Project Dissertation Report

STUDY ON CORPORATE VALUATION:

A CASE STUDY OF FMCG COMPANY

Submitted By

Anju Raj

2K21/DMBA/31

Under the Guidance of

Dr Saurabh Agrawal

Associate professor

DELHI SCHOOL OF MANAGEMENT

Delhi Technological University

Bawana Road Delhi, 110042

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CERTIFICATE

This is to certify that Ms. Anju Raj, have completed the project titled "Study on Corporate Valuation: A Case Study of FMCG Company" under the guidance of Dr Saurabh Agrawal, Associate Professor, as a part of Master of Business Administration (MBA) curriculum of Delhi School of Management, New Delhi. This is an original piece of work and has not been submitted elsewhere.

Dr. Archana Singh	Dr Saurabh Agrawal
Head of Department	Associate Professor
Delhi School of Management	Delhi School of Management
Delhi Technological University	Delhi Technological University

DECLARATION

I, Anju Raj, hereby declare that the MBA research project titled "**Study on Corporate Valuation: A Case Study of FMCG Company**" is my original work and has not been submitted in part or in full for any other degree or qualification.

The research work included in this project is the result of my own efforts, and I have duly acknowledged all sources of information used in the preparation of this work. All the data, figures, and quotations used in this project have been appropriately referenced.

I confirm that I have followed all ethical standards and guidelines while conducting research and collecting data for this dissertation. All participants involved in this research have given their informed consent, and their privacy has been duly protected.

Finally, I acknowledge the guidance and support provided by my supervisor's, faculty members, and peers throughout the course of my MBA program, which has enabled me to complete this project successfully.

Anju Raj

2K21/DMBA/31

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ANJU RAJ
2K21/DMBA/31

EXECUTIVE SUMMARY

The concepts of enterprise value and valuation are quite significant in the modern world. When negotiating the price of a business at the time of performing a commercial transaction, knowledge of how much an enterprise is worth is crucial for both the owner of that firm and investors. The paper explains the corporate valuation method that is being used by a FMCG company and its influence on market trends.

Financial market players use valuation to calculate the price at which they are willing to purchase or sell to complete a company sale. This paper describes the objective of the company's valuation and the typical times in the company's existence where this value is required.

The methodology used in this study is based on inferences about business valuation methodology that is currently used across different companies. The verification is based on real-world examples. Simultaneously, the elements that may lead to an overly subjective approach to valuing assets, which would be at odds with the qualities of sound valuation, are discussed. The goal is to raise awareness of the risks posed by contemporary company valuation procedures and the difficulties they will face in the future.

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CHAPTER 1. INTRODUCTION

1.1 BACKGROUND

According to the Indian Companies Act, 1956, XYZ was incorporated in 1998. It serves as the primary contract manufacturer for a number of well-known FMCG goods. It produces a variety of instant mixes, infant meals, instant porridge, morning cereals, health drinks, leather and other shoe uppers, accessories, pest control products, tea, coffee, and soups in addition to high-quality cereal-based food products.

Above all things, the recent Zomato Initial Public Offer (IPO) has showed us that you can no longer disregard the regular valuation of your company. Zomato is an app-based delivery service with no significant drawbacks when it comes to the evaluation of physical assets. Traditional firms want to become the TATAs and Birla's of the world by continuously adding to their assets and raising their company worth, but they are unable to do so. Here, Zomato's IPO raised the roof with only one sweep of the floor. Since start-ups with few assets are currently valued substantially higher than enterprises with many assets, business valuation cannot be disregarded in the current climate. (Taxmann, 2021)

The process of determining a company's value in the financial sector is known as corporate valuation. It is a vital component of corporate finance and is used for a variety of purposes. Valuation is important in mergers and acquisitions when deciding whether and how much to pay for a company to be bought. The valuation phase of the negotiation process is essential because buyers and sellers may have different opinions of the value of a company. It is also necessary for a company's effective management, for identifying the departments that provide value, and for creating expansion plans. Corporate valuation is heavily used in initial public offers, portfolio management, and tax assessments, among other fields. (Internaltional Finance Institute, n.d.)

Corporate valuation, also known as company valuation, is the process of determining the "financial worth" of an organization while taking into account its action plan and external environment and supporting it with arguments and personal experience. Organizations have been valued in order to manage the components of their capital structure, their prospects for future earnings, and their perceived value in the market.

Financial market players use valuation to calculate the price at which they are willing to purchase or sell to affect the sale of a firm.

A corporation value depends on several factors, including: -

- **Purposes of valuation**

The intrinsic value of a company refers to its genuine worth, considering various tangible and intangible factors that encompass all aspects of the business, as perceived by underlying assessments of its true value. Valuation is primarily made to understand company performance and where it stands in the external environment. If compared to market value, the value may or may not be the same.

- **Stage of business valuation**
  - Determining the value of your business.
  - Recognizing areas where your company would need to make improvements before going public.
  - Calculate the market at a comparatively low or high value rate.
  - Reduce risk by ensuring that internal valuation measurements are correct.

- **Past financials**

The firm's historical financial statements can be used to estimate future financial performance for purposes of valuing a company. The management of the firm, the owner, the stakeholder, the shareholder, the investor, the creditors, and the government will all utilize the value of prior financial data to assist them make investments in the specific company.

- **Expected Financial result.**

Financial statements are records of a company's, a person's, or another entity's financial activities. When valuing a firm or person, it is simple to determine their performance because it always indicates whether they are making money or not. The expected financial outcome is always a significant profit for the corporation.

The discounted free cash flow model and similar techniques are often employed in corporation valuation. In Discounted Free Cash Flow, there are 4 approaches.

- Measuring DCF to Firm,
- Measuring DCF to Equity,
- Discounted Free Cash Flow to Firm,
- Discounted Free Cash Flow for Equity

A vast variety of scientific knowledge is required for the challenging process of company appraisal, and there are several theoretical and practical challenges involved. Economic expansion necessitates the valuing of businesses. The globalization of the economy, which is accompanied by a strong capital inflow to an increasing number of nations, makes it necessary to conduct several business-related activities such as mergers and acquisitions, joint venture formation, privatization, merger and acquisition, and appraisal for sale. Determining the final worth of the thing is difficult since "value" is a subjective concept in and of itself.

Hence, it can be concluded that business valuation involves the process of estimating the value of assets and benefits derived from effective management of a company. It is done in the present since the market is like a living creature and fresh information that affects the state and operations of businesses constantly happens. Therefore, it is crucial to develop certain norms and legal standards since corporate valuation procedures are complex and continually evolving.

A document containing global standards in the area of business valuation has been created by the International Valuation Standards Council. The following document offers instructions for determining a company's worth, creating appraisal reports, and making implementation suggestions. Although not required, these rules establish generally accepted moral and methodological principles and serve as a set of best practices and guidelines.

By doing this, major discrepancies in valuation results, such as those relating to assets of the same type, are to be eliminated. These guidelines may also be used when there are legal disagreements over the valuation's conclusion and when the valuation is questioned for tax purposes. There is distinct certification of valuation specialists in the nations where a certain framework and criteria for determining the worth of assets have been established.

There are mainly 4 approaches of valuation which ultimately helps to determine the value of businesses or any asset. These approaches are-

- Cash approach or Asset approach
- Market Approach
- Income Approach
- Brand Valuation Approach

Figure 1 Valuation Approaches

Any business valuation effort needs to take into account at least three different valuation techniques. Thus, several company valuation models that make use of different techniques may be created within the general business valuation methodologies. The majority of treatises and court rulings advise valuers to take into account many methodologies since they must be compared and contrasted in order to get a value conclusion. The internal assets and intellectual capital of the company being appraised should be understood just as much as the economic, industrial, and social context.

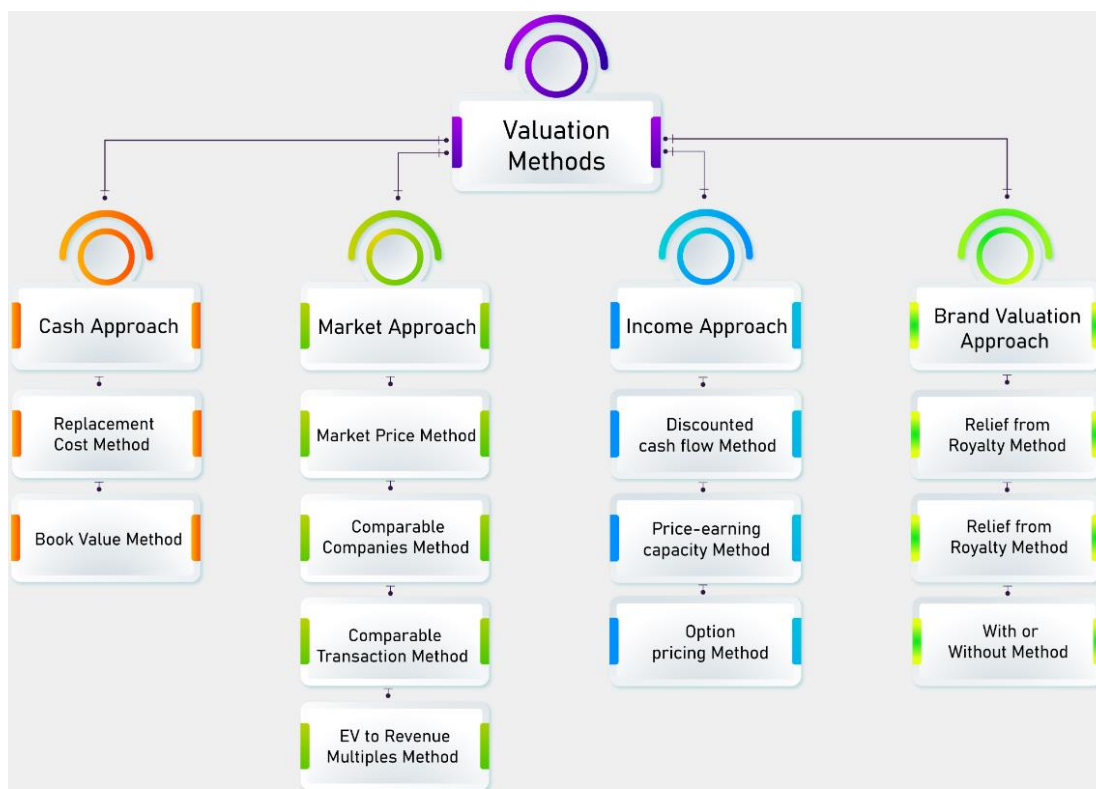

Figure 2 Valuation Methods

- **CASH APPROACH OR ASSET APPROACH (NAV) –**

This is one of the main valuation methods. The Net Asset Value recorded in the books often excludes intangible assets used by the company and is also influenced by accounting principles, some of which may be discretionary. NAV is not regarded as an accurate measure of fair business value. Though the cost approach to valuation is not seen to be an accurate reflection of the company value, it is a practical method for holding corporations, asset-intensive businesses, and mature organizations with substantial assets. However, it is used to assess the entrance barrier in a business and is seen as feasible for businesses that have reached the stage of mature or falling growth as well as for real estate and investment firms with solid asset bases.

- **Book value method** - It depends on an evaluation of the assets and liabilities in the balance sheet. The formula for calculating book value per share is (Total Stockholder's Equity - Preferred Stock) / total number of Common Shares in the Company.

Businesses use the book value technique of valuation to evaluate various firms and search for cheap and overpriced equities. This form of valuation is common among small distribution organizations and enterprises with very low profitability when the latter are also experiencing operational losses.

- **Replacement cost method** - By estimating the cost of replacing an asset, the replacement cost method of valuation determines the projected worth of the asset. The expected cost of replacing the asset with a similar asset in the same condition is calculated using this method of asset appraisal.

  This approach of valuation assumes that neither a buyer nor a seller will accept a price for an asset that is more or lower than the value of an equivalent asset. The strongest candidates for this method of valuation are "start-ups" with uncertain cash flow estimates.

- **Liquidation value method** - An asset-based method known as liquidation value calculates the amount of money a corporation would receive immediately if it liquidated an asset on the open market. The phrase "immediately" means within the following six to twelve months. (Gordon, 2022)

- **INCOME APPROACH-**

The basis of the income-based technique of valuation is the idea that the present value of any firm is a function of the future value that an investor might anticipate receiving from buying all or a portion of the business. By examining factors including revenue, taxes, and costs, the income method to valuation determines the current value of future income that a corporation will earn.

The income method to valuation is founded on the idea that a potential investor wants to know the financial returns on their investment. The income method to business valuation evaluates both the potential returns on investment and the associated risks.
The income approach to business valuation uses a formula to estimate future revenues, operational income, costs, net profit, and the amount of cash the company will eventually be able to generate.

• **Discounted Cash Flow Method (DCF)** - The preferred technique of valuation for the majority of appraisers is the discounted cash flow approach. In the discounted cash flow approach of company valuation, all future cash flows are subtracted from the present value using a discount rate to determine the value of the firm.

Using this method, the appraiser projects the cash flows of any business after all operating costs, taxes, and necessary working capital and capital expenditures are covered. The DCF method expresses the business's current worth as a function of its potential for future cash flow. When valuing equity using free cash flow to shareholders, only free cash flow to equity holders must be estimated after debt holders have been settled.

• **Price- earning capacity method -** The price-earning capacity valuation approach, in contrast to the discounted cash flow method, uses previous earnings to gauge the worth of future cash flows. If a company is young or has not been in operation for a long time, future cash flow predictions cannot be estimated using the price-earning capacity technique of business valuation.

• **Option pricing method -** The option pricing technique is a method of valuation that determines an option's value. After taking into account all available inputs, the option pricing technique calculates an option's value. The option pricing approach is further broken down into three groups, including:

- **Binomial Option**- As implied by its name, the binomial option pricing model determines an option's payment by assuming that there are two alternative outcomes. There are two possible outcomes: either the price will increase or decrease.

- **Black-Scholes model**- examines six different factors to determine an option's value: the kind of option, volatility, period, risk-free rate, strike price, and underlying stock price.

- **Monte-Carlo Simulation**: The appraiser will simulate all possible future stock prices and use them in the Monte-Carlo Simulation model to calculate the predicted discounted option payoffs.

- **MARKET APPROACH –**

As the name implies, this technique of valuation determines the worth of a subject firm, its intangible assets, securities, and ownership interest using pertinent financial data from similar or identical businesses.

By contrasting the subject company with another that is comparable to it in size and operations, this valuation approach determines the subject company's worth. This technique of valuing determines appraisal value by using price-related factors, such as sales. This approach of appraisal is sometimes referred to as the relative value method.

- **Market Price Method** - A business's value is established by the stock market using the market value or market price technique of valuation. The recommended approach for determining the value of frequently traded equity shares of firms that are listed on the stock exchange is the market price method of company valuation.

  A company's market value is determined by multiplying the total number of outstanding shares by the price at which each share is currently trading. The market worth of the firm fluctuates along with share prices throughout the day.

- **Comparable Companies method** - A method used in the market approach to business valuation is the similar businesses method, also known as comparable analysis or the guideline public company method. In this approach of valuation, the value of the subject firm is determined by examining the ratios of a comparable company.

  EBDITA (earnings before interest, taxes, depreciation, and amortization), EPS (earnings per share), gross profit, net debt, and sales are all examined as part of this valuation process.

- **Comparable Transaction Method** - The business valuation method known as the "comparable transaction method," "precedent transaction analysis," or "mergers and acquisition comps" bases the worth of a company on previous mergers and acquisitions of businesses that are like it.

  The EBDITA (earnings before interest, taxes, depreciation, and amortization) ratio, EPS (earnings per share), gross profit, net debt, and sales are all examined in this valuation technique.

  The comparable transaction approach of business valuation examines the price at which a comparable publicly listed firm has been sold, the kind of investors who bought those comparable companies, and the market circumstances surrounding the acquisition.

- **EV to Revenue Multiples method** - The enterprise value-to-revenue multiples approach, also known as the enterprise value-to-sales method, determines the worth of a company by comparing its stock value to its yearly revenue.

  When a company doesn't have a positive Earnings Before Taxes, Depreciation, and Amortization (EV/EBITDA) ratio or positive net income, the EV-to-revenue multiples technique is used to determine the worth of the company.

  This method of valuation is also employed to assess the fairness of a stock's pricing and to calculate a company's worth prior to a possible acquisition. The EV-to-Revenue multiples method's formula is EV/R. Where EV is an enterprise value (defined as preferred shares plus equity value plus all debits minus cash and cash equivalents) and R is revenue.

- **BRAND VALUATION –**

The process of determining a brand's worth or how much someone is prepared to pay for it is referred to as brand valuation. A brand may determine the worth of both its tangible and intangible assets using the valuation process known as brand valuation. The projected worth of a brand derived from this valuation process is based on factors including customer perception, financial performance, brand equity, and comparable measures.

In the event of mergers and acquisitions, brand valuation is crucial for better financing, to determine their return on brand investment, and for budgetary allocations. There are three different approaches to valuing brands: the Relief from Royalty Method, the Multi-period Excess Earning Method, and the With or Without Method.

- **Relief from Royalty method** - By assessing the amount of money a firm would save on royalties if it owned the asset rather than obtained a license from a third party, the relief from royalty method of brand valuation establishes the worth of an intangible asset.

  The royalty rate is determined using the relief from royalty technique using the market approach to valuation. The intangible asset's worth is also determined by the income method to valuation, which bases its conclusion on projected revenue, tax rates, discount rates, and growth rates.

- **Multi- period excess earning method** - The multi-period excess earning method, or MPEEM, is an alternative to discounted cash-flow analysis for brand valuation. This approach of valuation isolates and then discounts to present value the cash flow related to an intangible asset.

  When one intangible asset contributes the majority of a company' value, the multi-period excess earning approach is used. Computer software, customer connections, and other related assets are among the assets whose fair value may be determined using MPEEM since the intangible asset is the main driver of that firm's value. As a result, the cash flow associated with it can be separated from the business's total cash flow.

- **With or without method** - By contrasting the value of the business with the asset to the value of the business without the asset, the with or without a brand valuation technique calculates the value of an intangible asset. Non-competition agreements, procedures and technologies, and franchises are valued with or without the use of a technique of valuation. (Especia, n.d.)

1.3 PROBLEM STATEMENT

Even while a team of experts has made significant progress in standardizing the valuation process, there are still many of open issues and debatable solutions in use.

- Enterprise valuation techniques and the organized components of them have not been tightly governed by law.
- This process is not governed by a closed, complementing set of rules.
- The inability to properly define a procedure that may apply to entities with varied specificities, legal forms, assets, or ownership structures is the main reason there are not any consistent laws.
- Another issue is that corporate valuation combines theory and practice, which is problematic. It also depends on the capabilities of the economic entity's chosen business plan. However, it should be kept in mind that the assets considered in the balance sheet rarely determine the actual market worth of the business.

There are rules, nonetheless, that permit its partial structure. As a result, there have been business valuation guidelines for many years in various nations across the world. They have to do with valuation technique and the variety of skills a valuer must possess. They were created by organizations with a professional membership that includes valuation experts.

Since defined methods and norms of conduct are followed by experts, evaluations are comparable and easy to verify. This kind of situation increases the security of business transactions.

The real valuation is affected by a variety of varying elements, such as the economy of the country, the attractiveness of the market, the company's growth plan, human resources, and the kind and mode of use of held assets.

1.4 OBJECTIVE OF THE STUDY

The objective of this study is-

- To understand how the valuation is done in an FMCG company.
- To identify the key drivers that enhances the company's value.

1.5 SCOPE OF STUDY

The study's dimensions would allow us to understand the significance of enterprise value and valuation today. When negotiating the price of a business at the time of performing a commercial transaction, knowledge of how much an enterprise is worth is crucial for both the owner of that firm and investors. The article outlines the objectives of a company's valuation as well as the typical phases of a company's existence where one is required.

CHAPTER 2. LITERATURE REVIEW

A mathematical way of figuring out what an item or business is worth is valuation. A valuation method known as discounted cash flow is used to determine a company's worth based on its projected future cash flows. Using the parameters of other comparable firms of similar size from the same industry, the comparable company valuation approach is used to assess a company's worth. (Aiswarya Venkatachalam, 2022)

According to (Jimmy Torrez, 2006) **it** appears that additional cutting-edge techniques are required to identify changes in organizations' financial circumstances. Additionally, financial experience among managers is crucial for businesses to compete in a world that is always changing. A key topic in corporate finance is how and how well to assess a company's worth. The efficacy of business valuation models and procedures has altered because of several recent occurrences.

(Rao, 2016) stated that there are several procedures that may be used while doing appraisal. Although valuation is an imperfect science, it is crucial to remember that using the appropriate framework and concepts may make the effort gratifying. There are primarily two widely used methods of appraisal.

Fundamental approach - To arrive at corporate value, this strategy mainly uses the discounted cash flows (DCF) methodology. The main techniques used in this approach are the dividend discount model (DDM), free cash flow to firm (FCFF), and free cash flow to equity (FCFE). The basic method to valuation aims to identify a company's worth by concentrating on its most important financial factors. The fundamental tenet is that, in the end, value represents an organization's underlying financial performance as expected over a foreseen period.

Relatives approach: Unlike the basics approach, this technique's proponents acknowledge that markets eventually do a reasonable job of pricing a security.

By giving a larger, more comprehensive perspective of overall corporate health and a better awareness of improvement potential areas inside a company, industry and company related performance indicators help the business valuation process. New approaches are needed to integrate non-financial and soft data with the traditional financial data used in company valuation in order to include performance indicators in

the process of business valuation. This necessitates a "re-think" of the conventional company valuation process as well as the investigation and use of alternative approaches and analytical methodologies. Financial data by itself could not be an accurate indicator of a business's capacity to operate. Numerous recent occurrences involving WorldCom, Enron, etc. demonstrate this. As a result, the process of company valuation should take a broader, more comprehensive picture of total corporate health based on both its performance qualities and financial health. (CASSONE, 2005)

Building the company's value is the main objective of its operations. Value is a vague concept since there are several metrics. A company's stakeholders are interested in its value because it may help them in a variety of ways, such as investing and managing the business, to accomplish their objectives. The article's goal is to investigate the connection between a company's value, core competencies, and rates of return. The potential of leveraging the link between value and fundamental strength of the company's stakeholders is one of the study's key components. (Waldemar Tarczynski, 2020)

There are several assessment models that are based on various techniques that may be found in the management literature of today. The historical performance analysis, the present worth of the company based on the projection period, and the assessment of prospects are the three most crucial evaluation factors. The fact that these ideas about the valuation techniques utilized in practice are not uniform nowadays is highly troublesome. Although the fundamental ideas are the same, there are differences in the specifics. (Anita, 2015) And it was identified that demand for corporate valuation techniques is rising because of the fundamental change toward value-based management. The capital market's demand to fairly evaluate corporations is one of the external elements driving this evolution. This is crucial in an economy that is heavily focused on mergers and acquisitions, since an increase in transaction volume increases the risk of inaccurate assessment and misunderstanding. However, internal concerns also play a significant part in this context, such as effective resource allocation, which necessitates figuring out how much a firm's tangible and intangible assets would be affected by strategic expenditures. (Srivastava, 1999)

(Hogan, 2002) The idea of customer lifetime value (CLV) should be taken into account as a suitable statistic to evaluate a company's total worth. Utilizing disaggregated cash flows at the level of individual customers, or by examining the various profit streams produced by a single customer's value-enhancing behaviours like up purchasing, cross buying, or word-of-mouth activities, a CLV-based methodology analyses businesses. The value of the customer base (CE), which is an accurate representation of a company's complete operational cash flow, is obtained by adding the lifetime values of all existing and potential customers. This is due to the fact that operational assets only generate cash flows when they are employed to produce goods and services that consumers will pay for.

Recent research demonstrates that cross-national variations in social and legal infrastructure consistently influence corporation valuation globally. There are examples that demonstrate that companies with their domiciles in English common law nations, where investor rights are comparatively strongly protected, are valued more than companies with their domiciles in French and German civil law nations, where investor protection is rather lax. Documentation exists that demonstrates a strong inverse association between business valuation and corruption at the national level. Show that insider trading laws are enforced in a same manner. Recent studies have shown that differences in social and legal systems between nations have a consistent global impact on corporate valuation. Despite the recent increasing integration of the global economy, there are still significant regional differences in corporation value. The impact of legislation on equity cost of capital is quite unfavourable. Despite the recent increasing integration of the global economy, there are still significant regional differences in corporation value. Secondly, aside from the impact of corporate governance, the development prospects of the nations indicated by the R&D intensity, capital expenditures, and GDP growth considerably influence cross-country disparities in corporation value. Furthermore, the level of capital market openness affects value significantly and independently. Thirdly, regression studies demonstrate a clear relationship between CTQ and shareholder rights, insider trading laws' effectiveness, GDP growth, the intensity of R&D, and the degree of capital market openness. (Choong Tze Chua, 2007)

The practice of directly connecting the worth of a company's customer base to its total financial valuation using publicly available data is known as "customer-based corporate valuation" and is gaining popularity. For contractual (or subscription-based) enterprises, there has been significant progress in developing a well-validated customer-based valuation model, while for noncontractual firms, there has been minimal development. Because customer attrition is not tracked and customer spending patterns are more erratic, noncontractual enterprises have more complicated transactional patterns. Furthermore, it is more difficult to estimate models for client acquisition, ordering, and cost per purchase since publicly released statistics are averaged across time and across consumers, are frequently filtered, and may differ from business to firm. The method of valuing a company by predicting present and future consumer behaviour using customer data in conjunction with traditional financial data is known as customer-based corporate valuation (CBCV). The type of connection a company has with its clients will ultimately determine the appropriate valuation framework, with the main distinction being whether the relationship is contractual (i.e., subscription-based) or noncontractual. (Fader, 2018)

CHAPTER 3. RESEARCH METHODOLOGY

3.1 INTRODUCTION

The methodological framework greatly depends on the data collecting technique. Secondary sources provide the basis of the theoretical framework we use. Secondary data is gathered, such as financial key numbers and yearly reports. Secondary data is frequently far less expensive to use than primary data. One might be able to explore larger data sets consequently.

Secondary Data Collection Method- Secondary data is information gathered from sources other than the original user. It indicates that someone has previously analysed the material and it is already available. Books, journals, periodicals, newspapers, and other sources of secondary data are included. Either published or unpublished data is possible.

When doing research utilizing this approach, several research techniques are used, such as mixing quantitative and qualitative data.

Mixed methods research- is a type of research that combines quantitative and qualitative methods in a single investigation. It involves obtaining and analysing both qualitative and quantitative data in order to better understand a phenomenon and address the research questions. The information gathered was of qualitative and quantitative character. Analysis and interpretation were carried out using the data that was gathered. Various assumptions have been made considering the circumstances.

3.2 METHODOLOGY

One of the most used approaches for valuing businesses is the discounted cash flow (DCF) approach. The cash flows are calculated by considering the cash from operations in the Cash Flow Statement and then adjusting it for the typical capital expenditure. These are forecast for a period of five years, after which the business's terminal value is determined. The weighted average cost of capital is then used to discount these terminal values and the cash flows to the present. This works well in situations with predictable financial flows. For instance, the DCF technique can be effective in non-cyclical, rather stable industries like FMCG and pharmaceuticals. Still, some modifications would be needed.

For calculation financial statements (including the balance sheet and income statements) for the periods ended as on 31-March-2023 has been taken. The valuation conducted of the company is as per the internationally accepted standards. Since the company meets the "going concern assumption," Net Asset Valuation method has not been taken into consideration.

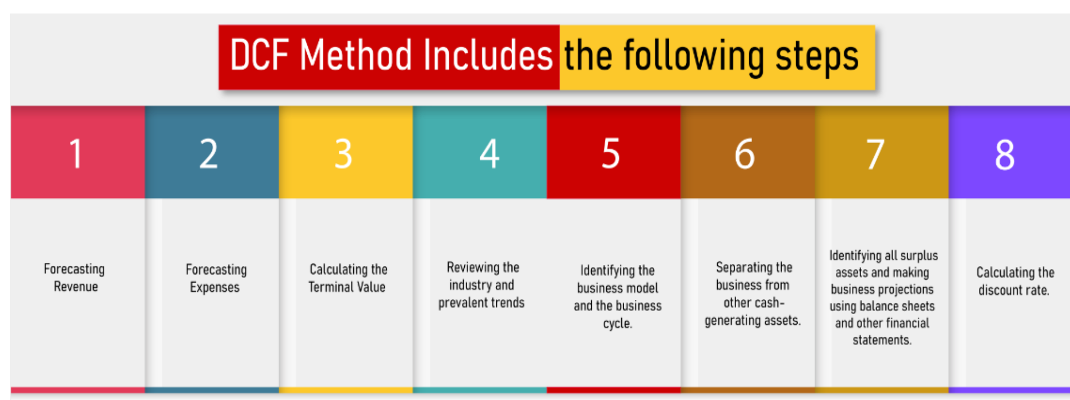

Figure 3 Discounted Cash Flow (DCF) Methods

CHAPTER 4. RESULTS AND DISCUSSIONS

4.1 ANALYSIS

Discounted Cash Flow Approach

A discounted cash flow valuation is used to determine an investment's long-term worth. For instance, a DCF valuation is used in investment banking to determine the worth of potential mergers and acquisitions. DCF valuation is also used in real estate and private equity.

In situations other than corporate finance, DCF valuations can help company owners with budgeting and self-evaluation.

The discount rate, the cash flows, and the number of periods is the three primary aspects to consider when completing a DCF valuation. The discounted cash flow formula is as follows:

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_n}{(1+r)^n}$$

Where:

- CF_1 = Cash flow for the first period
- CF_2 = Cash flow for the second period
- CF_n = Cash flow for "n" period
- n = Number of periods
- r = Discount rate

Components of DCF Formula

Cash Flow (CF)

Earnings or dividends are examples of cash flow. These cash flows can include revenue from product or service sales as well as cash from the sale of an asset.

Number of Periods (n)

The number of periods equals the number of years over which the cash flows are scheduled to occur. The number of periods is frequently 10, or 10 years, because this is the average lifespan of a corporation. This term, however, may be longer or shorter depending on the company.

Discount Rate (r)

The discount rate reduces future costs to their current value. Typically, the discount rate represents the corporation's cost of capital, or how much money the company needs make to cover its operating expenses. This cost is usually the weighted average cost of capital (WACC), which is the interest rate and payments on loans or payments of dividends to shareholders of the company.

Discounting Factor

The Discount Factor is the numerical value used to calculate the Net Present Value of funds pouring in over a predetermined period. The Discount Factor is determined by the cost of money (interest or discount rate), the repayment duration, and the frequency of payments.

The Discount Factor is an important tool for assessing the value of money received over time vs the worth of that money if it were available to you today.

Discount Factor = 1 / (1 + Discount Rate) ^ Period Number

where

“r” is the Discount Rate (rate of interest) per annum in %

“t” is the period in years

“n” is the number of times compounded in a year

For the valuation, to discount the FCFE, Adjusted Cost of Equity is considered as Discounting Factor. Below mentioned is the working calculation of the Adjusted Discounting Factor-

- **Cost of Equity is calculated by the Capital Asset Pricing Model (CAPM).**

The Capital Asset Pricing Model (CAPM) explains the relationship between systemic risk, or the total risks of investment, and expected return for assets, notably stocks.

This financial model establishes a linear relationship between risk and the required return on an investment. The link between an asset's beta, the risk-free rate (usually the interest rate on Treasury bills), and the equity risk premium, or the projected return on the market less the risk-free rate, serves as the foundation for the model. (Kenton, 2023)

- **The Risk Free (Rf) rate is the 10-year government bond yield as on 25- April-2023 which is 7.18%.**

The lowest rate of return a shareholder may expect from a risk-free investor is known as the risk-free rate of return. Since there are no investments that come with zero risks, this is a theoretical idea put forth by some experts.

It may not be realistically possible for an investor to receive a risk-free rate of return when making an investment because all investments have some level of risk.

The returns from certain investment alternatives, such as US treasury bonds or German government bonds, are referred to by this name, though.

- **Market Return (Rm) is assumed at 10% and hence the Risk Premium (Rp= Rm-Rf) which is 2.81%.**

The market rate of return is the average market rate. An organization's cost of equity will often be greater if its beta, or amount of risk, is high. The cost of equity might mean one of two things depending on who uses it.

- **For calculation of Beta, we have calculated the variance of closing price of XYZ Ltd for the past 7 years.**

The beta of a security or portfolio indicates how volatile or systematic the risk is relative to the market (typically the S&P 500). In general, it is believed that equities with betas higher than 1.0 are more volatile than the S&P 500.

Beta is a tool used in the capital asset pricing model (CAPM), which describes the relationship between systematic risk and expected return for assets (typically stocks).

4.2 RESULTS

The parameters of discounted cash flow (DCF) are mentioned below-

DCF Parameters	
Beta	0.32
Rf	7.18%
Rp	2.82%
Rm	10%
Ke	8.08%
g	6.80%
Discount Rate	**8.08%**

- Discount rate = Cost of Equity
- Cost of Equity (Ke) formula is-

$$\text{Cost of Equity} = \text{Risk Free Rate} + (\beta \times \text{Equity Risk Premium})$$

- The GDP growth rate of India in coming years is projected as 6.80%.

	FY END 2024 TO 2028	**Adjusted FCFE INR MM**	**Discount Factor @ 8.08%**	**NPV INR MM**
1	2023-2024	-32.53	0.92	-29.93
2	2024-2025	69.43	0.85	59.02
3	2025-2026	153.71	0.79	121.43
4	2026-2027	243.34	0.73	177.64
5	2027-2028	200.31	0.67	134.21
	Terminal Value as of 31-March-2023	5135.22	0.66	3389.25
	NPV on 31-March-2023			**3851.61**
	Add: Cash			**53.24**
	Adjusted Value			**3904.85**

4.3 FINDINGS & SUGGESTIONS

Investors must assess the intrinsic values of business shares through valuation studies to make wiser investment choices. Bond fair prices rarely, if ever, depart from intrinsic values, although possibilities can occasionally occur when a heavily leveraged corporation faces financial strain. Comparing businesses in the same industry or calculating the return on an investment over a specific time frame are both possible uses for valuation analysis.

The cost of capital is discussed in the valuation report and is most usually expressed as a capitalization rate or discount that will be used as a multiple of earnings or cash flow.

After doing the analysis we can understand that how discounted cash flow method of valuation is done. From that we can conclude the Equity Valuation as-

Valuation Approach	Value (INR MM)
Discounted Cash Flow	**3904.85**
Concluded Equity Value	**3904.85**

Given their demands and financial means, consumers look for items and services with characteristics that produce the most value and enjoyment. Financial value, social value, psychological value, and functional value are the four distinct types of value.

Value creation is made possible through investments in the upkeep of physical assets and the growth of strategic assets and competencies including people, innovation, infrastructure, brand, and intellectual property.

Since one important component of value is the capacity to repeat sustainable cash flows into the future, for as long as feasible. Usually, the capacity to sell a profitable good or service will be the solution. Let us examine five essential components of company value in more detail.

- **Growth Drivers**

Potential investors, purchasers, or partners are always searching for companies with growth potential since it is a key generator of value. However, to successfully drive growth, you must never get too accustomed to your company because complacency typically results in a decline in value or exposure to competition.

Companies that consistently invest in process improvement, innovation, and product development with the hope of discovering the next big thing are the ones that continue to prosper and create value. By doing this, they are addressing many of the factors that increase valuation, like developing a recurring income stream, broadening their offerings, developing their own intellectual property, and upholding cutting-edge facilities.

- **Intangible Drivers**

Because brand recognition is what keeps consumers coming back to your product or service, for the majority of businesses, its worth in brand recognition is incalculable. Without it, the firm would be unable to create recurring revenues, which are essential in determining value. Intangible value is the value of a business that extends beyond its physical assets.

- **Efficiency Drivers**

Process improvements can also lead to value generation. Your business will be able to provide a cheaper price than your rivals while still retaining equal or higher profitability if you employ more streamlined and efficient procedures throughout the course of creating your product or offering your service. Additionally, the company will be able to grow market share, which will help people remember the brand.

- **Structural Drivers**

The most important asset of a business is its people, which does not appear on the financial sheet. Owners of businesses should pay close attention to their management staff since they are the foundation of the company. If your company doesn't invest in

and keep those employees who are so important to the operation, a rival wanting to gain an advantage may hire them away.

It takes a lot of time, money, and effort to replace the knowledge and skill sets of your personnel. A persistent need for management development or retraining takes attention away from other tasks that should be the main priority for your firm.

- **Financial Drivers**

Before a business owner can see the benefits of the four drivers outlined above, they need to be invested in over time. However, once each of these factors is in place, your company's financial performance ought to improve. Following that, you can concentrate on adjusting financial metrics like net income, seller discretionary earnings (SDE), and EBITDA (earnings before interest, taxes, depreciation, and amortization).

Focusing on activities and goals that boost your company's worth will not only influence short-term outcomes but, more crucially, enable owners to optimize the valuation when selling their ownership stake in the firm in the future. Even if a sale is not anticipated in the near future, it is nevertheless advisable to concentrate on value aspects in case an unexpected, unsolicited offer is made.

4.4 LIMITATION OF THE STUDY

- **Information Access Is Limited**

The research for the assignment could include certain organizations and individuals, and occasionally you might run across access problems. As a result, it's necessary to revamp and revise work. The audience must comprehend the restrictions on access.

- **Short Time**

All researchers have limitations due to the time constraints. Sometimes, time restrictions may have a negative impact on academic achievement. The best course of action is to admit the problem and state that further research is required to adequately solve the research problem.

- **Data trustworthiness**

The accuracy of the data collected is essential to the value of any study's conclusions. The validity of the data might be harmed by a variety of elements, such as biased interviewers, unrepresentative samples, and leading questions. The study's costs will rise as a result of efforts to ensure that the data is accurate, the samples are representative, and the interviewers are impartial, but these costs are crucial if incorrect decisions and expensive errors are to be avoided.

CHAPTER 5. CONCLUSION

The process of valuation involves determining a firm's current net worth or determining the fair and market value of a certain company by considering its capital structure and the market value of its assets. It is commonly known that fast-moving consumer goods (FMCG) businesses in India are overvalued. Investors have driven the valuation of fast-moving consumer goods businesses (FMCG) to the highest level in over three decades as they scramble to get a piece of India's consumer demand narrative. FMCG businesses have a history of trading at inflated values as a sector. There must be something fundamentally unique about FMCG firms' businesses to justify such high numbers, such as a long-lasting edge that provides higher returns over other industries, sometimes known as a moat. While there are many distinct kinds of moats, businesses with a sustainable advantage frequently have considerable pricing power.

Several important inferences may be taken from current business value patterns, including:

- **Put an emphasis on growth and innovation**: In the current business climate, organizations with significant growth prospects and innovation potential are often valued more. Investors frequently give more weight to businesses that can adapt to shifting market trends, break into new sectors, and create cutting-edge goods or services. Companies may have a greater chance of obtaining higher value levels if they give growth and innovation priority in their strategic decision-making.

- **Environmental, social, and governance (ESG)** considerations are becoming more widely acknowledged as significant determinants of business valuation. Investors frequently have a more favourable perception of companies that value sustainability, social responsibility, and good governance procedures, and these companies may attract higher valuation levels. Modern corporate valuation trends are increasingly taking ESG factors into account, and firms that manage and publish their ESG performance well may have a competitive edge over rivals.

- **Risk Management and Resilience:** Resilience and risk management are becoming crucial components of company value. Investors frequently have a more favourable opinion of companies that proactively identify and handle risks, such as operational, financial, legal, or reputational issues. Strong risk management procedures, such as efficient risk assessment, mitigation plans, and contingency planning, may raise the value of a company.

- **Brand Value and Reputation:** Brand equity and reputation remain key determinants of business worth. Customer loyalty, market share, and pricing power may be influenced by a strong brand image, good customer connections, and a solid reputation. Businesses with a focus on brand development, customer experience, and upholding a good reputation via moral business conduct and solid corporate governance may see increases in worth.

- **Strategic Capital Allocation:** The valuation of corporations still depends on wise capital allocation decisions. Investors may perceive companies favorably if they strategically deploy cash to value-creating possibilities, such as investments in growth projects, acquisitions, dividends, and share buybacks. Positive effects on business value might result from a disciplined capital allocation strategy that is in accordance with the company's strategic objectives and financial targets.

- **Agility and Adaptability:** Modern business valuation trends place an increasing emphasis on flexibility and agility. Companies are frequently valued more highly if they can swiftly adapt to shifting market conditions, technology developments, and consumer preferences. An organization's competitiveness can be increased, and better value levels can result from agile decision-making, nimble operations, and the capacity to pivot when necessary.

- **External Factors:** Corporate value may be greatly impacted by outside variables including macroeconomic circumstances, regulatory changes, and geopolitical threats. Companies may be better positioned to reduce risks and seize opportunities, which can have an influence on company value, if they regularly monitor external variables and move promptly in response to them, such as changes in economic indicators, the regulatory environment, or the geopolitical landscape.

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