

Calculating **Beta** for **unlisted firms**



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How do we calculate beta for an unlisted firm? Or one that has listed recently?

A company coming with an IPO, or a recently listed one, does not have the price history to calculate Beta.

We calculate the Fundamental Beta here



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Can we take sector average?

- Risk can be due to operating or financial leverage
- In a sector, operating leverage would be same
- However, financial leverage could be different. So it may be incorrect to take a simple average of betas of sector peers



Unlever and Relever

- **Solution? Unlevering and Relevering the beta**
- **Let us understand using an example**
- **Assume a new steel company is getting listed**



- Find Beta for similar firms (SAIL, JSW Steel etc) using stock prices (levered beta)
- Un-lever the Beta for each firm using the below formula

$$\text{Unlevered Beta} = \frac{\text{Levered Beta}}{\left(1 + \frac{\text{Debt}}{\text{Equity}} * (1 - \text{tax rate})\right)}$$

- Unlevered Beta is the Beta of the firm after removing the effect of capital structure.

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- Now take the average of unlevered betas
- This is the average beta of the sector assuming no debt
- Then **relever** it for the firm under question using its **own debt / equity**

$$\text{Levered Beta} = \text{Average Unlevered Beta} * \left(1 + \frac{\text{Debt}}{\text{Equity}} * (1 - \text{tax rate})\right)$$



**This levered beta is the
fundamental beta for the firm**

**That is how we calculate beta for
firms that are unlisted, or recently
listed**

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