Sahyadri College of Engineering & Management
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Adyar, Mangalore - 7

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14MBAFM412

Fourth Semester MBA Degree Examination, Dec.2018/Jan.2019

Corporate Valuation

Time: 3 hrs.   Max. Marks:100

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.

SECTION - A

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

1 Discuss option valuation approach in brief. **(03 Marks)**

2 Show the various methods through which free cash flow can be calculated. **(03 Marks)**

3 Discuss the applicability of DCF model. **(03 Marks)**

4 Briefly discuss BCG approach to valuation. **(03 Marks)**

5 Avinash limited ROE is 24% and its rate is 18% Avinash's dividend payout multiple is 0.3. What is Avinash's PEG multiple. **(03 Marks)**

6 Discuss the cash flows earnings with an intangible asset. **(03 Marks)**

7 Explain the key steps in Marakon approach. **(03 Marks)**

SECTION - B

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

1 An equipment costs 2,000,000 and has an economic life of 4 years at the end of which its expected salvage value is 6,00,000. If the cost of capital is 12%, what will be the depreciation schedule under the sinking fund method? **(07 Marks)**

2 Briefly explain the other DCF models other than enterprise DCF models. **(07 Marks)**

3 Discuss the steps involved in relative valuation. **(07 Marks)**

4 Describe the situations in which corporate valuation is done. **(07 Marks)**

5 The current dividend on an equity share of vertigo limited is 2.00. Vertigo 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 equity share of vertigo? **(07 Marks)**

6 Niel Associates return on equity is 22% and r = 18%, growth rate 10% and dividend payout multiple is 0.40. What are its P/E and P/B multiples from a fundamental point of view. **(07 Marks)**

7 Karishma Ltd expects to earn a supernormal rate of return of 50% on new investments to be made over the next 6 years. The projected new investment per year is Rs. 400 million. If the weighted average cost of capital for Karishma Ltd is 23%, what is the value of the forward plan? **(07 Marks)**

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SECTION – C

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

1 Rajagiri Mills Ltd is interested in acquiring the textile division of Pricom Industries Ltd. The planning group of Rajagiri Mills Ltd has developed the following forecast for textile of Pricom Industries Ltd.

Year	1	2	3	4	5	6
Asset value (beginning)	100	120	138	151.8	163.9	117.1
NOPAT	20	23	27.6	30.4	32.8	35.4
Net invt.	30	32.5	32.5	30.4	32.8	25.3
Growth rate (%)	20	15	10	8	8	6

The growth rate is from 7 year onwards is 6%. The discount rate used for acquisition is 20%. What is the value of the acquisition? **(10 Marks)**

2 Explain the steps involved in the forecasting process while developing financial forecasts. **(10 Marks)**

3 Discuss briefly the 5 broad approaches used for valuing a company. **(10 Marks)**

4 Describe stern stewrt approach (EVA). Highlight the importance of EVA and discuss the reasons that lead to increase in EVA. **(10 Marks)**

5 Laxmi capital ventures, a PE investor, is considering investing 500 million in the equity of Omitech's, a startup IT company. Laxmi required rate of return from this investment is 40% and its planned holding period is 4 year. Omitech's has projected an EBITDA of 700 million for year 4. An EBITDA multiple of 6 for year 4 is considered reasonable. At the end of year 4, Omitech is likely to have a debt of 750 million and a cash balance of 200 million.

a. What ownership share in Omitech should Laxmi capital venture ask for?
b. What is the post – money investment value? And pre money investment value? **(10 Marks)**

6 Describe the steps involved in DCF approach. **(10 Marks)**

7 Explain in detail the commonly used enterprise value multiples. **(10 Marks)**

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SECTION - D
CASE STUDY – [Compulsory]

The Profit And Loss a/c and Balance Sheet of Zenith corporation for two years (year 1, year 2) are given below :

Profit and Loss A/C (Rs. in millions)

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 expresses	700	770
Depreciation	350	420
Interest expenses	336	392
Total cost and expresses	4606	5362
PBT	1204	1428
Tax provision	364	448
PAT	840	980
Dividend	420	560
Retained earning	420	420

Balance Sheet

Equity capital	2100	2100
Reserves and surpluses	1680	2100
Debt	2520	2940
	6300	7140
Fixed asset	4200	4550
Investment	1260	1400
Net CA's	840	1190
	6300	7140

Assume tax rate of 40%.

a. What is the EBIT for year 2? **(02 Marks)**
b. What is the tax on EBIT for year 2? **(03 Marks)**
c. What is NOPLAT for year 2? **(04 Marks)**
d. What is FCFF for year 2? **(05 Marks)**
e. Give the breakup of the financing flow for year 2. **(06 Marks)**

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