PG – 790

IV Semester M.B.A. Degree Examination, July/August 2014
(2007-08 Scheme)
Management
F-5 : STRATEGIC FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

Answer **any six** of the following. **Each** question carries **2** marks. **(6×2=12)**

1. a) What do you mean by financial planning ?
   b) What is market value added ?
   c) State BCG HOLT approach.
   d) What is sick unit ?
   e) What do you mean by economic depreciation ?
   f) What is leveraged buyout ?
   g) What do you mean by exchange ratio ?
   h) What is free cash flows ?

SECTION – B

Answer **any three** of the following. **Each** question carries **8** marks. **(3×8=24)**

2. What are the reasons and motives for merger ? Note down the defensive tactics against the merger move.
3. What is Demerger ? Discuss the different methods of demerger with suitable examples.
4. From the following data compute the value of business using EVA method.

	Current period	**Projected periods**	
	2013	**2014**	**2015**
Total invested capital	Rs. 90,00,000	Rs. 1,00,00,000	Rs. 1,10,00,000
Adjusted NOPAT	Rs. 12,60,000	Rs. 14,00,000	Rs. 16,00,000
WACC	8.42%		

Capital growth (g) is projected @ 6.5% per year after 2015.

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5. From the following data calculate the cost of a merger. (i) When merger is financed by cash ? (ii) When merger is financed by stock ?

Particulars	Firm A	Firm B
Market price per share (Rs.)	60	15
Number of shares	1,00,000	50,000
Market value of firm	60,00,000	7,50,000

Firm A intends to pay Rs. 10,00,000 cash for B, if B's market price reflects only its value as a separate entity.

6. Discuss the key elements of MC Kinsey approach.

SECTION – C

Answer **any two** of the following. **Each** question carries **12** marks. **(2×12=24)**

7. Explain the need and scope of strategic Financial Management in the present economic condition.

8. The income statement for year 0 (the year which has just ended) and the balance sheet at the end of year 0 for Futura Limited are as follows :

Income Statement

Sales	10,000
Gross margin (20%)	2,000
Selling and general administration (10%)	1,000
Profit before tax	1,000
Tax	300
Profit after tax	700

Balance Sheet

Equity	6,000	Fixed assets	4,000
		Current assets	2,000
	6,000		**6,000**

Futura Limited is debating whether it should maintain the status quo or adopt a new strategy. If it maintains the status quo :

The sales will remain constant at 10,000.

The gross margin will remain at 20% and the selling, general and administrative expenses will be 10% of sales.

- Depreciation charges will be equal to new investments.
- The asset turnover ratios will remain constant.
- The discount rate will be 15 percent.
- The income tax rate will be 30 percent.

If Futura Limited adopts a new strategy, its sales will grow at a rate of 20 percent per year for three years. The margins, the turnover ratios, the capital structure, the income tax rate, and the discount rate, however, will remain unchanged. Depreciation charges will be equal to 10 percent of the net fixed assets at the beginning of the year.

What value will the new strategy create ?

9. Two firms Alpha and Beta operate independently and have the following financial statements :

(Rs.)

Particulars	**Alpha**	**Beta**
Sales	96,000	48,000
Cost of goods sold	72,000	28,800
EBIT	24,000	19,200
Expected growth rate	4%	6%
Cost of capital	10%	12%

Both firms are in a steady state and working capital requirement for both firms are nil. Both firms face a tax rate of 40%. Combining the two firms will create economies of scale in the form of shared distribution and advertising costs, which will reduce the cost of goods sold from 70% to 65% of sales. The firm has no debt capital.

Estimate :

i) The value of the two firms before the merger and

ii) The value of the combined firm with synergy effect.

SECTION – D
(Compulsory) (1×15=15)

10. The profit and loss account and balance sheet of Zenith Corporation for two years (years 1 and 2) are given below :

Profit and Loss Account	**(Rs. in million)**	
	Year 1	**Year 2**
Net sales	5,600	6,440
Income from marketable securities	140	210
Non-operating income	70	140
Total income	**5,810**	**6,790**
Cost of goods sold	3,220	3,780
Selling and administrative expenses	700	770
Depreciation	350	420
Interest expenses	336	392
Total costs and expenses	4,606	5,362
PBT	1,204	1,428
Tax provision	364	448
PAT	840	980
Dividend	420	560
Retained earnings	420	420
Balance Sheet		
Equity capital	2,100	2,100
Reserves and surplus	1,680	2,100
Debt	2,520	2,940
	6,300	**7,140**
Fixed assets	4,200	4,550
Investments	1,260	1,400
Net current assets	840	1,190
	6,300	**7,140**

i) What is the EBIT for year 2 ?

ii) What is the tax on EBIT for year 2 ?

iii) What is the NOPLAT for year 2 ?

iv) What is the free cash flow to the firm (FCFF) for year 2 ?

v) Give the break up of the financing flow for year 2 ?