Financials of Manish Detergents case study solution

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Short Description
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Description
CASE STUDY

Fifteen years ago, Manish Kothari set up a company called Manish Detergents to make detergent powder. After few years of teething problems the company established itself as low cost producer of good quality detergent powder branded as Manna. For the last decade Manish Detergents has grown profitably. The profit and loss account for year 0 (the year that just ended) and the balance sheet at the end of year 0 for Manish Detergents given below in Exhibit 1.

Exhibit 1Financials of Manish Detergents

Profit and Loss Account *Balance Sheet*

Rs *in million Sources of Funds*

900 Shareholders' funds

209 Loan funds

45

164 24 140

49

91

- Revenues
- PSDIT
- Depreciation
- PSIT
  - Interest
  - PST

500 200

700

- Tax
  - PAT

450 250

700

Application of Funds Net fixed assets

Net current assets

The paid up capital of Manish Detergents is Rs. 100 million divided into 10 million shares of Rs. 10 each. All the shares are presently held by Manish Kothari, who is planning to take the company public by selling 4 million of his existing shares. The purpose of the issue is to enable Manish Kothari to liquefy a portion of his equity. Once the equity of Manish Detergents is listed it will help the company in raising capital from the market as and when required in the future.

Manish Kothari called Ajay Kapoor, vice president of Indus Capital, a merchant banking firm, to help him in estimating the worth of his shares.

Ajay Kapoor asked Manish Kothari to spell out his plans for the next 5 to 10 years, develop the forecast for financial performance and investment requirements, and indicate

his target debt-equity ratio. '

Manish Detergents is currently operating mainly in western India but it had definite plans to set up a unit in Hyderabad in the next two years to serve the southern market. This will require substantial investment in factory, godowns, and current assets. Since this investment will take some time to start yielding results, Manish expects a short-term dip in profits. However, once the southern venture takes off Manish is confident that profits will improve.

Taking into account the above, Manish Kothari has developed forecasts of operating profit and investment requirements which are given in Exhibit 2. Beyond year 6 he expects that Manish Detergents will grow at a steady state of 10 percent and this will apply to its free cash flow as well.

Exhibit 2 IFinancial Forecasts

Part A : Forecasted Operating Profit

	1	2	3	4	5	6
Revenues	950	1000	1200	1450	1660	1770
PBDIT	195	200	210	305	330	374
Depreciation	55	85	80	83	85	87
PBIT	140	115	130	222	245	287

Part B: Forecasted Investments

	1	2	3	4	5	6
Gross investments in fixed assets	100	250	85	100	105	120
Investments in net current assets	10	15	70	70	70	54
Total	110	265	155	170	175	174

Manish Kothari is happy with the present debt-equity ratio of 0.4: 1.0 and plans to keep it that way.

Ajay Kapoor has come up with the following estimates:

• Tax rate : 35 percent

Pre-tax cost of debt : 12 percent

For Manish detergent

- Risk free rate : 8 percent
- Market risk premium : 8 percent
- Beta for the equity of Manish detergent

(using comparative analysis) 1.06

Questions :

1. **1.Calculate the DCF value of the firm**
2. **2.Calculate the value of the equity, assuming that the market value of debt is the same as its book value. /'**
3. **3.Discuss the important guidelines for corporate valuation.**

Details
1. Case study solved answers

2. pdf/word in 24-48 hrs

3. Fully Solved with answers