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III Semester M.B.A (Day &amp; Evening) Degree Examination June/July - 2024

MANAGEMENT (Finance)

Corporate Valuation and Financial Modelling

(CBCS 2019-20 Scheme)

Paper : 3.2.3



Time : 3 Hours

Maximum Marks : 70

## SECTION - A

Answer any Five of the following questions. Each question carries 5 marks. (5×5=25)

1. Explain approaches to valuation.
2. Balanced Scorecard provide insights into corporate strategy. Discuss.
3. What is the Legal aspect for Mergers and Acquisition?
4. The following financial information is available for company D, an unlisted pharmaceutical company, which is being valued.

* EBITDA	:	400 million
* Book value of assets	:	1,000 million
* Sales	:	2,500 million

Based on an evaluation of a number of listed pharmaceutical companies, A, B, and C have been found to be comparable to company D. The financial information for these companies is given below:

	A	B	C
* Sales	1600	2000	3200
* EBITDA	280	360	480
* Book value of assets	800	1000	1400
* Enterprise value (EV)	2000	3500	4200

5. Kamal Company has a value of Rs.80 million and Jamal Company has a value of Rs.30 million. If the two companies merge, cost savings with a present value of Rs. 10 million would occur. Kamal proposes to offer Rs. 35 million cash compensation to acquire Jamal. What is your decision from the perspective of each company?
6. Ratan Lal Ltd. Is considering a capital project that requires investment outlay of Rs.5,00,00,000 with no salvage value after the life of 6 Years. The capital project is expected to generate an annual revenue Rs.6,00,00,000 with an annual cost of Rs.4,00,00,000 throughout its life. The debt equity ratio is 4:5. The company falls in a tax bracket of 25%. Cost of Equity (Excluding depreciation, interest and taxes is 16%. Post tax cost of debt is 8%. Assuming depreciation is charged on straight line method, Calculate the EVA of the project over its life.

[P.T.O.]





7. Firm X has 2,00,000 Equity Shares and Firm Y has 1,00,000 Equity Shares in its Balance Sheet. Shares of Firm X is traded at Rs. 120 and Shares of Firm Y is traded at Rs. 30 in the NSE. Firm X intends to pay Rs. 20,00,000 cash of Firm Y if Y's Market Price reflects only its value as a separate entity. Calculate the Cost of Merger if the merger is financed by cash and stock.

### SECTION - B

Answer any **three** of the following questions. Each question carries **10** marks. (3×10=30)

8. Explain various Anti-Takeover defence strategies adopted by target firms with strategic fit.
9. The profit and loss account and balance sheet of a company for two years (1 and 2) are given below. Assume a tax rate of 30 percent for year 2.

	Profit and Loss Account [Amount (Rs.)]	
	Year 1	Year 2
Net sales	40,000	50,000
Income from marketable securities	800	1,000
Non-operating income	600	1,000
<b>Total income</b>	<b><u>41,400</u></b>	<b><u>52,000</u></b>
Cost of goods sold	25,000	30,000
Selling and administrative expenses	6,000	7,200
Depreciation	2,400	3,000
Interest expenses	2,500	2,600
<b>Total costs and expenses</b>	<b><u>35,900</u></b>	<b><u>42,800</u></b>
PBT	5,500	9,200
Tax provision	1,500	2,700
PAT	4,000	6,500
Dividends	1,400	1,800
Retained earnings	2,600	4,700

	Balance Sheet [Amount (Rs.)]	
	Year 1	Year 2
Equity Capital	6,000	6,000
Reserves and Surplus	10,000	14,700
Debt	16,000	19,300
	<b><u>32,000</u></b>	<b><u>40,000</u></b>
Fixed Assets	20,000	24,500
Investments (Marketable Securities)	7,000	8,500
Net Current Assets	5,000	7,000
	<b><u>32,000</u></b>	<b><u>40,000</u></b>

- a) What is the EBIT for year 2?  
 b) What is the tax on EBIT for year 2?  
 c) What is the FCFE for year 2?  
 d) What is the Net Investment for Year 2?  
 e) What is the Return on Invested Capital for the Year 2?
10. Royalty Ltd., a consumer durable manufacturer, reported earnings per share of Rs. 3.20 as on 31/03/2024 and paid dividends per share of Rs. 1.70 in that year. The firm reported depreciation of Rs. 350 lakh as on 31/03/2024 and capital expenditure of Rs. 475 lakh. There were 160 lakh outstanding shares traded at Rs. 51 per share. The ratio of capital expenditure to depreciation is expected to be maintained in the long run. The working capital needs are negligible. Royalty had a debt outstanding of Rs. 1600 lakh and intends to maintain its current financing mix of debt and equity to finance future investment needs. The firm is in the steady state, and earnings are expected to grow at 7% per year. The stock had a Beta of 1.05, the Treasury bill rate is 6.25% and the market premium is 5.5%.
- a) Calculate the value per share using the Dividend Discount Model.  
 b) Estimate the value per share, using the FCFE model (Free Cash Flow to Equity).  
 c) Comment on the difference between the two models, and which one would you use as a benchmark to compare with the market price?
11. A Ltd wants to acquire T Ltd by exchanging 0.5 each share of T Ltd. The relevant financial data are as follows;
- |                             | A Ltd     | T Ltd    |
|-----------------------------|-----------|----------|
| EAT (Rs)                    | 18,00,000 | 3,60,000 |
| Equity share outstanding    | 6,00,000  | 1,80,000 |
| EPS (Rs)                    | 3         | 2        |
| P/E ratio (times)           | 10        | 7        |
| Market price per share (Rs) | 30        | 14       |
- (a) What is the number of equity shares required to be issued by A Ltd for the acquisition of T Ltd?  
 (b) What is the EPS of A Ltd after the acquisition?  
 (c) Determine the equivalent earnings per share of T Ltd.  
 (d) What is the expected market price per share of A Ltd after acquisition, assuming its P/E multiple remains unchanged?  
 (e) Determine the market value of the merged firm.

[P.T.O.]



## SECTION - C

## 12. Compulsory Question

(1×15=15)

NSS Corporation is expected to grow at a higher rate for 4 years; there after the growth rate will fall and stabilize at a lower level. The following information is available:

**Base Year (Year 0) Information**

Revenues	3200 Million
EBIT	480 Million
Capital Expenditure	400 Million
Depreciation	240 Million
Working Capital as a percentage of revenues	25%
Corporate Tax Rate (for all time)	35%
Paid up Capital (Rs.10 Per share)	360 Million
Market Value of Debt	1200 Million

**Inputs for High Growth Period**

Length of the high growth period	4 Years
Growth rate in revenues, Depreciation, EBIT and Capitals Expenditure	20%
Working Capital as a percentage of revenues	25%
Cost of Debt	15%
Debt Equity Ratio	1.5:1
Risk free rate	12%
Market Risk Premium	7%
Equity beta	1.25

**Inputs for the Stable Growth Rate**

Expected Growth Rate in revenues and EBIT	10%
Capital expenditure are offset by depreciation	
Working Capital as a percentage of revenues	25%
Cost of debt	14%(pretax)
Debt equity ratio	1.1
Risk free rate	12%
Market risk premium	6%
Equity Beta	1.00

Evaluate the information and value the NSS Corporation.