NEW SYLLABUS

447

Roll No. ....

OPEN BOOK EXAMINATION

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

Total number of questions : 6 ***Total number of printed pages : 7***

NOTE : 1. *Answer **ALL** Questions.*

2. *Suitable assumptions, if considered necessary, may be made while answering a question. However, such assumptions must be stated clearly.*

3. *Working notes should form part of the answer.*

PART–A

1. Everest Manufacturing Industrial Limited started 4 years ago, is expected to grow at a higher rate of 4 years in the coming years and thereafter the growth rate will fall and stabilize at a lower level. The following information has been made available to you for your analysis :

Base Year (Year 0) Information	
	(In Million ₹)
Revenues	3000 Million
EBIT	500 Million
Capital Expenditure	350 Million
Depreciation	250 Million
Net Working Capital as a percentage of EBIT	25%
Corporate tax rate (for all scenarios)	30%
Paid-up Equity Capital (10 Face Value)	400 Million
Market value of debt	1200 Million

Inputs for the High Growth Phase	
Length of high growth phase	4 years
Growth rate in revenues, depreciation	20%
EBIT and Capital expenditure :	
Net Working Capital as a percentage of EBIT	25%
Cost of debt (pre-tax)	13%
Debt-equity ratio	1 : 1
Risk-free rate	11%
Market risk premium	7%
Equity Beta	1.129
Inputs for the Stable Growth Phase	
Expected growth rate in revenues and EBIT	10%
Capital expenditure are offset by depreciation	
Net Working Capital as a percentage of EBIT	25%
Cost of debt (pre-tax)	12.14%
Risk-free rate	10%
Market risk premium	6%
Equity Beta	1.0
Debt-equity ratio	2 : 3

With above information background, answer the following questions of the Management :

(*i*) What is the Cost of Capital and Weighted Average Cost of Capital (WACC) for the high growth phase and for the stable growth phase.

(*10 marks*)

(*ii*) What is the Value of the Firm ?

(*10 marks*)

(*iii*) What will be the Cost of Capital and WACC for the high growth phase and for the stable growth phase, if the debt-equity ratio is 1 : 2 during high growth phase and 3 : 2 in the stable growth phase ? Will this change impact the Value of the Firm ? If yes, what will be the value of the Firm with revised debt equity ratio ?

(*10 marks*)

(*iv*) Comparing the given case, discuss on the advantages and disadvantages of the Dividend Discount Models.

(*10 marks*)

2. (*a*) Autumn Spring Limited has FCFF of ₹ 2.0 billion and FCFE of ₹ 1.5 billion. Autumn Spring's WACC is 11 percent, and its required rate of return for equity is 13 percent. FCFF is expected to grow forever at 7 percent, and FCFE is expected to grow forever at 7.5 percent. Autumn Spring has debt outstanding of ₹ 20 billion.

(*i*) What is the total value of Autumn Spring's equity using the FCFF valuation approach ?

(*ii*) What is the total value of Autumn Spring's equity using the FCFE valuation approach ?

(*b*) 'Different bases of value may require a particular Premise of Value or allow the consideration of multiple Premises of Value'—Referring International Valuation Standards discuss briefly on different Premises of Valuation.

(*5 marks each*)

3. (*a*) Aneez Biotech Private Limited is a start-up Venture in Biotech field and expects a Private Equity investment shortly from a Venture Capital investor. In this scenario the Company has approached you to value its business. As a Valuation Consultant, list out various methods of Valuation of these types of entities and explain a method suitable for Aneez Biotech Private Limited.

(*5 marks*)

(*b*) Sanju Limited is studying the possible acquisition of Manju Ltd. by way of merger. The following data is available :

Particulars	Sanju Ltd.	Manju Ltd.
Profits after Tax (PAT)	₹ 600 Lakh	₹ 1000 Lakh
No. of equity shares	5,00,000	1,50,000
Market value per share	₹ 350	₹ 210

If the merger goes through and the exchange ratio is based on current market prices, what is the new EPS for Sanju Ltd. ?

(*5 marks*)

4. (*a*) A listed Company has a beta of 1.5 and the riskless rate for one-year Treasury bills is 5.2% and the expected return for the market is 13.5%. What is the company's capitalization rate ? Suppose the company has expected earnings of ₹ 6.80 per share that have been growing at a rate of 5.5%. The Company retains 25%. What should be the company's share price using a capitalization of earnings approach ?

(*b*) Abishek Powers Ltd. has a constant dividend growth rate of 5% per annum for perpetuity. This year the company has given a dividend of ₹ 6 per share. Further, the required rate of return for the company is 10% per annum. Then, what should be the purchase price for a share of Abishek Powers Ltd. ?

(*5 marks each*)

PART–B

5. (*a*) Mohit, a Techie, who is fond of online games, has developed an online version of 'Trade Game'. The online game has allowed multiple persons from different location to login and play the game. After successfully developing the game, Mohit wondered how to select a business model for it and approached you for suggesting a suitable business model.

Suggest a suitable Business Model to Mohit and explain with example how your model will suit his online gaming portal.

(*b*) Brief the purpose and usage of the following excel functions :

(*i*) EFFECT

(*ii*) ACCRINTM

(*iii*) NPER

(*iv*) XNPV

(*v*) DB.

(*c*) A Company's paid up Capital is ₹ 1000 lakh (Owner's Equity). The Ratios for the Company are :

—	Current Debt to Total Debt	0.40
—	Total Debt to Owner's Equity	0.60
—	Fixed Assets to Owner's Equity	0.60
—	Total Assets Turnover	2 times
—	Inventory Turnover	8 times

Complete the following Balance Sheet given the information above :

In Lakh ₹

Liabilities			Assets		
Owner's Equity		xxx	Fixed Assets		Xxx
Long Term Debt	Xxx		Cash	Xxx	
Current Debt	Xxx		Inventory	Xxx	
Total Debt		xxx	Total Current Assets		Xxx
Total Liabilities		xxxx	Total Assets		Xxxx

(*5 marks each*)

6. (*a*) 'Business leader of business model innovation need to embrace uncertainty, come to the work with a sense of curiosity and patience, and take the time to unpack the learning from what they are seeing around them.' Brief the important principles of designing successful business model.

(*5 marks*)

(*b*) Sibaca Textiles Limited is carrying on dyeing and printing of fabrics. The business of the Company is of a seasonal nature. Peak seasons for the business are January to March and July to September. During peak season period monthly sale will be ₹ 2000 Lakh per month. During each of the off season month the monthly Sales will only be 50% of the Peak season sale.

Out of Total Sales, 10% is cash sale and Credit Sale is 90% and normal credit period allowed is 60 days (received at the end of second month ex. January Sale is received during March). Presently, out of credit sales customers' at least 30% delay the payment and makes payment only at the end of third month.

Fixed Expenses are ₹ 400 Lakh per rnonth and Variable expenses are 60% of the monthly sales of that month and payment for the same have to be made at the end of second month. In the month of September the Company requires ₹ 2000 lakh for new machinery. Bankers of the Company are ready to fund upto ₹ 1700 Lakh.

Opening Cash and Bank Account available is ₹ 500 Lakh. Cash Management policy of the company is to maintain atleast ₹ 500 Lakh as minimum Balance.

The Management is requesting you to prepare :

(*i*) Cash projections for 6 months commencing from July to December with your suggestion that how much the Company need to borrow for new machinery.

(*ii*) Prepare sensitivity analysis of projections, if credit sales customers who are delaying payment (payment received at the end of third month) increases from 30% to 40%. Will it have any impact on new machinery to be bought in September and amount to be borrowed for the same ?

(*10 marks*)

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