Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER (3) – EXAMINATION – SUMMER 2016

Subject Code: 2830201 **Date: 04/05/2016**

Subject Name: Strategic Financial Management (SFM)

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)** Attempt all MCQ **06**

1 The end goal of planners should ideally be to achieve:
- (a) Maximisation of shareholder value
- (b) Maximisation of growth rate
- (c) Maximisation of organizational efficiency
- (d) Maximisation of customer satisfaction

2 In a situation where sustainable growth rate is to be calculated, which one of the following ratio is assumed to remain unchanged?
- (a) Inventory turnover ratio
- (b) Current ratio
- (c) Debt – equity ratio
- (d) Acid-test ratio

3 In which of the following, values of a set of variables are varied concurrently by specified values?
- (a) Scenario analysis
- (b) Sensitivity analysis
- (c) Simulation analysis
- (d) Decision tree analysis

4 Walter model assumes that for future financing, a firm will rely only on
- (a) debentures
- (b) term loans
- (c) retained earnings
- (d) external equity

5 Financial break even occurs at the point of time when the
- (a) Firm starts making operating profits
- (b) Accumulated losses are wiped off
- (c) Present value of investment becomes zero
- (d) Cash flows become steady

6 Randomly selected values are used in
(a) Sensitivity analysis
(b) Break even analysis
(c) Decision tree analysis
(d) Simulation analysis

(b) Explain the terms: 1. Exchange ratio 2. Amalgamation 3. Liquidation value 4. Financial Leverage **04**

(c) Write a short note on "Sensitivity analysis" **04**

Q.2 **(a)** What are the contents in Project Feasibility Report? **07**

(b) Intuitively, the free cash flow to equity measures the cash left over for equity investors after all reinvestment needs are met (net capital expenditures and working capital needs) and after all debt commitments have been fulfilled (interest expenses and principal payments). Explain the FCF approach of business valuation. **07**

OR

(b) Your chairman told in his speech at AGM "Economic value added (EVA) is a value enhancement concept that has caught the attention of both firms interested in increasing their value and portfolio managers, looking for good investments. EVA is a measure of dollar surplus value created by a firm or project." You are required to discuss EVA as better way of thinking about value creation. Also show how EVA can be calculated? **07**

Q.3 **(a)** Discuss the various factors affecting Dividend Decision. **07**

(b) Discuss Risk Adjusted Discount rate and Certainty Equivalent method with illustration as risk evaluation technique in capital budgeting. **07**

OR

Q.3 The Balance sheet of Jaipan Ltd. on March 31 2015 is shown below **14**

Liabilities	Amount (Rs. in 000)	Assets	Amount (Rs. in 000)
Share Capital	150	Net Fixed	400
Retained Earnings	180	Assets	200
Term Loans	080	Inventories	150
Short term Bank Borrowings	200	Debtors	050
Trade Creditors	140	Cash	
Provisions	050		
	800		800

The sales for the year ending March 31, 2015 were 1000. Its profit margin on sales was 6% and its dividend payout ratio was 50%. The tax rate was 60% Jaipan expects its sales to increase by 30% in next year. The ratio of assets to sales and spontaneous current liabilities to sales would remain unchanged.

You are required to

1. Estimate the external fund requirement for the year 2016

2. Prepare the following statements, assuming that the external fund requirement would be raised equally term loans and short term bank borrowings (i) Projected Balance sheet and (ii) Projected Profit and Loss A/c

Q. 4 **(a)** Explain the term "Bonus Share" and "Stock Split" along with its rational. **07**

(b) Define the "Industrial Sickness" and Causes of sickness. **07**

OR

Q. 4 Jet Airways is planning to acquire a light commercial aircraft for flying class clients at an investment of Rs 50,00,000. The expected cash flow after tax for the next three years is as follows: **14**

Amount in Rs. Lakh

YEAR 1		YEAR 2		YEAR 3	
CFAT	Prob.	CFAT	Prob.	CFAT	Prob.
14	0.1	15	0.1	18	0.2
18	0.2	20	0.3	25	0.5
25	0.4	32	0.4	35	0.2
40	0.3	45	0.2	48	0.1

The Company wishes to take into consideration all possible risk factors relating to airline operations. The Company wants to know: (i) The expected NPV of this venture assuming independent probability distribution with 6 per cent risk free rate of interest. (ii) The possible deviation in expected value (iii) How would standard deviation of the present value distribution help in capital budgeting decisions.

Q.5 Skyline Software Ltd has appointed you as its finance manager. The company wants to implement a project for which Rs 30 lakh is required to be raised from the market as a means of financing the project. The following financing plans and options are at hand: (Number in thousands) **14**

Particulars	Plan A	Plan B	Plan C
Option: 1			
Equity Shares	30	30	30
Option: 2			
Equity Shares	15	20	10
12% Preference Shares	Nil	10	10
10% Non convertible Debentures	15	Nil	10

Assuming corporate tax to be 35 per cent and the face value of all the shares and debentures to be Rs 100 each, calculate the indifference points and earnings per share (EPS) for each of the financing plans. Which plan should be accepted by the company?

OR

Q.5 The Modern Chemicals Ltd requires Rs 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs 5,00,000. While deciding about the financial plan, the company considers the objective of maximising earnings per share. It has three alternatives to finance the project— **14**

by raising debt of Rs 2,50,000 or Rs 10,00,000 or Rs 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at Rs 150, but is expected to decline to Rs 125 in case the funds are borrowed in excess of Rs 10,00,000. The funds can be borrowed at the rate of 10 per cent upto Rs 2,50,000, at 15 per cent over Rs 2,50,000 and upto Rs 10,00,000 and at 20 per cent over Rs 10,00,000. The tax rate applicable to the company is 50 per cent. Which form of financing should the company choose?

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