A Report on Guest Lecture "Financial Modeling" organized by Department of Management Studies on 11.07.2024

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Department of Management Studies has conducted a Guest Lecture on 11th July 2024, on ***"Financial Modeling"*** by Prof. Irala Lokanath Reddy, Professor, School of Management University of Hyderabad. This session was inaugurated by Dr. K. V. Geetha Devi, Head - Department of Management Studies. Mr. V. Venkata Rao, Asst. Professor, Department of Management Studies, read the guest profile, after that handover to Prof. Irala Lokanath Reddy.

In this Session he explained the needs and importance of Financial Modelling in the current scenario.

Financial modeling involves creating a mathematical representation of a company's financial performance. This model is typically built using tools like Excel and includes components such as income statements, balance sheets, cash flow statements, and various financial ratios and metrics. The purpose of financial modeling is to forecast future financial performance based on historical data, assumptions, and various scenarios. Here's a basic overview of the key components and steps involved in financial modeling:

Key Components:

1. **Income Statement**:
    - **Revenue**: The total income generated from sales.
    - **Cost of Goods Sold (COGS)**: Direct costs attributable to the production of goods sold.
    - **Gross Profit**: Revenue minus COGS.
    - **Operating Expenses**: Indirect costs such as salaries, rent, and utilities.
    - **Operating Income (EBIT)**: Gross profit minus operating expenses.
    - **Net Income**: The company's total profit after all expenses, including taxes and interest.
2. **Balance Sheet**:
    - **Assets**: What the company owns (e.g., cash, inventory, property).
    - **Liabilities**: What the company owes (e.g., loans, accounts payable).
    - **Equity**: The residual interest in the assets of the company after deducting liabilities.
3. **Cash Flow Statement**:
    - **Operating Activities**: Cash generated or used in day-to-day operations.
    - **Investing Activities**: Cash used for investing in assets or received from sales of assets.
    - **Financing Activities**: Cash received from issuing debt or equity and cash used to pay dividends and repay debt.

4. **Financial Ratios and Metrics**:
    - **Liquidity Ratios**: Measure the ability to pay off short-term liabilities (e.g., current ratio, quick ratio).
    - **Profitability Ratios**: Measure the ability to generate profit (e.g., net profit margin, return on equity).
    - **Leverage Ratios**: Measure the degree of a company's financial leverage (e.g., debt-to-equity ratio).
    - **Efficiency Ratios**: Measure how well the company uses its assets (e.g., asset turnover ratio).

Steps to Build a Financial Model:

Gather Historical Data: Collect past financial statements and relevant data to understand historical performance.
Make Assumptions: Define assumptions for revenue growth, costs, capital expenditures, working capital requirements, etc.

Project Financial Statements: Using the assumptions, project the income statement, balance sheet, and cash flow statement for future periods.

Validate and Review: Check the model for accuracy and consistency. Validate assumptions and projections with industry benchmarks and expert opinions.

Scenario Analysis: Create different scenarios (e.g., best case, worst case, base case) to assess the impact of various assumptions on the financial projections.

Sensitivity Analysis: Analyse how sensitive the model is to changes in key assumptions and inputs.

Present the Model: Summarize and present the key findings, projections, and insights derived from the model to stakeholders.

Financial models are used for various purposes such as business valuation, budgeting and forecasting, capital raising, mergers and acquisitions, and strategic planning.

After his lecture he clarifies students raised doubts on Financial Modelling. Mr. Venkata Rao, Asst. Professor, Department of Management Students. He has proposed vote of thanks and concluded the event.

Key Outcomes from the Guest lecture:

In this Program 184, I MBA Students Participated. From this Lecture Students gained some knowledge on Financial modelling. The outcomes of financial modelling is as given below

1. **Profit and Loss (P&L) Statements:** Participants understood how to compute Projected revenues, costs, and net income Analysis of profit margins and key financial ratios.
2. **Cash Flow Projections**: Participants understood Forecasts of cash inflows and outflows. Analysis of liquidity and cash reserves.
3. **Balance Sheets**: Projected assets, liabilities, and equity positions. Assessment of financial health and leverage.
4. **Valuation**: This Lecture helps to estimation of the intrinsic value of a business or asset. Determination of equity value and enterprise value using methods like Discounted Cash Flow (DCF) analysis, Comparable Company Analysis (Comps), and Precedent Transactions.
5. **Budgeting and Forecasting**: From this Lecture Student Understood detailed budgets for operational and capital expenditures. Long-term financial forecasts to guide strategic planning.