OPEN BOOK EXAMINATION

NEW SYLLABUS

342

Roll No…………………

Time allowed : 3 hours | *Maximum marks : 100*

Total number of questions : 6 | *Total number of printed pages : 3*

***NOTE** : Answer **ALL** Questions.*

1. A Ltd. and B Ltd. operate in the same industry. Following are their financial statements for the financial year ended 31st March, 2015 :

Balance sheets

Particulars	*A Ltd. (₹)*	*B Ltd. (₹)*
Total current assets	14,00,000	10,00,000
Total fixed assets *(net)*	10,00,000	5,00,000
TOTAL ASSETS	24,00,000	15,00,000
Equity capital *(₹10 each)*	10,00,000	8,00,000
Retained earnings	2,00,000	—
14% Long-term debts	5,00,000	3,00,000
Total current liabilities	7,00,000	4,00,000
TOTAL LIABILITIES	24,00,000	15,00,000

Income statements

Particulars	*A Ltd. (₹)*	*B Ltd. (₹)*
Net sales	34,50,000	17,00,000
Less : Cost of goods sold	27,60,000	13,60,000
Gross profit	6,90,000	3,40,000
Less : Operating expenses	2,96,923	1,45,692
Interest	70,000	42,000
Earnings before tax *(EBT)*	3,23,077	1,52,308
Less : Tax *(35%)*	1,13,077	53,308
Earnings after tax *(EAT)*	2,10,000	99,000

Additional information

Particulars	*A Ltd.*	*B Ltd.*
Number of equity shares	1,00,000	80,000
Dividend payment (D/P) ratio	0.40	0.60
Market price per share *(MPS)*	₹40	₹15

Assume that the two companies are in the process of negotiation for merger through exchange of equity shares. You have been asked by management of both the companies to assist in establishing equitable exchange terms. You are required to —

(a) Decompose the share prices of both the companies into earnings per share (EPS) and price earnings (P/E) components and also segregate their EPS figures into return on equity (ROE) and book value or intrinsic value per share components.

(15 marks)

(b) Estimate the future EPS growth rate for each company.

(5 marks)

(c) Based on expected operating synergies, A Ltd. estimates that the intrinsic value of B Ltd.'s equity share would be ₹20 per share on its acquisition. Develop a range of justifiable equity share exchange ratios that can be offered by A Ltd. to B Ltd.'s shareholders. Based on your analysis in part (a) and (b) above, would you expect the negotiated terms to be closer to the upper or the lower exchange ratio limits ? Give reasons.

(10 marks)

(d) Calculate the post-merger EPS based on exchange ratio of 0.4:1 being offered by A Ltd. Indicate the immediate EPS accretion or dilution, if any, that will occur for each group of shareholders.

(10 marks)

(e) Based on a 0.4:1 exchange ratio and assuming that A Ltd.'s pre-merger P/E ratio will continue after the merger, estimate the post-merger market price. Show the resulting accretion or dilution in pre-merger market prices.

(10 marks)

2. (a) The spot price of Rose Ltd. on 4th June is ₹1,701 per share, and June future on this is being traded at a price of ₹1,740 per share. The lot size is 400 shares. Rohan takes long on this future for 6 lots. Subsequently, on 12th June, the spot price moves to ₹1,750 per share and June future is being traded at a price of ₹1,798. He squares-up two lots at this price. On 23rd June, the spot price falls to ₹1,690 per share and June future is being traded at ₹1,720 per share. He squares-up 3 lots. On the date of valuation, the closing spot price is ₹1,725 per share and his open position is settled through cash differences. Show the outcomes.

(10 marks)

(b) List out the name of some Indian and international credit rating agencies. Describe the main features of the SEBI Regulations relating to credit rating agencies in India.

(10 marks)

(c) Explain the factors affecting the flow of foreign institutional investment (FII) in India in present scenario.

(10 marks)

3. "Options writer has limited profit and unlimited loss whereas options buyer has limited loss and unlimited profits." Discuss this statement with examples.

(5 marks)

4. Explain mark-to-market system of futures market alongwith the various types of margins in Indian financial derivatives market.

(5 marks)

5. Anchor investor plays a vital role in the Indian capital market. Explain.

(5 marks)

6. Explain briefly the capital protection oriented scheme of a mutual fund.

(5 marks)

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