

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M) / PGDM (SM)
FOURTH TRIMESTER (Batch 2016-18)
END TERM EXAMINATIONS, SEPTEMBER 2017
SET - 1

Course Name	Corporate Valuation	Course Code	FIN 401
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS: Attempt all questions.

Qs 1 (15 marks)

ABC has operations all over the world. At present the company is in the high growth phase and will maintain it for 10 years. The detail financial information is given below:

Current net income	Rs 5,763 crore	Earnings per share	Rs 148.33
Current capital spending	Rs 5,058 crore	Capital expenditure per share	Rs 130.18
Current depreciation	Rs 3,330 crore	Depreciation per share	Rs 85.71
Current revenues	Rs 81,422 crore	Revenue per share	Rs 2,095.64
Noncash working capital	Rs 5,818 crore	Working capital per share	Rs 149.74
Change in working capital	Rs 368 crore	Change in working capital per share	Rs 9.47
Net debt issues	Rs 272 crore	Average risk premium	5.26 %
10-year Govt Bond Rate	4 %	Levered beta	.85

Additional Information:

1. Cost of equity will remain unchanged in perpetuity
2. Book value of equity at the end of the previous year Rs 25,078 crore
3. Net capital expenditures and working capital will grow at the same rate as earnings for the high growth period and that the company will raise 33.92% of its reinvestment needs from debt
4. During stable growth period, the growth rate and return on equity will be 4% and 15% respectively.

Required: Calculate the value of equity per share of ABC company.

Qs 2 (5+5 marks)

You have been asked to estimate the value of Hilton hotel. The firm reported earnings of Rs 20 crore before interest and taxes in the most recent year and paid 40% of its taxable income in taxes. The book value of capital at the firm is 120 crores, and the firm expects to grow 4% a year in perpetuity. The firm has a beta of 1.2, a pretax cost of debt of 6%, equity with a market value of Rs 100 crore, and debt with a market value of Rs 50 crore. The risk free rate is 5% and the market risk premium is 5.5%.

- (a) Estimate the value of the firm, using the cost of capital approach.
- (b) If you were told the probability of default at this firm at its current debt level is 10% and that the cost of bankruptcy is 25% of unlevered firm value, estimate the value of the firm using the adjusted present value approach.

Qs 3 (7+3 marks)

Given:

Length of high growth	5 years
Growth rate in first five years	25%
Growth rate after five years	8%
Beta	1
Risk free rate	6%
Payout ratio in first five years	20%
Payout ratio after five years	50%
Risk premium	5.5%

Required:

- (a) Estimate the PE ratio for a firm based on the above information
- (b) Compute return on equity during high growth and stable growth.

Qs4 (5 marks)

Given the many definitions of the PE ratio, which one should you use to estimate the PEG ratio? Explain with the help of hypothetical numerical example.