M.Com 4th Semester Examination, 2021 (Regular and DDE)

Subject: Commerce
Business Valuation and Risk Management (BVRM)

(Paper: COM405F)

The figures in the margin indicate full marks.
Candidates are required to give their answers in their own words
as far as practicable

Time: 2 Hours **Full Marks: 40**

Module 1

Answer any two of the following questions: (10x2=20)

1. Explain the relationship between the Degree of Financial Leverage and the beta of the equity in a firm with a numerical example. (10)

2. Meghali Ltd. reported an EBITDA of Rs.1300 million in 2020-2021, before interest expenses of Rs.200 million and depreciation charges of Rs. 400 million. Capital Expenditures in 2020-2021 amounted to Rs.440 million and working capital was 7% of revenues which were Rs. 13,000 million. The firm had debt outstanding of Rs.3.068 billion (in book value terms), trading at a market value of Rs.3.2 billion and yielding a pre-tax interest rate of 8%. There were 62 million shares outstanding trading at Rs. 65 per share and the most recent beta is 1.10. The tax rate for the firm is 30%. (The treasury bond rate is 6%.)

The firm expects revenues, earnings, capital expenditures and depreciation to grow at 9% a year from 2021-2022 to 2025-2026, after which the growth rate is expected to drop to 4%. (Capital spending will offset depreciation in the steady-state period.) The company also plans to lower its debt/equity ratio to 50% for the steady-state period (which will result in the pre-tax interest rate dropping to 7.5%). Assume that the risk premium is 5.5%.

Estimate the value of the firm for the year 2020-2021 clearly explaining each step. (10)

3. Briefly explain the following relationship with appropriate examples:

i) P/E ratio and retention ratio.

ii) P/E ratio and risk. (5+5)

Module II

Answer any two questions (10x2=20)

4. Explain the concept of environmental, social and governance (ESG)-related risks. Why do ESG- related risks matter for organizations?

(5+5)

5.a) Distinguish between exchange traded products and OTC products in the context of F&O segment of stock market.

b) Suppose the spot price of Lotus Ltd. is Rs. 500 and the current interest rate for 3-month's maturity is 14 per cent (not continuously compounded). What will be the fair price of the futures contract developed on this stock if its expiration is 4 months away and it is expected that the dividend yield to be received from the stock for the same period is 6 percent of the stock value?

(5+5)

6. a) Explain why an option is like an insurance contract.

b) From the information given below on some stock options, state whether each one of the se is in-the-money, out-of-the money or at-the-money.

Sl. No.	Option	Spot Price	Exercise Price
1	Call	78	75
2	Call	60	60
3	Put	112	100
4	Put	104	110
5	Put	32	35
6	Call	47	45

(5+5)

Note: Use the mail id: com405f@gmail.com to send your answer scripts.