GL BAJAJ Institute of Management & Research Greater Noida FIND YOUR SPARK

Roll No...........

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

POST GRADUATE DIPLOMA IN MANAGEMENT (2025-27)
END TERM EXAMINATION (TERM-III)

Subject Name: **Business Valuation & 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 the all the course outcomes as per your TLEP in the box given below:

CO#	**Statement of Course Outcomes**	**Bloom's Taxonomy**
CO1	Analyze the concept, forms, and strategic significance of mergers, amalgamations, and business alliances, including legal frameworks, due diligence processes, and post-merger integration challenges in corporate strategy.	L1, L2, L3
CO2	Develop the ability to design and construct financial models using spreadsheet tools, integrating accounting and corporate finance principles to support financial analysis and decision-making.	L1, L2, L3
CO3	Evaluate business valuation techniques including Discounted Cash Flow (DCF), Free Cash Flow models (FCFF & FCFE), cost of capital estimation, and relative valuation methods for assessing firm value.	L2, L3, L4, L5
CO4	Assess the financial and strategic implications of corporate restructuring and alliance implementation, including EPS impact, exchange ratio determination, leveraged buyouts, and market valuation effects.	L3, L4, L5

SECTION - A

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

Questions	**CO**	**Bloom's Level**
Q. 1: (A). What is a Poison Pill strategy in defense against a hostile takeover?	CO1	L2
Q. 1: (B). What are any two forms of business alliances? Briefly define them.	CO1	L2
Q. 1: (C). What is due diligence in mergers and acquisitions, and why is it important?	CO1	L3
Q. 1: (D). State any two uses of financial modelling.	CO2	L2
Q. 1: (E). Mention any two best practices in financial modelling.	CO2	L2
Q. 1:(F). What is meant by assumptions in a financial model?	CO2	L2

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). Due diligence plays a critical role in the success of mergers and acquisitions. Explain what due diligence is with its various types and how it helps in minimizing risks during the acquisition process.	C01	L2

Or **Q. 2: (B).** A company may pursue either a friendly or a hostile takeover depending on strategic intent. Explain the concept of a hostile takeover mentioning different ways and briefly differentiate it from a friendly takeover**.**	CO1	L3
Q. 3: (A). Briefly explain why WACC is considered the minimum required rate of return for investment decisions and how changes in capital structure can impact it. (2 Marks) A company has the following capital structure: Equity = ₹10,00,000 and Debt = ₹5,00,000. • Risk-free rate = 6% • Market return = 14% • Beta = 1.2 • Interest rate on debt = 10% • Tax rate = 30% Calculate the cost of equity using CAPM, the after-tax cost of debt, and then compute the WACC of the firm. (4 Marks)	C02	L3
Or **Q. 3: (B).** How does a firm's choice between high fixed costs and high debt financing affect its overall risk, and under what business conditions can high leverage be beneficial or harmful? (2 Marks) A company has sales of ₹12,00,000 with variable costs equal to 55% of sales and fixed operating costs of ₹2,40,000. The firm has ₹4,00,000 debt at 12% interest and equity shares of ₹10 each (20,000 shares). Calculate the degree of operating leverage, financial leverage, and combined leverage at the current level of sales, and analyze the impact on EPS if sales increase by 20%. (4 Marks)	CO2	L4
Q. 4: (A). Explain the concepts of Leveraged Buyout (LBO), Management Buyout (MBO), and bootstrapping in business financing. How do these approaches differ in terms of financing structure, ownership, and risk, and what are their respective advantages and challenges?	C04	L2
Or **Q. 4: (B**). Company X is planning to acquire Company Y using a total stock to stock deal.	CO4	L2

Particulars	Company X	Company Y
Market Price (₹)	80	40
P/E Ratio	8	5
No. of Shares	10,000	4,000

Calculate EPS and PAT of both companies, determine the exchange ratio based on market price, compute the post-merger EPS, and conclude whether the acquisition results in accretion or dilution**.**

SECTION - C

Read the case and answer the questions **5×02 = 10 Marks**

Questions	**CO**	**Bloom's Level**
Q. 5: Case Study: **Two-Stage FCFF Valuation (Manufacturing Firm)**	CO3	L4.5

ABC Ltd. is a mid-sized manufacturing company operating in a competitive industry with steady demand and moderate capital intensity. The firm has recently undertaken capacity expansion and process improvements, which are expected to drive higher growth in the near term. However, as the industry matures, the company is expected to transition into a stable growth phase with predictable cash flows and lower risk.
The management is interested in estimating the intrinsic value of the firm to support strategic decisions such as expansion financing, capital restructuring, and investor communication.

Base Year Data

Particulars	Value
Revenues	₹5,000 million
EBIT Margin	14%
Capital Expenditure	₹400 million
Depreciation	₹250 million
Net Working Capital (% of Revenue)	25%
Tax Rate	30%
Market Value of Debt	₹1,500 million
Number of Shares	100 million

High Growth Phase (4 Years):

- Revenue, EBIT, CapEx, Depreciation growth: 12% p.a.
- Cost of Debt: 10% (pre-tax)
- Debt-Equity Ratio: 1:1
- Risk-Free Rate: 8%
- Market Risk Premium: 7%
  Beta: 1.2

Stable (Terminal) Phase:

- Growth Rate: 5%
- CapEx = Depreciation
- Net Working Capital: 25% of revenue
- Cost of Debt: 9% (pre-tax)
- Debt-Equity Ratio: 2:3
- Risk-Free Rate: 7%
- Market Risk Premium: 6%
  Beta: 1.0

Questions:

Q. 5: (A). Forecast the Free Cash Flow to Firm (FCFF) for 4 years, compute the WACC for both the high-growth and stable phases, and estimate the terminal value at the end of Year 4. (5 Marks)

Q. 5: (B). Determine the enterprise value of the firm using the DCF approach & discuss how capital intensity and cyclicality in manufacturing firms influence cash flow projections and discount rate assumptions in DCF valuation. (5 Marks)

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

COs	Marks Allocated	Questions
CO1	12	1 (a,b,c) & 2
CO2	**12**	**1 (d,e,f) & 3**
CO3	10	5

CO4	06	4
CO5		
CO6		

(Please ensure the conformity of the CO wise marks allocation as per your TLEP.)

Blooms Taxonomy Levels given below for your ready reference:

L1= Remembering
L2= Understanding
L3= Apply
L4= Analyze
L5= Evaluate
L6= Create