



FAQ'S ON FINANCIAL MODELLING

FREQUENTLY ASKED AND ANTICIPATED QUESTIONS (FAQ'S) ????

- ▶ What is financial Modelling?
 - ▶ What is the need & Importance of Financial Modelling?
 - ▶ What is the basic structure of a Financial Model?
 - ▶ Scope of a Financial Model?
 - ▶ What is Financial Model Audit?
 - ▶ What is PPP/PFI?
 - ▶ Critical areas to vouch that are crucial to model integrity and accuracy?
 - ▶ Our Offerings
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1. What is financial Modelling?

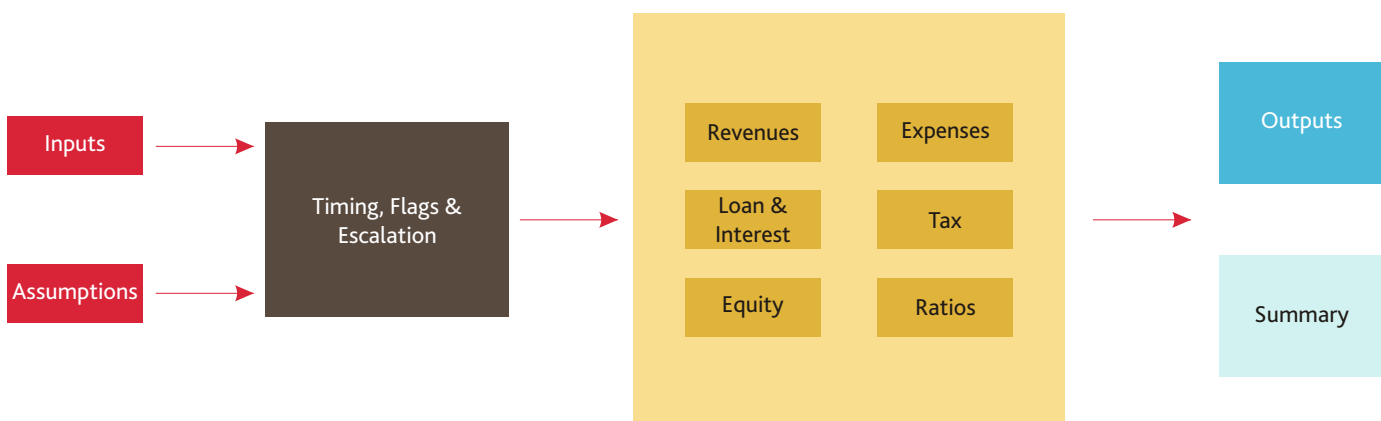
In simple words, Financial Modelling is creating a complete program/ structure, which helps you in coming to a decision regarding investment in a project/ company. To be more specific, Financial Modelling refers to the process of building a structure that integrates the Balance Sheet, Income Statement, Cash Flow Statement and supporting schedules to enable decision making in areas like, Business Planning and Forecasting, Equity Valuation, Credit Analysis/Appraisal, Merger/acquisition analysis, Project Appraisal etc. In each of the above areas, success of the deliverable to a large extent depends on the quality of the Financial Model.

2. What is the need & Importance of Financial Modelling?

Financial modelling supports management in making important business decisions. It involves the quantification of the potential impact of decisions on the profit and loss account, balance sheet and cash flow statements. Through financial models, managers can determine the outcome of a proposal before even its execution and rely on a rational and comprehensive justification for their decisions. Moreover, these models enable managers to study different options and scenarios without imposing any risk on the business. To avoid the common pitfalls related to financial modelling, designers should follow five basic principles. They should make sure that the model satisfies its objectives, maintain model flexibility, take inflation into consideration, present the model clearly and interestingly, and measure outcome.

3. What is the basic structure of a Financial Model?

A typical financial model might run into as many as 30-40 excel sheets in an excel workbook. The basic model structure runs like Input ----- Calculation ----- Output. The below diagram gives an insight into a typical model structure & how the data flows in a model :-



4. Scope of Financial Model?

Financial Modelling is a key skill with application in several areas within banking and finance industry as well as within corporations. In financial modelling you learn to gather historical information on companies and analyze company / industry performance on various financial parameters. This analysis is then used to build a company's financial model, which in turn is key to projecting a future financial performance. Based on this model companies investors can arrive at a suitable evaluation for the companies

Financial models are usually made for financing of a project in transactions like: PPP/PFI, Mergers & Acquisitions, Valuation of businesses etc. across various industries & sectors which includes Solar Plants, Waste Management, Helicopter fleet, Oil and Gas, Mining, Energy, Healthcare, Services & Education etc to evaluate the viability of the project on various parameters

5. What is Financial Model Audit?

A typical financial model audit carried out by an accountancy firm will consist of the following steps:

- A review of model logic and calculations (including tax and accounting compliance).
- A review of the model to supporting documentation.
- A report on model issues.

Once the basis of Issue report the model builder carry out the necessary changes as suggested or may provide explanation of the queries raised. The revised version of the model is again received for audit and the process is repeated till the model is closed.

6. What is PPP/PFI ?

The PFI is a form of public private partnership (PPP) that marries a public procurement programme, where the public sector purchases capital items from the private sector, to an extension of contracting-out, where public services are contracted from the private sector. Under the most common form of PFI, the private sector designs, builds, finances and operates (DBFO) facilities based on 'output' specifications decided by public sector managers and their departments. Such projects need to achieve a genuine transfer of risk to the private sector contractor to secure value for money in the use of public resources before they will be agreed.

7. Critical areas to vouch that are crucial to the model integrity and accuracy ?

The critical areas that need to be paid the greatest attention while auditing a model, encompass ratios, reserves, taxation, indexation / impact of inflation, sensitivity, dividend distribution.

8. Our Offerings?

We offers following types of services to our clients in Financial Modelling sector:-

- Building of Financial Models as per client specifications and requirements.
- Internal and External Audits of Financial Models and their reporting.
- Review of Term or credit agreements service to banks and financial institutions.
- Review of concession agreements service to Governments/Public Utilities.

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