

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**

**PGDM / PGDM (M) / PGDM (SM)**

**IV TRIMESTER (Batch 2016-18)**

**MID TERM EXAMINATIONS**

Course Name	<b>Corporate Valuation</b>	Course Code	<b>FIN 401</b>
Max. Time	<b>1 hour</b>	Max. Marks	<b>20 MM</b>

**INSTRUCTIONS:** Attempt all Qs.

**Qs.1 (7 marks)**

Calculate weighted average cost of capital of XYZ Limited from the given information:

- Average market capitalization Rs 50 crore
- 5 year 10% 10 lakh Debentures of Rs 100 each. The current YTM of debenture is 9%
- Unlevered beta is 0.62
- Tax rate is 35%
- Average 10 year return on Govt. Bond and Sensex is 7% and 20% respectively.

NOTE: Use market value of debt and equity for calculating WACC.

**Qs.2 (6 marks)**

ABC Limited is in the high growth phase. The following data has been taken from the last financial year 2016-17:

- Capital Expenditure Rs 5 crore
- Depreciation Rs 1 crore
- Change in non-cash net working capital Rs 2.5 crore
- Operating Profit Rs 3 crore
- Effective Tax Rate 30%
- Beginning Book Value of Equity and Debt Rs 7 crore and 4 crore respectively.

Assuming the company will maintain the current return on capital and reinvestment rate going forward, calculate the expected growth rate of operating profit.

**Qs3 (6 marks)**

AUL is a leader in FMCG sector and is not subject to cyclical swings, hence assumed to grow at a stable rate.

Estimate the value based on the following inputs:

- AUL profit after tax in 2016-17 was Rs 250 crore
- Long-term average economic growth rate is expected to be 7%
- AUL is expected to generate ROE of 15%
- AUL past average beta is 0.6 and is expected to remain the same forever
- Expected average Govt. yield and return on sensex is 6% and 15% respectively.

**Qs4 (1 marks)**

Why do firms not pay out their free cash flow to equity as dividends?