Roll No.												

PRESIDENCY UNIVERSITY
BENGALURU

SCHOOL OF MANAGEMENT

MID TERM EXAMINATIONS

Semester: Odd Sem. 2019-20 **Date**: 17.10.2019

Course Code: FIN 203 **Time**: 9:30AM to 11:00AM

Course Name: STRATEGIC FINANCIAL MANAGEMENT **Max Marks**: 40

Program & Sem: MBA & III **Weightage**: 20%

Instructions:

i. Answer all the Questions.

Part A [Memory Recall Questions]

Answer both the Questions. Each Question carries three Marks. (2Qx3M=6M)

1. Elucidate on pecking order theory and the signaling theory in capital structure decisions. (C.O.NO.3) [Knowledge]
2. Describe the financial planning process (C.O.NO.3) [Knowledge]

Part B [Thought Provoking Questions]

Answer all the Questions. Each Question carries five marks. (4Qx5M=20M)

3. A Ltd is planning to expand and need an amount of 50 million. What are the factors it should consider when evaluating the different ways of raising the capital to decide their capital structure? (C.O.NO.3) [Comprehension]
4. Investors prefer dividends over capital receipts in real world. Hence dividends and capital receipts are not perfectly substitutable as in MM Irrelevance theory of dividend policy. Elucidate (C.O.NO.4) [Comprehension]
5. XYZ Ltd is considering two financial plans for which the key information is given below:

Total investment to be raised ₹400000

Plans of financing the proportion:

Plans	Equity	Debt
A	100%	_
B	50%	50%

Cost of debt 8%, Tax rate 50%

Equity shares of face value ₹10 each will be issued at ₹20 per share

Calculate EBIT for the point of indifference between Plan A & Plan B.

6. Enumerate the ten ways to create shareholder value according to the HBR article by Alfred Rappaport. (C.O.NO.3) [Comprehension]

Part C [Problem Solving Questions]

Answer the Question. The Question carries fourteen marks. (1Qx14M=14M)

7. The profit and loss account for 2018 and the balance sheet at the end of 2018 for Kirloskar company is as follows

Profit and Loss A/C		Balance Sheet	
	₹ million		₹ million
Sales	5000	Sources of Funds	
Variable Costs	2500	Shareholder's Funds	
Contribution	2500	• Paid up capital 300 (Face value of share: 10) • Reserves & Surplus 1200	1500
Fixed Operating costs	1500		
PBIT	1000	Loan Funds	
Interest	150	• Term Loans 1000 • Working capital loan 500	1500
PBT	850		
Tax	255	Application of funds	3000
PAT	595	Net fixed Assets 2200	
Dividend (4/share)	150	Net Current Assets 800	3000
Retained Earnings	445		

a) What is the current ROI, r, D/E and t of Kirloskar Company? [2M]

b) If Kirloskar company has a target ROE of 45%, what should its ROI, be, if r, D/E and t remain unchanged? [3M]

c) If Kirloskar company has a target ROE of 45%, what should its D/E be, if ROI, r and t remain unchanged? [2M]

d) What is the interest coverage and fixed asset coverage ratio for Suman company? [2M]

e) What is the sustainable growth rate for Suman company? [2M]

f) If Kirloskar company wants the sustainable growth rate to be 12%, what should be its retention ratio, and by implication its, dividend pay out ratio? [3M]

(C.O.NO.3) [Application]

SCHOOL OF MANAGEMENT

GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

Semester: Odd Sem 2019-20

Course Code: FIN203

Course Name: Strategic Financial Management

Program & Sem: MBA & III Sem

Date: 17 October 2019

Time: 9:30 am – 11:00 am

Max Marks: 40

Weightage: 20%

Extract of question distribution [outcome wise & level wise]

Q.NO.	C.O.NO (%age of CO)	Unit/Module Number/Unit /Module Title	Memory recall type [Marks allotted] Bloom's Levels	Thought provoking type [Marks allotted] Bloom's Levels	Problem Solving type [Marks allotted]	Total Marks
			K	C	A	
1	3 5%	Module 2 Capital Structure Decisions	3			3
2	1 5%	1, Financial Goals & Strategy	3			3
3	3 10%	Module 2 Capital Structure Decisions		5		5
4	4 10%	M2 Dividend Policy & Real world implications		5		5
5	3 10%	M2 Strategic Financing Decisions		5		5

6	2 5%	M1 Financial Goals & Strategy		5		5
7	3 15%	M2 Strategic Financing Decisions			14	14
	Total Marks		6	20	14	40

K =Knowledge Level C = Comprehension Level, A = Application Level

Note: While setting all types of questions the general guideline is that about 60%

Of the questions must be such that even a below average students must be able to attempt, About 20% of the questions must be such that only above average students must be able to attempt and finally 20% of the questions must be such that only the bright students must be able to attempt.

I hereby certify that all the questions are set as per the above guidelines. [Name of faculty]

Reviewer's Comments:

Annexure- II: Format of Answer Scheme

SCHOOL OF MANAGEMENT

SOLUTION

Date:

Semester:

Time:

Course Code:

Max Marks:

Course Name:

Weightage:

Part A (Q x M = Marks)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
1	Pecking order theory - Internal Equity, Debt, External Equity A firm always give preference to make use of their internal equity(retained earnings) when it needs funds as it comes out of profit and not much effort is required for it. When the financing need exceeds the retained earnings the firm seeks debt. It includes fixed interest charges which the firm has to pay irrespective of making profit or loss. The last choice for the firm is external equity where the firm believes that there is no additional liability but dilution of ownership increases. Signaling theory Use of retained earnings is seen as a good signal by the capital market as it show the confidence of the firm regarding the new project it is going to investand the firm firm believes in the good prospects in future. When the firm goes for debt financing it is not good sign compared to internal equity as it points to the fact the capital requirements exceeded retained earnings. Hence we can see that highly profitable firms do not opt for debt. External equity is perceived as a bad news as it points to fact that the management is not sure of its earning capacity in future and it feels that the stocks of the company are overpriced in relation to its future prospects.	3	5 min
2	The steps in financial planning process are 1) Determining financial objectives – short term and long term 2) Determining requirement of funds – short term and long term 3) Availability of funds – External & Internal 4) Establishing and maintaining system of controls 5) Formulating procedures and policies 6) Providing for Flexibility of financial plans	3	5 min

Part B (4Q x5 M = 20 Marks)

<table>
<tr><th>Q No</th><th>Solution</th><th>Scheme of Marking</th><th>Max. Time required for each Question</th></tr>
<tr><td>3</td><td>• Nature of business
• Financial Leverage or Trading on equity
• Cost of capital
• Cost of Floatation
• Corporate Tax rate
• Money market conditions or Economic conditions
• Retaining Control
• Nature of assets of the company
• Profitability and stability of sales
• General level of interest rate
• Attitude of investors
• Capital Requirements
• Taxation policy of government</td><td>5 M</td><td>10 min</td></tr>
<tr><td>4</td><td>1. Investor preference for dividends – Self Control, Aversion for regret – Dividend and capital receipts
2. Transaction Costs – Floatation cost, Taxes
3. Informational Asymmetry – Management has significant information about the firm than investors. Information gap exists, role of signaling theory
4. Agency Costs – A firm paying dividends regularly has lesser chance of squandering money over uneconomic projects. It can reduce managerial propensity to waste resources. Hence investors prefer dividend over capital receipts.</td><td>5 M</td><td>10 min</td></tr>
<tr><td>5</td><td>Point of Indifference for Plan A & Plan B
$\frac{(EBIT - I_1)(1-T) - PD}{S_1} = \frac{(EBIT - I_2)(1-T) - PD}{S_2}$
$\frac{(EBIT - 0)(1-0.5) - 0}{20000} = \frac{(EBIT - 16000)(1-0.5) - 0}{10000}$
EBIT = ₹32000</td><td>5 M</td><td>10 min</td></tr>
<tr><td>6</td><td>• Do not manage earnings or provide earnings guidance.
• Make strategic decisions that maximize expected value, even at the expense of lowering near-term earnings.
• Make acquisitions that maximize expected value, even at the expense of lowering near-term earnings.
• Carry only assets that maximize value.
• Return cash to shareholders when there are no credible value-creating opportunities to invest in the business.
• Reward CEOs and other senior executives for delivering superior long-term returns.
• Reward operating-unit executives for adding superior multiyear value</td><td>5 M</td><td>10 min</td></tr>
</table>

	• Reward middle managers and frontline employees for delivering superior performance on the key value drivers that they influence directly. • Require senior executives to bear the risks of ownership just as shareholders do • Provide investors with value-relevant information.		

Part C (Q x M = Marks)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
7	a) ROI = PBIT/Investment = 33.33%, r = 150/1500 * 100 = 10%, t = 255/850* 100= 30%, D/E =1500/1500 = 1:1 b) ROE = [ROI+(ROI – r) D/E](1-t) = 0.45 = [ROI+ROI- 0.10](1- 0.3) 0.45/0.7 = 2 ROI – 0.10, 2ROI = 0.643-0.10, ROI = 27.15% c)0.4 = [0.3333+(0.3333-0.10)D/E](1-0.3) 0.5714= 0.3333+0.2333 0.5714/0.5667, D/E = 1.0008:1 d)ICR = PBIT/Interest = 1000/150 = 6.67 FACR = Fixed Assets/Term Loan = 2200/1000 = 2.2 e) SGR = Net Profit Ratio x Asset Turnover Ratio x Assets/shareholder's fund x Retention ratio SGR = 0.119x 1.67x2x0.7479 =29.73% NPR = 595/5000 Asset turnover Ratio = 5000/3000= 1.67 Leverage ratio = 3000/1500 =2 Retention ratio =445/595 = 74.79% f) Retention ratio = SGR/NPR x Asset turnover ratiox Leverage multiplier = 0.12/0.119x1.67x2 = 30.2% Dividend payout ratio = 69.8%	14	30 min

Roll No												

GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

PRESIDENCY UNIVERSITY
BENGALURU

SCHOOL OF MANAGEMENT

END TERM FINAL EXAMINATION

Semester: Odd Semester: 2019 - 20

Course Code: FIN 203

Course Name: STRATEGIC FINANCIAL MANAGEMENT

Program & Sem: MBA & III

Date: 20 December 2019

Time: 1:00 PM to 4:00 PM

Max Marks: 80

Weightage: 40%

Instructions:

(i) Read the all questions carefully and answer accordingly.

Part A [Memory Recall Questions]

Answer all the Questions. Each Question carries 5 marks **(6Qx5M=30M)**

1. Explain different types of leasing. (C.O.No.1) [Knowledge]
2. What is buyback of shares? Why do companies resort to buyback of shares?

   (C.O.No.3) [Knowledge]
3. Explain Enterprise Risk Management framework. (C.O.No.2) [Knowledge]
4. Elucidate the steps in financial planning process. (C.O.No.2) [Knowledge]
5. ABC industries EBIT for the financial year 2018 amounted to Rs.5, 130 million. Applicable tax rate is 35%. 60% of the company's assets are financed by debt which has after tax cost of 3.8%, while 40% is financed by equity with a cost of 9.8%. ABC industries capital amounted to Rs 50,420 million. Find the company's Economic Value Added.
6. Calculate the level of EBIT at which the EPS indifference point between the following alternatives will occur.
   1. Equlty share capital of Rs. 3,00,000 and 10% debentures of Rs.2,00,000 or
   2. Equity share capital of Rs.2,00,000, 12% preference share capital of Rs.1,00,000 and 10% debentures of Rs.2,00,000.

   Assume that the corporate tax is 35% and the face value of equity share is Rs.10 in each case (C.O.No.2) [Comprehension]

Part B [Thought Provoking Questions]

Answer all the Questions. Each Question carries 10 marks. (2Qx10M=20M)

7. From the following particulars, prepare a cashflow statement for the year ended 31st March 2018.

   a. Total sales for the year were Rs.9,22,500 out of which cash sales amounted to Rs.6,39,000

   b. Total purchase for the year were Rs.6,88,500 out of which cash purchases amounted to Rs.4,59,000.

   c. Cash collected from credit customers during the year amounted to Rs.2, 16,000

   d. Cash paid to suppliers of goods on credit was Rs.2,02,500.

   e. Depreciation for the year was Rs. 18,000, whereas salaries and other expenses amounted to Rs.81,000 out of which 9,000 is outstanding.

   f. Redeemable preference shares of the face value of Rs.45,000 were redeemed during the year at premium of 10%

   g .Income tax paid Rs.36, 000

   h. New machine was purchased for Rs.13,500 during the year.

   i. Rs.11,250 was paid as dividends for the year ending 31-3-2018

   j. Equity shares of the face value of Rs.90,000 were issued at a premium of 10% during the year.

   k. The opening cash balance amounted to 38,250 on 1-4-2017, and closing cash balance on 31-3-2018 was 1,48,500. (C.O.No.2) [Comprehension]

8. Royal Ltd is considering a capital project for which the following information is available.

Investment	200
Project life	5 years
Annual revenue	450
Cost of equity	15%
Equity Financing	200
Depreciation	Straight line method
Tax rate	45%
Annual costs (Excluding depreciation, interest & Taxes)	280

a) Calculate the EVA of the project over its life

b) Compute the MVA of the Project (C.O.No.2) [Comprehension]

Part C [Problem Solving Questions]

Answer both the Questions. Each Question carries 15 marks. (2Qx15M=30M)

9. Lucky Pvt Ltd is considering a proposal to acquire a machine costing Rs.15 lakhs. The machine has expected life of 5 years. The machine generates operating profit (EBIT) of Rs 9 lakhs per annum. It has a scrap value of Rs 1.5 lakhs at the end of 5th year. The depreciation allowable for the machine is 25% on reducing balance method and the company's tax rate is 50%.Another option before the company is to acquire the machine on lease basis with a rent of Rs.5, 04,000 per annum. The cost of capital for the company is 14% and for the lease option it is 16%.

	0	1	2	3	4	5
PV@14%	1.00	.877	.769	.675	.592	.519
PV@16%	1.00	0.826	0.743	0.641	0.552	0,476

You are required to evaluate the cashflows and advice as to which option is better

(C.O.No.6) [Application]

10. From the following Balance Sheets and Profit and Loss Account, prepare a cashflow statement using Direct Method.

	31.03.2017	31.03.2018		31.03.2017	31.03.2018
Equity Share Capital	15,00,000	15,00,000	Fixed Assets	36,00,000	39,00,000
Profit & Loss Account	12,45,000	14,19,000	Less: Provision for Depreciation	12,00,000	14,70,000
14% Debentures	9,00,000	7,50,000		24,00,000	24,30,000
Creditors	1,53,750	1,82,550	Investments	3,75,000	1,50,000
Expenses Outstanding	32,700	41,100	Stock	6,19,950	7,60,650
Provision for Bad debts	12,000	13,500	Sundry Debtors	2,40,000	2,70,000
			Cash at bank	2,01,300	2,90,100
			Preliminary expenses	7,200	5,400
	38,43,450	**39,06,150**		**38,43,450**	**39,06,150**

Profit and Loss Account

To Opening Stock	6,19,950	By Sales	54,60,300
To Purchases	29,30,700	By Closing stock	7,60,650
To Gross Profit	26,70,300		
	62,20,950		**62,20,950**
To operating expenses	11,75,250	By Gross Profit	26,70,300
To provision for bad debts	1,500	By legal compensation	75,000
To Provision for Depreciation	2,70,000	By Interest on Investment	39,000
To Preliminary exp's written off	1,800	By profit on sale of Investment	11,250
To Interest on Debentures	1,15,500		
To Income tax paid	4,92,600		
To Net profit	7,38,900		
	27,95,550		**27,95,550**

(C.O.No.6) [Application]

SCHOOL OF MANAGEMENT

GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

END TERM FINAL EXAMINATION

Extract of question distribution [outcome wise & level wise]

Q.NO.	C.O.NO (% age of CO)	Unit/Module Number/Unit /Module Title	Memory recall type [Marks allotted] Bloom's Levels	Thought provoking type [Marks allotted] Bloom's Levels	Problem Solving type [Marks allotted]	Total Marks
			K	C	A	
1		Unit 3	5			5
2		Unit 2	5			5
3		Unit 2	5			5
4		Unit 1	5			5
5		Unit 4		5		5
6		Unit 1		5		5
7		Unit 2		10		10
8		Unit 4			10	10
9		Unit 3			15	15
10		Unit 2			15	15
	Total Marks					80

K =Knowledge Level C = Comprehension Level, A = Application Level

Note: While setting all types of questions the general guideline is that about 60%Of the questions must be such that even a below average students must be able to attempt, About 20% of the questions must be such that only above average students must be able to attempt and finally 20% of the questions must be such that only the bright students must be able to attempt.

I hereby certify that all the questions are set as per the above guidelines.

Faculty Signature:

Reviewer Commend:

Format of Answer Scheme

SCHOOL OF MANAGEMENT

GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

SOLUTION

Semester: Odd Sem. 2019-20
Course Code: FIN203
Course Name: Strategic Financial Management
Program & Sem: MBA & III

Date: 20.12.2019
Time: 1:00 PM to 4:00 PM
Max Marks: 80
Weightage: 40%

Part A (6Q x 5M = 30Marks)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
1	**Financial Lease-payment over a longer period, long-term lease and the lessee will be paying much more than the cost, as lease charges, lessee has to bear all costs ,lessor does not render any service.** 2. Operating Lease-lessee uses the asset for a specific period, lessor bears the risk of obsolescence and incidental risks. lessor bears all expenses, it is preferred where the equipment is likely to become obsolescence. 3. Leveraged and non-leveraged leases-Here the value of the asset leased may be of a huge amount which may not be possible for the lessor to finance. the lessor involves one more financier who will have charge over the leased asset.	2+2+1	**10**
2	**Buy-Back** - company buys back its **shares** from the existing shareholders at a price higher than market price. . - to increase their equity holding in the company. to reduce the risk of hostile takeover . co wants to close the company.	**2+3**	**10**

Part B (02Q x 10M = 20 Marks)

Q No	Solution	Scheme of Marking	Max. Time required for each Question

3	Risk Identification, Risk assessment, Risk Response, Monitoring and follow up	1+1+1+1+1	10
4	determining your current **financial** situation. developing **financial** goals, identifying alternative courses of action,evaluating alternatives.(5) creating and implementing a **financial** action **plan**, reevaluating and revising the **plan**.	1+1+1+1+1	10
5	**MVA =36.08+35.92+35.18+34.02+32.57=173.77** EVA=NOPAT-WACCXCAPITAL EMPLOYED NOPAT=EBIT (1-T) 5,130 million (1-.35)=3,334 million WACC =0.6X3.8%+0.4X9.8%=6.2% EVA= 3,334- (6.2% x 50,420= 208 million	2+3	10 Mins
6	Point of Indifference = .65X-13,000 = .65X - 13,000-12,000 30,0000 20,0000 X= 49,000/0.65= 75,384.615 OR 75,384.	2+3	10 Mins

Part C (02Q x 15M = 30Marks)

Q No	Solution	Scheme of Marking	Max Time requir for ea Questi
7	Cash Flow Statement	1x10=10	15

Cash flow from operating activities:-	
Cash received from customers (6,39,000+2,16,000)	8,55,000
Cash paid to suppliers (4,59,000+2,02,500+72,000)	(7,33,500)
Income tax paid	(36,000)

Cash from operations	**85,500**
Cash flow from investing:-	
Purchase of machine	(13,500)
Cash from investing activities	**(13,500)**
Cash flow from Financing activities:-	
Redemption of debentures 45,000+ 10%	(49500)
Dividends paid	(11,250)
Issue of equity shares 90,000 + 10%	99,000
Cash from Financing activities	**38,250**
Increase in cash(85,500+38250-13,500)	***1,10,250***
Add opening cash balance	38,250
Closing cash balance	**1,48,500**

8

	1	2	3	4	5
Revenue	450	450	450	450	450
Less Annual cost	280	280	280	280	280
PBDIT	170	170	170	170	170
Less Depreciation 200/5	40	40	40	40	40
PBIT	130	130	130	130	130
Less Tax @45%	58.5	58.5	58.5	58.5	58.5
NOPAT	71.5	71.5	71.5	71.5	71.5
Add Depreciation	40	40	40	40	40
Cash flow	111.5	111.5	111.5	111.5	111.5
Capital at charge Invest-Acc depn	200	160	120	80	40

EVA 7+MVA 3

15

Charge on capital @15%	30	24	18	12	6
EVA=NOPAT-capital charges	41.5	47.5	53.5	59.5	65.5
PV @15%	-869	.756	.657	.572	.497
PV	36.08	35.92	35.18	34.02	32.57

20

9)

Evaluation of Purchase Option Rs.in Lakhs

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating profit	9	9	9	9	9
Less Depreciation	3.75	2.81	2.11	1.58	1.19
PBT	5.25	6.19	6.89	7.42	7.81
Less Tax @ 50%	2.63	3.095	3.445	3.71	3.91
PAT	2.63	3.095	3.445	3.71	3.91
Add Depreciation	3.75	2.81	2.11	1.58	1.19
Add Scrap Value					1.50
Net cash inflows (a)	6.38	5.905	5.555	5.29	6.6
PV factor @14%	.877	.769	.675	.592	.519
Present Values	5.595	4.541	3.749	3.132	3.425
Total PV-Investment =	5.595+4.541+3.749+3.132+3.425= 20.442-15= 5.442				

5+5

8+7=15

Evaluation of Lease Option

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Profit	9	9	9	9	9
Less Lease Rent	5.04	5.04	5.04	5.04	5.04
Profit before tax	3.96	3.96	3.96	3.96	3.96

40

Less Tax @ 50%	1.98	1.98	1.98	1.98	1.98
Profit After Tax	1.98	1.98	1.98	1.98	1.98
Dis.factor at 16%	.862	.743	.641	.552	.476
Present values	1.706	1.471	1.269	1.093	.942
Total present values	6.481 Lease is better- it has more NPV				

Cash Flow Statement

Cashflow from Operating Activities:	
Cash received from customers	54,30,300
Cash paid to suppliers	(29,01,900)
Cash paid to employees and other expenses	(11,66,850)
Cash from Operations	**13,61,550**
Income tax paid	(4,92,600)
Legal compensation received	75,000
Net cashflow from operations	**9,43,950**
Cashflow from Investing Activities	
FA Purchased	(3,00,000)
Sale proceeds of investment	2,36,250
Interest on investment	39,000
Net cashflow from Investing	**(24,750)**
Cashflow from Financing Activities:	
Redemption of debentures	(1,50,000)
Debenture interest paid	(1,15,500)
Dividends Paid	(5,64,900)
Net cashflow from financing	**(8,30,400)**

10)

9+6=15

40

Increase in cash	88,800
Add Opening Balance of cash	2,01,300
Closing cash balance	2,90,100

Workings:-

1 cash received from drs=54,60,300+2,40,000-2,70,000=54,30,300

2 cash paid to crs=29,30,700+1,53,750-1,82,500=29,01,900

3.cash to employees=11,75,000+32,700-41,400=11,66,850

4.FA purchased 3,00,000

5 Sale of investment 2,25,000+11,250=2,36,250

6 Dividends paid 12,45,000+7,38900-14,19,000=5,64,900