Paper 20 - Strategic Performance Management & Business Valuation

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

The figures in the margin on the right side indicate full marks.
Working notes should form part of the answer.

Section - A

Answer Question No. 1 which is compulsory and any two from the rest of this section

1. Multiple choice questions: **[5×2=10]**
[1 mark for right choice and 1 mark for justification]

(i) If Cost Function is $C = \frac{3}{5}x + \frac{15}{4}$, the cost when output is 5 units will be:

(A) 6.80
(B) 6.75
(C) 6.20
(D) 6.25

(ii) Which of the following is a cause for corporate distress?
(A) Fraud by Management
(B) Working Capital Problems
(C) Mismanagement
(D) All of the above.

(iii) The type of benchmarking, which is concerned with the development of core competencies that will help sustained competitive advantage, is called:
(A) Global Benchmarking
(B) Strategic Benchmarking
(C) Internal Benchmarking
(D) Competitive Benchmarking

(iv) The rate of change in the demand due to the change in the income is called:
(A) income elasticity of demand
(B) cross elasticity of demand
(C) price elasticity of demand
(D) None of the above.

(v) The risk which refers to the possibilities of loss due to factors such as religious fanaticism, ethnic polarization, dissatisfaction among the people as a result of wide disparity in income distribution, or regionalism, is called:
(A) Social Risk
(B) External Risk
(C) Political Risk
(D) Country Risk.

2.(a) What do you mean by 'Customer Relationship Management' (CRM)? List the advantages and benefits of 'Customer Relationship Management'. **[5+5=10]**

(b)(i) What are the characteristics of Enterprise Resource Planning (ERP)?
(ii) What are the reasons for the failure of ERP? **[4+6=10]**

3.(a) A manufacturer can sell "X" items ($X \geq 0$) at a price of ($330 - X$) each; the cost of producing 'X' items is ₹ ($X^2 + 10X + 12$). How many items should he sell to make the maximum profit? Also determine the maximum profit. **[10]**

(b) There are various causes for corporate distress. Write down those causes to analyse corporate distress. **[10]**

4.(a) What is Risk Mapping? State the benefits of Risk Mapping. **[10]**

(b) Write short note on:

(i) MOLAP

(ii) ROLAP. **[5+5]**

Section - B

Answer Question No. 5 which is compulsory and any two from the rest of this section

5. Multiple choice questions: **[5×2=10]**

[1 mark for right choice and 1 mark for justification]

(i) Given the growth rate in the dividends is expected to be 8%. The Beta of the Stock is 1.60 and return on the market index is 13%. The required rate of return would be:

(A) 14%

(B) 16%

(C) 18%

(D) 20%.

(ii) The risk-free rate = 5.5%, the market price of risk = 7%, the company's beta = 1.2, then Cost of equity will be?

(A) 12.5%

(B) 13.6%

(C) 13.7%

(D) 13.9%.

(iii) Sun Ltd. has announced issue of warrants on 1:1 basis for its equity shareholders. The warrants are convertible at an exercise price of 12. Warrants are detachable and trading at ₹7. What is the minimum price of the warrant if the current price of the stock is ₹16?

(A) ₹ 6

(B) ₹ 4

(C) ₹ 10

(D) ₹ 12.

(iv) Assume that the following details are given for a company:

Sales - ₹1,00,000; Costs - ₹75,000; Depreciation - ₹20,000; Tax - 35%; Change in Net Working Capital - ₹1,000; Change in Capital Spending - ₹10,000. The Free Cash Flow to Firm (FCFF) for the given data would be:

(A) ₹ 10,000

(B) ₹ 12,250

(C) ₹ 13,500

(D) ₹ 15,000.

(v) Identify which of the following is not a financial liability for a company:

(A) X Ltd. has 1 lac ₹10 ordinary shares issued

(B) X Ltd. has 1 lac ₹10 redeemable preference shares issued
(C) None of the above
(D) Both.

6.(a) If, Earnings per share: ₹ 3.15;
Capital Expenditure per share: ₹3.15.
Depreciation per share: ₹ 2.78
Change in working capital per share: ₹0.50 Debt financing ratio: 25%

Earnings, Capital expenditure, Depreciation, Working Capital are all expected to grow at 6% per year. The beta for stock is 0.90. Treasury bond rate is 7.5%. A premium of 5.50% is used for market.

Calculate value of stock. **[10]**

(b) XM Ltd. had earning per share of ₹11.04 in 2014-15 and paid a dividend of ₹7 per share. The growth rate in earnings and dividends in the long term is expected to be 5%. The return on equity at SM Ltd. is expected to be 13.66%. The beta of SM Ltd. is 0.80 and the risk free Treasury bond is 6% while risk premium is 4%. Based on the information, calculate price to Book Value Ratio. **[5]**

(c) Describe the three variations of Relative Valuation. **[5]**

7.(a) From the following information concerning Swastik Ltd., prepare a statement showing computation of EVA for the year ended 31st March 2018.
Summarized Profit and Loss Account for the year ended 31st March 2018.

		₹
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 (PBIT)		2,50,000
Tax 40%		1,00,000
Profit after tax		1,50,000

Summarized Balance Sheet as on 31st March 2018

Particular	2018 (₹)

EQUITY AND LIABILITIES:	
SHARE HOLDER'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	
Trade Payables	1,60,000
	1,60,000
TOTAL	8,00,000
ASSETS	
NON-CURRENT ASSETS	
FIXED ASSETS	
Tangible assets	6,00,000
	6,00,000
CURRENT ASSETS	
Inventories	1,20,000
Trade receivables	60,000
Cash and bank balances	20,000
	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%. **[10]**

(b) Tridev Ltd. is in the business of making sports equipment. The Company operates from Thailand. To globalise its operations Tridev has identified Try Toys Ltd., an Indian Company, as a potential takeover candidate. After due diligence of Try Toys Ltd, the following information is available:

(A) Cash Flow Forecasts (₹in Crores)

Year	10	9	8	7	6	5	4	3	2	1
Try Toys Ltd.	24	21	15	16	15	12	10	8	6	3
Tridev Ltd.	108	70	55	60	52	44	32	30	20	16

(B) The Net Worth of Try Toys Ltd (in Lakh ₹) after considering certain adjustments suggested by the due diligence team reds as under —

Tangible	750	

Inventories	145	
Receivables	75	970
Less- Creditors	165	
Bank Loans	250	(415)
Represented by Equity Shares @ ₹ 1000 each		555

Talks for the takeover have crystallized on the following –

(i) Tridev Ltd. will not be able to use Machinery worth ₹75 Lakhs which will be disposed of by them subsequent to take over. The expected realization will be ₹50 Lakhs.

(ii) The inventories and receivables are agreed for takeover at values of ₹100 and ₹50 Lakhs respectively, which is the price they will realize on disposal.

(iii) The liabilities of Try Toys Ltd will be discharged in full on take over along with an employee settlement of ₹90 Lakhs for the employees who are not interested in continuing under the new management.

(iv) Tridev Ltd will invest a sum of ₹150 Lakhs for upgrading the Plant of Try Toys Ltd on takeover. A further sum of ₹50 Lakhs will also be incurred in the second year to revamp the machine shop floor of Try Toys Ltd.

(v) The anticipated cash flow (in ₹Crore) post takeover are as follows-

Year	1	2	3	4	5	6	7	8	9	10
Cash Flows	18	24	36	44	60	80	96	100	140	200

You are required to advise the management the maximum price which they can pay per share of Try Toys Ltd., if a discount factor of 15% is considered appropriate. **[10]**

8.(a) The following information is provided in relation to the acquiring firm M Ltd. and the target firm P Ltd.

Particulars	M Ltd.	P Ltd.
Earnings after tax (₹)	200 lakhs	40 lakhs
Number of shares outstanding	20 lakhs	10 lakhs
P /E Ratio	10	5

Required:

(i) What is the swap ratio in terms of current market price?

(ii) What is the EPS of M Ltd. after acquisition?

(iii) What is the expected market price per share of M Ltd. after acquisition assuming that P / E ratio of M Ltd. remains unchanged?

(iv) Determine the market value of the merged firm. **[8]**

(b) A Ltd. is planning to acquire T Ltd. and the following information is provided in relation to the acquisition about both the companies: 50%.

Particulars	A Ltd.	T Ltd.
Profit after tax (₹ in lakhs)	250	50
Number of shares outstanding (in lakhs)	20	10
P/E Ratio	16	12

Required:

(i) What will be the swap ratio it is to be determined on the basis of market prices?

(ii) Assuming that the swap ratio is on the basis of market price, what will be the market value of A Ltd. after acquisition if the merged entity expected to have a P/E ratio of 20? **[12]**