# **GUJARAT TECHNOLOGICAL UNIVERSITY**

M.B.A -III<sup>nd</sup> SEMESTER–EXAMINATION – MAY/JUNE- 2012

Subject code: 2830201

Subject Name: Strategic Financial Management (SFM)

Time: 02:30 pm – 05:30 pm

**Total Marks: 70** 

Date: 31/05/2012

## **Instructions:**

- 1. Attempt all questions.
- 2. Make suitable assumptions wherever necessary.
- 3. Figures to the right indicate full marks.
- Q.1 (a) 'Strategic Financial Planning is subject to the various macro 07 and micro environmental factors'. Elucidate.
  - (b) Konark Ltd. has to make a choice between debt issue and equity 07 issue for its expansion programme. Its current position is as follows:

<b>Particulars</b>	<u>Rs.</u>
5% Debt	2,00,000
Equity Share Capital(Rs. 10 per	
share)	5,00,000
Reserves & Surplus	3,00,000
Total Capitalisation	10,00,000
Sales	30,00,000
Total Cost	26,90,000
EBIT	3,10,000
Interest	10,000
EBT	3,00,000
Income Tax @ 35%	1,05,000

The expansion programme is estimated to cost Rs. 5,00,000. If it is financed through debt, the rate of interest on the new debt will be 7% and the price-earnings ratio will be 6. If the expansion programme is through equity, new shares can be sold @ Rs. 12.50 per share and the price-earning ratio will be 7.the expansion will generate additional sales of Rs. 15,00,000 with a return of 10% on sales before interest and taxes.

If the company is to follow a policy of maximising the market value of the shares, which form of financing should it choose?

- Q.2 (a) Explain the significance of operating and financial leverage 07 analysis for a financial executive in corporate profit and financial structure planning.
  - (b) Raj Ltd. is having shares in branded portion as well as 07 unbranded portion. From the following data calculate brand value of the company:

Branded Revenue

Rs. 500 per unit

Unbranded Revenue	Rs. 120 per unit
Branded Cost	Rs. 350 per unit
Unbranded Cost	Rs. 100 per unit
Research & Development	Rs. 20,00,000
Branded Products	1,00,000 units
Unbranded Products	40,000 units
Tax Rate	39.55%
Capitalization factor	18%
	OR

- (b) Define the terms: 'Risk' and 'Uncertainty'. What is Risk 07 Management? Discuss the steps for application of Risk Management in Project Management.
- Q.3 (a) What does it mean by Corporate Restructuring? Discuss the 07 techniques adopted in corporate restructuring.
  - (b) Nigam Ltd. Produces a product in bulk of 40,000 units and 07 incurs a loss of Rs. 40,000. The variable cost is Rs. 32 and fixed cost is Rs. 1,20,000. The company has estimated its demand as follows:
    Demand (Rs.) 40,000 48,000 56,000 64,000 72,000

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Probability	0.10	0.15	0.20	0.30	0.25

What is the probability that company will incur loss? What is the probability that company will make profit of Rs. 24.000?

#### OR

### Q.3 (a) Write a note on: Project Management Information System. 07

- (b) Define 'Financial Forecasting'. Briefly discuss the techniques 07 of financial forecasting.
- Q.4 (a) Define 'Sick Industrial Company'. Discuss Univariate Model 07 and Multiple Discriminant Analysis for prediction of industrial sickness?
  - (b) HPL Ltd. is a levered company with a single project i.e. 07 Project-P in hand. The equity has a beta 1.2 and debt has a beta 0.9. The project cost is Rs. 1,20,00,000 financed by a combination of Rs. 72,00,000 debt and Rs. 48,00,000 equity. The risk free rate of return is 10% and expected market rate of return is 18%. You are required to calculate beta of the company in situations: (1) No tax world and (2) In tax world, assuming corporate tax is 40%.

#### OR

- Q.4 (a) 'An analysis of the magnitude and stability of cash flows 07 relative to fixed charges and it is extremely important in determining an appropriate capital structure.' Comment
  - (b) How do you ascertain the value of share under Capital Asset 07 Pricing Model?
- Q.5 (a) Discuss the impact of liberalization and globalization on 07 project planning.
  - (b) Discuss Decision Tree Analysis and Simulation Modelling as 07

risk evaluation technique in capital budgeting. OR

Q.5	(a)	Baghban Ltd. provides you the following requested to find the value of the company:	detail, you are	07
		2,000, 9% Preference Share of Rs. 100 each	Rs. 2,00,000	
		50,000 Equity Share of Rs. 10 each,		
		Rs. 8 per share paid up	Rs. 4,00,000	
		Expected profit p.a. before tax	Rs. 2,18,000	
		Rate of tax	40%	
		Transfer to General Reserve every year	20% of profit	
		Normal Rate of earning	15%	
	<b>(b</b> )	Distinguish: Gordon's Growth Valuation Mod	del and Walter's	07

Ustinguish: Gordon's Growth Valuation Model and Walter's **07** Valuation Model. (D)

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