

PAPER-18

BUSINESS VALUATION MANAGEMENT

REVALIDATION TEST PAPER-RV/18/BVM/2010

(Answer Question 1 and any FIVE from the remaining)

PART A

1(a) Define in brief

- (i) Intellectual Capital
- (ii) Brand
- (iii) Dividend Yield
- (iv) DCF Analysis
- (v) Energy Conservation 3*5

(b) State whether each of the following statements is True or False

- (i) The return estimated from CAPM provides the WACC of a company
- (ii) Value Gap is the difference between the synergy value and purchase price.
- (iii) Brand do not influence Customer Demand.
- (iv) The provisions of Accounting Standard do not impact of mergers of companies.
- (v) Intrinsic Value and market price of equity shares are always equal.

2*5

PART B

2(a) Briefly explain the various steps in the valuation of a Brand. 8

(b) What is Human Resource Accounting? What are its benefits? Briefly discuss the two methods of its measurement? 7

3.(a) Why do many mergers fail?

(b) Why do companies want to measure Intellectual capital?

© What factors are selected for selection of a target in a business acquisition strategy? 5+5+5

4(a) A firm had paid dividend at Rs. 2 per share last year. The estimated growth of the dividends from the company is estimated to be 5% p.a. Determine the estimated market price of the equity share if the estimated growth rate of dividends—

(i) rises to 8% and

(ii) falls to 3%.

Also, find out the present market price of the share given that the required rate of return of the equity investors is 15.5%.

(b) A company is considering, raising Rs. 100 lakh by one of the two alternative methods viz; 14 per cent institutional term loan and 13% non-convertible debentures. The term loan portion would attract no major incidental cost. The debentures would have to be issued at a discount of 25% and would involve Rs. 1,00,000 as cost of issue. Advise the company as to the better option based on the effective cost of capital in each case.

Assume a tax rate of 35%

8+7.

5(a) Write in brief about Financial Synergy and Operational Synergy

(b) What are the causes of horizontal merger?

8+7

6. The following are the details of the two merged firms, Nylo Ltd. And Xylo Ltd :

(Rs in Lakhs)

	Nylo Ltd.	Xylo Ltd.
Revenues	4,400	3,125
Cost of Goods Sold (excluding depreciation)	87.5%	89.0%
Depreciation	200	74
Tax rate	35%	35%
Working capital	10% of Revenue	10% of
Revenue		
Market value of Equity	2000	1300
Outstanding Debt	160	250

Both firms are expected to grow 5% a year in perpetuity. Capital spending is expected to be offset by depreciation. The beta for both firms are rated BBB, with an interest rate on their debt of 8.5% (the risk-free rate is 7%)

As a result of the merger, the combined firm is expected to have a cost of goods sold of only 86% of total revenue. The combined firm does not plan to borrow additional; debt.

(a) You are required to estimate the value of the combined firm, with no synergy,

(b) Estimate the value of the combined firm, with synergy.

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7(a) Explain what is Tobin's Q? What are the circumstances when it is most useful?

(b) What are the limitations of EVA?

10+5

8. Write short notes of the following
- (a) Categories of Financial Assets
 - (b) NRV of Inventories
 - (c) Fair Market Value of Intangible Assets

5+5+5