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14MBAFM412

Fourth Semester MBA Degree Examination, Dec.2016/Jan.2017

Corporate Valuation

Time: 3 hrs. Max. Marks:100

SECTION - A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 What are the basic key drivers used to analyse Free Cash Flows? **(03 Marks)**

2 What are non-operating assets and non-equity claims? **(03 Marks)**

3 What is adjusted present value? List out the steps involved in implementing the APV approach. **(03 Marks)**

4 What are the two-variants of equity DCF model? What are the assumptions about patterns of divided growth? **(03 Marks)**

5 Explain Book value approach and stock and debt approach. **(03 Marks)**

6 What are the three components of EVA? **(03 Marks)**

7 The value of investment (non-operates asset) is ₹ 25 million and the value of non-equity claims is ₹ 134 million, the value from operations of Akhil Ltd. is ₹ 263.29 million. Compute enterprise value and equity value. **(03 Marks)**

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 What is relative valuation? Explain the various steps involved in Relative valuation. **(07 Marks)**

2 Explain the various issues that arise in the context of multi-business companies and high growth companies. **(07 Marks)**

3 The current dividend on an equity share of Shekar Ltd. is ₹ 2 Shekhar Ltd. is expected to enjoy an above normal growth rate of 20% for a period of 6 years. Thereafter the growth rate will fall and stabilize at 10%. Equity investors require a return of 15%. What is the intrinsic value of the equity share of Shekhar Ltd. **(07 Marks)**

4 Explain the applicability and difficulty of application of DCF method to assets and firms. **(07 Marks)**

5 Explain in detail the various steps involved in developing financial forecasts of an enterprise. **(07 Marks)**

6 The following financial information is available for company D, an unlisted pharmaceutical company, which is being valued.

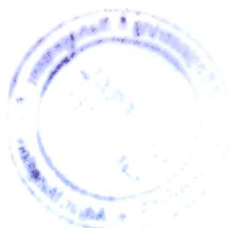
EBITDA : 400 million ; Book value of assets : 1,000 million ; Sales : 2,500 million

Based on evaluation of a number of listed pharmaceutical companies A, B and C have been found to be comparable to company D. The financial information of these companies are given below:

	A	B	C
Sales	1600	2000	3200
EBITDA	280	360	480
Book Value of Assets	800	1000	1400
Enterprise value (E_V)	2000	3500	4200

Compute the valuation multiples for the comparable companies and also compute enterprise value of applying the average multiples. **(07 Marks)**

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.



7 According to Mokinsey approach which are the six areas where a company must focus to create value. Explain. **(07 Marks)**

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Briefly explain the various approaches to valuation in detail. **(10 Marks)**

2 What are intangible assets? Explain the purpose and basis of valuation, also explain the broad approaches available for valuing intangible assets. **(10 Marks)**

3 ₹ in Million

Year	1	2	3	4	5
Fress Cash flow to the first	200	250	300	340	380
Interest bearing debt	500	400	300	200	100
Iterest expenses	60	48	36	24	12

Calculate the enterprise value of Santhosh Ltd. based on the following assumptions:

- Beyond year 5, the FCFF of Santhosh will grow at a constant rate of 10% per annum.
- Santhosh Ltd. unlevered cost of equity is 14%.
- After year 5, Santhosh Ltd. will maintain debt equity ratio of 4 ; 7.
- The borrowing rate will be 12%
- The tax rate is 30%
- The risk free rate is 8%
- The market risk premium is 6% **(10 Marks)**

4 The following information is available for Keerti Company:

ROE = 20% Book value per share = 50 Cost of equity = 15%

Net profit margin = 10% Dividend payout ratio = 0.4 Growth rate = 12%

Calculate

(i) $\frac{P_0}{E_1}$ (ii) $\frac{P_0}{B_0}$ (iii) $\frac{P_0}{S_0}$ (iv) PEG (v) Value ratio **(10 Marks)**

5 Praveen Ltd. is considering a capital project for which the following information is available:

Investment outlay:	5000	Depreciation : (for tax purpose)	St-line
Project life :	4 years	Tax rate :	40%
Salvage value :	0	Debt-Equity ratio :	4 : 5
Annual Revenues:	6000	Cost of equity :	18%
Annual costs: (excluding depreciation interest and taxes)	4000	Cost of Debt : (Post –tax)	9%

(i) Compute the EVA of the project over its life.

(ii) Compute the NPV of the project. **(10 Marks)**

6 The data of matrix Ltd. for year 1, the year that has just ended and for the next five years (year 2 through 6) is given: **(10 Marks)**

Year	1	2	3	4	5	6
Profit after tax	24	29	28	32	38	40
Preference dividend	-	-	-	-	-	-
Fixed assets (net)	190	220	240	266	294	324
Investments	25	10	-	-	-	-
Net current assets	70	75	88	90	100	109
Debt	134	140	150	161	177	192
Preference	-	-	-	-	-	-

The cost of equity is 18.27%. Assure that FCFE grows at a constant rate of 10% per year after the explicit forecast period. Compute the value of equity of matrix Ltd. using the FCFE valuation.

7 Explain in detail the steps involved in valuing the firm using Enterprise DCF model. **(10 Marks)**

SECTION - D
CASE STUDY – [Compulsory]

The profit and loss account and Balance sheet of Zenith corporation for 2 years are given below:

₹ in Million

Profit and Loss A/C

Year	1	2
Net sales	5600	6440
Income from marketable – securities	140	210
Non-operating income	70	140
Total income	5810	6790
Cost of goods sold	3220	3780
Selling and administrative expenses	700	770
Depreciation	350	420
Interest expenses	336	392
Total costs and expenses	4606	5362
PBT	1204	1428
Tax provisions	364	448
PAT	840	980
Dividend	420	560
Retained earnings	420	420

Balance sheet

Equity capital	2100	2100
Reserve & Surplus	1680	2100
Debt	2520	2940
	6300	7140
Fixed assets	4200	4550
Investments	1260	1400
Net current assets	840	1190
	6300	7140

Assume tax rate of 40%

1. What is the EBIT for year 2?
2. What is the tax on EBIT for year 2?
3. What is the NOPLAT for year 2?
4. What is the FCFF for year 2?
5. Give the break up of the financing flow.

(20 Marks)

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