Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 3 – EXAMINATION – SUMMER 2019

Subject Code: 2830201 **Date:08/05/2019**

Subject Name: Strategic Financial Management (SFM)

Time: 02:30 PM To 05:30 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) Objective Questions **06**

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. A new machinery in place of old equipment due to technological changes is termed as :
   A. Balancing B. Replacement
   C. Modernization D Expansion
3. MS ltd has a debt-equity mix of 30/70. If MS ltd debt beta for its activity (or project) is 1.21, what is the beta for its equity?
   A. 1.65 B. 1.60
   C. 1.52 D. None of the above
4. If greater risk is associated with receiving of future economic benefit, the ____discount rate is adopted.
   A. Lower B. Normal
   C. Higher D. Positive
5. One of the following is a time cost trade-off option:
   A. CAT schedule B. Commitment control
   C. Most efficient plan D. Line of balance
6. Setting up an entirely new project which is not concerned with the existing business is known as :
   A. Forward integration B. Backward integration
   C. Expansion D. Diversification

Q.1 (b) Define the following terms: **04**

1. Feasibility
2. Amalgamation
3. LOB (Line of Balance)
4. Financial Leverage

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

Q.2 (a) "Strategic financial planning is subject to the various macro and micro environmental factors." Elucidate. **07**

(b) Briefly discuss the techniques used in financial forecasting. **07**

OR

(b) What is feasibility study? What are the main objectives of conducting a Pre-feasibility study? **07**

Q.3 **(a)** What are the steps involved in Capital investment process? Describe the steps in capital investment decision making process. **07**

(b) The following table presents the proposed cash flows for projects M and N with their associated probabilities. Which project has a higher preference for acceptance? **07**

Possibilities	**Project M**		**Project N**	
	Cash flow(Rs. Lakhs)	**Probability**	**Cash flow(Rs. Lakhs)**	**Probability**
1	7,000	0.10	12,000	0.10
2	8,000	0.20	8,000	0.10
3	9,000	0.30	6,000	0.10
4	10,000	0.20	4,000	0.20
5	11,000	0.20	2,000	0.50

OR

Q.3 **(a)** What are the strategic motives behind reverse merger and demerger? **07**

(b) Determine the risk adjusted net present value of the following projects: **07**

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)** Write short note on 'Reasons for business failure?' **07**

(b) Bestbuy Auto Pvt. Ltd. has outstanding 1,20,000 shares selling at Rs. 20 per share. The company hopes to make a net income of Rs. 3,50,000 during the year ended 31st March, 2011. The company is considering to pay a dividend of Rs. 2 per share at the end of current year. The capitalization rate for risk class of this company has been estimated to be 15%. **07**

Assuming no taxes, answer the questions listed below on the basis of the Modigliani and Miller – Dividend valuation model:

(i) What will be the price of a share at the end of 31st March, 2010

(a) if the dividend is paid, and

(b) if the dividend is not paid?

(ii) How many new shares must the company issue if the dividend is paid and company needs Rs. 7,40,000 for an approved investment expenditure during the year?

OR

Q.4 **(a)** Explain the significance of operating and financial leverage analysis for a financial executive in corporate profit and financial structure planning. **07**

(b) The following information pertains to RICO Ltd. **07**

	(Rs. Lakhs)
Net profit	60
Outstanding 12% preference shares	200
Number of shares outstanding	6 Lakhs
Return on investment	20%
Equity capitalization rate	16%

Required:

(i) What should be dividend payout ratio so as to keep the share price at Rs. 41.25 by using Walter model?

(ii) What is the optimum dividend payout ratio according to Walter model?

Q.5 The balance sheet of Jamuna Synthetics Ltd. as at 31stMarch, 2010 is given below: **14**

Liabilities	Rs.	Assets	Rs.
Equity share capital (5,00,000 shares of Rs.10 each)	50,00,000	Land	14,00,000
General Reserve	15,00,000	Building	23,00,000
Debentures (14%)	10,00,000	Plant & Machinery	28,00,000
Sundry creditors	5,00,000	Sundry debtors	6,00,000
Bank overdraft	4,00,000	Inventory	8,00,000
Provision for taxation	1,00,000	Cash and bank	2,00,000
		Patent and trade marks	3,00,000
		Preliminary expenses	1,00,000
	85,00,000		85,00,000

The profit of the company for the past four years are as follows: (Rs)

2007	2008	2009	2010
12,00,000	15,00,000	21,00,000	23,00,000

Every year, the company transfers 20% of its profits to the general reserve. The industry average rate of return is 18% of the share value. On 31st March, 2010, Independent expert valuer has assessed the following assets: (Rs.)

Land	26,00,000
Building	40,00,000
Plant and machinery	32,00,000
Debtors(after bad debts)	5,00,000
Patent and trade marks	2,00,000

Based on the information given above, calculate the fair value of company's share.

OR

Q.5 A plastic manufacturing company is planning to expand its assets by 50 per cent. All financing for this expansion will come from external sources. The expansion will generate additional sales of Rs. 3 lakh with a return of 25 percent on sales before interest and taxes. The finance department of the company has submitted the following plans for the consideration of the Board. **14**

Plan 1: Issue of 10% debentures.

Plan 2: Issue of 10% debentures for half the required amount and balance in equity shares to be issued at 25 per cent premium.

Plan 3: Issue equity shares at 25 percent premium.

Balance sheet of the company as on March 31

Liabilities	**Amount**	**Assets**	**Amount**
Equity capital (Rs. 10 per share)	Rs.4,00,000	Total assets	Rs.12,00,000
8% Debentures	3,00,000		
Retained earnings	2,00,000		
Current Liabilities	3,00,000		
	12,00,000		**12,00,000**

Income statements for the year ending March 31

Sales	Rs. 19,00,000
Operating costs	16,00,000
EBIT	**3,00,000**
Interest	24,000
Earnings after tax	**2,76,000**
Taxes	96,600
EAT	**1,79,400**
EPS	4.48

(a) Determine the number of equity shares that will be issued if financial plan 3 is adopted.

(b) Determine indifference point between (i) plans 1 and 2, and (ii) plans 1 and 3, and (iii) plans 2 and3.

(C) Assume that the price earnings ratio is expected to remain unchanged at 8 if plan 3 is adopted, but is likely to drop to 6 if either plan 1 or 2 is used to finance the expansion. Determine the expected market price of the shares in each of the situations.

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