



# VALUATION TECHNIQUES- DISCOUNTED CASH FLOW(DCF)

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ACA, ACMA, CGMA, REGISTERED VALUER



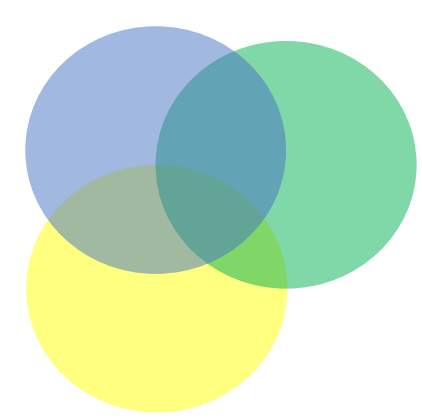
# RISK AND UNCERTAINTY

## Uncertainty:

- Not known or definite
- Heuristics: rules of thumbs

## Risk:

- Measurable
- Analytics



# WHAT IS VALUATION

It is an **estimation of worth**

**Estimation-** arrived at using the **information** available, *even if* incomplete, uncertain or unstable

**Worth-** the amount that could be achieved or produced in a specified time



# ESTIMATION



- Rough calculation or a judgement?
- Judgement: the ability to make considered decisions or come to sensible conclusions.
- Risk Vs Uncertainty
- Knowledge + Information = Judgement



# WORTH



- An amount of a commodity equivalent to a specified sum of money.
- The amount that could be achieved or produced in a specified time.

## MEANING OF VALUE

A value is an estimate of the value of a business or business ownership interests, arrived at by applying the valuation procedures appropriate for a valuation engagement and using professional judgment as to the value or range of values based on those procedures.



# STORYTELLING

“All great literature is one of two stories; a man goes on a journey or a stranger comes to town.”

- Leo Tolstoy

“A story has no beginning or end: arbitrarily one chooses that moment of experience from which to look back or from which to look ahead.”

- Graham Greene



# WHERE TO START?

Valuation is storytelling



Figure out the story you want to tell

Build what you want to tell



## ICAI Valuation Standard 102

**Market approach** is a valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.

**Income Approach** is a valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted or capitalised) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

**Cost Approach** is a valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

## ICAI Valuation Standard 102

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Discounted  
Cash Flow

## ICAI Valuation Standard 102

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

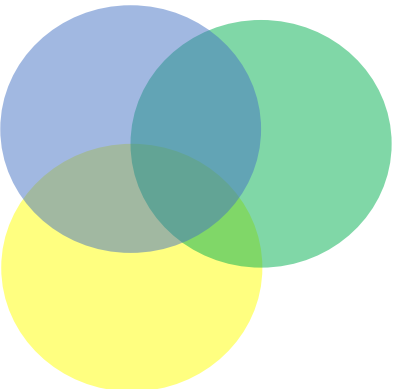


Participant specific value is the estimated value of an asset or liability considering specific advantages or disadvantages of either of the owner or identified acquirer or identified participants.



Liquidation value is the amount that will be realised on sale of an asset or a group of assets when an actual/hypothetical termination of the business is contemplated/assumed.





Premise of  
Value refers to  
the conditions  
and  
circumstances  
how an asset is  
deployed.

(a) highest and best use;



(b) going concern value;



(c) as is where is value;



(d) orderly liquidation;



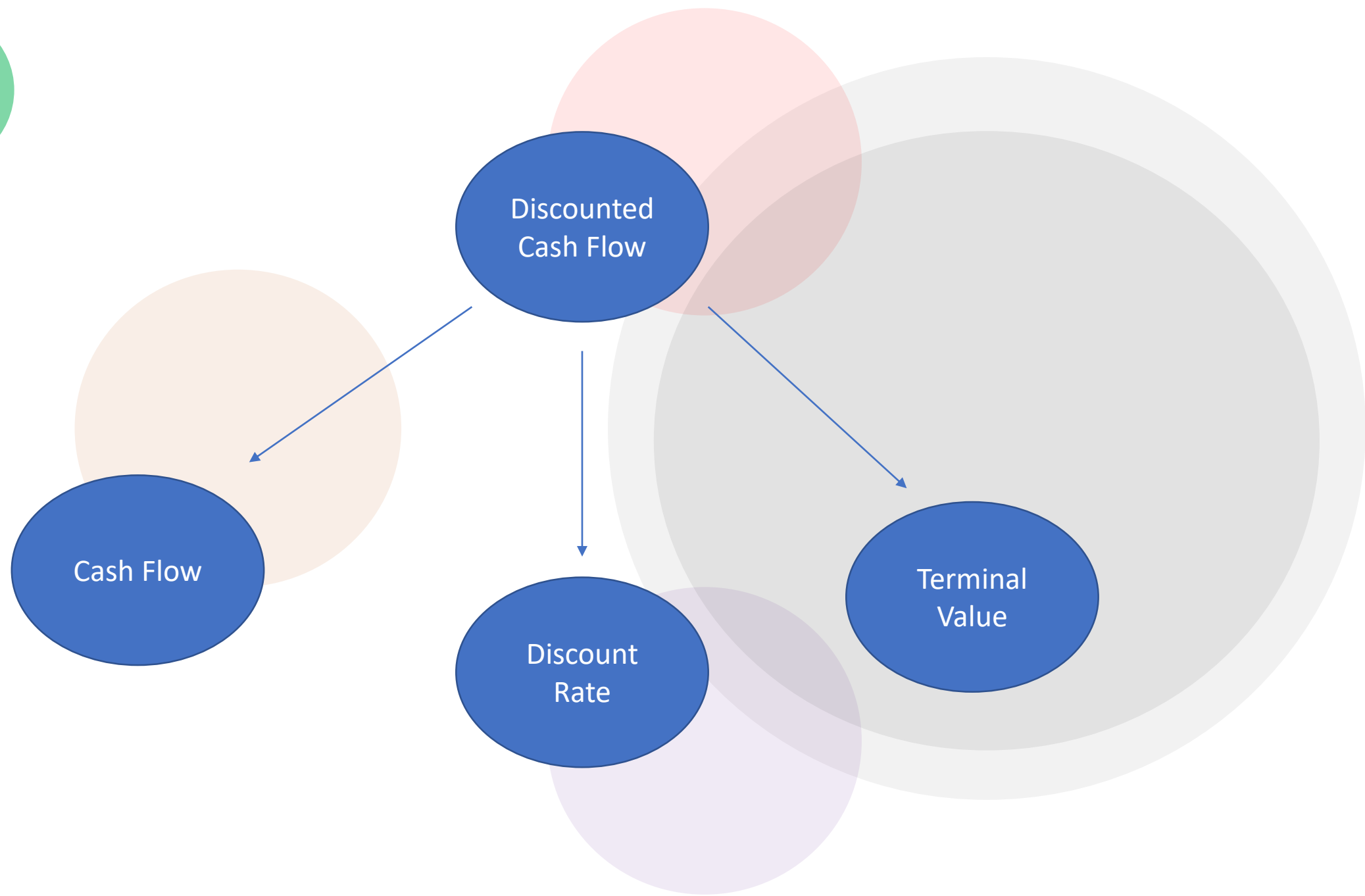
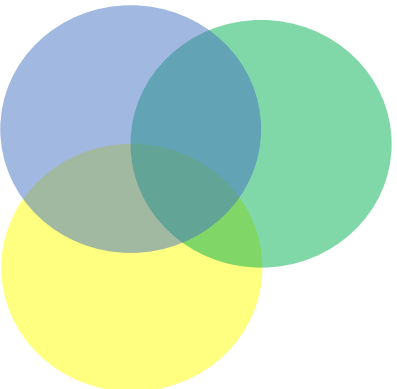
or (e) forced transaction.



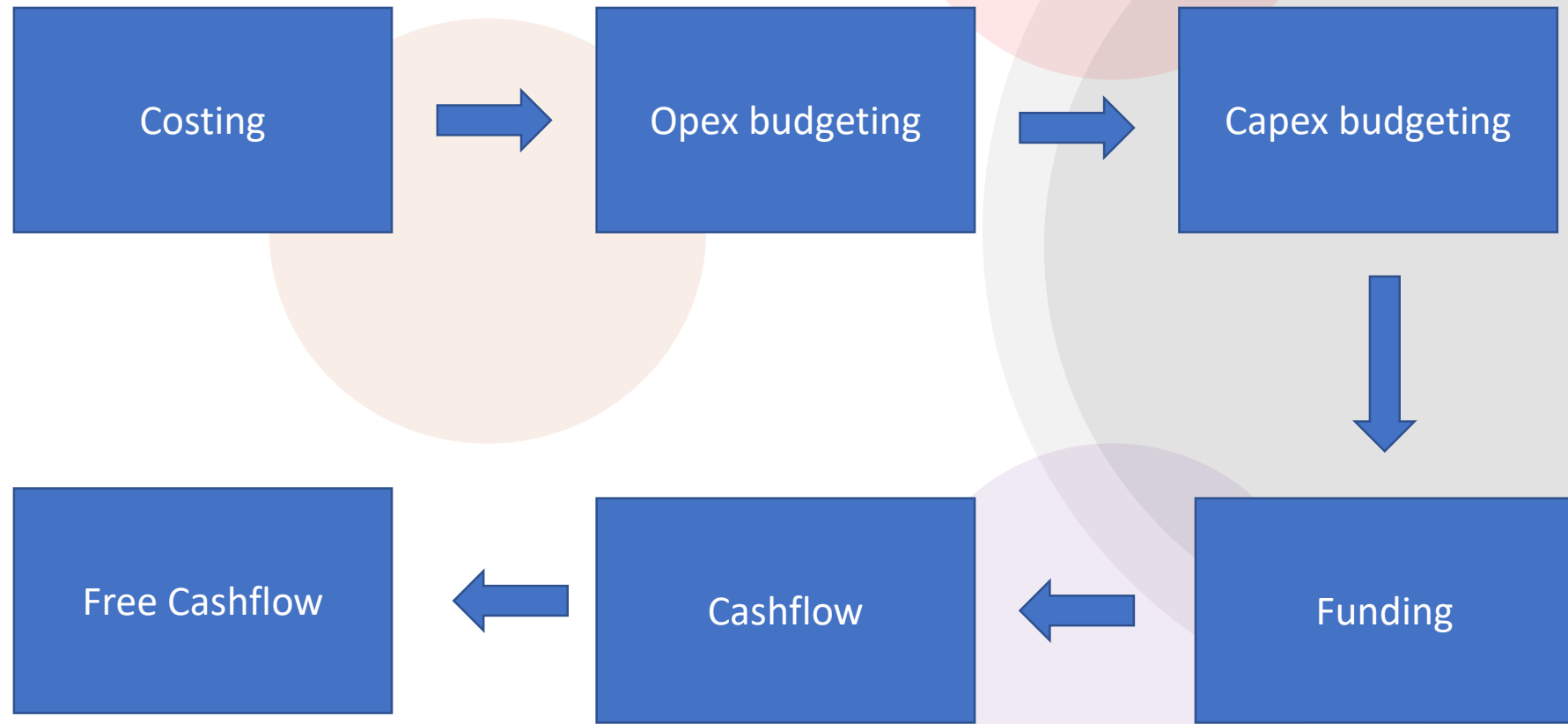


## Discounted Cash Flow:

The DCF method values the asset by discounting the cash flows expected to be generated by the asset for the explicit forecast period and also the perpetuity value (or terminal value) in case of assets with indefinite life.

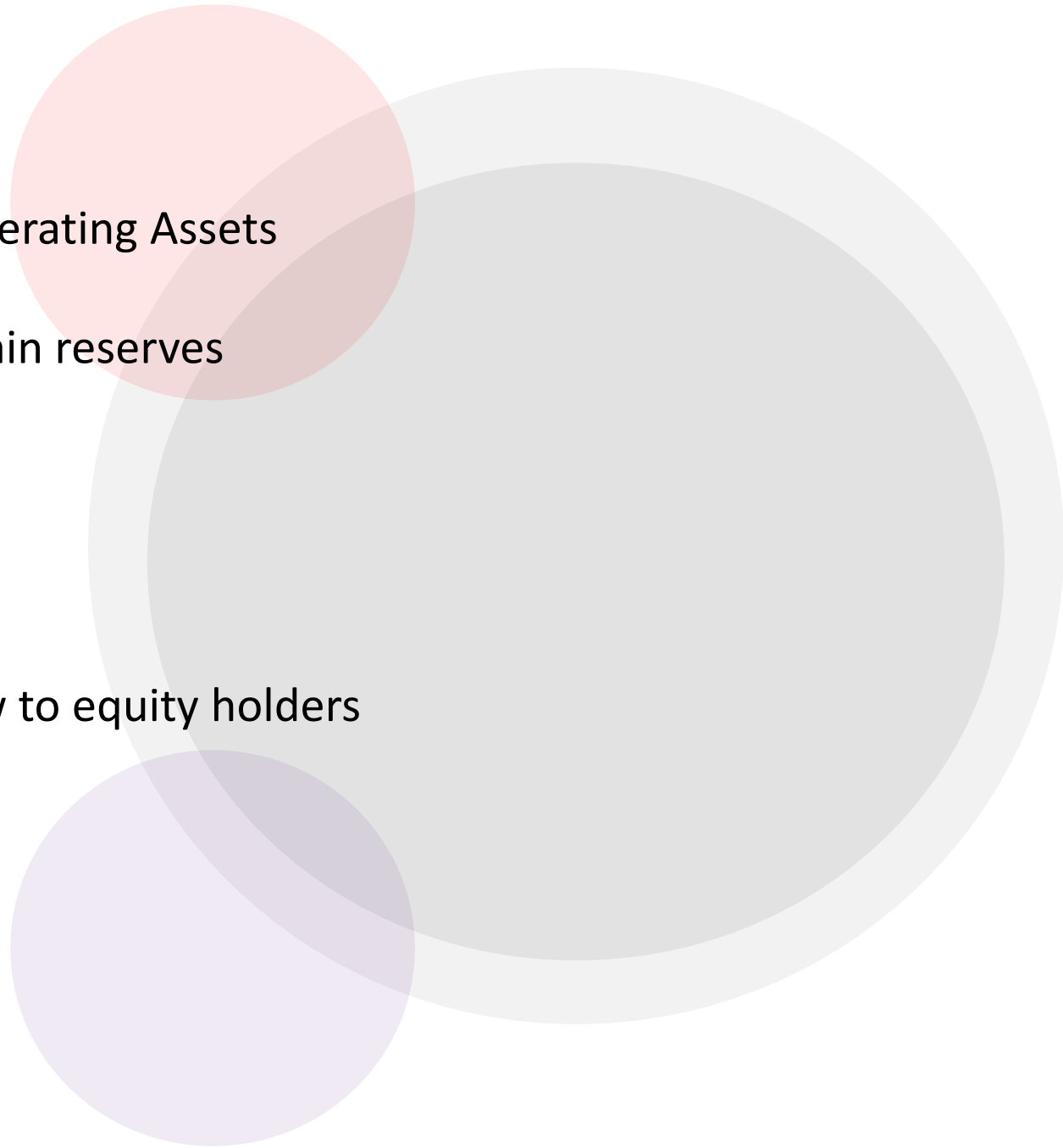


Cash Flows:






## Free Cash Flows:

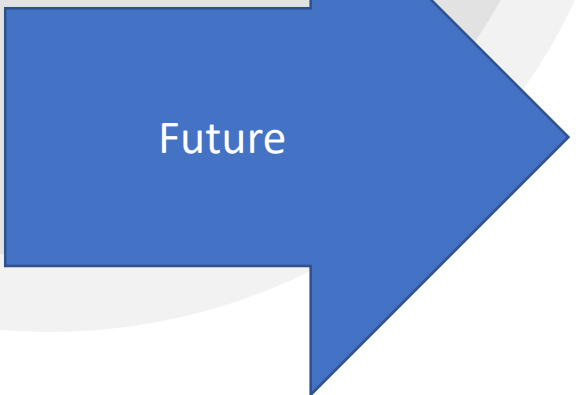
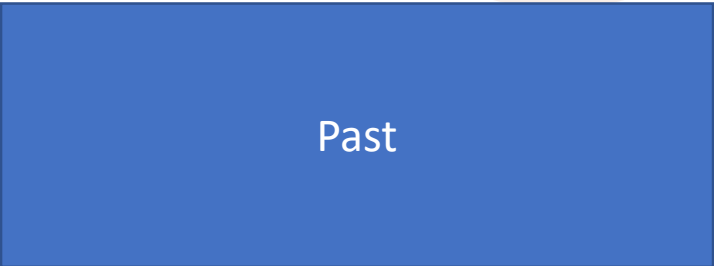
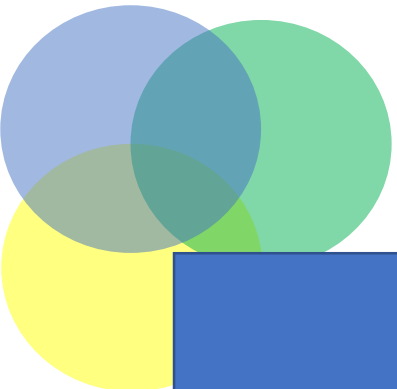
- 1) Operating Assets vs Non-Operating Assets
  - 2) Legal requirement to maintain reserves
  - 3) Leases- Debt vs expenses
  - 4) Effective tax rates
  - 5) Cashflow to firm vs cashflow to equity holders
  - 6) Long term Capex needs
  - 7) Ship of Theseus?
- 

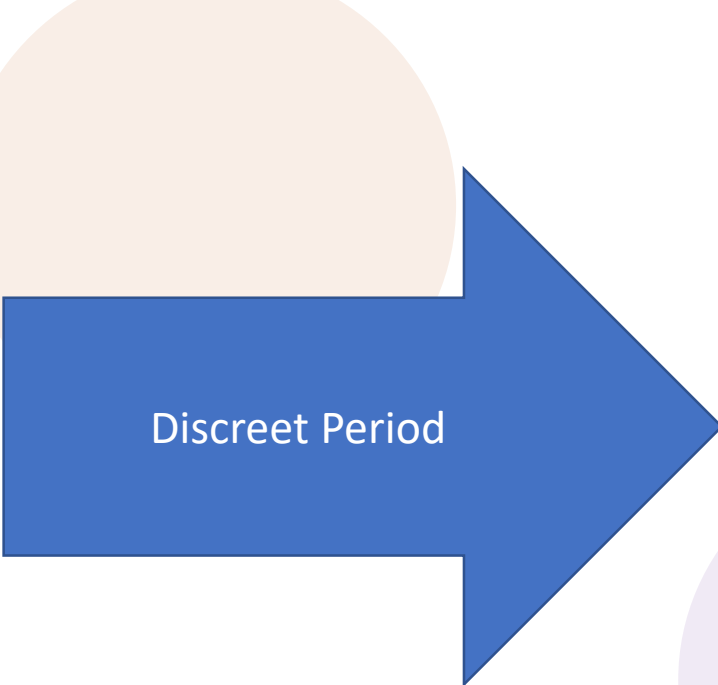
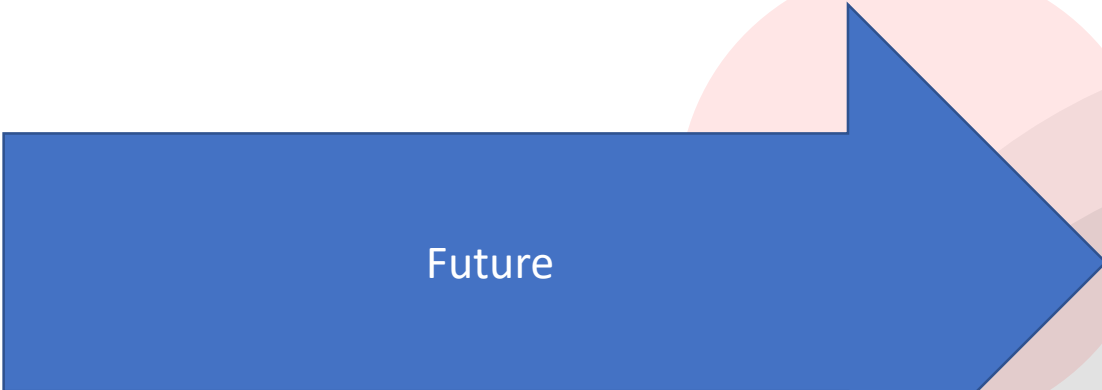
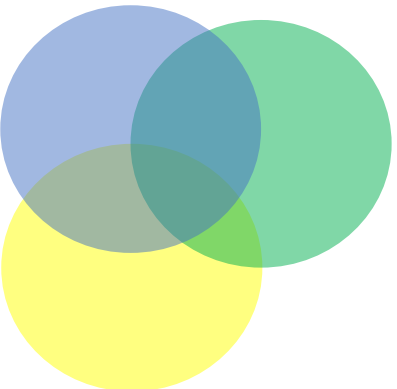


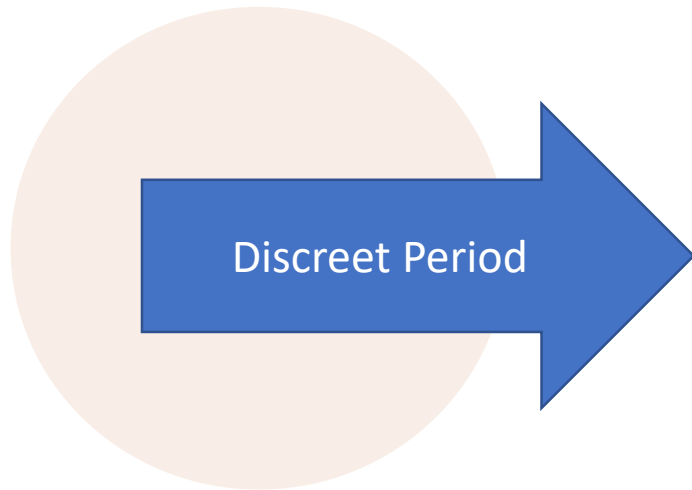
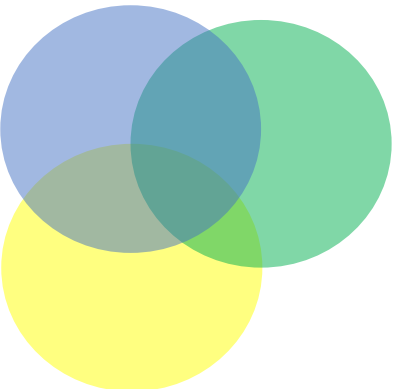


## The Process:

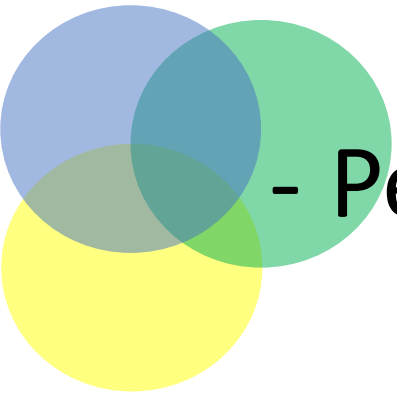
- 1) Figure out what is to be valued
  - 2) Build relevant information
  - 3) Understand the information
  - 4) Create a vertical structure that is comparable
  - 5) Add horizontal comparatives
  - 6) Identify ratios, trends, patterns etc
  - 7) Identify and analyse significant ratios, trends patterns etc
  - 8) Arrive at the cashflow
- 







- Long term Business cycle
- Profitability
- 2 phase, 3 phase models
- Changing business scenarios

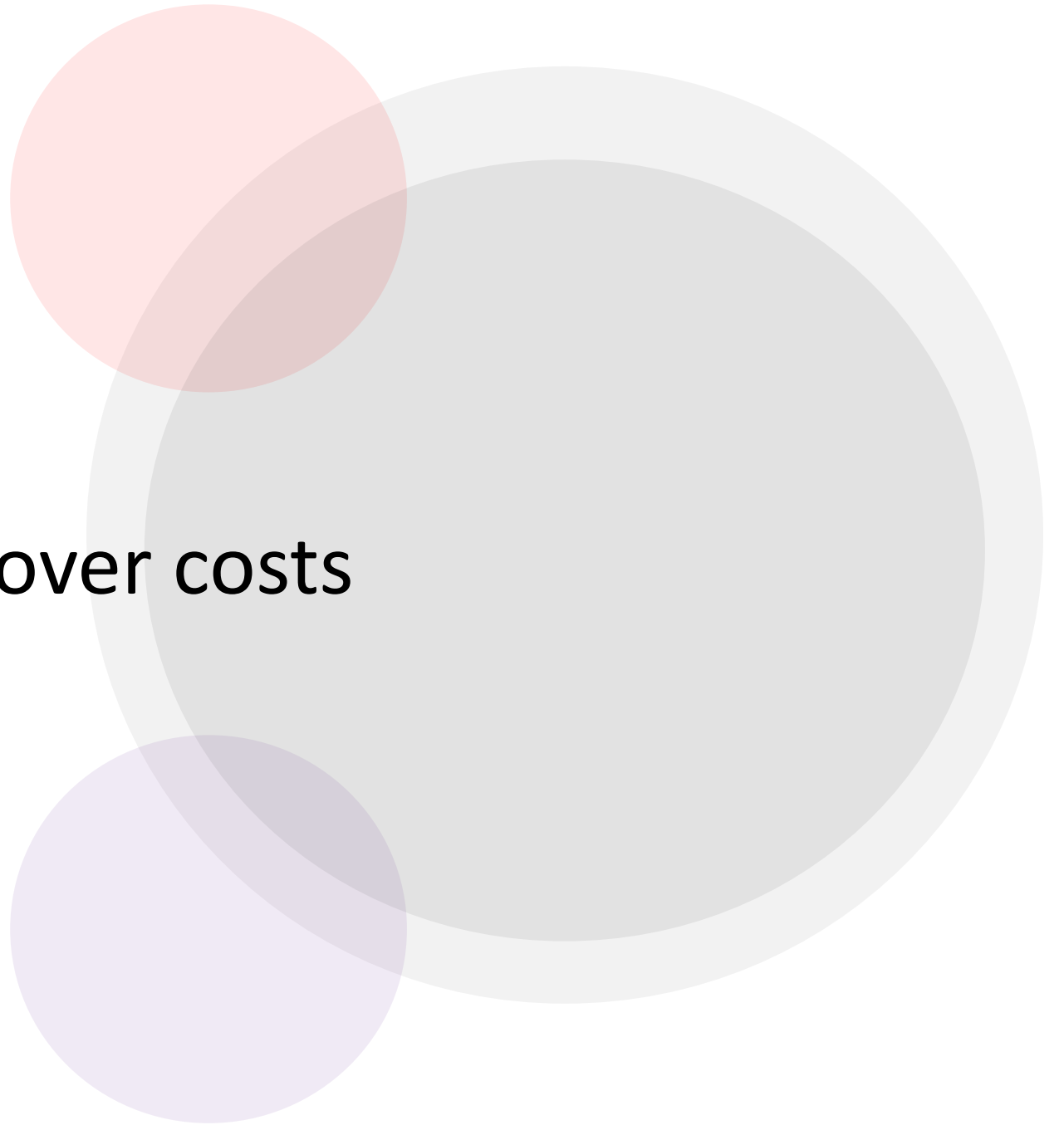


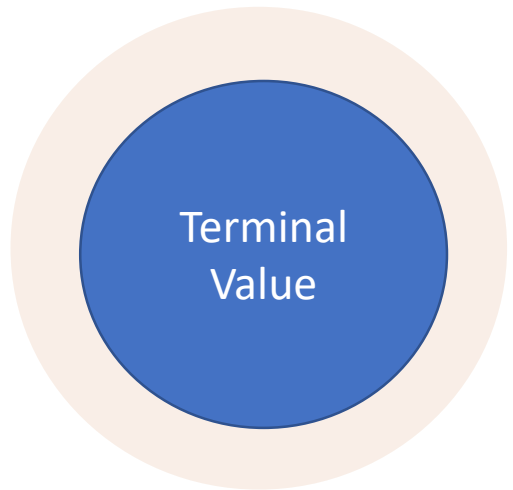
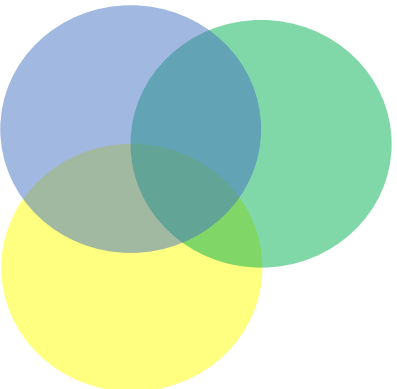
- Perspective

- Synergies

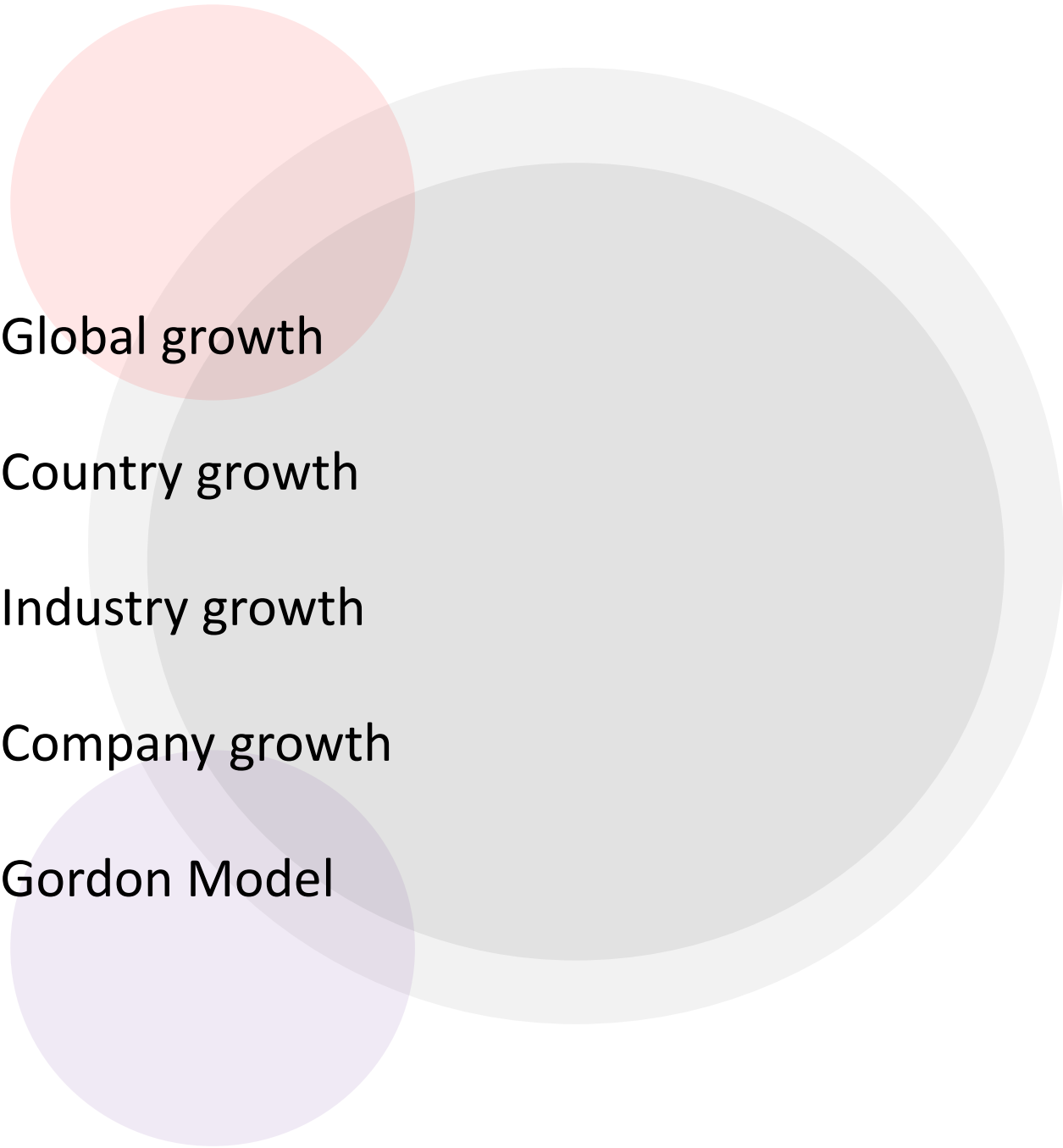
- Integration/change over costs

- Transaction Costs





- Global growth
- Country growth
- Industry growth
- Company growth
- Gordon Model





Discount  
factor

Discount Rate is the return expected by a market participant from a particular investment and shall reflect not only the time value of money but also the risk inherent in the asset being valued as well as the risk inherent in achieving the future cash flows.

- Firm or Equity
- Includes reclassified debt
- CAPM, APM, WACC etc
- Internal rates
- Market rates
- Participant Specific vs Fair value
- Built up rates



## Control Premium and DLOC:

Control Premium is an amount that a buyer is willing to pay over the current market price of a publicly-traded company to acquire a controlling interest in an asset. It is opposite of discount for lack of control to be applied in case of valuation of a noncontrolling/minority interest.





## DLOM:

DLOM is based on the premise that an asset which is readily marketable (such as frequently traded securities) commands a higher value than an asset which requires longer marketing period to be sold (such as securities of an unlisted entity) or an asset having restriction on its ability to sell (such as securities under lock-in-period or regulatory restrictions).



**DLOM:**

(a) size and nature;

(b) time and costs associated with marketing or for making a public offer;

(c) restrictions on transferability;

(d) history of past transactions;

(e) exit rights; or

(f) lack of or limitation to access to information.





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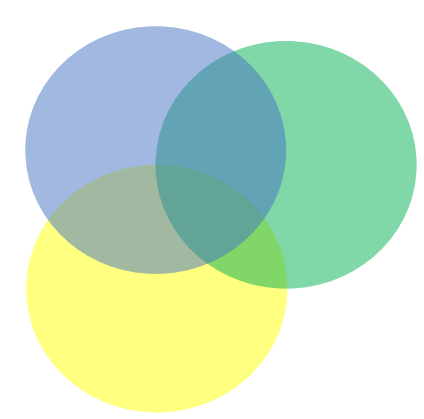
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# Thank you

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