JAIPURIA INSTITUTE OF MANAGEMENT
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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

FOURTH TRIMESTER (Batch 2017-19)

END TERM EXAMINATIONS, OCTOBER 2018

Course Name	**Corporate Valuation**	Course Code	**FIN 402**
Max. Time	**2 hours**	Max. Marks	**40 MM**

INSTRUCTIONS: Attempt all questions.

Qs.1 (7+7 marks)

(a) Chandra Kant purchased shares of XML Ltd. The company paid dividend of Rs.5.85 per share and reported its earnings per share of Rs.17.45 in the current year. Currently stock price of XML is trading at Rs.187.60. The return on net worth is 14%. The company expects its earnings to grow at a rate of 7.2% p.a. The required rate of return is 15%. Calculate and interpret the Fair price to Book value ratio.

(b) An executive in the finance department has collected the following data and information:

1. Current level of total debt Rs.590 crore
2. Current level of equity Rs.350 crore
3. Return on market 14.5%
4. 10-year Govt. bond yield 8.05%
5. Levered beta 1.23
6. Corporate tax rate 34%

Required:

i) Calculate current cost of equity. (2 marks)

ii) If level of total debt reduces to Rs.300 crore, calculate new levered beta and cost of equity. (5 marks)

Qs.2 (6 marks)

Dynamic Corporation has been growing in sales, profit before tax and profit after tax. The company has noticed that the rate of growth is not the same in all the financial parameters. The corporate communication department of the company is preparing a press release stating its current growth rate and future plans. You are supposed to explain the best approach of assessing growth rate of a business. Be brief.

Qs.3 (10 marks)

Gravity Corporation is a mature cement company. Notwithstanding the cyclical swings in net income that are characteristic of the business, the firm is assumed to be in stable growth. The following date is extracted from the year 2017-18:

1. PAT Rs.5200 crore
2. Capex Rs.11,400 crore, depreciation Rs.10,000 crore and an increase in noncash working capital of Rs.420 crore.

Calculate value of equity based on the following assumptions:

1. For calculating stable equity reinvestment rate, reduce 40 basis point from the current equity reinvestment rate.
2. Company is expected to deliver ROE of 10%.
3. Expected levered beta, risk-free rate and risk premium are 1.2, 3.2%, and 5% respectively.

Qs.4 (10 marks)

Company	PE Ratio	Expected Growth (%)
A	17.3	3.5
B	15.5	11.5
C	16.5	13.0
D	11.4	10.5
E	10.2	9.5
F	12.4	14.0
G	13.3	16.5
H	11.0	8.0
I	22.6	13.0
J	9.5	9.0
K	12.1	9.5
L	13.9	11.5
M	8.7	5.5
N	10.4	4.5

An analyst concludes that company M is undervalued, because its PE ratio is lower than the industry average. Under what conditions is this statement true? Would you agree or disagree with the analyst, and why?