90265

IV Semester M.B.A. Examination, June 2015
(2011 Scheme)
Business Administration
Elective FM 4 : Financial Strategies

Time : 3 Hours

Max. Marks : 75

SECTION – A

Answer **all** questions. **Each** question carries **six** marks. **(5×6=30)**

1. Explain the mechanisms of employee stock option.
2. Define 'Boot strapping' in Mergers. Is it the correct strategies in M & A ? Justify your answer.
3. Define 'Book Building', 'Price Discovery' and 'Underpricing'.
4. Distinguish between a Dealer and a Broker.
5. Distinguish Financial acquisition from strategic acquisition.

SECTION – B

Answer **any three** questions. **Each** question carries **ten** marks. **(3×10=30)**

6. A firm in a perfectly competitive market has the following parameters :

   $\sigma_A = \sigma_A = .2$ instantaneous standard deviation

   $T_A = T_B = 4$ years maturity of debt.

   $V_A = V_B =$ Rs. 2,000 value of the firm, $V = B + S$

   $R_f = .06$ Risk free rate

   $D_A = D_B =$ Rs. 1,000 face value of debt

   The correlation between the cash flow of firms A and B is .6. If they merge, the resultant firm will be worth Rs. 4,000 = $V_A + V_B$, but its new instantaneous variance will be .032 and $\sigma_{AB} = .179$.

   What will be the market value of debt and equity in the merged firm ? If there were no merger effects, would shareholders agree to the merger ?

P.T.O.

7. Discuss the hypotheses and empirical evidence on mergers and acquisitions in India.

8. Define a prospectus for a new issue of equity. What are its contents ? Explain the vetting process. What is a Red-Herring prospectus ?

9. Write notes on the following :
   Market making, underwriting, tender offer, dutch auction.

10. Define a 'Sick company'. What are the provisions of the law with regard to turnaround of sick companies in India ?

SECTION – C

11. **Compulsory** case study 15

Complete the table and discuss the general implications of the model.

Model of Differential P/E Ratios

	Acquirer (A)	**Target (T)**	**Combined**
1. Net income	$ 100	$ 100	$ 200
2. Number of shares	100	100	140
3. EPS (old)	$ 1	$ 1	$ 1.43
4. P/E ratio	50x	10x	50x
5. Price/share	$ 50	$ 10	$ 71.43 (new)
6. Total market value (old)	$ 5,000	$ 1,000	$ 6,000
7. Proportions (old)	83.3 %	16.7 %	
8. Terms paid (A for T)	0.4 A/I	$ 20	
9. Premium to T		100 %	
10. EPS (new)	______	______	
11. EPS (% change)	______	______	
12. Total market values (new)	______	______	______
13. Market values (% change)	______	______	
14. Proportions (new)	______	______	