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) Ration 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 that 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