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**POST GRADUATE DIPLOMA IN MANAGEMENT (2024-25)
MID TERM QUIZ EXAMINATION (TERM -IV)**

Subject Name: Equity and M&A Modelling
Sub. Code: PGF53

Time: 01.00 hrs
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. Tick marks the correct answer.
4. Scientific or Other Calculators are allowed for the Paper.

Attempt all questions. All questions are compulsory.

10×1 = 10 Marks

Section A

Q.1. Read the statement given below and choose the correct option

Statement 1: An Offer for Sales (OFS) ends up in a transfer of ownership from one shareholder to another.

Statement 2: Unlike the IPO an Offer for Sales (OFS) does not increase the company's share capital.

- (a) Statement 1 is Correct and Statement 2 is Incorrect
- (b) Statement 2 is Correct and Statement 1 is Incorrect
- (c) Both Statement 1 and Statement 2 are Incorrect
- (d) Both Statement 1 and Statement 2 are Correct **(CO1, L2)**

Q.2. In investment banking, what is the primary purpose of a pitch book?

- (a) To provide a comprehensive analysis of market trends
- (b) To secure new business by presenting the bank's services to potential clients
- (c) To evaluate the performance of past deals
- (d) To train new analysts on financial modeling **(CO1, L1)**

Q.3. What potential downside arises when founders overestimate the valuation of their startup during fundraising?

- (a) They may attract more investors.
- (b) They could set unrealistic expectations, leading to future challenges.
- (c) It may enhance their credibility.
- (d) It often results in higher sales. **(CO2, L2)**

Q. 4. If a startup experiences high competition, how might this influence its valuation under the Risk Factor Summation Method?

- (a) It typically results in a negative valuation adjustment.

- (b) It may lead to a positive adjustment.
- (c) Competition has no effect on valuations.
- (d) It guarantees higher investor interest. (CO2, L2)

Q. 5. You want to see which all cells have the formulas in a financial model. Which of the following tools in Excel can be used to select all the cells which have a formula?

- (a) Paste Special and then select Formulas
- (b) Text To Column and then select Formulas
- (c) Data Table and then select Formulas
- (d) Go to, then select Special and then select Formulas. (CO1, L3)

Q. 6.

Assertion (A): The management discussion and analysis (MD&A) section is crucial for understanding future growth prospects.

Reason (R): This section usually focuses only on historical performance without addressing future strategies.

- (a) Both A and R are true, and R is the correct explanation for A.
- (b) Both A and R are true, but R is not the correct explanation for A.
- (c) A is true, but R is false.
- (d) A is false, but R is true. (CO1, L2)

Q. 7.

Assertion (A): The notes to accounts often provide information about the company's capital structure.

Reason (R): This section typically includes details on both equity and debt financing.

- (a) Both A and R are true, and R is the correct explanation for A.
- (b) Both A and R are true, but R is not the correct explanation for A.
- (c) A is true, but R is false.
- (d) A is false, but R is true. (CO1, L2)

Q. 8. While comparing the two financial statements you found that the figures in one of the statements is given in US dollars while the other is given in Euro. You wish to convert the Euro into US Dollars by considering the existing conversion rate. However, you do not want to use any formula for doing this as this is a one-time process. Which of the tools in Excel will you use?

- a) Find and Replace
- b) Data Validation
- c) Paste Special
- d) Both (a) and (b) can be used. (CO1, L3)

Q. 9 An investor puts in Rs 5,000,000 for a 25% stake in a startup. If there are currently 2,000,000 shares outstanding, how many new shares will be issued, and what is the price per share?

- (a) New Shares: 666,667, Price per Share: Rs 7.5
- (b) New Shares: 886,667, Price per Share: Rs 10
- (c) New Shares: 1,00,000, Price per Share: Rs 20
- (d) None of the answers are correct (CO2, L3)

Q10: What is a key characteristic of a regional investment bank?

- (a) It operates internationally.
- (b) It primarily focuses on a specific geographic area.
- (c) It specializes only in venture capital.
- (d) It has no involvement in underwriting. (CO1, L1)

Attempt all questions. All questions are compulsory.

4×2.5 = 10 Marks

Section B

Case:

A manufacturing firm, operating with no debt, is analyzing its financials to assess its value. The firm has reported significant recent performance metrics. As part of its financial strategy, the firm needs to project its future cash flows and determine its overall valuation.

The firm's recent revenue stands at Rs 10,000 lakh, with an operating profit of Rs 800 lakh. The change in working capital is Rs 50 lakh, and the capital expenditures (Capex), adjusted for depreciation, amount to Rs 20 lakh. The applicable tax rate for the firm is 25%. The firm assumes a cost of equity of 15% for discounting future cash flows.

The firm is considering a high growth phase lasting 3 years with a growth rate of 20%, during which it expects to achieve a robust growth rate. To further understand its growth potential, the firm analyzes its financial performance through key ratios.

Dividend Payout Ratio: 50% (i.e. 0.5)

The firm uses the DuPont Analysis to calculate its Return on Equity (ROE) based on the following components:

- Net Profit Margin: 8%
- Asset Turnover Ratio: 1.5
- Financial Leverage (Equity Multiplier): 2

Use the above information to answer the following questions:

Q13: What is the Free Cash Flow (FCF) for Year 1 during the high growth period?

(CO3, L3)

Q14: What is the present value of the terminal value calculated at the end of Year 3?

(CO3, L3)

Q15: What is the sustainable growth rate (g) calculated for the firm?

(CO3, L3)

Q16: If the cost of equity (k_e) decreases to 13% while the growth rate (g) remains at 12%, what will happen to the estimated value of the firm?

(CO3, L2)