18P440 (Pages: 3) Name: …………..……….

Reg. No……….………

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, APRIL 2020

(CUCSS-PG)

(Regular/Improvement/Supplementary)

CC15P MC4 E03 - STRATEGIC FINANCIAL MANAGEMENT

(2015 Admission onwards)

Time : Three Hours Maximum : 36 Weightage

PART A

Answer ***all*** questions. Each question carries 1 weightage.

1. Define “Sustainable Growth”.
2. What do you mean by EVA?
3. What do you mean by ‘Sensitivity Analysis’?
4. What is a financial lease?
5. What do you mean by ‘leveraged buyout’?
6. What are call and put options?

(6 × 1 = 6 Weightage)

PART B

Answer any ***six*** questions. Each question carries 3 weightage.

7. Muthoot Finance Ltd is a leasing company. It has been approached by a small business firm interested in acquiring a machine through leasing. The quoted price of the machine is ` 5,00,000. 10% sales tax is extra. The lease will be for a primary lease period of 5 years. The finance company wants 8% post-tax return on the outlay. Its effective tax rate is 35%. The income on tax rate of depreciation on the machine is 25% (WDV). Lease rents are payable in arrear at the end of each year. Calculate the annual rent to be charged by Muthoot Finance Ltd.

8. The following data relates to two companies X and Y:

	X	Y
Number of Equity Shares	20,000	10,000
Profit After Tax	` 60,000	` 20,000
Price - Earning (P/E) Ratio	20	12
EPS	` 3	` 2

Company X is considering the purchase of Company Y in exchange of 1 share in 'X' for every 2 shares held in 'Y'. You are required to illustrate the impact of merger on earnings per share assuming that there would be synergy benefits equal to 25 per cent increase in the present earnings after tax due to merger.

9. The following information pertains to M/s PQR Ltd.

Earning of the company	` 5,00,000
Dividend Payout ratio	60%
No. of shares outstanding	1,00,000
Equity Capitalisation rate	12%
Rate of return on investment	15%

(i) What would be the market value per share as per Walter's model

(ii) What is the optimum dividend payout ratio according to Walter's model and the market value of Company's share at that payout ratio?

10. From the following information, calculate the percentage of change in earnings per share if sales are increased by 5%

	(` lakhs)
Earnings before interest and tax (EBIT)	1,120
Profit before tax (PBT)	320
Fixed cost	700

11. Explain the term 'shareholder value creation'. What is the need for creating shareholder value?

12. Describe briefly the takeover regulations of SEBI.

13. What are the major determinants of capital structure?

14. Explain the concepts of horizontal, vertical and conglomerate merger with examples.

(6 × 3 = 18 Weightage)

PART C

Answer ***two*** questions. Each question carries 6 weightage.

15. Delta Ltd.'s current financial year's income statement reports its net income as ` 15,00,000. Delta's marginal tax rate is 40% and its interest expense for the year was ` 15,00,000. The company has ` 1,00,00,000 of invested capital, of which 60% is debt. In addition, Delta Ltd. tries to maintain a Weighted Average Cost of Capital (WACC) of 12.6%.

(i) Compute the operating income or EBIT earned by Delta Ltd. in the current year.

(ii) What is Delta Ltd.'s Economic Value Added (EVA) for the current year?

(iii) Delta Ltd. has 2,50,000 equity shares outstanding. According to the EVA you computed in (ii), how much can Delta pay in dividend per share before the value of the company would start to decrease? If Delta does not pay any dividends, what would you expect to happen to the value of the company?

16. S Ltd is taking over M Ltd. As per the understanding between the managements of the two companies, shareholders of M Ltd would receive 0.7 shares of S Ltd for each share held by them. The relevant data for the two companies are as follows:

	S Ltd	M Ltd
Net sales (` lakhs)	80	30
Profit after tax (` lakhs)	16	4
Number of shares (lakhs)	3.2	1
Earnings per share (EPS `)	5	4
Market Value per share (`)	30	20
Price- Earnings Ratio (P/E)	6	5

Ignoring the economies of scale and the operating synergy, you are required to calculate (i) premium paid by S Ltd to the shareholders of M Ltd (ii) number of shares after the merger; (iii) combined EPS; (iv) combined P/E ratio (v) market value per share; and (vi) total market capitalisation after the merger.

17. "Maximisation of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximising shareholders wealth" comment.

(2 × 6 = 12 Weightage)

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(3)