BRAINWARE UNIVERSITY

Term End Examination 2023-2024
Programme – MBA-2022
Course Name – Valuation (Securities and Firms)
Course Code - FM303
(Semester III)

Full Marks : 60 **Time : 2:30 Hours**

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group-A
(Multiple Choice Type Question) 1 x 15=15

1. *Choose the correct alternative from the following :*

(i) Calculate the earning multiplier for a firm that is expected to grow annually 15%, retain 20% , and require a 20% rate of return for investors

a) 16 b) 4
c) 5.33 d) 1.33

(ii) The threshold limit for committee of creditors to continue the corporate as a going concern during CIRP is- (Select the correct one)

a) 0.51 b) 0.75
c) 0.5 d) 0.9

(iii) Which of the following represents price of an option_(Select the correct one)

a) Price of underlying asset + intrinsic value b) Price of underlying asset-intrinsic value
c) Price of underlying asset X intrinsic value d) Price of underlying asset / intrinsic value

(iv) Bonds issued by local governments or their agencies are expressed as-

a) Government Bonds. b) Municipal Bonds.
c) Local Body Bond. d) Sovereign Bond.

(v) When Bonus shares are issued by the company, debt equity ratio_(Select the correct one)

a) Deteriorates b) Increases
c) Remains the same d) Cannot be said

(vi) Required rate of return>Coupon rate, the bond will be valued at (Identify the correct one)

a) Premium b) Par value
c) Discount d) None of the above

(vii) The ______ is defined as the present value of all cash proceeds to the investor in the stock

a) Intrinsic value b) Dividend payout ratio
c) Market capitalization rate d) Plough back ratio

(viii) You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of Rs. 3 in the upcoming year while Stock Y is expected to pay a dividend of Rs. 4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. Identify the intrinsic value of stock X.

a) Greater than Intrinsic value of stock A
b) Same as intrinsic value of stock A
c) Less than intrinsic value of stock A
d) Cannot be calculated without knowing the market return

(ix) Super profit is __________(Select the correct answer)

a) excess of average profit over normal profit
b) extra profit earned
c) average profit earned by similar companies
d) none of the above

(x) Normal profit depends on __(Select the correct answer)

a) Normal Rate of Return
b) Average capital employed
c) Both (a) and (b)
d) None of the above

(xi) Any non-trading income included in the profit should be ________(Identify the correct one)

a) Eliminated
b) added
c) ignored
d) none of the above

(xii) Net asset value is also called as __________.(Choose the correct one

a) asset backing value
b) intrinsic value
c) liquidation value
d) All of the above

(xiii) Yield value established on __________

a) future maintainable profit
b) paid-up equity capital
c) normal rate of return
d) none of the above

(xiv) If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond can be interpreted as exposed to

a) Coupon effect
b) Interest rate risk
c) A perpetuity
d) An indefinite maturity

(xv) Market interest rate and price of bonds in the secondary market _ (Choose the correct one)

a) Generally move in opposite direction
b) Generally move in the same direction
c) Sometimes move in the same direction, sometimes in opposite direction
d) Have no relationship with each other

Group-B

(Short Answer Type Questions) 3 x 5=15

2. Distinguish between Price to earning method and price to revenue method. (3)
3. Identify and interpret four techniques of relative valuation (3)
4. Explain the concept of present value (PV) in the context of time value of money (3)
5. Imagine you have two investment opportunities, one with a higher interest rate and the other with a longer investment horizon. Evaluate them to determine financially attractive which investment (3)
6. Differentiate between 'Risk' and 'Stand alone risk'. (3)

OR

Suppose a person has donated 85% of Rs.44 billion installment of Rs.1.5 billion per anum. analyse it and judge the total donated percentage of 85%. Assume interest rate is 8%. [Present value of 1 rupee annual annuity for 25 years at 8% rate is 10.6748] (3)

Group-C

(Long Answer Type Questions) 5 x 6=30

7. Explain discounted cash flow. (5)

8. T Company is a retail store that sells tools to construction companies across the country. Tammy reported net income of Rs.200,000 and issued preferred dividends ofRs.20,000 during the year. Tammy also had 30,000, Rs.5 par common shares outstanding during the year. Compute Return on Equity. (5)

9. Analyse the reasons for with reference to valuation for Voluntary Assessment (5)

10. Assume that you are considering an investment in a stock that is expected to pay a constant dividend of Rs. 3 per share forever and that you will receive your first dividend payment 1 year from now. Further, you have determined that you require a 15% return on an investment in this stock. Evaluate an appropriate formula and calculate value of stock. (5)

11. A preference share has a par value of Rs.100 and a dividend rate of 10.75%. If the required rate of return is 10%, then evaluate the situation to decide an appropriate formula and justify that its value will be around Rs.107. (5)

12. Suppose firm Z paid a dividend of Rs. 1.00 in the year that just ended. Earnings and dividends have grown several years. The required rate on the stock is 0.12 and the market price is Rs. 60 per share. Analyse the required formula and determine constant growth g. (5)

OR

A firm has the following figures for its GAAP financial statements: (5)

- Operating cash flow = 330
- Interest paid = 40
- Tax rate = 20%
- Non-cash charges (depreciation and amortization) = 25
- Fixed capital expenditures = 120
- Working capital expenditures = 44
- Shareholder dividends paid = 50
- New borrowing during the year = 70
- Debt repayment during the year = 60

Estimate free cash flow to equity.

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