PAPER – 20A
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.
Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

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) Pyramid method is the other name for
- a. Comparative statement
- b. Trend analysis
- c. Common Size Statement
- d. Du Pont analysis

Provide a reason in support of your answer.

(ii) 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
- a. Vendor relationship management
- b. Customer relationship management
- c. Supply chain management
- d. Procurement to pay management

Briefly justify.

(iii) Perceived value pricing and differential pricing are two types of
- a. Cost based pricing
- b. Demand based pricing
- c. Competition based pricing
- d. Strategy based pricing

Please provide reason in support of your selection.

(iv) Five accounting ratios are as follows

Working Capital to Total Assets =0.250
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 = 3 times

Using Altman's Multiple Discriminant Function, the Z-score of S & Co. Ltd is

a. 8.24
b. 2.88
c. 4.88
d. 1.67

(v) Vazir Ltd., a monopolist, can effectively segment the market into two sub-markets with the demand functions: $P_1 = 300 - 2Q_1$ and $P_2 = 200 - 2Q_2$. If price discrimination is allowed. The maximum possible profit that can be earned by the monopolist is

a. Rs 10625
b. Rs 10762
c. Rs 10262
d. Rs 10520

2. (a) Describe the internal factors affecting pricing decision of a firm. **[6]**

(b) Mr. Hardik Kankara is planning to take over the business of Artex LLP. For the purpose Mr. Hardik appoints you to analyse the profitability of Artex LLP for the period ended 31st March 2022. The following balances are extracted from statement of Profit and Loss and Balance Sheet of Artex LLP for the year ended 31st march 2022. You are requested to make 5-componenet DuPont analysis and summarize the data along with your observations for Mr. Hardik.

Particulars	**Amount (₹)**
Sales	17,750
Depreciation	500
Interest Expenses	50
Tax Expenses	2,250
Net Income	4,125
Current Assets	11,500
Fixed Assets, net	6,625
Total Assets	18,125
Current Liabilities	7,500
Long term debt	375
Shareholders' Equity	10,250
Total Liabilities and Shareholder's equity (current liabilities + long term debt + shareholders' equity)	18,125

[10]

3. (a) The Balance Sheet of Pelikan Ltd. as on 30.12.2022 is given below:

Liabilities	₹	Assets	₹
Equity Share Capital (@ ₹10 each)	2,00,000	Fixed Assets	10,00,000
Retained Earnings	2,00,000	Investments	2,00,000
12% Debentures	3,00,000	Stock	1,50,000
10% Long term Loan	2,00,000	Sundry Debtors	75,000
Current Liabilities	5,50,000	Preliminary Expenses	25,000
	14,50,000		14,50,000

Additional Information:

(i) Net Sales for year ended 31/12/2022 ₹ 29,50,000.

(ii) Dividend per share for year ended 31/12/2022 is ₹ 0.40

(iii) Dividend Payout Ratio as on 31/12/2022 is 50%.

(iv) Price Earnings Ratio is 15.

(v) Corporate tax rate = 50%.

Using Altman's function, calculate Z score of Pelikan Ltd. and draw inference from the result. **[8+1=9]**

(b) Answer both the questions

(i) "A strategy map is conceptually a part of the Balanced Score Card (BSC)" – critically assess the statement.

(ii) Critically analyse the ends-ways-means model of traditional strategic planning. **[4+3=7]**

4. (a) The following is the summarised Income Statements for two consecutive years of Pinacle Star Ltd.

Particulars	Year 1 (₹)	Year 2 (₹)
Turnover	70,000	1,00,000
Less: Cost of sales	42,000	55,000
Gross profit	28,000	45,000
Less: Expenses	21,000	35,000
Net Profit	7,000	10,000

Mr. X, the owner of the company is happy that the net profit is maintained at the same percentage over the two-year period. But his brother Mr. Y, who is currently doing his MBA from a reputed Institute would like to look into the numbers.

What do you think would be the analysis to be made by Mr. Y regarding the numbers?

You are to show the calculations which is recommended to give an insight into the profitability, as suggested by Mr. Y

Do you think the views of Mr. X is factually correct based on due reconciliation?

[2+6+2=10]

(b) Answer both the question:

(i) Distinguish between Basel I and Base II provisions.

(ii) Make a critical assessment of the various methods of measuring corporate failure? Which is the most well accepted method of measuring corporate failure and examine why is it the most well accepted. **[3+3=6]**

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. **[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) _________ give target company bondholders the right to sell their bonds back to the target at a pre-specified redemption price in the event of a takeover.

a. Poison pills
b. Poison puts
c. Share repurchase
d. None of these

(ii) Which of the following approaches to valuation would most likely use EV-EBITDA multiple for valuation:

a. Market approach
b. Cost approach
c. Income approach
d. Asset approach

(iii) 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

(iv) 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

(v) The following details are given for a company: Sales – INR 1,00,000; Operating Expenses - INR 75,000; Depreciation - INR 20,000; Tax – 35%; Change in net working capital – INR 1,000; capital spending – INR 10,000. The free cash flow to firm (FCFF) for the given data would be:

a. INR 10,000
b. INR 12,250
c. INR 13,500
d. INR 15,000

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) A debenture of face value ₹100 that carries an interest rate of 15% is redeemable after 5 years at a premium of 2%. The 5-year government bonds are yielding 7 percent and the 10 year Government bonds are yielding 7.25 percent. The default credit spread for the company based on the comparable companies is 1100 basis points. Analyze the information to determine the present value of the debenture to you? **[6]**

(b) Shivani Limited is considering a takeover of Agam Limited. The particulars of two companies are given below:

Particulars	**Shivani Limited**	**Agam Limited**
Earnings after tax (₹)	10,00,000	5,00,000
Equity shares (numbers)	5,00,000	1,25,000
Earnings per share	2	4
Price earnings ratio (times)	10	5

Analyze the information to determine the following:

(i) the market value of each company before merger. **[2]**

(ii) the market value of the post-merger effect on Shivani Limited, assuming that the management of Shivani Limited estimates that the shareholders of Agam Limited will accept an offer of one share of Shivani Limited for five shares of Agam Limited. Are the shareholders of Shivani Limited better or worse off than they were before the merger? **[6]**

(iii) the market price per share if due to synergic effects, the management of Shivani Limited estimates that the earnings will increase by 20%. **[2]**

9. (a) Shivam Ltd is proposing to acquire Megha Ltd and has retained you as a valuer to assess the estimated value of Megha Ltd. There have been some recent Mergers and Acquisitions in the same industry and you believe that valuation of Megha Ltd would be appropriate using the comparable transaction approach. You have

identified the following information with respect to the comparable Companies X Ltd, Y Ltd, and Z Ltd and their respective deal prices and financial statistics.

Particulars	**Megha Ltd**	**X Ltd**	**Y Ltd**	**Z Ltd**
Deal price per share (₹)	-	50.50	25.00	108.00
EPS (₹)	3.90	2.20	2.80	5.50
Book Value per share (₹)	22.20	11.50	6.50	26.50
Sales per share (₹)	39.60	21.75	11.70	46.60

Suggest the value of Megha Ltd using: **[6]**

(i) Price to Earnings multiple

(ii) Price to Book Value multiple

(iii) Price to Sales multiple

What is your take on the control premium in this case? **[1]**

(b) AK has been assigned to value MS Pvt Ltd. The company is privately held and does not have any major operations, due to which the market comparable companies were not identified and the management has not been able to provide any meaningful forecast about the company. The extract of financials of MS Ltd. is as follows.

Summary of Balance Sheet as on March 22, 2023

Equity and Liabilities	**Amount (₹ in lakhs)**
Equity Share Capital	150.43
Other Equity	732.06
Long Term Borrowings	1376.38
Short Term Borrowings	125.17
Total	**2384.04**
Assets	
Property, Plant and Equipment	540.67
Investments	1099.28
Cash and Cash Equivalents	99.69
Loans	528.28
Other Current Assets	116.22
Total	**2384.04**

Additional information:

i) The company records PP&E and Investments at cost.

ii) Property. Plant & Equipment contains land of ₹220.70 in the books. Based on the assessment, the land value has appreciated by 15 percent from the book value.

iii) Investments include 35,000 shares of Wipro and 18,000 shares of TCS. As on the valuation date, they are trading at ₹2,000 per share and ₹2,700 per share respectively.

iv) The number of shares outstanding is 3,28,000

You are required to calculate:

i) Book value of the company.

ii) Net Asset Value of the company on fair value basis.

iii) Value per share. **[9]**

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 non-satisfaction by determining the economic value added as suggested by M/s. Stern & Co., USA. 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]