* R B - 4 4 2 7 - 2 8 / 5 0 0 *

RB-4427-28

M. B. A. (F.T.) (Sem. IV) & (Eve.) (Sem. VI) Examination

April / May – 2010

OF & A-403 & OF & A-601 : Strategic Financial Management

Time : **3** Hours] [Total Marks : **100**

RB-4427

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :

☛ **M. B. A. (F.T.) (Sem. 4) & (Eve.) (Sem. 6)**

Name of the Subject :

☛ OF & A-403 & OF & A-601 : **Strategic Financial Management**

☛ Subject Code No. : **4 4 2 7** ☛ Section No. (1, 2,.....) : **1**

Seat No. :

Student's Signature

(2) Answers to Section I and Section II must be written in **two separate** answer books.

(3) Each section carries **50** marks.

(4) Maximum marks of each question are indicated at the right hand side of the question.

(5) Question No. 1 and Question No. **6** are **compulsory**.

(6) Attempt any **two** questions from question no. 2, 3, 4 and 5 in Section I and attempt any **two** questions from question no. 7, 8 and 9 in section II.

(7) Show working as part of your answer.

(8) Use of your own non-programmable calculator is permitted.

(9) Present value tables will be provided on demand.

1 (a) Explain how the change in the environment of a business or industry culminates into the need for corporate restructuring. You may use suitable examples to explain your answer. **9**

(b) "The most important environmental element is competition." Explain in light of the five competitive forces of Michael Porter. Give suitable examples. **9**

2 Discuss the various forms of sell-offs and divestitures and also the similarities and dissimilarities between them. Empirically positive returns are found in sell-offs, discuss the hypothesis that have been advanced to explain the positive returns. **16**

3 "LBO's are not favourable for industries which have a short history of profitability and volatile cash flows." Discuss the above statement in the context of LBO method of going private. Also, mention the sources responsible for gains in going private. **16**

4 (a) "One of the major challenges faced by businesses in a liberalized economy is the challenge of discontinuity" - Discuss. **8**

(b) "Some mergers may be motivated by tax minimizing opportunities" - Discuss. **8**

5 H Ltd. is contemplating having an access to a machine for a period of 5 years. Discussions with various financial institutions have shown that the company can have the use of machine for the stipulated period through leasing arrangement, or the requisite amount can be borrowed at 14% to buy the machine. The firm is in the 50% tax bracket. In case of leasing, the firm would be required to pay an annual end of the year rent of Rs. 1,20,000 for 5 years. All maintenance, insurance and other costs are to be borne by the lessee. **16**

In the case of purchase of the machine (which costs Rs. 3,43,300) the firm would have a 14%, 5 year loan, to be paid in 5 equal instalments, each instalment becoming due at the end of each year. The machine would be depreciated on straight line basis for tax purposes, with no salvage value.

Advice the company regarding the option it should be for assuming 7% discount rate.

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :

☛ **M. B. A. (F.T.) (Sem. 4) & (Eve.) (Sem. 6)**

Name of the Subject :

☛ OF & A-403 & OF & A-601 : **Strategic Financial Management**

☛ Subject Code No. : **4 4 2 8** ☛ Section No. (1, 2,.....) : **2**

Seat No. :

Student's Signature

(2) Answers to Section I and Section II must be written in **two separate** answer books.

(3) Each section carries **50** marks.

(4) Maximum marks of each question are indicated at the right hand side of the question.

(5) Question No. 1 and Question No. **6** are **compulsory**.

(6) Attempt any **two** questions from question no. 2, 3, 4 and 5 in Section I and attempt any **two** questions from question no. 7, 8 and 9 in section II.

(7) Show working as part of your answer.

(8) Use of your own non-programmable calculator is permitted.

(9) Present value tables will be provided on demand.

6 A company is considering two mutually exclusive projects. Both require an initial cash outlay of Rs. 10,000 each, and have a life of five years. The company's required rate of return is 10% and pays tax at 50% rate. The project will be depreciated on a straight line basis. The before taxes cash flows expected to be generated by the projects are as follows : **18**

Project	Before Tax Cash Flows (Rs.) 1	2	3	4	5
A	4000	4000	4000	4000	4000
B	6000	3000	2000	5000	5000

Calculate for each project net present value, profitability index and the internal rate of return. Which project should be accepted and why?

7 What are ESOPs? Explain the benefits of ESOPs from a company's point of view. ESOPs are an effective anti-takeover strategy. Do you agree? Justify your answer. **16**

8 (a) Discuss the Market-to-Book Value (M/B) method of measuring shareholders value creation. 8

(b) Two firms A and B are identical in all respect except that B has Rs. 5,00,000 debt outstanding at a 6% rate of interest. The value of the two firms are as under : 8

	A	**B**
Net Operating Income	1,50,000	1,50,000
Interest	—	30,000
Net Income	**1,50,000**	**1,20,000**
Equity Capitalization Rate (Ke)	0.10	0.15
Market Value of Equity (S)	15,00,000	8,00,000
Market Value of Debt (D)	—	5,00,000
Total Value of Firm (S+D)	15,00,000	13,00,000
Overall Capitalization Rate (Ko)	0.10	0.1154

Assume that an investor owns 10% of A's shares. How can the investor obtain same return at a lower cost?

9 Write short notes on : (any **two**) **16**

(a) Optimum Capital Structure - Traditional Approach

(b) Basic Stock Repurchase Model

(c) "Differential Efficiency Theory" ***V/s*** Inefficient Management Theory"

(d) Financial Synergy and Pure Conglomerate Merger.