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14MBAFM412

Fourth Semester MBA Degree Examination, June/July 2017
Corporate Valuation

Time: 3 hrs. Max. Marks:100

SECTION - A

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

1 Discuss about Book value Approach briefly. **(03 Marks)**

2 Define value Driver Method. **(03 Marks)**

3 XYZ Ltd has a target capital structure in which debt and equity have weights (in market value terms) of 2 and 3. The component costs of Debt and equity are 12.67% and 18.27%. The marginal tax rate of XYZ Ltd is 40%. Calculate the WACC. (Weighted average Cost of Capital) **(03 Marks)**

4 What are synergies? How are they valued? **(03 Marks)**

5 Briefly discuss about BCG approach to valuation. **(03 Marks)**

6 Magna corporations ROE is 20% and its r is 16% Magna's dividend payout multiple and 0.4 and its g is 12% from the fundamental point of calculate Magna's P/B multiple. **(03 Marks)**

7 What is fair value Accounting? Discuss the pros and cons of fair value accouting. **(03 Marks)**

SECTION - B

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

1 The current dividend on an equity share of vertigo Ltd is 2.00 vertigo is expected to enjoy an above normal growth rate of 20% for a period of 6 years. Thereafter, the growth rate will fall and stabilize at 10%, equity investors require a return of 15%. What is the intrinsic value of equity share of vertigo? **(07 Marks)**

2 Discuss the slips involved in Relative valuation. **(07 Marks)**

3 Briefly describe about Stern Stewart Approach (EVA Approach). Highlight the components of EVA. What causes EVA to increase? **(07 Marks)**

4 You are looking at the valuation of a stable firm solidaire Ltd, done by an investment analyst. Based on an expected free cash flow of Rs 70 million for the following year and an expected growth rate of 10%, the analyst has estimated the value of the firm to be Rs 3000 millions. However he committed a mistake of using book values of debt and equity. You do not know the book value weights employed by the person but you know that the firm has a cost of equity of 22% and post tax cost of debt of 9%. The market value of equity is twice its book value, where as the market value of its debt is eight tenths of its book value. What is the correct value of the firm? **(07 Marks)**

5 Describe the situations in which corporate valuation is done. **(07 Marks)**

6 What is efficient market hypothesis? Explain the common misconceptions about efficient market hypothesis. **(07 Marks)**

7 Elucidate on valuation under CCI guidelines. **(07 Marks)**

SECTION - C

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

1 Angel ventures, a PE investor is considering investing 3000million in the equity of Delta systems, a startup IT company. Angle's required rate of return from this investment is 35% and its planned holding period is 5 years. Delta has a 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 pre-money investment value? **(10 Marks)**

2 Multiplex Ltd is considering a capital project for which the following information is available

Investment outlay	:	5000
Project life	:	4 years
Salvage value	:	0
Annual Revenues	:	6000
Annual cost	:	4000
(excluding depreciation, interest and taxes)		
Depreciation	:	Straight line (for tax purpose)
Tax Rate	:	40%
Debt equity ratio	:	4:5
Cost of equity	:	18%
Cost of Debt	:	9% (post tax)

- Calculate the EVA of the project over its life
- Compute NPV of the project. **(10 Marks)**

3 Describe the five broad approaches used for valuing a company. **(10 Marks)**

4 Discuss how APV approach defines Enterprise value. Explain the steps involved in implementing APV approach. **(10 Marks)**

5 The following information is available for Ganima company. **(10 Marks)**
ROE = 20%, Cost of equity = 15%, Dividend payout ratio = 0.4, Book value per share = 50, Net profit margin = 10%
Calculate: i) P_0/E_1 ii) P_0/B_0 iii) P_0/S_0 iv) PEG v) Value ratio.

6 Discuss the applicability and limitations of DCF analysis. **(10 Marks)**

7 Write short notes on the different enterprise valuation (EV) multiples. Explain the factors to be borne in mind (Best Practices) while using multiples. **(10 Marks)**

SECTION - D
CASE STUDY – [Compulsory]

The Profit/Loss Account and Balance sheet of a company for two years are given below : - (Assume a tax rate of 30% for year 2).

Profit/Loss Account	Year 1	Year 2
Net sales	40,000	50,000
Income from marketable securities	800	1,000
Non operating income	600	1,000
Total income	41,400	52,000
Cost of Goods sold	25,000	30,000
Selling and Administrative Expenses	6,000	7,200
Depreciation	2,400	3,000
Interest expenses	2,500	2,600
Total cost and expenses	35,900	42,800
PBT	5,500	9,200
Tax provision	1,500	2,700
PAT	4,000	6,500
Dividends	1,400	1,800
Retained earnings	2,600	4,700
Balance sheet		
Equity capital	6,000	6,000
Reserves and surplus	10,000	14,700
Debt	16,000	19,300
	32,000	40,000
Fixed Assets	20,000	24,500
Investment	7,000	8,500
(marketable securities)		
Net current Assets	5,000	7,000
	32,000	40,000

Question : -

a. Calculate EBIT **(02 Marks)**
b. Calculate NODLAT **(03 Marks)**
c. Find out the ROIC and net investment **(05 Marks)**
d. What is FCFF for year 2? **(05 Marks)**
e. Show the breakup of financing flow. **(05 Marks)**

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