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# IV Semester M.B.A. Examination, September/October - 2020

## (Scheme : CBCS)

## BUSINESS ADMINISTRATION

## Elective 4 FM : Strategic Financial Management

**Time : 3 Hours** **Max. Marks : 70**

### SECTION - A

Answer all Questions. Each question carries five marks. **[5 × 5 = 25]**





1. Differentiate between pooling and purchasing methods of accounting.

2. Distinguish between capital structure and financial structure.

3. Define operational cutbacks. What are the advantages and disadvantages of Operational Cutbacks?

4. Explain the criteria of Ideal capital market. How it is different from real capital market?

5. Differentiate between Seasoned equity offering and initial public offering.

### SECTION - B

Answer any three of the following questions. Each Question Carries Ten marks.

**[3 × 10 = 30]**

6. Explain briefly defensive tactics in mergers and acquisition.

***P.T.O.***

7. Abhi Ltd. is considering to acquire Giri Ltd. Following are the financial data of both the companies.

| Particulars | Abhi Ltd | Giri Ltd |
|---|---|---|
| No. of shares | 1,50,000 | 75,000 |
| EPS | Rs. 25 | Rs. 15 |
| Market price per share | Rs. 150 | Rs. 75 |

a) What is the impact of merger on EPS assuming the share exchange ratio is to be in the relative proportion of EPS of the two companies.

b) The management of Giri Ltd. has quoted a share exchange ratio of 1:1 for the merger to take place. As it financially viable for the Abhi Ltd.? If not,

c) What is the maximum ER acceptable to Abhi Ltd.?

Assume P/E ratio remains same after the merger and merger does not yield any synergy.

8. Explain the provision of Insolvency and Bankruptcy code 2016.

9. ABC Ltd. has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company propose to declare a dividend of Rs. 10 per share at the end of the current financial year. The capitalization rate for the risk class to which the company belongs to 12%. What will be the market price of the share at the end of the year, if ;

a) Dividend is not declared?

b) Dividend is declared?

c) Assuming that the company pays the dividend and has net profits of Rs. 5,00,000 and makes new investments of Rs. 10,00,000 during the period, how many new shares must be issued? Use the MM model.

10. Explain briefly internal capital market theory with examples.

## SECTION - C

Case Study. (Compulsory)

11. Read the following Case and answer the Questions given. **[15]**

East Ltd. is considering taking over the business of West Ltd. on March 31, 2008. Tile summarized balance sheet of West Ltd. as on that date was as follows :

| Capital & Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Equity share capital: | 10,00,000 | Fixed Assets: | |
| (1,00,000 equity shares) | | Land & Building | 5,00,000 |
| General Reserve | 1,50,000 | Plant & Machinery | 8,00,000 |
| P & L A/c | 1,00,000 | Current Assets: | |
| 10% debentures | 2,00,000 | Inventories | 1,00,000 |
| Current liabilities | 50,000 | Debtors | 50,000 |
| | | Bank | 40,000 |
| | | Cash | 10,000 |
| Total | 15,00,000 | Total | 15,00,000 |

Additional information :

a) East Ltd. agreed to take over all the current assets at Rs. 1,40,000 and bank and cash balance at their book value.

b) Fixed assets were to be revalued as under. Land and building Rs. 10,70,000; Plant and machinery Rs. 6,00,000. In addition, East Ltd. is required to pay Rs. 80,000 for Good Will and is also to bear dissolution expenses of Rs. 15,000 (to be paid directly by East Ltd.) 

c) Purchase consideration was paid as Rs. 2,50,000 in cash to discharge 10% debentures and other liabilities and the balance is to be paid in equity shares of East Ltd.

d) Expected benefits (CFAT) accruing to East Ltd. are as follows:

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| (CFAT) | 1,50,000 | 4,00,000 | 3,50,000 | 3,00,000 | 2,00,000 |

The FCF is expected to be constant after 5 year.

e) Cost of capital is assumed to be 12% Advise financial viability of the merger.

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