2021

COMMERCE

Paper : COMM 301

(Strategic Financial Management and Business Valuation)

[CBCS]

Full Marks : 40 Time : Two Hours

The figures in the margin indicate full marks.

Answer any *two* questions.

1. (a) State the functions of 'Strategic Financial Management'.

   (b) Briefly narrate the strategies at different hierarchy levels. 5+5

2. (a) What are 'Risk Adjusted Discount Rate' and 'Certainty Equivalent' in evaluating a project?

   (b) ABC Ltd. is considering two mutually exclusive machines X and Y. The company uses Certainty Equivalent Approach to evaluate the proposals. The estimated cash inflows and certainty equivalents for the two machines are as follows :

	Machine X		**Machine Y**	
Year	Cash flows (Rs.)	CE factors	Cash flows (Rs.)	CE factors
0	(–) 30,000	1.00	(–) 40,000	1.00
1	15,000	0.95	25,000	0.90
2	15,000	0.85	20,000	0.80
3	10,000	0.70	15,000	0.70
4	10,000	0.65	10,000	0.60

Which machine should be acquired, if the risk-free discount rate is 5 %?

(2+2)+6

3. XYZ Ltd. is considering to diversify into a new line of business by acquiring a running firm by paying Rs. 10,00,000 in cash. The finance department of the firm has prepared the following report in support of the proposal :

Annual Projection	**Rs.**
Sales	9,00,000
Less: Variable Cost @ 66.67%	6,00,000
	3,00,000
Less : (i) Fixed Cost	50,000
(ii) Depreciation	1,00,000
Profit before Tax	1,50,000
Less : Tax	50,000
Profit after Tax	1,00,000
Cash Flow (PAT+ Dep.)	Rs. 2,00,000
PVAF (12%,10) — 5.650	
Present Value of Annual Inflows	
(Rs. 2,00,000×5.650)	Rs. 11,30,000
Less : Cash Outflow (Initial Cost)	Rs. 10,00,000
Net Present value	Rs. 1,30,000

However, as a Managing Director, you feel that the profit of the project may vary widely as the variables contributing to NPV are sensitive. For this purpose, sales, variable cost, fixed cost and initial investment have been pointed out as sensitive. Under the Optimistic, Pessimistic and Expected situations, these variables may take the following values :

Particulars	Optimistic (Rs.)	Expected (Rs.)	Pessimistic (Rs.)
Investment	9,00,000	10,00,000	12,00,000
Sales	10,50,000	9,00,000	7,50,000
Fixed Cost	40,000	50,000	65,000
Variable Cost (%)	65%	66.67%	70%

Analyse the sensitivity of these variables (one variable at a time) vis-à-vis the NPV of the proposal. 10

4 Write short notes on any *two* the following : 5×2=10

(a) Deep Discount Bond

(b) Probability Distribution

(c) Sale and lease back

Business Valuation

Answer any *two* questions.

5. (a) Discuss, in brief, three basic elements of business valuation.

   (b) Elucidate the stakeholders of business valuation. 6+4

6. (a) What do you mean by 'Bermuda Triangle' of valuation?

   (b) State the 'Bias Up' and 'Bias Down' strategy for cash flow estimates. 4+6

7. From the following information calculate the value of the firm which is under 35% tax bracket under DCF Method :

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Growth rate		10%	10%	8%	5%	7%
Turnover	50,00,000					
EBITDA Margin	10%	12%	15%	16%	12%	12%
Depreciation	150000	162000	165000	200000	225000	250000
Interest Expenses	30000	27000	22000	18000	15000	12000
Capital expenditure	156000	176000	190000	200000	210000	240000
Net change in working capital	(80000)	(100000)	(120000)	(125000)	(135000)	(150000)
Change in debt capital	50000	70000	36000	25000	22000	20000

It is assumed that 7% growth rate will be continued for the future on an average.

8. (a) State the relation between Equity Value and Enterprise Value.

(b) From the following particulars of A Ltd. estimate the economic value of the firm based on EVA method of valuation assuming WACC is 10% :

Expected sales for the year 2020 will be Rs. 12 crore on a total beginning capital (debt and equity) of Rs. 5 crore. Company expects to maintain a constant net operating profit after tax margin (NOPAT/Sales) of 10% over the future periods. Company is also planning to reinvest 60% of its NOPAT for growth and it assumes that the calculated growth rate will be continued for six years and beyond that period company has no plan to expand. Company will be financing its entire investment to facilitate growth from internal sources, i.e. profit and as such no additional risk will be taken which in turn stabilizes cost of capital. 4+6