Net Asset Value of Mutual Funds

Net Asset Value

Net asset value (NAV) represents a fund's per unit market value. This is the price at which investors buy fund units from a fund company or sell it back to the fund house. It is calculated by dividing the total value of all the assets in a portfolio, minus all its liabilities. The NAV of a fund is calculated by the mutual fund house itself or by an accounting firm hired by the mutual fund. NAV calculation is impossible during market hours as the price of the underlying holdings (say stocks) changes every minute. NAV is calculated at the end of every market day, after taking into account the closing market prices of the securities that the fund or scheme holds.

Difference between NAV and price of an equity share

In case of corporates, the share price is quoted on the stock exchange. This price apart from the fundamentals is also dependent on analysts' view of the company's future performance and the demand-supply scenario. Hence the market price of a stock is different from its book value. However in the case of a mutual fund there is no concept as market value for the MF unit. Therefore, when we buy MF units at NAV, we are buying it at book value. At this time we are paying the right price of the assets, be it Rs 10 or Rs 50.

Low and High NAV in different schemes

This can be explained with the help of an example. Scheme A has an NAV of Rs. 10 whereas Scheme B has a NAV of Rs 50. Equal amount of investment of rupees one lakh each were made in both the schemes. Scheme A would come across as a cheaper buy because we got 10,000 units can be obtained as against 2,000 units in Scheme B. Now, let us assume that both the schemes return 10 per cent in a month. The NAV for scheme A is now Rs. 11 and Scheme B has an NAV of Rs 55. The value of the investment in both the cases is Rs. 1,10,000. Therefore, we see that the NAV of a scheme is irrelevant, as far as generating returns are concerned. The only difference is, in the case of Scheme A, the investor gets more number of units and in Scheme B, he gets lesser number of units. For two schemes with identical portfolio and other things remaining constant, the difference in NAV will hardly matter as long as the schemes deliver the same returns.

Calculation of NAV

The formula for calculating Net Asset Value (NAV) is as following:

NAV per unit = (Net Asset Value of the Fund) / Number of Units Outstanding

where Net Assets = Market Value of Investments+ Receivables+ Accrued Income+ Other Assets-Accrued Expenses-Payables-Other Liabilities

Practice questions on NAV of Mutual Funds

Example 1. Find NAV per unit from the following information:

Size of the scheme = ₹ 10,00,000

Face value of Units = ₹ 10

Number of outstanding units = 1,00,000

Market value of fund’s investment = ₹ 18,00,000

Bills Receivable = ₹ 20,000

Liabilities = ₹ 10,000

Solution 1:

Total Assets = Market Value of Investment + Bills Receivable

= ₹ 18,00,000 + ₹ 20,000

= ₹ 18,20,000

Liabilities = ₹ 10,000

NAV per unit = (Total Assets – Liabilities) / Number of Units

= (₹ 18,20,000 - ₹ 10,000) / 1,00,000

= ₹ 18.1 per unit

Example 2.

Name of the Scheme Money Plant

Size of the Scheme Rs.100 Lacs

Face Value of the Share Rs.10

Number of the outstanding shares 10 Lacs

Market value of the fund's investments

Receivables Rs.180 Lacs

Accrued Income Rs.1 lakhs

Receivables Rs.1 lakhs

Liabilities Rs.50,000

Accrued expenses Rs.50,000

Find NAV per unit?

[Ans: Rs.18.10 Per unit]

Solution 2:

NAV per unit = (Investment + Recoverable + Accrued Income – Liabilities – Accrued exp)/No of units (mutual fund)

= (180 lacs + 1 lacs + 1 – 0.50 lacs – 0.50 lacs)/10 Lacs

= Rs.18.10 per unit

Example 3.

Cinderella mutual Fund has the following assets in scheme Rudolf at the close business on 31st march, 2014.

Company No. of Shares Market Price Per Share

Nairobi Ltd	25000	Rs 20
Dakar Ltd	35000	Rs 300
Senegal Ltd	29000	Rs 380
Cairo Ltd	40000	Rs 500

The total number of units of scheme Rudolf are 10 Lakhs

The Scheme Rudolf Has accrued expenses of Rs 2,50,000 and other Liabilities of Rs 2,00,000. Calculate the NAV per unit of the scheme Rudolf.

Solution 3:

NAV per unit = (Total Assets- Total Liabilities)/ Number of Units Outstanding

Total Assets = ((25000x20) + (35000x300)+(29000x380)+(40000x500))

= (500000+10500000+11020000+20000000)

= (42020000)

Total Liabilities= (250000+200000)

= 450000

NAV per unit = ((42020000 – 450000))/1000000

= 41.57 per unit

Disclaimer:

1. These notes are only for the students.

2. These notes are prepared after referring various books and websites.