

Time Allowed : 3 Hours

The figures in the margin on the right side indicate full marks.

Answer Question No. 1 which is compulsory carrying 25 marks and any five from the rest.

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|---|-----|
| 1. (a) State whether the following statements are True or False: | 1x5 |
| (i) Point estimation of the value of a business is the right way to determine its value. | (0) |
| (ii) Higher Debt/Equity Ratio implies higher valuation of a company. | (0) |
| (iii) The key importance of annual report information is that it is used by investors when they form their expectations about the firm's future earnings and dividends and the riskiness of those cash flows. | (0) |
| (iv) Management buyout is not a takeover method. | (0) |
| (v) Paying a one time extraordinary dividend is a defensive financial technique. | (0) |
| (b) In each of the questions given below, one out of the four options is correct, Indicate the correct answer: | 1x5 |
| (i) Which of the following is a none-cash expense found on an income statement?
(a) depreciation
(b) interest expense
(c) inventory
(d) patents | (0) |
| (ii) Which of the following items would NOT be included in a WACC calculation?
(a) proportion or weight of debt
(b) proportion or weight of equity
(c) personal tax rate on interest payments
(d) cost of equity | (0) |
| (iii) If a firm's market to book value ratio is currently greater than 1.0, it implies:
(a) the firm's equity is currently valued at less than what the stockholders invested in the firm.
(b) the firm's equity is currently valued at more than what the stockholders invested in the firm.
(c) the firm is currently a poor buy in the marketplace.
(d) None of the above. | (0) |
| (iv) Valuing target firms for cross-border merger may include which of the following?
(a) The basic discounted cash flow model.
(b) The multiples of earnings models(earnings or cash flow).
(c) Industry specific models.
(d) Any of the above | (1) |
| (v) Shareholders of target companies are typically paid in
(a) government bonds held by the target company.
(b) government bonds held by the acquiring company. | (0) |

- (c) cash and/or shares of the acquiring company.
- (d) None of the above.

(c) Fill in the blanks by using the words/phrases given in the brackets:	1x5
(i) While valuing the leasehold land of a company, one _____ subject it to amortization. (Should/Should not).	(0)
(ii) The most appropriate method of determining the cost of equity for calculating the Weighted Average Cost of Capital is _____. (the Dividend Discount Model/the Capital Asset Pricing Model).	(0)
(iii) LIFO as a method of inventory valuation _____ allowed as per Indian Accounting Standards.(is/is not).	(0)
(iv) A ratio between the market value of a company to the replacement value of its assets is known as _____ Ratio.(Market Value to Book Value/Market Value to Replacement Value/Tobin's Q/Price to Book Value).	(0)
(v) _____ requires that the expected profit stream of an acquired business provides an attractive return on the total acquisition cost and on any new capital investment needed to sustain or expand the operations. (The Cost of Entry Test/The Profit Principle of Investment).	(0)
(d) Attempt the questions by selecting the correct option:	2x5
(i) If a bond is currently trading at a premium then – (I) its current yield is more than its yield-to-maturity. (II) its current yield is less than its yield-to-maturity. (III) its current yield is equal to its yield-to-maturity. (IV) Nothing can be concluded.	(0)
(ii) A share, Y, currently sells for Rs.50. It is expected that in one year it will either rise to Rs.55 or decline to Rs.45. The value of a European Call, if the strike price of the underlying share is Rs.48 and the risk free interest rate is 9% p.a. is: (I) Rs.9.33 (II) Rs.11.33 (III) Rs.18.33 (IV) Rs.20.50	(0)
(iii) Which one of the following statements is not true about Efficient Markets? (I) Share prices behave randomly and do not show any systematic pattern in its behavior. (II) Share prices fully reflect all available information. (III) Price of one share is independent of the prices of other shares in the market. (IV) None can earn abnormally high profits on a constant basis.	(0)
(iv) Hindustan Telecom, a national telecom company, is considering purchasing a smaller company, Tee Telecom. Analysts project that the merger will result in incremental free flows and tax savings with a combined present value of Rs.100 Crores, and they have determined that the appropriate discount rate for valuing Tee Telecom is 16 percent. Tee Telecom has 50 lakh shares outstanding. Tee Telecom's current price is Rs.170. What is the maximum price per share that Hindustan should offer? (I) Rs.150 (II) Rs.200 (III) Rs.250	(0)

(IV) Rs.300

- (v) Bharat Gas Corporation has Rs.100 crore worth of common equity on its balance sheet, and 50 lakhs shares of stock outstanding. The company's Market Value Added (MVA) is Rs.24 crores. What is the company's stock price?

(0)

- (I) Rs.230
(II) Rs.238
(III) Rs.248
(IV) Rs.264.

2. (a) From the last 5 years annual reports of Queen India Limited, the following information about dividend declared has been collected:

7 (0)

Year	Rate of Dividend
2004-05	10%
2005-06	12%
2006-07	18%
2007-08	22%
2008-09	15%

The average dividend yield in the industry is estimated to be 8%. If the nominal value of the Company's share is Rs.10, then determine the value per share of Queen India Limited using the Dividend Yield Method. (Use Weighted Average Method for determining the average dividend rate of the company.)

- (b) Perfect Precision Limited has adopted a strategy of inorganic growth and as a consequence, it is always on the look out for a soft target to be acquired. Recently, the company has identified Exact Precision Limited as a target company and the concerned team is working on this acquisition. Some of the financial data collected by the team is given below:

8 (0)

	Perfect Precision Limited	Exact Precision Limited
Earnings per Share (EPS)	Rs. 7.50	Rs. 5.00
Market Price per Share (MPS)	Rs. 80.00	Rs. 35.00
Number of Shares (in crores)	100	25

It is expected that there may be a synergy gain 5%. Assume that you are one of the members of the concerned team and are requested to determine the exchange ratio if Perfect Precision Limited wants to have post-merger earnings per share of Rs.6.

3. (a) Why is brand valuation needed? What are the steps in valuation of a brand?

8 (0)

- (b) What are three approaches to valuation of Real Estate? Explain in brief.

7 (0)

4. Define any *three*:

5x3

- (i) Intangible Assets;
(ii) Human Resource Accounting;
(iii) Three forms of Efficient Market Hypothesis;
(iv) DCF technique of valuation of common stock;
(v) Relative Valuation Method;
(vi) Investment timing options as part of Real Options;

(0)

(0)

(0)

(0)

(0)

(0)

5. (a) Explain the relationship of synergy with Strategic realignment in the context of Merger.

5 (0)

- (b) Two firms ANKT LTD. and SMITH LTD. operate independently and had the following financial statements: 3+2+3+2 (0)

(Amount in Rs.Lakhs)

Particulars	ANKIT LTD.	SMITH LTD.
Revenues	4400	3000
Cost of Goods Sold	3850	2670
EBIT	550	330
Expected Growth Rate	5%	6%
Cost of Equity	10%	12%
Cost of Debt(pre-tax)	9%	9%
Debt Equity Ratio	1:2	2:3

Both firms are in a steady state and working capital requirements for both firms are Nil. Both firms have tax rate of 35%. Combining the two firms will create economies of scale in the form of shared distribution and advertising costs which will increase its future growth to 7% and reduce the cost of goods sold to 85% of revenues.

Requirements:

- Estimate the value of both firms as separate entities.
- Estimate the value of combined firm with no synergy effect.
- Estimate the value of combined firm with synergy effect.
- Compute the value of synergy.

6. (a) What are the reasons for reporting on Intellectual Capital(IC)? Explain briefly. 5 (0)

- (b) The following financial data pertaining to TECHNO LTD., an IT company are made available to you: 10 (0)

(Amount in Rs. Crores)

Year ended March 31st	2010	2009	2008
EBIT	696.03	325.65	155.86
Non-branded Income	53.43	35.23	3.46
Remuneration of Capital	5% of average capital employed		
Average Capital Employed	1112.00		
Corporate Tax Rate	35%		
Capitalization Factor	16%		

You are required to calculate the Brand Value for Techno Ltd.

7. (a) What factors are considered for selecting a target in a business acquisition strategy? 4 (0)

- (b) As the General Manager (Finance) of ZENITH LTD you are investigating the acquisition of STARLIGHT LTD. The following facts are given: 4+3+4 (0)

ZENITH LTD. STARLIGHT LTD.

Earning per Share	Rs. 6.75	Rs. 2.50
Dividend per Share	Rs. 3.25	Rs. 1.00
Price per Share	Rs. 48	Rs. 15
Number of Shares	60,00,000	20,00,000

Investor currently expected the dividends and earnings of Starlight Ltd. to grow at a steady rate of 7%.

After acquisition, this growth rate would increase to 8% without any additional investment.

Required:

- (i) What is the benefit of the acquisition?
- (ii) What is the cost of the acquisition to ZENITH LTD. if it pays.
 - (a) Rs.17 per share compensation (cash) to Starlight Ltd., and
 - (b) Offer one share for every 3 shares of Starlight Ltd.?

8. AKASH LTD. wants to take over VASTAN LTD. and the financial details are as follows: 5+4+4+2 (

(Amount in Rupees lakhs)

	AKASH LTD.	VASTAN LTD.
Preference Share Capital	20	—
Equity Share Capital (Rs.10 at par)	100	50
Share Premium	—	2
Profit & Loss Account	38	4
10% Debentures	15	5
Total	173	61
Fixed Assets	122	35
Current Assets	51	26
Total	173	61
Profit after Tax & Preference Dividend	24	15
Market Price	Rs.24	Rs.27

Requirements:

- (a) What should be the share exchange ratio to be offered to the shareholders of VASTAN LTD. based on:

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- (i) Net Asset Value;
- (ii) EPS, and
- (iii) Market Price;

- (b) Which should be preferred from the point of AKASH LTD?