Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER (3) – EXAMINATION – WINTER 2018

Subject Code: 3539221 **Date:07/12/2018**

Subject Name: Strategic Financial Management

Time:10:30am To 01:30pm **Total Marks: 70**

Instructions:

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

Q.1 Define Following terms : (each of two marks) **14**

(a) Zero Date
(b) Financial Breakeven point
(c) Intrinsic Value
(d) Business Risk & Financial Risk
(e) Risk Adjusted Discount Rate
(f) Dividend Payout Ratio
(g) Reverse Merger

Q.2 **(a)** Define 'Financial Forecasting'. Briefly discuss the techniques of financial forecasting. **07**

(b) A company has estimated the unit variable cost of a product to be Rs.10, and the selling price is Rs. 15 per unit. Budgeted sales for the year are 20,000 units. Estimated fixed cost are as follows: **07**

Fixed Costs p.a. (Rs)	50,000	60,000	70,000	80,000	90,000
Probability	0.1	0.3	0.3	0.2	0.1

What is the probability that the company will equal or exceeds its target profit of Rs. 25,000 for the year?

OR

(b) The global manufacturing company ltd. Is considering an investment in one of the two mutually exclusive proposals- project X and Y, which requires cash outlay of Rs, 3,40,000 and 3,30,000 respectively. The certainity equivalent approach is used in incorporating risk in capital budgeting decision. The current yield on government is 8% and this be used as the risk less rate. The expected net cash flow and their certainity-equivalents are as follows : **07**

	Project- X		Project-Y	
Year end	Cash flow (Rs.)	C.E.	Cash flow(Rs.)	C.E.
1	1,80,000	0.8	1,80,000	0.9
2	2,00,000	0.7	1,80,000	0.8
3	2,00,000	0.5	2,00,000	0.7

Present value factor of Rs. 1 discounted at 8% at the end of the year1,2,and 3 are 0.926,0.857,0.794 respectively.
Required , which project should be accepted?

Q.3 **(a)** Suppose you are a project manager of Ford ltd, Ford wants to start its new unit in Gujarat, As a project manager you were given the task of preparing feasibility study report for the same. Discuss the factors you need to consider while preparing feasibility report. **07**

(b) Excess company's earning per share are Rs. 20. The company is considering to adopt payout ratio of 20%, 40% or 60%. What will be the market values of the company's share using walter's model. **07**

I. If company's retain earning earn return of 20% and cost of capital of the company is 10% and
II. If the return of retained earning of company is 15% and cost of capital of the company is 10%?

OR

Q.3 **(a)** Explain the factors which determine the dividend policy of a company. **07**

(b) Mr. Akshat holds 12,000 equity shares in SKP private Ltd. , the nominal and paid up share capital of which consist of: **07**

1. 40,000 equity shares of Rs. 1 each and
2. 10,000, 8% preference shares of Rs. 1 each

It is ascertained that :

I. The normal annual profit of such a company is Rs. 12,000.
II. The normal rate of transfer to general reserve is 10%.
III. The normal return by way of dividend on the paid up value of equity share capital for the type of business carried on by the company is 15%.

Based on above parameter calculate the valuation of Mr. Akshat's share holding in SKP pvt.ltd.

Q.4 **(a)** What is corporate restructuring ? describe various techniques of corporate restructuring . **07**

(b) Calculate the degree of operating leverage, financial leverage and combined leverage based on following information : **07**

Particular	Firm-A	Firm -B	Firm -C
Output (units)	60,000	15,000	1,00,000
Fixed cost	7,000	14,000	1,500
Variable Cost	0.2	1.5	0.02
Interest on borrowed fund	4,000	8,000	----
Selling Price per unit	0.60	5.00	0.10

OR

Q.4 **(a)** **07**

Define Industrial sickness and discuss the causes of industrial sickness.

(b) The following particulars are available in respect of a corporate (i) profit after taxs (for the current year) Rs. 30 crore which include extraordinary gain of Rs. 8 crore(ii) to maintain sales, the firm is to increase advertisement expenditure of Rs. 2 crore(iii) capitalization rate applicable to business to which corporate belongs is 12 percent. **07**

From the above information, determine the value of business, value of equity(assume total external liabilities of Rs. 50 crore)nand price per equity share(assume 1 crore equity shares of Rs. 100 each outstanding) based on the capitalization method. Assume tax rate of 40 percent.

Q.5 XYZ company is planning to expand its assets by 50 percent. 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 per cent on sales before interest and taxes. The finance department of the company has submitted the following plans for consideration of the board. **14**

Plan-I: Issue of 10% debentures

Plan-II: Issues of 10% debentures for half the required amount and balance in equity shares to be at 25 percent premium.

Plan-III: Issue of equity shares at 25 percent premium.

Balance sheet of the company as on 31st march

Liabilities	Amount	Assets	Amount
Equity capital(Rs. 10 per share)	4,00,000	Total Assets	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 statement for the year ending 31st march

Particular	Amount
Sales	19,00,000
Operating Cost	16,00,000
EBIT	3,00,000
Interest	24,000
Earning After Tax	2,76,000
Taxes	96,600
EAT	1,79,400
EPS	4.48

I. Determine the number of equity shares that will be issued if plan 3 is adopted.

II. Determine indifference point between(i) plan 1 and 2(ii) Plan 1 and plan 3, and (iii) plans 2 and 3.

III. Assume that the price earning 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 situation.

OR

Q.5 The balance sheet of Surya ltd as on march 31,2010 is as follows : **14**

Particular	Amount
Sources of fund :	
Share capital	200
Reserve & surplus	140
Long term loans	360
Total	700
Application of fund :	
Fixed asset (net block)	500
Current assets, loans & provisions	
Inventories 300	

Receivables 240	
Cash & bank 60	
Total 600	
Less : current liability and provisions	
Short term loans 200	
Payables 120	
Provisions 80	
Total 400	
Net current assets	200
Total	700

Sales for the year 2009-10 were Rs. 600 lakh. For the year ending on march 31,2011, they are expected to increase by 20% the net profit marginafter taxs and dividend payout are expected to be 4 and 50 per cent respectively.

You are required to :

1. Estimate the external fund requirement for the year 2010-11
2. Determine the mode of raising EFR given the following parameters:
   a. Current ratio should be 1.33
   b. Ratio of fixed asset to long term loan should be 1.5
   c. Long term debt to equity ratio should not exceed 1.06
3. Determine the order of preference of EFR amongst short term loans, long term loans and equities.