C 41912 (Pages : 3) Name..

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

FOURTH SEMESTER M.Com. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2023

(CBCSS)

M.Com.

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

(2019 Admission onwards)

Time : Three Hours Maximum : 30 Weightage

Part A

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

1. What is reverse merger ?
2. What do you mean by EVA approach ?
3. MBO and LBO are not synonymous. Explain.
4. What is spin-off ?
5. What do you mean by financial distress ?
6. What is meant by indifference point ?
7. What is butterfly spread ?

(4 × 2 = 8 weightage)

Part B

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

8. Firm A is considering acquisition of firm B by merger.

   The following data are available.

	Firm A	Firm B
Earning after tax	Rs. 4,00,000	Rs. 1,20,000
No. of equity shares	80,000	20,000
Market value per share	Rs. 20	Rs. 15

Turn over

(i) Merging by share exchange ratio based on current market price; calculate the EPS of the merged firm.

(ii) Determine the share exchange ratio by which the earnings of shareholders of firm B would not be affected. Also calculate EPS after merger.

9. 'The LBO can be successful if the critical factors are taken care of'. Comment.

10. The next five years net income and capital investment of ABC Ltd are given below :

(Figures in '000)

Year	:	1	2	3	4	5
Net Income (Rs.)	:	8,000	7,000	6,500	6,000	5,000
Investment (Rs.)	:	3,000	4,000	4,500	7,000	8,000

The firm has 10,00,000 equity shares outstanding.

a) Determine dividend per share if dividend policy is treated as residual decision.

b) Determine dividend per share and the amount of the external financing that will be necessary if a dividend payout ratio of 50 percent is maintained.

11. A firm has issued two lakhs shares of Rs. 10 each and has debt of Rs. 10 lakhs at ten percent interest. Sale of the firm is 5,00,000 units at selling price of Rs.8 and variable cost of Rs. 5 per unit. The fixed cost is Rs. 4,00,000 and the tax rate is 40 percent.

Calculate the following at current level of sales and also at Five percent increase in sales :

(a) EPS ;

(b) DFL ; and

(c) DOL.

12. Describe in detail the various reasons that are usually behind company's motive to merge.

13. What is corporate valuation ? Explain its objectives.

14. Explain the differences between operating lease and financial lease.

(4 × 3 = 12 weightage)

Part C

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

15. A firm purchases an asset with a life span of five years worth Rs. 10,000 after which its salvage value is Rs. 2,000. Purchasing the asset will increase the firm's expected revenues by Rs. 7,500 per year. It will raise its expected operating expenses (excluding depreciation) by Rs. 3,500 per year. The firm provides depreciation on straight line method, its co-operate tax is 40 percent and the cost of capital of the firm is 15 percent. The other option for the firm is to lease the asset for a yearly rental of Rs. 4,000. The incremental revenue will be the same at Rs. 7,500 per year and the increase in firm's expected expenses is Rs. 3,500 per year. You are required to evaluate the proposals and suggest whether to buy or lease the asset.

16. Firm a acquires firm B by exchanging 0.5 of its shares for each share of firm B. Input available is given as follows :

	Firm A	Firm B
PAT (Rs.)	20,00,000	5,00,000
Number of equity shares	5,00,000	2,00,000
EPS (Rs.)	4	2.5
PE Ratio	10	8
Market price per share (Rs.)	40	20

Determine :

a) The number of equity shares to be issued by firm A for acquisition of firm B.

b) EPS of firm A after the acquisition.

c) Equivalent earnings per share of firm B.

d) If PE ratio does not change by acquisition, expected share price of firm A.

e) Market value of the merged firm.

17. What can be inferred by the term 'leveraged buyout' ? Discuss the characteristics of this strategy.

18. Write an elaborate note on financial distress and modes of restructuring.

(2 × 5 = 10 weightage)