

**VPM's**  
**DR VN BRIMS, Thane**  
**Programme: PGDM (2017-19) (Finance)**  
**PGDM Trimester IV Examination September 2018**

<b>Subject</b>	<b>Corporate Valuations</b>		
<b>Roll No.</b>		<b>Marks</b>	<b>60 Marks</b>
<b>Total No. of Questions</b>	<b>6</b>	<b>Duration</b>	<b>3 Hours</b>
<b>Total No. of printed pages</b>	<b>2</b>	<b>Date</b>	<b>25.09.2018</b>

**Note: Q1 is compulsory and solve any FOUR from the remaining Five questions. Only the first five attempted questioned will be evaluated.**

**Q1) 20 Marks (Compulsory)**

Data for VGE Corporation is given below (in Rs. Cr)

Net Income: 2000	Net Borrowings: 500
Non-Cash Charges (From Cash Flow from Operations): 400	Risk Free Rate: 8%
Interest Paid: 50	Beta: 1.2
Tax Rate: 30%	Market Returns (Rm): 15%
Fixed Capital Investment: 250	Weight for Debt: 0.5
Working Capital Investment: 250	Weight for Equity: 0.5
	Cost of Debt: 12%

Write the formula & calculate the following for RMJ Corporation:

1. FCFF (Free Cash Flow to the Firm) 8 Marks
2. FCFE (Free Cash Flow to Equity) 8 Marks
3. Required Return Equity using CAPM Formula 2 Marks
4. WACC 2 Marks

**Attempt Any FOUR from the Remaining FIVE Questions**

**Q2) Answer the following questions (5x2) 10 Marks**

Ramco Corporation's Financial Data (In Rs Cr):

Ramtex Industries Financial Data (in Rs Cr):

Market Capitalisation: 2,000
Market Value of Debt: 2,000
Excess Cash: Rs. 500
EBITDA: 500
Earnings (Net Profit): 200
Book Value: 1,000

Market Capitalisation: 7,000
Market value of Debt: 0
Excess Cash: Rs. 500
EBITDA: 700
Earnings (Net Profit): 100
Book Value: 5,000

- Write the formula and calculate the following for Ramco Corporation & Ramtex Industries and comment which among the two companies is overvalued (Keeping everything else same):
  - Enterprise Value (EV)
  - EV/EBITDA
- Write the formula and calculate the following for Ramco Corporation & Ramtex Industries and comment which among the two companies is overvalued (Keeping everything else same):
  - PE Ratio
  - Price to Book Value Ratio

**Q3) Answer the following questions (5x2) 10 Marks**

Given below are financials of THG Corporation

Balance Sheet as on 31st March 2018	
<b>Liabilities</b>	<b>2018</b>
Total Shareholders Funds	2000
Borrowings	1000
<b>Total</b>	<b>3000</b>
<b>Assets</b>	<b>2018</b>
Gross Fixed Assets	1500
Less: Depreciation	200
Net Fixed Assets	1300
Current Assets	2000
Less: Current Liabilities	300
Net Working Capital	1700
<b>Total</b>	<b>3000</b>

Income Statement for the year ended 31st March 2018			
Sales	2,000		
Less: Cost of Goods Sold	1,000		
Gross Profit	1,000		
SG&A	200		
other Expenses	100		
EBITDA	700		
Depreciation	100		
EBIT	600		
Interest	100		
EBT	500		
Tax	100		
PAT	400		

- Prepare Common Size Balance Sheet for THG Corporation
- Prepare Common Size Income Statement for THG Corporation

**Q4) Answer the following questions (5x2) 10 Marks**

A) Given below is Financial Data for ABC Corporation

	2016	2017	2018
Sales	2000	2500	3000
Total Assets	2000	2500	3000
Net Profit	400	500	600
Equity (Total Shareholders' Funds)	1000	1000	1000
Borrowings	1000	1500	2000

Calculate Return on Equity for ABC using Du Pont Ratio and Comment on the quality and trend of RoE for 2016, 2017 and 2018.

B) Calculate the common size Cash Flow Statement

Cash Flow Statement for REL Corporation for the year 2018 (in Rs Cr)	
Cash Flow from Operation	
Net Profit before tax	5000
Add:	
Non- Cash Charges	200
CFO Before changes in Working Capital	5200
Changes in Working Capital	-200
CFO before taxes	5000
Less: Taxes	1500
CFO	3500
<b>Cash Flow from Investing</b>	
Net Investments in Fixed Assets	-500
CFI	-500
<b>Cash Flow from Financing</b>	
Net Borrowings	500
Dividends	-200
CFF	300
Net Changes in Working Capital	3300
Cash & Cash equivalents at the beginnings of the year	500
Cash & Cash Equivalents at the end of the year	3800

**Q5) Answer the following Questions (5x2) 10 Marks**

- What do you think is 'Owner's Earnings'? Explain it in your own words.
- Warren Buffett classified business into 3 types. What were the three types? Briefly elaborate each kind of business

**Q6) Answer the following question (5x2) 10 Marks**

- What are 'Network Effects' and why in markets with Network Effects, businesses tend to be winner take all market.
- Why is it said that Leverage is a double-edged sword. Elaborate in your own words.