

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
MBA Winter 2018 - 19 Examination

Semester: 3
Subject Code: 06201201
Subject Name: Strategic Financial Management

Date: 27/10 /2018
Time: 2:00 pm to 4:30 pm
Total Marks: 60

Instructions

1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as Directed.

A).Multiple choice type questions/Fill in the blanks. (Each of 1 mark) (05)

1. Which of the following is not a measure of risk?

a) Standard Deviation	c) Coefficient of Variance
b) Expected Value	d) All of the above
2. Real rates of return are typically less than nominal rates of return due to _____.

a) High rates of dividends	c) Inflation
b) Capital Gains	d) All of above
3. The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

a) a probability distribution	c) the standard deviation
b) the expected return	d) coefficient of variation
4. If the company uses Certainty Equivalent Approach to evaluate a project by using IRR method, the project will be accepted only if _____.

a) $IRR > \text{Riskless Cash flows}$	c) $IRR > \text{Risk Free rate of Return}$
b) $IRR > \text{Certainty Equivalent Factor}$	d) $IRR > \text{Coefficient of Variance}$
5. Which of the following is not related with Strategic Financial Management?

a) Provides Financial Control	c) Have a Holistic Approach
b) Enables Wealth Maximization	d) Provides Financial Planning

B).Define the following. (Each of 1 mark) (05)

1. Decision Tree
2. Financial Distress
3. Sensitivity Analysis
4. Financial Architecture
5. Real Rate of Return

C).Answer the following: (05)

1. Krishna Industries employ a 15% as nominal rate of return to evaluate its new investment projects. In the recent meeting, the board of directors has decided to protect the interest of shareholders against the purchasing power loss due to inflation. The expected inflation rate in the economy is 6%. Determine the Real Rate of Discount.
2. Determine the value of Good will if:
 Capital employed is Rs.500 Million
 Operating profit after tax are Rs.93.75 million
 Riskless rate of return is 10%
 Risk premium relevant to business is 5%
 It is expected that the firm will continue to earn profits for next 5 years.

Q.2 Answer the following questions.

A). From the following Balance sheet you are required to calculate EVA for the firm.

Liabilities	Amt	Assets	Amt
Equity Share Capital	180000	Total Assets	600000
Reserves and Surplus	60000		
10% Debentures	240000		
Other Liabilities	120000		
	600000		600000

(07)

The Company's Total Asset Turnover ratio is 2.5 times. The fixed operating costs are Rs. 2 lakhs and the variable cost is 40% of sales. The company is in 50% tax bracket. The return on equity capital is determined at 12%.

B). What do you mean by Strategic Financial Management? Discuss the importance of Strategic Financial Management in current business scenario. (08)

Q.3 Answer the following questions.

A). What is an Industrial Sick Unit? Discuss the Internal and External factors causing Industrial Sickness in detail. (07)

B). A firm has an investment proposal requiring an outlay of 40000. The investment proposal is expected to have 2 years economic life with no salvage value. In the first year, there is a 0.4 probability that cash inflows after tax will be 25000 and 0.6 probability cash flows after tax are 30000. The probability assigned to second years cash flows are as follows:

Cash flow year -I	25000		30000	
Cash flow year -II	(in Rs)	probability	(in Rs)	probability
	12000	0.2	20000	0.4
	16000	0.3	25000	0.5
	22000	0.5	30000	0.1

(08)

The discount rate for the investment is 10%.

You are required to:

1. Construct a Decision Tree for the proposed investment.
2. What will be NPV at worst yield? What is the probability of this occurrence of NPV?
3. Which project will be accepted?

Q.4 Attempt any two questions. (Each of 7.5 mark) (15)

1. The following sales estimates are given:

Sales	10000	12000	14000	16000	18000
Probability	0.1	0.15	0.20	0.30	0.25

The Selling price is Rs.6 and Variable cost is Rs. 3.5 p.u. The fixed costs are 34000 p.a.

1. What is the probability that firm will continue to earn a profit of 10000 or more?
2. What is the probability that firm will breakeven?
3. What is the probability of firm reaching its Margin of Safety?

2. FASL is considering two mutually exclusive projects Sunshine and Moonlight. Initial Investment of both the projects is Rs.500000 each and is expected to have a life of 5 years. Under three possible situations their annual cash flows and probabilities are as under:

Situation	Probabilities	Cash flows(Rs) - Sunshine	Cash flows (Rs) - Moonlight
Good	0.3	600000	500000
Normal	0.4	400000	400000
Worse	0.3	200000	300000

Compute:

- The Expected NPV of each project
 - The Risk attached to each project i.e. standard deviation of each probability distribution.
 - Which project is more risky and why?
3. Moonlight Limited is considering a Project for which the following estimates are available:

Initial Outlay	1000000
Selling price /p.u	60
Cost /p.u	40

Year	1	2	3
Sales (in units)	20000	30000	30000

The cost of capital is assumed at 10% p.a.

The company wants to use Sensitivity Analysis to evaluate the risk associated in the project and its various parameters. Compute the Sensitivity of the following parameters:

- Selling Price / unit
 - Cost per unit
 - Cash Inflows
 - Cash Outlay
 - Project Life
4. Proposal X requires an initial capital outlay of Rs 10 00,000, with no salvage value, and will be depreciated on a straight line basis for tax purposes. The earnings before depreciation and taxes (EBDT) during its 5 year life are:

Year	1	2	3	4	5
EBDT	Rs.350000	Rs.380000	Rs.400000	Rs.325000	Rs.250000

The firm follows WDV method for depreciation at the rate of 25%, the salvage value is 100000. The corporate tax rate is 35% and the company evaluates its capital budgeting projects at 10% cost of capital and the inflation is 8% per annum. Advise the company whether the project should be accepted.

Show the calculations in real terms.