


III Semester M.B.A. Degree Examination, January/February 2019
(CBCS Scheme)
(2014 – 15 & Onwards)
Management
Paper – 3.3.3 – CORPORATE VALUATION AND RESTRUCTURING

Time : 3 Hours

Max. Marks : 70

SECTION – A

Answer any five of the following questions. Each question carries equal marks.

(5×5=25)

1. What is Tobin's Q ? Discuss its importance.
2. What are the important value drivers of EVAs and its application ?
3. What are the various forms of Demergers ? Discuss.
4. Distinguish between price and value. Discuss the concepts of Market value, Intrinsic value and Replacement value.
5. A company is currently paying the dividend of Rs. 2 per share. The dividend is expected to grow at a 15 % annual rate for 3 years, then at 10 % rate for the next 3 years, after which it is expected to grow at a 5 % rate forever ?
 - a) What is the present value of the share if the capitalization rate is 9 % ?
 - b) If the share is held for 3 years, what shall be its present value ?
6. The market price of a bond is Rs. 883.40 (Face value being 1000). The bond will pay interest at 6 % per annum for 5 years, after which it will be redeemed at par. What is the bond's rate of return ? What is meant by YTM ?

7. Following is the condensed income statement of a firm for the current year :

Income Statement (in Rs. Lakhs)

Sales Revenue	500
Operating costs	300
Interest costs	12
Earnings before tax	188
Taxes @ 40 %	75.2
Earnings after taxes	112.8

The firm's existing capital consists of Rs. 150 lakh equity funds, having 15 percent cost and Rs. 100 lakh 12 percent debt. Determine the economic value added during the year. Assume the sales revenue is Rs. 330 Lakhs. What is the earnings after tax and EVA ?

P.T.O.



SECTION - B

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

8. 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's 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 :

- Estimate the value per share using the dividend discount model.
 - Estimate the value per share, using the FCFE model (Free Cash Flow to Equity).
 - 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 ?
9. Yes Ltd. wants to acquire No Ltd. and the cash flows of Yes Ltd. and the merged entity are given below :

Year	1	2	3	4	5
Yes Ltd.	175	200	320	340	350
Merged entity	400	450	525	590	620

Earnings would have witnessed 5 % constant growth rate without merger and 6 % with merger on account of economies of operations after 5 years in each case. The cost of capital is 15 %. The number of shares outstanding in both the companies before the merger is the same and the companies agree to an exchange ratio of 0.5 shares of Yes Ltd. for each share of No Ltd. PV factor at 15 % for years 1 – 5 are 0.870, 0.756, 0.658, 0.572, 0.497 respectively.

You are required to :

- Compute the value of Yes Ltd. before and after merger.
- Value of acquisition and
- Gain to shareholders of Yes Ltd.



10. What are the various implications of corporate restructuring ? Discuss its various types with suitable example.
11. Write short notes on :
- 1) Direct comparison approach of business valuation.
 - 2) Strategic motives behind mergers.

SECTION – C

Case Study (Compulsory).

(15×1=15)

12. Funtime Ltd. a toy manufacturing company has aggressive plans of expanding its share market. To get faster market access the management of the company has decided in favour of takeover. The research wing of Funtime limited has undertaken a detailed study of prospective takeover targets and finally identified Giggle Ltd., a company based in Baroda. Funtime Ltd. has already collected the following relevant information about Giggle Ltd. it is now to assess the value of Giggle's to start negotiation for the takeover and Growth Rate (GR) is 16 %.

Balance Sheet of Giggle Ltd. as on 31st March, 2010

Liabilities	Rs.	Assets	Rs.
Share capital	10	Land	4
Reserves	76	Buildings	40
Term Loan :		Plant and Machinery	100
IDBI	100	Other fixed assets	6
Other	20	Gross Fixed Assets	150
Current Liabilities	300	Less : Accumulated Depreciation	64
			86
		Add : Capital WIP	16
		Total fixed assets	102
		Inventories	120
		Receivables	160
		Other	124
	506		506



Capital expenditure of Rs. 86 lakhs will be incurred in 2011 and Rs. 280 lakhs in 2012

(Rs. Lakhs)

Other information :

Particulars	2010	2011	2012	2013	2014	2015
Net Sales	1,100	1,160	1,600	2,100	2,400	2,500
Raw materials cost	480	500	660	880	940	960
Power	20	23	32	43	44	48
Employee related cost	56	61	80	88	100	110
Administrative Expenses	21	24	32	37	39	41
Depreciation	10	14	41	42	42.4	42.8

The tax rate for the company is 30 %. There is no charge on deferred taxes. The stock is currently trading at Rs. 25 per share. The cost of the equity is 20 %.

Bank Finance carries an interest rate of 20 %. Based on the information given use the discounted cash flow approach to value Giggle Ltd.

Note : Additional capital (issued at par) Rs. 260 Lakhs

Term Loan Rs. 220 Lakhs.