CA FINAL
STRATEGIC FINANCIAL MANAGEMENT
MOCK TEST PAPER

Maximum Marks - 100 **Time Allowed - 3 Hours**

Topic cover in paper

- **Equity**
- **Bond**
- **Mergers and Acquisitions**

Answer All Questions

Question 1.

An established company is going to be de merged in two separate entities. The valuation of the company is done by a well-known analyst. He has estimated a value of ₹ 5,000 lakhs, based on the expected free cash flow for next year of ₹ 200 lakhs and an expected growth rate of 5%. While going through the valuation procedure, it was found that the analyst has made the mistake of using the book values of debt and equity in his calculation. While you do not know the book value weights he used, you have been provided with the following information:

i. The market value of equity is 4 times the book value of equity, while the market value of debt is equal to the book value of debt,

ii. Company has a cost of equity of 12%,

iii. After tax cost of debt is 6%.

You are required to advise the correct value of the company.

8 Marks

Question 2.

ABB Ltd. has a surplus cash balance of ₹ 180 lakhs and wants to distribute 50% of it to the equity shareholders. The company decides to buyback equity shares. The company estimates that its equity share price after re-purchase is likely to be 15% above the buyback price. if the buyback route is taken.

Other information is as under:

1. Number of equity shares outstanding at present (Face value ₹ 10 each) is ₹ 20 lakhs.
2. The current EPS is ₹ 5.

You are required to calculate the following:

i. The price at which the equity shares can be re-purchased, if market capitalization of the company should be ₹ 400 lakhs after buy back.

ii. Number of equity shares that can be re-purchased.

iii. The impact of equity shares re-purchase on the EPS, assuming that the net income remains unchanged.

8 Marks

Question 3.

Tangent Ltd. is considering calling ₹ 3 crores of 30 years, ₹ 1,000 bond issued 5 years ago with a coupon interest rate of 14 per cent. The bonds have a call price of ₹ 1,150 and had initially collected proceeds of ₹ 2.91 crores since a discount of ₹ 30 per bond was offered. The initial floating cost was ₹ 3,90,000. The Company intends to sell ₹ 3 crores of 12 per cent coupon rate, 25 years bonds to raise funds for retiring the old bonds. It proposes to sell the new bonds at their par value of ₹ 1,000. The estimated floatation cost is ₹ 4,25,000. The company is paying 40% tax and its after tax cost of debt is 8 per cent. As the new bonds must first be sold and then their proceeds to be used to retire the old bonds, the company expects a two months period of overlapping interest during which interest must be paid on both the old and the new bonds. You are required to evaluate the bond retiring decision. [PVIFA 8%, 25 = 10.675]

10 Marks

Question 4.

The shares of G Ltd. we currently being traded at ₹ 46. The company published its results for the year ended 31st March 2019 and declared a dividend of ₹ 5. The company made a return of 15% on its capital and expects that to be the norm in which it operates. G Ltd. Also expects the dividends to grow at 10% for the first three years and thereafter at 5%.

You are required to advise whether the share of the company is being traded at a premium or discount.

PVIF @ 15% for the next 3 years is 0.870, 0.756 and 0.658 respectively.

8 Marks

Question 5.

Shares of Volga Ltd. are being quoted at a price-earning ratio of 8 times. The company retains 50% of its Earnings Per Share. The Company's EPS is ₹ 10.

You are required to determine:

i. the cost of equity to the company if the market expects a growth rate of 15% p.a.

ii. the indicative market price with the same cost of capital and if the anticipated growth rate is 16% p.a.

iii. the market price per share if the company's cost of capital is 20% p.a. and the anticipated growth rate is 18% p.a.

8 Marks

Question 6.

Wonderland Limited has excess cash of ₹ 20 lakhs, which it wants to invest in short term marketable securities. Expenses relating to investment will be ₹ 50,000.

The securities invested will have an annual yield of 9%.

The company seeks your advice

i. as to the period of investment so as to earn a pre-tax income of 5%.

ii. the minimum period for the company to breakeven its investment expenditure overtime value of money.

8 Marks

Question 7.

Tatu Ltd. wants to takeover Mantu Ltd. and has offered a swap ratio of 1:2 (0.5 shares for everyone share of Mantu Ltd.). Following information is provided

	Tatu Ltd.	**Mantu Ltd.**
Profit after tax	₹ 24,00,000	₹ 4,80,000
Equity shares outstanding (Nos.)	8,00,000	2,40,000
EPS	₹ 3	₹ 2
PE Ratio	10 times	7 times
Market price per share	₹30	₹ 14

You are required to calculate:

i. The number of equity shares to be issued by Tatu Ltd. for acquisition of Mantu Ltd.

ii. What is the EPS of Tatu Ltd. after the acquisition?

iii. Determine the equivalent earnings per share of Mantu Ltd.

iv. What is the expected market price per share of Tatu Ltd. after the acquisition, assuming its PE multiple remains unchanged?

v. Determine the market value of the merged firm.

8 Marks

Question 8.

Following financial information's are available of XP Ltd. for the year 2018:

Equity Share Capital (₹ 10 each)	₹ 200 Lakh
Reserves and Surplus	₹ 600 Lakh

10% Debentures (₹ 100 each)	₹ 350 Lakh
Total Assets	₹ 1200 Lakh
Assets Turnover Ratio	2 times
Tax Rate	30%
Operating Margin	10%
Dividend Payout Ratio	20%
Current Market Price per Equity Share	₹ 28
Required Rate of Return of Investors	18%

You are required to:

i. Prepare Income Statement for the year 2018.

ii. Determine its Sustainable Growth Rate.

iii. Determine the fair price of the company's share using Dividend Discount Model.

iv. Give your opinion on investment in the company's share at current price.

8 Marks

Question 9.

A Ltd., a listed company, is considering merger of B Ltd. which is also a listed company, with itself by means of a stock swap (exchange). B Ltd. has agreed to a plan under which A Ltd. will offer the current market value of B Ltd.'s shares.

Additional Information:

Particulars	A Ltd.	B Ltd.
Earnings after tax (₹)	10,00,000	2,50,000
Number of shares outstanding	4,00,000	2,00,000
Current market price (₹) per share	50	20

On the basis of above information, you are required to calculate the following:

i. What is the pre-merger Earnings per Share (EPS) and P/E ratio of both the companies?

ii. If B Ltd.'s P/E is 10, what is its current market price per share? What is the exchange ratio? What will A Ltd.'s post-merger EPS be?

iii. What must the exchange ratio be for A Ltd.'s Pre-merger and Post-merger EPS to be the same?

8 Marks

Question 10.

The Balance Sheet of M/s. Sundry Ltd. as on 31-03-2020 is follows:

(₹ in lakhs)

Liabilities	₹	Assets	₹
Share Capital	300	Fixed Assets	600
Reserves	200	Inventory	500
Long Term Loan	400	Receivables	240
Short Term Loan	300	Cash	60
Payables & Provisions	200		
Total	**1400**	**Total**	**1400**

Sales for the year was ₹ 600 lakhs. The sales are expected to grow by 20% during the year. The profit margin and dividend pay-out ratio are expected to be 4% and 50% respectively.

The company further desires that during the current year Sales to Short Term Loan and Payables and Provision should be in the ratio of 4 : 3. Ratio of fixed assets to Long Term Loans should be 1.5. Debt Equity Ratio should not exceed 1.5.

You are required to determine:

i. The amount of External Fund Requirement (EFR)

ii. The amount to be raised from Short Term, Long Term and Equity funds.

8 Marks

Question 11.

The following data are available for three bonds A, B and C. These bonds are used by a bond portfolio manager to fund an outflow scheduled in 6 years. Current yield is 9%. All bonds have face value of ₹100 each and will be redeemed at par. Interest is payable annually.

Bond	Maturity (Years)	Coupon rate
A	10	10%
B	8	11%
C	5	9%

i. Calculate the duration of each bond.

ii. The bond portfolio manager has been asked to keep 45% of the portfolio money in Bond A. Calculate the percentage amount to be invested in bonds B and C that need to be purchased to immunise the portfolio.

iii. After the portfolio has been formulated, an interest rate change occurs, increasing the yield to 11%. The new duration of these bonds are: Bond A = 7.15 Years, Bond B = 6.03 Years and Bond C = 4.27 years.

Is the portfolio still immunized? Why or why not?

iv. Determine the new percentage of B and C bonds that are needed to immunize the portfolio. Bond A remaining at 45% of the portfolio.

Present values be used as follows :

Present Values	t_1	t_2	t_3	t_4	t_5
$PVIF_{0.09,t}$	0.917	0.842	0.772	0.708	0.650

Present Values	t_6	t_7	t_8	t_9	t_{10}
$PVIF_{0.09,t}$	0.596	0.547	0.502	0.460	0.4224

10 Marks

Question 12.

Closing values of BSE Sensex from 6th to 17th day of the month of January of the year 200X were as follows:

Days	Date	Day	Sensex
1	6	THU	29522
2	7	FRI	29925
3	8	SAT	No Trading
4	9	SUN	No Trading
5	10	MON	30222
6	11	TUE	31000
7	12	WED	31400
8	13	THU	32000
9	14	FRI	No Trading
10	15	SAT	No Trading
11	16	SUN	No Trading
12	17	MON	33000

Compute Exponential Moving Average (EMA) of Sensex during the above period. The 30 days simple moving average of Sensex can be assumed as 30,000. The value of exponent for 30 days EMA is 0.062.

Provide detailed analysis on the basis of your calculations.

8 Marks