CBCS SCHEME

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20MBAFM405

Fourth Semester MBA Degree Examination, June/July 2023
Corporate Valuation

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FIVE full questions.***
2. ***Use of present value and Future value factor tables is allowed.***

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 WACC? How is it computed? **(03 Marks)**
b. Describe the various situations in which corporate valuation is done. **(07 Marks)**
c. Explain the various approaches used for valuation of a company. **(10 Marks)**

2 a. Explain the costs of financial distress. **(03 Marks)**
b. Explain in detail the rationale and objections to share buy backs. **(07 Marks)**
c. The following projections are developed for Omega Ltd.

Years	In 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 expense	60	48	36	24	12

Calculate the enterprise value of Omega Ltd. using the following assumptions :
(i) Beyond year 5, the free cash flow to the year firm of Omega will grow at a constant rate of 10% per annum.
(ii) Omega's unlevered cost of equity is 14% per annum.
(iii) After year 5, Omega will maintain a debt equity ratio of 4 : 7.
(iv) The borrowing rate for Omega will be 12%.
(v) The tax rate for Omega is 30%
(vi) The risk free rate is 8%
(vii) The market risk premium is 6%. **(10 Marks)**

3 a. Felix company has an ROIC of 15% ; g of 10% and WACC of 12%. Calculate the EV/BV multiple. **(03 Marks)**
b. Discuss in detail the steps involved in Relative valuation. **(07 Marks)**
c. The following information is available for Gamma company :
ROE = 20% ; Cost of Equity = 15% ; Dividend Payout ratio = 0.4 ;
Book value per share = Rs.50 ; Net profit margin = 10%
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. **(10 Marks)**

4 a. Pioneer Ltd's ROIC is 16% and its g is 10% Pioneer's depreciation and amortization. Charges (DA) is 8% and its tax rate is 30% Pioneer's WACC is 13% and its EBITDA is 300 million. What is Pioneer's EV? **(03 Marks)**
b. "You can adopt the multiple that reflects your trias or use all the multiplier or pick the "best" "multiple" argues Aswath Damedaran. Explain his argument. **(07 Marks)**

c. The following financial information is available for company D an unlisted pharmaceutical company which is being valued :

(i) EBITDA : 1200 million

(ii) Book value of assets : 3000 million

(iii) Sales : 7500 million

Based on an evaluation of a number of listed pharmaceutical companies A, B and C have been found to be comparable to company D. The financial information for these companies is given below :

	A	B	C
Sales	4800	6000	9600
EBITDA	840	1080	1440
Book value of assets	2400	3000	4200
Enterprise value (EV)	6000	10500	12600

Estimate the Enterprise value of D company. **(10 Marks)**

5 a. Explain the role of Government in Corporate valuation. **(03 Marks)**

b. What are the implications of real world imperfections on dividend policy? **(07 Marks)**

c. Explain in detail the Marakon Approach in Value Based Management. **(10 Marks)**

6 a. Define NOPLAT. How is it calculated? **(03 Marks)**

b. You are looking at the valuation of a stable firm, Networks Ltd., done by an investment analyst. Based on an expected free cash flow of 54 million for the following year and an expected growth 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 a 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-tenth of its book value. What is the correct value of the firm? **(07 Marks)**

c. Explain in detail the steps in forecasting financial performance of the company. **(10 Marks)**

7 a. What are the considerations in estimating the continuing value parameter? **(03 Marks)**

b. Explain in detail the valuation of Banks, insurance companies and companies with multi-business units. **(07 Marks)**

c. Explain in detail the Alcar Approach in Value Based Management. **(10 Marks)**

8 **CASE STUDY: (compulsory)**

The profit and loss account and balance sheet of Zory Corporation for two years (Year 1 and Year 2) are given below:

PROFIT AND LOSS ACCOUNT		
	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 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

Assuming a tax rate of 40%.

(i) What is the EBIT and tax on EBIT for year 2? **(05 Marks)**
(ii) What is the NOPLAT for year 2? **(05 Marks)**
(iii) What is the free cash flow to the firm (FCFF) for the year 2? **(05 Marks)**
(iv) What is the ROIC for the year 2? **(05 Marks)**

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