Discounted Cash Flow Modelling Using Excel

Analysis :

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

Ans - Factors affecting the composition of a company's current assets versus long-term assets include industry type, business cycle, financial strategy, capital expenditure plans, market conditions, regulatory requirements, and management policies.

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

Ans - A high debt-to-equity ratio signals greater financial risk to lenders, potentially leading to higher borrowing costs and difficulty accessing capital. Conversely, a low ratio indicates financial stability, lower borrowing costs, and better access to capital.

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

Ans - The company has been relying more on debt financing over the four years, as the ratio has trended upwards.

- The increasing ratio suggests a higher proportion of debt relative to equity, which could pose higher financial risk and increase the company's leverage.
- Monitoring this trend is crucial for assessing the company's financial health and its ability to manage debt levels effectively.

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

Ans -

- From 2019 to 2021, the company's total revenue increased steadily from ₹1,52,703 to ₹1,95,929.
- The revenue is projected to continue growing over the forecasted years, reaching ₹2,90,324 by 2026.

The company's total revenue has grown steadily over the three years, with the expectation of continued growth in the forecasted years. Revenue growth is primarily driven by growth in merchandise sales and membership fees.

Q 5 - Gross Margin: Calculate and compare the gross margin (consider total revenue and total operating expense) across the three years. Is the company able to maintain or improve its margins?

Ans - Based on our calculation we can interpret below results :

- The gross profit margin has remained relatively stable over the eight years, fluctuating around 13.00%.
- There is no significant improvement or decline in the gross profit margin over the period.
- This indicates that the company has been able to maintain consistent profitability relative to its revenue, despite fluctuations in revenue and cost of goods sold.

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

Ans - Investors can utilize free cash flow (FCF) analysis to compare companies in the same industry by evaluating their relative financial health, operational efficiency, and capital allocation strategies. FCF analysis helps assess which companies are generating higher cash flows from core operations, have stronger financial positions, and are better positioned for growth and shareholder returns.

Performed Steps :

I begin forecasting the free cash flows. In order to do so, I created revenue projections, as well as a fixed assets schedule and a net working capital projection.

Secondly, I calculated the WACC, short for the weighted average cost of capital in order to discounted all the future cash flows back to the present value.

Thirdly, I calculated the terminal value, which is the value of the company after the forecast period. Then, I discounted the TV and the FCFs to get the enterprise value.

Lastly, I calculated an implied share price by going from enterprise value to equity value, and dividing by the diluted shares outstanding. Finally, we create a sensitivity table to see how chaining the WACC and the growth rate affects our valuation.