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M.Com Part II , Semester-III, Semester End Examination, November 2022

(Accounting and Finance)

COO335: Corporate Valuations (OA-18A)

Duration: 3 hours

Max. marks 60

Instructions:

1. *This paper consists of Nine Questions carrying Equal marks.*
2. *Question No.1 consists of 5 Compulsory Questions of 2 Marks Each.*
3. *Answer any 5 questions from Question 2,3,4,5,6,7,8 and 9.*
4. *Each question carries 10 marks. Figures to the right indicate marks.*

Q.1 Answer the following: (5x2=10)
   a) Intrinsic Value
   b) Free Cash Flow
   c) ROIC
   d) Strategic Perspective
   e) VBM

Q.2.A. Valuation is a vital subject which is used in different areas, discuss the areas where valuation can be used with examples. (5)

B. Bias and Preconceptions are the biggest barriers to Valuation. How is bias manifested in value and what can be done to mitigate the effects of bias on valuation? (5)

Q.3.A. The profit and loss account and balance sheet of ABC Corporation for two years (year 1, year 2) are given below:

Profit & Loss Account		
		(In million)
Year	1	2
Net Sales	5600	6440
Interest Income	140	210
Non-operating income	70	140
Total Income	5810	6790

Cost of goods sold	3220	3780
Selling and administrative expenses	700	770
Depreciation	350	420
Interest Expenses	336	392
Total Costs and Expenses	4606	5362
Profit Before Tax (PBT)	1204	1428
Tax Provision	364	448
Profit After Tax (PAT)	840	980
Dividend	420	560
Retained Earnings	420	420
Balance Sheet		
Equity Capital	2100	2100
Reserves and Surplus	1680	2100
Debt	2520	2940
	6300	**7140**
Net Fixed Assets	4200	4550
Investments	1260	1400
Net Current assets	840	1190
	6300	**7140**

Assume a tax rate of 40 percent.

(i) What is the EBIT for year 2?

(ii) What is the tax on EBIT for year 2?

(iii) What is the NOPLAT for year 2?   **(8)**

B. Write a short note on 'Liquidation Value'.   **(2)**

Q.4. Explain the process developing a set of financial forecasts, reflecting expected future performance of the company under the DCF Approach of Valuation.   **(10)**

Q.5. Explain the steps involved in Relative Valuation.   **(10)**

Q.6.A. The following financial information is available for company D, an unlisted pharmaceutical company, which is being valued.

- **EBITDA : 400 million**
- **Book value of assets : 1,000 million**
- **Sales: 2,500 million**

Based on an evaluation of a number of listed pharmaceutical companies, A, B, and C have been found to be comparable to company D. The financial information for these companies is given below. **You are required to calculate the following valuation multiples for companies A, B and C and Enterprise Value Multiples of Firm D.**

	A	B	C
Sales	1600	2000	3200
EBITDA	280	360	480
Book Value of Assets	800	1000	1400
Enterprise Value (EV)	2000	3500	4200

(7)

B. Write a note on Bludgeon View of choosing multiples. (3)

Q.7. State and Explain the Best Practices to be followed with respect to multiples in Relative Valuation Method. (10)

Q.8. Explain the different approaches of Valuation with suitable examples. (10)

Q.9.A. Discuss the ways and means by which a firm can increase cash flows from existing investments. (5)

B. What are the main entry barriers that give competitive edge to a firm? (5)

************** **All the Best** ***************