1205M162

Candidate's Seat No :_____

M.B.A.-II (Sem.-IV) Examination

Corporate Finance & Restructuring

Time : 3 Hours] **May-2017** **[Max. Marks : 100**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1) Explain the concept of Corporate Restructuring and different forms of it in detail. (20)

Q.2) AB Ltd. plans to acquire XY Ltd. The following information is available (20)

Particulars	AB Ltd.	XY Ltd.
Total Current Earnings	Rs. 60 Million	Rs. 20 Million
No. of Outstanding Shares	15 Million	10 Million
Market Price per Share	Rs. 40	Rs. 15
Earnings Per Share, EPS	?	?
Price-Earnings Ratio, PE	?	?

i. What is the maximum exchange ratio acceptable to the shareholders of AB Ltd. if the P/E Ratio of the combined entity is 15?

ii. What is the minimum exchange ratio acceptable to the shareholders of XY Ltd. if the P/E Ratio of the combined entity is 20?

iii. At what point do the lines ER1 and ER2 intersect?

OR

Q.2) (A) Meera Company decided to buy Krish Company. Both have revenues of Rs. 20,000 each, operating margin of 15%, tax rate 30%, investment rate 10% and growth rate is 15%. Beta of Meera Company has a 1.2, and Krish Company has a 1.4. Both the firm have 40% debt and a cost of debt is 9%. Because of the synergies anticipated in the acquisition the combined firm is expected to have a beta of 1.3. (10)

1) If the risk free return is 8% and the equity risk premium is 5%. Calculate the cost of capital for the two firms and the combined firm.

(P.T.O)

2) Assuming the value drivers remains constant (and revenues are simply combined), what would be the value of the combined company?

Q.2 (B) Explain the approaches to enterprise/equity valuation in detail (10)

Q.3 (A) Explain Walter's model and Gordon's model in detail (10)

Q.3 (B) The Operating and cost data of a firm are as follows:

Sales- Rs. 20,00,000

Variable Cost- 14,00,000

Fixed Cost- 4,00,000 (including 15% interest on Rs. 10,00,000)

Calculate its operating, financial & combined leverage (10)

Or

Q.3(A) What is capital structure and which are the factors that need to be consider while designing an appropriate Capital structure (10)

Q.3 (B) X limited has capital of Rs.1000000 in equity share of Rs.100 each. The shares are currently quoted at par. The company proposes to declare dividend of Rs.10 per share. K is 12%.What will be market price of share at the end of year 1

(i) If no dividend is declared

(ii) If Rs.10 dividend is declared

Assume that the company pays dividend and has net profit of Rs.500000 and wants to pay investment of Rs.10 lacs. How many new shares should be issued? (10)

Q.4) (A) Suppose there is a project which involves initial cost of Rs 20,000 (cost at t = 0). Risk free rate is 10%. It is expected to generate net cash flows during the first 3 years with the probability as follows:

Year 1		Year 2		Year 3	
Probability	Net cash flows	Probability	Net cash flows	Probability	Net cash flows
0.10	Rs 6,000	0.10	Rs 4,000	0.10	Rs 2,000
0.25	8,000	0.25	6,000	0.25	4,000
0.30	10,000	0.30	8,000	0.30	6,000
0.25	12,000	0.25	10,000	0.25	8,000
0.10	14,000	0.10	12,000	0.10	10,000

Calculate the NPV and comment whether the project should be accepted or not?

Q. 4 (B) Explain Sensitivity analysis & Decision tree approach in detail (10)

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Or

Q. 4 (A) Explain Agency theory in detail and ways through which we can deal with this problem (10)

Q.4 (B) Suppose a firm has an investment proposal, requiring an outlay of Rs 2,00,000 at present (t = 0). The investment proposal is expected to have 2 years' economic life with no salvage value. Discounting rate is 8%. In year 1, there is a 0.3 probability (30 per cent chance) that CFAT will be Rs 80,000; a 0.4 probability (40 per cent chance) that CFAT will be Rs 1,10,000 and a 0.3 probability (30 per cent chance) that CFAT will be Rs 1,50,000. In year 2, the CFAT possibilities depend on the CFAT that occurs in year 1. That is, the CFAT for the year 2 are conditional on CFAT for the year 1. Accordingly, the probabilities assigned with the CFAT of the year 2 are conditional probabilities. The estimated conditional CFAT and their associated conditional probabilities are as follows:

If CFAT1 = Rs 80,000		If CFAT1 = Rs 1,10,000		If CFAT1 = Rs 1,50,000	
CFAT2	Probability	CFAT2	Probability	CFAT2	Probability
Rs 40,000	0.2	Rs 1,30,000	0.3	Rs 1,60,000	0.1
1,00,000	0.6	1,50,000	0.4	2,00,000	0.8
1,50,000	0.2	1,60,000	0.3	2,40,000	0.1

Calculate the expected NPV. (10)

Q.5) Write Short note on: Any 4 (5 marks each) (20)

a) Competition Act

b) Accounting Standard 14

c) Accounting for Demerger

d)Share buyback's guideline as per SEBI

e)Classification of Amalgamation