

2018

MBA

4th Semester Examination

STRATEGIC FINANCIAL MANAGEMENT

(Specialisation : Financial Management)

PAPER—F-402

Subject Code—09

Full Marks : 100

Time : 3 Hours

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

1. Answer any *eight* questions :

8×5

(a) Discuss the reasons of corporate valuation.

(b) Write a short note on Agency Conflicts.

(Turn Over)

- (c) State the important tax provisions relating to amalgamations.
- (d) Describe the two-stage growth model of share valuation with an example.
- (e) The profit of X Ltd. for the year ended 31st March, 2017 were ₹ 60,00,000. After setting apart amounts for interest on borrowings, taxation and other provisions, the net surplus available to shareholders is estimated at ₹ 15,00,000. The company's capital base consisted of :
- (i) 1,00,000 equity shares of ₹ 100 each, ₹ 50 per share paid up ; and
 - (ii) 25,000, 12% Cumulative Redeemable Pref. Shares of ₹ 100 each, fully paid up.

Enquiries in the stock market reveal that shares of the companies engaged in similar business and declaring a dividend of 15% on equity shares are quoted at a premium of 10%.

What do you expect the market value of the company's shares to be, basing your working on the yield method ?

- (f) P Ltd. is having an issued and subscribed capital of 5,00,000 equity shares of ₹ 10 each fully paid up. The company's after tax profits for the year 2017 amounting to ₹ 28 lakhs. The average present stock exchange price

of the company's share is ₹ 19. The P/E ratio of the four listed companies to be used for calculation, their type of business seems to be similar to P Ltd. are :

Company	2015	2016	2017
A Ltd.	5.7	6.3	7.1
B Ltd.	6.5	5.9	6.8
C Ltd.	7.4	6.8	7.0
D Ltd.	5.0	5.9	6.1

Calculate the valuation of business and value per share based on average P/E ratio of the industry.

- (g) Describe the meaning of 'organizational restructuring' and 'financial restructuring'.
- (h) Write a short note on Management Buy-out.
- (i) Explain the term 'spin-off'. How does it differ from an equity carve-out? 3+2
- (j) Describe the risk-adjusted discount rate method for evaluation of projects.
- (k) Discuss the term 'Leveraged Buy-out'.
- (l) Mention any five reasons behind merger strategy adopted by corporates.

2. Answer any *four* of the following questions : 10×4

- (a) XYZ Ltd. is intending to acquire ABC Ltd. by merger and the following information is available in respect of both the companies :

Particulars	XYZ Ltd.	ABC Ltd.
No. of equity shares	5,00,000	3,00,000
Profit after tax (₹)	25,00,000	9,00,000
Market price per share (₹)	21	14

- (i) Calculate the present EPS of both companies.
- (ii) If the proposed merger take place, what would be the new EPS for XYZ Ltd. ? Assume that the merger takes place by exchange of equity shares and the exchange ratio is based on the current market price.
- (iii) Will you recommend the merger of both the companies ? Justify your answer.
- (b) What reasons are generally given for issuing convertible securities. Explain the difference between a convertible security and a warrant. 5+5

(c) Balance Sheet of Diamond Ltd. as on 31st March, 2017

(₹ in lakhs)

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Equity Share Capital		Land & Building	110
of ₹ 100 each	200	Plant & Machinery	130
General Reserve	40	Patent and Trade marks	20
Profit & Loss A/C	32	Stock	48
Sundry Creditors	128	Sundry Debtors	88
Prov. for Income-tax	60	Bank Balance	52
		Preliminary expenses	12
	460		460

The expert values valued the land and building at ₹ 240 lakhs, goodwill at ₹ 160 lakhs and plant and machinery at ₹ 120 lakhs. Out of the total debtors, it is found that debtors for ₹ 8 lakhs are bad. The profit of the company have been as follows :

2014-15	2015-16	2016-17
₹ 92 lakhs	₹ 88 lakhs	₹ 96 lakhs

The company follows the practice of transferring 25% of profits to general reserve. Similar type of companies earn at 10% of the value of their shares.

Plant and machinery and land and building have been depreciated at 15% and 10% respectively.

Ascertain the value of shares of the company under :

- (i) Intrinsic value method,
 - (ii) Yield value method, and
 - (iii) Fair value method.
- (d) What is corporate restructuring? Mention the different reasons behind adopting such a strategy by corporate houses. 4+6
- (e) (i) Explain the meaning of 'American Depositary Receipt' (ADR). How does it differ from Global Depositary Receipt? (5+1)+4
- (ii) What are the advantages of ADR? (5+1)+4
- (f) (i) A conglomerate merger is neither a vertical merger nor a horizontal merger. Discuss.
- (ii) What is diversiture? Write down the motivations behind such a strategy. 4+(3+3)

[Internal Assessment : 20]
