FINAL EXAMINATION

December 2019

P–20(SPBV)
Syllabus 2016

Strategic Performance Management and Business Valuation

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.
This paper has been divided into two Sections, viz, Section A and Section B.

Section-A

Strategic Performance Management

(50 Marks)

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

1. Choose the correct option from amongst the four alternatives given: 2×5=10

(i) Performance management creates a direct link between

(A) employee performance and employee's goal.

(B) organizational performance and employee's goal.

(C) employee performance and organizational goals.

(D) organizational goals and employee's goals.

(ii) If productivity growth of an organization is ________ that of its competitors, that firm performs better and is considered to be more efficient.

(A) higher than

(B) lower than

(C) stable

(D) fluctuating in both higher and lower sides

(iii) The program which encompasses the planning and management of all activities involved in sourcing procurement, conversion and logistics management activities is called

(A) Supply Chain Management

(B) Customer Relationship Management

(C) Total Quality Management

(D) None of the above

(iv) The components of the Shewhart Cycle or PDCA are

(A) Plan-Do-Check-Act

(B) Plan-Deline-Check-Act

(C) Plan-Do-Control-Act

(D) Program-Do-Check-Act

(v) Which out of the following financial ratios is not in the Altman Model : Z-Score?

(A) Market Value to Book Value of equity shares

(B) Working Capital to Total Assets

(C) Retained Earnings to Total Assets

(D) Sales to Total Assets

2. (a) (i) What is Customer Relationship Management (CRM)? 3

(ii) State the advantages and benefits of Customer Relationship Management application. 7

(b) (i) What are the characteristics of enterprise resource planning (ERP)? 4

(ii) What are the reasons for the failure of ERP? 6

3. (a) A departmental store of Mumbai conducted a study of the demand for men's ties. It found that the average daily demand (D) in terms of price (P) is given by the equation $D = 120 - 5P$.
You are required to ascertain—

(i) How many ties per day can the store expect to sell at a price of ₹ 20 per tie?

(ii) If the store wants to sell 40 ties per day what price should it charge?

(iii) What is the highest price anyone would be willing to pay? 3+3+4=10

(b) The following financial data related to the Balance Sheet of Vedisha Ltd. a public listed large manufacturing company as at March 31, 2019, has been extracted from the Annual Report 2018-19:

ASSETS	**(Amount in ₹ lakh)**
Non-Current Assets	
(a) Property, Plant and Equipment	1,620
(b) Other Assets	140
Total Non-Current Assets	1,760
Current Assets	
(a) Inventories	305
(b) Financial Assets	
(i) Investment	250
(ii) Trade Receivables	245
(iii) Cash and Cash Equivalents	125
(c) Other Assets	80
Total Current Assets	1,005
Total Assets	**2,765**
1. Equity And Liabilities	
Shareholders Fund:	
(a) Equity Share Capital (₹ 10 each)	500
(b) Reserve and Surplus	1,250
Total Equity	1,750
2. Non-Current Liabilities	
(a) Financial Liabilities	
- Borrowings	600
(b) Provisions	10
(c) Other liabilities	80
Total Non-Current Liabilities	690
3. Current Liabilities	
(a) Financial Liabilities	
(i) Borrowings	—
(ii) Trade Payables	195
(b) Provisions	10
(c) Other liabilities	120
Total Current Liabilities	325
Total Equity and Liabilities	**2,765**

Additional Information:

(i) Net sales for 2018-19 were ₹ 3,050 lakh.

(ii) Operating profit of the company for the year was ₹ 585 lakh.

(iii) Market value of each equity share is ₹ 16 on the stock exchange.

Using the above information provided and discriminant function developed by Altman, **you are required to calculate Z-Score** of Vedisha Ltd. and comment on the financial condition of the company. 10

4. (a) (i) Differentiate between systematic risk and unsystematic risk.

(ii) Discuss the need for implementation of enterprise risk management.

(iii) "Do you believe that the Government of India bonds do not have any kind of risk for the banking sector in India?" Support your answer with suitable reasoning. 6+3+3=12

(b) "Financial performance analysis can be classified into different categories on the basis of material used and modus operandi" — Write about the various types of financial performance analysis in this context. 8

Section-B

Business Valuation

(50 Marks)

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

5. Choose the correct option from amongst the four alternatives given, with justification/workings. 1 mark will be for the correct choice and 1 mark will be for the justification/workings: 2×5=10

(i) ANINY LTD. earned free cash flow to Equity shareholders during the financial year ended-2019 at ₹ 5 lakh. If its cost of equity is 12% and free cash flow to Equity (FCFE) is expected to grow forever at 10%, what will be value of ANINY LTD. (using FCFE valuation approach)?

(A) ₹ 450 lakh

(B) ₹ 300 lakh

(C) ₹ 275 lakh

(D) None of the above

(ii) Smith Ltd. has announced issue of warrants on 1:1 basis for its equity shareholders. The warrants are convertible at an exercise price of ₹15. Warrants are detachable and trading at ₹ 7. What is the minimum price of the warrant if the current price of the stock is ₹ 20?

(A) ₹ 4

(B) ₹ 5

(C) ₹ 7

(D) ₹ 15

(iii) The value of Alpha Ltd. and Beta Ltd. are ₹ 50 lakh and ₹ 25 lakh respectively. On merger their combined value ₹ 94 lakh. If Beta Ltd. receives premium on merger ₹ 15 lakh, what will be the synergy gain for merger?

(A) ₹ 19 lakh

(B) ₹ 24 lakh

(C) ₹ 34 lakh

(D) None of the above

(iv) A company with PAT of ₹ 60 Crores, Tax Rate 30% *plus* a cess of 3%, Return on Equity is 20%, Other Equity ₹ 225 Crores, PAT of the Company is growing by 8% per year and equity share with a par value of ₹ 10 will have EPS of

(A) ₹ 2

(B) ₹ 8

(C) ₹ 10

(D) Insufficient information

(v) A Limited is considering to acquire B Limited through all shares deal. Relevant information about these companies are given below:

Particulars	A Limited	B Limited
Present Earnings (₹ in crores)	₹ 7·50	₹ 2·50
No. of Equity Shares (in crores)	4	2
Price/Earnings Ratio	10	9

Given the above information, the exchange ratio based on the market price will be

(A) 0·60

(B) 0·67

(C) 0·93

(D) 1·67

6. (a) ST Ltd. and BE Ltd. are in the same Industry. The former is in negotiation for acquisition of the latter. Important information about the two companies as per their latest financial statements is given below:

	ST Ltd.	BE Ltd.
₹ 10 equity shares outstanding	12 lakh	6 lakh
Debt:		
10% Debentures (₹ lakhs)	580	–
12·5% Institutional loan (₹ lakhs)	–	240
Earnings before interest, depreciation and tax (EBIDAT) (₹ lakhs)	400·86	115·71
Market price/share (₹)	220·00	110·00

ST Ltd. plans to offer a price for BE Ltd., business as a whole which will be 7 times EBIDAT reduced by outstanding debt, to be discharged by own shares at market price.

BE Ltd. is planning to seek one share in ST Ltd. for every 2 shares in BE Ltd. based on the market prices. Tax rate for the two companies may be assumed as 30% .

Required:

Calculate and show the following under both alternatives — ST Ltd.'s offer and BE Ltd.'s plan: 12

(i) Net consideration payable

(ii) No. of shares to be issued by ST Ltd.

(iii) EPS of ST Ltd. after acquisition

(iv) Expected market price per share of ST Ltd. after acquisition.

(v) State briefly the advantages to ST Ltd. from the acquisition.

Calculations (except EPS) may be rounded off to 2 decimals in lakhs.

(b) Calculate the value of equity share of Rama & Company Ltd. which is listed on stock exchange, from the following information: 8

Equity share capital (₹ 20 each) ₹ 50,00,000

Reserves and Surplus ₹ 5,00,000

15% Secured loans ₹ 25,00,000

12.5% Unsecured loans ₹ 10,00,000

Fixed Assets ₹ 30,00,000

Investment ₹ 5,00,000

Operating Profit ₹ 25,00,000

Corporate Tax Rate 25% (including all)

Price Earnings Ratio 12.5

Support your answer with complete workings.

7. (a) Blooming Company Limited wants to takeover Gloomy Company Limited and their summarized financial statements are given below:

Balance Sheet as on March 31, 2019

(₹ in Crores)	Blooming Company Limited	Gloomy Company Limited
Assets:		
Non-Current asssets — Property, Plant and Equipment and Financial Assets	905.62	264.37
Current Assets — Inventories, Receivables and Cash and Cash equivalents	681.88	623.13
Total Assets	**1,587.50**	**887.50**
Equity and Liabilities :		
Equity Share Capital - ₹ 10 each	312.50	218.75
Other Equity	593.75	268.75
Non-Current Liabilities	410.63	236.88
Current Liabilities and Provisions	270.62	163.12
Total Equity and Liabilities	**1,587.50**	**887.50**

Statement of Profit and Loss for the year ending on March 31, 2019

(₹ *in Crores*)	Blooming Company Limited	Gloomy Company Limited
Revenue:		
Sales	1,708.86	1,107.59
Other Income	15.82	10.76
Total	**1,724.68**	**1,118.35**
Less :		
Cost of Goods Sold	768.99	509.49
Administrative and other related expenses	256.33	132.91
Selling and Distribution Expenses	119.62	83.04
	1,144.94	725.44
Profit Before Interest and Tax	**579.74**	**392.91**
Less: Interest	24.00	32.00
Profit Before Tax	**555.74**	**360.91**
Less: Tax	185.25	120.30
Profit After tax	**370.49**	**240.61**

Additional Information:

	Blooming Company Limited	Gloomy Company Limited
(i) Proportion of Floating Shares in Stock Market	75%	80%
(ii) Market Price Per Share	₹ 45	₹ 40

I. Using the above information, what should be the share exchange ratio to be offered to the shareholders of Gloomy Company Limited by Blooming Company Limited based on:

(a) Book Value Per Share

(b) Earnings Per Share (EPS)

(c) Market Price Per Share

II. Assuming that there are no synergy gains, then determine the EPS after merger if the exchange ratio is one which is the most preferred out of the three as in (I) above by Gloomy Company Limited. 8+4=12

(b) AB Ltd. and VZ Ltd. are contemplating a merger deal in which AB Ltd. will acquire VZ Ltd. The relevant information about the companies are given as follows:

	AB Ltd.	VZ Ltd.
Total earning (E) (in ₹ millions)	70	28
Number of outstanding shares (S) (in million)	20	10
Earnings Per Share (EPS) (₹)	3.50	2.80
Price Earning Ratio (P/E)	12	10
Market Price Per Share (MPS) (₹)	42	28

Required:

(i) What is the maximum exchange ratio acceptable to the shareholders of AB Ltd. if the P/E ratio of the combined firm is 12 and there is no Synergy Gain?

(ii) What is the minimum exchange ratio acceptable to the shareholders of VZ Ltd. if the P/E ratio of the combined firm is 11 and there is a Synergy benefit of 5 per cent? 4+4=8

8. (a) The following information has been extracted from the Annual Report 2018-19 of Red Shine Limited:

Balance Sheet of Red Shine Limited as at March 31, 2019 (₹ *in Crores*)

Particulars	**2019**
ASSETS	
Non-Current Assets:	
Property, Plant and Equipment	250.00
Intangible Assets	25.00
Financial Assets-Investment	75.00
Other Non-Current Assets	5.00
Total Non-Current Assets	**355.00**
Current Assets:	
Inventories	60.00
Financial Assets:	
Trade Receivables	85.00
Cash and Cash equivalents	35.00
Other Current Assets	10.00
Total Current Assets	**190.00**
TOTAL ASSETS	**545.00**
EQUITY AND LIABILITIES	
Equity:	
Equity Share Capital (Face Value-₹ 10 per share)	50.00
Other Equity	325.00
Total Equity	**375.00**
Non-Current Liabilities:	
12% Redeemable Preference Shares	40.00
Financial Liabilities-Borrowings	75.00
Total Non-Current Liabilities	**115.00**
Current Liabilities	
Financial Liabilities:	
Trade Payables	25.00
Other Financial Liabilities	15.00
Provisions	9.00
Other Current Liabilities	6.00
Total Current Liabilities	**55.00**
TOTAL EQUITY AND LIABILITIES	**545.00**

Statement of Profit and Loss of Red Shine Limited for the Year ended March 31, 2019 (₹ *in Crores*)

Particulars	2019
Revenue from Operations	1,890.00
Interest and Dividend Income on Non-Current Financial Investments	250.00
Total Income	**2,140.00**
Cost of Goods Sold	1,475.00
Other Operating Expenses	175.00
Total Operating Expenses	**1,650.00**
Profit before Interest, Exceptional Items and Tax	490.00
Less: Interest	9.00
Profit before Exceptional Items and Tax	**481.00**
Less: Exceptional Items	35.00
Profit Before Tax	**446.00**
Tax @30%	133.80
Profit After Tax	**312.20**

From the above information, determine the Economic Value Added (EVA) of Red Shine Limited for the FY 2018-19 if its Weighted Average Cost of Capital is 15%. 10

(b) The following information is provided related to the acquiring Firm Mark Limited and the target Firm Mask Limited:

	Firm Mark Ltd.	Firm Mask Ltd.
Earnings after tax (₹)	2,000 lakhs	400 lakhs
Number of shares outstanding	200 lakhs	100 lakhs
P/E ratio (Times)	10	5

You are required to give the answers of the following: 10

(i) What is the Swap ratio based on current market prices?

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

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

(iv) Determine the market value of the merged firm.

(v) Calculate gain/loss for shareholders of the two independent companies after acquisition.