

Name. _____		Printed Pages:03				
Student Admn. No.: _____						
<b>School of Finance &amp; Commerce</b> <b>Backlog Examination, June 2023</b> <b>[Programme: MBA FM] [Semester: IV] [Batch:2020-22]</b>						
Course Title: Strategic Financial Management			Max Marks: 100			
Course Code: MBAF6026			Time: 3 Hrs.			
<b>Instructions:</b>	1. All questions are compulsory. 2. Assume missing data suitably, if any.					
			K Level	COs	Marks	
<b>SECTION-A (15 Marks)</b>			<b>5 Marks each</b>			
1.	Briefly describe the three key activities of the financial manager.	K2	CO1	5		
2.	Explain synergy in the context of mergers and acquisitions.	K2	CO4	5		
3.	Explain the prospect and regret theory of behavioral finance.	K2	CO5	5		
<b>SECTION-B (40 Marks)</b>			<b>10 Marks each</b>			
4.	From the under mentioned facts, compute the net present values (NPVs) of the two projects for each of the possible cash flows, using sensitivity analysis.		K4	CO2	10	
	<b>particulars</b>	<b>Project X</b>				<b>Project Y</b>
	Initial cash outlays	40,000				40,000
	Cash inflow estimates (t = 1-15)					
	Worst	6,000				0
	Most likely	8,000				8,000
	Best	10,000				16,000
	Required rate of return	0.10				0.10
	Economic life (years)	15				15
5.	Shed light on the dissimilarities that exist between the risk-adjusted discount rate and the certainty equivalent method.		K3	CO1	10	
6.	A corporate firm's management policy is to earn a real rate of return (r) of 10% on new project. It is expected that the inflation rate (i) during the proposed project's life is 6% per year. Determine the nominal discount rate (n) which should be used by the firm to determine the present value of the project.		K3	CO3	10	
7.	The project has a mean value of 600, S.D. of 300. The management wants to determine the probability of the NPV under the following ranges.  1. Less than 400 2. Between the range of 500 and 900		K4	CO4	10	

	Value of Z >>> (Z 0.6667 = .24751, Z .3333 = .13056 & Z 1 = .34134)																													
	OR																													
	What is taking over by reverse bid or reverse merger?																													
<b>SECTION-C (45 Marks)</b>		<b>15 Marks each</b>																												
8.	“Psychology and behavior of an investor is founding stone for behavioral finance” comment on this statement.	K4	CO5	15																										
9.	<p>A company has made the following estimates of the CFAT associated with an investment proposal. The company intends to use a decision tree to get a clear picture of the project’s cash inflows. The project has an expected life of 2 years.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Particulars</th> <th style="width: 30%;">CFAT (t = 1)</th> <th style="width: 40%;">probability</th> </tr> </thead> <tbody> <tr> <td></td> <td>250000</td> <td>0.4</td> </tr> <tr> <td></td> <td>300000</td> <td>0.6</td> </tr> <tr> <td></td> <th>CFAT (t = 2)</th> <th>probability</th> </tr> <tr> <td rowspan="3">If CFAT<sub>1</sub> = 250000</td> <td>120000</td> <td>0.2</td> </tr> <tr> <td>160000</td> <td>0.3</td> </tr> <tr> <td>220000</td> <td>0.5</td> </tr> <tr> <td rowspan="3">IF CFAT<sub>2</sub> = 300000</td> <td>200000</td> <td>0.4</td> </tr> <tr> <td>250000</td> <td>0.5</td> </tr> <tr> <td>300000</td> <td>0.1</td> </tr> </tbody> </table> <p>The equipment costs of Rs. 400000 and the company uses a 11 % discount rate for this type of investment.</p> <p>(a) Construct a decision tree for the proposed investment project</p> <p>(b) What net present value will the project yield if the worst outcome is realized? What is the probability of occurrence of this NPV?</p> <p>(c) What will be the net present value if the best outcome occurs? What is its probability?</p> <p>Will the project be accepted?</p>	Particulars	CFAT (t = 1)	probability		250000	0.4		300000	0.6		CFAT (t = 2)	probability	If CFAT <sub>1</sub> = 250000	120000	0.2	160000	0.3	220000	0.5	IF CFAT <sub>2</sub> = 300000	200000	0.4	250000	0.5	300000	0.1	K5	CO3	15
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10	<p>B Ltd. Is a highly successful company and wishes to expand by acquiring other firms. Its expected high growth in earnings and dividends is reflected in its PE ratio of 17. The Board of Directors of B Ltd. Has been advised that if it were to take over firms with a lower PE ratio than its own, using a share-for-share exchange, then it could increase its reported earnings per share. C Ltd. has been suggested as a possible target for a takeover, which has a PE ratio of 10 and 100000 shares in issue with a share price of Rs. 15. B ltd. has 500000 shares in issue with a share price of Rs. 12.</p> <p>Calculate the change in earnings per share of B Ltd. if it acquires the whole of C Ltd. by issuing shares at its market price of Rs. 12. Assume the price of B Ltd. shares remains constant.</p> <p style="text-align: center;">OR</p> <p>ABC Ltd. is intending to acquire XYZ Ltd. by merger and the following information is available in respect of the companies:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Particulars</th> <th style="width: 30%;">ABC Ltd.</th> <th style="width: 40%;">XYZ Ltd.</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Particulars	ABC Ltd.	XYZ Ltd.				KO5	CO3	15																				
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Number of equity shares	10,00,000	6,00,000
Earnings after tax	50,00,000	18,00,000
Market value per share	42	28

Required:

- (i) What is the present EPS of both the companies?
- (ii) If the proposed merger takes place, what would be the new earning per share for ABC Ltd? Assume that the merger takes place by exchange of equity shares and the exchange ratio is based on the current market price.
- (iii) What should be exchange ratio, if XYZ Ltd. wants to ensure the earnings to members are as before the merger takes place?