FINAL EXAMINATION | SET - 1

MODEL QUESTION PAPER | TERM – JUNE 2024

PAPER – 20A | SYLLABUS 2022

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 (Compulsory)

1. Choose the correct option: **[15 x 2 = 30]**

(a) (i) _______is the uncertainty of the purchasing power of the monies to be received, in the future?

(A) Market risk
(B) Physical risk
(C) Purchasing power risk
(D) Interest rate risk

(ii) Under perfect competition and at the point of equilibrium of firm:

(A) MC curve must be falling
(B) MC curve must be rising
(C) MR curve must be falling
(D) None of the above

(iii) Risk Management Strategies are:

(A) Avoid Risk, Reduce Risk, Retain Risk, Combine Risk
(B) Transfer Risk, Share Risk and Hedge Risk
(C) Both (a) and (b)
(D) None of the above

(iv) Benchmarking focuses on:

(A) Production
(B) Profit
(C) Best Practices
(D) Best performance

(v) The __________ elements of Going Concern Value result from factors such as having a trained work force, an operational plant, the necessary licenses, marketing systems, and procedures in place etc.

(A) Intangible
(B) Tangible
(C) Fixed Asset
(D) Current Asset

(vi) Estimated fair value of an asset is based on the __________ value of operating cash flows.
   (A) Current
   (B) Discounted
   (C) Future
   (D) None of these

(vii) ________is the yield actually earned by the investor on his investment and depends on the reinvestment rate and the holding period chosen by him.
   (A) Realised Yield
   (B) Yield to Maturity
   (C) Current Yield
   (D) None of the above

(viii) If the Value of target Co. is ₹ 500 Million and the value of acquiring company is ₹ 800 Million. Present value of cost savings if the two companies are merged together is ₹ 100 million. Acquiring company expects the cost of integration as ₹ 80 million and the shareholders of Target Co. are expecting a deal premium to be paid of 15 percent over their company's value. what is the value of Combined entity?
   (A) ₹ 1400 million
   (B) ₹ 1345 million
   (C) ₹ 1445 million
   (D) ₹ 1540 million

(ix) ________ are often done by Private Equities, Venture Capitalists and portfolio companies who acquirer a company purely for their value and normally do not make significant operational changes.
   (A) Financial Acquisition
   (B) Strategic acquisitions
   (C) Hostile takeover
   (D) None of these

(x) 8% bond of Face Value ₹ 100 is selling for ₹ 96. What would be its Current Yield?
   (A) 8%
   (B) 12%
   (C) 8.33%
   (D) None of the above

(b) There are eight stores (A to H) across a city in which certain number of employees (given in the table below) effects Sales in a particular month.

Stores (DMUs)	A	B	C	D	E	F	G	H
Employee (No.)	20,400	32,000	34,200	44,000	54,000	54,000	62,000	80,000
Sales (₹)	16,000	27,500	25,400	44,000	46,000	43,200	56,000	58,000

Based on the above case, you are required to answer the questions no. from (xi) to (xv).

(xi) What is the efficiency in terms of sales per employee of Store F?
(A) 1.25
(B) 0.80
(C) Insufficient data
(D) None of the above.

(xii) From the above table, which Store has the highest efficiency score in terms of sales per employee?
(A) A
(B) B
(C) C
(D) D

(xiii) If the efficiency scores are plotted with number of employees on the horizontal axis and sales on the vertical axis, the slope of the line connecting each point to the origin corresponds to the sales per employee and the highest slope is attained by the line from the origin, is called ________________
(A) Regression Line
(B) Efficient Frontier
(C) Relative Efficiency Line
(D) None of the above.

(xiv) As per the above Q. No. (xiii), the highest slope line will touch the point for Store ________.
(A) B
(B) D
(C) F
(D) G

(xv) The above case is an example of:
(A) Data Envelopment Analysis
(B) Du-Pont Analysis
(C) RONA Model
(D) Total Productive Maintenance

SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks.)

[5x14=70]

2. (a) Describe Supply Chain. Explain the components of Supply Chain Management. **[7]**

(b) Interpret the steps for implementation of Total Quality Management. **[7]**

3. (a) The Cost function of a particular firm $c = \frac{1}{3}x^3 - 5x^2 + 75x + 10$, i) compute at which level, the Marginal Cost attains its minimum and also ii) compute the marginal cost of this level. **[7]**

(b) Explain briefly the Risk Enabled Performance Management (REPM). Summarize the focus areas of the traditional ERM and also classify the areas of practices based on which transformation to REPM are done. **[7]**

4. (a) Mrs. EuCheu is an investor who has decided to invest her money in the business of either Retailer A and Retailer B. She researches their financial numbers and finds that the ROE for the both the Retailers are same at 45%. Thus she decides to look further and finds the following data; Retailer A's profit margin is 30%, asset turnover is 0.50, and equity multiplier is 3. Retailer B's Profit Margin of 15%; Asset Turnover is 3; and Equity Multiplier is 1.

She is confused as both the company's profitability is same when measured in terms of ROE. She seeks the advice of her friend Mr. Dune who is a qualified Cost Accountant. Evaluate and analyse the areas by which Mr. Dune can help Mrs. EuCheu for her investment decision using DuPont Analysis. **[7]**

(b) Balance Sheet (extract) of Q Ltd. as on 31st March 2024:

Liabilities	₹ in Crores	Assets	₹ in Crores
Equity Shares	20.80	Fixed Assets	105.60
Long-term Liabilities Current	104.00	Current Assets	57.60
Liabilities	78.40	Profit & Loss A/c	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. **[7]**

5. **(a)** The free cash flow of Suvision Ltd is projected to grow at a compound annual average rate of 35% for the next 5 years. Growth is then expected to slow down to a normal 5% annual growth rate. The current year's cash flow of Suvision Ltd is ₹ 4 lakhs. Suvision Ltd.'s cost of capital during the high growth period is 18% and 12% beyond the fifth year, as growth stabilizes. Calculate the value of the Suvision Ltd. **[7]**

(b) Desai Ltd.'s Current Financial year's income statement reports its net income as ₹ 15,00,000. Desai's marginal tax rate is 40% and its interest expense for the year was ₹ 15,00,000. The Company has ₹ 1,00,00,000 of invested capital, of which 60% is debt. In addition, Desai Ltd. tries to maintain a Weighted Average Cost of Capital (WACC) of 12.6%.

A) Compute the operating income or EBIT earned by Desai Ltd. in the current year.
B) Calculate Desai Ltd.'s Economic Value Added (EVA) for the current year.
C) Desai Ltd. has 2,50,000 equity shares outstanding. According to the EVA you computed in, compute how much can Desai pay in dividend per share before the value of the company would start to decrease. If Desai does not pay any dividend, demonstrate what would you expect to happen to the value of the company. **[7]**

6. **(a)** Carwin Tracom Ltd. furnishes the following particulars about their investment in shares of Rose Commodities Ltd. for the year 2023-24:

Balance of shares held on 1st April 2023	2,62,000	(10,000 shares of ₹10 each)
Purchased 2,000 shares on 1st July 2023	60000	
Sold 500 shares on 1st August 2023 @ ₹35 per share cum dividend	17500	
Carwin Tracom Ltd. declared final dividend for 2022-23 on 1st September 2023. Received 1:5 bonus shares on 1st February, 2024.	20%	

Brokerage for each transaction is 2%. Calculate the cost of shares held by Carwin Tracom Ltd. as on 31st March 2024. **[7]**

(b) Calculate the Economic Value added from the following data:

Particulars	(₹) Year: 2023
Average Debt	50
Average Equity	2766
Cost of Debt %	7.72
Weighted average cost of capital (%)	16.70
Profit after tax before exceptional items	16.54
Interest after taxes	5

[7]

7. (a) ABC Ltd. run and managed by an efficient team that insists on reinvesting 60% of its earnings in projects that provide an ROE (return of equity) of 10%, despite the fact that the firm's capitalization rate (K) is 15%. The firm's current year's earning is ₹ 10 per share.
Calculate at what price the stock of ABC Ltd. Sell. Compute what is the present value of growth opportunities. Suggest why would such a firm be a takeover target. **[7]**

(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 (INR)	20,00,000	10,00,000
Equity shares (No.)	10,00,000	10,00,000
EPS (INR)	2	1
P/E ratio (times)	10	5

(i) Calculate 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, calculate the market value of the post-merger RIL and also calculate the new price for share. Assess whether 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%. Compute the new post-merger EPS and price per share. Evaluate will the shareholders be better off or worse off than before the merger. **[7]**

8. **(a)** From the following income statement, illustrate a common size statement and also interpret the result.

Income Statement for the year ended 31st March

	2023 (₹)	2024 (₹)
Net Sales	10,50,000	13,50,000
Less : - Cost of goods sold	5,70,000	6,45,000
Gross Profit	4,80,000	7,05,000
Less :- Other operating expenses	1,50,000	2,16,000
Operating profit	3,30,000	4,89,000
Less :- Interest on long term debt	60,000	51,000
Profit before tax	2,70,000	4,38,000

[7]

(b) XYZ Ltd. is considering merger with ABC Ltd. XYZ Ltd.'s shares are currently traded at ₹ 25. It has 2,00,000 shares outstanding and its profits after taxes (PAT) amount to ₹ 4,00,000. ABC Ltd. has 1,00,000 shares outstanding. Its current market price is ₹ 12.50 and its PAT are ₹ 1,00,000. The merger will be effected by means of a stock swap (exchange). ABC Ltd. has agreed to a plan under which XYZ Ltd. will offer the current market value of ABC Ltd.'s shares:

(i) Compute the pre-merger earnings per share (EPS) and P/E ratios of both the companies.

(ii) If ABC Ltd.'s P/E ratio is 8, calculate its current market price. Compute the exchange ratio and what will XYZ Ltd.'s post-merger EPS be?

(iii) Assess the exchange ratio, must be for XYZ Ltd. so that pre and post-merger EPS to be the same. **[7]**