D 101150 **(Pages : 3)** **Name......................................**

Reg. No..................................

FOURTH SEMESTER M.Com. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2024

(CBCSS)

Master of Commerce

MCM4E(F)04—ADVANCED STRATEGIC FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Three Hours Maximum : 30 Weightage

Answers should be written in English only.

Part A

Answer any **four** *questions.*
Each question carries 2 *weightage.*

1. What is LBO ?
2. What is bear hug ?
3. What is meant by build lease transfer ?
4. What is operating leverage ?
5. Differentiate sell off from spin off.
6. What do you mean by capital rationing ?
7. What is options delta ?

(4 × 2 = 8 weightage)

Part B

Answer any **four** *questions.*
Each question carries 3 *weightage.*

8. East Co. Ltd is studying the possible acquisitions of Fost Co. Ltd by way of merger. The following are available in respect of the companies.

Particulars	East Co. Ltd	Fost Co. Ltd
Earnings after tax (Rs.)	2,00,000	60,000
Number of Equity shares	40,000	10,000
Market value per share (Rs.)	15	12

Turn over

i. if the merger goes through by exchange of equity share and the exchange ratio is based on the current market price, what is the new earnings per share for East Co. Ltd ?

ii. Fost Co. Ltd wants to be sure that the earnings available to its shareholders will not be diminished merger. What should be the exchange ratio in that case ?

9. Two firms A and B are in a similar type of business. Firm A has financed all operations by equity shares where as Firm B has used equity and debt 50 percent each. Other parameters for both the firms are as follows :

Sales revenue : Rs. 1 crore

Selling price : Rs.160

Unit variable cost : Rs. 100

Fixed cost : Rs. 25,00,000

Interest on debt for firm 'B' : Rs. 2,50,000.

Calculate degree of Operating Leverage, Financial Leverage and Combined Leverage for both firms.

10. Write a descriptive note on leveraged buy out.

11. What are the defensive tactics available to the target company to avoid acquisition ?

12. What are the purposes and constraints involved in corporate restructuring ?

13. Explain the concept of leveraged lease. Mention its features.

14. Firm A is considering acquiring Firm B. Financial details of firm 'A' and firm 'B' are given below :

Particulars	Firm A	Firm B
Preference Share capital	35	–
Equity share capital of Rs.10 each	80	30
Share premium	2	5
Profit and Loss Account	45	10
10% debentures	28	10
Total	190	55
Fixed assets	150	40
Current Assets	40	15
Total	190	55
Profit after tax and preference dividend	30	12

Market share price of firm A and firm B is Rs.30 and Rs.45 respectively. Determine the share exchange ratio and number of shares of firm A to be issued to target firm B based on (i) net assets value, (ii) EPS and (iii) market share price. Which is better from the point of view of firm A ?

(4 × 3 = 12 weightage)

Part C

Answer any **two** *questions.*
Each question carries 5 *weightage.*

15. A firm has two financial options for procuring machinery costing Rs. 20,00,000 to be used for five years. The details of two options are given as follows :

    Option 1 : it can borrow Rs. 20,00,000 at an interest rate of 20 percent. The loan is repayable at 5-year end installment. The salvage value at the end of its economic life of 5 years will be Rs. 2,00,000.

    Option 2 : take the assets on lease for a period of five years by paying yearly rental of Rs. 6,50,000. The rentals will be payable at the end of each year.

    Depreciation on machinery is allowable on written down basis at 15 percent. The applicable tax rate for the firm is 40 percent and cost of capital of the firm is 20 percent. Ignoring any capital gain or loss, evaluate the two options and suggest whether to buy or lease the asset.

16. Firm A acquires B on share exchange basis. Prior to acquisition, the information is as follows :

Particulars	Firm A	Firm B
Number of shares	40,000	20,000
Total earnings (Rs.)	10,00,000	5,00,000
Market price of share	40	30

The shareholders of firm B are offered three shares of firm A against four shares of firm B. Determine :

a) EPS of the amalgamated firm with respect to before take over position.

b) Gain or loss of the shareholders of both the firms, consequent to amalgamation.

17. Explain the advantages and constraints to leveraged buyouts.

18. Explain the importance of strategic financial management.

(2 × 5 = 10 weightage)