2020

TWO YEAR M. COM. SEMESTER 3 EXAMINATION

(New Syllabus under CBCS)

Instructions for Examinees

***The students are required to strictly adhere to the following instructions*:**

1. Use A4 size paper for giving the examination.

2. Write the following on the top of the first page of answer sheet:

    i) Roll Number: (as per the Admit Card)

    ii) Registration Number: (as per the Admit Card)

    iii) Paper Code and Name of the Paper

    iv) Date of the examination

    v) Duration of examination (12 noon to 2pm)

3. Put page number on the top right of each page (including the first page).

4. Only one side of the paper should be used for examination.

5. Put your signature with date, at the bottom right of every page used.

6. Before sending your answer scripts, arrange the pages sequentially. Scan them in the order of page number and convert them into a single pdf. file.

7. Pdf. file name should be your **Full Roll Number <underscore> paper code**. While submitting the answer scripts, the subject of the mail will be exactly the same with the file name. [e.g., if the roll no of a student is C95/MCM/123456, for first paper (Paper Code CC301) the file name will be: C95/MCM/123456_CC301

8. Submit your answer scripts in pdf. format within the stipulated time through designated email id given to you.

9. Preserve your answer scripts in soft as well as hard-copy form of all the papers of your examination.

2020

COMMERCE

Paper – CC. 301

(Strategic Financial Management and Business Valuation)

Full Marks -40

The figures in the margin indicate full marks

Candidates are required to give their answers in their own words as far as practicable

Time: 2 Hours **Duration of Examination: 12noon to 2pm**

Module –I

Answer ***any two*** questions

1. (a) Foxin Ltd. is considering a project whose initial investment is Rs. 20,00,000. The following are the information relating to its cash inflows in different years:

Year	1	2	3	4	5
Cash Inflows (Rs.in Lakh)	3.00	5.00	8.00	12.00	5.00

As CFO of the company, determine the Modified Internal Rate of Return if the cost of capital is 12%.

You are given the following:

(i)

Year	1	2	3	4	5
$FVIF_{0.12}$	1.120	1.254	1.405	1.574	1.762

(ii) FVIF for an investment period of 5 years at different interest rates are as follows:

Rate of Interest	14%	15%	16%
FVIF	1.925	2.011	2.100

(b) XBL Ltd., having Rs.15,00,000 for investment, is evaluating the following projects in order to maximise the value of the shareholders:

Project	Initial Investment Required(Rs.in '000)	Profitability Index
P1	600	1.20
P2	200	1.40
P3	300	1.10

P4	800	1.30
P5	500	1.50
P6	400	1.20
P7	900	1.30
P8	700	1.45

Which of the above projects should be undertaken by the company?
Assume that projects are indivisible and there is no alternative use of the money allocated for the investments. **(5 + 5)**

2. a) Mention any two practical difficulties for using market value weight in computation of weighted average cost of capital.

b) Write a short note on 'Pure Play Method' as a technique for measuring Divisional Betas.

c) ABC Limited wishes to raise additional finance of Rs. 20 lakh for meeting its investment plans. It has Rs. 3,50,000 in the form of retained earnings available for investment purposes. The following are the further details.

(i) Debt-equity mix, 40:60
(ii) Cost of debt: Upto Rs. 5,00,000, 10 per cent (before tax); Beyond Rs. 5,00,000, 12 per cent (before tax).
(iii) Earnings per share, Rs. 6.
(iv) Dividend payout, 40 per cent of earnings.
(v) Expected growth rate in dividend, 10 percent.
(vi) Current market price per share, Rs. 52.80.
(vii) Tax rate, 35 per cent.

You are required:

(a) To determine the pattern for raising the additional finance, assuming the firm intends to maintain existing debt/equity mix.
(b) To determine the post-tax average cost of additional debt.
(c) To determine the cost of retained earnings and cost of equity.
(d) Compute the overall weighted average after tax cost of additional finance.

2+2+6

3. a) The Modigliani-Miller theory with tax implies that firms should issue maximum debt. In practice this is not true. Explain the reasons in brief.

b) State the propositions of Modigliani-Miller theory of capital structure. Also proof the same through arbitrage process with example.

c) Assume that Bajaj Ltd has 10,000 shares outstanding and current market price is Rs. 70 Managers of the firm believe that the shares are underpriced and it's intrinsic value should be 10% more. Further assume that the firm requires capital investment of Rs. 77000 and NPV is Rs. 70000. Now calculate post issue share price, if the financing is made through equity and information gap is not removed.

3+(2+3)+2

4. a) Write a short note on 'Hedging or Matching Policy' as a strategy of financing working capital.

b) XYZ Ltd requires Rs. 1,20,000 in cash to meet its transaction needs during the next four – month cash planning period. It holds marketable securities of an equal amount. The annual yield on these marketable securities is 18 percent. The conversion of these securities into cash entails a fixed cost of Rs. 400 per transaction. Using Baumol model, compute the amount of marketable securities converted into cash per order, number of transactions required, and average balance in the short notice account.

c) XYZ Ltd. has 50,000 outstanding shares. The current market price per share is Rs 105 each. Last year EPS was Rs 7/-. Assume that company hopes to make EPS of Rs 10/ at the end of current year and the Board is considering a dividend of Rs 5/- per share at the end of current financial year. The company needs to raise Rs 10 lakhs for approved investment expenditure. Show how MM approach affects the value of the firm if dividend is paid or not paid.

3+3+4

Module –II

Answer ***any two*** questions

5. Discuss horizontal merger and Vertical merger with examples. 10

6. Compute Free Cash Flow of the Firm from the following information:

   EBITDA = Rs. 11.57 Crores

   EBIT = Rs. 8.23 Crores

   PAT= Rs. 3.59

   Capital Expenditure = Rs.3.87 Crores

   Depreciation = Rs. 2.38 Crores

   Net Working Capital of current year = Rs. 1.5 Crores

   Net Working Capital of preceding year = Rs. 2.15 Crores.

   10

7. Compute Free Cash Flow to Equity from the following information:

   Free Cash Flow to Firm = 1635.56 Crores

   9% Debentures = 2500 Crores

   Corporate tax rate = 25%

   Debentures Redeemed during current year = 10% 10

8. Compute Terminal Value from the following information:

   Growth rate during Terminal phase = 6%
   Industry Benchmark Growth rate = 12%
   Free Cash flow during the first year of the terminal phase = Rs. 120 Crores
   Cost of Debt Capital = 6.25%
   Cost of Equity Capital = 13.78%
   Debt to Capital Ratio = 30%. 10