



RAIL VIKAS NIGAM LIMITED



EQUITY RESEARCH
REPORT



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EXECUTIVE SUMMARY

Rail Vikas Nigam Ltd was Incorporated in 2003 by the Govt. of India, it is engaged in the business of implementing various types of Rail infrastructure projects assigned by Ministry of Railways including doubling, gauge conversion, new lines, railway electrification, major bridges, workshops, Production Units and sharing of freight revenue with Railways as per the concession agreement entered with Ministry of Railway.

In addition to handling the projects for Indian railways, the Navratna-status PSU has undertaken multiple metro and high-speed railway projects for Chennai Metro Rail, Kolkata Metro Rail Corporation, Metro Metro, Surat Metro, Gujarat Metro, Vande Bharat Trains, and Kyrgyzindustry – OJSC.

Talking about its achievements, the company has completed over 140 projects worth more than Rs 1 trillion expenditure since its inception. It has executed 15,534+ km of railway infrastructure and 38 projects across 26 locations.



COMPANY OVERVIEW

History – RVNL was incorporated in New Delhi as a public limited company on January 24, 2003 as “Rail Vikas Nigam Limited” with the RoC under the Companies Act, 1956.

The PSU was promoted as a part of the audacious National Rail Vikas Yojana (NRVY) project announced by former Prime Minister Atal Bihari Vajpayee to accelerate railway infrastructure in the country.

RVNL began with the objective of bridging the infrastructure gap on Indian Railways, implementing projects relating to the creation and augmentation of rail infrastructure capacity on a fast-track basis, and raising extra budgetary resources for Special Purpose Vehicle (SPV) projects. RVNL’s operational journey commenced in 2005, and they have consistently received an ‘Excellent’ rating from the Department of Public Enterprises for nine consecutive years.

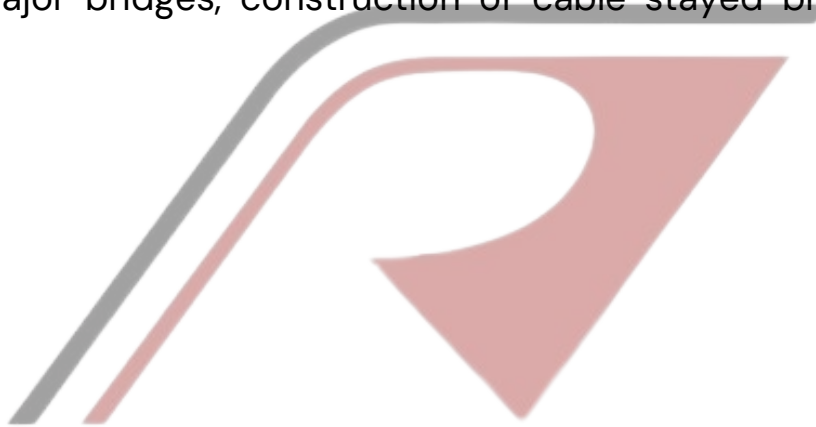
Vision – To create state-of the-art rail transport infrastructure to meet the growing demand.

Mission – To emerge as the most efficient provider of rail infrastructure with a sound financial base and global construction practices for timely completion of projects.



Business segments – RVNL was incorporated with the objective to undertake rail project development, mobilization of financial resources and implementation of rail projects pertaining to strengthening of golden quadrilateral and port connectivity and raising of extra- budgetary resources for project execution.

However, in 2004, the MoR decided that the Company should restrict itself to project execution. The role of the Company for mobilization of finances is restricted to forming of project specific SPVs with private participation. We are in the business of executing all types of railway projects including new lines, doubling, gauge conversion, railway electrification, metro projects, workshops, major bridges, construction of cable stayed bridges, institution buildings etc.





INDUSTRY ANALYSIS

India's rail network is the fourth largest globally with a length of 68,442 route kilometers. More than 22,000 trains run in the nation every day, ferrying 2.3 crore passengers and 3.5 million tons of goods.

The Ministry of Railways exercises complete control over the operations of the network whether it be railway stations, train operations or line network. Multiple state-owned corporations (listed and unlisted) work together to keep the system running while enjoying monopolistic benefits.

The honorable finance minister Nirmala Sitharaman announced a huge allocation of Rs 2.4 lakh crore towards the Indian Railways for the financial year 2023-24. The present fiscal's allocation is 51% higher than the previous year's outlay of Rs 1.59 lakh crore.

This fact alone highlights the government's big push and focus on taking the railway sector in India to new highs. Along these lines, the Ministry of Railways has drafted a National Rail Plan 2030 highlighting multiple audacious targets including railways accounting for 45% of the freight movement in the nation. To achieve these targets, the Center has been allocating multiple critical projects such as high-speed Vande Bharat trains, the upgradation of railway stations, the doubling of railway lines, 100% electrification, decongestion of routes by multi-tracking, and more.



Railway reforms are addressing a wide range of challenges, which includes: Improved customer experience and faster/timely delivery of cargo, introduction of high-technology trains, locomotives, improved terminals, construction of Dedicated Freight Corridors (DFCs), policy initiatives to increase freight traffic, ensuring customer safety elimination of unmanned level crossings, and construction of railway over-bridges/ underbridges, innovative financing mechanisms, Railways of India Development Fund (RIDF), engaging state governments, in participative models for rail connectivity, attracting foreign direct investment (FDI) and ensuring financial sustainability through non-fare revenues. The focus is also on encouraging the participation of the private sector in infrastructure up gradation.

Indian Railways is considered the country's lifeline for transporting passengers as well as cargo. To remain competitive vis-à-vis other transportation modes and to provide optimum level of service to passengers and for freight, there is an acute need to invest in railway infrastructure to augment capacity to expand the railway network. Keeping in mind the above, the Government of India (GOI) has taken steps in this direction by increasing the outlay on capital expenditure over the past few years.

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Past few years Capital Investment Budget :

CHANGE OVER THE YEARS

FINANCIAL YEAR	HIGHWAYS	RAILWAYS
2017-18	54,176	55,000
2018-19	59,440	53,060
2019-20	72,058	65,837
2020-21	81,974	70,000
2021-22	1,08,230	1,07,100
2022-23	1,87,744	1,37,100



Indian Railways has prepared a National Rail Plan (NRP) for India – 2030 which envisages to create a “Future Ready” Railway system. The NRP is aimed to formulate strategies based on both operational capacities and commercial policy initiatives to increase modal share of the Railways in freight to 45%. The objective of the Plan is to create capacity ahead of demand by 2030. As part of this Plan, Vision 2024 has been launched for accelerated implementation of certain critical projects by 2024 such as 100% electrification, multi-tracking of congested routes, upgradation of speed to 160 kmph on certain routes, upgradation of speed to 130 kmph on all other Golden quadrilateral – Golden Diagonal routes and elimination of all Level Crossings on such routes. While new sections are being progressively commissioned for traffic in the Eastern and Western Dedicated Freight Corridors, new Dedicated Freight Corridors have been identified and expansion of rail networks in Jammu and Kashmir and North Eastern region of the country is being emphasized.



COMPETITIVE LANDSCAPE

VALUATION

STOCK	FY PE RATIO	PB RATIO	DIVIDEND YIELD
RAIL VIKAS NIGAM LTD.	24.97	4.84	1.25%
INDIAN RAILWAY FINANCE CORP LTD.	16.36	2.28	1.89%
POWER FINANCE CORPORATION LTD.	4.64	0.66	4.74%
REC LTD.	5.77	1.11	5.145



COMPANY FINANCIALS

Income Statement

Higher than Industry Revenue Growth – Over the last 5 years, revenue has grown at a yearly rate of 22.01%, vs industry avg of 10.76%.

Increasing Market Share – Over the last 5 years, market share increased from 7.59% to 12.26%.

Higher than Industry Net Income – Over the last 5 years, net income has grown at a yearly rate of 20.06%, vs industry avg of 10.66%.

RVNL has achieved all time highest turnover during the year 2022-23. The Company recorded total income of Rs.21285.51 crore compared to Rs. 20190.97 crore in the previous year. Profit after tax for the year 2022-23 is Rs 1267.97 crore as against Rs. 1087.35 crore in the previous year. During the financial year, the Company has earned a turnover of Rs 20281.57 crore as against Rs. 19381.71 crore of previous year with percentage showing an increase of 4.64%.



INCOME STATEMENT

FINANCIAL YEAR	FY 2020	FY2021	FY 2022	FY 2023
TOTAL REVENUE	14,776.26	16,211.67	20,212.86	21,436.64
EBITDA	1,018.93	1,687.77	2,014.25	2,401.84
PBIT	998.64	1,664.85	1,993.34	2,379.52
PBT	957.65	1,206.71	1,429.62	1,798.15
NET INCOME	756.65	991.57	1,110.14	1,420.55
EPS	3.63	4.76	5.32	6.81
DPS	1.14	1.58	1.83	2.31
PAYOUT RATIO	0.31	0.33	0.34	0.31



Balance Sheet

Lower than Industry Debt to Equity Ratio – Over the last 5 years, debt to equity ratio has been 90.03%, vs industry avg of 743.96%.

Higher than Industry Current Ratio – Over the last 5 years, current ratio has been 261.53%, vs industry avg of 208.07%.

FINANCIAL YEAR	FY 2020	FY2021	FY 2022	FY 2023
Current Assets	8,515.87	9,984.50	14,737.81	9,045.34
Non Current Assets	3,878.70	4,236.63	5,327.70	9,376.99
Total Assets	12,394.57	14,221.13	20,065.51	18,422.33
Current Liabilities	2,697.13	2,508.67	7,102.90	4,442.12
Non Current Liabilities	4,578.20	6,076.38	6,637.92	6,655.09
Total Liabilities	7,275.33	8,585.05	13,740.82	11,097.21



FINANCIAL YEAR	FY 2020	FY2021	FY 2022	FY 2023
Total Equity	5,119.24	5,636.08	6,324.69	7,325.12
Total Liabilities & Shareholder's Equity	12,394.57	14,221.13	20,065.51	18,422.33
Total Common Shares Outstanding	208.50	208.50	208.50	208.50

KEY FINANCIAL RATIO

S.No	Name of Ratio	Formula	2022-23	2021-22	Variation over FY 2021-22 (%)	Remarks
1	Debt Turnover (No of Days)	Trade Receivables *365/ Operating Turnover	17	18	5.55	-
2	Inventory Turnover	-	NA	NA	-	Not applicable as Company does not carry any Inventory.
3	Interest Coverage Ratio	-	NA	NA	-	Not applicable as there is no liability on RVNL to serve the debt.

KEY FINANCIAL RATIO CONTD.

S.No	Name of Ratio	Formula	2022-23	2021-22	Variation over FY 2021-22 (%)	Remarks
4	Current Ratio	Current Assets/ Current Liabilities	2.02	2.07	-2.11	-
5	Debt Equity Ratio	Long term debt/ Equity	0.99	1.17	-15.55	-
6	Operating Profit Margin (%)	PBT/ Operating Turnover	8.11	7.25	11.86	-
7	Net Profit Margin (%)	PAT/ Total Revenue	5.95	5.38	10.59	-
8	Return on Net Worth (%)	PAT/ Avg. Net Worth	20.94	20.52	2.05	-



VALUATION ANALYSIS

How was the DCF Value calculated?

1. Present Value Calculation. Using the DCF Operating Model we project Rail Vikas Nigam Ltd's future free cash flow and discount it at a selected discount rate to calculate its Present Value (468B INR).

2. DCF Value Calculation. We use the company's capital structure to calculate the total Equity Value based on the previously computed Present Value of the free cash flow. Dividing the Equity Value by the number of shares outstanding gives us the DCF Value of 225.3 INR per one RVNL share.

Present Value Calculation - The first step in the DCF calculation process is to estimate the company's future free cash flow. Once free cash flow is forecasted, it is discounted at a risk-appropriate discount rate. The resulting value is the present value of the company's free cash flow.

OPERATING MODEL

DISCOUNT RATE	FORECAST PERIOD	TERMINAL GROWTH
6%	5 Years	3%



Assumptions:

- We have taken the discount rate to be 6% which is the average of the inflation rates for FY24E, FY25E, FY26E, FY27E, FY28E.
- We have taken the 3% as terminal growth rate based on % budgetary allocation to railways over the last 5 PYs.
- We have taken 5 years as forecast period because anything less may not be a sufficient period to base our case upon. Alternatively, a longer period may lead to illogical assumptions and biases in the rates.





DCF MODEL – BASE CASE SCENARIO

	Year 1	Year 2	Year 3	Year 4	Year 5	Terminal
Revenue	255	302	347	386	414	430
Net margin	5.39%	5.39%	5.40%	5.40%	5.40%	5.41%
Net Income	14	16	19	21	22	23
Net CapEX	-6	-7	-8	-9	-9	-10
Debt Ratio	31.23%	31.23%	31.23%	31.23%	31.23%	31.23%
Net CapEX Financed by Equity	-4	-5	-6	-6	-6	-7
Free Cashflow to Equity	2	11	13	15	16	17
Discount Rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Present Value	2	10	11	12	12	415



DCF VALUE CALCULATION

Depending on which type of operating model is chosen (equity or whole firm valuation model), the resulting value is either the value of equity or the value of the entire firm. In the case of the latter, to move from the value of the firm to the value of equity, liabilities are subtracted and assets are added.

CAPITAL STRUCTURE

Present Value	468B INR
Equity Value	468B INR
Shares Outstanding	2.1B
RVNL DCF Value	225.3B INR

Estimated DCF Value of one RVNL stock is 225.3 INR. Compared to the current market price of 165.35 INR, the stock is undervalued by 27%.



INVESTMENT THESIS

In an investment analysis of Rail Vikas Nigam Limited (RVNL), several key factors set it apart within the railway sector:

1. ***Favorable Debt-to-Equity Ratio***: Over the past five years, RVNL has maintained a considerably lower debt-to-equity ratio of 90.03%, compared to the industry average of 743.96%. This indicates a healthier financial position and reduced financial risk.
2. ***Strong Current Ratio***: RVNL's current ratio, averaging 261.53% over the last five years, surpasses the industry average of 208.07%. A higher current ratio signifies better short-term liquidity and ability to meet obligations.
3. ***Impressive Revenue Growth***: RVNL has exhibited robust revenue growth, with a yearly rate of 22.01% over the past five years, outperforming the industry average of 10.76%. This reflects the company's effectiveness in generating revenue.
4. ***Market Share Expansion***: RVNL has consistently increased its market share from 7.59% to 12.26% over the past five years, demonstrating its ability to gain traction in the industry.
5. ***Steady Net Income Growth***: RVNL's net income has grown at an annual rate of 20.06% over the last five years, exceeding the industry average of 10.66%. This signifies the company's profitability and efficiency.



6. ***Exceptional Stock Performance***: RVNL has delivered remarkable returns to investors, with a staggering 383% increase in its stock price over the last year. In the year-to-date (YTD) period of 2023, it has also provided substantial returns, soaring over 143%.

7. ***Technical Analysis***: The stock displayed a breakout from an upward-sloping channel formation at the ₹147 level, accompanied by strong volume. It subsequently retested this level before moving towards ₹199. Despite profit booking, it remains above important moving averages, suggesting a buy-on-dip strategy.

8. ***Valuation***: Based on a discounted cash flow (DCF) analysis, the estimated intrinsic value of one RVNL stock is 225.3 INR. Compared to the current market price of 165.35 INR, the stock appears undervalued by 27%. This indicates potential for abnormal returns, aligning with an attractive investment opportunity.

RVNL plays a pivotal role in the growth and modernization of India's railway infrastructure, benefiting both the transportation sector and the overall economic development of the nation.



SWOT ANALYSIS

STRENGTHS

- RVNL has successfully mobilized funds for the construction of new lines by creating project specific SPVs with strategic stakeholders. Its large capital base can be leveraged to raise funds as per its original mandate.
- Ministry of Railways has delegated the authority to RVNL for sanctioning of estimates within prescribed limits and for awarding contracts of any value for the projects in hand enabling RVNL to implement projects faster.
- As RVNL can award large value contracts, it has been able to attract the best infrastructure companies in India.
- It has developed expertise in undertaking all stages of project development - from concept to commissioning.
- RVNL has developed the requisite skills and experience to follow ADB procedures for contracting and ensure Resettlement and Rehabilitation of Project Affected Persons to implement socioeconomic safeguards.
- It has introduced large-scale mechanization in all aspects of construction to achieve high quality output.
- It has refined its tendering processes and introduced innovative concepts like multi-package tenders resulting in faster decision making and savings in overall costs.
- It has a sound and robust financial management system, allowing for effective monitoring and control of expenditure.
- HSRC, a subsidiary of RVNL, is available to provide consultancy service and also for implementation of high-speed corridors in the time to come.
- RVNL has set up a Business Development Cell to participate in competitive bidding process in Infrastructure Sector.



WEAKNESSES

- RVNL used to be dependent on the Ministry of Railways for funding of projects which is critical for the future growth of the Company and for timely implementation of projects.
- RVNL has not been notified as a Zonal Railway and accordingly does not have the authority to approve drawings, designs etc.
- As per the MoU executed in October 2003, RVNL was mandated for obtaining sanction from Commissioner of Railway Safety but subsequently the same was withdrawn in November 2007. Authority for CRS sanction shall expedite the project commissioning and enhance the project delivery.
- The progress of projects often gets impaired on account of delays in securing the necessary approvals for plans, granting of traffic blocks, etc. from Zonal Railways.
- Changes in approved plans by the Railways, during execution of projects, result in delays.
- RVNL has to depend on Railways for traffic blocks for execution of projects which causes delays.
- The projects taken from market are new and likely to face new kind of challenges.



OPPORTUNITIES

- With the work of execution of Kolkata Metro projects, RVNL has developed expertise for implementation of metro projects in other cities across the Country.
- RVNL has successfully constructed major workshops for Indian Railways in fast-track mode. RVNL can thus undertake implementation of large buildings, factories, townships etc. for other agencies as well.
- With RVNL's growth as a major provider of a variety of rail infrastructure, there is an opportunity of securing rail infrastructure projects overseas.
- RVNL can play a significant role in raising extrabudgetary resources for project execution as this is a specific mandate of the Company and has experience of implementation of projects in PPP mode.
- RVNL is implementing Rishikesh – Karnaprayag project in the Himalayan region and can also take up more such projects in hilly terrain and also projects located at strategic locations.

THREATS

- The shortage of technical manpower, with required experience in the rail sector, is a major constraint in the delivery of projects.
- A large percentage of RVNL workforce is deputationists from Indian Railways. Any adverse policy decision may result in railway officers not being available for deputation.
- Land acquisition issues require to be resolved expeditiously so that the progress of projects is not hampered.
 - Delays in clearances for project execution such as tree-cutting, removal of utilities from the construction of viaducts for metro rail projects etc.
- A number of projects are being executed along existing running lines, which makes safety a serious challenge.
- Projects are adversely affected due to poor law and order conditions such as those in Left Wing Extremists affected districts.
- Stoppage of work by MOR on nomination basis and withdrawal of power to sanction of estimate.



MANAGEMENT AND GOVERNANCE

The following is the management team of Rail Vikas Nigam Limited (RVNL):

- Pradeep Gaur -Chairman & Managing Director
- Ajay Kumar- Director - Personnel
- M V Natesan- Independent Director
- Rajesh Prasad- Director - Operations
- Anupam Ban- Ind. Non-Executive Director
- Sanjeeb Kumar-Director - Finance & CFO
- Vinay Singh-Director - Projects
- Dhananjaya Singh-Government Nominee Director
- Anupam Mallik-Independent Director
- Anil Kumar Khandelwal-Nominee Director.

As a government-owned company in India, Rail Vikas Nigam Limited (RVNL) is subject to corporate governance principles and regulations that ensure transparency, accountability, and ethical behavior.

Here are key aspects of RVNL's corporate governance:

1. Board of Directors: RVNL has a Board of Directors responsible for overseeing the company's operations and strategic direction. The board comprises both executive and non-executive directors, including independent directors who provide an unbiased perspective.



2. **Audit Committee:** RVNL has an Audit Committee consisting of independent directors responsible for reviewing financial statements, internal controls, and audit processes to ensure accuracy and compliance.
3. **Risk Management:** The company has established a risk management framework to identify, assess, and mitigate risks that could impact its operations, financial performance, and reputation.
4. **Code of Conduct:** RVNL has a Code of Conduct and Ethics that outlines the expected behavior of employees and directors. This code includes guidelines on conflicts of interest, confidentiality, and ethical business conduct.
5. **Transparency and Disclosure:** RVNL is required to adhere to regulatory requirements for financial reporting and disclosure. The company provides timely and accurate financial information to shareholders and the public.
6. **Shareholder Rights:** RVNL respects the rights of shareholders, including the right to attend and vote at general meetings. It also communicates with shareholders effectively and provides information about significant corporate events.
7. **Compliance:** The company ensures compliance with all applicable laws and regulations, including those related to corporate governance, environmental protection, and safety standards.
8. **Whistleblower Policy:** RVNL typically has a Whistleblower Policy in place to allow employees and stakeholders to report concerns or unethical behavior confidentially and without fear of retaliation.
9. **Board Committees:** The board often establishes committees such as the Nomination and Remuneration Committee, which oversees the appointment and compensation of directors and executives, and the Stakeholders' Relationship Committee, responsible for addressing grievances of stakeholders.



RECENT DEVELOPMENTS

Here are some recent developments about RVNL (Rail Vikas Nigam Limited):

Stock Performance: RVNL shares have seen significant growth recently. They surged 26% in three days¹, and have risen over 286% in the past year¹. The stock hit a 52-week high and ended with a 10% upper circuit at Rs 130.21. On a year-to-date basis, the stock has surged 86%.

New Contracts: RVNL secured several orders which contributed to the surge in its stock price. It emerged as the lowest bidder for a Rajasthan irrigation project worth INR 2,249 crore¹. Additionally, it bagged the contract for Chennai Metro Rail phase-II project's three underground packages totaling INR 3,146 crore.

'Navratna' Status: RVNL received the 'Navratna' status, which gives it greater financial autonomy under India's Department of Public Enterprises.

Government Stake Sale: The Finance Ministry decided to shed a 5.36 percent stake in RVNL through an offer for sale (OFS) which opened on July 27².



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CURATED BY:

- Kshitij Surana- B. Com Hons (Morning)
- Ayush Bansal- B. Com Hons (Morning)
- Muskan Agarwal- BSc. Economics Hons.

DESIGNED BY:

- Hansika Jhunjunwala- BMS Hons. (Evening)
- Tushar Goel- B. Com Hons (Morning)



GLOSSARY

PSU- The Public Sector Undertakings (PSUs) consist of State. Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of the people.

SPV -A special purpose vehicle, also called a special purpose entity (SPE), is a subsidiary created by a parent company to isolate financial risk

FDI-Foreign direct investment (FDI) is an ownership stake in a foreign company or project made by an investor, company, or government from another country.

Fiscal Allocation-The provision for social goods, or the process by which total resource use is divided between private and social goods and by which the mix of social goods is chosen.

Market Share-the portion of a market controlled by a particular company or product.

debt-to-equity (D/E) ratio- The debt-to-equity (D/E) ratio indicates how much debt a company is using to finance its assets relative to the value of shareholders' equity.

Current Ratio-The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year.

Present value - the value in the present of a sum of money, in contrast to some future value it will have when it has been invested at compound interest.



DCF- Discounted cash flow or DCF is the method for estimating the current value of an investment by taking into account its future cash flows.

Terminal growth rate- The terminal growth rate is the constant rate that a company is expected to grow at forever.

Corporate governance- Corporate governance is the structure of rules, practices, and processes used to direct and manage a company.

