

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, JUNE 2018

(CUCSS)

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 Synergy ?
2. What is Forward Integration ?
3. Define the term 'Hostile Acquisition'.
4. Explain the term 'Spin offs'.
5. What do you mean by Leveraged Lease ?
6. What is BOOT.

(6 × 1 = 6 weightage)

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

7. Distinguish between mergers, acquisitions, and takeovers.
8. Discuss the different stages involved in an M and A deal.
9. A company has a book value per share of Rs 137.80. Its return on equity is 15% and follows a policy of retaining 60 percent of its annual earnings. If the opportunity cost of capital is 18 percent, what is the price of its share ? [adopt the perpetual growth model to arrive at your solution].
10. A company wants to lease equipment that has a purchase price of Rs. 100 lakhs. The life of the equipment is 10 years. The lessor agrees to up-fronted lease agreements and requires the beginning-of-the-year lease rental to be paid in 10 instalments of Rs 12 lakhs (corporate tax @ 30%, cost of borrowing 10% per annum, and straight-line method of depreciation) Is the lease advantageous to the company ?
11. What is EVA ? How is it calculated ?

Turn over

12. Explain different Growth Ratios used to measure the growth of the firms.
13. What are the problems of post-merger integration ?
14. What are the advantages and disadvantages of mergers and takeovers ?

(6 × 3 = 18 weightage)

Part C

*Answer any two of the following.
Each question carries 6 weightage.*

15. The following information is given for 3 companies that are identical except for their capital structure :

	Orange	Grape	Apple
Total invested capital	1,00,000	1,00,000	1,00,000
Debt/assets ratio	0.8	0.5	0.2
Shares outstanding	6,100	8,300	10,000
Pre tax cost of debt	16%	13%	15%
Cost of equity	26%	22%	20%
Operating Income (EBIT)	25,000	25,000	25,000
Net Income	8,970	12,350	14,950

The tax rate is uniform 35% in all cases.

- (a) Compute the Weighted average cost of capital for each company.
 - (b) Compute the Economic Value Added (EVA) for each company.
 - (c) Based on the EVA, which company would be considered for best investment ? Give reasons.
16. P Ltd. has decided to acquire a machine costing Rs. 50 lakhs through leasing. Quotations from 2 leasing companies have been obtained which are summarized below :

	Quote A	Quote B
Lease term	3 years	4 years
Initial lease rent (Rs. Lakhs)	5.00	1.00
Annual lease rent (payable in arrears) (Rs. Lakhs)	21.06	19.66

P Ltd. evaluates investment proposals at 10% cost of capital and its effective tax rate is 30%. Terminal payment in both cases is negligible and may be ignored. Make calculations and show which quote is beneficial to P Ltd. Present value factors at 10% rate for years 1-4 are respectively 0.91, 0.83, 0.75 and 0.68. Calculations may be rounded off to 2 decimals in lakhs.

17. M and A decisions are viewed as corporate restructuring decision, strategic decision, and investment decision. Elaborate.

(2 × 6 = 12 weightage)