PG – 1010

IV Semester M.B.A. Degree Examination, June/July 2015
(2007-08 Scheme)
F.5 : STRATEGIC FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

Answer **any six** of the following : **(6×2=12)**

1. a) What is green mail ?
   b) What is TSR ?
   c) How does CFROI differ from ROI ?
   d) What do you mean by corporate restructuring ?
   e) Define LBO.
   f) What is PE ratio ?
   g) What is meant by Golden Parachute ?
   h) Distinguish between 'spin off' and 'split off'.

SECTION – B

Answer **any three** of the following questions : **(3×8=24)**

2. Write short notes on :
   → Scope of strategic financial management
   → Demergers.

3. Explain the procedure suggested by Alcar for assessing the impact of a strategy on shareholder value.

4. A company plans to acquire B company. The relevant financial details of the two firms prior to the merger announcement are :

	A Company	**B Company**
Market price per share	75	35
Number of outstanding shares	20 million	15 million

The merger is expected to generate gains which have a present value of 200 million. The agreed exchange ratio is 0.5. What is the true cost of merger from the point of view of A company ?

P.T.O.

5. Determine the continuing value from the following information :
   Cash flow from business operations at the end of explicit forecast period (year 6) 56 million
   Investment required in capital expenditure and current assets during year 6- 12 million

Expected annual growth rate in FCF to the firm after forecast period	8%
WACC	12%
Equity capitalization rate	15%

6. From the following data calculate the cost of a merger
   I) when merger is financed by cash and
   II) when merger is financed by stock.

Particulars	**Firm A**	**Firm B**
Market price per share	60	15
No. 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.

SECTION – C

Answer **any two** of the following : **(2×12=24)**

7. Write short notes on **any two** :
   a) EVA
   b) Corporate restructuring
   c) BCG approach to value based management.

8. X company wants to acquire Y company. The following information is available.

	X	**Y**
Total current earnings (E)	50,000	65,000
Number of outstanding Shares (s)	30,000	29,000
Market price per share (p)	25	38

   a) What is the maximum exchange ratio acceptable to shareholders of X company if combined P/E ratio is 12 and no synergy gain ?
   b) What is the minimum exchange ratio acceptable to shareholders of Y company if combined P/E ratio is 11 and synergy gain is 5%.
   c) Assuming no synergy gain at what level of P/E multiple with line ER_1 and ER_2 intersect ?

9. Royal Industries is considering a capital project for which the following information is available.

Investment outlay	20,000
Estimated project life	4 years
Salvage value is negligible	
Expected annual revenues	7,000
Estimated annual cost	
(other than depreciation, interest and taxes)	4,000
Depreciation	WDV method
Tax bracket	30%
Debt equity ratio	4 : 5
Equity capitalization rate	18%
Debt capitalization rate (post tax)	9%

a) Calculate EVA and NPV of the project over its economic life.

b) Is EVA a better method than NPV ? Why ? Why not ?

c) State the causes that enhance EVA.

SECTION – D

Case study (**compulsory**) : **(1×15=15)**

10. ABC Ltd. is considering a new project involving an investment of Rs. 100 million of which 80% is towards fixed assets and balance towards working capital the economic life of the project is 8 years at the end of which the net realizable value is expected to be 20 million (net of working capital). The project is expected to produce 22 million of cash flows each year. The cost of capital is 15%. Assume straight line method of charging depreciation is acceptable for tax and accounting purposes. Assume the replacement cost of fixed assets the same as original cost.

a) Calculate EVA and CVA for years 1 to 4 and comment on the result.

b) Calculate ROCE and CFROI for year 1 and 4 and comment on the result.

c) What is the projects MVA ? Give your decision with reasons on acceptance of the project.