BRAINWARE UNIVERSITY

Term End Examination 2018 - 19

Programme – Bachelor of Business Administration

Course name -Business Analysis and Valuation

Course Code–BBA604F

(Semester – 6)

Time allotted:3 Hours **Full Marks: 70**

[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) 10 x 1 = 10

1. *Choose the correct alternative from the following*

(i) Techniques which are used to identify financial statements trends include

a. common size analysis
b. percent change analysis
c. returning ratios analysis
d. Both a and b

(ii) Profit margin = 4.5%, assets turnover = 2.2 times, equity multiplier = 2.7 times then return on equity will be

a. 26.73%
b. 26.73 times
c. 9.40%
d. 0.4 times

(iii) Listed companies can be valued at

a. Book Value
b. Market value
c. Salvage value
d. Liquidation value

(iv) Corporate wealth maximization is the value maximization for_____

a. Equity shareholders
b. Stakeholders
c. Employees
d. Debt capital owners

(v) An asset is officially appraised and priced on _____

a. verification date
b. valuation date
c. report date
d. effective date

(vi) The following methods is included in 'Asset based approach' (cost-based approach)

a. Comparable Companies' Multiple Method
b. Replacement Method
c. Earnings Capitalization Method
d. Discounted Cash Flow Method

(vii) Low price for earning ratio is result of

a. low riskier firms
b. high riskier firms
c. low dividends paid
d. high marginal rate

(viii) Justifications for M&As do not include:

a. to enter new markets
b. to achieve synergy
c. to gain economies of scale
d. to increase risk

(ix) The following would most likely be useful for performing sensitivity analysis of business valuation

a. Standard of Value
b. Understanding of Business
c. Premise of Value
d. Audit Opinion

(x) The following valuation methods would most likely not be used for business valuation

a. Discounted Cash Flow
b. Net Assets Method
c. Multi-period Excess Earning Method
d. Industry Price Earnings Ratio

Group – B

(Short Answer Type Questions) 3 x 5 = 15

Answer any *three* from the following

2. Draw the forces that drive Merger and Acquisitions 5
3. Describe the Discounted Cash Flow Valuation Model. 5
4. Calculate the trend % from the following figures of Rahul Ltd. taking 2014-15 as the base year and interpret. 5

Year	Sales Revenue (Rs. ‘000)	Inventories (Rs. ‘000)	EBT (Rs. ‘000)
2014-15	1992	729	331
2015-16	2450	801	455
2016-17	2765	836	478
2017-18	3131	964	548
2018-19	3878	1264	692

5. Using Altman’s Multiple Discriminant Function, calculate Z-score of S & Co. Ltd., where the five accounting ratios are as follows and interpret about its financial position: 5

Working Capital to Total Assets = 45%

Retained Earnings to Total Assets = 25%

EBIT to Total Assets = 30%

Market Value of Equity Shares to Book Value of Total Debt= 2.50
Sales to Total Assets = 3 times

6. Following figures have been extracted from the records of a company: 5

Year	2016-17	2017-18
Sales (Rs.)	5,00,000	8,40,000
Units Sold	10,000	14,000

Account for changes in sales value due to changes in sales quantity, selling price and both

Group – C

(Long Answer Type Questions) 3 x 15 = 45

Answer any *three* from the following

7. (a) Following are the information of two companies for the year ended 31st March, 2014:

Particulars	Company A Rs.	Company B Rs.
Equity Shares @ Rs.10 each	8,00,000	10,00,000
10% Preference Shares @ Rs. 10 each	6,00,000	4,00,000
Profit after tax	3,00,000	3,00,000

Assume the Market expectation is 18% and 80% of the Profits are distributed.

(i) Calculate the rate you would pay to the Equity Shares of each Company: 6

(a) If you are buying a small lot.

(b) If you are buying controlling interest shares.

(ii) If you plan to Invest only in preference shares determine the company's preference shares would you prefer? 6

(iii) Would your rates be different for buying small lot, if the company 'A' retains 30% and company 'B' 10% of the profits? 3

8. (a) The following are the Balance Sheet of Maharaj Ltd. as on 31.03.17 and 31.03.18 15

	31.03.2017 Rs.	31.03.2018 Rs.
Current Assets:		
Cash and Bank Balance	23,600	2,000
Debtors	41,800	38,000
Inventory	32,000	26,000
Other Current Assets	6,400	2,600
(A)	1,03,800	68,600
Fixed Assets :		
Land and Building	54,000	34,000
Plant and Machinery	62,000	1,57,200
Furniture	5,800	9,600
(B)	1,21,800	2,00,800
Long term investment (C)	9,200	11,800
Total assets (A + B + C)	**2,34,800**	**2,81,200**
Current Liabilities (D)	52,400	25,400
Long-term Debt (E)	40,000	65,000
Owners' Equity:		
Equity Share Capital	80,000	1,20,000
Reserve and Surplus	62,400	70,800
(F)	142,400	1,90,800
Total Liabilities and Capital (D + E + F)	**2,34,800**	**2,81,200**

Prepare Comparative Balance Sheet and study its financial position.

9. (a) Examine the objective of corporate branding 5

(b) Identify the factors that can influence brand valuation 5

(c) Explain the steps in brand valuation 5

11. Fat Ltd. wants to acquire Lean Ltd., the balance sheet of Lean Ltd. as on 31.03.2018 is as follows: 15

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
(1) Shareholders Fund:		**(1) Non-Current Assets**	
Share Capital : 60,000 Equity Share @ Rs.10 each	6,00,000	Fixed Assets	11,00,000
Reserve & Surplus	2,00,000		
(2) Non-Current Liabilities		**(2) Current Assets**	
Long Term Borrowings- 12% Debenture	2,00,000	- Inventories	1,70,000
		- Sundry Debtors	30,000
		- Cash and Cash Equivalent	20,000
(3) Current Liabilities			
Trade Payables	3,20,000		
Total	**13,20,000**	**Total**	**13,20,000**

Additional information :

(i) Shareholders of Lean Ltd. will get one share in Fat Ltd. for every two shares. External liabilities are expected to be settled at Rs.3,00,000. Shares of Fat Ltd. would be issued at its current price of Rs.15 per share. Debenture holders will get 13% convertible debentures in the purchasing companies for the same amount. Debtors and inventories are expected to release Rs.1,80,000.

(ii) Fat Ltd. has decided to operate the business of Lean Ltd. as a separate division. The division is likely to give cash flow (after tax) to the extent of Rs.3,00,000 per year for 6 years. Fat Ltd. has planned that after 6 year this division would be damaged and disposed off for Rs.1,00,000.

(iii) 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% interest : 0.8772, 0.7695, 0.6750, 0.5921 ,0.5194 and 0.4556.
