D 121166 **(Pages : 3)** **Name.......................................**

Reg. No...................................

FOURTH SEMESTER M.Com. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2025

(CBCSS)

M.Com.

MCM 4E (F) 04—ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Three Hours Maximum : 30 Weightage

Answers should be written in English only.

Part A

Answer any **four** *questions.*
Each question carries 2 *weightage.*

1. What is internal growth rate ?
2. Compare financial leverage with operating leverage.
3. Explain sale and lease back.
4. Compare horizontal merger and vertical merger.
5. Explain spin-offs.
6. Define SFM.
7. Explain Differential efficiency theory.

(4 × 2 = 8 weightage)

Part B

Answer any **four** *questions.*
Each question carries 3 *weightage.*

8. A manufacturing company is expecting the Net Operating Income of is Rs. 2,00,000. The company has debenture lending of Rs. 6,00,000 at 10 % interest payable. The overall capitalization rate is 20 %. Calculate the value of the firm and the equity capitalization rate as per the NOI approach.

   What will be the impact on value of the firm and equity capitalization firm if the debenture amount is increased to Rs. 7,50,000 ?

Turn over

9. Ghajini Ltd. Currently has 10,00,000 equity shares outstanding. Current market price per share is Rs. 100 The net income for the current year is Rs. 3,00,00,000 and investment budget is Rs. 4,00,00,000. Cost of equity is 10 %. The company is contemplating declaration of dividends @ Rs. 5 per share. Assuming MM approach :

   i) Calculate market price per share if dividend is declared and if it is not declared. and

   ii) How many equity shares are to be issued under both the options.

10. XYZ Ltd. is considering merger with ABC Ltd. XYZ Ltd.'s shares are currently traded at Rs. 25. It has 2,00,000 shares outstanding and its profits after taxes (PAT) amount to Rs. Rs. 4,00,000. ABC Ltd. has 1,00,000 shares outstanding. Its current market price is Rs. 12.50 and its PAT are Rs. 1,00,000. The merger will be effected by means of a stock swap (exchange). ABC Ltd. has agreed to a plan under which XYZ Ltd. will offer the current market value of ABC Ltd.'s shares : (i) What is the pre-merger earnings per share (EPS) and P/E ratios of both the companies ? (ii) If ABC Ltd.'s P/E ratio is 8, what is its current market price ? What is the exchange ratio ? What will XYZ Ltd.'s post-merger EPS be ? (iii) What must the exchange ratio be for XYZ Ltd.'s that pre and post-merger EPS to be the same ?

11. What is EVA ? Explain the advantages and limitations of EVA.

12. What are the different takeover strategies ?

13. What are the benefits of merger ?

14. State the scope of Strategic Financial Management.

(4 × 3 = 12 weightage)

Part C

Answer any **two** *questions.*
Each question carries 5 *weightage.*

15. XYZ Ltd. wants to purchase ABC Ltd. by exchanging 0.7 of its share for each share of ABC Ltd. Relevant financial data are as follows :—

Equity shares outstanding	...	10,00,000	4,00,000
EPS	...	40	28
Market price per share	...	250	160

   (i) Illustrate the impact of merger on EPS of both the companies.

   (ii) The management of ABC Ltd. has quoted a share exchange ratio of 1 : 1 for the merger.

Assuming that P/E ratio of X Ltd. will remain unchanged after the merger, what will be the gain from merger for ABC Ltd.

(iii) What will be the gain/loss of shareholders of XYZ Ltd ?

(iv) Determine the maximum exchange ratio acceptable to shareholders of XYZ Ltd.

16. ABC company Ltd. is faced with two options as under in respect of acquisition of an asset valued ` 1,00,000 EITHER (a) to acquire the asset directly by taking a Bank loan of ` 1,00,000 repayable in 5year-end installments at an interest of 15 %. OR (b) to lease in the asset at yearly rentals of ` 320 per ` 1,000 of the asset value for 5 years payable at year end.

The following additional information are available, (a) the rate of depreciation of the asset is 15 % W.D.V. (b) the company has an effective tax rate of 50 %. (c) the company employees a discounting rate of 16 %. You are to indicate in your report which option is more preferable to the company. Restrict calculation over a period of ten years the present value of one rupee due at the end of each year is :—

End of year	Present value
1	0.86207
2	0.74316
3	0.64066
4	0.55229
5	0.47611
6	0.41044
7	0.35313
8	0.30503
9	0.26295
10	0.22668

17. Discuss the various theories of merger.

18. Discuss the various theories of dividend.

(2 × 5 = 10 weightage)