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.

SECTION – A: STRATEGIC PERFORMANCE MANAGEMENT

(Answer to Question No. 1 and 5 are compulsory; answer any two from Question No. 2, 3 & 4.)

1. (a) Choose the correct alternative. Provide justification in each case. 1 mark is allotted for correct selection and 1 mark for the justification: [5 × 2 = 10]

(i) Selecting the right vendors, categorizing vendors to ensure the right contract, metrics and relationship, determining the ideal number of vendors, mitigating risk when using vendors and establishing a vendor management organization that best fits the enterprise are the important aspects of ___________. (Briefly justify)

a. Vendor relationship management
b. Customer relationship management
c. Supply chain management
d. Procurement to pay management.

(ii) Which one of the below mentioned in not a modern theory of the firm? Why?

a. Baumol's sales maximisation
b. Shareholder's wealth maximisation
c. Marri's model of maximisation of Firm's Growth rate
d. Williamson's model of managerial discretion

(iii) The Average Cost of a firm is given by the function,
$Average\ Cost = x^3 + 12x^2 - 11x$, then the marginal cost will be:

a. $4x^3 + 36x^2 - 22x$
b. $x^4 + 12x^3 - 11x^2$
c. $2x^2 + 24x - 11$
d. *None of the above.*

(iv) Given the following information for a business:
Asset turnover = 3.50
Equity multiplier = 1.00
Return on equity = 30%
Using the DuPont analysis, the net profit margin is ___________.

a. 8.57%
b. 5.87%
c. 7.65%
d. 6.75%.

(v) Which one of the following is not a qualitative method used for determining the level of risk of a business?
  a. Brainstorming
  b. Computer simulation
  c. Evaluation for multidisciplinary groups
  d. Judgment of specialists and experts (Delphi Technique)

2.(a) Though the terms 'performance management' and 'performance appraisal' are sometimes used interchangeably, they have significantly different connotations — Write down those. State the objectives of Performance Management. **[3+6=9]**

(b) "Balanced Score Card (BSC) can be used to improve strategic performance in several ways." — Examine the areas where BSC can be used to improve performance of an organisation. Write down the steps in developing Balanced Score Card. **[3+4=7]**

3.(a) Describe the various types of benchmarking. **[8]**

(b) From the following ascertain the stage of sickness and comment on this.

Balance Sheet (extract) of Q Ltd. as on 31 March 2023

LIABILITIES	₹ in Crores	ASSETS	₹ in Crores
Equity Shares	20.80	Fixed Assets	105.60
Long term Liabilities	104.00	Current Assets	57.60
Current Liabilities	78.40	Profit and Loss Account	40.00
	203.20		203.20

Additional Information:
i. Depreciation written off ₹ 8 crores.
ii. Preliminary Expenses written off ₹ 1.60 crores.
iii. Net Loss ₹ 25.60 crores.
Ascertain the stage of sickness using the NCAER model. **[8]**

4.(a) What do you mean by Enterprise Risk Management (ERM)? State the elements of ERM. **[2+5=7]**

(b) Sulekha Inc. produces particular Fountain Pen Ink. It follows a price differentiation strategy and separately brands the same product. Thus for Sulekha Inc. there arises possibility of discriminating between two markets; market A and market B where the demands (for the same ink), respectively, are

$Q_1 = 21 - 0.1P_1$ ------ (in Market A)

$Q_2 = 50 - 0.4\,P_2$ ------ (in Market B)

Total cost = 2000+10Q where $Q = Q_1 + Q_2$.

I. Suggest the price the producer will charge in order to maximize profits in the following situations: (i) with discrimination between markets and (ii) without discrimination?

II. Compare the profit differential between discrimination and non-discrimination.

[4+4+1=9]

5. Palm was a pioneer in hand-held computers in the early 1990s. In December 2000, annual sales were up 165 percent from the previous year. In March 2001, the first sign of slowing sales hit the firm. The top management of Palm decided that the appropriate response was to quickly launch its newest model of hand-held computers, the m500 line. The CEO, Carl Yankowski, received assurances from his management that the m500 line could be out in two weeks. Palm unveiled the m500 line on March 19. Sales of Palm's existing devices slowed further as customers decided to wait for the new model. The problem was that the wait wasn't two weeks. Palm hadn't left enough time for the testing of the m500 before sending the design to be manufactured. Production of the m500 line kept hitting snags. Palm wasn't able to ship the new model in volume until May, more than six weeks after the announcement. Inventory of the older product began to pile up, leading to a huge $300 million write-off of excess inventory and a net loss of $392 million for the fiscal quarter ended June 1, compared with a profit of $12.4 million a year earlier. The firm's stock price plummeted, and, as a consequence, an acquisition that was key to Palm's strategy collapsed—the deal was for $264 million in Palm's stock. The company cut 250 workers, lost key employees, and halted the construction of a new headquarters. Palm's rivals, such as RIM (BlackBerry) and Microsoft, increased their efforts to capitalize on Palm's mistakes. Read the Caselet and answer the following questions:

(i) Formulate the risks which caused misfortune of Palm Inc.

(ii) Formulate a set of strategic decisions and related action points on behalf of the management of Palm Inc. after drawing lessons from the above events to avoid such unfortunate results in future. **[3+5=8]**

SECTION – B : BUSINESS VALUATION

(Answer to Question No. 6 and 10 are compulsory; answer any two from Question No. 7, 8 & 9)

6. (a) Choose the correct alternative. Provide justification in each case. 1 mark is allotted for correct selection and 1 mark for the justification: **[5 × 2 = 10]**

(i) In case the business is expected to mature at the end of the explicit forecast period, the terminal value may assume that the Free Cash Flows will continue for _____ thereafter.

a. 3 years

b. 5 years

c. 10 years

d. infinite period

(ii) X Ltd. has ₹ 100 crores 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.

(iii) A ___ is an option issued by a company to buy a stated number of shares of stock at a specified price.
a. Warrant
b. Bond
c. Puttable bond
d. None of the above.

(iv) The value of Alpha ltd. and Beta ltd. are INR 50 lac and INR 25 lac respectively. On merger their combined value INR 94 lac. If Beta Ltd. receives premium on merger INR 15 lac, what will be the synergy gain on merger?
a. INR 19 lac
b. INR 24 lac
c. INR 34 lac
d. None of the above

(v) Future retail is liquidated and a new company Future Enterprise is formed to take over its business. It is a case of:
a. Absorption
b. External reconstruction
c. Amalgamation
d. Take over.

7.(a) What do you mean by Asset reconstruction? What is the role of Asset reconstruction companies? **[6]**
(b) State the different types of risks. **[3]**
(c) Point out some circumstances when Market Approach to valuation should be applied. **[7]**

8.(a) The following information is available for ST Ltd.

Liabilities	31.3.20×4	31.3.20×5	31.3.20×6
Equity Share Capital (3,20,000 shares)	32,00,000	32,00,000	32,00,000

Reserves & Surplus	26,80,000	31,20,000	36,80,000
Trade Payables	12,00,000	16,00,000	20,00,000
Total Liabilities and Equity	70,80,000	79,20,000	88,80,000
Assets			
Property, Plant & Equipment	28,00,000	32,00,000	32,00,000
Inventory	20,00,000	24,00,000	28,00,000
Trade Receivables	40,000	3,20,000	8,80,000
Cash and Bank Balance	22,40,000	20,00,000	20,00,000
Total Assets	70,80,000	79,20,000	88,80,000

Additional information:

Capital Employed as on 1-Apr-20×4 was ₹73,20,000

Normal Return on Capital Employed is 12.5 %.

Particulars as on	31.3.20×4	31.3.20×5	31.3.20×6
Fair Value of Property, Plant & Equipment	36,00,000	40,00,000	44,00,000
Fair Value of Inventory	24,00,000	28,00,000	32,00,000
Net Profit	8,40,000	12,40,000	16,40,000

If goodwill is calculated as 5 years' purchase based on average super profit, calculate Goodwill and Value of the business. **[8]**

(b) Highland Company is considering the acquisition of Lowland Company in a stock- for-stock transaction in which Lowland Company would receive ₹ 90 for each share of its common stock. Highland company does not expect any change in its price/ earnings ratio multiple after the merger and chooses to value Lowland company conservatively by assuming no earnings growth due to synergy.

Calculate:

(i) The purchase price premium
(ii) The exchange ratio
(iii) The number of new shares issued by Highland company.
(iv) Post-merger EPS of the combined firms
(v) Pre-merger EPS of the Highland company
(vi) Pre-merger P/E ratio
(vii) Post-merger share price
(viii) Post-merger equity ownership distribution.

The following additional information is available.

Particulars	Highland	Lowland
Earnings	INR 2,50,000	INR 72,500
Number of Shares	1,10,000	20,000
Market Price per share	INR 50	INR 60

[8]

9.(a) Discuss various types of mergers. State the motives for mergers and acquisition. **[5+5=10]**

(b) State the major principles that govern valuation of real estate. **[6]**

10. Following is the Profit and Loss Account and Balance Sheet for Durga Ltd.

Extracts of Profit and Loss Account:

Particulars (INR in Lakhs)	2021	2022
Turnover	600	750
Pre-tax accounting profit	148	192
Taxation	38	52
Profit after tax	110	72
Dividends	28	21
Retained earnings	82	51

Balance Sheet extracts:

Particulars (INR in Lakhs)	2021	2022
Fixed Assets	320	410
Net Current Assets	340	312
Total	660	722
Equity Shareholders Funds	400	562
Medium and long-term bank loan	210	178

The Companies performance in regard to turnover had increased by 25% along with the increase in pre-tax profit by 30% but shareholders are not satisfied by the company's preference in the last 2 years.

Develop a report to be submitted to the management to analyze the reasons of nonsatisfaction by determining the economic value added as suggested by M/s. Durga Ltd. You are also given –

Particulars	2021	2022
Pre-tax cost of debt	8%	9%
Cost of equity	12%	15%
Tax rate	35%	35%
Interest expense (₹ in lakhs)	₹6	₹10

[8]