62224

Reg. No. | | | | | | |

III Semester M.B.A. (Day/Evening) Degree Examination, March/April - 2021

MANAGEMENT

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. Discuss in brief Beta Un-levering and Re-levering.
2. Explain in detail anti - takeover defences used by Target Company.
3. Explain various forms of corporate restructuring.
4. Two firms C and B operating in the cement industry. Both the firms are planning for a merger. Firm A is worth Rs. 200 lakh and B is worth Rs. 50 lakh. On merging, the two would allow cost savings with a present value of Rs. 25 lakh. Assume that A buys B for a cash of Rs. 65 lakh. Estimate
   1. The value of the combined Firm
   2. The cost of merger for Firm A
   3. The NPV to B's shareholders and the NPV to A's Shareholders.
5. Multiplex Limited is considering a capital project for which the following information is available.

Investment outlay	:	5000
Project life	:	4 years
Salvage value	:	0
Annual revenues	:	6000
Depreciation	:	Straight line (for tax purposes)
Tax rate	:	30%
Debt - equity ratio	:	4:5
Annual costs	:	4000
Cost of equity	:	18% (Excluding depreciation, interest, and taxes)
Cost of debt	:	9% (post - tax)

From the above information calculate the EVA of the project over its life.

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6. The key financial parameters of X Ltd., are as follows :

EBDIT	Rs. 36 Lakh
Book Value of Assets	Rs. 180 Lakh
Sales	Rs. 250 Lakh

Based on the valuation of several cement companies A,B and C companies, it has been found to be comparable of X Ltd. Their key financial data are as follows :

	A	B	C
EBDIT	24	30	40
Book Value of Assets	150	160	200
Sales	160	200	320
Market Value	300	480	720

Find the value of X Ltd., using comparable company approach.

7. Determine the CV of a firm from the following information :
   1. CF from Business Operations at the end of explicit forecast period (Year 5) - Rs.20 crore.
   2. Investment in current assets required in year 5 - Rs. 2 crore.
   3. Expected annual growth rate in FCF after the forecast period - 5%.
   4. WACC - 12%
   5. Cost of Debt - 8%.

SECTION - B

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

8. What is leverage buyout, explain with suitable example?
9. Explain Human Resource accounting and approaches.
10. The P & L A/c and Balance Sheet of a company for two years (1 and 2) are given below. Assume a tax rate of 30% for year 2 :

Particulars	Amount	Amount
Nets Sales	30,000	35,000
Income for marketable securities	600	1,000
Non operating income	400	800
Total Income	31,000	36,800
COGS	18,000	21,000
Selling and Administrative expenses	3,800	4,600
Depreciation	1,900	2,200
Interest expenses	1,700	1,600
Total cost and expenses	25,400	29,400

PBT	5,600	7,400
Tax Provision	1,400	1,900
PAT	4,200	5,500
Dividends	1,200	1,400
Retained earnings	3,000	4,100

Balance Sheet **in million**

Liabilities	**Year 1**	**Year 2**
Equity Capital	5,000	5,000
Reserves & Surplus	5,000	9,100
Debt	15,000	14,900
	25000	29000

Assets	**Year 1**	**Year 2**
Fixed Assets	15,000	18,500
Investments (marketable securities)	5,000	6,500
Net Current Assets	5,000	4,000
	25,000	29,000

All of these represent excess marketable securities

1. What is the EBIT for the year 2?
2. What is tax on EBIT for year 2?
3. What is net investment for year 2?
4. What is free cash flow to the firm for the year 2?
5. What is Return on Invested Capital for the year 2?

11. Company X in contemplating the purchase of Company Y. Company X has 3,00,000 shares having a market price of Rs. 30 per share, while company Y has 2,00,000 shares selling at Rs. 20 per share. The EPS are Rs. 4.00 and Rs. 2.25 for company X and Company Y respectively. Managements of both companies are discussing two alternative proposals for exchnage of shares as indicated below :

a. in proportion to the relative earnings per share of two companies.

b. 0.5 share of Company X for one share of Company Y (0.5:1)

You are required

1. To calculate the EPS after merger under two alternatives : and
2. To show the impact on EPS for the shareholders of two companies under both the alternatives.

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SECTION - C

Compulsory Question **(1×15=15)**

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

Base Year (Year 0) Information

Revenues	1600 Million
EBIT	240 Million
Capital Expenditure	200 Million
Depreciation	120 Million
Working Capital as a percentage of revenues	25%
Corporate Tax Rate (for all time)	35%
Paid up Capital (Rs. 10 per share)	180 Million
Market Value of Debt	600 Million

Inputs for High Growth Period

Length of the high growth period	4 years
Growth rate in revenue, 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 deprecation	
Working Capital as a percentage of revenues	25%
Cost of debt	14% (pre-tax)
Debt equity ratio	1.1
Risk free rate	12%
Market risk premium	6%
Equity Beta	1.00

Calculate the value of the firm.