LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECOND SEMESTER – NOVEMBER 2016

CO 2817 - STRATEGIC FINANCIAL MANAGEMENT

Date: 14-11-2016 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. A ltd issued 15% debentures of Rs. 100 each at a discount of 2%, issue expenses were Rs.1 per debenture. The debenture are redeemable at par at the end of 10 years. Tax rate being 50%. Calculate Kd.
3. Explain the term Finance Lease.
4. Mention the external factors affecting payment of Dividend Policy.
5. What are the costs of maintaining debtor in bills receivable management?
6. 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

7. 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?
8. A Ltd. Issues 12% preference shares of Rs.100 each redeemable after 12years at par. The amount realized on issue is Rs.95. Calculate cost of preference shares.
9. 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)
10. Sales = 3,000 units @ Rs 10 per unit variable cost Rs. 5 per unit. Fixed Cost Rs.5, 000. Calculate the operating Leverage and interpret the results.

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

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

12. Analyse the factors affecting Working Capital requirement in detail.

13. Balance Sheet of X Ltd:

Liabilities	Rs.	Assets	Rs.
Eq.Sh. capital(Rs.10 each)	60,000	Fixed asset	1,50,000
10% Debentures	80,000	Current Assets	50,000
Reserves	20,000		
Creditors	40,000		
Total	2,00,000	Total	2,00,000

The company's total asset turnover ratio is 3; Fixed operating expenses Rs.1, 00,000; variable cost ratio = 40%; Tax ratio = 35%; calculate all leverages, EBIT if EPS isRs.3?

14. A Project requires investment of Rs. 1,00,000. It is expected to yield the following cash inflows:

Year	Cash Inflows Rs.
1	30,000
2	40,000
3	60,000

Assume discount rate at 10% and 15%. Calculate IRR.

15. 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. X ltd requires Rs. 2,00,000 for expansion. It has the following financial option.
    a) 100% equity shares of Rs 10 each at Rs 10 Premium
    b) 50% equity issue of Rs. 10 each at Rs 10 Premium and 50% , 8% debentures
    c) 50% equity issue of rs. 20 each and 50%, 10% preference shares

    The company expects return of 10% on its investment after expansion. Which financing option would you recommend and also calculate indifference point of EBIT between various plans.
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 PV 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. S ltd has the following book value of capital structure.

Equity capital (Rs. 10 each)	100 lakhs
11% Pref share capital (Rs. 100) each	10 lakhs
Retained earning	120 lakhs
13.5% Debentures (Rs 100 each)	50 lakhs
12% term loan	80 lakhs
	360 lakhs

1) The next expected dividend per share is Rs.1.5. The dividend per share expected to grow at 7%. The market price per share is Rs.20

2) Preference shares are redeemed at par after 10 years is currently selling at Rs.75.

3) Debentures are redeemable at par after 6 years is currently selling at Rs. 80

4) Tax rate is 50%.Calculate weighted average COC using book value and market value as weights.

20. A highly profitable company plans to put up a windmill to generate electricity. The details of which are as follows :

1. The cost of windmill Rs. 3,00,00,000 with 10 years life and no residual value.
2. The cost of land Rs. 15,00,000 which will appreciate to 60 lakhs at the end of 10 years.
3. Subsidy to Government Rs. 15,00,000 will be received at the end of first year.
4. Electricity will be sold at 2.25 per unit in the first year, increasing by .25 paise per year upto 7th year and thereafter by .50 paise till the 10th year.
5. The COC is 15% and tax rate id 50%. Ignore tax on capital profit.
6. Maintenance cost is Rs. 4, 00,000 in the 1st year and will increase by Rs. 2, 00,000 per Year thereafter.
7. Windmill is subject to 100% depreciation in the first year at the Income tax Act.
8. Electricity generated will be 25, 00,000 units per annum, 4% of which will be given free to the state Electricity Board. Ascertain the viability of the project.

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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