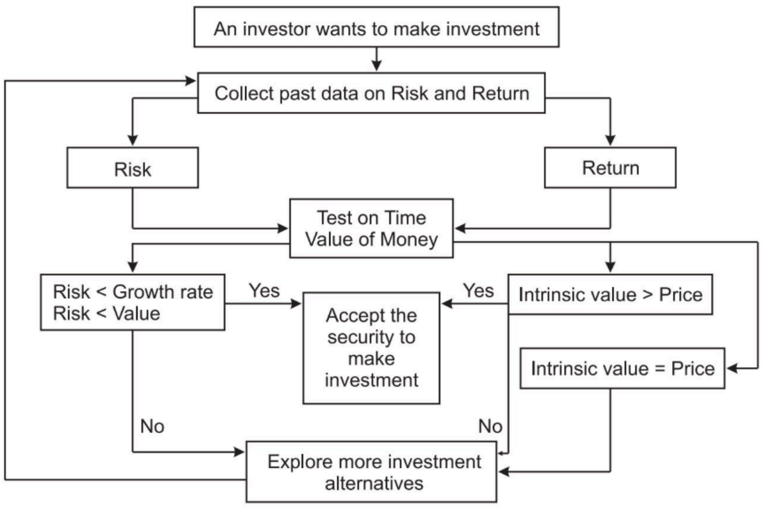
**BCU**
**$6^{th}$ Semester**
**Investment Management**
**Module No.4: Valuation of Securities**

**Syllabus :** Introduction: Valuation of securities: Meaning and need for valuation of securities - Valuation of Bonds – debentures - Preference Shares - Equity Shares- ( Dividend Capitalization Approach – With and without growth – Earnings Capitalization Approach with and without growth )

**Introduction :**

Valuation is the process of determining how much a security is worthy. The valuation process involves various factors to determine the present or expected value of a security. These factors may be internal or external to a firm in which investor has made investment. However, the key basis of valuation is risk and return of the security. Risk and return are also get affected from external factors, but these are the cogent and having direct connection with valuation. It is to emphasised that both risk and return gives the present value of investment or expected future value of investment after taking the impact of time value of money on consideration.




The historical data play an important role in valuation of securities. The data on risk and return is tested on the scale of time value of money, especially, the return data, and risk data is augmented if circumstances so warrant. The rate of risk is compared with growth rate. If growth rate is less than risk in such security then it is not wise to make investment therein. On the other hand, the computed intrinsic value of the security is more than the market value then it is acceptable to buy such security. In contrary case it is suggestive to sell such security. In an equilibrium situation where intrinsic and market values are equal then no suggestion is advanced, rather some more alternative investment opportunities should be explored. Thus, valuation is not a one-time activity, rather it is continuous process.

**CONCEPT OF VALUE** :

Firm’s assets are of two types: Real Assets & Financial Assets.

**Real Assets :** Physical or identifiable assets such as gold, land, equipment, patents, etc. Real assets tend to be most desirable during periods of high inflation. An asset that is intrinsically valuable because of its utility, such as real estate or physical equipment.- opposite of nominal asset.

**Financial Assets :**

A non-physical asset, such as a security, certificate, or bank balance. FAs are cash and other assets that convert directly into known amounts of cash in a reasonably short period of time- ne year at most, but less time in many cases. The three basic categories are cash, marketable securities, and receivables. In the balance sheet, financial assets are listed at the current value. For cash, this means the face amount; for marketable securities, current market value; and for receivables, net realizable value.

**WHY VALUATION?**

• In general, the value of an asset is the price that a willing and able buyer pays to a willing and able seller.

• Note that if either the buyer or seller is not both willing and able, then an offer does not establish the value of the asset.

The value of the firm is affected by two key factors: Risk & Return. These factors are fundamental to the valuation of the firm. The principal goal of a firm is to maximise the market value of its securities. Higher the risk, other things being equal, lower the value; Higher the return, other things being equal, higher the value.

**Meaning Valuation of securities :**

Valuation of securities is the process of determining the worth of a security, or its value in money or other securities, at a given time. It's a quantitative process that involves subjective inputs and assumptions, and considers factors such as market analysis, trends, and valuation metrics. The goal of valuation is to ensure that a fair price is paid for an investment, and to determine the rate of return needed to break even.

Valuation of securities can be helpful for financial managers in identifying and managing the factors that influence security prices. They can use this information to design investment and financing activities that maximize the market value of a firm's shares.

Security valuation is important to decide on the portfolio of an investor. All investment decisions are to be made on a scientific analysis of the right price of a share. Hence, an understanding of the valuation of securities is essential. Investors should buy under-priced shares and sell overpriced shares. Share pricing is thus an important aspect of trading. Conceptually, four types of valuation models are discernible.

**Need for valuation of securities :**

The valuation of securities, such as stocks, bonds, and preferred stock, helps investors make informed decisions about buying or selling. It provides an objective assessment of a security's future price potential, current market price, and helps investors prepare for sudden market shifts. Valuation can also help investors ensure they are paying a fair price for their investment.

1. **Investment Analysis**:
   - Investors need to evaluate whether a security is fairly priced in the market.
   - Helps in making informed investment decisions regarding buying, holding, or selling securities.

2. **Mergers and Acquisitions (M&A)**:
   - In M&A transactions, it's crucial to value the securities of the companies involved to determine fair exchange ratios and the overall deal value.

3. **Financial Reporting**:
   - Companies need to report the value of their investments in securities accurately in their financial statements.
   - Fair value accounting standards (e.g., IFRS, GAAP) require periodic revaluation of securities.

4. **Regulatory Compliance**:

- Financial institutions must comply with regulations that require them to maintain certain levels of capital based on the value of their securities holdings.
- Ensuring compliance with tax regulations, which might require valuation for capital gains tax, estate tax, etc.

5. **Collateral for Loans**:
- Securities are often used as collateral for loans, and their value needs to be assessed to determine the loan amount.

6. **Portfolio Management**:
- Fund managers need to value securities to assess portfolio performance and to make adjustments based on market conditions.
- Helps in rebalancing portfolios to align with investment objectives and risk tolerance.

7. **Litigation and Dispute Resolution**:
- In legal disputes involving securities (e.g., shareholder lawsuits, divorce settlements), accurate valuation is essential for resolving claims.

8. **Initial Public Offerings (IPOs) and Secondary Offerings**:
- Companies need to value their securities to price new shares correctly during IPOs or secondary offerings.

**INTRINSIC VALUE :**

The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors. This value may or may not be the same as the current market value. Value investors use a variety of analytical techniques in order to estimate the intrinsic value of securities in hopes of finding investments where the true value of the investment exceeds its current market value.

**For example**, value investors that follow fundamental analysis look at both qualitative (business model, governance, target market factors etc.) and quantitative (ratios, financial statement analysis, etc.) aspects of a business to see if the business is currently out of favour with the market and is really worth much more than its current valuation. The actual value of a security, as opposed to its market price or book value. The intrinsic value includes other variables such as brand name, trademarks, and copyrights that are often difficult to calculate and sometimes not accurately reflected in the market price.

One way to look at it is that the market capitalization is the price (i.e. what investors are willing to pay for the company) and intrinsic value is the value (i.e. what the company is really worth). Different investors use different techniques to calculate intrinsic value.

**Bonds :**

In investing, a bond is a debt security that acts as a loan between an investor and a company or government. The investor lends money to the issuer for a set period of time, and in exchange, the issuer agrees to pay the investor interest payments and return the principal when the bond matures. Bonds are often called fixed-income investments because they provide fixed payments over their lifetime

**Meaning :**

"A bond is a type of debt security. Bonds are issued by borrowers to attract capital from investors ready to extend a loan to them for a specific period of time."

When you purchase a bond, you are making a loan to the issuer, which could be a corporate, government, or municipality. In exchange, the issuer agrees to pay you a specific rate of interest throughout the course of the bond's existence and to refund the bond's principal when it "matures," or becomes due, after a predetermined amount of time.

**Who Issues Bonds?**

● **Government:** To improve infrastructure, governments issue bonds to invest in roads, schools, dams, and public places. The sudden costs of war may also require funds. Ratings for government bonds are typically very high, although this can vary depending on the government that issues the bond. Bonds issued by governments of developing countries are usually riskier and have lower ratings than bonds issued by governments of developed countries.

● **Corporations:** Corporations may borrow to expand their business, purchase property and equipment, undertake profitable projects, invest in research and development, or hire employees. Typically, large organizations require more money than their banks can provide. Hence, they turn to bonds.

● **Supranational and Multilateral Entities:** A supranational entity is based in more than one nation. The World Bank and the European Investment Bank are two examples of supranational entities that issue bonds. The rating of these bonds is usually quite high, just like that of government bonds. Supranational entities may issue bonds to fund their operations, and receive coupon payments from their operating revenues.

● **Regions and Municipalities:** A smaller municipality may also issue bonds in the same way as a government. Even though the government does not issue the bonds, they are typically backed by their full faith and credit.

## Merits of Bonds

For the Issuing Entity:
**Fixed Interest Cost**:
**Merit**: The interest rate on bonds is typically fixed.
**Benefit**: Provides predictable financial planning and budgeting for the issuer.

**Tax Advantages**:
**Merit**: Interest payments on bonds are often tax-deductible for the issuer.
**Benefit**: Reduces the company's taxable income, providing a tax shield.

**Retained Ownership**:
**Merit**: Issuing bonds allows the entity to raise capital without diluting ownership.
**Benefit**: Shareholders retain control over the company.

**Long-Term Financing**:
**Merit**: Bonds provide a source of long-term capital.
**Benefit**: Useful for financing large, capital-intensive projects and long-term investments.

**Flexibility**:
**Merit**: Bonds can be structured in various ways (e.g., fixed-rate, floating-rate, convertible, callable).
**Benefit**: Tailored to meet specific financial needs and market conditions.

For Investors:
**Stable Income**:

**Merit**: Bonds provide regular interest payments.
**Benefit**: Offers a steady and predictable income stream, suitable for risk-averse investors.

**Capital Preservation**:
**Merit**: Bonds typically return the principal amount at maturity.
**Benefit**: Lower risk of losing the initial investment compared to equities.

**Priority in Claims**:
**Merit**: Bondholders have a higher claim on assets compared to equity shareholders in the event of liquidation.
**Benefit**: Lower risk compared to equity investments.

**Diversification**:
**Merit**: Bonds add diversification to an investment portfolio.
**Benefit**: Reduces overall portfolio risk through asset allocation.

**Liquidity**:
**Merit**: Many bonds are traded on secondary markets, providing liquidity.
**Benefit**: Investors can buy and sell bonds relatively easily.

## Demerits of Bonds

For the Issuing Entity:
**Fixed Obligation**:
**Demerit**: The issuer must make regular interest payments regardless of its financial performance.
**Drawback**: Can strain finances during periods of low profitability.

**Collateral Requirements**:
**Demerit**: Some bonds require collateral or security.
**Drawback**: Limits the use of assets for other financing needs.

**Restrictive Covenants**:
**Demerit**: Bond agreements may include covenants that restrict operational flexibility.
**Drawback**: Limits the issuer's ability to make certain business decisions.

**Impact on Credit Rating**:
**Demerit**: High levels of debt can negatively impact the issuer's credit rating.
**Drawback**: Increases the cost of future borrowing and reduces financial flexibility.

For Investors:
**Interest Rate Risk**:
**Demerit**: Fixed interest rates may not keep up with inflation or rising market interest rates.
**Drawback**: Real returns may diminish over time.

**Credit Risk**:
**Demerit**: There is a risk that the issuer may default on interest or principal payments.
**Drawback**: Potential loss of investment if the issuer faces financial difficulties.

**Lower Returns**:
**Demerit**: Compared to equities, bonds generally offer lower returns.
**Drawback**: Limited upside potential for investors seeking high returns.

**Reinvestment Risk**:
**Demerit**: The risk that proceeds from a bond called before maturity must be reinvested at a lower interest rate.
**Drawback**: Can lead to lower overall returns.

**Inflation Risk**:
**Demerit**: Inflation can erode the purchasing power of the fixed interest payments and principal.
**Drawback**: Reduces the real value of the bond's returns.

**Types of bonds :**

**Corporate Bonds**
They are debt securities issued by firms and sold to investors. Investors receive fixed or variable interest payments at either a fixed or variable interest rate as a return for their capital investment. Upon maturity, the bond's payments cease and the original investment is repaid.
Corporate bonds are generally considered to be a safe and conservative investment in the investment hierarchy. To balance out riskier investments such as growth stocks, investors often add corporate bonds to their portfolios.

**Government Bonds**
These are debt instruments issued by governments to finance their needs and regulate the money supply. These bonds are often used by the government to finance infrastructure development and government spending. As a result, the government will issue bonds and invite investors to invest. When the bond reaches maturity, the government will repay the principal and interest as specified in the contract.
Government bonds in India are generally long-term investments. Typically, these bonds last between 5 and 40 years. Further, government bonds fall into the category of government securities (G-secs). Both state and federal governments can issue government bonds.

**Municipal bonds**
The state, city, county, and other non-federal government entities issue municipal bonds. As with corporate bonds, municipal bonds fund projects or ventures within a state or city, such as highways and schools.
A municipal bond's interest is tax-free at both the federal and state levels. Thus, high-net-worth investors and retirees seeking tax-free income can invest in them. There are different types of municipal bonds based on their maturity terms. A short-term bond usually matures within one to three years, while a long-term bond can take up to ten years to mature.

**Sovereign Gold Bonds**
Central governments issue these bonds to investors who want to invest in gold but do not want to store the gold physically. This bond's interest is tax-exempt. Due to its government backing, it is also regarded as a highly secured bond.
If an investor wishes to redeem their investment, they can do so after the first five years. The redemption date will only affect the date of interest payments following the redemption.

**RBI Bonds**
There are many types of bonds to invest in, but RBI Bonds are one of the most profound. RBI Bonds are issued by the Indian government and can be held by Indian citizens. 12 nationalized banks sell RBI bonds, including the Bank of Baroda, Bank of Maharashtra, State Bank of India, Central Bank of India, and Indian Bank. The maturity term of an RBI bond is 7 years, but one can demand a return at any time. This, however, carries a penalty. Unlike tax-free bonds and fixed deposit accounts, these bonds provide higher returns, a safer source of funds, and relatively short lock-in periods.

**Inflation-linked Bonds**

With inflation-linked bonds, coupon payments and face value are less affected by inflation. The principal amount is adjusted according to the inflation rate, and interest payments are calculated accordingly.

**Zero-Coupon Bonds**

As the name implies, this financial instrument pays no interest. Until the bond matures, the money invested doesn't earn a regular interest rate on the investment. The bond is also called the pure discount bond.

An investor receives the face value when the bond matures, along with the annual returns on the principal amount.

**Convertible Bonds**

Unlike other bonds, this type of bond pays interest and has a face value at maturity but can be converted into stock of the issuing company at a certain point. It combines the features of debt and equity.

**Valuation of Bonds :**

Bond valuation is a technique for determining the theoretical fair value of a particular bond. Bond valuation includes calculating the present value of a bond's future interest payments, also known as its cash flow, and the bond's value upon maturity, also known as its face value or par value. Because a bond's par value and interest payments are fixed, an investor uses bond valuation to determine what rate of return is required for a bond investment to be worthwhile.

**Understanding Bond Valuation :**

A bond is a debt instrument that provides a steady income stream to the investor in the form of coupon payments. At the maturity date, the full face value of the bond is repaid to the bondholder. The characteristics of a regular bond include:

- Coupon rate: Some bonds have an interest rate, also known as the coupon rate, which is paid to bondholders semi-annually. The coupon rate is the fixed return that an investor earns periodically until it matures.
- Maturity date: All bonds have maturity dates, some short-term, others long-term. When a bond matures, the bond issuer repays the investor the full face value of the bond. For corporate bonds, the face value of a bond is usually $1,000 and for government bonds, the face value is $10,000. The face value is not necessarily the invested principal or purchase price of the bond.
- Current price: Depending on the level of interest rate in the environment, the investor may purchase a bond at par, below par, or above par. For example, if interest rates increase, the value of a bond will decrease since the coupon rate will be lower than the interest rate in the economy. When this occurs, the bond will trade at a discount, that is, below par. However, the bondholder will be paid the full face value of the bond at maturity even though he purchased it for less than the par value.

**Conventional Techniques for Bond Valuation**

**1. Discounted Cash Flow (DCF) Method:** This method, akin to a financial time traveller, calculates the present value of all future cash flows, aiding investors in identifying potential investment opportunities.
**2. Yield to Maturity (YTM) Method:** Predicting the total return an investor will garner by holding the bond to maturity, this method factors in face value, coupon rate, current market price, and time to maturity.

**Relative Valuation Methods**

**1. Credit Spreads Analysis:** By comparing a bond’s yield to a benchmark bond, often a government bond with a similar maturity, this analysis gauges the risk associated with the bond under consideration.

**2. Bond Benchmarking:** A technique involving the comparison of a bond's characteristics and performance to a reference bond or a collection of bonds with similar attributes, aiding investors in making well-informed choices.

**The Method of Option-Adjusted Spread (OAS)**

**Callable and Puttable Bonds:** Puttable bonds empower bondholders to sell the bond back before maturity, while callable bonds grant issuers the option to redeem the bond earlier. The OAS approach fine-tunes the bond's risk and return assessment, facilitating effective comparison.

**Bond Valuation Challenges**

**1. Inaccuracy in Predicting Future Cash Flows:** Estimating future cash flows involves subjective assumptions about inflation, interest rates, and other variables prone to fluctuations.
**2. Shifts in the Market Environment:** Factors like changes in investor sentiment, regulatory actions, or market disruptions can impact bond valuation, introducing uncertainties and elevated investment risks.
**3. Challenging Models for Intricate Bond Structures:** The intricacies of modelling complex bonds with embedded options or variable interest rates pose challenges, requiring advanced valuation methods and a deep understanding of the bond's characteristics.
**4. Limitations on Credit Ratings:** Potential conflicts of interest, analysis errors, or infrequent rating updates may result in inaccurate appraisals and suboptimal investment decisions.

**Debentures :**
The word 'debenture' itself is a derivation of the Latin word 'debere' which means to borrow or loan. Debentures are written instruments of debt that companies issue under their common seal. They are similar to a loan certificate.
Debentures are issued to the public as a contract of repayment of money borrowed from them. These debentures are for a fixed period and a fixed interest rate that can be payable yearly or half-yearly. Debentures are also offered to the public at large, like equity shares. Debentures are actually the most common way for large companies to borrow money

**Definition:**
Debentures are unsecured debt instruments issued by companies to raise funds. They represent a form of long-term borrowing where the issuer agrees to pay periodic interest and return the principal amount at maturity.

**Types of Debentures:**
There are various types of debentures that a company can issue, based on security, tenure, convertibility etc. Let us take a look at some of these types of debentures.

- **Secured Debentures:** These are debentures that are secured against an asset/assets of the company. This means a charge is created on such an asset in case of default in repayment of such debentures. So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan. The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.

- **Unsecured Debentures:** These are not secured by any charge against the assets of the company, neither fixed nor floating. Normally such kinds of debentures are not issued by companies in India.

- **Redeemable Debentures**: These debentures are payable at the expiry of their term. Which means at the end of a specified period they are payable, either in the lump sum or in instalments over a time period. Such debentures can be redeemable at par, premium or at a discount.

- **Irredeemable Debentures:** Such debentures are perpetual in nature. There is no fixed date at which they become payable. They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long time interval.

- **Fully Convertible Debentures:** These shares can be converted to equity shares at the option of the debenture holder. So if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.

- **Partly Convertible Debentures**: Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.

- **Non-Convertible Debentures**: As the name suggests such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

**The "Valuation of Debentures."**
Valuing debentures, which are a type of debt instrument, involves determining their present value based on future cash flows. The valuation of debentures is crucial for investors to assess their potential return and for issuers to price them appropriately. Valuing debentures involves estimating the present value of their future cash flows, which include periodic interest payments and the principal repayment at maturity. Various methods can be used to value debentures, each appropriate under different circumstances. Here are the primary methods:

**Determine the Cash Flows:**
**Interest Payments (Coupon Payments):** These are usually periodic payments made to debenture holders. The frequency of these payments can be annual, semi-annual, or quarterly.
**Principal Repayment:** This is the face value or par value of the debenture that will be repaid at maturity.

**Discount Rate:**
The discount rate is the required rate of return or the market interest rate for similar risk investments. It is used to discount future cash flows to their present value.
**Present Value Calculation:**
Calculate the present value of the interest payments by discounting them at the market rate of interest.
Calculate the present value of the principal repayment by discounting it at the market rate of interest.
**Sum of Present Values:**
The value of the debenture is the sum of the present values of the interest payments and the principal repayment.

## Merits of Debentures

**For the Issuing Company:**

**Fixed Interest Cost**:
**Merit**: The interest cost on debentures is fixed and does not fluctuate with company profits.
**Benefit**: Predictable financial planning and budgeting.

**Tax Benefit**:
**Merit**: Interest payments on debentures are tax-deductible.
**Benefit**: Reduces the company's taxable income, providing a tax shield.

**Retained Earnings**:
**Merit**: Issuing debentures allows a company to raise funds without diluting ownership or control.
**Benefit**: Owners retain full control over the business operations and decision-making.
**Flexibility**:
**Merit**: Debentures can be structured to meet the needs of both the company and investors (e.g., convertible, non-convertible, redeemable, or perpetual).
**Benefit**: Provides flexibility in financial structuring.

**Long-Term Financing**:
**Merit**: Debentures provide long-term financing which can be used for capital-intensive projects and expansion.
**Benefit**: Supports sustained growth and development of the company.

**For Investors:**
**Fixed Income**:
**Merit**: Investors receive a fixed rate of interest, providing a steady income stream.
**Benefit**: Suitable for risk-averse investors seeking stable returns.

**Priority in Repayment**:
**Merit**: Debenture holders have a higher claim on assets compared to equity shareholders in the event of liquidation.
**Benefit**: Lower risk of losing investment.

**Convertible Options**:
**Merit**: Some debentures are convertible into equity shares at a later date.
**Benefit**: Potential for capital appreciation if the company's shares perform well.

**Marketability**:
**Merit**: Debentures can be traded on the stock exchange, providing liquidity to investors.
**Benefit**: Flexibility to buy and sell debentures as per market conditions.

## Demerits of Debentures

**For the Issuing Company:**
**Fixed Obligation**:
**Demerit**: The company must pay fixed interest and principal repayments regardless of its financial performance.
**Drawback**: Can strain company finances during periods of low profitability.

**Collateral Requirement**:
**Demerit**: Debentures often require collateral or security.
**Drawback**: Limits the company's ability to use assets for other financing needs.

**Restrictive Covenants**:
**Demerit**: Debenture agreements may include covenants that restrict the company's operational flexibility.
**Drawback**: Limits the company's ability to take certain actions without debenture holders' approval.

**Impact on Credit Rating**:

**Demerit**: High levels of debt financing can negatively impact the company's credit rating.
**Drawback**: Increases the cost of future borrowing and reduces financial flexibility.

**For Investors:**
**Interest Rate Risk**:
**Demerit**: Fixed interest rates may not keep up with inflation or rising market interest rates.
**Drawback**: Real returns may diminish over time.

**Credit Risk**:
**Demerit**: There is a risk that the issuing company may default on interest or principal payments.
**Drawback**: Potential loss of investment if the company faces financial difficulties.

**Lower Returns**:
**Demerit**: Compared to equities, debentures generally offer lower returns.
**Drawback**: Limited upside potential for investors seeking high returns.

**Limited Voting Rights**:
**Demerit**: Debenture holders do not have voting rights in the company.
**Drawback**: No influence over company management and strategic decisions.

## Preference Shares –

It is considered as a hybrid security option as it represents the characteristics of both debt and equity investments.
The capital raised by issuing preference shares is known as preference share capital and preference shareholders can be regarded as owners of the company. They however do not enjoy any kind of voting rights, unlike equity shareholders.

**Preference Share Meaning**
Preference shares, also known as preferred stock, is an exclusive share option which enables shareholders to receive dividends announced by the company before the equity shareholders.
Preference shares provide the shareholders with the special right to claim dividends during the company lifetime, and also with the option to claim repayment of capital, in case of the wind up of the company.

**Features of Preference Shares**
The following are the features of preference shares:
1. Preferential dividend option for shareholders.
2. Preference shareholders do not have the right to vote.
3. Shareholders have a right to claim the assets in case of a wind up of the company.
4. Fixed dividend pay-out for shareholders, irrespective of profit earned.
5. Acts as a source of hybrid financing.

**Merits of Preference Shares**
- **Stable Income**: Provides regular and predictable dividend income.
- **Priority Over Common Shares**: In terms of dividend payments and asset distribution.
- **Lower Risk**: Compared to common shares due to fixed dividend payments and higher claim in liquidation.
- **Convertible Options**: Potential for capital appreciation if converted into common shares.
- **No Dilution of Control**: Generally no voting rights, thus not diluting the control of existing shareholders.

**Demerits of Preference Shares**
- **Limited Upside**: Fixed dividend payments limit potential for capital appreciation.

- **No Voting Rights**: Limited influence on corporate governance.
- **Callable Risk**: Redeemable preference shares can be bought back by the company, limiting long-term income potential.
- **Higher Risk Than Debt**: Lower priority in asset distribution compared to debt holders.

**Types of Preference Shares**
The various types of preference share are discussed below:

1. **Cumulative preference share:** Cumulative preference shares are a special type of shares that entitles the shareholders to enjoy cumulative dividend pay-out at times when a company is not making profits. These dividends will be counted as arrears in years when the company is not earning profit and will be paid on a cumulative basis, the next year when the business generates profits.

2. **Non-cumulative preference shares:** These types of shares do not accumulate dividends in the form of arrears. In the case of non-cumulative preference shares, the dividend pay-out takes place from the profits made by the company in the current year. If there is a year in which the company doesn't make any profit, then the shareholders are not paid any dividends for that year and they cannot claim for dividends in any future profit year.

3. **Participating preference shares:** These types of shares allow the shareholders to demand a part in the surplus profit of the company at the event of liquidation of the company after the dividends have been paid to the other shareholders. In other words, these shareholders enjoy fixed dividends and also share a part of the surplus profit of the company along with equity shareholders.

4. **Non-participating preference shares:** These shares do not yield the shareholders the additional option of earning dividends from the surplus profits earned by the company. In this case, the shareholders receive only the fixed dividend.

5. **Redeemable Preference Shares:** Redeemable preference shares are shares that can be repurchased or redeemed by the issuing company at a fixed rate and date. These types of shares help the company by providing a cushion during times of inflation.

6. **Non-redeemable Preference Shares:** Non-redeemable preference shares are those shares that cannot be redeemed during the entire lifetime of the company. In other words, these shares can only be redeemed at the time of winding up of the company.

7. **Convertible Preference Shares:** Convertible preference shares are a type of shares that enables the shareholders to convert their preference shares into equity shares at a fixed rate, after the expiry of a specified period as mentioned in the memorandum.

8. **Non-convertible Preference Shares:** These type of preference shares cannot be converted into equity shares. These shares will only get fixed dividend pay-out and also enjoy preferential dividend pay-out during the dissolution of a company.

**Valuation of preference shares :**

The valuation of preference shares is similar to the valuation of bonds, and is based on the present value of expected future cash flows discounted by a rate of return. This rate of return, or required rate of return, is made up of a risk-free rate and a premium for risk. The risk premium for preference shares is higher than that for bonds, but lower than that for equity shares. This is because preference shareholders have a prior claim on the company's income and assets, and their dividends are fixed.

**Equity Shares-**

**Equity Shares Meaning – An equity share is a company's partial ownership**. A company issues equity shares to raise funds while diluting its ownership. It allows the investors to purchase units of equity shares and share the firm's ownership with them. Investors owning the equity shares of a company contribute towards the company's total capital and become shareholders.

An equity share, normally known as ordinary share is a part ownership where each member is a fractional owner and initiates the maximum entrepreneurial liability related to a trading concern. These types of shareholders in any organization possess the right to vote.

**Key Features of Equity Shares**

1. **Ownership Rights**:
   - **Description**: Equity shareholders are the owners of the company. They hold a residual interest in the company's assets after all liabilities have been paid.
   - **Benefit**: Provides a claim on the company's assets and earnings.

2. **Voting Rights**:
   - **Description**: Shareholders typically have the right to vote on major corporate matters, including the election of directors and approval of significant corporate actions.
   - **Benefit**: Gives shareholders a say in the management and strategic direction of the company.

3. **Dividend Entitlement**:
   - **Description**: Equity shareholders are entitled to receive dividends, which are a share of the company's profits distributed to shareholders. Dividends are usually paid in cash or additional shares.
   - **Benefit**: Provides a return on investment, although dividends are not guaranteed and depend on the company's profitability.

4. **Capital Appreciation**:
   - **Description**: The value of equity shares can increase over time as the company grows and becomes more profitable. Shareholders can realize capital gains by selling their shares at a higher price than they paid.
   - **Benefit**: Potential for significant returns through the increase in share price.

5. **Limited Liability**:
   - **Description**: Shareholders' liability is limited to the amount they have invested in the shares. They are not personally liable for the company's debts and obligations.
   - **Benefit**: Protects shareholders from losing more than their investment.

6. **Pre-emptive Rights**:
   - **Description**: Existing shareholders may have the right to purchase additional shares before the company offers them to the public. This is to maintain their proportional ownership in the company.
   - **Benefit**: Allows shareholders to avoid dilution of their ownership stake.

7. **Residual Claim on Assets**:
   - **Description**: In the event of liquidation, equity shareholders have a residual claim on the company's assets after all debts and other obligations have been paid. This is typically the last claim.
   - **Benefit**: Potential to recover investment if the company has remaining assets after settling its obligations.

8. **Right to Information**:
   - **Description**: Shareholders have the right to receive timely and accurate information about the company's financial performance and other important matters.
   - **Benefit**: Enables informed decision-making regarding their investment.

9. **Transferability**:
   - **Description**: Equity shares are usually easily transferable, meaning shareholders can buy or sell their shares in the stock market or through private transactions.
   - **Benefit**: Provides liquidity and flexibility for shareholders.

10. **No Fixed Dividend**:
    - **Description**: Unlike preference shares or bonds, equity shares do not guarantee fixed dividend payments. Dividends are variable and depend on the company's profitability and dividend policy.
    - **Benefit**: While it means income is uncertain, it also means there is potential for higher returns in profitable years.

11. **Risk and Reward**:
    - **Description**: Equity shareholders bear the highest risk as they are the last to be paid in case of liquidation. However, they also have the potential for the highest returns through dividends and capital appreciation.
    - **Benefit**: Attracts investors who are willing to take on higher risk for the possibility of higher returns.

12. **Participation in Management**:
    - **Description**: Shareholders can influence the company's management and strategic direction through their voting rights and participation in annual general meetings (AGMs).
    - **Benefit**: Provides an avenue to influence company decisions and policies.

13. **Regulatory Protection**:
    - **Description**: Equity shareholders are protected by securities regulations and corporate governance standards that ensure transparency and fair treatment.
    - **Benefit**: Provides a level of security and confidence for investors.

**Types of Equity Share**

Equity shares, also known as common shares, can be classified into different types based on various criteria. Here are the main types of equity shares:

**1. Based on Voting Rights**
**Ordinary Shares**:
**Description**: The most common type of equity shares, offering voting rights on corporate matters.
**Features**: Full voting rights, dividend payments based on company performance, and residual claim on assets.

**Non-Voting Shares**:
**Description**: Shares that do not provide the right to vote on corporate matters.
**Features**: Often issued to avoid dilution of control. May come with higher dividend payments as compensation for the lack of voting rights.

**Dual-Class Shares**:
**Description**: Companies may issue dual-class shares to retain control. One class (often held by founders or executives) has superior voting rights, while the other class (available to the public) has limited or no voting rights.
**Features**: Different voting rights and dividend payments, used to maintain control by a select group.

**2. Based on Dividend Payments**
**Dividend Equity Shares**:
**Description**: Shares specifically issued with the promise of regular dividends.
**Features**: Prioritized in dividend payments, suitable for income-focused investors.

**Growth Shares**:
**Description**: Shares issued by companies expected to grow significantly, with profits often reinvested rather than paid out as dividends.
**Features**: Lower or no dividends, higher potential for capital appreciation.

**3. Based on Payment of Capital**
**Partly Paid Shares**:
**Description**: Shares for which the company has only called up a part of the total face value, with the remaining amount due in the future.
**Features**: Initial lower investment requirement, further payments may be demanded as per company needs.
**Fully Paid Shares**:
**Description**: Shares for which the total face value has been paid by the shareholder.
**Features**: No further financial obligation towards the company, full rights as per company's charter.

**4. Based on Conversion**
**Convertible Equity Shares**:
**Description**: Shares that can be converted into another type of security, typically preferred shares or debentures, after a specified period.
**Features**: Flexibility for investors, potential to benefit from fixed income after conversion.
**Non-Convertible Equity Shares**:
**Description**: Shares that cannot be converted into another type of security.
**Features**: Traditional equity characteristics, focusing on growth and dividends.

**5. Based on Return Characteristics**
**Value Shares**:
**Description**: Shares trading at a price lower than their intrinsic value, often from established companies with stable earnings.
**Features**: Potential for price correction, suitable for value investors seeking undervalued opportunities.
**Blue Chip Shares**:
**Description**: Shares of large, well-established, and financially sound companies with a history of reliable performance.
**Features**: Lower risk, steady growth, regular dividends, and high liquidity.

**6. Based on Market Capitalization**
**Large-Cap Shares**:
**Description**: Shares of companies with large market capitalization, typically over $10 billion.
**Features**: Stability, lower risk, regular dividends, and high liquidity.
**Mid-Cap Shares**:
**Description**: Shares of companies with medium market capitalization, typically between $2 billion and $10 billion.
**Features**: Balanced risk and return, potential for growth, moderate liquidity.
**Small-Cap Shares**:
**Description**: Shares of companies with small market capitalization, typically less than $2 billion.
**Features**: Higher risk, high growth potential, lower liquidity.

**7. Based on Sector**

**Sector-Specific Shares**:
**Description**: Shares categorized based on the industry or sector they belong to, such as technology, healthcare, finance, etc.
**Features**: Performance tied to sector trends and economic cycles, diversification opportunities.

**8. Based on Issuance**
**Initial Public Offering (IPO) Shares**:
**Description**: Shares issued when a company goes public for the first time.
**Features**: Opportunity to invest early in a company's public life, potentially high returns, higher risk.
**Seasoned Equity Offering (SEO) Shares**:
**Description**: Additional shares issued by a company after the IPO to raise more capital.
**Features**: Dilution of existing shares, typically less volatile than IPO shares.

**Merits and Demerits of Equity Shares :**

Equity shares, also known as common shares or ordinary shares, are a fundamental component of corporate finance and investment portfolios. They offer several advantages and disadvantages to both investors and issuing companies. Below are the key merits and demerits of equity shares:

**Merits of Equity Shares**

**For Investors:**
**Ownership and Voting Rights**:
**Merit**: Equity shareholders are partial owners of the company and have voting rights, allowing them to influence corporate decisions.
**Benefit**: Provides a sense of control and participation in the company's growth and governance.

**Capital Appreciation**:
**Merit**: The value of equity shares can increase over time, providing investors with the opportunity for capital gains.
**Benefit**: Potential for high returns on investment through an increase in share price.

**Dividend Income**:
**Merit**: Shareholders may receive dividends, which are a share of the company's profits distributed to shareholders.
**Benefit**: Provides a source of regular income, although dividends are not guaranteed and depend on company profitability.

**Liquidity**:
**Merit**: Equity shares are typically traded on stock exchanges, providing high liquidity and the ability to buy and sell shares easily.
**Benefit**: Offers flexibility and quick access to cash if needed.

**Limited Liability**:
**Merit**: Shareholders' liability is limited to the amount they have invested in the shares. They are not personally liable for the company's debts.
**Benefit**: Protects shareholders from losing more than their investment.

**Diversification**:
**Merit**: Equity shares provide an opportunity to diversify an investment portfolio across different sectors and companies.
**Benefit**: Helps in managing risk and potentially improving overall portfolio returns.

**For Issuing Companies:**

**Permanent Capital**:
**Merit**: Equity capital is a permanent source of funds that does not need to be repaid, unlike debt.
**Benefit**: Provides long-term financial stability and can be used for growth and expansion.

**No Interest Obligation**:
**Merit**: Companies do not have to pay interest on equity capital, unlike debt financing.
**Benefit**: Reduces the financial burden on the company and improves cash flow.

**Improved Creditworthiness**:
**Merit**: A strong equity base can improve a company's creditworthiness and reduce the cost of borrowing.
**Benefit**: Easier access to additional financing at lower interest rates.

**Demerits of Equity Shares**

**For Investors:**
**Market Risk**:
**Demerit**: Equity shares are subject to market volatility, and their value can fluctuate significantly based on market conditions.
**Drawback**: Potential for loss of capital, especially in the short term.

**No Guaranteed Returns**:
**Demerit**: Dividends are not guaranteed and are paid only if the company is profitable and decides to distribute profits.
**Drawback**: Uncertain income, which may not be suitable for investors seeking stable returns.

**Residual Claim**:
**Demerit**: In the event of liquidation, equity shareholders have a residual claim on assets, meaning they are paid after all debts and other obligations have been settled.
**Drawback**: Higher risk of losing investment if the company goes bankrupt.

**Dilution of Ownership**:
**Demerit**: Issuance of additional equity shares can dilute existing shareholders' ownership and control.
**Drawback**: Reduced voting power and share of future profits.

**For Issuing Companies:**

**Dividend Obligation**:
**Demerit**: While not legally obligated, companies may feel pressured to pay dividends to maintain investor confidence.
**Drawback**: Can strain company resources, especially in lean times.

**Dilution of Control**:
**Demerit**: Issuing additional shares can dilute the control of existing shareholders, including founders and major stakeholders.
**Drawback**: Potential loss of control over company decisions.

**High Cost of Equity**:
**Demerit**: The cost of equity is generally higher than debt due to the risk premium demanded by investors.
**Drawback**: More expensive source of capital compared to debt financing.

**Disclosure and Compliance**:
**Demerit**: Publicly traded companies are subject to stringent disclosure and compliance requirements.
**Drawback**: Increased administrative burden and costs associated with regulatory compliance.

Equity shares offer numerous benefits, such as ownership rights, potential for capital appreciation, and limited liability for investors. For companies, equity shares provide permanent capital and improve creditworthiness. However, they also come with risks like market volatility, no guaranteed returns, and potential dilution of ownership. Understanding these merits and demerits is crucial for both investors and companies to make informed financial decisions.

**Difference between Equity Shares and Preference Shares**

| Points | Equity Shares | Preference shares |
|---|---|---|
| Definition | | |
| Dividend | ESH get the dividend from the remaining income after paying dividends to preference shares. | PSH gets the preference in getting dividends. |
| Redemption | After the maturity period. | At the time of winding of the company. But they can be sold. |
| Repayment of capital | PSH have the priority over ESH at the time of liquidation or winding up of the company. | ESH are repaid after the payment made to the PSH at liquidation. |
| Rate of dividend | Rate is higher than PSH. | Fixed rate of dividend |
| Voting right | ESH enjoy voting rights. | PSH have restricted voting rights. |
| Share price | Nominal value is less than Preference shares. | Nominal value is more than equity shares. |
| Right to participate in management | ESH have the right to participate in management. | PSH don't have the right to participate in the administration and control of the company. |
| Accumulation of dividend | If dividend not paid during the current year, it lapses. | In case of cumulative preference shares, dividend can be accumulated for next 3 years if not paid during the current year. |
| Bonus shares | ESH will be enjoying bonus shares issued by company free of cost, out of ploughing back of profits. | PSH donot enjoy bonus shares. |
| Right shares | Existing ESH enjoy pre-emptive rights of getting first priority of purchasing the equity shares out of the new issue in proportionate ratio. | PSH donot enjoy right shares. |
| Capital | It provides permanent capital. | It provides temporary |

( Dividend Capitalization Approach – With and
without growth – Earnings Capitalization Approach with and without growth )

**VALUATION OF EQUITY SHARES**

Valuation of equity shares is difficult as compared to the valuation of debentures or preference shares. This is because of the following:

1. Equity shares do not carry a fixed dividend or interest rate as is the case with preference shares or debentures. Equity shareholders may or maynot get dividends. Hence, there is grea ter uncertainty regarding the future stream of cash flows in the form of dividends.
2. Earnings or dividends on equity shares are expected to grow unlike interest on debentures and preference dividends. Methods of Valuation There are different methods of valu ation of equity shares.

Valuation of equity shares involves determining the intrinsic value of a company's stock. This process is crucial for investors who want to make informed decisions about buying, holding, or selling shares. Here are some commonly used methods for valuing equity shares:

**1. Dividend Discount Model (DDM)**
This model values a share based on the present value of expected future dividends. There are different variations of the DDM, including the Gordon Growth Model for companies with stable growth rates.

**2. Price/Earnings (P/E) Ratio**
The P/E ratio is a relative valuation method that compares the market price of a share to its earnings per share (EPS). It's commonly used due to its simplicity and availability of data.

**3. Discounted Cash Flow (DCF) Analysis**
DCF valuation involves estimating the present value of the company's future free cash flows (FCF). This method is considered more comprehensive as it accounts for all future cash flows generated by the company.

**4. Net Asset Value (NAV) or Book Value**
NAV involves valuing a company's equity based on the net value of its assets after deducting liabilities. This method is particularly useful for valuing asset-intensive businesses.

**5. Economic Value Added (EVA)**
EVA measures the value a company generates from funds invested in it. It's the net operating profit after taxes (NOPAT) minus the capital charge (cost of capital).

**6. Comparable Company Analysis (Relative Valuation)**
This method involves comparing the company's valuation multiples (e.g., P/E, EV/EBITDA) with those of similar companies in the same industry.

They are basically based on the following two approaches: i. Dividend Capitalization Approach ii. Earning Capitalization Approach

**(1) Dividend Capitalization Approach :** This is conceptually a very sound approach. According to this approach the value of an equity share is equivalent to the present value of future dividends plus the present value of the price expected to be realized on its resale. The Dividend Capitalization Approach is a powerful tool for valuing stocks of companies with stable and predictable dividend growth. While it has limitations, it provides a clear and direct method for estimating the intrinsic value of a share based on future dividend payments. Investors should use it alongside other valuation methods to obtain a comprehensive view of a stock's value.

The dividend capitalization approach, also known as the dividend discount model (DDM), is a method used to value a company's equity by estimating the present value of the expected future dividends that the company will pay to its shareholders. The basic concept behind this approach is that a company's true worth is determined by its ability to generate cash flows for its shareholders, and dividends are a tangible reflection of that ability. The simplest form of the DDM is the Gordon Growth Model, which assumes a constant growth rate of dividends. The formula for the single-stage (constant growth) DDM is: $P = D1 / (r - g)$

Where:

- P is the price of the stock
- D1 is the expected dividend in the next period
- r is the required rate of return or discount rate
- g is the expected growth rate in dividends, which should be less than the discount rate

**The dividend capitalization approach has several applications, including:**

- Equity valuation: Used by investors to determine if a stock is over or undervalued based on its current market price compared to the calculated intrinsic value
- Corporate finance: Helps in assessing the impact of different dividend policies on the value of the company
- Comparative analysis: Allows comparison among companies with similar dividend pay-out patterns within the same industry

**However, the model also has some limitations, such as:**

- Dependence on dividends: Not suitable for companies that do not pay dividends or whose dividend patterns are irregular
- Sensitivity to estimations: Highly sensitive to the inputs of growth rate and discount rate; small changes in assumptions can lead to significant changes in the estimated value
- Ignoring other factors: Does not account for earnings that are reinvested back into the company rather than distributed as dividends, potentially undervaluing growth companies

Despite its limitations, the dividend capitalization approach remains a popular valuation method among investors who want to estimate the value of a company's stock

**The approach is based on the following assumptions:**

1. Dividends are paid annually.
2. The dividend is received after the expiry of a year of purchase of equity share.

**Advantages**

1. **Simplicity**: The model is easy to understand and apply.
2. **Focus on Dividends**: It directly links the stock value to dividends, which are tangible returns to shareholders.
3. **Stability**: Suitable for companies with stable dividend policies and growth rates.

**Limitations**

1. **Constant Growth Assumption**: The model assumes a constant growth rate, which may not be realistic for all companies, especially those in volatile or high-growth industries.
2. **Required Rate of Return**: Accurately estimating the required rate of return can be challenging and subject to market conditions.
3. **Dividends Required**: Not applicable to companies that do not pay regular dividends, such as many technology firms and start-ups.
4. **Sensitive to Inputs**: The model is highly sensitive to changes in the growth rate and required rate of return, which can significantly affect the valuation.

**Growth in Dividends**

In the above illustration we have presumed that dividend per share remains constant year after year. However, this presumption is unrealistic. Earnings and dividends of most companies grow over time at least because of their retention policies. As a result of this the company would have an increased earning per share every year if the number of shares does not change.

(b) Variable Growth in Dividends : Dividends on equity shares of a company may not grow at a constant rat e. In some companies dividends grow at a supernormal rate during the period when there is a constant increasing demand for the company's products. The dividend starts to grow at a normal rate after the demand for the company's product reaches the normal level.

**(2) Earning Capitalization Approach**
The dividend capitalization model, as explained in the preceding pages, is the basic share valuation model. However, under the following two cases, the value of an equity share can simply be determined by capitalizing the expected earnings. When the Earnings of the Firm Are Stable In this case the earnings will not grow. This happens w hen the firm does not employ any external financing nor does it retain earnings. In other words, both the growth rate and the retention rate are 'zero'. In such a case the earning rate and the dividend rate are the same. Hence, the following equation can be used for valuing the equity shares.

Value of a firm or securities depends on the required rate of return and the time period over which this return is expected to be received. While valuing an asset or security the fact that money has a time value should not be ignored. The fundamental principle behind the concept of time value of money is that a sum of money received today is worth more than if the same is received after some time.

The earnings capitalization approach is a method used to value a business by estimating the present value of its expected future earnings. It involves calculating the net present value (NPV) of anticipated future profits or cash flows and dividing them by the capitalization rate, which represents the rate of return an investor would expect for investing in the business.

**Key Components**

1. **Earnings**: The expected future earnings or cash flows of the business, which can be based on historical earnings, projected future earnings, or a combination of both.
2. **Capitalization Rate**: The rate at which the earnings are capitalized, reflecting the required rate of return for an investor considering the investment's risk. It is calculated by subtracting the expected growth rate of the company from the investor's required rate of return.

**Formula**
The formula for the earnings capitalization approach is: Business Value = Earnings / Capitalization Rate
Applications

1. **Valuation**: Used to estimate the value of a business, a business ownership interest, or shares of a company.
2. **Investment Analysis**: Helps investors determine the potential risks and returns of purchasing a company.
3. **Small Businesses**: Particularly useful for valuing small, stable businesses with predictable earnings or cash flows.

**Limitations**

1. **Assumptions**: The method relies on several assumptions, including the accuracy of earnings and capitalization rate estimates, which can be subjective and may vary depending on the analyst's assumptions and judgment.
2. **Inaccurate Projections**: The method may not be suitable for valuing companies with fluctuating or unpredictable earnings or those experiencing rapid growth.
3. **Risk Factors**: The capitalization rate should reflect the buyer's risk tolerance, market characteristics, and the company's expected growth factor, which can be difficult to determine, especially for start-ups.

**Example**

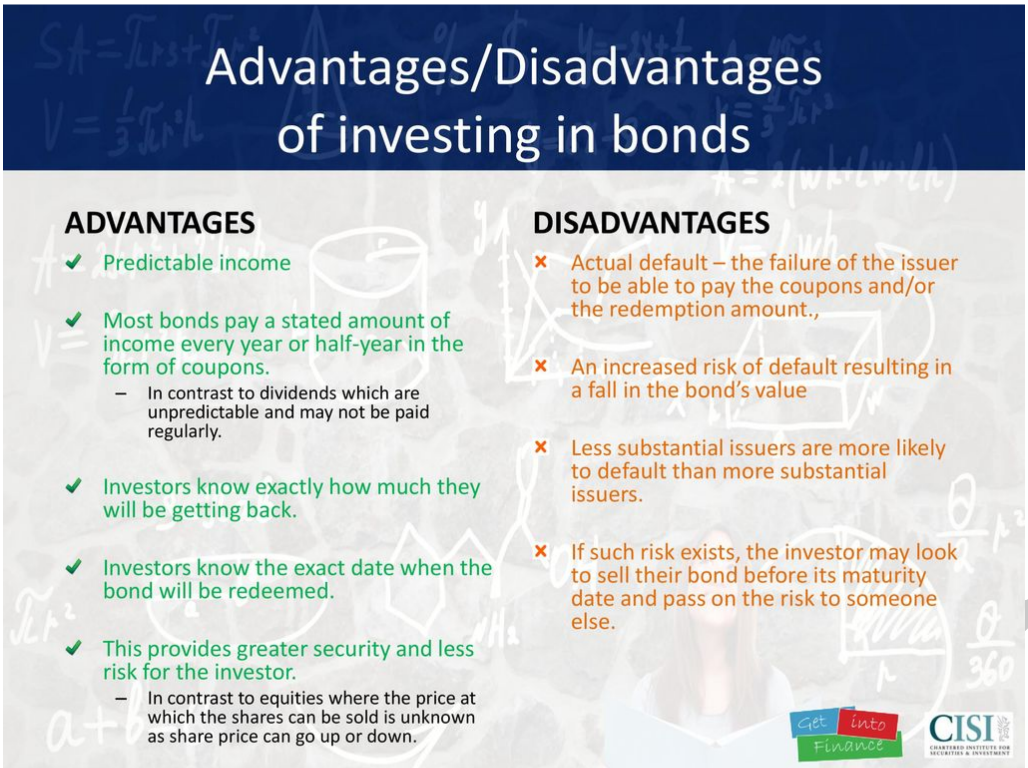
For instance, if a company has an average annual net income of $500,000 and an investor requires a 15% rate of return, the capitalization rate would be 12% (15% - 3% expected growth rate). The business value would then be calculated as $500,000 / 0.12 = $4,166,667.

The earnings capitalization approach is a straightforward method for valuing a business based on its expected future earnings. However, it requires careful consideration of the assumptions and limitations involved to ensure accurate valuations.

## Comparison of Bonds, Perpetual Securities, Preference Shares & Ordinary Shares

My Money
Smart Investing For Everyone.

| | Bonds | Perpetual Securities | Preference Shares | Ordinary shares |
|---|---|---|---|---|
| Preference in Coupon/Dividend Payments | Paid first | Paid after bond but before preference shares | Paid after bond and perpetual securities but before ordinary shares | Last in line to receive dividends |
| Amount of coupon/dividend | Usually lower than Preference Shares | Usually higher than Bonds | Usually higher than perpetual securities | Depends on corporate profitability |
| Voting rights | Usually has no voting rights | Usually has no voting rights | Usually has no voting rights | Has voting rights |
| Capital gains | Limited. Usually when interest rates go down or credit spread narrows. | Limited. Usually when interest rates go down or credit spread narrows. Price move is larger than bond | Limited. Usually when interest rates go down or credit spread narrows. Price move is larger than bond. | Unlimited. Depends on future expected profitability. |
| Investment risks | Lowest | Medium | Medium | Highest |
| Preference in event of liquidation | Paid first | Paid after bond but before preference shares | Paid after bond but before ordinary shares | Last in line to receive any residual value |
| Convertibility to ordinary shares | No, unless it's a convertible bond | No | Usually no. Some may have a convertible feature | - |


Advantages/Disadvantages of investing in bonds
ADVANTAGES
Predictable income
Most bonds pay a stated amount of income every year or half-year in the form of coupons.
– In contrast to dividends which are unpredictable and may not be paid regularly.
Investors know exactly how much they will be getting back.
Investors know the exact date when the bond will be redeemed.
This provides greater security and less risk for the investor.
– In contrast to equities where the price at which the shares can be sold is unknown as share price can go up or down.
DISADVANTAGES
Actual default – the failure of the issuer to be able to pay the coupons and/or the redemption amount.,
An increased risk of default resulting in a fall in the bond's value
Less substantial issuers are more likely to default than more substantial issuers.
If such risk exists, the investor may look to sell their bond before its maturity date and pass on the risk to someone else.
Get into Finance
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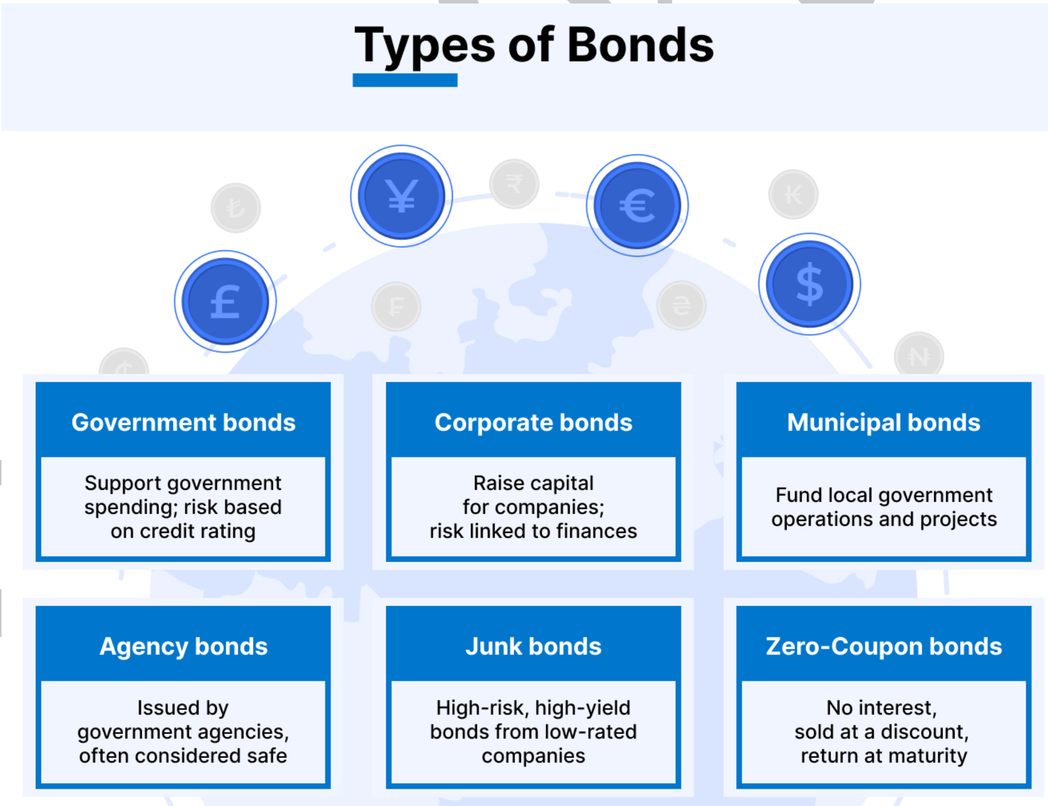
Types of Bonds
Government bonds
Support government spending; risk based on credit rating
Corporate bonds
Raise capital for companies; risk linked to finances
Municipal bonds
Fund local government operations and projects
Agency bonds
Issued by government agencies, often considered safe
Junk bonds
High-risk, high-yield bonds from low-rated companies
Zero-Coupon bonds
No interest, sold at a discount, return at maturity

# Advantages & Disadvantages Of Equity Shares

## What is Equity Share?

Equity shares were before known as conventional offers. The holders of these offers are the genuine proprietors of the organization. They have a democratic directly in the gatherings of holders of the organization. They have a command over the working of the organization. equity investors are delivered profit subsequent to paying it to the inclined investors.



## Advantages

-Profitable.
-Limited liability.
-Liquidity.
-Bonus shares.
-Capital gain.

## Disadvantages

-Profit is not fixed.
-High-risk.
-Ups and downs in the market.
-Limited control.
-Residual claim.