Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 3 – EXAMINATION – WINTER 2015

Subject Code: 2830201 **Date: 03/12/2015**
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) **6**

1. Which one of the following is the best description of the goal of a financial manager in a corporation where shares are publicly traded?
   A. maximize sales growth over the short-term B. maximize profits over the short-term
   C. maximize the current value per share of the existing stock D. maintain steady earnings growth
2. When NPV is used to make accept-reject decision of a project, which of the following is correct criteria
   A. NPV>Zero, Accept Proposal B. NPV<Zero, Reject Proposal
   C. NPV = Zero, Indifference D All of the above
3. Which of the following defies what the organization wants to become in the longer run and wants to go to fulfill its purpose and achieve its mission.
   A. Objective B. Goal
   C. Strategy D. Aim
4. New machinery in place of old equipment due to technological changes is termed as:
   A. Balancing B. Expansion
   C. Replacement D. Modernization
5. If greater risk is associated with receiving of future economic benefit, the ____ discount rate is adopted.
   A. Lower B. Higher
   C. Moderate D. Positive
6. The dividend policy of the firm and its market price of share is determined by
   A. EPS B. P./E. Ratio
   C. Dividend Yield D. Book Value

Q.1 **(b)** Explain the following terms: **04**
(1) Economic Rate of Return (2) Bonus Shares
(3) Market Risk (4) Fair Value of Share

Q.1 **(c)** Write short note on Agency Theory **04**

Q.2 **(a)** Explain the various Micro and Macro environmental factors affects the Strategic Financial Planning **07**

(b) Delta Ltd.is all equity financed company having three projects on hand i.e. Project A, B and C with R_f = 9% and R_m = 14% **07**
Using following information you are required to calculate (i) Expected Rate of Return of the Company (ii) The Weighted Average Cost of Capital of the Company.

Project Beta	Weight
Project A =1.2	Project A = 0.4
Project B = 0.9	Project B = 0.3
Project C = 1.5	Project C = 0.3

OR

(b) Calculate the Average rate of Return for Projects A and B from the following: **07**

	Project A	Project B
Investments Expected Life	Rs. 20,000 4 Years	Rs. 30,000 5 Years

Projected Net Incomes are as follows:

Year	Project A	Project B
1	2000	3000
2	1500	3000
3	1500	2000
4	1000	1000
5	-	1000
Total	6000	10000

If the required Rate of Return is 14% which project should be undertaken?

Q.3 **(a)** Explain various Determinants of Dividend Policy. **07**

(b) Assuming no taxes and given the Earnings before Interest and Taxes (EBIT), Interest(I) @10% and equity capitalization rate (Ke) Below: **07**

Firms	EBIT	I	Ke
A	4,00,000	40,000	12 %
B	6,00,000	60,000	16 %
C	10,00,000	4,00,000	15 %
D	12,00,000	4,80,000	18 %

You are required to calculate

(i) Total Market Value of Each Firm

(ii) Weighted Average Cost of each Firm

OR

Q.3 **(a)** Explain the terms bonus shares and stock split. What is the rationale for companies to go for either? **07**

(b) *A* Ltd has a share capital of Rs. 1,00,000 divided into shares of Rs 10 each. It has a major expansion programme requiring an investment of another Rs 50,000. The management is considering the following alternatives for raising this amount: **07**

(*i*) Issue of 5,000 equity shares of Rs 10 each. (*ii*) Issue of 5,000, 12% preference shares of Rs 10 each. (*iii*) Issue of 10% debentures of Rs.50,000.

The company's present earnings before interest and tax (EBIT) are Rs 40,000 p.a. You are required to calculate the effect of each of the above modes on financing of the earnings per share (EPS) presuming:

(*a*) EBIT continues to be the same even after expansion.

(*b*) EBIT increases by Rs 10,000.

Note: Assume Tax Rate = 50%

Q.4 **(a)** What is feasibility study? What are the main objectives of conducting a Prefeasibility study? **07**

(b) (i) Write a note on CAT and RAT schedules in project planning. **07**

(ii)A project which started on 1st April 2013 was expected to be completed by 31st March 2014. The project is being reviewed on 30th September 2013 when following information has been ascertained.

(Rs. Lakhs)

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

OR

Q.4 **(a)** Differentiate between 'Restructuring' & 'Financial reorganization' of the company. What steps are taken in pursuing financial reorganization of a company? **07**

(b) Calculate the Degree of Operating Leverage (DOL), Degree of Financial leverage (DFL) and the Degree of Combined Leverage **07**

	Firm A	Firm B	Firm c
Output(Units)	60,000	15,000	1,00,000
Fixed Cost	7000	14000	1500
Variable Cost (Per Unit)	0.20	1.50	0.02
Interest on Borrowed Funds	4000	8000	---
Selling Price Per Unit	0.60	5.00	0.10

Q.5 Biochem company has currently an ordinary share capital of Rs. 25 Lakhs, consisting of 25,000 equity shares of Rs. 100 each. The management is planning to raise another Rs. 20 Lakhs to finance a major programme of expansion through one of four possible financial plans. The options are: **14**

1) Entire through ordinary shares
2) Rs. 10 Lakhs through ordinary share and Rs. 10 Lakhs through long term borrowings at 8% p.a.
3) Rs. 5 Lakhs through ordinary share and Rs. 15 Lakhs through long term borrowings at 9% p.a.
4) Rs. 10 Lakhs through ordinary shares and Rs. 10 Lakhs through preference shares with 5% dividend

The company's expected EBIT will be Rs. 8,00,000. Assuming a corporate tax rate of 50%, determine the EPS in each alternative and also comment on the implications of Financial Leverage.

OR

Q.5 Superior engineering proposes a Project with the following data: **14**

1) Total out lay : Rs. 450 lakhs (Rs. 250 lakhs of fixed assets and Rs. 200 lakhs of current assets)
2) Scheme of financing: Rs. 100 lakhs equity, Rs. 200 lakhs term loan, Rs. 100 lakhs working capital advance and Rs. 50 lakhs trade creditors.
3) Interest rates: Term Loan 12% and working capital advance: 15% p.a.
4) Term loan is repayable in 5 equal installments, commencing from 3rd year of operations. (Assume that installment for each year is paid in the last day of the year)
5) Depreciation: 30% of Written Down Value.
6) Production is expected to reach 60% of capacity in the 1st year of operations, 70% in the second year and 80% from the 3rd year onwards.
7) Expected Revenue from the project will be Rs. 500 lakhs p.a. in 100% capacity utilization and corresponding direct cost are Rs. 200 lakhs fixed cost are Rs. 100 lakhs p.a. Working capital advance of Rs. 100 lakhs is in 80% capacity and proportionately reduced in the first two years.
8) Tax rate applicable is 50%

Assuming that each year's production is sold away in the same year, draw the projected Profit and Loss Account for each year if operation and the Operational Cash flow. Also calculate the Debt Service Coverage Ratio.

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