CBCS SCHEME

USN

18MBAFM406

Fourth Semester MBA Degree Examination, Feb./Mar. 2022
Corporate Valuation

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***

1 a. List out three situation in which valuation is done. **(03 Marks)**

b. Following is the Balance Sheet (adapted). (Rs. in million)

	Year 1	Year 2	Year 3	Year 4
Fixed Assets	150	175	190	220
Investment	-	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; year 4 = 32, find ROIC for the tears 2, 3 and 4. **(07 Marks)**

c. The following financial information in available for company D, an unlisted automobile component manufacturing company, which is being valued.
EBITDA : Rs.400 crores
B.V. of assets : Rs.1000 crores
Sales : Rs.2500 crores (2500 crores)
The following companies are found to be comparable and their financial information is given below:

Particulars	A	B	C
Sales	1600	2000	3200
EBITDA	280	360	480
Book value of assets	800	1000	1400
Enterprise value	2000	3500	4200

Find EV of firm. **(10 Marks)**

2 a. State the three cash flow method used in valuation. **(03 Marks)**

b. The following information is available for Ramco Company Ltd.
RoE = 20% B.V. of share = 50
K_e = 15%; Net profit margin = 10% Dividend payout ratio = 0.4
Calculate : (i) P_0/E_1 (ii) P_0/B_0 (iii) P_0/S_0 **(07 Marks)**

c. PVR Ltd., is considering a capital project for which the following information is available:
Investment outlay : 5000
Project life : 4 years
Salvage value : 0
Annual revenue : 6000
Annual cost (excluding depreciation, interest and tax) : 4000
Depreciation (for tax purpose) : Straight Line
Tax : 40%
D/E Ratio: 4:5
Cost of equity = 18%
Cost of debt : 9% (post tax)
(i) Calculate the EVA of the project.
(ii) Calculate the NPV of the project. **(10 Marks)**

3	a.	What is Corporate Valuation?	**(03 Marks)**
	b.	A new plant has an investment of Rs.250 crores is in fixed assets and Rs.50 crores in NWC. The plant has an economic life of 14 years and expected NOPAT is Rs.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. Addition 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 years = 27.975) **(07 Marks)**

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

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

b. Omega Capital Ventures, a PE investor is considering investing 1000 crore in the equity of Flipcart, a startup venture. Omega's required rate of return is 30% on this proposed invested and the expected holding period is 5 year. An EBITDA 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 crore. What ownership of flipcart should Omega Capital Ventures ask for? What is the pre-post money value of the firm's equity Flipkart's EBITDA is Rs.1500 crores for year 5? **(07 Marks)**

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

5 a. What is Efficient Market? **(03 Marks)**

b. List out the applicabilities of DCF model and explain the situation where it is difficult to apply DCF method. **(07 Marks)**

c. What are the lessons from the experience of VBM? **(10 Marks)**

6 a. What is agency cost? **(03 Marks)**

b. Explain the features of valuation. **(07 Marks)**

c. You are looking at the valuation of a stable firm, Networks limited, done by an investment analyst. Based on an expected free cash flow of 54 million for the following year and an expected growth rate of 9%, the analyst has estimated the value of the firm to be 1800 million. However, he committed a mistake of using the book value 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 20% and a post tax cost of debt of 10%. The market value of equity is thrice its book value, whereas the market value of its debt is nine-tenths of its book value. What is the correct value of the firm? **(10 Marks)**

7 a. What are the methods of VBM? **(03 Marks)**

b. XYZ Co.'s ROIC is 18%, DA is 10% and its growth rate is 12%, XYZ's tax rate is 30% and WACC is 14% with reinvestment rate of 80%. After tax operating margin is 12%. Calculate enterprise valuation multiples. **(07 Marks)**

c. Discuss the economic approach to valuing intangible assets. **(10 Marks)**

8 *Case Study:*

Magna Corporation is expected to grow at higher rate for 5 years; thereafter the growth rate will fall and stabilize at a lower level. The following information has been assembled.

Base year (year 0) information :
Revenues : 4000 million
EBIT (12.5% of revenues) : 500 million
Capital expenditure : 300 million
Depreciation : 200 million
Net working capital as a % of revenues : 30%
Corporate tax rate (for all time) : 40%
Paid up equity capital : 300 million
Market value of debt : 1250 million

Inputs for the High Growth Rate:
Length of the high growth phase : 5 years
Growth rate in revenue, depreciation, EBIT and capital expenditure : 10%
Net working capital as a percentage of revenues : 30%
Cost of debt : 15% (pre tax)
Debt-equity ratio: 1:1
Risk free rate : 13%
Market risk premium : 6%
Equity beta : 1.333

Inputs for the stable growth period:
Expected growth rate in revenue and EBIT: 6%
Capital expenditure are offset by depreciation.
Networking capital as a % of revenues = 30%
Cost of debt: 15% (pretax)
Debt-equity ratio: 2:3
Risk free rate: 12%
Market risk premium: 7%
Equity beta: 1.0

a. What is the WACC for the high growth phase and the stable growth phase? **(10 Marks)**
b. What is the value of the firm? **(10 Marks)**

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