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Question Paper	
Strategic Financial Management	**Duration**: 60
Details: Test – 5	**Marks**: 30

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

Q-1 XN Ltd. reported a profit of Rs 100.32 lakhs after 34% tax for the financial Year 2015- 2016. An analysis of the accounts reveals that the income included extraordinary items of ₹ 14 lakhs and an extraordinary loss of ₹ 5 lakhs. The existing operations, except for the extraordinary items, are expected to continue in future. Further, a new product is launched and the expectations are as under:

Particulars	**Amount ₹ in lakhs**
Sales	70
Material Costs	20
Labour Costs	16
Fixed Costs	10

The company has 50,00,000 Equity Shares of Rs 10 each and 80,000, 9% Preference Shares of Rs 100 each with P/E Ratio being 6 times. You are required to:

i. Compute the value of the business. Assume cost of capital to be 12% (after tax) and
ii. Determine the market price per equity share

(6 marks)

Q-2 Mr. Jain, an analyst is evaluating Tedat Industries Ltd. (TIL). The company has maintained high growth rates in the face of strong competition in the last few years; it has done so while maintaining high returns on capital. The fundamentals suggest that growth will continue to be high and given the size of the market and potential growth (as well as the strong brand name identification), growth seems sustainable for a longer period.

Earnings per share of TIL in 2006-07 is Rs 32

The following are the assumptions made by Mr. Jain

Assumptions for the High Growth Period

- Length of the high growth Period
- Expected growth rate in earnings is 25% (Based upon analyst projections)
- Beta during high growth period is 1.40
- Risk free rate is 6.5%
- Market rate of return is 20%
- Dividend payout Ratio is 20% (based on existing payout ratio)

Assumptions for the Transition Period

- Length of the transition period is 5 years.
- Growth rate in earnings will decline from 25% in year 5 to 10% in year 10 in linear increments.
- Payout ratio will increase from 20% to 60% over the same period in linear increments.
- Beta will drop from 1.40 to 1.00 over the same period in linear increments.
- Risk free rate is 6%
- Market rate of return is 15%

You are require to

i. Estimate the share price of TIL as on March 31, 2007 as per the assumptions made by Mr. Jain.

ii. If the shares of the top five companies of the industry to which TIL belongs to are trading at the average P/E of 45, what should be done by Mr. Jain, if the current price reflects the intrinsic value calculated in (i) above

(6 marks)

Q-3 XY Ltd., a Cement manufacturing Company has hired you as a financial consultant of the company. The Cement Industry has been very stable for some time and the cement companies SK Ltd. & AS Ltd. are similar in size and have similar product market mix characteristic. Use comparable method to value the equity of XY Ltd. In performing analysis, use the following ratios:

i. Market to book value

ii. Market to replacement cost

iii. Market to sales

iv. Market to Net Income

The following data are available for your analysis:

(Amount in ₹)

	SK Ltd.	**AS Ltd.**	**XY Ltd.**
Market Value	450	400	
Book Value	400	300	250
Replacement Cost	600	550	500
Sales	550	450	500

Net Income	18	16	14

(4 marks)

Q-4 TK Ltd. and SK Ltd. are both in the same industry. The former is in negotiation for acquisition of the latter. Information about the two companies as per their latest financial statements are given below:

	TK Ltd.	**SK Ltd.**
₹ 10 Equity shares outstanding	24 Lakhs	12 Lakhs
Debt:		
10% Debentures (₹ Lakhs)	1160	-
12.5% Institutional Loan (₹ Lakhs)	-	480
Earnings before Interest, depreciation and tax (EBIDAT) (₹ Lakhs)	800.00	230.00
Market Price/Share (₹)	220.00	110.00

TK Ltd. plans to offer a price for SK Ltd. business, as a whole, which will be 7 times of EBIDAT as reduced by outstanding debt and to be discharged by own shares at market price.

SK Ltd. is planning to seek one share in TK Ltd. for every 2 shares in SK Ltd. based on the market price. Tax rate for the two companies may be assumed as 30%.

Calculate and show the following under both alternatives -TK Ltd.'s offer and SK Ltd.'s plan:

i. Net consideration payable.

ii. No. of shares to be issued by TK Ltd.

iii. EPS of TK Ltd. after acquisition.

iv. Expected market price per share of TK Ltd. after acquisition.

v. State briefly the advantages to TK Ltd. from the acquisition. Calculations may be rounded off to two decimals points.

(8 marks)

Q-5 Frontier Company Limited (FCL) is in negotiation for taking over Bank Moving Company Limited (BMCL). The management of FCL is seeing strong strategic fit in taking over BMCL provided it is a profitable proposition. Mr. Guha, (Finance) has been asked to look into the viability of the probable takeover of BMCL. He has collected the following necessary information. Summarized Balance Sheet of BMCL as on March 31, 2020 is as follows:

Liabilities	**Amount (Rs in Crores)**
Shareholders' Fund	
Equity Share Capital (Rs 10 par)	200.00
12% Preference Capital (Rs 100 par)	75.00
Reserves and Surplus	125.00
Non-current Liabilities	
10% Debentures	40.00
Long Term Loans	25.00
Current Liabilities	

Current Liabilities	24.75
Total Liabilities	489.75
Assets	
Non-Current Assets	
Net Fixed Assets	332.75
Investments	125.00
Current Assets :	
Inventories	10.00
Debtors	15.00
Cash in Hand and at Bank	4.25
Loans and Advances	1.75
Miscellaneous Expenses to the extent not written off	1.00
Total Assets	489.75

Proposed Purchase Consideration:

a. 10.50% Debentures of FCL for redeeming 10% Debentures of BMCL – Rs 44 Crores.

b. 11% Convertible Preference Shares of FCL for the payment of Preference Shareholders of BMCL – Rs 100 Crores.

c. 12.5 Crores of Equity Shares of ECL would be issued to the shareholders Of BMCL at the prevailingmarket price of Rs 20 each.

d. FCL would meet all dissolution expenses of Rs 0.50 Crores.

The management of FCL would dispose any asset and liability which may not be required after takeover:

Investments Rs.150 Crores

Debtors Rs.15 Crores

Inventories Rs 9.75 Crores

Payment of Current Liabilities Rs 25 Crores

All intangible assets will be written off

The management of FCL would like to run the taken over company. BMCL, for next 7 years and after that, it would discontinue with it. It is expected that for the next 7 years, the taken over company would generate the following yearly operating cash flows after tax:

	1	2	3	4	5	6	7
Operating Cash Flows After Tax (Rs in Crores)	70	75	85	90	100	125	140

It is estimated that the terminal cash flows of BMCL would be Rs 50 Crores of the end of 7th year.

If the cost of capital of FCL is 16%, then you are required to find out whether the decision to takeover BMCL at the terms and conditions mentioned above will be a profitable decision:

Year	1	2	3	4	5	6	7
PV Factor @ 16%	0.8621	0.7432	0.6407	0.5523	0.4761	0.4104	0.3538

(6 marks)