Paper 20: Financial Analysis and Business Valuation

Case Study 1

The summarized Balance Sheet of ABC Co. Ltd. for the years ended 31.12.12 and 31.12.13 are as follows:

Balance Sheet (summarised) (All ` in '000)

	31.12.12	31.12.13		31.12.12	31.12.13
Eq. Shares Capital @ ` 1 each	1,200	1,200	Plant (at cost)	1,620	1,990
General Reserve	250	260	Less: Depreciation	616	736
Profit & Loss A/c	572	510		1,004	1,254
8% Debentures	--	600	Freehold Property	400	480
Prov. for Income Tax	316	240	Goodwill at cost	300	300
Proposed Dividend	180	180	Stock	990	1,276
Sundry Creditors	738	1,080	Debtors	484	736
			Bank	78	24
	3,256	4,070		3,256	4,070

Other informations:

	` ('000)	
	31.12.12	31.12.13
Sales	6,000	6,600
NPBT (Net Profit before Tax)	560	200
Depreciation on Plant	100	120
Bad Debt	46	164
Directors Remuneration	50	52
Adv. & Sales Promotion	216	324

ABC Ltd. started business 20 years ago and its main business is to manufacture high quality electric wires, of which about 45% is exported to Middle-East Countries. The M.D. of the Co. had approached the Bank Manager to give an overdraft facility to the extent of ` 4 lakhs. In making the request, the M.D. indicated:

(a) The Co. had extended production capacity and to support this production capacity necessary overdraft is required.

(b) Some initial difficulties were faced in the Middle-East Countries due to severe complications, but at present that difficulty is over.

You as a Management Accountant are required to draw a report for the Bank Manager giving your opinion about sanctioning the overdraft facility.

Case Study 2

On April 10, 2014, the stock of Zenith Company (ZC) was trading at ` 60. The standard deviation of the continuously compounded stock price change for ZC is estimated 30% per year. The annualized Treasury Bill Rate corresponding to the option life is 7%.
Estimate the value of three month Call Option with a Strike Price of ` 56.

Note:

Extract from the table:

(i) Natural Logarithms: Ln (1.071429) = 0.068993, Ln (0.9333) = - 0.069029

(ii) Value of e^{-x} : $e^{-0.02}$ = 0.9802 and $e^{-0.01}$ = 0.9901

(iii) Cumulative Standardised Normal Probability Distribution : NCX

When x ≥ 0 : N(0.6516) = 0.7427, N(0.5016) = 0.6921

When x ≤ 0 : N(-0.6516) = 0.2573, N(-0.5016) = 0.3079

Case Study 3

Following is the condensed income statement of a firm for the current year :

(` Lakh)

Sales revenue	500
Less – Operating costs	300
Less – Interest costs	12
Earnings before taxes	188
Less – Taxes (0.40)	75.2
Earnings after taxes	112.8

The firm's existing capital consists of ` 150 Lakh equity funds, having 15 percent cost and of ` 100 Lakh, 12 percent debt. Determine the EVA during the year.

Case Study 4

The following are the details of the two merged firms, Nylo Ltd. And Xylo Ltd:

(` in Lakhs)

	Nylo Ltd.	Xylo Ltd.
Revenues	4,400	3,125
Cost of Goods Sold (excluding depreciation)	87.5%	89.0%
Depreciation	200	74
Tax rate	35%	35%
Working capital	10% of Revenue	10% of Revenue
Market value of Equity	2000	1300
Outstanding Debt	160	250

Both firms are expected to grow 5% a year in perpetuity. Capital spending is expected to be offset by depreciation. The beta for both firms are rated BBB, with an interest rate on their debt of 8.5% (the risk-free rate is 7%)

As a result of the merger, the combined firm is expected to have a cost of goods sold of only 86% of total revenue. The combined firm does not plan to borrow additional; debt.

(i) You are required to estimate the value of the combined firm, with no synergy,

(ii) Estimate the value of the combined firm, with synergy.

Case Study 5

Given below are cash position ratios of MR Ltd. and the industry average. Industry average is arrived at by taking average position of 25 companies of the similar trade:

	Absolute cash ratios	Cash position to total assets	Cash interval ratios
MR Ltd.	0.36	12.50%	25 days
Industry average	0.30	15%	33 days

How do you feel about the cash position of MR Ltd.?