FINAL EXAMINATION

June 2017

P–20(FABV)
Syllabus 2012

Financial Analysis & Business Valuation

Time Allowed: 3 Hours Full Marks: 100

The figures in the margin on the right side indicate full marks.

Answer Question No. 1, *which is compulsory and carries 20 marks.*

Answer any five *questions from Q. No. 2 to Q. No. 8, each of which shall carry 16 marks.*

1. (a) State whether the following statements are true or false: 1×12=12

(i) A cash flow statement breaks the analysis down according to operating and financing activities only.

(ii) A financial model specifies the relationship between inputs and outputs.

(iii) Analyzing revenue of telecommunication companies market size and market share are value drivers.

(iv) Production, employment and consumption are significant data for financial analysis.

(v) Off-Balance Sheet financing is used to finance a company without showing debt on the face of the Balance Sheet.

(vi) Horizontal financial statement analysis is useful in inter-firm comparison.

(vii) Trend ratio shows the nature and rate of movement of various financial factors.

(viii) Operating efficiency is measured by the profitability ratios.

(ix) High rate labour turnover is an indicator of financial distress of a firm.

(x) Market saturation of the product is an external factor responsible for corporate distress.

(xi) A brand is nothing but a glorified product name; hence it has no value.

(xii) Higher Debt/Equity ratio implies higher valuation of a company.

(b) If the Net Operating Profit after taxes (NOPAT) is ₹ 10,50,000 and the Capital invested is ₹ 35,00,000 and the Weighted average cost of capital (WACC) is 12%. Find EVA (Economic Value Added)? 2

(c) XYZ Co. Ltd., has paid a dividend of 2·12 in the year 2016-17. The dividends are expected to grow at 5% per year in the long term and the company has a cost of equity of 9·40%. What is the value per equity share as on today? 4

(d) Y Ltd., is expected to generate future profits of ₹ 54,00,000. What is its value of business, if investments of this type are expected to give an annual return of 20%? 2

2. (a) Using the following information, what is the firm's cash flow from the operations?

Particulars	₹
Net income	120
Decrease in accounts receivables	20
Depreciation	25
Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Increase in deferred tax liabilities	15
Profit from the sale of land	2

Please note that the profit on the sale of land should be subtracted from the net income to avoid double counting the gain in net income and investing activities. 8

(b) The following data relate to some important items of a company disclosing its developments during the last five years:

Particulars	2011 (₹)	2016 (₹)
Working capital	9,34,120	15,30,040
Plant and Machinery	3,99,140	9,67,080
Long-term borrowings	2,80,000	5,60,000
Net Tangible assets	11,23,200	19,95,040

You are required to evaluate the changes in financial position (soundness/weakness) of the company by following the trend percentage. 8

3. (a) Hall Corporation paid ₹ 600 million for the outstanding share of Triple C corporation. At the acquisition date, Triple C reported the following Condensed Balance Sheet.

Triple C Corporation—Condensed Balance Sheet

	Book Value (₹ in millions)
Current Assets	80
Plant and equipment, net	760
Goodwill	30
Liabilities	400
Shareholders' equity	470

The fair value of the plant and equipment was ₹ 120 million more than its recorded book value. The fair values of all other identifiable assets and liabilities were equal to their recorded book values. Calculate the amount of Goodwill that Hall Corporation should report on its Consolidated Balance Sheet.

The Goodwill reported on Triple C Corporation's Balance Sheet is an unidentifiable asset and is thus ignored in the calculation of Hall Corporation's Goodwill. 8

(b) What are the steps followed under univariate model of distress prediction of a company? 8

4. (a) State the Multivariate Model of Corporate Distress Prediction developed by Edward I. Altman? 8

(b) From the following information given below relating to XYZ Ltd., Calculate Altman's Z-score and comment:

Working capital / Total Assets	=	25%
Retained earnings / Total Assets	=	30%
Earnings before interest and taxes / Total Assets	=	15%
Mkt. Value of Equity / Book value of total debt	=	150%
Sales/Total Assets	=	2 times

8

5. (a) M Ltd. has been following a dividend payout of only 20% so that the funds needed for the growth of the firm targeted at 10% is retained. The expectation of return is 12%.

(i) At what rate the market is discounting the current and future earnings of M Ltd.?

(ii) If the current level of earnings is ₹ 10 per share, at what price the shares of the firm are being traded? 4+4=8

(b) What are the myths of valuation? 8

6. (a) Capital Structure of P Ltd. on 31st March 2016 was as follows:

Equity Capital 18,000 of Rs. 100 each (₹)	18,00,000
12% Preference Capital 5,000 shares of Rs. 100 each (₹)	5,00,000
12% Secured Debenture (₹)	5,00,000
Reserves (₹)	5,00,000
Profit earned before Interest and Taxes during the year (₹)	7,20,000
Tax rate (%)	40%
Return on Equity Shares from the industry to which this company belongs to (%)	15%

Subject to:—

The profit after tax covers fixed interest and fixed dividends at least 4 times

(i) The debt equity ratio is at least 2

(ii) Yield on equity shares is calculated at 60% of distributed profits and 10% of undistributed profits.

The company has been paying regularly an equity dividend of 15%.

The risk premium for dividends is generally assumed at 1%

Calculate:

(i) Interest and Fixed coverage

(ii) Debt-Equity ratio 10

(b) The operating and cost data of ABC Ltd., are:

Sales ₹ 20,00,000

Variable Costs ₹ 14,00,000

Fixed Costs (including 15% interest on ₹ 10,00,000).

You are requested to calculate (i) Operating Leverage

(ii) Financial Leverage and the

(iii) Combined Leverage 2+2+2=6

7. (a) The following data is given to you regarding a company having a share in branded portion as well as unbranded portion:

Branded Revenue	₹ 500 per unit
Unbranded Revenue	₹ 120 per unit
Branded Cost	₹ 350 per unit
Unbranded Cost	₹ 100 per unit
Research and Development	₹ 20 per unit
Branded Products	1 lakh unit
Unbranded Products	40,000 units
Tax rate is 39.55%; Capitalization factor 18%	

Calculate the Brand Value. 8

(b) List the factors that influence Brand Valuation? 8

8. Write Short Notes on *any four* out of the following: 4×4=16

(i) Financial Analysis

(ii) Key Areas of Valuation

(iii) Financial Leverage

(iv) Off Balance Sheet

(v) Hostile Takeover