

2021**TWO YEAR M. COM. SEMESTER 3 EXAMINATION***(New Syllabus under CBCS)***Instructions for Examinees from Affiliated Colleges***The students are required to strictly adhere to the following instructions:*

1. Use A4 size paper for giving the examination.
2. Write the following on the top of the first sheet:
 - i) Roll Number: **(as per the Admit Card)**
 - ii) Registration Number: **(as per the Admit Card)**
 - iii) Paper Code and Name of the Paper
 - iv) Date of the Examination
 - v) Duration of Examination **(12 Noon to 2 P.M.)**
3. Put Page number on the top right of each page (including the first page).
4. Only one side of the paper should be used for examination.
5. Put your **full signature with date**, at the bottom right of every page used.
6. Before sending your answer scripts, arrange the pages sequentially. Scan them in the order of page number and convert them into a single **PDF File**.
7. Pdf. file name should be your **Full Roll Number <underscore> paper code**. While submitting the answer scripts, the subject of the mail will be exactly the same with the file name. [e.g., if the roll no of a student is **017/MCM/123456** for first paper (**Paper Code CC301**) the file name will be: **017-MCM-123456_CC301**.
8. Submit your answer scripts in **PDF Format** within the stipulated time through designated email id given to you.
9. Preserve your answer scripts in soft as well as hard-copy form of all the papers of your examination.

2021**COMMERCE****Paper: CC-301****(Strategic Financial Management and Business Valuation)****Full Marks: 40***The figures in the margin indicate full marks**Candidates are required to give their answers in their own words as far as practicable***Time: 2 Hours****Duration of Examination: 12noon to 2pm****Module - I**Answer *any two* questions.

1.a) X Ltd. has a capital budget of Rs.1.5 crore for 2022. From the following information relating to six independent proposals, select the projects if (i) the projects are divisible and (ii) the projects are indivisible.

Proposal	Investment (Rs.)	NPV (Rs.)
A	70,00,000	30,00,000
B	25,00,000	16,00,000
C	50,00,000	20,00,000
D	20,00,000	10,00,000
E	55,00,000	45,00,000
F	75,00,000	(25,00,000)

(b) P Ltd. is considering the following two investment proposals for one year only.

	Project A	Project B
Investment	Rs. 50,00,000	Rs. 75,00,000
Cash flow at the end of year 1	Rs. 62,50,000	Rs. 91,50,000
K = 10%		

Calculate NPV and IRR of the projects and suggest which project should be selected. [5 + 5]

2. (a) Briefly explain the Hedging Approach of Working Capital Financing.

(b) How would you ascertain the optimum cash balance under conditions of certainty? Explain with example.

(c) State in brief the different costs associated with credit sales / account receivables.

[3 + 4 + 3]

3. (a) 'Dividend policy is acting variable which influences the value of the firm.' Critically examine the statement.

(b) DS Limited is setting up a project with a capital outlay of Rs 60 Lakhs. If the following two alternatives are available for financing the project cost.

Alternative 1: 100% equity finance

Alternative 2: Debt equity ratio 2:1

The rate of Interest payable on the debt is 18%. The corporate tax rate is 40%.

Calculate the indifference point between two alternative methods of financing.

[4 + 6]

4. (a) WC Ltd has been maintaining a capital structure based on market value proportion of 3:1:16 for debenture, preference and equity capital respectively, which it believes to be optimal. The 14% debenture of WC Ltd is being sold at 10% discount to face value and preference shares is being sold at par, and company is paying a dividend Rs1.20 per share (face value Rs 10). The company has been growing at 12% p.a. and paid dividend @50% of EPS per share in the previous year and its share (20000 shares with face value of Rs 10) is being traded at Rs 96. The profit before tax was Rs 2 Lakhs and preference dividend paid was Rs 14400. It has a reserve of Rs 25 per share. The corporate tax rate is 40%. What is the WACC for the company based on book value and market value weights?

(b) X Ltd is considering setting up a project costing Rs.50 Lakhs. The company is considering three options viz., no debt, 20% debt and 60% debt. Debt carries 15% interest. The corporate tax rate is 40%. Calculate EPS and DFL under all options and give your suggestions.

[5 + 5]

Module - II

Answer *any two* questions.

5. Compute the Free Cash flow of 3 different firms based on the following information for the financial year 2020-2021.

(a) NOPAT = Rs. 35,50,000; Tax rate = 35%; Reinvestment Rate= 50%.

(b) EBITDA = Rs. 2.86 Cr; DA= 25%; 8% Debentures = Rs. 42 lacs; Tax Rate = 25%,
Net Capex = Rs. 35.55 lacs; Δ NWC = - Rs.22.35 lacs.

(c) PAT= Rs. 43.75 lacs; Interest on Debt = Rs.12.35 lacs; tax rate= 31.5%; Debentures Redeemed = Rs. 10.5 lacs; Capital expenditure = Rs. 9.56 lacs; Depreciation charged = Rs 3.33 lacs; Working Capital position (current year) = Rs.2.45 lacs; Working Capital position (preceding year) = Rs. 4.34 lacs.

[2 + 3 + 5]

6. (a) Differentiate between Horizontal merger and Vertical merger with examples.

(b) State the reasons why some mergers fail in any industry.

[5 + 5]

7. A Pharmaceutical company, known for its monopoly vaccine drug, 'Novaxin-19' for the treatment of certain virus infection, is the lone manufacturer and supplier in the India Market. The patent for this vaccine will get over by 2025, after which the company's earnings will stabilize in comparison to the industry benchmark. While its high growth days will be behind it, there is still some potential for growth.

The following table presents cash flows of this firm for the period of five years commencing from 2020, the launch year of this vaccine drug.

	2020 (Actual)	2021 (Expected)	2022 (Expected)	2023 (Expected)	2024 (Expected)
Growth rate (g)	8.6%	8.6%	6.5%	6.5%	6.5%
Reinvestment Rate (RIR)	40%	40%	40%	40%	40%
Earnings from Operations (before taxes)	36,240	39,357	41,915	44,639	47,541
Corporate Tax Rate	30%	30%	25%	25%	25%
Cost of Debt	8.5%	8.5%	8.5%	8.5%	8.5%
Cost of Equity	13.5%	13.5%	13.5%	13.5%	13.5%
Debt to Capital Ratio	40%	40%	50%	50%	50%

After the end of the patent period, this pharma company is expected to grow at a modest rate of 3% in perpetuity and a return on capital equal to 1.33 times of its cost of capital. Compute the Terminal Value of this company assuming all the figures are in Rs. Lakhs. [10]

8. (a) Mention the various approaches to valuing a Firm.
- (b) How will you identify the explicit forecast period of a Firm?
- (c) Can you differentiate the different stages of a Firm based on the industry benchmark growth rate?
- (d) Why a valuer relies on the free cash flow concept to value a Firm instead of the profitability concept?
- (e) Even though Relative Valuation is easier to understand and apply, Discounted Cash Flow valuation is considered superior. Comment.

[2 x 5]