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TM244215B

Reg. No :...............................

Name :..................................

**MASTER'S DEGREE (C.S.S) EXAMINATION, MARCH 2024**

**2022 ADMISSIONS REGULAR**

**SEMESTER IV - CORE COURSE COMMERCE & MANAGEMENT**

**CM4C14TM - Strategic Financial Management**

**Time : 3 Hours** **Maximum Weight : 30**

## Part A

**I. Answer any Eight questions. Each question carries 1 weight** **(8x1=8)**

1. Explain Operating Leverage. How will you compute it?
2. Fiesta Ltd is an all equity firm. EBIT is Rs 10,00,000, Cost of Debt (if borrows) - 6%, Cost of equity - 10%. Assuming MM assumptions , the firm raises a debt of Rs75,00,000. Find out- a) Value of the firm, b) Market value of equity , c) Leveraged cost of equity.
3. Explain about VED analysis.
4. Discuss the concept of Moderate working capital policy.
5. What is ARR? Discuss the computation along with the decision rule.
6. Define Capital Budgeting.
7. Explain cross boarder lease.
8. Briefly discuss B.H.W method of lease evaluation.
9. How do you assess the asset quality of banks?
10. What is CAMELS model?

## Part B

**II. Answer any Six questions. Each question carries 2 weight** **(6x2=12)**

11. Discuss the different types of leverages.
12. The following figures relate to two companies

| PARTICULARS | GANA LTD (Rs in '000) | Kokila Ltd.(Rs in '000) |
|---|---|---|
| Sales | 500 | 1000 |
| Variable cost | 200 | 300 |
| Contribution | 300 | 700 |
| Fixed Cost | 150 | 400 |
| EBIT | 150 | 300 |
| Interest | 50 | 100 |
| EBT | 100 | 200 |

You are Required to

a) Calculate OL,FL,CL;

b) Comment on the relative risk position of the firm.

13. Enlist the objectives of Receivables management.
14. Explain the different stock levels.
15. Explain the capital budgeting process.

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16. From the data presented below, state which project is better.

| Year | Project A (Rs) | Project B (Rs) |
|---|---|---|
| 0 | -20,00,000 | -20,00,000 |
| 1 | 8,00,000 | 10,00,000 |
| 2 | 8,00,000 | 14,00,000 |
| 3 | 4,00,000 | 4,00,000 |

The cost of capital or riskless discount rate is 5%. Project A is less risky as compared to Project B.The management considers risk premium rates at 5% and 10% respectively.

PV Factor @10% - 0.909. 0.827, 0.751

PV Factor @15% - 0.870, 0.756, 0.658

17. Matha Ltd is in need of a machinery costing Rs 10,00,000. The life of the machine is 5 years and it will have a salvage value of Rs 1,00,000 by the end of the fifth year. The machine is also available for lease. The lease rent is Rs 2,90,000 p.a payable in arrears.

PV of Re 1 for 5th year - 0.567

PV of Annuity Re 1 for the 5th year- 3.605

The effective tax rate 30%

The capitalisation rate 12%

Straight line method of depreciation is followed.

Calculate the BELR.

18. ABC Bank furnishes the following data.

| | Rs in crores |
|---|---|
| Cash in hand | 475 |
| Balances with RBI | 2,700 |
| Balances with banks | 2,300 |
| Deposits | 60,000 |
| Money at call and short notice | 6,700 |
| Total assets | 1,20,000 |
| Government Securities in India | 1,600 |
| Government Securities outside India | 800 |
| Demand Deposits from banks | 20 |
| Demand Deposits from others | 480 |

Comment on the liquidity position of the bank.

## Part C

**III. Answer any Two questions. Each question carries 5 weight**

**(2x5=10)**

19. Counterpoint Ltd.gives the following information

| | |
|---|---|
| Expected EBIT | Rs 2,40,000 |
| 10% Debt | Rs 7,20,000 |
| Overall Capitalisation Rate | 15% |

Use NOI approach to answer the following questions.

a) Find out the total market value of the firm and equity capitalisation rate.

b) Determine the overall cost of capital

c) Find out total value of the firm and Ke if the company has decided to raise the debt by Rs 3,80,000 and use the proceeds to buy back equity shares.

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d) Find out total value of the firm and Ke if the company has decided to issue equity shares of Rs 3,80,000 and use the proceeds to redeem the debt.

20. Discuss the Gross and Net concept of working capital. Elucidate on the consequences of inadequate working capital.

21. Discuss the important methods of Capital budgeting.

22. Prepare a Balance Sheet with as many details as possible:

| | |
|---|---|
| (1) Gross Profit | Rs 80,000 |
| (2) Gross profit to cost of goods sold | 1/3 |
| (3) Stock Velocity | 6 times |
| (4) Opening stock | Rs 36,000 |
| (5) Accounts Receivable Velocity | 72 days (Year has 360 days) |
| (6) Accounts payable Velocity | 90 days (Year has 360 days) |
| (7) Current Assets | Rs 1,50,000 |
| (8) Bills Receivable | Rs 20,000 |
| (9) Bills Payable | Rs 5,000 |
| (10) Fixed Asset Turnover Ratio | 8 Times (Based on Sales) |
| (11) Reserves and Surplus | Rs 28,000 |

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