SVKM's NMIMS
School of Distance Learning

Programme: PGDFM

Academic Year:	2010-2011	Semester	IV
Subject:	Strategic Financial Management	Course	New
		Marks:	70
Date:	1.7.2011	Time:	3.00 pm to 6.00 pm

Instructions: Candidates should read carefully the instructions printed on the question paper and on the cover of the Answer Book, which is provided for their use.

Q1) Attempt any 2 out of 4 **(10 Marks)**

a) Briefly discuss the types of acquisitions.

b) Define the Modigliani and Miller's proposition (I and II) of capital structure with all its assumptions.

c) Briefly discuss the OECD guidelines relating to Transfer Pricing.

d) Write a short note on situational dividend policy.

Q2) Attempt any 2 out of 5 **(10 Marks)**

a) Discuss Gordon's Theory of Relevancy of Dividend Payout on Value of Firm, with example.

b) Discuss in brief the regulations governing restructuring of business in India.

c) State important points of India's DTAA as per Income Tax Act 1961.

d) Discuss the various methods available for Transfer Pricing

e) Briefly enumerate the various stages to be followed in implementing a turnaround strategy.

Q3) Attempt any 3 out of 5 **(30 Marks)**

a) Explain the term 'Strategy'. How is it different from the term 'Policy'?Discuss the various Corporate Strategy Levels.

b) D Ltd.'s reports show an income of Rs.15,00,000 for the current financial year. Its marginal tax rate is 40% & Interest expense for the year is Rs.15,00,000. The company has Rs.1,00,00,000 of invested capital of which 60% is debt. The company's WACC is 12.6%.

(i) Compute the EBIT of D for the current year.
(ii) What is D's EVA for the current year
(iii) D Ltd has 250,000 equity shares outstanding. According to EVA calculated at point (ii) above, how much can D pay as dividend per share before its value starts decreasing. If no dividends are paid, what would you expect to happen to the value of the company?

c) Discuss the Trade-off Theory of financial distress.

d) Critically examine Modigliani Miller Theory in detail

e) Explain Economic Value Added with a real life example.

Q4) **(20 Marks)**

a) The following information relates to Worth Ltd.'

Earnings of the company	Rs.10,00,000
Dividend Payout Ratio	60%
No. of shares outstanding	200,000
Rate of return on Investment	15%
Equity Capitalization Rate	12%

(i) What would be the market price per share as per Walter's Model?
(ii) What is the optimum dividend payout ratio according to Walter's Model and the market value of the company's share at that payout ratio.

b) DLF Ltd. is considering two mutually exclusive projects P1 and P2. The company use Certainty Equivalent Approach to evaluate these proposals. Estimated cash flows and Certainty Equivalent(CE)factor of P1 and P2 are given below:

P1			P2		
Year	**Cash Flow**	**CE Factor**	**Year**	**Cash Flow**	**CE Factor**
0	50,00,000	1.0	0	60,00,000	1.0
1	30,00,000	1.0	1	40,00,000	0.9
2	20,00,000	0.9	2	30,00,000	0.8
3	15,00,000	0.7	3	15,00,000	0.7
4	15,00,000	0.7	4	10,00,000	0.6

Suppose you are the project manager of the DLF Ltd; you are required to suggest which project should be accepted, if the risk free rate of interest is 7%.