COST OF CAPITAL

INDIA

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Contents

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Summary of Findings

Summary of Findings

Risk-Free Rate

The Risk-Free Rate used in the analysis – 6.2%

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Market Risk Premium

The market risk premium used in the analysis – 5.17%

[(Page 8)]

Cost of Debt

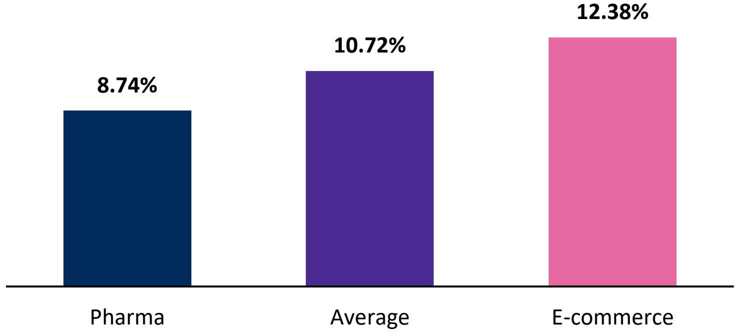
Estimated using synthetic ratings approach for this analysis.

[(Page 10)]

Beta

Sourced using publicly available data.

WACC



The average WACC across all sectors was 10.4% along with pharma being lowest at 8.7% and E-commerce being the highest at 12.4%.

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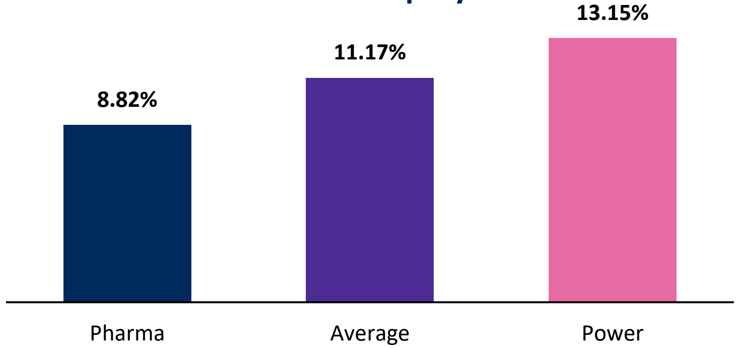
Cost of Equity



The average Ke across all sectors was 11.7% along with pharma being lowest at 8.8% and E-commerce being the highest at 13.2%.

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Cost of Equity (Ke)

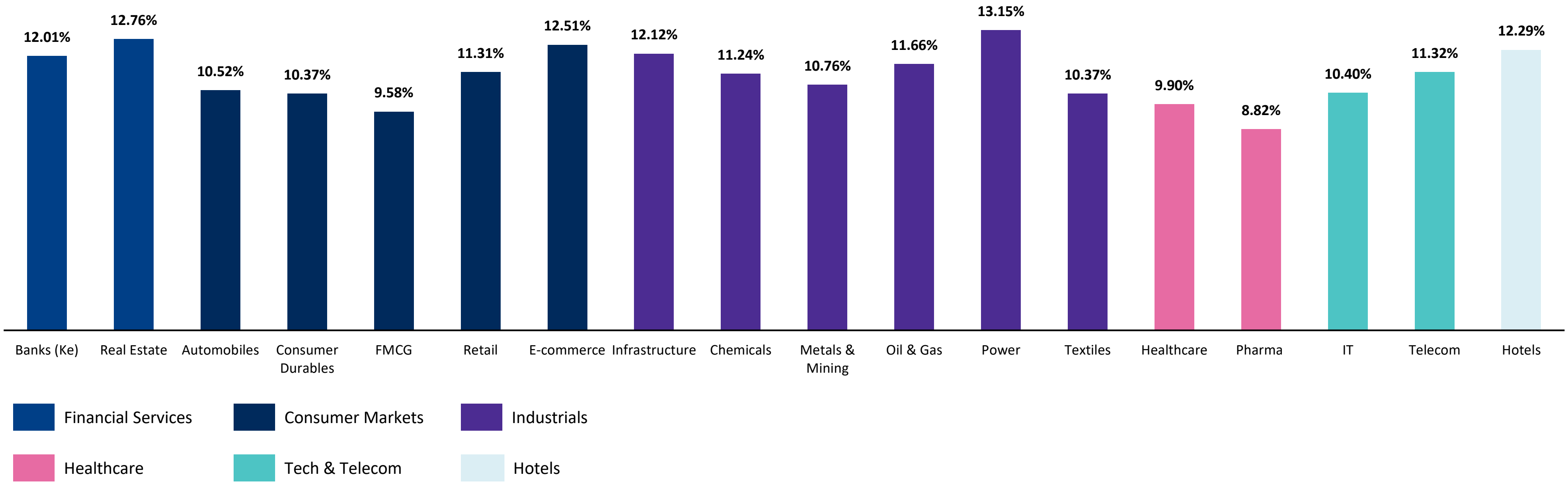
Cost of Equity (Ke)

Ke represents the return that equity investors expect for bearing market and company-specific risk. Ke forms the basis of the overall cost of capital for each sector. It was estimated using the Capital Asset Pricing Model (CAPM):

Cost of Equity = Risk-Free Rate + βeta (Market Risk Premium)

Estimated average Ke across sectors

Total - 18



Cost of Equity (Ke)

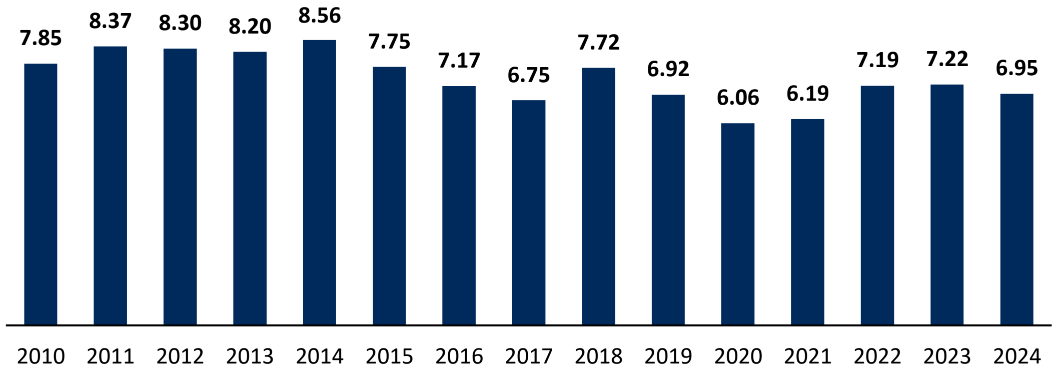
Risk–Free Rate

The RFR was derived from the yield on the 10-year Indian Government Bond, adjusted for sovereign default risk. To capture India's credit profile, incorporating the 10-year Credit Default Swap (CDS) spread of 0.54%, which reflects the country's credit risk premium.

G-sec yield (6.74%) - CDS (0.54%) = RFR (6.20%)

using zero-coupon or short-term bonds to prevent reinvestment risk distortion, ensuring the RFR reflects a sustainable long-term benchmark.

Average 10-year bond yield - India
In percentage



Source: Investing.com

Cost of Equity (Ke)

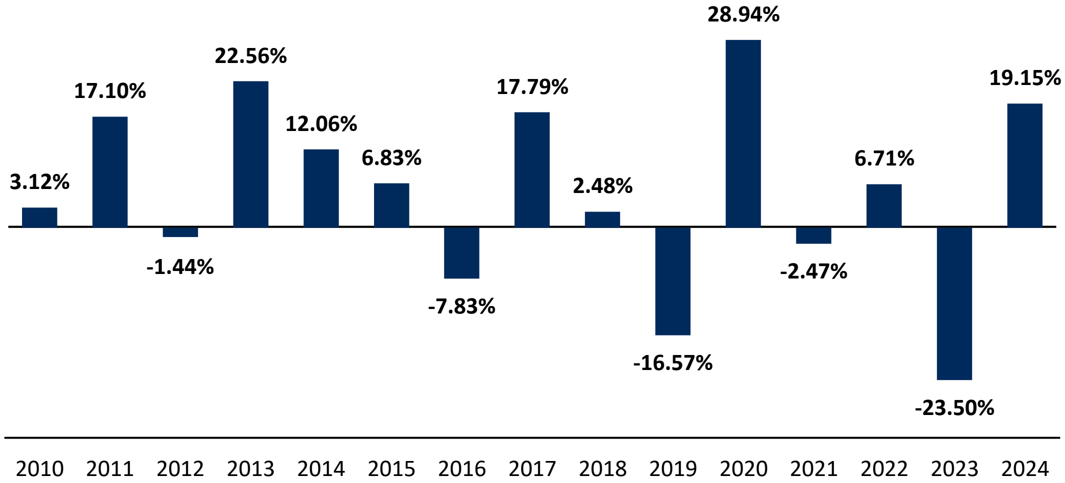
Market Risk Premium

The market or equity risk premium quantifies the excess return that equity investors demand over risk-free assets. For India, starting with the mature market ERP of 4.12% (as per Prof. Aswath Damodaran on S&P 500, March 2024). To reflect India's higher volatility and country-specific risk, incorporated an additional Country Risk Premium (CRP).

The CRP was estimated using India's relative market volatility to the default spread G-sec bonds, calculated at ~1.94× on the sovereign CDS spread of 0.54%, yielding a CRP of 1.05%.

Mature market ERP (4.12%) + CRP (1.05%) = ERP (5.17%)

Historical (Rm – Rf)
(Nifty total return – average 10 year G-sec bond yields)



Source: Investing.com

Cost of Debt (Kd)

Cost of Debt (Kd)

Kd was estimated using Professor Aswath Damodaran's synthetic rating approach, interest coverage ratios are used to map spreads and added to the 10-year Indian Government yield to derive the pre-tax Kd. Since corporate bonds in India are not actively traded.

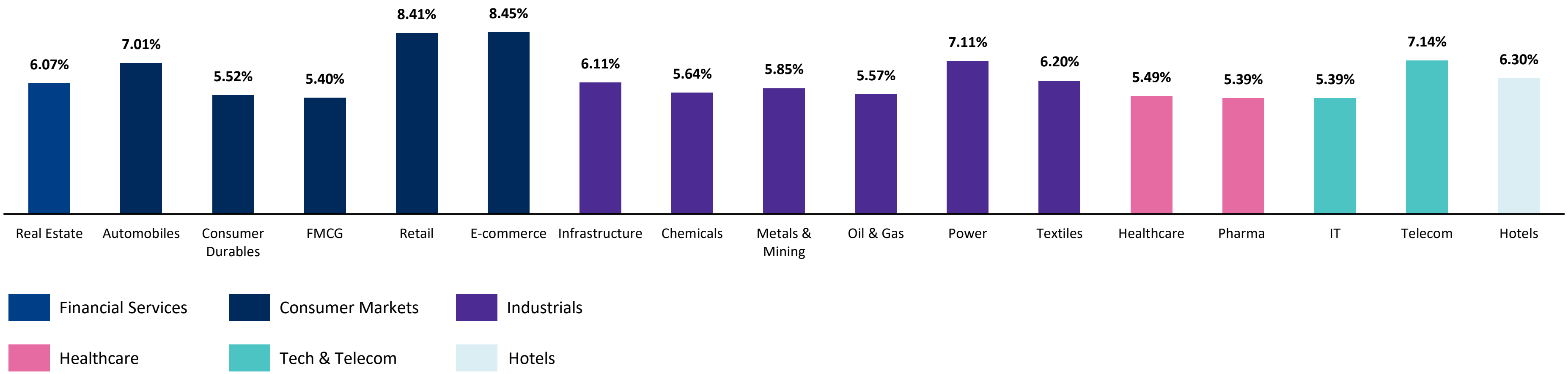
The average pre-tax Kd across corporates was estimated at 8.3%, and after applying the 25% corporate tax rate, the post-tax Kd stands at 6.3%, reflecting the tax shield benefit on interest expenses.

For banks, Kd is not a meaningful metric as their capital structure and funding sources from customer deposits and interbank borrowings unlike from traditional corporate financing. Moreover, their leverage is regulated through capital adequacy norms, not market-based debt ratios.

Source: Damodaran

Estimated average Kd across sectors

Total - 17



Sectoral Analysis

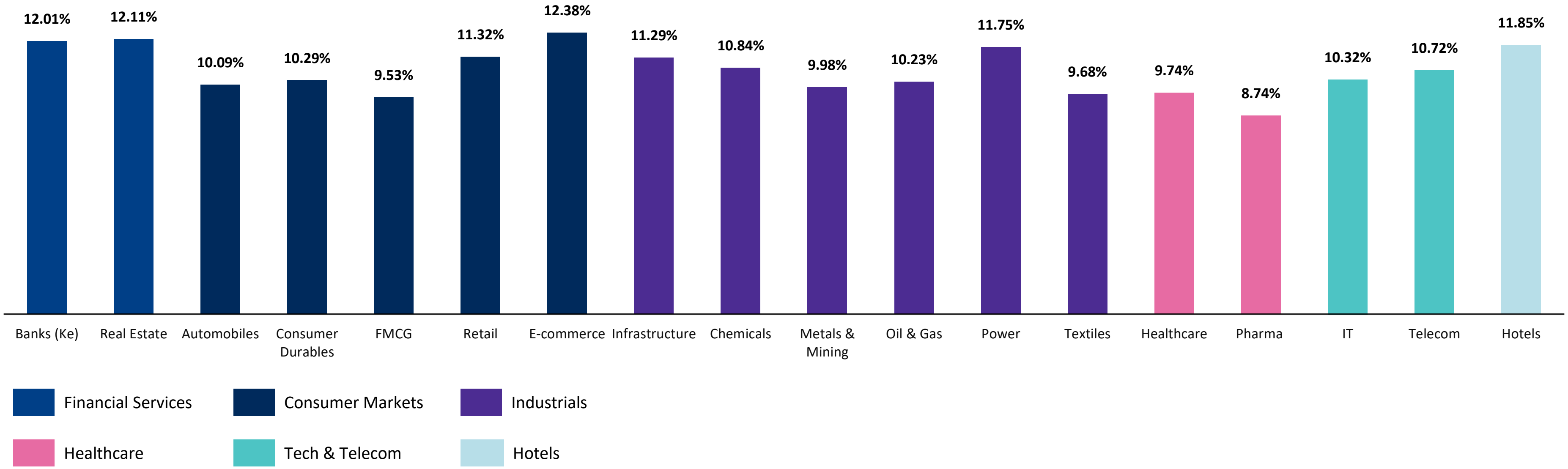
Sectoral Analysis

WACC varies significantly across Indian industries, reflecting differences in business nature, risks, and investor sentiments. Sectors such as FMCG and Healthcare have comparatively lower WACC not only because of their steady cash flows but also due to their non-discretionary nature, these are products and services people consistently need, irrespective of economic cycles. This makes them less volatile and more resilient in downturns.

On the other hand, sectors like E-commerce, power and Real Estate face higher WACCs, reflecting elevated perceived risk, greater reliance on leverage, and investors' demand for higher returns to compensate for cyclical or regulatory uncertainties.

Estimated average WACC across sectors

Total - 18



Sectoral Analysis

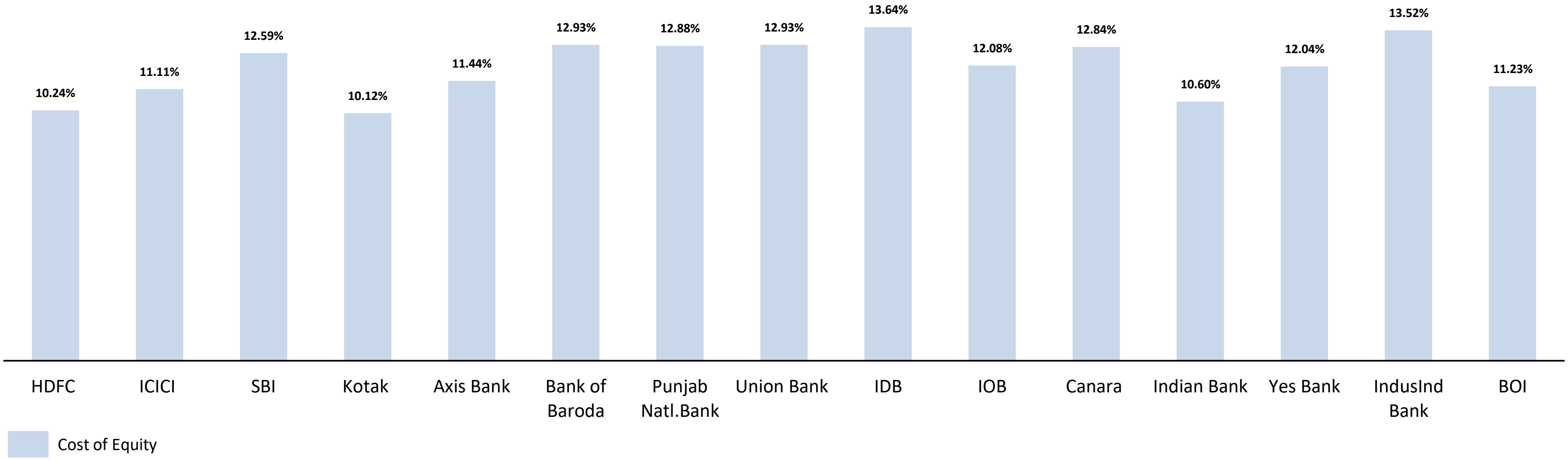
Bank

The banking sector shows a stable cost of equity profile, with Ke ranging between 10% and 12% across the top 15 listed banks. The narrow dispersion in Ke reflects the sector’s regulated capital structure, strong funding base, and consistent earnings performance over time.

Unlike non-financial sectors, WACC is not appropriate for banks as their high debt levels primarily consist of deposits and borrowings, which are part of their core business operations rather than external financing. Using WACC would therefore pull the value unrealistically closer to the cheaper cost of debt, understating the actual return required by equity holders.

Estimated Ke across banks

Total - 15



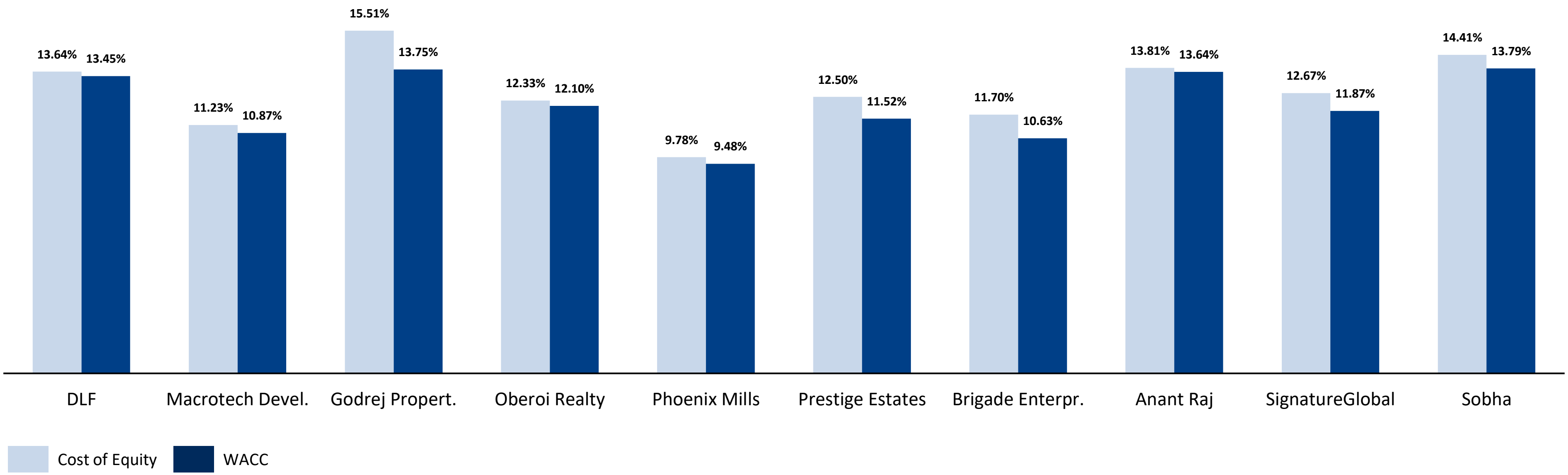
Real Estate

The real estate sector shows a relatively high cost of capital profile, with the average Ke at 12.8% and WACC at 12.1% across the top 10 listed developers. The narrow spread between Ke and WACC highlights the sector's high leverage and capital-intensive business model, where debt remains a primary funding source for large-scale projects.

Overall, the real estate industry carries a higher risk-return profile, with established players maintaining better access to credit and lower financing costs, while smaller and mid-sized developers face elevated Ke driven by project concentration.

Estimated Ke & WACC across real estates developers

Total - 10



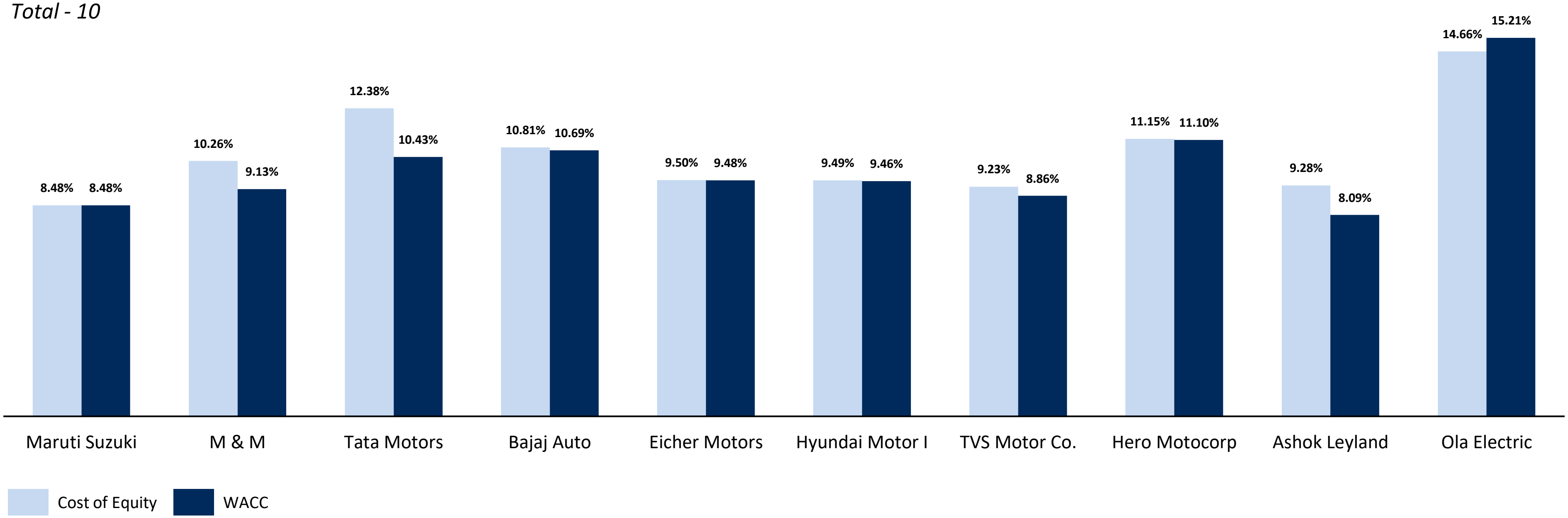
Automobile

The automobile sector shows a moderate cost of capital profile, with the average Ke at 11.48% and WACC at 10.93% across the top 10 listed companies. The spread between Ke and WACC remains relatively stable, reflecting the sector's strong operating history and consistent access to debt markets.

Overall, the automobile industry demonstrates a balanced risk-return profile, with established manufacturers benefiting from operational resilience.

Estimated Ke & WACC across automobile companies

Total - 10



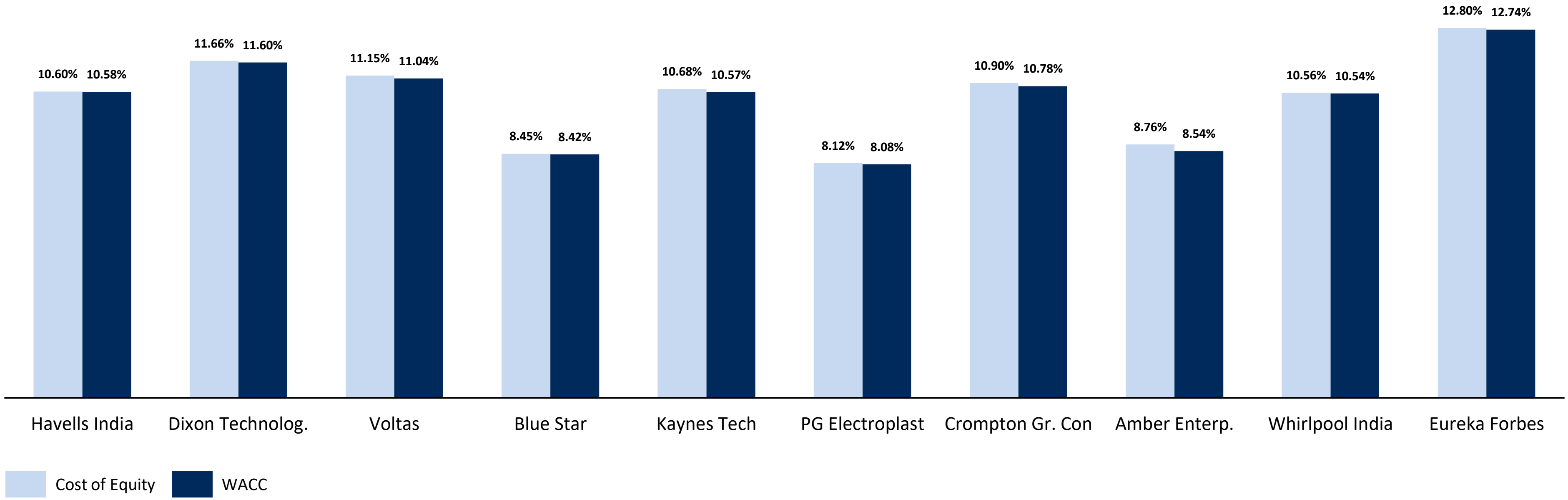
Consumer Durables

The consumer durables sector shows a moderate cost of capital profile, with the average Ke at 10.4% and WACC at 10.3%. The narrow spread between Ke and WACC reflects stable demand, low leverage, and efficient capital structures supported by steady cash flows.

Overall, the sector maintains a balanced risk-return profile, with established players benefiting from brand strength and operational consistency, while smaller firms face slightly higher capital costs due to limited scale and competitive intensity.

Estimated Ke & WACC across consumer durables companies

Total – 10



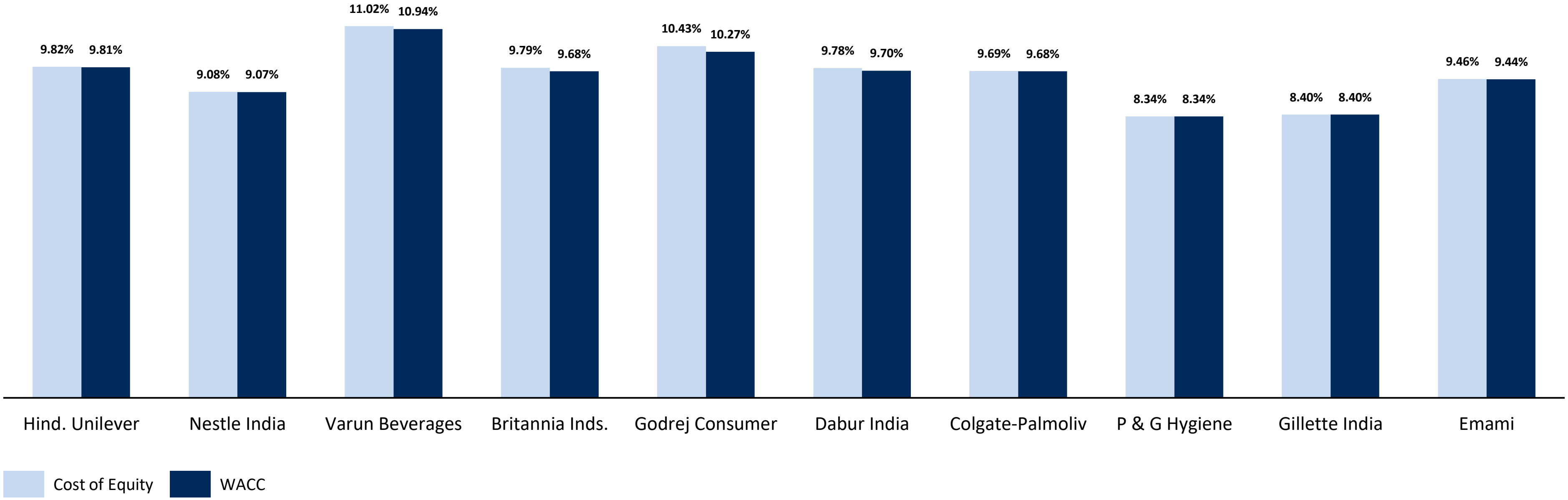
FMCG

The FMCG sector reflects one of the lowest cost of capital profiles, with the average Ke at 9.6% and WACC at 9.5%. The minimal variance highlights strong brand resilience, predictable demand, and high cash flow visibility.

Overall, the industry remains defensive, supported by essential product demand and low leverage, keeping both equity and overall capital costs compressed within a narrow range.

Estimated Ke & WACC across FMCG companies

Total - 10



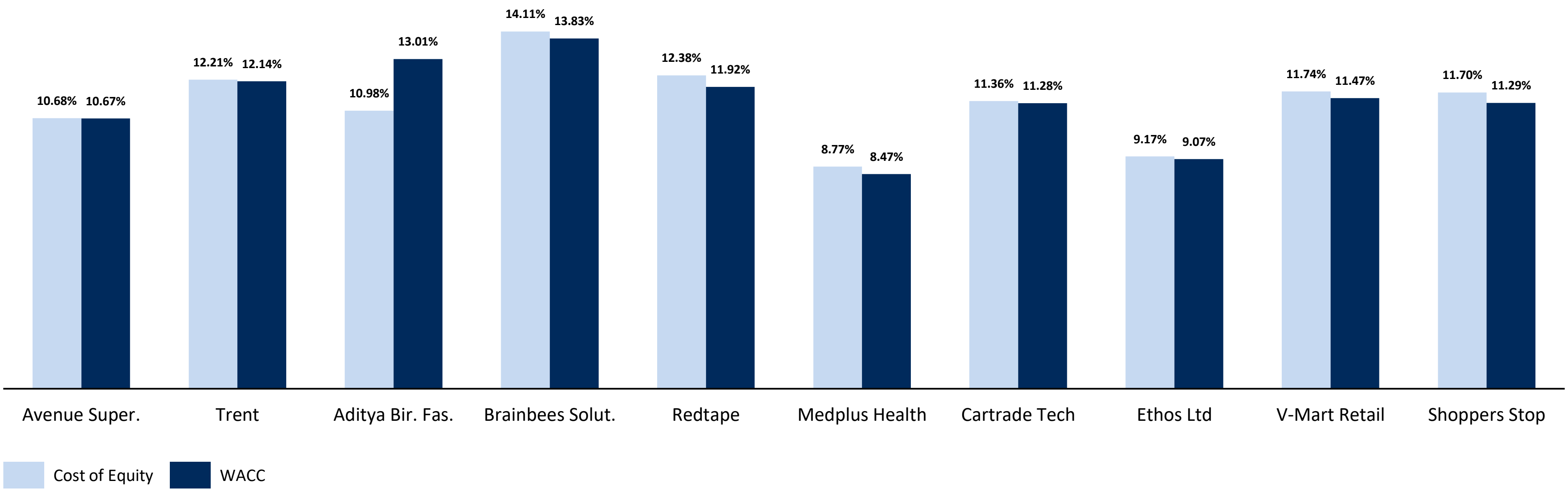
Retail

The retail sector exhibits a balanced capital structure, with both Ke and WACC averaging 11.3% across the top 10 companies. The close alignment between the two suggests efficient use of debt and stable access to financing, supported by strong consumer demand and resilient cash flow cycles.

Overall, the sector maintains a moderate risk profile, where established players benefit from brand strength and scale efficiencies.

Estimated Ke & WACC across retail companies

Total - 10



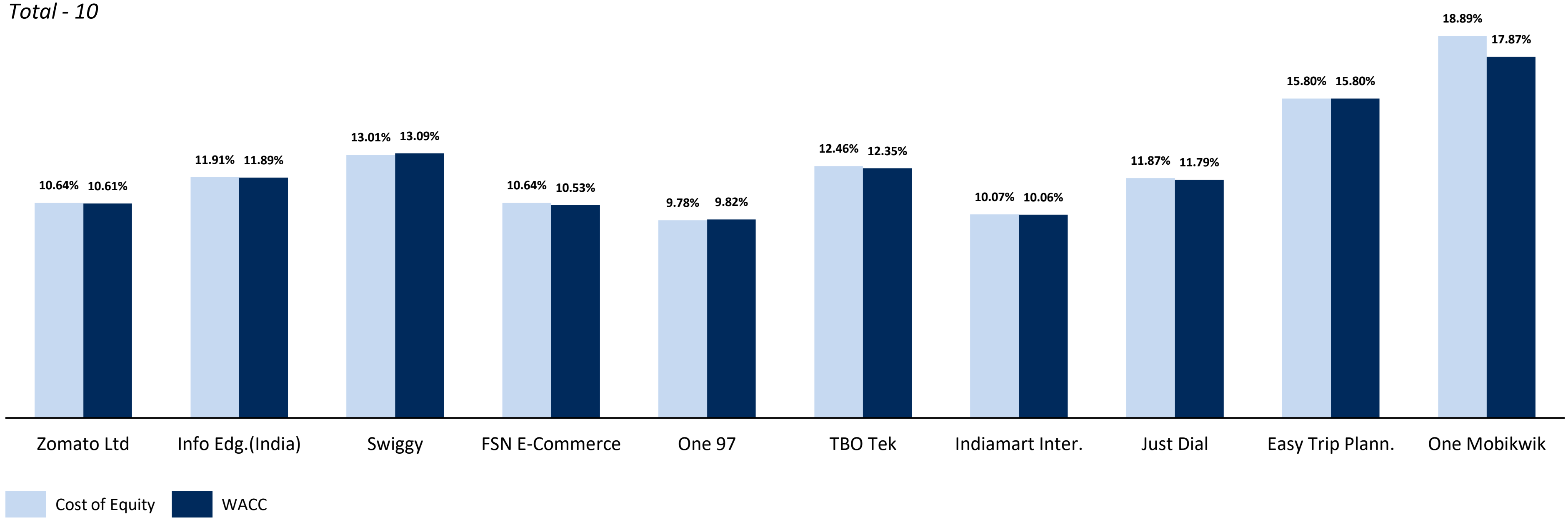
E-Commerce

The e-commerce sector records the widest dispersion in capital costs, with Ke ranging from 9.8% to 18.9% and WACC from 9.8% to 17.9%. The broad range reflects varied maturity levels, profitability, and cash flow stability across firms.

Overall, the sector carries a high-risk, high-return profile, where growth-oriented models attract higher Ke, while mature digital platforms show moderate and stable capital costs.

Estimated Ke & WACC across E-commerce companies

Total - 10

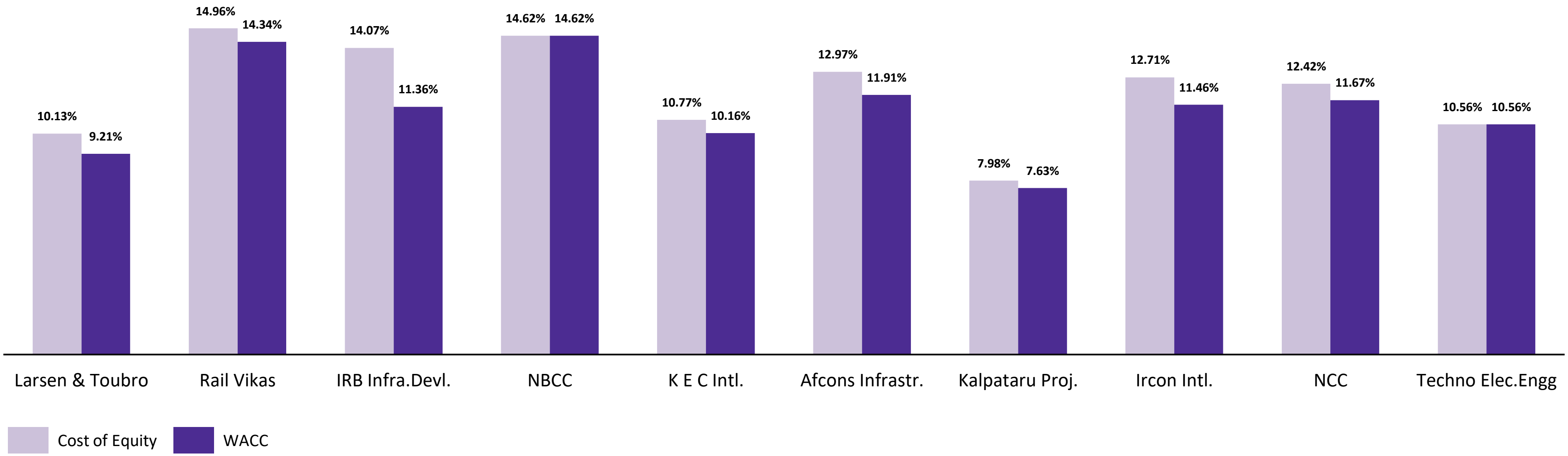


Infrastructure

The infrastructure sector shows a relatively high cost of capital, with the average Ke at 12.1% and WACC at 11.3%. This spread highlights heavy reliance on debt and the capital-intensive nature of long-duration projects.

Overall, the sector maintains a higher-risk profile, where project execution and funding structure play a critical role in determining the overall cost of capital.

Estimated WACC & Ke across infra companies
Total - 10



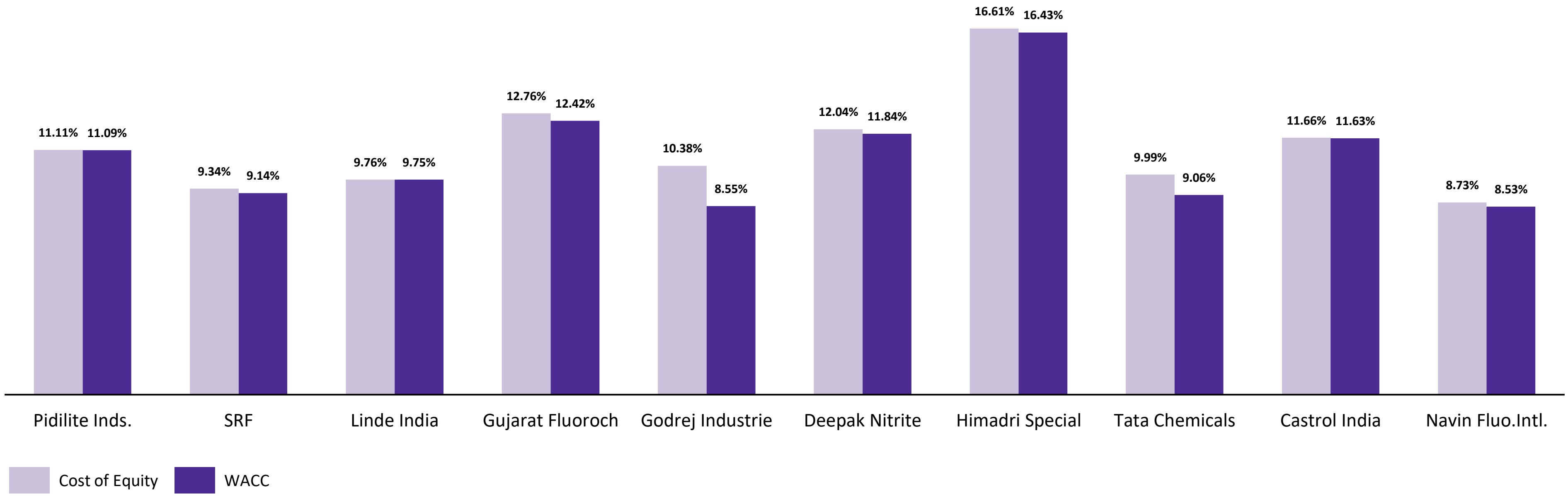
Chemicals

The chemicals sector demonstrates a wide dispersion, with Ke ranging from 8.7% to 16.6% and WACC from 8.5% to 16.4%. The spread indicates differing risk exposures based on product specialization and global market dependency.

Overall, the industry's capital costs are shaped by raw material volatility and export orientation, with diversified and stable operations maintaining tighter Ke–WACC alignment.

Estimated WACC & Ke across chemical companies

Total - 10



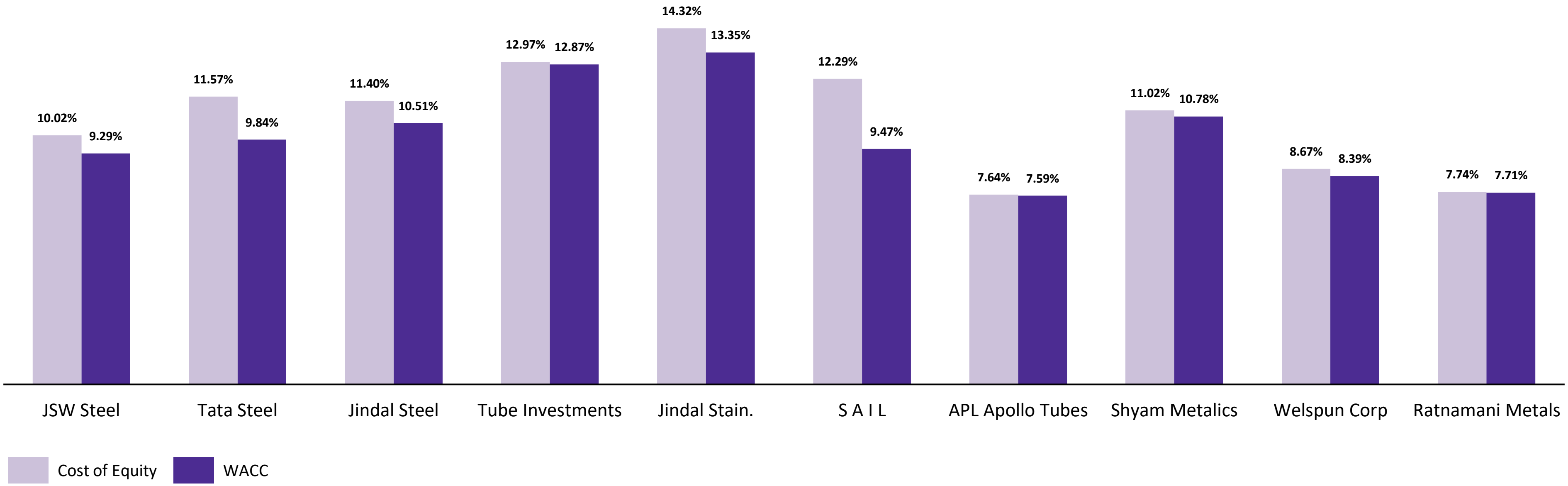
Metals & Mining

The metals and mining sector shows a broad range of capital costs, with the average Ke at 10.8% and WACC at 10.0%. The wide dispersion reflect cyclical earnings and leverage differences across companies.

Overall, the sector remains highly sensitive to commodity price cycles, where capital costs fluctuate in line with global demand.

Estimated WACC & Ke across steel companies

Total - 10



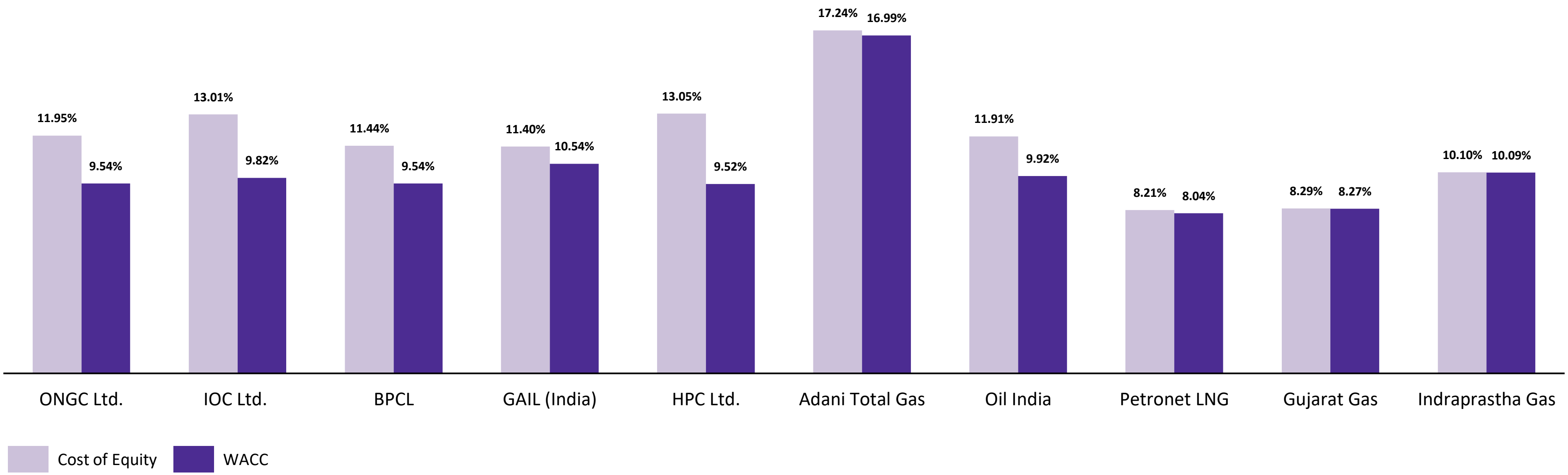
Oil & Gas

The oil and gas sector records a wide dispersion with Ke ranging from 8.2% to 17.2% and WACC from 8.0% to 16.9%, highlighting the impact of regulatory exposure and commodity price volatility.

Overall, the sector's capital structure remains stable for integrated and regulated players, while growth-driven entities carry higher costs due to policy sensitivity and expansion risk.

Estimated WACC & Ke across oil & gas companies

Total - 10



Power

The power sector shows a relatively high cost of capital, with the average Ke at 13.2% and WACC at 11.8%. The wider spread reflects higher equity return expectations, driven by long project gestation periods and exposure to fuel, tariff, and policy risks.

Overall, the sector maintains a moderately elevated risk-return profile, where regulated and contracted revenues support financing access, but dependence on capital-intensive assets and evolving renewable transitions keep overall capital costs above average.

Estimated WACC & Ke across power companies

Total - 10

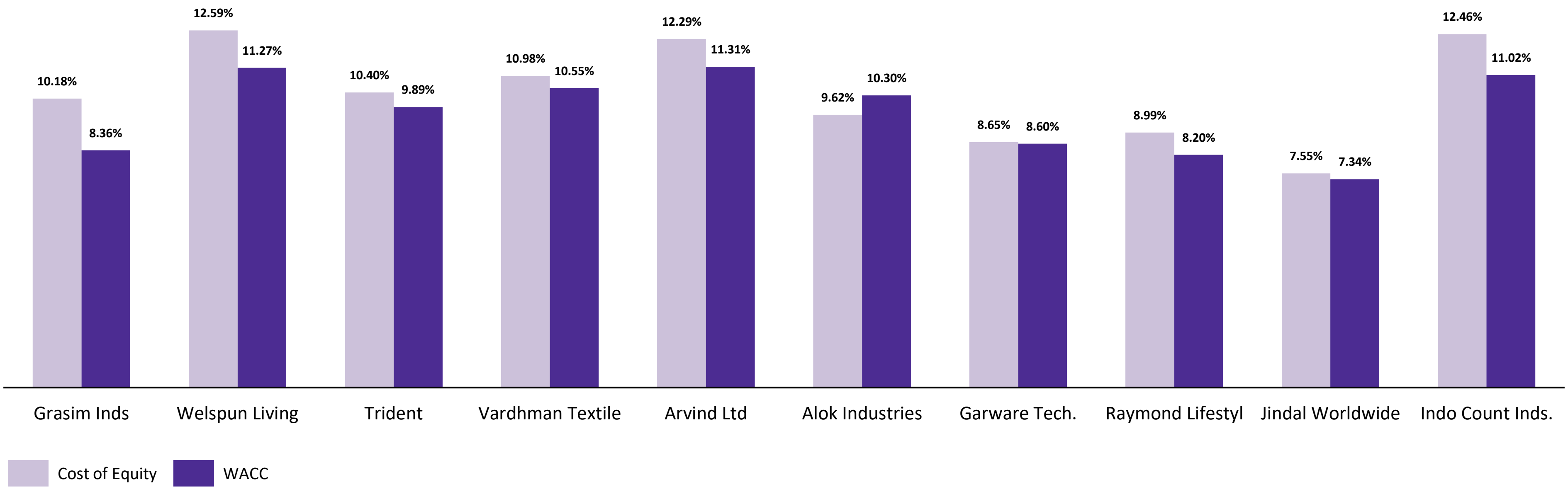
Textiles

The textiles sector displays moderate dispersion, with Ke ranging from 7.5% to 12.5% and WACC ranging from 7.3% to 11.3%. The spread reflects differences in export dependency, raw material exposure, and capacity utilization.

Overall, the sector remains cyclical, with larger integrated firms maintaining moderate capital costs and smaller players facing higher equity risk premia due to volatility.

Estimated WACC & Ke across textile companies

Total - 10



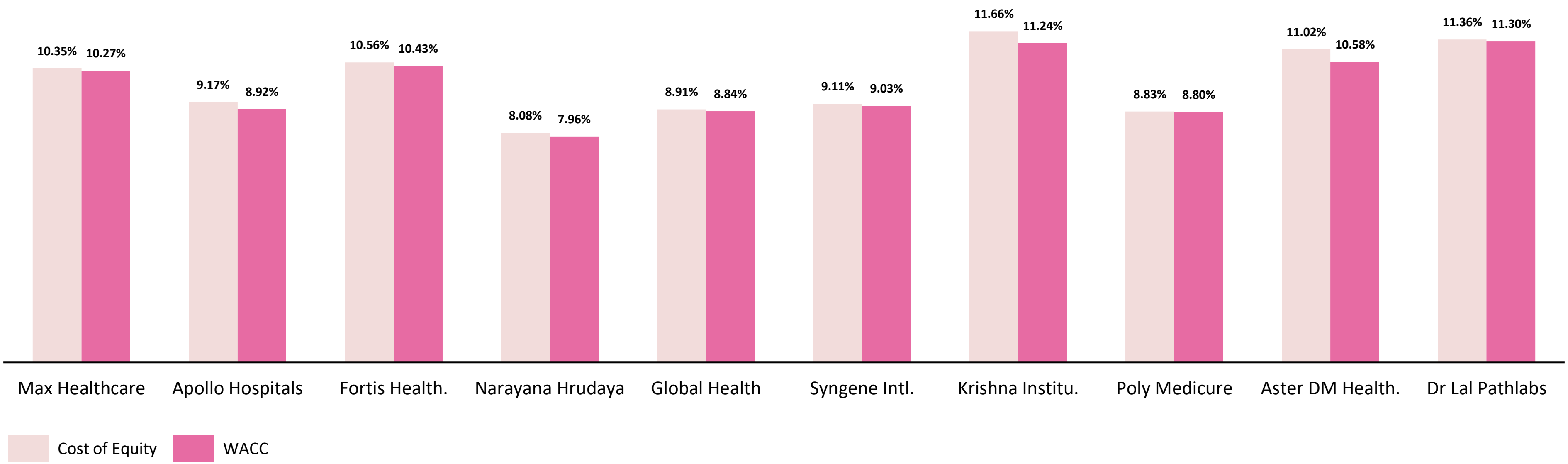
Healthcare

The healthcare sector shows a relatively lower cost of capital, with the average Ke at 9.9% and WACC at 9.7%. The minimal spread indicates steady earnings and low leverage across the industry.

Overall, the sector's non-discretionary demand and consistent profitability contribute to a stable cost of capital, with limited sensitivity to market or credit cycles.

Estimated WACC & Ke across healthcare companies

Total - 10

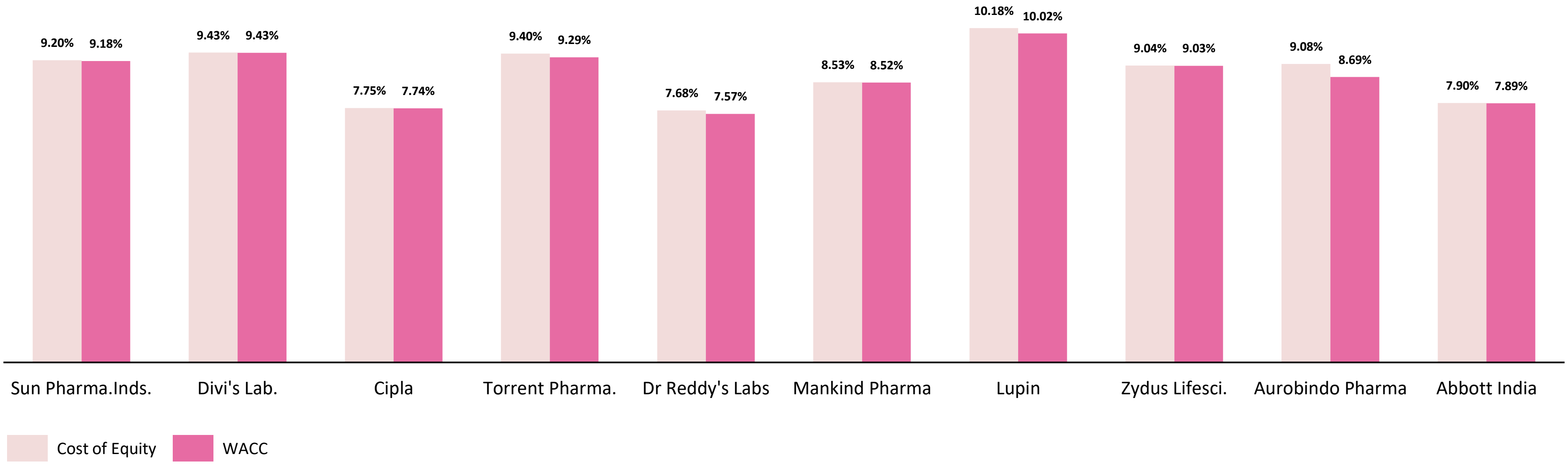


Pharma

The pharma sector recorded the lowest cost of capital, with an average Ke of 8.8% and an average WACC of 8.7%. The narrow spread reflects steady margins, low leverage, and recurring demand in both domestic and export markets.

Overall, the sector demonstrates a defensive risk profile, where consistent cash flows and limited cyclicality help sustain stable capital costs despite pricing pressures and regulatory challenges.

Estimated WACC & Ke across pharma companies
Total - 10



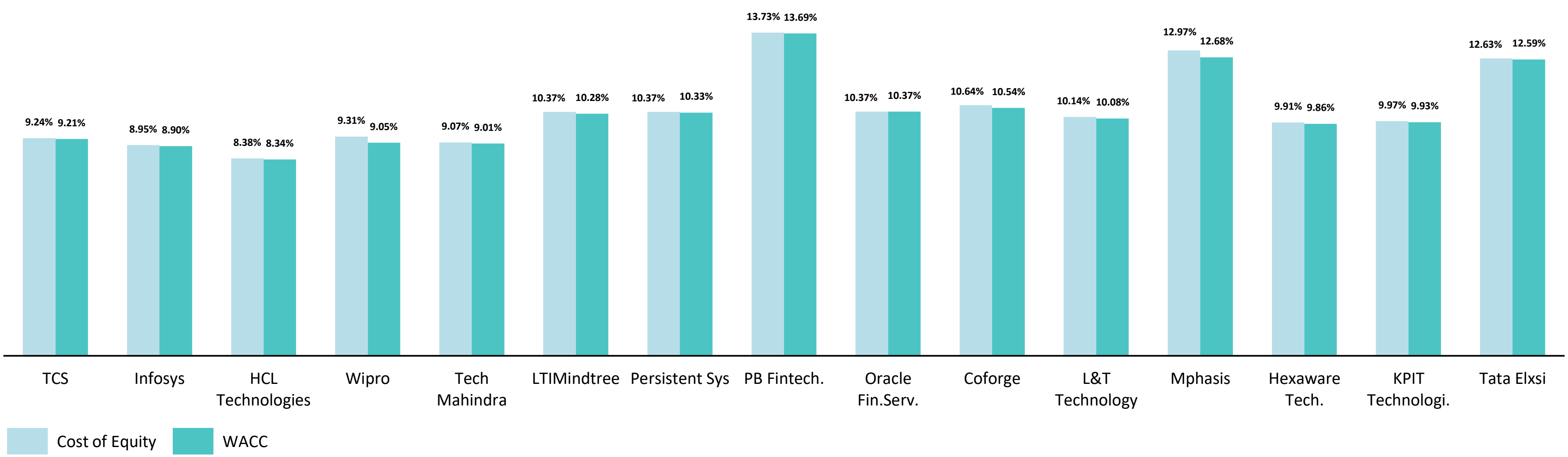
Information Technology

The IT sector shows a moderate cost of capital, with an average Ke of 10.4% and an average WACC of 10.3%. The minimal spread highlights recurring revenues and low debt levels across firms.

Overall, the sector benefits from stable global demand, high operating margins, and predictable cash generation.

Estimated WACC & Ke across IT companies

Total - 15

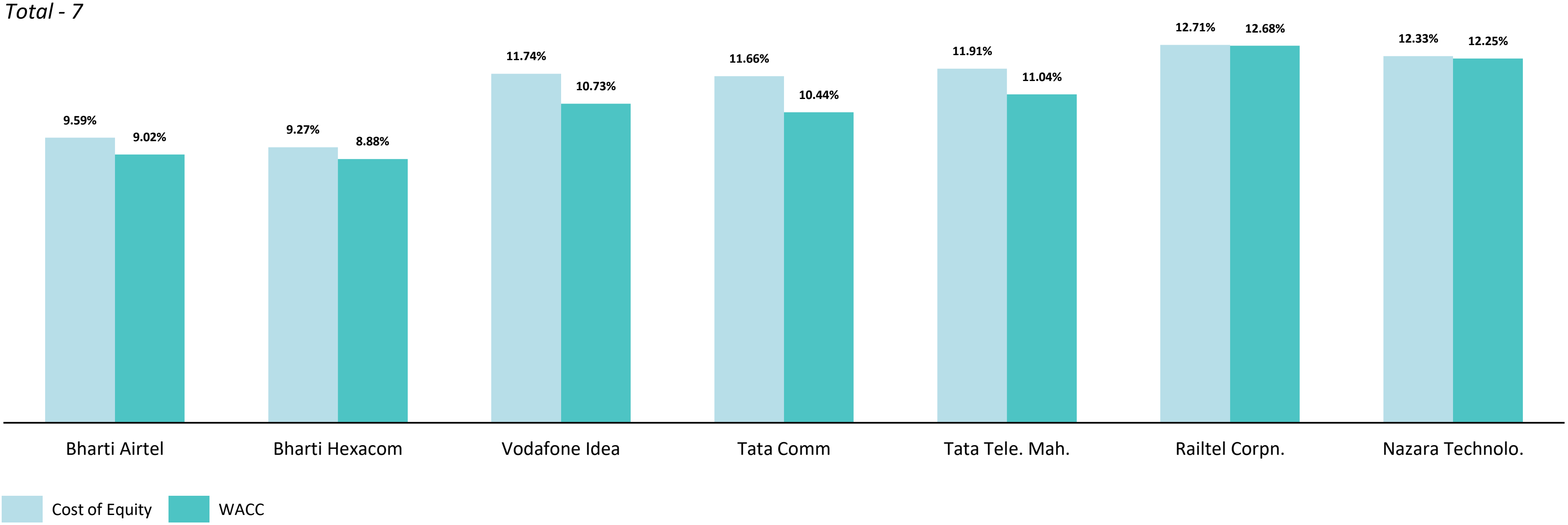


Telecom

The telecom sector reflects a relatively high cost of capital, with the average Ke at 11.2% and WACC at 10.7%. The spread highlights high leverage and continuous reinvestment needs driven by network expansion and technology upgrades.

Overall, the sector carries an elevated risk-return profile, where recurring revenues provide cash flow visibility, but competitive pricing, heavy capex, and regulatory pressures keep financing costs structurally higher.

Estimated WACC & Ke across telecom companies
Total - 7



Hotel

The hotel sector also displays a wide dispersion in capital costs, with Ke ranging from 10.1% to 17.0% and WACC from 9.2% to 16.7%. The wide dispersion reflects differences in scale, occupancy volatility, and brand positioning across the industry.

Overall, the sector remains cyclical, where larger chains benefit from diversification and operational efficiency, while smaller players face higher Ke due to dependence on tourism and economic activity cycles.

Estimated WACC & Ke across hotels

Total - 10

Sources:

1. Company Financials: https://www.screener.in/
2. Kd spreads: https://pages.stern.nyu.edu/~adamodar/
3. Beta: https://www.topstockresearch.com/rt/Home
4. Historicals: https://in.investing.com/

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