

XLRI JAMSHEDPUR – PGP BMI
Quiz Examination, Time: 90 Minutes, Total Marks: > 25
Date: January 28. 2010

NAME: _____

ROLL # _____

INSTRUCTIONS

This is a open text book examination. You are not allowed to borrow books, calculators, etc. Answer all questions. Please read all footnotes (some of them might contain crucial information). Marks in brackets at the end of each section indicate the marks assigned for each question in that section. In case of multiple-choice questions, you are required to mark (tick) the appropriate choice in the question paper attached and also work the calculation out (or clearly discuss the reasons) in the space 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.

SECTION I

1. Case: Kaun Banega Chambal Ka Rani?

Once upon a time, Chambal-Ka-Raja 'Mangal Singh' announced his Swayamvar (a.k.a. marriage match/ selection process). Vidisha always wanted to spend time with a Raja (even if he were a Daku). Raja 'Mangal' was very weak in finance and thought that a core competence in Financial Analysis for his future partner was a must (applying the funda of having complementary competencies in case of mergers and acquisitions).

So, on New Year's Eve, after wishing everyone a Happy & Prosperous New Year with a glass of 'somras mixed with sambar' Mangal announced in his Durbar that the one who is successful in solving the CABC case titled 'Identifying Value Creators' in the Financial Management II Course material would be his partner.

Vidisha was present in the Durbar and she did not want to be Akeli (Single) lifelong – so she decided to participate in the test (she used a mobile and requested the help of all students in BM). This was also a day when Divya was feeling bad as her computer crashed for the nth time. But, listening to the swayamwar on the telephone Divya's eyes saw a ray of hope and she also decided to participate in the contest. Hence, she became a competitor to Vidisha (many others were potential competitors in the match including Sharadha, Rohita, and Chhavi).

Both seek the help of high IQ *finman* studs in the class. Please help both of them in solving the case and finding the answers for the following queries from the case. Give your answers below with reasoning for the same (at least a sentence). Answers without supporting reasoning/logic will not be acceptable.

[Total Marks: 8, Each Correct Answer: + 1 marks, Each Wrong Answer: - 1 marks]

1. 'Even though the company had added value in the current period, investors were not optimistic about the future.' This statement is perfectly correct for:
 - (a) Ford in the year 2000
 - (b) Hyundai in the year 2000
 - (c) Both (a) and (b)
 - (d) None of the above

2. In case of _____ company, we can more confidently state that the return of invested capital fell short of its capital costs.
 - (a) Ford Motor Co.
 - (b) Hyundai Motor Co.
 - (c) Simon Property Group
 - (d) Ayala Land Inc.

3. Growth investments are investments in high growth companies (say, Shanta Biotech and OnMobile). Value investments are the opposite. Examples of value investment include most Indian PSU Banks, fertilizer, and textile companies (say, Central Bank of India and Eastern Silk). In the above case, we can state that _____ firm is a good value investment opportunity:
 - (a) Ford Motor Co.
 - (b) Hyundai Motor Co.
 - (c) Simon Property Group
 - (d) Ayala Land Inc.

4. Which of this do you agree to:
 - (a) In general, the value measures seem to be more consistent and correlated with each other for Ayala Land Inc (than Simon Property Group)
 - (b) In general, the value measures seem to be more consistent and correlated with each other for Ford Motor Co (than Hyundai Motor Co.)

- (c) Both (a) and (b)
- (d) None of the above

5. Which of this do you agree to:

- (a) Compared to Coca-cola, investors were relatively more optimistic about Nesmal's ability to generate positive and high EVA in the future
- (b) Nesmal was comparatively overvalued than Coca-cola in capital market in 2000
- (c) Both (a) and (b) i.e., either one of them or both of them
- (d) None of the above

6. What could be the essential reasons that both the real estate companies seem to having negative EVAs and Positive MVAs (explain within the space below):

7. If real estate companies make their decisions based on EVA, what would be the foreseeable impact on allocation of capital resources for projects of different time span.

8. What could be reason for differences (if any) between Asian and American firms (within the space below)

SECTION II

2. Case: The Cost of Capital of Nagarjuna Fertilizers

Please look at Pages 433-434 and answer the following queries from the case. Give your answers below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 4, Each Correct Answer: + 1 mark]

9. The total value of the company works out to approximately:
- (a) Approximately Rs 3,500 crores
 - (b) Approximately Rs 900 crores
 - (c) Approximately Rs 2,300 crores
 - (d) Approximately Rs 5,000 crores
 - (e) None of the above
10. Using the Five-Year Beta, the cost of equity works out to:
- (a) Approximately 12.8%
 - (b) Approximately 14.8%
 - (c) Approximately 16.8%
 - (d) Approximately 18.8%
 - (e) None of the above

11. The Company's cost of debt can be computed using:

- (a) Using peer company credit ratings
- (b) Using last debt issue details
- (c) Using interest expense-to-book value of debt ratio
- (d) All of the above
- (e) None of the above

12. Taking a pre-tax cost of debt as 11.20%, the cost of the capital works out to approximately:

- (a) 14.14%
- (b) 12.14%
- (c) 10.14%
- (d) 8.14%
- (e) None of the above

SECTION III

3. Case: Ravi's BITS of Learning

Please look at Pages 377-78, Page 405 and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 4, Each Correct Answer: + 1 mark; Each No Attempt: - 1 mark]

13. For Question 4 in Page 405, the following would be an implication:

- (a) The most affected stocks in the portfolio would be Hindalco and Nalco.
- (b) Hindalco would be more volatile than Nalco due to its higher international operations
- (c) Hindalco would be more volatile than Nalco due to its higher beta
- (d) All of the above
- (e) None of the above

14. Jet Airways Beta has changed because:

- (a) Of a change in its Degree of Operating Leverage
- (b) Of a change in its Business Risk
- (c) Both (a) and (b)
- (d) None of the above

15. Hindalco's Beta has changed because:

- (a) Of a change in its Degree of Operating Leverage
- (b) Of a change in its Business Risk
- (c) Both (a) and (b)
- (d) None of the above

16. Linc Pen & Plastics has a lower beta than Indian Hotels because:

- (a) Of lower Degree of Operating Leverage
- (b) Of lower Business Risk
- (c) Of lower Financial Risk
- (d) None of the above

SECTION IV**4. Case: East Coast Yachts, Parts 1 and 2**

Please look at Pages 330-31, Page 377 and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 4, Each Correct Answer: + 1 mark; Each No Attempt/ Each Wrong Answer: - 1 mark]

17. For Question 1 in Page 377, the following would be a response:

- (a) A large portion of the money (50-60%) should be allocated to the company stock.
- (b) There should be little, if any, money allocated to the company stock.
- (c) 90 to 95 per cent of the portfolio should be allocated to company stock
- (d) None of the above

18. For Question 2 in Page 377, the following would be a response:

- (a) This is not the portfolio with the least risk
- (b) By adding stocks, the overall risk of the portfolio will decline
- (c) Both (a) and (b)
- (d) None of the above

19. For Question 5 in Page 331, we can agree with the following regarding the mutual funds:

- (a) The Sharpe ratio is least for Bledshoe bond fund
- (b) The Sharpe ratio is highest for Bledshoe small-cap fund
- (c) Both (a) and (b)
- (d) None of the above

20. In general, small cap funds have higher expenses of running the fund because:

21. For Question 6 in Page 377, the following would be a response:

- (a) The expected return of the Sharpe optimal portfolio is 10.09% approximately
- (b) The standard deviation of the Sharpe optimal portfolio is 10.54% approximately
- (c) Both (a) and (b)
- (d) None of the above

5. Case: East Coast Yachts Bond Issue

Please look at Pages 711-712 and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 3, Each Correct Answer: + 1 mark; Each No Attempt/ Each Wrong Answer: - 1 mark]

22. For Question 2 in Page 711, the following would be a response:

- (a) The number of zero coupon bonds to sell will be 139,829
- (b) The issue of zero coupon bond when it is issued would be \$1,000
- (c) Both (a) and (b)
- (d) None of the above

23. For Question 3 in Page 712, the following would be a response:

- (a) Coupon bond principal payment on maturity would be approximately \$30m.
- (b) Zero coupon bond payment at maturity would be approximately \$140m.
- (c) Both (a) and (b)
- (d) None of the above

24. For Question 5 in Page 712; If the Treasury rate is 9.1%, the make whole call price in 7 years is:

- (a) \$1,178.77 approx
- (b) \$889.35 approx
- (c) \$1,000
- (d) None of the above

6. Case: Stock Valuation of Graphite India

Please look at Pages 190-191 and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 4, Each Correct Answer: + 1 mark; Each No Attempt/ Each Wrong Answer: - 1 mark]

25. For Question 2 in Page 191, the following would be a response:

- (a) Geetha should sell these shares in large lots
- (b) Geetha should sell these shares in small lots
- (c) Geetha should buy these shares in large lots
- (d) Geetha should buy these shares in small lots

26. For Question 3 in Page 191, the following would be a response:
- (a) Decrease in dividend payout ratio would not affect the share price
 - (b) Decrease in dividend payout ratio would increase the share price
 - (c) Both (a) and (b) (i.e., either of the scenarios would happen)
 - (d) None of the above
27. For Questions 4 and 5 in Page 190-191; one can state that:
- (a) GIL would be a good buy in Q4 valuation but a good sell in Q5 valuation
 - (b) GIL would be a good sell in both Q4 and Q5 valuations
 - (c) GIL would be a good hold in both Q4 and Q5 valuations
 - (d) None of the above
28. For Question 6 in Page 191; one can state that:
- (a) Sundu should give a report asking for the firm to be sold as a going concern
 - (b) Sundu should give a report asking for the firm to be expanded
 - (c) Sundu should give a report asking for the firm to be liquidated
 - (d) None of the above