DFC MODEL 2024

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Business case study Questions

1.What factors can affect the composition of a company's current assets vs. long-term assets?

USD ($) $ in Millions	Sep. 02, 2018	Sep. 01, 2019	Aug. 30, 2020	Aug. 29, 2021	Trend
Current Assests					
Cash and cash equivalents	6,055	8,384	12,277	11,258	
Short-term investments - are financial assets that can be easily converted to cash within a short period, typically less than five years	1,204	1,060	1,028	917	
Receivables, net - represent the total amount of money owed to a company by its customers, minus the amount that is estimated to be uncollectible	1,669	1,535	1,550	1,803	
Merchandise inventories - Merchandise inventory refers to the goods that retailers, wholesalers, and distributors have purchased with the intent to sell to customers.	11,040	11,395	12,242	14,215	
Other current assets	321	1,111	1,023	1,312	
Long Term Assests					
Property and Equipment, net - refers to the value of a company's physical, long-term assets after accounting for depreciation. These assets are essential for business operations and include items like buildings, machinery, vehicles, and land12.	19,681	20,890	21,807	23,492	
Operating lease right-of-use assets - represent a lessee's right to use an asset over the lease term without owning it		0	2,788	2,890	
Other long-term assets	860	1,025	2,841	3,381	

For Current Assets,
Short term investments are **declining YOY**, this will impact the company in having the cash within a short period when required.
Net Receivables are **increasing YOY**, which is a very good sign of increasing the expected cash inflows from credit sales.
Merchandise Inventories are **increasing YOY**, which is also good sign that business is increasing with confidence that more retailers, wholesalers, distributors are purchasing.

For Long Term Assets,
Net Property and Equipment is in **increasing YOY**, represents that company is increasing investment in building, machinery, land etc which are long term assets contribute to company valuation.
Operating lease right-of-use assets is in **increasing YOY**, represents that company started using the on lease based instead of owning which is also positive sign.

2. How can a company's debt-to-equity ratio impact its creditworthiness and access to capital?

Weighted Average Cost of Capital (WACC)	
Equity (mm) (E)	2,14,560.00
Debt (mm) (D)	7,491.00
Tax Rate (Tc)	21.0%
Cost of Debt(Rd)	2.3%
Cost of Equity (Re)	6.4%
Total value (V=E+D)	2,22,051.00
After Tax Cost of Debt	1.8%
Equity Value (E/V)	0.966264507
Debt Value (D/V)	0.033735493
WACC	**6.2%**
Debt to Equity Ratio	**3.49**

The Debt-to-equity ratio is just 3.49% indicates that for every dollar of equity, the company has $0.0349 in debt. This is a very low ratio, suggesting that the company is primarily financed through equity rather than debt.

- **Low Leverage**: A ratio of 3.49% signifies low financial leverage, meaning the company relies more on equity financing and has minimal debt obligations.

- **Financial Stability**: Companies with low debt to equity ratios are generally considered financially stable and less risky, as they have fewer debt repayments.

- **Investor Confidence**: Investors might view this positively, as it indicates prudent financial management and lower risk of insolvency.

3. Debt-to-Equity Ratio: How has the debt-to-equity ratio changed over the four years? (take in consideration total liabilities and total equity) Is the company relying more on debt financing or equity financing?

USD ($) $ in Millions	Sep. 02, 2018	Sep. 01, 2019	Aug. 30, 2020	Aug. 29, 2021	Trend
Total liabilities	27,727	29,816	36,851	41,190	
Total equity	13,103	15,584	18,705	18,078	
Debt-toEquity Ratio	**211.61**	**191.32**	**197.01**	**227.85**	

Company relying on the debt financing is increasing YOY while Equity has been increasing in first 2 years but got steady in the current year.

Using the above data, it is very clear that company is **relying more on the debt financing** which is nearly double than equity financing.

4. Revenue Growth: How has the company total revenue grown over the three years? What segments are driving this growth (merchandise sales, membership fees)?

USD ($) $ in Millions	Sep. 01, 2019	Aug. 30, 2020	Aug. 29, 2021	Trend
Total revenue	$1,52,703	$1,66,761	$1,95,929	
Merchandise Sales Revenue	1,49,351	1,63,220	1,92,052	
Membership Fee Revenue	3,352	3,541	3,877	
Merchandise Sales Revenue - Contribution %	97.80	97.88	98.02	
Membership Fee Revenue - Contribution %	2.20	2.12	1.98	

Company's total revenue is **increasing YOY.**

Merchandise Sales Revenue is driving the growth of the company with almost **98% of contribution.**

5. Debt-to-Equity Ratio: How has the debt-to-equity ratio changed over the four years? (take in consideration total liabilities and total equity) Is the company relying more on debt financing or equity financing?

USD ($) $ in Millions	Sep. 01, 2019	Aug. 30, 2020	Aug. 29, 2021	Trend
Revenue	$1,52,703	$1,66,761	$1,95,929	
COGS	132886	144939	170684	
Gross Profit	19,817	21,822	25,245	
Gross Margin	**12.98**	**13.09**	**12.88**	

The company is maintaining the gross margin **likely STABLE** (as the range of difference is minimal) over the three years **with a dip** in the current year.

6. How can investors utilize free cash flow analysis to compare different companies in the same industry?

Unlevered Free Cash Flow (mm)									
Fiscal Year	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	
Unlevered Free Cash Flow	3158	2859	4698	3889.47	5256.79	5673.38	5798.69	5704.32	

Investors can make more informed decisions about which companies are better positioned financially and operationally within their industry.

- ✓ FCF is the cash generated by a company after accounting for capital expenditures needed to maintain or expand its asset base.
- ✓ A higher FCF yield indicates a potentially undervalued company.
- ✓ With stable or growing FCF are generally more attractive as they indicate better financial health and operational efficiency.
- ✓ Identify which companies are more efficient in generating cash relative to their size and capital structure.
- ✓ Companies can use FCF for dividends, share buybacks, debt repayment, or reinvestment in the business.
- ✓ The strategic use of FCF can indicate management's priorities and the company's potential for long-term growth.

Additional Question:
Share price

Share Price Calculation		
Sum of PV of FCF	21812.75176	
Growth Rate	0.03	
WACC	0.062453902	
Terminal Value	181039.9177	
PV of Terminal Value	133728.4662	
Enterprise Value	155541.2179	
(+) Cash	11258	
(-) Debt	7491	
(-) Minority Interest	514	
Equity Value	158794217948.72	#Multiplied by 1 M to bring to same scale
Share Captial	444346000	#Multiplied by 1 K to bring to same scale
Share Price	**357.37**	

The share price is Rs.357. What does this mean?
The price we see here is an outcome of the entire valuation exercise. We have made many assumptions here, and if these assumptions are made intelligently, then with some confidence, we can conclude that Rs.357 is the fair value of the stock. You can now compare the stock's market value on the stock exchanges and decide to buy or wait.

For example,

if the stock is trading at Rs.475, then you know that it is **overvalued** compared to its fair value; hence you can avoid buying the stock.

If the stock is trading at Rs.275, the stock is **undervalued**, and you can go ahead and invest in the stock.

If the stock is trading at Rs.357, it is said that it is **fairly valued.**