MBFM 3001/
MBLF 3002

M.B.A. DEGREE EXAMINATION,
DECEMBER 2014/JANUARY 2015.

Third Semester

Finance

STRATEGIC FINANCIAL MANAGEMENT

(2012–2013 Batch onwards)

Time : Three hours Maximum : 100 marks

SECTION A — ($5 \times 6 = 30$ marks)

Answer any FIVE questions.

1. What are the steps to be followed in strategic planning?

2. Explain the process of Financial Planning.

3. Explain the features of an effective corporate planning.

4. State the purpose of Corporate Restructuring.

5. A project is required to invest Rs. 1,10,000 and is expected to generate cash flows after tax over its economic life of 5 years of Rs. 20,000, Rs. 30,000, Rs. 35,000, Rs. 55,000 and Rs. 10,000. Risk–free interest rate is 7% and decision makers are interested to add 3% as risk premium for the project. You are required to calculate NPV using Risk Adjusted Discount Rate (RADR) approach and suggest on the acceptability of the project.

6. What are the various methods of venture capital financing?

7. Distinguish between operating lease and financial lease.

8. Mention any six innovative financial instruments.

SECTION B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. Define – Financial Planning. Explain the importance of financial planning.

10. Elaborate, in detail, the different types of financial models.

11. Enumerate the pre-requisites and obstacles of a High Technology Strategic Investment.

The top management has to carefully decide a strategic mix of owned assets and leased assets. Such mix should be operationally convenient and financially viable. The days of uncertainty may be faced either with an enlarged size of the Balance Sheet or with the exit routes offered through the "Lease Approach".

Questions for discussion :

(a) An overall analysis of the "Lease Vs own" strategy.

(b) Defining a Judicious mix of leased at owned assets.

(c) Projecting an overall impact of company's Balance Sheet, income statement and cash flow statement.

Additional investment for the expansion plan required is projected as follows :

Items of investment	$ in Million
Land and Buildings	80
Plant and Machinery	100
Furniture	10
Vehicles	3
Working capital	100
Total	293

Present Debt/Equity ratio of the company is 1.31. The reserves are reasonably good. Therefore, the expansion plan may be entirely funded by borrowed fund, which will increase the debt/equity from 1.31 to 2.44. The company's top management thinks that the debt/equity of 2.44 should be Manageable.

PIL has exhausted all the fiscal benefits offered by the Government. Most of the present fixed asset are considerably depreciated. Leased plant and Machines will offer the advantage of multiple technological choices. ie. threat of obsolete technology could be avoided.

12. Sky Way Ltd. is considering an investment proposal which requires 20 lakhs. The expected cash inflow and certainty co-efficients are given below :

Year	Cash in flow (Rs.)	Certainty Co-efficient
1	6,00,000	0.90
2	3,00,000	0.85
3	7,00,000	0.80
4	8,00,000	0.75
5	9,00,000	0.65

Risk Free Interest Rate is 6%

Determine NPV of proposal.

13. Describe the various reasons for mergers.

14. Describe the different types of lease.

15. Explain the salient features of venture capital.

16. Discuss the different types of Bonds.

SECTION C — (1 × 20 = 20 marks)

Compulsory

17. Devan and Mehta, the Chairman of Plastic India Limited (PIL) was discussing with his top teams about capacity expansion. PIL is one of the market leaders for plastic–moulded products such as buckets, furniture, pipes and other household items. It enjoys around 20% of the market share in Western and northern India.

The company has got 11 factories, 64 retail outlets 16 major warehouses and a strong team of more than 300 retail stockists.

Presently, all the factories are working three shifts with fullest usage of the capacity available. Yet the company has to outsource almost 30% of its production from small ancillaries and other vendors.

The marketing team has also projected good exports to begin from year 2011. Neighbouring countries such as Srilanka, Bangladesh, Mynmar, Nepal, Bhutan etc., may offer a business volume requiring atleast 10% use of the present production capacity. It is also expected that the company may export high end products to Europe and South East Asia. Only 20% of the present production facility is useful in making high end products. The entire facility is not enough to cater to the domestic demand of high end products.

PIL will have to certainly expand its present production capacity. Company's three factories are presently located in backward areas that enjoy most of the fiscal advantages such as direct and indirect tax concessions, investment and depreciation allowances etc., Half of its retail outlets are operated through leased premises. The head quarter of PIL and other regional offices are occupying premises owned by the company. All the distribution vans and other vehicles are also owned by the company. The expansion plan shall require good quantum of new production facility, land and premises, furniture, additional housing facility, distribution vans, warehouses and also premises for retail outlets. The expansion shall also require considerable investment in additional working capital, especially in inventory and receivables.

Balance Sheet of PIL as on 31.3.2010.

Sources	$ in million	Investment	$ in million
Share Capital	100	Land and Buildings	230
Reserves	160	Plant and Machinery	170
11% Debenture Loans	200	Furniture	20
12% Bank Loan	140	Vehicles	2
		Working Capital	178
	600		600