Your overall performance is good. Revise all your previous topics at least once in a week rather allocate a day in a week for revision and evaluating your performance. This will help you memorize topics and bind out shortcomings in your preparation.

SFM Test - 5

(1)

Total Marks 30

Q.1. i) computation of value of Business

Particulars		Amt (₹) in lakhs
PBT [₹100.32 Lakhs / 66%]		152
less:- Extraordinary income		(14)
Add:- Extraordinary Loss		5
profit from New Product :-		24
Sales	70	
(-) material costs	(20)	
Labour costs	(16)	
Fixed costs	(10)	
Profit Before Tax		167
(-) Tax @34%		(56.78)
Profit After Tax (Future maintainable)		110.22
capitalisation Rate		12%
Value of Business		918.50

Good Attempt
6 Marks

ii) Determination of market price

PAT	110.22
(-) preference Dividend	(7.20)
Earnings available to equity shareholder	103.02
No. of shares	50 Lakhs
Earnings per share	₹2.0604/share
PE Ratio	6 times
Market price	₹ 12.3624

Q.2 i) Estimation of share price

$Ke = Rf + \beta (Rm - Rf)$

$= 6.5\% + 1.40 (20\% - 6.5\%)$

$= 25.40\%$

6 Marks

Good Attempt

Year	Growth Rate	EPS	Payout Ratios	Dividend	Discounting Factor	PV
1	25%	40	20%	8	25.4%	6.38
2	25%	50	20%	10	25.4%	6.36
3	25%	62.50	20%	12.50	25.4%	6.34
4	25%	78.13	20%	15.63	25.4%	6.32
5	25%	97.66	20%	19.53	25.4%	6.30
6	22%	119.15	28%	33.36	17.88%	9.13
7	19%	141.79	36%	51.04	17.16%	11.92
8	16%	164.48	44%	72.37	16.44%	14.52
9	13%	185.86	52%	96.65	15.72%	16.76
10	10%	204.45	60%	122.67	15%	18.49
						102.50

$P_{10} = \frac{D_{11}}{Ke - g} = \frac{134.94}{0.15 - 0.10} = 2698.60$

PV of $2698.60 \times \frac{18.49}{122.67} = 406.79$

Share price $= 406.79 + 102.50$

$= 509.29$

ii) PE Ratio of TIL $= \frac{509.29}{32} = 15.92$

TIL ltd is underpriced. Mr. Jain should buy stock.

Q.3. Ratio

Particulars	SK Ltd.	AS Ltd.	Average
1) Market to Book value	$\left(\frac{450}{400}\right) = 1.125$	$\left(\frac{400}{300}\right) = 1.333$	1.229
2) Market to Replacement cost	$\left(\frac{450}{600}\right) = 0.75$	$\left(\frac{400}{550}\right) = 0.7272$	0.7385
3) Market to Sales	$\left(\frac{450}{550}\right) = 0.818$	$\left(\frac{400}{450}\right) = 0.889$	0.8535
4) Market to Net Income	$\left(\frac{450}{18}\right) = 25$	$\left(\frac{400}{16}\right) = 25$	25

4 Marks

Value

Particulars	XY	Average	Indicative value (₹)
Book value	250	1.229	307.25
Replacement cost	500	0.7385	369.25
Sales	500	0.8535	426.75
Net Income	14	25	350
			1453.25
Average [1453.25/4]			₹363.31

Q.4. As per TK Ltd's offer — ₹ in Lakhs.

i) Net consideration payable.

7 times of EBITDA [230×7]	1610
(−) Debt (Loan)	480
	1130

ii) No. of shares issued

Consideration payable	1130
Market price	₹220.
No. of shares	5,13,636 shares.

iii) EPS of TK Ltd after acquisition | ₹ in Lakhs

Total EBITDA [800+230]	1030
Less:- Interest [1160×10% + 480×12.5%]	(176)
EBT	854
Less:- Tax @30%	(256.20)
EAT	597.80
No. of shares after merger [2400,000 + 5,13,636]	29,13,636
EPS	₹20.52

iv) Expected market price

Pre-acquisition PE

EBITDA	800
(-) Interest [1160×10%]	(116)
EBT	684
(-) Tax @30%	(205.20)
EAT	478.80
No. of shares	24 Lakhs
EPS	₹19.95/share
PE Ratio = $\frac{₹220}{₹19.95}$	11.03
Expected MP [11.03 × ₹20.52]	₹226.34

As per SK Ltd's offer

Share Exchange Ratio 1:2

~~No. of~~ -

i) Net consideration payable.

No. of shares to be issued [1200,000/2]	600,000 shares
Market price	220
Consideration	₹1320 Lakhs

ii) No. of shares issued by TK ltd. 6 Lakhs.

₹1320 Lakhs ÷ 220

8 Marks

iii) EPS after acquisition.

PAT (earlier calculations) ~~597.80~~

You have attempted this answer very nicely.

Total No. of shares 30

[24L + 6L]

EPS ₹19.93

iv) Expected MP.

PE 11.03

EPS ₹19.93

MP ~~₹[illegible]~~ ₹219.83

v) Advantages of Acquisition to TK ltd.

Since 2 co. are in same industry. Advantages are

1. Synergy Benefits, cost reduction & operating efficiency
2. Avoidance of competition
3. Better market share.

Q.5

Cost of Acquisition		₹ in crore
10.50% Debentures	44	
11% Preference shares	100	
Equity shares	250	
Dissolution expenses	0.50	
current liabilities	25	~~[illegible]~~ 419.50
Sale proceeds from		
investment	150	
Debtors	15	
Inventories	9.75	
Cash & Bank	4.25	179
Net cost of Acquisition		240.50

6 Marks

Good Conceptual clarity

Present value of operating cash flows.

₹ in crores

Year	CF	PVF@16%	Present value
1	70	0.8621	60.347
2	75	0.7432	55.74
3	85	0.6407	54.4595
4	90	0.5523	49.707
5	100	0.4761	47.61
6	125	0.4104	51.30
7	140	0.3538	49.532
7	50	0.3538	17.69
			386.3855

Since present value of cash inflow is more than present value of cash outflow. Therefore FCL should take over BMCL.

Net Benefit = 386.3855 − 240.50
= 145.8855 crores.