*Corporate Finance Assignment*

**Estimation of the cost of capital of a firm**

## Description of the assignment

Identify an industry of your choice and select a large listed firm within that industry. Estimate the cost of capital of the selected firm (WACC) for its most dominant business (a business that represents more than 50% of the sales of the firm in year 2020). While deriving the WACC estimate of the firm provide the following estimates.

1. Cost of equity of the firm from the equity beta of a peer group of firms
2. Cost of borrowing of the firm interest rate
3. Extent of debt that could be safely borrowed by the firm as a proportion of the total assets of the firm (D/V)
4. Tax rate applicable to the firm

After estimating the cost of equity of the firm, examine whether the return on its shares, including the dividends in the past 5-years exceeds the estimate cost of equity.

<https://www.investopedia.com/terms/d/dividendadjustedreturn.asp#:~:text=A%20dividend%2Dadjusted%20return%20is,over%20a%20specified%20holding%20period>.

<https://simplywall.st/stocks/in/food-beverage-tobacco/nse-britannia/britannia-industries-shares/news/is-britannia-industries-nsebritannia-using-too-much-debt>

<https://simplywall.st/stocks/in/food-beverage-tobacco/nse-britannia/britannia-industries-shares/news/britannia-industries-nsebritannia-seems-to-use-debt-rather-sparingly>

## Deliverables

1. Excel sheet with calculations. Include the estimate of the beta of the stock from comparable firms (peer group). The peer group beta should be estimated with 5-year monthly stock return and index returns (Nifty or Sensex). *Hint*: Employ the {=SLOPE(Y, X)} function in MS-Excel to estimate the stock beta, where Y is the vector of stock returns and X is the vector of index returns.
2. A one-page document explaining your rationale for the (a) choice of the peer group of firms (b) cost of borrowing of the firm, and (c) the extent of debt that could be safely borrowed by the firm as a proportion of the total assets of the firm.

## Group size

Note exceeding 10 members

## Submission date:

On or before April 10, 2021