

**RISHI BANKIM CHANDRA EVENING COLLEGE**  
**M.COM. SEMESTER IV EXAMINATION-2023**  
**CORPORATE RESTRUCTURING & BUSINESS VALUATION**  
**(COMP DSE08T) (F8)**

**FULL MARKS: 40**

**TIME ALLOWED: 2 HOURS**

**GROUP A**

**Answer any *five* from the following:**

**2x5=10**

1. What is operating synergy?
2. What is management buyouts?
3. What do you understand by Liquidation Value?
4. Write two differences between mergers and acquisitions.
5. What is discounted cash flow valuation?
6. What is ESOP?
7. What is Divestiture?
8. What do you mean by conglomerate merger?

**GROUP B**

**PART I**

**Answer any *one* from the following:**

**5**

9. What is the relevance of valuation in merger and acquisition?
10. Z Ltd has paid a Rs 5 dividend for so long that investors are now convinced that the stock will continue to pay that annual dividend forever. If the next dividend is due in one year and investors require a 10% return on the stock, what is its current market price? What will the price be immediately after the next dividend payment?

**PART II**

**Answer any *one* from the following:**

**5**

11. Information of two stocks SBI and PNB are given. Compare the intrinsic value.

	SBI	PNB
Dividend payout ratio	50%	60.6%
Cost of capital	10%	10%
ROE	14%	12%
EPS	Rs. 2	Rs. 1.65

12. Write a note on valuation of start-ups.

### GROUP C

#### PART I

Answer any *one* from the following:

10

13. Firm E is studying the possible acquisition of Firm F by way of merger. The following data are available in respect of the firms:

	Firm E	Firm F
Earnings after tax (Rs.)	2,00,000	60,000
No. of equity shares	40,000	10,000
Market value per share (Rs.)	15	12

(i) If the merger goes through by exchange of equity share and the exchange ratio is based on the current market prices, what is the new earnings per share for Firm E?

(ii) Firm F wants to be sure that its earnings available to the shareholder will not be diminished by the merger what would be the exchange ratio in that case?

14. Compare internal expansion with expansion through merger. Is diversification a reason for merger? Evaluate it.

#### PART II

Answer any *one* from the following:

10

15. A Ltd, may acquire B Ltd. A Ltd. estimates that B Ltd. will provide net income after taxes of Rs. 20 crores in the first year Rs. 30 crores in the second year Rs. 40 crores in the third year, Rs. 50 crores in each of the year from fourth to sixth year and Rs. 60 crores annually thereafter onwards. B Ltd.

requires fresh capital investment of Rs. 50 crores at the end of first year and depreciation figure for first year will be Rs. 30 crores. Similarly, second year fresh capital investment will be Rs.50 crores and depreciation will be 40 crores. Third year onwards the fresh investment and depreciation will stabilize at Rs. 40 crores each. The aggregate required rate of return is 15 per cent. Judge the value of acquisition based on the above information.

16. Smart Ltd. wants to acquire Dull Ltd. The balance sheet of Dull Ltd. as on 31<sup>st</sup> March, 2022 is as follows:

Liabilities		Assets	
Equity share capital (60,000 shares)	6,00,000	Cash	20,000
Retained earnings	2,00,000	Debtors	30,000
12% Debentures	2,00,000	Inventories	1,70,000
Creditors and other liabilities	3,20,000	Plant and Equipment	11,00,000
	13,20,000		13,20,000

Additional information: a. Shareholders of Dull Ltd. will get one share in Smart Ltd. for every two shares. External liabilities are expected to be settled at Rs. 3,00,000. Shares of Smart Ltd. would be issued at its current price of Rs. 15 per share. Debenture holders will get 13 % convertible debentures in the purchasing company for the same amount. Debtors and inventories are expected to realize Rs. 1,80,000.

b. Smart Ltd. has decided to operate the business of Dull Ltd. as a separate division. The division is likely to give cash flows (after tax) to the extent of Rs. 3,00,000 per year for 6 years. Smart Ltd. has planned that, after 6 years, this division would be de-merged and disposed of for Rs. 1,00,000.

c. Company's cost of capital is 14%. Make a report to the managing director advising him about the financial feasibility of the acquisition. Note: Present Value of Re. 1 for six years @ 14%: 0.8772, 0.7695, 0.6750, 0.5921, 0.5194 and 0.4556.