15P437 (Pages:2) Name…………………….

Reg. No…………………

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, MARCH2017

(CUCSS-PG)

CC15P MC4 E03 - STRATEGIC FINANCIAL MANAGEMENT

(2015 Admission)

Time : Three Hours Maximum : 36 Weightage

PART A

(Answer any ***six*** questions Each carries *1* weightage)

1. What is hostile takeover?
2. What is capital lease?
3. What is demerger?
4. What is combined leverage?
5. What is management buyout?
6. What is MB ratio?

(6x1=6 weightage)

PART B

(Answer any ***six*** questions. Each carries *3* weightage)

7. Explain briefly the approaches for measuring Shareholder Value.
8. Explain different forms of financing a merger.
9. Differentiate between operating and financial leasing.
10. "Takeover strategies for expansion will be a craze in corporate". Explain the rationale of takeover.
11. Differentiate between operating leverage and financial leverage.
12. Following is the condensed income statement of a firm for the current year.

a.	Sales revenue	Rs. 500
b.	Less operating cost	300
c.	Less interest cost	12
d.	EBT	188
e.	Less tax (40%)	75.2
f.	EAT	112.8

g. The firm existing capital consisting of Rs.150 Lakhs equity fund having 15% cost and of Rs. 100 Lakhs, 12% Debt. Determine EVA.

13. A company earns Rs.10 per share at an internal rate of 15%. The firm has a policy of paying 40% of its earnings as dividend, If the required rate of return is 10%, Determine the price of the share under a) Walters model, and b) Gordons model.

14. Explain the factors affecting capital structure decisions.

(6x 3= 18 weightage)

PART C

(Answer any ***two*** questions, ***6*** Weightage)

15. "Buying out of a firm for merger is a type of investment decision" Do you agree? Elucidate.

16. XYZ Ltd is in the business of manufacturing steel utensils. The firm is planning to diversify and add a new product line. The firm can either buy the required machinery or get it on lease.

    The machine can be purchased for Rs.15,00,000. it is expected to have a useful life of 5 years with salvage value of Rs. 1,00,000 after the expiry of 5 years. The purchase can be financed by 20% loan repayable in 5 equal annual installments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year-end lease rentals of Rs. 4,50,000 for 5 years. Advise the company on which option it should choose.

    The machine will constitute a separate block for depreciation purposes. The company follows written down value method of depreciation, the rate of depreciation being 25%.

    Tax rate 35% and cost of capital 18%

    Lease rents are to be paid at the end of the year

    Maintenance expenses estimated at Rs.30,000 per year are to be borne by the lease.

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

	ABC Co Ltd.	XYZ Ltd.
EAT	2, 00,000	60,000
Number of equity shares	40000	10000
Market value per share	15	12

(i) 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 earnings per share of ABC Ltd.

(ii) XYZ Ltd. wants to be sure that the earnings available to its shareholders will not be diminished by the merger. What should be the exchange ratio in that case?

(2 x 6 =12 weightage)

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