

Top 5 Careers where Financial Modeling is a 'Must-Have-Skill'

When beginning a dream career in Finance, many jobs list down Financial modeling skill as a priority requirement. You can prepare better for such job-interviews by understanding the relevance of this 'Must-Have-Skill'. Which are these jobs? And what is the real relevance of Financial Modeling in such jobs?



1. INVESTMENT BANKING

**Value,
M&A**

Investment bankers help companies to connect with potential investors and finally raise funds from them. The investor's decision is based on valuation of the company, which turn is based on historical trends, future revenue & cost projections, expectations of profitability, growth, risk and returns. A simple yet robust financial model of the company can run such an analysis. This is also known as 'Sell-side' analysis.

They also advise companies on Mergers & Acquisition (M&A) transactions which require multiple analyses like Valuation of target, pro-forma financials of the resultant entity, synergy calculations, and EPS Accretion/dilution. Again, these are possible only based on a detailed Financial Model!

2. EQUITY INVESTING

IRR

Various investors like Private Equity, Venture Capital, Mutual Funds, Financial Institutions (FIs), High Net Worth Individuals (HNIs) and even individual retail investors explore investing in a company, listed or unlisted.

Such investment analysis essentially involves locating high-growth and high-return target companies (finding IRRs and its Sensitivity), comparing with risks involved, and giving recommendations based on the same. Additionally, they also evaluate the potential of the sector, experience & capability of the promoters of such companies. A Financial Model forms the basis for such analysis. This is also known 'Buy-side' Analysis.

3. LOAN APPRAISAL & PROJECT FINANCE

DSCR

When analyzing a project from a lender's perspective, one has to understand how much debt could be provided (leverage or Debt to Equity). They also carry-out further analyses such as finding Debt Service Coverage Ratio (DSCR), other ratios & their sensitivity to understand whether the project could sustain term loan or working capital finance limits. Lenders also evaluate other parameters including primary & collateral security being offered, background of the promoters, industry analysis etc.

When advising a client to raise loan funds from banks, the consultant has to perform similar analysis. Again, Financial Model comes to the rescue!!

4. EQUITY RESEARCH

**Buy
Sell
Hold**

A Research Analyst studies sectors, evaluates companies, meets company management, and forecasts financial statements, profitability and valuation of such companies. He then writes a report giving the rationale for such valuation (Equity Research Report) and whether the investor should Buy, Sell or Hold the stock or shares of the company. Equity Research reports help stock-brokers immensely when discussing with their clients about buying or selling stock of a company.

Research analysts create, update and maintain the financial models of companies.

5. CREDIT RATING ANALYSIS

**AAA
AA
A**

Have you read sometimes that a company has been upgraded from A to AA or A to A+? Credit Rating Analysts release Rating Reports on companies after evaluating their Promoter Background, Historical Performance, Balance Sheet and ability to service debt obligations in future based on forecasted financials. Again, these projections are nothing but a Financial Model of the company being evaluated.

The cost of debt for the company is based on such rating and that's why credit rating is so important!

Financial models are created using MS Excel or other Spreadsheet applications. One should have sound understanding of the industry, fundamentals of Financial Analysis and hands-on skills in MS Excel to build and update a financial model.