20P443 (Pages: 2) Name: ……………………..…...

Reg. No……………………..

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, APRIL 2022

(CBCSS-PG)

(Regular/Supplementary/Improvement)

CC19P MCM4 EF04 - ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(Commerce - Elective Course)

(2019 Admission onwards)

Time: Three Hours Maximum: 30 Weightage

PART A

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

1. What is sustainable growth rate?
2. Define MVA.
3. What is operating leverage?
4. Define financial option.
5. What is financial lease?
6. Define conglomerate merger.
7. What is financial breakeven point?

(4 × 2 = 8 Weightage)

PART B

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

8. Explain briefly the merger procedure.
9. List the advantages of LBO.
10. Explain the benefits of lease to the lessee.
11. State the effect of leverage on shareholders' risk and return.
12. The following data relate to companies X and Y

	X LTD	Y LTD
Earnings after taxes	Rs. 140000	Rs. 37500
Equity shares outstanding	20000	7500
EPS	7	5
P/E ratio	10	8
MPS	70	40

X Ltd is the acquiring company exchanging its one share for every 1.5 share of Y Ltd. Assuming that X Ltd expects to have the same earnings and P/E ratio after the merger as before. Show the extent of gain accruing to the shareholders of the two companies as a result of the merger.

13. Calculate the sustainable growth rate from the following: (Rs. In thousands)

    Net income Rs. 2805. Total equity of the company Rs. 17400. Dividend payout @20%.

14. A chemical company has been expected to grow at 14% per year for the next four years and then to grow indefinitely at the same rate as the national economy ie 5%. The required rate of return on the equity shares is 12%. Assume that the company paid a divided of Rs. 2 per share last year. Determine the market price of the shares today.

(4 × 3 = 12 Weightage)

PART C

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

15. Define strategic financial management and discuss the scope of strategic financial management.

16. Critically examine MM theory of dividend.

17. E Ltd is studying the possible acquisition of F Ltd by way of merger. The following data are available in respect of the companies.

	E Ltd	F Ltd
Earnings after tax	200000	60000
Number of equity shares	40000	10000
Market value per share	15	12

    If the merger goes through by exchange of equity share and the exchange ratio is based on current market price, what is the new earnings per share of E Ltd.

18. Y limited is considering the lease of equipment which has a purchase price of Rs. 350000. The equipment has an estimated economic life of 5 years with a salvage value zero. As per the income tax rules, a WD depreciation @25% is allowed. The lease rentals per year are Rs. 120000. Assume that the company's corporate tax rate is 50%. If the before tax rate of borrowing for the company is 16%, should the company lease the equipment?

(2 × 5 = 10 Weightage)

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