PG – 785

III Semester M.B.A. Degree Examination, Jan./Feb. 2018
(CBCS) (2014 – 15 & Onwards)
MANAGEMENT
Paper – 3.3.3 : Corporate Valuation and Restructuring

Time : 3 Hours Max. Marks : 70

SECTION – A

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

1. From the following data, calculate the cost of merger.
   - When merger is financed by cash and
   - When merger is financed by stock

	Firm A	**Firm B**
Market Price per share	Rs. 60	Rs. 15
Number of shares	1,00,000	50,000
Market value of Firm	Rs. 60,00,000	Rs. 7,50,000

Firm A intends to pay Rs. 10,00,000 cash for B if B's market price reflects only its value as a separate entity.

2. Following is the condensed income statement of a firm for the current year :

Income Statement (in Rs. Lakhs)

Sales Revenue		500
Operating costs		300
Interest costs		12
Earnings before tax	188	
Taxes @40%		75.2
Earnings after taxes	112.8	

P.T.O.

The firm's existing capital consists of Rs. 150 lakh equity funds, having 15 percent cost and Rs. 100 lakh 12 percent debt. Determine the economic value added during the year.

Assume the sales revenue is Rs. 330 Lakhs. What is the Earnings after Tax and EVA ?

3. The market price of Rs. 1,000 par value bond carrying a coupon rate of 14 percent and maturing after 5 years is Rs. 1,050. What is the yield to Maturity on this bond ?

4. ABC Ltd. Is intending to acquire XYZ Ltd. by merger and the following information is available in respect to the companies.

Particulars	**ABC Ltd.**	**XYZ Ltd.**
Number of equity shares	10,00,000	6,00,000
Earnings after tax	Rs. 50,00,000	Rs. 18,00,000
Market value per share	Rs. 42	Rs. 28

If the proposed merger takes place, what would be the new earnings per share for ABC Ltd. ?

Assume that the merger takes place by exchange of equity shares and the exchange ratio is based on the current market price.

5. Briefly discuss various valuation approach for corporate valuation.

6. Discuss various types of Corporate Restructuring Activities.

7. What is Tobin's Q ? Discuss its importance.

SECTION – B

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

8. KTR is a popular restaurant in South India, owned and run by Radhaswamy, a star chef specializing in South Indian cuisine. You are interested in buying the restaurant and have been provided with the following data.

The restaurant can seat 100 dinners. It has two seatings for lunch and one seating for dinner. The restaurant remains open for 340 days a year for the public. The average price of a lunch is Rs. 40 and the average price of a dinner is

Rs. 50. The cost of food is approximately 30% of the price of the meal. There are 25 employees on the staff of the restaurant and the payroll amounts to Rs. 10 lakhs a year. The annual rent for the space used by KTR is Rs. 2,40,000.
The restaurant is expected at present to grow 6% a year for 3 years and 3% a year after that. You estimate the unlevered beta of publicly traded restaurants to be 0.70. The average debt to capital ratio for these forms is 10%. The risk free rate is 8% and the market risk premium is 5.5%.

You are required to estimate the value of Restaurant (assume the tax rate is 40% and the cost of borrowing is 9%).

9. The key financial parameters of Digvijay Cement Company Ltd., are as follows :

EBDIT	Rs. 36 Lakhs
Book value of assets	Rs. 180 Lakhs
Sales	Rs. 250 Lakhs

Based on the evaluation of several cement companies X Ltd., Y Ltd., and Z Ltd., have been found to be comparable to Digvijay Cement Company Ltd. Their key financial data are as follows :

(Rs. in Lakhs)

	Company X	**Company Y**	**Company Z**
EBDIT	24	30	40
Book Value of Assets	150	160	200
Sales	160	200	320
Market Value	300	480	720

Find the value of Digvijay Cement Company Ltd., using Comparable Company Approach.

10. Write short notes on (**any two**).

1) Human Resource Accounting

2) Balanced Score Card

3) Stern Stewart Approach (EVA)

11. Discuss the pre-offer and post-offer of antitakeover defense strategy.

SECTION – C

Compulsory : **(1×15=15)**

12. Vijay Ltd., and Ajay Ltd., are discussing a merger deal in which Vijay will acquire Ajay. The relevant information about the firms is given as follows :

	Vijay	Ajay
Total Earnings	Rs. 3,60,00,000	Rs. 1,20,00,000
Number of outstanding shares	1,20,00,000	80,00,000
Earnings per share	Rs. 3	Rs. 1.50
Price-earnings Ratio	10	6
Market price per share	Rs. 30	Rs. 9

- What is the maximum exchange ratio acceptable to the shareholders of Vijay Ltd., if the P/E ratio of the combined firm is 8 ?
- What is the minimum exchange ratio acceptable to the shareholders of Ajay Ltd., if the P/E ratio of the combined firm is 9 ?
- At what point do the lines ER_1 and ER_2 intersect ?
