Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER –IV-EXAMINATION – SUMMER-2022

Subject Code: 4549222 **Date: 14-07-2022**

Subject Name: Corporate Restructuing and Valuation

Time: 10:30 AM TO 01:30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 Explain the following terms **14**

1. Corporate Restructuring
2. LBO
3. Buyback
4. Replacement Value
5. Intrinsic value
6. Goodwill
7. Golden parachute

Q.2 (a) "While due diligence is not an insurance against a bad deal, it certainly provides enough assurance that the due diligence is per se not bad." In the context of the above statement explain the concept of due diligence and major types of due diligence in brief. **07**

(b) Explain the term merger? What is the potential economic advantage of the mergers? **07**

OR

(b) Distinguish between 'hostile takeover' and 'friendly takeover'. What are the strategies adopted by the acquiring firm in case of a hostile takeover? **07**

Q.3 (a) "DCF approach is conceptually the most ideal among various approaches for business valuation" Do you agree? Explain your answer. **07**

(b) The following financial information is available for company D, a pharmaceutical company **07**

PBDIT	Rs. 18 Crore
Book value of assets	Rs. 90 Crore
Sales	Rs. 125 Crore

Based on an evaluation of several pharmaceutical companies, companies A, B and C are comparable to company D. Looking at the characteristics of A, B and C following multiples are reasonable for company D.

Market Value / PBDIT	17
Market Value / Book value	3
Market Value / Sales	2.2

Find out the value of D by using each of the above multiples

OR

Q.3 (a) Elucidate the statement "Conglomerate firm shares tend to have higher market value due to lower cost of capital". **07**

(b) Delta Corporation plans to acquire Theta corporation. The following information is available **07**

	Delta Corporation	**Theta Corporation**
Total current earnings,	Rs. 50 million	Rs. 20 million
Number of outstanding shares,	20 million	10 million
Market price per share	Rs. 30	Rs. 20

(a) What is the maximum exchange ratio acceptable to the shareholders of Delta Corporation if
the PE ratio of the combined entity is 12 and there is no synergy gain?
(b) What is the minimum exchange ratio acceptable to the shareholders of Theta Corporation if
the PE ratio of the combined entity is 11 and there is a synergy benefit of 5 percent?
(c) Assuming that there is no synergy gain, at what level of PE multiple will the lines ER1 and ER2 intersect?

Q.4 (a) Define Intangibles and explain in detail the reasons to Conduct Intangible Valuation **07**

(b) Following is the balance sheet of Hypo Company Limited as on March 31, the current year: **07**

(Rs lakh)

Liabilities	Amount	Assets		Amount
Share capital		Fixed assets	150	
40,000 11% Preference shares of		Less: Depreciation	30	120
Rs 100 each, fully paid-up	40	Current assets:		
1,20,000 Equity shares of		Stocks	100	
Rs 100 each, fully paid-up	120	Debtors	50	
Profit and loss account	23	Cash and bank	10	160
10% Debentures	20	Preliminary expenses		2
Trade creditors	71			
Provision for income tax	8			
	282			**282**

Additional Information:
(i) A firm of professional valuers has provided the following market estimates of its various assets: fixed assets Rs 130 lakh, stocks Rs 102 lakh, debtors Rs 45 lakh. All other assets are to be taken at their balance sheet values.
(ii) The company is yet to declare and pay dividends on preference shares.
(iii) The valuers also estimate the current sale proceeds of the firm's assets, in the event of its liquidation: fixed assets Rs 105 lakh, stock Rs 90 lakh, debtors Rs 40 lakh. Besides, the firm is to incur Rs 15 lakh as liquidation costs.
You are required to compute the net asset value per share as per book value, market value and liquidation value bases.

OR

Q.4 (a) With reference to Accounting Standard-14, discuss in brief different methods of amalgamation and conditions for the same if any **07**

(b) Following information is available for PQR Ltd Profit before tax for current year-end amount to Rs 64 lakh, including Rs 4 lakh as extraordinary income. Besides, the firm has earned interest income of Rs 1 lakh in the current year from investments in marketable securities. It is not usual for the firm to have excess cash and invest in marketable securities. However, an additional amount of Rs 5 lakh per annum, in terms of advertisement and other expenses, will be required to be spent for the smooth running of the business in the years to come. In order to match the revalued figures of these fixed assets, additional depreciation of Rs 6 lakh is required to be taken into consideration. Effective corporate tax rate may be taken at 30 per cent. The capitalisation rate applicable to businesses of such risks is 15 per cent. From the above information, compute the value of business, value of equity if external liabilities are 30 lakh and price per equity share, based on the capitalisation method. **07**

Q.5 (a) Company X wishes to takeover Company Y. The financial details of the two companies are as under: **14**

Particulars	Company X	Company Y
Equity shares (Rs 10 per share)	Rs 1,00,000	Rs 50,000
Share premium account	—	2,000
Profit & loss account	38,000	4,000
Preference shares	20,000	—
10% debentures	15,000	5,000
	1,73,000	61,000
Fixed assets	1,22,000	35,000
Net current assets	51,000	26,000
Maintainable annual profit (after tax) for equity shareholders	24,000	15,000
Market price per equity share	24	27
Price earnings ratio	10	9

What offer do you think Company X could make to Company Y in terms of exchange ratio, based on (a) net asset value; (b) earnings per share; and (c) market price per share? (d)Which method would you prefer from Company X's point of view

OR

Q.5 **(a)** Balance sheet of XYZ Limited as on March 31 (current year) is as follows: **14**

Liabilities	Amount	Assets	Amount
Equity share capital 10 lakh shares @ Rs 20 each)	200	Plant and machinery	250
		Furniture and fittings	5
13% Debentures	100	Inventories	90
Retained earnings	50	Debtors	25
Creditors and other current liabilities	30	Bank balance	10
	380		**380**

(i) The company is to be absorbed by ABC Limited on the above date. The consideration for absorption is the discharge of debentures at a premium of 10 per cent, taking over the liability in respect of sundry creditors and other current liabilities and payment of Rs 14 in cash and one share of Rs 10 in ABC Limited, at the market value of Rs 16 per share, in exchange for one share in XYZ Limited The cost of dissolution of Rs 10 lakh is to be met by the purchasing company.

(ii) Expected incremental yearly free cash flows (FCFF) from acquisition for 5 years are as follows:

	(Rs lakh)
Year 1	100
2	135
3	175
4	200
5	80

(iii) The FCFF of XYZ Limited are expected to be constant after 5 years.

(iv) Cost of capital relevant for XYZ Limited cash flows is to be 14 per cent.

Based on the above information, comment on the financial soundness of ABC's decision regarding merger.