FINAL EXAMINATION

December 2014

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) As per Capital Asset Pricing Model (CAPM), the only relevant risk to price a security is Systematic Risk and not both Systematic as well as Unsystematic Risk.

(ii) One of the consequences of Efficient Market Hypothesis (EMH) is that the market will always have equilibrium price of a company's share as determined by its fundamentals.

(iii) The method of capitalization of earnings for valuation of a business assumes constant earnings for infinite time.

(iv) Relative valuation is much more likely to reflect market perceptions and moods than DCF valuation.

(v) A firm with high return on equity is likely to command higher stock price for high payout ratio than for a low payout ratio.

(b) Fill in the blanks by using the words/phrases given in the brackets. 1×10=10

(i) A theory of Mergers and Acquisitions that explains the result of the winner's curse, causing a bidder to overpay is called _________. (Synergy/Hubris/Agency)

(ii) If a bond of a company is trading at a premium in the market then its yield-to-maturity will be _________ its current yield. (more than/less than/same as)

(iii) A ratio that presents willingness of the stock market to pay for one rupee of earning per share is called _________. (Price to Earnings Ratio/Earnings to Price Ratio/Price to Net Profit Ratio)

(iv) Net asset value relies on _________. (accounting value/economic value)

(v) The _________ can value the company's flexibility to alter its initial operating strategy in order to capitalize on favourable future growth opportunities or to react so as to mitigate losses. (Real option technique approach/DCF approach)

(vi) A business is supposed to have a value for its performances _________. (done in past/expected in future)

(vii) Relative valuation approach is also known as _________ approach. (market/income)

(viii) A firm having positive EAT but negative EVA is actually _________ Value. (creating/destroying)

(ix) CAPM helps in determining _________ of return. (actual rate/required rate)

(x) If capitalization rate is reduced by growth rate, the Cash Flows should also be reduced by ________ . (capital expenditure/dividend payment)

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) Company A has a beta of 0.4 and the cost of equity is 10% while Company B has a beta of 1.2 and the cost of equity is 18%, the prevailing risk free rate and market return are

(A) 6%, 12%

(B) 6%, 16%

(C) 7%, 17%

(D) None of the above

(ii) Which one of the following is not a measure taken by a target firm to avoid acquisition?

(A) Poison Puts

(B) Poison Calls

(C) Golden Parachute

(D) Flip Over Pill

(iii) If higher the risk free interest rate, then value of the European Call Option will be

(A) lower

(B) higher

(C) remain unchanged

(D) nothing can be concluded

(iv) A Ltd. acquires B Ltd. by exchange of shares. EPS of A Ltd. and B Ltd. shares are ₹ 50 and ₹ 40 respectively. No. of shares of A Ltd. and B Ltd. are 80,000 and 50,000 respectively. What No. of shares A Ltd. requires to issue to B Ltd. in order to ensure that EPS of A Ltd. would remain same after merger? (Assume that earnings of the merged company would be equal to the aggregate of the earnings of the companies before merger)

(A) Cannot be computed

(B) 25,000

(C) 40,000

(D) 1,00,000

(v) If an all equity firm has Cash from Operating Activities amounting to ₹ 60 lakhs, Depreciation ₹ 30 lakhs, increase in non-cash working capital ₹ 25 lakhs and Capital expenditure ₹ 20 lakhs, its Free Cash Flows to Equity amounts to (in ₹ lakhs)

(A) 90 lakhs

(B) 45 lakhs

(C) 40 lakhs

(D) 65 lakhs