

C 82522

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Name.....

Reg. No. **03**.....

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, JUNE 2015

(CUCSS)

Commerce

MC4E (FM) 03—STRATEGIC FINANCIAL MANAGEMENT

(2010 Admissions)

Time : Three Hours

Maximum : 36 Weightage

Part A

Answer all questions.

Each question carries a weightage of 1.

1. What is Capital rationing ?
2. Define horizontal merger.
3. What is value creation ?
4. Define clientale effect.
5. What is capital structure ?
6. What is MVA ?

(6 × 1 = 6 weightage)

Part B

Answer any six questions.

Each question carries a weightage of 3.

7. Explain the rationale of takeover.
8. Describe the motives and benefits of mergers.
9. Discuss the usefulness of MVA in evaluation of the performance of a firm.
10. Describe the legal and procedural aspects of payment of dividends.
11. Discuss types of takeovers.
12. Explain cash flow approach of capital structure.
13. Discuss distress restructuring strategy.
14. A firm has a capital structure exclusively comprising ordinary shares amounting to Rs. 10,00,000. The firm now wishes to raise additional Rs. 10,00,000 for expansion. The firm has four alternative financial plans :
 - (a) It can raise the entire amount in the form of equity capital.
 - (b) It can raise 50 % as equity capital and 50 % as 5 % debentures.

Turn over

- (c) It can raise the entire amount as 6 % debentures.
 (d) It can raise 50 % as equity capital and 50 % as 5 % preference capital.

The existing EBIT are Rs. 1,20,000, the tax rate is 50 %, outstanding ordinary shares 10,000, the market price per share is Rs. 100 under all the four alternatives.

Which financing plan should the firm select ?

(6 × 3 = 18 weight)

Part C

Answer any two questions.

Each question carries a weightage of 6.

15. Define "bonus shares". Discuss the advantages of bonus shares to shareholders and compare them with cash dividends.
16. The Asbestos Company belongs to a Risk class of which the appropriate capitalisation rate is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating a cash dividend declaration of Rs. 6 dividend at the end of the current Fiscal year, which has just begun. Answer the following questions based on MM model and the assumption of no taxes :
- What will be the price of the shares at the end of the year, if a dividend is not declared? What will be, if it is declared ?
 - Assuming that the firm pays dividend, has net income of Rs. 10,00,000 and makes investments of Rs. 20,00,000 during the period, how many new shares must be issued?
 - Is the MM model realistic with respect to valuation ? What factors might affect its validity ?
17. A company is considering project X and Y with the following information :

	Project	
	X	Y
Expected NPV ...	60,000	2,27,000
Standard deviation ...	40,000	1,35,000

Which project will you recommend ? Will your answer change, if you use coefficient of variation as a measure of risk instead of standard deviation ? Which measure is more appropriate in a riskier situation ? Give reasons.

(2 × 6 = 12 weight)