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Name.....

Reg. No.....

**FOURTH SEMESTER M.Com. DEGREE (REGULAR/SUPPLEMENTARY)
EXAMINATION, APRIL 2024**

(CBCSS)

Master of Commerce

MCM4E(F)04—ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Three Hours

Maximum : 30 Weightage

*Answers should be written in English only.***Part A**

*Answer any **four** questions.
Each question carries 2 weightage.*

1. What is LBO ?
2. What is bear hug ?
3. What is meant by build lease transfer ?
4. What is operating leverage ?
5. Differentiate sell off from spin off.
6. What do you mean by capital rationing ?
7. What is options delta ?

(4 × 2 = 8 weightage)

Part B

*Answer any **four** questions.
Each question carries 3 weightage.*

8. East Co. Ltd is studying the possible acquisitions of Fost Co. Ltd by way of merger. The following are available in respect of the companies.

Particulars	East Co. Ltd	Fost Co. Ltd
Earnings after tax (Rs.)	2,00,000	60,000
Number of Equity shares	40,000	10,000
Market value per share (Rs.)	15	12

Turn over

- i. if the merger goes through by exchange of equity share and the exchange ratio is based on the current market price, what is the new earnings per share for East Co. Ltd ?
 - ii. Fost Co. Ltd wants to be sure that the earnings available to its shareholders will not be diminished merger. What should be the exchange ratio in that case ?
9. Two firms A and B are in a similar type of business. Firm A has financed all operations by equity shares where as Firm B has used equity and debt 50 percent each. Other parameters for both the firms are as follows :
- Sales revenue : Rs. 1 crore
 Selling price : Rs.160
 Unit variable cost : Rs. 100
 Fixed cost : Rs. 25,00,000
 Interest on debt for firm 'B' : Rs. 2,50,000.
- Calculate degree of Operating Leverage, Financial Leverage and Combined Leverage for both firms.
10. Write a descriptive note on leveraged buy out.
 11. What are the defensive tactics available to the target company to avoid acquisition ?
 12. What are the purposes and constraints involved in corporate restructuring ?
 13. Explain the concept of leveraged lease. Mention its features.
 14. Firm A is considering acquiring Firm B. Financial details of firm 'A' and firm 'B' are given below :

Particulars	Firm A	Firm B
Preference Share capital	35	–
Equity share capital of Rs.10 each	80	30
Share premium	2	5
Profit and Loss Account	45	10
10% debentures	28	10
Total	190	55
Fixed assets	150	40
Current Assets	40	15
Total	190	55
Profit after tax and preference dividend	30	12

Market share price of firm A and firm B is Rs.30 and Rs.45 respectively. Determine the share exchange ratio and number of shares of firm A to be issued to target firm B based on (i) net assets value, (ii) EPS and (iii) market share price. Which is better from the point of view of firm A ?

(4 × 3 = 12 weightage)

Part C

*Answer any two questions.
Each question carries 5 weightage.*

15. A firm has two financial options for procuring machinery costing Rs. 20,00,000 to be used for five years. The details of two options are given as follows :

Option 1 : it can borrow Rs. 20,00,000 at an interest rate of 20 percent. The loan is repayable at 5-year end installment. The salvage value at the end of its economic life of 5 years will be Rs. 2,00,000.

Option 2 : take the assets on lease for a period of five years by paying yearly rental of Rs. 6,50,000. The rentals will be payable at the end of each year.

Depreciation on machinery is allowable on written down basis at 15 percent. The applicable tax rate for the firm is 40 percent and cost of capital of the firm is 20 percent. Ignoring any capital gain or loss, evaluate the two options and suggest whether to buy or lease the asset.

16. Firm A acquires B on share exchange basis. Prior to acquisition, the information is as follows :

Particulars	Firm A	Firm B
Number of shares	40,000	20,000
Total earnings (Rs.)	10,00,000	5,00,000
Market price of share	40	30

The shareholders of firm B are offered three shares of firm A against four shares of firm B. Determine :

- EPS of the amalgamated firm with respect to before take over position.
 - Gain or loss of the shareholders of both the firms, consequent to amalgamation.
17. Explain the advantages and constraints to leveraged buyouts.
18. Explain the importance of strategic financial management.

(2 × 5 = 10 weightage)

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Part A

*Answer any **four** questions.
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1. What is reverse merger ?
2. What do you mean by EVA approach ?
3. MBO and LBO are not synonymous. Explain.
4. What is spin-off ?
5. What do you mean by financial distress ?
6. What is meant by indifference point ?
7. What is butterfly spread ?

(4 × 2 = 8 weightage)

Part B

*Answer any **four** questions.
Each question carries 3 weightage.*

8. Firm A is considering acquisition of firm B by merger.

The following data are available.

	Firm A	Firm B
Earning after tax	Rs. 4,00,000	Rs. 1,20,000
No. of equity shares	80,000	20,000
Market value per share	Rs. 20	Rs. 15

Turn over

- (i) Merging by share exchange ratio based on current market price; calculate the EPS of the merged firm.
- (ii) Determine the share exchange ratio by which the earnings of shareholders of firm B would not be affected. Also calculate EPS after merger.
9. 'The LBO can be successful if the critical factors are taken care of'. Comment.
10. The next five years net income and capital investment of ABC Ltd are given below :

(Figures in '000)

Year	:	1	2	3	4	5
Net Income (Rs.)	:	8,000	7,000	6,500	6,000	5,000
Investment (Rs.)	:	3,000	4,000	4,500	7,000	8,000

The firm has 10,00,000 equity shares outstanding.

- a) Determine dividend per share if dividend policy is treated as residual decision.
- b) Determine dividend per share and the amount of the external financing that will be necessary if a dividend payout ratio of 50 percent is maintained.
11. A firm has issued two lakhs shares of Rs. 10 each and has debt of Rs. 10 lakhs at ten percent interest. Sale of the firm is 5,00,000 units at selling price of Rs.8 and variable cost of Rs. 5 per unit. The fixed cost is Rs. 4,00,000 and the tax rate is 40 percent.

Calculate the following at current level of sales and also at Five percent increase in sales :

- (a) EPS ;
- (b) DFL ; and
- (c) DOL.
12. Describe in detail the various reasons that are usually behind company's motive to merge.
13. What is corporate valuation ? Explain its objectives.
14. Explain the differences between operating lease and financial lease.

(4 × 3 = 12 weightage)

Part C

*Answer any two questions.
Each question carries 5 weightage.*

15. A firm purchases an asset with a life span of five years worth Rs. 10,000 after which its salvage value is Rs. 2,000. Purchasing the asset will increase the firm's expected revenues by Rs. 7,500 per year. It will raise its expected operating expenses (excluding depreciation) by Rs. 3,500 per year. The firm provides depreciation on straight line method, its co-operate tax is 40 percent and the cost of capital of the firm is 15 percent. The other option for the firm is to lease the asset for a yearly rental of Rs. 4,000. The incremental revenue will be the same at Rs. 7,500 per year and the increase in firm's expected expenses is Rs. 3,500 per year. You are required to evaluate the proposals and suggest whether to buy or lease the asset.
16. Firm a acquires firm B by exchanging 0.5 of its shares for each share of firm B. Input available is given as follows :

	Firm A	Firm B
PAT (Rs.)	20,00,000	5,00,000
Number of equity shares	5,00,000	2,00,000
EPS (Rs.)	4	2.5
PE Ratio	10	8
Market price per share (Rs.)	40	20

Determine :

- The number of equity shares to be issued by firm A for acquisition of firm B.
 - EPS of firm A after the acquisition.
 - Equivalent earnings per share of firm B.
 - If PE ratio does not change by acquisition, expected share price of firm A.
 - Market value of the merged firm.
17. What can be inferred by the term 'leveraged buyout' ? Discuss the characteristics of this strategy.
18. Write an elaborate note on financial distress and modes of restructuring.

(2 × 5 = 10 weightage)

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**FOURTH SEMESTER M.Com. DEGREE [REGULAR/SUPPLEMENTARY]
EXAMINATION, APRIL 2022****April 2021 Session for SDE/Private Students**

(CBCSS)

Master of Commerce

MCM4E(F)04—ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Three Hours

Maximum : 30 Weightage

General Instructions**Covid Instructions are not applicable for Pvt/SDE students (April 2021 session)**

1. *In cases where choices are provided, students can attend **all** questions in each section.*
2. *The minimum number of questions to be attended from the Section / Part shall remain the same.*
3. *The instruction if any, to attend a minimum number of questions from each sub section / sub part / sub division may be ignored.*
4. *There will be an overall ceiling for each Section / Part that is equivalent to the maximum weightage of the Section / Part.*

Part A

*Answer any **four** questions.
Each question carries 2 weightage.*

1. Enlist the factors determining capital structure of the firm.
2. What is direct lease ?
3. Compare concentric and conglomerate merger.
4. Explain MBV.
5. Compare friendly takeover with hostile takeover
6. Explain sell-off.
7. What is sustainable growth rate ?

(4 × 2 = 8 weightage)

Turn over

Part B

*Answer any four questions.
Each question carries 3 weightage.*

8. A company has earnings per share of Rs. 10. The equity's capitalization rate being 12%. Show the impact on the market price of the share under various dividend policies assuming the rate of return generated by the firm is 15%. Let the dividend policy be : i) 0% pay out ; and ii) 100% payout. (Walter's model)
9. A Ltd. has the following capital structure : Rs. Equity share capital (of Rs. 100 each) Rs. 1,00,000, 10% Preference share capital (of Rs. 100 each) Rs. 2,00,000, 10% debentures (of Rs. 100 each) 2,00,000. If EBIT is : (i) Rs. 1,00,000 ; (ii) Rs. 80,000 ; and (iii) Rs. 1,20,000, Calculate financial leverage under three situations. Assume 50% tax rate
10. The following figures are extracted from company records :

	(Rupees)
Profit before tax	... 2.50 crore
Tax rate	... 40%
Retention ratio	... 40%
No. of outstanding shares	... 50,00,000
Equity capitalization rate	... 12%
Rate of return on investment	... 15%

What should be the market price per share according to Gordon's model ?

11. Enumerate the features of EVA.
12. What are the factors influencing option price ?
13. Explain the benefits of lease to the borrower.
14. What are the reasons for spin-offs ?

(4 × 3 = 12 weightage)

Part C

*Answer any two questions.
Each question carries 5 weightage.*

15. XYZ Ltd. requires an equipment costing Rs. 10,00,000 which can be utilized over a period of 5 years. It has two financing options in this regard :

- (i) Arrangement of a loan of Rs.10,00,000 at 13% p.annum ; which can be repayable in 5 equal year end installments; the equipment can be sold for Rs.1,00,000 at the end of 5 years.
- (ii) Leasing the equipment for a period of five years at an yearly rental of Rs.3,30,000, payable at the year end.

The rate of depre.is 15% at w.d.v, income tax rate-35%,discount rate 12%. Advice which option is the best.

16. Following info, is provided relating to acquiring company Mani Ltd. and the target company Ratnam Ltd.

		Mani Ltd.	Ratnam Ltd.
Earnings after tax(lakhs)	...	2000	4,000
No. of shares outstanding(lakhs)	...	200	1000
P/E Ratio(no. of times)	...	10	5

Required :

- (i) What is the swap ratio based on current market prices ?
 - (ii) What is the EPS of Mani Ltd. after acquisition ?
 - (iii) What is the expected market price per share of Mani Ltd. after the acquisition,assuming its PE ratio is adversely affected by 10% ?
 - (iv) Determine the market value of the merged co.
 - (v) Calculate gain/loss to the shareholders of the two independent entities.
17. Discuss different types of mergers and acquisitions.
18. What is leverage buyout ? What are its advantages and disadvantages ?

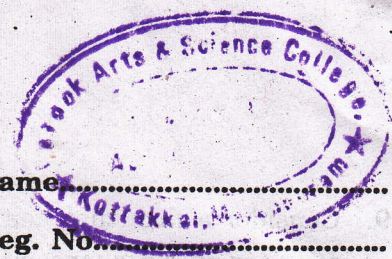
(2 × 5 = 10 weightage)

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Name:

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**FOURTH SEMESTER M.Com. DEGREE (REGULAR) EXAMINATION
MARCH 2021**

(CBCSS)

M.Com.

MCM 4E (F) 04—ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(2019 Admissions)

Time : Three Hours

Maximum : 30 Weightage

General Instructions

1. *In cases where choices are provided, students can attend all questions in each section.*
2. *The minimum number of questions to be attended from the Section / Part shall remain the same.*
3. *There will be an overall ceiling for each Section / Part that is equivalent to the maximum weightage of the Section / Part.*

Part A

Answer any four questions.

Each question carries 2 weightage.

1. What do you mean by IRR Method ? And explain the decision rules of IRR.
2. What is EPS ? And how it is calculated ?
3. Compare Economic Value Added (EVA) and Market Value Added (MVA).
4. Describe the financial evaluation of Leasing.
5. Explain Merger Procedure of firms.
6. Explain Leverage effect on shareholders risk.
7. Differentiate Horizontal Merger and Vertical Merger.

(4 × 2 = 8 weightage)

Part B

Answer any four questions.

Each question carries 3 weightage.

8. Compare Net Present Value (NPV) and Internal Rate of Return Methods (IRR).

Turn over

9. Consider a firm that has existing assets in which it has capital invested of ₹ 100 crores. The after-tax operating income on assets-in-place is ₹ 15 crore. The return on capital employed of 15% is expected to be sustained to perpetuity, and company has a cost of capital of 10%. Estimate the present value of economic value added (EVA) of the firm from its assets-in-place.
10. What do you mean Takeover of a firm ? And explain Take over Procedures of Firms.
11. The earnings per share of a company is ₹ 8 and the rate of capitalisation applicable is 10%. The company has before it an option of adopting (i) 50 % ; and (ii) 75% dividend payout ratio.
Compute the market price of the company's quoted shares as per Walter's model if it can earn a return of (i) 15 % ; (ii) 10 % ; and (iii) 5 % on its retained earnings.
12. Z Ltd. has two projects under consideration A and B, each costing ₹ 60 lakhs. The projects are mutually exclusive. Life for project A is 4 years and project B is 3 years. Salvage value NIL for both the projects. Tax Rate 33.99%. Cost of Capital is 15%. Net Cash Inflow (in Lakhs) :

At the end of the year	Project A	Project B	P.V. @ 15%
1	60	100	0.870
2	110	130	0.756
3	120	50	0.685
4	50	—	0.572

Calculate NPV.

13. Explain the financial impact of Merger of two different organisations.

(4 × 3 = 12 weightage)

Part C

Answer any two questions.

Each question carries 5 weightage.

14. What is Dividend Policy ? And explain the factors that influence the dividend policy of a Company.
15. A Ltd. is considering takeover of B Ltd. and C Ltd. The financial data for the three companies are as follows :

<i>Particulars</i>		A Ltd.	B Ltd.	C Ltd.
Equity Share Capital of Rs. 10 each (Rs. crores)	...	450	180	90
Earnings (Rs. crores)	...	90	18	18
Market price of each share (Rs.)	...	60	37	46

Calculate :

- (i) Price earnings ratios.
- (ii) Earnings per share of A Ltd. after the acquisition of B Ltd. and C Ltd. separately. Will you recommend the merger of either/both of the companies ? Justify your answer.

16. Company X is considering the purchase of company Y. The following are the financial data of the two companies :

		<i>Company X</i>	<i>Company Y</i>
Number of Share	...	₹ 4,00,000	₹ 1,00,000
Earnings per share (EPS)	...	₹ 6	₹ 4.50
Market value per share	...	₹ 30	₹ 20

Assuming that the management of the two companies has agreed to exchange shares in proportion to :

- (i) The relative earnings per share of the two firms ;
- (ii) 4 share of company X for every 5 shares held in company Y.

You are required to illustrate and comment on the impact of merger on the impact of merger on the EPS.

17. Write a detailed critical note on Financial Leverage and Financial Decision.

(2 × 5 = 10 weightage)