PG – 932

III Semester M.B.A. Degree Examination, February 2017
(CBCS)
Management
Paper – 3.3.3 : CORPORATE VALUATION AND RESTRUCTURING

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** of the following questions. **(5×5 = 25)**

1. What is EVA ? Discuss its importance in corporate valuation.
2. What is Human Resource Accounting ?
3. Discuss the component of free cash flows ? Why is it called so ?
4. Distinguish between Spin offs and Split offs.
5. What are Poison pills and White Knight ?
6. Firm A has a value of Rs. 20 million and firm B has a value of Rs. 5 million. If the two firms merge, cost savings with a present value of Rs. 5 million would occur. Firm A proposes to offer Rs. 6 million cash compensation to acquire Firm B. Calculate the net benefit of the merger of the two firms.
7. A Rs. 100 perpetual bond is currently selling for Rs. 95. The coupon rate of interest is 13.5 percent and the appropriate discount rate is 15 per cent. Calculate the value of the Bond. Should it be bought ? What is its yield at maturity ?

SECTION – B

Answer **any three** of the following questions. **(3×10 = 30)**

8. When an amalgamation be called as Merger and when as Takeover ? Discuss.
9. What is Balanced score card ? Discuss its importance with suitable example.

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10. Vardhaman Ltd.'s earnings and dividends have been growing at a rate of 18 percent per annum. This growth rate is expected to continue for 4 years. After that the growth rate will fall to 12% for the next 4 years. Thereafter, the growth rate is expected to be 6% forever. If the last dividend per share was Rs. 200 and the investors' required rate of return on Vardhaman's Equity is 15%, what is the intrinsic value per share ?

11. Multiform Limited is being appraised by an investment banker. The following information has been assembled :

Base Year (Year 0) Information

Revenues	= Rs. 1,000 million
EBIT	= Rs. 250 million
Capital expenditure	= Rs. 295 million
Depreciation and amortisation	= Rs. 240 million
Working capital as a percentage of revenues	= 20
Corporate tax rate (for all time)	= 40%

Input for the High Growth Period

Length of the high growth phase	= 5 years
Growth rate in revenues, depreciation, EBIT and Capital expenditure	= 25%
Working capital as a percentage of revenues	= 20
Cost of debt (pre-tax)	= 15%
Debt-equity ratio	= 1.5
Risk-free rate	= 12%
Market risk premium	= 6%
Equity Beta	= 1.583

Inputs for the Transition Period

Length of the transition period	= 5 years
Growth rate in EBIT will decline from 25 per cent in year 5 to 10 per cent in year 10 in a linear movement of 3 per cent each year	
Working capital as a percentage of revenues	= 20
The debt-equity ratio during this period will drop to 1:1 and the pre-tax cost of debt will be 14 per cent	
Risk-free rate	= 11%
Market risk premium	= 6%
Equity Beta	= 1.10

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	= 20
Debt-equity ratio	= 0 : 1
Cost of debt (pre-tax)	= 12%
Risk-free rate	= 10%
Market risk premium	= 6%
Equity Beta	= 1

Ascertain the WACC during different phases and find the value of the firm.

SECTION – C

Compulsory **(15×1 = 15)**

12. Kangan Ltd. is considering merger with Payal Ltd. Kangan Ltd.'s shares are currently traded at Rs. 25 per share. It has 2,00,000 shares outstanding and its earnings after taxes (EAT) amount to Rs. 4,00,000. Payal Ltd. has 1,00,000 shares outstanding; its current market price is Rs. 12.50 per share and it's EAT is Rs. 1,00,000. The merger will be effected by means of a stock-swap (exchange). Payal Ltd. has agreed to a plan under which Kangan Ltd. will offer the current market value of Payal Ltd.'s shares.
    i) What are the pre merger earnings per share (EPS) and P/E ratios of both the companies ?
    ii) What must the exchange ratio be for Kangan Ltd. pre-merger and post-merger EPS to be the same ?
    iii) If Payal Ltd.'s P/E ratio is 8, what will be its current market price ? What will be the exchange ratio ? What will Kangan Ltd.'s post-merger EPS be ?

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