16P437 (Pages: 3) Name……………………..

Reg. No…………………..

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, MARCH 2018

(Regular/Supplementary/Improvement)

(CUCSS - PG)

CC15 PMC4 E03 - STRATEGIC FINANCIAL MANAGEMENT

(2015 Admission onwards)

Time: Three Hours Maximum: 36 Weightage

Part A

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

1. What is the MB Ratio?
2. What is EVA?
3. Define Cross-Border Leasing.
4. What is Dividend Payout Ratio?
5. What do you mean by Value creation?
6. What is Leveraged buyout?

(6x1=6 weightage)

Part B

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

7. Explain the financial impact of merger.
8. Discuss the importance of Shareholder Value Creation in financial decision making.
9. What are the determinants of dividend policy?
10. Discuss the cash flow approach of capital structure.
11. Explain the regulations imposed by SEBI for takeover.
12. Write a short note on financial evaluation of leasing arrangement.
13. Explain the impact of option price on the value of firm.
14. Arun Company has currently an ordinary share capital of Rs.25 lakhs, consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20 lakhs to finance a major programme of expansion through one of four possible financial plans. The options are:
    a. Entirely through ordinary shares.
    b. Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through long-term borrowings at 8% interest per annum.
    c. Rs. 5 lakhs through ordinary shares and Rs. 15 lakhs through long-term borrowings at 9% interest per annum.

Turn Over

d. Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through preference shares with 5% dividend.

The company's expected earnings before interest and taxes (EBIT) will be Rs. 8 lakhs. Assuming a corporate tax rate of 50%, determine the earnings per share in each alternative and comment which alternative is the best and why?

(6x3=18 weightage)

Part C

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

15. Agrani Ltd. is in the business of manufacturing bearings. Some more product lines are being planned to be added to the existing system. The machinery required may be bought or may be taken on lease. The cost of machine is Rs. 40,00,000 having a useful life of 5 years with the salvage value of Rs. 8,00,000. The full purchase value of machine can be financed by 20% loan repayable in five equal installments falling due at the end of each year. Alternatively, the machine can be procured on a 5 years lease, year – end lease rentals being Rs. 12,00,000 per annum. The company follows the written down value method of depreciation at the rate of 25%. Company's tax rate is 35% and cost of capital is 16%:
    a. Advise the company which option it should choose – lease or borrow.
    b. Assess the proposal from the lessor's point of view examining whether leasing the machine is financially viable at 14% cost of capital. Calculations can be rounded off to Rs. Lakhs).
16. RST Ltd. has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company proposes to declare a dividend of Rs. 10 per share at the end of the current financial year. The capitalization rate for the risk class of which the company belongs is 12%. What will be the market price of the share at the end of the year, if
    a. A dividend is not declared
    b. A dividend is declared.
    c. Assuming that the company pays the dividend and has net profits of Rs. 5,00,000 and makes new investments of Rs. 10,00,000 during the period, how many new shares must be issued? Use MM Model.
17. ABC Co. Ltd is studying the possible acquisition of XYZ Co. Ltd by way of merger. The following data are available of respect of the companies.

Particulars	**ABC Co. Ltd**	**XYZ Co. Ltd**
Earnings after tax	j 2,00,000	j 60,000
Number of Equity Shares	40,000	10,000
Market value per share	j 15	j 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 earning per share for ABC Co. Ltd?

ii. XYZ Co. Ltd wants to be sure that the earning available to its shareholders will not be diminished by the merger, what should be the exchange ratio in that case?

(2x6=12 weightage)

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