

FINAL EXAMINATION

December 2013

F-P18(BVM)
Syllabus 2008

Business Valuation Management

Time Allowed: 3 Hours

Full Marks: 100

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.

1. (a) State whether the following statements are true or false: 1×5=5
- (i) Whenever the yield on a bond is more than coupon rate, the bond will be trading at a discount. *
 - (ii) Price to Book Value (P/B) Ratio is a positive function of Price/Earning (P/E) Ratio but a negative function of Return on Equity.
 - (iii) Increasing the company's future Economic Value Added is key to creating shareholder value. ✓
 - (iv) Hedging protects against the price risk but not against gains or losses. ✓
 - (v) Systematic risk of a portfolio is diversifiable. *
- (b) Fill in the blanks by using the words/phrases given in the brackets: 1×10=10
- (i) Premium paid by target company to buy-back its shares from a potential acquirer is called _____. (Green Shoe Option/Green Bid/Greenmail)
 - (ii) _____ represents the sale of a segment of a company to another entity. (Curve-Out/Spin-Off/Divestitures)
 - (iii) The _____ Test requires that the expected profit stream of an acquired business provide an attractive return on the total acquisition cost and on any new capital investment needed to sustain or expand its operations. (Cost-of-Entry/Cost-of-Exit/Cost of Making Conglomerate)
 - (iv) The CAPM model assumes _____ market competition. (perfect/imperfect)
 - (v) In case of Deep Discount Bonds, the issue price is always _____ the face value. (less than/more than)
 - (vi) Under constant growth model, the required return (k) is _____ the constant rate of growth (g). (greater than/less than)
 - (vii) The _____ the market price and the book value is an indication of intellectual capital if the shares are widely held and traded for a non-cyclical firm. (sum of/difference between)
 - (viii) A theory that explains why the total value from the combinations resulted from a merger is a greater than the sum of the values of the component companies operating independently is known as _____ theory. (synergy/hubris/agency)
 - (ix) Shares of listed companies which are traded on the stock exchange are _____. (quoted/unquoted)
 - (x) _____ makes the calculation of share value difficult (stable dividend/variable dividend)

Please Turn Over

- (c) In each of the questions given below one out of the four options is correct. Indicate the correct answer: 2×5=10
- (i) If the risk free rate at present in the economy is 7.50%, the cost of equity of XYZ Ltd. is 16% and the expected return on the market portfolio is 12.50% then the Beta of the company will be
- (A) 1.35
(B) 1.50
(C) 1.60
(D) 1.70
- (ii) A company is having Profit after tax of ₹ 500 crores, and Return on Equity 25%. If it has a Reserves and Surpluses of ₹ 1,000 crores, and equity share with a face value of ₹ 2 per share, then its Book Value per share will be
- (A) 2.00
(B) 4.00
(C) 5.00
(D) 8.00
- (iii) Which one is the advantage of DCF valuation
- (A) It is not based upon an asset's fundamentals
(B) It is not the right way to think about what an investor would get when buying an asset
(C) It forces an investor to think about the underlying features of the firm and understand its business
(D) All of these
- (iv) Which Accounting Standard is issued by the Institute of Chartered Accountants of India on Accounting for Amalgamation
- (A) AS—9
(B) AS—12
(C) AS—14
(D) AS—18
- (v) In defending against a hostile takeover, the strategy that involves the target firm creating securities that give their holders certain right that become effective when a takeover is attempted is called _____ strategy.
- (A) Shark repellent
(B) Green mail
(C) Poison pill
(D) Golden parachute

2. (a) The following financial statements have been extracted from the Annual Report 2012-13 of Fine Cable Ltd.

BALANCE SHEET of Fine Cable Limited as at March, 31 (₹ in Crores)

Particulars	2012	2013
EQUITY AND LIABILITIES		
Shareholders' Funds:		
Share Capital		
Equity Capital	250.00	250.00
Preference Share	60.00	60.00
Reserves and Surplus	7,694.30	8,933.20
	8,004.30	9,243.20
Non—Current Liabilities		
Long—Term Borrowings	1,162.20	1,451.50
Other Long—Term Liabilities	1.80	13.60
Long—Term Provisions	342.10	528.30
Deferred Tax Liabilities (Net)	326.10	344.70
	1,832.20	2,338.10
Current Liabilities		
Short—Term Borrowings	383.20	171.10
Trade Payables	563.80	632.90
Other Current Liabilities	1,189.90	1,391.20
Short—Term Provision	187.10	264.90
	2,324.00	2,460.10
TOTAL EQUITY AND LIABILITIES	12,160.50	14,041.40
ASSETS		
Non—Current Assets		
Fixed Assets:		
Tangible Assets	4,291.90	4,120.70
Intangible Assets	0.40	0.40
Capital Work-In-Progress	120.20	357.30
	4,412.50	4,478.40
Non—Current Investments	2,188.80	2,173.90
Long—Term Loans and Advances	40.20	166.50
Other Non—Current Assets	121.00	190.80
	6,762.50	7,009.60
Current Assets:		
Current Investments	183.30	1,067.00
Inventories	2,811.40	3,296.30
Trade Receivables	1,140.90	1,496.50
Cash and Bank Balances	490.00	398.10
Short—Term Loans and Advances	772.40	771.80
Other Current Assets	-	2.10
	5,398.00	7,031.80
TOTAL ASSETS	12,160.50	14,041.40

Please Turn Over

Statement of Profit and Loss of Fine Cable Limited for the Year ending on March, 31
(₹ in Crores)

Particulars	2012	2013
Income		
Revenue From Operations (Gross)	21,826.40	24,235.30
Less : Excise Duty	1,184.80	1,528.50
Revenue From Operations (Net)	20,641.60	22,706.80
Other Income	319.90	241.70
Total Revenue	20,961.50	22,948.50
Expenses		
Cost of Materials Consumed	15,769.50	17,129.20
Purchase of Stock-in-Trade	24.00	60.40
(Increase)/Decrease in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	126.90	(296.80)
Employee Benefit Expenses	260.70	133.80
Depreciation, Amortization and Impairment	394.70	466.30
Other Expenses	2,234.60	2,671.50
Total Expenses	18,810.40	20,164.40
Profit Before Interest and Tax	2,151.10	2,784.10
Less : Interest	663.37	583.04
Profit Before Tax	1,487.73	2,201.06
Less : Tax @ 34%	505.83	748.36
PROFIT AFTER TAX	981.90	1,452.70

Miscellaneous Information about the Company:

1. Face Value of the Equity Share of the Company ₹ 2 per share
2. Face Value of the Preference Share of the Company ₹ 10 per share
3. The Company is paying regular Dividend on Preference Shares at the rate of 10%.
4. The Company has declared an Equity Dividend of 60% for the Year 2012-13.
5. Beta of the Company 1.25
6. Promoters' Holding 62.59%
7. The Market Rate of Return 15.60%
8. Risk Free Interest Rate 7.75%