C 82522 (Pages : 2) Name..............................

Reg. No............................

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, JUNE 2015

(CUCSS)

Commerce

MC4E (FM) 03—STRATEGIC FINANCIAL MANAGEMENT

(2010 Admissions)

Time : Three Hours Maximum : 36 Weightage

Part A

Answer all questions.
Each question carries a weightage of 1.

1. What is Capital rationing ?
2. Define horizontal merger.
3. What is value creation ?
4. Define clientale effect.
5. What is capital structure ?
6. What is MVA ?

(6 x 1 = 6 weightage)

Part B

Answer any **six** *questions.*
Each question carries a weightage of 3.

7. Explain the rationale of takeover.
8. Describe the motives and benefits of mergers.
9. Discuss the usefulness of MVA in evaluation of the performance of a firm.
10. Describe the legal and procedural aspects of payment of dividends.
11. Discuss types of takeovers.
12. Explain cash flow approach of capital structure.
13. Discuss distress restructuring strategy.
14. A firm has a capital structure exclusively comprising ordinary shares amounting to Rs. 10,00,000. The firm now wishes to raise additioal Rs. 10,00,000 for expansion. The firm has four alternative financial plans :

    (a) It can raise the entire amount in the form of equity capital.

    (b) It can raise 50 % as equity capital and 50 % as 5 % debentures.

Turn over

(c) It can raise the entire amount as 6 % debentures.

(d) It can raise 50 % as equity capital and 50 % as 5 % preference capital.

The existing EBIT are Rs. 1,20,000, the tax rate is 50 %, outstanding ordinary shares 10,000 and the market price per share is Rs. 100 under all the four alternatives.

Which financing plan should the firm select ?

(6 x 3 = s weightage)

Part C

Answer any **two** *questions.*
Each question carries a weightage of 6.

15. Define "bonus shares". Discuss the advantages of bonus shares to shareholders and company.

16. The Asbestos Company belongs to a Risk class of which the appropriate capitalisation rate is 10%. It currently has 1,00,000 shares selling at Rs. **100** each. The firm is contemplating the declaration of Rs. 6 dividend at the end of the current Fiscal year, which has just begun. Answer the following questions based on MM model and the assumption of no taxes :

(a) What will be the price of the shares at the end of the year, if a dividend is not declared ? What will be, if it is declared ?

(h) Assuming that the firm pays dividend, has net income of Rs. 10,00,000 and makes new investments of Rs. 20,00,000 during the period, how many new shares must be issued ?

(c) Is the **MM** model realistic with respect to valuation ? What factors might mar its validity ?

17. A company is considering project X and Y with the following information :

	Project	
	X	
Expected NPV	60,000	2,27,000
Standard deviation ...	40,000	1,35,000

Which project will you recommend ? Will your answer change, if you use coefficient of variation as a measure of risk instead of standard deviation ? Which measure is more appropriate in this situation ? Give reasons.

(2 x 6 = 12 weightage)