



BRAINWARE UNIVERSITY

Term End Examination 2018 - 19

Programme – Bachelor of Commerce (Honours) in Banking and Financial Accounting

Course Name – Strategic Finance

Course Code – BCM606A

(Semester – 6)

Time allotted: 3 Hours

Full Marks : 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group –A

(Multiple Choice Type Question)

10 x 1 = 10

1. *Choose the correct alternative from the following*
 - (i) Strategic financial planning is a-

a. Long term goal	b. Maximum profit
c. Managing resources to get best from them	d. All of the above
 - (ii) At IRR

a. NPV=0	b. NPV>0
c. NPV<0	d. All are possible
 - (iii) Risk of cash flows in capital project includes-

a. Project risk	b. Corporate risk
c. Market risk	d. All of the above
 - (iv) Mutual fund organization in India is a -

a. Company	b. Partnership
c. Trust	d. Association of person
 - (v) Factoring is-

a. Borrowing from commercial bank	b. Management of book debt
c. Borrowing with 3 days grace period	d. Governed by negotiable Instrument Act.
 - (vi) Which one is not true for book building process-

a. Auction mechanism to determine price	b. Fixed issue price is given
c. Helps in collecting maximum premium	d. Provides a price base

- (vii) Which one is not true for REPO rate-
- a. Borrowing against collateral securities
 - b. Money borrowed at a pre-determined rate
 - c. Legal title of securities changes
 - d. Motive is to deal with fund position changes
- (viii) Process of transforming illiquid assets into tradable securities is known as-
- a. Forfaiting
 - b. Securitisation
 - c. Leasing
 - d. Factoring
- (ix) In technical analysis-
- a. Technical viability of project is analysed
 - b. Technical acceptability of a product is judged
 - c. Share price movements are considered
 - d. None of them
- (x) Main functions of investment bank includes-
- a. Collection of deposits from public
 - b. Financial restructuring
 - c. securitization
 - d. none of the above

Group – B

(Short Answer Type Questions)

3 x 5 = 15

Answer any *three* from the following

2. From the following data calculate forward rates of government securities

5

Face value	Interest rate	Maturity	Current price
Rs.100000	0%	1	Rs.91500
Rs.100000	10%	2	Rs98500
Rs.100000	10.5%	3	Rs99000

3. Determine risk adjusted net present value of the following projects:

	X	Y	Z
Net cash outlays	210000	120000	100000
Project life	5 years	5 years	5 years
Annual cash flows (Rs.)	70000	42000	30000
Coefficient of variation	1.2	0.8	0.4

The company selects the risk adjusted rate of discount on the basis of the coefficient of variation.

Coefficient of variation	Risk adjusted rate of return	P.V. Factor 1 to 5 years at risk adjusted rate of discount
0.0	10%	3.791
0.4	12%	3.605
0.8	14%	3.433
1.2	16%	3.274
1.6	18%	3.127
2.0	22%	2.864
>2.0	25%	2.689

- 4. Explain the concept of credit rating 5
- 5. Explain Green shoe option and its mechanism of operation 5
- 6. Explain advantages of mutual fund. 5

Group – C

(Long Answer Type Questions)

3 x 15 = 45

Answer any *three* from the following

- 7. (a) Project X and project Y are under evaluation. Estimated cash flows and their probabilities are given below- 8

Project X

Probability	Cash flows (Rs'lakhs)		
	Year 1	Year 2	Year 3
0.3	30	30	30
0.4	50	40	40
0.3	65	55	45

Project Y

Annual cash flows are equal. It is 40 lakhs with probability 0.2, 45 lakhs with probability 0.50 and 50 lakhs with probability 0.3.

Initial investment in both projects is Rs.40 lakhs.

Calculate NPV

- (b) Calculate standard deviation and analyze risk. 7
- 8. Two mutually exclusive projects are given with following cash flows- 7

	Cash flows (Rs.lakhs)			Initial outflow
	Year 1	Year 2	Year 3	
Model A	35	25	-	50 lakhs
Model B	45	35	25	85 lakhs

- (a) Evaluate two projects on the basis of equivalent annual cash flow
- (b) Evaluate them using asset replacement method. 8
- 9. (a) Distinguish between lease rent and hire purchase. 6
- (b) A firm requires a generator set for production. It costs Rs.10lakhs. Its useful life is 5 years. Salvage value is nil. It can be taken on lease also by paying rental of Rs.275000. Interest on loan is 12%, repayable in equal installments. If the firm can charge depreciation on straight line method and tax rate of 30%, which of the alternative must a firm pursue. 9
- 10. (a) Explain book building process 9
- (b) Differentiate it from fixed price method 6
- 11. A mutual fund has 300 units with NAV Rs.8.75 and Rs.9.45 at the beginning and end of the year. Mutual fund has provided two options: 15

- (i) Pay Rs.0.75 per unit as dividend and Rs.0.60 per unit as capital gain.
- (ii) This distribution will be reinvested at an average NAV of Rs.8.65 per unit.

Explain difference of the two methods and select the best one.