SVKM's NMIMS
NMIMS – GLOBAL ACCESS SCHOOL FOR CONTINUING EDUCATION

Programme: PGDFM

Examination: December 2016
Subject: Strategic Financial Management

Semester: IV
Course : New
Marks : 70

Date: 15.12.2016

Time: 3.00 p.m. to 6.00 p.m.

Instructions:

1. **Answer to each new question to be started on a fresh page.**
2. **Figures in bracket indicate full marks.**

Q.1) Attempt any 2 out of 4 **(Marks: 2X5=10)**

a) Discuss Strategy Formulation process

b) Importance of corporate strategy

c) Meaning of Cost of Capital

d) Dividend price approach in price of Equity

Q.2) Write short notes on (2 out of 5) **(Marks: 2X5=10)**

a) Assumptions in CAPM (Capital Asset Pricing Model)

b) Retained Earnings

c) Weighted average cost of capital

d) Economic Value Added

e) Basic relation in Dividend policy & Capital structure choices

Q.3) Attempt any 3 out of 5 **(Marks: 3X10=30)**

a) Discuss the relationship in between in Corporate Strategy & Financial Policy

b) Explain different types of Dividends

c) Elaborate different factors affecting capital structure

d) What is Financial distress cost ?

e) Explain Trade-Off Theory

Q.4) Attempt both the questions (Marks: 2X10=20)

a)

Example: A company's EBIT is Rs.50000. The company has 10% debenture Rs. 200000. The cost of equity is 12.5%

Table shows the value of firm under NI approach:

(a) Net Operating Income (EBIT)	50000
(–) Interest on debenture	20000
(b) Earning available for equity holder (EAT)	30 000
(c) Cost of Equity	12.5%
(d) Market Value of equity (b/c)	240 000
(e) Market value of debt	200 000
(f) Total value of the firm (d+e)	440000
Overall cost of capital (a/f)	11.36%

If debt increases in capital structure by Rs.100000. Interest will be 10% of 300000(200000 + 100000). Following effect may be notices in table.

CALCULATE COST OF CAPITAL, ALSO EXPLAIN IMPACT ON VALUE OF FIRM

b)

ABC Ltd. Company has cost of equity of 10% and currently selling 100000 shares at Rs.100 each. The firm is contemplating the declaration of a Rs.6 dividend at the end of the current fiscal year. What will be price of shares at the end of the year, if dividend is not declared under MM theory? And if company pays dividend with net income of Rs. 1000000 and makes new investments of Rs. 2000000 during the period, how many new shares must be issued?

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