Q.P. Code : 61325

Third Semester M.B.A. (Day) Degree Examination, February/March 2020

(CBCS Scheme)

Management

Paper 3.3.3 — CORPORATE VALUATION AND RESTRUCTURING

Time : 3 Hours] *[Max. Marks : 70*

SECTION – A

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

1. Define Intrinsic value, Fair value, Liquidation value and Book value.

2. Distinguish between Spinoff, Split ups and Split off.

3. Distinguish between Amalgamation in the nature of Mergers and Amalgamation in the nature of Acquisition.

4. Firm A is planning to acquire Firm B. The relevant financial details of the two firms prior to merger announcement are as follows :

Particulars	Firm A	Firm B
Market price per share (Rs.)	75	30
Number of shares	10,00,000	5,00,000
Market value of the firm (Rs.)	7,50,00,000	1,50,00,000

The merger is expected to bring gains which have present value of Rs. 1.50 crore. Firm A offers 2,50,000 shares in exchange for Rs. 5 lakh shares to the shareholders of Firm B.

You are required to calculate :

(a) True cost of Firm A for acquiring Firm B and

(b) Net present value of the merger to Firm B. You may state your assumptions, if any.

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.

6. The Profit and Loss Account and Balance Sheet of Tecmac Company for two years are given below. Assume an effective tax rate of 40 per cent for year 2.

Statement of Profit and Loss	Year 1	Year 2
Net sales	61,600	70,840
Income from marketable securities	1,540	2,310
Non-operating income	770	1,540
Total income	63,910	74,690
Cost of goods sold	35,420	41,580
Selling and administrative expenses	7,700	8,470
Depreciation	3,850	4,620
Interest expenses	3,696	4,312
Total cost and expenses	50,666	58,982
Profits before tax	13,244	15,708
Tax provision	4,004	4,928
Profits after tax	9,240	10,780
Dividends	4,620	6,160
Retained earnings	4,620	4,620

Balance Sheet

Equity & Liabilities	Year 1	Year 2
Equity Capital	23,100	23,100
Reserves and Surplus	18,480	23,100
Debt	27,720	32,340
	69,300	78,540

Assets	Year 1	Year 2
Fixed Assets	46,200	50,050
Investments	13,860	15,400
Net Current assets	9,240	13,090
	69,300	78,540

(a) What is the EBIT for year 2?

(b) What is the tax on EBIT for year 2?

(c) What is the Free Cash Flow of the firm for year 2?

7. From the following details, compute EVA.

Net sales	Rs. 3,00,000
Cost of goods sold	60% of sales
Fixed costs	Rs. 35,000 (including depreciation of Rs. 20,000)
Tax rate applicable to the firm	30%

Pre tax cost of debt is 12% and cost of equity is estimated at 15%. The target capital structure of the firm has a debt of 30% to total capital and the balance will be equity funds employed. Total capital employed by the firm is Rs. 1,50,000.

SECTION – B

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

8. Discuss various pre offer and post offer anti takeover defence strategy.

9. Discuss Balanced score card in detail with suitable example.

10. Novelty Ltd., a consumer durable manufacturer, reported earnings per share of Rs. 3.20 in 2010 and paid dividends per share of Rs. 1.70 in that year. The firm reported depreciation of Rs. 350 lakh in 2010 and capital expenditure of Rs. 475 lakh. There were 160 lakh outstanding shares traded at Rs. 51 per share. The ratio of capital expenditure to depreciation is expected to be maintained in the long term. The working capital needs are negligible. Novelty had a debt outstanding of Rs. 1,600 lakh and intends to maintain its current financing mix

of debt and equity to finance future investment needs. The firm in the steady state and earnings are expected to grow at 7% per year. The stock had a Beta of 1.05, the treasury bill rate is 6.25% and the market premium is 5.5%.

Requirements :

(a) Estimate the value per share using the dividend discount model.

(b) Estimate the value per share, using the FCFE model (Free Cash Flow to Equity).

(c) How would you explain the difference between the two models and which one would you use as a benchmark to compare with the market price?

11. The return of ABC Company at present is 21 percent. This is assumed to continue for the next five years and after that it is assumed to have a growth rate of 10 percent indefinitely. The dividend paid for the year 2011-12 is 32 percent. The required rate of return is 20 percent and the present price is Rs. 57. What is the estimated price according to the two stage model?

SECTION – C

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

Reliable Industries Ltd. (RIL) is considering a takeover of Sunflower Industries Ltd. (SIL). The particulars of 2 companies are given below :

Particulars	Reliable Industries Ltd.	Sunflower Industries Ltd.
Earnings after tax (EAT)	Rs. 20,00,000	Rs. 10,00,000
Equity shares outstanding	10,00,000	10,00,000
Earnings per share (EPS)	2	1
PE ratio (times)	10	5

Required :

(a) What is the market value of each Company before merger?

(b) Assume that the management of RIL estimates that the shareholders of SIL will accept an offer of one share of RIL for four shares of SIL. If there are no synergic effects, what is the market value of the Post merger RIL? What is the new price per share? Are the shareholders of RIL, better or worse off than they were before the merger?

(c) Due to synergic effects, the management of RIL estimates that the earnings will increase by 20%. What is the new post merger EPS and price per share? Will the shareholders be better off or worse off than before the merger?