Seat No.: _____ *Enrolment No._____*

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A.- SEMESTER – III • EXAMINATION – WINTER 2012

Subject code: 2830201 **Date: 11-01-2013**
Subject Name: Strategic Financial Management
Time: 10:30 pm – 01:30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q-1 Explain the following terms in brief:

(a) (i) Economic Rate of Return (ii) Effective Rate of Protection (07)

(b) Explain the concept of Social Cost Benefit Analysis and explain the indicators of social desirability of project. (07)

Q-2 (a) Following are the details of XYZ Ltd. The sales scenario with alternative price Rs.12 or Rs.13 per unit are as under; (07)

At Price Rs.12 per unit		At price Rs.13 per unit	
Sales (units)	probability		probability
50000	0.1	60000	0.1
90000	0.2	70000	0.2
110000	0.4	80000	0.4
130000	0.2	90000	0.3
140000	0.1		

Variable cost is Rs.9 per unit while Fixed cost p.a. is Rs.210000/=Determine the sale price to be selected based on economic value of contribution and profit.

(b) Explain Operating Leverage, Financial Leverage and Combined Leverage with help of formula and hypothetical illustrations. (07)

OR

Q-2 (b) Discuss Net Present Value and Internal Rate of Return as important techniques of capital budgeting and bring out the differences.

Q-3 (14)

Project X & Project Y have similar life and yield.. The initial investment is Rs.80 lacs each. Both the projects are new business model and hence cash flow cannot be accurately projected.. The probability distribution for the first year for both the projects are given below and are expected to be same for the entire tenure of the projects.

Project X		Project Y	
Cash flow (Rs. Lacs)	Probability	Cash flow (Rs. Lacs)	Probability
12	0.1	8	0.10
14	0.2	12	0.25

16	0.4	16	0.30
18	0.2	20	0.25
20	0.1	24	0.10

Decide which projected to be selected using coefficient of variation.

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OR

Q-3 (a) Define Indusrial sickness and discuss the causes of indusrial sickness. (7)

(b) Describe the importance of project finance and explain the terms:
(i) B.O.O. (ii) B.O.T. (iii) E.P.C. (7)

Q-4 There are five un levered projects. Beta and weight of each projects are: (14)

Projects	Beta	Weight
A	1.2	0.10
B	0.9	0.15
C	1.5	0.20
D	2.1	0.25
E	1.8	0.30

When risk free return is 9% and relevant market return is 14% work our expected return of the company and weighted average cost of capital.

OR

Q-4 Details of A Ltd. and B Ltd. are given below: (14)

Particulars	A Ltd. (Rs.)	B Ltd. (Rs.)
Labilities		
Equity Share Capital (Rs. 10 each)	400,000	180,000
General Reserve	500,000	100,000
P.& L. A/c	300,000	80,000
Debenture	350,000	--
Creditors	200,000	100,000
Bills Payable	50,000	40,000
Total	1800,000	500,000
Assets		
Fixed Assets	700,000	300,000
Investments	500,000	--
Current Assets	600,000	200,000
Total	1800,000	500,000

A Ltd. Wants to take over B Ltd. Ascertain share exchange ratio assuming that above values are market values.

Q-5 (a) Explain Walter's Dividend model and Gordon's Dividend model. (7)

(b) What is risk management? Describe it's objectives and steps to be taken in risk management. (7)

OR

(a) Define Capital structure and explain Modigliani & Miller's irrelevance theorem pertaining to capital structure. (7)

(b) Write a short note on time value of money. (7)

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