Code No: MB163H/R16

MBA III Semester Regular/Supplementary Examinations, Nov/Dec-2019

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 What are the goals of strategic financial management? 6M
   b Explain the managerial implications of shareholder value creation. 6M

2. a The following information is available in respect of a firm. 8M
   Capitalisation rate = 10%
   Earnings per share = Rs.50
   Assumed rate of return on investments : (1)12%, (2)8% ,(3)10%
   Show the effect of dividend policy on market price of shares applying Walter's formula when dividend pay out ratio is (a) 0% (b)20% (c)40% (d)80% (e)100%
   b What do you understand by capital structure planning? 4M

3. a Explain the different techniques of investment appraisal. 6M
   b Compare and contrast between lease Vs borrowing decision 6M

4. a Explain the financial impact of merger. 4M
   b There are two firms Bharat Ltd and Hindustan Ltd are planning to merge, whose per-merger values are Rs.420 lakhs, and Rs. 200 lakhs. They are merging with the objective of savings as per the present value of Rs.50 lakhs, for acquiring Hindustan Ltd. Firm Bharat Ltd will be required to pay Rs.220 lakhs (consisting of Rs. 180 lakhs in the form of equity shares and Rs.40 lakhs in the form of cash). Besides the purchase consideration the Bharath Ltd. need to incur acquisition cost of Rs. 10 lakhs. Determine the value of the gain, costs, and net gain from merger. 8M

5. a Discuss the different types of takeovers. 6M
   b Explain the regulations of SEBI for takeover. 6M

6. a Firm A has a value of Rs. 1,00,00,000 and Firm B has a value of Rs.25, 00,000. If the two firms merge, cost savings with a present value of Rs.25, 00,000 would occur. Firm A proposes to offer Rs. 30,00,000 cash compensation to acquire Firm B. Calculate the net present value (NPV) of the merger to the two firms. 8M
   b Explain about Negotiated and Hostile Bids. 4M

7. a What is economic value added strategy? 4M
   b What are the investment appraisal techniques under risk and uncertainty? 8M

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8. CASE STUDY 12M

A firm has an investment proposal, requiring an outlay of Rs. 40,000. The investment proposal is expected to have 2 years economic life with no salvage value. In year 1, there is a 0.4 probability that cash inflow after tax will be Rs. 25,000 and 0.6 probability that cash inflow after tax will be Rs. 30,000. The probabilities assigned to cash inflows after tax for the year 2 are as follows:

The Cash inflow year 1	Rs. 25,000	The Cash inflow year 2	Rs. 30,000
	Probability		Probability
Rs. 12,000	0.2	Rs. 20,000	0.4
Rs. 16,000	0.3	Rs. 25,000	0.5
Rs. 22,000	0.5	Rs. 30,000	0.1

The firm uses a 12% discount rate for this type of investment. (PVIF @12% is 0.893 for year one and 0.797 for second year}

Required:

(i) Construct a decision tree for the proposed investment project.

(ii) What is the net present value will the project yield if worst outcome is realized? And what is the probability of occurrence of this NPV?

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