Srinivas Institute of Technology
Library, Mangalore

CBCS SCHEME

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

20MBAFM405

Fourth Semester MBA Degree Examination, July/August 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.*

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. Write the difference between financial decision and investment decision. (07 Marks)
c. Discuss the key guidelines for capital structure planning. (10 Marks)

2 a. What are the other DCF models? (03 Marks)
b. What are the steps in relative valuation? (07 Marks)
c. What are the lessons from the experience of VBM? (10 Marks)

3 a. What are the agency cost? (03 Marks)
b. Explain the features of 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:
(i) P/E (ii) P/B (iii) P/S (iv) Value ratio (v) PEG (10 Marks)

4 a. What is beta? (03 Marks)
b. Modem Ltd., after-tax operating margin is 12% and growth rate is 11%. Its reinvestment rate is 70% and its WACC is 13%. Compute the EV to sales multiple. (07 Marks)
c. 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%, 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 don't know the book value weights employed by him but you know that the firm has a cost of equity of 20% and post tax cost of debt of 10%. 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)

5 a. What are cyclical companies? (03 Marks)
b. Distinguish between private versus public equity investing. (07 Marks)
c. Explain in Marakon Approach of value based management. (10 Marks)

6 a. What is Financial Distress? (03 Marks)
b. What are the factors considered for valuation of shares for buy back? (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)

Particular	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 overheads	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

Particular	Year 1	Year 2
Equity capital	2100	2100
Reserve & surplus	1680	2100
Debt	2520	2940
Total	6300	7140
Fixed assets	4200	4550
Investment	1260	1400
Net current asset	840	1190
Total	6300	7140

Investment includes (cash & 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)**

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

b. Moon is growing at an above average rate. It foresees a growth rate of 20% p.a. in free cash flows to equity holders in the next 4 years. It is likely to fall to 12% in the next two year. After that, the growth rate is expected to stabilize at 5% per annum. The amount of Free Cash Flow (FCFE) per equity share at the beginning of current year is Rs.10. Find out the maximum price at which an investor, follower of the free cash approach, will be prepared to buy the company's share on date, assuming an equity capitalization rate of 14%. **(07 Marks)**

c. 'Zero' ventures, a PE investor is considering investing 5000 million in the equity of 'Hero' a startup IT company. Zero's required return from this investing is 35% and its planned holding period is 5 years. Hero has projected an EBITDA of 7000 million for year 5. An EBITDA multiple of 6 for year 5 is considered reasonable. At the end of year 5, Hero is likely to have debt of 2500 million and a cash balance of 800 million.

(i) What ownership share in 'Hero' should 'Zero' venture 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)**

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8 ***Compulsory Question:***

Shushma Corporation is expected to grow at a higher rate for 4 years; thereafter the growth rate will fall and stabilize at a lower level. The following information has been assembled:

Base year (year 0) information:

Revenue	3000 million
EBIT	500 million
Capital expenditure	350 million
Depreciation	250 million
Networking capital at percentage of revenues	25%
Corporate tax rate (for all time)	30%
Paid up equity capital (10 par)	400 million
Market value of debt	1200 million

Input for the high growth phase :

Length of high growth phase	4 years
Growth rate in revenue, depr, EBIT and Capex	20%
Net working capital as a % of revenue	25%
Cost of debt (pre-tax)	13%
Debt equity ratio	1:1
Risk free rate	11%
Market risk premium	7%
Equity beta	1.129

Input for the stable growth period:

Expected growth rate in revenue and EBIT	10%
Net working capital as a percentage of revenue	25%
Cost of debt (pre-tax)	12.14%
Risk free rate	10%
Market risk premium	6%
Equity beta	1
Debt equity ratio capital expenditure are offset by depreciation	2:3

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

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