Managerial Accounting
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Lecture - 39
Financial Statement - Forecasting and Valuation - Dabur case

Dear students, in the last session, we were discussing and revising various techniques of analyzing the financial statements. So, we have seen that financial statements give us raw data. That data we need to study further, we need to look it from the view point of the various stakeholders. And get more meaningful information from the same. Important techniques for doing it is vertical analysis, where we do a common size statement, take the total as 100 and try to find every item as a percentage to total.

Another important technique is horizontal analysis. In horizontal analysis we compare with the last year. Find the difference and the percentage difference. And the most important technique is ratio analysis. In ratio analysis we link one item with the another. And those ratios help us to give comment, on liquidity, profitability, return, turnover and so on. So, let us continue with the case, which we were discussing today.

In the last session, we had started with the case on Mahindra Satyam. And we had taken comparison of years March 3 and March 10. If you remember, that was a turbulent year for the company. They were lot of frauds in the company, under the management of Ramalingam Raju. Then, the company was total sale it was taken over by Mahindra's.

So, this is in a way a first year of recovery, we are comparing March 9 with March 10. Even, if you have not attended last session no problem, we are going to start it a fresh from the given balance sheet and other information. We will start and calculate the important ratios.

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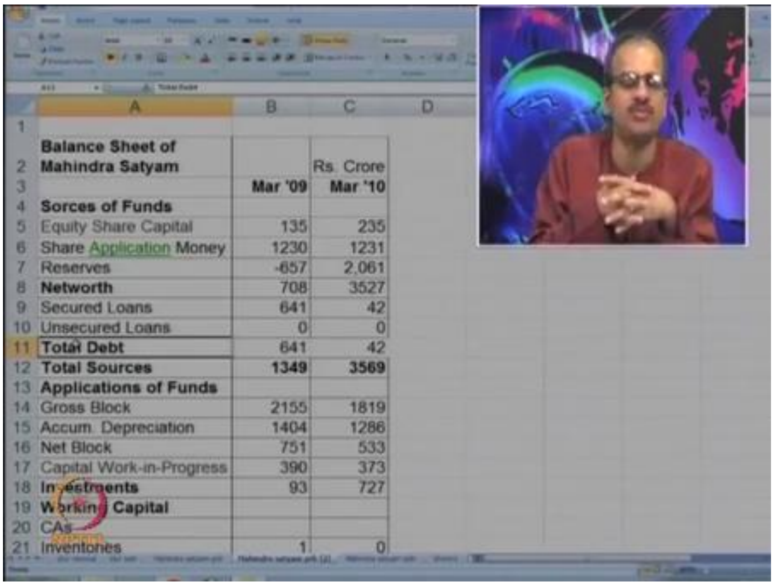

Have a look at the given balance sheet. In the last problem, we have rearranged the same. But, now the data is ready with us, now this data is to be used for further analysis. So, what are the different ratios which we calculate, what are the types of the ratios do you remember; starting from the sources of funds. We have got equity capital, net worth, total debt and so on.

So, which ratios are relevant here, you are right we go for ratios related to long term solvency of the company or leverage. So, important ratio is date equity. We can also find interest coverage in this case. Then, we can go for liquidity, calculating current ratio and other important ratios, profitability and so on.

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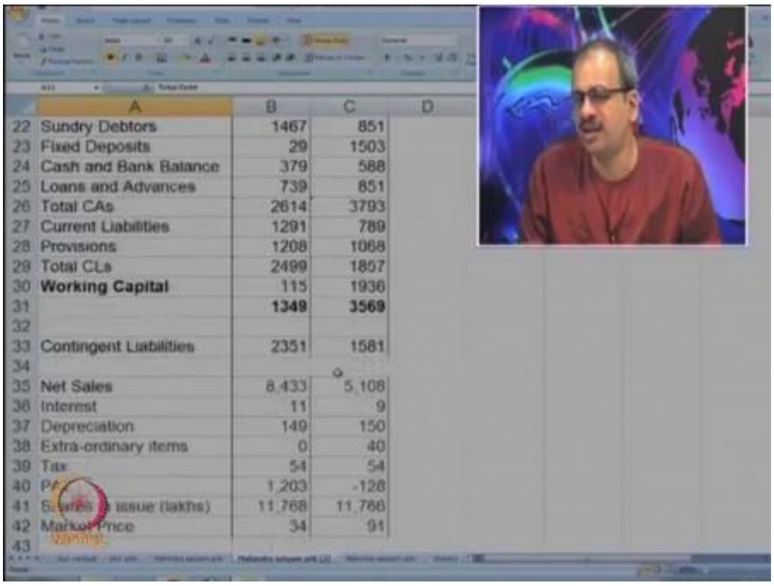

So, have a look at the whole data carefully, please take a printout. Because, this problem is downloadable, you can download and take printout. Or start following it on your own laptop.

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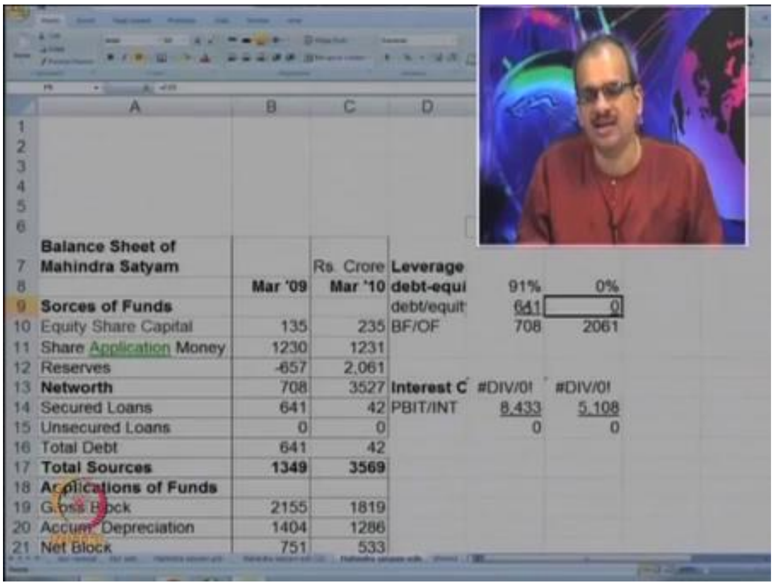

Let us start now with the given information. So, this is the balance sheet as was provided. The first ratio which we would like to calculate is leverage type of ratios, in that important ratio is dept upon equity ratio, it is visible now. So, now we already have the data, the debt is equal to the total of debt. And equity is nothing but the owners fund. So, you can see it is 641 upon 708, I hope it is visible to all I will just make it uniform into a real.

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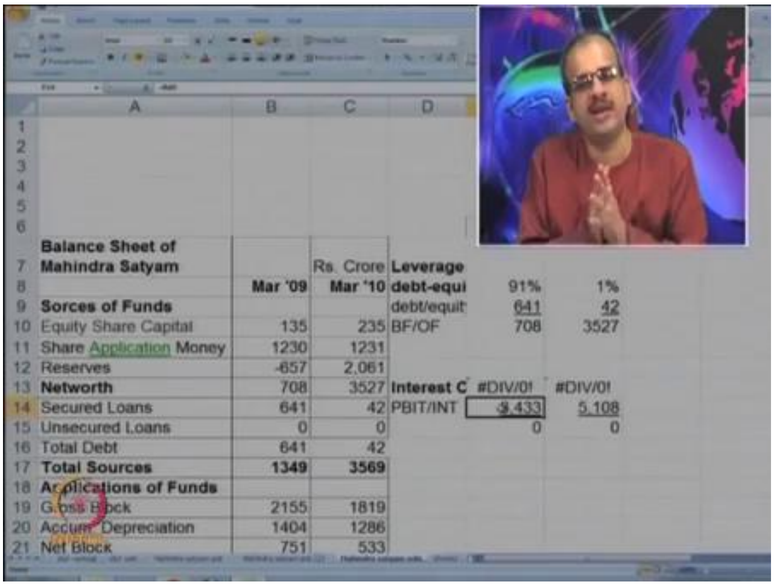

Now, this is for March 9, let us see the position on March 10. The March 10 the date was substantially reduced. So, you can see the date equity ratio completely a change from 91 percent, it has been brought down to just 1 percent. So, why this change has happened. You can see that the date which was 641 secured that has been brought down to 42. Results were negative company was in losses, now the results have a substantial positive figure 2061.

So, the equity or the owners fund has substantially increased, where as the date has fallen. So, ratio has come down from 91 percent to just 1 percent. Let us look at interest coverage position it is PBIT upon interest.

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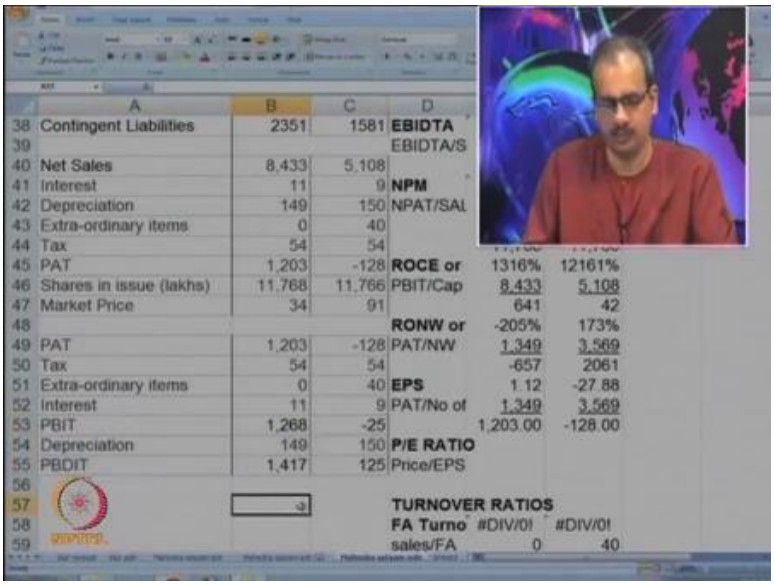

So, we have we do not have the PBIT figure, first we need to calculate it, how to calculate it? We have been given PAT. So, using PAT we will have to calculate PBIT and other ratios. So, if you add tax and extraordinary items, as well as interest you will get PBIT in which we are interested. So, you will observe that PAT was very good in 09 in 0 10 company went into a loss. So, PBIT also shows a similar picture, because tax and interest are that negligible amounts, we also try to add depreciation. So, that we get a beta or PBDIT.

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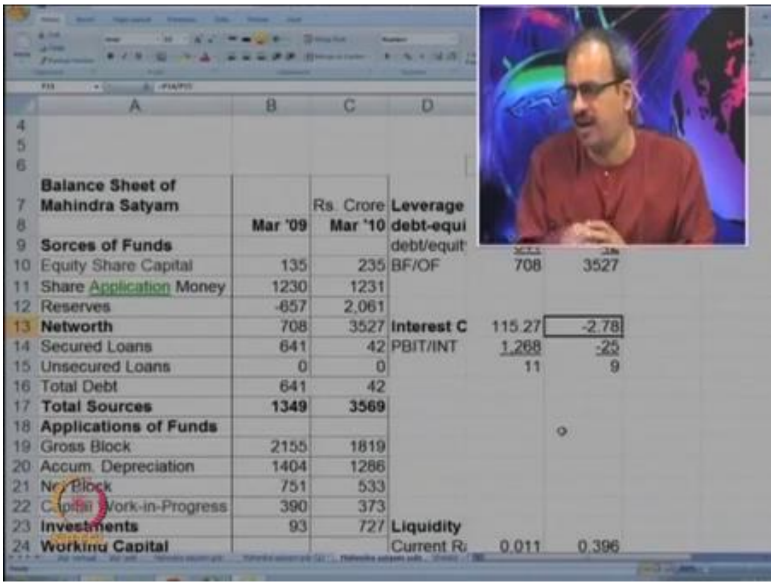

So, now we were doing interest coverage ratio, it was PBIT divided by interest. So, now you can see the interest burden is that way very negligible. It was 9 now it has become 11. But, the PBIT it is other way around in March 09 PBIT was 1268. Now, the company has gone into losses in March 10. So, the ratio has become very odd, earlier it was 115 a very healthy position now it is minus 2. But, that is mainly because of reduction in the profitability.

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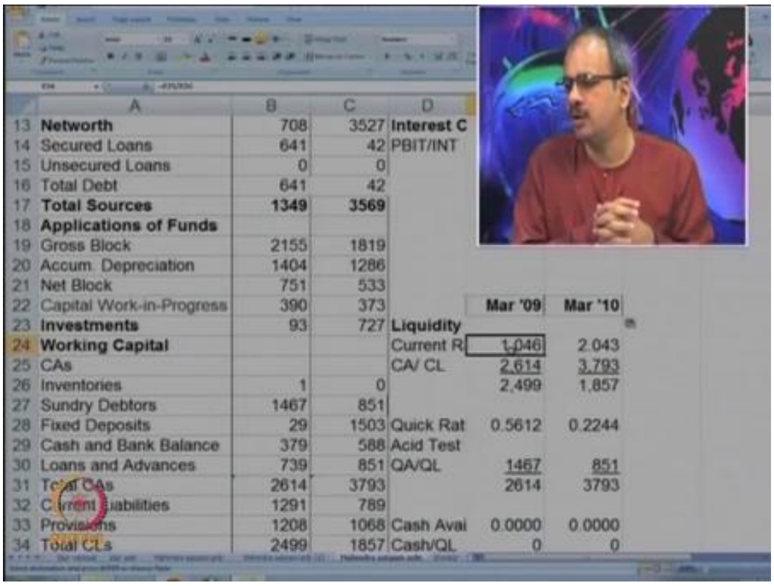

Now, let us try to go for liquidity. In liquidity the important ratio is current ratio. The formula I think you all know it is current assets upon current liabilities. So, now let us see how much are the current assets of the company, they are 2614 divided by 2499. So, you will get the ratio, which in March 09, it was 1.46 I will just copy this figures for more clarity. So, in March 09 it was one point around one. Now, it has become around 2. So, current ratio has become healthier now, because current assets have increased while the current liabilities have slightly fallen.

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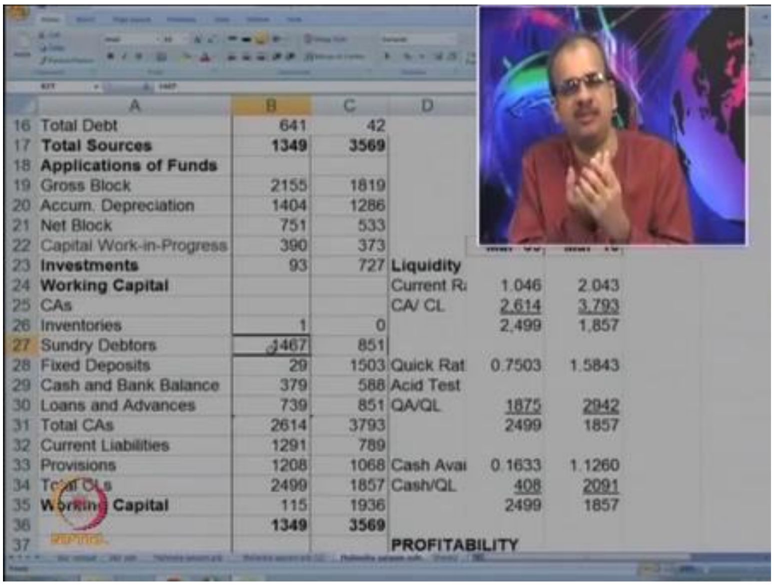

We will also look at the acid test ratio, which you know is current assets upon current liabilities. So, what are the current assets look at the ratio, you have debtors, fixed deposits and cash balances, which are generally considered as current assets. So, it is B 27, B 28 and B 29 divided by quick liability, which is same as total of current liability in this case.

So, you can see the quick ratio has increased substantially from 0.75 to 0.58. Let us also try to find the ratio for cash availability. So, you know that in cash we can take cash plus FD’s, because FD’s are highly liquid assets divided by current liabilities. So, here you can see major improvement, earlier it was only 0.16, now it has become 1.12 why it has happened? Because, you can see that the fixed deposits available with the company has increased.

Mahindra's have pumped in lot of money. So, company is reasonably good liquid position. Earlier the cash availability was a big issue, now they have enough cash availability. So, you can see that current ratio here is slightly misleading. Because, the debtors figure in March 09 balance sheet may not be really so, reliable which is 1467, which has been brought down to 851.

And fixed deposit figures has gone up. So, though there is a slight increase in current assets. The composition has improved substantially. Now, instead of debtors it is largely fixed deposits, which shows now. That is, now means March 10, there is much healthier liquidity position, than in the earlier year. Now, let us look at profitability. So, what are the two types of profitability, either we can look it from the sales angle.

So, we have ratios like NPM or EBIDTA margin, where in EBIDTA margin it is EBIDTA up on sales and NPM it is net profit, upon sales. The other way of looking at profitability is from the returns angle. So, we will calculate ROI or ROCE.

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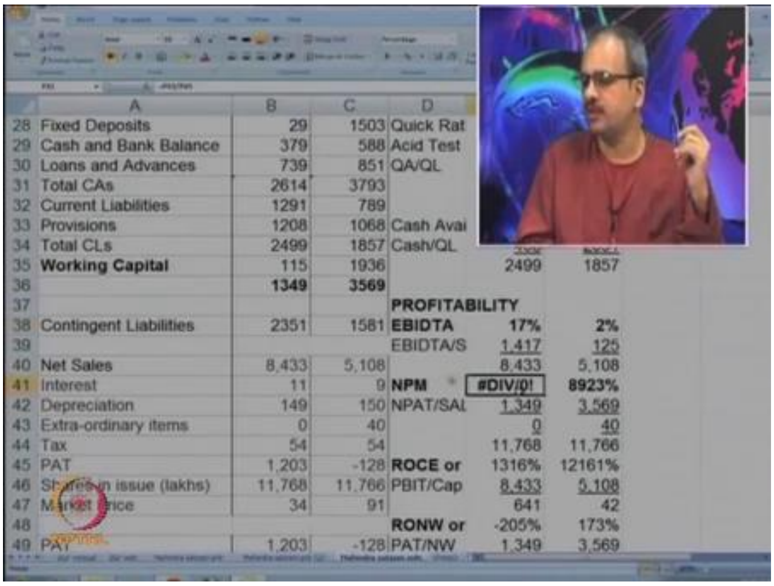

So, first let us try to find EBIDTA, we have already calculated the PBIT, which is same as EBIDTA for the company divided by sales. So, EBIDTA in March 9 was 17 percent quiet a little dip here. It went down to very low figure only 2 percent, because EBIDTA came down substantially.

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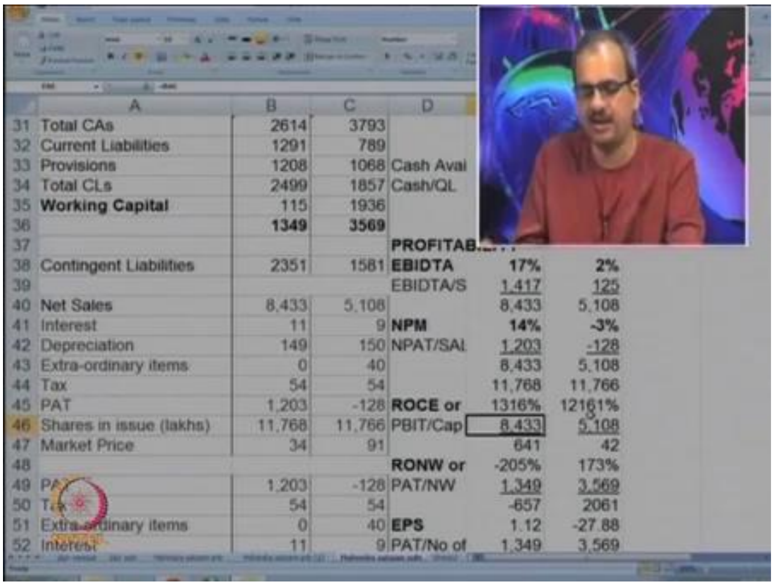

Same way you can see net profit, also fell down significantly. So, in March 9 it was 14 percent NP margin, it came down to just 3 percent in March 10. That was, because net profit went down from 12, 1200 crores to a loss of 128 crore. This is we are trying to relate to sales, we will observe that percent fall in net profit from 14 percent to minus 3 percent.

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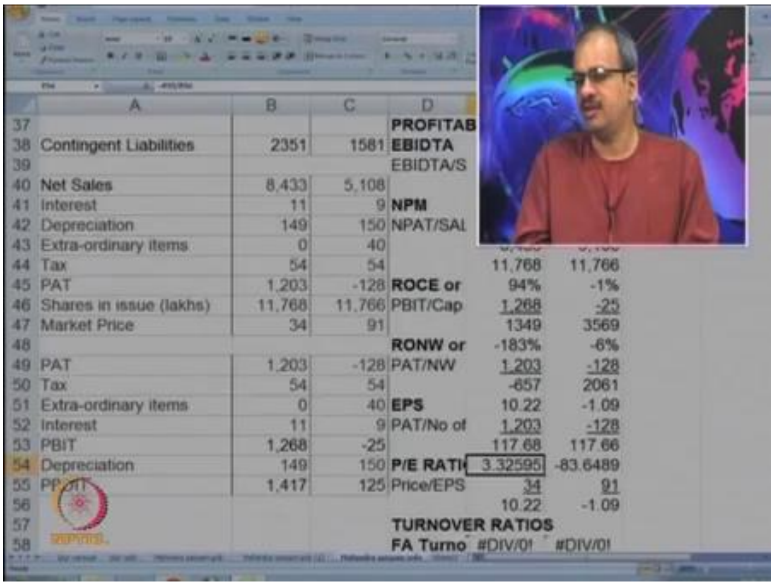

Let us try to look from the returns angle ROCE. The formula is PBIT upon capital employed. So, PBIT is 1268 capital employed means the total of sources. So, it was 94 percent in March 09, it came down to minus 1 percent. Because, there was a substantial fall in PBIT. Next is r o... So, ROCE is useful from the point of view from a long term investor.

So, you will see a major fall of course, this was only, because that was year of turnaround. But, we are just seeing the movement from March 9 to March 10. RONW is from the owners perspective. So, PAT divide by net worth. So, net worth was as such negative in that particular year. So, anyway company was in earlier year, the net worth was negative in March 10 the profit has become negative.

So, both the years the RONW convey a negative figure. EPS, you know the ratio it is PAT divided by number of shares. Here, mind well the number of shares are given are in lakhs. So, you will have to first convert it into crores. So, EPS went down from 10 to minus 1. So, because of the company was in loss, the EPS has turned negative.

Now, let us look at PE ratio, what does the PE ratio tell you? This is price upon EPS, it tells you the strength of the company in terms of how much respect the company carries. Now, the market price of the company was 34 divided by EPS which we have just calculated. So, PE ratio is price upon EPS. So, it has moved up substantially. So, though you see that the profit has fallen, the market price has actually more than tripled from 34 to 91.

Why it has happened? Because, the market prices reflect the future in March 9, there was tremendous uncertainty about Satyam. The Satyam shares went down like anything. Now, Mahindra has taken over it is a turnaround time. So, the market prices of shares have gone up. So, PE ratio has moved from 3 to minus 83. Actually I am just trying to show you that PE ratio alone does not convey much. Since, it is a turnaround company, mere use of this ratios maybe misleading. So, you have to watch it.

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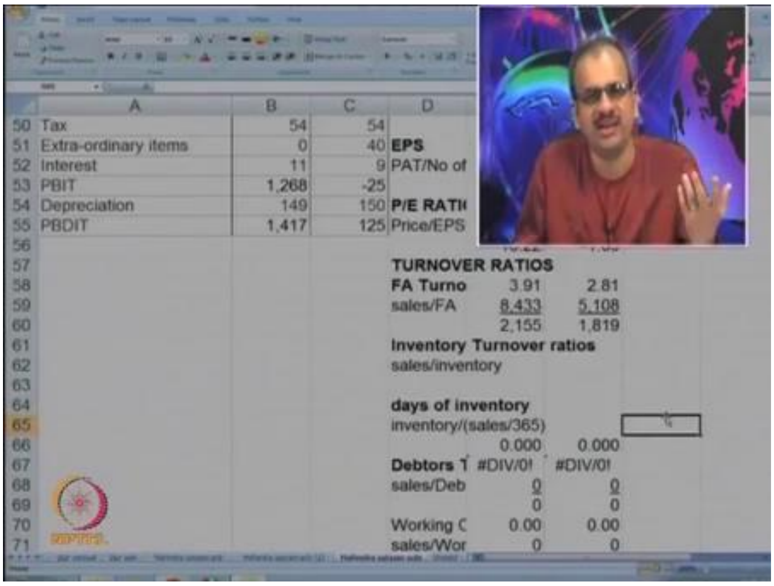

Now, let us look at turnover ratios, first ratio we are trying to find is fixed asset turnover. So, sales upon fixed assets. So, in fixed assets we are taking gross block. So, it was 3.91 and in March 10 it became 2.81, not very important. Because, fix asset turnover ratio is more useful in manufacturing company Satyam being an IT company, fix assets as not a very important asset for them. Next is inventory turnover ratio again not relevant. So, we will not find you can observe that, inventory of the company is just 1 and 0 debtors turnover ratio maybe important.

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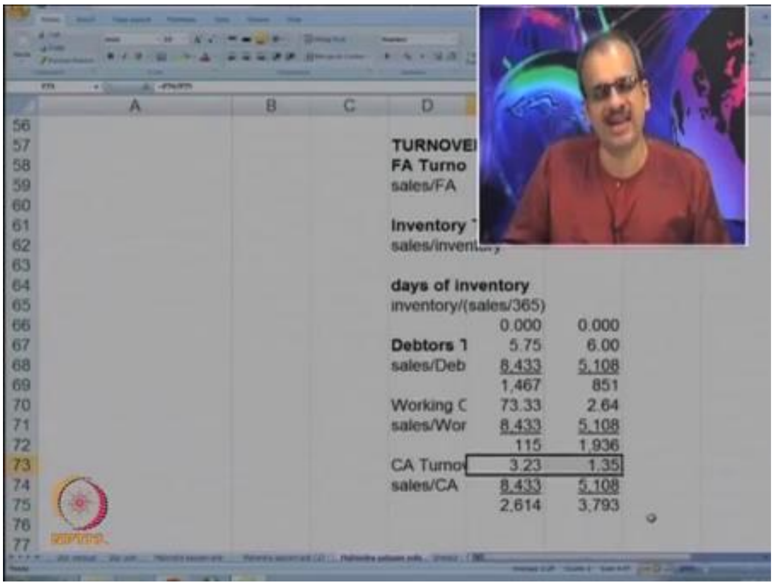

So, in debtors turnover ratio. So, inventory turnover and days of inventory I have removed, debtors turnover is sales upon debtors, net sales divided by debtors. So, you would see it is 5.75 in March 9 it became 6. So, you will observe that both debtors and sales have fallen. Same way let us try to do working capital turnover, you will observe again very odd movement here, working capital turnover which was 73.

This happened, because working capital of the company have fallen down like anything. It became only 115, now working capital has become little healthier. So, working capital turnover is 2.64. I am just trying to show you, that this ratios per say are not comparable. In case of Satyam, this is a turnaround case. So, these ratios this odd movement from 73 to 2, just tell you that this is not a normal life of the company.

This is something abnormal happening we have to go deeper into it. We cannot just use these ratios and make the normal observations. Next is current asset turnover. So, current asset turnover has also one down. Because, both turnover has gone down, but the current assets are increased. So, ratio has slightly fallen. So, this was the analysis of Satyam, more than ratio analysis of a normal type.

This shows you that, something very abnormally is happening in the company. In such case we investigate we should look at March 7, 8, 9, 10, 11 a long term position. If you look at the financial position up to 12, you will realize that company has substantially turned over now. So, using while doing ratio analysis, you have to be cautious though ratios give you very important input. You cannot just blindly use it as and compare with other companies.

So, I hope this would have given you a good understanding of analyzing the financial statement. Now, we will try to do revision of some other important topic, having understood various concepts of ratio analysis. Now, let us try to use it for making the projections. Now, one of the very interesting and important use of accounting data is whether we can use it for projecting the financial statements.

Assume that we have historical data for last 5 to 10 years of profit and loss in balance sheet. It will be very interesting, if we can tell what will be the income in next 2, 3, 4 years, what will be the balance sheet for next 2, 3 years. Who will be the stakeholders would like to know the projections? One is of course, the owners, because owners want to know what they are likely to earn in future. Prospective share holders, because for them it is very important, they are buying shares of company for future earnings.

Then, those who are looking at the company to take over, they also know want to know the possible earnings of the business, lenders. Because, lenders want to ensure that interest and installment is returned in time. Like that, a number of stakeholders are keenly looking at projected figures. It is very difficult to project, actually only lord or ((Refer Time: 22:10)) knows, what will happen in future. We mortals cannot really project what will happen.

But, based on the assumption, we try to make reasonable estimates. So, today we take up a case, we look at the data and calculate the ratios. But, do not stop at ratios, we will see how this ratios can be used to project the financial statements of the future. And we will also try to do, valuation of the company based on the projections, I hope you will find this very interesting.

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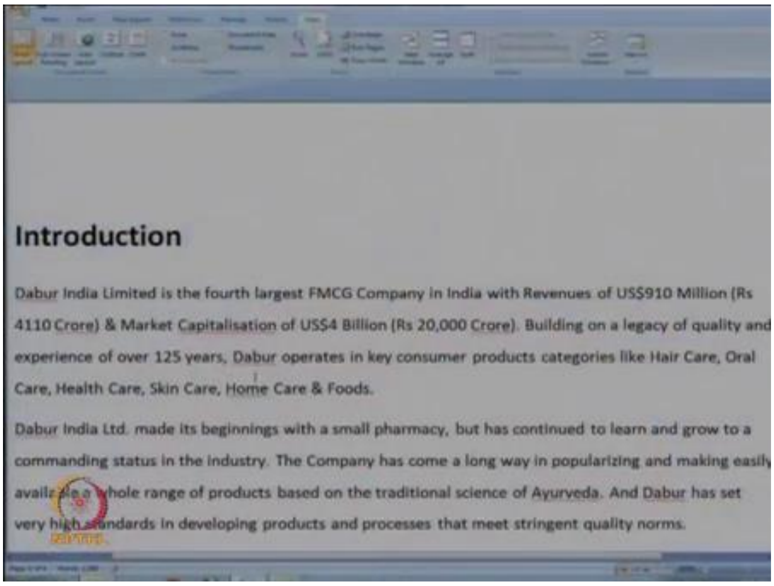

Now, let us look at the case. This is a company called dabur India limited, I hope you have heard about the company. This is a introductory data of the company, we are given some information of the company and also the financial statements for last 4 years.

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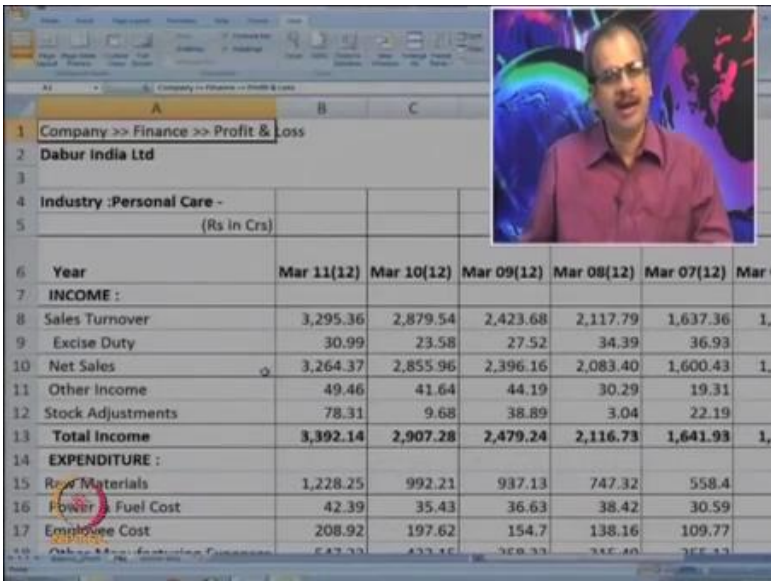

These are the financial statements, as are made available. Now, first try to read the story in brief, I will request you to take printout of the case. And solve it along with me, it is slightly complicated. Because, projections are involved at the same time, you have to look at various sheets. I will be waiting going little fast, please bare with me try to take the printout. So, that you can cope up.

So, dabur India is the fourth largest FMCG company in India. Revenues are 910 million USD or 4110 crores. Then, market capitalization is available some introductory information of the company is given industry and economic conditions are given.

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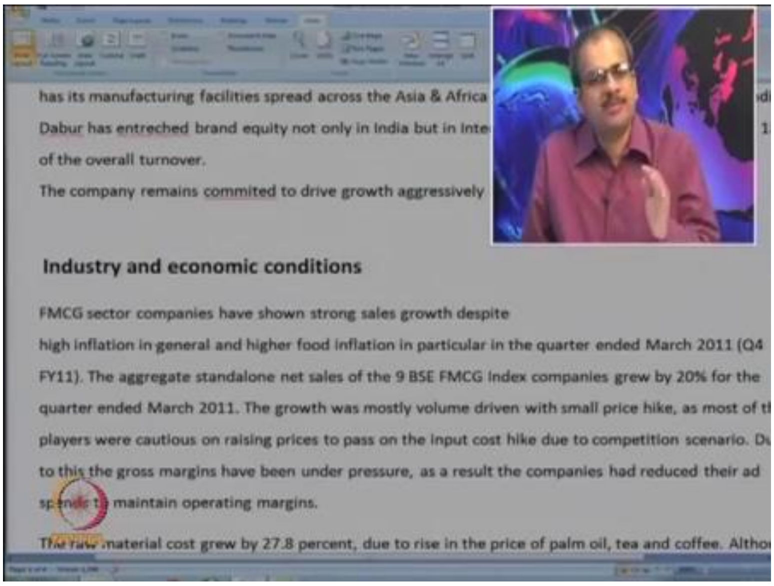

As you know this is a pharma company, they operate in FMCG business. So, you need to look at industry and economic condition, particularly of FMCG sector. So, that has been collected and made available.

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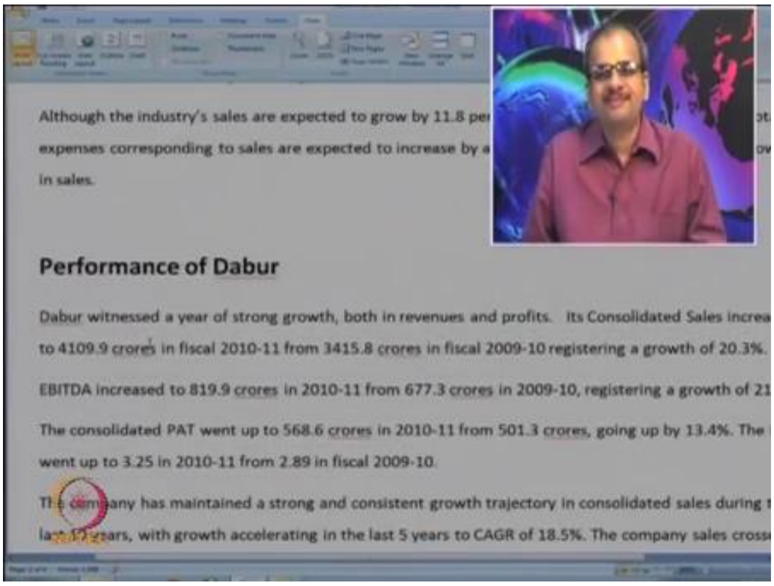

Then the most important thing the performance of Dabur. So, Dabur has been witnessing a very strong growth. Here, I have taken data up to 30st March 2011.

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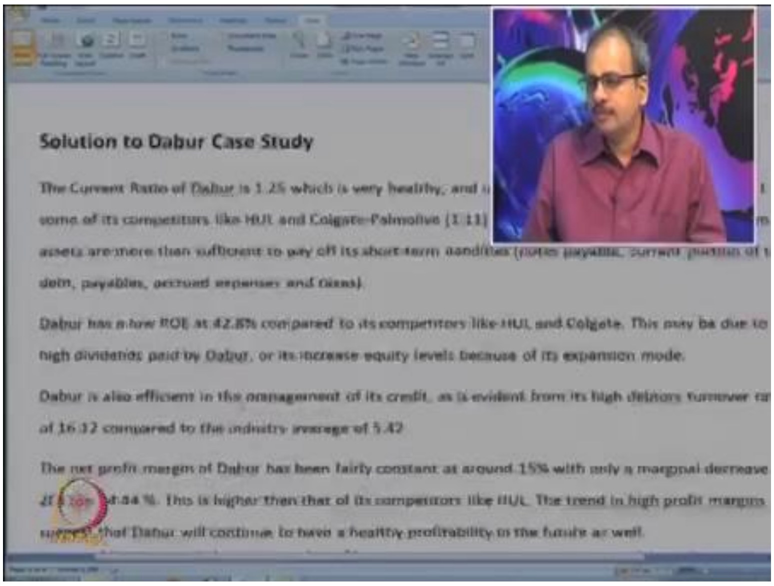

So, this is the performance of Dabur.

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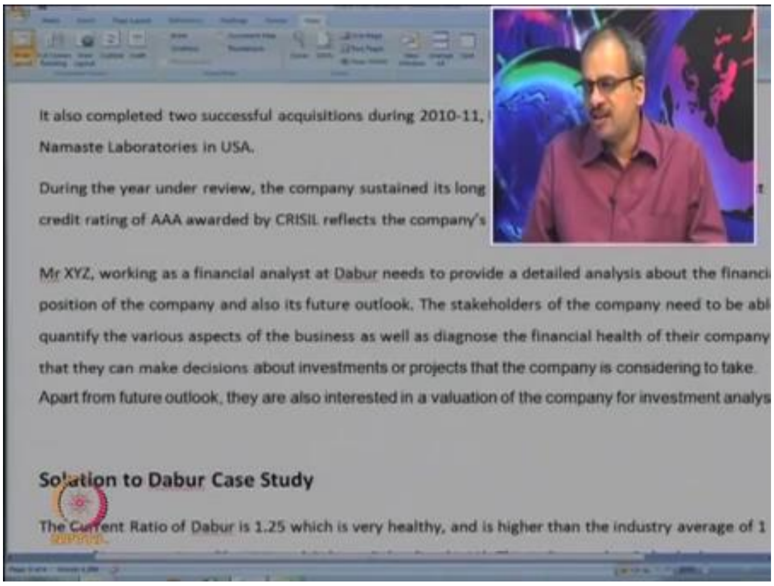

Now, here the solution starts, but we will go to data first ((Refer Time: 24:51)). Now, whenever you are asked to project the company I would request you to go to internet and download the required data. First the text data, which was shown to you there was some background information of the company, industry. Now, here financial statements of the company are downloaded and you can see them. So, income statement is made available, usually maximum possible data can be collected 10 years data is found useful, so from year ended March 02 to March 0 11. The income statement you can see as the actuals are they have been downloaded from capital line data based. But, you can get it from internet from the company's website and so on.

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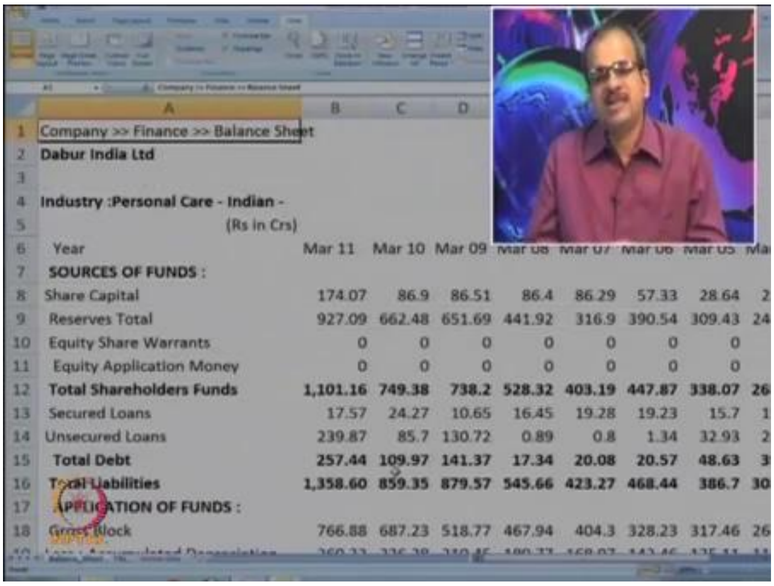

Here you can see the balance sheet of the company is also made available. Here, again I will request you to 10 years balance sheet. I am explaining the case, but assuming that you can yourself get the case of any other thing. So, here p and l balance sheet is available.

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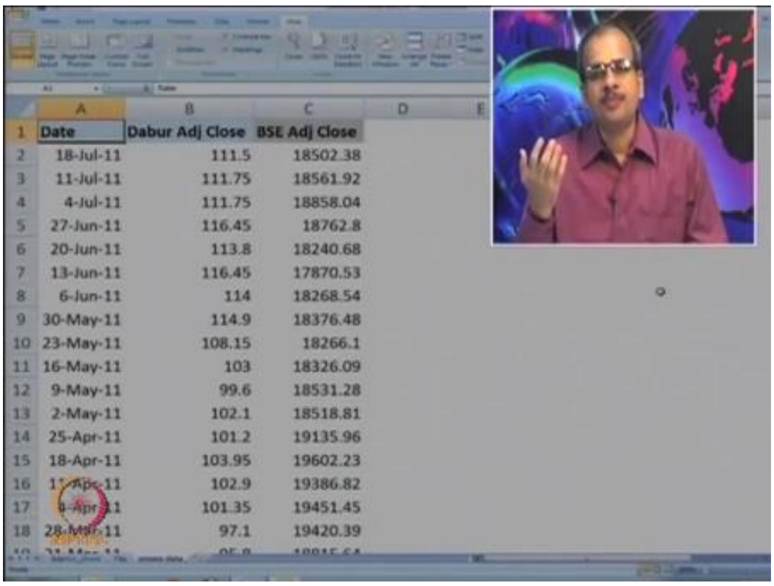

We also look at the sensex data. So, sensex data is required, because it gives you an idea about, what is a market condition and how does this company fair vis a vis the market. Why is this data required? Because, this gives us some background as to how the company is in the minds of investor, how much risky do they treat. You will have to work out the cost of capital to calculate the cost of capital, this data is useful.

So, whenever you are trying to project for your company I would advise you to get at least 1 or 2 years sensex data. And the closing price of the company, this has been done on a weekly basis. You can get the daily data also, but it becomes too longer sheet. So, here weekly data is a collected for last 4 years. Now, with this background data. So, we have p and l we have balance sheet, we have sensex data all this data is available in public domain you can download.

Now, using this data, we have to project p and l we have project balance sheet. And give the valuation of the company, we will also have to calculate cost of capital of the same. So, now how to proceed just think over, you are I think guessing on the right line, you can start with p and l ((Refer Time: 27:46)) we have been given 10 years figures. So, you can calculate important ratios, project the sales then other p and l data can be estimated based on the projected sales. Once the p and l data is available, we will go to balance sheet. And according to the changes in the operating performance, we will also adjust the balance sheet.

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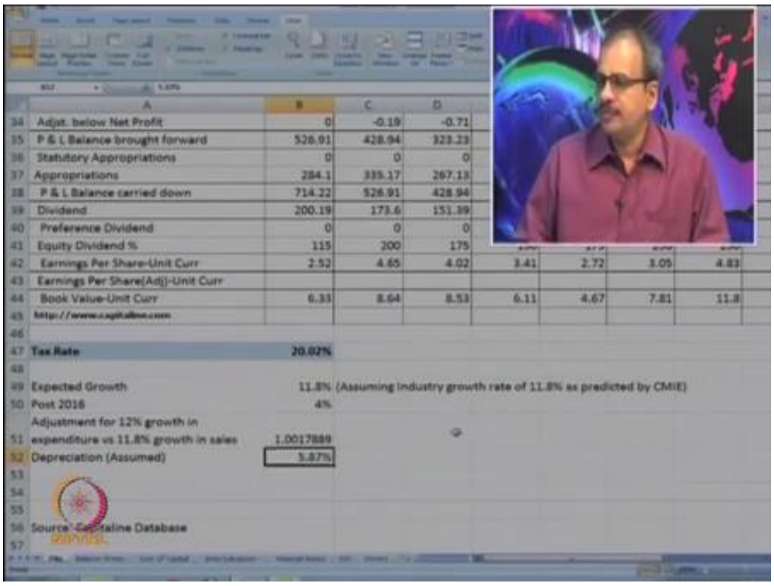

Let us try to go one by one, as I said it is slightly going to be difficult for you to comprehend. But, if you parallelly do with me, you would be able to grasp the same. So, here you have again got the p and l data for all these years. Using that data the projections are made. But, the starting point is we calculate the expected growth. So, you can see here expected growth is estimated. Now, industry average is 11.8 percent as projected by CMIE.

So, same amount is taken as a projected growth for the company. You may take higher also, looking at a good performance of the company in last 4 years. But, we would restrict it and keep it at the same amount. Because, we do not want to give too much a rosy picture, post 2016 this was the analysis done based on 2011 data. So, after 5 years usually we moderate the projection and take a more reasonable figure.

So, now the post 2016 the estimated growth is only 4 percent. Now, adjustment for 12 percent growth in expenditure versus 11.08 percent growth in sales. So, on a conservative basis it is assumed that, while the sales will grow at 11.8 percent. Estimated expenditure will grow slightly at higher rate, it will grow at 12 percent. So, we get 1.0017 as a ratio of growth of expenditure to growth of sales. And depreciation has been assumed to grow at 5.87 percent.

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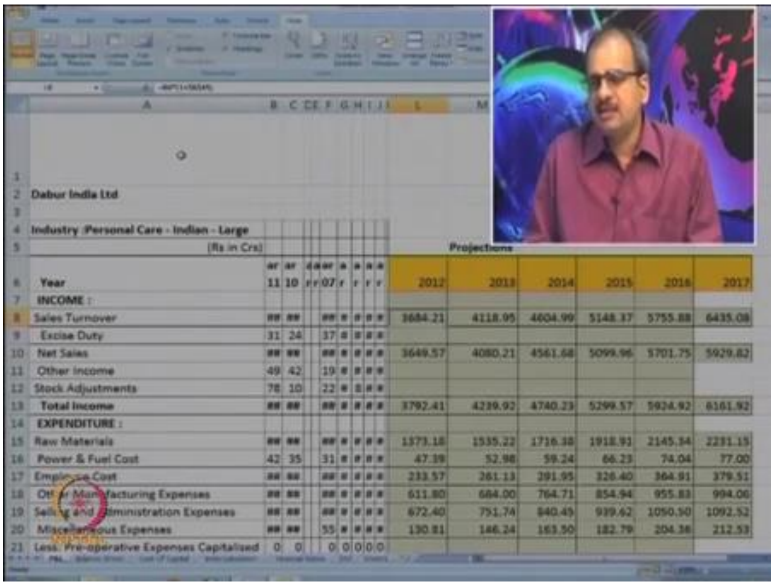

So, here is a current data, now we will go to projections I will just make this column smaller. So, that you can focus on the projections, please try to do it with me. So, here we now look at the projected figures. So, the first calculation is to start with sales. You can see here, this is B 8 that is the March 11 the last information, which is available into 1 plus dollar B dollar 49.

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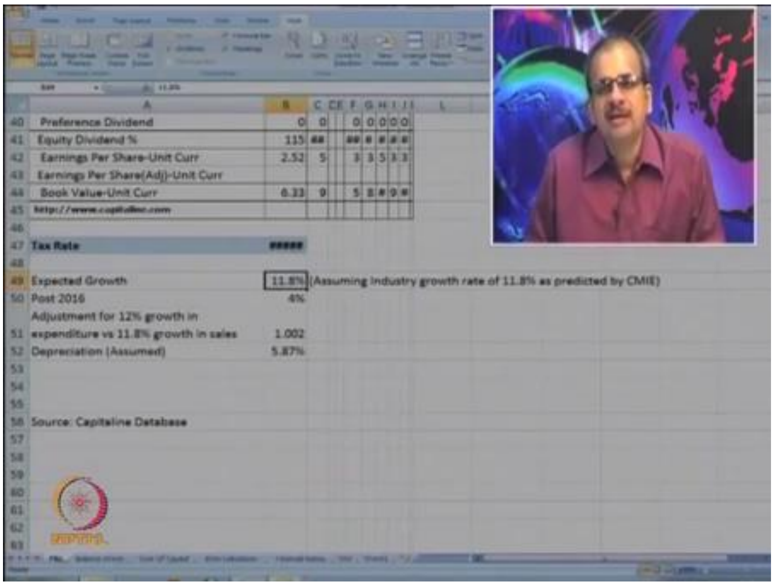

So, we will go to D 49. So, we had the expected growth projections, which was 11.08 percent.

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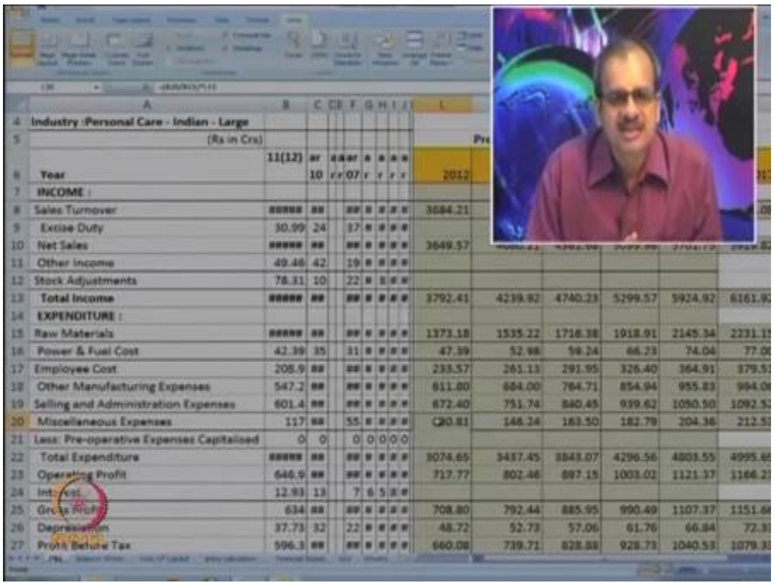

Based on that we have estimated the sales of 2012, which will be the starting point. Then, again using L 8 we have projected the sales of 2013, 2014, 2015 and so on. So, in just 5 years, we have taken CMIE estimated growth of the industry, which is 11.8 percent same is assumed as a growth rate for this company. So, based on this we get the turnover for 2012. Then, using 2012 data the projections are made for 13, 14, 15 and 16. But, 2016 onwards that is for the last year and we have projected up to 2017.

So, we have done this 6 years estimate. Now, we have also worked out the growth in excise duty, which is assumed at a same rate. So, you can see it is B 10 into 1 plus B 49, B 10 is the last year's net sales. So, just as gross sales was estimated in the same way, the net sales are also estimated in the same ratio. So, excise duty is assumed to be remain at the same rate, we do not consider any repetition of other income.

So, other income has been ignored. So, total income is nothing but the net sales. Now, next is you can see carefully. Next is raw material and look at it how it has been calculated B 15 upon B 13. So, we have taken the ratio as prevailed in March 11 and on the same basis. So, B 15 upon B 13 into l 13, l 13 is nothing but our projected net income for 2012. So, it is assumed that the same ratio as existed in March 11 will continue for March 12.

Now, you can see in the same way, the projections will be made. So, we have to take l 15 upon l 13 into m 13. So, once the total income has been projected for March 12 onwards, we use the same ratio as was 11. And continue it for the coming years. So, this is raw material figures. Then power and fuel, employee cost, other manufacturing expenses, selling admin, miscellaneous expenses.

So, all these expenses are linked to sales. So, whatever the proportion in which the sales have increased, they will also increase, because we have adopted the same ratio for March 11. Now, you have to be careful in ensuring that March 11 is a normal year. It should not be abnormal year, where in either the expenses were excessive or less then. In case of Dabur there is no information about abnormality. So, this is assumed to be a normal year and a March 11 ratios are used to project March 12 and onwards.

So, here we get the total expenditure. So, we also get the operating profit from operating profit. We can work out the gross profit, which is again assumed to continue in the same ratio. As it was there in March 11 same ratio has been used. So, you can see B 13 upon B 25, B 25 are is the gross profit and B 13 of the sales of March 11. So, same ratio our gross profit will also increase.

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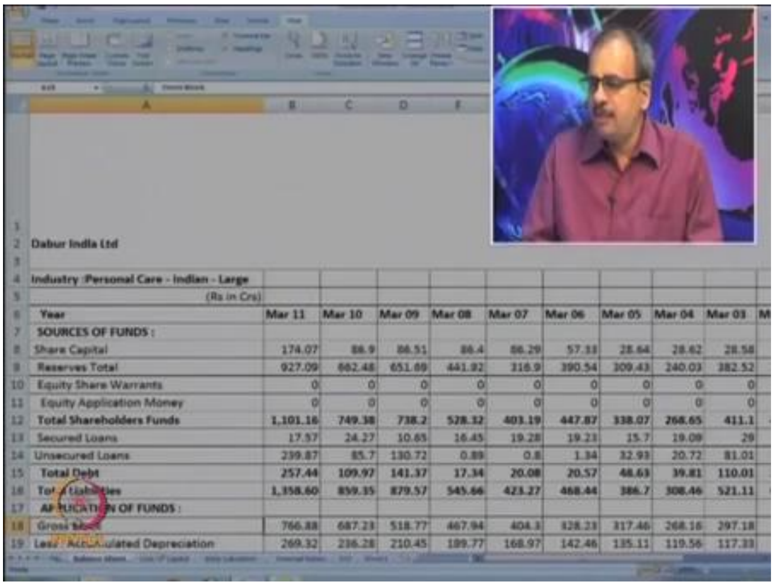

Next is depreciation now this figure of depreciation, we have to go to balance sheet l 18. You can see here the balance sheet, in balance sheet we have looked at the gross block. So, as I was telling you we have to look at multiple sheets, we were in p and l up to gross profit, we can calculate it from sales. But, the next item depreciation depends on the amount of gross block. So, we will go to balance sheet for the movement, here in the balance sheet we have been given the data from March 2 to March 11.

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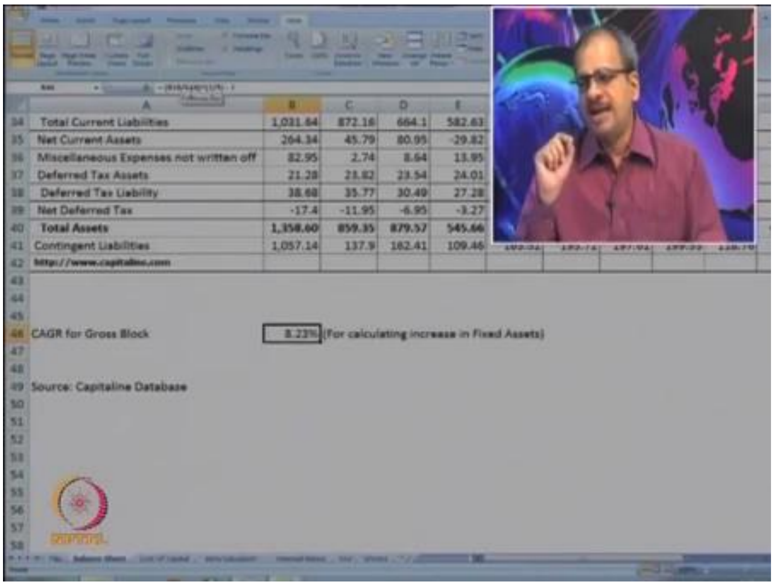

We have made some calculations. Now, CAGR has been calculated, I hope you are aware about CAGR. This is a cumulative growth rate for the earlier years. So, CAGR is calculated for the gross block, we will look at the gross block figures ((Refer Time: 36:50)) I hope you know that gross block is the fixed assets that cost. We have data from 2 to 11. So, this data was used to know, what was the growth in last 10 years? So, last 10 years it has increased from 376 to 766 this is B 18.

So, now CAGR cumulative annualized growth rate is calculated, you can have a look at the formula it is B 18 upon k 18. So, from B 18 is the March 11 gross block to and k 18 is a 2002 gross block. So, B 18 upon k 18 raise to 1 by 9, because this is 10 years. So, it is a growth of 9 years minus 1. So, we get 8.23 percent as increase in the gross block.

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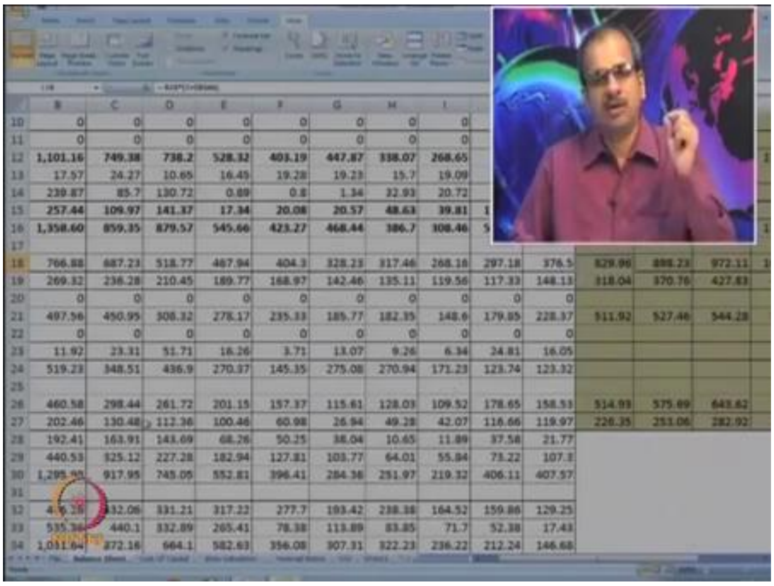

Now, we will come to balance sheet projections later, but only to understand the depreciation. So, here now based on this CAGR. Gross block for March 2012 is estimated. So, you can see the figure comes to 829 and on that basis, we are able to estimate the depreciation for the year. So, 829 is the gross block for march 12, we will go back to p and l we were in depreciation calculation.

So, we have taken the gross block as estimated in the balance sheet. And a depreciation of 0.0587 is the rate estimated. You can see the rate here based on the earlier years depreciation rate, this particular depreciation rate has been estimated. So, depreciation for the year comes to 48.52. Now, the same has been the same formula will be copied for all the years, because the rate will be assumed to be constant.

So, whatever is a respective years, estimated gross block using that gross block we can project the depreciation. Now, gross profit minus depreciation we get PBT Profit before Tax. Now, we have to estimate the tax rate, which was estimated earlier ((Refer Time: 39:41)). You can see here the tax rate, which was taken as 2.02. This is the actual tax rate for March 11. So, we do not know whether the rates of taxes have gone up or down. So, normally in a simple analysis the same rate is continue.

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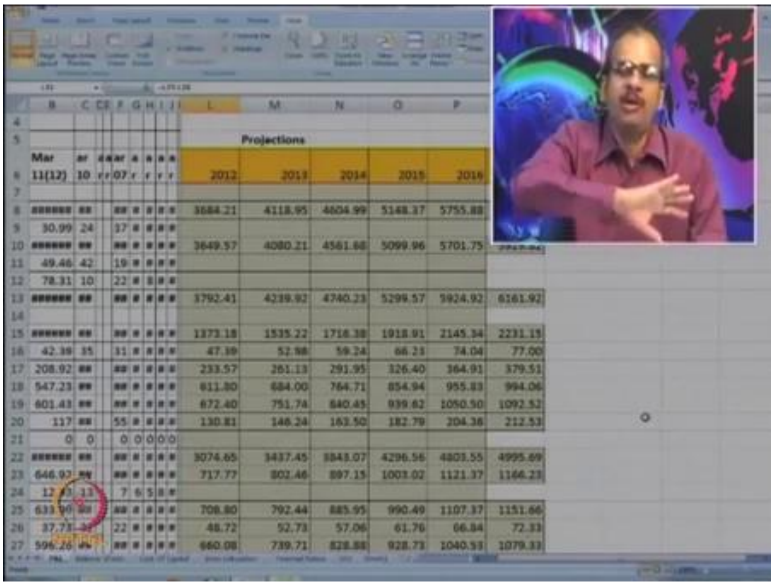

So, this is B 47. So, for calculating the tax rate, you can see that dollar B dollar 47 into l 27. So, l 27 is a projected profit before tax. So, a tax rate of 20.02 percent is applied same rate will be applied for all the future years. Now, if some information is available about changes in the tax rates, you can incorporate. Otherwise, normally last year's tax, rate the available most current tax rate. That is available for March 11 same will be used for projecting.

So, we will get tax for all the years. Now, PBT minus tax we get reported net profit. So, here we get the projections for all the years are you fine with now, you will be able to project. I will request you, you have a look at this sheets. These sheets have been shared with you in the web course. So, please look at the sheet, you put the data of your own company, you can change the year also.

So, now perhaps the data up to March 11 will be available or up to September 11 will be available. You can put in the data, retain the formulas you will be able to project the p and l account for the coming 5 years. So, have a look at the sheet here the projections are made from 2 to 17. Now, let us go to balance sheet, now this is the balance sheet data as we have just now seen the data for 10 years was given.

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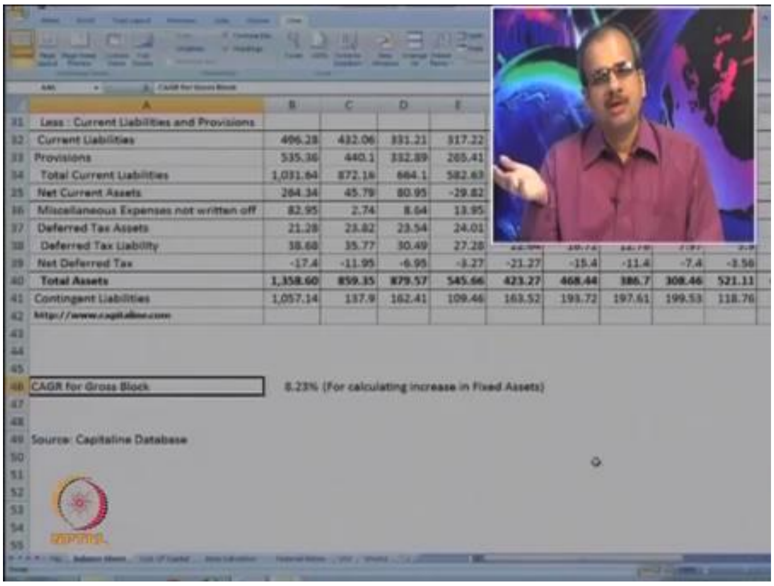

We have to make estimation for CAGR. So, we look at the growth rate of last 10 years. And it is assumed that the same growth rate will continue which was 8.23.

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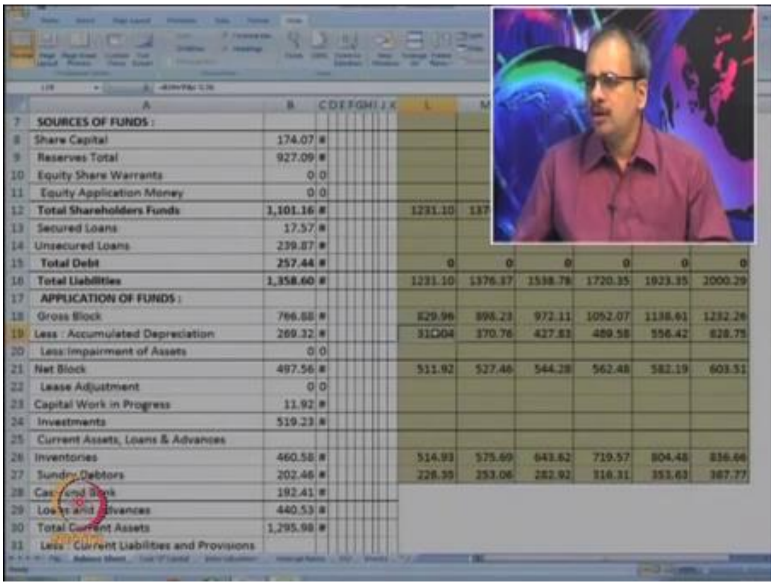

So, balance sheet if you start with assets. That is application of funds, the first item is gross block, I will just make these columns smaller. So, that you can concentrate on the projections part. So, this one is the data for all the 10 years. Now, when you are projecting for a steady company, which is there for a reasonably long time. This particular method is useful.

If it is a highly going company or if it is a new venture, then perhaps more estimation and little more sophisticated techniques are useful. But, I am trying to give you a basic model, which can be used for a normal company, which is there for a reasonably long time at least for about 10, 15 years. So, we have made the projections for gross block, then we are looking at depreciation.

So, gross block we know that the rate of growth will be around 8.23. So, taking the gross block of the last year, that is March 11, we have estimated the gross block of this year. And then the same estimations are continued till March 2017. Next figure is accumulated depreciation, you know that whatever is a depreciation in the earlier year to that it will be added. So, B 18 that is we know the depreciation of this year, we add B dollar 40 we add p and l 26, which we had just calculated.

But, we will go back and see exactly what l 26 was. So, l 26 is nothing but the projected depreciation. So, now when we are projecting the balance sheet, we have to take last year's accumulated depreciation add the depreciation projected for the year. And the same thing is continued in the next years. So, depreciation as on March 12 plus projected depreciation of 12 gives us the projected, accumulated depreciation for year ended March 12.

And now on that each year's depreciation is added. Net block as you know is gross block minus accumulated depreciation. Now, there are a few more items, you can see here impairment of asset which was anyway zero. So, it has been estimated as zero. Then, we have a lease adjustments, capital work in progress which was a negligible amount 11.98. So, it has been ignored investments are completely at a discretion of the company. So, right now they also have been ignored.

Next figure, we want to get is inventory, inventory as you know is based on the operating data. So, here you can see how it is projected it is B 26 upon p l B 13. Now, what is this B 13. Actually go and see here this B 13 is nothing but the net income. So, we know that usually the stock figures or the closing stock has a proportion to net income. So, for projecting the closing stock, that is inventory we have taken B 26 upon p l B 13 in to p l l 13.

So, this B 13 and l 13 are nothing but our total income or our net sales. So, here it is estimated it is assumed that, inventory will increase in the same proportion, as the sales have increased. So, same rate of growth will be applicable, whatever was the projected growth in the sales. In the same rate the inventory has been estimated. Same thing is true for sundry debtors. Because, debtors or the customer balances also are likely to grow in the same proportion.

Again unless we have any specific information, that now the company is entering into new business or the company changing it is credit policy or stock policy. We will usually assume the repeat of the earlier years information. So, we have projected the inventories and the sundry debtors in the same ratio. So, you can see here the operating assets are now projected. We ignore the items like cash and bank, loans and advances, etcetera we will take up it in the next sheets.

So, here the inventory and debtors are projected and gross block is projected. Now, let us look at the funding, which is required for this. So, you look at the source side here in again we have ignored the loan funding. So, it is estimated that all the total of this, which is 1121, you can see this 1231 is a sum of l 12 to l 15. And the total shareholder equity has been first estimated, this is estimated as B 12 upon p l B 13 p l l 13. So, estimate equity of March 11 is given.

And we have assumed that equity will also grow as the business size grows, in the same proportion it need not always be true. But, here as I told you, these projections have been made on the projections of some simple estimates. So, now the equity also has been projected to grow in the same ratio. And we have estimated some of the important assets.

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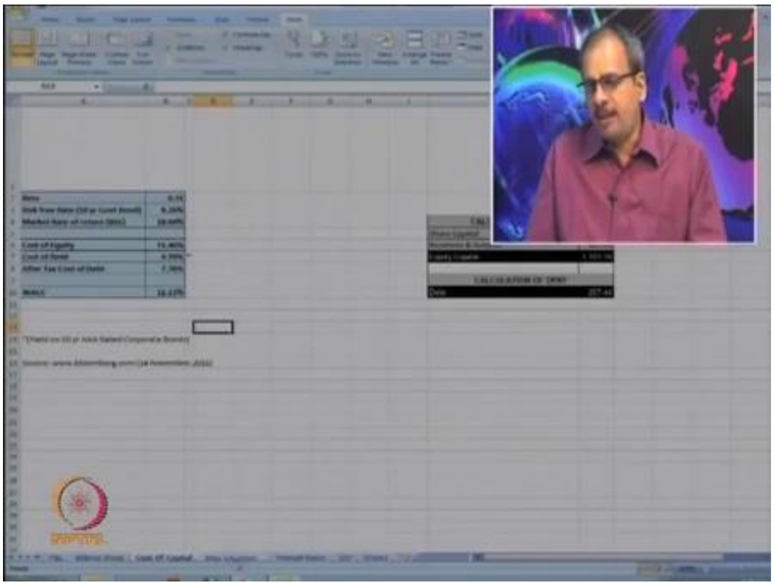

Now, let us go to calculation of cost of capital, which will be a interesting calculation for you before estimating cost of capital we need to do calculation of BITA.

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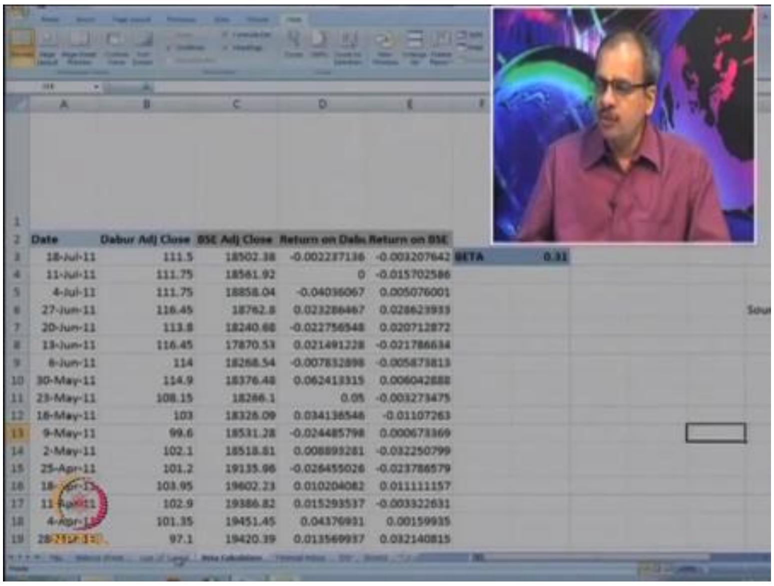

Now, are you aware of what is meant by BITA, we this is a coverage of when you do corporate finance ratio perhaps you will know more about it. But, right now I will just say that, it is a measure of the performance of company stock, versus the performance of capital market. Now, here this BITA figure is very much useful in portfolio management.

We are not interested in portfolio management things related things now, why we are using it, because we want to estimate their cost of capital.

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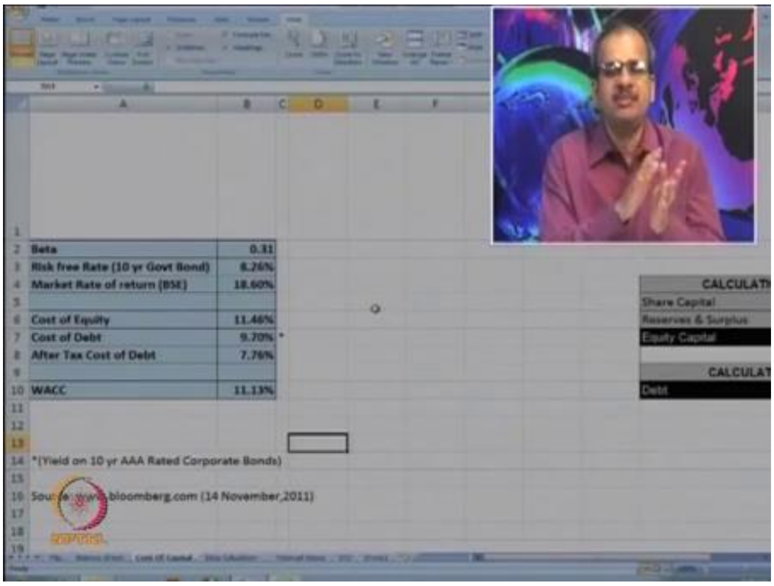

To estimate the cost of capital, here you can see the sheet of cost of capital. We need to know, what is the perception of the company about the riskiness? Because, if the company is perceived as risky they will the investors will demand more return. Here in again these things are detail discussed in detail in finance subjects, right now we are just using the concepts to make the projections ((Refer Time: 49:49)).

So, first we have estimated the BITA calculation, we have taken the cost, the prices of Dabur for last 3, 4 years. We have also taken the BSE data, we have calculated the return on Dabur and return on BSE with this we can calculate the BITA. You can see the formula BITA is nothing but the slope. So, we use the slope formula, you can see this and you can download the sheet, so that you understand more clearly.

So, BITA has now been calculated as 0.31. Now, let us go to cost of capital, in cost of capital the BITA is estimated at 0.21. The risk free rate comes to risk free rate is again taken from outside, it is taken as it is 8.28 percent. And market rate of return on BSE which you can get from the BSE is 18.16.

Now, the cost of capital is estimated as 11.46, you can look at the formula again it is B 3 which is the risk free rate of return plus B 2, which is BITA of the company into bracket

B 4 minus B 3. So, this is nothing but calculation using the CAPM or Capital Asset Pricing Model. I will not explain the whole model again. But, you can look at the formula, I hope you can understand that we are looking at the premium, which this company charges, which investors are likely to charge on the company.

So, we know that company should at least earn 8.26, because it is a risk free rate plus the premium. So, the estimated cost of equity comes to 11.46. The cost of debt is taken from 10 years yield on corporate bonds, you can download this data. So, it comes to 9.7, average cost of date after tax is come will come to 7.76, we have taken the tax rate. And then we have worked out the weighted average cost of capital, which is 11.13. You can get this WACC and use the weight ages from the balance sheet.

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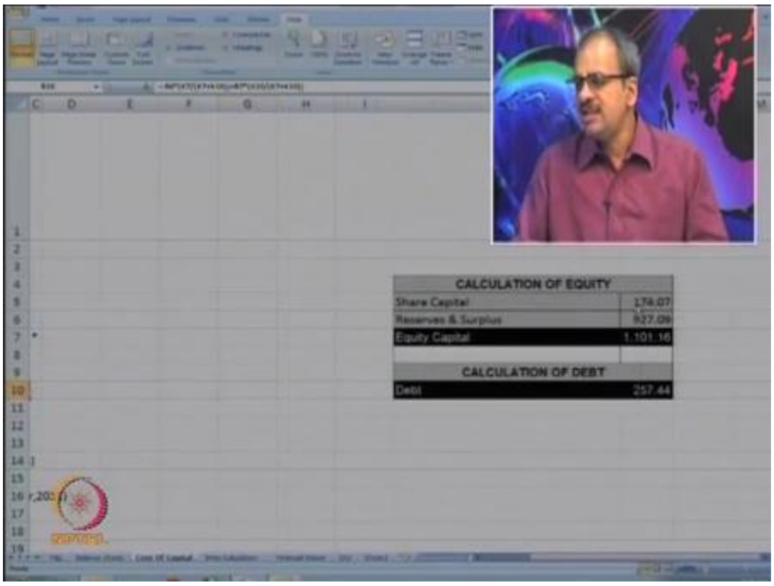

Now, using this data equity has been calculated. So, we have taken the share capital, reserves and surplus, the total is the equity. And the debt also has been calculated again from the balance sheet data.

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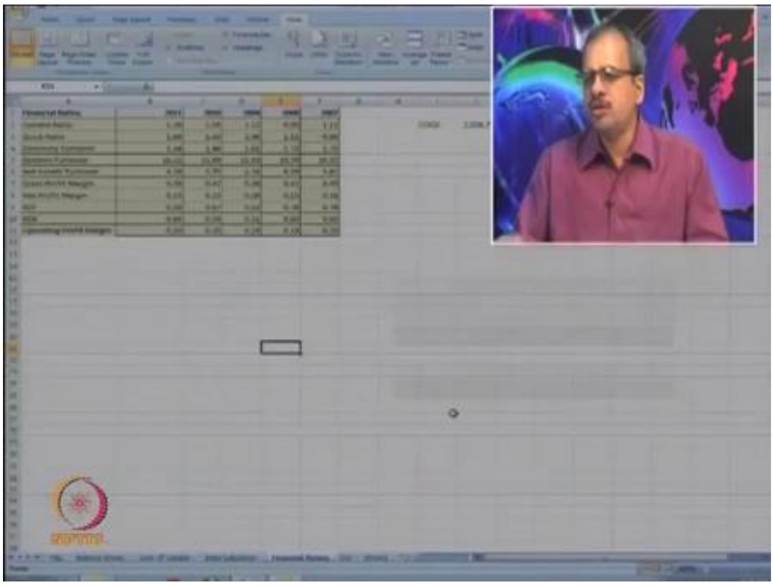

Now, all the projections are done with these projections, you can calculate the projected ratios. I will now repeat I hope now you know the calculation of ratios.

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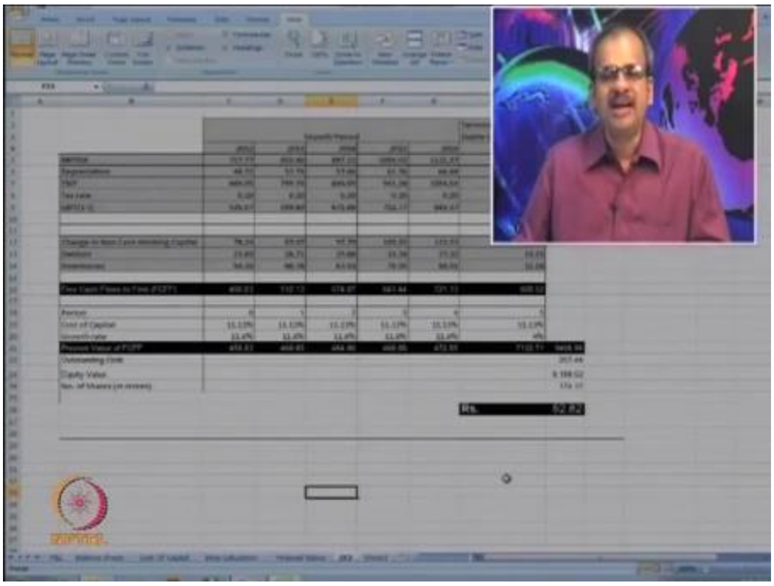

And after that we can calculate the DCF value or discounted cash value of the company. We will stop here, we will look at DCF in the next session. So, in the current session, first we have done some revision of our ratios. And then we are doing a case on Dabur, wherein we have projected the financial statements. And using the projections, we are trying to calculate the equity value of the company.

Thank you so much.