

2019

MASTER OF BUSINESS ADMINISTRATION

4th Semester Examination

STRATEGIC FINANCIAL MANAGEMENT

(FINANCIAL MANAGEMENT)

PAPER - MBA F 402

Full Marks: 100

Time: 3 Hours

The figures in the right-hand margin indicate full marks.

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

Illustrate the answers wherever necessary.

Group-A

(I) Answer any **EIGHT** of the following questions: 5×8

- 1) Corporate restructuring decisions aim at increasing shareholders' wealth. Discuss.
- 2) Write a short note on Leveraged Buyout.
- 3) What is spin-off? How is it different from divestiture? (3+2)
- 4) The following information is given about estimated cash flows from a project that is being evaluated by the Project Manager of Prospect Ltd.:

Year	Cash flow (Rs.)	Certainty equivalent factor (α)
0	(1, 50, 000)	-
1	90, 000	0.91
2	1, 25, 000	0.85
3	1, 45, 000	0.79
4	1, 68, 900	0.71

You are required to show necessary calculation and suggest whether the project should be accepted on the basis of certainty equivalent approach. Assume that the cost of capital is 13%.

- 5) What is meant by agency problem? State the ways to mitigate agency problem. (2+3)
- 6) After setting aside interest on borrowing, taxation and other provisions, the net surplus available to shareholders is estimated at Rs. 16,00,000.
Extracts from the Capital account of the Company:
i) 1,00,000 Equity shares of Rs. 100 each Rs. 50 per share paid up.

- ii) 30, 000, 10% Preference shares of Rs. 100 each, paid up.

The stock market reveals that shares of companies engaged in similar business and declaring dividend of 15% on equity shares are quoted at a premium of 10%. You are required to find out the market value of the company based on yield method.

- 7) State the factors that have heightened the pace of mergers and acquisitions globally.
- 8) What is the fair value of an asset? How does it differ from the book value of the asset?(2+3)
- 9) What do you mean by Continuing Value of a firm? Explain with suitable example.
- 10) Following is the condensed income statement of a firm for the current year.

Sales revenue	(Rs. Lakh) 500
Less: Operating costs	300
Less: Interest costs	12
Earnings before taxes	188
Less: Taxes (0.40)	75.2
Earning after taxes	112.8

The firm's existing capital consists of Rs. 150 lakh equity funds, having 15 percent cost and of Rs. 100 lakh 12 percent debt. Determine the economic value added during the year.

- 11) What do you mean by takeovers? Distinguish between Acquisitions and Divestitures. (2+3)

- 12) Discuss the cost and benefit of a merger.

Group-B

(II) Answer any **FOUR** of the following questions: 10×4

- 13) i) in today's business environment, corporate restructuring should be continuous exercise. Discuss
- ii) Write a short note on strategic alliance. (5+5)
- 14) i) Discuss the term 'Global Depository Receipt'.
- ii) What is vertical merger? State the major points of difference between forward integration and backward integration. 5+(2½+2½)
- 15) i) What is the difference between Merger in the form of Absorption and in the form of Consolidation ? (3+7)
- ii) Describe the different reasons behind Mergers.
- 16) i) Discuss the terms 'structural restructuring' and 'management restructuring'. 5+5
- ii) What is equity carve-out? Explain its different forms.

- 17) Balance Sheet of Sunshine Company Ltd. as on
31st March 2018 4+4+2

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs 100 each fully paid up	200	Land & Building	110
General Reserve	40	Plant & Machinery	130
Profit & Loss Account	32	Patent and Trade Marks	20
Sundry Creditors	128	Stock	48
Provision for Income Tax	60	Sundry Debtors	88
		Bank Balance	52
		Primary Expenses	12
	460		460

The valuer has valued the land & building at Rs.240 lakhs. Goodwill at Rs. 160 lakhs and plant & machinery at Rs. 120 lakhs. Out of the total debtors, it is found that debtors for Rs. 8 lakhs are bad. The profits of the company have been as follows:

For the year 2015-16:	Rs. 92 lakhs
For the year 2016-17:	Rs.88 lakhs
For the year 2017-18:	Rs.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 has been depreciated at 15% p.a.

Ascertain the value of shares of the company under:

- i) Intrinsic value method;
- ii) Yield value method; and
- iii) Fair value method.

- 18) Gama Fertilizers Company is taking over Theta Petrochemical Company. The Shareholders of theta would receive 0.8 shares of Gama for each share held by them. The merger is not expected to yield in economies of scale and operating synergy. The relevant data for the two companies are as follows:

Particulars	Gama	Theta
Net sales (Rs. Crore)	335.00	118.00
Profit after tax (Rs.crore)	58.00	12.00
Number of shares (crore)	12.00	3.00
Earnings per share (Rs.)	4.83	4.00
Market value per share (Rs.)	30.00	20.000
Price-earnings ratio	6.21	

For the combined company (after merger), you are required to calculate (i) EPS (ii) P/E ratio (iii) market value per share, (iv) number of shares, and (v) total market capitalization. 2x5

[Internal Assessment - 20 Marks]