

Part I: Long-term Financing

fm_6.xlsx

Please search/compute & display the following:

- a. How was your firm funded in the last five years (proportions of internal resources Vs external resources (long-term debt) Vs external resources (share capital) Vs any other source of funding). Give details – if not mentioned in the past (even if was ESOPs / Private Placement of Debt).
- Berger Paints India Ltd has been funded through both internal and external funding. In 2008-09, External funding was used as a means for fund generation
 - Long term debt is the preferred option for internal financing.
 - A negative value of differences indicates that external borrowings were serviced by internal means. Negative values are not desirable in the long scheme of things
 - No ESOPs issued in the past 5 years

Fund Source	Type of Funds	2010-11	2009-10	2008-09	2007-08	2006-07
Internal Financing	PAT + Depreciation - Dividend-Corp div tax	137.87	111.82	85.53	94.48	69.69
External Financing (Share Capital)	Difference in Equity Share Capital	0	5.44	0	0	23.91
	Difference in Private Placement	0	0	0	0	0
	Difference in ESOP's	0	0	0	0	0
External Financing (Long Term Debt)	Difference in Secured Loans	34.85	-70.16	225.64	14.32	83.31
	Difference in Unsecured Loans	0.03	0.05	12.73	21.08	30.86
Total External Financing		34.83	-77.4	217.29	4.54	102.93
Proportion of internal financing [Total internal financing/(Internal financing + External financing)]		0.80	3.24	0.28	.95	.40
Proportion of External Financing		0.20	0.37	0.72	.05	.60

- b. How was your company's peer funded in the last five years (proportion of internal resources Vs external resources (long-term debt) Vs external resources (share capital) Vs any other source of funding). Give details – if not mentioned in the past.

- Asian Paints Industries Ltd has always used internal financing for the purpose of fund generation.
- It has used internal financing for servicing external requirements as well. This is evident from the negative value of total external financing, 4 times out of 5 in the last five years.

- There has been heavy internal financing vis-à-vis the PAT earned over the 5 years.

Fund Source	Type of Funds	2010-11	2009-10	2008-09	2007-08	2006-07
Internal Financing	PAT + Depreciation - Dividend-Corp div tax	599.32	616.89	275.83	277.58	199.71
External Financing (Share Capital)	Difference in Equity Share Capital	0	0	0	0	0
	Difference in Private Placement	0	0	0	0	0
	Difference in ESOP's	0	0	0	0	0
External Financing (Long Term Debt)	Difference in Secured Loans	-2.16	1	-12.11	-30.2	35.02
	Difference in Unsecured Loans	41.43	43	49.94	58	58.77
Total External financing		-3.73	-5.94	-20.17	-30.97	34.59
Proportion of internal financing [Total internal financing/(Internal financing + External financing)]		1.01	1.01	1.07	1.13	0.28

c. Comment on the above with significant reasons behind the same (for example, why did the firm or its peer used this option over other options?; potential tradeoffs that might exist)

- External financing has been used by both companies and has been financed by Internal sources. This might indicate the cost of capital being more than the cost of debt.
- Paying off debt by internal sources could decrease financial leverage of the firm.
- Most of the financing has however been done through internal sources as the risk involved is less as compared to debt financing.
- The Paint Industry is largely dependant on supplies from within the country. Risk averseness is high because of surety in term of supplies and distribution. Asian Paints being the larger company has also been the bigger risk taker across the 5 year span

Part II: EVA and MVA

Please search/compute & display the following:

- d. Compute the EVA and MVA of your company (for the last five years). You might make use of the Appendix 1 (of the Identifying Value Creators Case) and the discussion in the class (some relevant PPTs have also been uploaded in the server).**

BERGER PAINTS INDIA PVT LTD

	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
PAT	41.43	43	49.94	58	58.77

interest	12.18	4.75	15.33	12.78	10.12
NOPAT	53.61	47.75	65.27	70.78	68.89
Capital invested					
Net Block	204.16	185.59	162.3	133.71	120.8
Capital Work in Progress	76.79	31.6	18.82	24.71	13.71
FA	280.95	217.19	181.12	158.42	134.51
net current asset	412.03	272.32	299.8	296.17	250.55
Cap invested	692.98	489.51	480.92	454.59	385.06
WACC	7.99%	7.99%	7.99%	7.99%	7.99%
cap*wacc	55.369102	39.111849	38.425508	36.321741	30.766294
EVA(nopat-cap*wacc)	-1.759102	8.638151	26.844492	34.458259	38.123706
No. of share	34,60,72,000	34,60,72,000	31,88,72,000	31,88,72,000	31,88,72,000
Share price	80.8	58.6	34.8	36.15	36.6
Market cap	27962617600	20279819200	11096745600	11527222800	11670715200
BV/share	20.84	18.07	12.99	10.91	8.61
BV of equity	7212140480	6253521040	4142147280	3478893520	2745487920
MVA	20750477120	14026298160	6954598320	8048329280	8925227280
ROIC (%)	7.736154002	9.754652612	13.57190385	15.57007413	17.89071833
PE	80.8	96.1	20.9	26.3	19.3
PBV	3.877159309	3.242944106	2.678983834	3.313473877	4.25087108

e. Compute the EVA and MVA of your company's peer (for the last five years).

ASIAN PAINTS

	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
PAT	775.15	774.5	362.36	375.2	272.05
interest	16.34	19.1	15.91	13.46	11.92
NOPAT	791.49	793.6	378.27	388.66	283.97
Capital invested					
Net Block	1,725.74	1,561.26	1,585.40	1,369.12	1,360.05
Capital Work in Progress	337.15	370.12	215.1	267.93	111.52
FA	2,062.89	1,931.38	1,800.50	1,637.05	1,471.57
net current asset	-15.94	-118.16	270.37	92.62	210.98
Cap invested	2,046.95	1,813.22	2,070.87	1,729.67	1,682.55
WACC	7.43%	7.43%	7.43%	7.43%	7.43%
cap*wacc	152.088385	134.722246	153.865641	128.514481	125.013465
EVA(nopat-cap*wacc)	639.401615	658.877754	224.404359	260.145519	158.956535
No. of share	95920000	95920000	95920000	95920000	95920000
Share price	2526.95	2042.6	786	1199.95	764.8
Market cap	242385044000	195926192000	75393120000	115099204000	73359616000
BV/share	205.93	162.35	114.1	96.8	77.57

BV of equity	19752805600	15572612000	10944472000	9285056000	7440514400
MVA	222632238400	180353580000	64448648000	105814148000	65919101600
ROIC (%)	38.66679694	43.76744135	18.26623593	22.47018217	16.87735877
PE	33.4	26.8	22.6	33.1	28.9
PBV	12.2709173	12.58145981	6.888694128	12.39617769	9.859481758

f,g. Evaluate the historical performance of the two firms and reflect on the industry / company's/ etc. Give your comments & summary based on the same. Evaluate EVA as a performance measure compared to MVA, key financial ratios (including ROOA / ROIC), share prices, P/E, P/BV, etc.

The paints market in India has been growing at a rate of 11% every year. There has been a tremendous surge in profits for Berger Paints and Asian Paints in the last two years

There is great variability in the EVA depending on the nature of CAPEX decisions the firm takes. Thus, The EVA can be positive or negative subject to actual returns and the returns expected.

MVA being positive means a positive response from the investors and their willingness to pay premium. This trend is noticeable for both companies.

The EVA is unstable and sometimes negative. The firm has not been able to add any value to the shareholders on the basis of this.

However, MVA has been consistently positive and high. This bodes well for investors looking towards these companies.

MVA is mostly positive. This shows the faith of the investors in the company

Share prices for Asian paints have been bullish the past two years. In fact, there has been a surge from Rs 760 per share to almost Rs 3500 at present. A greater than 400% increase speaks volumes about customer impression management, timely dividend sharing and the healthy nature of business.