

# [Case study on running headequity evaluation](https://assignbuster.com/case-study-on-running-headequity-evaluation/)

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In the analysis carried out on the MAD mining business, there were assumptions made.

The growth projected during the 2012-2013 year is assumed to take a more or less non variation trend over the period over of study. Hence the growth of variables under consideration changes at the same rate.

There has been a general assumption that there were no credit lines at the start of the 2012-2013 periods. This means that all the financing arrangements are made for assets that require heavy financial cost.

There has been a general assumption that MAD mining picks up from mixed fortunes by ensuring $million from the coal contract to ensure that the firm remains afloat from revenue surges.

All along, the plant has been operating below capacity, and this is the primary reason why there has not been so much change in the tangible assets.

## Limitations of DCF calculation

It is a tiresome exercise, considering that all the values have to be expressed in present value.

The discounted value often used (in this case 10%) does not always reflect the economic realities of finance. Hence the courses of action taken on basis of this analysis may be more or less misguided.

In the wake of extreme mathematical calculations, it is not always easy to attain a right amount unless extra attention in invested in the analysis.

## The cost of capital

The present value of the revenue due in the future.   
Other methods of evaluating MAD mining in place of discounted cash flow analysis.   
Profitability index   
Payback period projects undertaken.   
The above are non-discounted methods, which do not take into consideration the time value of money, only the revenues generated against expenses.

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