



Roll no.....

End Semester Examination, December 2024
MBA (DM & IBM) SEMESTER III
CORPORATE VALUATION (MCSP726)

Time: 2.5 hrs.

Max Marks: **50**

Note: *All Questions are compulsory. Marks are indicated against each question.*

PART-A

Q.1 Attempt any five questions.

- | | |
|--|-----------------------|
| (a) Define FCFF. | [CO-1] [L-1] 2 |
| (b) How do you calculate the terminal value? | [CO-2] [L-2] 2 |
| (c) Explain valuation through PE Ratio. | [CO-3] [L-1] 2 |
| (d) What factors can affect a company's valuation? | [CO-4] [L-2] 2 |
| (e) How do growth rates affect the valuation of a company? | [CO-1] [L-1] 2 |
| (f) What is the difference between market value and book value? | [CO-2] [L-2] 2 |
| (g) Why is the weighted average cost of capital (WACC) important in valuation? | [CO-3] [L-3] 2 |

2x5

PART-B

Q.2 You are given the following information about a company.

The most recent EPS = Rs. 1.98

Annual growth rate in earnings which will remain forever = 7%

Dividend payout ratio = 40%

Required rate of return = 10%

After six years the expected P/E ratio is 13.5. Calculate

- (i) The intrinsic value of share at present.
- (ii) The expected selling price of the share at the end of 6th year
- (iii) The maximum price at which an investor should buy this share

[CO-2] [L-3] **10**

OR

Mr. Shukla wants to invest in a company that has just given a current dividend of Rs. 5 per share. Dividends are expected to grow at 10% for 5 years, at 8% for next 3 years and at 5% thereafter perpetually. Find the intrinsic value of the equity share if the required rate of return of Mr. Shukla is 10%. What is intrinsic value of share at the end of 8th year? If the actual market price is Rs. 100 should Mr. Shukla buy this share?

[CO-2] [L-3] **10**

Q.3 Elaborate Discounted cashflow valuation method along with its advantages.

[CO-3] [L-4] **10**

OR

The Beta Company limited considering the purchase of a new machine. Two alternative machines X and Y have been suggested, each having an initial cost of Rs. 40,000/- and requiring Rs. 2,000/- as additional working capital at the end of the 1st year. Cash flows after taxes are as follows

Year	Cash Flows Machine X	Cash Flows Machine Y
1	4000	12000
2	12000	16000
3	16000	20000
4	24000	12000
5	16000	8000

The company has a target return on capital of 12% and on this basis you are required to compare the profitability of the machines and state which alternative you consider as financially preferable

[CO-3] [L-4] **10**

Q.4

Liabilities		Assets	(in lakhs)
40000 ,11% Preference Shares	40	Fixed Assets	120
120000,Equity Shares	120	Stock	100
10% Debentures	20	Debtors	50
Profit and loss	23	Cash	10
Creditors	71	Preliminary expenses	2
Provision for Tax	8		
	282		282

Additional Information:

- (i) A firm of professional valuers has provided the following market estimates of its various assets: fixed assets Rs 130 lakh, stocks Rs 102 lakh, debtors Rs 45 lakh. All other assets are to be taken at their balance sheet values.
- (ii) The company is yet to declare and pay dividend on preference shares. (iii) The valuers also estimate the current sale proceeds of the firm's assets, in the event of its liquidation: fixed assets Rs 105 lakh, stock Rs 90 lakh, debtors Rs 40 lakh. Besides, the firm is to incur Rs 15 lakh as liquidation costs. You are required to compute the net asset value per share as per book value, market value and liquidation value bases. [CO-4] [L-4] **10**

OR

The revenues for the next 8 years in Rs million) are given in the table

Sales revenue for the 8 years

Rs 80

100

150

220

300

260

230

200

Its condensed balance sheet as on March 31, current year is as follows:(Rs million)

Liabilities

Equity funds 120

12% Debt 80

Assets

Current assets 30

Long-term assets (net) 170

(1) Its variable expenses will amount to 40 per cent of sales revenue. Fixed cash operating costs are estimated to be Rs 16 million per year for the first 4 years and at Rs 20 million for years 5-8. In addition, an extensive advertisement campaign will be launched, requiring annual outlays as follows:

1- Rs 5 Million

2-3- Rs 15 Million

4-6- Rs 30 Million

7-8- Rs 10 Million

(ii) Long-term assets are subject to 15 per cent rate of depreciation on diminishing balance method.

(in) The company has planned the following capital expenditure (assumed to have been incurred in the beginning of each year) for the next 8 years,

(iv) Working capital in terms of investment in current assets are estimated at 20 per cent of sales revenue.

(v) It is expected to have non-operating assets in terms of investments in marketable securities in the initial year. The expected after tax non-operating cash flow in year 1 = Rs 0.5 million.

(vi) Given the tax benefits available to Sagar, the effective tax rate estimated is 30 per cent.

(vii) The corporate equity capital is estimated at 16 per cent.

(viii) The free cash flow of the firm are expected to grow at 5 per cent per annum, after 8 years

Determine the discounted cash flow (DCF) value of the (1) firm and (ii) equity. [CO- 4] [L-4] **10**

Q.5 Exotica Corporation is expected to grow at a higher rate for five years; thereafter the growth rate will fall and stabilise at a lower level.

The following information is available:

Base Year (Year 0) Information

Revenues = Rs. 4000 million

EBIT (12.5% of revenues) = Rs. 500 million

Capital expenditure = Rs. 300 million

Depreciation = Rs. 200 million

Working capital as a percentage of revenues = 30 percent

Corporate tax rate (for all time) = 40 percent

Paid-up equity capital (Rs. 10 par) = Rs. 300 million

Market value of debt = Rs. 1250 million

Input for the High Growth Rate

Length of the high growth phase = 5 years

Growth rate in revenues, depreciation,

EBIT and Capital expenditure = 10 percent

Working capital as a percentage of revenues = 30 percent

Cost of debt = 15 percent (pre-tax)

Debt-equity ratio = 1 : 1
Risk free rate = 13 percent
Market risk premium = 6 percent
Equity beta = 1.333

Inputs for the Stable Growth Period

Expected growth rate in revenues and EBIT = 6 percent
Capital expenditures are offset by depreciation
Working capital as a percentage of revenues = 30 percent
Cost of debt = 15 percent (pre-tax)
Debt-equity ratio = 2 : 3
Risk free rate = 12 percent
Market risk premium = 7 percent
Equity beta = 1.0
Calculate the value of the firm/Enterprise.

[CO-5] [L-4] **10**

OR

Mr. Nanda wants to invest in a company that has just given a current dividend of Rs. 3 per share. Dividends are expected to grow at 20% for 10 years and at 8% thereafter perpetually. Find the value of the equity share if the required rate of return of Mr. Nanda is 10%.

[CO- 5] [L-4] **10**