STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2019 – 2020 and thereafter)

M.COM. DEGREE EXAMINATION- APRIL 2024
COMMERCE
FOURTH SEMESTER

COURSE	**:**	**MAJOR CORE**
COURSE TITLE	**:**	**STRATEGIC FINANCIAL MANAGEMENT**
SUBJECT CODE	**:**	**19CM/PC/SF44**
TIME	**:**	**3 HOURS** **MAX. MARKS: 100**

SECTION – A

Answer Any SIX Questions **(6 x 10 = 60)**

1) Explain how the wealth maximization objective is superior to the profit maximization objective.
2) Explain in brief various working capital policies which are in practice by the business firms.
3) What do you mean by risk-adjusted discount rate? How does it differ from the certainty equivalent approach?
4) S Ltd currently makes all sales on credit and offers no cash discount. It is considering a 2% cash discount for payment within 10 days. The firm's current average collection period is 60 days, sales are 2,00,000 units, selling price is Rs.30 per unit, variable cost per unit is Rs.20 and average cost per unit is Rs.25 at the current sales volume. It is expected that the change in credit terms will result in an increase in sales to 2,25,000 units and the average collection period will fall to 45 days. However, due to increased sales, the increased working capital required will be Rs.1,00,000. Assuming that 50% of the total sales will be on cash discount and 20% is the required return on investment, should the proposed discount be allowed?
5) Rajni Ltd. Evaluates two mutually exclusive projects P and Q. You are required to present your valued opinion to management for decision making purposes bearing in mind that the management has made the following optimistic, most likely and pessimistic estimates of the annual cash flow related with each of these projects:

Particulars	Project P Rs.	Project Q Rs.
Initial cash outlay	6,00,000	8,00,000
Cash inflow (p.a)		
Pessimistic	1,20,000	0
Most likely	1,60,000	1,60,000
Optimistic	2,00,000	3,20,000
Required rate of return	14%	14%
Economic life	10 years	10 years

The present value factor @14% for 10 years is 5.216.

6) The following is the capital structure of BM Ltd. as on 31st March, 2023:

Book Value Structure	Rs.
Equity Capital:50,000 shares of 10 each	5,00,000
11% Preference Shares of Rs.100 each	2,25,000
9% Debentures	2,75,000

Additional Information:

1) Rs.100 per debenture redeemable at par, has a 2% floatation cost and 10 years of maturity. The market price per debenture is Rs.105.
2) Rs.100 per preference share redeemable at par, has 3% floatation cost and 10 years maturity. The market price per preference share is Rs.106.
3) Equity share has Rs.4 floatation costs and a market price per share of Rs.24. The expected dividend is Rs.2 per share with annual growth of 5%.
4) The corporate income tax rate is 35%.

Calculate the weighted average cost of capital (WACC) using market value weights.

7) The Cash flows of two mutually exclusive projects are as under:

Year	0	1	2	3	4	5	6
Project A (Rs.)	(40,000)	13,000	8,000	14,000	12,000	11,000	15,000
Project B (Rs.)	(20,000)	7,000	13,000	12,000	--------	--------	--------

You are required:

1) Estimate the net present value of projects A and B using 15% as the cost of capital.
2) Estimate the internal rate of return of projects A and B.
3) Why there is a conflict in the project choice by using NPV and IRR criteria?

Which criteria you will use in such a situation and choose the project?

8) The earnings per share of the face value of Rs.100 of P Ltd is Rs.20. It has a rate of return of 25%. The capitalization rate of its risk class is 12.5%. If Walter's model is used:
   a) What should be the optimum payout ratio?
   b) What should be the market price per share if the payout ratio is zero?
   c) Suppose, the company has a payout of 25% of EPS, what would be the price per share?

SECTION – B

Answer Any TWO Questions: (2 x 20 = 40)

9) "Financial Management can use dividend policy to maximize the wealth position of equity holders" – Explain in detail the above statement concerning the determinants of dividend policy.
10) Discuss the important factors to be considered in planning the optimal capital structure of a company.
11) The Capital Structure of SG Ltd consists of the following funds: Equity Shares of Rs.100 each Rs.60,00,000; Retained Earnings – Rs.15,00,000. 9% Preference Share Capital Rs.37,50,000; 7% Debentures – Rs.37,50,000. The company earns a return (EBIT) of 12% on which it pays corporate income tax @ 30%. The company wants to raise Rs.37,50,000 for its expansion project for which it is considering the following alternatives:
    a) Issue of 30,000 Equity Shares at a premium of Rs.25 per share.
    b) Issue of 10% Preference Shares.
    c) Issue of 9% Debentures.

    The P/E ratios for equity, preference and debenture financing are projected to be 20, 17, and 16 respectively. Which alternative would you consider to be the best?

12) G Ltd. is presently operating at a 60% level, producing 36,000 units per annum. Given favourable market conditions, it has been decided that from 1st January 2018, the Company would operate at 90% capacity. The following information is available:

The existing cost–price structure per unit is given below:

Raw Material	Rs.4
Wages	Rs.2
Overheads (Variable)	Rs.2
Overheads (Fixed)	Rs.1
Profits	Re.1

It is expected that the cost of raw materials, wages and expenses are sales per unit will remain unchanged in 2010.

Raw Materials remain in stores for 2 months before these are issued to production. These units remain in the production process for 1 month.

Finished goods remain in stores for 2 months.

Credit allowed to debtors is 2 months. Credit allowed by creditors is 3 months.

The lag in payments of wages and overheads is 1 month. It may be assumed that wages and overhead accrue evenly throughout the production cycle.

You are required to :

a) Prepare profit statement at 90% capacity level and
b) Calculate the working capital requirements on an estimated basis to sustain the increased production level. Assumptions made if any, should be clearly indicated.

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