III Semester M.B.A. (Day/Evening) Examination, May/June 2023
(CBCS) (2022-23 and Onwards) (Freshers)
MANAGEMENT
3.3.1 : Business Valuation and Value Based Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** questions, **each** carries **5** marks. **(5×5=25)**

1. Explain the valuation of Cyclical Companies.

2. Discuss the importance of Balanced Score Card.

3. A Ltd., has issued convertible debentures with coupon rate 12%. Each debenture has an option to convert to 20 equity shares at any time until the date of maturity. Debentures will be redeemed at Rs. 100 on maturity of 5 years. An investor generally requires a rate of return of 8% p.a. on a 5 year security. As an investor when will you exercise conversion for given market prices of the equity shares of :

   i) Rs. 4

   ii) Rs. 5 and

   iii) Rs. 6.

Cumulative PV factor for 8% for 5 years	3.993
PV factor for 8% for year 5	0.681

4. Write a note on buy-back of shares by companies and what is the impact of PE ratio upon buyback of shares.

5. Elucidate on 'Takeover by Reverse Bid'.

6. The key financial parameters of Yuga Ltd., are as follows :

EBDIT	Rs. 36 lakhs
Book value of assets	Rs. 180 lakhs
Sales	Rs. 250 lakhs

P.T.O.

Based on the evaluation of several companies of same operating domain A Ltd., B Ltd. and C Ltd., Have been found to be comparable to Yuga ltd. Their key financial data are as follows :

	A Ltd.	B Ltd.	C Ltd.
EBDIT Rs.	24,00,000	30,00,000	40,00,000
Book Value of Assets Rs.	1,50,00,000	1,60,00,000	2,00,00,000
Sales Rs.	1,60,00,000	2,00,00,000	3,20,00,000
Market Value Rs.	3,00,00,000	4,80,00,000	7,20,00,000

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

7. From the following information, compute WACC of XYZ Ltd.
   i) Debt to Total funds 2:5
   ii) Preference capital to Equity Capital 1:1
   iii) Preference Dividend rate : 13%
   iv) Interest on Debentures Rs. 60,000 quarterly
   v) Cost of Equity capital is 25%
   vi) EBIT at 30% of capital Employed Rs. 3,00,000
   vii) Tax rate is 35%.

SECTION – B

Answer **any three** questions, **each** carries **10** marks. **(10×3=30)**

8. X Ltd., reported a profit of Rs. 65 lakhs after 35% tax for the financial year 2019-20. An analysis of the accounts revealed that the income included extraordinary income of Rs. 10 lakhs and an extraordinary loss of Rs. 3 lakhs. The existing operations, except for the extraordinary items, are expected to continue in the future; in addition, the results of the launch of a new product are expected to be as follows :

Sales	Rs. 60,00,000
Material Costs	Rs. 15,00,000
Labour Costs	Rs. 10,00,000
Fixed Costs	Rs. 8,00,000

You are required to :

a) Compute the value of the business, given that the capitalization rate is 15%.

b) Determine the market price per equity share, with X Ltd.,'s share capital being comprised of 1,00,000 11% Preference Shares of Rs. 100 each and 40,00,000 equity shares of Rs. 10 each and the PE ratio being 8 times.

9. H Ltd., agrees to buy over the business of B Ltd., effective 1st April 2020. The summarized Balance Sheets of H Ltd., and B Ltd., as on 31st March 2020 are as follows :

	H Ltd.	B Ltd.
Liabilities :		
Paid-up Share Capital :		
Equity Shares of Rs. 100 each	350	
Equity shares of Rs. 10 each		6.5
Reserves and Surplus	950	25
	1300	**31.5**
Assets :		
Net Fixed Assets	220	0.5
Net Current Assets	1020	29
Deffered Tax Asset	60	2
	1300	**31.5**

H Ltd., proposes to buy B Ltd., and the following information is provided to you as a part of the scheme of buying :

a) The weighted average post tax maintanable profits of H Ltd., and B Ltd., for the last 4 years are Rs. 300 crore and Rs. 10 crore respectively.

b) Both the companies envisage a capitalization rate of 8%.

c) H Ltd ., has a contingent liability of Rs. 300 crore as on 31st March 2020.

d) H Ltd., to issue shares of Rs. 100 each to the shareholders of B Ltd., in terms of the exchange ratio as arrived on Fair Value basis. (Consider the weights of 1 and 3 for t value of shares arrived on Net Asset basis and Earnings Capitalization Method respectively for both H Ltd., and B Ltd.,)

You are required to arrive at the value of the shares of both H Ltd., and B Ltd., under :

i) Net Assets Value Method

ii) Earnings Capitalization Method

iii) Exchange ratio of shares of H Ltd., to be issued to the shareholders of B Ltd., on a Fair Value basis (taking into consideration the assumption mentioned in point (d) above)

10. Why Marakon Approach is a popular Value Based planning Model ? Explain in detail the steps involved in Marakon Approach.

11. A firm has a bond outstanding Rs. 3,00,00,000. The bond has 12 years remaining until maturity, has a 12.5% coupon and is callable at Rs. 1,050 per bond (issue price Rs. 1,000 per bond); it had floatation costs of Rs. 4,20,000 which are being amortized at Rs. 30,000 annually. The floatation costs for a new issue will be Rs. 9,00,000 and the current interest rate will be 10%. The after-tax cost of the debt is 6%. Should the firm refund the outstanding debt? Consider corporate income tax rate at 50%.

SECTION – C

Compulsory question : **(15×1=15)**

12. Case study :

Intel Ltd., promoted by a Multinational group 'INTERNATIONAL INC' is listed on stock exchange holding 84% i.e., 63 lakh shares.

Profits after Tax is Rs. 4.80 Crore.

Free float Market Capitalization is Rs. 19.20 Crore.

As per the SEBI guidelines promoters have to restrict their holding to 75% to avoid de-listing from the stock exchange. Board of Directors has decided not to de-list the share but to comply with the SEBI guidelines by issuing Bonus shares to minority shareholders while maintaining the same PE ratio.
Calculate :

a) PE ratio

b) Bonus ratio

c) Market price of share before and after the issue of bonus shares

d) Free float market capitalization of the company after the issue of bonus shares.