Paper 20 - Strategic Performance Management & Business Valuation

Paper 20 - Strategic Performance Management & Business Valuation

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) 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

(ii) The prices which are fixed and enforced by the Government and regulatory in nature, is called:
(A) Dual Pricing
(B) Administered Pricing
(C) Shadow Pricing
(D) Multiple Product Pricing.

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

(iv) J Ltd. is operating in a perfectly competitive market. The price elasticity of demand and supply of the product estimated to be 3 and 2 respectively. The equilibrium price of the product is ₹100. If the government imposes a specific tax of ₹10 per unit, what will be the new equilibrium price?
(A) ₹ 110
(B) ₹ 44
(C) ₹ 104
(D) ₹ 106

(v) Performance is a product of:
(A) Efficiency and Utilization
(B) Utilization and Productivity
(C) Efficiency and Productivity
(D) Efficiency, Utilization and Productivity.

2.(a) What is Performance Management? "Performance management and performance appraisal are sometimes used synonymously but they are different". Do you agree this statement? Support your answer by highlighting bases of difference, if any, between them. **[2+8=10]**

(b) State how six sigma methodology works through the use of its two sub methodologies: DMAIC and DMADV. "Benchmarking is a powerful management tool because it overcomes paradigm blindness" — Justify the statement. **[5+5=10]**

3.(a) The Demand function is $x = 100 + 4p + 10p^2$, where x is demand for the commodity at price 'p'. Compute marginal quantity of demand, average quantity of demand and hence elasticity of demand, at p = 4. **[8]**

(b)(i) Write about the causes of sickness of a project.

(ii) Using Altman's Multiple Discriminant Function, calculate Z-score of S & Co. Ltd., where the five accounting ratios are as follows and comment about its financial position:

Working Capital to Total Assets = 0.350

Retained Earnings to Total Assets = 50%

EBIT to Total Assets = 19%

Book Value of Equity to Book Value of Total Debt = 1.65

Sales to Total Assets = 2 times. **[5+7=12]**

4.(a) What are Key Risk Indicators in the process of Risk Mapping? State the benefits of Risk Mapping. **[5+5=10]**

(b) Describe the accounting techniques of financial performance analysis. State the significance of financial performance analysis. **[6+4=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) Which one of the following statements is not true about efficient market?
(A) Share prices behave randomly and do not show any systematic pattern in the behavior
(B) Price of one share is independent of the price of other shares in the market
(C) Share prices fully reflect all available information
(D) None can earn abnormally high profits on a constant basis.

(ii) Assume that in a Stock Market, the CAPM is working. A company has presently beta of 0.84 and its going to finance its new project through debt. This would increase its Debt/Equity Ratio to 1.56 from the existing 1.26. Due to increased Debt/Equity Ratio, the Company's beta would:
(A) Increase
(B) Decrease
(C) Remain unchanged
(D) Nothing can be concluded.

(iii) 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

(iv) Rico Ltd. has PAT of ₹ 40.20 lakhs with extra ordinary income of ₹ 7.00 lakhs. If the cost of capital is 20% and the applicable tax rate is 40% the value of Rico Ltd. will be:
(A) ₹ 250 lakhs
(B) ₹ 180 lakhs
(C) ₹ 150 lakhs
(D) Insufficient information.

(v) Identify which of the following is not a financial liability?
(A) X Ltd. has 1 lakh ₹ 10 ordinary shares issued
(B) X Ltd. has 1 lakh 8% ₹ 10 redeemable preference shares issued
(C) X Ltd. has ₹ 2,00,000 of 6% bonds issued
(D) Both (A) and (B).

6.(a) The following informations are furnished in respect of a certain firm:
Earnings per Share = ₹ 3.15
Capital Expenditure per Share = ₹ 3.15
Depreciation per Share = ₹ 2.78
Change in Working Capital per Share = ₹ 0.50
Debt Financing Ratio = 25%

Earnings, Capital Expenditure, Depreciation and Working Capital are all expected to grow at 6% per year. The beta for stock is 0.90. Treasury bond rate is 7.50%. A premium of 5.5% is used for the market.
Calculate the value of stock. **[8]**

(b) Find out the average capital employed of ND Ltd. From its Balance Sheet as at 31st March, 2019:

Equity and Liability	₹ in Lakhs	Assets	₹ in Lakhs
(1) Shareholders Fund:		(1) Non-Current Assets:	
(a) Share Capital		(a) Fixed Assets	
(i) Equity Share Capital of ₹ 10 each	50.00	(i) Tangible Assets:	
		— Land and Building	25.00
(ii) 9% Preference Shares fully paid up	10.00	— Plant and Machinery	80.25
(b) Reserve & Surplus		— Furniture and Fixtures	5.50
(i) General Reserve	12.00	— Vehicles	5.00
		(b) Non-Current Investments	10.00
(ii) Profit & Loss Account	20.00	(c) Other Non-Current Assets	0.50
(2) Non-Current Liabilities:		— Preliminary Expenses	
Long Term Borrowings			
(i) 16% Debentures	5.00		
(ii) 16% Term Loan	18.00	(2) Current Assets:	
(iii) Cash Credit	13.30	(a) Inventories	6.75
(3) Current Liabilities:		(b) Trade Receivables	4.90

(a) Trade Payables - Sundry Creditors (b) Short Term Provision – Provision for Taxation (Net) — Proposed Dividend Equity Shares Preference Shares	2.70 6.40 10.00 0.90	— Sundry Debtors (c) Cash and Cash Equivalents	 10.40
Total	148.30	Total	148.30

Non-trade investments were 20% of the total investments.

Balances as on 1.4.2018 to the following accounts were:

Profit and Loss account ₹8.70 lakhs, General reserve ₹6.50 lakhs. **[12]**

7.(a) The bidding company B Ltd. is contemplating a merger with the target company, T Ltd. so as to form the merged B Ltd. under two distinct situations X and Y. You are provided with the following information about the proposed merger:

Company	B Ltd.	T Ltd.
EAT (₹ lakhs)	40	12.5
No. of Equity Shares (in lakhs)	5	2
P/E ratio	12.5	20

Situation X: There is no synergy in earnings, but P/E of merged B Ltd. will stand at 15. Merger is based on market value of shares.

Situation Y: Post merger P/E stands at that of stand-alone B Ltd., but earnings of the merged entity rises by 20% over the aggregate earnings of B Ltd. and T Ltd. Swap ratio is 1.3 for every share of T Ltd.

Find for both the situations X and Y:

(i) Post merger EPS.

(ii) Post merger market value per share.

(iii) Synergy due to merger.

(iv) Gain/loss for merger to shareholders of B Ltd. and T Ltd. (A) in value of share holdings and (B) in earnings available to them. **[2+2+2+4=10]**

(b) Pure Drugs Limited is in the Pharmaceutical Industry and has a business strategy of growing inorganically. It is contemplating to acquire Solid Drugs Limited which has a strong hold in cardiac segment. Pure Drugs Limited has 30 crore shares outstanding which are trading on an average price of ₹ 300 while Solid Drugs Limited has outstanding shares 20 crore and are selling at an average price of ₹ 200 per share. The EPS are of ₹ 12 and ₹ 6 for Pure Drugs Limited and Solid Drugs Limited respectively. Recently, the management of both the companies had a meeting wherein number of alternative proposals was considered for exchange of shares. They are —

(i) Exchange Ratio should be in proportion to the relative EPS of two companies.

(ii) Exchange Ratio should be in proportion to the relative share prices of two companies.

(iii) Exchange Ratio should be 3 shares of Pure Drugs Limited for every 5 shares of Solid Drugs Limited.

You are required to estimate EPS and Market Price under the three options, assuming the P/E of Pure Drugs Limited after merger will remain unchanged. Assume that there will not be any synergy gains due the said merger. **[5+5=10]**

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

(₹ in Lakhs)

	2018	2019
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)

	2018	2019
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 X Ltd., so that reasons of non-satisfaction can be evaluated.

You are also given:

Particulars	2018	2019
Pre-tax Cost of Debt	9%	10%
Cost of Equity	15%	17%
Tax rate	35%	35%
Interest Expenses (in lakhs)	₹ 8	₹ 12

[10]

(b) The shareholders of A Co. Ltd., have voted in favour of a buyout offer from B Co. Ltd. Information about each firm is given here below. Moreover, A Co. Ltd.'s shareholders will receive one share of B Co. Ltd. stock for every three shares they hold in A Co. Ltd.

Particulars	B Co. Ltd.	A Co. Ltd.
Present earnings (in ₹ lakhs)	6.75	3.00
EPS (in ₹)	3.97	5.00
Number of shares (Lakhs)	1.70	0.60
P/E ratio	20	5

(i) What will be the EPS of B Co. Ltd. after the merger?
(ii) What will be the PE ratio if the NPV of the acquisition is zero?
(iii) What must B Co. Ltd. feel would be the value of the synergy between these firms?

[10]