

## VALUATION AS PER DCF

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- **HOW TO CALCULATE?**

Follow these steps to calculate DCF:

1) For Calculating DCF we require Free Cash Flow, Growth Rate, Discount Rate and need to decide no of years for which we want to discount the cash flows.

2) Growth rate is calculated as 5 years EPS CAGR

3) Discount rate is taken as India's 10 years Bond yield

4) Period is taken as 10 years

- **IMPORTANCE:**

1) DCF framework provides an evaluation of a company's current value by projecting its future free cash flows, or profit.

2) DCF is incredibly detailed and includes all significant assumptions regarding the business and Multiple scenarios can be built in the model that allows for sensitivity analysis.

3) It helps determine the “intrinsic” value of a business

4) It does not require any comparable companies

#### Example

#### Calculation of DCF Valuation of Reliance for 2020

<b>FREE CASHFLOW IN MARCH 2020</b>	<b>GROWTH</b>	<b>DISCOUNT</b>
21557	11.26%	6%

YEARS	NO. OF YEARS FROM 2020	ADDING GROWTH TO FCF	FUTURE FREE CASH FLOW	VALUE OF RE1 IN EACH YEAR	PRESENT VALUE FACTOR*FUTURE CASH FLOW	PRESENT VALUE OF FUTURE CASH FLOW	
2020	0	21557	21557	1			
2021	1	21557+11.26%	23984	0.94	23984*0.94	22545	
2022	2	23984+11.26%	26685	0.89	26685*0.89	23750	
2023	3	26685+11.26%	29690	0.84	29690*0.84	24939	
2024	4	29690+11.26%	33033	0.79	33033*0.79	26096	
2025	5	33033+11.26%	36752	0.75	36752*0.75	27564	
2026	6	36752+11.26%	40891	0.7	40891*0.70	28623	
2027	7	40891+11.26%	45495	0.67	45495*0.67	30482	
2028	8	45495+11.26%	50618	0.63	50618*0.63	31889	
2029	9	50618+11.26%	56317	0.59	56317*0.59	33227	
2030	10	56317+11.26%	62658	0.56	62658*0.56	35089	
SUM OF ALL PRESENT VALUES		22545+23750+24939+26096+27564+28623+30482+31889+33227+35089					284204
TOTAL NO OF SHARES						676.2	
SUM OF PRESENT VALUE OF FUTURE CASH FLOW DIVIDED BY NUMBER OF LATEST EQUITY SHARES						284204/676.20	
DISCOUNTED CASHFLOW PER SHARE						420	