Manual for Relative Valuation Using Comparable Companies Method

1. Introduction to Relative Valuation

Relative valuation estimates a company's worth by comparing it to similar companies (peers) using valuation multiples.
Key concepts:

- **Comparable Companies**: Firms in the same industry, with similar business models, size, and financial structure.
- **Valuation Multiples**: Ratios that relate the value of the company to a key financial metric.
- **Peer Median / Mean**: Used to benchmark the target company's metrics.

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2. Multiples Used in the Worksheet

Your model uses **two categories** of multiples:

Enterprise Value Multiples

1. **EV/Revenue** = Enterprise Value ÷ Revenue
   - Shows how much investors are willing to pay for each unit of revenue.
2. **EV/EBITDA** = Enterprise Value ÷ EBITDA
   - Measures valuation relative to operating profitability.

Market Price Multiples

3. **P/BV** = Share Price ÷ Book Value per Share
   - Compares market price to accounting net worth.
4. **P/E** = Share Price ÷ EPS
   - Relates price to earnings per share.

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3. Step-by-Step Model Building Process

Step 1 – Input Peer Company Data

Enter for each peer:

- Share Price
- Equity Value (Market Capitalisation)

- Debt (long-term + short-term interest-bearing debt)
- Revenue
- EBITDA
- Net Income
- Book Value per Share (BV)
- Earnings per Share (EPS)

(Worksheet: Columns B–J)

Step 2 – Calculate Enterprise Value (EV)

Formula:

EV=Equity Value+Debt\text{EV} = \text{Equity Value} + \text{Debt}EV=Equity Value+Debt

In Excel:
=C6 + D6 for first row, drag down for all peers.

(Worksheet: Column E, formulas like =C6+D6, =C7+D7, etc.)

Step 3 – Compute Valuation Multiples

For each peer:

1. **EV/Revenue**:
   =E6 / F6
2. **EV/EBITDA**:
   =E6 / G6
3. **P/BV**:
   =B6 / I6
4. **P/E**:
   =B6 / J6

(Worksheet: Columns L–O)

Step 4 – Derive Peer Statistics

For each multiple, calculate:

- **High**: =MAX(IF(range>0, range))
- **Upper Quartile**: =QUARTILE.INC(IF(range>0, range), 3)
- **Average**: =AVERAGEIF(range, ">0")
- **Median**: =MEDIAN(IF(range>0, range))
- **Lower Quartile**: =QUARTILE.INC(IF(range>0, range), 1)
- **Low**: =MIN(IF(range>0, range))

(Worksheet: bottom quartile/median section; Columns L–O)

The **Median** is typically used for valuation to avoid distortion from extreme values.

Step 5 – Target Company Data

Input target company financials:

- Revenue
- EBITDA
- Book Value per Share
- EPS
- Debt

(Worksheet: "Target Company - Dabur India Ltd.")

Step 6 – Apply Peer Median Multiples

For **Enterprise Value Multiples**:

- EV from Revenue multiple:
  = Target Revenue × Peer Median EV/Revenue
- EV from EBITDA multiple:
  = Target EBITDA × Peer Median EV/EBITDA

For **Market Price Multiples**:

- Equity Value from P/BV:
  = Target BV/share × Peer Median P/BV × Shares Outstanding
- Equity Value from P/E:
  = Target EPS × Peer Median P/E × Shares Outstanding

Step 7 – Convert EV to Equity Value

Formula:

Equity Value=EV−Debt\text{Equity Value} = \text{EV} - \text{Debt}Equity Value=EV−Debt

*(In your model: Debt is **added** for EV, subtracted for equity value.)*

Step 8 – Interpret the Results

- Compare implied valuations from different multiples.
- Use median or average for robustness.
- Cross-check reasonableness with industry trends and historical ranges.

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4. Excel Functions Used in the Model

Function	Purpose	Example from Worksheet
=C6+D6	Add Debt to Equity Value for EV	Enterprise Value
=E6/F6	EV/Revenue multiple	Column L
=E6/G6	EV/EBITDA multiple	Column M
=B6/I6	P/BV multiple	Column N
=B6/J6	P/E multiple	Column O
=AVERAGEIF(L6:L16,">0")	Average excluding zero	Peer stats
=MEDIAN(IF(L6:L16>0,L6:L16))	Median excluding zero	Peer stats
=QUARTILE.INC(IF(L6:L16>0,L6:L16),3)	Upper quartile	Peer stats
=MAX(IF(L6:L16>0,L6:L16))	Maximum excluding zero	Peer stats
=MIN(IF(L6:L16>0,L6:L16))	Minimum excluding zero	Peer stats

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5. Key Points

- Always **select truly comparable peers** (industry, size, margins, growth).
- **Median multiples** are less distorted by outliers.
- **Cross-check multiples**: High EV/Revenue with low EV/EBITDA may signal margin differences.
- **Interpret results** in context — no single multiple is definitive.
- Be mindful of **negative earnings** — can distort P/E.