

CBCS SCHEME



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16/17MBAFM406

Fourth Semester MBA Degree Examination, June/July 2019 Corporate Valuation

Time: 3 hrs.

Max. Marks:80

- Note:** 1. Answer any **FOUR** full questions from Q1 to Q7.
2. Question No. 8 is compulsory.
3. Use of PV table is allowed.

- 1 a. What is stock and debt approach? (02 marks)
b. Write a note on steps involved in analyzing historical performance of organisations. (06 marks)
c. You are looking on steps on valuation of a stable firm, solitaire limited, done by an investment analyst. Based on the expected free cash flow of Rs.70 million for the following year and an expected growth rate of 10 percent, the analyst has estimated the value of the firm to be Rs. 3,000 million. However, he committed 9 mistake of using the book values of debt and equity. You do not know the book value weights employed by him but you know that the firm has a cost of equity of 22 percent and a post-tax cost of debt of 9 percent. The market value of equity is twice its book value. Whereas market value of its debt is eight – tenth of its book value. What is the value of the firm? (08 Marks)
- 2 a. What are the three components of EVA? (02 Marks)
b. What is relative valuation? Explain. (06 Marks)
c. Redstone Limited, a PE investor is considering investing Rs.7000 million in the equity of Orbital, a start-up IT company. Redstone's required return from this investment is 40 percent and its planned holding period is 6 years An EBITDA of orbital is Rs. 9000 million for year 6, An EBITDA multiple of 14 for year 6 is considered reasonable. At the end of year 6, Orbital is likely to have a debt of Rs. 5000 million and a cash balance of Rs. 800 million.
i) What ownership share in Orbital should Redstone Limited ask for?
ii) What is the post-money investment value of the firm's equity?
iii) What is pre money investment value? (08 Marks)
- 3 a. State how NOPLAT is computed. (02 Marks)
b. Explain the applicability and difficulty of DCF analysis. (06 Marks)
c. Discuss in detail steps involved in implementing APV approach. (08 Marks)
- 4 a. State the various enterprise valuation multiple. (02 Marks)
b. Briefly discuss about BCG approach to valuation. (06 Marks)
c. The current dividend on an equity share of Koran Limited is Rs. 8.00 on EPS of Rs.30. You, assume that the dividend per share will grow at a rate of 20% per year for next 5 years. Thereafter, the growth rate is expected to fall and stabilize at 12%. Investors required rate of return is 15% from Koran's equity shares. What is the intrinsic value of Koran equity? (08 Marks)
- 5 a. What is Bottom line of book value accounting? (02 Marks)
b. Neelu Associate's ROE is 22% and r is 18%, growth rate 10% and dividend payout multiple is 0.4. What are its P/E and P/B multiples. (06 Marks)
c. Describe the five broad approaches used for valuing a company. (08 Marks)



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- 6 a. What are the three synergies? (02 Marks)
- b. Biotech International Care's ROE 20%. The dividend payout ratio is 0.25. Equity holder of Biotech requires a return of 16 percent. The book value per share is Rs. 60. What is the market price per share according to the Marakon model? (06 Marks)
- c. Polytex Limited is considering a capital project for which the following information is available.

Investment Outlay	1000	Depreciation method	Sinking Fund
Project life	5 years	Tax rate	30%
Salvage vale	NIL	Debt equity	1 : 1
Annual revenue	14000	Dost of equity	16%
Annual cost [excluding depreciation]	9000	Cost of debt [post tax]	8%

Calculate the EVA of the project over its life and the NPV. (08 Marks)

- 7 a. What is CFROI? (02 Marks)
- b. Write a note on EVA as a basis for integrated financial management system. (06 Marks)
- c. The profit and loss account and balance sheet for 2 years [1 and 2] are given below. Assume 30% tax rate.

Profit and Loss Account	1	2
Net sales	40,000	50,000
Income from marketable securities	800	1,000
non-operating Income	600	1,000
Total Income	41,400	52,000
Cost of goods sold	25,000	30,000
Selling and admn. expenses	6,000	7,200
Depreciation	2,400	3,000
Interest expenses	2,500	2,600
Total cost and expenses	35,900	42,800
PBT	5,500	9,200
Tax provision	1,500	2,700
PAT	4,000	6,500
Dividends	1,400	1,800
Retained earnings	2,600	4,700
Balance Sheet		
Equity Capital	6,000	6,000
Reserves and suppliers	10,000	14,700
Debt	16,000	19,300
	32,000	40,000
Fixed assets	20,000	24,500
Investments	7,000	8,500
Net current assets	5,000	7,000
	32,000	40,000

- i) What is the EBIT for year 2?
- ii) What is tax on EBIT for year 2?
- iii) What is FCF for year 2?

(08 Marks)



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8 CASE STUDY [Compulsory]

You have developed the following projections for Jaihind Limited.

[Rs. in million]

	1	2	3	4	5
Free cash flow to firm	700	900	1200	1300	1400
Interest bearing debt	2000	1500	1100	700	300
Interest expenses	200	150	110	70	30

Calculate enterprise value of Jaihind limited using the following assumptions.

- Beyond year 5, the FCFE will grow at rate of 8%
- Jaihind unlevered cost of equity is 15%
- After year 5, Jaihind will maintain a debt – equity ratio of 3 : 5
- The borrowing rate for Jaihind will be 10%
- The tax rate for Jaihind is 30%
- The R_f is 8%
- The market Risk premium is 7%.

(16 Marks)

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