FINAL EXAMINATION

December 2025

P–20A(SPMBV)
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.
All sections are compulsory. Each section contains instructions regarding the number of questions to be answered within the section.
All workings must form part of the answer.
Wherever considered necessary, suitable assumptions may be made and clearly indicated in the respective answer.

Section-A

Answer to *Question No.* 1 is compulsory.

1. (a) Choose the correct answer from the given alternatives. 2×10=20

(i) Performance management is a key concept in the field of _____.

(A) Human Resource Management

(B) Financial Management

(C) Technical Analysis

(D) Marketing Management

(ii) The _____ ratios are used to compare financial statements of different size companies or the same company over different periods.

(A) Common size

(B) DuPont

(C) Liquidity

(D) P/E

(iii) What is one of the very basic parameters of the financial performance of a company?

(A) Employee satisfaction

(B) Customer profitability

(C) Production efficiency

(D) Innovation rate

(iv) The elements of ERM includes _____.

(A) Risk identification

(B) Risk assessment

(C) Risk response

(D) All of the above

(v) An investment is risk free when actual returns are always _____ the expected results.

(A) equal to

(B) less than

(C) more than

(D) depends upon circumstances

(vi) A bond with a face value of ₹1,000, coupon 9% and maturity of 10 years is trading in a bond market. Its current yield is 8.18%. Then, the bond is trading in the market at _____.

(A) premium

(B) discount

(C) par

(D) Nothing can be said about it

(vii) Which valuation method is primarily used to value franchise agreements and certain licenses?

(A) Relief-from-royalty method

(B) Multi period excess earning method

(C) Greenfield method

(D) With and without method

(viii) On April 1, 2024, "Zenith Logistics" entered into a lease agreement for a specialized piece of warehouse equipment. An analyst is tasked with determining the initial value of the Right-of-Use (ROU) Asset to be recognized on Zenith's balance sheet as per Ind AS 116.

The following data has been gathered:

- Present Value of Lease Payments: ₹1,75,400
- Initial Direct Costs (e.g., legal fees to draft the lease): ₹12,000
- Lease Incentives received from Lessor: (₹5,000)
- Estimated Cost to Dismantle & Restore at end of lease (PV): ₹8,500

Based on the information provided, which of the following calculations correctly determines the value of the Right-of-Use (ROU) Asset that Zenith Logistics should recognize?

(A) ROU Asset Value: ₹1,75,400

(B) ROU Asset Value: ₹1,95,900

(C) ROU Asset Value: ₹1,90,900

(D) ROU Asset Value: ₹1,82,400

(ix) "Titan Innovations" is planning to acquire "Synergy Tech". You are provided with the following financial data and transaction details:

- Combined Net Profit After Tax (PAT) post-merger (including synergies): ₹ 3,500 crores
- 'Titan Innovations' pre-merger PAT: ₹ 2,000 crores
- 'Titan Innovations' pre-merger shares outstanding: 400 crores
- New shares to be issued by Titan to acquire Synergy Tech: 100 crores

Based on the data, match the financial metrics in List-I with their corresponding values in List-II.

List-I (Financial Metric)	List-II (Value)
(P) Pre-Merger EPS of "Titan Innovations"	(1) ₹ 7.00
(Q) Post-Merger EPS of the combined entity	(2) 40% Accretion
(R) The impact on "Titan Innovations" EPS	(3) ₹ 5.00

(A) P-3, Q-1, R-2

(B) P-1, Q-3, R-2

(C) P-3, Q-2, R-1

(D) P-2, Q-1, R-3

(x) An acquisition is being considered where the acquirer would pay ₹ 200 million for a target company that has a standalone value of ₹ 150 million. The acquirer has estimated ₹ 60 million in synergies, but expects the cost of integration to be ₹ 20 million. What is the net gain or loss?

(A) ₹ 10 million net loss

(B) ₹ 10 million net gain

(C) ₹ 30 million net loss

(D) ₹ 30 million net gain

(b) Mr. S. Bose is a financial analyst working for an investment advisory firm. While going through the Annual Report 2024-25 of Tata Steel Limited, he noticed that there was a sharp decline in Profit for the Year of the Company for FY 2024-25 by about ₹ 3,700 crores. He was wondering why there is decline and what are the drivers behind the same. Assume that you are his friend and have happily agreed to solve this mystery for him using the DuPont Analysis.

Extracts from the Statement of Profit and Loss for the years ended March 31,

Particulars	2024	2025
Revenue from operations	₹ 1,40,932.65	₹ 1,32,516.66
Other income	₹ 3,113.49	₹ 246.90
Total income	₹ 1,44,046.14	₹ 1,32,763.56
Expenses:		
Total operating expenses	₹ 57,608.40	₹ 53,470.63
Employee benefits expenses	₹ 7,472.52	₹ 8,010.08
Finance costs	₹ 4,100.52	₹ 4,238.35
Depreciation and amortization expense	₹ 6,008.95	₹ 6,253.16
Other expenses	₹ 45,863.02	₹ 43,170.46
Total expenses	₹ 1,21,053.41	₹ 1,15,142.68
Profit before exceptional items and tax	₹ 22,992.73	₹ 17,620.88
Exceptional items	(₹ 3,488.02)	(₹ 902.04)
Profit before tax	₹ 19,504.71	₹ 16,718.84
Tax expense	₹ 3,842.86	₹ 4,749.14
Profit for the year	₹ 15,661.85	₹ 11,969.70

Extract from the Balance Sheet as on March 31,

Particulars	2024	2025
Assets		
Non-Current Assets	2,05,372.60	2,15,666.57
Current Assets	35,486.29	35,362.98
Total Assets	2,40,858.89	2,51,029.55
Equity and Liabilities		
Share Capital	1,235.50	1,248.60
Other Equity	1,36,777.99	1,32,732.11
Non-Current Liabilities	54,679.53	64,860.16
Current Liabilities	48,165.87	52,188.68
Total Equity and Liabilities	2,40,858.89	2,51,029.55

Using the Extended DuPont Model, answer the following questions based on the above financial information and choose **the correct answer from the given four alternatives. (All the calculations are upto 2 places of decimals)** (2×5=10)

(xi) The Net Profit Margins for the financial years 2023-24 and 2024-25 are

(A) 10.77% and 8.85% for the financial years 2023-24 and 2024-25 respectively.

(B) 10.87% and 9.02% for the financial years 2023-24 and 2024-25 respectively.

(C) 8.85% and 10.87% for the financial years 2023-24 and 2024-25 respectively.

(D) 8.87% and 8.85% for the financial years 2023-24 and 2024-25 respectively.

(xii) The Returns on Equity (ROE) for the financial years 2023-24 and 2024-25 are

(A) 11.53% and 8.85% for the financial years 2023-24 and 2024-25 respectively.

(B) 10.87% and 8.58% for the financial years 2023-24 and 2024-25 respectively.

(C) 11.35% and 8.93% for the financial years 2023-24 and 2024-25 respectively.

(D) 10.77% and 8.75% for the financial years 2023-24 and 2024-25 respectively.

(xiii) The Equity Multiplier (Leverage) for the financial years 2023-24 and 2024-25 are

(A) 1.75 and 1.87 for the financial years 2023-24 and 2024-25 respectively.

(B) 1.85 and 1.87 for the financial years 2023-24 and 2024-25 respectively.

(C) 1.87 and 1.75 for the financial years 2023-24 and 2024-25 respectively.

(D) 1.65 and 1.47 for the financial years 2023-24 and 2024-25 respectively.

(xiv) The Assets Turnover Ratios for the financial years 2023-24 and 2024-25 are

(A) 0.53 and 0.60 for the financial years 2023-24 and 2024-25 respectively.

(B) 0.56 and 0.66 for the financial years 2023-24 and 2024-25 respectively.

(C) 0.68 and 0.57 for the financial years 2023-24 and 2024-25 respectively.

(D) 0.60 and 0.53 for the financial years 2023-24 and 2024-25 respectively.

(xv) Which is the most important and significant driver behind pulling down the profitability of Tata Steel Limited during the financial year 2024-25?

(A) Profit Margin

(B) Assets Utilization

(C) Leverage

(D) None of the above

Section-B

Business Valuation

Answer *any five* questions from Question No.2 to Question No.8 in Section-B.

Each question carries 14 marks. 14×5=70

2. (a) "A supply chain and its management create an identification of the company and the market it serves."

In the context of the above statement, elaborate on the five key decision-making areas that are integral to effective Supply Chain Management (SCM). **Explain** how an Original Equipment Manufacturer (OEM) would tailor its supply chain strategy differently when targeting a mass market versus a niche market. 7

(b) **Discuss** the steps for implementation of Total Quality Management (TQM). 7

3. (a) A producer sells a product in two distinct markets: Market X and Market Y. The demand functions in each market are given by:

Market X : $Q1 = 21 - 0.1\ P1$

Market Y : $Q2 = 50 - 0.4\ P2$

The total cost of production is given by $TC = 2000 + 10Q$ where $Q = Q1 + Q2$.

The producer must charge the same price in both markets.

Required :

Analyze the price that the producer will charge in order to maximize profits and also **Assess** the maximum profit. 7

(b) **Discuss** the essentials of Risk Management. **What** are the features of various types of risk? 7

4. (a) **What** is Return on Net Assets (RONA)? **Explain** its implications. 7

(b) Mr. Gopal is considering investing in bonds of two companies— RIL and SIL. He is nearing retirement age and desires to undertake minimal risk in his investment. He is also worried about the default risk associated with his investment and wants to assess the chance of the company (in which he invests) going bust.

He seeks your advice to assess the bankruptcy risk associated with the aforesaid two companies— RIL and SIL. For this purpose, the relevant extracts of the financial statements which are extracted from the latest annual reports of the two companies are given below:

Particulars	**RIL**	**SIL**
	Amount (₹)	**Amount (₹)**
Working Capital	10,00,000	20,00,000
Retained Earnings	5,00,000	9,50,000
Earnings before Interest and Taxes	7,50,000	7,50,000
Market Value of Equity	15,00,000	18,00,000
Sales	12,00,000	15,00,000
Total Assets	10,00,000	12,00,000
Total Liabilities	10,00,000	12,00,000

Required :

Advise which company is safer to invest by using Altman Z score. 7

5. (a) Super Shakti Ltd. is trying to buy Beta India Ltd. Beta India Ltd. is a small biotechnology firm that develops products that are licensed to major pharmaceutical firms. The development costs are expected to generate negative cash flows of ₹ 10 lakh during the first year of the forecast period. Licensing fee is expected to generate positive cash flows of ₹ 5, ₹ 10, ₹ 15 and ₹ 20 lakhs during 2-5 years respectively. Due to the emergence of competitive products cash flows are expected to grow annually at a modest 5% after the fifth year. The discount rate for the first five years is estimated to be 15% and then drop to 8% beyond the fifth year.

Discount Rate	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
8%	0.9259	0.8573	0.7938	0.7350	0.6805	0.6301
15%	0.8696	0.7562	0.6576	0.5718	0.4972	0.4324

Required :

Assess the Value of the Firm. 7

(b) ZNB Ltd. provides the following information pertaining to its Business:

Approach	Valuation Method	Value (INR)	Weight
Market	Comparative Business Sales	10,00,000	30%
Income	Discounted Cash Flow	15,00,000	20%
Income	Multiple of Discretionary Earnings	20,00,000	10%
Asset	Asset Accumulation	25,00,000	40%

Additional Information :

Discount rate is 30% and the forecast suggests that the business profits would be growing at a steady rate of 5% per year.

Required :

Assess the following:

(i) Business value

(ii) Capitalisation rate 7

6. (a) Mr. Anand, the current Copyright holder of the Book "Performance Management" is willing to sell the copyrights of his book to a publisher who is keen to buy the copyright. The following are the assumptions:

Currently, 2,500 copies of the book are sold annually at a price of ₹ 1,750 per book. The cost of production, distribution and author royalties amount to 70% of Sales. The book is becoming popular and the publisher estimates that the sales of the book may increase by 5% every year for the next 5 years and by 2% from year 6 to 10. This is including the newer editions of the same book. However, after this, given the introduction of other books on the same subject, dilution of exclusivity, violation of copyrights and plagiarism, there may not be any special advantage from the book beyond year 10. Assuming a discount rate of 10%.

Required :

Analyze the value of Copyright if the author wishes to sell the same. 7

(b) A company has investments in the unlisted bonds of XYZ Limited. These bonds have a coupon of 9.5%, face value of ₹ 1,000 and the maturity of 5 years. The company has decided to hold these bonds till maturity. These bonds are rated as A^+ and the current Yield to Maturity (YTM) on A^+ bonds is 8.50%.

Year	1	2	3	4	5
Discounting Factor @ 8.50%	0.9217	0.8495	0.7829	0.7216	0.6650
Discounting Factor @ 9.50%	0.9132	0.8340	0.7617	0.6956	0.6352

You are required to determine the fair value of these bonds. 7

7. (a) The following information is provided in relation to the acquiring firm RAJ Ltd. and the target firm PREET Ltd.:

	RAJ Ltd.	PREET Ltd.
Earnings after tax (₹)	2,000 lakh	400 lakh
No. of Outstanding Shares	200 lakh	100 lakh
P/E	10	5

Required :

(i) **What** is the swap ratio in terms of current market prices?

(ii) **What** is the expected market price per share of RAJ Ltd. after acquisition assuming that P/E ratio of RAJ Ltd. remains unchanged?

(iii) **Analyze** gain/loss for shareholders of the two independent companies after acquisition. 7

(b) As a finance manager of DODON Ltd., you are investigating the acquisition of BODON Ltd. The following facts are given:

	DODON Ltd.	BODON Ltd.
Earnings per share (₹)	6.75	2.50
Dividend per share (₹)	3.25	1.00
Price per share (₹)	48	15
No. of Outstanding shares	60 lakhs	20 lakhs

Investors currently expect that the dividends and earnings of BODON Ltd. to grow at a steady rate of 7%. After acquisition, this growth rate would increase to 8% without any additional investment.

Required :

(i) **Analyze** the benefit of this acquisition

(ii) **Analyze** the cost of this acquisition to DODON Ltd., if it

I. pays Compensation @ ₹ 17 per share in cash to BODON Ltd.

II. offers one share for every three shares of BODON Ltd. 7

8. (a) Every company wants to have a larger market share and as such more and more customers. But of late, it is being realized that every customer is not a value-creator for the company and therefore, it is imperative on the part of the management of a company to understand the true economic value contributed by each customer— not just their top-line contribution. This will help the management of the companies to prioritize high-value customers for marketing, support and retention efforts. For this purpose, a company should undertake Customer Profitability Analysis that would help it to see beyond revenue, guide smarter decisions that balance financial performance with strategic value.

Realizing the importance of Customer Profitability Analysis (CPA), XYZ Limited has decided to analyze the profitability of 4 customers A, B, C and D. The Company sells products at a list price of ₹ 2,000 per unit and has a manufacturing cost of ₹ 800 per unit. The Company collects GST @ 8% from the customers. Data pertaining to the four customers are:

	A	B	C	D
Units sold	60,000	35,000	20,000	15,000
List price	₹ 2,000	₹ 2,000	₹ 2,000	₹ 2,000
Price discount(%)	5%	3%	1%	—
Number of purchase orders	3,600	3,000	1,800	1,200
Number of sales visits	900	750	600	450
Number of deliveries	6,000	3,000	2,000	1,500
Set up and Inspection	3,000	2,400	1,440	240
Kilometers travelled for delivery	650	1,560	2,600	790
Number of expedited deliveries	160	0	320	0

Customer-Level Costs	
Purchase orders	₹ 6,40,000
Sales visits	₹ 2,16,000
Deliveries	₹ 37,500
Set up and Inspection cost	₹ 3,54,000
Total Delivery cost for km travelled	₹ 8,960
Expedited deliveries cost	₹ 1,44,000

You are required to prepare a Customer-Profitability Analysis Statement and rank the customers in terms of the total profitability. **Also comment** on possibility of increasing overall profitability using the analysis. 7

(b) In the textile industry, C and D companies are operating their business. You are the director of C company. Due to some personal reasons, Mr. Ramesh, the director of D company decided to sell his company and made an offer to C company at the purchase consideration of ₹ 1 crore. As director of the C company, you are required to consider the viability of the proposal of acquisition of D company as per stipulated purchase consideration. The project estimates that the purchase of D company will generate the following after-tax cash flow:

Year	Cash Flow (₹)
1	20,00,000
2	25,00,000
3	28,00,000
4	30,00,000
5	40,00,000

If you decide to go ahead with this acquisition, it will be funded with C company's standard mix of debt and equity in its capital structure at the weighted average (after-tax) cost of capital of 9%. Corporate tax rate for the C company is 30 percent. Present value of ₹ 1 @9% for the five years is 0.917, 0.842, 0.772, 0.708 and 0.650 respectively.

You are required to comment on the proposal of acquisition of D company and also recommend whether D company should be acquired or not. 7