

Code No: MB163H/R16

MBA III Semester Regular Examination, Nov-2017

STRATEGIC FINANCIAL MANAGEMENT

Time: 3 Hours

Max. Marks: 60

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

1. a What is Strategic Planning? And explain the constraints of strategic planning. 6M
b What is Market Value Added? And explain its silent features. 6M
2. a What are the various financing options that are followed in finding a good capital structure? 6M
b The following information is available for S Ltd. Company. 6M
Earnings per share – Rs. 20
Dividend payout ratio – 50%
Perce Earning ratio – 10
Internal rate of return – 15%
Determine share price using Walter’s model and give optimal dividend policy to the company.
3. a How do you evaluate decisions relating to leasing or buying alternatives? 6M
b Discuss the process of evaluating leasing from the lessor’s perspective. 6M
4. Large company is acquiring small company on a share exchange basis. Their selected data are as follows: 12M

| | Large company | Small company |
|---------------------------------|---------------|---------------|
| Profit after tax (Rs. In lakhs) | 56 | 21 |
| Number of share (lakhs) | 10 | 8.4 |
| Earnings per share (Rs.) | 5.6 | 2.5 |
| Price – earnings ratio | 12.5 | 7.5 |

Determine:

- a. Pre-merger market value per share.
b. The maximum exchange ratio large company should offer without the dilution of
(i) EPS (ii) Market value per share.
5. a What is a takeover strategy? State SEBI guidelines with regard to takeovers. 6M
b Explain the characteristics of corporate restructuring. 6M



- 6. a Explain the Long term investment plan analysis with risk and return. 6M
b Critically explain Gordon's relevance theory of dividends. 6M
- 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** 12 M

Determine the risk adjusted NPV of following projects.

| | X | Y | Z |
|---------------------------|---------|---------|---------|
| Net cash outlays (Rs.) | 100000 | 120000 | 210000 |
| Project life | 5 years | 5 years | 5 years |
| Annual cash inflows (Rs.) | 30000 | 42000 | 70000 |
| Co-efficient of variation | 0.4 | 0.8 | 1.2 |

The company selects the risk adjusted rate of discount on the basis of coefficient of variation.

| | | | | | | | |
|----------------------------------|-----|-----|-----|-----|-----|-----|-----------|
| Co-efficient of variation: | 0.0 | 0.4 | 0.8 | 1.2 | 1.6 | 2.0 | Above 2.0 |
| Risk adjusted rate of discount : | 10% | 12% | 14% | 16% | 18% | 22% | 25% |

