Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–III • EXAMINATION – WINTER 2013

Subject Code: 2830201 **Date: 19-12-2013**

Subject Name: Strategic Financial Management (SFM)

Time: 14:30 pm – 17:30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** What does the term 'strategic financial planning imply'? Explain various macro and micro environmental factors that affect 'strategic financial planning' **07**

(b) Discuss the impact of globalization on the financial decision making of corporate enterprises. **07**

Q.2 **(a)** What is feasibility study? What are the main objectives of conducting a Pre-feasibility study? **07**

(b) X ltd. has to decide between rental of two types of machine manufacturing the same product. Machine A an inexpensive economy model, rents for Rs. 1000 per month, but the variable production cost is Rs. 0.25 per unit. Machine B rents for Rs. 3000 per month but the variable production cost is only Rs. 0.10 per unit. Monthly demand varies between 10,000 and 19,000 with the following probabilities. **07**

Demand	10,000	12,000	15,000	17,000	19,000
Probability	0.12	0.17	0.41	0.24	0.06

Make a comparison of the two machines.

Which machine X ltd should rent ?

OR

(b) A project which started on 1st April 2011 was expected to be completed by 31st March 2012. The project is being reviewed on 30th September 2011 when following information has been ascertained. **07**

	(Rs. Lakhs)
Budgeted cost of work scheduled	50
Budgeted cost of work done	45
Actual cost incurred	54

Calculate

(a) Performance Variance,

(b) Efficiency variance

(c) Expenditure variance

Q.3 **(a)** Describe two methods for decision-making with uncertainty. Explain each method with an example. **07**

(b) A company is trying to choose between two investment proposals A and B. Project A has standard deviation of Rs. 6500 while Project B has standard deviation of Rs. 7200. The finance manager wishes to know which investment to choose, given each of the following combinations of the expected values.

1. Project A and Project B both have expected net present value of Rs. 1500.
2. Project A has expected NPV of Rs. 18,000 while for Project B it is Rs. 22,000

OR

Q.3 **(a)** "Decision tree analysis is useful in managerial decisions" Explain with an example **07**

(b) How do you ascertain project beta under Capital asset pricing model. **07**

Q.4 **(a)** "Stability in payment of dividends has a marked bearing on the market price of the shares of a corporate firm. Explain the statement. **07**

(b) ABC ltd had EPS of Rs. 11.04 in 2010 and paid out a dividend of Rs. 6 per share. The Growth rate in earnings and dividends in the long term is expected to be 6%. The return on equity is expected to be 14%. The beta for ABC ltd is 0.80 and the risk-free rate is 6% (market risk premium is 4%). Based on information find out the price to book value ratio of ABC Ltd. **07**

OR

Q.4 **(a)** A share of Free Economy ltd. Is currently quoted at a price earnings ratio of 7.5 times. The retained earnings per share being 37.5% is Rs. 3 per share. Compute the following – **07**

1. The company's cost of equity, if investors expect annual growth rate of 12 %
2. The anticipated growth rate is 13% p.a., calculate the indicated market price, with the same cost of capital
3. If the company's cost of capital is 18% and anticipated growth is 15% p.a., calculate the market price per share, assuming other conditions remain the same.

(b) Differentiate between 'Restructuring' & 'Financial reorganization' of the company. What steps are taken in pursuing financial reorganization of a company? **07**

Q.5 **(a)** Explain **07**

i) Capital Budget under Inflation.

ii) Reasons of Project Failure.

(b) A company has estimated following demand level of its product **07**

Sales volume (units)	10,000	12,000	14,000	16000	18,000
Probability	0.10	0.15	0.25	0.30	0.20

It has assumed that the sales price of Rs. 6 per unit, marginal cost of Rs. 3.5 per unit, and fixed cost of Rs. 34,000. What is the probability that (a) the company will break-even in the period? (b) the company will make profit of at least Rs. 10,000.

OR

Q.5 **(a)** Asoka Builders ltd. Has an issued and paid up capital of 5 lakh shares of Rs. 10 each. The company declared a dividend of Rs. 12.5 lakhs during the last five years and expects to maintain the same level of dividends in future. The control and ownership of the company is lying in the few hands of directors and their family members. The average dividend yield for listed companies in the same line of business is 18%. Calculate the value of 3000 shares in the company. **07**

(b) Explain the key factors which govern the capital structure decisions of a company? **07**

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