Seat No. : _______________

NG2-122

December-2015

5^{th} Year M.B.A., Integrated

Strategic Financial Management

Time : 3 Hours] **[Max. Marks : 100**

1. Answer the following questions : **20**

   (a) What is meant by the term 'Strategic Financial Management' ? Explain various functions of SFM.

   (b) What are the financial statements that are prepared for financial planning and analysis ? Which are the critical ratios for analysis and planning ? Explain with reasons.

OR

The balance sheet of T Corporation as at March 31, 2012 is shown below :

Share Capital	500	Fixed Assets	750
Retained Earnings	120	Inventories	400
Term loans	360	Receivables	330
Short-term Bank Borrowings	300	Cash	90
Accounts Payable	210		
Provisions	80		
	1,570		**1,570**

The sales of the firm for the year ending on March 31, 2012 were 2,800. Its profit margin on sales was 8 percent and its dividend payout ratio was 30 percent. The tax rate was 40 percent. T Corporation expects its sales to increase by 40 percent in the year ending March 31, 2013. The ratio of assets to sales and spontaneous current liabilities to sales would remain unchanged. Likewise the profit margin ratio, the tax rate, and the dividend payout ratio would remain unchanged.

Required :

(a) Estimate the external funds requirements for the year 2013.

(b) Prepare the following statements, assuming that the external funds requirement would be raised equally from term loans and short-term bank borrowings :

(i) Projected Balance Sheet and

(ii) Projected Profit and Loss Account

2. Answer any **two** from (a), (b) and (c) : **20**

(a) A project costs ₹ 150 lakhs to initiate. After one year it could return ₹ 130 lakhs with probability of 0.70 or ₹ 90 lakhs with probability of 0.30. If ₹ 130 lakhs return materializes then there is a 0.40 chance of a return of ₹ 120 lakhs and a 0.60 chance of return of ₹ 70 lakhs after two years. If the return of ₹ 90 lakhs occurred in the first year then the return in the year 2 may be ₹ 130 lakhs or ₹ 100 lakhs with equal probability. Assuming cost of capital to be 10%, find coefficient of variation after making decision tree.

(b) M Ltd. has decided to go for an air conditioning plant costing ₹ 50 million. M is considering two alternatives :

(i) Leasing the plant at an annual lease rental of ₹ 14 million for 5 years, the lease rental being payable at the end of the year.

(ii) Borrowing and purchasing the plant with post tax cost of debt of 8%.

The applicable depreciation rate on the plant is 25% as per WDV and tax rate is 35%. Advise the company about the course of action.

(c) Bharat Corporation, an Indian company, is considering a project to be set up in US. The project will entail an initial outlay of USD 500 million and is expected to generate the following cash flow over its five year life :

(In USD millions)

Year	1	2	3	4	5
Cash Flow	100	250	400	400	300

The current spot exchange rate is ₹ 60.40 per US dollar, the risk-free rate in India is 8 percent and the risk-free rate in the US is 5 percent.

Bharat Corporation's required rupee return on a project of this kind is 16%.

Calculate the NPV of the project using the home currency approach.

3. (a) Distinguish between Money Market and Capital Market. Also explain major instruments of money market. **10**

OR

(a) According to Miller and Modigliani, dividend decision does not influence value. Explain how this has been justified by them. Also state why do companies pay dividend and do not ignore it.

(b) The finance manager of TMN Ltd. has estimated future free cash flows of the company for 6 years as follows : **10**

[₹ Crore]

Year-end	Amount
1	600
2	1,200
3	1,575
4	2,100
5	1,425
6	900

The FCFF are expected to be constant at ₹ 900 crore after 6 years as the business of the company is likely to be stabilized by then. You are required to compute the value of corporate as well as value of equity assuming 12% overall cost of capital and total external liabilities of ₹ 3600 crore based on free cash-flow approach.

4. Answer the following : **20**

(a) What is meant by Financial Risk ? What are tools and techniques used for management of financial risk ?

(b) What is EVA ? What causes EVA to increase ? What is the link between EVA and MVA ?

5. Explain financial feasibility of Project and various steps involved in it with practical example. **20**

OR

Explain meaning and causes of financial distress and strategies to deal with it in detail.
