

CELEBRATING
50
YEARS OF LEADERSHIP
1971-2021



Cost of Capital in India 6th Edition

Valuation | Investment Banking
Restructuring | Transaction Services
Transaction Tax | Risk Consulting

JULY
2023

EXECUTIVE SUMMARY

We are delighted to present the 6th Edition of our Report on **“Cost of Capital”** for various industrial sectors in India.

The markets are showcasing an interesting counterbalancing phenomenon wherein when at one end of the spectrum, due to escalating inflation, the repo rates and thus the resulting interest cost has been rising for the industry; at the opposite end, the equity financial markets continue their buoyancy, thus pushing down the cost of equity for companies trying to raise equity.

The Industry seems to have been threading well through this unique situation, adapting its capital structuring, and ensuring that they continue to remain competitive. There is a global consensus that India will be among the very few countries which will do well in FY2024.

Through this Report, we wish to present to you the current dynamics for capital cost which are playing out in the markets in different industries and sectors. The sample size for our study has been deduced by analysing around 10 largest companies in each of the major sectors in India. Thirteen sectors have been selected which represent ~86% of total Market Capitalization (“Market Cap”) in India (excluding finance sector).

We hope this continued endeavor in bringing out the latest on Cost of Capital analysis helps give an insight into the risk profile, risk mitigation mechanisms, capital budgeting and similar dynamics associated with each of the above industrial sectors.

Happy reading...



Rajeev R. Shah
Managing Director & CEO

SECTOR-WISE ANALYSIS OF COST OF CAPITAL IN INDIA

 <p>Auto & Auto Components (13.4%)</p>	 <p>Capital Goods (13.9%)</p>	 <p>Consumer Durables (13.6%)</p>
 <p>FMCG (10.4%)</p>	 <p>Hotel (15.2%)</p>	 <p>Information Technology (11.7%)</p>
 <p>Infrastructure (12.9%)</p>	 <p>Metals & Mining (13.5%)</p>	 <p>Pharma and Healthcare (10.8%)</p>
 <p>Power (10.9%)</p>	 <p>Real Estate (15.3%)</p>	 <p>Retail (12.1%)</p>
	 <p>Telecom (9.8%)</p>	

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COST OF CAPITAL STUDY

METHODOLOGY FOR ESTIMATING COST OF CAPITAL IN INDIA

Methodology adopted for analysis

- The Listed companies are filtered as per sectors enlisted in the previous slide. The respective data related to Debt, Beta and Market Cap have been sourced from Capital IQ
- **Kd** used for analysis is @9% as the Listed companies considered in each sector are having credit rating in the range of AAA to A and are company with healthy cash flow. The post tax Kd is arrived at by reducing the tax impact from the pre tax Kd. For the purpose of our analysis we have assumed corporate tax rate to be 25.168%.
- **Ke** is calculated using CAPM. Beta has been regressed over a period of five years i.e. April 1, 2018 – March 31, 2023. For the purpose of our analysis, we have considered annualized yield of 10 year zero coupon bond as on March 31, 2023 issued by GOI to be the risk free rate (Source: www.ccilindia.com).
- We have used the equity risk premium at 7% as per RBSA analysis. No additional Alpha has been considered.
- **WACC** is calculated by assigning respective weights of Debt and Market Cap to Kd and Ke.
- The total sample entries are plotted on a normal distribution bell curve to represent the median Ke and WACC of the respective sectors.



COMPARATIVE ANALYSIS OF WACC

RBSA 6TH EDITION VS 5TH EDITION

INDUSTRY	EDITION	Ke	WACC
Auto and Auto Components	6 th Edition	15.9%	13.4%
	5 th Edition	15.8%	12.9%
Capital Goods	6 th Edition	14.2%	13.9%
	5 th Edition	13.8%	13.6%
Consumer Durables	6 th Edition	13.7%	13.6%
	5 th Edition	13.5%	13.3%
FMCG	6 th Edition	10.4%	10.4%
	5 th Edition	10.4%	10.4%
Hotel	6 th Edition	16.1%	15.2%
	5 th Edition	16.5%	14.8%
Information Technology	6 th Edition	11.7%	11.7%
	5 th Edition	12.3%	12.2%
Infrastructure	6 th Edition	15.8%	12.9%
	5 th Edition	15.9%	11.5%
Metals & Mining	6 th Edition	16.9%	13.5%
	5 th Edition	14.5%	11.3%
Pharma and Healthcare	6 th Edition	11.1%	10.8%
	5 th Edition	12.0%	10.9%
Power	6 th Edition	14.0%	10.9%
	5 th Edition	14.3%	10.7%
Real Estate	6 th Edition	17.1%	15.3%
	5 th Edition	17.0%	15.2%
Retail	6 th Edition	12.5%	12.1%
	5 th Edition	11.6%	11.3%
Telecom	6 th Edition	13.2%	9.8%
	5 th Edition	13.6%	11.7%

Note : The 5th Edition of our Cost of Capital in India was published in September, 2022.

WEIGHTED AVERAGE COST OF CAPITAL ANALYSIS

RBSA Analysis

- India's median cost of equity is ~14%. This has increased by ~20 basis points since our last cost of capital study, over a period in which interest rates have increased by ~160 basis points
- WACC is maximum in the Real Estate Sector (15.3%), mainly on account of the level of risks involved especially after COVID-19 pandemic.
- Lower WACC in Power Sector mainly on account of higher debt portion as compared to equity in the industry.
- FMCG sector has the lower WACC 10.4%, it is perceived to be lowest risk sector in India.
- WACC is minimum in Telecom Sector is mainly on account high debt raised for 5G spectrum liabilities
- Consumer Durable and Capital Good keeping upbeat with the consumption theme of the Indian economy and being cash rich company, leading to lower debt/debt free.





SECTORAL ANALYSIS

INTERPRETATION OF CHARTS

All the major 13 sectors have been represented by the Normal Distribution working in the ensuing slides whose interpretation is given below -

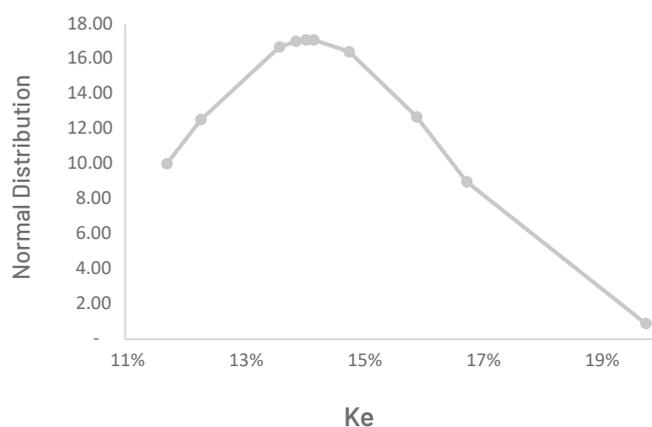
Normal Distribution Curve interpretation

The total sample entries are plotted on a normal distribution bell curve to represent the median Ke and WACC of the respective sectors. Ke/WACC is represented on the X-Axis and normal distribution working on the Y-Axis.

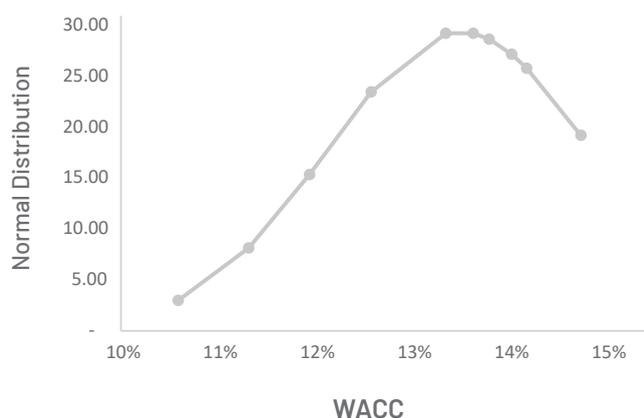


AUTO & AUTO COMPONENTS

Cost of Equity



Weighted Average Cost of Capital



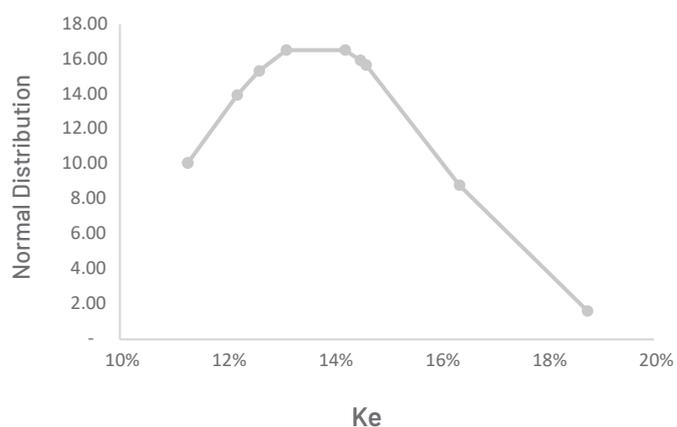
Representative Companies

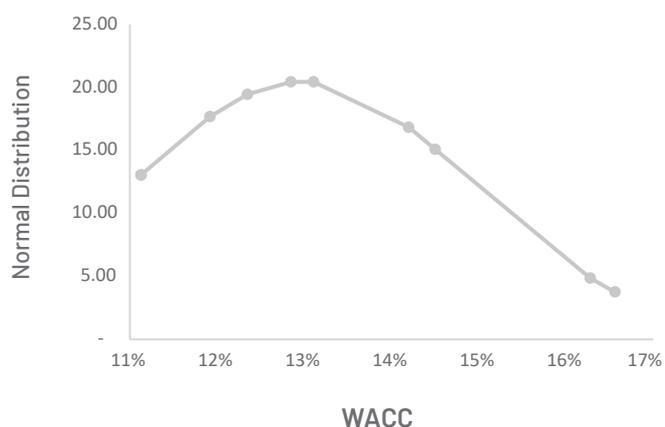
After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 15.9% & 13.4% respectively.

CAPITAL GOODS

Cost of Equity



Weighted Average Cost of Capital



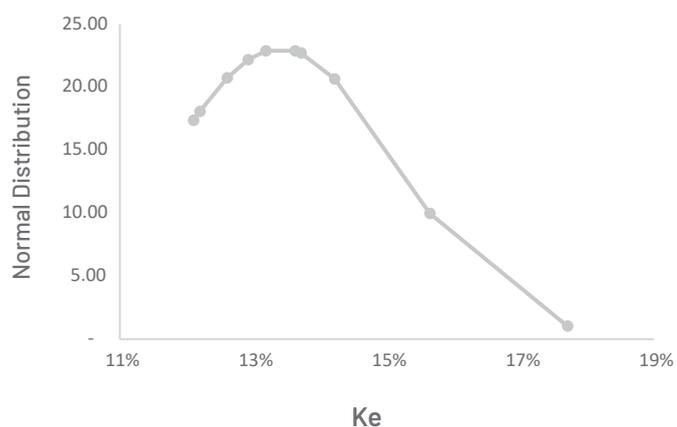
Representative Companies

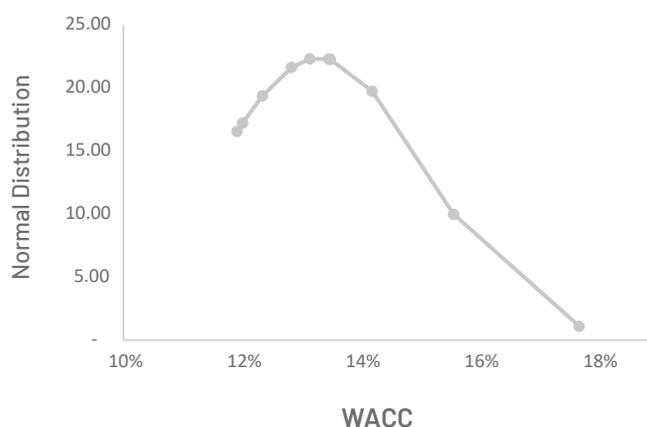
After analyzing the top 9 companies, the weighted average Ke and WACC of the sector is at 14.2% & 13.9% respectively;

CONSUMER DURABLES

Cost of Equity



Weighted Average Cost of Capital



Representative Companies

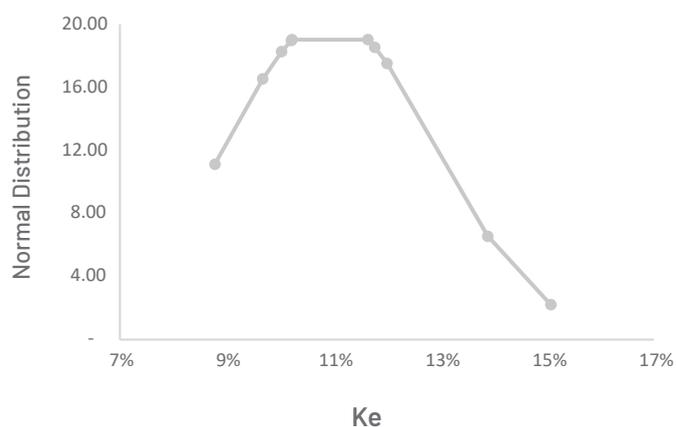
			
			
			

After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 13.7% & 13.6% respectively.

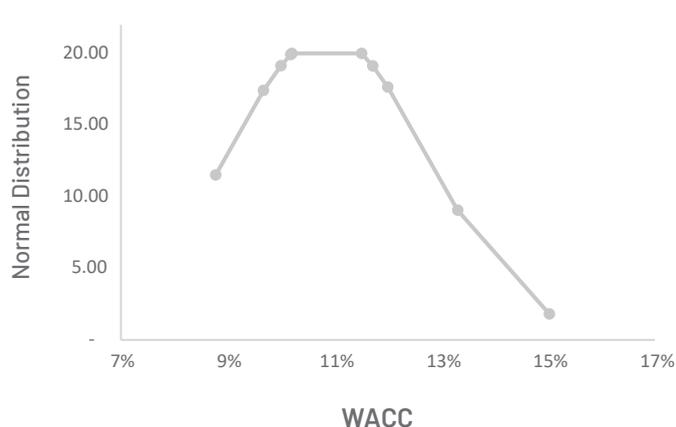


FMCG

Cost of Equity



Weighted Average Cost of Capital



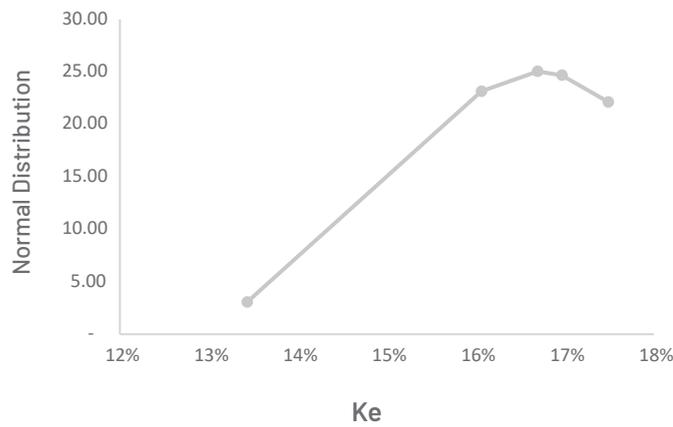
Representative Companies

 Hindustan Unilever Limited	 JUBILANT FOODWORKS	 Nestlé	 Dabur
 BRITANNIA	 Garden of Eatin' CONSUMER PRODUCTS	 marico	 amami*
 COLGATE-PALMOLIVE	 ITC Limited		

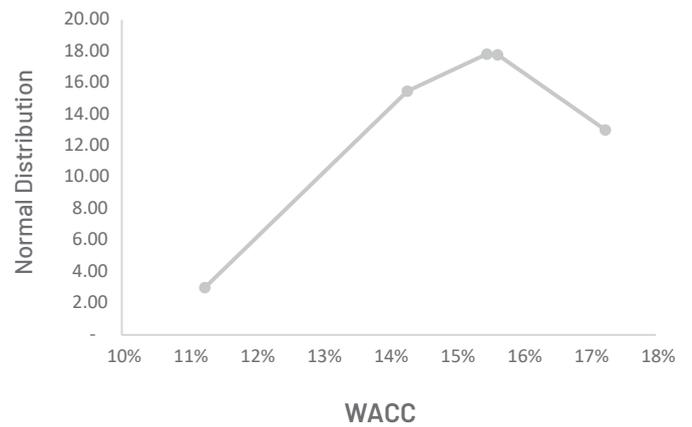
After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 10.4% & 10.4% respectively;

HOTEL

Cost of Equity



Weighted Average Cost of Capital



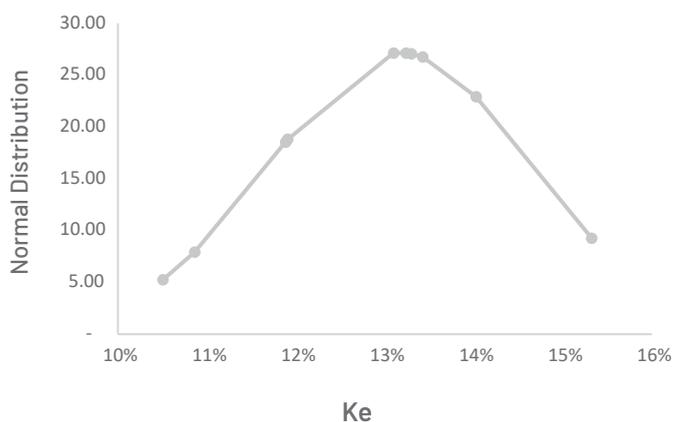
Representative Companies

 <small>THE INDIAN HOTELS COMPANY LIMITED</small>		 <small>A MEMBER OF THE OBEROI GROUP</small>	
 <small>TAJGVK Hotels & Resorts Limited</small>			

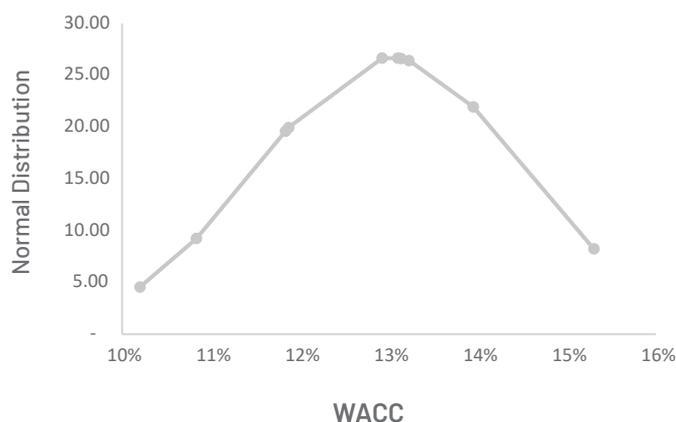
After analyzing the top 5 companies, the weighted average Ke and WACC of the sector is at 16.1% & 15.2% respectively.

INFORMATION TECHNOLOGY

Cost of Equity



Weighted Average Cost of Capital



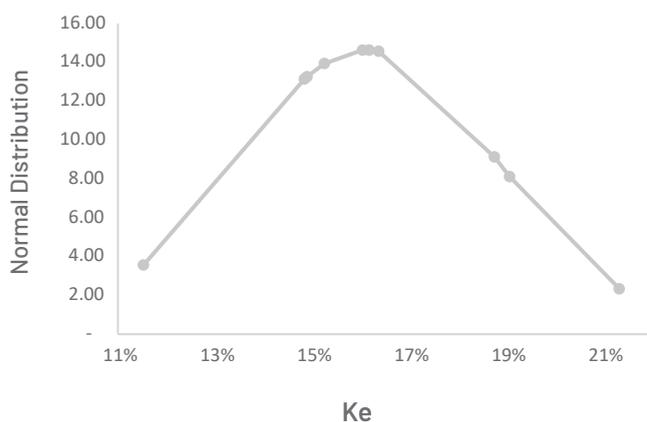
Representative Companies

 TATA CONSULTANCY SERVICES	 Navigate your next		
			
 The Next Applied			

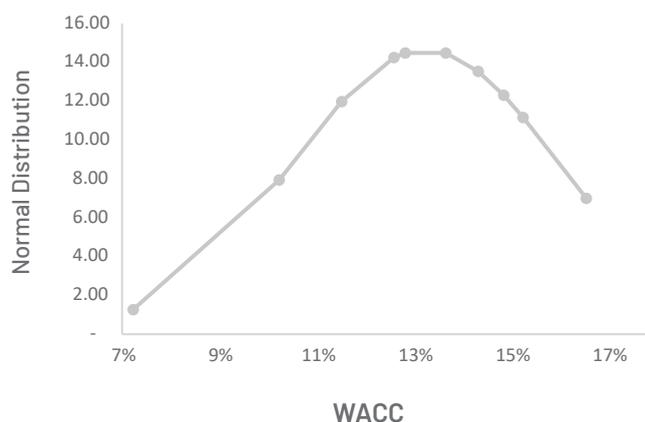
After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 11.7% & 11.7% respectively;

INFRASTRUCTURE

Cost of Equity



Weighted Average Cost of Capital



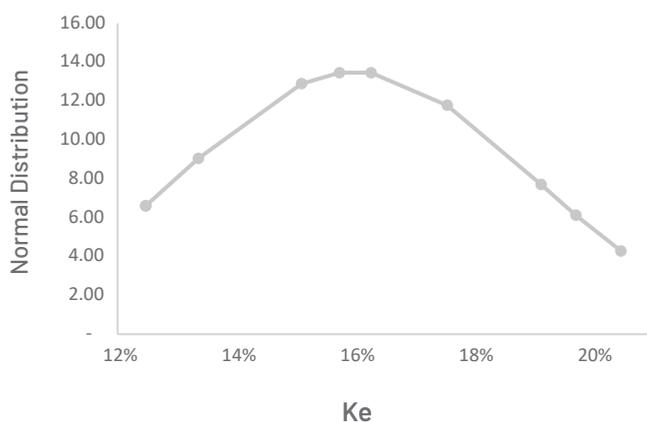
Representative Companies

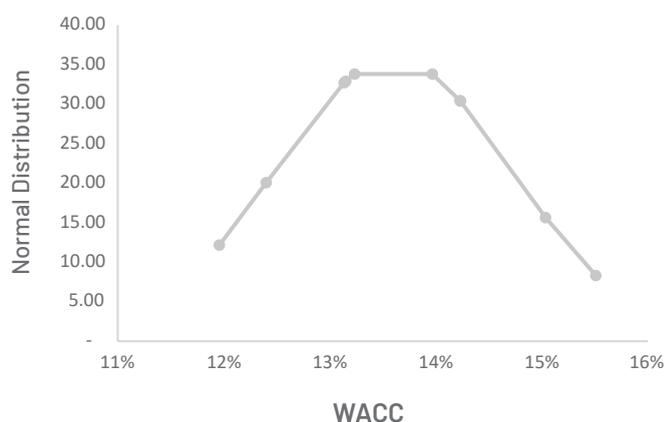
After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 15.8% & 12.9% respectively;

METALS & MINING

Cost of Equity



Weighted Average Cost of Capital



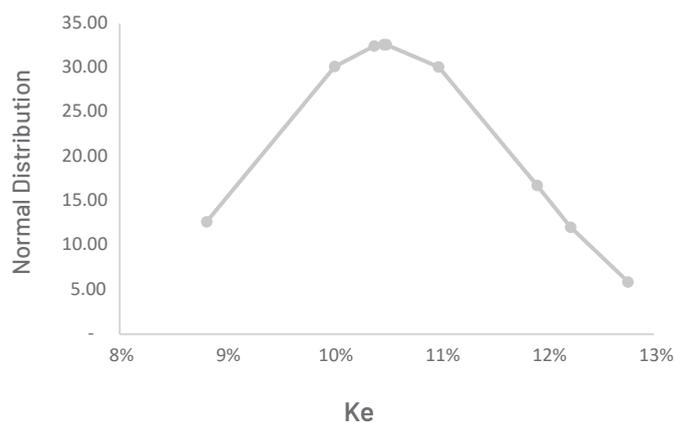
Representative Companies

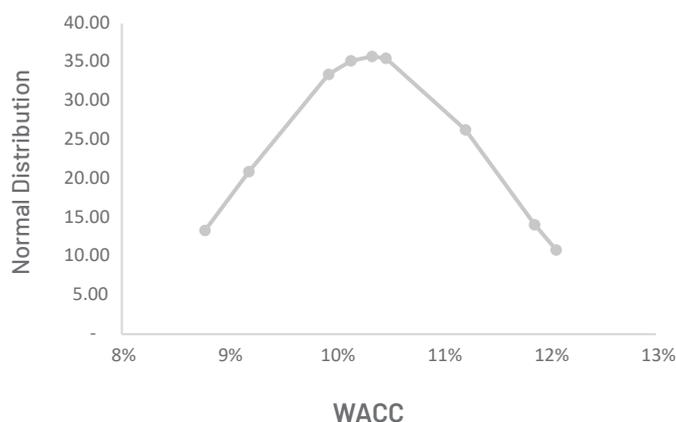
After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 16.9% & 13.5% respectively.

PHARMA AND HEALTHCARE

Cost of Equity



Weighted Average Cost of Capital



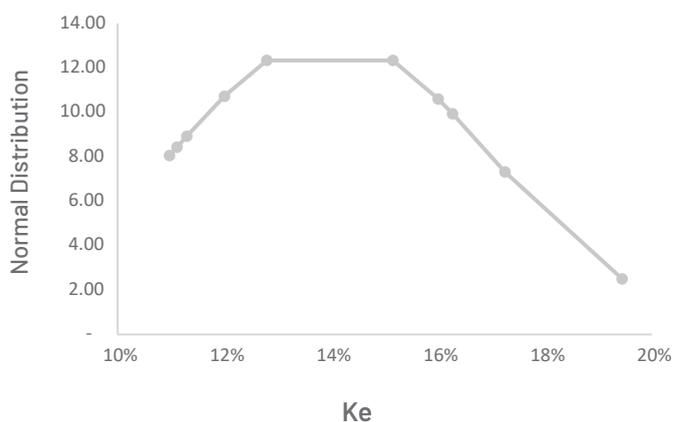
Representative Companies

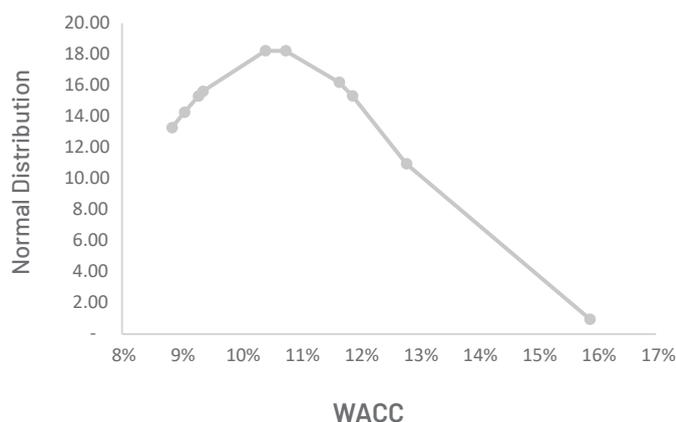
After analyzing the top 9 companies, the weighted average Ke and WACC of the sector is at 11.1% & 10.8% respectively.

POWER

Cost of Equity



Weighted Average Cost of Capital



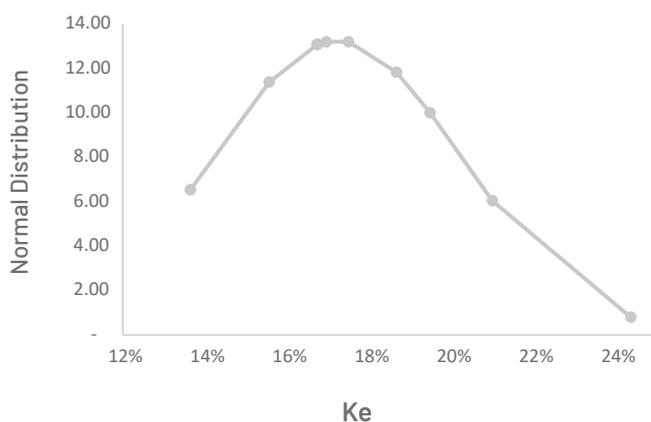
Representative Companies

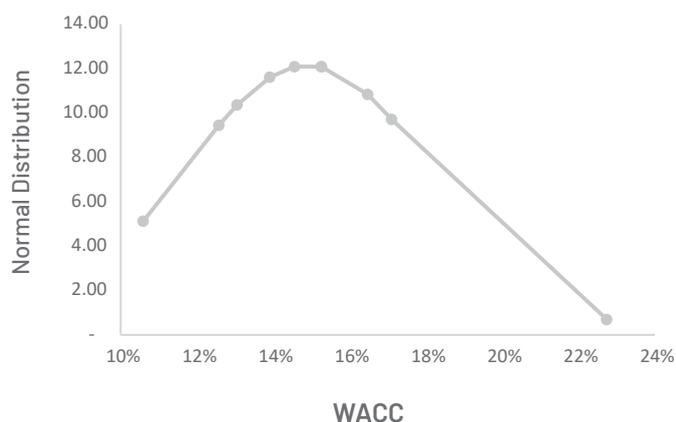
After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 14.0% & 10.9% respectively;

REAL ESTATE

Cost of Equity



Weighted Average Cost of Capital



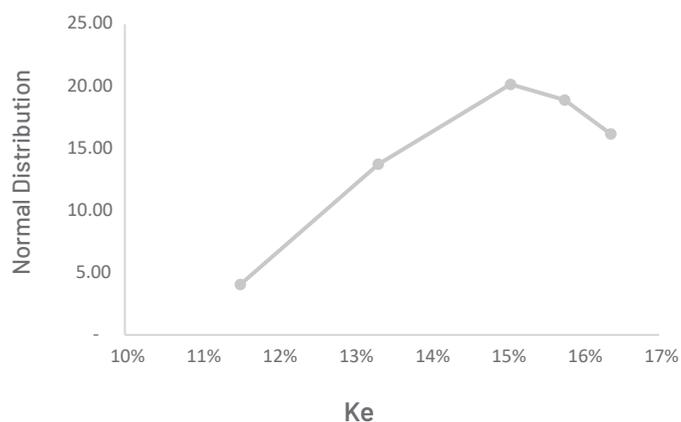
Representative Companies

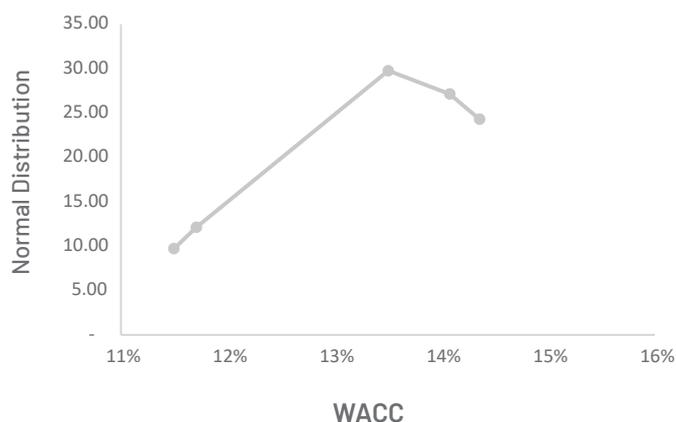
After analyzing the top 10 companies, the weighted average Ke and WACC of the sector is at 17.1% & 15.3% respectively.

RETAIL

Cost of Equity



Weighted Average Cost of Capital



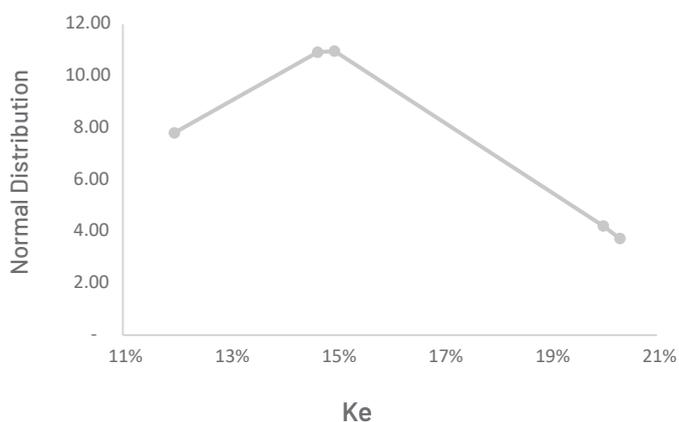
Representative Companies

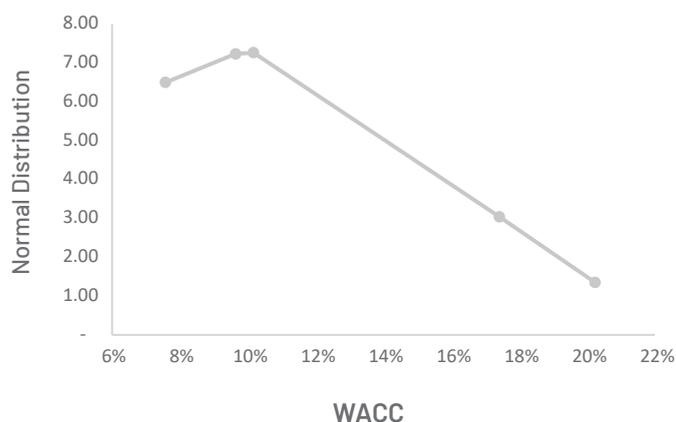
After analyzing the top 5 companies, the weighted average Ke and WACC of the sector is 12.5% & 12.1% respectively;

TELECOM

Cost of Equity



Weighted Average Cost of Capital



Representative Companies

After analyzing the top 5 companies, the weighted average Ke and WACC of the sector is at 13.2% & 9.8% respectively;

Services

Valuation

- Business & Equity Valuation
- Valuation of Brands, Goodwill, Other Intangible Assets & Intellectual Property
- Valuation of Financial Securities, Instruments & Derivatives
- Valuation of Industrial Assets and Plant & Machinery
- Valuation of Real Estate
- Valuation of Infrastructure Assets & Specialized Assets
- Purchase Price Allocations (PPA) for Mergers & Acquisition (M&A)
- Impairment Studies for Tangible Assets
- Impairment Studies for Cash Generating Units, Intangible Assets & Goodwill
- Mines, Mineral Advisory and Valuation
- Valuation of ESOPs and Sweat Equity
- Valuation for Tax, Transfer Pricing and Company Law Matters
- Fairness Opinions
- Valuation under Insolvency & Bankruptcy Code (IBC)
- Determination of Swap Ratio under Mergers and Demergers
- Valuation of Inventory / Stocks and Debtors / Receivables
- Litigation and Dispute Valuation Services

Restructuring

- Insolvency Professional services as per IBC
- Turnaround Advisory and Business transformation
- Interim Management Services
- CRO (Chief Restructuring Officer) Services
- Process Improvement and Financial Restructuring
- Outside NCLT – Restructuring Services
- Priority and Interim Funding
- Process Advisors
- Pre-pack and Cross Border Insolvency
- Advisor to Committee of Creditors
- Preparation of Resolution Plan and Information Memorandum
- Independent Bid Evaluation Services

Transaction Tax

Deal Tax Advisory (Strategic, IBC, PE/VC)

- Tax Due-Diligence
- Tax Structuring
- Deal Negotiation Review
- Transaction Documentation Review
- Post-Deal Integration

Corporate Restructuring

- Group Restructuring
- Financial/Capital Restructuring

Succession Planning

Holistic Implementation Support

- Merger/Amalgamation
- Demerger/Spin-off
- Capital Reduction
- Share Buyback
- Business Transfers
- Liquidation/Wind-up

Investment Banking (Category 1 Merchant Bank)

- M&A Advisory:
 - Sell Side & Buy Side
 - Domestic & Cross Border
- Partner Search, Joint Ventures & Strategic Alliances
- Government Disinvestment & Privatization
- Fund Raising - Equity, Mezzanine, Structured Finance & Debt (Corporate & Project Finance)
- Distressed Investment Banking - One-Time Settlement, Priority and Interim Funding, Rescue Financing, and Buyouts
- Capital Market Advisory

Transaction Services (Due Diligence)

- Buy side due diligence and closing due diligence
- Vendor due diligence and vendor assistance
- Setting up and managing dataroom
- Advice on sale and purchase agreements (SPA) and business transfer agreements (BTA)
- Assistance in deal negotiation

Risk Consulting

Strategic & Risk Advisory Services

- Techno Economic Feasibility Studies & Viability assessment
- Business Plan Review

Technical Support Services

- Lender's & Investor's / Independent Engineer Services
- Technical Due Diligence, Technical Opinions
- Chartered Engineers Opinion & Certification
- Project Cost Investigation and Monitoring

Agency for Specialized Monitoring (ASM)

- Cash outflow / Inflow and project monitoring, Ensure the end usage of the Fund

Financial & Treasury Risk Advisory

- Assessment of risks - ALM, Credit, Market, Interest Rate & Liquidity Risk
- Asset Quality Review & Stress Testing
- Assessment of Expected Credit Loss

Business Risk Advisory

- Risk based Internal Audits & Enterprise Risk Management (ERM)
- Flow Chart Base Process Mapping & Process Excellence Studies (SOP)
- Compliances Studies, Assets management & Business support

Dispute & Litigation Support

- Valuation Services
- Damages & Loss of Profit Analysis
- Independent Expert testimony
- Anti-trust & Competition Advisory
- Post-Acquisition Disputes, Joint Venture & Shareholder Disputes
- Civil & Construction Disputes, Real Estate Disputes
- Intellectual Property Rights Dispute



Contact Us

Management

Rajeev R. Shah
Managing Director & CEO
+91 79 4050 6070
rajeev@rbsa.in

Manish Kaneria
Managing Director & COO
Co - Head Valuation
+91 79 4050 6090
manish@rbsa.in

Mitali Shah
Managing Director & Head
Banking & Restructuring
+91 79 4050 6050
mitali@rbsa.in

Ravishu Shah
Managing Director
Co - Head Valuation
+91 22 6130 6093
ravishu.shah@rbsa.in

Ravi Mehta
Managing Director & Head
Transaction Tax
+91 22 6130 6052
ravi.mehta@rbsa.in

Chetan Khandhadia
Managing Director & Head
Transaction Services
+91 22 6130 6095
chetan.khandhadia@rbsa.in

Ajay Malik
Managing Director & Head
Investment Banking
+91 22 6130 6015
ajay.malik@rbsa.in

Vinod Nair
Managing Director & Head
Risk Advisory Services
+91 22 6130 6015
vinod.nair@rbsa.in

Project Leader

Nitin Mukhi
+91 79 4050 6074
nitin.mukhi@rbsa.in

Research Analysts

Deepak Babani
+91 79 4050 6022
deepak.babani@rbsa.in

Creatives

Tarun Vataliya
+91 79 4050 6033
tarun.vataliya@rbsa.in

India Offices

Mumbai

1121, Building No. 11, 2nd Floor,
Solitaire Corporate Park, Chakala,
Andheri Kurla Road, Andheri (E),
Mumbai - 400 093
Tel: +91 22 6130 6000

Delhi

2nd Floor, IAPL House,
23 South Patel Nagar,
New Delhi - 110 008
M: +91 99585 62211
Tel: +91 11 2580 2300

Hyderabad

6-3-248/B/1, 4th Floor,
Dhruv Arcade,
Road Number 1, Banjara Hills,
Lane opp. Kotak Bank,
Hyderabad - 500 034
M: +91 90526 60300
Tel: +91 40 4854 6254

Dubai

2001-01, Level 20, 48 Burj Gate Tower,
Downtown, Sheikh Zayed Road,
PO Box 29734, Dubai, UAE
M: +971 52 382 2367
+971 52 617 3699
Tel: +971 4518 2608
Email: dubai@rbsa.in

Ahmedabad

912, Venus Atlantis Corp. Park,
Anand Nagar Road,
Prahladnagar,
Ahmedabad - 380 015
Tel: +91 79 4050 6000

Bengaluru

104, 1st Floor, Sufiya Elite,
#18, Cunningham Road,
Near Sigma Mall,
Bangalore - 560 052
M: +91 97435 50600
Tel: +91 80 4112 8593

Singapore

6001 Beach Road,
#22-01 Golden Mile Tower,
Singapore - 199589
M: +65 8589 4891
Email: singapore@rbsa.in

Gift City (IFSC)

Unit No. 16, Office No. 7,
Wing D GIFT Aspire Block 12,
Road 1-D, GIFT SEZ,
Gandhinagar - 382 355
M: +91 97243 43847

Abu Dhabi

Unit No. 1102, Al Jamal Building,
Al Ghatfah St, Al Danah,
Abu Dhabi
M: +971 52 617 3699
Email: abudhabi@rbsa.in