

FINANCIAL MODELING

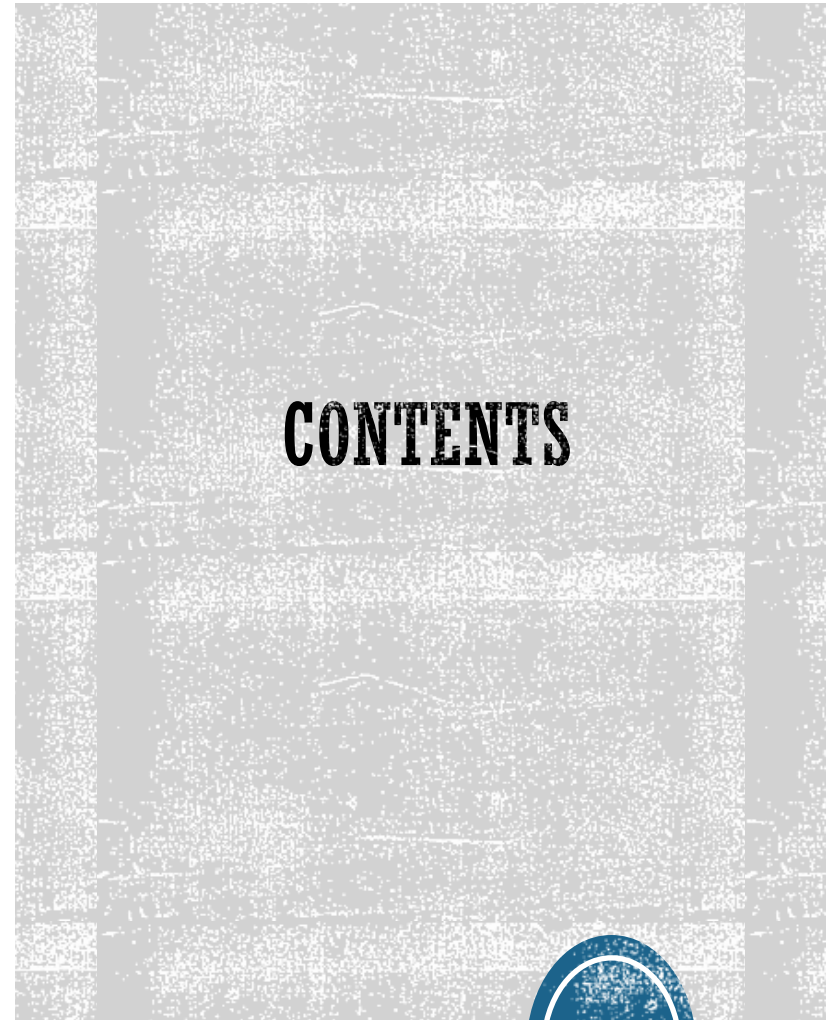
Webinar Series: Financial Modeling

Speaker: CA. Nitesh Bhuta

Date: May 23-25, 30 & 31, 2022



I.	Understanding The Business Model
II.	Collate Data
III.	Preliminary Analysis
IV.	FSA - Historical
V.	Financial Model - Work Flow



I. UNDERSTANDING THE BUSINESS MODEL

Revenue Model - Manufacturing Company

Let us take an example of a manufacturing company producing FMCG products, the obvious revenue model would be 'No. of Units Sold * Price Per Unit', so quantity and price become the natural value drivers, similarly the price at which the company procures its raw materials would be another material consideration in terms of value drivers. The former would impact the topline whereas the latter would impact the margins.

I. UNDERSTANDING THE BUSINESS MODEL

Revenue Model - Service Company

Let us take an example of an IT services company, the material value drivers would comprise of client facing workforce and billing rate. The revenue model for an IT services company is explained below with the help of an equation:

$$\begin{array}{cccc} \text{Client Facing Workforce} & * & \text{No. of Annual Man-Hours} & * & \text{Capacity Utilization} & * & \text{Bill Rate / Hour} \\ (A) & & (B) & & (C) & & (D) \end{array}$$

A - Client Facing Workforce

Out of the total workforce of the IT services company, a substantial portion would be client facing / servicing in other words would be the revenue generating center for the company, whereas the support departments such as human resources, accounts and administration would be cost centers.

B - No. Annual Man- Hours

As the client/customer of a service company is billed based on man-hours employed, it is important to understand the no. of hours of effort put in on an annual basis across hierarchy by the client facing workforce.

I. UNDERSTANDING THE BUSINESS MODEL

Revenue Model - Service Company (Contd.)

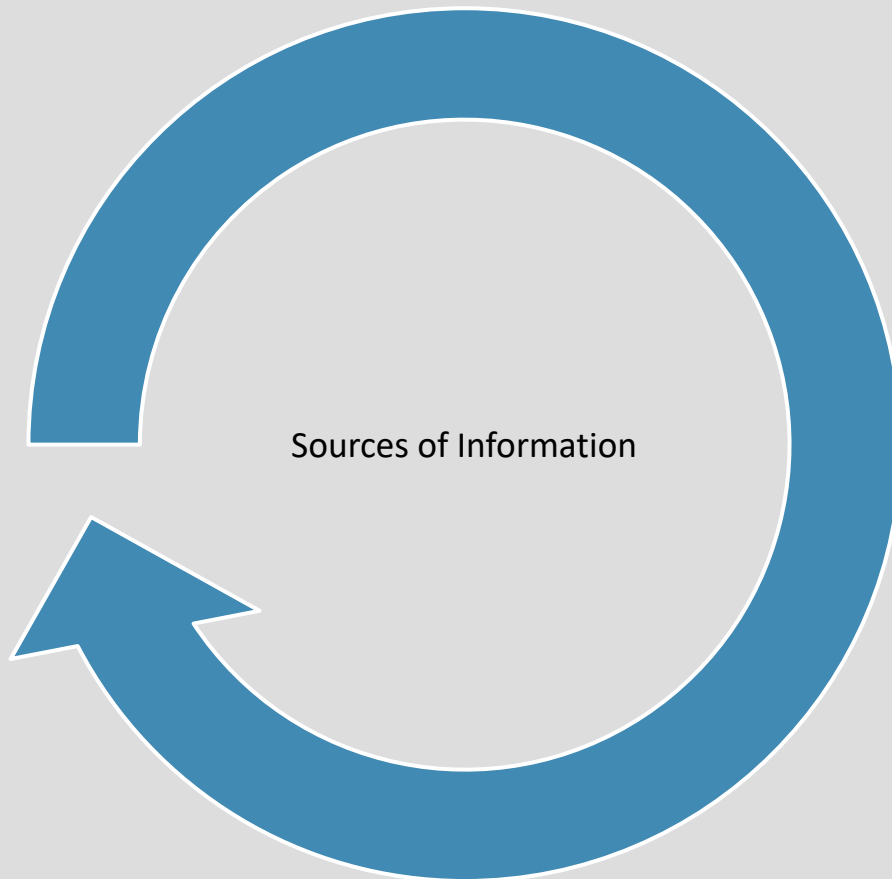
C - Capacity Utilization

Every service company maintains a bench strength for unforeseen circumstances. We would therefore analyze the past performance of the subject company and comprehend the industry standards to analyze the practice pertaining to bench strength.

D - Bill Rate / Hour

The bill rate per hour will vary depending upon the designation of the resource, for e.g. The billing rate for a senior analyst could be ₹ 1,500/ Hour whereas for a manager could be ₹ 5,000/ Hour.

II. COLLATE DATA



- Historical Financial Statements
- Data in Public Domain
- Data on Comparable
- Discussion with Management

II. COLLATE DATA

Data Points: Business & Value Drivers

Data sources for understanding the nature of business and value drivers:

Company Website (About us section) - Product Line & Service Line
Annual Report of the Company - Management Discussion & Analysis Section
Annual Report of the Company - Segment Reporting Section
Research Websites - Screener/ Money Control / Researchbytes
Research Softwares - Bloomberg/ Reuters / Capitaline / Ace Equity

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II. COLLATE DATA

Data Points: Industry Analysis

Reports published
by industry body /
regulator of the
industry

- Automobile - SIAM
- Telecom - TRAI
- Mines & Minerals - IBM
- IT BPM - NASSCOM
- Banking - RBI

Research reports
published by rating
agencies

- CRISIL, CARE, ICRA, Brickworks

Research softwares

- Centre for Monitoring Indian Economy (CMIE)
- Bloomberg
- Reuters

Research websites

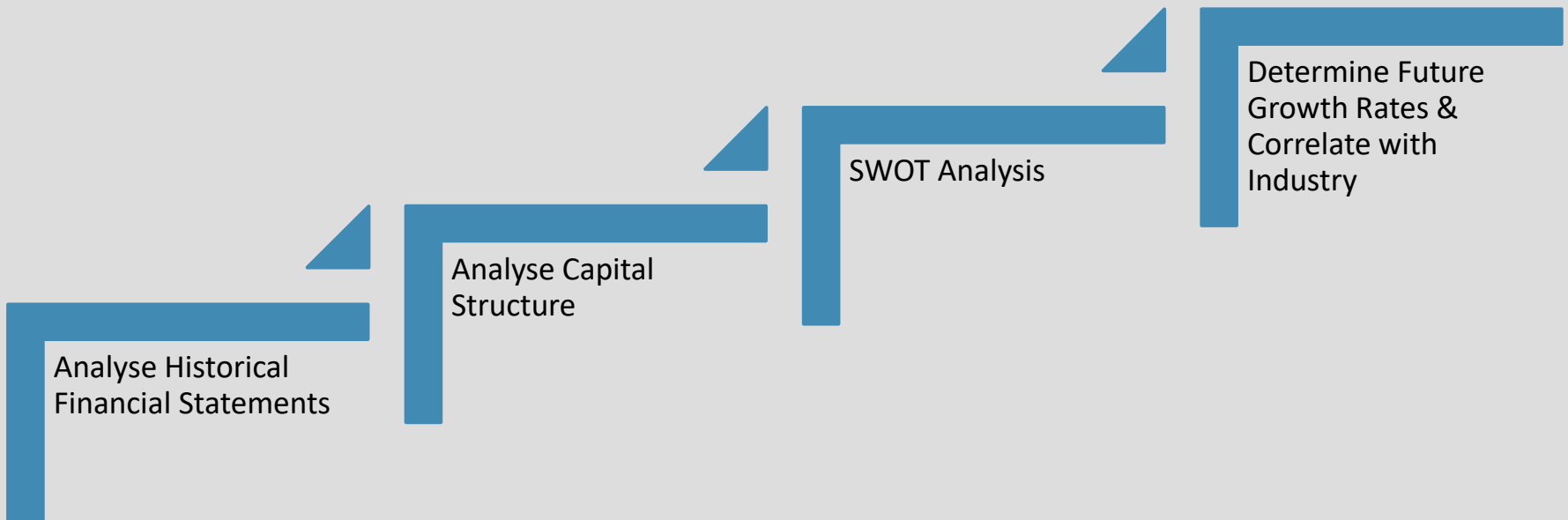
- Researchbytes
- IBEF

Macro data

- Global - World Bank Database
- Domestic - The Ministry of Statistics and Programme Implementation (MOSPI) / Central Statistics Office (CSO)

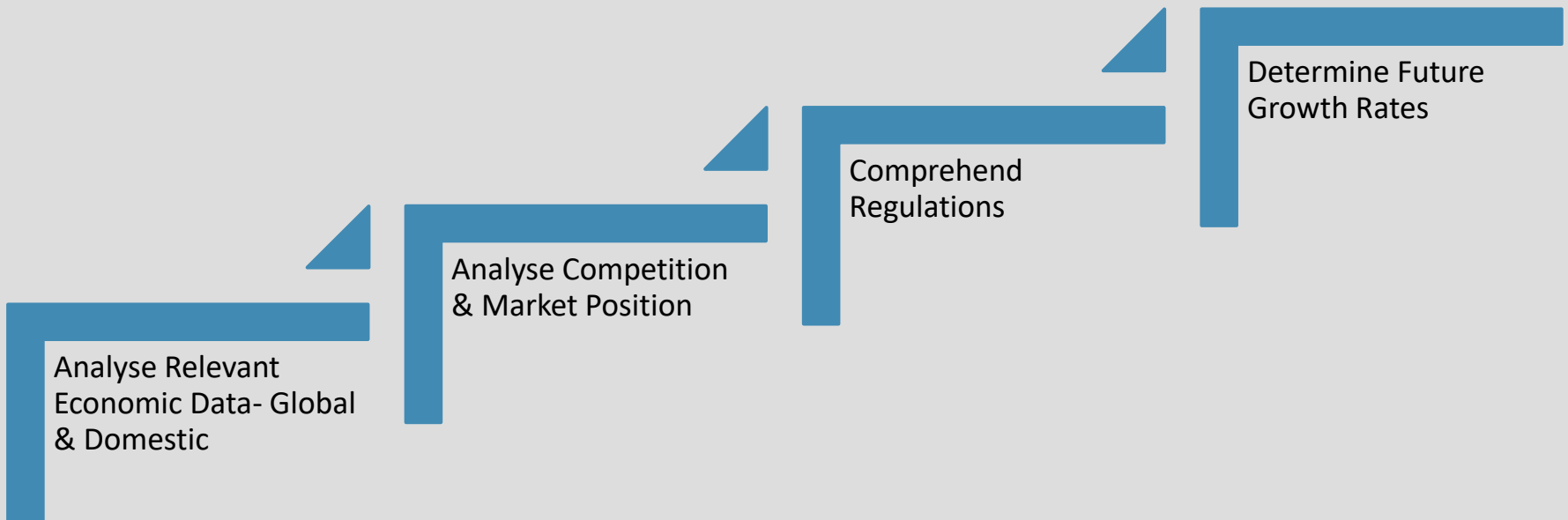
III. PRELIMINARY ANALYSIS

Comprehending the Company/Business:



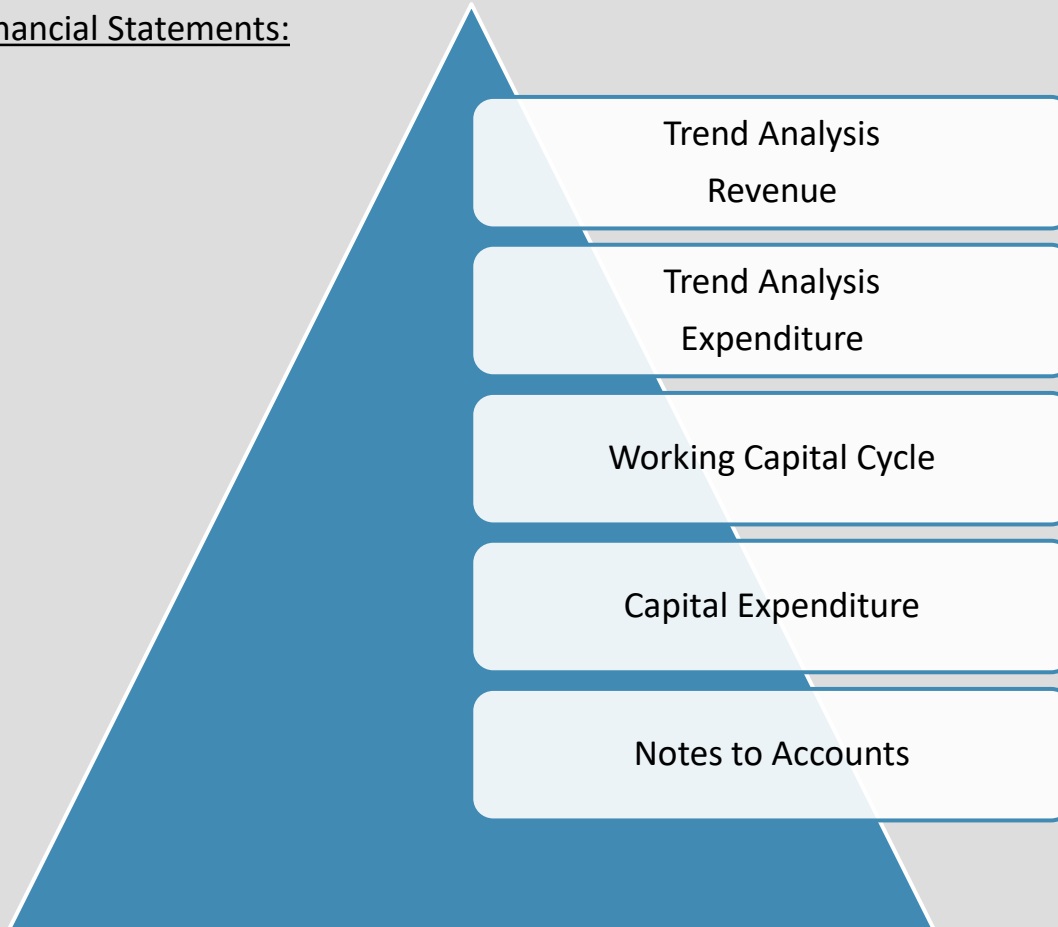
III. PRELIMINARY ANALYSIS

Comprehending the Industry:



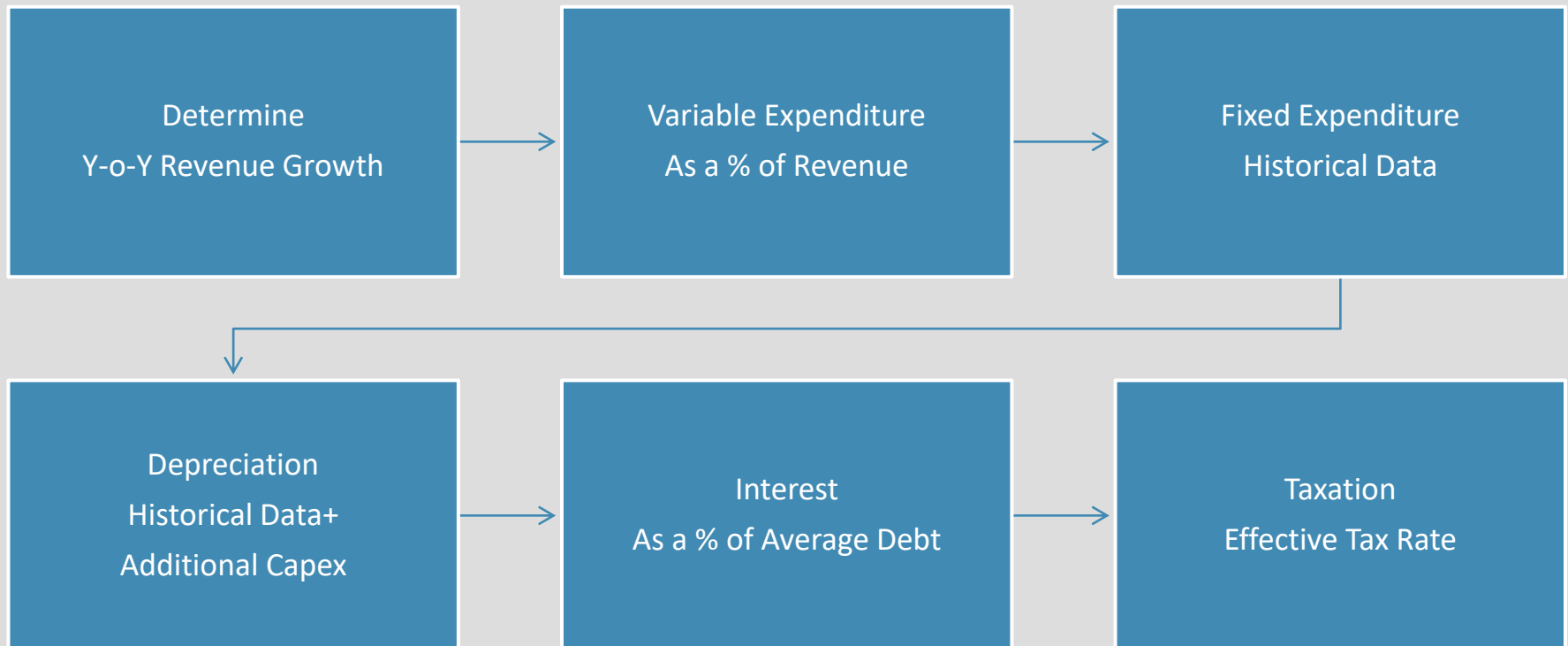
IV. FSA - HISTORICAL

Analyzing Historical Financial Statements:



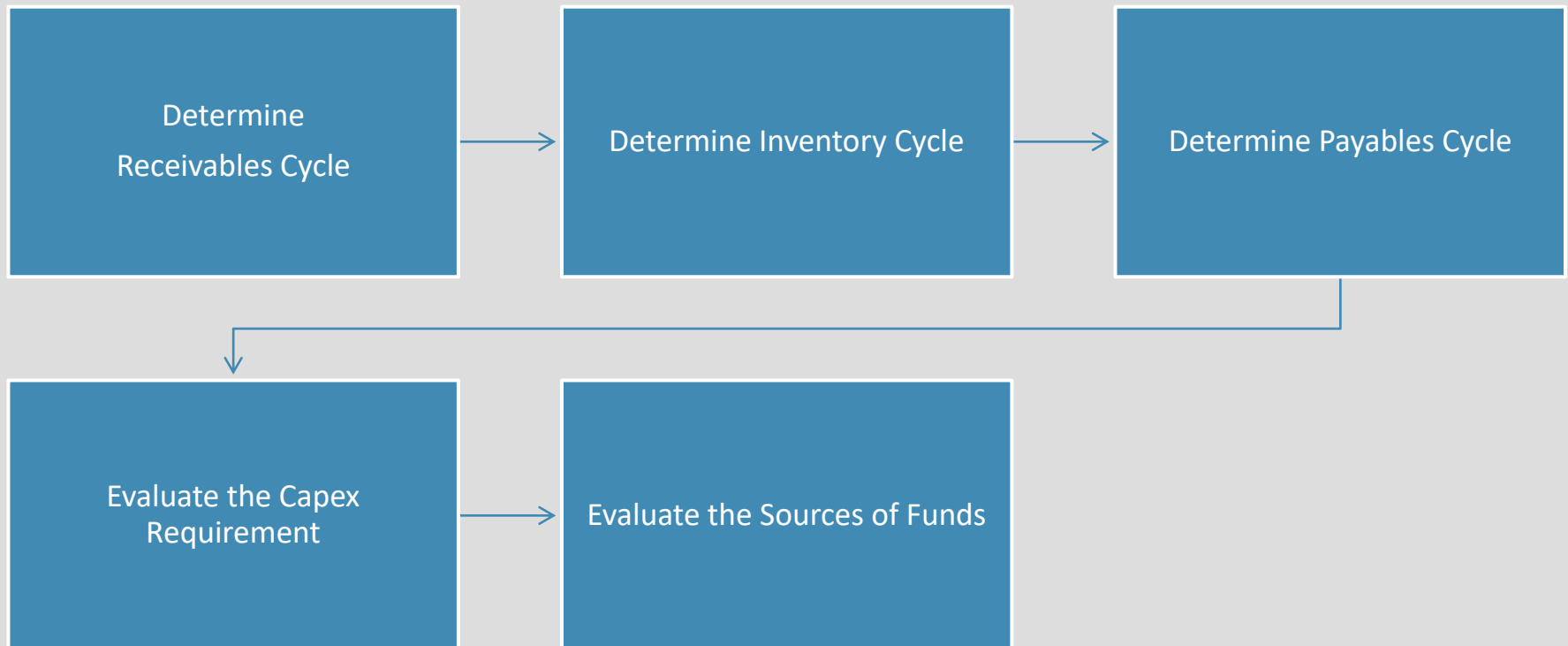
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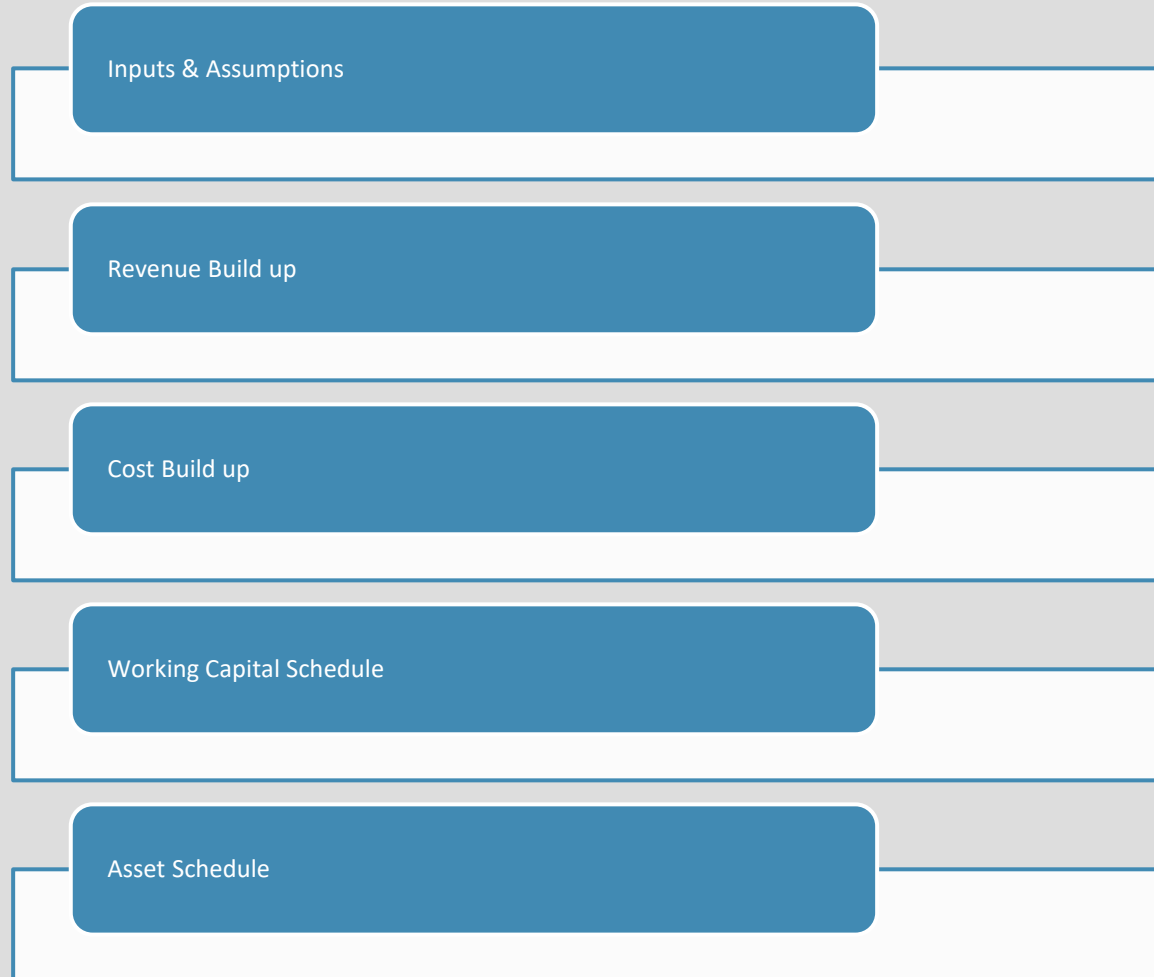


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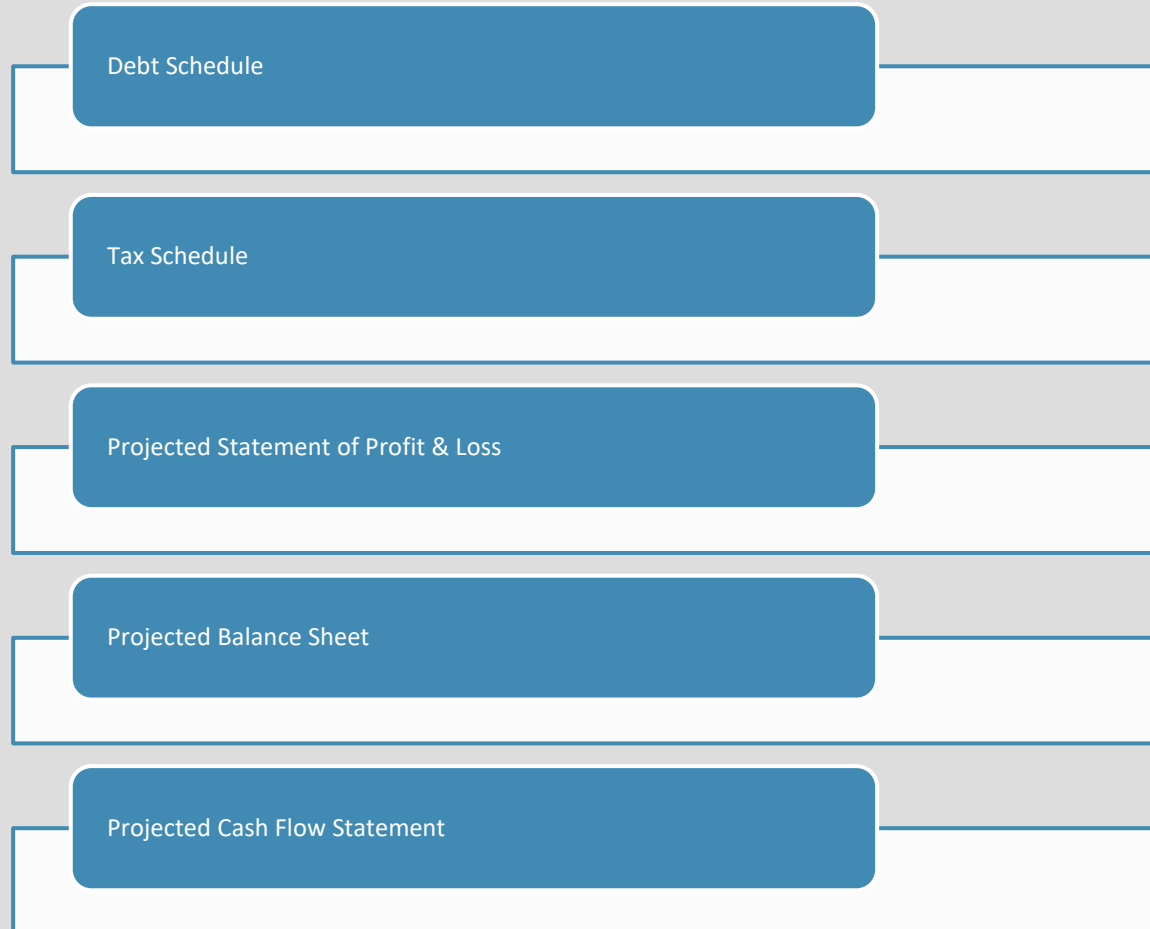
Analyzing Historical Financial Statements:



V. FINANCIAL MODEL - WORK FLOW



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Let's Discuss More on Financial Modeling Questions/Comments

CA. Nitesh Bhuta
ACA, CS, B.Com, Registered Valuer (SFA)
Handphone: +91 9819072315
E-mail: niteshbhuta@hotmail.com

E-mail: niteshbhuta@hotmail.com