Paper – 20: Strategic Performance Management and Business Valuation

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Full Marks :100 **Time allowed: 3 hours**

Section – A Answer Question No. 1 which is compulsory

1.(a) Answer the following Questions **[2 x 6= 12]**

(i) If value of A Ltd. is 50, B Ltd. is 20 and on merger their combined value is 90 and A Ltd. receives premium on merger 12, calculate the synergy for merger. (all amounts are in ₹Lakhs)

(ii) X Ltd. has ₹100 crores worth of common equity on its balance sheet comprising of 50 lakhs shares. The company's Market Value Added (MVA) is ₹24 crores. What is company's stock price?

(iii) A firm's current assets and current liabilities are 1600 and 1000 respectively. How much can it borrow on a short-term basis without reducing the current ratio below 1.25?

(iv) The cost (c) of a firm is given by the function $c = 4x^3 + 9x^2 + 11x + 27$. Find the Average Cost, Marginal Cost, Average Variable Cost, and Average Fixed Cost 'x' being the output.

(v) Write any two benefits of Risk Mapping.

(vi) Mention the name of the five components of Supply Chain Management.

(b) State whether the following statements are true or false **[1 × 8 = 8]**

(i) The Value may be defined as 'the amount of money or other consideration asked for or given in exchange for something else'.

(ii) Systematic risk of a portfolio is diversifiable.

(iii) Exchange ratio of equity shares of merging firms is determined by their market price alone.

(iv) Under Asset based valuation approach individual assets are valued and aggregated in the process of finding the enterprise value.

(v) Allocative efficiency occurs if a firm obtains maximum output from a set of inputs.

(vi) CRM is an integrated approach to identifying, acquiring and retaining customers.

(vii) Competitive Benchmarking is an age old practice of product oriented reverse engineering.

(viii) ERP provides integrated business software modules to support functional units of an enterprise.

Sec- B
Answer any five questions from the following

2. (a) A Ltd. is considering takeover of B Ltd. and C Ltd. The financial data for the three companies are as follows:

Particulars	A Ltd.	B Ltd.	C Ltd.
Equity Share Capital of ₹ 10 each (₹ crores)	450	180	90
Earnings (₹ crores)	90	18	18
Market price of each share (₹)	60	37	46

Calculate:

(i) Price earnings ratios

(ii) Earnings per share of A Ltd. after the acquisition of B Ltd. and C Ltd. separately. Will you recommend the merger of either/both of the companies? Justify your answer.

[3+3+2]

(b) RS Ltd. furnishes the following information relating to the previous three years, and requests you to compute the value of the brand of the Company —

[₹ in Lakhs]

Particulars	2014	2015	2016
Profits Before Interest and Tax	75.00	85.25	150.00
Loss on Sale of Assets	3.00	---	18.00
Non Operating Income	12.00	7.25	8.00

Inflation was 9% for 2015 and 15% for 2016. If the capitalization factor considering internal and external value drivers to the brand is 14, determine the brand value. Assume an all inclusive future tax rate of 35%. **[8]**

3.(a) The following Balance Sheet of X Ltd. is given:

Balance Sheet of X Ltd. as on 31st March, 2016

Equity and Liability	₹	Assets	₹
(1) Shareholders Fund:		**(1) Non-Current Assets:**	
(a) Share Capital		(a) Fixed Assets	
Equity Share Capital of ₹ 10 each	50,00,000	(i) Tangible Assets:	
(b) Reserve & Surplus		— Land and Building	32,00,000
P & L Appropriation Account	21,20,000	— Plant and Machinery	28,00,000
		(ii) Intangible Assets:	
(2) Current Liabilities:		— Goodwill	4,00,000
(a) Short Term Borrowings – Bank O/D	18,60,000	**(2) Current Assets:**	
(b) Trade Payables		(a) Inventories	
— Sundry Creditors	21,10,000		32,00,000
(c) Short Term Provision		(b) Trade Receivables	
— Provision for Taxation	5,10,000	— Sundry Debtors	20,00,000
Total	**1,16,00,000**	**Total**	**1,16,00,000**

In 1993 when the company commenced operation the paid up capital was same. The Loss/Profit for each of the last 5 years was - years 2011-2012 - Loss (₹ 5,50,000); 2012-2013 ₹ 9,82,000; 2013-2014 ₹ 11,70,000; 2014-2015 ₹ 14,50,000; 2015-2016 ₹ 17,00,000;

Although income-tax has so far been paid @ 40% and the above profits have been arrived at on the basis of such tax rate, it has been decided that with effect from the year 2015-2016 the Income-tax rate of 45% should be taken into consideration. 10% dividend in 2012-2013 and 2013-2014 and 15% dividend in 2014-2015 and 2015-2016 have been paid. Market price of shares of the company on 31st March, 2016 is ₹ 125. With effect from 1st April, 2016 Managing Director's remuneration has been approved by the Government to be ₹ 8,00,000 in place of ₹ 6,00,000. The company has been able to secure a contract for supply of materials at advantageous prices. The advantage has been valued at ₹ 4,00,000 per annum for the next five years.

Ascertain goodwill at 3 year's purchase of super profit (for calculation of future maintainable profit weighted average is to be taken). **[12]**

(b) Difference between Fair Value and Fair Market Value. **[4]**

4. (a) X Ltd. is considering the proposal to acquire Y Ltd. and their financial information is given below:

Particulars	**X Ltd.**	**Y Ltd.**
No. of equity shares	5,00,000	3,00,000
Market price per share (₹)	30	18
Market capitalisation (₹)	1,50,00,000	54,00,000

X Ltd. intend to pay ₹ 70,00,000 in cash for Y Ltd., if Y Ltd's market price reflects only its value as a separate entity. Calculate the cost of merger:

(i) When merger is financed by cash.

(ii) When merger is financed by stock and X Ltd. agrees to exchange 2,50,000 shares in exchange of shares in Y Ltd. **[6]**

(b) Shyam Ltd. has announced issue of warrants on 1:1 basis for its equity share holders. The current price of the stock ₹10 and warrants are convertible at an exercise price of ₹11.71 per share. Warrants are detachable and are trading at ₹3. What is the minimum price of the warrant? What is the warrant premium? Now had the current price been ₹16.375, what is the minimum price and warrant premium? (Consider warrants are tradable at ₹9.75) **[5]**

(c) You are the director of Ram Company. One of the projects you are considering is the acquisition of Shyam Company. Shyam, the owner of Shyam Company, is willing to consider selling his company to Ram Company, only if he is offered and all-cash purchase price of ₹5 million. The project estimates that the purchase of Shyam Company will generate the following profit after-tax cash flow:

Year	**Cash Flow ₹**
1	1,000,000
2	1,500,000
3	2,000,000
4	2,500,000
5	3,000,000

If you decide to go ahead with this acquisition, it will be funded with Ram's standard mix of debt and equity, at the firm's weighted average (after-tax) cost of capital of 9 percent. Ram's tax rate is 30 percent. Should you recommend acquiring Shyam Company to your CEO? **[5]**

5.(a) "Economic risk is concerned with the general economic climate within the country." State some factors which reflect the economic climate of a country. **[10]**

(b) List the steps in the process of developing a Balanced Score Card. **[6]**

6.(a) 6,000 pen drives of 2 GB to be sold in a perfectly competitive market to earn ₹1,06,000 profit, whereas in a monopoly market only 1,200 units are required to be sold to earn the same profit. The fixed costs for the period are ₹74,000. The contribution per unit in the monopoly market is as high as three-fourths its variable cost. Determine the target selling price per unit under each market condition. **[8]**

(b) State the basic objectives of Materials Requirement Planning. **[4]**

(c) "Six Sigma has two key methodologies: DMAIC and DMADV. DMAIC is used to improve an existing business process, and DMADV is used to create new product or process designs for predictable, defect-free performance." — Describe in detail any one of these methodologies. **[4]**

7.(a) Using Altman's Model, compute the value of Z from the provided data (Balance Sheet extract):

Liabilities	₹	Assets	₹
Share Capital (@ ₹10 each)	2,00,000	Fixed Assets	4,20,000
Reserves & Surplus	60,000	Inventory	1,80,000
10% Debentures	3,00,000	Book Debts	70,000
Sundry Creditors	80,000	Loans & Advances	20,000
Outstanding Expenses	60,000	Cash at Bank	10,000
	7,00,000		7,00,000

Additional Information:
(i) Market value per share ₹ 12.50.
(ii) Operating Profit (20% on sales) ₹ 1,40,000.
Working notes should be part of your answer. **[10]**

(b) Write down the features of Monopolistic Competition Market. **[6]**

8. (a) Write a short note any four of the following **[4 x 4=16]**
(i) Exit Price Vs Entry Price
(ii) Common errors in Valuation
(iii) Contingent Liability
(iv) MOLAP
(v) Shadow Pricing.