

# CBCS SCHEME

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20MBAFM405

## Fourth Semester MBA Degree Examination, Jan./Feb. 2023 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.**

**3. Use of Interest factor table is permitted.**

- 1 a. What are the three components of EVA? (03 Marks)  
b. Max steel is an unlisted steel company where debt-equity ratio is 1.6 and tax rate is 25%. There are 3 listed firms, P, Q and R, engaged in similar steel business. Their equity betas, debt-equity ratios and tax rates are as follows:

Listed Companies	Equity beta	Debt-equity ratio	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. Discuss the key guidelines for capital structure planning? (10 Marks)  
2 a. What is Bankruptcy? (03 Marks)  
b. Discuss the situation in which Corporate Valuation is done. (07 Marks)  
c. The following information is available for XYZ Ltd.:  
ROE = 20%,  $K_e = 15%$ ,  $DPR = 0.4$ ,  $g = 12%$ , Book value per share = Rs.50,  
Net profit margin = 10%. Calculate the following for XYZ Ltd.  
(i)  $P_0/E_1$  (ii)  $P_0/B_0$  (iii)  $P_0/S_0$  (iv) PEG (v) Value Ratio (10 Marks)  
3 a. List out the components of loose end valuation. (03 Marks)  
b. Discuss the lessons that can be gained from the experience of VBM adapter. (07 Marks)  
c. You have developed the following projections for Optex limited.

Particulars	Rs. Million				
	1	2	3	4	5
Free cash flow to the firm	200	250	300	340	380
Interest bearing debt	500	400	300	200	100
Interest expenses	60	48	36	24	12

Calculate the enterprise value of optex limited using the following assumptions:

- (i) Beyond year 5, the free cash flow to the firm of optex will grow at a constant rate of 10% per annum.  
(ii) Optex's unlevered cost of equity is 14%.  
(iii) After year 5, optex will maintain a debt-equity ratio 4:7.  
(iv) The borrowing rate for optex will be 12%.  
(v) The tax rate for optex is 30%.  
(vi) The risk-free rate is 8%.  
(vii) The market risk premium is 6%. (10 Marks)  
4 a. What is informational asymmetry? (03 Marks)  
b. Briefly explain the steps involved in relative valuation. (07 Marks)  
c. Discuss the five broad approaches used for valuing a company. (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.

- 5 a. What are the sources of uncertainty in valuation? (03 Marks)  
 b. Explain the role of Government and Security Market in IPO valuation. (07 Marks)  
 c. Laxmi Capital Ventures, a PE investor, is considering investing 500 million in the equity of XYZ, a start-up IT company Laxmi's required rate of return from this investment is 40% and its planned holding period is 4 years. XYZ's has projected an EBITDA of 700 million for year 4. An EBITDA multiple of 6 for year 4 is considered reasonable. At the end of year 4, XYZ is likely to have a debt of 750 million and a cash balance of 200 million.  
 (i) What ownership share is XYZ Ltd. should Laxmi capital ventures ask for?  
 (ii) What is the post-money investment value of the firm's equity?  
 (iii) What is the pre-money investment value? (10 Marks)
- 6 a. List out the steps involved in Marakon approach. (03 Marks)  
 b. Briefly explain the non-DCF approaches to company valuation. (07 Marks)  
 c. Discuss the guidelines for corporate valuation. (10 Marks)
- 7 a. What are the determinants of shareholders value according to Rapport? (03 Marks)  
 b. Explain the best practices using multiples. (07 Marks)  
 c. Discuss the rational and objectives to share buybacks. (10 Marks)
- 8 The profit and loss account and balance sheet of Kiran Corporation for two years are given below:

Profit and Loss A/C (Rs. in million)

	2020	2021
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 and administrative expenses	700	770
Depreciation	350	420
Interest on expenses	336	392
Total cost and expenses	4606	5362
PBT	1204	1428
Tax provision	364	448
PAT	840	980
Dividend	420	560
Retained earnings	420	420

Balance sheet (Rs. in Million)

Liabilities	2020	2021	Assets	2020	2021
Equity capital	2100	2100	Fixed assets	4200	4550
Reserves & surplus	1680	2100	Investments	1260	1400
Debt	2520	2940	Net C.A.	840	1190
	6300	7140		6300	7140

Assume a tax rate of 40%.

- (i) What is the EBIT and tax on EBIT for year 2021?  
 (ii) What is the NOPLAT for year 2021?  
 (iii) What is the Free Cash Flow to the Firm (FCFE) for year 2021?  
 (iv) Give the break-up of the financing flow for year 2021. (20 Marks)

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