FINAL EXAMINATION

June 2015

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) Expected future yield is very low for a stock with very high P/E ratio.

(ii) Under Asset based valuation approach individual assets are valued and aggregated in the process of finding the enterprise value.

(iii) Exchange ratio of equity shares of merging firms is determined by their market price alone.

(iv) Preference shareholders in normal circumstances, have no voting rights.

(v) According to basic valuation model, the value of a financial asset is present value of its expected future cash flows.

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

(i) _______________ is one in which security prices fully reflect the available information. (Efficient Market/Stock Market)

(ii) Tobin's Q compares the market value of a company with the _______________ of its assets. (replacement cost/book value)

(iii) _______________ involves splitting up of a large company such as a conglomerate comprising of different divisions, into separate companies. (Amalgamation/Demerger)

(iv) Intangible assets are treated as _______________ assets. (Fictitious/Fixed)

(v) Assets held as stock in trade are _______________ . (investments/not investments)

(vi) In DCF valuation, the value of an asset is present value of _______________ cash flows on the asset. (actual/expected)

(vii) In the _______________ Approach, the key relationships are computed for a group of similar companies or transactions as a basis for valuation of companies involved in a merger or takeover. (Comparable companies/Industry/Real Option)

(viii) _______________ is a measure of value of which tells whether a company is able to generate returns that exceed the costs of capital employed. (Economic Value Added/Market Value Added/ Enterprise Value Added)

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(ix) Recent acquisition shows that the price paid for an acquired company is almost invariably higher than its book value and the difference is incorporated under conventional accounting practice as________________. (capital reserve/goodwill)

(x) The equity value of a company is the value of the ________________ claims of the company. (shareholders/creditors)

(c) In each of the questions given below one out of the four options is correct. Indicate the correct answer: 2×5=10

(i) The cost of capital is not similar to one of the following:

(A) Cut-off rate

(B) Hurdle rate

(C) Target rate

(D) Internal rate of return

(ii) If value of A Ltd. is 50, B Ltd. is 20 and on merger their combined value is 90 and A Ltd. receives premium on merger 12, the synergy for merger is (all amounts are in ₹ Lakhs)

(A) 8

(B) 20

(C) 32

(D) 38

(iii) X Ltd's share beta factor is 1.40. The risk free rate of interest on government securities is 9%. The expected rate of return on the company equity shares is 16%. The cost of equity capital based on CAPM is–

(A) 15.8%

(B) 16%

(C) 18.8%

(D) 9%

(iv) If a company has a P/E ratio of 20 and a ROE (Return on Equity) of 15% then the Market to Book Value Ratio is–

(A) 3 times

(B) 3%

(C) Cannot be calculated from the given information

(D) None of the above