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III Semester M.B.A. (Day & Evening) Degree Examination,

April/May - 2026

MANAGEMENT

Corporate Valuation and Financial Modelling

(CBCS Scheme 2019)

Time : 3 Hours **Maximum Marks : 70**

SECTION - A

Answer any Five questions from the following. Each question carries 5 marks.

(5×5=25)

1. Distinguish between Spin-off, Split-ups, and Split-off.

2. Sourab International earns a return on equity of 25 percent. Its dividend payout ratio is 0.40. Equity shareholders of Sourab require a return of 18 per cent. The book value per share is Rs. 50.

   a) What is the market price per share, according to the Marakon model?

   b) If the return on equity falls to 22 percent what should be the payout ratio to ensure that the market price per share remains unchanged?

3. Explain various types of anti-takeover defences used by Target company.

4. The key financial parameters of North South Ltd., are as follows:

EBDIT	Rs. 36 Lakh
Book Value of Assets	Rs. 180 Lakh
Sales	Rs. 250 Lakh

Based on the valuation of several cement companies A, B and C companies, it has been found to be comparable to North South Ltd., Their key financial data are as follows:

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Factors	A	B	C
EBDIT	24	30	40
Book Value of Assets	150	160	200
Sales	160	200	320
Market Value	300	480	720

Find the value of North South Ltd., using comparable company approach.

5. The P and L A/c and Balance Sheet of a company for two years (1 and 2) are given below. Assume a tax rate of 30% for year 2:

Particulars	**Amount**	**Amount**
Nets sales	39,200	45,080
Income from marketable securities	980	1,470
Non - operating income	490	980
Total income	**40,670**	**47,530**
COGS	22,540	26,460
Selling and administrative expenses	4,900	5,390
Depreciation	2,450	2,940
Interest expense	2,352	2,744
Total cost and expenses	**32,242**	**37,534**
PBT	8,428	9,996
Tax provision	2,548	3,136
PAT	5,880	6,860
Dividends	2,940	3,430
Retained earnings	2,940	3,430

Balance Sheet **in million**

Liabilities	**Year 1**	**Year 2**
Equity capital	14,700	14,700
R & S	11,760	14,700
Debt	17,640	20,580
	44,100	**49,980**
Assets	**Year 1**	**Year 2**
Fixed Assets	29,400	31,850
Investments(marketable securities)	8,820	9,800
Net current Assets	5,880	8,330
	44,100	**49,980**

All of these represent excess marketable securities

a) What is the EBIT for the year 2?

b) What is tax on EBIT for year 2?

c) What is free cash flow to the firm for the year 2?

6. Two firms C and B operating in the cement industry. Both the firms are planning for a merger. Firm C is worth Rs. 200 lakh and B is worth Rs. 50 lakhs. On merging, the two would allow cost savings with a present value of Rs. 25 lakh Assume that C buys B for a cash of Rs. 65 lakhs. Estimate:

a) The value of the combined Firm

b) The cost of merger for Firm C

c) The NPV to B's shareholders

d) The NPV to C's Shareholders

7. A machinery costs Rs. 20 million and has an economic life of 10 years at the end of which it will have a nil salvage value. If the cost of capital is 15 percent, what is the annual economic depreciation charge?

SECTION - B

Answer any Three questions from the following. Each question carries 10 marks. **(3×10=30)**

8. Explain the strategic motives behind mergers and acquisitions. Critically evaluate at least six such motives behind mergers and acquisitions.

9. Max Limited and Primax Limited are discussing a merger deal in which Max will acquire Primax. The relevant information about the firms is given as follows:

Particulars	**Max**	**Primax**
Total earnings	Rs. 36 million	Rs. 12 million
Number of Shares	12 million	8 million
Earnings per share	Rs. 3	Rs. 1.5
Price-earnings ratio	10	6
Market Price per share	Rs. 30	Rs. 9

a) What is the EPS of the combined Entity if the swap ratio is (i) EPS, (ii) MPS.

b) What is the MPS of the combined Entity if the swap ratio is EPS.

c) What is the maximum exchange ratio acceptable to the shareholders of Max Limited if the PE ratio of the combined firm is 8?

d) What is the minimum exchange ratio acceptable to the shareholders of Primax Limited if the PE ratio of the combined firm is 9?

e) At what point do the lines ER_1 and ER_2 intersect?

10. Interval International Limited is considering a capital project for which the following information is available.

Investment outlay	: 50,000
Project life	: 4 years
Salvage value	: 0
Annual revenues	: 60,000
Depreciation	: Straight line Method (for tax purposes)
Tax rate	: 40%
Debt-equity ratio	: 4:5
Annual costs	: 40,000
Cost of equity	: 18% (Excluding depreciation, interest, and taxes)
Cost of debt	: 9% (post-tax)

From the above information compute:

a) Calculate the EVA of the project over its life.

b) Compute the NPV of the project.

11. Modern Foods is considering a new project involving an investment of Rs. 100 million (Rs. 80 million towards fixed assets and the balance toward net working capital). The project has an economic life of 8 years at the end of which the residual value is expected to be Rs. 20 million (the net working capital). The project is expected to produce Rs. 21.618 million of cash flow each year. The cost of capital is 15 percent. What is the EVA and CVA of the project for years 1 and 4?

For tax and accounting purposes use the straight-line method of depreciation.

Assuming straight line method of depreciation for tax and accounting purposes, calculate the following for years 1 and 4.

a) ROCE, ROGI and CFROI

b) EVA and CVA.

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SECTION - C

12. Case study (Compulsory): **(1×15=15)**

Vista International Corporation is expected to grow at a higher rate for 4 years; thereafter the growth rate will fall and stabilize at a lower level. The following information is available.

Base Year (Year 0) Information	**Amount**
Revenues	3,200 Million
EBIT	480 Million
Capital Expenditure	400 Million
Depreciation	240 Million
Working capital as a percentage of revenues	25%
Corporate Tax Rate (for all time)	35%
Paid up capital (Rs. 10 per share)	360 Million
Market Value of Debt	1,200 Million
Inputs for High Growth Period	
Length of the High Growth Period	**4 years**
Growth rate in Revenues, Depreciation, EBIT and capitals Expenditure	20%
Working capital as a percentage of Revenues	25%
Cost of Debt	14%
Debt Equity Ratio	1.5:1
Risk free rate	10%
Market risk premium	7%
Equity beta	1.25

Inputs for the Stable Growth Rate

Expected Growth Rate in Revenues and EBIT	10%
Capital expenditure is offset by depreciation	
Working Capital as a percentage of revenues	25%
Cost of debt	12% (Pretax)
Debt equity ratio	1.1
Risk free rate	11%
Market risk premium	6%
Equity beta	1

Calculate the value of the firm under DCF method.