

Forcasting



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# Introduction

This report reflects the key understanding on the financial forecast methods and other methods which could be used to identify the future trends and business changes which company would heave in its business. However, there are several financial forecast method have been used to make the effective financial forecast of the business performance. Nonetheless, in order to make the practical implication of the financial forecast, Blackmore Company has been selected.

# Working Capital Management

Working Capital is the capital required by a company for the day-to-day operations done by the company. Working capital is the difference between the current assets less the current liabilities. Working capital is the liquidity which the company has for its day-to-day operations and working of the company which also depicts the short-term financial health of the company. Working capital is an important part of the company's working for a long term also, if the working capital is negative then it can create adverse effect for the company, even the company can also go bankrupt in the case of negative working capital. Forecasting Working Capital is a very important measure to be done by a company. It includes a very major analysis of the cash flow statement of the company. Forecasting of Working Capital is a very difficult task. Forecasting of working capital is done to forecast the capital requirement of a business to work efficiently and perform its day-to-day operations in such ways to increase the sustainability and profitability of the company. Working Capital forecasting is based on the overall financial requirements of the concern of the company. The objective of working capital forecasting is to measure the cash flow and cash position of the company and what the control the company have on its cash positions. There are several types of methods to forecast the working capital of a company. Cash Forecasting Method, Balance Sheet Method, Adjusted Profit and Loss Method, Percent of Sales Method, Operating Cycle Method and Regression Analysis Method are the methods which are used for forecasting the working capital of the company.

# Cash Forecasting Method

Cash forecasting method is a method which includes the total cash receipts and cash disbursements of the company. The Total cash receipts and total disbursements of cash are taken for a particular period of time for consideration for working capital of the company. Cash receipts includes the sales, cash collected from debtors, bills receivables, and other cash receipts like sales of fixed assets and investments. Delay in receivables from debtors or any other source from which cash can be collected are also taken into consideration as the Cash Forecasting. Cash disbursement includes the purchases, payment to sundry creditors, daily basis expenses, repayment of loans, payment of wages, payment of salaries, advances, bonus etc. The difference between the cash receipts and cash disbursements comes out to be the working capital of the company. On the basis of the data of the current time, forecasting of the working capital is done. All the cash receivables and cash disbursements are analyzed for a particular period of time for forecasting. Further, the cash receipts are taken into considerations for a period and then some percent of uncertainty is added with the receipts and also some growth is also added with the receipts with time to take out the future cash receipts, likewise all the cash disbursements are also taken out and also adding some percent of uncertainty with it with a provision of lowering the debt to take out the future cash disbursement of the company. Then further, cash disbursement is subtracted by the cash receipts to take out the future working capital. Also, by this the company ascertain the future requirement of the working capital which the company would require in future for efficient working.

# Balance Sheet Method

A Balance Sheet includes all the transactions of the company of a period of time of the company. The opening balances and all the closing balances of the year are taken to prepare the Balance sheet of the company. All the balances and transactions are further analyzed and checked thoroughly. Lastly, the closing cash and bank balances are arrived to find the working capital of the company.

# Adjusted Profit and Loss Method

Working capital is forecasted from bank balances and closing cash balance. In this method, some items are further added and some of the items are deducted to find out the net working capital required. The items like preliminary expenses written off, depreciation, deferred revenue expenses, goodwill written off, decrease in sundry debtors, reduction in closing stock, decrease on investments and market securities, increase in loans, accrued expenses, increase in sundry creditors, decrease in bills receivables etc items are added in the cash and bank balances.

The items which are deducted in opening cash and bank balances are accrued rent, bills payable and other liabilities, increase in bills receivables, decrease in sundry creditors, accrued interest, accrued dividend, increase in investments, payment of expenses of last year are deducted from cash and bank balances.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Sales Growth Rate** | | | | | |  |
|  |  | **2018-19** | **2020-2022** | **share price** | Δ | **sensitive valuation** |
|  |  | **9.50%** | **10%** | **share price change** |
| Optimistic | 6% | -7.05% | 6.36% | 327.65 | 96.18% | **27843.590** |
| 3% | -7.28% | 6.18% | 219.2 | 31.25% |  |
|  | **0** |  | **6.00%** | **167.01** | **0.00%** |  |
| Pessimistic | -3% | -7.95% | 5.64% | 115.5 | -30.84% |  |
| -6% | -8.03% | 5.58% | 110.47 | -33.86% |  |

The above given shows the sensitivity valuation of the methods used in evaluating the risk associated with the sales in optimistic and pessimistic situations. The net amount is the working capital or the working capital which will be required further for making the company's operations fluently.

# Percent of Sales Forecasting Method

The relationship between sales and working capital is based on periodic. The sales and working capital are based on a period of 1 or 2 years. If the sales are steady over a period of time then it is easy to find out the working capital required for future. Certain percentage is fixed between the sales and working capital in their relationship. There are some components which are taken care of while using this method to ascertain the forecast of the working capital of the company which are, number of the days of sale, turnover and percentage of sales. This method is suitable for a short period of time as sales can decrease or increase over the period of time and also many factors affect the sales, but the relationship between runs for a very long time. The Percent of Sales method is not suitable for public limited companies and multinational companies.

It is found that sales growth of the company is affected by the inflation rate, product marketing growth, demand and supply. However, higher growth in the year in 2018 i.e. $ 717,211,000.

**Figure 1: Sales Growth**

(Appendix)

This graphs reveals that company has good potential in the sales growth based on the increasing market share, demand and inflation rate of the economy.

**Figure 2: Inflation rate**

Source: Bloomberg, 2019

The inflation rate of the economy on the company’s sales would be higher it has been found that with the increasing inflation rate purchasing power of the client would also be increased.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2018** | **2019** | **2020** | **2021** | **2022** |
| **GDP Forecast of Australia and Asian market** | 6.3% | 6.2% | 6% | 5.8% | 5.5% |

**Operating Cycle Method**

The Operating Cycle means the period which is required to covert the cash back to the cash, means that, in trading case scenarios, the cash is used to buy goods which are sold and the cash is collected by selling the goods, this completes one cycle of rotation of cash, this in known as Operating Cycle. The loop of cash back to cash is called a cycle an operation, further this is called as Operating Cycle. A formula is used to certain the working capital requirement of the company.

*T = (r-c) + w + f + b*

***T*** is the total period of the operating cycle in days

***r*** is the number of the days in which raw material is stored in inventory

***c*** is the number of the days purchases in trade creditors

***w*** is the number of the days in which production held in work in progress

***f*** is the number of the day's final goods held in invertors

***b*** number of the days given to Debtors

The final calculations will then yield the working capital required by the company by the method of Operating Cost.

# Regression Analysis Method

This method establishes an average past relationship between sales and working capital. This method can be carried out through formula or a graphical representation. There are three regression analysis method. They are Linear Regressions, Simple Curvilinear regressions and Multiple Regressions situations. Regression Method can be used to ascertain the working capital requirement by the company in a very complex situations. Regression Analysis Method is used for a very long term forecasting for a company.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cost of debt (4.13%)** | | | | |  |
|  | Δ |  | share price | Δ share price change | sensitive valuation |
| Optimistic | -20% | 3.02% | 123.67 | 0.67% | **-263.115** |
|  | -10% | 3.39% | 122.64 | -0.17% |  |
|  | **0** | **3.77%** | **122.84** | **0.00%** |  |
| Pessimistic | 10% | 4.15% | 120.68 | -1.76% |  |
|  | 20% | 4.53% | 119.70 | -2.56% |  |

# Financial Statement Analysis forecasting method

Financial Statement Analysis is the process of reviewing the financial statements of the business. Financial Statement Analysis helps to improve the financial decisions of the company and helps to make decisions of the company to earn future profits. Financial records financial data, which helps to analyze financial data through Financial Statement Analysis. Financial statements helps to analyze the trends by comparing ratios of multiple statements types which helps measure liquidity, stocks, profitability, and cash flow. Forecasting is the very basic nature in these financial statements. Financial Statement Analysis by default includes the forecasting. Forecasting helps the company to predict the future income of the company by reviewing the Financial Statements.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cost of equity** | | | | |  |
|  | Δ CAPM | Cost of equity | share price | Δ share price change | sensitive valuation |
| Optimistic | 10% | 7.45% | 84.29 | -31.38% | -10336.835 |
|  | 5% | 7.11% | 99.51 | -18.99% |  |
|  | **0** | **6.77%** | **122.84** | **0.00%** |  |
| Pessimistic | -5% | 6.43% | 158.24 | 28.81% |  |
|  | -10% | 6.10% | 224.32 | 82.61% |  |
|  | Δ WACC | Cost of equity(firm) | share price | Δ share price change | sensitive valuation |
| Optimistic | 10% | 7.36% | 83.73 | -31.84% | -10820.684 |
|  | 5% | 7.02% | 99.23 | -19.22% |  |
|  | **0** | **6.69%** | **122.84** | **0.00%** |  |
| Pessimistic | -5% | 6.35% | 158.87 | 29.33% |  |
|  | -10% | 6.02% | 228.46 | 85.98% |  |

Forecasting is the very important measure to be taken for Financial Statement Analysis. Forecasting is done from the current reports and data, these data are analyzed further and then according to the data further assumptions are made that what will be the next tenure reports and how will the company or organization perform. Forecasting is done to minimize the risk and uncertainty which will occur in future.

# Sources and Types of Finance

There are many sources of finance available for a business which includes equity, debt, debentures, retained earnings, letter of credit, capital loans, and term loans. These sources are used with their respective requirements according to time and situation and also depends on the ownership of the organization. The two main types of the finance are Debt finance and Equity Finance. Debt finance is referred to the money borrowed from external sources from our business which includes banks, or external lenders. Equity Finance is the way of finance in which fund is invested by our own or other stakeholders in exchange of partial ownership (Ma, 2016).

Forecasting is done for the planning of the funds which will be required by the company in the coming times. The company may further chose which type of finance is needed by the company at any future time, respective to their requirements and size of the company. Forecasting and planning for the future is a very key aspect that every company should do for finance for making the organizational management more effective. Planning and forecasting is critical for every business for the success of all businesses irrespective to their size. Forecasting involves estimating major factors of the business which affect the overall outcomes of the business which involves the sales volume, expenses, investment etc. Financial forecasting can be done by various methods to ascertain possible outcomes. The two major methods are Qualitative and Quantitative Methods. Quantitative methods is generally used when the previous or historical data of the company are available for ascertaining the future estimates. Whereas the Qualitative method is deployed where the previous and historical data are not available, this method depends on the judgment and factors considered by the experts to estimate the forecast of the finances of the company (Du, 2018).

# Qualitative Methods of Financial Forecasting:

1) **Executive Opinions** : In this method, Opinions from the experts personnel are taken from every department of the company or even some external people who are experts in their respective fields and can give an opinion relating to the estimates of the for the future. For example department like sales, purchases and operations to ascertain the value of the finances required by each department to make the work of the company more efficient and successful yielding higher profits to the company. Further the management team makes revisions in the resulting forecasting for their expected results and make decisions accordingly for getting better results. Opinions for the estimates are also taken from the external professional’s betterment of the company in subject to taking estimates and forecasting of the future working of the company (Cao, and Tay, 2011).

2) **Reference Class Forecasting**: Reference Class Forecasting refers to the prediction of the outcome of a planned action base on similar scenarios at a different place of different point of time. Reference Class Forecasting is used to defy the predictions which are based on human judgments (Mahfoud, and Mani, 2016).

3) **Delphi Technique**: Delphi technique is the technique in which a set of questionnaires is prepared and is answered by experts, who are kept separate from each other. The results of the questionnaire is compiled and then another questionnaire is prepared according to the results of the first questionnaire which is again answered by the experts who are kept away from each other. The second questionnaire is presented to the experts, who are now asked to evaluate the responses of the first questionnaire. This process of questionnaire is continued till the organization comes to a narrow and shortlist their opinions (Kim, 2016).

4) **Sales Force Polling**: Some of the organization believes that the salesperson is directly associated to the customers and have close contacts with them. The sales person is aware of the demand of the things which a company should take care of. In this method, estimates from the sales team is taken based on the average of the sales force polling. Forecasting is further done by the company given by the data from the sales team to require the financial needs of the group in the future (Kim, 2013).

5) **Consumer Surveys**: Many organizations conduct market surveys on the consumers. The data is collected via telephone conversations, person to person, survey questionnaires, etc. These data are further collected and looked by the managers to ascertain the needs of the customers and relating to what amount of the funds the company might require to fulfill the needs of the customers (Penman, and Penman, 2007).

6) **Scenario Writing**: In Scenario Writing approach the forecaster generates and writes different outcomes based on the starting criteria of the company. Further the decision making team decides and select the favorable outcome based on the historical and current numbers of the company (Brealey, Myers , Marcus, Wang, and Zhu, 2007).

# Quantitative approach of Financial Forecasting

1) **Proforma Financial Statement**: Proforma Statements uses the sales and costing figures from the past two - three years excluding the onetime costs. This method of Proforma Financial Statements is used mainly in the acquisitions or mergers of two or more companies, and also in the case of forming a new company. In the new companies it is used to attract the investors to invest the capital.

# Asset turnover ratio forecast (ATO forecast):

This shows that assets turnover ratio forecast is affected by the demand and supply in the market. However, higher ATO growth reveals that in the year of 2016 i.e. 2.92. This computation shows that company has less risk in tis business and will be having high growth throughout the time. The study explains that the ATO growth of the company in next 5 years would be as follows:

**Figure 3: ATO Forecast**

Source: Market.ft.com, 2019

The ATO level of the company is improved and showing that company would have less risk in its business and will be accompanied with the high profitable business process in the market (Kaplan, and Ruback, 2015).

# Profit Margin forecasting method

After assessing the annual report that profit margin of the Company has high sales level and cost level is also increased with the less non-operating expenses. The risk of the business would be low as company would be having high growth in sales and profit at large. The financial leverage of company is high but due to the strong profitability, it could easily manage the financial risk. The computation made for the financial forecast reveals that the PM ratio of the company has increased to 16.89% in 2019 which will further be increased (Green, and Figlewski, 2019). This is analysed that the increased business growth is based on the increased business sales and will be having high profitability throughout the time. By using the last year’s sales and other factors affecting the business performance, it could be inferred that company would have good amount of profitable business in coming years. It will have low amount of business sustainable risk in market (Gleason, Bruce Johnson, and 2013).

**Figure 4: Forecasted PM**

(Market.at.com, 2019)

It is analysed that the forecasted profit margin graph reveals that in the coming year, company would have higher profit margin and the performance of the company would be increased (Penman, 2011).

# Valuation model forecast analysis method

Free cash flow and Net dividend pay-out ratio forecasting:

It is analysed that the forecasting valuation model helps in assessing the business value changes and how well company could strengthen the business overall outcomes. It is analysed that Blackmore has strong business functioning and it is being found that company would increase its business value due to the increased dividend pay-out ratio (Demirakos, Strong, and Walker, 2014).

The below given table reveals the changes in the valuation of the business in the coming year and the forecasting of these business valuation model results has been done on the basis of other remaining factors (Keenan, 2011).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particular | 2019 | 2020 | 2021 | 2022 | 2023 |
| Calculated FCFs (‘000) | -15,436 | 56,362 | 94,186 | 41,638 | 40,577 |
| **Forecasted net dividend payout** | **58.00%** | **58.00%** | **58.00%** | **58.00%** | **58.00%** |

(Statista, 2019)

The free cash flow model and dividend pay-out ratio of the company is being affected by the business growth, less market efficiency and inflation rate. The higher interest rate shows that company might face debt efficiency (Demirakos, Strong, and Walker, 2014).

Cost of debt:

This is the amount of payment or obligation of the company which needs to be paid to cover the interest charges. However, this shows that company would be having less debt risk in its business and cost of debt level represents about interest obligation of the company against the total borrowings from the market. The study represents that cost of debt of the company in next 5 years would be as follows (Nissim, and Penman, 2011).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2019 | 2020 | 2021 | 2022 | 2023 |
| **Forecasted cost of debt after tax** | **3.77%** | **3.77%** | **3.77%** | **3.77%** | **3.77%** |

(Bloomberg, 2019)

However, the forecasting of the debt amount has been computed on the basis of RBA bond price and interest rate (Lundholm, and O'Keefe, 2011).

Cost of equity:

This is the amount of cost which company has to pay to investors. It is analysed that the cost of equity will be used to assess the present value of the share price and by using the other factors such as inflation rate, market growth, investment rate of return, it would be easy to determine the future price of the company.

|  |  |
| --- | --- |
| CAPM |  |
| Risk free rate | 2.64% |
| Beta | 0.63 |
| Market Risk Premium | 6.50% |
| Cost of equity =Rf+β\*(Rm-Rf) | 6.77% |

(Yahoo Finance, 2019)

The cost of equity of the company is forecasted on the basic on the cost of equity, growth rate, rate of dividend and interest rate offered in market (Damodaran, 2007).

The computed weighted average cost of capital of company is 6.69%. Therefore, in order to lower down the business risk, it has to keep the return on investment higher than 6.69%.

|  |  |
| --- | --- |
| **Cost of Firm (WACC)** | Amount |
| Shares Outstanding | 17,227,000 |
| Shares Outstanding ($’000) | 17,227 |
| Market Price (at the closing of trading on Friday) | 154.4 |
| Market Value of Equity | 2,659,848,800 |
| Market Value of Equity ($’000) | 2,659,849 |
| NFO | 78,180 |
| Rd | 3.77% |
| MV | 2,659,849 |
| Re | 6.77% |
| NFO+MV | 2,738,029 |
| **WACC** | 6.69% |

(Bloomberg, 2019)

The valuation model forecast helps in determining the future price and cash inflow and outflow of company in market (Imam, S., Barker, and Clubb, 2008).

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Valuation Models** | **Actual** | **Forecasted** | | | | | |
|  | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| **Discounted Dividend Model** |  |  |  |  |  |  |  |
| Forecasted Dividends |  | 23,336 | 22,286 | 25,979 | 26,758 | 27,828 | 29,498 |
| Estimated Cost of Equity (Re) | 6.77% | 1.07 | 1.14 | 1.22 | 1.30 | 1.39 | 1.48 |
| Calculate forecast dividend growth patterns (g) |  |  | -5% | 17% | 3% | 4% | 6% |
| *TV pattern - perpetuity with 4% Growth from 2021* |  |  |  |  |  |  |  |
| TV = Div. (t+1) / (re-g) |  |  |  |  | 737,496 |  |  |
| Discount dividend stream to TV year | 83,332 | 21,855 | 19,548 | 21,342 | 20,587 |  |  |
| Discount TV | 567,424 |  |  |  | 567,424 |  |  |
| Equity value | 650,757 |  |  |  |  |  |  |
| Share outstanding | 17,227 |  |  |  |  |  |  |
| Share Price=Equity Value/No. of Shares | 37.78 |  |  |  |  |  |  |
| Actual share price as at (Apr 30, 2019) | 92.54 |  |  |  |  |  |  |
| Difference | **54.76** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  | **Actual** | **Forecasted** | | | | | |
|  | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| **Discounted Residual Income Model** |  |  |  |  |  |  |  |
| Forecasted NI | 72451 | 40,261 | 36,914 | 44,434 | 48,261 | 50,670 | 54,052 |
| Forecasted OE | 179,634 | 196,559 | 211,188 | 229,644 | 251,146 | 273,988 | 298,542 |
| Estimated cost of capital for equity | 6.77% | 1.07 | 1.14 | 1.22 | 1.30 | 1.39 | 1.48 |
| Calculated residual income |  | 28,093 | 23,601 | 30,130 | 32,706 | 33,659 | 35,494 |
| Calculated forecast RI growth patterns |  |  | -16% | 28% | 9% | 5% | 5% |
| *TV pattern (perpetuity @ 5%)* |  |  |  |  |  |  |  |
| Calculate TV |  |  |  |  |  | 2,409,061 |  |
| Discount RI | 121,183 | 26,311 | 20,701 | 24,752 | 25,164 | 24,254 |  |
| Discount TV | 1,735,935 |  |  |  |  | 1,735,935 |  |
| Equity value | 2,036,752 |  |  |  |  |  |  |
| Share Price=Equity Value/No. of Shares | 118.23 |  |  |  |  |  |  |
| Actual share price as at (Apr 30, 2019) | 92.54 |  |  |  |  |  |  |
| Difference | **-25.69** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  | **Actual** | **Forecasted** | | | | | |
|  | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| **Discounted Residual Operating Income Model** |  |  |  |  |  |  |  |
|  |  | 1 | 2 | 3 | 4 | 5 | 6 |
| Forecasted NOPAT | 71,974 | 40,234 | 38,423 | 44,791 | 46,134 | 47,980 | 50,859 |
| Forecasted NOA | 265,783 | 324,729 | 310,116 | 264,096 | 272,019 | 282,900 | 299,874 |
| NFO | 86,149 |  |  |  |  |  |  |
| Estimated cost of capital (WACC) | 6.69% | 1.07 | 1.14 | 1.21 | 1.30 | 1.38 | 1.47 |
| Calculated residual operating income |  | 22,459 | 16,707 | 24,051 | 28,473 | 29,788 | 31,939 |
| Calculated forecast RI growth patterns |  |  | -26% | 44.0% | 18.4% | 5% | 5% |
| *TV pattern (perpetuity @ 2%)* |  |  |  |  |  |  |  |
| Calculate TV |  |  |  |  |  | 2301670.69 |  |
| Discount RI | 99,063 | 21,051 | 14,678 | 19,806 | 21,977 | 21,551 |  |
| Discount TV | 1,665,223 |  |  |  |  | 1665222.79 |  |
| Total value of firm | 2,030,069 |  |  |  |  |  |  |
| Value of NFO | 86,149 |  |  |  |  |  |  |
| Total value of equity | 2,116,218 |  |  |  |  |  |  |
| Share Price=Equity Value/No. of Shares | 122.84 |  |  |  |  |  |  |
| Actual share price as at (Apr 30, 2019) | 92.54 |  |  |  |  |  |  |
| Difference | **-30.30** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  | **Actual** | **Forecasted** | | | | | |
|  | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
|  |  |  |  |  |  |  |  |
| **Free Cash Flow Model** |  |  |  |  |  |  |  |
| Forecasted FCF | 57,634 | -15,436 | 56,362 | 94,186 | 41,638 | 40,577 | 37,414 |
| Estimated cost of capital for the firm | 6.69% | 1.07 | 1.14 | 1.21 | 1.30 | 1.38 | 1.38 |
| Calculated forecast FCF growth patterns |  | -127% | -465% | 67% | -56% | -3% | -8% |
| NFO | 86149 |  |  |  |  |  |  |
| *TV Pattern* |  |  |  |  |  |  |  |
| Calculate TV |  |  |  |  |  | 439,326 |  |
| Discount FCF | 174,106 | -14,468 | 49,517 | 77,561 | 32,139 | 29,356 |  |
| Discount TV | 317,845 |  |  |  |  | 317,845 |  |
| Total value of the firm | 491,951 |  |  |  |  |  |  |
| NFO | 86,149 |  |  |  |  |  |  |
| Total value of equity | 405,802 |  |  |  |  |  |  |
| Share Price=Equity Value/No. of Shares | 23.56 |  |  |  |  |  |  |
| Actual share price as at (Apr 30, 2019) | 92.54 |  |  |  |  |  |  |
| Difference | **68.98** |  |  |  |  |  |  |

There are other different valuation model has been given as below.

2) **Time-Series Forecasting**: Time series forecasting is done by evaluating the data available of the previous years over a period of time (DeAngelo, 2011). These data's are further looked and are identified for their behavior or trend, and according to the trend further forecasting is done and decision are made by the decision makers for the better working and ascertaining the requirement of the funds for the company in future. Time Series method is one of the simplest method and also is a very accurate method used by the organizations. Time Series is a very popular method worldwide for forecasting all kinds of requirements of the company (Barth, Beaver, and Landsman, W.2018).

3) **Cause Effect Method**: In Cause effect method the forecaster examines the variances of the cost and the variance which affect the cost. This method uses past times series to forecast the future need of the companies (Xu, and Birge, 2016).

Financial Forecasting is tough and choosing the appropriate method is also very tough for an organization to achieve desired results. Financial Forecasting always helps the organization to predict the future performance of the organization and aids decision. It is analyzed that by using the proper financial forecasting method, it would be easy to determine the changes in the future results and determine whether the company would be able to survive in long run. The business financial risk of company would be used to determine the business sustainability in long run (Bauer, and Hammerschmidt, 2015).

# Conclusion

It is analyzed that cash forecasting method is a method which includes the total cash receipts and cash disbursements of the company. The Total cash receipts and total disbursements of cash are taken for a particular period of time for consideration for working capital of the company. It helps company to identify the future cash inflow and outflow from the business. However, it has been observed that if company is able to generate good amount of cash inflow in its business process in last year’s then it will also be good indicator to sustain the business in coming years. The valuation method given in this report divulges how well company would be having good amount of results. The last year values and business results of company could be forecasted by using the growth rate, cost of capital and other influencing factors which would be useful to determine the future value of the organization. It is analyzed that the items which are deducted in opening cash and bank balances are accrued rent, bills payable and other liabilities, increase in bills receivables, decrease in sundry creditors, accrued interest, accrued dividend, increase in investments, payment of expenses of last year are deducted from cash and bank balances. This are used to determine the future cash balance of the company and cash liquidity risk which company would have in its future forecasted results.