



IV Semester M.Com.(FA) Examination, June/July 2018
(CBCS)

Paper – 4.4 : STRATEGIC FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 70

Instruction : Answer all the questions.

SECTION – A

Answer any seven questions out of ten. Each question carries two marks. (7×2=14)

1. a) Define strategic financial management.
- b) What is venture capital ?
- c) What do you mean by Crowd Source Funding ?
- d) What is economic value added ?
- e) Define corporate governance.
- f) What is risk management ?
- g) What is Neo-generic strategy ?
- h) What is Merger ?
- i) State any two advantages of internal re-construction.
- j) Mention key significances of internal control.

SECTION – B

Answer any four questions out of six. Each question carries five marks. (4×5=20)

2. Differentiate between acquisition and takeover.
3. Explain the concept and features of agency theory.
4. Write a short note on margin money.

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5. What are the challenges in managing product life cycle effectively ?
6. i) Calculate the market sensitivity index and expected return on the portfolio from the following data :
- Standard deviation of an asset – 2.5%
- Market standard deviation – 2.0%
- Risk-free rate of return – 13.0%
- Expected return on Market portfolio – 15.0%
- Correlation co-efficient of portfolio with market – 0.8
- ii) What will be the expected return on the portfolio if portfolio beta is 0.5 and the risk-free rate of return is 10% ?
7. Sunny Ltd. is studying the possible acquisition of Rainy Ltd. and the following information is available.

	Sunny Ltd.	Rainy Ltd.
Profit after tax	₹ 3,00,000	₹ 75,000
Equity shares outstanding	50,000	10,000
P/E Multiple	3	2

If the merger takes place by exchange of equity shares based on market price. What is the EPS of the new firm ?

SECTION – C

Answer **any three** questions out of five. Each question carries **twelve** marks. (3×12=36)

8. "Promoters contribution is one of the principal means of financing the project". Discuss the statement.
9. Discuss the approaches to corporate valuation.
10. Elaborate the dynamics of strategic financial management.



11. Following is the Balance Sheet of Bharath Steel work Ltd. as on 31-Mar.- 2016.

Liabilities	₹ (000)	(Assets)	₹ (000)
Share capital	2,400	Fixed assets	
Profit and Loss A/c	160	(Less depreciation)	1,000
Sundry creditors	500	Stock	900
		Sundry debtors	500
		Cash and bank balance	660
	3,060		3,060

The management makes the following estimates for the year ending 31-Mar.- 2017.

Purchase upto Feb. 2017, ₹ 30,40,000 and during March – 2017 – ₹ 2,10,000.
Sales upto Feb. – 2017 Rs. 44,80,000 and during March – 2017. ₹ 5,00,000.
Management decides to invest ₹ 3,00,000 in purchases of fixed assets which are depreciated at 10%. The time log for payment to creditors and receipts from debtors is one month. The business earns a gross profit of $33\frac{1}{3}\%$ on turnover. Sundry expenses against gross profit will amount to 12% of the turnover excluding depreciation of fixed assets.

Prepare a proforma balance sheet of the company for the year ending 31-Mar.-2017.

12. Bring out the differences between commercial calculation and social cost benefit computations in project analysis with imaginary figures.



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SECTION – A

Answer **any seven** questions out of **ten**. Each question carries **two** marks each. **(7x2=14)**

1. a) What is brand securitization ?
- b) Mention any 4 primary sources from where project management derives its scope and knowledge base.
- c) Define project management.
- d) What is project report ? Mention any 4 objectives of a project report.
- e) What is incubator funding ?
- f) What is optimal sizing ?
- g) What is leveraged buy outs ?
- h) State any six rationale for mergers.
- i) What is Corporate Governance ? Mention any two principles of Corporate Governance.
- j) Mention any two roles played by internal audit and internal control.

SECTION – B

Answer **any four** questions out of **six**. Each question carries **five** marks. **(4x5=20)**

2. What type of relationship exists between growth, economic profitability and the shareholder value ?
3. Mention the financial impact on the 'Introductory' stage of Product Life Cycle.
4. What are the challenges faced by MSME segment in sourcing the funds for business operations ?
5. Explain the three levels of Forex market operation.
6. What are the fundamentals of Corporate Governance ?

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7. ABC is intending to acquire XYZ by merger and the following information is available.

	ABC Ltd.	XYZ Ltd.
Number of equity shares	10,00,000	6,00,000
Earnings after tax	50,00,000	18,00,000
Market value per share	42	28

Required :

- 1) What is the present EPS of both the companies ?
- 2) If the proposed merger takes place, what would be the new EPS for ABC, assuming that the merger takes place at the current market price ratio.

SECTION – C

Answer **any three** questions out of **five**. Each question carries **twelve** marks.

(3×12=36)

8. Elucidate on financial impact of various stages of Product Life Cycle.
9. Explain the process and steps involved in merger.
10. What is turnaround ? Explain any three turnaround strategies that a business entity can use.
11. XYZ Ltd. is considering merger with ABC. XYZ shares are currently traded as Rs. 20. It has 2,50,000 shares outstanding and PAT is Rs. 5,00,000. ABC has 1,25,000 shares and its current market price is Rs. 10 with its PAT Rs. 1,25,000. The merger will be effected by means of a stock swap. ABC has agreed to plan under which XYZ will offer the current market value of ABC Ltd.s share.
 - a) What is the pre merger EPS and PE ratio ?
 - b) If ABC PE is 6.4. What is the current market price ? What is the current exchange ratio ? What will be XYZ post merger EPS ?
 - c) What should be the exchange ratio if XYZ's pre-merger and post-merger EPS are to be the same ?
12. ABC Ltd. operates primarily in the telecom and broadband sector in India. ABC Ltd. also has interest in telecom and broadband sector in Kenya and these interests are held through holding company.

ABC acquired spectrum through the public auction in India and funded the same through debt. However, due to high debt incurred during the process, intense competition in the local telecom sector and the challenge of an international market operations, the share price plunged 97 per cent from a peak adjusted price of Rs. 131.75 between 2000 and 2008. ABC Ltd. was removed from Stock Market Index in June 2008.



ABC Promoters attempted to sell their stake in the company in 2006. The Government thwarted this attempt by blocking the sale through its control since it owned a 20 per cent stake in ABC Ltd.

In 2008, ABC Ltd.'s businesses were hit hard by the global recession. Profit slumped 20 per cent in the first half of the year. However, some key financial indicators, such as EBIDTA and earnings per share remained stable. After declaring a dividend, ABC Ltd. ended the year with a stable financial position despite the impact of the crisis.

After their attempt to sell their stake in ABC Ltd. was thwarted by the government, the promoter began a three-year campaign to privatize the company. Since ABC Ltd. was a listed company, the privatization scheme was governed by the law as well as the code of takeovers and mergers.

Under the headcount rule of the law, if three-fourths of members vote either in person or by proxy in favour of a proposal, it is binding on all members. In other words, at least 75 per cent of the shareholders, regardless of the number of shares each shareholder owns, required to approve the privatization proposal.

Promoters made an offer at a steep discount to minority shareholders to buy their stake. With this announcement of share buy back, the share prices actually went up in the stock market. At the shareholders' meeting to approve the proposal, management was accused of vote manipulation and rigging. Yet, the proposal was eventually approved with 80 per cent support.

On a formal complaint being lodged by an activist shareholder, it was realized that indeed the vote was bought by the promoters from significant shareholders leaving aside the minority shareholders. While no specific clause of the law is broken, the interest of minority shareholders were at stake as the nearly 20% stakeholders were left out from a decision making where decision was made by manipulation.

Elucidate on :

- Consider how ABC Ltd. failed privatization illustrates the effectiveness or ineffectiveness of key corporate governance mechanisms.
 - In major corporate transactions, such as the ABC Ltd. privatization, different shareholders may have different interests and preferences. How should the board and regulators balance the interests of these different shareholders ?
 - The privatization of ABC Ltd. requires the approval of 75 per cent of shareholders (or their proxies) present at the shareholders' meeting. In your view, is this fair to small shareholders ? How about large shareholders ?
 - Did the board and management of ABC Ltd. act ethically in the privatization attempt ?
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