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: Strategic Performance Management

PART – I
Answer Question Number 1 which is compulsory

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

(i) Accounting to the Law of Demand "demand varies inversely with price, not necessarily proportionately". Which of the following is not an exception to the above stated law ?
- (a) Complementary goods
- (b) Giffen Paradox
- (c) Prestigious goods.
- (d) Speculative Business

(ii) The Basel III Regulation proposed a ratio to measure liquidity standard. Which of the following is the proposed ratio?
- (a) Acid Test Ratio
- (b) Current Ratio
- (c) Net Asset Ratio
- (d) Net Stable Funding Ratio

(iii) Which of the following is Customer Relationship Management related to
- (a) Motivating employees
- (b) Acquiring the right customer
- (c) Instituting the best processes
- (d) All of the above.

(iv) Which one of the following is not considered in DuPont Analysis while calculating return on equity?
- (a) Asset Turnover
- (b) Debt margin
- (c) Equity Multiplier.
- (d) Profit Margin

(v) A manufacturer buys its competitor's products and terms down to find out the features, performances etc., to compare with its products, is called:
- (a) Competitive Benchmarking
- (b) Process Benchmarking
- (c) Product Benchmarking
- (d) Strategic Benchmarking

PART – II
Answer any Two questions from question numbers 2 to 4. Each question carries 20 marks
[2x20= 40]

2. (a) Briefly state the meaning of Supply Chain Management and describe how it is developed to introduce a new product in the market. **[4+6=10]**

(b) What are the kinds of information's required for performance measurement under BalancedScorecard (BSC)? State any six benefits of the Balanced Score Card. **[4+6=10]**

3. (a) Mr. A, manufacturer of radio produces 'x' sets per week at total cost of $x^2 + 78x + 2500$. He is a monopolist and the demand function for his product is $x = (600-P)/8$, when the price is 'p' per set. Find out the maximum net revenue obtained when 29 sets are produced per week and what is the monopoly price? [8+2=10]

(b) "Corporate failure symptoms are interrelated" Mention the symptoms of such failure and describe how these are interrelated. State the purposes of the five selected ratio of Altman's Z-score model. [1+6+3=10]

4.(a) What do you understand by Risk Management? State its objectives Risk can be reduced through diversification in the context of Enterprise Risk Management. Write the benefits of diversification for reduction of risk. [2+3+3+2=10]

(b)(i) 'Financial Statements are used in Financial analysis. What are those basic financial statements which are used to analyse financial data of a firm? [6]

(ii) What is OLAP Server? [4]

Section – B: Business Valuation
PART – I
Answer Question Number 1 which is compulsory

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

(i) X Ltd. is an all- equity firm which has Cash from Operating Activities amounting to ₹60 lakhs, Depreciation ₹30 lakhs, increase in Non-cash Working Capital ₹25 lakhs and Capital Expenditure ₹20 lakhs, its Free Cash Flows to Equity amounts to lakhs.
(a) 40
(b) 45
(c) 65
(d) 90

(ii) Discounted cash flow technique for valuation of common stock includes the following
(a) Flow of Dividends
(b) Price-cash flow Ratios
(c) Present value of Free Cash Flow
(d) Operating Cash Flow.

(iii) The division of parent companyinto two or more separate companies where parent company ceases to exist afterthe demerger?
(a) Split ups
(b) Spinoff
(c) Equity carve out
(d) Divestitures

(iv) If calculate weighted average cost of capital, when cost of equity 13.9%, cost of debt 8%., tax rate 40% and Debt/Equity = 40: 60.
(a) 11.54%
(b) 6.92%
(c) 8.205%
(d) 10.26%.

(v) If A Ltd. and B Ltd. merged their combined value would be Rs.90 lakhs whereas, individual value of A Ltd. is Rs.50 lakhs and B Ltd. is Rs.20 lakhs. A Ltd suppose to receive Rs.12lakhs as premium on merger. Calculate the synergy for merger.
(a) 8

(b) 20
(c) 32
(d) 38

PART – II

Answer any Two questions from question numbers 2 to 4. Each question carries 20 marks.

[2x20= 40]

6. (a) A India Ltd., is going to take over B India Ltd. B India Ltd., which is a small bio-technology firm engaged in developing products that are licensed to major pharmaceutical firms. The development costs are expected to generate negative cash flows of ₹10 lakhs during the first year of the forecast period. Licensing fee is expected to generate positive cash flows of ₹5 lakhs, ₹10 lakhs, ₹15 lakhs and ₹20 lakhs during 2-5 years respectively. Due to the emergence of other competitive products, cash flows are expected to grow annually at a modest 5% after the fifth year. The discount rate for the first five years is estimated to be 15% and then drop to 8% beyond the fifth year. Calculate the value of the firm.

Given: The discount rate @ 15% will be:

Year	1	2	3	4	5
Discount Rate	0.869	0.756	0.6575	0.572	0.497

[10]

(b) The following financial share data pertaining to T Ltd. an IT company is madeavailable to you: (Amount in ₹crores)

Year ended March 31st	2022	2021	2020
EBIT (₹)	696.03	325.65	155.86
Non-branded Income (₹)	53.43	35.23	3.46
Inflation compound factor @ 8%	1.000	1.087	1.181
Remuneration of Capital	5% of average capital employed		
Average capital Employed (₹)	1112.00		
Corporate Tax Rate	35%		
Capitalization Factor	16%		

You are required to calculate the Brand Value for Techno Ltd. [10]

7. (a) XYZ Ltd., is considering to take over of B Ltd., with stock. Relevant financial information isgiven below:

Particulars	A Ltd.	B Ltd.
Present earnings (₹)	7.5 Lakhs	2.5 Lakhs
Equity (no. of shares)	4.0 lakhs	2.0 Lakhs
EPS (₹)	1.875	1.25
P/E ratio	10	5

Answer the following questions:

(i) What is the market price of each company?
(ii) Find out the market Capitalization of each company?
(iii) what is the market price of A Ltd., when P/E of A Ltd. is 7.5?
(iv) What would be the impact on the market value of A Ltd.?
(v) Calculate the exchange ratio based on Market Price? (Take the revised price of A Ltd.) [2+2+2+2+2=10]

(b) V Ltd. is considering a merger with I Ltd. The data below are in the hands of both Boards of Directors. The issue at hand is how many shares of V Ltd. should be exchanged for I Ltd. Both boards are considering three possibilities 20,000, 25,000 and 30,000 shares. You

are required to construct a table demonstrating the potential impact of each scheme on each set of shareholders.

		V Ltd.	I Ltd.	Combined Post merger
1	Current earnings per year (₹)	2,00,000	1,00,000	3,50,000
2	Shares outstanding	50,000	10,000	?
3	Earnings per share (₹) (1÷2)	4	10	?
4	Price per share (₹)	40	100	?
5	Price-earnings ratio [4÷3]	10	10	10
6	Value of firm (₹)	20,00,000	10,00,000	35,00,000
7	Expected annual growth rate in earnings in foreseeable future	0	0	0

[10]

8.(a) A company has a capital base of ₹ 3 crores and has earned profits of ₹33 Lakhs. Returnon 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 theprofits will be ₹7.5 lakhs in addition to the target profit . Find out the amount of maximum bid price for that particular executive and the maximum salarythat could be offered to him.

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

[8]

(b) A Ltd. wants to acquire B Ltd. and has offered a swap ratio of 1: 2 (0.5 shares for everyone share of B Ltd.).

Following information is provided:

Particulars	A Ltd.	B Ltd.
Profit after tax (₹)	18,00,000	3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS (₹)	3	2
P/E Ratio	10 times	7 times
Market price per share (₹)	30	14

Required:

(i) The number of equity shares to be issued by A Ltd., for acquisition of B Ltd.

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

(iii) Determine the equivalent earnings per share of B Ltd.

(iv) What is the expected market price per share of A Ltd., after the acquisition, assuming its P/E multiple remains unchanged?

(v) Find out the market value of the merged firm. **[2+3+2+2+3=12]**