

Reg. No.

--	--	--	--	--	--	--	--	--	--



**MBAS 504**

**III Semester M.B.A. Degree Examination,  
November/December 2019**

**BUSINESS ADMINISTRATION**

**Strategic Financial Management**

Time : 3 Hours]

[Max. Marks : 70

**Note :** Answer **all** sections. Marks are indicated against each section.

**SECTION - A**

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

1. Write a note on valuation of debentures and preference shares with suitable examples.
2. What do you mean by Leverage? Explain the different types of leverages. What do you think is the appropriate combination of operating and financial leverage?
3. What is Dividend Policy? How dividend policies affect the firm's value? Discuss the factors that should be considered while deciding a firm's dividend policies.

**SECTION - B**

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

4. What is Venture Capital? Explain the process of venture capital financing.
5. Write a note on institutional setup for term finance.
6. (a) What is financial risk? How does it differ from operating risk?  
(b) A new project under consideration by your company requires a capital investment of Rs. 300 lakhs. Interest on term loan is 14% and tax rate is 35%. If the debt-equity ratio insisted by the financing agencies is 2:1, calculate the point of indifference for the project. Explain its meaning. Assume that the equity price per share is Rs. 100.



7. Following is the Balance Sheet of XYZ Ltd.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share capital (1000 equity shares of Rs. 10 each)	1,00,000	Fixed assets	1,50,000
250, 10% Pref. shares of Rs. 100 each	25,000	Current assets	50,000
Reserves and surplus	50,000		
Current liabilities	25,000		
	<u>2,00,000</u>		<u>2,00,000</u>

The normal rate of return is 10% in case of similar business. Ascertain whether the company is over-capitalised, under-capitalised or fairly capitalised when earnings available for equity shareholders are:

- (a) Rs. 12,500
- (b) Rs. 20,000
- (c) Rs. 15,000.

Further, you are required to comment on the above situation from the point view of the company and shareholders.

8. Discuss in brief the various theories of capital structure with their assumptions and limitations.

**SECTION – C**

This section is **compulsory**. It carries **fourteen** marks. Answer to this question should not exceed **6** pages : **(1 × 14 = 14)**

9. PQR Ltd's capital structure consists of the following :

Particulars	Amount (in Lakh Rupees)
Equity shares of Rs. 100 each	20
Retained earnings	10
9% preference share	12
7% debentures	8
<b>Total</b>	<b>50</b>





The company's EBIT is at the rate of 12% on its capital employed which is likely to remain unchanged after expansion. The expansion involves additional finances aggregating Rs. 25 lakhs for which the following alternatives are available to it:

- (a) Issue of 20,000 equity shares at a premium of Rs. 25 per share.
- (b) Issue of 10% preference shares.
- (c) Issue of 8% debentures.

It is estimated that the P/E ratio in case of equity shares, preference shares and debentures financing would be 15, 12 and 10 respectively. The corporate tax rate is 35%.

Which of the financing alternatives would you recommend and why? Show all your workings clearly.

---