Seat No:________ **Enrolment No:_______________**

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER – 03 - EXAMINATION – SUMMER 2017

Subject Code : 2830201 **Date: 10/05/2017**
Subject Name : Strategic Financial Management (SFM)
Time : 02.30 PM TO 05.30 PM **Total Marks: 70**

Instructions:

Attempt all questions
Make suitable assumptions wherever necessary.
Figures to the right indicate full marks.

Q 1 A Multiple Choice Questions **6**

1 _______________ defines what the organization wants to become in the longer term and wants to go to fulfill its purpose and achieve its mission.
- a) Objective b) Goal
- c) Strategy d) Aim

2 Setting up an entirely new project which is not concerned with the existing business is known as:
- a) Forward Integration b) Diversification
- c) Backward Integration d) Expansion

3 The beta of equity is 1.2. The debt-equity ratio of the company is 0.8. Calculate the beta of the assets of the firm. (Assume no taxes)
- a) 0.95 b) 0.48
- c) 1.6 d) 0.67

4 Total leverage measures the relationship between
- a) EBIT and sales b) EPS and EBIT
- c) Sales and EPS d) PAT and sales

5 According to Myron Gordon, the growth rate of a firm is a product of its
- a) Dividend payout and return on equity b) Dividend payout and return on investments
- c) Retention ratio and return on investments d) Retention ratio and return on equity

6 If greater risk is associated with receiving of future economic benefit, the __________ discount rate is adopted.
- a) Lower b) Higher
- c) Normal d) Positive

B Explain the following terms. **4**

1. Financial Restructuring
2. Turnaround Management
3. Risk Adjusted Rate of Return
4. Transaction Costs

C Sales Rs 1, 00,000, Variable Costs 80%, Operating Costs 95%, 10% Debt Rs 37,500. Calculate Combined Leverage. **4**

Q 2 A Preet Ltd. has to make a choice between debt issue and equity issue for its expansion programme. **7**

Its current position is as follows:

Particulars	Rs.
5% Debt	20,000
Equity Share Capital(Rs. 10 per share)	50,000
Reserves & Surplus	30,000
Total Capitalisation	1,00,000
Sales	3,00,000
Total Cost	2,69,000
EBIT	31,000
Interest	1,000
EBT	30,000
Income Tax @ 35%	10,500
EAT	19,500

The expansion programme is estimated to cost Rs. 50,000. If it is financed through debt, the rate of interest on the new debt will be 7% and the price-earnings ratio will be 6. If the expansion programme is through equity, new shares can be sold @ Rs 25 per share and the price-earnings ratio will be 7. The expansion will generate additional sales of Rs. 1, 50,000 with a return of 10% on sales before interest and taxes.

If the company is to follow a policy of maximising the market value of the shares, which form of financing should it choose?

B 'Strategic Financial Planning is subject to the various macro and micro environmental factors'. Elucidate. **7**

OR

B What are the invisible walls in project estimating?

Q 3 **A** Define the terms: 'Risk' and 'Uncertainty'. What is Risk Management? Discuss the steps for application of Risk Management in Project Management. **7**

B Disha Ltd which makes only one product sells 10,000 units of its product making a loss of Rs 10,000. The variable cost per unit of the product is Rs 8 and the fixed cost is Rs 30,000. **7**

The company has estimated its sales demand as under:

Sales (Units)	10,000	12,000	14,000	16,000	18,000
Probability	0.10	0.15	0.20	0.30	0.25

What is the probability that company will incur loss?

What is the probability that company will make profit of Rs. 6000?

OR

Q 3 **A** Explain: **7**

(I) Sensitivity Analysis in Capital budgeting.

(ii) Simulation Analysis in Capital budgeting.

B Determine the risk adjusted net present value of the following projects: **7**

Particulars	Project A	Project B	Project C
Net Cash outlay (Rs)	1,00,000	1,20,000	2,10,000
Project Life (Years)	5	5	5
Annual Cash Inflow (Rs)	30,000	42,000	70,000
Coefficient of Variation	0.4	0.8	1.2

The company selects the risk adjusted rate of discount on the basis of coefficient of variation:

Coefficient of Variation	Risk Adjusted Rate of Discount
0.0	10%
0.4	12%
0.8	14%
1.2	16%
1.6	18%
2.0	22%
More than 2.0	25%

Q 4 **A** Define 'sick industry company'. What are the factor causing industrial sicknesses? **7**

B Asoka Builders ltd. Has an issued and paid up capital of 5 lakh shares of Rs. 10 each. The company declared a dividend of Rs. 12.5 lakhs during the last five years and expects to maintain the same level of dividends in future. The control and ownership of the company is lying in the few hands of directors and their family members. The average dividend yield for listed companies in the same line of business is 18%. Calculate the value of 3000 shares in the company. **7**

OR

Q 4 **A** What do you mean by valuation of shares and business? What is the necessity of such valuation? **7**

B Agile Ltd. belongs to a risk class of which the appropriate capitalisation rate is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating declaration of a dividend of Rs.6 per share at the end of the current fiscal year which has just begun. Answer the following questions based on Modigliani and Miller Model and assumption of no taxes: **7**

(i) What will be the price of the shares at the end of the year if a diviend is not declared?

(ii) What will be the price if dividend is declared?

(iii) Assuming that the firm pays dividend, has net income of Rs. 10 lakh and new investments of Rs. 20 lakhs during the period, how many new shares must be issued?

Q 5 The following data is available for XYZ Ltd. : **14**

Sales	2,00,000
Less : Variable cost @30%	60,000
Contribution	1,40,000
Less : Fixed Cost	1,00,000
EBIT	40,000
Less : Interest	5,000
Profit before tax	35,000

Find out :

(i) Using the concept of financial leverage, by what percentage will the taxable income increase if EBIT increase by 6%.

(ii) Using the concept of operating leverage, by what percentage will EBIT increase if there is 10% increase in sales, and

(iii) Using the concept of leverage, by what percentage will the taxable income increase if the sales increase by 6%. Also verify results in view of the above figures.

OR

Q 5 ABC Ltd. wants to raise Rs. 5, 00,000 as additional capital. It has two mutually exclusive alternative financial plans. The current EBIT is Rs. 17, 00,000 which is likely to remain unchanged. The relevant Information is – **14**

Present Capital Structure: 3,00,000 Equity shares of Rs. 10 each and 10% Bonds of Rs. 20,00,000.

Tax Rate:	50%
Current EBIT:	Rs. 17,00,000
Current EPS:	Rs. 2.50
Current Market Price:	Rs. 25 per share
Financial Plan I:	20,000 Equity Shares at Rs. 25 per share.
Financial Plan II:	12% Debentures of Rs. 5, 00,000.

What is the indifference level of EBIT? Identify the financial break-even levels.

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