Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER III – EXAMINATION – WINTER 2019

Subject Code: 3539221 **Date: 03/12/2019**

Subject Name: Strategic Financial Management

Time: 10:30 AM TO 01:30 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 Explain the terms in brief with examples: **14**

(a) EBIT
(b) Stock split
(c) Economic Value Added
(d) Break even Analysis
(e) Fair Value of share
(f) Transaction cost
(g) Earnings per share

Q.2 **(a)** Define the terms: 'Risk' and 'Uncertainty'. What is Risk Management? Discuss the steps for application of Risk Management in Project Management. **07**

(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. The company has estimated its sales demand as under: **07**

Sales (Units)	10000	12000	14000	16000	18000
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

(b) From the following project details calculate the sensitivity of the project cost, annual cash flow and cost of capital. Which variable is most sensitive? **07**

Project cost – Rs 12000
Life of the project – 4 Years
Annual Cash Flow – Rs 4500
Cost of Capital – 14%

The annuity factor at 14% for 4 years is 2.9137 and at 18% is 2.6667

Q.3 **(a)** Define industrial sickness. What are the factor causing industrial sicknesses? **07**

(b) ABC limited is considering merger with XYZ limited. ABC ltd shares are currently traded at Rs 25. It has 2000000 shares outstanding and its earning after taxes amount to Rs 400000. XYZ ltd has 100000 shares outstanding, its current market price is Rs 12.50 and its earnings after tax is Rs 100000. The merger will be affected by means of stock swap. XYZ ltd has agreed to a plan under which ABC ltd will offer the current market value of XYZ ltd shares. **07**

1. What is pre-merger EPS and P/E ratio of both the companies and what is the exchange ratio?
2. What must the exchange ratio be for ABC ltd.'s pre-merger and post-merger EPS to be the same?

OR

Q.3 **(a)** Explain: **07**

(I) Sensitivity Analysis in Capital budgeting.
(ii) Simulation Analysis in Capital budgeting.

(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. **07**

Q.4 **(a)** Describe the decision tree approach with the help of an example. How is this technique useful in capital budgeting? **07**

(b) A company has a total investment of Rs. 500000 in assets and 50000 outstanding ordinary shares at Rs 10 per share (par value). It earns a rate of 15% on its investments and has a policy of retaining 50% of the earnings. **07**

If the appropriate discount rate of the firm is 10%. Determining the price of its share using Gordon model

What shall happen to the price of the share, if the company has a payout of 80% or 20%

OR

Q.4 **(a)** Explain various micro and macro environmental factors affects the strategic financial planning **07**

(b) The installed capacity of a factory is 6000 units. Actual capacity used is 4000 units. Selling price per unit is Rs 10, variable cost is Rs 6. Calculate leverage in each of above situations: **07**

1. When fixed cost are 4000
2. When fixed cost are 10000
3. When fixed cost are 12000

Q.5 **CASE STUDY:**

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 – Present Capital Structure:

3,00,000 - Equity shares of Rs. 10 each

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

(a) What is the indifference level of EBIT at: **07**

Financial Plan I: 20,000 Equity Shares at Rs. 25 per share.

Financial Plan II: 12% Debentures of Rs. 5, 00,000.

(b) Calculate EBIT-EPS for both above financial plans **07**

OR

Q.5 (a) What is the indifference level of EBIT at **07**

Financial Plan I: 20,000 Equity Shares at Rs. 25 per share.

Financial Plan II: 12% Preference share of Rs. 5, 00,000.

(b) Calculate EBIT-EPS for both above financial plans **07**

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