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III Semester M.B.A. Degree Examination, June/July - 2023

MANAGEMENT

Corporate Valuation and Financial Modelling

(CBCS Scheme)

Paper : 3.2.3

Time : 3 Hours

Maximum Marks : 70

SECTION - A

Answer any FIVE questions. Each carries 5 marks.

(5×5=25)

1. Explain the features of the valuation process
2. Differentiate stock and debt approach and direct comparison approach of valuation.
3. Explain the SEBI regulations on takeover.
4. The expected dividend for share on the equity share of R Ltd is Rs.2. The dividend per share of R Ltd has grown over a past years at the rate of 5% per year. This growth rate is expected to continue in future. Calculate the intrinsic value of share of R Ltd using dividend discount model if the required return is 15%.
5. 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 A	Company B	Company 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 Digvijay Cement Company Ltd., using Comparable Company Approach.

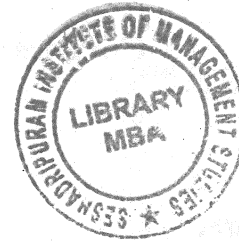
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6. Arun Company has a value of Rs.40 million and Varun Company has a value of Rs.20 million. If the two companies merge, cost savings with a present value of Rs.5 million would occur. Arun proposes to offer Rs.22 million cash compensation to acquire Varun. What is the net present value of the merger to the two firms?
7. Define the following terms:
- Poison pills
 - Black Night
 - Hostile takeover
 - Horizontal Merger



SECTION - B

Answer any **THREE** questions, each carries **10** marks.

(3×10=30)

8. Miocon Limited is considering a capital project for which the following information is available.

Initial outlay	: 50000	Depreciation method	: Sinking fund
Project life	: 5 years	(for tax purposes)	
Salvage value	: 0	Tax rate	: 30%
Annual revenues	: 60000	Debt-equity ratio	: 1 : 1
Annual costs	: 30000	Cost of equity	: 14%
(excluding depreciation, interest, and taxes)		Cost of debt	: 6%
		(post- tax)	

Calculate the EVA of the project over its life.

9. Explain the different methods of valuation of private companies of startups.
10. Jeet Company plans to acquire Ajeet Company. The following are the relevant financials of the two companies.

	<i>Jeet Company</i>	<i>A jeet Company</i>
Total earnings, E	Rs.1600 million	Rs.600 million
Number of outstanding shares	40 million	30 million
Market price per share	Rs .900	Rs.360

- What is the maximum exchange ratio acceptable to the shareholders of Jeet Company if the PE ratio of the combined company is 21 and there is no synergy gain?
- What is the minimum exchange ratio acceptable to the shareholders of Ajeet Company if the PE ratio of the combined company is 20 and there is a synergy benefit of 8 percent?
- If the expected synergy gain is 10 percent, what exchange ratio will result in a post-merger earnings per share of Rs.30?
- Assume that the merger is expected to generate gains which have a present value of Rs. 5000 million and the exchange ratio agreed to is 0.45. What is the true cost of the merger from the point of view of Jeet Company?



11. The profit and loss account and balance sheet of Hi-tech Ltd. For the three years (year 1, 2 and 3) are given below:

Particulars	In million		
	I year	II Year	III Year
Net Sales	350	400	460
Income from marketable securities	-	10	15
Non-operating income	-	15	10
Total income	350	425	485
Cost of Goods Sold	200	230	270
Selling and Administration Expenses	45	50	55
Depreciation	20	25	30
Interest Expenses	20	24	28
Total Costs and expenses	285	329	383
PBT	65	86	102
Taxes	20	26	32
PAT	45	60	70
Dividend	20	30	40
Retained Earnings	25	30	30

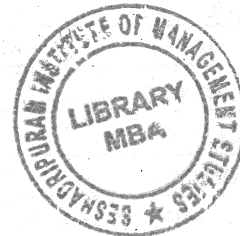
Balance Sheet

Particulars	In million		
	I year	II Year	III Year
Equity Capital	130	150	150
Reserves and Surplus	90	120	150
Debt	150	180	210
Total	370	450	510
Fixed Assets	250	300	325
Investments	60	90	100
Net Current Assets	60	60	85
Total	370	450	510

The tax rate for Hi tech ltd is 40%

During the year 2 the firm made a rights issue of Rs. 20 million at par

- a) Calculate the following for the year 2 and 3
- EBIT
 - Taxes on EBIT
 - NOPLAT
 - Net Investments
 - Operating Free Cash Flow
 - Net Operating Cash Flow
 - Free cash Flow to the firm
- b) Calculate the following Key Drivers of FCF for year 2 and 3
- Invested Capital
 - ROIC
 - Growth Rate





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SECTION - C

Compulsory Question.

(1×15=15)

12. Magna-Vision corporation is expected to grow at a higher rate of 4 years; there after the growth rate will fall and stabilize at a lower level. The following information has been assembled:

Base year (year 0) information

Particulars	Rs.(in Mn)
Revenues	3000
EBIT	500
Capital Expenditure	350
Depreciation	250
Net Working Capital as a percentage of Revenues	25%
Corporate tax rate (for all times)	30%
Paid up equity capital (Rs 10 Par value)	400
Market Value of Debt	1200

Inputs for the High Growth Rate Period

Length of the high growth phase	4 years
Growth rate in revenues and depreciation, EBIT and capital expenditure	20%
Net Working Capital as a percentage of Revenues	25%
Cost of debt	13%
Debt equity ratio	1:1
Risk free rate	11%
Market Risk premium	7%
Equity Beta	1.129

Inputs for the Stable Growth Period

Expected growth rate in revenues and EBIT	10%
Capital expenditures are offset by depreciation	
Net Working Capital as a percentage of Revenues	25%
Cost of debt	12.14%
Risk free rate	10%
Market risk premium	6%
Equity Beta	1.0
Debt-equity ratio	2:3

- i. What is the WACC for the high growth phase and the stable growth phase?
- ii. What is the value of the firm?