

# Determinants of Share Valuation

**Mr. Taher Saifuddin Chhuriwala**

Senior Finance Manager, Finance & Accounts, Dawat-E-Hadiyah - Faizul Mawaidil Burhaniyah

## Abstract

Share valuation is important for investment decisions, capital formation, and market stability. The price of a company's share depends on various interrelated factors, including market dynamics, corporate performance, investor perception, and external economic factors. This research looks into the factors that affect share valuation, highlighting the connection between share price and market price, as well as how manipulation and investor behavior impact valuation. The study examines both theoretical frameworks and real-world examples, such as the Harshad Mehta and Sahara scams, to understand the effects of market irregularities. Data was collected from 45 respondents in Mumbai using structured questionnaires, along with secondary sources like journals and reports. The findings indicate that investor awareness, company performance, dividend policies, and market sentiments have a direct effect on share valuation. Manipulative practices, while temporary, can distort prices and damage investor trust. The paper concludes that transparency, good regulation, and investor education are essential for a fair and efficient market.

## CHAPTER I - INTRODUCTION

As the title suggests, this research focuses on the valuation of shares and how investors make decisions regarding equity investment. In many cases, investors decide to invest in a company based on its name, brand reputation, or market rumors rather than proper valuation. This creates a gap between the actual (intrinsic) value of shares and their market price. Therefore, understanding the concept of shares, share pricing, and valuation techniques becomes essential before making any investment decision.

This chapter explains what shares are, how their prices are determined, and the role of manipulation in influencing market value. It lays the foundation for understanding why valuation is important for investors and how mispricing leads to gains or losses.

### 1.1 Shares

For any business to start and grow, capital is essential. In sole proprietorships or partnerships, the owners directly contribute capital. However, for companies that require a much larger capital base, it becomes difficult for a single individual or few partners to finance the business. Therefore, the concept of issuing shares was introduced.

A share can be defined as an indivisible unit of capital that establishes the ownership relationship between the company and the shareholders. The entire capital of a company is divided into small units called shares. Investors who purchase these shares become partial owners of the company and are entitled to certain rights, including voting rights and profit sharing through dividends.

The number of shares to be issued depends on the required capital and the value assigned to each share. Companies may issue shares at face value, at a premium, or at a discount depending on their experience in the market and their goodwill.

### Case 1:

Let Khokhar Limited raise Rs. 30,00,000 and let the face value of each share is Rs.10/- and if the shares

are sold on face value or par value then the number of shares to be sold by the company to raise Rs. 30,00,000

$$= \text{Rs. } 30,00,000$$

$$\frac{\quad}{10}$$

$$= 3,00,000 \text{ shares at the rate Rs. } 10 \text{ each.}$$

In India generally face value of a share is always Rs.10 and if the face value is any amount above Rs. 10 is termed as premium and the face value of a share is any amount below Rs. 10 is discount.

Case 2:

Now let us understand the premium. If in the above example Mustafa Khokhar Limited decides to sale it share at the rate Rs. 12 then the number of shares to be sold by the company to raise Rs. 30,00,000

$$= \text{Rs. } 30,00,000$$

$$\frac{\quad}{12}$$

$$= 2,50,000 \text{ shares at the rate Rs. } 12 \text{ each.}$$

Case 3:

Now if the company sale its share at Rs 8 then the number pf shares to be sold by the company to raise Rs. 30,00,000

$$= \text{Rs. } 30,00,000$$

$$\frac{\quad}{8}$$

$$= 3,75,000 \text{ shares at the rate Rs. } 8 \text{ each.}$$

**Issuing shares at a premium reduces the number of shareholders and increases capital per share.**

**However, Issuing shares at a discount attracts more investors but increases ownership.**

Now the companies take their decision to sale its shares at a premium or at a discount

or on face/par value depends on two factors that are from how many years the company operate in the market or in other words what is the life of the company or in layman's language we can say how much experience the company poses. And the second most important factor is goodwill which can be termed as name of the company also. If a company is operating from so many years and if the company had a very good reputation (goodwill) in the market then the company has the choice to sale its shares on premium but if the company is new and without any reputation (goodwill) then they can sale the shares on face or par value or on discount also to attract more and more number of investor. In a competitive market like India companies generally prefers discount to enter in a new market to attract more number of investors.

Now the premium or discount is a very important and at the same time a very crucial decision for companies to take. This is because by purchasing the shares of the company the buyer's become shareholders of the company and thus by becoming shareholders of the company the buyer becomes owner of the company. Therefore, the greater and higher the number of shares will be the higher the owners of the company. No company wants higher number of owners of the company because it affects the decision-making power of the company and owners have the right to interfere in each matter or every decision of the company whether related to business or not. Therefore, from the above example we can draw some important conclusions which are

1. Premium gives the opportunity to the company to raise same amount of money and at the same time by not increasing the number of shareholders or owners which means premium shares an inverse

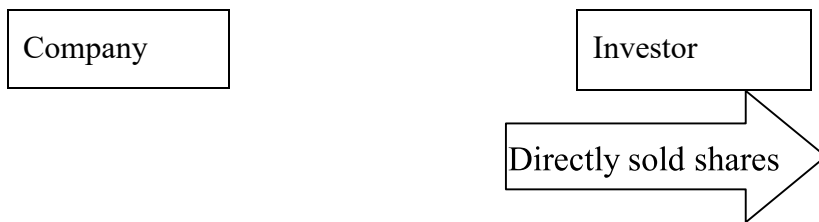
relationship with number of equity shareholders or owners which basically means premium decreases owners. (refer case 2)

- Discounts increase owners or equity shareholders. But at the same time, it attracts more buyers. If the company is new and wants to raise a very large number of amounts, then it is the most suitable option for the company because discount increases demand of shares by investors. (refer case 3)

It is crystal clear from case 2 that the number of share or number of owners, which is 2,50,000, which is much lower than case 3 in which the number of shares or number of owners is 3,75,000. A huge difference of 1,25,000 number of shares or owners occurs in case three.

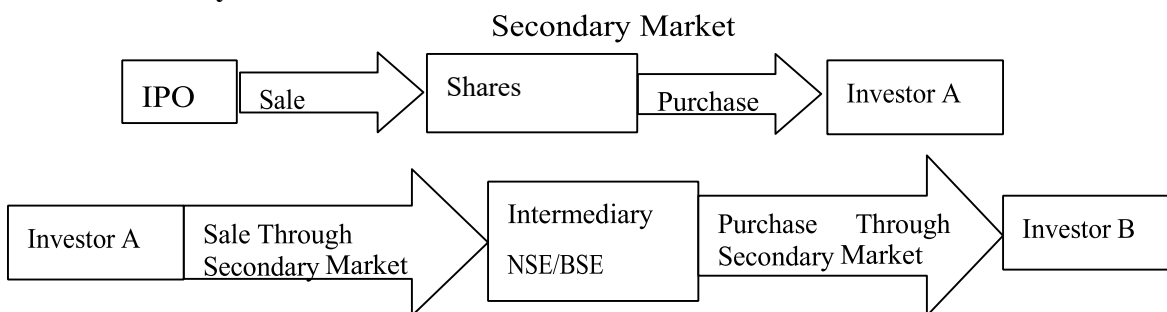
So, from all the above explanation we can define a share as “a share is an indivisible unit of capital, expressing the relation of ownership between the company or business and the equity shareholders”.

### 1.1.1 Initial Public Offer (IPO)



An Initial Public Offer (IPO) is the process by which a company offers its shares to the public for the first time. This includes institutional investors and retail investors. IPOs are underwritten by investment banks that guarantee the sale of shares for a fee. The primary purpose of an IPO is to raise large-scale funds for business growth and expansion.

### 1.1.2. Secondary Market



However, the secondary market refers to a market where securities are traded after being initially offered to the public in the primary market and/ or listed on the stock exchange. In other words, we can say that Secondary market is a financial market in which the previously issued financial instruments or basically known as shares/stock, bonds, options and futures are bought and sold. The secondary market is also known as Aftermarket and follows public offering. The main difference in primary market or Initial Public Offer (IPO) and a secondary market is that in the primary market the shares are directly sold by the companies and therefore directly bought by the investors. However, secondary market shares are sold by investors and bought by investors only. For example, if a share was sold in Initial Public Offer (IPO) to an investor for Rs. 10 (Single share) now after the Initial Public Offer (IPO) the company lists its shares in stock exchange to make its shares marketable and profitable and to make it share actively traded. This listing in the stock exchange by the company is known as making its

shares marketable in the secondary market. Now if that share was sold by the initial investor for any reason to other investors it is known as trading in the secondary market. Secondary market is a market like B2B that is Business to Business with the only difference is that it is I2I that is Investor to Investor. Majority of the trading is done in the secondary market.

Secondary market is comprised of Equity market and the Debt markets.

## 1.2. Share price

For any trade to be successfully carried out price is the most important factor. For the trade of shares the most important thing and factor is the share price. So now let us understand what a share price is. A share price means “The price of an individual share in a company”. In other words, it can be explained as the price of a particular company’s share at a particular period or at a given time.

### 1.2.1. Determinants of Share price

A share price is decided through so many factors without which a share price cannot be determined therefore these factors are also known as determinants of share price. Following are the determinants of share price which is the core of this study or in other words we can say that factors affecting the share price of a company.

The determinants of share price are.

#### 1. Market Price

The market price is mainly dependent on the demand and supply factor of an individual or particular security in the market. The market price shows the exact difference between the demand and supply of that particular security. Which means that if the demand is higher, which also means public wants to purchase more and the market price on the higher side. However, if in the position of vice versa which means supply is on the higher side and public don’t want to purchase the shares at a particular given price then the market price will be on the lower side. The price of an individual share at a particular time shows the balance between buyers and sellers or in other words say that balance between demand and supply. Day to day or daily fluctuation arises or occurs due to changes in the buying and selling volume pressures. Due to these fluctuations, it is very difficult to decide as to which market price should be taken as a dependent variable. In today’s practical sense the market price should be taken as the average by adding up the highest market price of the related financial year and lowest market price of the same related financial year and dividing it by two.

$$\text{Market price} = \frac{\text{Highest Price} + \text{Lowest Price}}{2} = \underline{\hspace{2cm}} \text{Rs.}$$

Or in other words we can also say that market price is the average price of the share derived from financial year high and low it has been called market price. Or it is that current price at which an asset that is share is bought or sold.

So, from all the above explanations of market price it can be concluded that market price of a share is directly or positively related to the share price, or it possesses a direct relationship with share price because higher the market price of a share higher will be the share price and lower the market price, lower will be the share price.

## 2. Dividend Per Share (DPS)

Dividend is the residual amount which is left with the company after paying taxes to the government and interest on loans or debentures and after the payment of all liabilities or expenses. This is part of profit given to shareholders for their contribution to share capital and for taking risks by investing their surplus funds in the company. It is always declared on the face value of shares, and it is percentage on the face value of shares. Dividend per share means how much amount of dividend is fetched by an individual share of the company or investor. Dividends are given to equity shareholders for bearing risk in the company. Amount of dividends to be declared is totally in the hands of the management of the company and as well as the terms and conditions and policies adopted by the company. Stable dividend policy ensures that there is no uncertainty in the minds of the investors, and it also creates a healthy investment climate. However, an unstable dividend policy creates doubts in the minds of the investors of the company and investment climate become non healthy. The dividend rate of a company played a very important role in determining the share price of the company. However, dividend per share can be calculated as total amount of dividends paid to equity shareholders, dividing it by total number of fully paid equity shares that is

$$\text{DPS} = \frac{\text{Total amount of dividend}}{\text{Total numbers of equity shares}} \\ = \text{Rs. Per share}$$

Dividends per share also has direct relationship with share price which means higher the rate of dividends or higher the amount of dividends higher will be the share price and vice versa.

In the Indian context, dividend announcements often trigger stronger retail investor reactions than in developed markets. For example, Indian retail investors tend to view consistent dividends as a sign of corporate trustworthiness and stability, even if payout ratios are modest. Globally, especially in the U.S., investors often prioritize capital gains and reinvestment over dividends, with buybacks being a preferred mechanism. In contrast, Indian households where equity participation is still growing often rely on dividends as a tangible, recurring return, almost like “interest income.” This cultural preference means that companies with stable dividend policies (e.g., Infosys, ITC) enjoy higher loyalty among retail investors compared to firms that reinvest aggressively without payouts. This divergence highlights why dividend policy in India is not just a financial decision but also a psychological signal to retail investors.

## 3. Earnings Per Share (EPS)

Earnings Per Share (EPS) are the earnings earned per share, and it is claimed wholly and solely by the equity shareholders only on the net earnings of the company after paying dividends to the preference shares holders. Earnings Per Share (EPS) is the main measure of profitability. It also helps with estimating and forecasting the value of shares, which is mainly dependent on the expected future dividends and benefits and risks involved in it. Higher the value of expected future dividends or expected future benefits, higher the value of share or security will be and vice versa. Growth of the company is associated with, or growth of company can be measured with increasing earnings per share and can be calculated by deducting preferences dividends from net profit after tax and interest and then dividing each with number of equity shares. Earnings Per Share (EPS) also has direct and positive relationship with the share price which means higher the earnings per share higher will be the share price of the company and vice versa. The calculation of Earnings Per Share (EPS) is as follows

$$\text{EPS} = \frac{\text{NPAT} - \text{PD}}{\text{Total number of equity shares}}$$

$$\begin{aligned} &\text{Total number of Equity Shares} \\ &= \text{_____ Rs per share} \end{aligned}$$

Where,

NPAT = Net profit after tax

PD = Preference Dividend

#### 4. Dividend Payout Ratio

Dividend Payout Ratio shows how much amount of profit is transmitted, transferred and paid to equity shareholders through dividends or in other words it can be said that how much percentage of profit lies in dividend payout ratio it is calculated by dividing total dividend paid to equity shareholders. Dividend Payout Ratio has also directly relationship with share price and earnings per share of the company.

$$\text{DPR} = \frac{\text{Total dividends paid to equity shareholders}}{\text{Total net profit belongs to equity shareholders}}$$

OR

OR

It can be calculated with another formula which is

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}} \times 100$$

$$= \text{_____ \%}$$

Where,

DPR = Dividend Payout Ratio

DPS = Dividend Per Share

EPS = Earnings Per Share

#### 5. Price / Earnings Ratio (PE)

The price earnings ratio shows the relationship between company's share price and earnings per share of the company. This ratio is an old and traditional nature of share price or value because it provides an indication of share prices measured in respect of earnings capacity of share or stock it can be calculated by dividing market price per share with earning per share that is

$$\text{PE Ratio} = \frac{\text{MPS}}{\text{EPS}}$$

$$= \text{_____ times}$$

Where,

MPS = Market price per share.

#### 6. Size

Size of the firm is the most important factor in terms of share prices of any company. Or in the other way round size of the firm plays an important role in any investment project. The greater size of the firm higher will be investment opportunities for investors and smaller will be the size of the company, lower will be investment opportunities provided by the company which means large companies generally offer and provide better investment opportunities to investors than smaller firms. The large companies by the way of higher and efficient production generally holds a stronger and dominant position in the stock or share market the shares or stocks of large companies are traded more often and actively in the stock exchange

or in other words it is traded in each and every second and every now and then it was traded in the stock exchange and therefore they provides higher liquidity and higher marketability of the stock or shares to investors. Thus, the desire and temptation to buy shares of large companies leads to increase in their share prices (due to goodwill). The size of the firm can be measured in many ways depending upon the needs. The following are the parameters and measures to calculate size of the firm by turnover ratio, paid up capital ratio, return on capital employed, total assets turnover ratio, and net sales etc. the measures to be selected actually depends on the nature of the problem and also depends on the person calculating the size of the firms which that person feels deem fit to be adopted for the calculation and it is also depends on the company and its terms and condition and policies of the company. However, net sales and net worth are regarded as the standards formulas or measures to calculate or measure the size of the firm. Because net worth shows the earning capacity of the company to investor. Whereas net sales show the total revenue earned by the firm on which profit or loss occurs. Size of the firm is directly and positively related to the share price of the company.

### **7. Corporate earnings**

Company's growth and performance is determined through its earnings therefore it becomes a very important factor in determining a company's share price. The stocks or shares that had bright and prospect future of growth in the coming years then the demand for that type of stock or shares are going to increase more rapidly and immediately. The prices of these shares increase faster than those of companies whose growth prospects are narrow. The expected receipt of dividends becomes an incentive for the investors for investing in a particular share because the return on investment excides the returns offered on other alternative investment like savings account because by investing in a share or stock the investor gets dividend every year and capital appreciation at the time of sale. However, a savings account can only provide interest up to 6%, which is also in a very rare case. However here, in the share or stock returns can be 20 or 30% or even higher because for dividends the Securities and Exchange Board of India (SEBI) does not have stricter rules and regulations and mostly it depends upon the terms and condition and policies and management of the company. However, Reserve Bank of India (RBI) kept regular checks on interest rate. It also shows direct relationship with share price.

### **8. Management**

The management of the company plays a major role in determining the share price. Changes in management and management team affect the risk and return associated with the business and shares as well. Because the change in management affects the think tank of the company's behavior and attitude towards the business and work of the company. If the strong and incumbent management is changed, then it results in downfall in share prices and the company as well.

However, if the strong and incumbent management due to its past performance does not change then it results in rise in the share price. In the year 2004 in March the national merchant bank of Zimbabwe shows a very high down fall in the share price because of the unnecessary changes in the management.

### **9. Lawsuits**

The rumors as well as actual news of cases against a company can severely and strongly damage its share price. Apart from the spread of unwanted rumors, bad rumors, bad news, lawsuits or cases results in finding, penalty, damages and sometimes even withdrawal of trading licenses. This is the riskiest on the part of an investor and hence causes fall in the share prices.

### **10. Mergers and Takeovers**

Mergers and Takeovers also affect share prices immensely and adversely depending upon the market

perception of advantages and losses of a merger and takeover. The share price of Century Bank was adversely affected because of its involvement in ENG scam of its associate bank. However, the news of its proposed merger with CFX Bank shows a very high rise in the share price even before the merger took place. This is because a very strong and solid merger brings shareholder value and reduces risk. This is also in the case of Bank of Baroda (BOB) merging with Dena Bank and Vijaya Bank, and it is becoming India's 3<sup>rd</sup> largest bank ever in history of India. Which benefits not only its customers but its stakeholders also.

However, demergers result in companies making part ways of their operation to focus mainly on their core business. But this is a two-sided sword because it can bring value to shareholders or might result in downfall of the company itself and share prices as well. In October 2001 the share price of Sun group of companies increases from \$20 to \$180 due to demerger from hotels to concentrate mainly on hospitality and tourism industry services.

### **11. Market stability and liquidity**

When the market is illiquid, there is no money available in the market to buy shares, therefore share prices fall especially when supply is on higher side. During the recession, stock market information is very sensitive and therefore share prices becomes unstable and volatile. Stock or share prices normally fall during subscription periods when company announces right issue or bonus issue of shares or Equity Stock Option Scheme (ESOP) shares.

Stock markets include loss that govern insider trading by Security and Exchange Board of India (SEBI) because this also leads to make share prices unstable or volatile. Insight trading means buying and selling shares of stocks by people within the company who have important information about the company. The public might think that insiders are buying or selling shares of their own companies, they have some important information about the company, that is why they are doing the same.

### **12. Availability of substitutes**

When the market as substitute securities such as loan stocks, unit trust and treasury bill the share price falls due to competition in the market or remains same. For 8 days from 7<sup>th</sup> to 14<sup>th</sup> of October 2004 most of the share prices for companies on Zimbabwe stock exchange traded at same prices due to short term treasury bill that were issued by Central Bank during same period to reduce market liquidity. In that period even after impressive publications for companies in the newspapers, magazines, and annual reports, the share prices remained constant.

### **13. Government policies**

Changes in system of taxation, government spending, monetary policy and industrial policies such as liberalization, privatization, globalization (LPG) can have important effect on people's willingness to buy or sell shares. Each time a monetary policy or government budget is presented the share prices are affected in same way or other.

### **14. Macro-Economic fundamentals**

Interest rates and inflation also affect the share prices. When real interest rates become negative investors try to get alternatives or other options available that will fetch them positive returns.

The exchange rates also affect share prices because they affect both imports and exports. Devaluation of the currency might have a positive impact on share prices of an export company as it improves competitiveness of that company on international market. However, the companies that import raw materials are negatively affected by devaluation as their production costs automatically go higher on the other way round, companies that produce import substitutes are more likely to get benefited from devalue-

ation as the important products become less competitive compared to locally produced goods.

### **15. Investor's emotion**

Investor perception also had a greater impact on share prices. For example, in a bull market share prices expected to be on higher side however in a bear market the share prices are expected to be on the lower side. Share prices are also estimated to fall in festivals, this induces investors to sell their shares just before the start of the festival so as not to experience capital losses. The trust of investors in general economy and economic policies also affect share prices. For example, just after the 11<sup>th</sup> of September 2001, attached on United States of America (USA) were trade center generally known as 9/11 attacks, the major world stock market recorded their lowest volumes of trade.

### **16. Past performances**

Past share prices help to forecast how share prices and stock markets will be going to behave in future. A company's previous performance might always act as a basis to its future performance and help investors as far as their investment decisions are concerned.

### **17. Expert reports**

The recommendation of experts on "Buys" or "Sell" decisions affect share prices of stock. Because investors normally trust such recommendations and do not apply their own mind. The public generally accepts that advice given by the experts since the experts are specialists in their respective fields. But this is a perception and nothing else.

### **18. Leverages**

Leverage measures debt equity ratio, it shows the relative proportion of equity and that shows that a firm is using to finance its assets. It shows how much a firm is in debt. Because raising capital through debt creates periodic interest payment burden on part of company, increased use of debt by a firm will result in higher interest payment. This results in lower earnings that are available to equity shareholders of firms and hence, investors generally prefer firms that have lower debt components in their capital. This shows a negative relationship between share price and leverages.

## **1.3. Market Price**

Now what is market price of shares. Market price of shares are those prices which are determined by forces demand and supply or in other words the current price of shares at which shares are bought and sold in the secondary market.

Following are the determinants of market price, which is again the core of this study or in other words it can be said that the factors affecting market price of a company. The determinants of market price are

### **1. Demand and supply**

Demand and supply of securities influence price of securities. If the demand for securities is more than the supply (buyers are more than the sellers), prices of securities increase. On the other hand, if the demand for securities is less than the supply (buyers are less than the sellers), prices of securities decrease.

### **2. Bank rate**

In case of lower bank rate (lower interest rate), the demand for funds would be higher and the demand for securities would be high. Whereas in case of higher bank rate (high interest rate). The demand for funds would be lower and therefore the demand for securities would be lower.

### **3. Market players**

Security prices are influenced by the market players. If the numbers of bulls were more than the bears, then the prices of securities would increase. On the other hand, if the bears are more than the bulls, the pr-

ices of securities would decline.

#### **4. Dividend announcements**

Dividends act as a signaling device for share price movement.

Dividend announcements influence share prices. If companies announce dividends, generally share prices of those companies tend to increase. An important point to note is, if the rate of dividend announced is less than expected by investors, share prices would decline, whereas if they were more than expected, Share prices would increase.

#### **5. Management profile**

Management profile significantly influences success of companies and therefore they have an important influence on share prices. If the management comprises of educated, experienced professionals with a successful track record then share prices would be higher. In case the company is taken over by a management having a poor reputation then the share prices fall.

#### **6. Trade cycle**

Trade cycles refer to cyclical fluctuations in economic activity. During boom conditions the share prices would be at their peak and during depression they would be at their lowest point. Share prices would gradually increase during recovery conditions and would fall during conditions of recession.

#### **7. Speculation**

In case speculation in the market is high or in case speculation in a stock is high, then the price of that share would show high fluctuations. In case speculation is at a low level then the fluctuations in share price would be lower.

#### **8. Political factors**

Political factors such as ideology of the party in power, policies of the government, and relations with other countries influence share prices. For e.g. when the UPA government won elections, share prices largely fell because it was felt that the government policies would be influenced by the communist parties.

#### **9. Industrial relations**

In case there is good relationship between the workers and the management of a company, the productivity would be high, leading to better profits. Therefore, share prices would be higher. In case of companies where industrial relations are poor and strikes and lockouts occur regularly; performance of the company would be poor. Therefore, share prices would fall.

#### **10. Stability of government**

When there is a stable government, businessmen feel confident to invest in new businesses and expand existing businesses. Production, sales and profits are higher and consequently share prices would increase. In case of instability in the government, new investments do not take place. Demand, production and profits are lower and share prices fall.

#### **11. General market sentiments**

It is generally said that sentiments move the markets. If there is optimism among market players, more buying would take place, leading to increase in share prices. In case market players are pessimistic, then more selling would take place pushing down share prices.

#### **12. Actions of institutional investors**

Share prices are influenced by Institutional investors such as mutual funds, investment trusts, pension funds etc. They have large amount of funds at their disposal. When they start buying, share prices would increase and when they sell, share prices decline.

**13. Level of foreign investment**

In recent times, the level of foreign institutional investors (FII’s) has played a significant role in influencing share prices. If the level of foreign investment in the market increases (more buying of shares), then the share prices increase. If the level of foreign investment decreases or if FII’s sell their investments, then the markets fall.

**14. Returns offered by other markets**

If the Indian markets offer high returns, institutional investors (especially FII’s) would invest in Indian markets. Demand for shares would increase and prices would rise. In case returns offered by markets in other countries are attractive, then institutional investors would sell their securities to invest in those markets. In such cases, shares would be sold in large quantities, lowering prices.

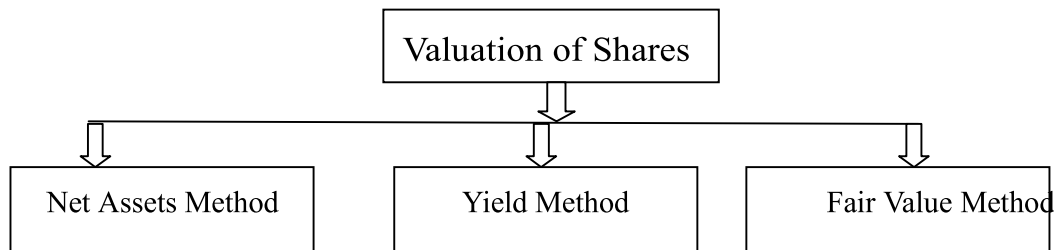
**15. Availability of credit**

In case credit is available without much restriction, then investors would borrow to invest in the markets. Demand for shares would be higher and therefore prices would rise. In case credit is restricted, then the level of borrowing would be less and demand for shares would also be lower.

**16. Effective regulation**

If the stock market is run in a transparent manner with effective regulation, then the investors would feel confident investing. Therefore, more purchases would take place and share prices would increase. But when regulation is ineffective and if scams occur (Harshad Mehta scam, MS Shoes scam, CRB scam, Ketan Parekh scam and the recent IPO scam) investors lose confidence. They would panic and sell their shares. So, prices would fall.

**1.4. Valuation of Shares**



**1. Net Asset Method**

It is also known as Asset Backing method, Liquidation, Intrinsic Value, Breakup Value method.

Valuation of Shares by Net Asset Method

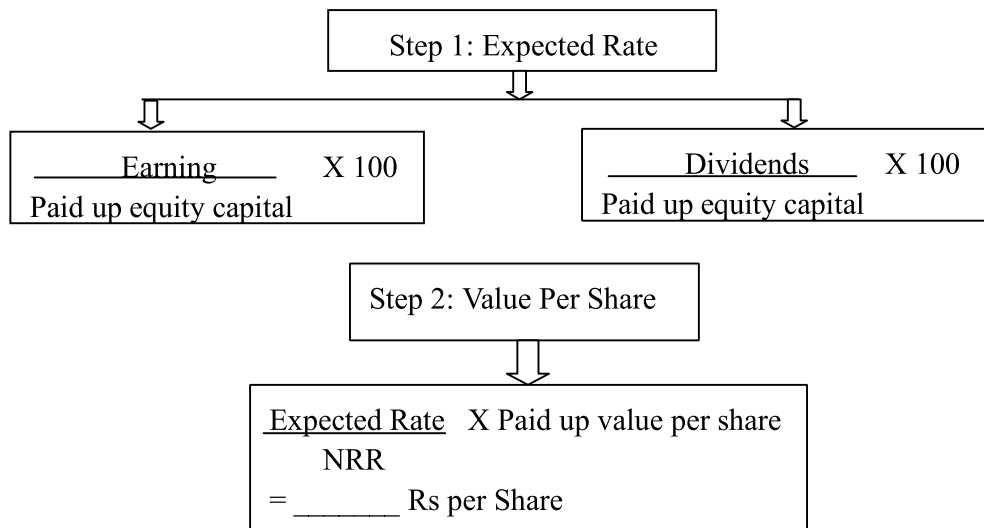
Steps	Particulars
1	Valuation of Goodwill
2	Capital Employed (Includes Trading and non-trading item & Goodwill except Misc Expenditure not written off)
Less	Preference Capital
3	Equity Shareholder Fund
4	No of equity shares
3 / 4	Value per equity share

**2. Yield Method**

Valuation of share on basis of Earning or Dividend. It is based on Profit.

Valuation of Shares by Yield Method

Steps	Particulars
	Future Maintainable Profit (Including Non-Trading Income)
Less	Tax
	Average Profit After Tax
Less	Preference Dividends
	Expected Earnings available for Appropriation OR Earning available for Equity Shareholders
Less	Reserves
	Estimated Amount of future Dividends



**3. Fair Value Method**

This is not a method, but a compromise formula which arbitrarily fixes the value of shares as the Average of the values obtained by the Net Assets Method and the Yield Method.

$$\text{Fair Value} = \frac{\text{Net Assets Method} + \text{Yield Method}}{2}$$

$$= \text{Rs per share}$$

**1.5. Manipulation**

It means misleading the investors to make big profits. They use a technique called circular trading. A select group of people keep on buying and selling the stock among themselves and keep increasing the price. When the public notices that the stock price is increasing of that particular stock they start buying without checking the financials of the company. At that time the operators who have lot of stock sell only small quantities of stock and since demand is more and supply is less it increases the price further. Once the stock price reaches a certain target set by the operators, they start selling the stock and public keeps on buying hoping it will go up further.

The operators make a huge return in relatively short period meanwhile the price crashes since there are no more buyers at the ridiculously inflated price and the public then blames the stock market, SEBI, government etc. and says that the stock market is rigged.

This means the shares which they sold at price of Rs.100 now they will buyback those shares at Rs. 20 only due to manipulations.

**Scenario 1: Share price = Market Price**

In this scenario the actual price of share and market price of share both prices are same. This is possible only in case of IPO else it is not practical in the real world.

**Scenario 2: Share price is greater than Market Price**

In this scenario actual price of shares is higher than the market price which means the shares are underpriced and investors must invest in this type of share only.

**Scenario 3: Share price is lower than Market Price**

In this scenario actual price of shares is lower than the market price, which means the shares are overvalued and investors do not need to invest in this type of share in any circumstances.

### **1.6. Impact of Manipulations on Market Price**

Manipulation in market refers to kind of business leading to distorted prices and enables manipulators to gain profits at the expense of other market participants losses. When a group of traders, at the expense of other investors, earn extremely high returns, this difference in performance is enough to cause concern to investors from entering the market.

In a manipulated market or exposure, we should not expect that prices have a true reflection of current economic realities affecting supply and demand. Indeed, manipulating the stock market can threaten all benefits and exchange economic resources. Studies about impact of price on the quality of stock market in Taiwan show that stock prices are higher during the period of manipulation of prices. So that the cumulative abnormal stock returns are manipulated by more than 70% which is much higher than in developed market returns. Thereby stock manipulated shows increase in trading volume, as well as increased volatility, resulting in an increase in liquidity during manipulation period. In addition, market manipulation will worsen market depth that shows stock manipulation can cause an inefficient market that makes high increase in volume and volatility but reduce market depth and can have an extreme effect on market efficiency (Hoang, 2007).

Wu and Aggrwal (2004) offered theories about some empirical evidence of the manipulation of stock prices in the United States. They have developed Allen and Gale model and they found that people with inside information about the company's securities are likely to be known as the manipulators, Securities that have low liquidity, are more likely to be vulnerable to price manipulation and they will increase the volatility of price manipulation, They also found that the prices will increase during manipulation and after period of manipulation it will reduce. When the trimmer starts selling, price and liquidity of the share is more than when he has bought it. So, they offered a model in this case and concluded that manipulation could have an influence on market performance. (Walter & Howie, 2003) studied the Chinese market manipulation and found that the manipulation is one of the obstacles that hinder the development of China's stock market.

#### **1.6.1 Behavioral Perspective of Investors**

Behavioral finance explains that investors do not always take investment decisions rationally. In many situations, investors are influenced by emotions, market sentiment, fear, greed, goodwill of companies, social influence, and short-term market movements instead of actual intrinsic value of shares.

In the Indian stock market, retail investors often purchase shares based on company reputation, market trends, recommendations, or fear of missing opportunities rather than detailed valuation analysis. This creates situations where market price deviates significantly from actual value.

The present study also observed that investors are highly influenced by goodwill, market demand, and perception regarding future growth. This behavioral pattern partially explains the existence of overpricing and underpricing in Indian equity markets.

Behavioral biases such as herd mentality, overconfidence, and speculative buying may increase market volatility and reduce the effectiveness of valuation techniques in the short term.

### **1.7. Need for the study**

As discussed, on a micro level, equity valuation is beneficial for the entire stock market ecosystem. However, how does it benefit an individual to study and apply the principles of equity valuation?

Well, markets receive information every moment and try to factor the financial effect of this information on the stock price. Individual estimates of the effect vary and as such different people may come up with different stock prices. Therefore, there can be a difference between the market value of a company and what investors call its true or “intrinsic value”

Investors stand to gain a lot of money if they are able to correctly identify this difference. The second richest person in the world, Warren Buffett has made his fortune correcting and applying the art of equity valuation. In fact, the theory of equity valuation has been heavily influenced by the work of Warren Buffett and his mentor.

## **CHAPTER II – RESEARCH METHODOLOGY**

### **2.1 Brief overview:**

This chapter basically describes the objective of the study, hypothesis of the study and scope of study. This chapter also shows how the study has been conducted, and it also shows the research design used for the study and sample size, duration of the study and sources used for data collection. This chapter also shows the technique used for sampling. To understand the underpricing and overpricing of shares two companies of automobiles industry is taken and valuation of shares of both the companies are done. The two automobile industries are Maruti Suzuki and Tata Motors.

### **2.2 Objectives:**

#### **2.2.1. To know whether any one of the chosen shares is worth making investment.**

Two companies from automobiles industry are taken as explained above which are Tata Motors and Maruti Suzuki. So, to know which one of the chosen shares is worth making investment it is necessary to value the shares as per the methods of valuation. After making valuation we come to know which share from the above is underpriced and which share from the above is overpriced. The share which is overpriced is not worth making investment however the share which is underpriced is worth making investment.

#### **2.2.2. To know the best technique for share valuation.**

Both methods of valuation, that is yield method and net asset method are good and best when it is suitable to use

##### **a. Amalgamation**

When entire company is sold to another company absorption, amalgamation, external reconstruction then net asset method is used.

##### **b. Sick Company**

Yield method cannot be applied to a sick company because its profit may be negative. Therefore, in such company Net Asset method is used.

**c. For wealth tax purpose**

For wealth tax only yield methods can be used as per the wealth tax act.

**d. For lending purpose**

Mostly yield method is used by the lenders for valuing shares however some lenders also use net asset methods because it differs from company to company, lender to lender and valuer to valuer.

**2.2.3. To assess whether investors rely on investment advisors for valuation and decision-making.**

In the present scenario where the most valuable resources are time. Because in today's life no one has the time in their life because everyone is busy earning their livelihood. Therefore, they need someone who can manage and invest on behalf of them. Because it is also necessary in today's world to invest in such an investment option which gives highest returns and which shares will give the highest return in future can be only calculated through the methods explained above, therefore the investors need an investment advisor who invests on behalf of the investors.

**2.2.4. To know whether investment advisor gives detailed information about the technique which investment advisor makes use for making investment.**

It is also important for the investors to know that investment advisor is using which technique for making investment because investors are paying the investment advisor the money which was hard earned by them therefore it is investors right to know the technique as well as all the assumption which the investment advisor use before making an investment. The higher the information provided by the investment advisor will be the satisfaction for investors and as a result higher the customer for investment advisor.

**2.2.5. To know if the investment advisor tells in brief to the investor why he is investing in a particular share on behalf of investor.**

The investors as a full right to know that the investment advisor is investing in a particular share on behalf of them on what basis. The reasons for investing in a particular share by the investor advisor are the higher market price of that share or actual value of that particular share is higher or that share is underpriced. Whatever the reason, the investor must have the right to know about it.

**2.2.6. To know whether investors are aware of share valuation & valuation techniques**

It is very important for the investors to know about share valuation, share valuation technique and methods of share valuation. Because the higher awareness of investors about share valuation technique and method of share valuation lower will be the chances of loss for the investors. If the investors know about share valuation, then the investor can easily learn about the stock that it is undervalued or overvalued.

**2.2.7. To evaluate whether the selected shares of Tata Motors and Maruti Suzuki are overpriced or underpriced.**

If the investors are aware about share valuation, share valuation technique and method of a share valuation then they will know the and aware about the underpriced and overpriced share. This shows that awareness about share valuation had links with awareness about underpriced and overpriced of share. The higher will be the awareness of investors about share valuation higher will be the awareness of investors about underpriced and overpriced shares because it has a positive relationship.

**2.2.8. To examine the perceived impact of market manipulation on share prices.** Manipulation in the company has links to the market price of shares or in other words the company shares a positive relationship with market price of shares. Which means higher the manipulation in the company higher will be the market price and lower will be the share price. However, if the manipulation does not exist in the

company or it will be on lower side then market price is also lower, but actual share price will be on higher side.

### **2.2.9. To analyze the reasons for the difference between actual price and market price of shares.**

There must be many reasons for differences between market price and actual price of shares. However, it can also be possible that actual price of share and market price of share are same, but it is possible only at the time Initial Public Offer (IPO) else it is not applicable in the practical world in any circumstances or any situation.

## **2.3. Hypotheses of the Study:**

### **Hypothesis I**

#### **H0 - “Manipulations do not impact share price”**

Harshad Mehta Securities Scam (1996-2000)

This development of SEBI between 1988- 1995 was evident when Mehta tried to pull off a 2<sup>nd</sup> scam in 1997.

In 1997, Mehta tried to re-enter the markets by creating a network of front companies called Damayanti Group. This group operated out of the same office as Mehta’s 1990 securities firm. Mehta employed brokers and agents who bought and sold shares at the stock market on his behalf for a commission. Harshad Mehta even managed to find companies (e.g. - BPL, Videocon and Sterlite Industries) who gave him start-up capital to set up this second venture in exchange for him inflating the price of their shares in the stock market.

Mehta stuck to his original modus operandi of investing large sums of money into certain shares and tried to bring about a Bull Run. However, the investors and SEBI had become too smart to fall for Harshad Mehta’s tricks. In 1998, SEBI having smelled foul play in the sudden increase of certain share prices on the scrip investigated the matter, managed to link the Damayanti Group to Harshad Mehta and his associates through telephone bills, payment to lawyers, investment details, etc. and filed a case against Harshad Mehta and his associates in the courts. SEBI curbed Harshad Mehta before he could harm the investors and manipulate the markets. In 10 years, SEBI had already grown immensely and was well on its way to becoming the market watchdog.

Analysis of the above case study will be given in chapter V.

#### **H1 – “Manipulations impact share price”**

Sahara Scam (2009- Present)

The Sahara Scam has been the biggest victory for SEBI in recent times.

Sahara India floated 2 new companies- Sahara India Real Estate Corporation Limited (SIRECL) and Sahara Housing Investment Corporation (SHIC) in 2005 by registering them under the Companies Act, 1956 with the relevant Registrar of Companies in Kanpur and Maharashtra respectively.

In the annual meetings held by both the companies, a resolution was passed to raise funds through private placement of optionally fully convertible debentures (OFCD’s) 418 from the friends, associates, and family members of the Board of Directors. Funds were also to be raised through the circulation of an information memorandum<sup>419</sup> to a few trusted investors. The date of commencement of issues of the debentures was 25th April 2008 and 20th November 2009, respectively. SIRECL collected Rs. 17,656.53 crores (net value) between 25th April 2008 and 13<sup>th</sup> April 2011. SHICL collected Rs. 6373.20 crores (net value) between 20th November 2009 and 13th April 2011. Thus, both the companies collected Rs. 24,029.73 crores from 30 million investors over a period of 3 years.

In 2009, when a red herring prospectus for Sahara Prime City (a real estate venture of Sahara India) was submitted to SEBI for approval, SEBI noticed unusual fund-raising activity in the 2 firms - SHICL and SIRECL. On 4th January 2010, SEBI received a complaint from a man, Roshan Lal, who alleged that “illegal means were being used by SHICL and SIRECL in issuance of OFCD’s.” Following this, SEBI launched an investigation against Sahara India, inquiring into the fund-raising activities of SHICL and SIRECL along with investor information. On following through with the investigation and finding Sahara guilty, SEBI passed an interim order, ordering the payment of Rs.24, 000 crores + 17% interest to 30 million investors. The SEBI order was passed by the Securities Appellate Tribunal (SAT) and subsequently the Supreme Court on 12th August 2012.

This was the first time in the history of SEBI that it had caught such a huge scam on its own. SEBI’s vigilance and alertness, the expansion of its powers and its strong investigative instinct was revealed in this scam. Detecting the Sahara Scam is a massive achievement for SEBI and is a testament to the growth of SEBI in the last 3 decades since its inception in 1988.

However, the Sahara Scam is also the biggest securities scam in India. It resulted in 30 million investors losing their hard-earned money. The fact that it was detected after 3 years and had cost the markets Rs. 25, 000 crores was a matter for concern. Thus, the government has taken steps to tighten SEBI’s hold on the securities markets still further and has bestowed more powers on the SEBI.

*Analysis of the above case study will be given in chapter V.*

## **Hypothesis II**

### **H0 – “Most investors use the share valuation techniques before investing.”**

If the share valuation techniques and methods are used by investors, then they will be surely aware of underpriced and overpriced shares. Net asset method or yield method gives the amount or rupees per share and then by multiplying it with the total number of shares we will get the total amount of shares then by comparing these share prices which are actual with market price we can identify underpriced or overprice of share.

### **H1 – “Investors does not use the share valuation techniques before investing.”**

If the actual price of shares is greater than the market price, then the shares are underpriced and worth making investment. However, the actual price of shares are lower than the market price and then the shares are termed as overpriced and are not worth making investments in any situation or any circumstances which may arise.

## **Hypothesis III**

### **H0 – “Shares of Maruti Suzuki and Tata Motors are underpriced”**

If the shares of Maruti Suzuki and Tata Motors both are underpriced, then these both shares are worth for making investment. But if both are underpriced then the question which arises in the mind of investors is which stock to be invested because both are underpriced. The answer here is that investment is to be made in that share which is more underpriced than the other.

### **H1 – “Shares of Maruti Suzuki and Tata Motors are overpriced”**

If the shares of both the companies are overpriced, then both these shares are not worth making investment. Because only market price of both the shares is on the higher side and no real assets of the companies are in that value or actual share price of both the companies are not on the higher side which indicates that the investors will lose their money in the future for sure.

## 2.4 Scope of study:

All the respondents are from Mumbai a metro city in India. This study mainly focuses on the behavior of investors, their preferences, their mindset towards investment and the awareness of investors towards returns or profit, safest option, share valuation, impact of manipulation, risk and return relationship. A comparative study can be made further in terms of behavior of equity investors with respect to salary classed and business professionals. As derivative market emerged in India, it has one of the most higher generating return avenues in India the behavioral study can be extended to the derivative market also. Since this study is limited to the role of share price and market price as determinants of share valuation and share investment. A further study can be done on the impact of manipulations on the share market. This study also provides scope to study further the impact of financial literacy on investor behavior.

## Research Methodology:

Research Methodology is using all the methods and procedures to conduct research. Methods of data collection include primary and secondary data and the procedures used to analyze the data collected in a systematic manner. The important uses of Research Methodology are that it helps in identifying the research problem, collection of information and collection of data and analyzing the required information or data and providing solutions to the problem. It also helps in collecting important information that is required by the top management of the business or the companies to help them in making decision of day to day and critical decisions.

## 2.5. Data Sources:

Data was collected totally through primary and secondary sources.

### a. Primary Data:

Primary data are the data which is collected by the researcher himself to meet certain objectives. For this study primary data has been collected through structured questionnaires filled by respondents which are investors and working individuals in Mumbai.

### Secondary Data:

Secondary Data is the data which was already collected and published by the researcher who conducted research prior to our research. For this study, secondary data were collected from various books, thesis, internet, periodicals and journals.

## 2.6. Sampling procedure:

The sample was selected were working class such as government service employees, non-government service employee, professionals, service providers, businessmen's and some of them being students also, irrespective of them being investors or not and irrespective of them being invest in every option. And, irrespective of them being aware about the returns or profit, safest option, hidden cost, tax benefit, risk and return relationship. Irrespective of them being aware about share valuation technique of share valuation and method of share valuation. Irrespective of them being requires the investment advisor or not. It was collected by sending questionnaires on their personal mail and by sending links to their personal WhatsApp. The data has been analyzed through various mathematical and statistical tools. For the presentation and study purpose, the data collected has been edited, classified and tabulated by using various statistical techniques. The graphical representations are also given wherever it is necessary. The classified and tabulated data is analyzed and studied by using techniques such as averages, percentages and graphs etc. The collected data is interpreted and conclusions are drawn. Even the suggestions are also provided to improvise the investment process and provided suggestions to investors and as well as SEBI to control fraud, scams and scandals.

**2.7. Sampling Design:**

**Population:** Retail and professional investors residing in Mumbai.

**Sampling Technique:** Non-probability convenience sampling.

**Sample Size:** 45 respondents, out of which 24 were active investors.

**Sampling Unit:** Individuals belonging to different occupations including professionals, employees, businessmen, and students.

**2.8. Duration of the Study:**

The study was conducted over a four-month duration which included data collection, analysis, and interpretation.

**2.9. Tools Used for Analysis:**

- 3 Percentage Analysis
- 4 Graphical Interpretation
- 5 Comparative Valuation Techniques
- 6 Hypothesis Evaluation using simple statistical logic based on observed responses and valuation outcomes.
- 7 Comparative Behavioral Interpretation.
- 8 Relationship Analysis between Investor Awareness and Investment Preference.

**2.10 Hypothesis Testing Summary**

Hypothesis	Method Used	Evidence From Findings	Result
Hypothesis I	Behavioral response on manipulation + valuation gap analysis	Majority respondents believe manipulation affects price; case evaluation supports abnormal price behavior	<b>H0 rejected, H1 accepted</b>
Hypothesis II	Questionnaire response analysis	Over 60% of investors rely on advisor or goodwill rather than valuation	<b>H0 rejected, H1 accepted</b>
Hypothesis III	Intrinsic value vs. Market price comparison for Tata Motors and Maruti Suzuki	One of the companies shows significantly underpriced compared to market price	<b>H0 rejected, H1 accepted</b>

This hypothesis summary shows linkage between valuation findings and investor behavior.

**2.11 Limitations of the study:**

1. The sample size of 45 respondents may not capture the diversity of Mumbai’s large investor population.
2. Respondents may lack full knowledge or may respond with bias or guesswork.
3. Market prices fluctuate daily; therefore, the valuation is time specific.
4. Primary data collection depended on respondent willingness and accuracy of responses.
5. Limited access to granular company financial datasets may affect precision in valuation.
6. The study primarily focuses on behavioral understanding and practical valuation perception rather than advanced econometric or predictive market modeling techniques.

**2.12. Significance of the study:**

This study enhances understanding of how valuation drives investment performance. It assists:

- Investors – to avoid overpriced shares and reduce risk
- Investment Advisors – to adopt transparent valuation practices
- Regulators (SEBI) – to improve surveillance and investor education
- Academia – by bridging the research gap between theory and behavioral practice.

The study contributes to financial decision-making and supports awareness of manipulation risks in the Indian equity market.

## CHAPTER III - REVIEW OF LITERATURE

The literature review provides insight into the variables governing share valuation, investment behavior, and market efficiency. This chapter is structured to cover fundamental analysis, valuation metrics, investor perception, and market manipulation. It also highlights the gaps in existing studies that justify the present research.

### 3.1. SOURCES OF LITERATURE

Research papers, journal articles, and expert analyses have been referred from academic databases including JSTOR, EBSCO, SSRN, and Google Scholar. Studies were selected based on relevance to valuation models, market pricing mechanisms, and the role of information in investment decision making.

### 3.2. LITERATURE PERTAINING FUNDAMENTAL ANALYSIS (STUDIES ABROAD)

Fundamental valuation techniques originated with Graham and Dodd (1934), who emphasized the importance of intrinsic value in investment decisions. Gordon (1962) contributed to dividend-based valuation through the Dividend Discount Model, reinforcing the direct role of dividend policy in price appreciation.

Jaouida Elleuch (2009) demonstrated that past accounting data can help investors construct portfolios capable of earning higher future returns. Similarly, Piotroski (2000) introduced the F-score, proving that simple financial ratios can differentiate strong and weak value stocks.

Curtis (2008) explored the long-term relationship between market price and fundamental value and found that expected cash flows are critical in predicting price movement. Nicola and Nicoletti (2004) tested profitability of valuation ratios like P/E and B/M in the NASDAQ market and reported abnormal returns when portfolios were formed based on fundamentals.

In the Indian context, Tripathi (2017) and Kumar & Sehgal (2020) found that EPS and DPS significantly influence equity pricing, supporting the theoretical positive relationship acknowledged globally.

Most studies conclude that fundamental signals are useful in market prediction, yet investors often fail to apply them systematically, especially in emerging markets like India.

### 3.3. LITERATURE RELATED TO MARKET PRICING, INVESTOR PSYCHOLOGY, AND MANIPULATION

Investor behavior and perception also play a significant role in price formation. Weber and Welfer (2007) reported price overreaction to positive information and slower correction when negative fundamentals emerge. Nguyen (2003) demonstrated that simple accounting measures can detect pricing inefficiencies.

Wu and Aggarwal (2004) provided early evidence that manipulation occurs more in low-liquidity securities and causes short-term price surges followed by crashes. Their findings strongly align with Indian corporate case experiences.

Indian studies by Sehgal & Pandey (2019) show that retail investors often chase momentum and rumors rather than valuation metrics. This increases the vulnerability to price manipulation. Government reports

post the Harshad Mehta and Ketan Parekh scams confirm that insider-driven speculation leads to temporary mispricing.

Despite regulatory improvements through SEBI, Patel (2021) noted that IPO pricing in India still shows frequent underpricing, indicating persistent valuation inefficiencies.

### 3.4. SUMMARY & RESEARCH GAP

#### What is known:

- Valuation metrics like EPS, DPS, and P/E are proven determinants of equity value.
- Market psychology often drives prices away from intrinsic value.
- Cases of manipulation show direct effects on volatility and price distortion.

#### What remains unclear (Gap):

- Limited recent research links investor awareness of valuation to their behavior in the Indian market.
- Few empirical studies examine perceived vs. actual usefulness of valuation in Mumbai's retail investor segment.
- There is insufficient evidence connecting market manipulation awareness with investment decisions.

#### Extended Research Gap

Most previous studies primarily focus on financial indicators such as EPS, DPS, P/E ratio, and profitability while evaluating share prices. However, limited attention has been given to the practical behavior of Indian retail investors and the extent to which valuation techniques are actually applied before making investment decisions.

Further, many studies discuss market efficiency theoretically, but very few studies connect valuation awareness, investor psychology, and manipulation perception together within a single framework.

The present research attempts to bridge this gap by combining practical investor behavior, valuation techniques, and manipulation awareness while evaluating actual market pricing behavior in selected Indian automobile companies.

#### Conclusion of Literature Review

Past studies establish theoretical strength of valuation models and highlight behavioral challenges in actual market conditions. However, there is a lack of research that combines valuation determinants, market manipulation perception, and actual investor decision-making in India. This creates the foundation for the present study, which investigates whether investors value shares before investing and how manipulation affects the perception of market price.

## Chapter IV – Data Analysis, Interpretation and Presentation

This chapter presents the results of the primary survey conducted in Mumbai, followed by interpretation and linkage to the research objectives. The responses reflect how investors make decisions, their awareness regarding share valuation, and perception of manipulation in equity markets.

### 4.1. Respondents Profile

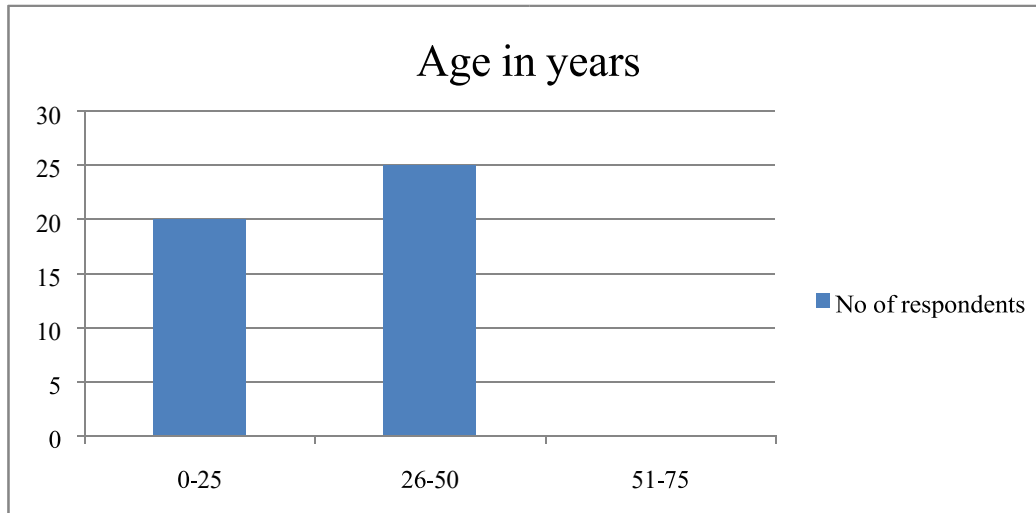
#### 4.1.1. Age distribution of individuals of Mumbai city:

**Table: 4.1**

Age in years	No of respondents
0-25	20
26-50	25
51-75	-

Total	45
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Graph: 4.1



**Interpretation:**

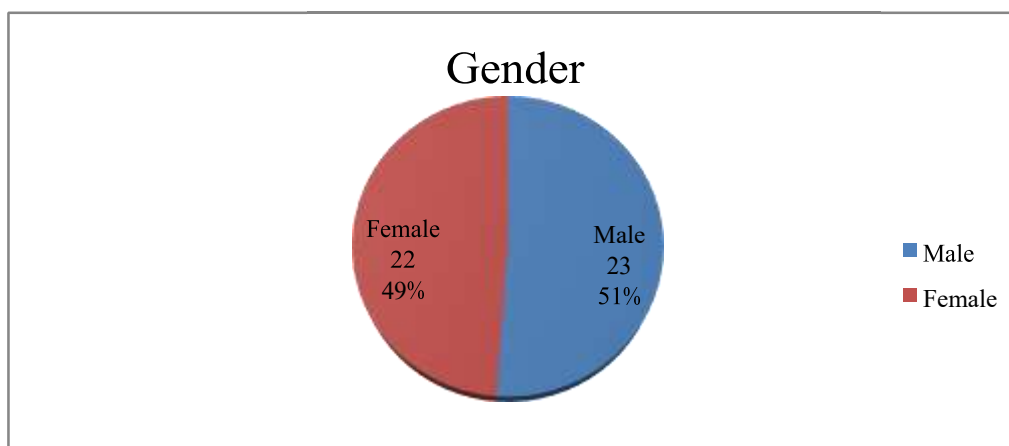
Major Respondents (56%) is in the age group of 26-50 years which shows financially active population with stable income which also indicates that this age group is more likely to Invest. No Respondents above 50 also indicates that low participation from retirees due to less risk appetite.

**4.1.2. Gender of the respondents**

**Table: 4.2**

Gender	No of respondents
Male	23
Female	22
Total	45

Graph: 4.2



**Interpretation:**

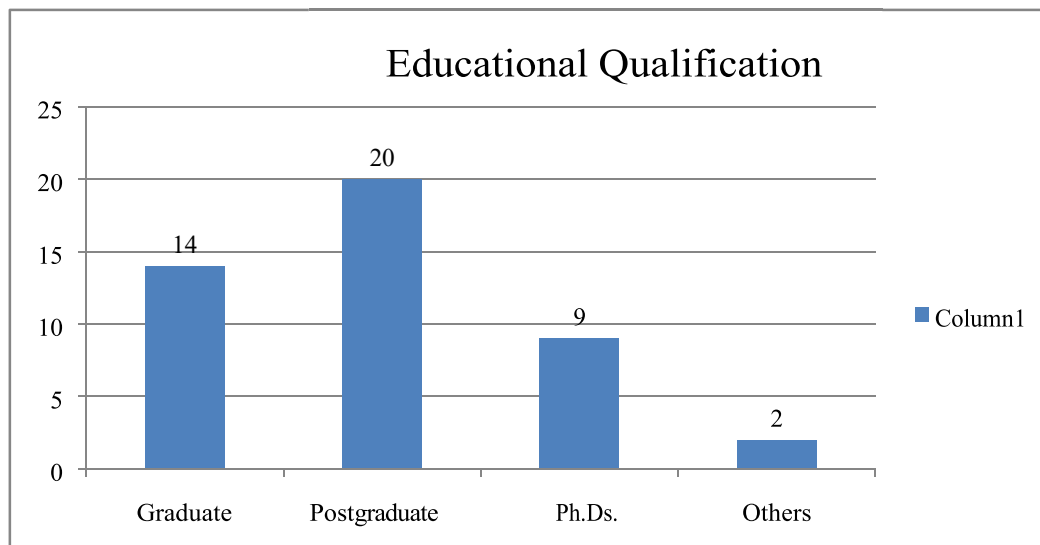
The gender distribution is almost equal (51% male, 49% female). This indicates growing participation of women in investment-related decisions, signaling a positive trend in financial independence and awareness.

**4.1.3. Educational Qualification of Respondents in Mumbai City:**

**Table: 4.3**

Educational Qualification	No of respondents
Graduate	14
Postgraduate	20
Ph.Ds.	9
Other	2
Total	45

Graph: 4.3



**Interpretation:**

More than 75% of respondents are graduates or postgraduates, which suggests respondents can understand finance-related concepts, yet may still lack practical awareness of valuation methods.

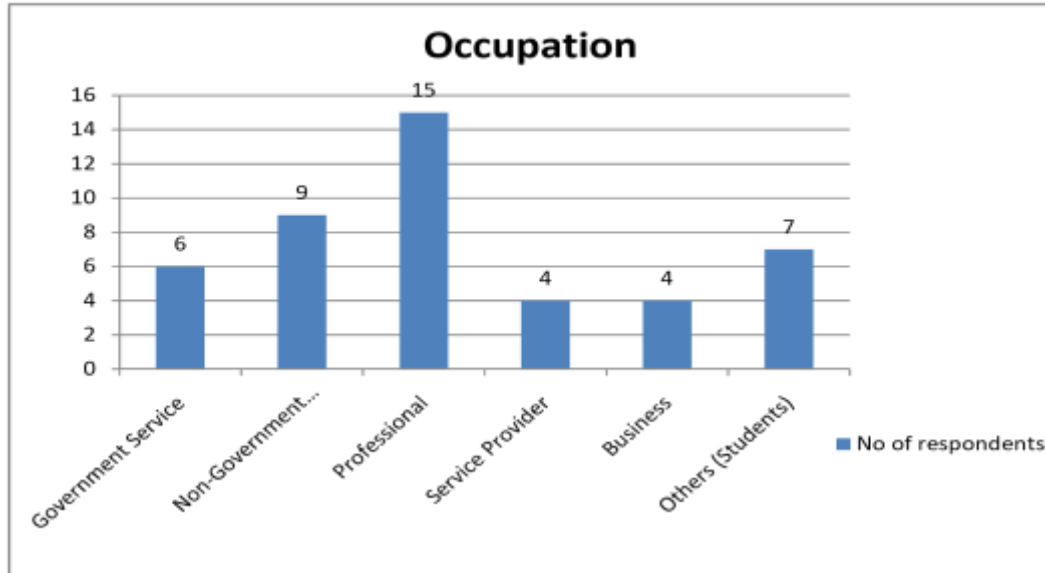
**4.1.4. Occupation of Respondents of Mumbai City:**

**Table: 4.4**

Occupation	No of respondents
Government Service	6
Non-Government Service	9
Professional	15
Service Provider	4
Business	4
Others	7

Total	45
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Graph: 4.4



**Interpretation:**

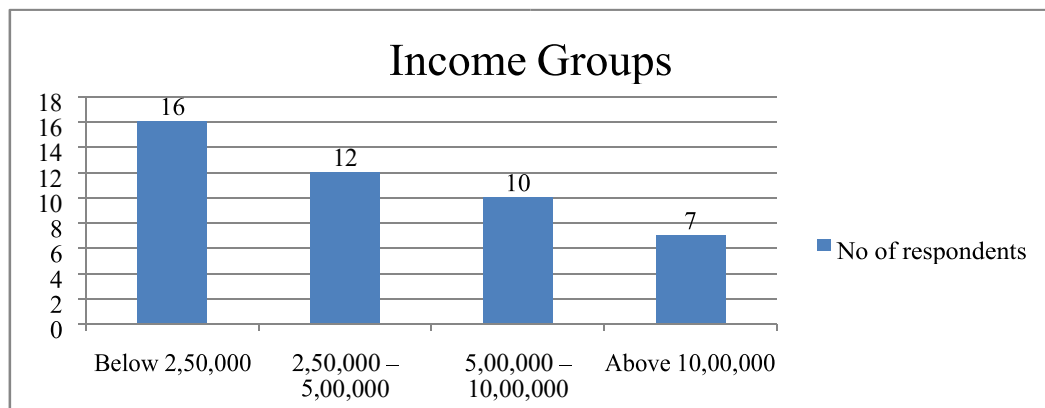
Professionals form the largest category (34%) followed by non-government employees (20%). This shows most respondents earn regular income and may be inclined toward formal savings and investment options.

**4.1.5. Annual Income of the respondents:**

Table: 4.5

Income Groups	No of respondents
Below 2,50,000	16
2,50,000 – 5,00,000	12
5,00,000 – 10,00,000	10
Above 10,00,000	7
Total	45

Graph: 4.5



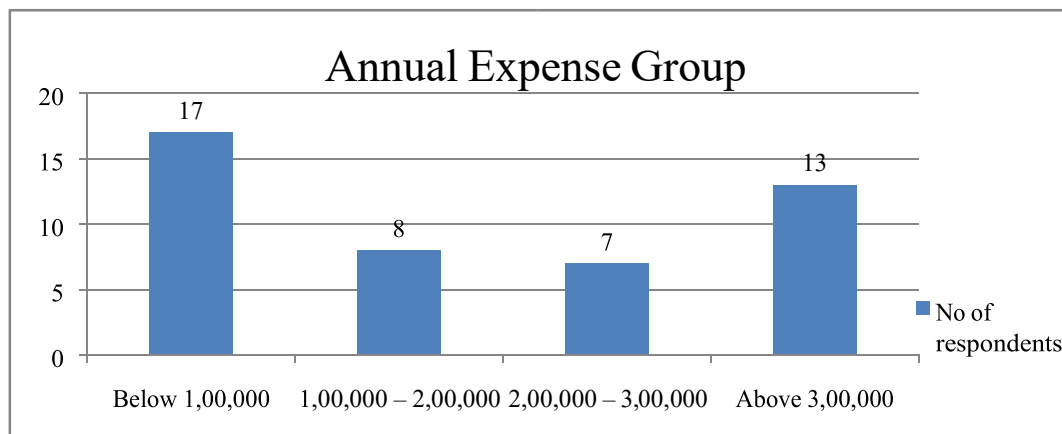
**Interpretation:** Many participants earn below ₹5,00,000 per year, indicating a preference for low-to-moderate investment levels. Only 16% earn above ₹10 lakh, suggesting that high-risk equity investment may be more common among upper-income respondents. It also indicates higher income is directly related to higher Investment.

**4.1.6. Annual Expenses:**

**Table: 4.6**

Annual Expense Group	No of respondents
Below 1,00,000	17
1,00,000 – 2,00,000	8
2,00,000 – 3,00,000	7
Above 3,00,000	13
Total	45

Graph: 4.6



**Interpretation:**

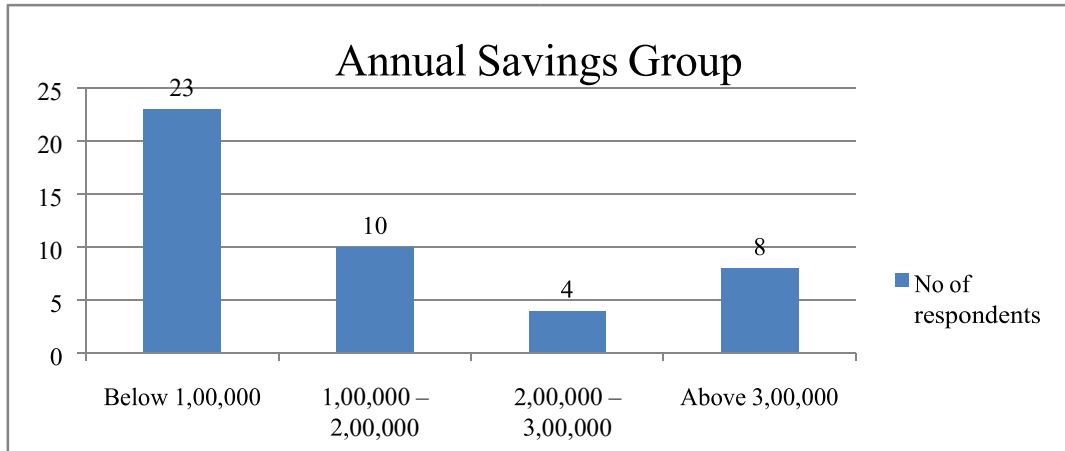
From the above table out of 45 respondents, 37.8% are in annual expense group of Below 1,00,000 and 28.9% are in above 3,00,000. This also shows that because the income of our respondents is mostly below 2,50,000, therefore their savings are also mostly in the expense group of below 1,00,000.

**4.1.7. Annual Savings:**

**Table: 4.7**

Annual Savings Group	No of respondents
Below 1,00,000	23
1,00,000 – 2,00,000	10
2,00,000 – 3,00,000	4
Above 3,00,000	8
Total	45

Graph: 4.7



**Interpretation:**

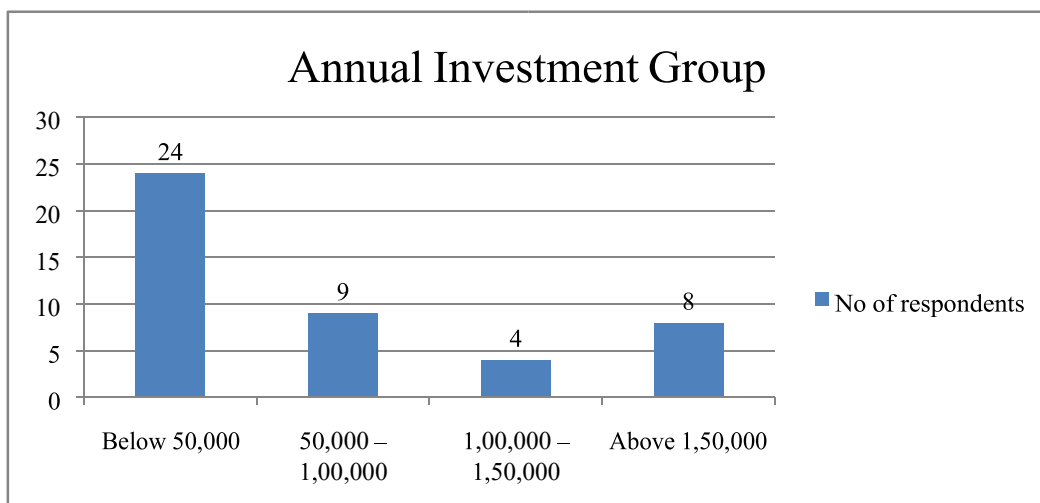
From the above table out of 45 respondents, 51.1% are in the savings group of Below 1,00,000 and only 17.8% are in above 3,00,000 this is also shows that our respondents are mostly in the saving group of below 1,00,000 because the income of our respondents mostly is in the below 2,50,000 category therefore how they can save more than 1,00,000.

**4.1.8. Amount of income spent on investment:**

**Table: 4.8**

Annual Investment Group	No of respondents
Below 50,000	24
50,000 – 1,00,000	9
1,00,000 – 1,50,000	4
Above 1,50,000	8
Total	45

Graph: 4.8



**Interpretation:**

From the above table out of 45 respondents, 53.3% are in the investment group of Below 50,000 and only

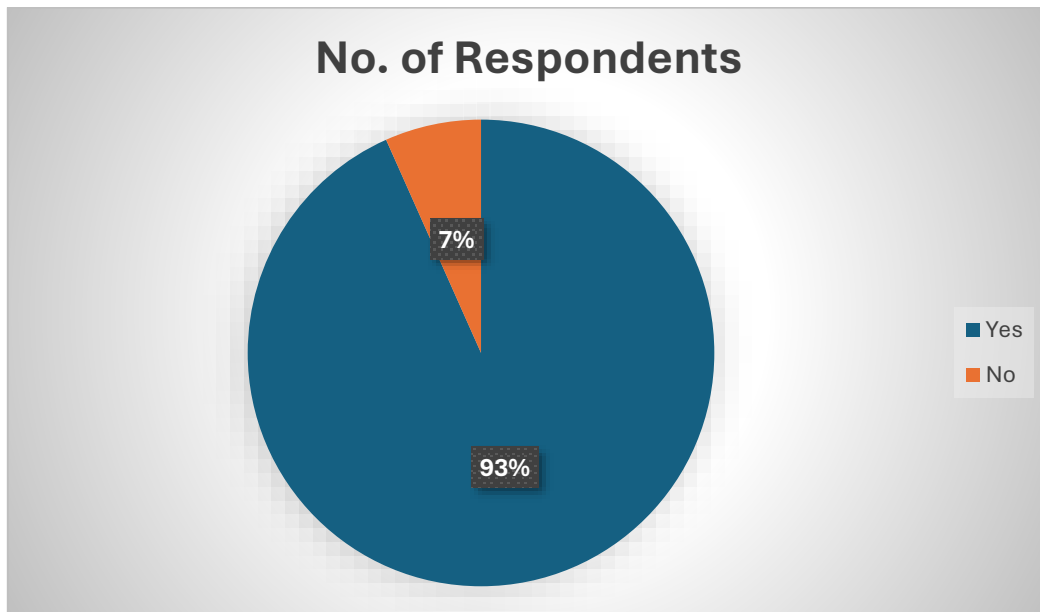
17.8% are in above 1,50,000 this is also shows that our respondents are mostly in the investment group of below 50,000 because the income of our respondents mostly is in the below 2,50,000 categories therefore how they can invest more than 50,000.

**4.2. Findings**

**4.2.1. Awareness about share valuation:**

**Table: 4.9**

Awareness	No of respondents
Yes	42
No	3
Total	45



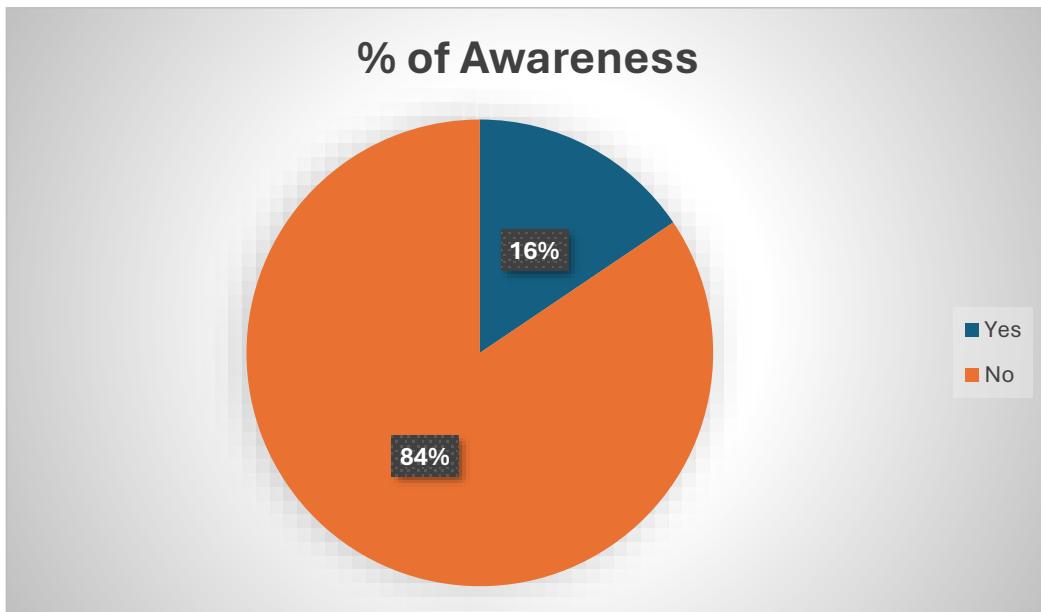
**Interpretation:**

According to this study, our sample populations are aware of share valuation because 93% of the sample are aware about valuation of share. Respondents are aware of share valuation because most of the respondents are post graduate and Ph.Ds. therefore, they have knowledge about valuation of shares.

**4.2.2. Awareness about technique of share valuation:**

**Table: 4.10**

Awareness	No of respondents
Yes	7
No	38
Total	45



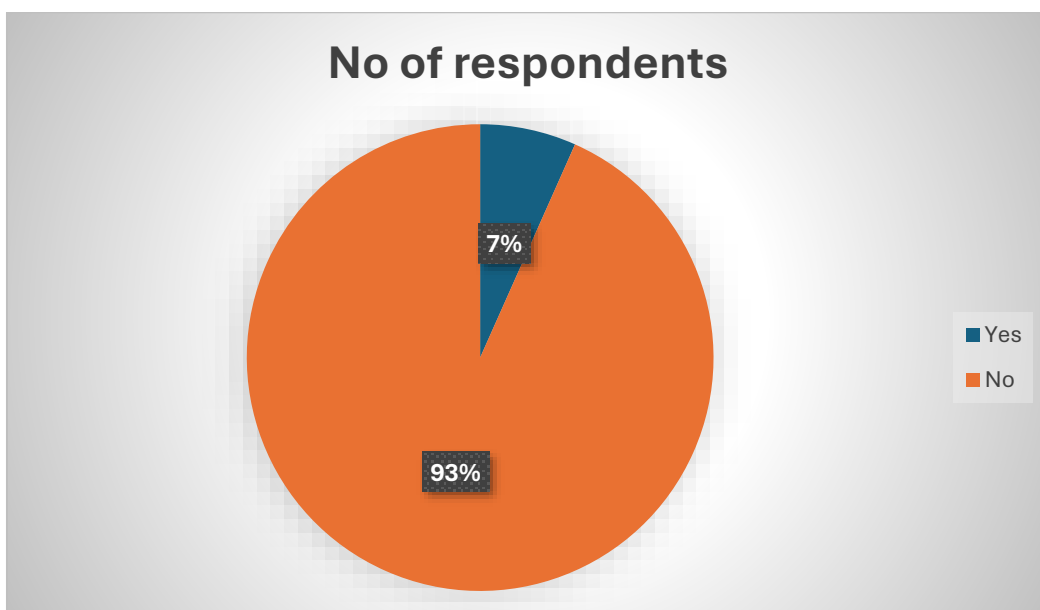
**Interpretation:**

Most investors were not aware of valuation techniques such as EPS, DPS, Net Asset Value etc. This result strongly supports Hypothesis II stating that most investors do not apply valuation methods before investing.

**4.2.3. Awareness of underpriced and overpriced shares:**

**Table: 4.11**

Awareness	No of respondents
Yes	3
No	42
Total	45

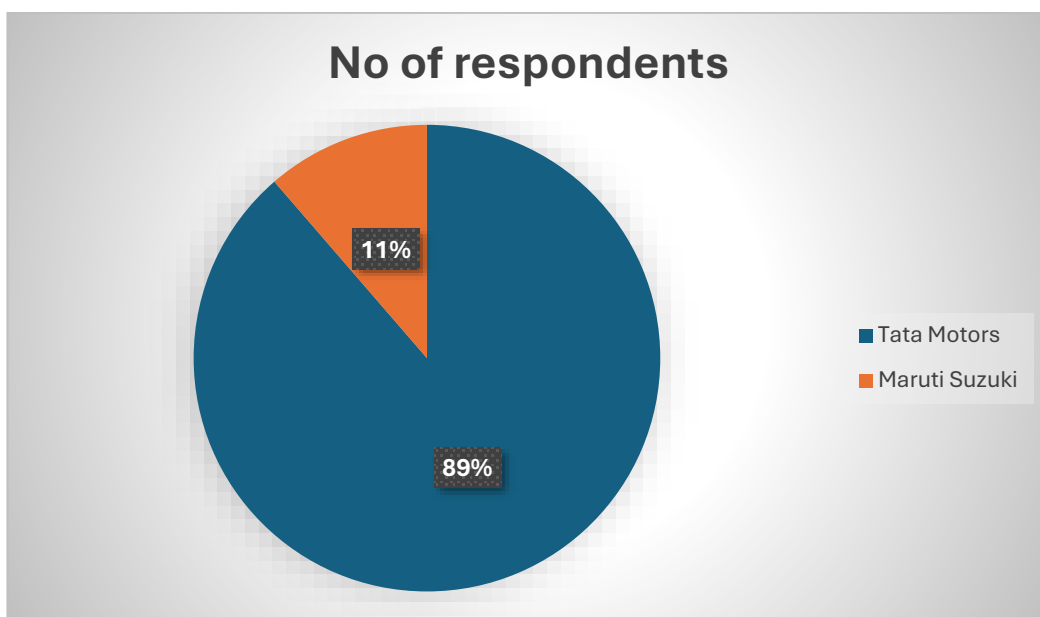


**Interpretation:** Most investors were unable to correctly identify overpriced vs. underpriced shares. This directly impacts profitability and indicates a high risk of misinformed decisions.

**4.2.4. Shares that are worth making investment:**

**Table: 4.12**

Shares	No of respondents
Tata Motors	25
Maruti Suzuki	20
Total	45



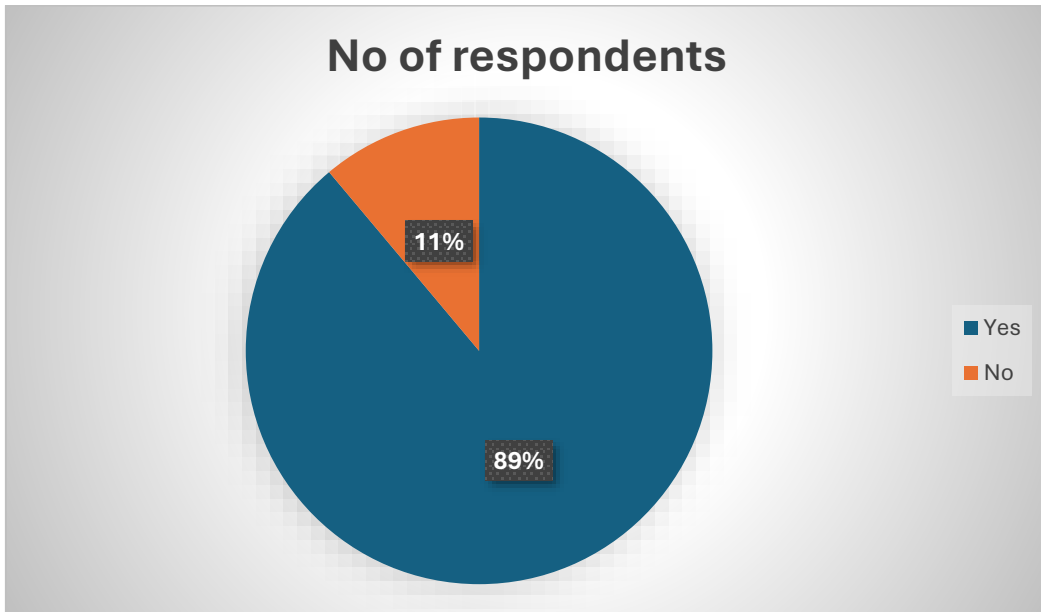
**Interpretation:**

More than 50% of the sample population is of the opinion that Tata Motor shares are worth making investment as per the valuation of shares. This is because Tata Group of Companies had a very good name, reputation and enjoys a very greater goodwill that is why investors are blindfolded and feels that Tata Motors shares are worth for making shares.

**4.2.5. Requirement of services of investment advisor:**

**Table: 4.13**

Services	No of respondents
Yes	40
No	5
Total	45



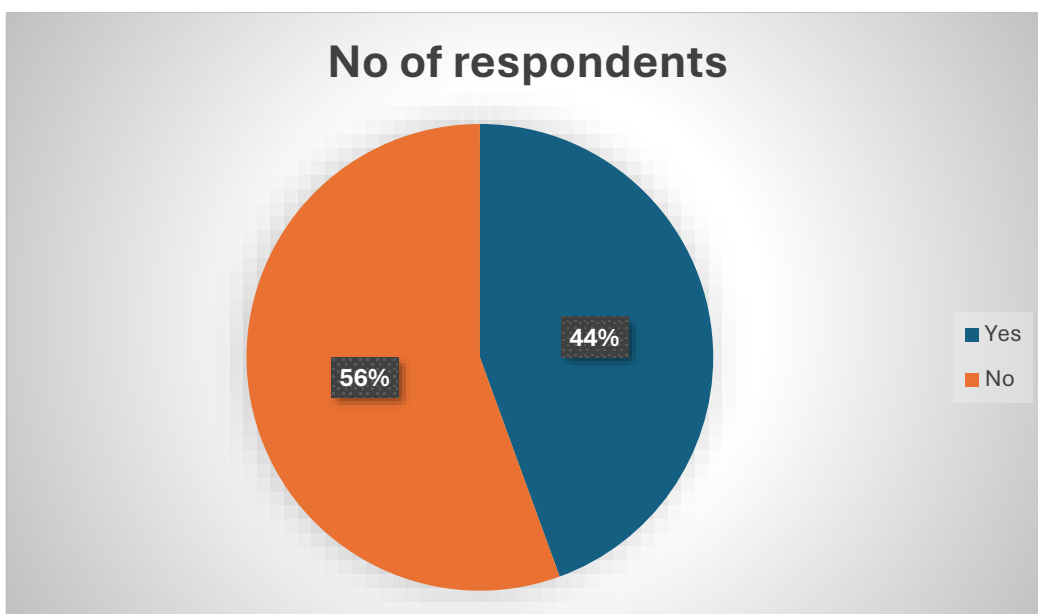
**Interpretation:**

Most respondents depend on investment advisors, friends, or social media opinions. This shows investors lack confidence in their own knowledge and rely on external suggestions for investment decisions.

**4.2.6. Investment advisor provides detailed information about share valuation technique:**

**Table: 4.14**

Share Valuation Technique	No of respondents
Yes	20
No	25
Total	45



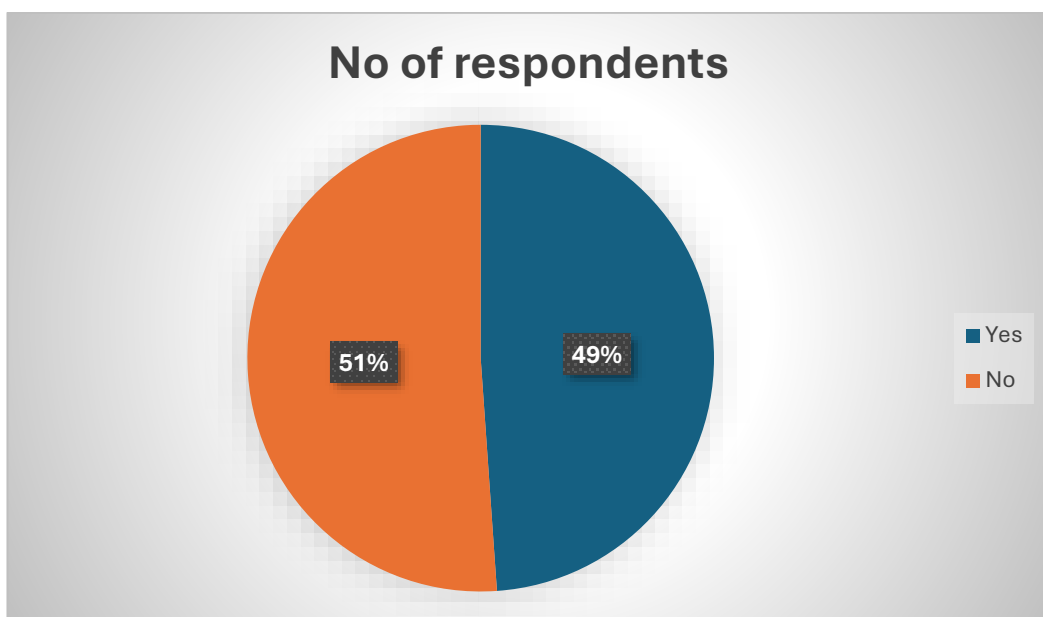
**Interpretation:** More than half of the sample population is of the opinion that investment advisor does not give detailed information about which share valuation technique used by him for making investment

on behalf of investors. This is because investment advisors feel that trade secrets might be shared in the market.

**4.2.7. Investment advisors invest in particular shares:**

**Table: 4.15**

Investment in particular shares	No of respondents
Yes	22
No	23
Total	45



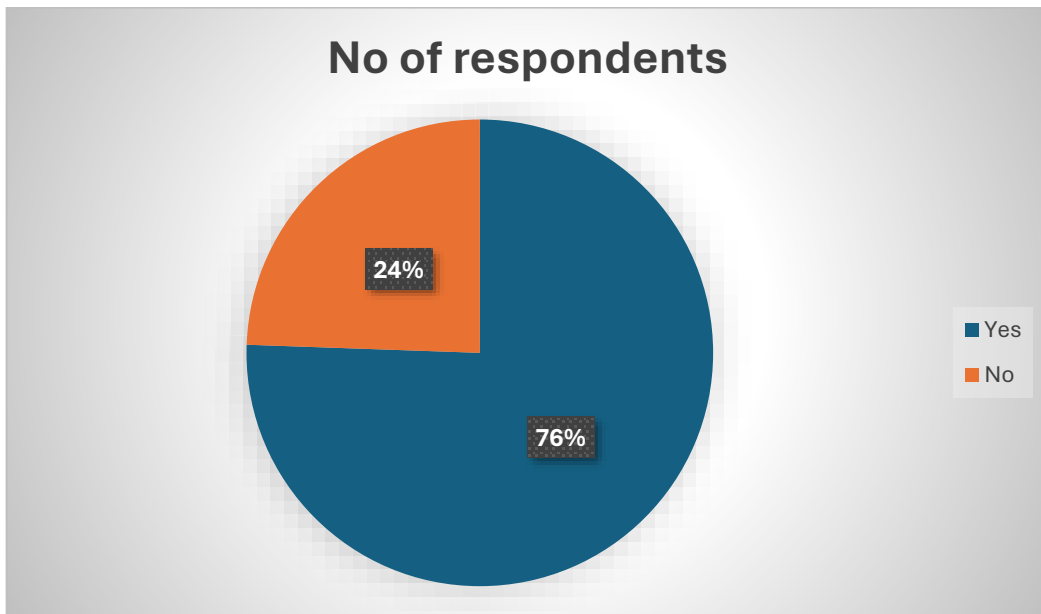
**Interpretation:**

51.1% of the sample size think that investment advisors do not give the information that why he is investing in a particular share on behalf of investor because if investment advisor discloses the details of share, then from next day onwards the investment advisor starts losing its customers.

**4.2.8. Complexity of share valuation:**

**Table: 4.16**

Investment in particular shares	No of respondents
Yes	34
No	11
Total	45



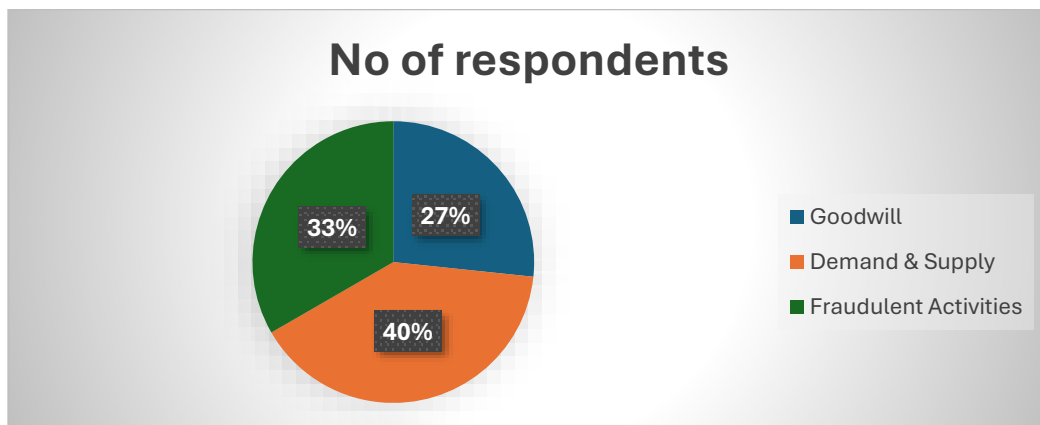
**Interpretation:**

3/4<sup>th</sup> of the sample population that is 75.6% of the sample size is of the opinion that share valuation are so complex that common investor does not do it this is because of the fact that share valuations are really and actually very complex because there are so many variables in it like valuation of goodwill, future maintainable profit which is very difficult and hard to find without any assistance from the experts.

**4.2.9. Reasons behind difference of Market price of shares and Actual price of share:**

**Table: 4.17**

Reasons	No of respondents
Goodwill	12
Demand & Supply	18
Fraudulent activities	15
Total	45



The reasons behind difference of market price of shares and actual price of shares as per method of share valuation are

- Goodwill

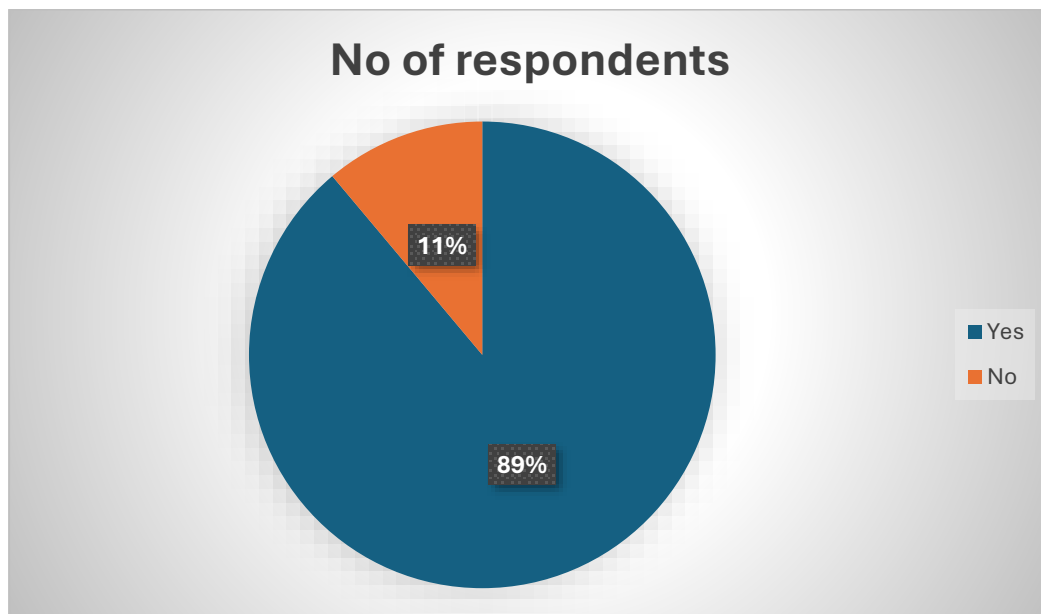
- Demand & Supply
- Fraudulent activities

73% of the sample population feels that demand and supply and fraudulent activities are the reason for differences between market price of share and actual price of share as per the method of share valuation. This is right because it totally fits in today’s practical world where demand and supply run the economy and it also shows behavioral bias rather than rational financial assessment.

**4.2.10. Underpricing or overpricing of shares links with manipulating and fraudulent activities in the past:**

**Table: 4.18**

Fraudulent Activities	No of respondents
Yes	40
No	5
Total	45



**Interpretation:**

More than half the respondents believe that manipulation impacts market prices. This validates Hypothesis, indicating that investors recognize price fluctuations caused by false volume spikes or rumors.

**Correlation Between Valuation Awareness and Investment Decision**

A comparative observation from the responses indicates that investors having awareness regarding share valuation techniques are comparatively less dependent on rumors, goodwill, and speculative market behavior while making investment decisions.

On the other hand, respondents lacking valuation awareness showed greater dependence on company reputation, market trends, and investment advisors. This indicates a positive relationship between valuation awareness and rational investment decision-making.

Although the present study is based on a limited sample size, the findings suggest that investor education and valuation awareness can reduce the possibility of investment decisions based purely on emotional or speculative factors.

## CHAPTER V – SUGGESTIONS AND CONCLUSIONS

### 5.1 Suggestions

This subtopic is divided into two parts that is suggestions to the investors and suggestions to the Securities and Exchange Board of India (SEBI) and Government regarding investment planning and for the investors and how government can check frauds and scandals.

#### 5.1.1. Suggestions to the Investor:

- 3 Investors always do their own analysis on a company or any investment option before investing because wrong advice from others might trouble the investor very badly.
- 4 Investors must analyze both market price and actual value before investing. Underpriced stocks present opportunity, while overpriced stocks may lead to capital loss.
- 5 Investors do not have to bother about short-term fluctuations in the investment rather they should track its big picture trajectory. Have faith and confidence in the investment done by investor himself after doing analyses only.
- 6 Investors do not need to be over emphasized on the PE ratio because a low PE ratio does not always mean that security or investment is undervalued, nor does a high PE ratio always mean that investment option overvalued.
- 7 Investors always try to focus on the future which means investment decisions must be based on things that have yet to happen because past data can indicate things to come, but it's never guaranteed.
- 8 Investors always must be a long-term perspective investor because long-term investment gives greater returns.
- 9 Patience provides success in investment without which returns cannot be generated.
- 10 Advisors should clearly communicate the basis of their recommendations. They must disclose which valuation method is used and explain the risk–return trade-off before investment decisions.
- 11 Many investors rely on brand perception or market rumors instead of valuation. Awareness programs through SEBI, investor associations, and financial institutions can help investors understand methods like EPS, DPS, and Net Asset Value.

#### 5.1.2. Suggestions to the Government:

1. SEBI should continue tracking unusual trading volume patterns that indicate price manipulation. Faster investigation and penalties can protect retail investors from large-scale losses.
2. All hidden costs must be declared officially, that is all the hidden cost needs to be printed on the invoice only this protects the rights of consumers that is right to information for example making charges need to be printed on invoice separately.
3. All hidden costs need to be subsumed and only one cost should be charged which is favorable for buyers and sellers also like GST had subsumed all unnecessary taxes.
4. There should be some governing mechanism on investment option of gold and house property like Securities and Exchange Board of India (SEBI) is the governing body for shares and mutual funds.

#### 5.1.3. Suggestions to the Securities and Exchange Board of India (SEBI)

Following are the suggestion by which SEBI can stop fraudulent activities:

1. Strict full disclosure norm must be introduced and implemented.

2. Seminars, simplified reports, and educational platforms can improve understanding of share valuation concepts, especially among first-time equity investors.
3. Mandatory listing agreement.
4. Companies should provide clear and timely financial disclosures so investors can accurately evaluate intrinsic value rather than depending on market speculation.
5. Advertisement before IPO compulsorily so that companies provide all information in honest and trusted manner.
6. Record of all transactions with respect to stock markets to be maintained by companies for inspection by SEBI.
7. Regular monitoring of all transactions by SEBI between investors, shareholders, brokers and company with special attention to materialistic transactions.
8. Appointment of Independent Directors on board.
9. No stock option to be given to directors explained above and salary should also be in reimbursement form.
10. Rotation of auditors/ Audit firms must be kept mandatory every year.
11. No other activities to be undertaken by the auditors explained above.
12. Adoption of IFRS.
13. Restrict timeline for submission of various financial reports to SEBI.
14. Any money pulling worth Rs. 100 crores to be regulated by SEBI.
15. Seize the assets of people would do not comply with seize and search orders issued by SEBI.
16. New law to control illicit investment activity.
17. SEBI must be prime market regulator.
18. Enforcement of whistle blower policy in every company.

SEBI is supposed to understand the root cause of the problem and rectify it. Promoting the company from the securities markets will result in huge losses for the investors and shareholders and prove useless.

In my opinion, SEBI is being overburdened with too many functions. It would be more conducive if SEBI had a varied but relevant bouquet of responsibilities that would ensure efficient functioning of the regulatory authority. The over regulation currently must stop. It is tiresome and needs to be done away with so that SEBI does not drown in its pool of duties and maintains its position as the market watchdogs.

## 5.2. Conclusion

**The purpose of this study was to examine whether investors use share valuation techniques before investing and to understand the effect of manipulation on market price. Two companies from the automobile sector, Maruti Suzuki and Tata Motors, were evaluated to determine if their shares were correctly priced.**

The primary findings are summarized below:

### **Investors' Behavior**

*A significant portion of respondents lack awareness of valuation methods and depend on company reputation, past performance, or recommendations for investment decisions.*

Also, Principal theme of the present study is the valuation of shares of companies in India. Thus, the main emphasis in the study has been to establish certain basic principles of valuation of shares. Irrespective of the purpose of valuation, the target to be achieved by all values of shares is the 'fair value' of shares. The present study has been carried on with two-fold objectives, namely, (1) critically examining the already existing principles of valuation of shares to see how far these principles can come to the aid of the valuers

in ascertaining the fair value of shares and (2) establishing certain principles which can be of practical use to the valuers in their attempts to determine the fair value of shares. The fact that the valuation of shares of companies is a growing professional practice in India has always been kept in mind at the time of carrying on the study.

The primary question connected with a study on share valuations is the various purposes for which the valuation of shares may be required. In connection with the valuation of shares, a brief study of the nature and types of shares and the rights and obligations attaching the shares has been thought essential. These matters together with a brief reference to the various interested parties requiring the valuation of shares have been detailed in chapter. In share valuation the valuer is required to understand the relevance and significance of various factors influencing the valuation of shares. He must assess the technical and market factors with proper weight. One principal difficulty associated with a study on the valuation of shares is to have a clear conception of the term, value and to avoid confusion about the terms, value, cost and price. A critical review of the various aspects of these two methods lies has been made in detail. In connection with the valuation of shares based on net assets the question of valuation of various assets has been relevant. Particular attention has been given to the treatment of intangible assets, including goodwill. The peculiar problems connected with the determination of maintainable profits and the appropriate rate of capitalization of such maintainable profits. Appropriate solutions have been incorporated. While discussing the principles of valuation of shares on the basis of net assets and maintainable profits, the opinions of various authorities and the pronouncements of the courts have always been considered with due weight.

It has been established that the various approaches based on earnings cannot be taken to be mutually exclusive approaches; rather these are to be treated like different roots of the same tree.

In a study like the present one, there is no escape from making a critical review of the various principles of valuation of shares enunciated in various direct taxation and other statutes. The task has not been quite easy. Firstly, the problem of remaining current about the direct taxation laws occurred. The Government decided to make the Estate Duty Act inoperative from the 16th day of March 1985. While sincere efforts have been made to take note of this development, it has not been possible to avoid the discussion on the Estate Duty Act totally, because such a discussion was completed long before the announcement by the Government. Secondly, there was a problem of considering a large volume of court decisions to reconcile the ideas of the learned judges for the purpose of establishing the correct principles of valuation of shares for statutory purposes. A careful consideration of the various decisions of the Indian and foreign courts with an eye on the implication of these decisions in establishing the correct principles of valuation of shares for statutory purposes. Thirdly, the problem was related to the consideration of certain controversial procedures established by some direct taxation statutes.

Certain suggestions have been made. If these suggestions are accepted by the Government, several controversies relating to the valuation of shares under the direct taxation statutes can be avoided. The field of valuation of shares is vast. It has been concluded that dealing with and requiring valuation of shares is neither feasible nor essential. The experts in the field will apply their logical mind to solve the problems. However, the principles that may be applied in solving some peculiar problems relating to valuation of shares in holding companies, investment companies, private companies etc. Important considerations relating to the valuation of preference shares, cum-dividend and ex-dividend shares etc. have also been dealt with in the same chapter.

The best judgment theory of fair value has been discussed in detail. The existing statutory and non-statutory conceptions of fair value have also been briefly referred to in the said chapter.

With the rapid growth and development of the corporate sector in India since independence, the practice in share valuation has become an important professional practice which is drawing increasing attention of more people.

Throughout the whole study, it has been repeatedly stated that the valuation of shares is not mechanical. It is a calculated study of facts and circumstances requiring judgment and reasoning on the part of the valuer. Therefore, a brief outline of the role played by the valuers in different capacities has been given before concluding the present study. The opinion of the valuers is recognized and respected by both the court and the department. The client will, in all probability, trust the views of the value of shares.

Naturally, it is expected that the valuers will exercise reasonable care and skill in the performance of their duties. In a disciplined society, they cannot expect to succeed in their claim of immunity from liability for negligence and misfeasance. We will, therefore, expect that the popular Government will take appropriate legislative measures regarding the valuers. Liability in public interest.

### **Scope for Future Research**

Future studies may expand the sample size and include investors from multiple cities and different income groups to obtain broader behavioral insights.

Further research may also incorporate advanced statistical techniques such as regression analysis, correlation analysis, and predictive financial modeling to examine the relationship between valuation awareness and investment behavior more scientifically.

Comparative sector-wise valuation studies and analysis of investor psychology during periods of market volatility may also provide deeper understanding regarding practical share valuation behavior in Indian capital markets.

#### **5.2.1. Hypothesis Testing:**

##### **Testing of Hypothesis I (Manipulation impact on share price) with reference to case study mentioned in Chapter II**

**The study supports that manipulation affects market price, causing prices to deviate from intrinsic value.**

In case study Sahara and Harshad Mehta first started purchasing share of their own company through insider trading due to this the market price of the share started to rise because of the higher demand which is generated by insider trading. Then market price of shares will go up more rapidly because common innocent investors started to buy those shares by assuming that the prices will further rise in the future. This market price is higher due to false demand created by Harshad and Sahara and therefore this phenomenon is termed as overprices of shares. However, when the company's worth is higher than its market prices can be called as underpricing of shares.

**Thus, we reject H<sub>0</sub> and accept H<sub>1</sub>.**

**“Manipulations impact share price.”**

##### **Testing of Hypothesis II (Use of valuation by investors)**

**Most investors do not use formal valuation techniques before investing. Decisions are often influenced by psychological factors or herd behavior.**

H<sub>0</sub>  $\pi > 0.5$  H<sub>1</sub>  $\pi < 0.5$

$$\pi < 0.5$$

$$\pi_0 = 0.5$$

$$Z_{cal} = \frac{\pi - \pi_0}{\frac{\sqrt{\pi_0(1 - \pi_0)}}{N}}$$

$$N = 45 \quad \pi = 17/45 =$$

$$0.3777$$

$$Z_{cal} = \frac{0.3777 - 0.5}{\frac{\sqrt{(0.5)(0.5)}}{45}}$$

$$Z_{cal} = -0.1222$$

$$\frac{0.07453}{}$$

$$Z_{cal} = -1.6398$$

**Thus, we reject H<sub>0</sub> and accept H<sub>1</sub>.**

**“Investors do not use the share valuation technique before investing in share”**

Types of tests:

T Test - It is used when sample size is less than 30.

F test - It is used when comparing under null hypothesis.

Z test - It is used when sample sizes are above 30.

**Because our sample size is above 30 therefore, we took Z Test.**

**Testing of Hypothesis III (Pricing of Maruti Suzuki and Tata Motors)**

**Based on valuation methods, both shares show different pricing behavior. The more underpriced stock represents a better investment opportunity.**

**This proves that market prices do not always reflect intrinsic value.**

I understand share valuation of Tata Motors Limited and Maruti Suzuki India

Limited. In this regard, I have computed the actual share price of the company per share of Tata Motors Limited and Maruti Suzuki India Limited as per Yield Method because this company is going concern. The actual share price of Tata Motors Limited and Maruti Suzuki India Limited as per Yield Method based on Balance Sheet as on 31st March 2018 is Rs. 1.54 Per Share/- and Rs. 4383.66 Per Share/ (Rounded off).

The report is structured under the following broad heads:

- Background
- Sources of Information
- Equity Shares Valuation

• Scope Limitation Background:

Tata Motors Limited and Maruti Suzuki India Limited is engaged in the business of Automobiles. The Company earned income from its associate company by providing its services.

Sources of Information:

We have relied upon the following information / details, furnished to us by Tata Motors Limited and Maruti Suzuki India Limited for carrying out this valuation assignment:

Balance Sheet of Tata Motors Limited and Maruti Suzuki India Limited for the period ended 31<sup>st</sup> March 2018 and Management Report of Tata Motors Limited and Maruti Suzuki Limited.

$$\text{Expected Rate} = \frac{\text{Dividends}}{\text{Paid up equity capital}} \times 100$$

$$\text{Value Per Share} = \frac{\text{Expected Rate}}{\text{NRR}} \times \text{Paid up value per share}$$

$$\begin{aligned} \text{NRR} &= \frac{\text{Dividend Per Share in similar Company}}{\text{Market Price Per Share in similar Company}} \times 100 \\ &= \frac{2.4300}{90.30} \times 100 \\ &= 2.69\% \end{aligned}$$

Similar company is Ashok Leyland.

Equity Shares Valuation of Tata Motors Limited

Steps	Particular	Amt (Rs in crores)
	Future Maintainable Profit after Tax	19.74
Less:	Preference Dividend	Nil
	Expected Earnings available for Appropriation OR Earning available for Equity Shareholders	19.74
Less:	Reserves	5.6
	Estimated Amount of future Dividends	14.14

$$\text{Expected Rate} = \frac{14.14}{679.22} \times 100 = 2.08\%$$

$$\text{Value Per Share} = \frac{2.08}{2.69} \times 2 = \text{Rs. } 1.54 \text{ Per Share}$$

Equity Shares Valuation of Maruti Suzuki India Limited

Steps	Particular	Amt (Rs in million)
	Future Maintainable Profit after Tax	77,218
Less:	Preference Dividend	Nil
	Expected Earnings available for Appropriation OR Earning available for Equity Shareholders	77,218
Less:	Reserves	41,606
	Estimated Amount of future Dividends	35,612

Expected Rate =  $35,612 / 1510 \times 100 = 2538.41\%$

Value Per Share =  $2538.41 / 2.69 \times 5 = \text{Rs. } 4383.66 \text{ Per Share}$

Name of Company	Actual Value of Share by Yield Method	Market Price	Underpriced/ (Overpriced)
Tata Motors Limited	Rs. 1.54 Per Share	Rs. 326.85 Per Share	Rs. 325.31 Per Share (Overpriced)
Maruti Suzuki India Limited	Rs. 4383.66 Per Share	Rs. 8863.15 Per Share	Rs. 4479.49 Per Share (Overpriced)

**Thus, we reject H0 and accept H1.**

**“Share of Maruti Suzuki and Tata Motors are overpriced.”**

**Exclusions & Limitations:**

My work does not constitute an audit or certification of information provided by the Company. Accordingly, we are unable to and do not express an opinion on fairness or accuracy of the information and projections submitted by the Investment Manager.

During the valuation, we were provided with both written and verbal information. We have, however, evaluated the information provided to us by the Company through broad inquiry, analysis and review (but have not carried out a due diligence or audit of the information provided for the purpose of this valuation.) The information contained herein, and my valuation is confidential. It is to be noted that any reproduction, copying or otherwise quoting of this valuation or any part thereof for any other matter unless specified herein, can be done only with our prior permission in writing.

The following valuation is done as per my understandings and knowledge about share valuation. This share valuation if used by any person for any purpose shall be used at his own risk. The valuer is not responsible for any misleading or wrong report is made through this valuation.

**Gap Between Actual Value and Market Price**

**Comparative Observation of Market Price and Intrinsic Value**

The comparative valuation of Tata Motors and Maruti Suzuki indicates that market prices are not always fully aligned with intrinsic or yield-based valuation. Despite differences in valuation outcomes, both companies continue to attract strong investor participation because of market confidence, brand value, growth expectations, and industry perception.

**This indicates that actual market pricing is influenced not only by accounting fundamentals but also by behavioral and psychological factors. Therefore, valuation of shares in practical market conditions cannot be treated as a completely mechanical or purely numerical process.**

**The study confirms that pricing in the Indian stock market often diverges from fundamental value, especially during speculative trends and rumor-driven rallies.**

**Role of Manipulation**

**When false trading activity creates an illusion of demand, prices rise artificially and eventually collapse, leading to investor losses. These findings are consistent with past Indian market scams.**

The research concludes that awareness of share valuation plays a critical role in safeguarding investors from overpriced stocks and manipulative market practices. Strengthening financial literacy and market regulation can improve investment outcomes and encourage more informed participation in the equity markets.

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