5. Write short note on any **FIVE** of the following :

(a) Equity Multiples

(b) Economic Value Added (EVA)

(c) Corporate Governance

(d) Research and Development Expense

(e) Terminal Value

(f) Adjusted Present value Approach (3×5=15)

9/12/19 Mor

[This question paper contains 8 printed pages.]

(1)

Your Roll No..............

Sr. No. of Question Paper : 4279 (68)

Unique Paper Code	:	61017928
Name of the Paper	:	Business Analysis and Valuation
Name of the Course	:	**Bachelor of Management Studies (BMS), 2019 (CBCS)**
Semester	:	V
Duration	:	3 Hours
Maximum Marks	:	75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Question No. **1** is compulsory. Do any **three** out of the remaining questions.
3. Use of Scientific Calculator is allowed.

1. From the financial reporting of Rajesh Exports given below :

Company : Rajesh Exports Ltd					
Industry : Diamond Cutting / Jewellery - Large					
BALANCE SHEET					
Year	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15
SOURCES OF FUNDS :					
Share Capital	29.53	29.53	29.53	29.53	29.53
Reserves Total	8,810.52	7,145.12	5,605.71	4,361.51	3,332.12
Total Shareholders Funds	**8,840.05**	**7,174.65**	**5,635.24**	**4,391.04**	**3,361.65**
Minority Interest	0	0	248.89	392.18	0
Secured Loans	6,174.92	8,691.65	5,523.52	4,593.99	3,826.42
Unsecured Loans	23.51	25.54	28.71	0	16.07
Total Debt	**6,198.43**	**8,717.19**	**5,552.23**	**4,593.99**	**3,842.49**
Other Liabilities	134.28	252.82	366.55	510.25	8.01
Total Liabilities	**15,172.76**	**16,144.67**	**11,802.91**	**9,887.46**	**7,212.15**
APPLICATION OF FUNDS :					
Gross Block	1,452.26	1,289.21	1,198.52	1,286.76	263.72
Less: Accumulated Depreciation	0	0	0	0	0
Net Block	1,452.26	1,289.21	1,198.52	1,286.76	263.72
Capital Work in Progress	1.89	5.27	88.36	62.03	0.42
Investments	1,087.60	1,019.81	919.11	840.54	60.25
Current Assets, Loans & Advances					
Inventories	3,937.09	1,721.97	1,162.77	992.61	567.53
Sundry Debtors	6,147.95	3,992.57	5,019.86	4,889.61	2,989.84
Cash and Bank	15,063.44	14,469.55	14,840.20	12,062.94	11,406.38
Loans and Advances	1,091.60	986.96	851.73	737.36	750.23
Total Current Assets	26,240.09	21,171.05	21,874.55	18,682.52	15,713.98
Less : Current Liabilities and Provisions					
Current Liabilities	13,495.89	7,190.24	12,171.05	10,867.03	8,761.88
Provisions	87.01	121.51	48.21	186.79	106.69
Total Current Liabilities	13,582.90	7,311.75	12,219.25	11,053.82	8,868.57
Net Current Assets	12,657.18	13,859.30	9,655.30	7,628.70	6,845.41
Deferred Tax Assets	0	0	0	0.82	0.82
Deferred Tax Liability	85.8	78.72	108.76	0	0
Net Deferred Tax	-85.8	-78.72	-108.76	0.82	0.82
Other Assets	59.63	49.79	50.38	68.6	41.53
Total Assets	**15,172.76**	**16,144.67**	**11,802.91**	**9,887.46**	**7,212.15**
Contingent Liabilities	4.94	4.94	4.94	50.07	13.68

Working capital	10% of revenue	10% of revenue
Market value of equity	Rs. 2,000.00	Rs. 1,300.00
Outstanding debt	Rs. 160.00	Rs. 250.00

Both firms are expected to grow 5% a year in perpetuity. Capital spending is expected to be 20% of depreciation. The beta for both firms is 1, and both firms are rated BBB, with an interest rate on their debt of 8.5% (The Treasury bond rate is 7%, and the risk premium is 5.5%.) As a result of the merger, the combined firm is expected to have a cost of goods sold of only 86% of total revenues. The combined firm does not plan to borrow additional debt.

(a) Estimate the value of Gangalal, operating independently.

(b) Estimate the value of Nandlal, operating independently.

(c) Estimate the value of the combined firm, with no synergy.

(d) Estimate the value of the combined firm, with synergy.

(e) How much is the operating synergy worth?

(15)

- Earnings for 2010 $ 12,736 million, out of which 49.74% was paid as dividend
- EPS - $3.82 and DPS - $1.92 in 2010
- Risk free rate – 3.50% and mature market equity risk premium – 5%

	For next 5 years	After 5 years
Expected ROE	20%	12%
Expected Retention Ratio	50%	?
Expected growth rate	?	3%
Beta	0.90	1

(b) What could be the appropriate technique for loss making business? (10+5=15)

4. The following are the details of two potential merger candidates, Nandlal and Gangalal :

	Nandlal	Gangalal
Revenues	Rs. 4,400.00	Rs. 3,125.00
Cost of goods sold (without depreciation)	87.50%	89.00%
Depreciation	Rs. 200.00	Rs. 74.00
Tax rate	35.00%	35.00%

Company : Rajesh Exports Ltd					
Industry : Diamond Cutting / Jewellery - Large					
Year	Mar 19 (12)	Mar 18 (12)	Mar 17 (12)	Mar 16 (12)	Mar 15 (12)
INCOME :					
Sales Turnover	1,75,763.12	1,87,686.10	2,42,131.98	1,65,178.71	50,462.89
Other Income	67.54	62	47.68	41.75	0.1
Total Income	**1,75,830.66**	**1,87,748.10**	**2,42,179.66**	**1,65,220.46**	**50,462.99**
EXPENDITURE :					
Raw Materials	1,73,448.18	1,85,349.99	2,40,014.67	1,63,072.00	48,915.94
Employee Cost	152.19	146.8	156.9	112.96	39.93
Other Manufacturing Expenses	39.13	22.49	25.48	10.22	10.67
Selling and Administration Expenses	304.14	248.89	157.02	227.21	213.37
Miscellaneous Expenses	25.35	33.51	27.76	29.27	16.53
Total Expenditure	1,73,969.00	1,85,801.68	2,40,381.83	1,63,451.65	49,196.44
Operating Profit	1,861.67	1,946.43	1,797.84	1,768.80	1,266.56
Interest	441.67	536.68	430.27	577.67	478.27
Gross Profit	1,420.00	1,409.75	1,367.57	1,191.13	788.29
Depreciation	74.34	67.99	64.63	79.01	62.22
Profit Before Tax	1,345.66	1,341.76	1,302.94	1,112.12	726.07
Tax	47.05	86.92	53.85	43.12	71.16
Deferred Tax	6.48	-11.03	5.45	0	0
Net Profit	1,292.13	1,265.86	1,243.63	1,069.00	654.91
Extraordinary Items	-1.65	0	0	0.05	0
Adjusted Net Profit	1,293.78	1,265.86	1,243.63	1,068.95	654.91
P & L Balance brought forward	4,759.09	3,525.78	2,348.02	1,386.19	834.04
Appropriations	29.53	32.48	67	102.54	102.54
P & L Balance carried down	6,021.63	4,759.09	3,525.78	2,348.58	1,381.99
Equity Dividend (%)	100	100	110	100	100
Dividend Per Share (Rs)	1	1	1.1	1	1
EPS (Rs)	43.76	42.87	42.12	36	21.98
Book Value (Rs)	299.4	242.99	190.86	148.72	113.85

(All amounts are in Rs crores unless otherwise stated)

(a) Analyse and comment on company's profitability and solvency using any 3 ratios each for the year ending March 2019.

(b) Project the Statement of Profit and Loss and Balance Sheet for 1 year using CAGR and state relevant assumptions. If the market price of share on 31st March, 2019 is Rs 666, what will be the value of the share at the end of the projected year?

(c) Comment upon company's employees' efficiency in terms of turnover generated over the 5 years.

(d) Briefly explain the role of Chairman' speech and Director's Report on qualitative analysis of company. (10+10+5+5)

2. (a) Mr Raghav, a builder owns a plot of land that can be used for either 8 or 12 apartment units. The construction cost for the two alternatives are Rs. 18 million and Rs. 31 million respectively. The current market price per apartment is Rs 3 million. The yearly rental (net of expenses) per unit is Rs. 0.25 million and the risk free rate is 6% pa. If the market for apartment is buoyant next year, each apartment unit will sell for Rs. 3.75 million, if the market is sluggish each apartment unit will be sold off at Rs. 2.70 million. Calculate the value of the vacant plot and advice the builder if to sell the apartments immediately or retain them for one year. Show your working clearly. (10)

(b) Ramakaran Ltd is an unlisted steel company whose debt equity ratio is 1.6 and tax rate is 25%. There are three listed firms A, B and C, engaged in similar steel business. Their equity betas, debt equity ratio and tax rates are given below :

	Equity Beta	Debt Equity ratio	Tax rate
A	1.1	1.9	0.30
B	1.2	2.1	0.25
C	1.05	1.8	0.35

Calculate the equity Beta for Ramakaran Ltd. (5)

3. (a) Proctor & Gamble is one of the leading global consumer product companies, owning some of the most valuable brands in the world, including Gillette razors, Pampers diapers, Tide detergents, Crest toothpaste and Vicks cough medicine. P&G has paying dividends regularly in the past, making it a preferable investment option for many potential investors. Mr. Madhu Kumar, has analysed and summarised the following data about the company. You are required to value the stocks of P&G using Dividend Discount model and suggest Mr. Madhu Kumar whether to buy the stock at $ 68 from the market.