

Amendment 2

Modified DCF approach (Method 1)

$$\text{Value of distressed firm} = \sum_{i=1}^n \left[\frac{P_i + CF_i}{(1+i)^t} \right]$$

$i \rightarrow \text{No of Scenarios}$

PV of expected cashflow discounted at k_c

Case Study 3:- Alok Industries

$$B_L = B_U \left[1 + \frac{D}{E}(1-t) \right] \rightarrow \text{Assumption } B_{\text{debt}} = 0$$

but if B_{debt} given then

$$B_A = B_L$$

$$B_A = W_D B_D + W_E B_E$$

$$B_A = \frac{D}{D+E} B_D + \frac{E}{D+E} B_E$$

$$B_A = \frac{\frac{D}{E}}{\frac{D}{E} + 1} B_D + \frac{1}{\frac{D}{E} + 1} B_E$$

Use this formula
if B_D given

$$B_A = \left(\frac{\frac{D(1-t)}{E}}{\frac{D(1-t)}{E} + 1} \right) B_D + \left(\frac{1}{\frac{D(1-t)}{E} + 1} \right) B_E$$

$$B_D = 0.65 \xrightarrow{\text{Premium}} R_f$$

$$K_d = (6+10)(0.78)$$

$$= 12.48\%$$

$$B_A = 1.209 = \left(\frac{\frac{1200 \times 0.78}{1040}}{\frac{1200 \times 0.78}{1040} + 1} \right) \times 0.65 + \left(\frac{1}{\frac{1200 \times 0.78}{1040} + 1} \right) \times B_E$$

$$B_E = 1.5447$$

$$k_e = 6 + (7 \times 1.5447) \\ = 16.81\%$$

$$k_d = 16 \times 0.78 = 12.48\%$$

$$w_d = \frac{1200}{1040} = 53.57\%$$

$$w_e = 46.43\%$$

$$k_c = w_d k_d + w_e k_e \\ = 14.49\%$$

Relative Valuation (Method 4)



$$\frac{E.V}{\text{Revenue}}$$

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$$\frac{E.V}{\text{EBITDA}}$$

Should be used.

P/E ratio not Suitable

- Valuation based on comparables.

$$\frac{E.V}{\text{Sales}} \text{ or } \frac{E.V}{\text{EBITDA}} \text{ ratio}$$

- Similar distressed firms - ~~ratio~~

So have to take similar firms not distressed

Case Study 4: - ABC, manufacturing firm
Solution from Pdf