VPM's
DR VN BRIMS, Thane
Programme: PGDM (2019-21)
PGDM Trimester V Examination January 2020

Subject	**Corporate Valuation (CV)**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**4**	**Date**	**09.01.2020**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.
Q1) 20 Marks (Compulsory) [15 + 5]

a) Micro-gem Ltd. is planning to acquire Cipher Ltd. in the first quarter of the calendar year 2020 as part of its inorganic growth programme. The CFO of Micro-gem, Mrs. Smith, is of the opinion that before we make an appropriate offer, we must find the intrinsic value of Cipher Ltd.
For valuing Cipher Ltd., she has identified 3 proxy firms and some relevant information about them which is as follows: ($ mn)

Company	Cipher Ltd.	Code Ltd.	Password Ltd.	Puzzle Ltd.
Sales	270	250	210	300
PAT	60	50	44	65
Total Book Value	150	160	100	130
Market Capitalization	?	250	300	450

Mrs. Smith feels that we can take a simple average of three values found out using sales, PAT and Book Value for a particular company. However, while finding final value of Cipher, it is appropriate to give weightage of 2:2:1 to values based on Code, Password & Puzzle respectively. As you are her assistant, she has asked you to find the relative value of Cipher Ltd. **[15 Marks]**

b) After she explained you the above assignment, she has also asked you to prepare a manual for reference by other analysts on 'What are the different steps which are there in a Merger& Acquisition process?'. **[5 Marks]**

Attempt Any FOUR from the Remaining SIX Questions
Q2) *Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks*

a) Glow Ltd. Has beta coefficient of 1.2. The company has been maintaining 15% rate of growth in dividends and earnings. The last dividend paid was Rs. 5 per share. Return on Government securities is 10%. Return on market portfolio is 15%.
The current market price of one share of Target Ltd. is Rs. 85.
(i) What will be the equilibrium price per share of glow Ltd.?
(ii) Would you advise purchasing the share?

b) FaceFrom the under mentioned facts determine the cost of equity shares of Dream Ltd.:
(i) Current market price of a share = Rs. 200.
(ii) Cost of floatation per share on new shares, Rs.5
(iii) Dividend paid on the outstanding share over the past 5 years are as follows
(iv) Expected dividend on the new shares at the end of the current year is Rs.16 per share.

Year	Dividend Per share
1	10
2	11
3	12.10
4	13.32
5	14.63

c) The following figures are collected from the annual report of XYZ Ltd:

Net Profit	Rs.60 Lacs
Outstanding 12% Preference Shares	100 Lacs
No. of Equity Shares	3 lacs
Return on Investment in Retained Earnings	10%
Cost of Equity	15%
Expected Dividend Pay-out	60%

Calculate price as per Walter's Model.

Q3) ***Any one from (a) or (b) ————— (10x1) = 10 Marks***

a) Sock Ltd. is foreseeing a growth rate of 14% per annum in the next 2 year. The growth rate is likely to fall to 12% for the third year and fourth year. After that the growth rate is expected to stabilize at 10% per annum.
If the last dividend paid was Rs.3 per share and the investors' required rate of return is 18%, find out the intrinsic value per share of Sock Ltd. as of date.

b) Valuation of ICICI Bank using H-Model
D0 = 3
EPS0 = 6
Growth in Earnings = 8% which is expected to linearly decline over the next 5 years to 3%.
The pay-out ratio will remain unchanged.
Beta = 1.2
Rf = 6%
Market Risk Premium = 5%

Q4) ***Any one from (a) or (b) ————— (10x1) = 10 Marks***

a) On what basis one can value Patents, Trademarks, Brands & Copyrights?

b) Write whether the following statements are True or False (Just write True or False; don't rewrite the entire sentence)

i. Using Corporate Valuation techniques everybody can always arrive at the same, perfect price of an instrument.
ii. In an acquisition, if intrinsic value is greater than market value of the target firm, then Intrinsic value becomes the minimum value that the acquirer will offer.
iii. If Intrinsic value > Current Market Price, one must sell the equity share.
iv. Dividend based valuation is preferred for valuation from Minority Shareholders' point of view
v. FCFE approach is preferred over FCFF when Financial Leverage is constant
vi. Relative Valuation need not always involve finding a proxy firm.
vii. EVA is also called as residual income after paying all costs including finance costs.
viii. Gordon's model works only when G >Ke
ix. Illiquidity Premium means an additional compensation for shareholders because the particular shares cannot be sold easily in the market.
x. Beta of proxy firm can directly be applied for valuation.

Q5) ***Any one from (a) or (b)or (c) ————— (5x2) = 10 Marks***

a) Assume that you are valuing MMT a privately owned Travel business for sale in a private transaction. You have estimated a value of $600 mn for the equity in this firm, assuming that the existing management of firm continues into the future and a value of $800 mn for the equity with new & more creative management in place. Estimate value of a majority stake (51%)& value of a minority stake (49%). Also comment on your finding.

b) Calculate economic value added (EVA) with the help of the following Information

Financial leverage : 1.4 times
Capital structure : Equity Capital Rs, 270 lacs
Reserves and surplus : Rs. 230 lacs
10% Debentures Rs : 500 lacs
Cost of Equity : 15.5%
Income Tax Rate : 30%

c) Write the difference between Absolute Valuation and Relative Valuation. Also explain the different methods used under both the approaches.

Q6) ***Any one from (a) or (b) ————— (10x1) = 10 Marks***

a) The following data pertains to XYZ Inc. engaged in software consultancy business as on 31st December, 2018.

	Rs. Lakhs
Income from Consultancy	935.00
EBIT	180.00
Less: Interest on Loan	18.00
EBT	162.00
Tax @ 35%	56.70
Net Profit	105.30

Liabilities	**In lakhs**	**Assets**	**In lakhs**
Equity Stock (1 million shares of Rs. 10 each)	100	Land and Building	200
		Computers & Software	205
Reserves and Surplus	325	Debtors	150
Loans	180	Non-operating Investment	90
Current Liabilities	180	Bank	100
		Cash	40
	785		785

With the above information and following assumption you are required to compute

(a) Economic Value Added

(b) Market Value Added.

Assuming that:

(i) WACC is 12% (ii) The share of company currently quoted at Rs. 50 each.

b) Calculate value of Goodwill in the following example using

i) Average Profit Method (assume 4 years of purchase)

ii) Super Profit Method (assume 4 years of purchase)

iii) Capitalization method

iv) Annuity method (assume 4 years of purchase)

Year	**Profit**
1	25,000
2	65,000
3	(20,000)
4	10,000
5	40,000

Normal rate of return on capital employed is 8%. The total capital employed is 2,00,000

Q7) ***Any two from (a) or (b) ————— (10x1) = 10 Marks***

a) Find value of equity from the following data using both FCFF and FCFE approach

Year	**Cash Flows to Equity**
1	100
2	120
3	110
4	80
5	90

Tax rate 50%, Ke 15% and Rate of Interest 10%. Assume that D/E is 2:1. Level of Debt has been constant throughout.

Terminal value of FCFE is 1,600 and that of FCFF is 2,400. Value of debt 800.

b) Fundamentals of Jinx Ltd. for the year ended are as follows

Particulars	**Amount**
Sales	4,000
Operating Cost (Excluding Depreciation)	1,800
Capital Spending	800
Depreciation	360

Decrease in Working Capital	70
Ke	20%
Target Debt Equity	1
Growth	5% p.a forever
14% perpetual debt	700

The market value of debt today is 700 and the current share price of one share is Rs. 100/. The firm has 10 lacs share outstanding. Tax rate is 30%. Find the IV of the shares as per FCFF Approach and advise whether the share should be purchased or not.