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III Semester M.B.A. (Day&Evening) Degree Examination, March/April - 2022

MANAGEMENT**Corporate Valuation and Financial Modelling****Paper : 3.2.3****(CBCS Scheme 2019 onwards)****Time : 3 Hours****Maximum Marks : 70****SECTION - A**Answer any **five** questions, each carries **5** marks.**(5×5=25)**

1. Discuss the concept of direct comparison and peer group approach of valuation.
2. Explain the SEBI regulations on takeover.
3. The Market value of a Rs. 100 par value bond, carrying a coupon rate of 14% and maturing after 10 years, is Rs. 80. What is the YTM on this bond?
4. Differentiate market value & book value? Which one is more relevant in valuation? Explain.
5. Amir Limited plans to acquire Jamir Limited. The relevant financial details of the two firms, prior to merger announcement, are given below :

	Amir Limited	Jamir Limited
Market Price per share	Rs. 500	Rs. 100
Number of shares	6,00,000	2,00,000

The merger is expected to bring gains which have a present value of Rs. 20 million. Amir Limited offers one share in exchange for every four shares of Jamir Limited.

Required :

- a. What is the true cost of Amir Limited for acquiring Jamir Limited?
- b. What is the net present value of the merger to Amir Limited?
- c. What is the net present value of the merger to Jamir Limited?

[P.T.O.]



6. Explain the Anti - takeover strategies.
7. 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 the net present value of the merger to the two firms?

SECTION - B

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

(3×10=30)

8. Shaan Company plans to acquire Aan Company. The following are the relevant financials of the two companies.

	<i>Shaan Company</i>	<i>Aan Comapny</i>
Total earnings, E	Rs. 750 million	Rs. 240 million
Number of outstanding shares	50 million	20 million
Market price per share	Rs. 250	Rs. 150

- a) What is the maximum exchange ratio acceptable to the shareholders of Shaan Company if the PF ratio of the combined company is 15 and there is no synergy gain?
- b) What is the minimum exchange ratio acceptable to the shareholders of Aan Company if the PE ratio of the combined entity is 15 and there is a synergy benefit of 6 percent?
- c) If there is no synergy gain, at what level of PE multiple will the lines ER_1 and ER_2 intersect?
- d) If the expected synergy gain is 6 percent, what exchange ratio will result in a post - merger earnings per share of Rs. 16?

Assume that the merger is expected to generate gains which have a present value of Rs. 600 million and the exchange ratio agreed to is 0.60. What is the true cost of the merger from te point of view of Shaan Company?

9. Discuss the types of valuation of intellectual capital.
10. Write a short note on Stern Stewart Approach (EVA approach) to value based management.
11. As the financial manager of National Company you are investigating the acquisition of Regional Company. The following facts are given :

	National Company	Regional Company
Earning per share	Rs. 8.00	Rs. 3.00
Dividend per share	Rs. 5.00	Rs. 2.50
Price per share	Rs. 86.00	Rs. 24.00
Number of shares	8,000,000	3,000,000



Investors currently expect the dividends and earnings of Regional to grow at a steady rate of 6 percent. After acquisition this growth rate would increase to 12 percent without any additional investment.

Required :

- a) What is the benefit of this acquisition?
- b) What is the cost of this acquisition to National Company if it (i) pays Rs. 30 per share cash compensations to Regional Company and (ii) offers two shares for every five shares of Regional Company?

SECTION - C

Compulsory Question

(1×15=15)

12. Magna - Boldman Sachs, an investment banking firm, is engaged in valuing MLF Realty, a firm which specializes in the construction of housing and commercial complexes. MLF is currently riding a construction boom and is expected to grow at a healthy rate for the next four years at least. Thereafter the growth rate is expected to decline rather gradually for a few years before it stabilises at a modest level

You have recently moved to Boldman Sachs after a few years of experience in another financial services firm. Your first assignment at Boldman Sachs is to value MLF. Based on extensive discussion with management and industry experts you have gathered the following information.

Base Year (Year 0) Information

- Revenues Rs. 1400 crore
- EBIT (20% of revenues) Rs. 280 crore
- Capital expenditure Rs. 350 crore
- Depreciation and amortization Rs. 266 crore
- Working capital as a percentage of revenues 29 percent
- Tax rate 30 percent (for all time to come)

Inputs for the High Growth Period

- Length of the growth period = 4 years
- Growth rate in revenues, depreciation, EBIT and capital expenditure = 25 percent
- Working capital as a percentage of revenues = 20 percent
- Cost of debt (pre -tax) = 10 percent
- Debt - equity ratio = 1.0
- Risk - free rate = 7.4 percent
- Market risk premium = 6 percent
- Equity beta = 1.2667

[P.T.O.]

Inputs for the Transition Period

- Length of the transition period = 3 years
- Growth rate in revenues, depreciation, EBIT and Capital expenditures will decline from 25 percent in year 4 to 10 percent in year 7 in linear increments of 5 percent per year.
- Working capital as a percentage of revenues = 20 percent
- The cost of debt, debt - equity ratio, risk - free rate, market risk premium and equity beta will be the same as in the high growth period.

Inputs for the Stable Growth Period

- Growth rate in revenues, EBIT, capital expenditure and depreciation = 10 percent
 - Working capital as a percentage of revenues = 20 percent
 - The cost of debt, risk - free rate and market risk premium will be the same as in the previous stages
 - Debt - equity ratio = 2:3
 - Equity beta = 1.322.
- a. What is the cost of capital in the three periods (high growth, transition, and stable)?
 - b. What value would you impute to MLF Realty using the DCF method?
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