

C 1955

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Name.....

Reg. No.....

**FOURTH SEMESTER M.Com. DEGREE (REGULAR) EXAMINATION
MARCH 2021**

(CBCSS)

M.Com.

MCM 4E (F) 04—ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(2019 Admissions)

Time : Three Hours

Maximum : 30 Weightage

General Instructions

1. *In cases where choices are provided, students can attend all questions in each section.*
2. *The minimum number of questions to be attended from the Section / Part shall remain the same.*
3. *There will be an overall ceiling for each Section / Part that is equivalent to the maximum weightage of the Section / Part.*

Part A

Answer any four questions.

Each question carries 2 weightage.

1. What do you mean by IRR Method ? And explain the decision rules of IRR.
2. What is EPS ? And how it is calculated ?
3. Compare Economic Value Added (EVA) and Market Value Added (MVA).
4. Describe the financial evaluation of Leasing.
5. Explain Merger Procedure of firms.
6. Explain Leverage effect on shareholders risk.
7. Differentiate Horizontal Merger and Vertical Merger.

(4 × 2 = 8 weightage)

Part B

Answer any four questions.

Each question carries 3 weightage.

8. Compare Net Present Value (NPV) and Internal Rate of Return Methods (IRR).

Turn over

9. Consider a firm that has existing assets in which it has capital invested of ₹ 100 crores. The after-tax operating income on assets-in-place is ₹ 15 crore. The return on capital employed of 15% is expected to be sustained to perpetuity, and company has a cost of capital of 10%. Estimate the present value of economic value added (EVA) of the firm from its assets-in-place.
10. What do you mean Takeover of a firm ? And explain Take over Procedures of Firms.
11. The earnings per share of a company is ₹ 8 and the rate of capitalisation applicable is 10%. The company has before it an option of adopting (i) 50 % ; and (ii) 75% dividend payout ratio.
Compute the market price of the company's quoted shares as per Walter's model if it can earn a return of (i) 15 % ; (ii) 10 % ; and (iii) 5 % on its retained earnings.
12. Z Ltd. has two projects under consideration A and B, each costing ₹ 60 lakhs. The projects are mutually exclusive. Life for project A is 4 years and project B is 3 years. Salvage value NIL for both the projects. Tax Rate 33.99%. Cost of Capital is 15%. Net Cash Inflow (in Lakhs) :

| At the end of the year | Project A | Project B | P.V. @ 15% |
|------------------------|-----------|-----------|------------|
| 1 | 60 | 100 | 0.870 |
| 2 | 110 | 130 | 0.756 |
| 3 | 120 | 50 | 0.685 |
| 4 | 50 | — | 0.572 |

Calculate NPV.

13. Explain the financial impact of Merger of two different organisations.

(4 × 3 = 12 weightage)

Part C

Answer any two questions.

Each question carries 5 weightage.

14. What is Dividend Policy ? And explain the factors that influence the dividend policy of a Company.
15. A Ltd. is considering takeover of B Ltd. and C Ltd. The financial data for the three companies are as follows :

| Particulars | | A Ltd. | B Ltd. | C Ltd. |
|--|-----|--------|--------|--------|
| Equity Share Capital of Rs. 10 each (Rs. crores) | ... | 450 | 180 | 90 |
| Earnings (Rs. crores) | ... | 90 | 18 | 18 |
| Market price of each share (Rs.) | ... | 60 | 37 | 46 |

Calculate :

- (i) Price earnings ratios.
- (ii) Earnings per share of A Ltd. after the acquisition of B Ltd. and C Ltd. separately. Will you recommend the merger of either/both of the companies ? Justify your answer.

16. Company X is considering the purchase of company Y. The following are the financial data of the two companies :

| | | <i>Company X</i> | <i>Company Y</i> |
|--------------------------|-----|------------------|------------------|
| Number of Share | ... | ₹ 4,00,000 | ₹ 1,00,000 |
| Earnings per share (EPS) | ... | ₹ 6 | ₹ 4.50 |
| Market value per share | ... | ₹ 30 | ₹ 20 |

Assuming that the management of the two companies has agreed to exchange shares in proportion to :

- (i) The relative earnings per share of the two firms ;
- (ii) 4 share of company X for every 5 shares held in company Y.

You are required to illustrate and comment on the impact of merger on the impact of merger on the EPS.

17. Write a detailed critical note on Financial Leverage and Financial Decision.

(2 × 5 = 10 weightage)