Roll No…………

GL BAJAJ
Institute of Management & Research. PGDM Institute
FIND YOUR SPARK
GREATER NOIDA (Approved by A.I.C.T.E., Ministry of HRD, Govt. of India)

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

POST GRADUATE DIPLOMA IN MANAGEMENT (2023-25)
MID TERM QUIZ 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 Quiz 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. Tick marks the correct answer.
4: Calculators are allowed

Attempt all questions. All questions are compulsory.

Sec A (10×0.5= 5 Marks)

Q1. The surplus cash generated by the company after all capital expenditure, depreciation, change in working capital, payment due on debt, taxes etc. are taken care of is known as: **(CO1, L3)**

a) Free cash flow to equity
b) Free cash flow to debt
c) Free cash flow to the firm
d) Both A & C

Q2: The merger of Bank of Baroda, Vijaya Bank, and Dena Bank in 2019 to form the third-largest bank in India exemplifies a: **(CO1, L2)**

a) Horizontal merger
b) Vertical merger
c) Conglomerate merger
d) Reverse merger

Q3: What is a white knight strategy in the context of takeover defense? **(CO1, L1)**

a) A hostile bidder aiming for a hostile takeover.
b) A strategy to outbid the original acquirer.
c) A defensive tactic involving litigation.
d) A friendly third-party acquirer sought by the target company.

Q4: ABC Pvt Ltd (a company with expertise in the hotel industry) and EFG Pvt Ltd (a company with expertise in real estate) merge. This is what type of merger? **(CO1, L1)**

(a) Vertical
(b) Horizontal
(c) Conglomerate
(d) None of the options is correct.

Q5. What does the term "golden parachute" refer to in takeover defense? **(CO1, L1)**

a) Offering a premium to existing shareholders
b) Diluting the acquirer's shareholding through stock issuances
c) A lucrative severance package for top executives in case of a takeover
d) Conducting a leveraged buyout to take control of the company.

Q6. Due diligence means thorough and sound homework before the execution of deal **(CO1, L1)**

a) True
b) False

Q7: A "people pill" defense involves: **(CO1, L2)**

a) Offering key employees' lucrative incentives to remain with the company after a takeover.
b) The employees and key management employees together threaten the company to exit if acquired by hostile takeover.
c) Issuing new shares to dilute the acquirer's ownership stake.
d) Creating a staggered board structure to slow down the acquisition process.

Q8: What is the purpose of using a two-stage DCF model? **(CO2, L2)**

a) To simplify the valuation process.
b) To account for short-term fluctuations in cash flows.
c) To accommodate period of rapid growth followed by stable growth.
d) To eliminate the need for discounting future cash flows.

Q9: Leveraged Buyout is a strategy in which: **(CO1, L2)**

(a) The funding of the deal is mainly through debt.
(b) The funding of the deal is 50% debt and 50% equity.
(c) The funding of the deal is mainly through equity.
(d) None of the options is correct.

Q10. Types of due diligence to be looked at in M&A include: **(CO1, L1)**

(a) Financial Due Diligence
(b) HR Due Diligence
(c) Both the options are correct
(d) None of the options are correct

Sec B (5×1= 5 Marks)

Q11. Two or more companies combines into any of the existing participating companies. What type of merger is this? **(CO1, L1)**

a) Merger through absorption
b) Merger through consolidation
c) Merger through connection
d) None of the options is correct.

Q12: How does an increase in the discount rate affect the present value of future cash flows in a DCF model? **(CO2, L2)**

a) Can Increase or Decreases the present value of future cash flows.
b) Increases the present value of future cash flows.
c) It has no effect on the present value of future cash flows.
d) Decreases the present value of future cash flows.

Q13: Hostile raider hires a third party who poses as a ________________________ to gain trust but later turns around and joins unfriendly bidder. **(CO1, L1)**

(a) Yellow Knight
(b) Gray Knight
(c) White Knight
(d) None of the options is correct

Q14: If the risk-free rate is 5%, market return is 15% and the beta is 1.5, then the expected return of a security is: **(CO2, L3)**

(a) 18.5%
(b) 20.0%
(c) 25.0%
(d) 14.8%

Q15: In a DCF valuation, the discount rate used to calculate the present value of dividend cash flows is typically: **(CO2, L2)**

a) The risk-free rate
b) The company's cost of equity
c) The company's cost of debt
d) None of the above

Sec C (5×2= 10 Marks)

Q16. Light Construction Machinery Company has an expected ROE of 11%. The steady dividend growth rate will be **_______** if the firm follows a policy of paying 25% of earnings in the form of dividends. **(CO2, L3)**

a) 3.0%
b) 4.8%
c) 8.25%
d) 9.0%
e) None of the above

Q17: Smart Draw Company is expected to have per share FCFE in year 1 of $1.20, per share FCFE in year 2 of $1.50, and per share FCFE in year 3 of $2.00. After year 3, per share FCFE is expected to grow at the rate of 10% per year. An appropriate return required for the stock is 14%. The stock should be worth **_______** today. **(CO2, L3)**

a) $33.00
b) $12.68
c) $55.00
d) $66.00
e) $40.68
f) None of the above

Q18: The most appropriate discount rate to use when applying a FCFE valuation model is the **___________**. **(CO2, L2)**

a) Required rate of return on equity
b) WACC
c) Risk-free rate
d) Any of the above (depends on the debt level of the firm).
e) none of the above
f) None of the above

Q19. Consider the free cash flow approach to stock valuation. ABC Ltd is expected to have before-tax and depreciation cash flow from operations of $500,000 in the coming year. The firm's corporate tax rate is 30%. It is expected that $200,000 of operating cash flow will be invested in new fixed assets. Depreciation for the year will be $100,000. After the coming year, cash flows are expected to grow at 6% per year. The appropriate market capitalization rate is 15% per year. The firm has no outstanding debt. The projected free cash flow of ABC Ltd is _______. **(CO2, L3)**

a) $150,000
b) $180,000
c) $300,000
d) $380,000
e) None of the above

Q20. Consider the free cash flow approach to stock valuation. ABC Ltd is expected to have before-tax and depreciation cash flow from operations of $500,000 in the coming year. The firm's corporate tax rate is 30%. It is expected that $200,000 of operating cash flow will be invested in new fixed assets. Depreciation for the year will be $100,000. After the coming year, cash flows are expected to grow at 6% per year. The appropriate market capitalization rate is 15% per year. The firm has no outstanding debt. The total value of the equity of ABC Ltd should be: **(CO2, L3)**

a) $1,000,000
b) $4,000,000
c) $3,000,000
d) $2,000,000
e) None of the above