2604E243

Candidate's Seat No :________

PGD (Rep) Semester-1 Examination

FM P-II

Foundation of Finance

April-2024

Time : 2-30 Hours] **[Max. Marks : 70**

Instructions:

1. **Q-1 and Q5 have no options.**
2. **Make suitable assumptions wherever necessary.**
3. **The figures to the right indicate full marks.**

Q.1	**Answer the Following in one -two lines (Each carries 2 mark)**		**14**
	1.	What determines a bond's price?	
	2.	What happens to existing bond prices when interest rates rise?	
	3.	What does the Gordon Growth Model estimate?	
	4.	Which measure assesses systematic risk?	
	5.	What factor influences the cost of debt but not the cost of equity?	
	6.	How does EPS impact stock valuation?	
	7.	How is Vertical Analysis useful in financial decision-making?	
Q.2	**Answer the following questions. (Any two)**		**14**
	(A)	How can a startup company, facing a negative Net Profit Margin due to substantial initial investments, strategically enhance its Return on Equity (ROE) over the long term? Consider the components of DuPont analysis and propose actionable steps for improvement.	7
	(B)	Determine the Price/Earnings (P/E) ratio for a company with a stock trading at INR 50 per share and an earnings per share (EPS) of INR 5. Explain the significance of a high or low P/E ratio for investors.	7
	(C)	What is the current yield and yield to maturity for a government bond with a face value of INR 1,000, currently priced at INR 950, and having 3 years until maturity with an annual coupon payment of INR 40?	7
Q.3	**Answer the following questions. (Any two)**		**14**
	(A)	What annual savings are required to accumulate INR 1500,000 in 15 years for retirement, assuming an annual investment return of 7%?	7
	(B)	Compare two investment options for Company A: Option 1: Initial investment of INR 10,000 with a future value of INR 15,000 in 3 years. Option 2: Initial investment of INR 8,000 with a future value of INR 12,000 in 2 years. Given a discount rate of 8%, determine which option is more favourable for the company.	
	(C)	Describe the relationship between bond prices and interest rates, including how changes in interest rates impact bond prices.	7
Q.4	**Answer the following questions. (Any two)**		**14**
	(A)	Calculate the intrinsic value per share of Stock X given the risk-free rate of 8%, market portfolio returns of 16%, Stock X's beta of 1.2, and an expected constant growth rate of dividends and earnings at 10%, assuming the previous dividend per share was Rs. 3.00.	7
	(B)	Explain the scenario where Stock A and Stock B offer the same expected return according to CAPM but differ in beta. Discuss how this scenario reflects on risk and return and its potential impact on investor decision-making.	7
	(c)	Write a short Note on Efficient Frontier	7

(P.T.O)

E 243-2

Q.5	Interpret the below consolidated cash flow statements of ITC. Ltd.	14

CASH FLOW OF ITC (In Rs. Cr.)	MAR 23	MAR 22	MAR 21	MAR 20	MAR 19
	12 mths	12 mths	12 mths	12 mths	12 mths
NET PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS AND TAX	**25,915.12**	**20,740.47**	**17,938.17**	**20,034.57**	**19,149.82**
Net CashFlow From Operating Activities	18,877.55	15,775.51	12,527.09	14,689.66	12,583.41
Net Cash Used In Investing Activities	-5,732.29	-2,238.49	5,682.91	-6,174.02	-5,545.68
Net Cash Used From Financing Activities	-13,006.03	-13,580.50	-18,633.83	-8,181.48	-6,868.64
Foreign Exchange Gains / Losses	0.00	0.00	0.00	0.00	0.00
Adjustments On Amalgamation Merger Demerger Others	0.00	0.00	56.95	0.00	0.00
NET INC/DEC IN CASH AND CASH EQUIVALENTS	**139.23**	**-43.48**	**-366.88**	**334.16**	**169.09**
Cash And Cash Equivalents Begin of Year	266.68	310.16	677.04	342.88	173.79
Cash And Cash Equivalents End Of Year	405.91	266.68	310.16	677.04	342.88

--All the Best________________________________