## XLRI Jamshedpur – GMP 2015-16

# Mid-Term Examination, Time: 90 Minutes, Total Weightage in Evaluation: 15%

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Roll # \_\_\_\_\_

### Instructions

### This is an open text book examination. You are not allowed to borrow calculators, papers, etc. Neither you are allowed to bring/borrow any handwritten notes / other notes / other text books. 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, each correct answer is +1 mark, each wrong answer is –½ mark]

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). Please write a few words in the logic/reasoning column as well.

| **Your Response** | **Your logic / reasoning** | **Concept / Issue** | **Example / Explanation / Illustration / Agenda** |
| --- | --- | --- | --- |
|  |  | Limitation of Valuation | 1. 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) | 1. Adjust CF to reflect business restructuring and discount rate to reflect financial restructuring |
|  |  | Firms with patents and product options | 1. Firms like Reliance Industries Limited |
|  |  | Firms in the process of restructuring | 1. Get the value of these externally and add [or] better, real options pricing model |
|  |  | Firms involved in acquisitions | 1. (a) incorporate in FCF’s; and (b) incorporate in risk |
|  |  | Private firms: | 1. Get the value of these assets externally and add |
|  |  | Value of Firm | 1. Take riskiness of comparable firms that are publicly traded [or] relate the measure of risk to accounting variables |
|  |  | Firms with unutilized assets | 1. Use CF of Firm and WACC as discounting rate |
|  |  | Modifications for … Firms in trouble | 1. Estimate cash flow until they turn positive |
|  |  | Macroeconomic uncertainty | 1. FCF are usually smoothened out |
|  |  | Firm-specific uncertainty | 1. Errors while converting raw information into inputs and use these inputs in models (common in valuing young technology company) |
|  |  | Cyclical Firms | 1. 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 | 1. Macroeconomic environment can change in unpredictable ways (common in mature cyclical or commodity company) |

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**Part II**

[For this part, each correct answer is +½ mark, each wrong answer is –½ mark]

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). Please write a few words in the logic/reasoning column as well.

| **Your Response** | **Your logic / reasoning** | **Concept / Issue** | **Example / Explanation / Illustration** |
| --- | --- | --- | --- |
|  |  | Value Maximization Framework | 1. Pioneer Distilleries |
|  |  | Relative Multiples Model | 1. Zee Entertainment (1999, 2002, 2015) |
|  |  | FCFE 2-Phase Model | 1. State Bank of India |
|  |  | DDM Single Phase Model | 1. Chambal Fertilizers & Chemicals |
|  |  | DDM 2-Phase Model | 1. Relaxo Footwear |
|  |  | DDM 3-Phase Model | 1. Alok Textiles, Welspun Industries, Textiles Weaving Sector, Just Dial, Cipla, Lupin, Pharma Sector |
|  |  | No Suggested Model | 1. Painting by Shri M F Hussain |