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) The risk which is concerned with the general economic climate (such as growth rate of income, characteristics of the labour force, level of foreign debt outstanding etc.) within the country, is termed as:
(A) Country Risk
(B) Political Risk
(C) Economic Risk
(D) Social Risk

(iii) The necessary condition for equilibrium position of a firm is:
(A) MC>MR
(B) MC> Price
(C) MC = MR
(D) MC = AC

(iv) The components of supply chain management are:
(A) Plan, source, make, deliver & return
(B) Plan, system, make, deliver & return
(C) Plan, source, supply & return
(D) Plan, source, make, deliver & warranty

(v) Which of the following is not a type of an OLAP system?
(A) ROLAP
(B) MOLAP
(C) RTOLAP
(D) ZTOLAP

2.(a) What is Customer Relationship Management (CRM)? State the advantages of it. **[2+8=10]**

(b) Describe the four perspectives of Balanced Sore Card. Also, state the limitations of Balanced Sore Card. **[6+4=10]**

3.(a) $\text{Cost} = 300x - 10x^2 + \frac{1}{3}x^3$, 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=10]**

(b)(i) State the purposes of five selected ratios, as suggested by Altman for Z-score model of corporate distress prediction.
(ii) Write a short note on NCAER model of corporate distress prediction. **[5+5=10]**

4.(a) What is Risk Management? State the objectives of it. **[5+5=10]**

(b) Discuss the potential impact of Computers and MIS on different levels of management. **[10]**

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) If the expected rate of return on a stock exceeds the required rate:
(A) The stock is experiencing super normal growth
(B) The stock should be sold
(C) The company is not probably trying to maximize price per share
(D) The stock is a good buy

(ii) The Current ratio of A Ltd. is 2:1, while quick ratio is 1.8:1. If the current liabilities are ₹ 40,000, value of stock is:
(A) ₹ 5000
(B) ₹ 8000
(C) ₹ 6000
(D) None of the above.

(iii) DCF analysis requires the revenue and expenses of:
(A) Past
(B) Future
(C) Past & future
(D) None of these.

(iv) 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?
(A) ₹ 230
(B) ₹ 238
(C) ₹ 248
(D) ₹ 264

(v) In the context of an acquisition of a firm, which one of the following concepts of value is least relevant?
(A) Market Value
(B) Opportunity Cost
(C) Synergy Value
(D) Value Gap

6.(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%

[10]

(b) Kolkata Ltd. and Bombay Ltd. have agreed that Kolkata Ltd. will take over the business of Mumbai Ltd. with effect from 31st December, 2018. It is agreed that:

(i) 10,00,000 shareholders of Mumbai Ltd. will receive shares of Kolkata Ltd.. The swap ratio is determined on the basis of 26 week average market prices of shares of both the companies. Average prices have been worked out at ₹50 and ₹25 for the shares of Kolkata Ltd. and Mumbai Ltd. respectively.

(ii) In addition to (i) above, the shareholders of Mumbai Ltd. will be paid in cash based on the projected synergy that will arise on the absorption of the business of Mumbai Ltd. by Kolkata Ltd. 50% of the projected benefits will be paid to the shareholders of Mumbai Ltd.

The following projections have been agreed upon by the management of both the companies:

Year	2019	2020	2021	2022	2023
Benefit ₹ (in lakhs)	50	75	90	100	105

The benefit is estimated to grow at the rate of 2% from 2023 onwards. It has been further agreed that a discount rate of 20% should be used to calculate the cash that the holders of each share of Mumbai Ltd. will receive.

- Calculate the cash that holder of each share of Mumbai Ltd. will receive
- Calculate the total purchase consideration.

(Discounting Rate 20%: 1 year-0.833, 2 year-0.694, 3 year-0.579, 4 year-0.482, 6 year-0.335). **[10]**

7.(a) Current equilibrium price per share (MPS) and expected earning per share (EPS) of five companies in the same industry are given below. The cost of equity for the industry can be taken as 20%. Identify the company having maximum potential for growth.

Company	MPS	EPS
A Ltd.	75.00	12.00
B Ltd.	63.00	9.45

C Ltd.	65.00	7.80
D Ltd.	70.00	11.90
E Ltd.	80.00	8.80

[10]

(b) Following is the Profit & Loss Account and Balance Sheet for M/s. X Ltd.

(₹ in Lakhs)

	2017	2018
Turnover	652	760
Pre-tax accounting profit	134	168
Taxation	46	58
Profit after tax	88	110
Dividends	30	36
Retained earnings	58	74

Balance Sheet extracts are as follows:

(₹ in Lakhs)

	2017	2018
Fixed Assets	240	312
Net Current Assets	260	320
Total	500	632
Equity Shareholders Funds	390	472
Medium and Long-term Bank Loan	110	160

The Company's performance in regard to turnover had increased by 17% along with increase in pre-tax profit by 25% but shareholders are not satisfied by the Company's preference in the last 2 years. You are required to calculate the economic value added, as suggested by M/s. Trump & Co., USA, so that reasons of non-satisfaction can be evaluated.

You are also given:

Particulars	2017	2018
Pre-tax Cost of Debt	9%	10%
Cost of Equity	15%	17%
Tax rate	35%	35%
Interest Expenses	₹ 8	₹ 12

[10]

8.(a) S K Lab a pharmaceutical company in Western India was expected to have revenues of ₹ lakhs in 2018 and report net income of ₹9 lakhs in that year. The firm had a book value of assets of ₹110 lakhs and a book value of equity of ₹58 lakhs at the end of 2017. Its market capitalization was ₹85 lakhs. The firm was expected to maintain sales in its niche product, a multivitamin tablet and grow at 5% a year in the long term, primarily by expanding into the generic drug market. The beta of S K Lab traded in Mumbai Stock Exchange was 1.25. The return on 10 year GOI bond in India in 2017 was 7% and the risk premium for stocks over bond is assumed to be 3.5%. Do you consider the market price as the fair value of the shares of S K Lab? **[10]**

(b) Reliable Industries Ltd. (RIL) is considering a takeover of Sunflower Industries Ltd. (SIL). The particulars of 2 companies are given below:

Particulars	RIL	SIL
Earnings After Tax (₹)	20,00,000	10,00,000
Equity shares (No.)	10,00,000	10,00,000

EPS (₹)	2	1
P/E ratio (times)	10	5

Required:

(i) What is the market value of each company before merger?

(ii) Assuming that the management of RIL estimates that the shareholders of SIL will accept an offer of one share of RIL for four shares of SIL. If there are no synergic effects, what is the market value of the post-merger RIL? What is the new price for share? Are the shareholders of RIL better or worse off than they were before the merger?

(iii) Due to synergic effects, the management of RIL estimates that the earnings will increase by 20%. What is the new post-merger EPS and price per share? Will the shareholders be better off or worse off than before the merger? **[10]**