PGDM, 2015-17

Strategic Financial Management

DM-515/IB 508

Trimester – V, End-Term Examination: December 2016

Time Allowed: 2 Hrs 30 mins **Max Marks: 50**

Sec A

(Answer any three questions out of five. Each question carries five marks)

1. Discuss the major classes of strategic risk.

2. Discuss the internal and external devices for containing the agency cost.

3. Discuss how the 'real option' is a better option than traditional capital budgeting tools in evaluating the projects.

4. 'Agency conflict may substantially impact the value of a firm' – Discuss.

5. Discuss the significance of Economic Value Added (EVA) as a performance measurement tool.

Sec B

(Answer any two questions out of three. Each question carries ten marks)

6. "'Option Games' help you think a little harder about the trade-off between flexibility and strategic commitment and force you to ask the right questions about investment choices, contingent scenarios, and competitive dynamics" – Critically discuss the statement. (10 marks)

7. Project X estimated cash flows in terms of that year's (current year) prices and expected inflation rates for the coming five years are as under:

Year	Expected Inflation Rate	Cash Flow (Rs.)
0	-	-40000
1	9%	7000
2	10%	7000
3	9%	7000
4	9%	7000
5	10%	7000

Compute the inflation adjusted NPV of project X. (10 marks)

8. 'Implementing enterprise-wide risk management or putting better information in the hands of directors, may not necessarily greatly improve corporate governance' – Do you agree with this statement? Why?

Sec C

(Compulsory)

9. The following information is available for two firms, Anil Corporation and Sunil Corporation.

	Anil	Sunil
Net operating income	Rs.3,200,000	Rs.3,200,000
Interest on debt	Nil	480,000
Cost of equity	16 %	16%
Cost of debt	12 %	12 %

Calculate the market value of equity, market value of debt, and market value of the firm for Anil Corporation and Sunil Corporation.

(a) What is the average cost of capital for each of the firms?
(b) What happens to the average cost of capital of Anil Corporation if it employs Rs.50 million of debt to finance a project that yields an operating income of Rs.5 million?
(c) What happens to the average cost of capital of Sunil Corporation if it sells Rs.4 million of additional equity (at par) to retire Rs.4 million of outstanding debt?

In answering the above questions assume that the net income approach applies and there are no taxes.

(15 marks)