XLRI JAMSHEDPUR – PGCSL, "CREATING CORPORATE VALUE" COURSE

End Term Paper, Time: 75 Minutes, Total Weightage: 20%, Month: September-2018

NAME: ___________________________________ ROLL # ___________

INSTRUCTIONS
It is based on a company's audited financial statements, namely, M/s Q Care Private Limited, Amarkantak, MP **(henceforth, Q Care). We provide you with audited financial report of the company for FY2018. To enable computations, we also provide word files of its summarized financial statements including cash flow statement.** You are not allowed to borrow books, calculators, etc. Answer all questions. Marks in brackets at the start of each section indicate the marks assigned for that section. In case of multiple-choice questions, you are required to mark (tick) the most appropriate choice in the question paper itself and also work out the solution (or given reasonable explanation) in the blank space provided below or on the other side of the page. 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.

SECTION I: Cash Flow Statement Analysis

(Total: 5 Marks, Each Correct Answer +1 mark)

Please answer the following questions on Q Care's FY2018 Cash Flow Statement for the latest year (exactly as done in the class for Pioneer Distilleries):

Question	Items (with amount in Lakh's only, round figures)
i. What were the major sources of cash?	?
ii. What were the major uses of cash?	?
iII. Was the firm able to generate enough cash from operations to pay for all of its expenditures?	
Iv. Did the cash flow from operations cover the following three items i.e., interest paid, the capital expenditures and the firm's dividend payments, if any? A. If it did, how did the firm invest excess cash?	?

B. If not, what were the sources of cash the firm used to pay for the interest paid, capital expenditures and/or dividends?	
v. Based on the evidence in the Statement of Cash Flow alone, what is your assessment of the financial strength of the business (Rate on a bankruptcy scale of 1 to 10 wherein 1 will be for the ones having the highest chance of bankruptcy)? Why (with in 50 words)?	? (for explanation) & ? (for rating)

SECTION II: PRELIMINARY RATIO ANALYSIS, Common Size Analysis & Index Based Analysis
(Total: 8 Marks, Each Correct Answer +1 mark, Each Wrong Answer –½ mark)

1. For FY2018, which of the following do you agree to? (i) The working capital of the company was positive; (ii) the computed tax rate was positive; (iii) the profit for 'ROCE' computation was negative; and (iv) Current Ratio and Quick ratio of the company are equal.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (ii) and (iv) are correct.
   c. All four are correct.
   d. Only (ii), (iii) and (iv) are correct.

   Your reasons: ____

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2. For FY2018, which of the following do you agree to? (i) the business model at this stage is not capital intensive; (ii) secured lenders will find it impossible to fund the company; (iii) the common size income statement will reveal that few items are more than 100; and (iv) the common size income statement will reveal that interest expense will be in single digits.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (ii) and (iv) are correct.
   c. All four are correct.
   d. Only (ii), (iii) and (iv) are correct.

   Your reasons: ____

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3. For FY2018, which of the following do you agree for index based analysis? (i) size of the total assets and total equity increased in nearly the same proportion; (ii) the current assets halved; (iii) the index number for net profit became less than 100; and (iv) the cash balance will be in single digits.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (i), (ii) and (iv) are correct.
   c. All four are correct.
   d. Only (iii) and (iv) are correct.

   Your reasons: ____

4. For FY2018, which of the following do you agree for index based analysis? (i) total tax expense is a negative; (ii) the other income became more than 100; (iii) the short-term loans & advances became more than 100; and (iv) the other current liabilities & provisions (i.e., excluding trade payables) will be in single digits.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (ii) and (iv) are correct.
   c. All four are incorrect.
   d. Only (iii) and (iv) are correct.

   Your reasons: ____

5. For FY2017, which of the following do you agree to? (i) The working capital of the company was negative; (ii) the computed tax rate was positive; (iii) the profit for 'ROCE' computation was negative; and (iv) Current Ratio and Quick ratio of the company are not equal.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (ii) and (iv) are correct.
   c. All four are incorrect.
   d. Only (ii), (iii) and (iv) are correct.

   Your reasons: ____

6. For FY2017, which of the following do you agree to? (i) the common size balance sheet will reveal that non-current liabilities and non-current assets constitute the biggest chunks; (ii) the common

size balance sheet will reveal that receivables and payables nearly match with each other; (iii) the common size income statement will reveal that few items are more than 100; and (iv) the common size income statement will reveal that interest expense will be in single digits.

Choose one of the following combinations from the above connotations:

a. All four are incorrect.
b. Only (i), (ii) and (iii) are correct.
c. Only (ii) and (iv) are correct.
d. Only (iii) and (iv) are correct.

Your reasons: ____

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7. For FY2018, the Return on Equity (ROE) of Q Care was [negative / positive] due to [negative / positive] net profit margin and [very high / very low] total asset turnover and [very high / very low] debt to equity ratio.

Choose one of the following combinations from the above connotations:

a. Positive, positive, very low and very high.
b. Negative, positive, very low and very low.
c. Negative, negative, very low and very low.
d. Negative, negative, very high and very high.

Your reasons: ____

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8. For FY2018, Q Care value driver analysis will show that:

Choose one of the following combinations from the above connotations:

a. Current Profitability is very low & Reputation among financial market investors is very low.
b. Current Profitability is very high & Reputation among financial market investors is very low.
c. Current Profitability is very low & Reputation among financial market investors is very high.
d. Current Profitability is very high & Reputation among financial market investors is very high.

Your reasons: ____

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SECTION III: Financial Ratio Analysis

(Total: 7 Marks, Each Correct Answer +½ mark, Each Wrong Answer –¼ mark)

Please strike off the unwanted words in the options given

1. For FY2018, the average payables period is [**more / less**] than the average collection period. It also hints that the net cash needed to fund its operating cycle *i.e., cash conversion period* will be [**negative / positive**].

2. For FY2018, Total Debt to Equity Ratio will **[dissuade / attract]** potential lenders; the Times Interest Covered Ratio will **[serenade / scare]** them.

3. For FY2018, credit rating agencies will give the company **[Investment Grade / Less Than Investment Grade / Junk Grade]** rating based on ______________ Times Interest Covered Ratio.

4. Reflecting on Return on Operating Assets (ROOA) and ROE ratios for FY 2018 in the given company, we could say that:

   a. ROE of the company was positive and ROOA was negative.
   b. ROE of the company was positive and ROOA was also positive.
   c. ROE of the company was negative and ROOA was negative.
   d. ROE of the company was negative and ROOA was positive.

   Your reasons: ____

   ____

5. EPS of the company during the FY2017 will be ________ (mention to single decimal)

6. EPS of the company during the FY2018 will be ________ (mention to single decimal)

7. For FY2018 compared to FY2017 was:
   a. Q Care EPS increased and DPS decreased
   b. Q Care EPS decreased and DPS did not change
   c. Q Care EPS increased and DPS did not change
   d. EPS cannot be computed for the given case

   Your reasons: ____

   ____

8. The Book value per equity share during FY2018 (compared to FY2017):

a. More than doubled.
b. Increased but less than double.
c. Decreased
d. Can't say

Your reasons: ____

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9. Given the figures and information provided in report, what kind of industry and the company's life cycle stage do you perceive this company to be in? Discuss within 20 words below:

10. During FY2018, what did the company do of the money raised from issue of new equity (if any) and what part of the balance sheet is that located in:

Your reasons: ____

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11. *"There is no difference in the paid up share capital and the number of outstanding shares"* Do you [**Agree** / **Disagree**]. Discuss within 10 words only.

12. *The company's contingent liabilities were more than Rs. 10 lacs in FY2018.* – Do you [**Agree** / **Disagree**]? Discuss within 10 words

13. *If the company was to purchase a chair worth Rs. 3,899 then the same would be written off during the year.* – Do you [**Agree** / **Disagree**]? Discuss within 10 words

14. *The company has one non-amortizable intangible asset in FY 2017.* – Do you [**Agree** / **Disagree**]? Discuss within 10 words

SECTION IV: Bonus Marks Question

(Total: 5 Marks)

1. Based on your learnings from the course, please apply them and state your summarized comments on the potential value of this company: