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Total No. of Questions : 07

MBA (Sem.–3rd)
STRATEGIC FINANCIAL MANAGEMENT
Subject Code : MB-923 (2009 to 2011 Batch)
Paper ID : [C0151]

Time : 3 Hrs. **Max. Marks : 60**

INSTRUCTION TO CANDIDATES :
1. **SECTION-A is COMPULSORY consisting of TEN questions carrying TWO marks each.**
2. **SECTION-B contains SIX questions carrying TEN marks each and students has to attempt any FOUR questions.**

SECTION-A

l. Write briefly :

(a) MVA

(b) LBO

(c) Capital rationing

(d) Investment

(e) Payout Ratio

(f) Merger

(g) Financial distress

(h) Cost of capital

(i) Future value

(j) Arbitrage

SECTION-B

2. Corporate financial models are formal representation of a company's operations and processes in financial terms. What are the major steps in the process of using a model to arrive at the optimal decision?

3. What do you mean by Capital Asset Pricing Model (CAPM)? Write a detailed note on SML and CML in the light of the assumptions of CAPM.

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4. From the data given below, analyze the impact on ROE, when ROI is 10% and 15% and 20%.

Particulars	Day Ltd. (Rs. in Million)	Night Ltd. (Rs. in Million)
Debt	0	100
Equity	200	100
Total Investment	200	200
Tax Rate	50%	50%
Cost of Debt	—	15%

5. The finance manager is of the opinion that in the process of discriminating the high-credit worthy accounts and the low-credit worthy, the two key ratios that can be employed for discrimination are the current ratio and the earning power where the former is the ratio of current assets to current liabilities and the later is the ratio of the earnings before interest and tax total assets. Information relating to fourteen accounts comprising an equal number of the above mentioned good and bad accounts are given below:

High Credit Worthy Accounts			Low Credit Worthy Accounts		
Client Number	Current Ratio	Earning Capacity (%)	Client Number	Current Ratio	Earning Capacity (%)
1	1.25	15	8	0.86	10
2	1.43	18	9	0.66	8
3	1.68	15	10	0.49	6
4	1.89	22	11	0.52	9
5	2.12	20	12	0.72	-6
6	0.95	16	13	0.58	7
7	1.05	12	14	0.41	−3

You are required to establish the appropriate discriminant function that best discriminates between the high credit worthy accounts and the low credit worthy accounts.

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6. Nissan, the Japanese automaker had identified that its US sales are coming down. The quality and design of its cars were not upto the standards of other Japanese companies, such as Honda, Mazda and Toyota. Recognizing the problem Nissan introduced a new designed midsized car, which was based on cost leadership strategy. It was decided not to increase the size of its car and hence would keep its cost and price low. The cost of Nissan Altimo was $14,000 well below the sticker price of $19,000 of Toyota Camry and Honda Accord. Explain the advantages enjoyed by Nissan as a cost leader and problems to be faced, if any.

7. For evaluating business performance both in financial and non-financial terms there is a necessity for the investors to look beyond the ubiquitous information furnished by the media. There is a tendency among the investors to overlook critically important indicators that would otherwise have enabled them to better discern the firm's potential for wealth creation. Do you agree? Justify your opinion.