THAKUR INSTITUTE OF
MANAGEMENT STUDIES & RESEARCH
(Approved by AICTE, Govt. of Maharashtra & Affiliated to University of Mumbai)

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Mapping of Course Outcomes with Question Papers

Academic Year	2019-20
Batch	2018-20
Program	MMS
Specialization	Finance
Semester	III
Course	Corporate Valuation and M& A
Faculty	Vijay Prabhu

CO1: Understanding the basic concepts of valuation and the interplay of factors affecting valuation

CO2: Understanding of different alternative methods used in valuation

CO3: Overview of valuation using discounted cash flow methods and ability to calculate the same

CO4: Ability to calculate the value of a company

CO5: Understanding the various forms of business restructuring, the regulatory aspects and the M& A process

Question Number	CO 1	CO 2	CO 3	CO 4	CO 5
Q1 a	*	*		*	*
Q1 b	-	-	-	-	-
Q2. a	*	*		*	
Q2. b	*	*	*		
Q2. c	*	*			*
Q3. a	*	*	*		
Q3. b	*		*		
Q3. c	*				*
Q4. a	*	*		*	
Q4. b	*	*			
Q4. c	*				*
Q5. a	*				*
Q5. b	*		*		
Q5. c	*	*			*
Q6. a	*				*
Q6. b	*	*			
Q6. c	*	*			
Q7. a	*	*			
Q7. b	*		*		*
Q7. c	*	*			*
Q7. d	-	-	-	-	-

TIMSR

Program : MMS (F) **Semester : III**	**Seat No:**_____
Duration : 3 hours	**Month &Year : November 2019**
Course: Corporate Valuation and Mergers & Acquisition	**Marks: 60**

Instructions:-
- **Q. No 1** is compulsory.
- Attempt **Any Four** from the Remaining Six Questions.
- Figures to the right indicate marks in full.

Q.1   G Foods and K Grocery are negotiating a friendly acquisition of K Grocery by G   **20**
Foods. The Management teams at both companies have tentatively agreed upon a
transaction value of about $27 per share for K Grocery's stock, but are presently
negotiating alternative methods of payments. Mr.Cole, CFA, works for Gold Inc,
the Investment Banking firm representing G Foods. Mr.Cole has compiled the data
in the following figure to analyze the transactions.
Merger evaluation inputs:
Calculate the post-merger value of the combined firm, gains accrued to the target ,
and gains accrued to the acquirer under the following scenarios:

		G Foods	K Grocery
Pre merger stock price		$36	$24
Number of shares outstanding (millions)		50	24
Pre merger market value (millions)		$1,800	$576
Estimated NPV of cost reduction synergies		$120 millions	

Case 1: Cash Offer of $27 per share for K Grocery's stock
Case 2: Stock offer of 0.75 shares of G Foods stock per share of K Grocery's

Q.2   Answer Any two from the following.   **5x**
2
=
10

a.   As an analyst, you have gathered the following information on a company you are
tracking. The current annual dividend is $0.75. Dividends are expected to grow at
a rate of 12 %over the next three years, decline linearly to 4% over the next 6
years and then remain at a long term equilibrium growth rate of 4% in perpetuity.

The required is 9 %. Calculate the value of the company.

b. Max company shares trade as USD 60 with expected earnings of $5 per share and a required return of 10%. Suppose the shares are properly priced, so price is equal to the fundamental value. Calculate the PVGO and the portion of the leading P/E related to PVGO.

c. Explain any 5 Motivations behind M & A activity?

Q.3 Answer Any two from the following. 5x 2= 10

a. Using the following figures, calculate the value of the equity using the capitalized cash flow method, assuming the firm will be acquired.

Normalized FCFE in the current year = $3,000,000
Reported FCFE in current year =$2,400,000
Growth rate of FCFE = 7%
Equity Discount rate = 16%
WACC = 13%
Risk Free rate = 3.5%
Cost of Debt = 10.5%
Market value of debt = $3,000,000

Calculate the value of equity.

b. An analyst gathered the following data for MN Company Ltd.:

Recent share price	$30
Shares outstanding	50 million
Market value of debt	$130 million
Cash and Marketable securities	$65 million
Investments	$250 million
Net Income	$200 million
Interest Expense	$8 million
Depreciation and amortization	$11 million
Taxes	$52 million

Calculate EV/EBITDA multiple for MN Company Ltd.

c. Write a note on SEBI takeover code.

Q.4 Answer Any two from the following. 5x 2 = 10

a. What are the advantages and disadvantages of DDM?

b. An analyst has gathered P/E information on two stocks, AT Ltd. and BS Ltd. Market Data on AT Ltd. and BS Ltd. is as follows:

Q.7   Attempt **Any two**   5x
                                                                          2
                                                                          =
                                                                          10

a.   What are the qualitative and quantitative parameters you will check when writing a Valuation Report?

b.   Neon industries currently pay out dividend equal to 40 %. Neon's ROE is 30 %. Calculate its SGR.

c.   Beta Company (the transferor company) has agreed to merge with Alpha Company (the transferee company). The Balance sheet of Alpha company and Beta Company prior to the merger are shown in the exhibit below. The share swap ratio is 3:5 has been fixed. You have to show how the Balance Sheet will appear:
     a) Under Pooling of Interest method

Liabilities	Alpha Company	Beta Company
Share Capital (10 par)	4000	1,000
Capital Reserve	-	-
Share Premium	2,000	500
General Reserve	5,000	1,000
P&L Account	1,000	500
Loan Fund	4,000	2,500
Current Liabilities and provisions	2,000	1,500
	18,000	7,000
Assets		
Net Fixed Assets	7,000	3,000
Investments	3,000	500
Current Assets	7,000	3,000
Miscellaneous expenditure	1,000	500
	18,000	7,000

	Trailing P/E	Leading P/E	5 year Growth Rate	Beta
AT Ltd.	10	8.7	11%	1.3
BS Ltd.	14	12.7	9%	1.4
Peer Median	13.3	12.1	11%	1.3

Evaluate the value and P/E of each stock based on the method of comparables

c. Explain Three-stage DDM and H Model with a diagram.

Q.5   Answer **Any two** from the following.   5x 2 = 10

a. Explain the Legal Procedure for a Merger.

b. A firm's after tax cost of capital for the specific sources is as follows:

Cost of debt - 17%
Cost of preference shares- 15%
Cost of equity funds - 10%

The following is the capital structure
Debt Rs.3,00,000
Preference shares Rs.2,00,000
Equity Capital Rs.5,00,000

Calculate Weighted Average Cost of Capital X (WACC) using book value weights.

c. Explain Crown Jewel defense, Pac Man defense and Greenmail

Q.6   Answer Any two from the following.   5x 2 = 10

a. Explain various forms of Integration and Types of Mergers.

b. Avon Partners is expected to have earnings in 10 years of $12 per share, a dividend payout ratio of 50% and a required return of 11%. At that time the dividend growth rate is expected to fall to 4% in perpetuity and the trailing P/E ratio is forecasted to be 8 times earnings. Estimate the terminal value at the end of 10 years using the Gordon Growth model and the P/E multiple.

c. Write a short note on Real Options.