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) P intends to acquire R (by merger) based on market price of the shares.
The following information is available of the two companies.

	P	R
No. of Equity shares	10,00,000	6,00,000
Earnings after tax (₹)	50,00,000	18,00,000
Market value per share	₹30	₹25
New EPS of P after merger?		

(ii) X Ltd's share beta factor is 1.40. The risk free rate of interest on government securities is 9%. The expected rate of return on the company equity shares is 16%. Calculate the cost of equity capital based on CAPM.

(iii) A Ltd. acquires B Ltd. by exchange of shares. EPS of A Ltd. and B Ltd. shares are ₹50 and ₹40 respectively. No. of shares of A Ltd. and B Ltd. are 80,000 and 50,000 respectively. What No. of shares A Ltd. requires to issue to B Ltd. in order to ensure that EPS of A Ltd. would remain same after merger? (Assume that earnings of the merged company would be equal to the aggregate of the earnings of the companies before merger)

(iv) The cost function 'c' for the commodity 'q' is given by $C = q^3 – 4q^2 + 6q$. Find average variable cost and also find the value of q for which average variable cost is minimum.

(v) Write down any two strategies to manage risk.

(vi) What do you understand by Enterprise Risk Management (ERM)?

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

(i) In a reverse merger a smaller company acquires a larger company.

(ii) Increasing the company's future Economic Value Added is key to creating shareholder value.

(iii) As per Capital Asset Pricing Model (CAPM), the only relevant risk to price a security is Systematic Risk and not both Systematic as well as Unsystematic Risk.

(iv) There are two premise of value, going concern and liquidation.

(v) Country Risk is defined as the possibility of a multinational company being significantly affected by political events in a host country or a change in the political relationships between a host country and one or more other countries.

(vi) In 1998, the Basel Committee published a set of minimal capital requirements for banks and these requirements have come to be known as the 1988 Basel Accord.

(vii) Balanced Score Card has four perspectives - Financial, Customers, Internal Business Process, and Learning and Growth.

(viii) Information is data that have been organised into a meaningful and useful context.

Sec- B
Answer any five questions from the following

2. (a)

(i) Explain the concept of market value added (MVA). How is EVA connected with MVA?

(ii) From the following information concerning Nebula Ltd., prepare a statement showing computation of EVA for the year ended 31st March 2016:

Summarized Profit and Loss Account for the year ended 31st March 2016

		₹
Sales		20,00,000
Cost of goods sold		12,00,000
Gross Profit		8,00,000
Expenses:		
General	2,00,000	
Office and administration	2,50,000	
Selling and distribution	64,000	5,14,000
Profit before interest and tax (PBIT)		2,86,000
Interest	36,000	36,000
Profit before tax (PBT)		2,50,000
Tax 40%		1,00,000
Profit after tax		1,50,000

Summarized Balance Sheet as on 31st March 2016

Particular	2016 (₹)
EQUITY AND LIABILITIES:	
SHAREHOLDER'S FUNDS	
Share capital	2,40,000
Reserves and Surplus	1,60,000
	4,00,000
NON-CURRENT LIABILITIES	
Long-term Borrowings	2,40,000
	2,40,000
CURRENT LIABILITIES	1,60,000
Trade payables	1,60,000
	8,00,000
TOTAL	
ASSETS	
NON-CURRENT ASSETS	
FIXED ASSETS:	6,00,000
Tangible assets	6,00,000
CURRENT ASSETS	1,20,000
Inventories	60,000
Trade receivables	20,000
Cash and bank balances	
	2,00,000
TOTAL	**8,00,000**

Other particulars:

(i) Cost of goods includes depreciation expenses of ₹ 60,000.

(ii) The expectation return of shareholders is 12%. **[3+8]**

(b) A company has a capital base of ₹3 crore and has earned profits of ₹33 Lakhs. Return on investment of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹7.5 lakhs over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

Particulars	₹

Capital Base	3,00,00,000
Actual profit	33,00,000
Target profit (₹3Cr ×12.5%)	37,50,000

[5]

3.(a) From the following information determine the Possible Value of Brand as per Potential Earning Model –

(₹ Lakhs)

Particulars	CASE A	CASE B
(i) Profit Before Tax (PBT)	---	15.00
(ii) Income Tax	---	3.00
(iii) Profit After Tax (PAT)	₹2,700	---
(iv) Tangible Fixed Assets	₹10,000	20.00
(v) Identifiable Intangible other than Brand	₹1,500	10.00
(vi) Weighted Average Cost of Capital (%)	15%	---
(vii) Expected Normal Return on Tangible Assets Weighted Average Cost (15%) + Normal Spread 5%	20%	6.00
(viii) Appropriate Capitalization Factor for Intangibles	25%	25%

[8]

(b) Describe the principles of Valuation. **[8]**

4.(a) The following information is provided related to the acquiring firm Sun Ltd. and the target firm Moon Ltd.:

Particulars	Sun Ltd.	Moon Ltd.
Profits after tax	₹ 2,000 lakhs	₹ 4000 lakhs
Number of shares outstanding	200 lakhs	1000 lakhs
P/E ratio (Times)	10	5

Required:

(i) What is the swap ratio based on current market price?
(ii) What is the EPS of Sun Ltd. after acquisition?
(iii) What is the expected market price per share of Sun Ltd. after acquisition, assuming P/E ratio of Sun Ltd. adversely affected by 10%?
(iv) Determine the market value of the merged firm.
(v) Calculate gain/loss for shareholders of the two independent companies after acquisition. **[10]**

(b) ABC Ltd. requires an initial investment of ₹12 lakh for its new store for which ₹4 lakh would come from borrowing at an interest rate of 8%. The interest is paid for 5 years and the entire principal with interest is repaid at the end of the sixth year. The interest expenses are tax deductible at a rate of 36%, but the principal payments are not. The cash flows to the firm are expected to be ₹80,000 initially. These cash flows are expected to grow at a rate of 30% for the first 4 years and at 75% from the fifth year. Estimate the free cash flow to equity. **[6]**

5.(a) Cost $= 300x - 10x^2 + \frac{1}{3}x^3$, Calculate :

(i) Output at which Marginal Cost is minimum
(ii) Output at which Average Cost is minimum
(iii) Output at which Marginal Cost = Average Cost. **[3+3+4]**

(b) State the objectives of Supply Chain Management. **[6]**

6.(a) Write about the essential elements of Manufacturing Resource Planning. **[8]**

(b) "The various stages/steps to be taken in the implementation of TQM." — What are those stages? Discuss in detail. **[8]**

7.(a) C Ltd. is about to introduction a new product with the following estimates:

Price per unit (in rupees)	30.00	31.50	33.00	34.50	36.00	37.50	39.00
Demand (in thousand units)	400	380	360	340	315	280	240

Costs:

Direct materials	₹ 12 p. u.	Selling expenses	10% on sales
Direct labour	₹ 3 p. u.	Fixed production overheads	14,40,000
Variable overhead	₹ 3 p. u.	Administration expenses	10,80,000

Judging from the estimates, determine the tentative price of the new product to earn maximum profit. **[10]**

(b) In the context of Customer Relationship Management (CRM), what do you understand by Analytical CRM and Operative CRM? **[3+3]**

8.(a) Write a short note any four of the following **[4 x 4=16]**

(i) Hostile Takeover Bids
(ii) Limitation of DCF Valuation
(iii) OLAP Server
(iv) Duopoly
(v) Purchasing Power Risk