

# Chapter 1

## *Financial policy and Corporate strategy*

### Calculator Shortcuts

To Calculate  $a^n$

a

$\sqrt{\quad}$  12 TIMES

-1

$\times n$

+ 1

$\times =$  12 TIMES

If in above n in form  $\frac{1}{n}$  for roots, etc then instead of  $\times n$

Do  $\div n$

i.e.,

a

$\sqrt{\quad}$  12 TIMES

-1

$\div n$

+ 1

$\times =$  12 TIMES

**Steps for run test of weak form**

Calculate total no. of sign change ( $r$ ), No. of positive change ( $n_1$ ),  
No. of negative change ( $n_2$ )

Note: For total no. of sign change continuous positive changes are count as 1 irrespective of no. of positive change occurred i.e., if 5 positive changes then 3 negative changes then 1 positive change so positive are 6, negatives are 3 but total change is 2

$$\mu_r = \frac{2n_1n_2}{n_1 + n_2} + 1$$

$$\hat{\sigma}_r = \sqrt{\frac{2n_1n_2(2n_1n_2 - n_1 - n_2)}{(n_1 + n_2)^2(n_1 + n_2 - 1)}}$$

two- tailed test the randomness of prices.

i.e. Upper limit and lower limit are calculated at two different levels  
(Note: value of t change at different levels)

**Lower limit**

$$= \mu - t \times \hat{\sigma}_r$$

**Upper limit**

$$= \mu + t \times \hat{\sigma}_r$$

If  $r$  lies between these limits, then market is in weak form of efficiency.

$$\text{EPS} = \frac{\text{PAT} - \text{Preference Dividend}}{\text{No. of Equity Shares}}$$

$$\text{EPS} = \text{BVPS} \times \text{ROE}$$

$$\text{BVPS} = \frac{\text{Total Equity Shareholder's Fund}}{\text{Total Number of Equity Share}}$$

$$\text{ROE} = \frac{\text{Total Earnings Available for Equity Shareholder}}{\text{Total Equity Shareholder's Fund}} \times 100$$

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}} \times 100$$

$$\text{Retention ratio} = \frac{\text{Retained Earning Per Share}}{\text{EPS}} \times 100 \quad \text{OR}$$

$$= \frac{\text{EPS} - \text{DPS}}{\text{EPS}} \times 100 \quad \text{OR} = (1 - \text{Dividend Payout Ratio})$$

$$\text{Dividend Payout Ratio} + \text{Retention Ratio} = 1$$

Note : Dividend is always paid on face value of share and not market price .

$$\text{Dividend} = \text{EPS} \times (1-b)$$

Where, b = retention ratio

$$g = b \times r$$

**Ex-right price =**

**Market value of existing shares + Funds(Finance) to be raised**

**No. of existing shares + Right shares to be issued**

$$= \text{Ex-right value} = \left[ \frac{MN + S R}{N + R} \right]$$

Where,

M = Market price,

N = Number of old shares for a right share

S = Subscription price

R = Right share offer

OR

$$= \frac{nP_0 + S}{n + n_1}$$

n = No. of existing equity shares

P<sub>0</sub> = Price of Share Pre-Right Issue

S = Subscription amount raised from Right Issue

n<sub>1</sub> = No. of new shares offered

**Funds(Finance) to be raised = Subscription Price × No.of right shares**

$$\text{Subscription price} = \frac{\text{Fund to be raised}}{\text{No. of right shares to be issued}}$$

**Value of a Right = Ex Right price – Subscription price**

$$\text{Value of a Right Per Share Basis} = \frac{\text{Value of a Right}}{\text{No. of right shares per share}}$$

**Percentage of the downside risk**

$$= \frac{\text{Market Price of convertible bond} - \text{Straight Value of Bond}}{\text{Market Price of convertible bond}}$$

**Or**

$$= \frac{\text{Market Price of convertible bond} - \text{Straight Value of Bond}}{\text{Straight Value of Bond}}$$

**Conversion Parity Price**

$$= \frac{\text{Bond price}}{\text{No. of Shares on Conversion}}$$

**Favourable income differential per share**

$$= \frac{\text{Coupon Interest from Debenture} - \text{Conversion Ratio} \times \text{Dividend per share}}{\text{Conversion Ratio}}$$

**Premium payback period**

$$= \frac{\text{Conversion Premium per share}}{\text{Favourable income differential per share}}$$