

10925



Third Semester M.B.A. Degree Examinations, March/April 2021

(CBCS – 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 **5** marks :
(5 × 5 = 25)

1. What do you understand by price and value? Explain the difference between Price and Value.
2. Enumerate the various fundamental methods of valuation.
3. Distinguish between Spin offs and Split offs.
4. Explain the process of Merger.
5. Firm A has a value of Rs. 40 million and firm B has a value of Rs. 12 million. If the two firms merge, cost savings with a present value of Rs. 5 million would occur. Firm A proposes to offer Rs. 12 million cash compensation to acquire Firm B. Calculate the net benefit to the merger of the two firms.
6. Calculate the EVA of below company's project over its life Inputs :
Investment outlay : 5,000
Project life : 4 years
Salvage value : 0
Annual revenues : 6,000
Annual cost : 4,000 (excluding depreciation, Interest and Taxes)
Depreciation : Straight line
Tax rate : 40%
Debt equity ratio : 4:5
Cost of equity : 18%
Cost of debt (post tax) : 9%
Calculate EVA and NPV of the project over its life.

Risk-free rate 12%

Market risk premium = 7%

Equity Beta = 1.3

Inputs for the Transition Period

Length of the transition period 5 years

Growth rate in revenues, depreciation, EBIT and capital expenditure will decline from 40 percent in

Year 5 to 10 percent in year 10 in a linear movement of 6 percent each year"

Working capital as a percentage of revenues = 20

Debt-equity ratio = 0.8 : 1

Cost of debt (pre-tax) = 14%

Risk-free rate = 11%

Market risk premium = 6%

Equity Beta = 1.10

Tax rate = 30%

Input for the Stable Growth Period

Expected growth rate in revenues, EBIT, capital Expenditure and depreciation = 10%

Working capital as a percentage of revenues = 20

Debt-equity ratio = 0.5 : 1

Cost of debt (pre-tax) = 13%

Risk-free rate = 11%

Market risk premium = 5%

Equity Beta = 1

Tax rate = 30%.

What value would you put on Microsoft Limited?