Gensol
Consultants Pvt. Ltd.
GLOBAL ENERGY SOLUTIONS

SCO 11, (2nd Floor), Sector 11, Panchkula-134109, Haryana, India
info@gensolconsultants.com | www.gensolconsultants.com
T: +91 172 4246200 | F: +91 172 4246220

Dear Sir/Madam,

Subject: Inputs on Draft "Tool to calculate the weighted average cost of capital (WACC)

1. In reference to step 4 of the said tool, The value of PE_g i.e. General Equity Risk Premium is taken from "The worldwide equity premium: A smaller puzzle" by Elroy Dimson, Paul Marsh and Mike Stauntun from London Business School. It is clearly written in the report that they have estimated risk premium for 17 countries and General Equity Risk Premium is calculated on U.S. Treasury bills. Now the issues are:

   All the 17 countries are developed countries except South Africa and the returns in developed countries are less than developing countries because of risk factor. Global equity risk premium favours developed countries over developing countries as market is more volatile and hence risk is greater in developing countries. Instead assuming a generalized figure for PEg will be underplaying the risk involved (refer section 4(A) and 4(B)).

   As the projects for which tool is being introduced belongs to developing countries only therefore the default value of PE_g must be based on the estimates equity risk premium of Developing countries itself otherwise the calculated WACC will give false implication.

   Therefore, PE_g cannot be default for each country; it must be project specific in the particular country.

2. The promoters have investment choices in terms of Govt. bonds, fixed deposits, capital markets and investing in GHG reduction projects. Since the most possible structure in which a GHG reduction project can be carried out is to have the project in a company; the same applies that the returns of the promoters are based on the dividend given by the company or capital gains. While Govt. bonds, fixed deposits, capital markets do not deduct any dividend Distribution Tax while the company has to do so and hence leads to the reduction of possible returns to the promoter. Dividend distribution tax is the tax levied by the Indian Government on companies according to the dividend paid to a company's investors. Therefore we want to submit our request to make a provision for including the DDT and long term capital gains while calculating WACC in the said tool.

Best Regards
Harish Sharma
Senior Consultant