



Name :

Roll No. :

Invigilator's Signature :

CS/MMA/SEM-3/MMA(FNE)-310/2011-12

2011

EQUITY RESEARCH & VALUATION

Time Allotted : 3 Hours

Full Marks : 70

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following :

10 × 1 = 10

- i) A conglomerate merger means
 - a) a merger of firms engaged in unrelated lines of activities
 - b) a merger of firms engaged in related lines of activities
 - c) A merger of firms engaged at different stages of production in an industry
 - d) A merger of firm operating in different countries.



- ii) Tax Equivalent yield means
 - a) tax free Municipal bond Yield/Tax rate
 - b) tax free Municipal bond Yield/ 1-Tax rate
 - c) with Tax Municipal bond Yield/Tax rate
 - d) tax free Municipal bond Yield/IT tax rate.

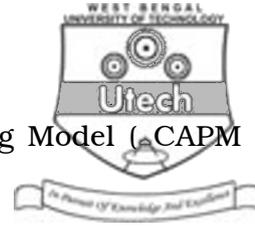
- iii) Nano cap refers to the Company
 - a) which is having market capitalization value less than large cap
 - b) which is having market capitalization value less than mid cap
 - c) which is having market capitalization value less than small cap
 - d) which has no listed equity shares.

- iv) Return on Invested Capital means
 - a) EBIT / Invested capital
 - b) NOPAT / Invested capital
 - c) NOPBT / Invested capital
 - d) PAT / Capital.



- v) In private company valuation Enterprise Value (EV) means
- a) Market value of equity + market value of debt
 - b) Market value of equity + market value of debt-cash
 - c) Market value of equity-cash
 - d) Market value of debt-cash.
- vi) In relative valuation
- a) compare an asset with other similar assets
 - b) compare an asset with other assets
 - c) Compare an asset with other liabilities
 - d) None of these.
- vii) According to the Capital Asset Pricing Model (CAPM) a well diversified portfolio's rate of return is a function of
- a) Market risk
 - b) Unsystematic risk
 - c) Unique risk
 - d) Reinvestment risk.
- viii) The risk-free rate and the expected market rate of return are 0.06 and 0.12, respectively. According to the capital asset pricing model (CAPM), the expected rate of return on security X with a beta of 1.2 is equal to
- a) 0.06 b) 0.144
 - c) 0.12 d) 0.132.

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- ix) According to the Capital Asset Pricing Model (CAPM), under priced securities
- a) have positive betas b) have zero alphas
 - c) have negative betas d) have positive alphas.
- x) Standard deviation and beta both measure risk, but they are different in that
- a) beta measures both systematic and unsystematic risk.
 - b) beta measures only systematic risk while standard deviation is a measure of total risk.
 - c) beta measures only unsystematic risk while standard deviation is a measure of total risk.
 - d) beta measures both systematic and unsystematic risk while standard deviation.
- xi) Free cash flow of the firm is calculated by
- a) $EBIT (1-g) (1-t) - \text{reinvestment}$
 - b) $EBIT (1-g) (1-t)$
 - c) $EBIT (1-g) (1-t) + \text{reinvestment}$
 - d) $EBT (1-g) (1-t) - \text{reinvestment.}$



- xii) The float is the number of
- a) outstanding shares not owned by insiders
 - b) outstanding shares owned by insiders
 - c) outstanding shares owned by insiders and outsiders
 - d) stocks blocked by SEBI from trading.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. "Market sentiment is one of the major driver of stock performance." Explain it.
3. "For earning returns investors have to almost invariably bear some risk. "Explain it.
4. Describe the conditions per AS-14, when we call Amalgamation in the nature of Marger.
5. What does Equity instrument mean ? Convertible Debenture is one of the major equity instruments. Explain it.
6. What is Yield ? Describe different type of Yield.

**GROUP – C****(Long Answer Type Questions)**Answer any *three* of the following. $3 \times 15 = 45$

7. a) What is Growth stock and what do you mean by value stock ?
- b) "Evaluation and interpretation are two important issues when someone invests into a stock." Explain with current market examples. $5 + 10$
8. a) How can we categorize the financial service firms ? What are the unique features of financial service firms ?
- b) On the following information, calculate the value per share of Bank of India.

Expected Dividends — High Growth Period

Year	Present value
1	Rs. 2.46
2	Rs. 2.42
3	Rs. 2.38
4	Rs. 2.35

Expected Dividends per share — Transition Phase

Year	Present value
5	Rs. 5.66
6	Rs. 8.69
7	Rs. 11.31
8	Rs. 13.46

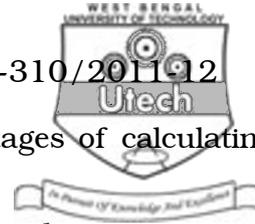
Dividends will grow in perpetuity at 10% a year

Cost of equity at 8 the year 17.60%

Earnings per share at 8th year Rs. 125.79

Payout ratio at 8th year 44.44%

Cumulative Cost of Equity at 8th year 415.36%. $(4 + 3) + 8$



9. a) What is EVA ? What are the advantages of calculating EVA ?
- b) Assume that you are analyzing a firm with $I_A = 100$ in each year (year 1 to 5). Assuming that $ROC_A = 15\%$ $D I = 10$ (Investments are at beginning of each year)
 $WACC_A = 10\%$, $ROC_{New\ Projects} = 15\%$
 $WACC = 10\%$.

Also, assume that all of these projects will have infinite lives. After year 5, investments will grow at 5% a year forever and ROC on projects will be equal to the cost of capital (10%)

Calculate the Firm's value as per EVA approach. (3 + 4) + 8

10. What are the different Approaches to Valuation ? Discuss each of them.
11. a) What is Discounted Cash Flow Valuation ? Explain the inputs to Discounted Cash flow Valuation.
- b) What are the advantages and disadvantages of Discounted Cash flow Valuation ? 10 + 5
12. a) Enumerate the steps in conducting Relative Valuation.
- b) What is the choice of multiples one has while using Relative Valuation ? 7 + 8

