III Semester M.B.A. (Day and Eve.) Examination, May/June 2025
(CBCS) (2022 – 23 and Onwards)
MANAGEMENT
Paper – 3.3.1 : Business Valuation and Value Based Management
Equivalent to Paper 3.3.3 : Corporate Valuation and Restructuring
(Old Scheme)

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 valuation ? Explain the process of valuation.
2. What is Equity Carve-Out ? Why carry out an Equity Carve-Out ?
3. What are the methods to compute swap ratio in M and A.
4. The key financial parameters of Maya Ltd., are as follows :

Profits after tax	Rs. 40 crores
Book value of assets	Rs. 70 crores
Sales	Rs. 155 crores

The valuation officer feels that 40% weightage should be given to earnings in the valuation process. Sales and book value may be given equal weightages. The valuation officer has identified three companies which are comparable to operations of Maya Ltd.

(Rs. in crores)

	Company X	Company Y	Company Z
Profits After Tax	25	32	35
Book value of assets	58	65	74
Sales	105	115	145
Market value	125	155	230

Find the value of Maya Ltd., using Comparable Company Approach.

5. Given is the following information :

	Day Ltd.	Night Ltd.
Net Earnings	Rs. 5 crores	Rs. 3.50 crores
Number of equity shares	10,00,000	7,00,000

The shares of Day Ltd., and Night Ltd., trade at 20 and 15 times their respective P/E ratios. Day Ltd., considers taking over Night Ltd., by paying Rs. 55 crores considering that the market price of Night Ltd., reflects its true value. It is considering both the following options :

i) Takeover is funded entirely in cash.

ii) Takeover is funded in stock.

You are required to calculate the cost of takeover and advise Day Ltd., on the best alternative.

P.T.O.

6. a) A real estate investor feels that the cash flow from a property will enable him to pay a lender Rs. 15,000 per year, at the end of every year, for 10 years. How much should the lender be willing to loan him if he requires a 9% annual interest rate ?
   b) A company has raised a loan of Rs. 5,00,000 from a financial institution at 8% per annum rate of interest. The amount has to be paid back in 5 equal annual installments. What shall be the size of installment ?
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** of the following questions. **Each** question carries **equal** marks. **(3×10=30)**

8. You have been provided the following financial data of two companies :

	Krishna Ltd.	**Rama Ltd.**
Earnings after taxes	Rs. 7,00,000	Rs. 10,00,000
Equity shares (outstanding)	2,00,000	4,00,000
EPS	3.5	2.5
P/E Ratio	10 times	14 times
Market price per share	Rs. 35	Rs. 35

Company Rama Ltd., is acquiring the company Krishna Ltd., exchanging its shares on a one-to-one basis for company Krishna Ltd. The exchange ratio is based on the market prices of the shares of the two companies.

Required :

i) What will be the EPS subsequent to merger ?
ii) What is the change in EPS for the shareholders of companies Rama Ltd., and Krishna Ltd. ?
iii) Determine the market value of the post-merger firm. P/E ratio is likely to remain the same.
iv) Ascertain the profits accruing to shareholders of both the companies.

9. The income statement for year zero (the year which has just ended) and the Balance Sheet at the end of year 0 of Futura Limited are as follows :

Income Statement (Rs. Lakhs)

Sales	10,000
Gross Margin (20%)	2,000
Selling and general administration expenses (10%)	1,000
Profit before tax	1,000
Tax	300
Profit after tax	700

Balance Sheet (Rs. Lakhs.)

Liabilities	Rs.	Assets	Rs.
Equity	6,000	Fixed Assets	4,000
		Current Assets	2,000
	6,000		6,000

Futura Limited is debating whether it should maintain the status quo or adopt a new strategy. If it maintains the status quo :

a) The sales will remain constant at Rs. 10,000 lakhs.
b) The gross margin will remain at 20% and the selling, general and administrative expenses will be 10 percent of sales.
c) Depreciation charges will be equal to new investments.
d) The asset turnover ratios will remain constant.
e) The discount rate will be 15 per cent.
f) The income tax rate will be 30 per cent.

If Futura Ltd., adopts a new strategy its sales will grow at a rate of 20 per cent per year for three years. The margins, the turnover ratios, the capital structure, the income tax rate and the discount rate, however, will remain unchanged. Depreciation charges will be equal to 10 per cent of the net fixed assets at the beginning of the year. What value will the new strategy create ?

10. Explain both financial and non-financial value drivers of a company .

11. Why might discounted cash flow valuation be difficult to do for the following types of firms viz : a) Private firms, b) Cyclical firms during recession, c) Firms in trouble and d) Firms in process of restructuring ?

SECTION – C

Compulsory Question : **(1×15=15)**

12. Samudra Industries deals in production and sale of consumer durables. Its expected sales revenues for the next 8 years (in Rs. million) are given in the table :

Year	1	2	3	4	5	6	7	8
Sales Revenue (Rs.)	80	100	150	220	300	260	230	200

Its condensed Balance Sheet as on March 31st, 2024 is as follows : (Rs. in Million)

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity Funds	120	Current assets	30
12% Debt	80	Long-term assets	170
	200		**200**

Additional information :

a) Its variable expenses will amount to 40% of sales revenue. Fixed cash operating costs are estimated to be Rs. 16 million per year for the first 4 years and at Rs. 20 million for years 5-8. In addition, an extensive advertisement campaign will be launched, requiring annual outlays as follows :

Years	1	2 – 3	4 – 6	7 – 8
Rs. in Million	5	15	30	10

b) Long-term assets are subject to depreciation on straight-line method.

c) The company has planned the following capital expenditure (assumed to have been incurred in the beginning of each year) for the next 8 years.

Year	1	2	3	4	5	6	7	8
Rs. in Million	5	8	20	25	35	25	15	10

d) Working capital in terms of investment in current assets is estimated at 20% of sales revenue.

e) Given the tax benefits available to Samudra, the effective tax rate estimated is 30%.

f) The cost of equity capital is estimated at 16%.

g) The free cash flow of the firm are expected to grow at 5% per annum, after 8 years.

Determine the Discounted Cash Flow (DCF) value of the (i) firm and (ii) equity.
