Seat No. : _____

LF-134

April-2014

T.Y. MBA (KS) (Integrated)

Financial Management – 2

(Finance)

Time : 3 Hours] **[Max. Marks : 100**

1. (a) What are the different types of equity share capital ? Briefly discuss the features of equity share as sources of long term finance. **10**

   (b) What are the main attributes of Debentures/Bonds ? What are their merits and demerits ? **10**

2. (a) Write a note on : **10**
   Venture capital financing as source of long term finance.

   (b) What is preference share capital as long term source of finance ? Briefly describe redeemable feature in Preference share. **10**

OR

XYZ Builders need to acquire the use of a crane for construction business, and are considering buying or leasing a crane. The crane costs ₹ 10,00,000 and is subject to the straight-line method of depreciation to a zero salvage value at the end of 5 years. In contrast, the lease rent is ₹ 2,20,000 per year to be paid in advance each year for 5 years. XYZ Builders can raise debt at 14% payable in equal annual instalments, each instalment due at the beginning of the year. The company is in the 50% tax bracket. Should it lease or buy the crane ? **20**

3. (a) What does Internal Rate of Return (IRR) signify ? How do you accept or reject the projects based on this method of evaluation ? **10**

   (b) Following data in respect of two machines namely 'A' and 'B' are detailed below. Depreciation has been charged on straight line basis, and estimated life of both machines is 5 years : **10**

Item	**Machine 'A'**	**Machine 'B'**
Cost	56,125	56,125
Net Income after depreciation and taxes :		
1st year	3,375	11,375
2nd year	5,375	9,375
3rd year	7375	7375
4th year	9,375	5,375
5th year	11,375	3,375

Find out :

(1) Average rate of Return on 'A' and 'B' machines.

(2) Which machine is better from the point of view of payback period and why ?

(3) Calculate average rate of Return when salvage value of machine 'A' turns out to be ₹ 3,000 and when 'B' machine has zero salvage value.

OR

An existing company has a machine which has been in operation for 2 years; its estimated remaining useful life is 4 years with no salvage value in the end. Its current market value is ₹ 25,000. The management is considering a proposal to purchase an improvement model of the machine which gives increased output. **20**

The relevant particulars are as follows :

	Particulars	Existing Machine	New Machine
(1)	Purchase price (₹)	60,000	1,07,500
(2)	Estimated life (years)	6	4
(3)	Salvage value	0	0
(4)	Annual operating hours	1000	1000
(5)	Selling price per unit (₹)	3	3
(6)	Material per unit (₹)	0.40	0.40
(7)	Output per hour (units)	15	30
(8)	Labour cost per hr. (₹)	11	16
(9)	Consumable stores per year (₹)	2000	1000
(10)	Repairs & Maintenance per year (₹)	3,000	2,000
(11)	Working capital	10,000	20,000
(12)	Income-tax Rate	35	35

Should the existing machine be replaced ? Assume that,

(i) Required Rate of Return is 10% and,

(ii) The company uses written down value method of depreciation @ 20% and it has several machines in the 20% block.

4. (a) What is the substance of miller and Modigliani 'dividend irrelevance' theorem ? **10**

OR

Discuss the factors which are relevant for determining the payout ratio.

(b) The following information are available for XYZ company : **10**

- No. of shares outstanding is 1 lakh.
- EPS is ₹ 4.
- DPS is ₹ 2.4
- Equity capitalization Rate : 12%
- Rate of Return on Investment : 15%

Find out :

(1) As per Walter's Model, what will be market value per share ?

(2) To keep share price at ₹ 40 what should be payout ratio ?

(3) As per Walter's Model, what is optimum payout ratio ?

5. (a) Shivam Ltd. is considering two mutually exclusive projects, A and B. Project 'A' costs ₹ 36,000 and project 'B' ₹ 30,000. You have been given below the net present value profitability distribution for each project. **15**

Project – A		**Project – B**	
NPV Estimates (₹)	**Profitability**	**NPV Estimates (₹)**	**Profitability**
15,000	0.2	15,000	0.1
12,000	0.3	12,000	0.4
6,000	0.3	6,000	0.4
3,000	0.2	3,000	0.1

(1) Compute the expected net present values of projects A and B.

(2) Compute the risk attached to each project i.e. standard deviation of each profitability distribution.

(3) Compute profitability index of each project.

(4) Which project do you recommend ? State with reasons.

(b) What are the pros and cons of sensitivity analysis ? **5**

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