

**FINAL EXAMINATION**

December 2016

*P-20(FABV)  
Syllabus 2012*

**Financial Analysis & Business Valuation**

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Please: (1) Answer all bits of a question at one place.*

*(2) Open a new page for answer to a new question.*

**Section - A**

*In this section Answer Question No. 1(a) and 1(b) which is compulsory.*

1. (a) Answer the following:

2×6=12

- (i) Star Ltd. is presently operating at 40% margin of safety (MOS). Compute its Degree of Operating Leverage (DOL).
- (ii) Compute DSCR from the following annual data: [ ₹ Lakhs] PAT 240, Depreciation 80, Interest expense 80 and principal repayment installment 120.
- (iii) Can Net Working Capital of a firm be negative? Support your answer with necessary reason(s).
- (iv) If a company has ROE (Return on Equity) of 24%, and its Market to Book Value Ratio is 3.6 : 1, then you are required to determine P/E ratio.
- (v) The current ratio of X Ltd. is 2 : 1, while quick ratio is 1.80 : 1. If the current liabilities are ₹ 40,000, calculate the value of stock.
- (vi) The projected cash operating expenditure of a company for the next year is ₹ 1,82,500. It has quick current assets amounting to ₹ 40,000. Determine the defensive-interval ratio and comment.

(b) State whether the following statements are true or false:

1×8=8

- (i) If EPS (Earnings Per Share) of a firm is negative, then one should take the absolute value of it (that is positive value of EPS) while calculating P/E Ratio.
- (ii) If a bond is trading at a discount and assume that its maturity has been increased from 8 years to 10 years, then its price will increase in the bond market.

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- (iii) Tobin's Q compares the market value of a company with the book value of its assets.
- (iv) Beta ( $\beta$ ) represents systematic risk.
- (v) Higher risk firms will have lower Price Earnings ratio than lower risk firms.
- (vi) The higher the Z-Score, there is a greater possibility of bankruptcy.
- (vii) Realistic, error free and flexible are not the attributes of a good financial model.
- (viii) According to basic valuation model the value of a financial asset is present value of its expected future cash flows.

### Section - B

In this section Answer any five questions from the following.

2. (a) Ms. Nisha is an avid investor in fixed income securities. Her portfolio of Bond does not have bonds from AAA rated companies. She is considering purchase of an AAA rated Bond. Two such bonds of AAA rated companies, Bond-A and Bond-B are available in the market that have following features:

|                             | Bond-A      | Bond-B      |
|-----------------------------|-------------|-------------|
| Face Value (₹)              | 100         | 100         |
| Coupon rate per annum       | 15%         | 12%         |
| Periodicity of coupon       | Semi-annual | Semi-annual |
| Time remaining for maturity | 3 years     | 4 years     |
| Current Market Price (₹)    | 110         | 120         |

Her expectation of return from the investment in AAA rated bonds is 10% p.a. which is slightly above the yields in the government securities.

Ms. Nisha is indifferent to the investment horizon of 3 or 4 years.

Required:

Which of the Bonds should she (Ms. Nisha) buy and why?

[Given: PVIFA (5%, 6 periods) = present value of annuity of ₹ 1 received for 6 periods discounted at the rate of 5% per period = 5.0757, PVF (5%, 6 periods) = present value of ₹ 1 received at the end of 6 periods discounted at the rate of 5% per period = 0.7462.

PVIFA (5%, 8 periods) = present value of annuity of ₹ 1 received for 8 periods discounted at the rate of 5% per period = 6.4632, PVF (5%, 8 periods) = present value of ₹ 1 received at the end of 8 periods discounted at the rate of 5% per period = 0.6768.]

- (b) The Balance Sheets of MARAS LTD. for the years ended on 31.03.2015 and 31.03.2016 are as follows:

(Amount in ₹ Lakh)

|                                 | As at 31.03.15   | As at 31.03.16   |
|---------------------------------|------------------|------------------|
| <b>Equity &amp; Liabilities</b> |                  |                  |
| <b>Shareholder's Fund:</b>      |                  |                  |
| Share capital                   | 696.60           | 726.70           |
| Equity Share suspense           | 30.07            | --               |
| Equity Share warrants           | --               | 841.20           |
| Reserve & Surplus               | 31,256.89        | 39,156.40        |
| <b>Non-Current Liabilities:</b> |                  |                  |
| Secured Loans                   | 4,784.56         | 3,300.09         |
| Unsecured Loans                 | 9,128.31         | 14,939.75        |
| Deferred Tax liabilities        | 3,491.00         | 3,936.27         |
| <b>Current Liabilities:</b>     |                  |                  |
| Other current liabilities       | 8,432.77         | 10,522.73        |
| Provisions                      | 856.44           | 1,496.31         |
|                                 | <b>58,676.64</b> | <b>74,919.45</b> |
| <b>Assets</b>                   |                  |                  |
| Non-current assets              | --               | --               |
| Fixed Assets (Net)              | 31,830.23        | 30,941.81        |
| Capital work in progress        | 3,764.07         | 11,502.92        |
| <b>Non-Current Investment:</b>  |                  |                  |
| Investment                      | 8,125.67         | 11,031.80        |
| <b>Current Assets:</b>          |                  |                  |
| Inventories                     | 6,068.25         | 7,123.77         |
| Trade receivables               | 1,866.21         | 3,113.79         |
| Cash and bank balance           | 917.68           | 2,140.03         |
| Other current assets            | 1.53             | 36.27            |
| Loans and advances              | 6,103.00         | 9,029.06         |
|                                 | <b>58,676.64</b> | <b>74,919.45</b> |

Required:

- (i) Prepare the Common-Size Balance Sheet of Maras Ltd.  
(ii) Present and interpret your observations on the common-size Balance Sheet

7+3=10

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3. (a) Balance Sheet of AKANSHA LTD. as on 31.03.2015 and 31.03.2016 are as follows:

| (Amount in ₹ Lakh)   |                 |                 |
|--|-----------------|-----------------|
|  | As at 31.03.15  | As at 31.03.16  |
| <b>Equity &amp; Liabilities</b>  |                 |                 |
| <b>Shareholder's Fund</b>  |                 |                 |
| Share capital  | 600.00          | 600.00          |
| Reserves & Surplus   | 450.00          | 480.00          |
| <b>Non-Current Liabilities:</b>  |                 |                 |
| <i>Long-term Borrowings:</i>   |                 |                 |
| 6% debentures (Unsecured)  | 150.00          | 150.00          |
| Mortgage on freehold property  | 54.00           | 28.50           |
| <b>Current Liabilities:</b>  |                 |                 |
| Trade Payables   | 90.00           | 90.00           |
| Proposed dividend (Subject to TDS)   | 45.00           | 46.50           |
| Provision for taxation   | 42.00           | 75.00           |
| Secured overdraft (by a floating charge on assets)                                   | 30.00           | 165.00          |
|  | <b>1,461.00</b> | <b>1,635.00</b> |
| <b>Assets</b>  |                 |                 |
| <b>Non-Current Assets:</b>   |                 |                 |
| Freehold property  | 450.00          | 480.00          |
| Plant & Machinery (Net)  | 270.00          | 330.00          |
| <b>Non-Current Investments:</b>  |                 |                 |
| Unquoted shares-investment   | 300.00          | 300.00          |
| Quoted shares-investment<br>(Market value ₹ 240 lakh in 2015 and ₹ 300 lakh in 2016) | 225.00          | 225.00          |
| <b>Current Assets:</b>   |                 |                 |
| Inventories  | 105.00          | 150.00          |
| Trade receivables  | 90.00           | 150.00          |
| Cash at bank   | 21.00           | --              |
|  | <b>1,461.00</b> | <b>1,635.00</b> |

The following additional information for the year 2015-2016 is relevant:

|   |               |
|---|---------------|
| Credit Sales                                      | ₹ 1,350 lakh  |
| Credit Purchase                                   | ₹ 1,040 lakh  |
| Overheads   | ₹ 171.50 lakh |
| Depreciation on Plant & Machinery                 | ₹ 35 lakh     |
| Dividend for 2014-15 was paid in full.            |               |
| Amount paid towards taxation for the year 2014-15 | ₹ 43 lakh     |

**Note:** The interest on Mortgage Loan is to be ignored.

You are required to prepare a statement of cash flows for the year ended 31st March, 2016 under Indirect method.

- (b) What are the internal factors responsible for corporate distress? 4
- (c) A firm's current assets and current liabilities are ₹ 16,000 and ₹ 10,000 respectively. How much can it borrow on a short term basis to purchase inventories without reducing the Current Ratio below 1.25? 2

4. The following are the summarized Balance Sheet and Profit & Loss statement of MEGLOW Ltd.

| Balance sheet as at 31st March, 2016                             | (Amount in ₹ Lakh) |
|--|--------------------|
|  | As at 31.03.16     |
| <b>Equity &amp; Liabilities</b>                                  |                    |
| <b>Shareholder's Fund:</b>                                       |                    |
| <i>Share Capital:</i>  |                    |
| Paid up capital (10000000 equity shares of ₹ 10 each fully paid) | 1,000              |
| Reserves & Surplus   |                    |
| Retained Earnings  | 300                |
| <b>Non-Current Liabilities:</b>                                  |                    |
| <i>Long-term borrowings:</i>                                     |                    |
| Debentures   | 1,750              |
| <b>Current Liabilities:</b>                                      |                    |
| Trade payables   | 450                |
| Other current liabilities  | 250                |
| <b>Total</b>   | <b>3,750</b>       |
| <b>Assets</b>  |                    |
| <b>Non-Current Assets:</b>                                       |                    |
| Fixed assets (Net)   | 2,000              |
| <b>Current Assets:</b>   |                    |
| Inventory  | 1,000              |
| Trade Receivables  | 437                |
| Cash and cash equivalents  | 125                |
| Other current assets   | 188                |
| <b>Total</b>   | <b>3,750</b>       |

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