	91.60	110.10	110.10	147.00	184.00
	-At 8 % " "	91.37	114.50	137.62	137.62	183.75	230.00
I	Fairvalue Based on the above PEVCV and NAV						
	-At 15 % Cap rate	33.23	39.40	45.57	45.57	57.87	70.20
	-At 12 % " "	39.32	47.03	54.74	54.74	70.12	85.53
	-At 10 % " "	45.42	54.67	63.92	63.92	82.37	100.87
	-At 8 % " "	54.55	66.12	77.68	77.68	100.74	123.87

G

$$J \quad D = C / B : G = F / B \cdot H = \frac{G}{\text{Respective Capitalisation Rate}} * 100 \quad I = (D + H) / 2$$

3.24 : VIDEOCON APPLIANCES LIMITED

3.24.1 : COMPANY BACKGROUND:

VIDEOCON APPLIANCES LIMITED was incorporated on 8th March 1988 under the Companies Act 1956. The main objectives of the company are to manufacture, assemble, export, import, deal in, alter, repair, exchange, let on hire, prepare in India or elsewhere all types of electrical and electronics household appliances. The object of the issue was to part finance the expansion plan.

3.24.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 45,00,000, 12.5% secured fully convertible debentures of Rs.200.00 each for cash at par aggregating to Rs.9000.00 lacs. As per the Conversion terms given in the prospectus part-I of each fully paid up debenture representing Rs.50.00 would be automatically and compulsorily converted into one fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.40.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs.150.00 would be converted into such number of equity shares of the face value of Rs.10.00 each at a price to be decided by the office of the CCI but not exceeding Rs.50.00 per share at the end of 20 months from the date of allotment.

3.24.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.45.00, Rs.52.93, Rs.60.84 and Rs.72.71 showing overpricing by 11.11% and underpricing by 5.53%, 17.81% and 31.23% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 45.25%, 53.23%, 61.18% and 73.12% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was

111.11% of the fairvalue, i.e., it was moderately overpriced. The offer price as percentage of pre-issue average market price was 50.28%.

Those investors who were lucky enough to receive allotment, got minimum return of 94.00% and maximum return of 460.00% per equity share during the year 1992. As said earlier, the issue was overpriced at 15% and underpriced at 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected excess amount by Rs.20.00 and less amount by Rs.11.72, Rs.43.36 and Rs.90.84 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of September 1991 and the allotment could have been finalised by December 1991. The pre-issue six monthly market price were in the range of Rs.70.00 to Rs.128.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-23, the P.E.P.S. and F.D.E.P.S. stood at Rs.5.93 and Rs.2.79 respectively. Accordingly, the company could have charged premium of Rs.18.09, Rs.23.08, Rs.27.98 and Rs.35.39 at the capitalisation rate of 15%, 12%, 10% and 8% on the basis of P.E.P.S. calculations. While on the basis of F.D.E.P.S., the company could have charged premium of Rs.3.21, Rs.5.54, Rs.7.86 and Rs.11.35 at 15%, 12%, 10% and 8% capitalisation rate respectively.

The statement No. A-23 to D-23 shows that the company could have offered its equity share in the range of Rs.23.32 to Rs.388.46 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V, N.A.V., capitalisation rate, R.O.N.W., no.of equity shares etc

3.24.4 : OBSERVATIONS OF HYPOTHESIS;

It is seen that, initial offer price sanctioned by the office of the C.C.I. was not conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I was overpriced by 11.11% and underpriced by 5.53%, 17.81% and 31.23% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre-issue average market price were 187.40% and 50.28% which were highly disproportionate

ANNEXURE 23 - X
NET ASSET VALUE (NAV)
Name of the Company : VIDEOCON APPLIANCES LTD.
According to the audited balance sheet as at 31st March 1991.

	Rs (Lacs)		Rs (Lacs)
Total Assets	8359 05	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	747.50
1 Preference capital	nil	(2) Free reserves	1247 03
2 Secured & unsecured borrowings	4356 66	Total	1994 53
3 Current liabilities	2007 86	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>1994 53</u>	Net worth	<u>1994 53</u>
Add			
(1) Fresh capital Issue at Face Value		Total	Nil
			1994 53
Number of shares including Fresh and bonus issue			74 75
NAV per share			26 68

ANNEXURE 23 - Y
PROFIT EARNING CAPACITY VALUE (PECV)

Year	Profit before tax	Profit after tax	Dividend declared
1 March 1989	31.12	26 12	
2 March 1990	541 66	441 66	149 38
3 March 1991	1246 43	1116 43	186 88
Simple Average	606 40	528 07	
or			
Weighted Average	808 95	709 78	

Average profit before tax (on the basis of Weighted Average)	808 95
Deduct	
Provisions for taxation	99 17
Average profit after tax	709 78
Deduct Preference dividend	nil
Net profit after tax	709 78
Add Contribution to profit by fresh issue if any	nil
Total profit after tax	709 78
Number of equity share including fresh and bonus issue	74 75
Earning per share (EPS)	9 50
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)	
	15% 63 33
	12% 79 17
	10% 95 00
	8% 118 75

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	63 33	26 68	90 01	45 00	
2	12 %	79 17	26 68	105 85	52 93	
3	10 %	95 00	26 68	121 68	60 84	
4	8 %	118 75	26 68	145 43	72 71	

ANNEXURE 23 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1989		78 00	38 75		58 37		
2	1990		220 00	33 00		126 50		
3	1991		140 00	70 00		105 00		
4		Jan 91	86 00	70.00	78 00		107 83	99 43
4		Feb. 91	126 00	77 00	101 50			
5		Mar 91	123 00	96 00	109.50			
6		Apr 91	133 00	106 00	119 50			
7		May 91	128 00	115 00	121 50			
8		Jun 91	126.00	108 00	117 00			
Total of Col.No.6			647.00	Total of Col. No. 7 &			397.70	
Divided by months			-----	8 Divided by no.of			-----	
			6	items			4	
			= 107.83				= 99.43	

STATEMENT NO. U - 23
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.

	(FIG IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	74 75	74 75
Add. Part 'A' Conversion	45 00	45.00
Part 'B' Conversion		135.00 *
	<u>119 75</u>	<u>254 75</u>
Profit After Tax	709 98	709.98
Earning Per Share (PEPS)	5 93	
Earning Per Share (FDEPS)		2.79
Profit Earning Capacity Value		
At 15 % Capitalisation	39 53	18 60
At 12 % "	49 42	23 25
At 10 % "	59 30	27 90
At 8 % "	74 12	34 87
Net Worth	1994 53	1994.53
Net Asset Value Per Share	16 66	7 83
Fair Value		
At 15 % Capitalisation Rate	28 09	13 21
At 12 % " "	33 08	15.54
At 10 % " "	37 98	17 86
At 8 % " "	45.39	21 35

*As per conversion terms maximum chargeable

STATEMENT NO. A - 23

(Fig. in Laacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	74.75	74.75	74.75	74.75	74.75	74.75
	Add Con of Part 'A' Debenture	45.00	45.00	45.00	45.00	45.00	45.00
B	Total No of Shares	119.75	119.75	119.75	119.75	119.75	119.75
	Net Worth	1994.53	1994.53	1994.53	1994.53	1994.53	1994.53
	Add Face Value of the total No of new equity shares	450.00	450.00	450.00	450.00	450.00	450.00
	- Shares premium of the total No of New Equity shares	---	---	---	1800.00	1800.00	1800.00
C	New Net Worth	2444.53	2444.53	2444.53	4244.53	4244.53	4244.53
D	N. A V Per Share	20.41	20.41	20.41	35.44	35.44	35.44
E	P A Tax As per CCI	709.78	709.78	709.78	709.78	709.78	709.78
	Add Return on New Capital	125.91	188.86	251.42	629.55	944.55	1259.32
F	New P A T	835.69	898.64	961.60	1339.33	1654.33	1969.10
G	Earning per share	6.98	7.50	8.03	11.18	13.81	16.44
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	46.52	50.00	53.53	74.53	92.07	109.60
	-At 12 % " "	58.17	62.50	66.92	93.17	115.08	137.00
	-At 10 % " "	69.80	75.00	80.30	111.80	138.10	164.40
	-At 8 % " "	87.25	93.75	100.38	139.75	172.63	205.50
I	Fairvalue Based on the above P/E, CV and NAV						
	-At 15 % Cap rate	33.47	35.21	36.97	54.99	63.76	72.52
	-At 12 % " "	39.29	41.46	43.67	64.31	75.26	86.22
	-At 10 % " "	45.11	47.71	50.36	73.62	86.77	99.92
	-At 8 % " "	53.83	57.08	60.40	87.60	104.04	120.47

J D = C / B G = F / B H =

G

* 100

I = (D + H) / 2

Respective Capitalisation rate

STATEMENT NO. B - 23

(Fig in Laes)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	74.75	74.75	74.75	74.75	74.75	74.75
	Add Con of Part 'A' Debenture	45.00	45.00	45.00	45.00	45.00	45.00
	Con of Part 'B' Deb	135.00	135.00	135.00	135.00	135.00	135.00
B	Total No of Shares	254.75	254.75	254.75	254.75	254.75	254.75
	Net Worth	1994.53	1994.53	1994.53	1994.53	1994.53	1994.53
	Add. Face Value of the total No. of new equity shares	1800.00	1800.00	1800.00	1800.00	1800.00	1800.00
	- Shares premium of the total No of New Equity shares	---	---	---	7200.00	7200.00	7200.00
C	New Net Worth	3794.53	3794.53	3794.53	10994.53	10994.53	10994.53
D	N A V Per Share	14.90	14.90	14.90	43.16	43.16	43.16
E	P A Tax As per CCI	709.78	709.78	709.78	709.78	709.78	709.78
	Add Return on New Capital	503.64	755.64	1007.28	2518.20	3778.20	5036.40
F	New P A T	1243.42	1465.42	1717.06	3227.98	4487.98	5746.18
G	Earning per share	4.76	5.75	6.74	12.67	17.62	22.56
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	31.73	38.33	44.93	84.47	117.47	150.40
	-At 12 % " "	39.67	47.92	56.17	105.58	146.83	188.00
	-At 10 % " "	47.60	57.50	67.40	126.70	176.20	225.60
	-At 8 % " "	59.50	71.88	84.25	158.38	220.25	282.00
I	Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	23.32	26.62	29.92	63.82	80.32	96.78
	-At 12 % " "	27.29	31.41	35.54	74.37	95.00	115.58
	-At 10 % " "	31.25	36.20	41.15	84.93	109.68	134.38
	-At 8 % " "	37.20	43.39	49.58	100.77	131.71	162.58

J D = C / B G = F / B H =

G

* 100 : I = (D + H) / 2

Respective Capitalisation rate

STATEMENT NO. C - 23

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	74.75	74.75	74.75	74.75	74.75	74.75
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	74.75	74.75	74.75	74.75	74.75	74.75
C	Net Worth	1994.53	1994.53	1994.53	1994.53	1994.53	1994.53
D	N A V Per Share	26.68	26.68	26.68	26.68	26.68	26.68
E	P. A T, As per CCI	709.78	709.78	709.78	709.78	709.78	709.78
	Add Return on face value of new capital part 'A'	125.91	188.86	251.82	125.91	188.86	251.82
	Return on Premium Amount of new Capital Part A	---	---	---	503.64	755.69	1007.50
F	New P A T	835.69	898.64	961.60	1339.33	1654.33	1969.10
G	Earning per share	11.18	12.02	12.86	17.91	22.13	26.34
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	74.53	80.13	85.73	119.40	147.53	175.60
	-At 12 % " "	93.17	100.16	107.16	149.25	184.41	219.50
	-At 10 % " "	111.80	120.20	128.60	179.10	221.30	263.40
	-At 8 % " "	139.75	150.25	160.75	223.87	276.62	329.25
I	Fairvalue Based on the above PE:CV and NAV						
	-At 15 % Cap rate	50.60	53.40	56.20	73.04	87.10	101.14
	-At 12 % " "	59.92	63.42	66.92	87.96	105.54	123.09
	-At 10 % " "	69.24	73.44	77.64	102.89	123.99	145.04
	-At 8 % " "	83.21	88.46	93.17	125.27	151.65	177.96

G

$$J = \frac{D}{B} \quad G = \frac{F}{B} \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad ; \quad I = (D + H) / 2$$

STATEMENT NO. D - 23

(Fig in Laos)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	74.75	74.75	74.75	74.75	74.75	74.75
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb.	---	---	---	---	---	---
B	Total No of Shares	74.75	74.75	74.75	74.75	74.75	74.75
C	Net Worth	1994.53	1994.53	1994.53	1994.53	1994.53	1994.53
D	N. A V Per Share	26.68	26.68	26.68	26.68	26.68	26.68
E	P. A T. As per CCI	709.78	709.78	709.78	709.78	709.78	709.78
	Add Return on face value of new capital part 'A'	377.73	566.73	755.46	377.73	566.73	755.46
	Return on Premium Amount of new Capital Part A	---	---	---	1510.92	2266.92	3021.84
F	New P A T	1087.51	1276.51	1465.24	2598.43	3543.43	4487.08
G	Earning per share	14.54	17.07	19.60	34.76	47.40	60.02
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	96.93	113.80	130.67	231.73	316.00	400.13
	-At 12 % " "	121.17	142.25	163.33	289.67	395.00	500.16
	-At 10 % " "	145.40	170.70	196.00	347.60	474.00	600.20
	-At 8 % " "	181.75	213.37	245.00	434.50	592.50	750.25
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap. rate	61.80	70.24	78.67	129.20	171.34	213.40
	-At 12 % " "	73.92	84.46	95.00	158.17	210.84	263.42
	-At 10 % " "	86.04	98.69	111.34	167.14	250.34	313.44
	-At 8 % " "	104.21	120.02	135.84	230.59	309.59	388.46

$$J = D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad ; \quad I = (D + H) / 2$$

3.25 : VIDEOCON INTERNATIONAL LIMITED

3.25.1 : COMPANY BACKGROUND:

VIDEOCON INTERNATIONAL LIMITED was incorporated on 19th January 1985 under The Companies Act 1956. The main objectives of the company are to manufacture, export, import, sell, purchase, market or otherwise deal in electrical and electronic components, equipments, systems, appliances etc. The object of the issue was to part finance the expansion project.

3.25.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 20,45,455,12.5% secured fully convertible debentures of Rs.220.00 each for cash at par aggregating to Rs.4500.00 lacs. As per the conversion terms given in the prospectus, part-I of Rs.110.00 of each fully paid up debenture would be automatically and compulsorily converted into one fully paid up equity share of the face value of Rs.10.00 each for cash at a premium of Rs.100.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs.110.00 would be converted into one equity share of the face value of Rs.10.00 each at a premium of Rs.100.00 each at the end of 18 months from the date of allotment.

3.25.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.21.36, Rs.143.19, Rs.165.46 and Rs.198.54 showing underpricing by 10.32%, 30.17%, 50.41% and 80.49% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 108.11%, 127.56%, 147.40% and 176.87% respectively. That is, none of these fairvalues were within the range of 80.00% to 100.00% of the pre-issue average market price

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 89.68% of the fairvalue i.e., it was moderately underpriced. The offer price as percentage of pre-issue average market price was 98.00%.

Those investors who were lucky enough to receive allotment, got minimum return of 0.00% and maximum return of 158.18% per equity share during the year 1992. Similarly, during the year 1993, the investors could realise minimum return of 0.00% and maximum return of 87.27% per equity share. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs.22.72, Rs.66.38, Rs.110.92 and Rs.177.08 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of February 1991 and the allotment could have been finalised by May 1991. The pre-issue six monthly market price were in the range of Rs.95.00 to Rs.232.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-24, the P.E.P.S. and F.D.E.P.S. stood at Rs.19.67 and Rs.15.66 respectively. Accordingly, the company could have charged premium of Rs.6.62, Rs.23.01 and Rs.47.60 at the capitalisation rate of 12%, 10% and 8% on the basis of P.E.P.S. calculations, while on the basis of F.D.E.P.S., the company could not charge premium at 15%, 12% and 10% capitalisation rate.

The statement No. A-24 to D-24 shows that the company could have offered its equity share in the range of Rs.78.53 to Rs.525.54 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no. of equity shares etc.

3.25.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I. was underpriced by 10.32%, 30.17%, 50.41% and 80.49% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre issue market price were 165.83% and 98.00%. The offer price were highly disproportionate to the bookvalue per share

**ANNEXURE 24 - X
NET ASSET VALUE (NAV)**

**Name of the Company : VIDEOCON INTERNATIONAL LTD.
According to the audited balance sheet as at 31st March 1990.**

	Rs (Lacs)		Rs (Lacs)
Total Assets	16468 30	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	421 70
1 Preference capital	nil	(2) Free reserves	3342 60
2 Secured & unsecured borrowings	7177 60	Total	3764 30
3 Current liabilities	5526 40	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>3764 30</u>	Net worth	<u>3764.30</u>
Add			
(1) Fresh capital Issue at Face Value		*171 69	
Total		3935 99	
Number of shares including Fresh and bonus issue		59 34	
NAV per share		66 33	

* (Earlier F C D Issue Conversion)

**ANNEXURE 24 - Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 Sept 1987	9 02	7 46	---
2 March 1989	666 57	631 57	100.00
3 March 1990	2916 38	2716 38	174 32
Simple Average	---	---	
or			
Weighted Average	1681.88	1569 96	
Average profit before tax (on the basis of Weighted Average)			
			1681 88
Deduct			
Provisions for taxation			111 92
Average profit after tax			1569 96
Deduct Preference dividend			nil
Net profit after tax			1569 96
Add Contribution to profit by fresh issue if any			nil
Total profit after tax			1569 96
Number of equity share including fresh and bonus issue			59.34
Earning per share(EPS)			26.46
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by 66)			
		15%	176 40
		12%	220 05
		10%	264 60
		8%	330 75

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col. No (3) & (4)	Fair Value Col. No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	176 40	66.33	242 73	121 36	
2	12 %	220 05	66.33	286 38	143 19	
3	10 %	264 60	66 33	330 93	165 46	
4	8 %	330 75	66 33	397 08	198 54	

ANNEXURE 24 - Z
CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		53.00	38.00		45.50		
2	1989		100.00	48.00		74.00		
3	1990		232.00	65.00		148.50		
4		Jul 90	118.00	98.00	108.00		181.00	112.25
1		Aug 90	140.00	95.00	117.50			
5		Sep 90	218.00	134.00	352.00			
6		Oct 90	232.00	165.00	198.50			
7		Nov. 90	200.00	143.00	171.50			
8		Dec 90	165.00	112.00	138.50			
Total of Col.No.6			1086.00	Total of Col. No. 7 & 8 Divided by no.of			449.00	
Divided by months			-----	6			-----	
				= 181.00				
				= 112.25				

STATEMENT NO. U - 24
CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER
U.S.A. REPORTING SYSTEM.
(FIG IN LACS)

	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	59.34	59.34
Add Part 'A' Conversion	20.45	20.45
Part 'B' Conversion		20.45
	<u>79.79</u>	<u>100.24</u>
Profit After Tax	1569.96	1569.96
Earning Per Share (PEPS)	19.67	
Earning Per Share (FDEPS)		15.66
Profit Earning Capacity Value		
At 15 % Capitalisation	131.13	104.40
At 12 % "	163.92	130.50
At 10 % "	196.70	156.60
At 8 % "	245.87	195.75
Net Worth	3935.99	3935.99
Net Asset Value Per Share	49.33	39.27
Fair Value		
At 15 % Capitalisation Rate	90.23	71.83
At 12 % "	106.62	84.89
At 10 % "	123.01	97.93
At 8 % "	147.60	117.75

STATEMENT NO. A - 24

(Fig in Laacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	59 34	59 34	59 34	59 34	59 34	59 34
	Add Con of Part 'A' Debenture	20 45	20 45	20 45	20 45	20 45	20 45
B	Total No.of Shares	79 79	79 79	79 79	79 79	79 79	79 79
	Net Worth	3935 99	3935 99	3935 99	3935 99	3935 99	3935 99
	Add Face Value of the total No.of new equity shares	204.50	204 50	204 50	204 50	204 50	204 50
	- Shares premium of the total No of New Equity shares	---	---	---	2045.50	2045.50	2045.50
C	New Net Worth	4140 49	4140 49	4140 49	6185.99	6185 99	6185 99
D	N A V Per Share	51 89	51.89	51 89	77.52	77.52	77 52
E	P. A Tax As per CCI	1569 96	1569 96	1569 96	1569.96	1569 96	1569.96
	Add Return on New Capital	70 55	105 82	141 10	776.25	1164.37	1552 50
F	New P A T	1640 51	1675 78	1711 06	2346 21	2734 33	3122 46
G	Earning per share	20 56	21 00	21 44	29.40	34 26	39 13
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	137 06	140.00	142 93	196 00	228 40	260 86
	-At 12 % " "	171 33	175 00	178 67	245 00	285.50	326.08
	-At 10 % " "	205 60	210 00	214.40	294.00	342 60	391 30
	-At 8 % " "	257 00	262 50	268 00	367 50	428 25	489 12
I	Fairvalue Based on the above PE:CV and NAV						
	-At 15 % Cap rate	94.47	95 94	97 41	136.76	152 96	169 19
	-At 12 % " "	111.61	113 44	115.28	161.26	181 51	201 80
	-At 10 % " "	128 74	130 94	133 14	185 76	210 06	234 41
	-At 8 % " "	154 44	157 19	159 94	222.51	252 88	283 32
J D = C / B G = F / B · H =		G					
		----- * 100					
		Respective Capitalisation rate					
		I = (D + H) / 2					

STATEMENT NO. B - 24

(Fig. in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	59.34	59.34	59.34	59.34	59.34	59.34
	Add : Con of Part 'A' Debenture	20.45	20.45	20.45	20.45	20.45	20.45
	Con of Part 'B' Deb	20.45	20.45	20.45	20.45	20.45	20.45
B	Total No of Shares	100.24	100.24	100.24	100.24	100.24	100.24
	Net Worth	3935.99	3935.99	3935.99	3935.99	3935.99	3935.99
	Add Face Value of the total No of new equity shares	409.00	409.00	409.00	409.00	409.00	409.00
	- Shares premium of the total No of New Equity shares	---	---	---	4091.00	4091.00	4091.00
C	New Net Worth	4344.99	4344.99	4344.99	4344.99	4344.99	4344.99
D	N A V Per Share	43.34	43.34	43.34	84.15	84.15	84.15
E	P A Tax As per CCI	1569.96	1569.96	1569.96	1569.96	1569.96	1569.96
	Add Return on New Capital	141.10	211.64	282.20	1552.50	2328.75	3105.00
F	New P A T	1711.06	1781.60	1852.16	3122.46	3898.71	4674.96
G	Earning per share	17.06	17.77	18.47	31.15	38.89	46.63
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	113.73	118.47	123.13	207.67	259.26	310.86
	-At 12 % " "	142.17	148.08	153.91	259.58	324.08	388.58
	-At 10 % " "	170.60	177.70	184.70	311.50	388.90	466.30
	-At 8 % " "	213.25	222.12	230.87	389.37	486.12	582.87
I	Fairvalue Based on the above PE:CV and NAV						
	-At 15 % Cap rate	78.53	80.90	83.23	145.91	171.70	197.50
	-At 12 % " "	92.75	95.71	98.62	171.86	204.11	236.36
	-At 10 % " "	106.97	110.52	114.02	197.82	236.52	275.22
	-At 8 % " "	128.29	132.73	137.10	236.76	285.13	333.51

J D = C / B G = F / B H =

G

----- * 100
Respective Capitalisation rate

I = (D + H) / 2

STATEMENT NO. C - 24

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	59.34	59.34	59.34	59.34	59.34	59.34
	Add Con. of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	59.34	59.34	59.34	59.34	59.34	59.34
C	Net Worth	3935.99	3935.99	3935.99	3935.99	3935.99	3935.99
D	N A. V Per Share	66.33	66.33	66.33	66.33	66.33	66.33
E	P A. T As per CCI	1569.96	1569.96	1569.96	1569.96	1569.96	1569.96
	Add Return on face value of new capital part 'A'	70.55	105.82	141.10	70.55	105.82	141.10
	Return on Premium Amount of new Capital Part A	---	---	---	705.70	1058.55	1411.40
F	New P A T	1640.51	1675.78	1711.06	2346.21	2734.33	3122.46
G	Earning per share	27.64	28.24	28.83	39.53	46.07	52.61
H	Profit Earning Capacity Value						
	-At 15 % Cap. rate	184.27	188.26	192.20	263.53	307.13	350.73
	-At 12 % " "	230.33	235.33	240.25	329.41	383.91	438.41
	-At 10 % " "	276.40	282.40	288.30	395.30	460.70	526.10
	-At 8 % " "	345.50	353.00	360.37	494.12	575.87	657.62
I	Fairvalue Based on the above PFCV and NAV						
	-At 15 % Cap rate	125.30	127.29	129.26	164.93	186.73	208.53
	-At 12 % " "	148.33	150.83	153.29	197.87	225.12	252.37
	-At 10 % " "	171.36	174.36	177.31	230.81	263.51	296.21
	-At 8 % " "	205.91	209.66	213.35	280.22	321.10	361.97

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad : \quad I = (D + H) / 2$$

STATEMENT NO. D - 24

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	59.34	59.34	59.34	59.34	59.34	59.34
	Add: Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	59.34	59.34	59.34	59.34	59.34	59.34
C	Net Worth	3935.99	3935.99	3935.99	3935.99	3935.99	3935.99
D	N A V, Per Share	66.33	66.33	66.33	66.33	66.33	66.33
E	P. A T. As per CCI	1569.96	1569.96	1569.96	1569.96	1569.96	1569.96
	Add: Return on face value of new capital part 'A'	141.10	211.64	282.20	141.10	211.64	282.20
	Return on Premium Amount of new Capital Part A	---	---	---	1411.40	2117.11	2822.80
F	New P A T	1711.06	1781.60	1852.16	3122.46	3898.71	4674.96
G	Earning per share	28.83	30.02	31.21	52.61	65.70	78.78
H	Profit Earning Capacity Value						
	-At 15 % Cap. rate	192.20	200.13	208.06	350.73	438.00	525.20
	-At 12 % " "	240.25	250.16	260.08	438.41	547.50	656.50
	-At 10 % " "	288.30	300.20	312.10	526.10	657.00	787.80
	-At 8 % " "	360.37	375.25	390.12	657.62	821.25	984.75
	I Fairvalue Based on the above PECV and NAV						
	-At 15 % Cap rate	129.26	133.23	137.19	208.53	252.16	295.76
	-At 12 % " "	153.29	158.24	163.20	252.37	306.91	361.41
	-At 10 % " "	177.31	183.26	189.21	296.21	361.66	427.06
	-At 8 % " "	213.35	220.79	228.22	361.97	443.79	525.54

G

$$J \quad D = C / B : G = F / B \cdot H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$

3.26 : VISAKA INDUSTRIES LIMITED

3.26.1 : COMPANY BACKGROUND:

VISAKA INDUSTRIES LIMITED was incorporated as a public limited company on 18th June 1981 under The Companies Act 1956. The company is engaged in manufacture of asbestos cement sheets, pressure pipes and accessories. The object of the issue was to part finance the diversification project of synthetic blended yarn at Chiruva in Nagpur district.

3.26.2 : ISSUE HIGHLIGHTS:

The company made a Right-cum-Public issue of 2,23,000, 14% secured fully convertible debentures of Rs.300.00 each for cash at par aggregating to Rs.6690.00 lacs. As per the Conversion terms given in the prospectus, part-I of each fully paid up debenture representing Rs.200.00 would be automatically and compulsorily converted into ten fully paid up equity shares of the face value of Rs.10.00 each for cash at a premium of Rs.10.00 per equity share on the expiry of 6 months from the date of allotment. The part-II of Rs.100.00 would be converted into five equity shares of the face value of Rs.10.00 each at a premium of Rs.10.00 each at the end of 12 months from the date of allotment.

3.26.3 : OVER ALL OBSERVATIONS:

According to the calculations as per the CCI guidelines, the fairvalues at 15%, 12%, 10% and 8% capitalisation rate stood at Rs.22.74, Rs.25.71, Rs.28.69 and Rs.33.15 showing underpricing by 12.04%, 22.20%, 30.28% and 39.66% respectively. The fairvalue per share at 15%, 12%, 10% and 8% capitalisation rate as a percentage of pre-issue average market price stood at 75.17%, 84.99%, 94.84% and 109.58% respectively. That is, the fairvalues at 12% and 10% capitalisation rate were within the range of 80.00% to 100.00% of the pre-issue average market price.

As per the CCI guidelines, the applicable capitalisation rate was 15%, as the company is manufacturing concern. At 15% capitalisation rate the issue price was 87.95% of the fairvalue, i.e., it was moderately underpriced. The offer price as percentage of pre-issue average market price was 66.11%.

Those investors who were lucky enough to receive allotment, got minimum return of (25.00%) and maximum return of 50.00% per equity share during the year 1992. Similarly, during the year 1993, the investors could realised minimum return of (50.00%) and maximum return of 160.00% per equity share. As said earlier, the issue was underpriced at 15%, 12%, 10% and 8% capitalisation rate meaning thereby that the company has collected less amount by Rs.41.10, Rs.85.65, Rs.130.35 and Rs.197.25 per F.C.D. respectively.

A close look at the market price before and after the issue, throw light on possibility of price-rigging. The company came out with public issue in the month of April 1991 and the allotment could have been finalised by July 1991. The pre-issue six monthly market price were in the range of Rs.25.00 to Rs.47.00. The post-issue yearly high and low market price also revealed that the company or its promoters had not resorted to price-rigging.

According to the calculations shown in statement No.U-25, the P.E.P.S and F.D.E.P.S. stood at Rs.1.46 and Rs.1.12 respectively. Accordingly, the company could have charged premium of Rs.1.73 and Rs.3.55, at the capitalisation rate of 10% and 8% on the basis of P.E.P.S. calculations, while on the basis of F.D.E.P.S., the company could not charged premium altogether. Infact, on the basis of F.D.E.P.S., the company has to offer its security at discount.

The statement No A-25 to D-25 shows that the company could have offered its equity share in the range of Rs.14.50 to Rs.126.27 being minimum and maximum fairvalues respectively which are worked out based on different combinations of E.P.S., P.E.C.V., N.A.V., capitalisation rate, R.O.N.W., no. of equity shares etc.

3.26.4 : OBSERVATIONS OF HYPOTHESIS:

It is seen that, initial offer price sanctioned by the office of the C.C.I. was conservative based on the fairvalue calculations.

It is also seen that, disregarding type of industry, for this company too, the office of the CCI has followed uniform premium fixation method.

It is found that the offer price fixed by the office of the C.C.I. was underpriced by 12.04%, 22.20%, 30.28% and 39.66% at 15%, 12%, 10% and 8% capitalisation rate respectively

It is also observed that the offer price as a percentage of book value and pre issue market price were 92.25% and 66.11%. The offer price was disproportionate to the pre-issue average market price.

**ANNEXURE 25 - X
NET ASSET VALUE (NAV)**

**Name of the Company : VISAKA INDUSTRIES LTD
According to the audited balance sheet as at 31st March 1991.**

	Rs (Lacs)		Rs (Lacs)
Total Assets	1264.03	Shareholders fund	
Deduct all liabilities		(1) Equity Capital	154.00
1 Preference capital	nil	(2) Free reserves	180.00
2 Secured & unsecured borrowings	512.98	Total	334.00
3 Current liabilities	417.05	Deduct contingent liabilities	nil
4 Contingent liabilities	nil		
Net worth	<u>334.00</u>	Net worth	<u>334.00</u>
Add			
(1) Fresh capital issue at Face Value		nil	
Total		334.00	
Number of shares including Fresh and bonus issue		15.40	
NAV per share		21.68	

* (Earlier F.C.D. Issue Conversion)

**ANNEXURE 25 - Y
PROFIT EARNING CAPACITY VALUE (PECV)**

Year	Profit before tax	Profit after tax	Dividend declared
1 Dec 1986	46.91	46.91	7.68
2 Dec 1987	72.85	61.61	18.45
3 March 1989	50.67	42.69	18.48
4 March 1990	10.64	8.96	15.40
5 March 1991	<u>114.62</u>	<u>114.62</u>	<u>26.18</u>
Simple Average	59.13	54.95	
or			
Weighted Average			
Average profit before tax (on the basis of Simple Average)		59.13	
Deduct			
Provisions for taxation		4.18	
Average profit after tax		54.95	
Deduct Preference dividend		nil	
Net profit after tax		54.95	
Add Contribution to profit by fresh issue if any		nil	
Total profit after tax		54.95	
Number of equity share including fresh and bonus issue		15.40	
Earning per share(EPS)		3.57	
Profit Earning Capacity Value (PECV) at 15 % capitalisation rate (i.e. by multiplying EPS by .66)			
		15%	23.80
		12%	29.75
		10%	35.70
		8%	44.62

FAIR VALUE CALCULATION

Sr No	Capitalisation Rate	Profit Earning Capacity Value	Net Asset Value per share	Total of Col No (3) & (4)	Fair Value Col No (5) divided by two	Remarks
1	2	3	4	5	6	7
1	15 %	23.80	21.68	45.48	22.74	
2	12 %	29.75	21.68	51.43	25.71	
3	10 %	35.70	21.68	57.38	28.69	
4	8 %	44.62	21.68	66.30	33.15	

ANNEXURE 25 - Z CALCULATION OF AVERAGE MARKET PRICE

Sr No	Year	Month	Highest Market Price	Lowest Market Price	Monthly Average	Yearly Average	Average of Monthly Average	Average Market Price
1	2	3	4	5	6	7	8	9
1	1988		30.50	14.00		22.25		
2	1989		27.00	15.00		21.00		
3	1990		52.00	30.00		41.00		
4		Aug 90	42.00	30.00	36.00			
4		Sep 90	45.00	37.00	41.00			
5		Oct 90	47.00	38.00	42.50		36.75	30.25
6		Nov 90	43.00	25.00	34.00			
7		Dec 90	38.00	32.00	35.00			
8		Jan. 91	34.00	30.00	32.00			
Total of Col. No. 6			220.50	Total of Col. No. 7 & 8		121.00		
Divided by months			6	Divided by no. of items		4		
			= 36.75			= 30.25		

STATEMENT NO. U - 25 CALCULATION OF FAIR VALUE BASED ON E.P.S. WORKED OUT AS PER U.S.A. REPORTING SYSTEM.

	(FIG IN LACS)	
	P.E.P.S.	F.D.E.P.S.
Number of Equity Shares at the time of Time of Issue	15.40	15.40
Add Part 'A' Conversion	22.30	22.30
Part 'B' Conversion		11.15
	37.70	48.85
Profit After Tax	54.95	54.95
Earning Per Share (PEPS)	1.46	
Earning Per Share (FDEPS)		1.12
Profit Earning Capacity Value		
At 15 % Capitalisation	9.73	7.50
At 12 % "	12.17	9.38
At 10 % "	14.60	11.20
At 8 % "	18.25	14.06
Net Worth	334.00	334.00
Net Asset Value Per Share	8.86	6.84
Fair Value		
At 15 % Capitalisation Rate	9.30	7.17
At 12 % "	10.51	8.10
At 10 % "	11.73	9.02
At 8 % "	13.55	10.45

STATEMENT NO. A - 25

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the network and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the network and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	15 40	15 40	15 40	15 40	15 40	15 40
	Add · Con of Part 'A' Debenture	22 30	22 30	22 30	22 30	22 30	22 30
B	Total No of Shares	37 70	37 70	37 70	37 70	37 70	37 70
	Net Worth	334 00	334 00	334 00	334 00	334 00	334 00
	Add Face Value of the total No of new equity shares	223 00	223 00	223 00	223 00	223 00	223 00
	- Shares premium of the total No of New Equity shares	---	---	---	223 00	223 00	223 00
C	New Net Worth	557 00	557 00	557 00	780 00	780 00	780 00
D	N A V Per Share	14 77	14 77	14 77	20 68	20 68	20 68
E	P A Tax As per CCI	54 96	54 96	54 96	54 96	54 96	54 96
	Add Return on New Capital	38 24	57 37	76 48	76 48	114 74	153 02
F	New P A T	93 20	112 33	131 44	131 44	169 70	207 98
G	Earning per share	2 47	2 98	3 48	3 48	4 49	5 51
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	16 47	19 87	23 20	23 20	29 93	36 73
	-At 12 % " "	20 58	24 83	29 00	29 00	37 41	45 91
	-At 10 % " "	24 70	29 80	34 80	34 80	44 90	55 10
	-At 8 % " "	30 87	37 25	43 50	43 50	56 12	68 87
I	Fairvalue Based on the above PFCV and NAV						
	-At 15 % Cap rate	15 62	17 32	18 98	21 96	25 30	28 70
	-At 12 % " "	17 67	19 80	21 88	24 84	29 04	33 29
	-At 10 % " "	19 73	22 28	24 78	27 74	32 79	37 89
	-At 8 % " "	22 82	26 01	29 13	32 09	38 40	44 77
J D = C / B · G = F / B H =		G					
		----- * 100					
		Respective Capitalisation rate					
		I = (D + II) / 2					

STATEMENT NO. B - 25

(Fig in Lacs)

Sr No	Particulars	Including New Equity Capital (due to Conversion of part 'A' of debenture) at its FACE VALUE in the networth and if PAT includes return on new capital AT			Including New Equity Capital (due to Conversion of part 'A' of debenture) at its OFFER PRICE in the networth and if PAT includes return on new capital AT		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	A Number of Equity Share at the time of issue	15.40	15.40	15.40	15.40	15.40	15.40
	Add Con. of Part 'A' Debenture	22.30	22.30	22.30	22.30	22.30	22.30
	Con. of Part 'B' DeB	11.15	11.15	11.15	11.15	11.15	11.15
B	Total No of Shares	48.85	48.85	48.85	48.85	48.85	48.85
	Net Worth	334.00	334.00	334.00	334.00	334.00	334.00
	Add Face Value of the total No of new equity shares	334.50	334.50	334.50	334.50	334.50	334.50
	- Shares premium of the total No of New Equity shares	---	---	---	334.50	334.50	334.50
C	New Net Worth	668.50	668.50	668.50	1003.00	1003.00	1003.00
D	N A V Per Share	13.68	13.68	13.68	20.53	20.53	20.53
E	P A Tax As per CCI	54.96	54.96	54.96	54.96	54.96	54.96
	Add Return on New Capital	57.36	86.05	114.76	114.76	172.11	229.53
F	New P A T	112.32	141.01	169.72	169.72	227.07	284.49
G	Earning per share	2.30	2.88	3.47	3.47	4.64	5.82
H	Profit Earning Capacity Value						
	-At 15 % Cap Rate	15.33	19.20	23.13	23.13	30.93	38.80
	-At 12 % " "	19.17	24.00	28.91	28.91	38.67	48.50
	-At 10 % " "	23.00	28.80	34.70	34.70	46.40	58.20
	-At 8 % " "	28.75	36.00	43.37	43.37	58.00	72.75
I	Fairvalue Based on the above PE:CV and NAV						
	-At 15 % Cap rate	14.50	16.44	18.40	21.83	25.73	29.66
	-At 12 % " "	16.42	18.84	21.29	24.72	29.61	34.51
	-At 10 % " "	18.34	21.24	24.19	27.61	33.46	39.36
	-At 8 % " "	21.21	24.84	28.52	31.95	39.26	46.64

J D = C / B · G = F / B H =

G

----- * 100 . I = (D + H) / 2
Respective Capitalisation rate

STATEMENT NO. C - 25

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	15 40	15.40	15 40	15 40	15 40	15 40
	Add 'Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb.	---	---	---	---	---	---
B	Total No of Shares	15 40	15 40	15.40	15.40	15 40	15 40
C	Net Worth	334 00	334 00	334 00	334 00	334 00	334 00
D	N A V Per Share	21 68	21 68	21 68	21 68	21 68	21 68
E	P A T As per CCI	54 96	54 96	54 96	54 96	54 96	54 96
	Add Return on face value of new capital part 'A'	38.24	57 37	76 48	38.24	57 37	76 51
	Return on Premium Amount of new Capital Part A	---	---	---	38 24	57 37	76 51
F	New P.A T	93 20	112 33	131 44	131 44	169 70	207 98
G	Earning per share	6 05	7 29	8 53	8 53	11 01	13 50
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	40 33	48 60	56 86	56 86	73 40	90 00
	-At 12 % " "	50 41	60 75	71 08	71.08	91 75	112.50
	-At 10 % " "	60.50	72 90	85 30	85.30	110 10	136 00
	-At 8 % " "	75 62	91 12	106 62	106.62	137 62	168 75
I	Fairvalue Based on the above PE:CV and NAV						
	-At 15 % Cap rate	31 00	35.14	39 27	39.27	47 54	55 84
	-At 12 % " "	36 04	41 21	46 38	46.38	56 71	67 09
	-At 10 % " "	41 09	47 29	53 49	53 49	65 89	78 34
	-At 8 % " "	48 65	56.40	64 15	64.15	79.65	95 21

G

$$J \quad D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad ; \quad I = (D + H) / 2$$

STATEMENT NO. D - 25

(Fig in Lacs)

Sr No	Particulars	Excluding the convertible securities from the total number of paid up equity shares and if profit after tax includes return on new capital at					
		Face Value at			Offer Price at		
		50% of RONW	75% of RONW	100% of RONW	50% of RONW	75% of RONW	100% of RONW
1	2	3	4	5	6	7	8
A	Number of Equity Share at the time of issue	15.40	15.40	15.40	15.40	15.40	15.40
	Add Con of Part 'A' Debenture	---	---	---	---	---	---
	Con of Part 'B' Deb	---	---	---	---	---	---
B	Total No of Shares	15.40	15.40	15.40	15.40	15.40	15.40
C	Net Worth	334.00	334.00	334.00	334.00	334.00	334.00
D	N A. V Per Share	21.68	21.68	21.68	21.68	21.68	21.68
E	P A. T As per CCI	54.96	54.96	54.96	54.96	54.96	54.96
	Add Return on face value of new capital part 'A'	57.36	86.05	114.72	57.36	86.05	114.76
	Return on Premium Amount of new Capital Part A	---	---	---	57.36	86.05	114.76
F	New P A T	112.32	141.01	169.72	169.72	227.06	284.48
G	Earning per share	7.29	9.15	11.02	11.02	14.74	18.47
H	Profit Earning Capacity Value						
	-At 15 % Cap rate	48.60	61.00	73.46	73.46	98.26	123.13
	-At 12 % " "	60.75	76.25	91.83	91.83	122.83	153.91
	-At 10 % " "	72.90	91.50	110.20	110.20	147.40	184.70
	-At 8 % " "	91.12	114.37	137.75	137.75	184.25	230.87
I	Fairvalue Based on the above PE/CV and NAV						
	-At 15 % Cap rate	35.14	41.34	47.57	47.57	59.97	72.40
	-At 12 % " "	41.21	48.96	56.75	56.75	72.25	87.79
	-At 10 % " "	47.29	56.59	65.94	65.94	84.54	103.19
	-At 8 % " "	56.40	68.02	79.71	79.71	102.96	126.27

G

$$J = D = C / B \quad G = F / B \quad H = \frac{G}{\text{Respective Capitalisation rate}} * 100 \quad I = (D + H) / 2$$