

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, JUNE 2017

(CUCSS)

Commerce

MC 4E (F) 03—STRATEGIC FINANCIAL MANAGEMENT

(2015 Admissions)

Time : Three Hours

Maximum : 36 Weightage

Part A*Answer all questions.**Each question carries 1 weightage.*

1. What is backward integration ?
2. What is Horizontal merger ?
3. Define Financial Lease.
4. Explain the term 'Divestiture'.
5. What do you mean Cross border M and A ?
6. What is Financial Leverage.

(6 × 1 = 6 weightage)

Part B*Answer any six of the following.**Each question carries 3 weightage*

7. What is a leveraged lease ? What are its merits and demerits.
8. Explain the equipment loan method of lease evaluation.
9. A company wants to lease equipment that has a purchase price of Rs. 50 lakhs. The life of the equipment is eight years. The end-of -the-year lease rental to be paid in eight instalments is Rs. 7,50,000 (corporate tax @ 30%, cost of borrowing 12% per annum, and straight-line method of depreciation) Is the lease advantageous to the company ?
10. What is net advantage of a lease ? How is it calculated.
11. Write a short note on Shareholders value creation.

Turn over

12. Explain different types of merger agreements.
13. Discuss the implications of merger on EPS and business control.
14. MK Ltd. is considering acquiring NN Ltd. The following information is available :

Company	Earnings after tax	No. of Equity shares	Market Value per share
MK Ltd.	60,00,000	12,00,000	200.00
NN Ltd	18,00,000	3,00,000	160.00

Exchange of equity shares for acquisition is based on current market value as above. There is no synergy advantage available. Find the earning per share for company MK Ltd. after merger, and (ii) Find the exchange ratio so that shareholders of NN Ltd. would not be at a loss.

(6 × 3 = 18 weightage)

Part C

Answer any two of the following.

Each question carries 6 weightage.

15. T Ltd. and E Ltd. are in the same industry. The former is in negotiation for acquisition of the latter. Important information about the two companies as per their latest financial statements is given below :

	T Ltd.	E Ltd
Rs. 10 Equity shares outstanding	12 lakhs	6 lakhs
Debt :		
10% Debentures (Rs. Lakhs)	580	—
12.5% Institutional Loan (Rs. Lakhs)	—	240
EBIDTA (Rs. Lakhs)	400.86	115.71
Market Price/share (Rs.)	220.00	110.00

T Ltd. plans to offer a price for E Ltd. business as a whole which will be 7 times EBIDTA reduced by outstanding debt, to be discharged by own shares at market price. E Ltd. is planning to seek one share in T Ltd. for every 2 shares in E Ltd. based on the market price. Tax rate for the two companies may be assumed as 30%. Calculate and show the following under both alternatives - T Ltd. 's offer and E Ltd's plan : (i) Net consideration payable (ii) No. of shares to be issued by T Ltd (iii) EPS of T Ltd. after acquisition (iv) Expected market price per share of T Ltd. after acquisition

16. Helium Ltd has evolved a new sales strategy for the next 4 years. The following information is given :

Income Statement		(Rs. in thousands)
Sales	...	40,000
Gross Margin at 30%	...	12,000
Administration and distribution		
expense at 15%	...	6,000
Profit before tax	...	6,000
Tax at 30%	...	1,800
Profit after tax	...	4,200
Balance sheet information :		
Fixed Assets	...	10,000
Current Assets	...	6,000
Equity	...	15,000

As per the new strategy, sales will grow at 30 percent per year for the next four years. The gross margin ratio will increase to 35 percent. The Assets turnover ratio and income tax rate will remain unchanged. Depreciation is to be at 15 percent on the value of the net fixed assets at the beginning of the year. Company's target rate of return is 14%. Determine if the strategy is financially viable giving detailed working.

17. Explain the factors that have led to an increase in the M and A activity worldwide

(2 × 6 = 12 weightage)