

Q1

Value is the worth of a thing. It depends on the qualities of a thing therefore it can be divided in the following categories:

- (i) Original value: It means a value at which a thing is acquired or can be acquired.
for example: MR. A has purchased a machine of worth Rs. 10 lakhs then it should be called as Original value of that machine.
- (ii) Book value: It means a value at which something is recorded in the books. Normally purchase value or Book value are same but some time they may differ due to some laws & legal obligations.
for example: As per Accounting standard - 28 (Impairment of Asset) in case of ~~impairment~~ some factors are applicable on a particular asset or group of Asset then the value is determined as per the method given in AS-28 itself.
- (iii) Depreciated value: Means the written down value of an asset/thing.
for example: If 10% Depreciation is charged on a machine of Rs. 10 lakh then ~~the~~ its value after one year will be 9 lakhs Rs. which will be called Depreciated value.
- (iv) Sale value: Means a value at which a thing is sold or can be sold.
for example: MR. A sold a machine at Rs. 10 lakh then it should be called as sale value.

(v) Purchase value means the actual cost of a thing inclusive of Transportation cost or any other charges which can be capitalised as per As-10.
for example

Machinery actual cost	Rs 10 Lakh
+ Transportation cost	1 Lakh
+ Installation cost	3 Lakh
Purchase cost	<u>14 Lakh</u>

So in above example Purchase value must be 14 lakhs

(vi) Market value : means a value at which a thing is available in the market in the Current scenario.
for example on 1/1/08 a machinery is available in Mkt. at Rs. 10 Lakh. Now after some time due to increase in inflation that price goes upto Rs. 12 Lakh. Therefore the Mkt value should be 12 lakhs instead of 10 Lakh. Also that can also be decreased depending on the Circumstances of the Mkt.

(vii) Economic Value : means the "Value in use", the value of the benefits provided by that Asset.
for example a machinery is purchased at Rs. 10 Lakh. But the value of economic benefit provided by it are equal to economic benefit provided by some other Asset which has value Rs. 11 Lakh. Then the Economic value of the said Asset will be Rs. 11 Lakh in place of 10 Lakh.

(viii) Residual value : Means a value which is expected at the end of economic life of a particular Asset
 for example: A machinery having life of 5 yrs. is purchased at a cost of Rs 10 lakhs but after 5 years it can be sold at Rs 10,000 therefore the Residual value will be Rs. 10,000.

(ix) Scrap value : means a value at which a thing/Asset is disposed off. It is a value of scrap at which old machinery or unused material is sold in the mkt.

(x) Replacement value : Means a value at which an asset is replaced or can be replaced. It contains the cost of Replacement such as Dismantling charges dismounting charges labour cost etc.

P.T.O

Q 7

Major Drivers of Mergers & Acquisition (M&A):

The major drivers / forces which has driven M&A since a very long period can be identified as follows:

(i) Rapid pace of Technological Change

Specially with reference to Indian prospective, there is a major change in the Technological scenario of industry, since 1980's. Which really has forced industry to acquire the new technology through M&A.

(ii) Low Cost of Communication & transportation:

(iii) Globalisation of global M&A:

Actually in west term Globalisation is possible only due to M&A; lots of M&A jointly make Globalisation possible. For example Tata acquired TATA, Lenzental acquired lots of companies outside India.

(iv) Nature of Competition in terms of forms, sources

(v) Emergence of new Types of Industries

(vi) Regulation in some industries & sectors

(vii) Liberalisation in some industries & sectors

(viii) Growing inequalities in incomes & wealth

Q.8

Several Methods of Payments in Merger Deal:

There are two main methods of financing an acquisition or merger:

- (I) CASH settlement
- (II) share Exchange

(I) CASH settlement: This method is generally considered suitable for small acquisitions. It can be explained with the help of following illustration:

	<u>Company A</u> Rs.	<u>Company B</u> Rs.
Mkt Price of share	75/-	15/-
No. of shares	100000	60000
Mkt value of Company	7500000	900000

Assume Company A acquires Company B & intends to pay Rs. 12 Lakh Cash

Also assumed that the share price does not anticipate a merger. Then

$$\begin{aligned}
 &\text{The cost of the bidder Company A} \\
 &= \text{Payment} - \text{Mkt. value of Co. B} \\
 &= 12 \text{ Lakh Rs.} - 9 \text{ Lakh Rs.} \\
 &= 3 \text{ Lakh Rs.}
 \end{aligned}$$

Therefore Company A will be paying Rs 3 Lakh to Company B under CASH settlement - method.

P.T.O

(i) Share Exchange : In this method shares are issued to the acquired company's shareholders as a part of Purchase Consideration of merger. It is used in case of large deals for example Tata acquired TCS and issued shares to the shareholders of TCS as PC.

Example :

	<u>Company A</u>	<u>Company B</u>
MP of share	75	15
Shares	10000	6000
MV of Co.	750000	90000

Amt to be paid Rs 12 lakh

Assume Company A acquires Company B & paid settle the deal on the basis of Market Price of Shares.

$$\begin{aligned} \text{Now share to be issued by Company A} &= \\ &= \frac{1200000}{75} = 16000 \text{ shares.} \end{aligned}$$

Therefore Company A will issue 16000 shares to Company B as a PC of deal.

Implication of Cash & share sett. method

Cash : Useful for small deals

Advantage : Process is simple

Buying company holds the control as the share holders of selling company are completely bought out.

Disadvantage : Financial Risk may be increased by raising new Debt.

Share Exchange

Advantage : ★ Useful for large Deals as does not part with Cash

★ Does not increase the financial Risk

Disadvantage

★ Buyer's Company's shareholders will have to share their future prosperity with those of acquired Company.

P.T.O

Q 3

Economic Value Added (EVA):

EVA is an Indicator of Returns to shareholders. EVA is developed in 1980's by a consulting firm Stern Stewart & Co, New York.

EVA represents the difference between Profit & Cost of Capital. It provides a measure directly related to return of capital employed.

In simple terms:

$$\begin{array}{rcl} \text{EVA} = & \text{Net operating Profit after taxes} & = \quad \times \times \times \times \\ & \text{Less: Capital} \times \text{Cost of Capital} & \quad \times \times \times \\ & \text{EVA} & \quad \underline{\times \times \times} \end{array}$$

Therefore EVA is an estimate of the amount by which earnings exceeds or fall short of the required minimum return that the shareholders and lenders ~~could~~ get by investing in other securities of same comparable Risk.

Though EVA is a very popular measure of valuation but still it has to face various critics like among analysts there is a feeling the EVA relies too much on accounting Profit and adjustments, whereas Cash flows might be more reliable indicator.

Relation between EVA & Valuation

EVA is based on the premise that shareholder value is created by earning a return in excess of the Company's Cost of capital.

It is calculated by subtracting Cost of Capital from Net operating Profit.

Therefore if the EVA is positive, shareholders value has increased. So increasing the company's future EVA is key to creating shareholder value.

Qy (A) Definition of Intellectual Capital:

Intellectual Capital is a kind of knowledge which can be converted into profits. It usually includes those assets which do not have physical substance such as Trademarks, Brands, License, Training expertise etc.

Some other definitions are also provided by different consultants:

- Knowledge that can be converted into value by Leif Edvinsson
- The sum of everything everybody in a company knows that gives it the competitive edge -
 - by Stewart

Therefore, as conclusion we can say that Intellectual Capital is ~~intangible~~ intangible Asset which does not have physical substance & they are held for use in the production of supply of goods or services or for administrative purpose.

(B) Various Components of Intellectual Capital:

Intellectual Capital includes inventions, ideas, general knowledge, designs, approaches, computer programmes, process and publications.

P.T.O.
= continued...

6

Classification of IC is done by various Consultants, Professionals but as a Conclusion Classification done by Functional Reiteration of Accounts (FRAC) can be taken as it provides Broader views on the same.

Classification of IC by FRAC

(i) Human Capital

- Education
- Knowledge
- Work related knowledge
- Occupational assessments
- Work related Competencies
- Knowledge

(ii) Organisational (structural) capital intellectual

- Patents
- Copyrights
- Trade/Service marks
- Design models, etc.

(iii) Customer Capital:

- Brands
- Customers
- Licensing agreements
- Franchising
- Distribution Channels
- Company names etc

(iv) Infrastructure Assets :

- Management processes
- Networks
- Financial relations
- Corporate Culture
- Information systems

(c) Valuation of Intellectual Capital :

With the help of following methods Intellectual Capital can be measured.

(i) Market - to - Book Value

- means difference between market value & Book value of the company

(ii) Tobin's Q method :

It compares the Market value of a company with the replacement cost of its assets.

(iii) Calculated Intangible value: CUV computes the value of intangible assets by comparing the firm's performance with an average competitor that has similar tangible Assets. By this method we can calculate fair value of Intangible Asset.

(iv) Real options - based approach

(A) Meaning of Intrinsic Value :

Intrinsic Value [IV] can be defined as a Net Assets Value of a firm or a company attributable to the equity shares holders.

Net Asset value means : Total Asset - Total Liabilities (including of long term debts)

Value of Total Asset can be taken as Book value or Adjusted Book value & can be taken as Net Present value of future Cashflows from the Assets of firm.

Value of Total Liabilities normally considers the Book value of all liabilities including the probable liabilities.

Intrinsic value can be understood with the help of following Example :

<u>A Ltd.</u>	<u>Rs.</u>
Fixed Asset	10,00,000
Current Asset	2,00,000
Total Asset	<u>12,00,000</u>

<u>Liabilities</u>	
Long term Debt	4,00,000
Current Liab.	2,00,000
Share Capital	6,00,000
(6000 share @ 10/-)	<u>12,00,000</u>

Now the Net Asset will be :

Total Asset less total Liabilities

$$= 1200000 - 600000 (400000 + 200000)$$

$$\underline{\text{NAV}} = 600000$$

$$\text{No. of share} = 60000$$

So intrinsic value per share

$$\text{will be} = \frac{600000}{60000}$$

$$= 10/- \text{ each share.}$$

which is equal to the issue price of the shares (only in terms of above example)

(B) Drivers of Intrinsic Value :

Following are the drivers of IV:-

- Tangible Asset

Building

Machinery

Office Infrastructures

Computer

Lease (Not depreciated)

} Normally at historical cost & at written down value

Intangible Assets (those don't have physical substances)

- License

- Copyrights

- Patents

- Agreements Franchises etc

} As per AS-28 (valuation is done as per AS-28)

Current Assets

- Inventories
- Marketable Securities
- Debtors
- Cash

} At Net realizable
value

LiabilitiesLong term liabilities

- Long term debts
- = Debentures

Current liabilities

- Creditors
- Short term debts
- Outstanding dues / expenses etc.

————— x ————— x ————— x —————