

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA (PART TIME)– SEMESTER-4– EXAMINATION – SUMMER 2019

Subject Code:3549921**Date:04/05/2019****Subject Name: Strategic Financial Management (SFM)****Time:10:30 AM To 01:30 PM****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1

Define following terms: (each of two marks)

14

- a. Business Risk and Financial Risk
- b. Financial Restructuring
- c. Risk Adjusted Rate of Return
- d. Merger with one example
- e. Stock Split
- f. Retention Ratio
- g. Bonus Share

Preet Ltd. provides you the following details. You are requested to find the

07**Q.2 (a)** value of equity share of the company:

2000, 9% preference share of Rs.100 each	Rs. 2,00,000
50,000 equity shares of Rs. 10 each, Rs. 8 per share paid up	Rs. 4,00,000
Expected profit before tax per year	Rs. 2,18,000
Rate of tax	40%
Transfer to general reserve every year	20%
Normal rate of earning	15%

(b) Discuss the steps in Financial Planning process.**07****OR**

A company has estimated following demand level of its product.

07

Sales (units)	10,000	12,000	14,000	16,000	18,000
Probability	0.10	0.15	0.25	0.30	0.20

(b) It has assumed that the sales price of Rs. 6 per unit, marginal cost of Rs. 3.5 per unit, and fixed cost of Rs. 34,000. What is the probability that (a) the company will continue to incur loss (c) the company will make profit of at least Rs. 10,000.

Q.3 (a) A project involves an outlay of Rs.100,000. Its expected cash flow at the end of the year 1 is Rs. 40,000. Thereafter it decreases every year by Rs. 2000. It has an economic life of 6 years. The certainty equivalent factor is $CEF_t = 1 - 0.05t$. Calculate the net present value of the project if the risk free rate of return is 10%.

07

- (b) Project X & Project Y has similar life and yield. The initial investment is Rs.80 lakhs each. Both the projects are new business model and hence cash flow cannot be accurately projected. The probability distributions for the first year for both the projects are given below and are expected to be same for the entire tenure of the projects. 07

Project X		Project Y	
Cash Flows (Rs. Lakhs)	Probability	Cash Flows (Rs. Lakhs)	Probability
12	0.10	8	0.10
14	0.20	12	0.25
16	0.40	16	0.30
18	0.20	20	0.25
20	0.10	24	0.10

Decide which projected to be selected using coefficient of variation.

OR

- (a) Explain the causes of Industrial Sickness. 07
 Calculate (a) the operating leverage, (b) financial leverage and (c) combined 07
 (b) leverage from the following data under situations I and II and financial plans, A and B.

Installed capacity, 4,000 units

Actual production and sales, 75 per cent of the capacity

Selling price, Rs 30 per unit and Variable cost, Rs 15 per unit

Fixed cost: Under situation I, Rs 15,000 and Under situation II, 20,000

Capital Structure	Financial Plans	
	A	B
Equity	Rs. 10,000	Rs. 15,000
Debt (0.20 interest)	Rs. 10,000	Rs. 5,000

- Q.4** The initial investment outlay for a capital investment project consists of Rs. 100 lakhs for plant and machinery and Rs. 40 lakhs for working capital. Other details are summarized below:

Sales: 1 lakh units of output per year

Selling Price: Rs. 120 per unit of output

Variable Cost: Rs. 60 per unit of output

Fixed Overheads (excluding depreciation): Rs. 15 lakhs per year

Rate of depreciation on plant and machinery: 25% on WDV method

Salvage Value of plant and machinery: Equal to the WDV at the end of year 5

Tax rate: 40%

Time horizon: 5 years

Post-tax cut off rate: 12%

- (a) Indicate the financial viability of the project by calculating the net present value. 07
 (b) Determine the sensitivity of the project's NPV if selling price decrease by 10%. 07

OR

- Q.4 (a)** Determine the sensitivity of the project's NPV if variable cost increase by 10%. 07

- (b) Determine the sensitivity of the project's NPV if variable cost increase by 5% and selling price increase by 5%. **07**

Q.5 A company has share capital of Rs. 25,00,000 consists of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20,00,000 for expansion. It has following four alternatives:

- I. It can raise entire amount through ordinary shares.
- II. It can raise 50% through ordinary shares and 50% through long term borrowings at 8% p.a.
- III. It can raise Rs. 25% through ordinary shares and 75% through long term borrowing at 9% p.a.
- IV. It can raise Rs. 50% through ordinary shares and 50% through preference shares with 5%.

EBIT is Rs. 8,00,000 and tax rate is 50%.

- (a) Determine EPS of alternative-I. **07**
- (b) Determine EPS of alternative-II. **07**

OR

- (a) Determine EPS of alternative-III. **07**
- (b) Determine EPS of alternative-IV. **07**
