

**FOURTH SEMESTER M.Com. DEGREE [REGULAR/SUPPLEMENTARY]
EXAMINATION, APRIL 2022**

April 2021 Session for SDE/Private Students

(CBCSS)

Master of Commerce

MCM4E(F)04—ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(2019 Admission onwards)

Maximum : 30 Weightage

Three Hours

General Instructions

COVID Instructions are not applicable for Pvt/SDE students (April 2021 session)

In cases where choices are provided, students can attend all questions in each section.

The minimum number of questions to be attended from the Section / Part shall remain the same.

The instruction if any, to attend a minimum number of questions from each sub section / sub part / sub division may be ignored.

There will be an overall ceiling for each Section / Part that is equivalent to the maximum weightage of the Section / Part.

Part A

Answer any four questions.

Each question carries 2 weightage.

Enlist the factors determining capital structure of the firm.

What is direct lease ?

Compare concentric and conglomerate merger.

Explain MBV.

Compare friendly takeover with hostile takeover

Explain sell-off.

What is sustainable growth rate ?

(4 × 2 = 8 weightage)

Turn over

Part B

*Answer any four questions.
Each question carries 3 weightage.*

8. A company has earnings per share of Rs. 10. The equity's capitalization rate being 12%. Show the impact on the market price of the share under various dividend policies assuming the rate of return generated by the firm is 15%. Let the dividend policy be : i) 0% pay out ; and ii) 100% payout. (Walter's model)
9. A Ltd. has the following capital structure : Rs. Equity share capital (of Rs. 100 each) Rs. 1,00,000, 10% Preference share capital (of Rs. 100 each) Rs. 2,00,000, 10% debentures (of Rs. 100 each) 2,00,000. If EBIT is : (i) Rs. 1,00,000 ; (ii) Rs. 80,000 ; and (iii) Rs. 1,20,000, Calculate financial leverage under three situations. Assume 50% tax rate
10. The following figures are extracted from company records :

	(Rupees)
Profit before tax	... 2.50 crore
Tax rate	... 40%
Retention ratio	... 40%
No. of outstanding shares	... 50,00,000
Equity capitalization rate	... 12%
Rate of return on investment	... 15%

What should be the market price per share according to Gordon's model ?

11. Enumerate the features of EVA.
12. What are the factors influencing option price ?
13. Explain the benefits of lease to the borrower.
14. What are the reasons for spin-offs ?

(4 × 3 = 12 weightage)

Part C

Answer any **two** questions.

Each question carries 5 weightage.

Mani Ltd. requires an equipment costing Rs. 10,00,000 which can be utilized over a period of 5 years. It has two financing options in this regard :

- Arrangement of a loan of Rs.10,00,000 at 13% p.annum ; which can be repayable in 5 equal year end installments; the equipment can be sold for Rs.1,00,000 at the end of 5 years.
- Leasing the equipment for a period of five years at an yearly rental of Rs.3,30,000, payable at the year end.

The rate of depre.is 15% at w.d.v, income tax rate-35%,discount rate 12%. Advice which option is the best.

Following info, is provided relating to acquiring company Mani Ltd. and the target company Ratnam Ltd.

	Mani Ltd.	Ratnam Ltd.
Earnings after tax(lakhs)	2000	4,000
No. of shares outstanding(lakhs)	200	1000
P/E Ratio(no. of times)	10	5

Required :

- What is the swap ratio based on current market prices ?
- What is the EPS of Mani Ltd. after acquisition ?
- What is the expected market price per share of Mani Ltd. after the acquisition, assuming its PE ratio is adversely affected by 10% ?
- Determine the market value of the merged co.
- Calculate gain/loss to the shareholders of the two independent entities.

Discuss different types of mergers and acquisitions.

What is leverage buyout ? What are its advantages and disadvantages ?

(2 × 5 = 10 weightage)