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14MBAFM412

Fourth Semester MBA Degree Examination, Dec.2017/Jan.2018
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 List out three situations in which valuation is done. **(03 Marks)**

2 State the three non cash flow methods used in valuation. **(03 Marks)**

3 Given FCF_8 (Free cash flow for year 8) = ₹ 16.0 M; g – growth rate = 10%; WACC = 14%. Find the continuing value of the firm in year 9. **(03 Marks)**

4 State the commonly used enterprise valuation multiples. **(03 Marks)**

5 Mention the three components of EVA. How are they inter related? **(03 Marks)**

6 What are the drivers of the dividend growth model? **(03 Marks)**

7 What are divestitures? **(03 Marks)**

SECTION - B

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

1 Pioneer Limited's ROIC is 16% and its 'g' is 10%. Pioneer's DA is 8% and fax rate is 30%. Its WACC is 13% and EBITDA is 400 million. What is Pioneer's EV? **(07 Marks)**

2 Following is the balance sheet (Adapted) **(07 Marks)**

₹ in million.

	Year 1	Year 2	Year 3	Year 4
Fixed assets	150	175	190	220
Investments	-	20	25	25
Net current assets	50	63	70	90
	200	258	285	335

NOPLAT for Year 1 = 25.2; Year 2 = 30; Year 3 = 27.0; Year 4 = 32.0
Find ROIC for the years 2, 3 and 4.

3 The folloiwng information is available for Beta company Ltd.
ROE = 20%, Cost of equity = 15%, Dividend Payout ratio = 0.4; BV of share = 50; Net profit margin = 10%
Calculate the following:
$\frac{P_O}{E_1} - \frac{P_O}{B_O} - \frac{P_O}{S_O}$. **(07 Marks)**

4 Firm Melvin's cost of equity is 18%. The internal rate on its debt is 12% and the tax rate is 30%. The debt equity ratio is 1 : 1. Melvin's capital investment is ₹ 200 million and EBIT is 42.0 Million. Find EVA of the company. **(07 Marks)**

5 Suresh international earns a return on equity of 25%. Its dividend payout ratio is 0.40. The book value of the share is ₹ 60 and the expected return on equity is 20%. Find the market price of the share based on Marakon model. **(07 Marks)**

6 Write a note on synergy. **(07 Marks)**

7 Suggest the best practices with reference to multiples and the reasons for popularity of relative valuation. **(07 Marks)**

SECTION - C

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

1 Given below is the free cash flow statement of Global limited. Its cost of capital is 11% and the expected growth rate in the horizon period is 8%. Using DCF method find the value of the firm (Use year T values for Horizon period computation). **(10 Marks)**

	Million						
Year	1	2	3	4	5	6	7
Invested capital (Beg)	50.0	60.0	72.0	86.40	96.77	108.38	117.05
NOPLAT	6.0	7.20	8.64	10.37	11.61	13.00	14.05
Net investment	10.0	12.00	14.40	10.37	11.61	8.67	9.36
Free cash/flow	(4.00)	(4.80)	(5.76)	-	-	4.33	4.69
Growth rate	20%	20%	20%	12%	12%	8%	8%

2 The following financial information is available for company D, an unlisted automobile component manufacturing company, which is being valued

EBITDA : ₹ 400 crores

Book value of assets : ₹ 1000 crores

Sales : ₹ 2500 crores (2,500 crores)

The following companies are found to be comparable and their financial information is given below: **(10 Marks)**

₹ Crores

Particular	A	B	C
Sales	1600	2000	3200
EBITDA	280	360	480
Book Value of assets	800	1000	1400
Enterprise Value (EV)	2000	3500	4200

3 Omega capital ventures, a PE investor is considering investing 1000 crores in the equity of Flip cart, a start up venture. Omega's required rate of return is 30% on this proposed investment and the expected holding period is 5 years. An EBIDTA multiple of 7 for year 5 is considered reasonable. At the end of year 5, Flipcart is likely to have a debt of 1000 crores and cash balance of 300 crores. What ownership of Flipcart should omega capital ventures ask for? What is the pre-post money value of the Firm's equity Flipcart's EBITDA is ₹ 1500 crores for year 5. **(10 Marks)**

4 Financial statements of XYZ Ltd. for years 1 – 3 are as follows:
Profit and Loss Account

	₹ Million		
	1	2	3
Net sales	180	200	229
Income from Marketable Securities	-	-	3
Non operating income	-	-	8
Total income	180	200	240
Cost of goods sold	100	105	125
S.G.A expenses	30	35	45
Depreciation	12	15	18
Interest expenses	12	15	16
Total cost and expenses	154	170	204
PBT	26	30	36
Taxes	8	9	12
PAT	18	21	24
Dividend	11	12	12
Retained earnings	7	9	12
Equity capital	60	90	90
Reserves and surplus	40	49	61
Debt	100	119	134
	200	258	285
Fixed assets	150	175	190
Investments	-	20	25
Net current assets	50	63	70
	200	258	285

Compute EBIT, Taxes on EBIT, NOPLAT, ROIC for years 2 and 3. **(10 Marks)**

5 A new plant has an investment of ₹ 250 crores is in fixed assets and ₹ 50 crores in NWC. The plant has an economic life of 14 years and expected NOPAT is ₹ 21.085 crores. After 14 years the NWC will be realized and the salvage value of fixed assets is zero. The cost of capital is 10%. SLM depreciation is adopted. Additional information is given below.

Year	1	2	3	4	5
Net value of fixed assets	232.14	214.28	196.42	178.56	160.7
Investment in current assets	50	50	50	50	50

i) What will be the ROCE for year 5. (Assume capital employed at the beginning of the year on invested capital.
ii) What will be the ROGI for year 5?
iii) What will be the economic depreciation?
iv) What will be the CVA for year 5?
(Given FVIFA 10%, 14 yrs = 27.975) **(10 Marks)**

6 Write a brief note on strategic approach to valuation. **(10 Marks)**

7 Explain in detail the guidelines for corporate valuation. **(10 Marks)**

SECTION - D
CASE STUDY – [Compulsory]

Given below is the projected profit and loss account for Martix Ltd. for five years – years 4 through year 8. **(20 Marks)**

Profit and Loss Account

₹ in Million

	4	5	6	7	8
Net Sales	270	320	360	400	440
Income from excess marketable securities	3	2			
Non operating income	-	-	-	-	-
Total Income	273	322	360	400	440
Cost of goods sold	144	173	193	218	245
Selling and general administration	47	59	67	70	77
Depreciation	22	26	29	32	35
Interest expenses	18	20	21	23	25
	231	278	310	343	382
Profit before tax	42	44	50	57	58
Tax provision	13	16	18	19	18
Profit after tax	29	28	32	38	40
Dividend	15	15	15	16	16
Retained earnings	14	13	17	22	24

Projected Balance sheet for matrix limited for five years : 4 through years 8 – The explicit fore base period.

In million

	4	5	6	7	8
Equity capital	90	90	90	90	90
Reserves and surplus	75	88	105	127	151
Debt	140	150	161	177	192
Total	305	328	356	394	433
Fixed Assets	220	240	266	294	324
Investments	10	-	-	-	-
Net current assets	75	88	90	100	109
Total	305	328	356	394	433

Assume net investment in year 4 ₹ 35 million; WACC 14% and growth rate of 10%.

Find
- (i) NOPLAT
- (ii) Net investment
- (iii) Free cash flow.
- (iv) Terminal value / continuing value.
- (v) Value of the operations.

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