Seat No:_____________ Enrollment No:________________

PARUL UNIVERSITY

FACULTY OF MANAGEMENT

MBA Summer 2017 - 18 Examination

Semester: 3 **Date: 06/06/2018**

Subject Code: 06201201 **Time: 02:00 pm to 04:30 pm**

Subject Name: Strategic Financial Management **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. Real rates of return are typically less than nominal rates of return due to________.
   a) Inflation
   b) Capital Gains
   c) Dividends
   d) Taxes

2. ___________ is concerned with the maximization of a firm's earnings after taxes.
   a) Wealth Maximization
   b) Profit Maximization
   c) EPS
   d) None of the above

3. Cost of the project is 6,00,000 , life of the project is 5 years annual cash flow is 2,00,000 cut off rate is 10% the discounted payback period is _______________.
   a) 2 years
   b) 2.6 years
   c) 3 years
   d) 3.9 years

4. Shareholder wealth" in a firm is represented by_____________.
   a) The number of people employed in the firm.
   b) the book value of the firm's assets less the book value of its liabilities
   c) The amount of salary paid to its employees.
   d) the market price per share of the firm's common stock

5. Which of the following is diversifiable risk?
   a) Business Risk
   b) Inflation risk
   c) Market Risk
   d) Interest Rate Risk

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

1. RADAR
2. Systematic Risk
3. Decision Tree
4. Real Rate of Return
5. Nominal Rate of Return

C) Direct questions. (Each of 1 mark) **(05)**

1. What is Coefficient of Co variance?
2. What is continuing Value?
3. Explain Sensitivity Analysis
4. Wealth Maximization
5. Profit Maximization

Q.2 Answer the following questions.

A) 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: **(07)**

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

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 %.
Which project do you consider should be selected by the company and why?

B) What are the advantages and disadvantages of Strategic Planning? **(08)**

Q.3 Answer the following questions.

A) 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%. The estimated conditional CFAT and their associated conditional probabilities are as follows: **(07)**

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

B) Explain the Scope and Importance of Strategic Financial Management **(08)**

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

1. Proposal X requires an initial capital outlay of Rs 2, 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.70,000	Rs.76,000	Rs.80,000	Rs.60,000	Rs.52,000

The corporate tax rate is 35% and the company evaluates its capital budgeting projects at 12% cost of capital. Advise the company whether the project should be accepted. When there is inflation at the rate of 15% per annum, and the stated gross earnings are also expected to grow at this rate of inflation.

2. Explain the concepts of EVA and MVA.
3. What is Financial Planning and explain its process?
4. Contrast and Compare NPV and IRR methods.