Reg. No.

MBAS 504

Third Semester M.B.A. Degree Examination, December 2018
BUSINESS ADMINISTRATION
Strategic Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Note : Answer **any two** questions. **Each** question carries **10** marks. Answer to **each** question should **not** exceed **5** pages. **(2×10=20)**

1. Explain the basic functions of a finance manager of a large business organization.

2. Explain the different stages in Venture Capital Financing ?

3. What is meant by Project Life Cycle ? Discuss the major factors affecting the financial analysis of a project.

SECTION – B

Note : Answer **any three** questions. **Each** question carries **12** marks. Answer to **each** question should **not** exceed **6** pages. **(3×12=36)**

4. A new company's share is currently selling at Rs. 340 and expects to pay a dividend of Rs. 10 per share in the first year, which is expected to grow at 15% till the end of fourth year. It will grow at 10% for the next three years and thereafter at a constant rate of 8% forever. If the required rate of return of an investor is 12%, should the share be bought ? Why or Why not ?

5. What is meant by Term Loan ? Explain the role of Commercial Bank in providing business term loans ?

6. SX & Co. earns Rs. 6 per share having capitalisation rate of 10% and has a return on investment at the rate of 20%. According to Walter's Model, what should be the price per share at 30% dividend pay-out ratio ? Is this the optimum pay-out ratio as per Walter ? Substantiate.

7. A company earns a profit of Rs. 3 lakh per annum after meeting its interest liability of Rs. 1,20,000 on 12% debentures. The tax rate is 30%. The number of equity shares of Rs. 10 each are 80,000 and retained earnings amount to Rs. 12,00,000. The company proposes to take up an expansion scheme for which a sum of Rs. 4,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion be raised either through debt at the rate of 12% or by issuing equity shares at par. You are required to :

i) Compute the Earning Per Share ;
   a) The additional funds were raised as debt
   b) The additional funds were raised by issue of equity shares

ii) Advice the company as which source of finance is preferable.

8. The capital structure of P Ltd. as on 31st March, 2018 is as follows :

	Rs. in crores
Equity Capital (100 lakh Equity shares of Rs. 10 each)	10
Reserves	2
14% debentures of Rs. 100 each	3

For the year ended 31st, March, 2018 the company has paid equity dividend at 20%. As the company is a market leader with good future, dividend is likely to grow by 5% every year. The equity shares are now traded at Rs. 80 per share in the stock exchange. Income tax rate applicable to the company is 30%.

You are required :

a) To calculate the current Weighted Cost of Capital.

b) The company has plans to raise a further Rs. 5 crores by way of long term loan at 16% interest. When this takes place the market value of equity share is expected to fall to Rs. 50 per share ? What will be the new Weighted Average Cost of Capital of the company ?

SECTION – C
(Compulsory)

(1×14=14)

Answer to **each** question should **not** exceed **6** pages.

9. The net sales of A Ltd. is 30 crores. EBIT of the company as a percentage of net sales is 12%. The capital employed comprises Rs. 10 crores of equity, Rs. 2 crores of 13% cumulative preference share capital and 15% debentures of Rs. 6 crores. Income tax rate is 30%.

a) Calculate the return on equity for the company and indicate its segments due to the presence of preference share capital and borrowings (debentures).

b) Calculate the operating leverage of the company, given that combined leverage is 3.