10925

III Semester M.B.A. Examination, May 2022
(CBCS 2014-15 Scheme)
MANAGEMENT
Paper – 3.3.3 : Corporate Valuation and Restructuring

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** questions, **each** carries **5** marks. (5×5=25)

1. ABC Ltd. currently pays a dividend of Rs. 8.00 per share and this dividend is expected to grow at 15% for the first three years and 5% after that forever. What is the value of equity share if the required rate of return is 11% ?

2. Briefly discuss the valuation process for corporate valuation.

3. Explain the strengths and weaknesses of various methods of business valuation.

4. Mr. Raj is considering purchasing a Bond with a face value of Rs. 2,500. The coupon rate carries an 8.5%, and matures after 5 years. He wishes to earn a minimum of 14%.The bond is sold currently for Rs. 2,250.
   i) What is the intrinsic value of the bond ?
   ii) What is the yield to maturity of the bond ?
   iii) Should he buy the bond ?

5. What is a hostile takeover ? And explain the concept of Bear Hug and Street Sweep.

6. From the following details, compute EVA :

Equity Share Capital	Rs. 5,00,000
13% Preference Share Capital	Rs. 2,00,000
Reserves and Surplus	Rs. 6,00,000
Non-trade investments (Face value 1,00,000) Rate of Interest	10%
20% Debentures	Rs. 3,00,000
Profits before tax	Rs. 2,00,000
Tax Rate	40%
WACC	13%

7. Write a short note on :
   a) Equity carve-out and
   b) Spin off.

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SECTION – B

Answer **any three** questions, **each** carries **10** marks. **(10×3=30)**

8. Write a short note on :
   a) Tobin's Q Model
   b) Human Resources Accounting and
   c) Balance Score card

9. M Corporation plans to acquire S Corporation. The following information is available :

	M Corporation	**S Corporation**
Total Current earnings	Rs. 50 million	Rs. 20 million
Number of outstanding shares	20 million	10 million
Market price per share	Rs. 30	Rs. 20

Use Conn and Nielson Model and find out :
What is the maximum Exchange Ratio (ER1) acceptable to the shareholders of M Corporation if the P/E ratio of the combined entity is 12 and there is no synergy gain ? What is the minimum Exchange Ratio (ER2) acceptable to the shareholder of S Corporation if the P/E ratio of the combined entity is 11 and there is no synergy gain ?
Assuming there is no synergy gain, at what level of P/E multiple will the lines ER1 and ER2 intersect ?

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

	Firm A	**Firm B**
Share Price	Rs. 75	Rs. 30
Number of Shares	10,00,000	5,00,000
Market Value of the Firm	Rs. 7,50,00,000	Rs. 1,50,00,000

The merger is expected to bring gains with a present value of Rs. 1,50,00,000. Firm A offers 2,50,000 shares in exchange for 5 lakh shares to the shareholders of firm B. You are required to determine :
   a) Total value of firm AB (PVAB) after merger.
   b) Gains to the shareholders of firm A and
   c) True cost of acquiring firm B and NPV of the merger to firm B.

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11. J Ltd., is a company engaged in the business of manufacturing textiles. The management wants you to value the business and find the value of equity of J Ltd., using the DCF approach, from the following information.

(Rs. in crores)

	2015	**2016**	**2017**	**2018**
NOPAT	7.0	8.5	9.0	10.0
Add : Depreciation	3.5	3.0	2.5	2.0
	10.5	11.5	11.5	12.0
Less :				
Capital Expenditure	0	0.5	1.5	2.0
Increase in Working Capital	0	1.0	2.0	1.0
	10.5	10.0	8.0	9.0

The cost of capital of the firm is 12%.

The growth rate is 10% per annum (forever).

The company has a debt outstanding of Rs. 50 crores.

SECTION – C

Compulsory question : **(15×1=15)**

12. Case Study.

Nexa Corporation is expected to grow at a higher rate for five years; the growth rate will fall and stabilize at a lower level. The following information is available :

Base Year (Year 0) Information

Revenues	= Rs. 4,000 million
EBIT (1/8 of revenues)	= Rs. 500 million
Capital Expenditure	= Rs. 300 million
Depreciation	= Rs. 200 million
Working capital as a percentage of revenues	= 30%
Corporate Tax Rate (for all time)	= 30%
Paid up Equity Capital (Rs. 10 par)	= Rs. 300 million
Market Value of Debt	= Rs. 1,250 million

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Input for the High Growth Period

Length of the high growth phase	= 5 years
Growth rate revenue, depreciation, EBIT and Capital Expenditure	= 10%
Working capital as a percentage of revenues	= 30%
Cost of debt	= 15% (pre tax)
Debt-equity ratio	= 1 : 1
Risk-free rate	= 13%
Market risk premium	= 6%
Equity Beta	= 1.333

Input for the Stable Growth Period

Expected growth rate in revenues and EBIT	= 6%
Capital expenditure is offset by depreciation	= nil
Working capital as a percentage of revenues	= 30%
Cost of debt	= 15% (pre tax)
Debt-equity ratio	= 2 : 3
Risk-free rate	= 12%
Market risk premium	= 7%
Equity Beta	= 1

Calculate the value of the firm from the above information.

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