XLRI JAMSHEDPUR – PGP PM&IR II
End-term Examination, Time: 150 Minutes

NAME: ______________________________ ROLL # ______

Major married a Minor in January 1998. In the process he ended up with booty (a.k.a. Dahej) worth Rs. 1 crore. Since, Ms. Minor came from Coastal Andhra (Town: Rajahmundry), she took a promise from Major that the amount will be invested only in a Rajahmundry-based organization.

Major decides to restrict his investments in only large firms (sales > Rs. 200 crores) that too after completely looking at their financials. During his first visit to Rajahmundry, Major finds that there is only one firm fitting the bill – namely, Andhra Pradesh Paper Mills (APPM) Limited. APPM is one of the biggest, integrated pulp and paper manufacturing plant in India.

Staying in the Army for long and being new to number crunching, Major decides to appoint one investment consultancy firm known as OMAXI led by its CEO Mojo to advice him. On a fine morning, after finishing a second round of Idli & Dosa as breakfast, Mojo calls all his employees to collect all information on APPM. Members of OMAXI collect lot of information on APPM.

Finally, a meeting is held by OMAXI in Ahmedabad in April 1998. In the meeting, the abridged balance sheet and income statement figures of APPM for the financial year 1997 are provided (sheet attached). Being a dry region, every OMAXI member is provided with a mug of Sambar instead of traditional Somras[1].

During the meeting, individual OMAXI members provided the following information regarding APPM.

- Jockey: APPM's credit terms to its customers are '2/10 net 70' and I feel this is a fundu information.
- Uppu [who had Upama in the morning breaker]: The par value of each APPM share is Rs. 100/-
- Gullu: Uppu, you should not just look at the par value of each APPM share. I have seen the historical share price chart of APPM. The average price was Rs. 1600 and Rs. 3300 for FY1996 and FY1997 respectively.
- Khandu [who is back from another (n^{th}) paper writing contest and has lot of practical insight]: Gullu, you always look at the past share prices. Why don't you tell the current figures to the Junta around?
- Gullu: The current share price is Rs. 550/-.
- Shailley: I found the historical dividend pattern of APPM to be on these lines.

[1] While orthodox OMAXI members such as Sunmeet were not at all happy about it, the south-based sambar brigade such as Sethumadhavan, Jayaraman and Meenap liked the move.

Financial Year →	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Dividend (Equity)	60%	60%	60%	60%	60%	60%	60%	40%	40%	40%	40%

- Meenaku: The current rate of returns on APPM Bonds is 15%. To this we can add an equity investment risk premium of 10% for investing in APPM stocks.
- Shady: The Rs. 3000 crore Indian paper industry has a long-term growth of Indian paper industry is expected to be 5%.
- Krishnan: Shady, I disagree with your long-term growth rates assessment for APPM. Indian paper 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 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% as you stated.
- Sweta: I have insider information that APPM is going for a stock split in the ratio of 1:10
- After performing bottoms up, Somu uttered: My source of insider information is that 'APPM is going for a 10 for 1 share bonus'.
- Listening to Sweta & Somu, Needhi shouted: I don't think you're statements will in anyway influence the financials of APPM.
- Lachmi: But Needhi, they will influence the market capitalization i.e., shareholder value of the firm.

Based on the above information provided (including the additional sheets), you are to answer all the multiple-choice questions below and help OMAXI and Major in the decision making process.

SECTION I

[Each Correct answer + 2.0 marks; Wrong answer – 0.5 marks]

1. The Effective Rate of Interest Charged by APPM to its customers in its credit terms is

a) 13%; b) 19%; c) 9%; d) none of the above

2. The funds flow statement for FY1997 indicates that the financial management of APPM is

a) Conservative; b) Aggressive; c) Neither Aggressive nor Conservative; d) Insufficient Information

3. The company has largely tapped its _________ resources to fund its long-term requirements

a) only long-term; b) only short-term; c) only funds from operations; d) none of the above

4. APPM's dividend policy looks to be based on __________ (or closest to)

a) constant dividend payout policy; b) residual theory of dividends; c) low regular and extra dividends policy; d) none of the above

5. Based on the current data and all the above information. APPM seems to be a _________

a) affiliate of an MNC; b) affiliate of a business group; c) public sector unit; d) private professional Indian firm

6. The intrinsic value of APPM comes out to be around

a) 150/-; b) 450/-; c) 4500/-; d) none of the above

7. If the tax rate in FY1997 was 30% then the weighted average cost of capital (WACC) of the company is around

a) 19%; b) 9%; c) 14%; d) none of the above

SECTION II

[Each Correct answer + 1.0 marks; Wrong answer – 0.5 marks]

8. The liquidity ratios convey that the company's short-term solvency position is in _____________

a) Very comfortable state; b) Worrying state; c) Random state; d) none of the above

9. The long-term solvency position for APPM in FY 1997 was __________ in comparison to the long-term solvency position in the previous year

a) better; b) worser; c) same; d) can't say

10. The number of operation cycles per year during FY 1997 is ____________

a) below 2; b) between 2 and 3; c) above 3; d) can't say

11. The profitability of the company decreased in FY1997 in comparison to the previous year due to an deterioration in APPM's ___________

a) profit margins; b) asset utilization (efficiency); c) both (a) and (b); d) can't say

12. The price-to-book value (PBV) ratio in FY1997 and FY1996 was _______ and _______ respectively.

a) below 1,above 1; b) above 1, below 1; c) above 1, above 1; d) below 1, below 1

13. The price-to-earnings (PE) ratio in FY1997 and FY1996 was _______ and _______ respectively.

a) below 1,above 1; b) above 1, below 1; c) above 1, above 1; d) below 1, below 1

14. The dividend payout ratio of the company _________ in FY1997 in comparison to the previous year

a) decreased; b) increased; c) did not change; d) can't say

15. Combining Shailley and Shady's data, the cost of equity of APPM works out to

a) around 6%; b) around 11%; c) around 16%; d) can't say

16. Based on just Minaku and Shady's logic, the intrinsic value of each APPM share will be

a) Rs. 210/-; b) Rs. 420/-; c) Rs. 4200/-; d) None of the above

17. Given Sweta's announcement is true, you agree with statements of

a) both Needhi and Lachmi; b) only Needhi; c) only Lachmi; d) None of the above

18. Given Somu's report is true, you agree with statements of

a) both Needhi and Lachmi; b) only Needhi; c) only Lachmi; d) None of the above

19. Except for the above information all other things remaining unchanged in FY1994 the share price of APPM would have

a) increased; b) decreased; c) remained unchanged; d) Can't say

20. If during the above period APPM had leased a big papermaking machine then it would have been

a) shown in the balance sheet; b) not shown on the balance sheet; c) shown in the production report; d) shown in the Balance Scorecard report of the firm;

21. Based on the above analysis (essentially in section I), OMAXI should advise Major to invest in APPM's

a) equity shares only; b) bonds only; c) both shares and bonds; d) None of the above

22. Given that APPM had warrants issued to its promoters on preferential basis implies that

a) immediately more money of promoters was locked in the APPM;
b) promoters would surely invest in APPM at a future date as noted in the warrants;
c) promoters would have the option to invest in APPM at a future date as noted in the warrants;
d) None of the above