Seat No.: ________ Enrolment No.___________

# GUJARAT TECHNOLOGICAL UNIVERSITY

**MBA – SEMESTER (3) – EXAMINATION – SUMMER - 2019**

**Subject Code: 3539221** **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** Explain the terms in brief with examples: **14**
(a) MM Approach in Capital Structure
(b) Financial Restructuring
(c) Economic Value Added
(d) Break even Analysis
(e) Financial Leverage
(f) Strategic Financial Management
(g) Earnings per share

**Q.2** **(a)** What is Feasibility Study? If Apple wants to start new project in Gujarat then which components you study under your Feasibility Report? **07**

**(b)** Asfa products limited is considering a proposal of whether to invest in a project would need an immediate expenditure on capital equipment of Rs 40000. The projected sales from the project has been estimated as under: **07**

| Sales Volume (units) | 2000 | 6000 | 8000 | 10000 | 14000 |
|---|---|---|---|---|---|
| Probability | 0.10 | 0.30 | 0.30 | 0.20 | 0.10 |

The unit selling price will be Rs 12, the unit variable cost will be Rs 8. There will be additional fixed cost of Rs. 20000. The project will have a life of 6 years after which equipment could be sold for scrap at a price of Rs 3000.
You are required to calculate:
1. Expected value of NPV of the project
2. Minimum volume of sales per annum required to justify the project

The cost of capital is 10%.

**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?<br>Project cost – Rs 12000<br>Life of the project – 4 Years<br>Annual Cash Flow – Rs 4500<br>Cost of Capital – 14%<br><br>The annuity factor at 14% for 4 years is 2.9137 and at 18% is 2.6667 | **07** |
| **Q.3** | **(a)** | Define industrial sickness. What are the factor causing industrial sicknesses? | **07** |
| | **(b)** | From the following particulars, calculate the value of an equity share:<br>2000, 9% preference share of Rs 100 each – 200000<br>50000 equity share of Rs 10 each, Rs 8 per share paid up - 400000<br>Expected profit per year before tax-218000<br>Rate of tax – 40%<br>Transfer to general reserve every year – 20% of profit<br>Normal rate of earning – 15% | **07** |
| | | **OR** | |
| **Q.3** | **(a)** | Write a note on:<br>1. Sensitivity analysis<br>2. Simulation analysis | **07** |
| | **(b)** | A company established in Noida is thinking to expand its business so in requirement of funds of Rs. 50, 00,000 for construction of new plant. The following three financial plans are feasible;<br>1. The company may issue 5, 00,000 at Rs 10 per share.<br>2. The company may issue 2,50,000 ordinary shares at Rs. 10 per share and 25000 debentures of Rs. 100 per share bearing 8% of interest rate.<br>3. The company may issue 2,50,000 ordinary shares at Rs. 10 per share and 25000 preference share of Rs. 100 per share bearing 8% interest rate of dividend<br>If the company's earning before interest and taxes are Rs. 1,00, 000, Rs. 4,00,000 what are earning per share under each of three financial plans. Assume corporate tax 50% | **07** |
| **Q.4** | **(a)** | Differentiate between cost benefit analysis and social cost benefit analysis | **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.<br><br>If the appropriate discount rate of the firm is 10%. Determining the price of its share using Gordon model | **07** |

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 limited is considering merger with XYZ limited. ABC ltd shares are currently traded at Rs 25. It has 2000000 shares outstanding and it's 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 are 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.

(a) What is pre-merger EPS and P/E ratio of both the companies and what is the exchange ratio? **07**

(b) If XYZ ltd.'s P/E ratio is 8, what is the current market price? What will be post- merger EPS of ABC ltd. **07**

**OR**

**Q.5** (a) What must the exchange ratio be for ABC ltd.'s pre-merger and post-merger EPS to be the same? **07**

(b) XYZ ltd.'s P/E ratio is 10 and 6, what is its current market price on both the values. **07**

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