

MBA 4th Semester Examination, 2025

MBA

(Strategic Financial Management)

PAPER — MBA-406B

Full Marks : 100

Time : 3 hours

Answer all questions

The figures in the right hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

GROUP — A

Answer any eight questions from the following :

5 × 8

- 1. Briefly explain the key decision areas falling within the scope of financial strategy.**

(Turn Over)

2. Distinguish between American Depository Receipts (ADRs) and Global Depository Receipts (GDRs).
3. PUT Ltd. paid a dividend of ₹5 for the current year. The dividend is expected to grow at 40% for the next 5 years and at 15% per annum thereafter. The return on 182 days T-bills is 12% per annum and the market return is expected to be around 14% with a variance of 25%. The covariance of PUT's return with that of the market is 28%. You are required to calculate the required rate of return and intrinsic value of the stock.
4. The preference shares of the Brinda Ltd. have a face value of ₹100 and dividend rate is 9.5%. You require a 11% return on this stock. What is the maximum price you would pay for it? Would you buy it at the market price of ₹95?

5. Distinguish between risk-adjusted discount rate technique and certainty equivalent approach.
6. Write notes on : (i) Joint venture and (ii) Intellectual property rights. 2 + 3
7. Discuss the related and unrelated diversification strategies.
8. Given the following information, suggest the proposal should be accepted using the certainty equivalent approach.

Year	Project A		Project B	
	Cash Flows(Rs.)	CE	Cash Flows(Rs.)	CE
0	(25,000)	1	(25,000)	1
1	15,000	0.8	10,000	0.9
2	15,000	0.7	14,000	0.8
3	15,000	0.6	11,000	0.7
4	15,000	0.5	21,000	0.4

Risk-free discount rate is 6 per cent. Use the NPV method for evaluation.

9. Differentiate between spot rate, forward rate and cross-currency rate with examples.
10. Define Leverage Buy-Out (LBO). How is it different from a traditional acquisition ? 2 + 3
11. Discuss the motives for cross-border mergers & acquisitions.
12. Explain at least three sources of funding available for a start-up at different stages.

GROUP – B

Answer any four questions from the following :

10 × 4

13. Explain the main reasons why business mergers often fail.

14. Describe the following business valuation methods : 5 + 5

(i) Dividend Yield Method; and

(ii) Capital Asset Pricing Model (CAPM)

15. ABC Co. Ltd. is a producer of turbine generators. The financial condition of the company is as follows :

EBIT	₹ 40lakh	Debt outstanding(D)	₹ 20lakhs
Tax rate	35%	Shares of stock outstanding (Nos.)	6,00,000
K_d	10%	Book value per share	₹ 10
K_e	15%		

Since company's product market is stable and the company expects no growth, all earnings are paid out as dividends. The debt consists of perpetual bonds.

(i) What are the Company's earnings per share (EPS) and its price per share (p_0)?

(ii) What is the Company's weighted average cost of capital (K_0) ?

(iii) The Company can increase its debt by ₹80,00,000 to a total of ₹1 crore, using the new debt to buy back and retire same of its shares at the current price. Its interest rate on debt will be 12% (it will have to call and refund the old debt) and its cost of equity will raise from 15% to 17%. EBIT will remain constant. Should the Company change its capital structure ?

16. XYZ Ltd. is considering merger with ABC Ltd. and whose shares are currently traded at ₹20. It has 2,50,000 shares outstanding and its earnings after taxes (EAT) amount to ₹5,00,000. ABC Ltd. has 1,25,000 shares outstanding; Its current market price is ₹10 and its EAT are ₹1,25,000. The merger will be effected by means of a stock swap (exchange). ABC Ltd. has agreed to a plan under which XYZ Ltd. will offer current

market value of ABC Ltd.'s shares :

- (i) What is the pre-merger earnings per share (EPS) and P/E ratios of both the companies ?
- (ii) If ABC Ltd.'s P/E ratio is 6.4, what is its current market price ? What is the exchange ratio ? What will be XYZ Ltd.'s post-merger EPS ?
- (iii) What should be the exchange ratio; if XYZ Ltd.'s pre-merger and post-merger EPS are to be the same ?

17. Write notes on : (i) Sell Off; (ii) Spin Off; and
(iii) Split Off. 3 + 4 + 3

18. Explain Purchasing Power Parity (PPP) theory. How is it relevant in foreign exchange rate determination ? 6 + 4

[Internal Assessment — 20 Marks]

