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MBAS 504

Third Semester M.B.A. Degree Examination, April 2021

**BUSINESS ADMINISTRATION
Strategic Financial Management**

Time : 3 Hours

Max. Marks : 70

SECTION – A

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

1. Explain the objectives and scope of Financial Management. What functions do the Financial Manager perform in a modern enterprise ?
2. Explain the concept of Valuation of Securities. Discuss the different methods of valuing equity shares.
3. What is meant by Optimum Capital Structure? What are the elements of a capital structure ? Discuss the factors that should be considered while deciding a firm's capital structure.

SECTION – B

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

4. 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.
5. What do you understand by Project Feasibility study? What are the objectives of this study ? Explain briefly the marketing, financial and technical aspects of a project feasibility study.
6. Write a short note on :
 - a) Role of lending institutions for term and working capital finance and
 - b) Venture capital financing.

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7. The Earning Per share of a company is Rs. 26. The market capitalisation rate applicable to the company is 13.5%. Retained earnings can be employed to yield a return of 10%. The company is considering a Pay-out ratio of 30%, 50% and 65%. Which of these would maximise the wealth of the shareholders as per Walter's model ?

8. EBIT of ABC Ltd. is Rs. 2,00,000 p.a. on an investment of Rs.6,00,000. The company can finance this amount by issuing equity share capital of Rs. 100 each, 10% preference shares and 15% debentures. Suppose, Company analyzes the following four options to raise the required funds of Rs. 6,00,000 :

Option I : By issuing equity share capital at par.

Option II : 50% funds by equity share and 50% funds by Preference share capital.

Option III : 50% funds by equity share capital, 25% by issue of 10% preference shares and 25% by issue of 15% debentures.

Option IV : 25% funds by equity share capital, 25% by issue of 10% preference shares and 50% by issue of 15% debentures.

Find and analyze EPS under different options assuming tax rate of 35%.

SECTION – C

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

9. Bharat Co. Ltd. Belongs to a risk class for which the capitalisation rate is 10 percent it currently has outstanding 25000 shares selling at Rs. 100 each. The firm wants to distribute dividend of Rs. 5 per share at the end of the current financial year. The company expects to have a net income of Rs. 2,50,000 and has a proposal for making new investment of Rs. 5,00,000. Show that under the MM assumptions, the payment of dividends does not affect the value of the firm .