Equity Analysis & Valuation

Equity Securities

1. Preferred stocks are a hybrid between a common stock and a bond. Owners of preferred stock generally do not have voting rights. Dividend on preference shares is cumulative.
2. The investment banker performs the underwriting function for an issue.
3. Foreign bonds: bonds floated in the domestic market denominated in domestic currency by non-resident entities.
4. Euro signifies a currency outside its home currency. Hence 'Eurobond' refers to bonds issued outside the home country.
5. In an order driven market, it is the trader who submits the order but in a price-driven market, the dealer posts a firm quote and provides free option.
6. Growth theory of common stock valuation assumes that the investor seeks capital growth rather than dividend income.
7. The value investing theory assumes that investment should be made in under-valued stocks and it should be made in good quality stocks that are out of favour in the market.
8. Market timing includes the following four components; Trends in interest rates, investor sentiments, the valuation of the market as a whole and technical state of the market.

Organization and Functioning of Securities Market

9. The investors who invest in primary markets are k/a Stags.
10. There are 24 stock exchanges including OTC stock exchange. Latest is Capital Stock Exchange.
11. Stock market should have three important dimensions of liquidity:
    a. Depth: situation wherein buy & sell orders are available at the quoted price for the desired quantity.
    b. Breadth: determined by the number of transactions or the number of orders.
    c. Resilience: it is the response to orders to change in price.
12. If a security is traded actively on 50% of the days when the market is open, then it is liquid.
13. OTCEI
    a. The promoters or OTCEI are UTI, ICICI, IDBI, IFCI, LIC, GIC, SBI Capital markets and Canara Bank Financial services.
    b. Companies with an issued capital ranging from Rs. 30 lakh to less than Rs. 3 crore are eligible to list their shares under OTCEI.
    c. Companies need a sponsor to list securities who must be a member of OTC. The sponsor becomes the sole underwriter of the company.

Buying and Selling Securities

14. Type of day traders:
    a. Scalpers: their activities are limited to the rapid and repeated buying and selling of a large volume of shares during a very short period of time, anywhere from a few seconds to a few minutes at a time. This group trades on shares that have high liquidity and momentum in prices. Their objective is to earn a small per share profit on each transaction at a minimum risk.
    b. Momentum traders: they identify and trade stocks that are moving in a particular range during the day. Their objective is to buy stocks at bottom and sell at the top and vice-versa.
15. Swing Traders: They will hold stocks for more than one day, if necessary, to give the stock price some time to move.
16. Position Traders: they hold their stocks for weeks or months at a time and try to analyse trends to get a larger movement on the price and subsequently profits.

17. Spread traders profit by correctly predicting the future shape of the price curve.
18. Maintenance margin = [Equity account / Market Value of Holding] * 100
19. Clearing is the process of determination of obligations, after which the obligation are discharged through settlement.

Security Market Indexes and Benchmarks

20. An index is a group of stocks representing a particular segment of a market, or in some cases the entire market. Indices are the basic tool to help and analyze the price movement of stocks. It is also a useful indicator of a country's economic health.
21. The stock indices can be of four types – Price-weighted average, volume-weighted average, unweighted or equal weighted price index and free float market capitalization.
22. With a value-weighted index, stock splits, stock dividends and other capital changes are automatically adjusted because a decrease in the stock price is offset by an increase in the number of shares outstanding.
23. New Index value in volume-weighted average = (Current market value) * (beginning index value)
    (Base Value)
24. New base year average = (Old Base Year Average) * (New Market Value)/(Old Market Value)
25. Stocks are basically the present value of future earnings.
26. FTSE: Financial Times Stock Exchange
27. MSCI: Morgan Stanley Capital International.
28. Lead Indicator is a measurable economic factor that changes before the economy starts to follow a particular pattern or trend. It is used to predict changes in the economy. The lead indicator should fulfil following criteria:
    a. It should move smoothly from one period to another as it rises or falls.
    b. It should show distinctly the turns at peaks and trough.
    c. It should fit logically with business cycle.
    d. It should lead by enough time to permit the user to make necessary changes in his plans.
29. Liquidity Preference Theory states that long-term yield is often higher than the short-term yield. Investors are risk-averse and will demand a premium for securities with longer maturities. i.e. Liquidity premium is expected to be positive because short-term investors dominate the market.
30. In a call market, price is determined by the maximum price, which a customer is willing to give, or the minimum price at which the customer is willing to sell the share under the market order system.

Risk Return Models

31. Variance of the portfolio = σA2.WA2 + σB2.WB2 + σC2.WC2 + 2 [CovAB. WA. WB + CovBC. WB. Wc + CovAC. WA. Wc]
32. Covariance between two stocks Cov (A, B) = βA x βB x Var (M); Var (M) = variance of market.
33. If value of α > 0, stock is under-priced and vice-versa.
34. Ex post SMLs are used to evaluate the performance of portfolio managers and to test the market efficiency where as Ex ante SMLs are used for identifying undervalued & overvalued securities and in determining the market price of risk. The slope of SML (ri) is a measure of the "market price of risk" in the sense that for each unit of beta, the expected return for a security increased by an amount equal to (ri). The steeper the slope of the SML, the higher the price of risk, and vice versa.
35. Yield refers to the income derived from a security in relation to its price, usually purchase price.
36. Non-diversifiable / systematic / market risk: Related to general economy or the stock market as a whole and hence can not be eliminated by diversification.
    a. Major changes in tax rates.
    b. War and other calamities.
    c. Change in inflation rates.
    d. Change in economic policies.

e. Industrial recession.
f. Change in international oil prices.

37. Diversifiable / unsystematic / specific risk: specific to a company or industry and hence can be eliminated by diversification.
    a. Company strike
    b. Bankruptcy of a major supplier
    c. Death of a key company officer.
    d. Unexpected entry of new competitor in the market.
38. The Markowitz model of portfolio analysis generates an efficient frontier, which is a set of efficient portfolios. A portfolio is said to be efficient if it offers the maximum expected return for a given level of risk or if it offers minimum risk for a given level of expected return. Portfolios lying above the efficient frontier are desirable but are not available. Assumptions of this model are:
    a. Investors are risk-averse and thus have a preference for expected return.
    b. Investors measure their preferences and dislike for investments through the expected return and variances (or standard deviations) about security return.
39. Capital Asset Pricing Model (CAPM): establishes a liner relationship between the required rate of return of a security and its systematic risk. This model was developed by William Sharpe, John Linter and Jan Mossin. The CAPM model assumes that investors are free to borrow at risk-free rate of return, all investors have same investment time horizons, the investments are perfectly divisible in nature, the investors have homogeneous expectations, the market price is highly perfect in nature and an individual investor by his action cannot influence the price of the stock.
40. The SML (Security Market Line) intersects the vertical axis at the risk-free rate of return Rf and (Km –Rf) is the slope of the SML. The steeper the slope of ex ante SML, the more averse the investors are to assume additional risk.
41. If the market return is below the risk-free rate, then stocks which possess high systematic risk give lower returns as compared to stocks which have low systematic risks.
42. If required rate of return > expected rate of return then security is over valued and vice-versa.
43. Expected Return = D(1+g)/P + g
    Where; D = Last paid dividend
    P = Current market price.
    g = growth rate.
44. Arbitrage Pricing Theory (APT) is based on the premise that two or more securities or portfolios that provide the same pay-offs to their investors are same and must therefore sell at the same price. Assumptions of APT:
    a. Investors have homogeneous expectations and are expected-utility-of-wealth maximizers.
    b. There are no imperfections or frictions in the market to impede investor buying and selling.
    c. Various factors give rise to returns on securities and that the relation between security returns and these factors is linear.
    d. Over time, the error term is expected to have a mean value of zero, i.e., E (e) = 0 and is uncorrelated across securities.
45. Factors in Arbitrage Pricing Theory (APT) that might have an influence on security returns are:
    a. Growth rate in industrial production.
    b. Changes in expected inflation
    c. Changes in market risk premiums as measured by the yield differential between long-term corporate bonds and govt bonds.
    d. Changes in oil prices.
46. January Anomaly in APT: Returns in January are larger than those in any other month.
47. Nominal rate of return (risk free return) = Real rate of return + Rate of inflation
48. A stock which is more risky than the market will have a beta that is > the correlation coefficient.
49. A portfolio consisting n different assets will have n (n-1)/2 unique covariance terms.

50. The characteristic line establishes the relationship between return on security and the return on the market.
51. Coefficient of determination = (1 – r2) = Ratio of systematic risk of security to total risk.
52. Investor can gain advantage in holding portfolio of two stocks if
    $r_{AB} < \sigma_A/\sigma_B$; where, r is coefficient of correlation between stocks A and B. σ = Std deviation

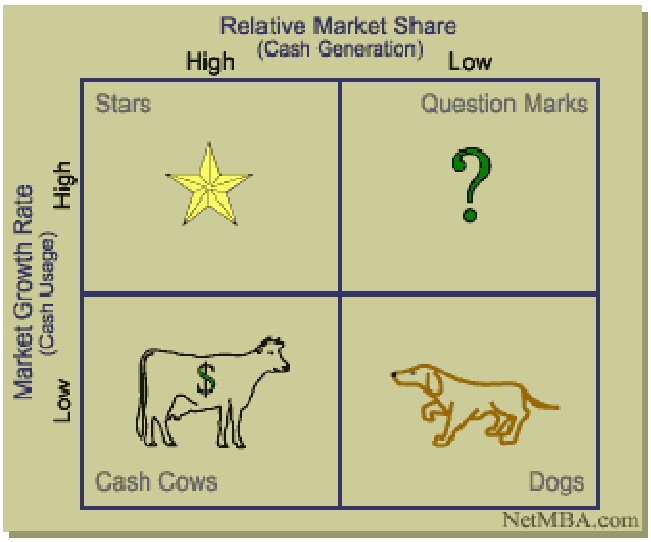
53. SML represents the relationship between the returns and systematic risk where as CML represents the relationship between the returns and total risk.
54. Alpha is a y-intercept of CML line. Also Alpha = Expected (or Actual) return – Required return
55. Beta is a measure of systematic risk or market risk and represents the slope of characteristic line.
56. Arbitrage Pricing Theory has a non-linear risk return relationship.
57. CML is a relationship between total risk and required return.

Analysis of World Security Markets

58. An increase in govt spending (like during election), increase in money supply, reduction in tax rates create positive demand shocks.
59. If inflation in future is expected to be high and stable, a higher security return will be required.
60. An inflationary currency will depreciate against the currency having relatively stable inflation rate and the amount of depreciation will be approximately equal to the difference in inflation rates.
61. Gross National Product (GDP) is the value of all goods and services produced by the resources (Labor, capital, land, and entrepreneurship) owned by the nation.
62. Gross Domestic Product (GDP) measures the value of the products produced within the country irrespective of the ownership of resources used in the production.
63. Bulldog bonds are issued in UK by foreign companies and denominated in Pound Sterling.

Industry Analysis

64. Industry Life Cycle
    a. Pioneering stage: rapid growth in demand.
    b. Expansion stage: Industries are improving their products, and perhaps lowering prices. The product penetrates the market place and becomes more commonly used. High P/E ratios.
    c. Stabilization stage: sales may still be increasing but at a much slower rate. Products become more standardized and less innovative, the market is full of competitors, and costs are stable rather than decreasing through efficiency moves and so on.
    d. Declining stage:
65. BCG Matrix



66. Business cycle analysis has 3 phases: Growth, defensive and cyclical.
67. Cyclical industries are those which experience high growth rates when economy is booming and vice-versa.
68. In Balance sheet, equity and fixed assets are expressed in terms of their book value.
69. The five competitive forces:
    a. Threat of Entry of new competitors
    b. Threat of substitution
    c. Bargaining power of buyers
    d. Bargaining power of suppliers
    e. Rivalry among current competitors.
    f. 

70. Labour intensive, capital intensive, learning curve and economies of scale are natural entry barriers, and control over raw material, licensing policy of government, control over technology and control over market through strong brand equity are artificial entry barriers.
71. Futures margin depend on the price volatility of the underlying asset. Exchanges generally set this margin equal to ŭ + 3σ where ŭ is the average daily absolute change in the value of contract and σ is the standard deviation of these changes over a period of time.
72. Analysis of competitive environment
    a. Cost Leadership
    b. Differentiation
    c. Focus
    d. Sustainability
73. Expected growth rate = (retention ratio) X (Return on equity)
74. Retention ratio = (retained earnings) / (PAT)
75. Diffusion index = (no of leading indicators moving up)/(total no of leading indicators)
76. The lead indicator approach is most valuable in suggesting the direction of change in economic activity. But it does not convey any information on the magnitude or duration of the change.

Company Analysis

77. State of affairs of the company: means any change, so far as is material, for the appreciation of the state of company's affairs by its members.
78. Reserves refer to amount set aside out of profits or other surpluses of the company.
79. Basic EPS = $\frac{\text{Net Profit After Tax – Preference Dividend}}{\text{Weighted Average Number of Shares}}$
    = (return on equity) x (book value of equity)
80. The weighted average number of shares is calculated by taking the number of outstanding shares and multiplying it with the pro-rata period these shares covered.
81. If the expected P/E ratio is greater than the actual P/E ratio, it indicates that the stock is underpriced and this is the time to buy the stock. If the expected P/E ratio is less than the actual P/E, the stock is currently overpriced and it is the time to sell the stock.
82. Headline profit: EPS based on normal or maintainable profit.
83. Segment Reporting
    a. Segment revenue is 10% or more of total revenue of all segments, or
    b. Segment result is 10% or more of combined results of all segments, or
    c. Segment assets are 10% or more of total assets of all segments, or
    d. At least 75% of the total external revenue is from that segment or if external revenue is less than 75%, more segments will be added until the 75% condition is met.
    e. Management discretion.
84. Book Value of equity is calculated as the difference between the book value of assets and book value of liabilities. According to accounting convention followed, the assets are valued at historical cost minus depreciation. So, book value of assets declines over time. The book value of liabilities is the value of their issue.
85. NOPLAT: Net Operating Profit Less Adjusted Taxes
86. Economic Value Added (EVA) = (Sales – Operating Expenses) – (WACC)(Net Assets)
87. Market Value Added (MVA) is a measure of a firm's external performance.
    a. MVA = (Market value of firm) – Capital – (Market Value of debt) – (Market value of equity)
    b. It can also be calculated by discounting the EVA of each year by the WACC.
88. Future Growth Value (FGV) = Market Capitalization less Present Value
89. Sanity Test % = (Future Growth Value) / (Market Value) x 100
90. Formula based on expected market P/E = 8G2E
91. Cash Flow Return on Investment (CFROI) = Cash Flow/ Market Capitalization

Special Application of Fundamental Analysis

92. Corporate Restructuring: Actions taken to expand or contract a firm's basic operation or fundamentally change its assets or financial structure.
93. Forms of corporate restructuring:
    a. Expansion
        - Merger: two types
            1. Amalgamation: two companies lose their individual identities and new company is formed.
            2. Absorption: fusion of a small company with a large company.
        - Acquisitions
        - Tender Offer: making a public offer for acquiring the shares of the target company with a view to acquire management control.
        - Asset Acquisition
        - Joint Ventures
    b. Contraction
        - Spin-offs: a company contributes on a pro rata basis all of the shares it owns in a subsidiary to its own shareholders. The new entity has its own management and is run independently from

the parent company. To avoid ordinary income taxes, the parent and the subsidiary must have been engaged in business for five years prior to the spin-off. The subsidiary should be at least 80% owned by the parent.

- Split offs: a new company is created to take over the operations of an existing division or unit. The equity base of the parent company is reduced reflecting the downsizing of the parent firm.
- Split-ups: entire firm is broken up into a series of spin-offs, so that the parent company no longer exists.
- Divesture: sale of a portion of the firm to an outside party, generally resulting in an infusion of cash to parent company. Selling process has four steps which are (i) identification of prospective buyers, (ii) selection of the type of selling process to be utilized, (iii) Business reviews, and (iv) negotiation of the transaction and closing the deal.
- Equity Carve Out: sale of a portion of the firm through an equity offering to outsiders.
- Assets Sale: direct sale of tangible or intangible assets.

c. Corporate Control: process to influence organizations to implement the organizational strategies.
   - Takeover defenses
   - Share Repurchases
   - Exchange Offers: provides on or more class of securities, the right or option to exchange part or all of their holdings for a different class of securities of the firm.
   - Proxy Contests: Use of proxy mechanism of corporate voting.

d. Changes in Ownership Structure
   - Leveraged Buyout (LBO): financing technique where debt is used in the acquisition of a company. This is unsecured financing having both equity and debt characteristics hence k/a mezzanine financing also.
   - Going Private.
   - ESOP
   - MLP: Master Limited Partnership is a type of limited partnership whose shares are publicly traded.

94. Leveraged buyouts can be divided into three categories depending on the probable mechanism for debt repayment and the realization of value to equity.
    a. BUST-UP LBOs: LBOs of this kind depend on the sale of assets of the acquired company to generate returns for the equity investors. This type of LBO is usually seen in acquisitions of diversified public companies where the equity markets may not fully value the various sub-entities of the company.
    b. CASH FLOW LBOs: most common in management-led transactions that require repayment of acquisition financing through the operating cash flows.
    c. SELECTIVE BUST-UP/CASH FLOW LBOs (HYBRID): hybrid of a bust-up and cash flow techniques. It involves the purchase of a fairly diversified company and the subsequent divestiture of selected units to retire a portion of the acquisition debt.

95. Types of Strategic Alliances
    a. Partnering with suppliers
    b. Pooled Purchasing
    c. Partnering with distributors
    d. Franchising and Licensing Contracts.

Technical Analysis

96. Fundamental analysis serves as a guide to an investor in stock selection. Fundamental analysis determines the intrinsic value of a security, whereas technical analysis with the help of the price charts predicts the price of a security.
97. Technical Analysis serves as a guide to decide on the timing of a stock purchase/ sale.
98. Technical analysis is done from four points of view via Price, Time, Volume and Breadth.
99. Dow Theory: seeks to study the major movements in the market with a view to establish the trends.
100. Three movements of the market are primary movements, secondary reactions and minor movements.
101. Point and Figure Chart (PFC) does not have a time dimension. It has X and O; while X indicates increase in price, O indicates downward movement. Prices are marked in same column irrespective of the time period as long as the direction of change remains unaltered.
102. A right angled triangle is formed when a series of rallies converge. One of the two boundaries of the series is horizontal to the X-axis.
103. A rectangle indicates equal pressure being exercised by buyers and sellers, and the combat is indecisive until a breakout occurs.
104. Flag: formation when a vertical rally or decline is interrupted by a consolidation pattern akin to a rectangle.
    a. They only represent a pause in a rally or reaction before prices continue in their course.
    b. A flag extending over more than 4 weeks should be treated with caution.
    c. It is estimated that the flags occur somewhere near the mid-point of the trend.
105. A pennant is similar to a flag except that it looks like a triangle rather than a rectangle.
106. A gap refers to the occurrence of an empty space in a bar chart between the prices of two consecutive trading periods.
    a. Runaway gaps / measuring gaps: when prices are on a rapid uptrend or downtrend. They generally occur almost half way through a trend.
    b. Breakaway gaps: when price breaks out of a price pattern. This gap emphasizes the bullishness or bearishness of the breakout.
    c. Exhaustion gaps: gaps occurring before a trend ends, or gaps that precede the last leg of a bullish or a bearish trend. This gap should normally be treated as a sign of consolidation.
107. Islands refer to the formation of an isolated price pattern, usually within a narrow range, at the end of a price trend. It is separated from the previous trend by an exhaustion gap and a breakaway gap.
108. Diamond: combination of two chart patterns: the expanding triangle and the symmetrical triangle. Volume increases during the first half of the diamond formation (on the part that looks like an expanding triangle) and declines gradually during the second half (on the part that looks like a symmetrical triangle)
109. Wedges are characterized by prices fluctuating between two converging boundary lines.
110. V Formations (Spikes): suddenly reverses the trend with little warning unlike the most reversal patterns.
111. Saucers and Rounding Tops
    a. A saucer generally occurs at market bottoms when investor interest is at its lowest ebb.
    b. Volumes almost dry up at the bottom of the saucer, and pick up once the uptrend movement in prices begins.
    c. In rounding tops, the volume behaves just opposite to the price pattern, resulting in a low volume when price is at highest level, and expanding when prices begin to fall.
112. For a rising trendline, the distance between the higher rally, before penetration and the trendline is measured. This distance is projected downward from the point of penetration.
113. Support: Buying, actual or potential, sufficient in volume to halt a downtrend in prices for an appreciable period.
114. Resistance is defined by Edward and Magee as ‘Selling, actual or potential, sufficient in volume to satisfy all bids and hence stop prices from going higher for a time period’.

115. Relative Strength (RS) refers to the ability of an industry or stock to outperform the market at turning points.
   a. It is obtained by dividing the price of the stock by the market index.
   b. RS of stock = (Avg of up-closing prices) / (Avg of down-closing prices)
   c. It generally reverses ahead of the stock prices.
116. The exponent employed in EMA is calculated by dividing 2 by the time span whether it is for days, weeks, months or years. For Example: the exponential factor for a 300-day MEA is equal to 2/300 = 0.0067
117. A weighted moving average is weighted in favour of the most recent observations, and therefore, turns earlier than the SMA. Also a warning of trend reversal is given after a change in the direction.
118. Return of Change (ROC) index is constructed to measure rate changes in price.
119. Momentum measures the rate at which prices rise or fall and is based on the principle that prices usually rise at the fastest pace well ahead of their peak, and decline at their greatest speed before their trough.
120. Head and shoulders is the most reliable and widely used pattern for trend reversal.
121. Moving Average Convergence and Divergence (MACD)s
   a. Like ROC, it is an oscillator which measures momentum.
   b. Constructed by taking the difference of ratio of short term and the long-term moving average.
   c. The points of crossing between the oscillator and the reference line act as signals to buy and sell the stocks.
122. Stochastics is price velocity technique based on the theory that as prices increase, closing prices have a tendency to be ever nearer to the peaks reached during that period.
   a. %K in a 100 day stochastic analysis = (C – L)/(H - L); C= Closing Price; L & H= Low & High Price;
   b. %K line is a fast moving line and generates faster signals than the %D line. But %D line is more important line as it gives buy and sell signals.
   c. If %K and %D are below 30 it signals oversold position. >70 signals overbought position.
123. The confidence index is supposed to reveal how willing investors are to take a chance in the market. It is the ratio of high-grade bond yields to low-grade bond yields.
124. According to odd-lot theory small investors who often buy or sell odd lots (less than 100 shares of stock) are usually wrong in their actions at market peaks and troughs. This is a classic example of contrary opinion theory.
125. Relative Strength Index (RSI) = 100 – 100/(1+RS)
   a. Where RS = average of X day's up closes to the average of X day's down closes.
   b. Value of RSI fluctuates between 0 and 100.
   c. It is a measure of momentum against itself.
126. Elliott wave theory
   a. Stock market follows a repetitive rhythm of five-wave advances followed by a three-wave decline.
   b. Wave 1, 2, and 5 known as impulsive wave or rising waves.
   c. Waves 2 and 4 are known as corrective waves.

Theory of Valuation

127. Cash Flow = PAT (net income) + Non-cash expenses + changes in net working capital – Capital Expenditure
128. Stock dividend (also called Bonus issue) involves capitalization of the reserves by issuing new shares to the existing shareholders.
129. Efficient Market Hypothesis (EMH)
   a. Weak form/ random walk model: current prices fully reflect all historical information.
   b. Semi-strong form: current stock prices reflect all publicly available information such as earnings, stock and cash dividends, splits, mergers and takeovers, interest rate changes, etc.

c. Strong form: prices of securities fully reflect all available information – both public and private.
   - Near strong form: conclusions and opinions drawn by analysts based on publicly available information are also reflected in the prices.
   - Super strong form: confidential information available only to selected groups of people mentioned is also of no use in obtaining abnormal returns, as the prices contain adjustment for that information as well.

130. A run is defined as a sequence of identical occurrences preceded and followed by different occurrences.
131. Growth rate = retention ratio x ROE
132. The H-Model is based on following assumptions:
   a. If the dividend growth rate, ga, is greater than gn the normal long run growth rate – growth begins to decline.
   b. After 2H years the growth rate becomes gn.
   c. At H years the growth rate is exactly halfway between ga and gn.
   d. Intrinsic value of the stock according to H model: $\frac{Do(1+gn)}{(r - gn)} + \frac{Do.H.(ga - gn)}{(r - gn)}$

   Where the first term represents the value based on the normal growth rate and the second term represents the premium due to abnormal growth rate.

   Here, gn = Normal growth rate; ga = abnormal growth rate; r = required rate; Do = Dividend
133. According to dividend discount model of equity valuation, the P/E ratio of a stock is negatively related to the beta of the stock, positively related to dividend pay-out ratio.
134. Growth stock is usually indicated by high market discounting.
135. In a valuation model for a loss making company highest weightage should be given to Book Value.
136. If P/E ratio is less than the expected growth rate, then the stock is undervalued.
137. The value of marginal analysis in an efficient market is zero.
138. Acc to the theory of random walk prices and efficient markets, the price of a stock represent the consensus of varying value assessments from different investors.
139. Residual analysis is a test of semi-strong form of market efficiency.
140. Runs test and serial correlation tests are used to test the weak form of market efficiency.
141. Liquidation value provides an estimate of the minimum value of the firm.
142. Exchange ratio = offer Price / (Share price of acquirer)
143. Dividend Per Share (Dt) when adjustment ratio (A) is given = A x EPSt + (1-A) x Dt-1
144. Final dividend must be paid within 42 days of declaration. If a company fails to transfer the unclaimed dividend to the unpaid dividend account, it will have to pay interest at the rate of 12% from the date of default.
145. International Financial Statistics (IFS) is a monthly publication of the International Monetary Fund (IMF). It provides data regarding GNP, money supply, currency exchange rates and stock market indices of each country.
146. The demutualization is a process of converting a stock exchange from a “non-profit” member-owned organization to a “for-profit” shareholders’ organization. Thus, demutualization means the segregation of ownership and management rights from trading rights of the members of a recognized stock exchange in accordance with a scheme approved by the SEBI.