Seat No.: ________ Enrolment No.

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER III – EXAMINATION – WINTER 2018

Subject Code: 2830201 **Date:07/12/2018**

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 **(a)** MCQ **06**

1. Walter model assumes that for future financing, a firm will rely only on
   a. Debenture
   b. Term loan
   c. External equity
   d. Retained earnings

2. If greater risk is associated with receiving of future economic benefit, the _____ discount rate is adopted.
   a. Lower c. Higher
   b. Positive d. Moderate

3. The end goal of planners should ideally be to achieve:
   a. Maximization of shareholder value
   b. Maximization of growth rate
   c. Maximization of organizational efficiency
   d. Maximization of customer satisfaction

4. When PI is used to make accept-reject decision of a project, which of the following is correct criteria
   a. PI>1, Accept Proposal c. PI<1, Reject Proposal
   b. PI = 1, Indifference d. All of the above

5. The dividend policy of the firm and its market price of share is determined by
   a. EPS c. P/E Ratio
   b. Dividend Yield d. Book Value

6. Random table values are used in
   a. Sensitivity analysis
   b. Break even analysis
   c. Decision tree analysis
   d. Simulation analysis

(b) Explain the following term **04**

1. Financial restructuring.
2. Financial leverage
3. Financial closure
4. Financial reconstruction.

(C) A project which started on 1st April 2016 was expected to be completed by 31st March 2017. The project is being reviewed on 30th September 2016 when following information has been ascertained. (Rs. Lakhs) **04**

Budgeted cost of work scheduled = 50
Budgeted cost of work done = 45
Actual cost incurred = 54
Calculate
a. Performance Variance,
b. Efficiency variance
c. Expenditure variance

Q.2 **(a)** Explain the capital investment decision process in detail. **07**

(b) Daily demand for pieces of bread at a grocery is given by the following probability distribution. **07**

Daily Demand	100	150	200	250	300
Probability	0.20	0.25	0.30	0.15	0.10

If a piece of bread is not sold the same day, it can be disposed of at 15 paise per piece at the end of the day. Otherwise the price of the fresh piece is 49 paise. The cost per piece to the store is 25 paise. It the optimum level of stocking is 200 pieces of bread daily, then find
a. Expected monetary value (EMV) of this optimum stock level,
b. Expected value of perfect information (E.V.P.I.)

OR

(b) The following details relating to a company are given: **07**

Sales per annum	1,00,000 Unit
Variable cost	Rs. 90 Per unit
Fixed cost including interest per annum	Rs. 18,00,000
P/V Ratio (Sales Price = VC/1- PV Ratio)	25%
10% Debentures	Rs. 30,00,000
Equity Share per capital (Share of Rs 10 Each)	Rs. 40,00,000
Corporate Tax Rate	30%

Calculate:
a. Operating Leverage
b. Financial Leverage
c. Combined Leverage
d. Earnings per share

Q.3 **(a)** For selection of project location which factor manager should consider at the time of establishment of cement industry **07**

(b) A company has the following estimates of the present values of the future cash flows after taxes associated with the investment proposal, concerned with expanding the plant capacity. It intends to use a decision tree approach to get a clear picture of the possible outcomes of this investment. The plant expansion is expected to cost Rs. 3,00,000. The respective PVs of future CFAT and probabilities are as follows. **07**

With Expansion	Without Expansion	Probability
3,00,000	2,00,000	0.2
5,00,000	2,00,000	0.4
9,00,000	3,50,000	0.4

Advice the company regarding the financial feasibility of the project.

OR

Q.3 **(a)** Veer 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**

(b) Discuss the impact of liberalization and globalization on project planning. 07

Q.4 (a) Degile Ltd. Belongs to risk class of which the appropriate capitalization 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 MM model and assumption of no taxes. **07**

1. What will be the price of the share at the end of year if a dividend is not declared?
2. What will be the price if dividend is declared?
3. Assuming that the firm pays dividend, has net income of Rs. 10 lakhs and makes new investments of Rs. 20 lakhs during the period, how many new share must be issued?

(b) Explain the different techniques corporate restructuring. **07**

OR

Q.4 (a) Explain in detail : Determinants of dividend policy **07**

(b) Define Industrial Sickness. Explain the causes of Industrial sickness. **07**

Q.5 The balance sheet of Galaxy Ltd as on March 31, 2017 is as follows: **14**

Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Share Capital	400	Fixed assets	900
Reserves	300	Inventories	500
Long term loans	700	Receivables	400
Short term loans	400	Cash and banks	200
Payables	100		
Provisions	100		
	2000		**2000**

The current year sales were Rs. 1200 lakh. For the year ending on March 31, 2018 sales are expected to increase by 20%. The profit margin and dividend payout ratio are expected to be 10% and 50% respectively.

You are required to determine for the year 2017-18:

i. The external fund requirement

ii. The mode of raising funds given the following parameters.

a. Current ratio should at least be 1.5
b. Ratio of fixed assets to long term loans should be 1.5
c. Long term debt to equity ratio should not exceed 0.9
d. The funds are to be raised in the order of (1) short-term bank borrowings (2) long term loans and (3) equities.

OR

Q.5 The balance sheet of Viral Ltd as on 31st March, 2017 is as follows **14**

Liabilities	Rs. Lakhs	Assets		Rs. Lakhs
Share Capital	50	Fixed assets		110
Reserve and Surplus	40	Investments		5
Secured Loans	40	Current Assets		
Unsecured Loans	30	Cash	10	
Current Liabilities	60	Receivables	40	
Provisions	10	Inventories	65	115
	230			**230**

The Projected Income Statement and distribution of earning for the year 2017-18 are given below:

Particulars	**Rs. Lakhs**	**Particulars**	**Rs. Lakhs**
Cost of Goods Sold	190	Sales	250
Depreciation	15		
Interest	12		
Tax	18		
Dividend	10		
Retained Earnings	5		
	250		**250**

During the year 2017-18, the firm plans to raise secured loans of Rs. 10 lakhs, repay a previous secured term loans to the extents of Rs 5 Lakhs, acquire fixed assets worth Rs 15 and to raise its inventories by Rs. 5 lakhs.
During the year, current liabilities and receivables are expected to increase by 5% each. Prepare the projected cash flow statement for 2017-18 and the projected Balance Sheet as on 31st March 2018

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