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**MBAS 504**



**Third Semester M.B.A. Degree Examination, April/May 2022**  
**BUSINESS ADMINISTRATION**  
**Strategic Financial Management**

Time : 3 Hours

Max. Marks : 70

**SECTION – A**

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

1. What do you understand by Financial Modeling ? Briefly explain the different types financial modeling with their merits and limitations.
2. Why is the valuation concept relevant for financial decision making purposes ? Explain briefly the guidelines for valuation.
3. What do you mean by Value Based Management ? Explain in detail the direct measure of value creation by Mckinsey Model.

**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 are the different tools for developing an effective capital structure of an organization ? Discuss briefly the guidelines for capital structure planning.
5. Write a short note on : (a) Non-DCF Approaches to Valuation, and (b) Valuation of Intangible assets.
6. Discuss in detail about the Enterprise Risk Management and role of credit agencies in the evaluation of risk management functions.
7. a) What is Scenario Analysis and how it contributes in decision making and valuation ?  
b) Shares of XY Enterprise engaged in promotion and sales of commercial spaces, is quoted at Rs. 500 at the beginning of the year. It has capital expenditure of Rs. 300 crore at the year end. The cost of equity is 15% and 3 crore shares are outstanding. Ascertain the value of the firm at the beginning of the year if the anticipated profits for the next year is Rs. 280 crores and at that time XY Enterprise declares (i) No dividend, and (ii) Rs. 12 per share as dividend.

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8. a) What is the significance of cost of capital in corporate valuation ?  
 b) ABC Company has compiled the information shown in the following table.

Source of capital	Book Value	Market Value	After tax cost
Equity	1080000	3000000	17
Preference stock	50000	60000	13
Long term debt	4500000	3840000	6
<b>Total</b>	<b>5630000</b>	<b>6900000</b>	

- i) Calculate the weighted average cost of capital using book value weights.  
 ii) Calculate the weighted average cost of capital using market value weights.  
 iii) Compare the answers obtained in parts (i) and (ii) Explain the differences.

SECTION – C

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

9. Suppose you're a financial analyst at a company and you are recommending whether the company should invest in Project A or Project B.  
 Each of the two projects has been proposed by a lead engineer, but the company can only invest in creating one of them this year, and so your manager wants you to give her advice on which one to invest in. Your company's WACC is 9%, so you'll use 9% as your discount rate.

Details of the two projects are as below :

Year	Project A's Cash Flow	Project B's Cash Flow
0	-3 million, initial investment	-3 Million, initial investment
1	2 million profit	0 million
2	4 million profit	0 million
3	4 million profit	0 million
4	2 million profit	0 million
5	0 million, project close out	14 million profit

Project A starts with an initial investment to make a tech product, followed by a growing income stream, until the product becomes obsolete and is terminated.

Project B starts with an initial investment to make a different product, and makes no sales, but the whole product is expected to be sold in five years to some other company for a large payoff of 14 million.

Which project, assuming both carry the same risk, should the financial analyst recommend to his/her manager ? Explain with clear workings.