NIRMA UNIVERSITY

INSTITUTE OF MANAGEMENT

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# SUMMER INTERNSHIP REPORT

MONEY WORK HERE

## MWH HOLDINGS

**Submitted to: Prof. Meeta Munshi**

**Submitted by: Shalvika Bhargava (191246)**

**(MBA-FT 2019-21)**

# TITLE

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|---|---|
| NAME OF THE AUTHOR: | Shalvika Bhargava |
| COMPANY NAME: | MWH Holdings |
| PROJECT TITLE: | QIP Raising for an Infrastructure Co. |
| ADDRESS: | Mumbai |
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| PREPARED FOR: | MWH Holdings |
| FACULTY GUIDE: | Prof. Meeta Munshi |
| ORGANISATIONAL MENTOR: | Mr. Chetan Patel (CEO & Founder) |
| SUBMITTED TO: | Institute of Management, Nirma University |
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# ACKNOWLEDGEMENT

I Shalvika Bhargava would like to take this opportunity, to express my immense gratitude towards **Mr. Chetan Patel, CEO & Founder of MWH Holdings** and Institute of Management, Nirma University for facilitating me with this internship opportunity. I would like to thank **my mentors Mr. Chetan Patel, CEO & Founder, Ms. Pooja Jain, Senior Associate of MWH Holdings and Faculty Mentor Prof Meeta Munshi** for their priceless support, precious time, constant inspiration and continuous guidance throughout 2 months of my internship. It would not be possible to complete my internship without their guidance and support. Apart from continuous guidance, a number of opportunities of acquiring knowledge was given to me. The proficiency and understanding I gained under my mentors will help me in my career. I would also like to thank my team whose continuous support and cooperation helped me in completing every task assigned to our team.

# EXECUTIVE SUMMARY

This report reflects my enriching experience at MWH Holdings which I gained during summer internship. I was an Investment Banking Associate.

MWH Holdings is an investment banking firm handling 152 FII clients. It is operating from Mumbai having registered office in Singapore. It has presence in Hong Kong, Singapore, Dubai, Houston, Mumbai, and Bangalore. It was founded by Mr. Chetan Patel in 2009. The firm is responsible for sourcing, manufacturing, developing, managing, and marketing alternative investment products/investments.

Our project was to raise 250 cr. through QIP for XYZ Ltd (original name could not be disclosed due to NDA) which is a Mumbai based Infra structure company mainly handling civil transportation projects. It majorly has government projects.

Internship at MWH Holdings taught me to perform financial analysis while considering current scenarios. During these 2 months of internship I explored many new concepts to apply in my tasks like Blue ocean strategy, capacity planning etc. I was assigned a company named XYZ Ltd (original name could not be disclosed due to NDA). In order to understand the external environment of the assigned company, I performed SWOT analysis, ratio analysis, sensitivity analysis and Porter's five force model. I prepared financial model, valuation model, equity research report, investor presentation and investor pitch for XYZ Ltd. My experience at MWH Holdings enhanced by analytical skills.

Summer internship at MWH holdings provided me the opportunity of applying theoretical knowledge learned at IMNU in corporate world. Apart from enhancing my existing skills, I learned about new concepts.

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# MAIN BODY OF THE PROJECT WORK

## 1.INTRODUCTION

MWH Holdings was started by Mr. Chetan Patel in 2009 and is a mini-scale Investment bank. The firm is responsible for sourcing, manufacturing, developing, managing, and marketing alternative investment products/investments and has its presence in international as well as domestic markets, especially in Hong Kong, Singapore, Dubai, Houston, Mumbai, and Bangalore. They own few listed companies like Noah Publications Ltd., Shri Gold Infra Ltd. and Nagarjuna Agritech Ltd.

During summer internship I was assigned an infrastructure company which is majorly in civil constructions. Due to NDA I'll be changing the name of the company to XYZ Ltd.

### 1.1 NATURE OF THE PROBLEM

XYZ Ltd. is an infrastructure company that is listed on BSE and NSE. It is a Mumbai based company mainly involved in civil construction projects. It is also present in Gujarat, Uttar-Pradesh and Delhi. They are involved in construction of flyover, bridges, dams, canals, roads, highways, skywalks, elevated & underground metro etc. Their order book majorly consists of transportation orders i.e. metro, flyover etc. They either receive projects through government or private-public partnership mode. They have a fleet of machinery which help them in achieving operational efficiency. Government is planning for infrastructure boom through projects like Bharatmala, national highway projects and metro projects in various cities as it is the easiest way to generate employment. XYZ Ltd through its timely and quality work has got mostly got its orders or projects from Government itself. In order to grab opportunities like Surat metro project, Chennai metro project, Delhi NCRTC Project, Worli-Sewri project and fund future projects, XYZ Ltd is planning to raise capital of 250 Cr. through various investment opportunities available.

### 1.2. OBJECTIVE OF THE STUDY

The objectives of the study are to perform financial analysis and forecasting for XYZ Ltd. Further, create financial model and valuation model of XYZ Ltd for prospective investors to raise 250 Cr.

## 1.3. EXPECTED BENEFITS

Raising of funds will help in execution of not only ongoing projects but also in execution of future orders. Timely completion of ongoing projects is necessary to get orders in near future as there are many opportunities in infrastructure sector due to increase in government spending in infrastructure industry. Further, due to lockdown in recent months debtor days will increase at the same time XYZ Ltd cannot increase operation cycle. Fund raising will not only help in maintaining reputation of the company but will also help in execution of future projects. Non availability of funds will not only make it difficult for the company to bid for future projects but also execution of ongoing projects. Inability to bid will deprive the company from achieving tremendous growth which can be achieved through various opportunities like Chennai metro project, Gandhinagar metro projects, NCRTC projects etc.

# 2. METHODOLOGY / APPROACH

## 2.1. SOURCE OF THE INFORMATION

There are two methods of collecting data for analysis namely direct and indirect method. Direct method provides data that is first hand. Such sources that give direct data are primary sources. Sources that give data already collected by someone else are secondary sources. Also referred as indirect method to collect data.

In order to perform financial analysis data was collected from authentic and secondary sources like annual reports, website of XYZ Ltd, websites like screener.in and moneycontrol.com, websites of BSE and NSE. Annual reports provided data related to profit and loss, financial performance in the period, strengths, risks, management etc of XYZ Ltd. Financial position of the company is presented through balance sheet. A company's Statement of profit and loss shows financial performance. Notes in an annual report give detailed information about every item in the statements. Cash flow statement give data related to cashflows (inflow & outflow) in the period. Website of XYZ Ltd provided the information regarding past as well as ongoing projects of the company. The website also provided information about the transformation of XYZ Ltd i.e. growth story of the company. Screener.in provided data regarding financial performance of the past years in a consolidated manner. Screener.in thalso provided information about its peers which helped in peer comparison and forecasting. Websites of BSE and NSE gave information related current performance of the stock as well as the company. Recent news related to XYZ Ltd was also available on their website, BSE, NSE and screener.in.

## 2.2. ANALYSIS OF THE INFORMATION

Through data collected by various secondary sources I carried out financial analysis in order to judge current position of the XYZ Ltd. Ratio analysis helped me analysing profitability, financial health and liquidity position of the company. I was also able to perform peer comparison through ratio analysis. In order to check cash flow manipulations FCF Forensic was done. Further, financial model and valuation model was created using various forecasting techniques. While creating financial model sensitivity analysis was also performed. Using financial model equity report was created. In order to raise funds investor presentation and investor pitch was made. Apart from quantitative analysis, qualitative analysis was also done to analyse and understand the company as well as the environment in which it is performing. Tools like SWOT Analysis, Porter's Five Force Model, Capacity Planning and Blue Ocean Strategy were used to understand external environment of XYZ Ltd.

### RATIO ANALYSIS

Financial analysis refers to analysing financial information to evaluate a project's performance or ability to generate profit. It can help investors to choose most profitable option for investment. There are various tools to perform financial analysis like horizontal analysis, trend analysis, variance analysis, profitability analysis, solvency analysis, ratio analysis etc. By studying balance sheet and profit & loss statement of XYZ Ltd we gained insights about the company's operational efficiency, profitability, solvency and liquidity. We analysed how XYZ Ltd is performing in comparison with rest of the companies in infrastructure sector using various ratios. Ratio analysis helps in evaluating past and current performance of the company. For XYZ Ltd we performed ratio analysis and identified five most important ratios.

- **Quick Ratio:** Liquidity of the company can be expressed by this ratio. It compares total amount of account receivables, marketable securities and cash & cash equivalents with current liability. Lenders generally interpret the ability of the company to pay interest through this ratio. Further, ability to pay wages and purchase dues can be judged on the basis of one's liquidity. Quick ratio of XYZ Ltd is showing fluctuating trend but as compared to last year it has improved this year. Improvement in quick ratio in current year can also be due to reduction in receivable days. Reduction in receivable days indicate improvement in liquidity of the company.

- **Debt Equity Ratio:** A company's financial health can be judged using this ratio. It indicates portion of total resources financed by debt. Increasing ratio indicates that operations of the company are financed more by debt than own resources. More use of debt signifies higher interest charges to be paid. Investors usually prefer low debt companies. Every industry has different debt to equity ratio. Capital intensive industries usually have high debt to equity ratio. Debt equity ratio of infrastructure industry in 2019 was 1.69 and it has constantly increased overtime due to various changes in the industry. Since past 5 years, debt equity ratio of XYZ Ltd has been less than 1. This indicates it has good financial strength as compared to peers in the industry.
- **Equity Turnover Ratio:** Efficiency of a company to generate revenue using equity stock can be judged by this ratio. Higher the ratio better efficiency it shows. This is another important ratio for investors. Equity turnover ratio of XYZ Ltd is showing a fluctuating trend but as compared to its peers it is doing better.
- **Pe Ratio:** The amount investors need to invest in order to receive 1 unit of company's earning is expressed by this ratio. Price of the share is compared with earnings per share. If a company has lower PE ratio then it is an undervalued company which means it has scope for more growth in near future. PE ratio of XYZ Ltd is lower than its peers which indicates that it has better opportunity for growth as compared to its peers.
- **Profit Margin Ratio:** Ability of the firm to generate profit can be analysed via profit margin ratio. Company that is generating more profit is a more attractive investment opportunity as compared to its peers. XYZ Ltd is showing fluctuation trend from last 3 years. But these fluctuations are minor.

Cash flow statement tells about cash inflow and outflow of a company in a particular year. Cash flow statement is the most reliable statement as it does not include items which can mislead stakeholders of a company. It does not include non-cash items. In order to attract investors management of the company can put misleading figures in the cashflow. In order to verify whether the company has put misleading information or not FCF Forensic tool is used. Through this tools manipulation in cash flow could be found. In the model manipulation is reflected in last four rows if the difference cannot be explained by management.

**FCF MODEL**

| Values in Crores | Mar-17 | Mar-18 | Mar-19 |
|---|---|---|---|
| **Cash from Operating Activity** | **22** | **265** | **83** |
| Profit from operations | 255 | 326 | 438 |
| Working Capital Changes | -158.00 | 7.00 | -281.00 |
| Taxes paid | -75 | -68 | -74 |
| **Cash from Investing Activity** | **65** | **-323** | **-108** |
| Fixed Assets Purchased | -136 | -281 | -110 |
| Fixed Assets Sold | 0 | 3 | 1 |
| Investments purchased | 0 | -15 | -24 |
| Investments sold | 179 | 0 | 9 |
| **Cash from Financing Activity** | **10** | **55** | **-1** |
| Proceeds from Shares | 0 | 0 | 0 |
| Proceeds from Borrowings | 90 | 0 | 97 |
| Repayment of Borrowings | 0 | -39 | -67 |
| Interest Paid | -66 | -70 | -94 |
| Dividends Paid | 18 | -18 | -18 |
| **Net Cash Flow** | **97.00** | **-3.00** | **-26.00** |
| **Ideally Cash Flow** | | | |
| **Actuals** | | | |
| **Cash from Operating Activity** | 22.00 | 265.00 | 83.00 |
| **Cash from Investing Activity** | 43.00 | -293.00 | -124.00 |
| **Cash from Financing Activity** | 42.00 | -127.00 | -82.00 |
| **Net Cash Flow** | 107.00 | -155.00 | -123.00 |
| **Diff Cash from Operating Activity** | 0.00 | 0.00 | 0.00 |
| **Diff Cash from Investing Activity** | -22.00 | 30.00 | -16.00 |
| **Diff Cash from Financing Activity** | 32.00 | -182.00 | -81.00 |
| **Diff Net Cash Flow** | 10.00 | -152.00 | -97.00 |

Explanation of difference:

• Difference in cash flow from investing activity can be explained through funds received in the form of interest received, dividend received and capital work in progress.

• Difference in cash flow from financing activity is because of amount received through other financing activity

## PORTER'S FIVE FORCE MODEL

This model gave me insights about threat from new entrants and threat from substitutes in the industry. Further, it also helped in analysing the bargaining power of suppliers, bargaining power of buyers and threat from industry rivalry shape competition in the infrastructure sector. It helped in developing strategy that is well suited for a competitive environment.

- **Threat of New Entrant**

  Threat of new entrant in infrastructure industry is **low** due to following reasons:

  - ✓ This industry requires massive working capital as payment of work done is usually late. Further, financial institutions are unable to grant loan because of unknown credit history of new comers.

    Raising funds for XYZ Ltd has not been difficult due to low debt to equity ratio and sound credit history. Therefore, capital requirement is a hindrance for new comers.
  - ✓ Achieving economies of scale is usually not possible for new entrants as it requires major investment in machinery and operational efficiency. Since XYZ Ltd. is serving a niche market, they are able to achieve economies of scale as they buy only that machinery which can be used in many projects.
  - ✓ Designs used by XYZ Ltd pre-determined by the contractor. Since the contracts are provided to the company who has lowest cost, XYZ Ltd usually have lowest cost and different & efficient design.
  - ✓ Time taken to execute the project usually plays a crucial role in a reputation of a company. XYZ Ltd are known for timely execution of the project.
  - ✓ Policies regulated by government prove to be a great hurdle for new entrants. Further, for next few years due to covid-19, it will be hard for private contractors that don't have government projects to survive in the industry.

- **Bargaining Power of The Suppliers**

  Bargaining power of the suppliers in the industry is **moderate** due to following reasons:

- ✓ Due to Covid-19 situation, suppliers didn't sell goods for past 3 months as a result they are many suppliers eager to sell their goods.
- ✓ Further, at this point work of infrastructure companies has started at a low pace as a result they also require material.
- ✓ Suppliers pose low threat of forward integration as it requires a lot of thigs to be in construction business.
- ✓ Material supplied has low product differentiation. Further there is almost nil switching cost for buyers to switch their suppliers.

- **Bargaining Power of The Buyer**

  Bargaining power of the buyers in the industry is **moderate** due to following reasons:
  - ✓ XYZ Ltd. are able to offer product differentiation and innovation at low cost to their clients.
  - ✓ The company is known for providing quality construction and timely execution of the project. This made them one of the key contractors of Maharashtra Government.

- **Threat from Substitutes**

  Threat from substitutes is **low** for XYZ Ltd.
  - ✓ Major source of revenue of XYZ ltd is coming from serving niche market of metro projects. Further as mentioned above they are able to serve their clients at low cost with quality designs and timely execution of the projects.
  - ✓ XYZ Ltd is majorly in Maharashtra and majorly into transportation sector, this reduces number of substitutes. As a result, substitutes pose low threat to XYZ Ltd.

- **Industry Rivalry**

  Threat from industry rivalry is **moderate** for XYZ Ltd.
  - ✓ Competition is intense in Infrastructure sector but less in niche market where XYZ Ltd is serving.
  - ✓ XYZ Ltd has government projects which reduces its competition as due to COVID 19 companies having more government projects will be able to survive in the market.

## SWOT ANALYSIS

SWOT analysis helped in understanding strength, weakness, opportunities and threats for XYZ Ltd. Understanding these four aspects made me analyse present position of the company. It helped in understanding advantages and disadvantages the company has. Further, I also understood various growth opportunities and potential threats for the company.

- **Strengths**
  - ✓ XYZ Ltd own a large fleet of machinery and equipment. This helps them in improving operational efficiency.
  - ✓ They are able to reduce time for labour and machinery as their major projects are in Gujrat and Maharashtra.
  - ✓ Improved ROE in the past years signifies efficient use of shareholders fund. Further, promoter's confidence in the management of the company has also increased as they have increased promoters holding in shareholding by 1%.
  - ✓ Low P/E ratio as compared to its peers and industry average makes the share attractive.
  - ✓ Low Debt to equity ratio implies strong financial health.
  - ✓ Since last 2 years, return on assets has increased implying good utilization of asset in order to generate revenue.
  - ✓ There has been increase in order book due to operational efficiency.
  - ✓ 100 % of revenue of XYZ Ltd comes from the government.
- **Weakness**
  - ✓ They have contingent liability of 2606 cr.
  - ✓ Dividend pay-out ratio of XYZ Ltd. has declined over the years.
  - ✓ Due to investments made there has been negative cash flow last year.
- **Opportunity**
  - ✓ P/E ratio is less than industry's P/E ratio, this makes it a lucrative investment.
  - ✓ Due to COVID-19, Government is requesting infrastructure companies to resume activities as it is fastest way to increase employment. Further in order to increase employment, government can increase infrastructure spending.

- ✓ Earning increased and stock price has not moved accordingly shows it is an undervalued stock
- ✓ High volume is traded implying liquidity is in good scenario & stock is moving positively
- ✓ Tenders of projects like Chennai Metro project, Surat Metro project, Gandhinagar Metro project and projects of national highways that government will soon realise for bidding.

- **Threats**
  - ✓ Slowdown in Maharashtra will directly impact its growth as its mostly contracts are in Maharashtra.
  - ✓ Since majority of its contracts are of government's, any cut down in budget for infrastructure in Maharashtra will impact its cash flow.
  - ✓ Since past 2 years it has negative cash flow due heavy investments. They might face difficulty in the current year as there is slowdown in the economy due to Covid-19.
  - ✓ Due to covid-19 economy is in slowdown which will impact operations as well as cash flow.
  - ✓ XYZ Ltd. majorly work in transportation sector. Therefore, concentration in one sector is risky.

## BLUE OCEAN STRATEGY

Blue ocean strategy is used by companies to open new market space where they can sell differentiated product or service at low cost. The new market has almost nil competition and immense potential for growth unlike stagnant markets where there is cut throat competition.

We have tried to use this strategy on XYZ Ltd.

### Value Innovation

Using this tool, value is generated both for buyer as well as seller. Buyers value can be calculated using utility of the product-price. Seller's value can be calculated by deducting cost from price. Value for buyer could be lifted by offering something which the industry has never offered and value for sellers can be enhanced by eliminating or reducing factors on which industry is competing.

Creating a company or a separate department that can offer REIT (Real estate investment trust) can prove to be an opportunity for XYZ Ltd for creating value for themselves as well as for customers who are willing to invest in real estate but are unable to due to huge capital requirement. XYZ Ltd. can use this opportunity to generate immense amount of profit as there is negligible competition in this market.

**Four Action Frame Work**

Four action framework raises factors above the industry standards and eliminates factors that the industry is competing on. It also create factors that are new to the industry or are never offered and help in reducing factors that are well below industry standards.

In REIT customers don't have to compromise by not being able to invest in real estate due to large capital requirement, even when it has huge potential of growth. Through REIT XYZ Ltd will be able to offer the opportunity of investing in real estate even with small investments. Further, customers won't have to deal with high brokerage cost and construction formalities as XYZ Ltd will be handling that. Through REIT customers will be able to enjoy fixed income in form of rentals. XYZ Ltd can offer transparency in financing and operations to the investors. Huge advertisement cost can be reduced by going public with this offering.

**Pioneer-Migrator-Settler**

Settlers believe in doing "me too business" in the existing market that is not explored and is competitive in nature. Migrators tries to offer differentiated product or service that is better than the most of the existing players but fail to generate innovative value to the customers. Pioneer believe in creating value through innovation. They offer unprecedented value by exploring vast and uncompetitive market.

XYZ Ltd will be a pioneer who will offer innovative service that has negligible competition. Since it is a completely new concept in India, it will not improve existing service. As it is a new concept, XYZ Ltd can start with financial institutions and then move to small investors.

**Three Tiers of Non-Customers**

In this tool there are three tiers of customers. First tier of customers is “soon to be “customers. Second tier customers who willingly don’t opt for new market as they believe that new market or product will not be able to satisfy their needs. Third tier of customers are the ones who have not explored the new market.

XYZ Ltd can target tier 1 and tier 3 customers. Tier 1 customers are those who will opt for REIT once they see anticipating profits and Tier 3 customers are those who have not explored REIT but they can turn into tier 1 customers once they get to know about profit. Tier 2 customers are those who don’t find investment in real estate attractive. Tier 3 customers have huge potential for the firm. They just need to be convinced that they can earn regular profit even with small investments.

## CAPACITY PLANNING

Capacity planning is determining what kind of labour & equipment and when they are required. While planning capacity, we need to consider demand levels, production cost, funds available and policy management.

**Procedure of Capacity Planning:**

- Existing capacity should be analysed.
- Forecast future capacity needs according to demand forecasted.
- Determining gap between future capacity needs and existing capacity.
- Identifying options to increase or decrease capacity to overcome gap between future capacity needs and existing capacity.
- Evaluating various options.
- Cost effective alternative will be chosen.

**CAPACITY PLANNING TIME HORIZON**

| | Short Term | Medium Term | Long Term |
|---|---|---|---|
| **Low Demand** | • Price reduction<br>• Advertising | • Product Promotion<br>• Training | • Product awareness<br>• Bid for bigger and diversified projects |
| **Medium Demand** | • Core competency<br>•Subcontracting | • Process flexibility<br>• Utilize worker flexibility | • Build subcontractor pool |
| **Excessive Demand** | • Subcontracting | • Subcontract on a priority order basis | • Build resource base<br>• Partner with big players<br>• Go solo |

XYZ Ltd in short term can hire more labour force and on the basis of the utility of equipment either they can purchase or rent it. Being in construction industry gives them liberty to hire flexible labour force. In medium term they can subcontract to other contractors. In long-term they can plan to expand in other states. They can either acquire small companies or merge with one.

## SENSITIVITY ANALYSIS

Sensitivity analysis is a technique to determine how various dependent variable are changing when independent variables are changed in various situations. In other words, it tells us how some variables are changing when other set of variables are changed under different situations. It is also known as "What If" analysis majorly used by financial analysts and economists in quantitative models for forecasting. Practical use of sensitivity analysis was done in financial model prepared for XYZ Ltd and theoretical understanding of few ratios is given below.

- **OPM (Operating Profit Margin)**
  - ✓ Increase in operating profit margin implies either there is increase in operating profit (while revenue is unchanged) or both net sales and profit margin have increased. Operating profit is directly proportional to operating revenue and inversely proportional to operating expenses.

- ✓ Decrease in operating profit margin can be due to either of the two reasons. First, operating profit margin has decreased keeping Net sales unchanged. Second, both net sales and profit margin has decreased. Decrease in operating profit can be either due to increase in operating expenses or decrease in revenue from operation.

- **Debt-Equity Ratio**
  - ✓ Debt equity ratio can increase by increasing debt while keeping equity unchanged or debt and equity have increased. Increase in debt implies increase in interest charges which can reduce interest coverage ratio.
  - ✓ Debt equity ratio can be decreased by decreasing debt while keeping equity unchanged or both debt and equity have decreased. Decrease in debt implies decrease in interest charges which can improve interest coverage ratio.
- **Receivable Days**
  - ✓ Increase in receivable days implies receivable turnover ratio has decreased. This may be due to decrease in credit sales and average receivables.
  - ✓ Decrease in receivable days implies receivable turnover has increased. This may be due to increase in credit sales and average receivables.
- **Asset Turnover Ratio**
  - ✓ Asset turnover ratio can be increased by increasing revenue while keeping assets fixed or increasing both fixed assets and revenue.
  - ✓ Asset turnover ratio can be decreased by decreasing revenue while keeping assets fixed or decreasing both fixed assets and revenue.
- **Earnings Per Share**
  - ✓ Increase in EPS implies increase in earnings while no. of shares is constant. Increase in earning can be due to increase in sales or decrease in expenses.
  - ✓ Decrease in EPS implies decrease in earning while no. of shares is constant. Decrease in earning can be due to decrease in sales or increase in expenses.

## ESTIMATED FINANCIAL MODEL

| Key Estimates &Assumptions | | | | |
|---|---|---|---|---|
| | | FY -2020E | FY-2021E | FY- 2022E |
| Closing order book | | 12085.3 | 13551.2375 | 15010.3625 |
| Order book growth (%) | | 16.51% | 12.13% | 10.77% |
| New order booking | | 4500 | 4000 | 4500 |
| Book to bill ratio | | 4.05 | 5.35 | 4.94 |
| | | | | |
| Total Revenue | | 2981.25 | 2534.06 | 3040.88 |
| Growth (%) | | 6.97% | -15.00% | 20.00% |
| EBIDTA | | 479.77 | 375.68 | 471.34 |
| Material expense | | 1,550.92 | 1,317.71 | 1,581.26 |
| Employee expenses | | 250.15 | 210.30 | 293.31 |
| EBIDTA margin (%) | | 16.09% | 14.83% | 15.50% |
| Depreciation | | 122.39 | 96.04 | 117.21 |
| Financial Charges | | 94.79 | 104.33 | 125.59 |
| PBT | | 291.72 | 204.44 | 257.67 |
| PBT Margin(%) | | 9.79% | 8.07% | 8.47% |
| Tax | | 72.93 | 51.11 | 64.42 |
| | | | | |
| Tax Rate(%) | | 25% | 25% | 25% |
| PAT | | 218.79 | 153.33 | 193.26 |
| Net Margin(%) | | 7.34% | 6.05% | 6.36% |

For FY 20, results till Q 3 were released. We forecasted Q4 results in order to forecast FY20. In order to fairly estimate we took revenue of KNR Construction (KNRC) and found similarity in trend of both the companies. KNRC is in same line of business as XYZ Ltd as revenue pattern is also almost same. For expenses we used trend of past years. Trend of past years show total expenses to be .845 (approx.) times of revenue and material expenses to be 52% of total expenses and employee benefit expense to be 10% of total expenses. While calculating employee benefit expense for FY21 we have estimated individually salary and wages, staff welfare expense and provident fund. Reduction in PF amount is made as government reduced % to be contributed in provident fund to 10%. Staff welfare expense and salary and wages are estimated on the same lines as sales. While calculating depreciation SLM method is used and rate is calculated using gross block. For further years depreciation rate is calculated using averages of last 3 years. Interest is calculated using average of interest rate of last 3 years. Tax rate is assumed to be 25%. For FY21 we assumed that revenue will decline by 15% as there was nil work in Q1 of FY21 and in second quarter work has started will slow pace. For FY20 we are assuming that there will be a V shape recovery due to push by government to infrastructure sector as it is the only sector that can generate employment for labours. Estimated profit and loss statement is mentioned below.

| Income Statement | | | | | | |
|---|---|---|---|---|---|---|
| **Year ending March(Rs Crores)** | **FY 2017** | **FY-2018** | **FY-2019** | **FY-2020E** | **FY-2021E** | **FY-2022E** |
| | | | | | | |
| **Net Sales** | 1,604.30 | 2,050.70 | 2,787.10 | 2,981.25 | 2,534.06 | 3,040.88 |
| Growth (%) | 13.86% | 27.83% | 35.91% | 6.97% | -15.00% | 20.00% |
| Material Expenses | 966 | 1208.7 | 1720.3 | 1,550.92 | 1,317.71 | 1,581.26 |
| Employee Expenses | 126.7 | 197.1 | 247.7 | 250.15 | 210.30 | 293.31 |
| Other Operating Expenses | 261.1 | 323.7 | 382.8 | 700.41 | 630.37 | 694.97 |
| **EBIDTA** | 250.5 | 321.2 | 436.3 | 479.77 | 375.68 | 471.34 |
| **EBIDTA(%)** | 15.6 | 15.7 | 15.7 | 16.09% | 14.83% | 15.50% |
| Depreciation | 55.6 | 72.7 | 102.2 | 122.39 | 96.04 | 117.21 |
| **EBIT** | 194.9 | 248.5 | 334.1 | 357.38 | 279.64 | 354.13 |
| Other Income | 31.1 | 28.5 | 28.1 | 29.13 | 29.13 | 29.1300 |
| Interest | 66.2 | 70.4 | 93.9 | 94.79 | 104.33 | 125.59 |
| **PBT** | 159.8 | 206.6 | 268.3 | 291.72 | 204.44 | 257.67 |
| Tax | 52.5 | 70.1 | 91.2 | 72.93 | 51.11 | 64.42 |
| **RPAT** | 107.3 | 136.5 | 177.1 | 218.79 | 153.33 | 193.26 |
| **PAT** | 102.3 | 132.8 | 177.1 | 218.79 | 153.33 | 193.26 |
| **EPS** | 13.51 | 17.54 | 23.39 | 28.90 | 20.25 | 25.53 |
| **EPS Growth(%)** | 3.79% | 29.81% | 33.36% | 23.54% | -29.92% | 26.04% |

*Estimated Profit and Loss Statement till FY 2022*

In the reserves, securities premium and general reserve was kept constant. Retained earnings was calculated by subtracting dividend from PAT. Amount of dividend was calculated using dividend pay-out ratio. Dividend pay-out ratio for FY20,21 and 22 was calculated using averages of last 3 years. Snapshots of calculation of DPR and reserves are mentioned below.

| Calculation | | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| Dividend Payout ratio | 17.79% | 13.70% | 10.28% | 13.92% | 12.64% | 12.28% |

| CALCULATION OF RESERVES | | **2020** | **2021** | **2022** |
|---|---|---|---|---|
| Sec pr reserve | | 685.9 | 685.9 | 685.9 |
| general reserve | | 79.406 | 79.406 | 79.406 |
| retained earnings | | 1052.69 | 1184.66 | 1351.01 |
| **total** | | 1817.991454 | 1949.970139 | 2116.316398 |
| CALCULATION OF RETAINED EARNINGS | | | | |
| op. | | 864.36 | 1052.69 | 1184.66 |
| np of cy | | 218.79 | 153.33 | 193.26 |
| div | | -30.46454602 | -21.34958732 | -26.9090724 |
| | | | | |
| total | | 1052.69 | 1184.66 | 1351.01 |

In order to estimated debt, debt equity ratio was used. Ratio of 7:3 was maintained between short term debt and long-term debt. Further, gross block was calculated using average of asset turnover ratio of previous years. CWIP increased with constant rate of 10%. In order to estimate non-current assets, average of percentage change in non-current assets was considered. Inventory was calculated as percentage of material expenses and moving average of past 3 years. Similarly, debtors and creditors were calculated. Debtors were calculated using revenue whereas creditors were calculated using material expense. Other current assets consist of security to supplier, advances to suppliers, prepaid expenses and balances with the govt. Suppliers were taken as percentage of material expense. Prepaid expenses were taken as percentage of total expenses. Averages of last year was used for balances with the govt. Other current liabilities and provision was estimated using averages of change in past years.

| **Balance Sheet** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year ending March (Rs Crores)** | **FY 2016** | **FY 2017** | **FY-2018** | **FY-2019** | **FY-2020E** | **FY-2021E** | **FY-2022E** |
| **SOURCES OF FUNDS** | | | | | | | |
| Share Capital | | 37.8 | 37.8 | 37.8 | 37.8 | 37.8 | 37.8 |
| Reserves | | 1353 | 1470.9 | 1629.7 | 1,817.99 | 1,949.97 | 2,116.32 |
| **Total Shareholders Funds** | | **1390.8** | **1508.7** | **1667.5** | **1,855.79** | **1,987.77** | **2,154.12** |
| Long Term Debt | | 53 | 215.3 | 228.6 | 269.53 | 258.90 | 312.00 |
| Short Term Debt | | 383.8 | 365.1 | 462.5 | 628.9 | 604.10 | 728.00 |
| **Total Debt** | | **436.8** | **580.4** | **691.1** | **898.43** | **863.00** | **1,040.00** |
| Deferred Taxes | | 18.4 | 28.9 | 36.6 | 36.60 | 36.60 | 36.60 |
| **TOTAL SOURCES OF FUNDS** | | **1846** | **2118** | **2395** | **2791** | **2887** | **3231** |
| **APPLICATION OF FUNDS** | | | | | | | |
| Net Block | | 511.4 | 716.1 | 778.8 | 1,068.80 | 929.64 | 1,082.49 |
| CWIP | | 71.2 | 126.2 | 79.8 | 87.78 | 96.56 | 106.21 |
| Investments | | 0.3 | 15 | 31.6 | 33.60 | 33.60 | 33.60 |
| Other Non Current Assets | | 248.1 | 271.7 | 335.7 | 411.69 | 488.13 | 593.49 |
| **Total Non-current Assets** | | **831** | **1129** | **1225.9** | **1,601.87** | **1,547.92** | **1,815.79** |
| Inventories | 486.2 | 643.6 | 814.3 | 918.7 | 968.80 | 804.86 | 932.67 |
| Debtors | 295.6 | 486.1 | 528.8 | 498.6 | 661.6 | 692.66 | 662.16 |
| Cash & Equivalents | 173.6 | 100.6 | 97.5 | 70.4 | 175.00 | 149.00 | 189.00 |
| ST Loans & Advances, Others | 104 | 63.8 | 78.8 | 33.8 | 33.80 | 33.80 | 33.80 |
| Other Current Assets | 228.2 | 638 | 713.1 | 749.9 | 587.87 | 758.22 | 785.47 |
| **Total Current Assets** | | **1932.1** | **2232.5** | **2271.4** | **2,427.09** | **2,438.53** | **2,603.10** |
| Creditors | 114 | 180.3 | 329.2 | 397.6 | 428.13 | 342.40 | 404.28 |
| Other Current Liabilities & Provns | 196.4 | 736.8 | 914.3 | 704.6 | 809.45 | 757.03 | 783.24 |
| **Total Current Liabilities & Provns** | | **917.1** | **1243.5** | **1102.2** | **1,237.58** | **1,099.42** | **1,187.52** |
| **Net Current Assets** | | **1015** | **989** | **1169.2** | **1,189.5** | **1,339.11** | **1,415.58** |

*Estimated Balance Sheet till FY 2022*

Using figures from balance sheet and profit and loss statement, ratios were calculated.

| Profitabilty(%) | | FY 2017 | FY 2018 | FY 2019 | FY 2020E | FY 2021E | FY 2022E |
|---|---|---|---|---|---|---|---|
| GPM | (Revenue-COGS)/Revenue | 39.80% | 41.10% | 38.30% | 47.98% | 48.00% | 48.00% |
| EBITDA Margin | EBITDA/REVENUE | 15.61% | 15.66% | 15.65% | 16.09% | 14.83% | 15.50% |
| EBIT Margin | EBIT/REVENUE | 12.15% | 12.12% | 11.99% | 11.99% | 11.04% | 11.65% |
| PAT Margin | PAT/REVENUE | 6.38% | 6.48% | 6.35% | 7.34% | 6.05% | 6.36% |
| RoE | RPAT/TOTAL EQUITY | 7.71% | 9.05% | 10.62% | 11.79% | 7.71% | 8.97% |
| **Efficiency(%)** | | | | | | | |
| Tax Rate | | 32.9 | 33.9 | 34 | 25 | 25 | 25 |
| Asset Turnover | REVENUE/TOTAL ASSETS | 0.83 | 0.92 | 1.23 | 1.23 | 1.04 | 1.17 |
| Inventory days | 365*INVENTORY/COGS | 243.18 | 245.90 | 194.92 | 228.00 | 222.94 | 215.29 |
| Debtor days | 365*RECEIVABLES/REVENUE | 110.59 | 94.12 | 65.30 | 81.00 | 99.77 | 79.48 |
| Payable days | 365*PAYABLES/REVENUE | 41.02 | 58.59 | 52.07 | 52.42 | 49.32 | 48.53 |
| **Solvency** | | | | | | | |
| D/E | DEBT/EQUITY | 0.05 | 0.16 | 0.16 | 0.16 | 0.15 | 0.16 |
| Interest Coverage | EBIT/INTEREST | 2.94 | 3.53 | 3.56 | 3.77 | 2.68 | 2.82 |
| EPS | EARNINGS/SAHRE PRICE | 13.51 | 17.54 | 23.39 | 28.90 | 20.25 | 25.53 |
| **Valuation** | | | | | | | |
| P/E | SHARE PRICE/EPS | 6.99 | 5.39 | 4.04 | 3.27 | 4.67 | 3.70 |
| DIVIDEND YIELD RATIO | DIVIDEND PER SHARE /SHARE PRICE | 2.55% | 2.55% | 2.55% | 4.26% | 2.99% | 3.77% |

Gross profit margin does not increase with greater margin after FY 2020. EBITDA Margin, EBIT Margin, PAT Margin and ROE dipped in 2021 due to lockdown showing covid-19 impact. As we are expecting V shape recovery in FY 2022, profitability, efficiency and solvency has improved in FY 2022. We are expecting increase in receivable and payable days due to lockdown and slowdown in economy.

| Cash Flow Statement | | | | | | |
|---|---|---|---|---|---|---|
| **Year ending March (Rs Crores)** | **FY 2017** | **FY-2018** | **FY-2019** | **FY-2020E** | **FY-2021E** | **FY-2022E** |
| Reported PBT | 159.8 | 206.6 | 268.3 | 291.72 | 204.44 | 257.67 |
| Interest expenses | 42.9 | 45.5 | 68.6 | 94.79 | 104.33 | 125.59 |
| Depreciation | 55.6 | 72.7 | 102.2 | 122.3900 | 96.0406 | 117.2058 |
| Working Capital Change | -110.8 | 22.9 | -207.3 | 84.29 | -175.60 | -36.48 |
| Tax Paid | 74.6 | 68.5 | 73.8 | 72.9300 | 51.1094 | 64.4184 |
| **OPERATING CASH FLOW ( a )** | **72.9** | **279.2** | **158** | **520.26** | **178.10** | **399.57** |
| Capex | -140 | -332.8 | -109.6 | -142.17 | 156.74 | -183.67 |
| Free cash flow (FCF) | -67.1 | -53.6 | 48.4 | 378.09 | 334.84 | 215.90 |
| **Investments + interest** | **164.7** | **-12.2** | **-16.2** | **-3.03** | **0.00** | **0.00** |
| **INVESTING CASH FLOW ( b )** | **24.7** | **-345** | **-125.8** | **-145.20** | **156.74** | **-183.67** |
| Share capital Issuance | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| Debt Issuance | 94.7 | 143.5 | 110.7 | 166.4 | -24.80 | 123.90 |
| Interest expenses | -66.2 | -70.3 | -93.9 | -94.79 | -104.33 | -125.59 |
| Dividend | -18.2 | -18.2 | -18.2 | -30.46454 | -21.34958 | -26.90907 |
| **FINANCING CASH FLOW ( c )** | **10.3** | **55** | **-1.4** | **41.1** | **-150.48** | **-28.60** |
| **NET CASH FLOW (a+b+c)** | 107.9 | -10.8 | 30.8 | 416.2 | 184.36 | 187.30 |

## VALUATION MODEL

Valuation model for XYZ Ltd was prepared using 5GP10NP method. Under this method value which is higher between 5*gross profit and 10*net profit is chosen.

We have valued XYZ Ltd on P/E at 12x Mar-21EPS. Our investment thesis is premised on

- Strong order backlog of Rs 124.bn as of 3QFY20 (3.9X FY20 Revenue)
- Stable balance sheet and well diversified presence

across different infrastructure sub segments viz. metros, flyovers, bridges, dams, canals etc.

| | FY20 | FY21 | FY22 |
|---|---|---|---|
| SALES | 2,981.25 | 2,534.06 | 3,040.88 |
| EBDITA | 479.77 | 375.68 | 471.34 |
| PAT | 218.79 | 153.33 | 193.26 |
| | | | |
| **VALUATION BENCH MARK** | | | |
| 5*EBITDA | 2398.85 | 1878.3852 | 2356.678125 |
| 10*PAT | 2187.9 | 1533.282724 | 1932.553319 |
| WHICHEVER IS HIGHER | 2398.85 | 1878.3852 | 2356.678125 |
| NO. OF SHARES | 7.56 | 7.56 | 7.56 |
| VALUE PER SHARE | 317.3082011 | 248.4636508 | 311.7299107 |
| | | | |
| | | | |
| Current price | 94.45 | 94.45 | 94.45 |
| Call | BUY | BUY | BUY |

## EQUITY RSEARCH REPORT

An equity research report is a document that provides advice whether to hold, sell or buy a company's stock. It is usually prepared by analysts. Equity research report includes overview of the company, highlights of recent period, financial indicators, details on management team peer comparison, overview of the industry the company operates in and forecasted statements.

Equity research report created for XYZ Ltd includes

- Overview of infrastructure sector

- Recent updates or highlight about the company that includes news releases, annual report, quarterly information, ongoing orders, major changes in management etc.
- Financial information including revenue, expenses, assets, liabilities or debt, cash flows and valuation. Here not only recent figures but also forecasted figures for next few years also mentioned.
- Stock performance and shareholding pattern of XYZ Ltd
- Financial summary containing revenue, EBITDA margin, adjusted PAT of Q3 FY20 and 9Months of FY20.
- Margin analysis explaining material expense, employee expense and other operating expenses for Q3 FY20 and 9MFY20. Data of last quarter and nine months was compared on Quarter on quarter basis as well as Year on year basis. Financial performance of YoY basis is more consistent that QoQ basis.
- Major assumptions while forecasting
- Key estimates and assumptions that were used in preparing financial model.
- Valuation of stock of XYZ Ltd using 5GP10NP formula. Using valuation recommendations were given to buy or sell the stocks. Peer comparison was performed on the basis of market capitalization, current share price, book value, 52 high/low, EPS, dividend yield, Stock P/E, ROCE, Debt equity ratio. Recommendations for peer companies was also given.
- On the basis of financial model prepared till FY20, profitability ratios, efficiency ratios, solvency ratios and valuation ratio were calculated.

## INVESTOR PRESENTATION & PITCH

An investor presentation tells the story about the company. The purpose of the presentation or pitch is to convince the investor to invest in the company. Presentation and pitch made for XYZ Ltd. includes:

- Overview of the company
- Business verticals
- Journey of the company
- Key strengths of the company

- Information about key management
- Information about independent directors
- Information about key managerial personnel
- Shareholding pattern of the company
- Future opportunities
- Key updates of FY20
- Financial highlights that includes some key ratios and performance indicators
- Financial performance of the company during 9 months of FY20.
- Breakup of order book
- Graphs showing growth in order book
- Strategies followed by the company
- Equipment bank of the company
- Information about completed and ongoing projects
- Balance sheet and profit and loss statement
- Risk to the business
- Future of the industry

## 3. EXPLORATION OF ALTERNATIVES

XYZ Ltd is planning to raise 250 Cr. through most viable sources of funds. Following are the sources of financing that can be opted by XYZ Ltd.

- **Banks**

  Banks or other financial institutions prefer companies having good CIBIL score. CIBIL score is a three-digit number known for measuring an individual's credit worthiness. A company having low debt equity ratio and good credit history has more probability of raising funds. Having any kind of default in the past reduces CIBIL score even if the defaulted loan was paid. Collateral security for mortgage is also demanded by some banks. Raising funds from banks is a long and complex procedure. Various procedures related to documentation and other compliances need to completed by the borrower. Due to increase in number of NPAs the banks had implemented stricter policies which has complicated the process of raising funds through the banks. Due to Covid-19 RBI has reduced repo rate but all banks are not acting on the same lines. The relief given by various banks is not enough for borrowers. Further, banks usually don't grant loan until unless previous balance has been cleared. Interest rates of banks are high but they are tax deductible expenses.

- **Public Offering or Equity Financing**

  Under this method, funds are raised through public by offering them equity shares. Before offering equity shares to public, the management can decide to issue shares to existing shareholders at discounted rate. The procedure is governed by various local and national authorities. It is a costly and time taking procedure. Here, memorandum or prospects need to be issued to public which should have all the authentic information that is required by an investor to make decision. Further, with the issue of shares to public there will be equity dilution. With the increase of shareholders earnings and controlling power will be divided between more shareholders. Existing shareholders may have issue with the risks.

- **Preference share capital**

  Preference share capital is a hybrid of debenture and equity share capital. Here the shareholder gets dividend before equity shareholder but does not having any voting right. Raising funds through preference share will not dilute control of existing shareholders over the company. But the procedure to raise funds through this method is also time consuming and costly.

- **Preferential allotment**

  Under this method shares are allotted to individuals who are interested in the company for strategic purposes. Here the investors are offered shares at predetermined price. Individuals can be a company, venture capitalist, financial institution, bank etc. The aim of allotting through this method is to have shareholders on board that are useful for the company. Before preferential allotment special resolution is made before existing shareholders as large chunk shares are allotted through this method. Three fourth of the shareholders need to pass the resolution. This method is less time consuming and less costly.

- **Qualified Institutional Placement (QIP)**

  Under this method funds are raised through qualified institutional buyers via equity shares, fully and convertible debentures or any security other than warrants that are convertible into equity shares. Special resolution needs to be passed for QIP. QIP is the fastest method as documentation procedure is not time consuming. This method saves ancillary expenses. Here, chances of bargaining are better.

## 4. CRITERIA FOR EVALUATION

Infrastructure sector is more vulnerable to risks which can reduce its profit as it is a capital-intensive sector. Any change in operational cycle makes it vulnerable to loss. Chances of increase in operational cost are more due to lockdown in First quarter of FY2021. It is better to choose less risky and costly source of finance. Long term source of financing is a better choice as compared to short term or medium-term source of financing due to current economic situation. Impact of covid-19 in current financial year can lead to increase in receivable days and high operating cost. Further, long term source of financing is cheap which can help in managing operational cycle as well as operational cost and finance cost. In the current situation, price of stocks of public companies are fluctuating heavily therefore source of finance needs to be chosen wisely. While choosing source of finance current shareholders should be considered. Therefore, source of finance should be such that it creates wealth for shareholders in future.

## 5. EVALUATION OF THE ALTERNATIVES

In order to evaluate various alternatives impact of various alternatives on financial performance of the company needs to be considered. Source of finance affects finance cost, debt equity ratio, EPS and P/E ratio. Further, it can also affect credit rating of the firm and cost of sourcing excluding annual finance cost. Average completion time for a civil project is 3 to 5 years. Therefore, long term source of finance is a better option for the company in current scenario.

Bank loans are complex and time taking source of finance. Further, assets need to be put as collateral security. Apart from being time consuming loans from banks are also not cheap as few banks don't pass the benefit given by RBI. With the increase in NPAs banks have reduced their cooperation. Moreover, there is risk of leaking of confidential information through banks which makes it hard for the companies to trust banks as a trust worthy source of finance. Public offering is another alternative. Public offering is a costly and time-consuming procedure consisting of various documentation procedures of local as well as central authorities. The company also needs to go through various legal procedures and regulations. Raising funds from public will increase shareholders of which may concern existing shareholders as their voting power will dilute. But this method is considerable as it will not increase debt equity ratio and finance cost of the firm. Preferential allotment is again a considerable option as it is less time consuming. There are no major legal procedures that need to be completed. The management will have option of bargaining. Unlike public offering here the company will have control over who will possess shares of the company. Using preferential allotment, the company can welcome valuable shareholders on board. Current WACC might increase if equity is selected over debt. QIP is one of the best options for listed companies that want to raise funds through less risky, time consuming and complex source of finance. Only qualified buyers participate in QIPs. Hence, QIP is the best source of finance in the current situation.

# 6.CONCLUSION

## 6.1. NATURE OF THE SOLUTION

QIP best suits the long-term financing need of XYZ Ltd on the basis of various alternatives of financing available and industry nature & structure. QIP not only reduces unnecessary expenses related to legal work, documentation and labour hours but also helps in saving time. Other sources are not only expensive but also time consuming. This mode of financing will help the firm in obtaining funds when required quickly from qualified buyers.

## 6.2. RECOMMENDATIONS AND ACTION PLAN

After the selection of the financing option, the company should find the interested investors on various forums and networking sites. The selection criteria of the investors must be such that the strategy and the goals of the company are aligned with those of the investors which is a difficult task. It is hard to find investors who have similar vision like promoters for the company. In order to find such investors, the company can check the past record of the investors. Past record will help us in getting information about their choice of investment, portfolio, nature of involvement & decision making in the management etc. It will help us in understanding their expectations from the investment and vision for the company. Next, terms of the contract as well as future expectations need to be discussed. After deciding terms of the contract legal documents like MOU, NDA, NCA etc. need to submitted in order to complete the process.

## 6.3. CONTINGENCY PLAN

If in any case the company fails to raise funds through QIP, then it can raise it through preferential allotment. It is not viable for the company to raise funds through public offering as it is expensive and time consuming. Further, preferential allotment seems to be a decent option as the company can chose valuable shareholders.

# LEARNINGS AND SKILLS DEVELOPED

## INVESTMENT BANKER

Investment banker acts as a middleman between promoters of a company and investors. They channelize funds from buyer to seller. In this case, sellers are promoters of a company and buyers are the investors. Investment bankers help in creating structured deal to protect interest of all the parties involved in the deal. Functions of investment banking is not restricted to investment banking but also includes advising, analysing, risk management, compliance, valuation, negotiation etc.

# MERGER AND ACQUISITION

Integration of resources of two companies to increase market share and improve economies of scale is known as merger. Mergers reduce competition but increase resistance from employees. Managing new organisation is a complex affair.

Buying of one company by another is known as acquisition. Here, one company is submerged into another hence no new company is formed. Motives behind acquisition can possibly be improving economies of scale, taxation benefits, empire building, diversification, vertical integration, horizontal integration etc. There are two times of acquisitions friendly acquisition and hostile acquisition. Friendly acquisition is like merger between two equals where negotiation is done smoothly, and, Hostile acquisition is unwilling takeover of a company by another company. Here, acquiree does not have prior information of takeover.

**Process followed in mergers and acquisitions:**

➢ Development of acquisition strategy: In this step, purpose of acquisition is stated. Purpose of acquisition states clear intention of acquiring the company or the gain that will be derived from acquisition.

➢ Creating key search criteria: In order to search potential target companies for acquisition search criteria (Profit Margin, Asset Turnover Ratio, Receivable Days, ROE, EPS) need to be set.

➢ Identifying potential targets: Using key search criteria, potential companies are being identified and evaluated.

➢ Acquisition planning: After evaluating identified company one or more companies are finalised. They are being contacted to get more information and possibility of negotiation for cooperation.

➢ Valuation: Acquirer asks acquiree company for more financial information to evaluate the company.

➢ Negotiations: After creating valuation model and collecting required information to create a reasonable offer, negotiation terms in details are discussed.

➢ Due Diligence: It is an exhaustive process that takes place when the offer has been accepted. Under this process, detailed examination of every aspect of target company is being conducted to confirm value of acquiree company.

➢ Execution of purchase and sales contract: After negotiating term of contract deal is executed. Decision to make cash or share purchase is taken.

➢ In order to finance deal various financing options are explored. Financing strategy is formed.

➢ Closure of deal: Deal is being closed and management of both organisations work towards successful integration of two companies.

## VALUATION METHODS

Company can be valued by various methods few of them are below mentioned

- **ASSET VALUATION METHOD:** In this method, business is valued through assets of the company. Emphasis is majorly on assets that generates cash flow. Both tangible and intangible assets are considered. Generally, this method is adopted before sale or purchase of a company. Value = Market value / Book value – Total liability.
- **HISTORICAL EARNINGS VALUATION**: In this method, business is valued on its ability to capitalize cash flows and pay its debts. Value of the company degrades when they are not able to pay their dues. In order to compute value of company, data of past 3 to 5 years from financial statements is required.
- **DISCOUNT CASH FLOW VALUATION:** Future cash flow estimate of the company is calculated in this method. Future value of potential investments is assessed using WACC as the discounting rate. Buyers usually find company attractive only when value of discounted cash flow is more than cost of the company.
- **FUTURE MAINTAINABLE EARNINGS VALUATION:** This method is preferable when future cash flows of the organisation are stable otherwise, one has to use the

Discount cash flow valuation method to calculate the future cash flow estimates. It includes evaluation of expenses, revenues and other financial date of past three years.

## QUALIFIED INSTITUTIONAL PLACEMENT

It is another way to raise capital for listed companies. It is a much less complex way to raise capital. SEBI brought QIP into existence to reduce dependency on foreign capital. Only qualified institutional buyers are eligible to purchase QIPs. Equity shares, fully and partly convertible debentures and any other securities other than warrants are some of the securities that can be traded as QIPs.

## LEVERAGE BUYOUT

Acquiring (mostly hostile acquisition) the target company using debt is known as leverage buyout. Here, 90% is debt and 10% is equity. Assets of the acquirer company and acquiree company are held as collateral against loan. Aim of such acquisition is to operate firm efficiently. An LBO candidate should have low debt, strong management team, sustainable competitive advantage and strong market position. Sometimes acquirer use high leverage to take control and reduce resistance in the management. Banks and financial institution are restricted from advancing loan to domestic company for acquiring shares in a domestic company but they grant permission for acquiring in foreign companies. Generally, companies use cash flow and sales of assets in order to pay high interest debt which reduces credit rating of the company. Hence, vulnerable companies should avoid LBO.

## CASES

Real life cases like the NCLT Case made me realize that an investment banker job requires to find apt solution for its clients. The solution should put both the parties in win-win situation. Fundamental analysis and accurate forecasting of the company boosts confidence of investors. Another case brought the focus on combination of health care industry and real estate sector. In this case, MWH Holdings was able to generate leasing solution for the hospital which reduced high construction cost and also proved a great real estate investment for another company.

## 6MT MATRIX

| | MARKET | MONEY | MACHINE | METHOD | MATERIAL | MAN | TIME |
|---|---|---|---|---|---|---|---|
| WHAT | | | | | | | |
| WHY | | | | | | | |
| WHEN | | | | | | | |
| HOW | | | | | | | |
| WHERE | | | | | | | |
| WHICH | | | | | | | |

The above matrix is a 6MT matrix used to explore possible hurdles and multiple situations while executing any project. This matrix helps in identifying various questions or situations that could arise while executing any project.

## FINANCIAL ANALYSIS

Financial analysis can be used using various techniques. Choice of the technique depends on the organisation and the purpose of financial analysis. Every technique has its own pros and cons, here investment banker needs to be very careful in choosing the right technique that solves the purpose. Following are some of the techniques:

- **HORIZONTAL ANALYSIS**: In this analysis, percentage change of line items with respect to base year is calculated. Here, degrowth in the industry can lead to wrong estimations despite the company performing well.
- **VERTICAL ANALYSIS:** In this analysis, line items are compared with either revenue or total assets in the financial statements. Here, analysis can't be done for multiple periods.
- **TREND ANALYSIS:** In this method, trend of various items is calculated. Using this method past years trend can be calculated which can be useful in forecasting for further years.
- **LIQUIDITY ANALYSIS:** In this method, quick ratio and current ratio are calculated in order to measure liquidity position of the company. It judges ability of company to meet their short-term commitments.
- **SOLVENCY ANALYSIS**: It judges ability of the firm to meet their long-term commitments. It judges financial health of a company.

- **PROFITABILITY ANALYSIS**: This analysis help investors in analysing profitability of a company using GP ratio and Net profit ratio. Helps in analysing return on investment.
- **SENSITIVITY ANALYSIS**: It is also called "What If Analysis". Here, analysis is performed assuming various situations.
- **VARIANCE ANALYSIS:** It analyse difference and the reason of difference between budgeted and actual figures.

## FINANCIAL MODELLING

Creating a spreadsheet which includes summary of revenue and expenses of a company. The spreadsheet is built in such a way that with the change in external conditions future results can be changed. In the process of preparation of financial model assumptions are core. Assumptions are independent variable whereas rest of the figures are dependent variables. Usually financial analyst creates financial models to judge impact of any decision on the financial performance of any company in near future. These are decision making tools. It helps in valuation of business as well as peer comparison.

## SKILLS DEVELOPED

- I learnt that various parameters that need to be considered while performing financial analysis of a company.
- I have also learned to forecast various financials of a company using most relevant and appropriate assumptions that may vary with situation in external environment.
- I have also created a financial model for J Kumar Infra Projects Ltd. where various assumptions on the current scenario were taken while forecasting for next 3 years.
- I have gained skill of performing valuation using 5 GP 10 NP method.
- I learned to create an investor pitch, investor presentation and equity report.
- Through various tasks performed in this internship, I enhanced my analytical skills.

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