CBCS SCHEME

USN | | | | | | | | | | |

18MBAFM406

Fourth Semester MBA Degree Examination, Aug./Sept.2020
Corporate Valuation

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any FIVE full questions.***
2. Use of present and future value factor tables is allowed.

1 a. Define corporate valuation. **(03 Marks)**
b. Briefly explain the bias and uncertainty in valuation. **(07 Marks)**
c. Explain in detail the various approaches in valuation. **(10 Marks)**

2 a. What is a comparable company? **(03 Marks)**
b. Explain the two stage growth model and H-model under the dividend discount model. **(07 Marks)**
c. Explain in detail the steps involved in enterprise discounted cash flow approach. **(10 Marks)**

3 a. What is a P/E multiple and P/B multiple? **(03 Marks)**
b. Explain the steps involved in relative valuation. **(07 Marks)**
c. The following information is available for Tejas Ltd.
ROE = 25%
Cost of equity (K_e) = 17%
Dividend payout ratio = 50%
Book value per share = 70
Net profit margin = 10%
Growth rate = 12.5%
Calculate the following multiples.
i) P/E ii) P/B iii) P/S iv) Value ratio v) PEG. **(10 Marks)**

4 a. What is Earnings Power Value (EPV)? **(03 Marks)**
b. Briefly explain the Levels of market Efficiency. **(07 Marks)**
c. Explain in detail the guidelines for corporate valuation. **(10 Marks)**

5 a. What are cyclical companies? **(03 Marks)**
b. Distinguish between private versus public equity investing. **(07 Marks)**
c. Explain the methods of valuation done under the CCI guidelines. **(10 Marks)**

6 a. What is Value Based Management? **(03 Marks)**
b. Explain with a neat diagram the share holders value creation network. **(07 Marks)**
c. Explain in Marakon Approach of Value Based Management. **(10 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 a. What is financial Distress and Bankruptcy? **(03 Marks)**

b. What are the factors considered for valuation of shares for buyback? **(07 Marks)**

c. The Profit and Loss account and Balance Sheet for Laxmi Corporation for 2 year is given below:

Profit and Loss A/C (in Lakhs)

Particulars	Year 1	Year 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 Over Heads	700	770
Depreciation	350	420
Interest Expenses	336	392
Total Cost	4606	5362
PBT	1204	1428
Tax Provision	364	448
PAT	840	980
Dividend	420	560
Retained Earnings	420	420

Assume Tax rate at 40%.

Balance Sheet

Particulars	Year 1	Year 2
Equity capital	2100	2100
Reserves and Surplus	1680	2100
Debt	2520	2940
	6300	7140
Fixed Assets	4200	4550
Investments	1260	1400
Net Current Assets	840	1190
	6300	7140

Investment includes (cash and market securities).

Calculate :

i) What is EBIT for year 2?

ii) What is Tax on EBIT for year 2?

iii) What is NOPLAT for year 2?

iv) What is ROIC for year 2?

v) What is FCFF for year 2? **(10 Marks)**

8 From the following projections, calculate enterprise value of Optex Limited.

Particular	1	2	3	4	5
FCFF	200	250	300	340	380
Interest bearing debt	500	400	300	200	100
Interest expense	60	48	36	24	12

Additional information :

i) Beyond 5 years the FCFF will grow at 10% constant rate

ii) Cost of equity is 14%

iii) Borrowing rate is 12%

iv) Debt equity ratio 4 : 7

v) Tax rate is 30%

vi) Risk free rate 8% and risk premium 6%. **(20 Marks)**