PG – 1097

III Semester M.B.A. Degree Examination, February 2016
(CBCS) (2014-15 and Onwards)
MANAGEMENT
Paper – 3.3.3 : Corporate Valuation and Restructuring

Time : 3 Hours Max. Marks : 70

SECTION – A

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

1. Distinguish between price and value with suitable example.
2. Briefly explain concept of Tobin's Q.
3. Discuss the concept of Direct comparison approach with suitable example.
4. Determine the present value of the bond with a face value of Rs. 1,000, coupon rate of Rs. 90, a maturity period of 10 years for the expected yield to maturity of 10 per cent.
5. Polytex Limited is considering a capital project for which the following information is available :

Investment outlay	:	10000	Depreciation method	:	Straight line
Project life	:	5 years	(for tax purposes)		
Salvage value	:	0	Tax rate	:	30%
Annual revenues	:	14000	Debt-equity ratio	:	1 :1
Annual costs	:	9000	Cost of equity	:	16%
(excluding depreciation			Cost of debt	:	8%
interest and taxes)			(post-tax)		

Calculate the EVA of the project over its life.

6. What is Leveraged buyout, explain with suitable example ?
7. Write short notes on Human Resource Accounting.

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SECTION – B

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

8. Briefly explain the concept of Balance score card with suitable example.

9. ABC Ltd. is considering merger with XYZ Ltd. ABC Ltd.'s shares are currently traded at Rs. 25 per share. It has 2,00,000 shares outstanding and its EAT amount to Rs. 4,00,000.

   XYZ Ltd. has 1,00,000 Shares outstanding : Its current market price is Rs. 12.50 per share and its EAT is Rs. 1,00,000. The merger will be effected by means of a stock swap. XYZ Ltd. is agreed to a plan under which ABC Ltd. will offer the current market value of XYZ Ltd.'s shares.

   1) What are the Pre-merger EPS and P/E ratio of both the companies ?

   2) What must the exchange ratio be for ABC Ltd.'s pre merger and post merger EPS to be the same ?

   3) If XYZ Ltd.'s P/E ratio is 8 what will be the current market price ? What will be the exchange ratio ? What will be the post merger EPS of ABC Ltd. ?

10. The Visual Computer Corp., has been experiencing and above normal dividend growth rate of 25 per cent per year for the past 5 years. The above normal growth rate is expected to continue for another 5 years before it levels off at a normal rate of 7 per cent. The last dividend paid by the company is Re. 1 per share. Determine the current value of the stock if its required rate of return is 20 per cent.

11. State briefly the strategies underlying takeover and acquisitions.

SECTION – C

Case Study (Compulsory) : **(1×15=15)**

12. Magnavision Corporation is expected to grow at a higher rate of 4 years; thereafter the growth rate will fall and stabilize at a lower level. The following information has been assembled :

Base Year (Year 0) Information

Revenues	=	Rs. 3000 million
EBIT	=	Rs. 500 million
Capital expenditure	=	Rs. 350 million

Depreciation	=	Rs. 250 million
Working capital as a percentage of revenues	=	25
Corporate tax rate (for all time)	=	30%
Paid up Equity Capital (Rs. 10 par)	=	Rs. 400 million
Market value of Debt	=	Rs. 1,200 million

Input for the High Growth Period

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

Input for the Stable Growth Period

Expected growth rate in revenues and EBIT	=	10%
Capital expenditures are offset by depreciation		
Working capital as a percentage of revenues	=	25
Cost of debt (pre-tax)	=	12.14%
Risk-free rate	=	10%
Market risk premium	=	6%
Equity Beta	=	1
Debt-equity ratio	=	2 : 3

a) What is the WACC for the high growth phase and stable growth phase ? What is the value of the firm ?

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