PG – 712

III Semester M.B.A. (Day & Eve.) Examination, June/July 2024
(CBCS) (2022-23)
MANAGEMENT
3.3.1 : Business Valuation and Value Based Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** of the following questions. **Each** question carries **five** marks. **(5×5=25)**

1. "The DuPont Analysis provides insights into profitability, efficiency and leverage" – Discuss.

2. Explain valuation of intangible assets.

3. Distinguish between Spin off, Split off and Split up.

4. Explain Mckinsey Model for value based management.

5. In the current year, a firm has reported a profit of Rs. 65 lakh, after paying taxes @ 35 per cent. On close examination, the analyst ascertains that the current year's income includes :

   a) Extraordinary income of Rs. 10 lakh, and

   b) Extraordinary loss of Rs. 3 lakh.

   Apart from the existing operations, which are normal in nature, and are likely to continue in future, the company expects to launch a new product in the coming year. Revenue and cost estimates in respect of the new product are as follows :

	Rs. in Lakhs
Sales	60
Material Cost	15
Labour Cost (additional)	10
Allocated Fixed Costs	05
Additional Fixed Costs	08

   From the above given information, compute the value of the business, given that capitalization rate applicable to such business in the market is 15 per cent.

P.T.O.

6. X Ltd., is considering a proposal to acquire Y Ltd. Their financial information is given below :

	X Ltd.,	Y Ltd.,
Market capitalization	Rs. 30 million	Rs. 10.8 million
Number of outstanding shares	1 million	0.6 million
Market price per share	Rs. 30	Rs. 18

X Ltd., intend to pay Rs. 14 million in cash for Y Ltd. If Y Ltd's market price reflects only its value as a separate entity, calculate the cost of the merger :

a) When the merger is financed by cash.

b) When the merger is financed by stock.

7. Techno Co. Ltd., is studying the possible acquisition of Info Co. Ltd., by way of merger. The following data are available in respect of the companies :

	Techno Co. Ltd.	Info Co. Ltd.
Earnings after tax (Rs.)	2,00,000	60,000
Number of equity shares	40,000	10,000
Market value per share (Rs.)	15	12

a) If the merger goes through by exchange of equity and the exchange ratio is based on the current market price, what is the new earning per share for Techno Co. Ltd ?

b) Info Co. Ltd. wants to be sure that the earnings available to its shareholders will not be diminished by the merger. What should be the exchange ratio in that case ?

SECTION – B

Answer **any three** of the following questions. **Each** question carries **ten** marks.

(3×10=30)

8. Consider a firm that has existing assets in which it has capital invested of Rs.100 million. Assume these additional facts about the firm.

- The after-tax operating income on assets in place is Rs. 15 million. This return on capital of 15% is expected to be sustain in the future and the company has a cost of capital of 10%.

- At the beginning of each of next 5 years the firm is expected to make investment of Rs. 10 million each. These investments are also expected to earn 15% as a return on capital and the cost of capital is expected to remain 10%.
- After year 5, the company will continue to make investments and earning will grow 5% a year, but the new investments will have return on capital of 10%.
- All assets and investments are expected to have infinite lives. Thus, the assets in place and the investment made in the first 5 years will make 15% a year in perpetuity with no growth.

Value the company using Economic Value added approach.

9. Following information is provided relating to the acquiring company Mani Ltd., and the target company Ratnam Ltd. :

	Mani Ltd.	**Ratnam Ltd.**
Earnings after tax (Rs. Lakhs)	2,000	4,000
Number of shares outstanding (Lakhs)	200	1,000
P/E ratio (number of times)	10	5

i) What is the swap ratio based on current market price ?

ii) What is the EPS of Mani Ltd., after the acquisition ?

iii) What is the expected market price per share of Mani Ltd., after the acquisition, assuming its P/E ratio is adversely affected by 10% ?

iv) Determine the market value of the merged company.

v) Calculate gain/loss for the shareholders of the two independent entities, due to the merger.

10. Explain different approaches and techniques of corporate valuation.

11. Discuss the pre-offer and post-offer antitakeover defense strategies.

SECTION – C

12. **Compulsory** question. It carries **fifteen** marks. **(1×15=15)**

Magnavision Corporation is expected to grow at a higher rate for 4 years; thereafter the growth rate will fall and stabilize at a lower level. The following information has been assembled :

Base Year (Year 0) Information

Revenues	= Rs. 3,000 million.
EBIT	= Rs. 500 million.
Capital expenditure	= Rs. 350 million.
Depreciation	= Rs. 250 million.
Working capital as a percentage of revenues	= 25
Corporate tax rate (for all time)	= 30%
Paid up Equity Capital (Rs. 10 par)	= Rs. 400 million.
Market value of Debt	= Rs. 1,200 million.

Input for the High Growth Period

Length of the high growth phase	4 years
Growth rate in revenues, depreciation, EBIT and Capital expenditure	20%
Working capital as a percentage of revenues	25
Cost of debt (pre-tax)	13%
Debt-equity ratio	1 : 1
Risk-free rate	11%
Market risk premium	7%
Equity beta	1.129

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	25
Cost of debt (pre-tax)	12.14%
Risk-free rate	10%
Market risk premium	6%
Equity beta	1
Debt-equity ratio	2 : 3

Questions :

a) What is the WACC for the high growth phase and stable growth phase ?

b) What is the value of the firm ?
