LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.Com.DEGREE EXAMINATION – **COMMERCE**

SECOND SEMESTER – **APRIL 2019**

CO 2817– STRATEGIC FINANCIAL MANAGEMENT

Date: 08-04-2019 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

SECTION – A **Answer ALL questions** **(10 x 2 = 20)**

1. Identify the importance of Financial Management.
2. How do you interpret Operating Leverage?
3. Write a note on Net operating Income approach for Capital Structure.
4. Mention the external factors affecting payment of Dividend Policy.
5. What do you understand by the term IRR?
6. Illustrate the term Operating Cycle.
7. A Ltd issued 15% debentures of Rs. 100 each at a discount of 2%, issue expenses were Rs.1 per debenture. The debentures are redeemable at par at the end of 10 years. Tax rate being 50%. Calculate Kd.
8. Calculate the value of an equity shares of company X Ltd. and Y Ltd From the following particulars by applying Walters formula when dividend payment ratio is 60%.

		X Ltd.	Y Ltd.
r	=	15%	20%
Ke	=	10%	10%
E	=	Rs.10	Rs. 10

9. If you deposited Rs.55,650 in a bank which was paying a 12% rate of interest on a 10 year time deposit, how much would the deposit grow at the end of 10 years?
10. If you deposit Rs.5000 today at 12% interest per annum. In how many years will this amount grow to Rs.1, 60,000? (apply rule 72)

SECTION – B **Answer any FIVE questions** **(5 x 8 = 40)**

11. Critically analyze the Profit maximization and Wealth maximization in detail.

12 a) How the lease is classified? Explain.

b) What are advantages of Lease Agreements?

13. From the following details calculate leverages and interpret the results.

Particulars	A	B	C
Output(units)	60,000	15,000	1,00,000
Selling price per unit(Rs)	1	3	.50
Fixed cost(Rs)	7,000	14,000	15,000
Variable cost per unit(Rs)	.20	1.50	.02
Interest(Rs)	4,000	8,000	10,000
Preference dividend	-	-	5,000
Tax rate	50%	50%	50%

14. ALtd is considering in purchase of a machine for which two models X and Y are available. The estimated cash inflow and certainty equivalent are as follows:

	MACHINE X		**MACHINE Y**	
YEAR	CASH INFLOW	CERTAINTY EQUIVALENT	CASH INFLOW	CERTAINTY EQUIVALENT
0	(-) 30,000	1	(-) 40,000	1
1	15,000	0.95	25,000	0.9
2	15,000	0.85	20,000	0.8
3	10,000	0.70	15,000	0.7
4	10,000	0.65	10,000	0.6

Risk free discount rate is 5%. Choose the best machine to be bought by the company.

15.a) Write a note on i) Lock Box System. ii) Concentration Banking

b) A Ltd company has an annual turnover of Rs.84 crores .The sales is spread evenly over 50 weeks of the year. However the receipts on Monday and Tuesday are twice that of each of the other 3 days of the week. The cost of banking per day is Rs.2,500. It is suggested that banking should be done twice in a week on Tuesday and Friday as compared to the current practice of banking only on Friday. A Ltd company has a Bank OD on 15% p.a. Interest being charged on a daily basis. Advise A Ltd Company the best course of Banking assuming 360 days a year.

16. .Anbu Ltd has an equity capital consisting of 5,000 Equity shares of Rs 100 each. It plans to raise Rs. 3,00,000 for the financial expansion programme and identify four options for raising funds.1)Issue Equity shares of Rs 100 each.

2) Issue 1,000 Equity shares of Rs.100 each and 2,000 8% Preference shares of Rs 100 each.

3) Borrow of Rs 3, 00,000 at 10% interest p.a.

4) Issue 1,000 Equity shares of Rs.100 each and Rs. 2, 00,000, 10% debentures.

This company has EBIT of Rs 1, 50,000 of its expansion. Tax rate is 50%. Suggest the source in which funds should be raised.

17. Existing sales Rs. 2,40,000, Average collection period 30 days. The company proposals to recognize its credit period as follows:

Proposed increase in credit period beyond 30 days	Increase over existing Sales Rs.
15 days	12,000
30 days	18,000
45 days	21,000
60 days	24,000

The P/V ratio is 33.33% and the cost of capital is fixed at 20%.Evaluate the alternatives.

SECTION – C **Answer any TWO questions** **(2 x 20 = 40)**

18. From the following details relating to Kamal ltd.

EBIT		23,00,000
Less: - 8% Debenture Interest	80,000	
		22,20,000
Less:- 11% Loan Interest		2,20,000
EBT		20,00,000
Less:- Tax at 50%		10,00,000
EAT		10,00,000

No of Equity shares (Rs 10 each) = 5,00,000.Market Price per shares = Rs 20.PE ratio = 10.

The company has undistributed Reserves of Rs 20, 00,000. It requires Rs, 30, 00,000 to redeem the debentures and modernize its plant which has the following financial option-

1). Borrow 12% loan from banks. 2).Issue 1, 00,000 Equity shares of Rs. 20 each and balance from a 12% bank loans. The Company expects to improve its rate of return by 2% as a result of modernization However the PE ratio is likely to reduce 8 if entire amount is borrowed. Advise the company.

19. A ltd. wishes to raise an additional allotment of Rs. 10 lakhs for meeting its investment plans. It has Rs. 2, 10,000 in form of retained earnings available for investment. The following are further details:-

a) Debt Equity Ratio = 3:7

b) Cost of debt (Kd)

i. UptoRs. 1,80,000 = 10%

ii. Over Rs 1,80,000 = 16%

c) EPS = Rs. 4

d) Dividend Payout ratio = 50%

e) Expected growth rate of dividend = 10%

f) Current market price per share = Rs. 44

g) Tax rate = 35%

1. You are required to determine the pattern for raising additional finance assuming the company intends to maintain its existing Debt – Equity ratio.

2. Determine the cost of additional debt

3. Determine the cost of equity capital and retained earnings

4. Compute the W. A Cost for additional finance using book value as weights.

20. A project requires investment of Rs.1, 00,000 and the working capital of Rs. 20,000 at the end of the first year. The project has a life of 5 years and the scrap value of Rs.20, 000.

The projects yields the following profits before tax:

Year	Profit before Tax (PBT) Rs.
1	20,000
2	40,000
3	60,000
4	50,000
5	30,000

Calculate

(i) Pay Back Period (PBP).(ii) Average Rate of Return (ARR).(iii) Net Present Value (NPV)

(iv) Profitability Index PI. (v) Discounted Pay Back Period. Assume cost of capital is 10% and tax @ 50%.

21. X Ltd has an existing sales of 10,000 units at Rs.300 per unit variable cost is 200 per unit and fixed cost is 3, 00,000 per annum. Present credit policy is one month credit period.

The company plans to increase credit period for two months or three months and has made the following estimates:

	Existing	Proposed	
Credit Period	1 Month	2 Months	3 Months
Increase in Sale	---	15%	30%
% of bad debts	1%	3%	5%

There will be an increase in fixed cost by Rs.50,000 if sales increases beyond 25%of the present level. The cost of capital is 20%. Suggest the suitable credit period to be adopted.

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