

## Third week Assignment

### Cost of Debt

General rules :

- Fixed payment
- Tax deduction
- Loss of control

### Estimating Synthetic Rating

→ The rating for a firm can be estimated using the financial characteristics of the firm

→ Interest Coverage Ratio

$$= \frac{\text{EBIT}}{\text{Int expenses}}$$

### Cost of Debt formula

$$\text{Cost of Debt} = \frac{\text{Interest expense}}{\text{Total debt}} (1 - \text{tax rate})$$