**ST. JOSEPH’S COLLEGE , BENGALURU -27**

**M.COM– IV SEMESTER**

**SEMESTER EXAMINATION: APRIL 2023**

**(Examination conducted in May 2023)**

**MCODEFO320 – STRATEGIC FINANCIAL MANAGEMENT**

**Time: 2.5 Hours Max Marks: 70**

**This paper contains \_\_\_4\_\_\_ printed pages and \_\_4\_\_\_ parts**

**PART-A**

**Answer any TEN Questions (10\*2=20).**

1. State any two objectives of buy back of shares.
2. What are Equity carve outs?
3. If the NOPLAT is 3,00,000 and the opening invested capital is 2,10,000(Including investments of 10,000), find out ROIC.
4. What does an interest coverage ratio of 2 indicate?
5. What is signaling theory?
6. What does the traditional theory of Capital structure try to prove?
7. Expand a. NOPLAT b. WACC
8. State any two reasons for demergers.
9. According to Walter, in a growth firm how will a high payout ratio affect the price of shares?
10. What is strategic financial management?
11. What is agency theory?
12. What are Leverage Buy outs?

**Part B**

**Answer any THREE Questions (3\*5=15).**

13.Sales of a company is Rs. 40,000. P/V ratio is 40%. Interest is Rs.3500, Financial Leverage is 2, **find** (i) Operating leverage, (ii) combined leverage and (iii) fixed costs.

14.The cost of equity is 0.3, cost of debt before tax is 0.05 and the cost of preference is 0.4. If the proportion of equity to debt to preference is 5:3:2 and Tax is 40%, calculate WACC of the firm.

15.Explain the direct comparison method of valuation of firms

16. Briefly discuss the guidelines for effective capital structure planning

17. Balance Sheet of X ltd., as on 31/03/2019 (in Rs.) is given below:

| **Liabilities** | **Amount** | **Assets** | **Amount** |
| --- | --- | --- | --- |
| Share capital | 12,00,000 | Land and Building | 5,40,000 |
| P&L A/c | 80,000 | Plant & Machinery | 2,00,000 |
| 6% Debentures | 1,20,000 | Stock | 7,20,000 |
| Bank overdraft | 20,000 | Debtors | 3,20,000 |
| Creditors | 1,60,000 |  |  |
| Provision for tax | 2,00,000 |  |  |
| Total | 17,80,000 | Total | 17,80,000 |

On 31/03/2019, Land & Building were valued at Rs. 5,60,000, Goodwill at Rs. 4,00,000 and Plant & Machinery at Rs. 2,40,000. Sundry debtors include Rs. 8,000 as irrecoverable. Tax @ 50%. Evaluate the company’s business by Adjusted Book Value Method.

**Part C**

**Answer any TWO Questions. (10\*2=20).**

18. Calculate EVA of the project (Rs.in crores)

| Investment | 100 | Equity financing | 100 |
| --- | --- | --- | --- |
| Project life | 4 years | Depreciation | SLM |
| Salvage Value | NIL | Tax | 50% |
| Annual revenue | 200 | Annual Costs(excluding depreciation, interest and taxes) | 135 |
| Cost of equity | 15% |  |  |

19. Following information is available for 2 firms P and Q. Both are similar in all respects except that Q is levered and P is unlevered. EBIT for both the companies is Rs.2,00, 000.Firm Q has a debt of 4,00,000 debt carrying 6% rate of interest. Equity capitalization rate of firm P is 11.11 % and firm Q is 12.5%. An investor is holding 10% equity in firm Q. Show the arbitrage process.

20.Discuss the key steps in McKinsey approach in VBM.

**PART D**

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

21.The profit and loss A/c and balance sheet of Sunrise Ltd. for three years are given below

|  |  | Profit & Loss A/c | (Rs. in millions) |
| --- | --- | --- | --- |
|  | 2019 | 2020 | 2021 |
| Net sales | 700 | 800 | 920 |
| Income from marketable securities | - | 20 | 30 |
| Non-operating income | - | 10 | 20 |
| Total income | 700 | 830 | 970 |
| Cost of goods sold | 400 | 460 | 540 |
| Selling and administration expenses | 90 | 100 | 110 |
| Depreciation | 40 | 50 | 60 |
| Interest expenses | 40 | 48 | 56 |
| Total costs and expenses | 570 | 658 | 766 |
| PBT | 130 | 172 | 204 |
| Tax provision | 40 | 52 | 64 |
| PAT | 90 | 120 | 140 |
| Dividend | 40 | 60 | 80 |
| Retained earnings | 50 | 60 | 60 |
|  |  | Balance sheet |  |
|  | 2019 | 2020 | 2021 |
| Equity capital | 260 | 300 | 300 |
| Reserves and surplus | 180 | 240 | 300 |
| Debt | 300 | 360 | 420 |
| Total | 740 | 900 | 1020 |
| Fixed assets | 500 | 600 | 650 |
| Investments | 120 | 180 | 200 |
| Net current assets | 120 | 120 | 170 |
| Total | 740 | 900 | 1020 |

The tax rate for Prime Ltd. is 40%. Compute the following for the years 2020 & 2021

1. Net operating Invested capital 2m
2. EBIT 2m
3. Taxes on EBIT 2m
4. NOPLAT 1m
5. Net Investment 2m
6. ROIC 2m
7. Free Cash Flow 2m
8. FCFF 2M

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