Equity Valuation

(Amendment 1)

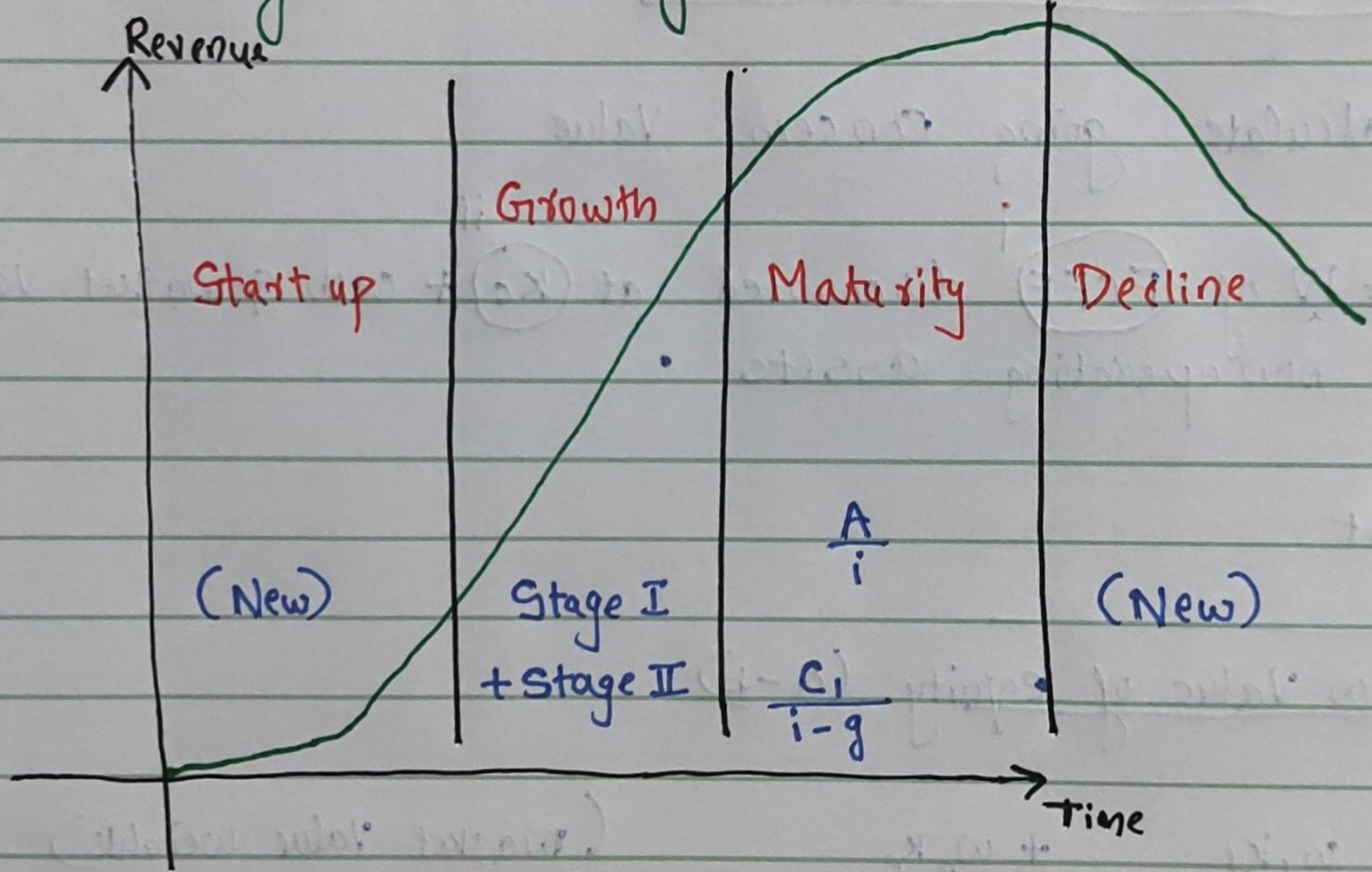
C.W :-

H.w :-

Business Valuation

New Stuff (Practical)
- Valuation of distressed Companies
- Valuation of Startups
- Valuation of digital ~~pano~~ platforms
- Valuation of professional / Consultancy firms

→ Valuation of distressed firm



Distressed firm → • Declining firm ⊕ → High O.L / F.L. } High truncation risk

• Standard DCF assumes Going Concern so cannot be used for distressed firms
↓
- How can we take Perpetual cashflows
- Discount rate ..... CAPM/APM cannot handle discrete risk

So how do we Value distressed firms?

4 methods given by Icai

- Modified DCF
- Going concern Value + Distress Value
- APV method
- Relative Valuation

2 methods (cap bud + der)
Non Icai

- Simulation
- options based Valuation

Going Concern Value + Distress Value

Step 1:- Calculate going concern value

a. Value of firm = PV of FCFF (i) discounted at K_c (ii) + cash & market value of non operating assets.

b. (–) M.V of debt

c. Going Concern Value of equity (a – b)

ii $K_c = w_d k_d + w_e k_e$ (Market value weights)

$w_d k_d$ → depends on ratings of firm

k_e → $R_f + (R_m - R_f)\beta_L$

β_L → $\beta_u\left[1 + \frac{D}{E}(1-t)\right]$

Investment grade { AAA, AA, A, BBB } R_f + default risk premium ↓ spread low

Junk { BB, B, CCC, CC, C, D } spread high