

Enrollment No: \_\_\_\_\_

Exam Seat No: \_\_\_\_\_

# C.U.SHAH UNIVERSITY

## Summer Examination-2017

**Subject Name: Strategic Financial Management**

**Subject Code: 4MS06SFM1**

**Branch: BBA**

**Semester: 6**

**Date: 24/04/2017**

**Time: 10:30 To 01:30**

**Marks: 70**

Instructions:

- (1) Use of Programmable calculator & any other electronic instrument is prohibited.
- (2) Instructions written on main answer book are strictly to be obeyed.
- (3) Draw neat diagrams and figures (if necessary) at right places.
- (4) Assume suitable data if needed.

- Q-1 Attempt the following questions: (14)**
- a) NPV is the best method of evaluating long-term investment proposals. ( True / False) 01
  - b) Give the formula for calculation of real cost of capital. 01
  - c) How can the real CFAT be found from CFAT? 01
  - d) Conceptually the terms risk and uncertainty can be used interchangeably. ( True/ False) 01
  - e) Coverage ratio which considers sinking fund payments also is determined dividing EBIT by \_\_\_\_\_ 01
  - f) Firms at their infancy should rely more on (debt/equity) 01
  - g) Cost of debt relates only to the amount of interest payable on borrowings. ( True/ False) 01
  - h) According to Walters Model, the value of the share is \_\_\_\_\_ (directly, inversely, not related) proportion to the D/P ratio. 01
  - i) An optimum dividend policy should strike a balance between \_\_\_\_\_ and \_\_\_\_\_ in order to maximize the wealth of the shareholders. 01
  - j) A firm cannot pay dividends out of its accumulated balance of retained earnings. ( True/ False) 01
  - k) Under what condition is the Walter model similar to the MM hypothesis with regards to the payment of dividends? 01
  - l) When the purchaser approaches the shareholders directly instead of the management to acquire interest in acquired firm is known as? 01
  - m) Firm A acquires firm B, MPS of B is Rs 20 and EPS is Rs 5. For an exchange ratio of 1.5:1, what was the P/E ratio used in acquiring B? 01
  - n) Major advantages of merger are 01
    1. Tax benefits. 2. Synergy. 3. Economies of Scale. 4. All of above.

**Attempt any four questions from Q-2 to Q-8**

- Q-2 Attempt all questions (14)**
- a. What is the agency problem? How do market forces act to prevent/minimize this 07



	problem?	
	b. Define capital structure. What is an appropriate capital structure? What is a flexible capital structure?	07
<b>Q-3</b>	<b>Attempt all questions</b>	<b>(14)</b>
	a. What is payback period? Also, discuss the utility of the payback period in determining the internal rate of return.	07
	b. How can the effect of profitability on designing an appropriate capital structure be analysed? Illustrate your answer with the help of EBIT-EPS analysis.	07
<b>Q-4</b>	<b>Attempt all questions</b>	<b>(14)</b>
	a. How should working capital and sunk costs be treated in analyzing investment opportunities? Explain with suitable examples.	07
	b. Explain the significance of operating and financial leverage analysis for a financial executive in corporate profit and financial structure planning.	07
<b>Q-5</b>	<b>Attempt all questions</b>	<b>(14)</b>
	a. Do the profitability index and the NPV criterion of evaluating investment proposals lead to the same acceptance-rejection and ranking decisions?	07
	b. Why is the business valuation exercise undertaken by corporate finance managers and investors?	07
<b>Q-6</b>	<b>Attempt all questions</b>	<b>(14)</b>
	a. What is the relationship between the desired real rate of return, inflation rate and the rate used to discount project cash flows under conditions of inflation?	07
	b. What is financial restructuring? What are the key components of the financial restructuring scheme?	07
<b>Q-7</b>	<b>Attempt all questions</b>	<b>(14)</b>
	a. Distinguish between Diversifiable and non-diversifiable risk.	07
	b. What are the critical factors to be observed while making capital budgeting decisions under capital rationing?	07
<b>Q-8</b>	<b>Attempt all questions</b>	<b>(14)</b>
	a. Describe the salient features of the modern approaches of financial management.	07
	b. What is the indifference point and why is it so called? What is its usefulness?	07

