

WACC

DCF

1.

How to calculate Cost of Equity?

Investor's expected return

CAPM

$$K_e = R_f + B * (R_m - R_f)$$

Risk free return

Market return

What is Beta?

RIL: 1 HUL: 0.5 DLF: 2

Measure of **risk**iness of a stock
relative to the broader market

Regression analysis is used to
calculate Beta

Measuring the distance between stock line and market line

CAPM

$$K_e = 8\% + 1 * (12\% - 8\%)$$

12%

2.

How to calculate **Cost of Debt?**

The **effective rate** that a company
pays on its current debt

Interest rate x (1-tax rate)

Tax shield on interest payments

11% x (1-33%)

7%

3.

How to calculate **WACC**?

Weighted average cost of company's funds

$\text{Debt} / (\text{Debt} + \text{Equity}) * \text{Cost of debt}$

+

$\text{Equity} / (\text{Debt} + \text{Equity}) * \text{Cost of equity}$

Weighted average cost of company's funds

$\text{Debt} / (\text{Debt} + \text{Equity}) * \text{Cost of debt}$

+

$\text{Equity} / (\text{Debt} + \text{Equity}) * \text{Cost of equity}$

4.

Understanding DCF

1.

Past can give you an insight into
future

2.

It's a game of **assumptions**

3.

Valuation is **not about** number
crunching on spread sheets

Facebook announced the purchase of the mobile messaging service WhatsApp on 19th Feb 14, in a \$19bn deal that represents the social media company's biggest acquisition yet



WhatsApp was founded in the year 2009

Facebook's acquisition of mobile messaging service WhatsApp will see venture capital firm Sequoia Capital, the lone investor in the company, walk away with a reported **\$3.5 billion** (Rs 21,000 crore).

Sequoia Capital had invested **\$60 million** (Rs 360 Crore) in WhatsApp.

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