

SPJCM SINGAPORE – GMBA 2006-07**Mid-Term Examination, Time: 60 Minutes, Total Marks: 20**

NAME: _____

ROLL # _____

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 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

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 industry⁵, 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		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%.