

19P442

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Name:

Reg. No.....

FOURTH SEMESTER M.C.M DEGREE EXAMINATION, APRIL 2021

(CBCSS - PG)

CC19P MCM4 EF04 - ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(Commerce - Elective Course)

(2019 Admission Regular)

Time: Three Hours

Maximum: 30 Weightage

PART A

Answer any *four* questions. Each question carries 2 weightage.

1. What is conglomerate merger?
2. What is direct leasing?
3. What is sale and lease back?
4. What is shareholder value creation?
5. What is sustainable growth rate?
6. What do you mean by tender offer?
7. What is operating leverage?

(4 × 2 = 8 Weightage)

PART B

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

8. Write a short note on: Financial restructuring, Sell-Off, Buyouts and Leveraged Buyouts.
9. What are the different forms of financing a merger?
10. Explain Dividend irrelevancy theory.
11. What are the factors determining capital structure?
12. Calculate EPS from the data assuming that A Ltd. is acquired by B Ltd. If the merger goes through by exchange of equity share and the exchange ratio is based on the current market price, what is the new EPS of A Ltd.

	A Ltd.	B Ltd.
Earnings after Tax	Rs.2,00,000	60,000
Number of Equity shares	40,000	10,000
Market Value per share (Rs.)	15	12

13. What do you understand by leasing? State its advantages and limitations.
14. What are the important regulations as provided in SEBI for substantial acquisition of shares and takeover regulations in 2011?

(4 × 3 = 12 Weightage)

(1)

Turn Over

PART C

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Answer any *two* questions. Each question carries 5 weightage.

15. Beta Ltd, is considering the acquisition of a personal computer costing Rs. 50,000. The effective life of the computer is expected to 5 years. The company plans to acquire the same either by borrowing Rs. 50,000 from its bankers at 15% interest per annum or by lease. The company wishes to know the lease rentals to be paid annually, which will match the loan option.

The following further information is provided by you:-

1. The principal amount of the loan will be paid in five annual equal instalments.
2. Interest, lease rentals, principal repayment are to be paid on the last day of each year.
3. The full cost of the computer will be written off over the effective life of computer on a straight line basis and the same will be allowed for tax purposes.
4. The company's effective tax rate is 40% and the after tax cost of capital is 9%.
5. The computer will be sold for Rs. 1,700 at the end of the 5th year. The commission on such sale is 9% on the sale value and the same will be paid. Consider tax at 40% on the net realization. You are required to compute the annual lease rentals payable by Beta Ltd. which will result in indifference to the loan option. The relevant discount factors are as follows:-

Year	1	2	3	4	5
Discount Factor	0.92	0.84	0.77	0.71	0.65

Annuity Discount Factor at 9% for 5 Years is 3.89.

16. Company X is considering the purchase of company Y. The following are the financial data of the two companies.

	X Ltd	Y Ltd
No. of shares	4,00,000	1,00,000
Earnings Per Share (EPS)	Rs.6	Rs. 4.50
Market Value Per Share	Rs. 30. 00	Rs. 20.00

Assuming that the management of the two companies has agreed to exchange shares in proportion to:

- (i) The relative EPS of the two firms:
- (ii) 4 shares of company X Ltd for every 5 shares held in company Y Ltd.

You are required to illustrate and comment on the impact of merger on the EPS.

(2)

17. From the following, prepare Income statement of A, B and C. Briefly comment on each firm's performance.

	Firm A	Firm B	Firm C
Financial leverage	3:1	4:1	2:1
Interest	Rs. 200	Rs. 300	Rs.1,000
Operating leverage	4:1	5:1	3:1
Variable cost as a % sales	66.67%	75%	50%
Income tax rate	45%	45%	45%

18. Define Strategic financial management. State the scope of Strategic Financial Management.

(2 × 5 = 10 Weightage)

(3)