


*Can we think of 'Brand
Valuation'!*



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Brand Valuation Approaches ...

- Discounted cash flow approach
 - Comparison to generic company (using excess returns approach)
 - Two assumptions: (a) brand is the only reason for the difference; (b) there will be an impact on its profit margins and growth rates (but no impact on its cost of equity)

P/S Ratios

- For a stable firm
 - $P_0/S_0 = (\text{profit margin} \times \text{payout ratio}) / (k_e - g)$
 - P/S for a high growth firm can also be computed
 - Expected growth rate = Retention ratio \times profit margin \times (Sales/BV of equity)
 - Value of a brand name = $(P/S_b - P/S_g) \times \text{Sales}$
 - We gave a try using data of three rice processing companies ...
 - Can you guess some basmati rice brands
 - ... packed and to be cooked rice

Brand Valuation continues ...

- We took three publicly listed players
 - Chaman Lal Sethia Exports (Maharani Brand)
 - Kohinoor Foods (Kohinoor Brand)
 - K R B L (Lal Quila Brand)

	Kohinoor	KRBL	Chaman Lal
Brand Name	Kohinoor	Lal Quila	Maharani
Revenues (Rs. Crores)	589	918	94
Operating Margins (after-tax)	8.59%	12.04%	5.28%
Return on Capital (after-tax)	9.37%	15.22%	10.43%
Source: Moneycontrol.com			

Firm	Kohinoor Foods	Chaman Lal Sethia
Sales	589.00	94.00
Net Profit	22.07	2.25
Book Value of Equity	141.63	22.54
No of Shares	1.96	0.95
Dividend	2.29	
Beta	0.83	0.83
Price	73.05	31.30
Profit Margin	3.75%	2.39%
Divident Payout Ratio	10.38%	10.38%
Period of High Growth	7	7
Growth Rate Estimation	13.97%	8.95%
Estimated Growth Rate after 7 years	6.00%	
Expected Payout (after 7 years)	48.07%	48.07%
Cost of Equity	12.48%	12.48%
P/S Ratio	0.352	0.166
Kohinoor's Market Capitalization	143	
Value of the Brand (Computed)	109	76%
<i>Assumptions</i>		
<i>* 7 years first phase, second phase growth of 6%</i>		
<i>** payout ratio and cost of equity of the branded product taken</i>		

Firm	K R B L	Chaman Lal Sethia
Sales	918.00	94.00
Net Profit	49.51	2.35
Book Value of Equity	312.00	23.00
No of Shares	2.43	0.95
Dividend	5.99	
Beta	0.97	0.97
Price	109.10	31.30
Profit Margin	5.39%	2.50%
Divident Payout Ratio	12.10%	12.10%
Period of High Growth	7	7
Growth Rate Estimation	13.95%	8.98%
Estimated Growth Rate after 7 years	6.00%	
Expected Payout (after 7 years) for KRBL	44.99%	44.99%
Cost of Equity	13.34%	13.34%
P/S Ratio	0.411	0.142
KRBL's Market Capitalization	265	
Value of the Brand (Computed)	247	93%
<i>Assumptions</i>		
<i>* 7 years first phase, second phase growth of 6%</i>		
<i>** payout ratio and cost of equity of the branded product taken</i>		