14MBAFM412

Fourth Semester MBA Degree Examination, June/July 2019
Corporate Valuation

Time: 3 hrs.

Max. Marks:100

SECTION - A

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

1   Differentiate between absolute and relative methods of valuation.   **(03 marks)**

2   What is an efficient market?   **(03 marks)**

3   Alpha company's ROE is 18% and its r is 15%. Alpha's dividend payout ratio is 0.4 and its ploughback ratio is 0.6. Find out Alpha's PIE multiple.   **(03 Marks)**

4   What are the drivers of DCF model?   **(03 Marks)**

5   What do you mean by EVA?   **(03 Marks)**

6   What do you mean by synergy?   **(03 marks)**

7   Mention the assumptions of DCF model.   **(03 Marks)**

SECTION - B

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

1   Discuss briefly the five broad approaches used for valuing a company.   **(07 marks)**

2   You are looking at the valuation of a stable firm, networks limited, done by an investment analyst. Based on an expected free cash flow of 54 million for the following year and 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 a post-tax cost of debt of 10%. The market value of equity is thrice its book value, whereas the market value of its debt is nine-tenths of its book value. What is the correct value of the firm?   **(07 marks)**

3   List the steps involved in developing financial forecasts.   **(07 Marks)**

4   Pinoneer Limited's ROIC is 16% and its g is 10%. Poineer's 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?   **(07 Marks)**

5   How is asset value assessed under the (strategic approach to valuation"?   **(07 Marks)**

6   explain in brief Alcar approach of value based management   **(07 Marks)**

7   M Ltd., aggress to acquire N Ltd., based on the capitalization of last 3 years profits of N Lts., at an earnings yield of 25%.

Profits of N Ltd for the years	Rs. is lakhs
2013	75
2014	89
2015	82

Calculate the value of business based on earnings yield basis.   **(07 Marks)**
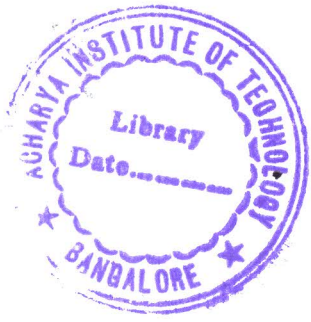
SECTION – C

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

1   What are the sources of bias in valuation? How is bias manifested n value? What can be done to mitigate the effects of bias on valuation?   (10 Marks)

2   Discuss in detail the various enterprise valuation multiples used in relative valuation methods.
                                                                                (10 Marks)

3   Explain in brief features of the valuation process.   (10 Marks)

4   the following information is available for Gamma company :
    ROE 20%
    Cost of equity 15%
    Dividend payout ratio   = 0.4
    Book value per share   = 50
    Book value per share   = 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)

5   Explain in brief some facets of loose ends of valuation.   (10 Marks)

6   Explain in detail the steps involved in relative valuation.   (10 Marks)

7   Angle ventures, a PE investor is considering investing 3000 million in the equity of delta systems, a start-up IT company. Angel's required rate of 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 system is likely to have a debt of 2500 million and a cash balance of 800 million.

    i)   What ownership share in delta systems should angle 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)

SECTION – D

CASE STUDY – [Compulsory]

Ryder system is a full-service truck leasing maintenance and rental firm with operations in North America and Europe. The following are selected numbers from the financial statements for 2012 and 2013 (in millions).

Particulars	2012	2013
Revenues	$ 5192	$ 5400
Less : Operating Exp	($ 3678.5)	($ 3848)
Less : Depreciation	($ 573.5)	($ 580)
EBIT	$ 940	$ 972
Less : Interest Exp	($ 170)	($ 172)
Less : Taxes	($ 652.1)	($ 670)
Net Income	$ 117.9	$ 130
Working Capital	$ 92	–($ 370)
Total debt	$ 2000 million	$2,200 million

The firm had capital expenditures of $800 million and $850 million in 2012 and 2013 respectively. The working capital in 2011 was $34.8 million and the total debt outstanding in 2011 was $1.75 billion. There were 77 million shares outstanding, trading at $29 per share.
Questions :

i)   Estimate the cashflows to equity in 2012 – 2013
ii) Estimate the cashflows to the firm in 2012 – 2013
iii) Assuming that revenues and all expenses (including depreciation and capital expenditures) increase 6% and that working capital remains unchanged in 2014 year, estimate the projected cashflows to equity and the firm in 2014 year. (The firm is assumed to be at its optimal financial leverage).
iv) How would your answer in (iii) change if the firm planned to increase its debts ratio in 2014 year by financing 75% of its capital expenditure (net of depreciation) with new debt issues?

(20 Marks)

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