3- Statement Model -Financial Statement Forecasting

Step 01 – Source Financial Statements (Swiggy P&L and BS)

📘 Purpose of this Step

The foundation of any Discounted Cash Flow (DCF) model is the company's historical financials. This step involves **collecting, cleaning, and placing** the Income Statement and Balance Sheet of Swiggy into the designated Excel sheets (P&L source and BS source). These will serve as the **raw inputs** that flow into projections, free cash flow calculations, and ultimately the valuation.

A. Income Statement (P&L Source)

Meaning: The Profit & Loss statement (also called the Income Statement) shows revenues, expenses, and profits over a period (usually annually).

Relevance in DCF:

- Revenue growth trends guide **top-line forecasts**.
- EBITDA and EBIT provide the basis for **operating performance and free cash flow**.
- Net income links to **equity returns and tax assumptions**.

Instructions:

1. Copy Swiggy's audited/unaudited P&L for the last three years (2022–2024) into the P&L source sheet.
2. Ensure numbers are in **INR millions** (consistent units across all sheets).
3. Use **line items already structured in the template**:
    - Revenues from Operations
    - Other Income
    - Total Revenues
    - Cost of Goods Sold, Delivery Costs, Total COGS
    - Gross Profit & Gross Margin
    - Advertising, Other Expenses, Employee Benefits
    - EBITDA
    - Depreciation & Amortisation

    - Finance Costs, Associate Income/Loss, Exceptional Items
    - Income Before Tax → Net Income
    - EBIT and Net Income Margins (calculated lines).
4. **Do not alter formulas** already embedded (e.g., Gross Margin, NI Margin).

Example:
If Swiggy's FY 2023 revenue is ₹82,646m, place it in cell **C5** (as shown in the template).

B. Balance Sheet (BS Source)

Meaning: The Balance Sheet records assets, liabilities, and equity at year-end.

Relevance in DCF:

- Working capital items (Inventories, Receivables, Payables) drive **cash flow adjustments**.
- Capex is inferred from changes in **PPE and Intangibles**.
- Debt and equity data link to **capital structure and WACC assumptions**.

Instructions:

1. Copy Swiggy's Balance Sheet for the last three years (2022–2024) into the BS source sheet.
2. Maintain reporting format and units (**INR millions**).
3. Use the pre-defined structure in the template:
    - **Assets:** Non-current (PPE, ROU assets, Goodwill, Intangibles, Investments, Financial Assets, Tax Assets, Other Assets), Current Assets (Inventories, Receivables, Cash, etc.).
    - **Equity & Liabilities:** Equity (Share Capital, Reserves, Other Equity), Non-Current Liabilities (Borrowings, Leases, Provisions), Current Liabilities (Borrowings, Leases, Payables).
4. **Bold headers** like Goodwill, Trade Receivables, Provisions should not be modified—they are formatting guides.
5. Cross-check that Total Assets = Total Liabilities + Equity each year.

Example:
If Swiggy's Goodwill in FY 2023 is ₹3,258m, enter it under **C8** in the BS source sheet.

C. Practical Notes & Pitfalls

- **Consistency**: Ensure the same financial year-end is used (Swiggy reports on **31 March or 31 Dec**? Lock this convention).
- **Currency Hygiene**: Keep all values in INR millions. If source is INR crore, multiply by 10.
- **Check Totals**: Gross Profit, EBITDA, EBIT, NI, and Balance Sheet totals should reconcile with Swiggy's reports.
- **Non-recurring items**: Place extraordinary charges (legal settlements, restructuring) under "Exceptional Items" for transparency.
- **Leave formulas intact**: The template auto-computes ratios/margins—do not overwrite.

D. Connection to Later Steps

- These inputs directly feed into **assumption sheets** (revenue growth, margins, working capital ratios).
- Historical averages will be used for **trend analysis** to project future years.
- Balance Sheet items drive **Capex, Depreciation, and Working Capital** in the Cash Flow model.

Step 02 – Building the Index and Assumptions Sheets

A. Index Sheet – Navigation Setup

Purpose:
The Index sheet acts as a roadmap for the DCF model, dividing it into **Inputs, Outputs, and Sources**.

Instructions:

1. List all worksheets under three blocks: Inputs, Outputs, Sources.
2. Create **hyperlinks**: Right-click cell → *Link* → *Place in This Document* → Select target sheet.
3. Format section headers (dark fill, bold) for clarity.

Benefit: Enables one-click navigation across the model.

B. P&L Assumptions Sheet – Scenario Building

Purpose:
This sheet converts history into **forecast assumptions** under 3 scenarios (Optimistic, Base, Worst).

Key Inputs:

- Revenue growth % (YoY), Other income growth %
- Cost of goods sold (% of revenue)
- Operating expenses (% of revenue)
- D&A (% of revenue)
- Interest expense, Extraordinary income

About YoY Growth:
YoY growth simply compares this year's revenue (or cost) to the previous year's. It captures how fast Swiggy is expanding or contracting. These %s then become the basis for forecasting future revenues and costs.

Scenario Logic:

- Case 1: Higher growth, lower costs.
- Case 2: Balanced and realistic (default).

- Case 3: Lower growth, higher costs.

Formula – CHOOSE Function:

=CHOOSE(C3, Case1Value, Case2Value, Case3Value)

- C3 = Selected Case cell (1, 2, or 3).
- Example: =CHOOSE(C3, F10, F11, F12) → switches growth % automatically when you change the Selected Case.

C. BS Assumptions Sheet – Working Capital & Capex

Purpose:
To project Balance Sheet drivers for working capital and PP&E.

Key Drivers:

- Trade receivables → Days receivable
- Inventory → Days inventory
- Trade payables → Days payable
- PP&E, Other assets/liabilities → % of revenue

Instructions:

1. Enter actuals (FY22–24) and compute ratios.
2. Forecast FY25–34 based on realistic assumptions.
3. Optimistic: shorter receivable days, steady payables.
4. Base: historical averages.
5. Worst: longer receivables, tighter payables.

Practical Notes

- Hyperlinks keep the model easy to use.
- CHOOSE avoids duplication by centralizing scenarios.
- YoY growth is the main engine of revenue forecasting—ensure assumptions reflect Swiggy's business realities.
- Always check that P&L and BS link smoothly with assumptions.

✅ **End of Step 02 Output:**

- Index sheet with hyperlinks.
- P&L assumptions driven by CHOOSE and YoY growth %.
- BS assumptions using ratios and percentages as drivers.

Step 03 – Preparing Projected P&L and Balance Sheet

A. Projected Profit & Loss (P&L) Sheet

Purpose:
The P&L sheet integrates actual financials (FY22–FY24) with assumptions (from Step 02) to produce forecasted results (FY25–FY29). It calculates revenues, margins, and profits for valuation.

Structure:

- **Revenues** and **Other Income** → linked directly from the P&L Assumptions sheet.
- **Total Revenue** = Revenues + Other Income.
- **Cost of Goods Sold (COGS)** → % of revenues, driven by assumptions.
- **Gross Margin** = Total Revenue – COGS.
- **Operating Expenses** → % of revenues, assumption-based.
- **EBITDA** = Gross Margin – Operating Expenses.
- **Depreciation & Amortisation (D&A)** → assumption as % of revenues.
- **EBIT** = EBITDA – D&A.
- **Interest Expense** → linked from assumptions (YoY growth).
- **Extraordinary Items** → directly linked.
- **EBT (Earnings Before Tax)** = EBIT – Interest + Extraordinary Items.
- **Taxes** → applied as per chosen tax rate.
- **Net Income** = EBT – Taxes.

Formulas Used:

- Example:
  - Revenues = =SUMIF('P&L assumptions'!$B:$B,'P&L'!B4,'P&L assumptions'!C:C)
  - Gross Margin = =C6+C8
  - Net Income = =EBT – Taxes

Guidelines:

- Keep FY22–FY24 as fixed actuals (hardcoded).

- From FY25 onward, link all items to assumptions using SUMIF/CHOOSE formulas.
- Use consistent formatting: highlight totals (EBITDA, EBIT, Net Income) in bold or blue.
- Check margins: EBITDA%, EBIT%, NI% should reconcile with assumption logic.

B. Projected Balance Sheet (BS) Sheet

Purpose:
The Balance Sheet combines actuals and forecast assumptions to create a full projection of assets, liabilities, and equity. It is crucial for deriving **working capital changes and cash flows**.

Structure:

- **Assets:**
    - Intangibles, PP&E, Financial Assets → linked partly from BS source and BS assumptions (% of revenue, flat values).
    - Inventory, Receivables, Other Assets → derived from BS assumptions (days or % of revenue).
    - Cash → flows in from the Cash Flow statement (later step).
- **Total Assets** = sum of all above.
- **Liabilities & Equity:**
    - Trade Payables, Other Liabilities → assumption-based (% of revenue).
    - Financial Liabilities → linked directly from BS source (flat or forecast).
    - Shareholders' Equity → from BS source.
- **Total Liabilities & Equity** = sum of above.

Balancing Check:

- Formula: **Check = Total Assets – (Total Liabilities + Equity)**.
- The sheet must always show "0" or close to zero.

Formulas Used:

- Example:

  - Receivables = =SUMIF('BS assumptions'!$B:$B,'BS'!B8,'BS assumptions'!C:C)
  - Total Assets = =SUM(C4:C12)
  - Liabilities & Equity = =SUM(C16:C21)
  - Check = =C23-C14

Guidelines:

- Keep 2022–24 as actual inputs.
- From 2025 onward, link all key drivers (Receivables, Inventory, Payables, PP&E) to the assumption sheet.
- Use flat values where instructed (e.g., Financial Assets remain constant).
- Always validate totals: Assets = Liabilities + Equity.

C. Practical Notes

- Ensure **all forecast items are formula-driven** (avoid manual entry).
- Any **circularity** (e.g., interest depending on debt) will be handled later during Cash Flow setup.
- Clearly mark actual vs. forecast columns (shading helps).
- This step prepares the **foundation for the Free Cash Flow calculation** in Step 04.

✅ **End of Step 03 Output:**

- A working P&L sheet with actuals (FY22–24) and linked forecast values (FY25–29).
- A working Balance Sheet with consistent Assets and Liabilities + Equity totals.
- Balancing check confirms the sheet integrity.

Step 04 – Preparing the Projected Cash Flow Statement

A. Purpose

The Cash Flow sheet translates P&L and Balance Sheet projections into **unlevered free cash flows (UFCF)**, which are the key inputs for DCF valuation. Unlike net income, cash flows adjust for non-cash charges (e.g., depreciation), working capital movements, and capital expenditure.

B. Structure of the Cash Flow Sheet

1. **Start with EBIT (Earnings Before Interest and Taxes):**
   - Linked directly from the P&L sheet (=P&L!D15 etc.).
   - This represents operating profits before financing costs.
2. **Adjust for Taxes:**
   - Apply the operating tax rate.
   - NOPAT (Net Operating Profit After Tax) = EBIT – Taxes.
3. **Add Back Non-Cash Charges:**
   - Depreciation & Amortisation (from P&L) are added back since they reduce accounting profit but not cash.
4. **Arrive at Gross Cash Flow:**
   - Formula: =NOPAT + D&A.
5. **Adjust for Working Capital Movements:**
   - **Inventory:** Change = Current Year – Previous Year (=BS!D8-BS!C8).
   - **Receivables:** Change = Current Year – Previous Year (=BS!D9-BS!C9).
   - **Payables:** Change = Previous Year – Current Year (=BS!D16-BS!C16).
   - Net Working Capital Movement = Sum of above.
6. **Adjust for Other Assets & Liabilities:**
   - Formula = Change in “Other Assets” + Change in “Other Liabilities.”
7. **Deduct Capex:**

   - Capital Expenditure = Change in PP&E + Depreciation (to capture gross addition).

8. **Adjust for Other Investments / Extraordinary Items:**
   - Investments (financial assets) and extraordinary items are included where relevant.
9. **Calculate Unlevered Free Cash Flow (UFCF):**
   - Formula:
   - UFCF = NOPAT + D&A – ΔWorking Capital – Capex – Investments + Extraordinary Items

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C. Financing and Net Cash Flow

1. **Interest Expense:**
   - Although UFCF is pre-financing, interest is shown here for reconciliation.
2. **Delta Financial Liabilities:**
   - Change in borrowings = Current year – Previous year.
3. **Delta Equity (incl. Dividends):**
   - Change in equity balances from Balance Sheet, including dividend payouts.
4. **Net Cash Flow:**
   - Formula: =UFCF – Interest + ΔDebt – ΔEquity.
   - Closing Cash = Opening Cash + Net Cash Flow.

D. Key Checks and Best Practices

- **Balancing Check:**
  - Verify Closing Cash in Cash Flow matches Balance Sheet Cash each year.
  - Add a row Check = CF closing cash – BS cash. Target = 0.
- **Linkages:**
  - EBIT, D&A, Interest, Extraordinary items → from P&L.
  - Working Capital, Capex, Investments, Equity movements → from BS.

  - Ensure no manual entries in forecast columns.
- **Formatting:**
  - Keep UFCF highlighted (since it is the key DCF driver).
  - Show actual years (FY23–FY24) separately from forecasts (FY25–FY29).

✅ **End of Step 04 Output:**

- Cash Flow sheet constructed with NOPAT, adjustments, working capital changes, Capex, and other flows.
- UFCF calculated for each year, serving as the input for valuation.
- Net Cash Flow reconciles to Balance Sheet cash balances with a check row.