

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%.