CBCS SCHEME

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18MBAFM406

Fourth Semester MBA Degree Examination, November 2020
Corporate Valuation

Time: 3 hrs. Max. Marks:100

Note: *Answer any FIVE full questions.*

1 a. What do you mean by corporate valuation? **(03 Marks)**
b. Explain in detail the various steps involved in developing financial forecasts of an enterprise. **(07 Marks)**
c. Briefly, explain the various approaches to valuation in detail. **(10 Marks)**

2 a. What are the three components of EVA? **(03 Marks)**
b. According to McKinsey approach which are the six areas where a company must focus to create value. Explain. **(07 Marks)**
c. What is value based management? Explain the benefits of VBM. **(10 Marks)**

3 a. Pasha Co's ROE is 18% and its 'r' is 15%. Pasha's dividend payout ratio is 0.4 and its plough back ratio 0.6. So, from the fundamental point of view, what is the P/E multiple? **(03 Marks)**
b. What is relative valuation? Explain the various steps involved in relative valuation. **(07 Marks)**
c. What are the common misconceptions about the efficiency market hypothesis? **(10 Marks)**

4 a. What are the sources of bias in valuation? **(03 Marks)**
b. The following information is available for SHS company.
(i) ROE = 20% (ii) Cost of equity 15%
(iii) Dividend payout ratio = 0.4 (iv) Book value per share = 50
(iv) Net profit margin = 10% (vi) g = 12%
Calculate the following for SHS Co.: $\frac{P_0}{E_1}$, $\frac{P_0}{B_0}$, $\frac{P_0}{S_0}$, PEG, value ratio. **(07 Marks)**
c. The current dividend on an equity share of Vinish Ltd. is 2.00. Vinish 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 the equity share of vanish? **(10 Marks)**

5 a. What do you mean by information asymmetry? **(03 Marks)**
b. Explain the various issues that arise in the content of multi-business companies and high growth companies. **(07 Marks)**
c. Explain the applicability and difficulty of DCF analysis. **(10 Marks)**

6 a. What do you mean by financial distress? **(03 Marks)**
b. The following financial information is available for company D, an unlisted pharmaceutical company, which is being valued.
EBITDA = 400 million; Book value of assets = 1000 million; Sales = 2500 million
Based on an evaluation of a number of listed pharmaceutical company, 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	1600	2000	3200
EBITDA	280	360	480
Book value of assets	800	1000	1400
EV	2000	3500	4200

Compute the valuation multiples for the comparable companies and also compute enterprise value of applying the average multiples. **(07 Marks)**

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

7 a. What do you mean by synergy? **(03 Marks)**

b. What do you mean by bankruptcy? Explain the types of reasons for bankruptcy. **(07 Marks)**

c. KP Ventures, a PE investor's is considering investing 3000 million in the equity of Delta systems, a start-up IT company. KP's required return from this investment is 35% and its planned holding period is 5 years. 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 are likely to have a Debt of 2500 million and a cash balance of 800 million.

(i) What ownership share in Delta systems should KP 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)**

8 The P & L Account and balance sheet of Z Corporation for two years (year 1, year 2) are given below:

Particulars	Year 1 (millions)	Year 2 (millions)
Net sate	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 administration expenditure	700	770
Depreciation	350	420
Interest expenditure	336	392
Total costs and expenditure	4606	5362
PBT	1204	1428
Tax provision	364	448
PAT	840	980
Dividend	420	560
Retained earnings	420	420

Balance sheet

Particulars	Year 1 (millions)	Year 2 (millions)
Equity capital	2100	2100
Reserves & Surplus	1680	2100
Debt	2520	2940
Total	6300	7140
Fixed assets	4200	4550
Investments	1260	1400
Net current assets	840	1190
	6300	7140

Assume a tax rate of 40%.

(i) What is EBIT for year 2?
(ii) What is the tax on EBIT for 2?
(iii) What is NOPLAT for year 2?
(iv) What is FCFF to the firm for year 2?
(v) Give breakup of the financing flow for the year. **(20 Marks)**

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