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Name.....

Reg. No.....

**FOURTH SEMESTER M.Com. DEGREE EXAMINATION, JUNE 2018**

(CUCSS)

**MC 4E (F) 03—STRATEGIC FINANCIAL MANAGEMENT**

(2015 Admissions)

Time : Three Hours

Maximum : 36 Weightage

**Part A**

*Answer all questions.*

*Each question carries 1 weightage.*

1. What is Synergy ?
2. What is Forward Integration ?
3. Define the term 'Hostile Acquisition'.
4. Explain the term 'Spin offs'.
5. What do you mean by Leveraged Lease ?
6. What is BOOT.

(6 × 1 = 6 weightage)

**Part B**

*Answer any six of the following.*

*Each question carries 3 weightage.*

7. Distinguish between mergers, acquisitions, and takeovers.
8. Discuss the different stages involved in an M and A deal.
9. A company has a book value per share of Rs 137.80. Its return on equity is 15% and follows a policy of retaining 60 percent of its annual earnings. If the opportunity cost of capital is 18 percent, what is the price of its share ? [adopt the perpetual growth model to arrive at your solution].
10. A company wants to lease equipment that has a purchase price of Rs. 100 lakhs. The life of the equipment is 10 years. The lessor agrees to up-fronted lease agreements and requires the beginning-of-the-year lease rental to be paid in 10 instalments of Rs 12 lakhs (corporate tax @ 30%, cost of borrowing 10% per annum, and straight-line method of depreciation) Is the lease advantageous to the company ?
11. What is EVA ? How is it calculated ?

**Turn over**

12. Explain different Growth Ratios used to measure the growth of the firms.  
 13. What are the problems of post-merger integration ?  
 14. What are the advantages and disadvantages of mergers and takeovers ?

(6 × 3 = 18 weightage)

### Part C

*Answer any two of the following.  
 Each question carries 6 weightage.*

15. The following information is given for 3 companies that are identical except for their capital structure :

	Orange	Grape	Apple
Total invested capital	1,00,000	1,00,000	1,00,000
Debt/assets ratio	0.8	0.5	0.2
Shares outstanding	6,100	8,300	10,000
Pre tax cost of debt	16%	13%	15%
Cost of equity	26%	22%	20%
Operating Income (EBIT)	25,000	25,000	25,000
Net Income	8,970	12,350	14,950

The tax rate is uniform 35% in all cases.

- (a) Compute the Weighted average cost of capital for each company.  
 (b) Compute the Economic Value Added (EVA) for each company.  
 (c) Based on the EVA, which company would be considered for best investment ? Give reasons.
16. P Ltd. has decided to acquire a machine costing Rs. 50 lakhs through leasing. Quotations from 2 leasing companies have been obtained which are summarized below :

	Quote A	Quote B
Lease term	3 years	4 years
Initial lease rent (Rs. Lakhs)	5.00	1.00
Annual lease rent (payable in arrears) (Rs. Lakhs)	21.06	19.66

P Ltd. evaluates investment proposals at 10% cost of capital and its effective tax rate is 30%. Terminal payment in both cases is negligible and may be ignored. Make calculations and show which quote is beneficial to P Ltd. Present value factors at 10% rate for years 1-4 are respectively 0.91, 0.83, 0.75 and 0.68. Calculations may be rounded off to 2 decimals in lakhs.

17. M and A decisions are viewed as corporate restructuring decision, strategic decision, and investment decision. Elaborate.

(2 × 6 = 12 weightage)