SPJCM SINGAPORE – GMBA 2006-07

Instructor: Ram Kumar Kakani

Mid-Term Examination, Time: 60 Minutes, Total Marks: 20

NAME:	ROLL #
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INSTRUCTIONS

This is a closed book examination. You are not allowed to borrow calculators, books, etc. Answer all questions. In case of multiple-choice questions, you are required to write the appropriate choice in the question paper in the last page attached; You are also required to work the calculation out in the blank answer sheets provided.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

Our own Hassan starts an investment advisory-cum-banking firm in collaboration with Merrill Lynch. They name it Singa Lynch Ltd.¹

Their first murga² happens to be Carbon Everflow Limited (CEL), a Nashik-based firm involved in manufacture of graphite products such as graphite electrodes; graphite equipments; and graphite fiber reinforced plastic pipes & tubes. With current market price of its shares at Rs. 19 and having poor liquidity CEL is desperate to maximize its shareholder value.

In his zeal to finish off the work in a day or two Hassan decides to adopt the constant dividend growth model. With great enthu – Hassan downloads all the essential financial details of CEL from CMIE-PROWESS and Indiabulls website. The figures are provided below.³

For the financial year	2001	2000	1999	1998
Operating Income	142.2	138.3	122.9	117.1
Net Profit	10.5	17.0	17.5	11.8
Net Worth	120.5	113.4	100.6	87.2
No. of Shares (in crore)	1.25	1.25	1.25	1.25
Adjusted EPS (Rs)	6.28	13.17	13.65	9.56
Book Value per Share (Rs)	96.49	90.86	80.56	69.84
Dividend per Share (Rs)	2.5	3	3	3
Net Profit Margin (%)	5.49	11.83	13.76	10.15
LT Debt-to-Equity Ratio	0.29	0.32	0.25	0.26

Hassan also found out that, while the expected rate of return⁴ of shareholders is 22% per year, the new investors investing in the firm were having an expectation of only 20%. Please help Hassan in solving the problem.

In other words based on the above information, answer all the multiple-choice questions in the following pages.

1 Date: Dec.-06

¹ Hassan convinces Merrill people that anything, which is attached to Singapore, will have a lot of brand recall (even a firm name starting with Singa). Singa Lynch has the marketing vision statement written as 'Customer satisfaction is our goal. For which we strive heart and soul. Your needs to us are prime. To cause you trouble is crime.'

² a.k.a. Customer

³ Operating income, net profit, net worth are given in Rs. crores. Please note that 10 million is equal to one crore.

⁴ a.k.a. Cost of Equity

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Note: Each correct answer leads to + 3.0 marks; each wrong answer OR no attempt leads to - 1.5 marks

Question # Your Answer	WER SHEET Question #	Your Answer
a) FCFF; b) Contingent Claim; c) Relative Mult	, ,	e; e) None of the above
8. Ideally the firm should be valued by which of the f	-	
a) weak-form; b) semi-strong form; c) strong	,	oove
7. If Geetha is able to consistently make profits by efficiency in CEL is		ends then we can say that marke
a) sell the company as a going concern; b) go for market; d) none of the above	liquidation of the company	c) buyback its shares from the
6. If the balance sheet figures were true indicators Lynch should give as the suggesti		ssets and its liabilities then Hassar
a) Rs. 45; b) Rs. 65; c) Rs. 96; d) n	one of the above	
5. A U.Sbased graphite major with expected rate takeover bid of CEL. It knows that CEL would follow what extent (i.e., share price) would CEL be a good be	the growth rates of Indian	
a) Rs. 61; b) Rs. 21; c) Rs. 31; d) n	one of the above	
4. If it were known that CEL would follow the growt would be around	h rates of Indian graphite	industry ⁵ , then CEL's intrinsic value
a) increased its price; b) decreased its price; c) re	emained unchanged;	d) insufficient information
3. In FY2001, a decrease in the company's ploughba	ck ratio would have	$A\lambda$, γ
a) sell CEL shares in small lots; b) sell all CE market at the current price in small lots; d) add	L shares in one go; opt a wait and watch approa	c) buy more shares from ach;
Hassan had a friend named Pawan managing a currently owns some shares of CEL. Considering F Pawan should		
a) Rs. 15.50; b) Rs. 21.50; c) Rs. 31.50;	d) none of the above	
 The intrinsic value of CEL using the constant grow 	th rate model comes out to	be around

Question #	Your Answer	Question #	Your Answer
1		5	
2		6	
3		7	
4		8	

⁵ Indian graphite industry is currently divided into organized and unorganized sectors. In which, the current share of organized sector is 80%. While, the unorganized sector is shrinking fast at a rate of more than 10% and will be no more in another 5 years, the organized sector is growing at the rate of 10% and afterwards the long-term growth will be 5%.

2 Date: Dec.-06