# The WAY CA test series – SEPT 2025

**CA FINAL** | **P2 : ADVANCED FINANCIAL MANGEMENT** | **13.06.2025**

**[ SYLLABUS : BUSINESS VALUATION, MERGERS ]**

**TIME : 2 HRS** | **TOTAL : 70 MARKS**

## PART I : MCQ ANSWERS — 14 MARKS

### Case Study – 1

1. Option (c) : Rs 50,00,000
2. Option (d) : Rs 2.22
3. Option (b) : Rs 2 Per share

### Case Study – 2

4. Option (a) : Rs 285.71
5. Option (d) : Rs 192.31



6. Option (b) : Shareholders of both the companies are better off than Before
7. Option (d) : € 37,66,750

## PART II : DESCRIPTIVE SOLUTIONS 56 MARKS

### Question : 1(a) 6 Marks

**Sustainable Growth Rate under Proposal 1**

| | | |
|---|---|---|
| Sales (Given) | | ₹ 30 Lakhs |
| Total Assets | ₹ 30 Lakhs x 0.65 | ₹ 19.50 Lakhs |
| Net Profit | ₹ 30 Lakhs x 4% | ₹ 1.20 Lakhs |

Equity Multiplier $\frac{\text{Equity}}{\text{Equity+Debt}} = \frac{\text{12 Lakhs}}{\text{12 Lakhs+8 Lakhs}} = 0.6$

ROE $\frac{\text{1.2 Lakhs}}{\text{19.50 Lakhs}} \times 0.6 \times 100 = 3.69\%$

Sustainable Growth Rate = ROE x Retention Ratio

= 3.69% x 0.75 = 2.77%

**Sustainable Growth Rate under Proposal 2**

New Equity = ₹ 12 Lakhs + ₹ 1 Lakh = ₹ 13 Lakhs

New Debt = ₹ 13 Lakhs x 4 = ₹ 52 Lakhs

Total Assets = ₹ 13 Lakhs + ₹ 52 Lakhs = ₹ 65 Lakhs

Target Assets To Sales Ratio (Given) 0.62

| | | |
|---|---|---|
| Sales | ₹ 65 Lakhs / 0.62 | ₹ 104.84 Lakhs |
| Net Profit | ₹ 104.84 Lakhs x 5% | ₹ 5.242 Lakhs |
| Equitys Multiplier | $\frac{\text{Equity}}{\text{Equity+Debt}} = \frac{\text{13 Lakhs}}{\text{13 Lakhs+52 Lakhs}}$ | 0.2 |
| ROE = | $\frac{\text{5.242 Lakhs x 0.20 x 100}}{\text{65 Lakhs}}$ | 1.613% |
| Retention Ratio | $\frac{\text{5.242 Lakhs - 0.30 Lakhs}}{\text{5.242 Lakhs}}$ | 0.943 |



Sustainable Growth Rate = ROE x Retention Ratio

= 1.613% x 0.943 = 1.52%

**Question : 1(b)** **4 Marks**

Cost of Equity as per CAPM

$K_e$ = $R_f$ + β x Market Risk Premium
= 8.5% + 1.36 x 9%
= 8.5% + 12.24% = 20.74%

Cost of Debt $k_d$ = 11% (1 – 0.30) = 7.70%

WACC $(k_o) = k_e \times \frac{E}{E+D} + k_d \times \frac{D}{E+D}$

$= 20.74 \times \frac{125}{165} + 7.7 \times \frac{40}{165}$

=15.71+1.87 =17.58%

Taxable Income = ₹ 25,00,000 / (1 - 0.30)

= ₹ 35,71,429 or ₹ 35.71 lakhs

Operating Income = Taxable Income + Interest

= ₹ 35,71,429 + ₹ 4,40,000

= ₹ 40,11,429 or ₹ 40.11 lacs

EVA = EBIT (1-Tax Rate) – WACC x Invested Capital

= ₹ 40,11,429 (1 – 0.30) – 17.58% x ₹ 1,65,00,000

= ₹ 28,08,000 – ₹ 29,00,700 = - ₹ 92,700

**Question : 1(c)** **4 Marks**

Traditionally, the main role of CFO was concentrated to wealth maximisation for shareholders by taking care of financial health of an organization and overseeing and implementing adequate financial controls.

However, in recent time because of globalization, growth in information and communications, pandemic situation etc. their range of responsibilities has been drastically expanded, driven by complexity, and changing expectations.

Now a days in addition to fulfilling traditional role relating to governance, compliances and controls, and business ethics as a part of the leadership of role CFOs are also expected to contribute their support in strategic and operational decision making.



In post-pandemic time their role has been advanced in the following areas in addition to traditional role:

a. **Risk Management:** Now a days the CFOs are expected to look after the overall functioning of the framework of Risk Management system of an organisation.
b. **Supply Chain:** Post pandemic supply chain management system has been posing the challenge for the company to maintain the sustainable growth. Since CFOs are care takers of finance of the company, considering the financial viability of the Supply Chain Management their role has now become more critical.

c. **Mergers, acquisitions, and Corporate Restructuring:** Since in recent period to maintain the growth and capture the market share there has been a spate of Mergers and Acquisitions and hence the role of CFOs has become more crucial because these are strategic decision and any error in them can lead to collapse of the whole business.

d. **Environmental, Social and Governance (ESG) Financing:** With the evolving of the concept of ESG their role has been shifted from traditional financing to sustainability financing.

Thus, from above discussion it can be concluded that in today's time CFOs are taking a leadership role in Value Creation for the organisation and that too on sustainable basis for a longer period.



**Question : 2(a)** **5 Marks**

a) β ungeared for the proxy company = 1.1 x 4 / [ 4 + (1 – 0.3)] = 0.9362 0.9362 = β equity geared x 3 / [ 3 + (1 - 0.3)]

β equity geared = 1.1546

Cost of equity = 0.04 + 1.1546 x (0.1 – 0.04) = 10.93%

b) P/E valuation

(Based on earning of ₹ 10 Crore)

| | Using proxy Entity's P/E | Using XYZ's P/E |
|---|---|---|
| Pre synergistic value | 12 x ₹ 10 Crore | 10 X ₹ 10 Crore |
| | = ₹ 120 Crore | = ₹ 100 Crore |
| Post synergistic value | 12 x ₹ 10 Crore x 1.1 | 10 x ₹ 10 Crore X 1.1 |
| | = ₹ 132 Crore | = ₹ 110 Crore |

Dividend valuation model

| | Based on 50% payout | Based on 40% payout |
|---|---|---|
| Pre synergistic value | $\frac{0.5 \times 10 \times 1.07}{0.1093 - 0.07}$ | $\frac{0.4 \times 10 \times 1.07}{0.1093 - 0.07}$ |
| | = ₹ 136.13 Crore | =₹ 108.91 Crore |
| | | |
| Post synergistic value | $\frac{0.5 \times 10 \times 1.1 \times 1.07}{0.1093 - 0.07}$ | $\frac{0.4 \times 10 \times 1.1 \times 1.07}{0.1093 - 0.07}$ |
| | = ₹ 149.75 Crore | = ₹ 119.79 Crore |

Range of valuation

| | | |
|---|---|---|
| Pre synergistic | ₹ 100 Crore | ₹ 136.13 Crore |
| Post synergistic | ₹ 110 Crore | ₹ 149.75 Crore |

**Question : 2(b)** **5 Marks**

(i) **Equity Beta**

To calculate Equity Beta first we shall calculate Weighted Average of Asset Beta as follows:

= 1.45 x 0.74 + 1.20 x 0.26

= 1.073 + 0.312 = 1.385

Now we shall compute Equity Beta using the following formula:

$$\beta \text{ Asset} = \beta \text{ Equity} \times \frac{E}{E+D(1-t)} + \beta \text{ Debt} \times \frac{D(1-t)}{E+D(1-t)}$$



Accordingly,

$$1.385 = \beta \text{ Equity} \times \frac{410}{410+170} + \beta \text{ Debt} \times \frac{170}{410+170}$$

$$1.385 = \beta \text{ Equity} \times \frac{410}{580} + 0.24 \times \frac{170}{580}$$

β Equity = 1.86

(ii) **Equity Beta on change in Capital Structure**

Amount of Debt to be raised:

| Particulars | Value |
|---|---|
| Total Value of Firm (Equity Rs. 410 cr + Debt Rs. 170 cr) | Rs.580 Cr |
| Desired Debt Equity Ratio | 1.90 : 1.00 |
| Desired Debt Level = $\frac{\text{Total Value} \times \text{Debt Ratio}}{\text{Debt Ratio} \times \text{Equity Ratio}}$ | Rs. 380 Cr |
| Less: Value of Existing Debt | (Rs. 170 Cr) |
| Value of Debt to be Raised | Rs. 210 Cr |

Amount of Debt to be raised:

Equity after Repurchase = Total value of Firm – Desired Debt Value

= Rs. 580 Cr – Rs. 380 Cr

= Rs. 200 Cr



Weighted Average Beta of KGFL:

| Source of Finance | Investment (Rs. Cr) | Weight | Beta of the Division | Weighted Beta |
|---|---|---|---|---|
| Equity | 200 | 0.345 | β(E = X) | 0.345x |
| Debt – 1 | 170 | 0.293 | 0.35 | 0.103 |
| Debt – 2 | 210 | 0.362 | 0.40 | 0.145 |
| | **580** | **Weighted Average Beta** | | 0.248 + (0.345x) |

βKGFL = 0.248 + 0.345x

1.385 = 0.248 + 0.345x

0.345x = 1.385 – 0.248

X = 1.137 / 0.345 = 3.296

βKGFL = 3.296

**Question : 2(c)** **4 Marks**

The concept of sustainable growth can be helpful for planning healthy corporate growth. This concept forces managers to consider the financial consequences of sales increases and to set sales growth goals that are consistent with the operating and financial policies of the firm. Often, a conflict can arise if growth objectives are not consistent with the value of the organization's sustainable growth. Question concerning right distribution of resources may take a difficult shape if we take into consideration the rightness not for the current stakeholders but for the future stakeholders also. To take an illustration, let us refer to fuel industry where resources are limited in quantity and a judicial use of resources is needed to cater to the need of the future customers along with the need of the present customers. One may have noticed the save fuel campaign, a demarketing campaign that deviates from the usual approach of sales growth strategy and preaches for conservation of fuel for their use across generation. This is an example of stable growth strategy adopted by the oil industry as a whole under resource constraints

and the long run objective of survival over years. Incremental growth strategy, profit strategy and pause strategy are other variants of stable growth strategy.

Sustainable growth is important to enterprise long-term development. Too fast or too slow growth will go against enterprise growth and development, so financial should play important role in enterprise development, adopt suitable financial policy initiative to make sure enterprise growth speed close to sustainable growth ratio and have sustainable healthy development.

**The sustainable growth rate (SGR),** concept by Robert C. Higgins, of a firm is the maximum rate of growth in sales that can be achieved, given the firm's profitability, asset utilization, and desired dividend payout and debt (financial leverage) ratios. The sustainable growth rate is a measure of how much a firm can grow without borrowing more money. After the firm has passed this rate, it must borrow funds from another source to facilitate growth. Variables typically include the net profit margin on new and existing revenues, the asset turnover ratio, which is the ratio of sales revenues to total assets, the assets to equity ratio, and the retention rate, which is defined as the fraction of earning retained in the business.

SGR = ROE x (1- Dividend payment ratio)

Sustainable growth models assume that the business wants to:

i. maintain a target capital structure without issuing new equity;
ii. maintain a target dividend payment ratio; and

iii. increase sales as rapidly as market conditions allow.

Since the asset to beginning of period equity ratio is constant and the firm's only source of new equity is retained earnings, sales and assets cannot grow any faster than the retained earnings plus the additional debt that the retained earnings can support. The sustainable growth rate is consistent with the observed evidence that most corporations are reluctant to issue new equity. If, however, the firm is willing to issue additional equity, there is in principle no financial constraint on its growth rate. Indeed, the sustainable growth rate formula is directly predicted on return on equity.

Economists and business researchers contend that achieving sustainable growth is not possible without paying heed to twin cornerstones:

I. growth strategy and
II. growth capability.

Companies that pay inadequate attention to one aspect or the other are doomed to fail in their efforts to establish practices of sustainable growth (though short-term gains may be realized). After all, if a company has an excellent growth strategy in place but has not put the necessary infrastructure in place to execute that strategy, long-term growth is impossible. The reverse is also true.

The very weak idea of sustainability requires that the overall stock of capital assets should remain constant. The weak version of sustainability refers to preservation of

critical resources to ensure support for all, over a long-time horizon. The strong concept of sustainability is concerned with the preservation of resources under the primacy of ecosystem functioning. These are in line with the definition provided by the economists in the context of sustainable development at macro level.

**Question : 3 (a)** **7 Marks**

**As per T Ltd.'s Offer**

| | | ₹ in lakhs |
|---|---|---|
| (i) | **Net Consideration Payable** | |
| | 7 times EBIDAT, i.e. 7 x ₹ 115.71 lakh | 809.97 |
| | Less: Debt | 240.00 |
| | | **569.97** |
| | | |
| (ii) | **No. of shares to be issued by T Ltd** | |
| | ₹ 569.97 lakh / ₹ 220 (rounded off) (Nos.) | 2,59,000 |
| | | |
| (iii) | **EPS of T Ltd after acquisition** | |
| | Total EBIDT (₹ 400.86 lakh + ₹ 115.71 lakh) | 516.57 |
| | Less: Interest (₹ 58 lakh + ₹ 30 lakh) | 88.00 |
| | | 428.57 |
| | Less: 30% Tax | 128.57 |
| | Total earnings (NPAT) | 300.00 |
| | Total no. of shares outstanding | 14.59 lakh |
| | (12 lakh + 2.59 lakh) | |
| | EPS (₹ 300 lakh / 14.59 lakh) | ₹ 20.56 |
| | | |
| (iv) | Expected Market Price: | |
| | Pre – acquisition P/E multiple: | |

| | | |
|---|---|---|
| | EBIDAT (₹ in lakhs) __ | 400.86 |
| | Less: Interest (580× 10/100 )(₹ in lakhs | 58.00 |
| | | 342.86 |
| | Less: 30% Tax (₹ in lakhs) | 102.86 |
| | EAT (₹ in lakhs) | 240.00 |
| | No. of shares (lakhs) | 12.00 |
| | EPS __ | ₹ 20.00 |
| | Hence, PE multiple 220/20 | 11 |
| | Expected market price after acquisition (₹ 20.56 x 11) | ₹ 226.16 |

**As per E Ltd's Plan**

| | | **₹ in lakhs** |
|---|---|---|
| (i) | **Net consideration payable** | |
| | 6 lakhs shares x ₹ 110 | 660 |
| | | |
| (ii) | **No. of shares to be issued by T Ltd** | |
| | ₹ 660 lakhs ÷ ₹ 220 | 3 lakh |
| | | |
| (iii) | **EPS of T Ltd after Acquisition** | |
| | NPAT (as per earlier calculations) | 300.00 |
| | Total no. of shares outstanding (12 lakhs + 3 lakhs) | 15 lakh |
| | Earning Per Share (EPS) ₹ 300 lakh / 15 lakh | ₹ 20.00 |
| | | |
| (iv) | **Expected Market Price (₹ 20 x 11)** | 220.00 |



**(v) Advantages of Acquisition to T Ltd**

Since the two companies are in the same industry, the following advantages could accrue:

I. Synergy, cost reduction and operating efficiency.

II. Better market share.

III. Avoidance of competition

**Question : 3 (b)** **7 Marks**

Valuation of Startup under different scenarios:

(i) Best Case Scenario

| | Year 1 | Year 2 | Year 3 | |
|---|---|---|---|---|
| Revenue | ₹ 100,00,000 | ₹ 120,00,000 | ₹ 144,00,000 | |
| Expenses | ₹ 80,00,000 | ₹ 92,40,000 | ₹ 108,00,000 | |
| Cash Flow/ Earnings | ₹ 20,00,000 | ₹ 27,60,000 | ₹ 36,00,000 | |
| Terminal Value | | | | ₹ 3,60,00,000 |
| PVF @ 20% | 0.8333 | 0.6944 | 0.5787 | 0.5787 |
| PV | ₹ 16,66,600 | ₹ 19,16,544 | ₹ 20,83,320 | ₹ 2,08,33,200 |
| Value of Startup | | | | ₹ 2,64,99,664 |

(ii) Base Case Scenario

| | Year 1 | Year 2 | Year 3 | |
|---|---|---|---|---|
| Revenue | ₹ 100,00,000 | ₹ 110,00,000 | ₹ 121,00,000 | |
| Expenses | ₹ 90,00,000 | ₹ 95,70,000 | ₹ 102,85,000 | |
| Cash Flow/ Earnings | ₹ 10,00,000 | ₹ 14,30,000 | ₹ 18,15,000 | |
| Terminal Value | | | | ₹ 181,50,000 |

| | | | | |
|---|---|---|---|---|
| PVF @ 20% | 0.8333 | 0.6944 | 0.5787 | 0.5787 |
| PV | ₹ 8,33,300 | ₹ 9,92,992 | ₹ 10,50,341 | ₹ 105,03,405 |
| Value of Startup | | | | ₹ 133,80,038 |

(iii) Worst Case Scenario

| | **Year 1** | **Year 2** | **Year 3** | |
|---|---|---|---|---|
| Revenue | ₹ 100,00,000 | ₹ 102,00,000 | ₹ 104,04,000 | |
| Expenses | ₹ 95,00,000 | ₹ 98,94,000 | ₹ 101,95,920 | |
| Cash Flow/ Earnings | ₹ 5,00,000 | ₹ 3,06,000 | ₹ 2,08,080 | |
| Terminal Value | | | | ₹ 20,80,800 |
| PVF @ 20% | 0.8333 | 0.6944 | 0.5787 | 0.5787 |
| PV | ₹ 4,16,650 | ₹ 2,12,486 | ₹ 1,20,416 | ₹ 12,04,159 |
| Value of Startup | | | | ₹ 19,53,711 |



Value of ABC Startup as per First Chicago Method

= 0.30 x ₹ 2,64,99,664 + 0.60 x ₹ 133,80,038 + 0.10 x ₹ 19,53,711

= ₹ 79,49,899 + ₹ 80,28,023 + ₹ 1,95,371

= ₹ 1,61,73,293

**Question : 4 (a)** **7 Marks**

**(i) Net cost of acquisition shall be computed as follows:**

| | |
|---|---|
| Cash Paid for the shares of Tall Ltd. (₹ 60 × 18,00,000) | ₹ 10,80,00,000 |
| Less: Value of Tall Ltd., as a separate entity (18,00,000 × ₹ 50) | ₹ 9,00,00,000 |
| Net Cost of acquisition of Tall Ltd. | ₹ 1,80,00,000 |

**(ii) Net Cost of acquisition in case of exchange of shares:**

Exchange ratio = 1 share of long Ltd for every 3 shares of Tall Ltd.

| | |
|---|---|
| Number of shares to be issued in Long Ltd. (18,00,000 / 3) | = 6,00,000 shares |
| Total no. of shares in Long Ltd. after merger (30,00,000 + 6,00,000) | = 36,00,000 |

| | |
|---|---|
| Calculation of cost of Equity of Tall Ltd.<br>Growth rate under new management after acquisition | = $D_1 / P_0 + g$<br>= ₹ 3 / 50 + 0.06 = 12% |
| Value of Merged company assuming perpetual growth | = 8% |
| Value of merged company<br>(₹ 180 x 30,00,000) + (₹ 3 / (0.12 - 0.08) x 18,00,000<br>= 54,00,00,000 + (75 X 18,00,000) | = ₹ 67,50,00,000 |
| Value per share of merged company<br>(67,50,00,000 / 36,00,000) | = ₹ 187.50 per share |

| | |
|---|---|
| Calculation of net cost of acquisition | |
| Gross cost of acquisition (6,00,000 x 187.50) | 11,25,00,000 |
| Less: CMP (18,00,000 x 50) | 9,00,00,000 |
| Net Cost of acquisition | **2,25,00,000** |

Alternatively, Net Cost of Acquisition can also be computed as follows:

| | |
|---|---|
| No. of shares issued to shareholders of Tall Ltd. in the ratio of 1:3 | 6,00,000 |

| | |
|---|---|
| Existing price of one share of Long Ltd. | ₹ 180 |
| Value of consideration paid for acquisition of Tall Ltd. | ₹ 10,80,00,000 |
| Less: Existing Value of Tall Ltd., as a separate entity | ₹ 9,00,00,000 |
| Net Cost of acquisition of Tall Ltd. | **₹ 1,80,00,000** |

**(iii) Calculation of gain from acquisition:**

| | | |
|---|---|---|
| Total Earnings of Long Ltd. (₹ 12 x 30,00,000) | | ₹ 3,60,00,000 |
| Total Earnings of Tall Ltd. (₹ 5 x 18,00,000) | | ₹ 90,00,000 |
| Combined Earnings | | **₹ 4,50,00,000** |
| PE Ratio of Long Ltd. (180 / 12) | | 15 |
| Value of Long Ltd. after acquisition | | ₹ 67,50,00,000 |
| Less: Value of two companies separately | | |
| Long Ltd. (₹ 180 x 30,00,000) | ₹ 54,00,00,000 | |
| Tall Ltd. (₹ 50 x 18,00,000) | ₹ 9,00,00,000 | ₹ 63,00,00,000 |
| Gain from Acquisition | | ₹ 4,50,00,000 |



**Question : 4 (b)** **7 Marks**

**Working Notes**

**a) Determination of Weighted Average Cost of Capital**

| Sources of funds | Cost (%) | Proportions | Weights | Weighted Cost |
|---|---|---|---|---|
| Equity Stock | 16 | 12/20 | 0.60 | 9.60 |
| 12% Bonds | 12% (1-0.30) =8.40 | 8/20 | 0.40 | 3.36 |
| | | | | 12.96 say 13 |

**b) Schedule of Depreciation** **$ Million**

| Year | Opening Balance of Fixed Assets | Additional during the year | Total | Depreciation @ 15% |
|---|---|---|---|---|
| 1 | 17.00 | 0.50 | 17.50 | 2.63 |
| 2 | 14.87 | 0.80 | 15.67 | 2.35 |
| 3 | 13.32 | 2.00 | 15.32 | 2.30 |
| 4 | 13.02 | 2.50 | 15.52 | 2.33 |
| 5 | 13.19 | 3.50 | 16.69 | 2.50 |
| 6 | 14.19 | 2.50 | 16.69 | 2.50 |
| 7 | 14.19 | 1.50 | 15.69 | 2.35 |
| 8 | 13.34 | 1.00 | 14.34 | 2.15 |

**c) Determination of Investment** **$ Million**

| Year | Investment Required | | | Existing Investment in CA | Additional Investment required For Capital Expenditure |
|---|---|---|---|---|---|
| | For Capital Expenditure | CA (20% of Revenue) | Total | | |
| 1 | 0.50 | 1.60 | 2.10 | 3.00 | 0.00 |
| 2 | 0.80 | 2.00 | 2.80 | 2.50* | 0.30 |
| 3 | 2.00 | 3.00 | 5.00 | 2.00** | 3.00 |
| 4 | 2.50 | 4.40 | 6.90 | 3.00 | 3.90 |
| 5 | 3.50 | 6.00 | 9.50 | 4.40 | 5.10 |
| 6 | 2.50 | 5.20 | 7.70 | 6.00 | 1.70 |
| 7 | 1.50 | 4.60 | 6.10 | 5.20 | 0.90 |
| 8 | 1.00 | 4.00 | 5.00 | 4.60 | 0.40 |

*Balance of CA in Year 1 ($ 3 Million) – Capital Expenditure in Year 1 ($ 0.50 Million)

** Similarly balance of CA in Year 2 ($2.80) – Capital Expenditure in Year 2 ($ 0.80 Million)

**d) Determination of Present Value of Cash Inflows $ Million**

| Particulars | Years | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Revenue(A) | 8.00 | 10.00 | 15.00 | 22.00 | 30.00 | 26.00 | 23.00 | 20.00 |
| Less: Expenses Variable Cost | 3.20 | 4.00 | 6.00 | 8.80 | 12.00 | 10.40 | 9.20 | 8.00 |
| -Fixed Cash Operating Cost | 1.60 | 1.60 | 1.60 | 1.60 | 2.00 | 2.00 | 2.00 | 2.00 |
| Advertisement Cost | 0.50 | 1.50 | 1.50 | 3.00 | 3.00 | 3.00 | 1.00 | 1.00 |
| Depreciation | 2.63 | 2.35 | 2.30 | 2.33 | 2.50 | 2.50 | 2.35 | 2.15 |
| Total Expenses(B) | **7.93** | **9.45** | **11.40** | **15.73** | **19.50** | **17.90** | **14.55** | **13.15** |
| EBIT (C) = (A)-(B) | **0.07** | **0.55** | **3.60** | **6.27** | **10.50** | **8.10** | **8.45** | **6.85** |
| Less: Taxes @ 30% (D) | 0.02 | 0.16 | 1.08 | 1.88 | 3.15 | 2.43 | 2.53 | 2.06 |
| NOPAT (E) = (C) – (D) | **0.05** | **0.39** | **2.52** | **4.39** | **7.35** | **5.67** | **5.92** | **4.79** |
| Gross Cash Flow (F) = (E) + Dep | 2.68 | 2.74 | 4.82 | 6.72 | 9.85 | 8.17 | 8.27 | 6.94 |
| Less: Investment in Capital Assets Plus current assets (G) | 0 | 0.30 | 3.00 | 3.90 | 5.10 | 1.70 | 0.90 | 0.40 |
| Free Cash Flow (H) = (F)-(G) | **2.68** | **2.44** | **1.82** | **2.82** | **4.75** | **6.47** | **7.37** | **6.54** |
| PVF @ 13% (I) | 0.885 | 0.783 | 0.693 | 0.613 | 0.543 | 0.480 | 0.425 | 0.376 |
| PV (H)(I) | 2.37 | 1.91 | 1.26 | 1.73 | 2.58 | 3.11 | 3.13 | 2.46 |

Total present value = $ 18.549 million

**e) Determination of Present Value of Continuing Value (CV)**

$$CV = \frac{FCF9}{k-g} = \frac{\$\ 6.54 \text{ million } (1.05)}{0.13 - 0.05} = \frac{\$\ 6.867 \text{ million}}{0.08} = \$\ 85.84 \text{ million}$$

Present Value of Continuing Value (CV) = $ 85.84 million x PVF13%,8 = $ 85.96875 million x 0.376 = $ 32.27 million

**(i) Value of Firm** **$ Million**

| | |
|---|---|
| Present Value of cash flow during explicit period | 18.55 |
| Present value of Continuing Value | 32.27 |
| Total Value | **50.82** |

**(ii) Value Of Equity** **$ Million**

| | |
|---|---|
| Total value of Firm | 50.82 |
| Less: Value of Debt | 8.00 |
| Value of Equity | **42.82** |

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**[ SYLLABUS : BUSINESS VALUATION, MERGERS ]**

**TIME : 2 HRS** | **TOTAL : 70 MARKS**

ALL THE BEST

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