

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
MBA, Winter Examination 2017

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

Date: 29/12/2017
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.****(05)**

1. The only feasible purpose of financial management is
 - a) Wealth Maximization
 - b) Return Maximization
 - c) Profit Maximization
 - d) Asset Maximization
2. In mutually exclusive projects, project which is selected for comparison with others must have
 - a) higher net present value
 - b) zero net present value
 - c) lower net present value
 - d) All of the above
3. The Z score multiple Discriminant model is developed by_____.
 - a) Edward Altman
 - b) Taffler & Tisshaw
 - c) Beaver
 - d) None of the above
4. The firm's real rate of return on new projects is 10%. It is expected that the inflation rate will be 6%, calculate the nominal rate to be employed by the company_____.
 - a) 16.6 %
 - b) 15%
 - c.18%
 - d. 12%
5. Company has invested 50,000 in project which is assumed to provide 14000 cash inflow every year. The payback period of the project is
 - a) 4 Years
 - b) 3.57 Years
 - c) 5 Years
 - d) 4.57 Years

B). Define the following.**(05)**

1. Financial Distress
2. Strategic Financial Management
3. EVA
4. MVA
5. Financial Risk

C). Direct questions.**(05)**

1. Financial Architecture
2. Risk Adjusted Discount Rate
3. Sensitivity Analysis
4. Decision Tree
5. Net Asset Valuation method

Q.2 Answer the following questions.

- A). What is Industrial Sickness? Discuss the Internal and External Causes of Industrial Sickness.**

(07)

- B). A company has under consideration two mutually exclusive projects for increasing its plant capacity. The management has developed pessimistic, most likely and optimistic estimates of the annual cash flows associated with each project. The estimates are as follows: (08)

Details	Project A	Project B
Net Investment	Rs. 30,000	Rs. 30,000
CFAT Estimates:		
Pessimistic	1200	3700
Most Likely	4000	4000
Optimistic	7000	4500

1. Determine the NPV associated with each estimate given for both the projects. The projects have 20 years life each and the firm's cost of capital is 10 %.
2. Which project do you consider should be selected by the company and why?

Q.3 Answer the following questions.

- A). "Strategic Financial Management focuses on the profitability and wealth maximization to facilitate better competitive advantage position of the firm"- In context of the statement discuss the scope of SFM in detail. (07)

- B). The following details are available for the cost of the project: (08)

Initial Cost: 1000000

Sales Price per unit Rs 60

Cost / unit Rs40

Sales volume for three years are as follows: (in Units)

1. 20000
2. 30000
3. 30000

Cut off Rate 10%.

You are required to calculate the sensitivity of the project in relation to the following parameters:

1. Sales price per unit
2. Cost per unit
3. Sales Volume
4. Initial Outlay
5. Project Life

Q.4 Attempt any two questions.

(15)

- A). Calculate Economic Value added with the help of the following information:

Financial Leverage	1.4 times
Cost of Equity	17.5%
Capital Structure:	Equity Capital Rs.170 Lakhs, Reserves & Surplus Rs.130 Lakhs, 10% Debenture Rs.400 Lakhs
Income Tax Rate	30%

- B). Project X & Project Y has similar life and yield. The initial investment is Rs.80 lakhs each. Both the projects are new business model and hence cash flow cannot be accurately projected. The probability distributions for the first year for both the projects are given below and are expected to be same for the entire tenure of the projects. Decide which projected to be selected using coefficient of variation.

Project X		Project Y	
Cash Flow (Rs. Lakhs)	Probability	Cash Flow (Rs. Lakhs)	Probability
12	0.10	8	0.10
14	0.20	12	0.25
16	0.40	16	0.30
18	0.20	20	0.25
20	0.10	24	0.10

C). Balance Sheet of a corporate as on March 31, Current year is as follow: (amt in crore)

Liabilities	Amt	Assets	Amt
Equity share capital (1 crore)	200	Plant & Machinery	250
Reserves & surplus	180	Land & Bdlg	150
12% Debentures	150	Inventories	80
Creditors	35	Receivables	60
Other CL	15	Other CA	40
Total	580	Total	580

The Market Value of its assets as assessed by professional valuer is as follows:

Plant & Machinery – 180 Crore

Land & Bldg – 300 Crore

The current resale values of the remaining assets are as per their book values. You are required to compute the value of equity share on the basis of net asset valuation method. (book value and market value)

D). Suppose a firm has an investment proposal, requiring an outlay of Rs. 2,00,000 at present ($t = 0$). The investment proposal is expected to have 2 years' economic life with no salvage value. In year 1, there is a 0.3 probability (30 per cent chance) that CFAT will be Rs. 80,000; a 0.4 probability (40 per cent chance) that CFAT will be Rs. 1, 10,000 and a 0.3 probability (30 per cent chance) that CFAT will be Rs. 1,50,000. In year 2, the CFAT possibilities depend on the CFAT that occurs in year 1. That is, the CFAT for the year 2 are conditional on CFAT for the year 1. Accordingly, the probabilities assigned with the CFAT of the year 2 are conditional probabilities. The risk – free rate of return is 8%. Draw up a decision tree and give your suggestions. The estimated conditional CFAT and their associated conditional probabilities are as follows:

If CFAT1 = Rs 80,000		If CFAT1 = Rs 1,10,000		If CFAT1 = Rs 1,50,000	
CFAT2	Probability	CFAT2	Probability	CFAT2	Probability
Rs 40,000	0.2	Rs 1,30,000	0.3	Rs 1,60,000	0.1
1,00,000	0.6	1,50,000	0.4	2,00,000	0.8
1,50,000	0.2	1,60,000	0.3	2,40,000	0.1