

SPJCM Singapore – GMBA 2006-07 Mid-Term Examination Solution

Current market price of its shares at Rs. 19 and having poor liquidity CEL.

Hassan also found out that, while the expected rate of return¹ of shareholders is 22% per year, the new investors investing in the firm were having an expectation of only 20%.

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

1. The intrinsic value of CEL using the constant growth rate model comes out to be around
 a) Rs. 15.50; b) Rs. 21.50; c) Rs. 31.50; **d) none of the above**
2. Hassan had a friend named Pawan managing a mutual fund named Paswan Mutual Funds. This mutual fund currently owns some shares of CEL. Considering Hassan’s calculations regarding its intrinsic value to be true, Pawan should
a) sell CEL shares in small lots; b) sell all CEL shares in one go; c) buy more shares from market at the current price in small lots; d) adopt a wait and watch approach;
3. In FY2001, a decrease in the company’s ploughback ratio would have
a) increased its price; b) decreased its price; c) remained unchanged; d) insufficient information
4. If it were known that CEL would follow the growth rates of Indian graphite industry², then CEL’s intrinsic value would be around
 a) Rs. 61; **b) Rs. 21;** c) Rs. 31; d) none of the above
5. A U.S.-based graphite major with expected rate of return of 10% from emerging markets wanted to make a takeover bid of CEL. It knows that CEL would follow the growth rates of Indian graphite industry. In that case, to what extent (i.e., share price) would CEL be a good buy for it?
 a) Rs. 45; **b) Rs. 65;** c) Rs. 96; d) none of the above
6. If the balance sheet figures were true indicators of market value of its assets and its liabilities then Hassan Lynch should give _____ as the suggestion to CEL
 a) sell the company as a going concern; **b) go for liquidation of the company;** c) buyback its shares from the market; d) none of the above
7. If Geetha is able to consistently make profits by observing CEL’s price trends then we can say that market efficiency in CEL is
 a) weak-form; b) semi-strong form; c) strong form; **d) none of the above**
8. Ideally the firm should be valued by which of the following methods
 a) FCFF; b) Contingent Claim; c) Relative Multiples; **d) All of the above;** e) None of the above

ANSWER SHEET

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

¹ a.k.a. Cost of Equity

² 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%.