



Name:
Enrolment No:

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2022

Course: Corporate Valuation
Program: MBA(Finance)
Course Code: FINC 8010

Semester: 3RD
Time : 03 hrs.
Max. Marks: 100

Instructions: Attempt all the questions.

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q1.	When economic value added is used as the performance measure, value is only created if the after-tax operating income exceeds a) cost of investing capital b) investment c) working capital d) sales	2	CO1
Q2.	What does a high P/E ratio suggest? a) A company shares are currently overpriced. b) A company shares are currently underpriced. c) No relation d) None of the above	2	CO1
Q3.	What is the value of the firm usually based on? a) The value of debt and equity. b) The value of equity. c) The value of debt. d) The value of assets plus liabilities.	2	CO1
Q4.	Which of the following defines the market to book value? a) The ratio of stock market valuation divided by the value of its NAV. b) The ratio of NAV value divided by stock market valuation. c) The market value of tangible assets divided by the book value of tangible assets. d) The market value of intangible assets divided by the book value of intangible assets.	2	CO1
Q5.	Internal rate of return is ... a) Rate at which discounted cash inflow is more than discounted cash outflow b) Rate at which discounted cash inflow is less than discounted cash outflow c) Rate at which discounted cash inflow is equal to the discounted cash outflow d) Either a or b	2	CO1
Q6.	Corporate wealth maximization is the value maximization for____ a) Equity shareholders b) Stakeholders c) Employees d) Debt capital owners	2	CO1
Q7.	Listed companies can be valued at	2	CO1

	a) Book Value b) Market value c) Salvage value d) Liquidation value				
Q8.	A company has a profit attributable to ordinary shareholders of £100,000. The number of ordinary shares of £1 in issue during the year was 300,000. The market value of the company's shares at the year end was £6.50. The price/earnings ratio for this company is: a) 0.05 times b) 0.33 times c) 6.5 times d) 19.5 times	2	CO1		
Q9.	What does the price-to-earnings ratio (P/E) tell you? a) How much each of a company's products sells for on average. b) How much investors are willing to pay per unit of a company's earnings. c) How much tax per unit investors are willing to pay. d) None of the above	2	CO1		
Q10.	The term _____ can be used in a broad sense to describe all the policies, procedures, relationships, and systems in place to oversee the successful and legal operation of the enterprise. a) corporate governance b) corporate policy c) corporate oversight d) corporate strategy	2	CO1		
SECTION B 4Qx5M= 20 Marks					
Q11.	Calculate EVA for ABC Ltd using the following information: Revenues Rs 3 millions Cost of goods sold Rs 2 millions Operating expenses Rs 0.7 millions Cost of capital 8% Short term & long term capital employed Rs 1.5 millions	5	CO2		
Q12.	What are the determinants that must be considered while carrying out valuation exercise?	5	CO2		
Q13.	Stock price of ABC Ltd is Rs 240 per share. Number of shares outstanding is 10 crores. What is the equity value of the enterprise?	5	CO2		
Q14.	Highlight the key difference between equity value and enterprise value.	5	CO2		
SECTION-C 3Qx10M=30 Marks					
Q15.	Identify the cases where an analyst can use P?E multiple for valuation.	10	CO3		
Q16.	Calculate the PE ratio for a firm which has the following characteristics:		10	CO3	
		High growth phase			Stable growth phase
	Expected growth rate	13.63%			66.67%
	Cost of equity	10.85%			10%
	Payout ratio	36%			?
Number of years	5 years	Forever			

	ROE based on industry average is 15%.		
Q17.	<p>EPS = Rs 3.15 Capital expenditure per share = Rs 3.15 Depreciation per share = Rs 2.78 Change in working capital per share = Rs 0.50 Debt financing ratio = 25% Earnings, capital expenditure, depreciation and working capital are all expected to grow at 6% per year. The beta for stock is 0.90. Treasury bond rate is 7.5%. Rate of return for common stocks 12%. Calculate value of stock.</p>	10	CO3

SECTION-D
30 Marks

Q18.	<p>Mr. Balasubramanian has been asked to review the financial information of Ranbaxy labs in preparation for a possible takeover bid by the rival competitor Sun Pharma. Ranbaxy has produced impressive results since 1998. Through a programme of aggressive acquisition Ranbaxy has been seen as a major player in pharma space. In preparation of his analysis, Mr. Balasubramanian has gathered the following financial data from Ranbaxy's year end statement:</p> <p align="center">INCOME STATEMENT FOR THE YEAR ENDED 2021</p> <table border="1"> <tr> <td>Sales</td> <td align="right">4,052,171</td> </tr> <tr> <td>Expenses</td> <td></td> </tr> <tr> <td>Cost of Goods Sold</td> <td align="right">3,735,397</td> </tr> <tr> <td>Non Cash Charge</td> <td align="right">56,293</td> </tr> <tr> <td>Interest on Long Term Debt</td> <td align="right">20,265</td> </tr> <tr> <td>Other interest</td> <td align="right">5,223</td> </tr> <tr> <td>Total Expenses</td> <td align="right">3,817,178</td> </tr> <tr> <td>Profit before Tax</td> <td align="right">234,993</td> </tr> <tr> <td>Income tax (30% tax rate)</td> <td align="right">70,498</td> </tr> <tr> <td>Net Income</td> <td align="right">164,495</td> </tr> <tr> <td>Earning Per share</td> <td align="right">0.72</td> </tr> </table>	Sales	4,052,171	Expenses		Cost of Goods Sold	3,735,397	Non Cash Charge	56,293	Interest on Long Term Debt	20,265	Other interest	5,223	Total Expenses	3,817,178	Profit before Tax	234,993	Income tax (30% tax rate)	70,498	Net Income	164,495	Earning Per share	0.72	30	CO4
Sales	4,052,171																								
Expenses																									
Cost of Goods Sold	3,735,397																								
Non Cash Charge	56,293																								
Interest on Long Term Debt	20,265																								
Other interest	5,223																								
Total Expenses	3,817,178																								
Profit before Tax	234,993																								
Income tax (30% tax rate)	70,498																								
Net Income	164,495																								
Earning Per share	0.72																								

EXTRACT OF BALANCE SHEET

Accounts Receivable	284,762
Inventories	490,755
Prepaid Expenses	23,743
Total Current Asset excluding Cash	799,260
Property Plant & Equipment	687,890
Other Assets	236,417
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	296,564
Others	100,039
Total Current Liabilities	396,603
Long Term Debt	262,981
Other Liabilities	15,484

Additional information:

1. 2020-21 working capital (excluding cash) Rs 395,332
2. 2021-2022 dividend Rs 82,248.50
3. Beta 1.10
4. Principal repayment of long term debt Rs 33,275
5. Investment in fixed assets 2021 Rs 143,579

- a) What is the FCFF for 2021? (10 marks)
- b) Comment on the FCFE over FCFF. (5 marks)
- c) What is cost of equity & sustainable growth rate of the firm? (5 marks)
- d) As part of the analysis Balasubramanian needs to forecast the free cash flow to the firm (FCFF) for 2022. The best information he has points to an increase in sales of 6.0%. The earnings before interest and tax (EBIT) margin is not expected to change from the rate achieved in 2021. Additional fixed capital spending is expected to be 15% of the sales increase. Working capital is expected to increase in 2022 by 10% of the sales increase. Moreover, Balasunbramanian noted that the only non-cash charge is depreciation, which his estimate will be ` 60,000. Based on these assumptions, what is the finding of Balasubramanian's 2022 estimate of FCFF? (10 marks)