

Name:  
Enrolment No:



**UNIVERSITY OF PETROLEUM & ENERGY STUDIES**  
**End Semester Examination– December, 2021**

**Program: BBA FAS**  
**Subject/Course: Valuation of firms**  
**Course Code: FINC2070**

**Semester: III**  
**Max. Marks: 100**  
**Duration: 3 Hours**

**Section A**

**(Type the answers in test box)**

- 1. Each question carries 2 marks.**
- 2. Instructions- Select the correct answers.**

S No	Question	CO
Q1	Intrinsic value of asset is based on its historical cash flows. A) True B) False	CO1
Q2	Assuming cash flows remain constant and but discount rate increases, how will this change affect expected cash flows (ECF)? C) ECF will increase D) ECF will decline E) ECF will remain same F) ECF will be zero	CO1
Q3	Growth assets include working capital assets. A) True B) False	CO1
Q4	Holding other factors constant, an increase in risk of project will increase discount rate. A) False B) True	CO1
Q5	Equity cash flows can be discounted using ..... A) APV B) NPV C) WACC D) Re	CO1
Q6	Net income divided by dividends is ..... A. Retention ratio B. Payout ratio C. Retention rupee D. Payout rupee	CO1

<b>Q7</b>	Which of the following is the relationship between discount rate and riskiness of the project A) Positive B) Negative C) Neutral D) Zero	<b>CO1</b>
<b>Q8</b>	Which of the following is not an input in pricing model. A) Risk free rate B) Beta C) COVID 19 cases D) Market risk premium	<b>CO1</b>
<b>Q9</b>	Risk free rate is required only in CAPM calculation and not in other APM. A) False B) True	<b>CO1</b>
<b>Q10</b>	If a risk mostly remains dormant but does show occasionally, it is called..... A) Continuous risk B) Discrete risk C) Macro risk D) Micro risk	<b>CO1</b>

**Section B**

1. Each question carries 5 marks.
2. Instructions: Write short answers.

<b>Q1</b>	Explain D in DFC modeling.	<b>CO2</b>
<b>Q2</b>	Mention key inputs required in using discounted cash flow method.	<b>CO2</b>
<b>Q3</b>	Explain capital asset pricing model.	<b>CO2</b>
<b>Q4</b>	Describe the inputs required in computing discount rate.	<b>CO2</b>

**Section C**

1. Each question carries 10 marks. Attempt three questions.
2. Show all the steps in calculating the required values until four decimal places.

<b>Q1</b>	Your manager asked you to compute equity risk premium (ERP). You are planning to use historical data to compute ERP. Show the perils of using historical data. Also mention that do you expect arithmetic and geometric averages to be similar for past records.	<b>CO3</b>
<b>Q2</b>	Cost of equity is 10%, cost of debt is 6%, corporate tax rate is 30%, proportion of equity is 60% and debt is 40%. Compute weighted average cost of capital.	<b>CO4</b>
<b>Q3</b>	Do you agree with the statement that risk free needs to be a positive number?  <b>OR</b> The only model to compute discount rate is CAPM model, do you agree, please provide rationale for your choice.	<b>CO3</b>

**Section D**

1. Each question carries 15 marks.

<b>Show all the steps in calculating the required values until four decimal places.</b>		
<b>Q1</b>	The cash flows for next year are estimated to be INR 100 crores and are expected to grow at 13% for the next seven years and after seven years, cash flows are expected to grow at 4%. The discount rate for the project is 8%. Compute the value of this project.	<b>CO4</b>
<b>Q2</b>	<p>The risk free rate is 2%, beta is 1.15, and market risk premium is 7%, compute cost of capital as per CAPM. Also, use the discount rate calculated using CAPM equation and find the present value of the perpetual cash flow of INR 500.</p> <p style="text-align: center;">OR</p> <p>A company is expected to grow at 6% infinitely and its cash flows for the next year are expected to be INR 100 crores. If you are using DCF and you have to compute the value of this firm, mention the additional inputs (if any) required to compute the value. If you think that all the inputs are provided, compute the value of the firm.</p>	<b>CO4</b>