

Acova Radiateurs

Made by:

Yuvraj Tilara (20HS20057)

Mohamed Adhnan (20HS20037)

Began Gowsik (20HS20015)

Md Zaid Alam(20HS20066)

Date Submitted

March 30, 2023

Company Overview- Acova

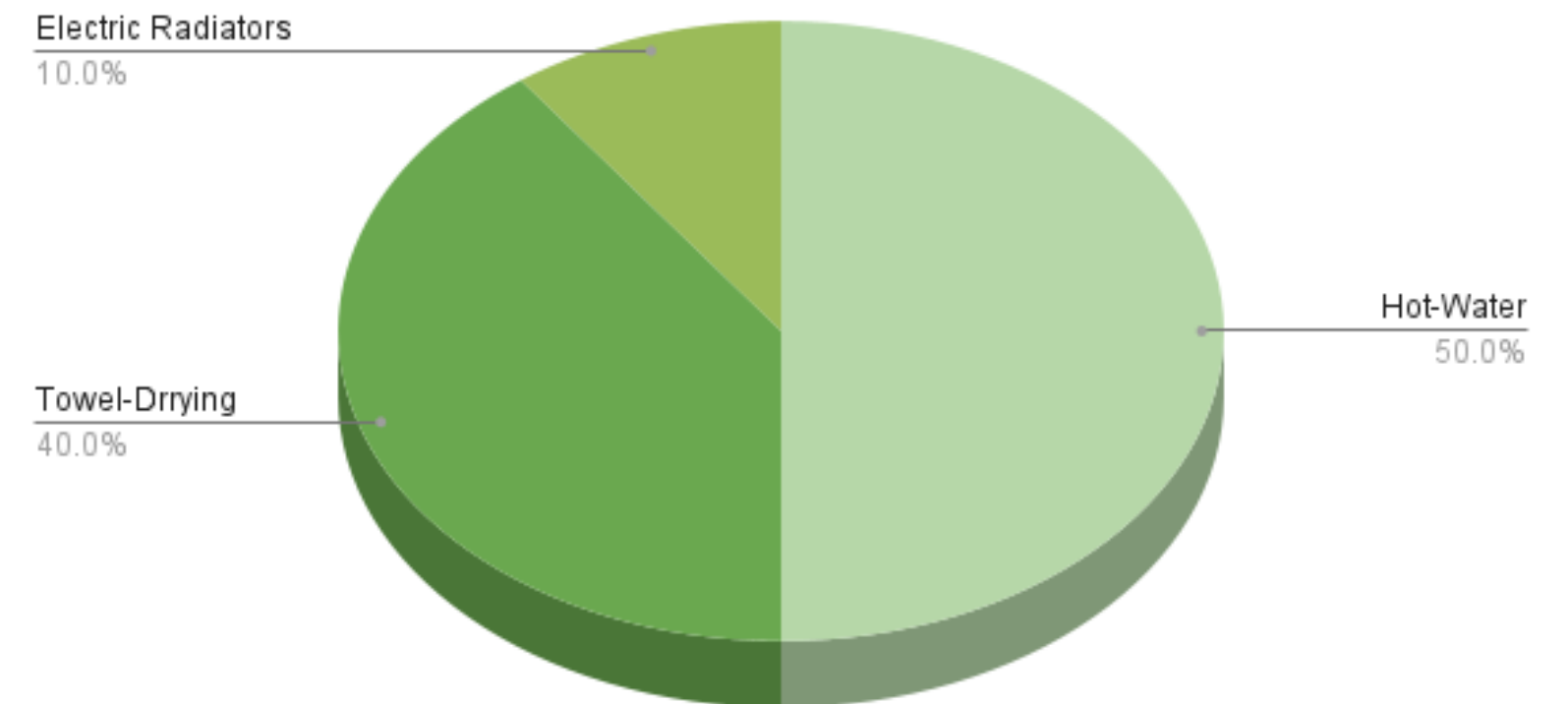
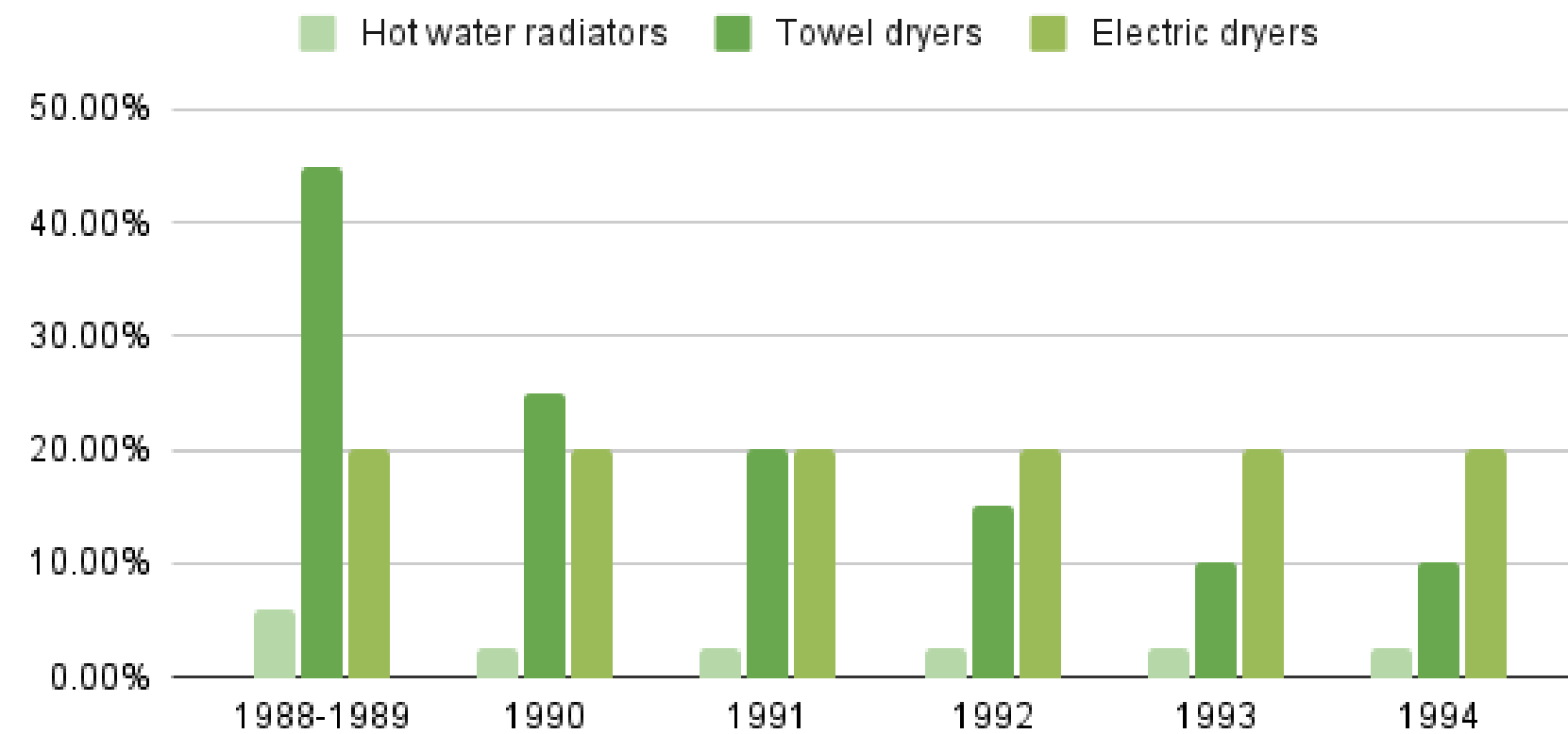
- Started in 1933 with manufacturing of burners and boilers
- Pivoted In 1960 to produce decorative steel radiators
- Acova held a share of 75% in decorative radiator market
- Acova's core strength was their custom made products
- Spent more than industry standards on marketing and advertising
- Developed a brand identity and gave their products the generic name "Acova"

Acova's LBO

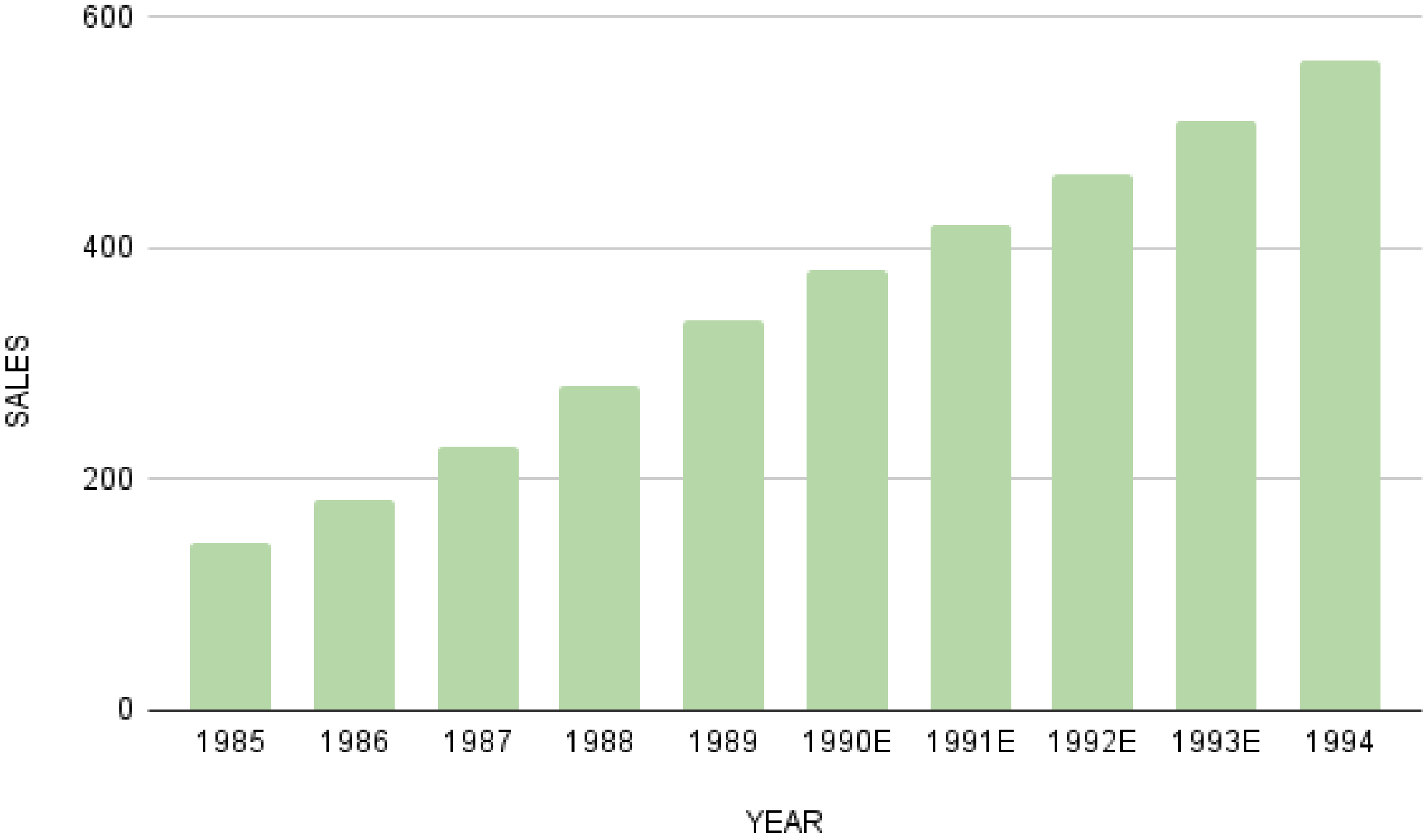
- Stable Historical and projected sales performance
 - Leading and defensible market position
 - Growth opportunities in towel drying radiator and electric radiator business line
 - Potential for generating higher sales
 - Cross border expansion and efficiency improvement
 - Competent and reliable management
-

Forecasted market growth-Radiators

Hot water radiators, Towel dryers and Electric dryers



forecasts by management



Cost of debt

| | Amount | Fully Drawn Cost | Weighted average |
|-----------|----------|------------------|------------------|
| Sr. Debt | 190000.0 | 12.00% | 7.95% |
| Sub. Debt | 65000.0 | 13.50% | 3.06% |
| WC loan | 31800.0 | 11.000% | 1.22% |
| Total | 286800.0 | | 12.23% |

Cost of Equity

| | |
|---------------------|--------|
| Risk-free Rate (Rf) | 10.06% |
| EQ Risk Premium(Rp) | 3.43% |
| Target terminal D/E | 0.8 |
| Asset beta | 1.2 |
| Equity beta | 1.8048 |
| Cost of equity | 16.26% |

Terminal WACC

| | |
|---------------------|--------|
| Risk-free Rate (Rf) | 10.06% |
| EQ Risk Premium(Rp) | 3.43% |
| Target terminal D/E | 0.8 |
| Cost of debt | 12.23% |
| Asset beta | 1.2 |
| Tax rate | 37% |
| Equity beta | 1.8048 |
| Cost of equity | 16.25% |
| After tax WACC | 12.45% |

Cash Flows

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBIT | 34,907 | 43,120 | 55,989 | 70,897 | 77,205 | 85,077 |
| Interest income of Target Co. | 3,399 | 801 | 613 | 852 | 1,114 | 1,391 |
| Total interest expense | 7,119 | 18,487 | 34,104 | 33,679 | 31,663 | 29,184 |
| Acquisition costs | 0 | -3333 | -3333 | -3333 | 0 | 0 |
| Pretax profit | 31,187 | 22,101 | 19,165 | 34,737 | 46,656 | 57,284 |
| Taxes @ 37% | 11539.19 | 8177.37 | 7091.05 | 12852.69 | 17262.72 | 21195.08 |
| Net income | 19,648 | 13,924 | 12,074 | 21,884 | 29,393 | 36,089 |
| Depreciation | 11,700 | 19,000 | 20,000 | 25,000 | 25,000 | 25,000 |
| Amortization of acquisition costs | 0 | 3333 | 3333 | 3333 | 0 | 0 |
| Capital expenditures | 29,000 | 20,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Change in net working capital | | -7898 | -7461 | -8245 | -8676 | -9544 |
| Cash flow available | -- | 8,359 | 2,946 | 16,972 | 20,717 | 26,545 |
| Principal payments | | 8,359 | 2,946 | 16,972 | 20,717 | 26,545 |
| Equity cash flow | | 0 | 0 | 0 | 0 | 0 |

Terminal Value

| | |
|------------------------|------------|
| Sales (1995) | 578269.81 |
| EBIT (1995) | 87629.31 |
| EBIAT=EBIT*(1-t) | 55206.47 |
| Depreciation | 25000.00 |
| Capex | 25000.00 |
| Change in WC | 3149.45 |
| FCF assets | 52057.01 |
| Terminal value assets | 550740.92 |
| Terminal value debt | 211,260.91 |
| Terminal Valiue equity | 339480.01 |

Sensitivity analysis- Equity Value

| | WACC | | | | | | |
|-------------|----------|----------|----------|----------|----------|----------|----------|
| Growth rate | 12.00% | 12.15% | 12.30% | 12.45% | 12.60% | 12.75% | 12.90% |
| 2.70% | 348360.8 | 339480.0 | 330876.6 | 322537.9 | 314451.8 | 306607.1 | 298993.0 |
| 2.80% | 354442.3 | 345368.9 | 336582.0 | 328068.3 | 319815.1 | 311810.6 | 304043.9 |
| 2.90% | 360657.3 | 351385.1 | 342408.8 | 333714.4 | 325288.8 | 317119.8 | 309195.9 |
| 3.00% | 367010.4 | 357532.8 | 348360.8 | 339480.0 | 330876.6 | 322537.9 | 314451.8 |
| 3.10% | 373506.2 | 363816.3 | 354442.3 | 345368.9 | 336582.0 | 328068.3 | 319815.1 |
| 3.20% | 380149.7 | 370240.2 | 360657.3 | 351385.1 | 342408.8 | 333714.4 | 325288.8 |
| 3.30% | 386945.8 | 376809.2 | 367010.4 | 357532.8 | 348360.8 | 339480.0 | 330876.6 |

IRR

| | WACC | | | | | | |
|-------------|--------|--------|--------|--------|--------|--------|--------|
| Growth rate | 12.00% | 12.15% | 12.30% | 12.45% | 12.60% | 12.75% | 12.90% |
| 2.70% | 32.59% | 31.91% | 31.23% | 30.57% | 29.91% | 29.25% | 28.60% |
| 2.80% | 33.05% | 32.36% | 31.68% | 31.01% | 30.35% | 29.69% | 29.03% |
| 2.90% | 33.52% | 32.82% | 32.14% | 31.46% | 30.79% | 30.13% | 29.47% |
| 3.00% | 33.98% | 33.28% | 32.59% | 31.91% | 31.23% | 30.57% | 29.91% |
| 3.10% | 34.45% | 33.75% | 33.05% | 32.36% | 31.68% | 31.01% | 30.35% |
| 3.20% | 34.93% | 34.22% | 33.52% | 32.82% | 32.14% | 31.46% | 30.79% |
| 3.30% | 35.41% | 34.69% | 33.98% | 33.28% | 32.59% | 31.91% | 31.23% |

Bid recommendation

bid of equity proposed by BCI - 85M

**IRR of 31.91% satisfies the hurdle
rate**

THANK YOU