USN | | | | | | | | | | 14MBAFM412

Fourth Semester MBA Degree Examination, June/July 2016
Corporate Valuation

Time: 3 hrs. Max. Marks:100

SECTION – A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 What is Freecash flow? **(03 Marks)**

2 What do you mean by Divestitures? **(03 Marks)**

3 What is an efficient market? **(03 Marks)**

4 What do you mean by synergy? Mention its types. **(03 Marks)**

5 What are the causes for rise in EVA? **(03 Marks)**

6 What do you mean by Franchise? **(03 Marks)**

7 What is enterprise valuation multiples? Mention its some multiples. **(03 Marks)**

SECTION – B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Briefly explain the features of valuation process. **(07 Marks)**

2 Explain the steps involved in relative valuation. **(07 Marks)**

3 You are looking at the valuation of a stable firm, networks Ltd, done by an investment analyst. Based on an expected free cashflow 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 values 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 post-tax cost of debt of 10%. The market value 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? **(07 Marks)**

4 Explain in brief Alcar approach. **(07 Marks)**

5 Briefly explain the enterprise valuation multiples. **(07 Marks)**

6 Explain the steps involved in developing financial forecasts. **(07 Marks)**

7 The following information is available for Gamma company:
ROE = 20%
Cost of equity = 15%
Dividend payout ratio = 0.4
Book value per share = 50 (Rupees)
Net profit margin = 10%
Calculate the following for Gamma company:
a. P0/E1
b. P0/B0
c. P0/S0
d. PEG
e. Value ratio. **(07 Marks)**

SECTION – C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Explain in detail different approaches to valuation. **(10 Marks)**

2 Briefly explain guidelines for corporate valuation. **(10 Marks)**

3 Explain in detail loose ends of valuation. **(10 Marks)**

4 Multiplex limited is considering a capital project for which the following information is available.
Investment outlay : Rs.5000
Project life : 4 years
Salvage value : 0
Annual revenues : Rs.6000
Annual costs : 4000 (excluding depreciation, interest and taxes)
Depreciation : straight line (for tax purposes)
Tax rate : 40%
Debt-equity ratio : 4:5
Cost of equity : 18%
Cost of debt : 9% (post-tax).
a. Calculate the EVA of the project over its life.
b. Compute the NPV of the project. **(10 Marks)**

5 Angel ventures a PE investor is considering investing 3000 million in the equity of Delta systems, a start-up IT company. Angel's required return from this investment is 35% and its planned holding period is 5 year. Delta has projected an EBITDA of 4000 million for year 5. An EBITDA multiple of 6 for year 5 is considered reasonable. At the end of year 5, delta systems is likely to have a debt of 2500 million and a cash balance of 800 million.
i) What ownership share in delta systems should angel 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 Briefly explain the economic approaches to valuation. **(10 Marks)**

7 A new plant entails an investment of Rs.300 million (Rs.250 million in fixed assets and Rs.50 million in net working capital). The plant has an economic life of 14 years and is expected to produce a NOPAT of Rs.21.085 million every year. After 14 years, the net working capital will be realized at par whereas fixed assets will fetch nothing. The cost of capital for the project is 10%. The straight line method of depreciation is used.

a. What will be the ROCE for year 5? Assume that capital employed is measured at the beginning of the year.
b. What will be the ROGI for year 5?
c. What will be the economic depreciation for year 5?
d. What will be the CVA for year 5? **(10 Marks)**

SECTION – D
(Compulsory)

8 The profit and loss account and balance sheet of Zenith corporation for two years (years 1 and 2) are given below.

Profit and Loss Account (Rs. in million)		
	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 and administrative expenses	700	770
Depreciation	350	420
Interest 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		
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

Compute the following:

a. What is the EBIT for year 2?
b. What is the tax on EBIT for year 2?
c. What is the NOPLAT for year 2?
d. What is the free cash flow to the firm (FCFF) for year 2?
e. Give the breakup of the financing flow for year 2. **(20 Marks)**

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