



BRAINWARE UNIVERSITY

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Term End Examination 2022
Programme – MBA-2019/MBA-2020/MBA-2021
Course Name – Valuation (Securities and Firms)
Course Code - FM303
(Semester III)

Full Marks : 60

Time : 2:30 Hours

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group-A

(Multiple Choice Type Question)

1 x 15=15

1. Choose the correct alternative from the following :

- (i) Under net asset method, value of a share depends on _____. (Identify the correct one)
- a) net assets available to equity shareholders b) net assets available to debentures holders
c) net assets available to preference shareholders d) none of the above
- (ii) While deciding net asset value, fictitious assets _____ (Choose the correct one)
- a) should be considered b) should not be considered
c) added to total assets d) none of the above
- (iii) Value of a partly paid equity share is equal to _____. (Choose the correct one)
- a) Value of fully paid share - calls unpaid per share b) a. Calls in arrears per share
c) Paid-up value per share d) None of the above
- (iv) If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond can be interpreted as exposed to
- a) Coupon effect b) Interest rate risk
c) A perpetuity d) An indefinite maturity
- (v) A share is expecting to maintain its current earning level indefinitely (earning is Rs.4 per share). Investors expects to earn 10% on this investment firm is expected to retain only 10% of its earnings. Calculate the intrinsic value of a share?
- a) Rs.4 b) Rs.36
c) Rs.6 d) Re.1
- (vi) As per IBC (amendment) Ordinance 2018, home buyers are categorized as-
- a) Operational creditors b) Financial creditors
c) Corporate Debtors d) Not recognized
- (vii) Shares and bonds are float in_ (Identify the correct one)

- a) Money Market
c) Equity Market
- b) Capital Market
d) Commercial Bank
- (viii) If the maturity period of Bond is lower, the premium will be (Select the correct one)
- a) Higher
c) Equal
- b) Lower
d) None of the above
- (ix) The dividend growth rate can be stated as
- a) Dividend yield
c) Market rate
- b) Discount rate
d) Capital gains yield
- (x) The cost of capital is equal to the required rate of return, it will be applicable to- (Select the correct one)
- a) Common stock holder
c) Preferred stock holder
- b) Equity stock holder
d) Debenture holder
- (xi) Recognize the difference between shares and bonds
- a) Bond represents ownership but share cannot do it
c) Shares and Bond both have ownership
- b) Share represents ownership where Bond do not.
d) Shares and Bond both represent liabilities
- (xii) Goodwill is to be valued when _____ (Select the correct answer)
- a) amalgamation takes place
c) a partner is admitted
- b) one company takes over another company
d) All of the above
- (xiii) Super profit is _____ (Select the correct answer)
- a) excess of average profit over normal profit
c) average profit earned by similar companies
- b) extra profit earned
d) none of the above
- (xiv) Black Scholes Model is constructed on-
- a) Normal distribution
c) Probability of distribution
- b) Average distribution
d) Weighted average distribution
- (xv) When weighted average cost of capital decreases, the debt equity ratio _ (Select the correct one)
- a) Decreases
c) Remains the same
- b) Increases
d) No relation between the two

Group-B

(Short Answer Type Questions)

3 x 5=15

2. Briefly describe the concept of Share/Stock Swap with suitable example (3)
3. Identify and interpret four techniques of relative valuation (3)
4. Explain the concept of contingent claim valuation approach (3)
5. There are four primary techniques of business forecasting. Illustrate any one of them. (3)
6. Write down the differences between IRR & ARR (3)

OR

S Limited intends to pay a Re.1 dividend per share next year and it is expected that this would increase by 5% per year thereafter. Let's further assume the required rate of return on S Limited's stock is 10%. Currently, XYZ Company stock is trading at Rs.10 per share. Further, assume that during the next few years S Limited's dividends will increase rapidly and then grow at a stable rate. Next year's dividend is still expected to be Re.1 per share, but dividends will increase annually by 7%, then 10%, then 12%, and then steadily increase by 5% after that. Compute the intrinsic value and fair value of S Limited's stock. (3)

Group-C

(Long Answer Type Questions)

5 x 6=30

7. I Ltd wants to acquire G Ltd. The relevant information are as follows: (5)

Particulars	I Ltd.	G. Ltd.
Number of equity shares	600,000	200,000
Profit after Tax	Rs.2000,000	Rs.1000,000
Market price per share	Rs.20	Rs.15

Calculate :

(a) EPS of two company

(b) Exchange Ratio

8. "Valuation is considered as important in raising fund". Explain justification of this statement (5)
9. A retail unit selling manufactured tools has a profit of Rs.200000. It has preferred stock on which Rs.20000 dividend has been declared. Also, it has 30000 numbers of RS.5 equity share. Calculate return on equity (5)
10. A project generates revenues of \$1,000, has cash expenses of \$600, and depreciation charges of \$200 in a particular year. The firm's tax rate is 35%. Calculate the firm's net income (5)
11. In Merger and acquisition critically explain Porters three tests with reference to diversification and shareholders value. (5)
12. Briefly describe the main objectives of valuation (5)

OR

Describe the points considered for making a valuation effective (5)
