

Register Number:

Date:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**MCOM STRATEGIC FINANCIAL MANAGEMENT - IV SEMESTER**

**SEMESTER EXAMINATION: APRIL 2022**

(Examination conducted in July-August 2022)

**MCO DEF 0318/0320 - Strategic Financial Management**

**Time – 2 ½ hrs Max Marks – 70**

**This paper contains two printed pages and four parts**

**SECTION A**

**Answer any TEN of the following questions. Each question carries two marks. (10x2=20)**

1. What is meant by strategic financial management?
2. List out any four the financial requirements of a firm in the long run .
3. Give the meaning of pecking order theory.
4. Mention any two assumptions of MM theory of relevance.
5. What is meant by free cash flow?
6. Why there is a requirement for corporate valuation?
7. What is meant by continual or terminal value in discounted cash flow projection ?
8. List out the metrics of historical analysis in DCF method of corporate valuation.
9. List out any two importance of financial planning
10. Give the meaning of divestiture with example.
11. What is meant by CFROI?
12. What do you understand by financial restructuring?

**SECTION B**

**Answer any THREE of the following questions. Each question carries five marks.**

**(5x3=15)**

1. Calculate depreciation charge and capital charge under sinking fund method for an equipment that costs ₹ 2,00,000 and has economic life of 5 years, if cost of capital is 15% with no salvage value.
2. Explain the steps involved in financial planning.
3. Give short notes on dividend policy formulation.
4. Write short notes on employee stock option plan.
5. Briefly explain LBO and equity carve out.

**SECTION C**

**Answer any TWO of the following questions. Each question carries Ten marks.**

**(2x10=20)**

1. A new machinery entails an initial investment of ₹ 6,00,000 (₹ 5,00,000 Fixed assets and balance on net working capital). The estimated life of the machinery is 10 years. At the end of 10 years the fixed assets will not have any residual, but the net working capital will be recovered in full. The machinery is expected to produce a NOPAT of ₹ 67,200 every year. The cost of capital is 10%. Straight line method of depreciation is used.

Compute the following.

1. ROCE for year 5
2. ROGI for year 5
3. Economic Depreciation for year 5
4. CVA for year 5
5. MVA for year 5
6. (a) Calculate operating, financing and combined leverage for companies A and B and comment on the relative risk position of them.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **S ltd.** | **R ltd.** |
| Sales  Variable cost  Fixed cost  10% Debenture | 3,000  1,200  900  4,000 | 6,000  1,800  2,400  5,000 |

(b) XYZ ltd. is planning to sell its firms, estimate the value of the firm using the following data

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **A ltd.** | **B ltd.** | **C ltd.** | **D ltd.** |
| Market Value | ? | 6,000 | 3,600 | 4,800 |
| Book value | 4,200 | 3,300 | 1,740 | 1,800 |
| EBIT | 6,000 | 4,800 | 3,000 | 4,200 |
| Sales | 13,200 | 12,000 | 7,800 | 9,000 |

**(5 + 5)**

1. (a) Given the balance sheet of Y ltd. as on 31st March 2021 (in crores)

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **₹** | **Assets** | **₹** |
| Equity share capital  Reserves and surplus  Secured loans  Unsecured loans  Current liabilities and provisions | 30.00  22.40  28.60  13.80  21.00 | Net fixed assets  Investments  Current assets, loans and advances | 66.00  3.00  46.80 |
|  | **115.80** |  | **115.80** |

On 31st March 2021, net fixed assets were revalued at ₹ 70, Goodwill ₹ 4 and current liabilities at ₹ 22. You are required to value the company’s business by adjusted book value method.

(b) Briefly describe BCG approach.

**SECTION D**

**Answer the following questions. The question carries fifteen marks. (1x15=15)**

1. (a) Write short notes on Executive compensation. (5)

(b) Brief about the various types of corporate restructuring. Substantiate the reasons for mergers. (10)