Code No: MB163H/R16

MBA III Semester Supplementary Examinations, March-2022

STRATEGIC FINANCIAL MANAGEMENT

Time: 3 Hours **Max. Marks: 60**

Answer Any **FIVE** *Questions*
All Questions Carry Equal Marks
Question No. 8 is Compulsory

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1. a How financial planning is considered to be the most important aspect of the financial manager's job? Explain. 6M
   b Write short note on Shareholder Value Added and Market Value Added. 6M

2. a The following information is available for S Ltd. Company. 6M
   Earnings per share – Rs. 20
   Dividend payout ratio – 50%
   Price Earnings ratio – 10
   Internal rate of return – 15%
   Determine share price using Walter's model and give optimal dividend policy to the company.
   b What are the various financing options that are followed in finding a good capital structure? 6M

3. a Explain decision tree approach for investment decision. 4M
   b The management of Fine Electronics Company is considering to purchase an equipment to be attached with the main manufacturing machine. The equipment will cost INR 60,000 and will generate annual cash inflow by INR 22000. The useful life of the equipment is 6 years. After 6 years it will have no salvage value. The management wants a 20% return on all investments. 8M
   Required:
   Compute net present value (NPV) of this investment project.
   Should the equipment be purchased according to NPV analysis?

4. a Explain conglomerate merger. 4M
   b Large company is acquiring small company on a share exchange basis. Their selected data are as follows: 8M

	Large Company	Small company
Profit after tax (in Rs Lakhs)	56	21
Number of shares(Lakhs)	10	8.4
Earnings per share(Rs)	5.6	2.5
Price earnings ratio	12.5	7.5

   Determine: (i) Pre merger market value per share.
   (ii) the maximum exchange ratio large company should offer without the dilution of EPS and Market Value per share.

5.	a	Explain the Long term investment plan analysis with risk and return.	6M
	b	Critically explain Gordon's relevance theory of dividends	6M
6.	a	What do you understand by capital structure planning?	4M
	b	From the following project details calculate the sensitivity of the (a) Project cost, (b) Annual cash flow, and (c) Cost of capital. Which variable is the most sensitive? Project cost `24,000 Annual cash flow `9,000 Life of the project 4 years Cost of capital 14% The annuity factor at 14% for 4 years is 2.9137 and at 18% for 4 years is 2.6667.	8M
7.	a	Explain the Merge and Dilution Effect on Earnings Per Share. .	6M
	b	What is capital rationing? And explain its uses to a finance manager.	6M
8.		CASE STUDY 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. (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 and the market price per share is Rs. 100 under all the four alternatives. Which financing plan should the firm select?	12M

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