

**SPJCM SINGAPORE – GMBA 2007-08****End-Term Examination, Time: 120 Minutes, Total Marks: 60**

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

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

**INSTRUCTIONS**

**This is a closed book examination; No Laptops, Only Calculators allowed.** But, 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.

**Question 1 (Max Marks: 23)**

We provide you limited details of a company below. You are required to find the intrinsic value of each equity share of this company. Please mention clearly the valuation model adopted and your assumptions for arriving at the intrinsic value (i.e., assumptions behind your computations). Please be specific in your answer (writing irrelevant things would result in negative marks).

**Company Description**

Jaihind Constructions Ltd (JCL) has 'Heavy Construction' as its main industrial activity. JCL is today one of the emerging companies in the Indian Infrastructure Sector. JCL, is a part of the famous Jaihind Group and was promoted in 1996. It is considered to be politically well connected and powerful. Presently based in Delhi, JCL has its presence felt in Engineering and Construction, Cement and Hospitality businesses. Its cement business is progressing steadily via well known brands like Jaihind. The company owns 3 cement plants in Madhya Pradesh which are designed to produce 300,000 bags of cement per day (7 mtpa). JCL's cement market is limited to Central India and North India. Its clientele includes National Thermal Power Corporation, Indian Railways and Gas Authority of India Ltd.

**Companies with Similar Main Activities**

Afcons Infrastructure Ltd. - Atlanta Ltd. - Engineers India Ltd. - Gayatri Projects Ltd. - Hindustan Construction Co. Ltd. - I V R C L Infrastructures & Projects Ltd. - Jaiprakash Associates Limited - M S K Projects India Ltd. - Mackintosh Burn Ltd. - Madhucon Projects Ltd. - Nagarjuna Construction Co. Ltd. - P B A Infrastructure Ltd. - Patel Engineering Ltd. - Punj Lloyd Ltd. - Sadbhav Engineering Ltd. - Tantia Constructions Ltd. - Unity Infraprojects Ltd.

**Details of its Equity:**

Par Value of Each Equity Share: Rs. 50; Current Beta: 1.39; Average Volume of Shares Traded per day: 304K (Source: Reuters); Current Market Based Debt-to-Equity Ratio: 1:1

| <b>Jaihind Constructions Limited</b>         | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>End date of reporting period</b>          | 3/31/2007   | 3/31/2006   | 3/31/2005   | 3/31/2004   | 3/31/2003   |
| <b>Balance Sheet</b>                         | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Total assets</b>                          | 11,196      | 9,128       | 6,154       | 4,793       | 5,967       |
| <b>Gross fixed assets</b>                    | 6,785       | 4,701       | 3,563       | 3,200       | 4,730       |
| Capital WIP                                  | 2,228       | 876         | 354         | 683         | 2,139       |
| Less: cummulative depreciation               | 1,635       | 1,357       | 1,157       | 931         | 847         |
| <b>Net fixed assets</b>                      | 5,150       | 3,344       | 2,406       | 2,269       | 3,835       |
| <b>Revalued assets</b>                       | 309         | 536         | 10          | 10          | 10          |
| <b>Investments</b>                           | 1,779       | 1,557       | 1,192       | 754         | 13          |
| In group / associate cos.                    | 1,714       | 1,508       | 1,088       | 753         | 1           |
| <b>Marketable / quoted investment</b>        | 480         | 481         | 661         | 67          | 12          |
| <b>Deferred tax assets</b>                   | 9           | 7           | 5           | 5           | 77          |
| <b>Inventories</b>                           | 1,265       | 1,212       | 600         | 509         | 455         |
| <b>Receivables</b>                           | 1,563       | 1,338       | 1,221       | 1,029       | 654         |
| Sundry debtors                               | 452         | 422         | 370         | 285         | 366         |
| <b>Cash &amp; bank balance</b>               | 1,430       | 1,670       | 727         | 223         | 250         |
| <b>Intangible / DRE not written off</b>      | 0           | 1           | 2           | 5           | 87          |
| <b>Total liabilities</b>                     | 11,196      | 9,128       | 6,154       | 4,793       | 5,967       |
| <b>Net worth</b>                             | 2,873       | 2,682       | 1,235       | 1,075       | 1,082       |
| Paid-up equity capital                       | 219         | 215         | 176         | 176         | 176         |
| <b>Reserves &amp; surplus</b>                | 2,654       | 2,467       | 1,059       | 899         | 746         |
| Free reserves                                | 2,056       | 1,713       | 852         | 652         | 566         |
| Share premium reserves                       | 665         | 571         | 255         | 255         | 298         |
| <b>Borrowings</b>                            | 5,477       | 4,153       | 3,156       | 2,053       | 3,102       |
| Bank borrowings                              | 2,812       | 1,715       | 962         | 1,058       | 1,127       |
| Financial institutional borrowings           | 279         | 272         | 441         | 342         | 772         |
| Debentures / bonds                           | 524         | 821         | 1,023       | 317         | 813         |
| <b>Deferred tax liabilities</b>              | 499         | 490         | 488         | 409         | 432         |
| <b>Current liabilities &amp; provisions</b>  | 2,347       | 1,803       | 1,275       | 1,256       | 1,351       |
| <b>Income Statement</b>                      | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Sales</b>                                 | 3,801       | 3,432       | 2,991       | 2,616       | 2,489       |
| <b>Manufacturing</b>                         | 1,640       | 1,944       | 1,767       | 1,620       | 988         |
| <b>Other operating income</b>                | 2,161       | 1,488       | 1,224       | 996         | 1,501       |
| <b>Other income</b>                          | 100         | 158         | 138         | 120         | 67          |
| <b>Non-recurring income</b>                  |             | 361         |             | 0           | 1           |
| <b>Expenditure Operating expenses</b>        | 1,247       | 1,311       | 1,162       | 964         | 453         |
| <b>Expenditure Energy (power &amp; fuel)</b> | 490         | 431         | 394         | 358         | 376         |
| <b>Expenditure Wages &amp; salaries</b>      | 166         | 128         | 103         | 91          | 96          |
| <b>Expenditure Indirect taxes</b>            | 293         | 240         | 209         | 191         | 645         |
| <b>Expenditure Insurance premium</b>         | 33          | 26          | 26          | 26          | 178         |
| <b>Expenditure Repairs &amp; maintenance</b> | 275         | 169         | 155         | 153         | 154         |
| <b>Expenditure Amortisation</b>              | 21          | 18          | 22          | 96          | 0           |
| <b>Expenditure Other expenses</b>            | 490         | 395         | 348         | 283         | 136         |
| <b>Expenditure PBDIT</b>                     | 1,081       | 1,214       | 760         | 642         | 521         |
| <b>Expenditure Financial charges</b>         | 298         | 298         | 298         | 248         | 215         |
| <b>Expenditure PBDT</b>                      | 783         | 916         | 462         | 395         | 306         |
| <b>Expenditure Depreciation</b>              | 163         | 152         | 134         | 127         | 118         |
| <b>Expenditure PBT</b>                       | 620         | 765         | 329         | 267         | 188         |

| <b>Jaihind Constructions Limited</b>             | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Expenditure Tax provision</b>                 | 205         | 125         | 121         | 98          | 127         |
| <b>Expenditure PAT</b>                           | 415         | 640         | 208         | 170         | 61          |
| <b>Appropriation of profit Dividends</b>         | 91          | 66          | 48          | 30          | 30          |
| <b>Appropriation of profit Equity dividends</b>  | 79          | 58          | 42          | 26          | 28          |
| <b>Appropriation of profit Retained earnings</b> | 324         | 574         | 159         | 140         | 32          |

**Question 2 (Max Marks: 15)**

During the computations of 'cost of equity' we come across the concept of *country risk premium*. What are the three factors on which country risk premium is dependent on? Mention the three methods described in Damodaran to compute country premium? Please be specific in your answer.

**Question 3 (Max Marks: 10)**

Please explain the historical cost approach and price-to-sales ratio approach for brand valuation (to the extent feasible). Please be specific in your answer.

**Question 4 (Max Marks: 12)**

**Match the Following (based on the submitted analyst reports)**

**NOTE: USE ARROWS TO FIND THE BEST FIT**

**Column A**

- A B B Switzerland
- Andhra Petrochemicals
- Cummins Inc USA
- Heineken Netherlands
- J J Exporters
- Mastek
- Pfizer Inc USA
- Samkr

**Column B**

- Wrong Company Submission
- Valuation Using Relative Multiples
- A Buy Report being put up (written as) a Hold
- Consumer / Non-Cyclical
- Buzzing Stock (as mentioned in the report)
- Using Stars to convey the strength of the stock
- Used EV/EBIDTA while making use of relative multiples
- Auto Ancillaries Player

Excluding our group from analysis, **in my view, the following two analyst reports were the best reports<sup>1</sup>**

| Company Name of the Analyst Report |
|------------------------------------|
| 1.                                 |
| 2.                                 |

Excluding myself, **in my view, the following group-mate contributed most in our group work**

| Name OR Roll No. |
|------------------|
|                  |
|                  |

**Signature:** \_\_\_\_\_

<sup>1</sup> The key to your assessment could be – (a) what is written, (b) how well are the logic and arguments supported, (c) how well are they laid out, and (d) how current/original/ local/relevant are the analyst facts.