

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**  
**PGDM / PGDM (M) / PGDM (SM)**  
**FOURTH TRIMESTER (Batch 2017-19)**  
**MID TERM EXAMINATIONS, AUGUST 2018**

<b>Course Name</b>	<b>Corporate Valuation</b>	<b>Course Code</b>	<b>FIN 402</b>
Max. Time	<b>1 hour</b>	Max. Marks	<b>20 MM</b>

**INSTRUCTIONS:** Attempt all questions.

**Qs.1(5 marks)**

Analysts use a wide range of valuation models in practice, ranging from simple to the sophisticated. Explain

**Qs. 2 (10 marks)**

	Company A (Rs)	Company B (Rs)
EBIT	10,00,000	8,00,000
Interest	3,00,000	1,00,000
Tax Rate	30%	30%
CAPEX	2,00,000	1,50,000
Depreciation	90,000	60,000
Δ NWC	80,000	70,000
New Debt Issued	1,00,000	1,00,000
Old Debt Repaid	50,000	50,000
Equity	60,00,000	40,00,000
Debt	30,00,000	10,00,000

As an analyst, judge (based on growth rate in FCFF and FCFE), which company to invest.

**Qs. 3 (5 marks)**

XYZ Ltd is a conglomerate company with interest in three unrelated business. The average of 10-year government bond yield is 7.75 percent and the average return on market for past two years is 17 percent. The comparable firms levered beta for each business is given below:

1. Business 1

Company A	Company B	Company C
1.2	0.8	0.75

2. Business 2

Company L	Company M	Company N
0.6	0.7	0.55

3. Business 3

Company P	Company Q	Company R
1.1	1.2	1.3

The sector aggregate D/E ratio for each business from 1 to 3 are 0.6, 0.4, 0.7 respectively and the corporate tax rate across business is 30 percent.

XYZ Ltd has a D/E of 0.5, an effective tax rate of 25 percent and the proportion of revenue of each business 1 to 3 in total revenue is 45, 35, 20 percent respectively.

Calculate the levered beta of the firm and cost of equity.