## INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE

Case Study

# IIMK/CS/191/FIN/2023/05

March 2023

## Maximising Investor Profits: Leveraging on Reverse DCF Methodology

Sony Thomas [1]
S S S Kumar [2]

[1]Associate Professor, Finance, Accounting & Control Area, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India; Email - sony@iimk.ac.in, Phone Number - 0495-2809249
[2]Professor, Finance, Accounting & Control Area, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India; Email - ssskumar@iimk.ac.in, Phone Number - 0495-2809245

# Maximising Investor Profits: Leveraging on Reverse DCF Methodology

**Abstract**:

Investors can use the reverse DCF method to evaluate a company's growth prospects and profitability. It helps to detect the implied growth rates and implied cost of capital embedded in the predicted cash flows, which reflect the market's expectations for the future success of a company. Investors can determine if a stock is undervalued or overvalued by comparing these suggested rates to historical and industry norms. The assumed growth rate shows the company's growth potential, while the implied cost of capital reflects the market's appraisal of the company's risk. If implied rates are above normal, the stock may be overvalued; if they are below average, it may be undervalued. The reverse DCF method also permits investors to conduct scenario analysis, which aids in evaluating prospective risks and benefits. By adjusting input assumptions like the growth rate or cost of capital, investors can monitor how the projected intrinsic value of the stock varies, providing them with a range of possible future stock price movements. Overall, the reverse DCF method is an important stock analysis tool.

It gives students significant insight into a company's development potential and profitability, enabling them to make educated investment decisions. In addition, it enables scenario analysis, which enables students to evaluate the possible risks and returns of various investment situations. I have found the case to be a very good illustration of the application of reverse DCF methodology in making effective investment decisions.

Research Office

Indian Institute of Management Kozhikode

IIMK Campus P. O.,

Kozhikode, Kerala, India,

PIN - 673 570

Phone: +91-495-2809237/ 238

Email: research@iimk.ac.in

Web: https://iimk.ac.in/publications