**Financial Modeling**

**December 2023 Examination**

**1. What are the phases of building an Unlevered DCF Model? Calculate the value of**

**Equity using the DCF method with the following information/assumptions:**

|  |  |
| --- | --- |
| **Tax Rate** | **25%** |
| **Discount Rate** | **12%** |
| **Shares Outstanding** | **25000** |

**Cash Flows for the next few years is as under:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **(Rs. In ‘000s)** |
|  | **1** | **2** | **3** | **4** | **5** |
| **EBIT** | **120** | **115** | **135** | **145** | **120** |
| **Changes in NWC** | **20** | **25** | **12** | **18** | **23** |

**Terminal value in 6th year is Rs. 500,000. Capex of Rs. 45,000 is estimated every year.**

**Cash Balance of Rs. 10,000 and Debt of Rs. 200,000 exists as on date. (10 Marks)**

**Ans 1.**

**Introduction**

(DCF) Discounted cash float can be defined as a valuation method (V.M.) that determines the price of an investment using its expected (FCF) destiny cash flows, including cash outflows and inflows.

DCF evaluation tries to estimate the price of an investment today based on estimates of how much cash can be earned inside Destiny.

It may assist those considering whether to acquire an organization or buy securities in making their selections. Discounted cash glide (DCF) analysis can also help managers and business owners choose capital budgeting or operating costs.

• Discounted cash flow analysis helps decide a funding's value based on its (FCF)

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**2. Mr. Mohan had a kitty of Rs. 45,00,000 for surplus investments. His aims for investment were as under:**

**(a) 10% of the amount has to be maintained as liquid funds for emergencies.**

**(b) 40% of the amount in order to earn a steady income. He does not have too much of an expertise in the markets and hence lacks investment acumen.**

**(c) Balance 50% he is open to take risks and wants to earn higher than the FD interest rate currently offered by the banks/Government.**

**Advise Mr. Mohan on an investment methodology to take care of the above objectives and to build its portfolio. (10 Marks)**

**Ans 2.**

**Introduction**

Investment decision refers to financial resource allocation. Buyers pick the most suitable assets or investment possibilities primarily based on chance profiles, investment objectives, and return expectations.

Firms have restrained financial resources; therefore, the top-stage management undertakes capital budgeting and fund allocation into long-term property. Business operations managers choose quick-term investments to make certain liquidity and operating capital. Funding selections are also stimulated by the frequency of returns, related dangers, adulthood periods,

**3a. M/s Esha Enterprises was trading at a share price of Rs. 50 at the beginning of the year. During the year the company declared a Dividend of Rs. 5. By the end of the year the share price was at Rs. 55 per share. Beta of the Company was pegged at 0.6. Government securities are earning a return of 4% currently. Calculate the Cost of Equity of M/s Esha Enterprises using CAPM Method. (5 Marks)**

**Ans 3a.**

**Introduction**

The cost of equity is the minimum threshold for the required price of go-back for equity investors; that's a function of the company's risk profile.

Suppose an investor decides to contribute capital to the investment or project. In that case, the cost of equity is the predicted go-back, which needs to compensate the investor correctly for

**b. If you deposit an amount of Rs. 25000 in a bank at an interest rate of 8% for 5 years, compounded annually, how much will it grow after 5 years? What if the rate is**

**10%? And compounded quarterly at 8% p.a. (5 Marks)**

**Ans 3b.**

**Introduction**

Compound interest may be imposed on a deposit amount or a loan. It is usually used concept in our everyday existence. The compound interest for an amount depends on both interest and principal gained over periods. That is the primary difference between compound and simple interest.

Compound interest is the interest calculated on the essentials and accumulated over the