

## XLRI JAMSHEDPUR – GMP 2014-15

**End-Term Examination, Time: 120 Minutes, Total Marks: 40**

**NAME:** \_\_\_\_\_

**ROLL #** \_\_\_\_\_

### INSTRUCTIONS

**This is a closed book examination. However, two self-scribbled A4 size papers (known as, Cheat sheets) are allowed and Calculators are allowed.** You are not allowed to borrow calculators, papers, etc. **Answer all questions to the point (in the space given below the question itself).**

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.

### PART I

[For this part, end-term weightage is 0%]

[Excluding oneself] **In my view, the following two group-mates contributed most in our group work**

Name OR Roll No.

### PART II

[For this part, end-term weightage is 18%]

Title of the Mini Case: **VALUATION OF NOIDA TOLL BRIDGE**

Noida Toll Bridge Co. Ltd. (NTBCL) is a special purpose vehicle set up to implement the Delhi-Noida Bridge Project on a Build-Own-Operate-Transfer (BOOT) basis by Infrastructure Leasing & Financial Services Ltd. (ILFSL) for a period of 30 years. The Delhi-Noida Bridge is a tolled facility connecting Noida to Maharani Bagh in South Delhi across the river Yamuna. The other bridges in the influence area are the Nizammuddin Bridge (about 3 Km. upstream) and the Okhla Bridge (about 1 Km. downstream). The following table gives some comparative numbers:

<b>FY 20X3</b>	<b>Nizammuddin</b>	<b>Okhla</b>	<b>NTBCL Projected</b>	<b>NTBCL Actual</b>
Volume (PCU's per day)	135,000	85,000	86,000	38,000
Tolled	No	No	Yes	Yes

**Wrong Start ...**

As the above table conveys to us, the project has not been able to meet its initial projections. The financials below also convey this point:

Year	CA/ FA/ OA	CL/ LTL/ NW	SALES/ Op. Exp./ PBT/ PAT
20X1-X2	60 / 3733 / Rest	179 / 3169 / 1016	118 / 65 / -456 / -456
20X2-X3	39 / 3675 / Rest	136 / 3289 / 1224	187 / 82 / -286 / -286
20X3-X4 <sup>1</sup>			258 / 97 / -----
20X4-X5 <sup>2</sup>			290 / 109 / -----

Note: In the above table, all figures are in ₹ millions. CA stands for current assets, CL for current liabilities, FA stands for fixed assets, LTL for long-term liabilities, NW for Net Worth (also known as, total shareholders' funds), and OA for other assets.

**But, things are possibly changing ...**

- ◆ The concession agreement provides for traffic risk mitigation measures by allowing for NOIDA to grant Development Rights. The company has in their possession 100 acres of land in Noida and Delhi, which will be developed in phases (and grants are under processing). The company is confident of generating ₹100 crores from this.
- ◆ As seen from figures of FY20X4 and FY20X5, the actual traffic also had started rising. The average toll realization per vehicle had improved from ₹11.06 to ₹12.50.
- ◆ The company also saw opportunities for augmenting traffic by constructing some link roads, flyovers and by other measures to improve the accessibility of the Delhi-Noida Bridge and accentuate time and distance savings.
- ◆ Meanwhile, the lenders had approved of a debt (and interest payment) restructuring plan for the company.
- ◆ Given state guarantees and other debt protection agreements, one can safely that the yield to maturing (interest costs) of NTBCL debt to be 11.5%/ The average maturity period of debt is 10 years and it had a coupon rate of 11%.
- ◆ You can assume a risk-free rate of 7%, a market-risk premium of 8%, and a beta of 1.5
- ◆ Share price of the company was Rs. 7/-
- ◆ Due to the large accumulated losses and poor health, the firm had obtained permission to not provide for depreciation for the last two years (FY2002-03)

**Required:**

एक. Can depreciation be accounted for in FY2004-06 period in estimating the operating income? If yes, at what rate? If no, when should it start providing for the same?

<sup>1</sup> Due to non-availability of other reports, we use figures based on websites of BSE and NTBCL's own website.

<sup>2</sup> Projections based on first half results.

दो. How can the operating expenses (other than depreciation) be estimated in future years?

तीन. Working capital changes (year on year) can be easily captured by using “*working capital-to-assets ratio*” in the valuation exercise. Do you agree or disagree? Discuss.

चार. Suggest a method to estimate the market value of debt?

पाँच. Suggest appropriate method to estimate the market value of equity?

छः. Suggest appropriate method to estimate the cost of capital for FY2004-05 period?

सात. Will the estimated cost of capital for FY2025-26 period differ from FY2004-05 period? If yes – then discuss? If no – then discuss the reasons?

आठ. Can the value of land be accounted for in FY2006-08 period in estimating the operating income? If yes, at what price? If no, how can it provide for the same?

नौ. Net working capital at the terminal end of the project will be added back as part of the cash flows for that period. Do you agree or disagree? Discuss.

**PART III**

[For this part, end-term weightage is 13%]

**Instructions:** Match the concept given below, with the examples/ explanation by writing the appropriate alphabet on the left of the examples. For each example – there is only one most appropriate concept (and for each concept, there is only one most appropriate example/explanation)

<b>Your Response</b>	<b>Concept / Issue</b>	<b>Example / Explanation / Illustration / Agenda</b>
	Limitation of Valuation	क. Valuing control
	Slightly longer time frame mis-pricing is created by a few market participants (using information asymmetry and large complexity) – to make things opaque (and thus, create temporary asset mis-pricing)	ख. Adjust CF to reflect business restructuring and discount rate to reflect financial restructuring
	Firms with patents and product options	ग. Firms like Reliance Industries Limited
	Firms in the process of restructuring	घ. Get the value of these externally and add [or] better, real options pricing model
	Firms involved in acquisitions	ङ. (a) incorporate in FCF's; and (b) incorporate in risk
	Private firms:	च. Get the value of these assets externally and add
	Value of Firm	छ. Take riskiness of comparable firms that are publicly traded [or] relate the measure of risk to accounting variables
	Firms with unutilized assets	ज. Use CF of Firm and WACC as discounting rate
	Modifications for ... Firms in trouble	झ. Estimate cash flow until they turn positive
	Macroeconomic uncertainty	ञ. FCF are usually smoothed out
	Firm-specific uncertainty	ट. Errors while converting raw information into inputs and use these inputs in models (common in valuing young technology company)
	Cyclical Firms	ठ. The path that we envision for the firm can prove to be hopelessly wrong. (common in situations of information asymmetry for us vis-à-vis market participants)
	Estimation uncertainty	ड. Macroeconomic environment can change in unpredictable ways (common in mature cyclical or commodity company)

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**PART IV**

[For this part, end-term weightage is 9%]

**Instructions:** Match the concept given below, with the examples/ explanation by writing the appropriate alphabet on the left of the examples. For each example – there is only one most appropriate concept (and for each concept, there is only one most appropriate example/explanation)

<b>Your Response</b>	<b>Concept / Issue</b>	<b>Example / Explanation / Illustration</b>
	Value Maximization Framework	<b>एक.</b> Pioneer Distilleries
	Relative Multiples Model	<b>दो.</b> Chaman Lal Sethia, KRBL and Kohinoor Foods
	Contingent Claim Model	<b>तीन.</b> Relaxo Footwear
	DDM Single Phase Model	<b>चार.</b> Bata India and Chambal Fertilizers & Chemicals
	DDM 2-Phase Model	<b>पाँच.</b> Relaxo Footwear
	DDM 3-Phase Model	<b>छः.</b> Alok Textiles, Welspun Industries, Textiles Weaving Sector, Just Dial, Cipla, Lupin, Pharma Sector
	FCFE 2-Phase Model	<b>सात.</b> Zee Entertainment (1999, 2002, 2015)
	Brand Valuation	<b>आठ.</b> Spicejet, Shree Rama Multi Tech
	No Suggested Model	<b>नौ.</b> Painting by Shri M F Hussain