CBCS SCHEME

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

18MBAFM406

Fourth Semester MBA Degree Examination, July/August 2021

Corporate Valuation

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FIVE full questions.***

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.

1 a. What is Divestiture? **(03 Marks)**
b. Explain briefly the situations in which corporate valuation is done. **(07 Marks)**
c. Explain in detail the five broad approaches used for valuing a company. **(10 Marks)**

2 a. What are the basic drivers of FCF? **(03 Marks)**
b. Briefly write the steps involved in valuing a firm under discounted cash flow approach. **(07 Marks)**
c. The profit and loss account and balance sheet of Zenith corporation for two years (year 1, year 2) are given below:

Amount in million

Profit and Loss Account		
Particulars	Year 1	Year 2
Net sales	5600	6440
Income from marketable security	140	210
Non-operating income	70	140
Total income	5810	6790
Cost of goods sold	3220	3780
Selling and administrative expenses	700	770
Depreciation	350	420
Interest expenses	336	392
Total costs and expenses	4606	5362
PBT	1204	1428
Tax provision	364	448
PAT	840	980
Dividend	420	560
Retained earnings	420	420
Balance Sheet		
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

Assume a tax rate of 40 percent:
i) What is the EBIT for year 2?
ii) What is the tax on EBIT for year 2?
iii) What is the NOPLAT for year 2?
iv) What is the Free Cash Flow to the Firm (FCFF) for year 2?
v) Give the break up of the financing flow for year 2. **(10 Marks)**

3 a. What is beta? **(03 Marks)**

b. Max steels is an unlisted steel company whose debt-equity ratio is 1.6 and tax rate is 25 percent. There are three listed firms P, Q and R engaged in similar steel business. Their equity betas, debt-equity ratios and tax rates are as follows:

Company	Equity beta	Debt-equity	Tax rate
P	1.1	1.9	0.30
Q	1.2	2.1	0.25
R	1.05	1.8	0.35

What is the equity beta for Max steels? **(07 Marks)**

c. Explain the steps involved in relative valuation. **(10 Marks)**

4 a. Write a note on various equity valuation multiples. **(03 Marks)**

b. The following information is available for Gamma company:
ROE = 20 percent
Cost of equity = 15 percent
Dividend pay out ratio = 0.4
Book value per share = 50
Net profit margin = 10 percent
Calculate the following for Gamma company:
i) P_0/E_1 ii) P_0/B_0 iii) P_0/S_0 iv) PEG v) Value ratio. **(07 Marks)**

c. Discuss the following approaches for valuing intangible assets: cost approach, market approach and economic approach. **(10 Marks)**

5 a. What is Value Based Management? **(03 Marks)**

b. Explain the methods and key premises of VBM (Value Based Management). **(07 Marks)**

c. Write in detail about BCG approach to Value Based Management. **(10 Marks)**

6 a. What do you mean by IPO? **(03 Marks)**

b. What are the agency costs of debt? **(07 Marks)**

c. What is the process involved for the valuation of shares for buyback? **(10 Marks)**

7 a. What is bankruptcy? **(03 Marks)**

b. Write a note on Mckinsey approach in VBM. **(07 Marks)**

c. What are the various sub-sections in loose ends of valuation? Explain them in detail. **(10 Marks)**

8 a. What are the various information needed to value a company? **(10 Marks)**

b. You are looking at the valuation of a stable firm, NCC, 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 percent, the analyst has estimated the value of the firm to be 1800 million. However, he committed a mistake of using the book values of debt and equity, you don't know the book value weights employed by him but you know that the firm has a cost of equity of 20 percent and post tax cost of debt of 10 percent. The market value of equity is thrice its book value, where as the market value of its debt is nine-tenths of its book value. What is the correct value of the firm? **(10 Marks)**

* * * * *