



## APPLICATION OF DISCOUNTED FCF: A STUDY ON INDIAN CEMENT SECTOR

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### ABSTRACT

*The intrinsic value of a firm depends on several factors like growth in Earnings per Share, Debt Equity ratio, risk exposure etc, which have a direct impact on a Company Market Price. The Present Value of an Asset is the Future Cash Flow it can generate after discounting it at an opportunity rate which is termed as the risk of the said Asset. Discounted Cash Flow (DCF) valuation model is widely used to estimate the attractiveness of an investment opportunity as well as determine the true value of an asset. In stock market, the price of equity or a stock determined by the market may differ from its true value to the extent that it is overvalued or undervalued. Based on this, the investment theory suggests to buy or hold a stock if it is undervalued and not to buy or sell it if it is overvalued. DCF is an application of time value of money concept—the idea that money that value of money declines over time ie, the value of money received or paid at some time in future has less value than today. Free cash flow to Equity is the free money remaining after paying the Operating Costs and taxes, meeting working capital needs and fulfilling the capital reinvestment. Free Cash Flow is computed by adding Depreciation with Net Operating Profit after Tax (NOPAT) and deducting the amount of Capital Expenditure. The objective of calculating FCF is to determine the amount of fund that can be used freely by the providers of both Equity and Debt Capital.*

**Keywords:** *NOPAT, Free Cash Flow, Debt Equity Ratio, WACC, Present Value, FCF to Equity, FCF to Capital Employed, FCF / share, FCF / Market Cap*