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. A Limited and B Limited are in negotiations in which A Limited has expressed the desire to acquire B Limited and it is decided that A Limited will acquire B Limited. For this purpose, the following information has been extracted from the books of both and companies for Financial Year 2018-19 :

Particulars	A Limited (₹)	B Limited (₹)
Statement of Profit and Loss		
Revenue from Operations	1,200	630
Less: Cost of materials consumed, net of expenses capitalized	634	280
Other Operation Expenses	62	32
Interest	10	5
Depreciation and Amortization	64	75
Operating Profit	430	238
Net Non-Operating Income	42	27
Profit Before Tax	472	265
Tax	160	90
Profit After Tax	312	175
Balance Sheet:		
Share Capital (Face value of Shares of both the Companies ₹ 10)	300	200
Reserves and surplus	3210	1356
Non-Current Liabilities	440	104
Current Liabilities	1235	750
Total Liabilities	**5185**	**2410**
Net Fixed Assets	2985	1850
Non-Current Investments & Other Non-Current Assets	575	355
Current Assets	1625	205
Total Assets	**5185**	**2410**
Additional Information:		
Promoters holding in the Company	40%	30%
Free Float Market Capitalization (Assuming that promoters shares are not available for trading in the market)	3,150	1,400

In a joint meeting of the directors of both companies, the following decisions are taken :

(*i*) The swap ratio will be decided by considering the following parameters with the weights as given below :

(*a*)	Book Value	25%
(*b*)	Market Price	40%
(*c*)	EPS	25%
(*d*)	Net Profit Ratio	10%.

(*ii*) All assets and liabilities will be taken over by A Limited at book values.

(*iii*) The combined profit will increase by 10% due to synergy gains arising because of higher scale of operations.

(*iv*) It is expected that the market will look this decision of A Limited as 'a value creator' decision and consequently, it is expected that A Limited's P/E Ratio will increase by 10% from its existing level after the acquisition of B Limited.

Considering the above information, you are required to answer the below questions assuming that the acquisition will be completed as per the terms, given.

(*a*) Find out the Exchange Ratio of Shares for the proposed acquisition of B Limited by A Limited.

(*b*) Find out :

(*i*) Book Value per share of A Limited after acquisition (considering Capital Reserve on Takeover and without considering Capital Reserve on Takeover).

(*ii*) Earnings per share of A Limited after acquisition.

(*iii*) Market price of A Limited's share after acquisition.

(*c*) (*i*) Find out the new Exchange (Swap) Ratio assuming that 100% weightage is applied on Book Value, Market Value, EPS and Net Profit Ratio. Give your reasoning for changes in Exchange Ratio, if any.

(*ii*) Find out the new Exchange (Swap) Ratio if Promoters holdings in A Limited is 50% and B Limited is 75% instead of 40% and 30% respectively as given above and also give your reasoning of its impact in exchange ratio, if any (Consider the same weightage given in the Problem).

(*d*) Across the world there is a fear/resistance for takeovers briefly discuss on pre-takeover and post-takeover defence strategies.

(*10 marks each*)

2. (*a*) PQ Machines Ltd. has a machine having an additional life of 5 years, which costs ₹ 2,00,00,000 and which has present book value of ₹ 50,00,000, which will run for another 5 years without additional maintenance cost and has no salvage value. A new machine costing ₹ 4,40,00,000 is available. Though its capacity is same as that of the old machine, it will mean a saving in variable costs to the extent of ₹ 1,40,00,000 p.a. The life of the machine will be 5 years at the end of which it will have a scrap value of ₹ 80,00,000. The rate of income tax is 30% and PQ Machines Ltd. does not make an investment, if it yields less than 12%. The old machine, if sold, will fetch ₹ 20,00,000.

Advise PQ Machines Ltd. whether the old machine should be replaced or not.

Note :

P.V. of ₹ 1 receivable annually for 5 years at 12% = 3.605

P.V. of ₹ 1 receivable at the end of 5 years at 12% = 0.567

P.V. of ₹ 1 receivable at the end of 1 year at 12% = 0.893.

(*b*) State whether the following statements are true or false with reasons :

(*i*) Divestitures represent the sale of a part of a total undertaking.

(*ii*) In a reverse merger a smaller company acquires a larger company.

(*iii*) Stock Dividends and Stock Splits may increase the stock price but not the value of the business.

(*iv*) Under discounted cash flow model of asset valuation, estimated cash flows during life of the asset are not required.

(*v*) Buying the units of mutual funds is an indirect investment.

(*5 marks each*)

3. (*a*) A project costs ₹ 600 Crore, has a life time of 10 years, and SV = ₹ 100 Crore at the end of 10 years. The company uses straight-line depreciation and the corporate tax rate is 25%. A new machine generates revenue of ₹ 200 Crore yearly for the next ten years and has expenses of ₹ 75 Crore yearly for the next ten years. The cost of capital is 10%. Find NPV and Payback period (*PVIFA = 6.145, PVIF = .386*).

(*b*) Zigzag Ltd. belongs to a risk-class for which the appropriate PE ratio is 15. It currently has 75,000 outstanding shares selling at ₹ 150 each. The company is contemplating declaration of dividend @ ₹ 12 per share at the end of the current fiscal year, which has just started. Given the assumption of Modigliani Miller approach, answer the following questions :

(*i*) What will be the price of the share at the end of the year, if :

(*a*) dividend is not declared ?

(*b*) dividend is declared ?

(*ii*) Assuming that the company pays dividend, has net income of ₹ 7,50,000 and makes new investments of ₹ 15,00,000 during the period, how many new shares must be issued ?

(*5 marks each*)

4. (*a*) This Standard will bring much needed uniformity in valuation and accounting of share-based benefits—Name the Standard. Discuss its objective, scope and recognition.

(*5 marks*)

(*b*) The following financial share data pertaining to XYZ Tech Ltd. an IT company are made available to you :

(₹ in Crore)

Years ended March, 31st	2018	2017	2016
EBIT	696.03	325.65	155.86
Non-branded Income	53.43	35.23	3.46
Inflation Compounded Factor @ 8%	1.000	1.087	1.181
Remuneration of Capital	5% on Average Capital employed		
Average Capital Employed	₹ 1112.00 Crores		
Corporate Tax rate	35%		
Capitalization Factor	16%		

You are required to calculate the Brand value for XYZ Tech Ltd.

(*5 marks*)

PART–B

5. (*a*) State whether the following statements *are true or false* with reasons :

(*i*) Price ratios are not a parameter to get an idea of whether a stock (share) price is reasonable or not.

(*ii*) Return on Assets (RoA) is not an indicator that how good a Company is using its assets to make money.

(*iii*) The current ratio measures a Company's ability to pay its long-term liabilities with its short-term assets.

(*iv*) The more the interest coverage ratio riskier it is.

(*v*) Each Company sets its own dividend policy according to what it thinks is in the best interest of its shareholders.

(*5 marks*)

(*b*) Divya, an Information Technology graduate has developed a Mobile application to connect professionals of a same profession across country. She would like to attract more users for her app and also wants to generate revenue through them. But she is confused to devising a suitable business model for her idea. She has approached you to device a suitable business model for her application.

As a Business Model consultant advice Divya on suitable business and explain her why it will work and also brief her success stories on the model suggested by you.

(*5 marks*)

(*c*) The following figures apply to a small manufacturing company.

Particulars	**Amount (₹)**
Annual sales for the previous year	46,00,000
Profit after tax for the previous year	2,70,960
Budgeted annual sales for the next year	48,40,000
Budgeted profit after tax for the next year	2,80,000

In the first of the two years, the average total assets amounted to ₹ 40,00,000, and are estimated to be ₹ 44,00,000 for the next year. Assuming full budget realization and taking turnover into account, calculate the alteration that will take place in the ratio representing return on capital employed and discuss the reasons for such alteration.

(*5 marks*)

6. (*a*) State whether the following statements are *true or false* with brief reasons :

(*i*) Cash flows cannot be managed by improving receivables.

(*ii*) Top-line sales growth can conceal a lot of problems.

(*iii*) Don't always focus on the lowest price when choosing suppliers.

(*iv*) Subtracting total cash required from opening cash balance yields the cash position before borrowings and inflows from savings.

(*v*) Cash flow Management means delaying outlays of cash as long as possible and encouraging anyone who owes you money to pay it as rapidly as possible.

(*5 marks*)

(*b*) 'Forecasting revenue is one of the biggest challenges for the business Modeller'. Comment and discuss on various approaches to Revenue Forecasting.

(*5 marks*)

(*c*) AKQJ Ltd. sells goods on a gross profit of 25%. Depreciation is considered as a part of cost of production. The following are the annual figures given to you :

Sales (Debtors : 2 Months of Cost of Sales)	₹ 18,00,000
Materials consumed (1 month credit)	₹ 4,50,000
Wages paid (1 month lag in payment)	₹ 3,60,000
Cash manufacturing expenses (1 month lag in payment)	₹ 4,80,000
Administrative expenses (1 month lag in payment)	₹ 1,20,000
Sales promotion expenses (paid quarterly in advance)	₹ 60,000

The company keeps one month's stock each of raw materials and finished goods. It also keeps ₹ 1,00,000 in cash. You are required to estimate the working capital requirements of the company on cash cost basis, assuming 15% safety margin.

(*5 marks*)

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