

**FINAL EXAMINATION
GROUP - IV
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2018**

Paper-20 : 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 (50 Marks)

Strategic Performance Management

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: 2x5=10
- (i) An Index number is a statistical measure of _____ in a variable arranged in the form of a series and using a base for making comparison.
- (a) productivity
 - (b) inputs
 - (c) efficiency
 - (d) fluctuations
- (ii) Benchmarking focuses on
- (a) Production
 - (b) Profit
 - (c) Best Practices
 - (d) Best performance
- (iii) Project risk does not include
- (a) Institutional risk
 - (b) Turbulence
 - (c) Completion risk
 - (d) Uncertainty
- (iv) Physical risk arising out of Social, Political, Economic and Legal Environments are often identified through
- (a) the performance of lead indicators
 - (b) the performance of lag indicators
 - (c) the performance of lead and lag indicators
 - (d) None of the above
- (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) EBIT to Total Assets

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Answer:

1. (i) (d)
- (ii) (c)
- (iii) (d)
- (iv) (a)
- (v) (a)

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

(ii) Discuss the impact of CRM initiative on an organization, in terms of enhanced risk that it may face.

(iii) Describe the issues to be considered for analysing customer profitability.3+3+4=10

(b) The following financial data for two years has been extracted from the Annual Report 2016-17 of one of the world's largest generic pharmaceutical companies having a strong presence in over 170 countries. Though the company's mission is — 'To be a leading global healthcare company which uses technology and innovation to meet everyday needs of all patients', yet it also wants to keep its shareholders happy by giving them a fair rate of return. For gauging return for shareholders, the company is using Return on Equity (ROE) as one of the metrics of performance evaluation. Because of intense competition, in recent years, its ROE is under pressure and to maintain the level of ROE, the company is changing its business model — in that, it is varying its margins, assets utilization and leverage.

You are required to use suitable DU PONT Analysis using the financial data given below and show how the ROE of the company is changing due to its margins, assets utilization and leverage over a period of two years. You are also required to give your comment on the change on these parameters. 10

(₹ In Lakh)		
Statement of Profit and Loss	2016	2017
Relevant financial data		
Total Revenue	7,125.80	8,431.55
Profit before Tax	1,421.46	2,011.86
Profit after Tax	1,123.96	1,507.11
Dividend	160.58	160.58
Tax on Dividend	26.05	27.29
Retained Earnings	937.32	1,319.24

(₹ In Lakh)		
Balance Sheet	2016	2017
ASSETS:		
Fixed Assets	3,346.11	3,768.63
Investments (Current and Non-Current)	1,035.15	2,601.82
Other Net Assets (Current and Non-Current)	3,413.67	3,746.08
Total	7,794.93	10,116.53
EQUITY AND LIABILITIES:		
Share Capital	160.58	160.58
Reserves and Surplus	7,389.70	8,708.94
Net Worth	7,550.28	8,869.52
Loan Funds (Current and Non-Current)	12.20	965.81
Other Current Liabilities	232.45	281.20
Total	7,794.93	10,116.53

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Answer:

2. (a) (i) Ans. Operative CRM mainly supports the actual contact with customers conducted by front office workers and general automation of business processes including sales of products, services and marketing. All communication with the customer is tracked and stored in the database and if necessary it is effectively provided to users (workers). The advantage of this approach being the possibility to communicate with various employees using various channels but creating the feeling that customer is being taken care of by just one person. It can also minimize the time that the worker has to spend typing the information and administrating (the data is shared). This allows the company to increase the efficiency of their employees work and they are then able to serve more customers.

- (ii) A CRM initiative generally has some of the following impacts on an organization:
1. Increased expectations from senior management to increase revenues reduce costs, increase market share and increase business flexibility may put tremendous pressure on the organization and may potentially compromise the internal control structure.
 2. Increased complexity of managing multiple channels, technologies, customer relationships and customer definitions.
 3. Vital and confidential customer information may be transmitted and shared across new networks, systems and platforms
 4. Significant changes to the organization, attitudes and beliefs, placing heavy reliance on the organization's employees for the successful adoption of the solution.

These factors introduce many risks to the organization, for instance, the potential disruption of vital operations, violations to customer privacy and confidentiality, ineffective, inconsistent or inefficient processes, lack of internal business controls, poor customer service, incorrectly targeted sales and marketing efforts, non acceptance of new systems and processes and security breaches. Effective risk management helps in minimizing CRM risks and softens the impact.

- (iii) The following issues should be considered when analyzing customer profitability:
- How to develop reliable customer revenue and customer cost information.
 - How to recognize future downstream costs of customers.
 - How to incorporate a multi-period horizon in the analysis; and
 - How to recognize different drivers of customer costs.

This requires a broader examination of the costs associated with customer service. For example, post-sale customer service costs must be included in any analysis of customer costs. Some customers require substantially more post sale service than others. Revenues can vary among customers due to variations in volume levels and differences in price structures, products and services.

This analysis helps in examining both the revenues and costs related to customer transactions enabling analysis of customer profitability.

(b)

DU PONT ANALYSIS...	2016	2017
Net Profit Ratio	15.77%	17.87%
Assets Turnover Ratio	0.914	0.833
Assets to Equity Ratio	1.032	1.141
Return on Equity	14.88%	16.98%

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The Return on Equity (ROE) has increased in 2017 from 14.88% to 16.98% and the main reasons for the increase are- margin and leverage which have increased but due to lower assets utilization ROE has not increased by its full potential. If the Company concentrates on better utilization of the assets, its ROE will further improve.

3. (a) A firm has a demand function: $p = 12 - x^2$ and the total cost function: $C = -\frac{4}{3}x^3 + 4x^2 + 10$ where $p =$ Price per unit (₹ '000) and $x =$ Quantity demanded/produced (units in thousands). On the basis of the information given, answer the following:
- (i) Show that the firm is a monopolist firm.
- (ii) Determine the quantity the firm should produce to maximize profit. Also, determine the amount of profit. 4+8=12
- (b) Distinguish between the following:
- (i) Risk avoidance and Risk diversification
- (ii) Interest Rate Risk and Market Risk 4×2=8

Answer:

3. (a) (i) A monopolist firm is one that is having a negatively sloped or downward moving demand curve. We also know that a function is said to be having negative slope when its first derivative is negative. In this problem, $dp/dx = -2x$. Since x cannot be negative, it means that derivative is negative; hence, it shows that the firm is a monopolist firm.

- (ii) Profit Function (π) is Total Revenue -Total Cost and is defined below:

$$\pi = p \cdot x - c$$

$$\pi = (12x - x^3) - \left(-\frac{4}{3}x^3 + 4x^2 + 10\right)$$

$$\frac{d\pi}{dx} = (12 - 3x^2) - (-4x^2 + 8x)$$

Putting the first derivative equal to zero, we get -

$$(12 - 3x^2) - (-4x^2 + 8x) = 0$$

$$\rightarrow 12 - 3x^2 + 4x^2 - 8x = 0$$

$$\rightarrow x^2 - 8x + 12 = 0$$

$$\rightarrow x^2 - 6x - 2x + 12 = 0$$

$$\rightarrow (x - 2)(x - 6) = 0$$

$$X = 2 \text{ or } x = 6 \text{ (in '000 units)}$$

Second order condition:

$$\frac{d^2\pi}{dx^2} = 2x - 8$$

A function will be maximum when its second derivative is negative; and for $x = 2$, the above second derivative will be negative while for $x = 6$ it will be positive. The profit will be maximum when $x = 2$ (in '000 units). Putting the value of $x = 2$, in the profit function, we get Profit = $2/3 = 0.67$ (₹ in '000) = ₹ 6,70,000.

- (b) Distinguish between the following:

- (i) Risk Avoidance and Risk Diversification

Risk avoidance is the elimination of threats or exposures that can negatively affect a desired outcome. While the complete elimination of all risk is rarely possible, a risk avoidance strategy is designed to deflect as many threats as

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possible in order to avoid the costly and disruptive consequences of a damaging event. On the other hand, risk diversification is a mitigation strategy which is based on the philosophy of 'don't put all the eggs in one basket. In it, instead of taking exposure only in one area, exposures are taken in different areas so that one may not be hurt if something goes wrong in one area.

(ii) Interest Rate Risk and Market Risk

Interest Rate Risk is the risk arising due to changes in the market interest rate and thereby, affecting the prices of fixed income securities or bonds. It is defined as how sensitive bond prices are changes in the market interest rate - higher this sensitivity is, higher the interest rate risk. While the market risk arises due to changes in demand and supply, expectations of the investors, information flow, investor's risk perception etc. Variations in prices of a security sparked off due to real social, political and economic events are referred to as market risk. Interest rate is one of the market risk as interest rate may change because of changes in market conditions.

4. (a) Explain RBI guideline on implementation of Basel III Capital Regulation in India. 8

(b) (i) List the main causes of corporate distress. 4

(ii) Define the following: 2x4=8

- (a) Financial Distress
- (b) Enterprise Risk Management
- (c) Risk Retention
- (d) Value at Risk

Answer:

4. (a) Reserve Bank of India in May 02, 2012 has released its final guidelines on implementation of Basel III Capital regulation in India. These guidelines would become effective from January 1, 2013 in a phased manner. The Basel III capital ratios will be fully implemented as on March 31, 2018. This entails higher global minimum capital standards for banks. Implementation of Basel III is essential for restoring confidence in the regulatory framework for banks and to ensure safe and stable global banking system.

The Basel III framework sets out the following:

- Higher and better equity capital
- Better risk coverage
- Introduction of leverage ratio
- Measures to promote the build-up of capital for periods of stress
- Introduction of new liquidity standards

A key element of new definition is the greater focus on "common equity" (paid up equity capital, reserves, retained earnings etc.). In addition to raising the quality of the capital base, banks need ensure that all material risks are captured in the capital framework. What counts as core may impact the Indian banking sectors' competitiveness significantly.

As per the RBI's new Basel III capital regulation, common equity (or core tier I) should be at least 5.5% (1% higher than the original Basel III rule) & minimum tier I capital should be at least 7% of total risk weighted assets. There should be predominance of common equity and tier I regulatory capital. Common equity 78.57% of tier I capital and total tier I capital should be at least 77.58% of total minimum capital (as per RBI's Basel III circular).

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Basel III regulation expects that Banks for its survival in future must understand the importance of people perception about a Bank's liquidity condition (short term as well as long term) beside internal management of liquidity. It emphasized that bank's liquid assets should be sufficient enough to cover net cash outflow. Two liquidity standards/ ratios are proposed.

- (i) Liquidity coverage ratio (LCR) which is the ratio of liquid assets to net cash outflow for short term (30 days) liquidity management. And
 - (ii) Net stable funding ratio (NSFR) for long term structure liquidity mismatches.
- (b) (i) There are multiple causes for corporate distress:
- (1) Technological changes
 - (2) Working capital problems—maintaining liquidity or over liquidity.
 - (3) Economic distress—economic crisis
 - (4) Mismanagement
 - (5) Over expansion and diversification
 - (6) Fraud by management
 - (7) Poorly structured board
 - (8) Financial Distress
- (ii) Define the following:
- (a) Financial Distress:
Financial distress means a condition of a firm when it is not in a position to meet or meet with difficulty its commitment to creditors or lenders. If financial distress cannot be relieved in time, it can lead to bankruptcy. Firms that become financially distressed are found to be under- performing relative to the other companies in their industry. Financial distress is rooted in the management defects, resulting in poor decisions, leading to financial deterioration and finally collapse.
 - (b) Enterprise Risk Management:
Enterprise Risk Management is a comprehensive and integrated approach to addressing corporate risk. It may be defined as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives".
 - (c) Risk Retention:
Risk Retention denotes acceptance of the loss or benefit arising out of a risk when it takes place. It may also be termed as self insurance. This strategy is viable when the risks are small enough to be transferred at a cost that may be higher than the loss arising out of the risk itself. On the other hand, the risk can be so big that it cannot be transferred or insured. Such risks will have to be phased out when the eventuality occurs.
 - (d) Value at Risk:
Value at Risk (VaR) is one of the widely used methods of measuring financial risks. VaR is a statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame. It estimates how much a set of investments might lose, given normal market conditions, in a set time period. A loss which exceeds VaR threshold is known as 'VaR break'. In it, the probability level is specified as 1 minus probability of a VaR Break. Normally VaR parameters are 1 per cent and 5 per cent

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probabilities and 1 day and 2 week horizons. While VaR represents loss, a negative VaR would indicate that a portfolio has a high probability for making profits.

Section - B (50 marks)

Business Valuation

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) If a company has a P/E ratio of 12 and a Market to Book Value Ratio 2.10, then its Return on Equity will be
(a) 14.10%
(b) 17.50%
(c) 25.20%
(d) None of the above
- (ii) A firm has PAT of ₹ 33.6 lakh with extraordinary income of ₹ 6 lakh. Cost of capital is 20% and the applicable tax rate is 40%. The value of the firm is
(a) ₹ 250 lakh
(b) ₹ 150 lakh
(c) ₹ 180 lakh
(d) ₹ 168 lakh
- (iii) Firms that intend to buy only a small percentage of the outstanding stock can buy them in the market, in a process called
(a) Repurchase tender offer
(b) Open market purchase
(c) Privately negotiated repurchase
(d) None of the above
- (iv) _____ is a measure of value of which tells whether a company is able to generate returns that exceed the costs of capital employed.
(a) Cost of capital
(b) Economic Value Added
(c) Market value added
(d) Financial profit
- (v) If the divestiture value is greater than the present value of the expected cash flows, the value of the divesting firm will
(a) increase on the divestiture.
(b) decrease on the divestiture.
(c) remains same on the divestiture.
(d) None of the above

Answer:

5. (i) (b) Return on Equity will be 17.5% (= 2.10/12)
- (ii) (b) ₹ 150 lakh
PAT = ₹ 33.6 lacs

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PBT = ₹ (33.6/0.6) lacs	= ₹ 56 lacs
Less: extraordinary income	<u>= ₹ 6 lacs</u>
	= ₹ 50 lacs
Less: Tax @ 40%	<u>= ₹ 20 lacs</u>
	= ₹ 30 lacs
Value = ₹ 30 lacs/ 0.20 = ₹ 150 lacs	

(iii) (b) Open market purchase

(iv) (b) Economic Value Added

(v) (a) Increase on the divestiture

How does a divestiture affect a firm's value?

To answer this question, need to compare the price received on the divestiture to the present value of the expected cash flows that the firm would have from the divested assets.

If the divestiture value is greater than the present value of expected cash flows, the value of the firm will increase on divestiture.

6. (a) There is a privately held company XYZ Pvt. Ltd. that is operating into the retail space, and is now scouting for angel investors. The details pertinent to valuing XYZ Pvt. Ltd. are as follows:

The company has achieved break even this year and has an EBITDA of ₹ 90 crore. The beta based on the industry in which it operates is 1.8, and the average debt to equity ratio is hovering at 40:60. The rate of return provided by liquid bonds is 5%. The EV is to be taken at a multiple of 5 on EBITDA. The accountant has informed that the EBITDA of ₹ 90 crore includes an extraordinary gain of ₹ 10 crore for the year, and a potential write off of preliminary sales promotion costs of ₹ 20 crore are still pending. The internal assessment of rate of market return for the industry is 11%. The FCFs for the next 3 years are as follows:

	(₹ In Crore)		
	Y1	Y2	Y3
Future cash flows	100	120	150

The cost of debt will be 12%. Assume a tax regime of 30%.

What is the potential value to be placed on XYZ Pvt. Ltd.?

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- (b) (i) G. Ltd. has announced issue of warrants on 1:1 basis for its equity shareholders. The current price of the stock ₹ 10 and warrants are convertible at an exercise price of ₹ 11.71 per share. Warrants are detachable and are trading at ₹ 3. What is the minimum price of the warrant? What is the warrant premium?

- (ii) Now had the current price been ₹ 16.375, what is the minimum price and warrant premium? (Consider warrants are tradable at ₹ 9.75) 4+4=8

Answer:

6. (a) The beta is 1.8.

The adjusted EBITDA would be 90 - 10 - 20 = 60 crore

The EV will be multiple of 5 on the 60 obtained above = 300 crore

The Cost of equity in accordance with CAPM = $R_f + \beta(R_m - R_f)$

= 0.05 + 1.8 (0.11 - 0.05) = 0.158 or 15.8%

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The WACC = Cost of Equity + Cost of Debt = $15.8 (60/100) + 12.0 (1-0.3)(40/100) = 12.84$

Finally the future cash flows can be discounted at the WACC obtained above as under-

	₹ in crore		
	Y1	Y2	Y3
Future Cash flows	100	120	150
Discount factor	0.89	0.79	0.70
PVs of cash flows	89	95	105
Value of the Firm			289

Discount factor Year 1 = $(100/112.84) = 0.89$
 Year 2 = $(100/112.84)^2 = 0.79$
 Year 3 = $(100/112.84)^3 = 0.70$

- (b) (i) Minimum price = (Market price of common stock - Exercise price) × (Exercise ratio)
 = $(₹ 10.00 - 11.71) \times 1.0$
 = -1.71 (₹)

Thus, the minimum price on this warrant is considered to be zero, because things simply do not sell for negative prices.

Warrant premium = (Market price of warrant - Minimum price of warrant)
 = ₹ 3 - 0 = ₹ 3.

- (ii) Minimum price = (Market price of common stock - Exercise price) × (Exercise ratio)
 = $(₹ 16.375 - 11.71) \times 1.0 = ₹ 4.665$

Warrant premium = (Market price of warrant - Minimum price of warrant)
 = ₹ 9.75 - 4.665 = ₹ 5.085

7. (a) **Vodafone Ltd. is considering a merger with Idea Ltd. The data below are in the hands of both Board of Directors. The issue at hand is how many shares of Vodafone Ltd. should be exchanged for Idea Ltd. Both boards are considering three possibilities 20000, 25000 and 30000 shares. You are required to construct a table demonstrating the potential impact of each scheme on each set of shareholders.** 10

	Vodafone Ltd.	Idea Ltd.	Combined Post merger Firm 'A'
1 Current earnings per year (₹)	2,00,000	1,00,000	3,50,000
2 Shares outstanding	50000	10000	?
3 Earnings per share (₹) (1÷2)	4	10	?
4 Price per share (₹)	40	100	?
5 Price-earnings ratio [4÷3]	10	10	10
6 Value of firm (₹)	20,00,000	10,00,000	35,00,000
7 Expected annual growth rate in earnings in foreseeable future	0	0	0

- (b) A company has issued a 12% debentures with a maturity of 5 years having face value of ₹ 1,000 and it is listed on the stock exchange. After 2 years of the issue of bonds, the yields in the market have increased to 15%. Someone suggested to the CFO of the company to buy the debentures from the market as they are trading below par.

- (i) Do you think that the CFO should accept the suggestion of the person?
 (ii) If yes, then determine the fair value of the debentures at which the company should buy the debentures from the stock market. 2+8=10

Discount factors:

Year →	1	2	3
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Discounting Factor (12%)	0.8929	0.7972	0.7118
Discounting Factor (15%)	0.8696	0.7561	0.6575

Answer:

7. (a) The following table demonstrates the potential impact of the three possible schemes, on each set of shareholders:

No. of Vodafone Ltd's shares issued to share holders of Idea Ltd.	Exchange ratio [(1)/10,000 shares of Idea Ltd.]	No. of Vodafone Ltd's shares outstanding after merger [50,000+(1)]	Fraction of Vodafone Ltd. (Post merger) owned by Idea Ltd's shareholders [(1)/(3)]	Value of shares owned by Idea Ltd's share holders [(4)×35,00,000]	Fraction of Vodafone Ltd (Combined post merger owned by Vodafone Ltd's Share holders [50,000/(3)]	Value of shares owned by Vodafone Ltd's shareholders [(6)×35,00,000]
(1)	(2)	(3)	(4)	(5)	(6)	(7)
20,000	2	70,000	2/7	10,00,000	5/7	25,00,000
25,000	2.5	75,000	1/3	11,66,667	2/3	23,33,333
30,000	3	80,000	3/8	13,12,500	5/8	21,87,500

The total synergy gain is ₹ 500000. In the three options both sets of shareholders are benefitted differently. Thus Idea shareholders benefit maximum if they receive 30000 shares of Vodafone. They do not benefit at all if they receive only 20000 shares. The deal is likely to be settled at ₹ 25,000 shares.

- (b) (i) The CFO should accept the suggestion of the person as the yields in the market have gone up as a result the prices of debentures have fallen below the face value of ₹ 1,000. Since the company will be redeeming debentures at a lower value, the company will get benefit from it.
- (ii) If it is decided to redeem the debentures after 2 years when the yield is 15%, then the fair price will be calculated as follows:

Calculation of the Market Price After 2 years

Year	Cash Flows of the Debentures	Discounting Factor (15%)	PV of Cash Flows
1	₹ 120.00	0.8696	₹ 104.35
2	₹ 120.00	0.7561	₹ 90.73
3	₹ 1,120.00	0.6575	₹ 736.40
Price of Debentures after 2 years when the market yield is 15%			₹ 931.48

8. (a) PS limited furnishes the following information relating to the previous three years and requests you to compute the value of the brand of the company:

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(₹ In Lakh)

Particulars	2015	2016	2017
Profit before interest and tax	75.00	85.25	150.00
Loss on sale of assets	3.00	nil	18.00
Non-operating income	12.00	7.25	8.00

Inflation was 9% for 2016 and 15% for 2017. If the capitalization factor considering internal and external value driver to the brand is 14, determine the brand value. Assume an all inclusive future tax rate of 35%.

- (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

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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. 4+4=8

Answer:

8. (a)

Particulars	2015	2016	2017
Profits Before Interest and Tax	75.00	85.25	150.00
Add: Loss on Sales of Assets	3.00	—	18.00
Less: Non Operating Income	(12.00)	(7.25)	(8.00)
Branded Earnings	66.00	78.00	160.00
Inflation Adjustment Factor	1.09*1.15=1.25	1.15	1.00
Inflation Adjusted Earnings as at 31.03.2017	82.50	89.70	160.00
Weights	1	2	3
Product	82.50	179.40	480.00
Weighted Average Earnings Before Tax [(82.50+179.40+480)/(1+2+3)]			123.65
Less: Taxes at 35%			(43.28)
Weighted Average Brand Earnings After Tax			80.37
Capitalization Factor			14
Brand Value			₹ 1,125.18 Lakhs

(b)

	Pure Drugs Limited	Solid Drugs Limited
EPS (₹)	12	6
No. of Outstanding Shares (in crores)	30	20
Net Profit (in ₹ crores)	360	120
Net Profit (in ₹ crores) after Acquisition	480	
Price of Share	300	200
P/E Ratio	25.00	33.33

	Alternative-I (Basis-EPS)	Alternative-II (Basis-Prices)	Alternative-III (Basis-3 shares for 5 shares)
Exchange Ratio (No. of Shares of Pure Drugs Limited for each share of Solid Drugs Limited)	0.50	0.67	0.60
New Shares to be issued (in Crores)	10	13.40	12
Total No. of Shares after Acquisition (in crores)	40 (30+10)	43.40 (30+13.40)	42 (30+12)
EPS (in ₹) after Acquisition Given ₹ 480 crores of Profit Acquisition	12.00	11.06	11.43
Given the P/E Ratio of 25, the Share Price of Pure Drugs Limited will be - (in ₹)	300.00	276.50	285.71

