M0145 / M0197 ELECTIVE: FIANCE: STRATEGIC FINANCIAL MANAGEMENT.

TYBMS (130)

Q.P. Code : 19140

[Time: 2:30 Hours] **[Marks:75]**

Please check whether you have got the right question paper.

N.B:
1. All questions are compulsory.
2. Figures to the right indicates full marks.

Q.1 a) Attempt any two questions **15**

Shares of Pritam Enterprise engaged in promotion and sales of commercial spaces, is quoted at Rs.500 at the beginning of the year. It has capital expenditure of Rs.300 crore at the year end.
The cost of equity is 15% and 3crore shares are outstanding.
Ascertain the value of the firm at the beginning of the year if the anticipated profits for the next ' year is Rs.280 crores and at that time Pritam enterprise declares (a) No dividend (b) Rs.12 per share as dividend

b) Explain XBRL and state its features.

c) The following information relates to Maya ltd.

Earnings of the company	Rs. 10,00,000
Dividend Payout ratio	60%
No. of shares outstanding	2,00,000
Rate of Return on investment	15%
Equity Capitalization Rate	12%

i. What would be the Market Value per share as per Walter's Model?
ii. What is the optimum Dividend Payout ratio according to Walter's Model and the Market value of Company Share at that payout ratio?

Q.2 Attempt any two questions: **15**

a) From the following details relating to a project, analyse the sensitivity of the project to changes in Initial project cost and annual cash inflow :

Particulars	Years	Interest	Rs.
Initial Project Cost			1,20,000
Annual Cash inflow			45,000
Project life	4		
Cost of Capital		10%	

To which of the two factors, the project is most sensitive? (Use Annuity Factor: 10%=3.169 and 11%=3.102)

b) A Ltd has an investment budget of Rs.25 lakhs for next year. It has under consideration three projects A , B and C (B and C are mutually exclusive) and all of them can be completed within a year. Further details are given as below:

Project	Investment Required (Rs. in lakhs)	Cash Flows (Rs. in lakhs)
A	14	19.6
B	12	19.2
C	10	15.0

Calculate Net Present Value and recommend the best policy to utilize the investment budget, supported by proper reasoning

c) Briefly explain the techniques to deal with risk and uncertainty in capital projects

Q.3 Attempt any two questions: **15**

a) M.K Industries Ltd, is engaged in textile business. Its income statement and balance sheet are given below: Income statement for the year ended 31-3-2016

Particulars	Rs.in Lakhs
Sales	6,000
Less: Cost of production	4,500
PBIT	1,500
Less: Interest on loan	10
PBT	1,490
Tax @ 30%	447
EAT	1,043

Balance sheet as on 31-3-2016

Liabilities	Rs.in lakhs	Assets	Rs.in lakhs
Equity Share Capital (Rs.10 each)	200	Land & Building	100
Reserves & Surplus	150	Plant & Machinery	200
10% Bank Loan	100	Debtors	100
Creditors'	50	Stock	75
		Cash & Bank	25
	500		500

The Weighted Average cost of capital is 15% and company is listed on BSE and has a P/E ratio of 6 times. Calculate (a) value of the firm (b) EVA and (c) MV A

b) XYZ ltd.is intending to acquire ABC Ltd (by merger) XYZ Ltd.'s shares are currently traded at Rs.25 per share It has 2, 00,000shares outstanding and its earnings after taxes amount to Rs.4, 00,000. ABC ltd. has 1, 00,000 shares outstanding, its current market price is Rs.12.50 per share and its earnings after taxes is Rs. 1, 00,000. The merger will be effected by means of stock swap (Exchange). ABC Ltd. has agreed to a plan under which XYZ Ltd. will offer the current market price of ABC Ltd. Shares

i. What is the pre-merger EPS and P/E ratio of both the companies?
ii. What will be XYZ ltd.'s Post-merger EPS if exchange ratio is based on current market price?

c) Explain principles of Good Corporate Governance.

Q.4 Attempt any two questions **15**

a) From the following information find out the amount of provision to be shown in the profit and loss account of a commercial bank.

Assets	Rs in Lakhs
Standard Advances	7,000
Sub-standard Advance (include secured exposures Rs. 1,000 lakhs and balances unsecured exposures Rs.2,500 lakhs which includes Rs. 1,500 lakhs in respect of infrastructure loan account where escrow accounts are available)	3.500
Doubtful Advance (Unsecured)	1,500
Doubtful Advance(Secured)	
• Upto 1 year	500
• More than 1 year upto 3 year	600
• More than 3 year	300
Loss advance	200

b) You are supplied with the following information in respect of Pradeep Ltd for the year

2016:

Production for the year	72,000 units
Finished goods in stores	3 months
Raw Materials in stores	2 months consumption
Production process	1 month
Credit allowed by suppliers	2 months
Credit allowed to Debtors	3 months
Selling price per unit	Rs.40
Raw Material cost	50% of the selling price
Direct Wages	20% of selling price
Overheads	10% of selling price

There is a regular production and sales cycle and wages and overhead accrue evenly. Wages are paid in the next month of accrual and overhead are paid in the same month. Material are introduced in the beginning of production cycle. Debtors are valued at sales

i. Working capital requirement of Pradeep Ltd
ii. Permissible Bank Borrowings as per first and second method of lending (Tandon Committee)

c) What are different forms of advances in case of commercial bank?

Q.5 Case study **15**

Delta Ltd. has the following estimates of the present values of future cash flows after tax associated with the investment proposal concerned with expanding the plant capacity. It intends to use decision tree approach to get a clear idea about the possible outcomes of the investment. The plant expansion is expected to cost Rs.30, 00,000. The respective present value of future Cash flow after tax and probabilities are as follows:

With Expansion	With No Expansion	Probabilities
Rs.30,00,000	Rs.20,00,000	0.2
Rs.50,00,000	Rs.20,00,000	0.4
Rs.90,00,000	Rs.35,00,000	0.4

Advise the company about the feasibility of the project

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