Seat No.________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER– III EXAMINATION – WINTER 2019

Subject Code: 2830201 **Date: 03-12-2019**

Subject Name: Strategic Financial Management

Time: 10:30 AM TO 1.30 PM **Total Marks: 70**

Instructions:

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

Q.1 (a) **06**

1. The cost of capital is best calculated with
   A. Market value weights B. Book value weights
   C. Modigliani and Miller weights D. Cannot be calculated.
2. According to the Capital Asset Pricing Model (CAPM) model, all fairly priced securities have
   A. Positive betas B. Positive alphas
   C. Negative betas D Zero alphas
3. What is the expected return of a zero-beta security?
   A. The risk-free rate B. Zero rate of return
   C. A negative rate of return D. The market rate of return
4. Total leverage measures the relationship between
   A. EBIT and sales B. EPS and EBIT
   C. Sales and EPS D. PAT and sales
5. The ultimate objective of any company is
   A. Profit maximization B. Wealth maximization
   C. Sales maximization D. Improving market share
6. Which of the following best describes the situation in which a firm is having problem meeting its financial obligations?
   A. Business risk B. Legal bankruptcy
   C. Technical bankruptcy D. Financial distress

Q.1 (b) a) Systematic Risk **04**
b) Market Risk
c) Turnaround Management
d) Transaction Cost

Q.1 (c) Write a short note on "Sensitivity analysis" **04**

Q.2 (a) Discuss in detail the various components of a feasibility study. **07**

(b) Explain the term "Bonus Share" and "Stock Split" along with its rational. **07**

OR

(b) Discuss Risk Adjusted Discount rate and Certainty Equivalent method with illustration as risk evaluation technique in capital budgeting. **07**

Q.3 (a) Define 'sick industry company'. What are the factor causing industrial sicknesses? **07**

(b) Kanishk Limited has a net operating income of Rs.100 million. Kanishk employs Rs.800 million of debt capital carrying 10 percent interest charge. The equity capitalisation rate applicable to Kanishk is 15 percent. What is the market value of Kanishk under the net income method? Assume there is no tax. **07**

OR

Q.3 **(a)** Explain the role of Strategic Financial Management & its functions in business. **07**

(b) A firm sales, variable cost and fixed cost are as follows i:e Rs 75,00,000, Rs 42,00,000 and Rs 6,00,000. It has borrowed Rs 45,00,000 at 9% & it's equity capital total Rs 55,00,000. **07**
Calculate: a) The Firm's ROI
b) Does it have a favourable financial leverage
c) What are the Operating, Financial & Combine leverage of the firm.

Q.4 **(a)** Discuss Net Present Value and Internal Rate of Return as important techniques of capital budgeting and bring out the differences. **07**

(b) A company is considering a cost saving project. This involves purchasing a machine costing Rs 7000 which result in annual saving on wage cost of Rs 1000 and on Material Cost Rs 400. **07**
Following forecast are made of the rates of Inflation each year for the next 5 years.
Wage Cost-10%, Material Cost-5%, General Expense-6%. The Cost of Capital is 15%.

Evaluate the project assuming that the machine had life of 5 years and no scrap value.

OR

Q.4 **(a)** Discuss the various factors affecting Dividend Decision. **07**

(b) Two Mutually exclusive investment project X and Y are given and the intial outlay of each project is Rs 30,000. Both the project have a life span of 5 years and a discount rate of 15%. State which project should be accepted. **07**

X			Y		
Years	Cashflow	CEC	Years	Cashflow	CEC
1	25,000	0.7	1	17,500	0.870
2	30,000	0.5	2	15,000	0.756
3	20,000	0.4	3	8,000	0.658
4	15,000	0.3	4	4,500	0.572
5	10,000	0.2	5	2,000	0.497

Q.5 S.L Ltd. belongs to a risk class for which the capitalization rate is 10 per cent. It currently has outstanding 10,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of a dividend of Rs. 5 per share at the end of the current financial year. **14**
It expects to have a net income of Rs. 1,00,000 and has a proposal for making new investments of Rs. 2,00,000.
Calculate the Value of the firm when dividend is paid under M-M Hypothesis.

Calculate the Value of the firm when dividend is not paid under M-M Hypothesis

OR

Q 5 **14**

Following are the details regarding three companies X Ltd., Y Ltd. and Z Ltd.

	X Ltd	Y Ltd	Z Ltd
Internal Rate of Return (%)	5	20	15
Cost of Equity Capital (%)	15	25	15
Earnings Per Share	Rs 10	Rs 10	Rs 10

Calculate the value of an equity share of each of those companies applying Walter's formula when dividend payment ratio (D/P) ratio is (a) 75% (b) 50% (c) 80%.

Also suggest what strategies the three companies should adopt on paying dividend.

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