VPM's

DR VN BRIMS, Thane

Programme: PGDM (2014-16)

Fourth Trimester (Fin.) Examination September 2015

Subject	**Corporate Valuation**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**3**	**Date**	**28.09.2015**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

1. (A) State whether the following statements are true or false: [1x5=5]

1. Contingent Claim Valuation is one of the approaches for Corporate Valuation
2. The CAPM assumes perfect market competition.
3. Dividends issued to Equity Shareholders have fixed rate.
4. Intrinsic value of a share decreases after options are issued.
5. Analysts use PEG ratio to identify whether the stock is overvalued or undervalued.

1. (B) Solve the Following: [2x5=10]

1. If the Return on Equity is 18.89% and the payout ratio is 20% find the expected growth rate of the Company.
2. A Company borrowed fund from the investors by issuing equity with a promise to give risk premium of 5% when the risk free rate prevailing in the market is 6%. If β of the Company is 1.5. Find the Cost of Equity.
3. Find the Future value of the investment of Rs. 50,00,000/- invested in an fund for 3 years having rate of return of 9%.
4. If EPS of a company is Rs. 23.25 and the P/E ratio is 17, then market value of the share of this company will be Rs. ____________.
5. Find the Price of share using Dividend Discount Model where Dividend is Rs. 12 with Cost of Equity of 9% and growth rate is 4%.

1. (C) Choose the correct option: [1x5=5]

1. Mr. Bhupati deposits Rs. 2,00,000 in a bank account which pays 10% interest. How much can he withdraw annually for a period of 15 years? [PVIF A (10%, 15 years) = 7.606]
   (a) Rs. 26,295

(b) Rs. 29,625
(c) Rs. 22,569
(d) None of the above

2. An investment is risk free when actual returns are always _____________ the expected returns.
   (a) equal to
   (b) less than
   (c) more than
   (d) depends upon circumstances

3. Inflation means ______________
   (a) When the prices of the things rise as per expectations
   (b) When the prices of the things rise faster than they actually should
   (c) When the prices of the things rises slowly than they actually should
   (d) None of the above

4. Cost of Capital is related to ____________
   (a) Equity
   (b) Preference shares
   (c) Firm
   (d) None of the above

5. Options issued to Employees are a part of their _____________.
   (a) Compensation
   (b) Appreciation
   (c) Promotion
   (d) None of the above

Q2. Explain the concept of valuation along with approaches to Valuation. [10]

Or

Q2. What is Time Value of Money Concept? Find the Present Value of Rs.. 1500000 to be received after 10 years at 11% Compounded annually. [10]

Q3. Explain Capital Asset Pricing Model. Calculate the Cost of Equity of ABC Ltd. Whose risk free return equals to 7.5%. The firm's beta is 1.45 and the return on the market portfolio equals to 12%. [10]

Or

Q3. Write Short Notes on: [10]
   a. Cost of Debt
   b. Cost of Preference Shares

Q4. ABC Ltd. is a Real Estate firm currently reporting after tax operational income of Rs. 125 Crores. The firm has a Return on Capital of 18% and Cost of Capital of 9%. It reinvests 60% of its earnings back into the firm. After 05 years the growth of the firm is pegged at 4% whereas the Return on Capital is expected to stay the same. Find the Terminal Value and Value of ABC Ltd. today. [10]

Or

Q4. What is Relative Valuation? Give reasons for Popularity and Pitfalls of Relative Valuation [10]

Q5. Give the Effect of Employee Options on Value, Earnings, Dilution and Future Earnings of a firm. A firm has Value of Equity as Rs. 65 Crores. The primary shares in the firm are 1.3 crores whereas the Company had declared options of 13 lakh shares. Using Fully diluted approach find the Value per Share. [10]

Or

Q5. In 2014, XYZ Ltd. was ranked Number one brand in India by Business Magazine. The Company had always spent on advertising to build its brand name. The following table Selling and Advertising (S&A) expenses at XYZ Ltd. every year for 15 years. The Company spends 40% of its S&A expenses on Brand Name. Find the Brand Value of XYZ Ltd. [10]

Year	**Selling & Advertising Expenses (in Lakhs)**
2000	1025
2001	1120
2002	1125
2003	1360
2004	1385
2005	1450
2006	1480
2007	1555
2008	1578
2009	1645
2010	1690
2011	1700
2012	1775
2013	1805
2014	1850

Q6. What is EVA? A Firm has existing assets in which the Capital invested is Rs. 1000 Crores. The after tax operating income on assets in place is Rs. 50 Crores. The Return on Capital is expected to be sustained till perpetuity. The Cost of Capital for the firm is 9%. The firm decides to invest 125 Crores at the beginning of each year for next 5 years with the expected return on Capital to be the same along with Cost of Capital. Find The Value of the Firm. [10]

Or

Q6. Explain Valuation of Warrants and Convertibles . [10]

07. Company XYZ Ltd. reported net income of Rs. 25 Lakhs on revenue of Rs. 200 Lakhs last year. The Book Value of equity of XYZ ltd. is 75 Lakhs. The firm's payout ratio is 10% for the next 4 years. After 4^{th} year the growth rate drops to 7% whereas ROE drops by 3%. With a risk free rate of 7% and Market premium of 4% the firm has β of 1.05. Find its P/E and PEG ratio. [10]

Or

07. (I) A Company declared dividend of Rs. 12 expecting a growth rate of 7% forever. The required rate of return for equity shareholders is derived considering risk free rate of 6% while β as 1.1 while paying market premium of 5%. Find the Value of the Stock. [05]

(II) A year ago, ABC Limited issued 12% irredeemable debentures at Rs. 105, a Rs. 5 premium above the Face Value of Rs. 100. The current market price of these debentures is Rs. 95. If the Company pays corporate tax at rate of 30% what is the current cost of debenture? [05]