Roll No…………

GL BAJAJ Institute of Management & Research Greater Noida

FIND YOUR SPARK

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2024-26)
END TERM EXAMINATION (TERM -III)

Subject Name: **Business Valuation and Financial Modelling**	Time: **02.00 hrs**
Sub. Code: **PGF31**	Max Marks: **40**

Note: All questions are compulsory. Section A carries 12 marks: 6 questions of 2 marks each, Section B carries 18 marks having 3 questions (with internal choice question in each) of 6 marks each and Section C carries 10 marks one Case Study having 2 questions of 5 marks each.

Kindly write all the course outcomes as per your TLEP in the box given below:

- **CO1-** Identify and understand core concepts of Business Alliance. Evaluate the opportunity in M& A deals.
- **CO-2** Critically assess and analyze value of the business for M&A and other valuation methods.
- **CO-3** Propose appropriate Financing and implementation strategies for M&A deal.
- **CO-4** Understand the building blocks, best practices, and types of financial modelling

SECTION – A

Attempt all questions. All questions are compulsory. **2×6 = 12 Marks**

Questions	CO	Bloom's Level
Q. 1: (A). What do you understand by hubris hypothesis? **Q. 1: (B).** What do you understand by synergy in mergers and acquisition? **Q.1: (C).** With the help of relevant examples, briefly explain the concept of merger through absorption. **Q. 1: (D).** What is the appropriate discount rate to be used if the projected cash flow is Free Cash Flow to Equity (FCEE). Briefly justify your answer **Q. 1: (E).** Refer to the data given below and compute the initial cash flow and operating cash flow of the project. • Initial Capital Investment = $4,00,000 (On Equipment to be depreciated over 8 years = Straight Line Method) • Change in the Net Working Capital = $55000 • Sales each year = $3,20,000 • Cash Operating Expenses = $ 90,000 • Life of Project = 8 Years • Tax Rate = 30% **Q. 1: (F).** One of the divestment types is equity carve out. Briefly explain what you understand by Equity Carve Out?	1,2	1,2,4

SECTION – B

All questions are compulsory (Each question has an internal choice. Attempt anyone (either A or B) from the internal choice) **6 x 3 = 18 Marks**

Questions	CO	Bloom's Level
Q. 2: (A). In mergers and acquisitions, the sell-side represents the perspective of the company being acquired. The success of a sell-side transaction depends on a range of factors, from market conditions to the company's internal financial health. Discuss the factors affecting sell side M&A. **Or**	3	3,4

Q. 2: (B). An acquirer intends to fully acquire a target company by issuing its own shares in exchange for the target's shares. The acquirer's stock is currently trading at \$54 per share, while the target's stock is trading at \$75 per share. The Price-to-Earnings (P/E) ratio for the acquirer is 9, and for the target, it is 15. The acquirer has 8,000 shares outstanding, and the target has 3,000 shares outstanding. Additionally, the acquisition is expected to generate a synergy value of \$10,000 in increased net income post-acquisition. Assume that no debt is involved in the transaction. Calculate the accretion or dilution of earnings per share (EPS) for the acquirer after the acquisition, factoring in the synergy addition to the target's net income.		
Q. 3: (A). Financial models come in various forms, each designed to meet specific business needs. These models serve different purposes, from valuation to budgeting. List and briefly explain different types of financial models commonly used in business and finance. **Or** **Q. 3: (B).** Color coding is an important technique in financial modeling, used to enhance readability and organization. It helps distinguish between different types of data, assumptions, and formulas, making the model easier to navigate and understand. In this context, briefly list down the broad color scheme which may apply to different elements of a model. Further, explain the broad structure of a three-statement model.	4	1
Q. 4: (A). When companies face the threat of hostile takeovers, they sometimes look for help from 'knights'; a term used to describe potential buyers who step in to save the company. In this context explain how White Knights and Gray Knights help in situation of hostile takeover? **Or** **Q. 4: (B).** Due diligence is a critical step in the mergers and acquisitions (M&A) process, ensuring that both parties have a clear understanding of the financial, legal, and operational aspects of the deal. Discuss the key components of financial due diligence in an M&A transaction?	1	1, 2

SECTION - C

Read the case and answer the questions (on Excel) **5×02 = 10 Marks**

Questions	CO	Bloom's Level
Q. 5: Case Study: An analyst has collected the following financial data of a firm ABC. He is entrusted with the job of creating a dynamic financial model for valuation purposes. **Current Financials:** • Revenue: ₹75,000 lakh • EBIT: ₹8,700 lakh • Depreciation: ₹300 lakh • Net Working Capital Investment: ₹900 lakh • CAPEX: ₹1,900 lakh • Tax: 25% **Other Details:**	2	5, 6

Particular	Value
Growth Rate (High Period Growth)- Stage 1	14%
Growth Rate (Transition Period Growth)- Stage 2	9%
Growth Rate (Steady State) – Stage 3	5%
Duration of Stage 1	5 Years
Duration of Stage 2	3 Years

More Details:

Particular	High Growth Period and Transition Period	Steady State
Beta	1.6	1.1
Risk Free Rate	4.00%	4.00%
Risk Premium (rm- rf)	7%	6%
Weight of debt	30%	20%
Weight of Equity	70%	80%
Cost of Debt (Pre Tax)	6%	4%

Questions:

Q. 5: (A). Create a dynamic Excel model. You may consider FCFF as the cash flows.

Q. 5: (B). Compute the value of the firm.

Note: You may take appropriate assumption if required.

Kindly fill the total marks allocated to each CO's in the table below:

COs	Question No.	Marks Allocated
CO1	1, 4	12
CO2	1,5	16
CO3	2	6
CO4	3	6