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 (2024-25)

MID TERM EXAMINATION (TERM -III)

Subject Name: Business Valuation and Financial Modelling **Time: 01.00 hrs**

Sub. Code: PGF43 **Max Marks: 20**

Note:

1. Writing anything except Roll Number on Question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.

2. There is no negative marking for wrong answer.

3. Calculators are allowed for the Paper.

Attempt all questions. All questions are compulsory. **3×4 = 12 Marks**

Case 1:

ABC Ltd, having a strong presence in consumer electronics, has announced its plan to acquire XYZ Ltd, a mid-sized software development company specializing in artificial intelligence (AI) solutions. The acquisition is expected to help ABC Ltd enhance its AI capabilities and also strengthen its market position in the technology sector.

XYZ Ltd, company's board believes that ABC Ltd's offer undervalues XYZ Ltd's potential. Some shareholders also fear a hostile takeover. Meanwhile, ABC Ltd is conducting due diligence to assess XYZ Ltd's financial health, technology assets, and potential liabilities before finalizing the deal.

ABC Ltd's management has outlined several motives for the acquisition, including synergies, market expansion, and technological innovation. Additionally, ABC Ltd's leadership is emphasizing synergy as a key driver for the acquisition. The company expects that by combining its hardware expertise with XYZ's AI capabilities, they can create advanced AI-powered consumer electronics, leading to increased efficiency and higher profitability. However, analysts debate whether these projected synergies are realistic and whether the expected cost savings and revenue growth will materialize after the merger.

The deal is being closely watched by industry analysts, investors, and regulators, who are evaluating the strategic rationale and potential risks associated with the merger.

Q. 1. XYZ Ltd's board is concerned about a possible hostile takeover. XYZ Ltd decides to issue additional shares at a discount to existing shareholders, making the acquisition more expensive for ABC Ltd. Which type of takeover defence is being implemented? List down and explain any other two takeover defence methods. **(CO1, L1)**

Q. 2. During the due diligence process, ABC Ltd discovers that there is a pending lawsuit related to patent infringement on XYZ. How should this finding impact ABC Ltd's acquisition strategy? What are the other key aspects that a company should look upon while conducting a due diligence. **(CO1, L2)**

Q. 3. Some analysts argue that ABC Ltd's primary motive for acquiring XYZ Ltd is to eliminate competition rather than achieve synergies. What are the various types of motives of merger, briefly explain any two motive with the help of appropriate example. **(CO1, L2)**

Case 2: **1×8 = 8 Marks**

XYZ Ltd is a rapidly growing technology company that has been expanding its presence in the automation sector. Over the past few years, the company has reinvested a significant portion of its earnings to fuel growth. However, recognizing its strong cash flow position, XYZ Ltd has now decided to start distributing dividends to its shareholders.

The company has recently announced a dividend of $2 per share today and expects to experience a high growth rate of 15% per year for the next four years as it capitalizes on emerging market opportunities. After Year 4, the company anticipates stabilizing, with dividends growing at a constant rate of 5% per year indefinitely.

The following market data is available:

- The risk-free rate is 4%
- The market return is 12%
- XYZ Ltd's beta is 1.4

Q. 4. Determine the appropriate discount rate (Cost of equity) and calculate the intrinsic value of XYZ Ltd.'s stock today. If the discount rate increases by 1%, will this result in higher or lower intrinsic value? Explain. Further, what you understand by sensitivity and scenario analysis. **(CO2, L3)**