Seat No: _______________ Enrollment No: _______________

PARUL UNIVERSITY
FACULTY OF COMMERCE
M.Com. (Hons) Summer 2018 – 19 Examination

Semester: 4 **Date: 01/04/2019**
Subject Code: 16201251 **Time: 02:00pm 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. (Each of one mark) (06)

1. A business company's main objective is to _______________.
   a) Maximize profit b) Maximize sales
   c) Maximize wealth d) Minimize wealth
2. Financial planning is a task which helps determining a business will achieve ___________.
   a) Goals and objectives b) Finance
   c) Sales d) None of the above
3. Risk Exists because of inability of _____________.
   a) Staff b) Company
   c) Director d) Decision maker
4. NPV means _________.
   a) Net past value b) Net present value
   c) New Price value d) None of the above
5. A commonly use measure of risk is ___________.
   a) Standard deviation b) Mean
   c) Mode d) All of the above
6. __________ is chances of occurrence or non-occurrence of an event.
   a) Variance b) Standard deviation
   c) Probability d) Mean

B) Definitions / One-liners / Terms. (Each of one mark) (06)

1. What is value creation?
2. What is strategy?
3. What are the two important task of financial manager?
4. What is financial planning?
5. What are the components of financial planning model?
6. What are two cycles of VBM?

Q.2 Numerical / Short Note Questions. (Each of 04 mark) (12)

1. Explain value based management framework.
2. Explain the levels of strategic financial planning.
3. Explain BCG market share model in brief.

Q.3 Answer the following. (Any Three) (18)

1. Explain benefits of value based creation.
2. State factors affecting choice of strategy.
3. A company has determined the following probabilities for net cash flows for three years generated by a project:

Year-1		Year-2		Year-3	
Cash Flows (Rs)	**Probability**	**Cash Flows (Rs)**	**Probability**	**Cash Flows (Rs)**	**Probability**
1000	0.1	1000	0.2	1000	0.3
2000	0.2	2000	0.3	2000	0.4
3000	0.3	3000	0.4	3000	0.2
4000	0.4	4000	0.1	4000	0.1

Calculate the expected net cash flows. Also calculate the present value of the expected cash flow, using 10% discount rate.

4. An investment project has a life of three years, and it would involve an initial cost of Rs.10,000. Based on the possible economic conditions, the expected net cash flows and associated probabilities are given in the table below.

Year	Economic Conditions	NCF (Rs.)	Probability
0		-10,000	1.0
1	High growth	5,000	0.2
	Average growth	3,000	0.7
	No growth	1,000	0.1
2	High growth	6,000	0.3
	Average growth	4,000	0.5
	No growth	2,000	0.2
3	High growth	8,000	0.4
	Average growth	6,000	0.3
	No growth	3,000	0.3

If the discount is 15% , Calculate the expected NPV.

Q.4 Answer the following. (Any two) **(18)**

1. State the objectives of strategic financial planning.
2. Consider the financial data of east and west hotel for the current year given in the table below :-

Financial data	**(Rs. In crore)**
Revenues	80.85
PBIT	27.84
Net Profit	21.04
Net Assets	154.13
Net worth	142.17
Debt	11.96
Dividends	7.14
Retained earnings	13.90
Ratios	
Net profit to revenues	0.2602
PBIT to Net Assets	0.1806
Retained earnings to net profit	0.6606
Net assets to net worth	1.0841
Net assets to revenue	1.9064

(1) What is the sustainable growth of east & west company?
(2) What Should be its profit margins to obtain a 15% growth?

3. A company is considering new equipment. The net cash flows of the equipment have been estimated as given below. The equipment's life has been estimated as given below. The equipment's life is estimated to be two years.

	Year-1	**Probability**	**Year-2**	**Probability**
NCF	10,000	0.4	8,000	0.5
			12,000	0.5
NCF	12,000	0.6	16,000	0.4
			20,000	0.6

The cost of equipment is Rs.20,000 , and the company's cost of capital is 12%. Use the decision tree approach to recommend whether the equipment should be bought or not.