LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECOND SEMESTER – **NOVEMBER 2023**

PCO 2503 – STRATEGIC FINANCIAL MANAGEMENT

Date: 31-10-2023 Dept. No. Max. : 100 Marks
Time: 09:00 AM - 12:00 NOON

Section: A

Answer All Questions: **10 x 2 = 20**

1) Define Strategic Financial Management.
2) Distinguish between Gross Operating Cycle and Net Operating Cycle.
3) What is cost of Retained Earnings?
4) List out the advantages of Leasing.
5) What do you understand by trade off between risk and return?
6) What are the benefits of practicing the Concentration Banking?
7) Mr. Suraj invested Rs.60,000 in the beginning of year at an interest rate of 11% p.a. find out the amount, he will receive at the end of 5^{th} Year.
8) The beta factor of M Ltd is 2.20. The risk-free rate of interest on Government securities is 9%. The expected rate of return on company equity share is 18%. Calculate the cost of equity capital.
9) Write a short note on "Clientele Effect".
10) What is Internal Rate of Return?

Section: B

Answer Any Four Questions Only: **4 x 10 = 40**

11) "Wealth Maximization is a better criterion than Profit Maximization." Do you agree? Explain.
12) Critically examine the various theories on Capital Structure.
13) Explain the factors which determine the dividend policy of a Company.
14) A Ltd. required 90,000 units of a certain item annually. The cost per unit is Rs. 3, ordering cost is Rs. 300 per order and carrying cost Rs. 6, per unit/ per year. 1) Calculate EOQ, 2) How many orders are to be placed in a year?, 3) What should the firm do if the supplier offer the following discounts:

ORDERS x	Discount
4500 – 5999	2%
6000and above	3%

15) Calculate the value of an equity shares of the following companies using, Walter's Model when payout ratios are ratios (a) 30% and (b) 60%, c) 90%

Particulars	N Ltd	M Ltd	G Ltd
r	18%	20%	8%
k	15%	20%	10%
E	Rs 30	Rs 40	Rs.20

16) A) What are the reasons for prolonged operating cycle?

B) X Ltd expects its cost of goods sold for 2019 to 2020 to be Rs.136 crores. The operating cycle for the planned year is expected to be 54 days. The company wants to maintain a desired cash balance of Rs.1.5 crores to meet the contingencies. What is the expected working capital requirement for the year 2019 – 2020. (Assume 360 days in a year)

17) Excel Ltd has assets of Rs.1,60,000 which have been financed with Rs.52,000 of debt and Rs.90,000 of equity and a general reserve of Rs.18,000. The profit after interest and taxes for the year ended 31st March, 2019 were Rs.13,500. It pays 18% interest on borrowed funds and is in the 50% tax bracket. It has 900 equity shares of Rs.100 each selling at a market price of Rs.12 per share. What is the weighted average cost of capital?

Section – C

Answer any Two questions only: **2 x 20 = 40**

18) A firm has the choice of buying an equipment at a cost of Rs.1,00,000 with borrowed funds at a cost of 18%p.a, repayable in five annual instalments of Rs.32,000 or to take on lease the same on an annual rental of Rs.32,000. The firm is in the tax bracket of 40%. Assume: 1) The salvage value of the equipment at the end of the period is zero. 2) The firm uses straight line method of depreciation. Which alternative do you recommend?

19) Explain the factors that determine the optimum capital structure of the company.

20) A firm has sales of Rs.75,00,000, Variable Cost of Rs.42,00,000 and Fixed Cost of Rs.6,00,000. It has a debt of Rs.45,00,000 at 9% and equity of Rs.55,00,000.

a) What is the firm's ROI?

b) Does it have favorable financial leverage?

c) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?

d) Calculate the operating, financial and combined leverages of the firm

e) If sales drop to Rs.50,00,000, what will be the new EBIT?

f) At what level of sales the EBT of the firm will be equal to zero?

21) A company has to select one of the following two projects:

Particulars	Project A - Rs.	Project B - Rs.
Cost	11,000	10,000
Cash inflow - Year 1	6,000	1,000
Cash inflow - Year 2	2,000	1,000
Cash inflow - Year 3	1,000	2,000
Cash inflow - Year 4	5,000	10,000

Using Net Present Value and Internal Rate of Return methods, suggest which project is preferable. The cost of capital of the firm is 10%.

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