

Q.1

A If you are Finance Manager, How would you raise Capital? What are features of (7) different sources of long term finance?

B "Finance is a life-blood of Business." What are the important decisions made by Finance (7) Manager?

Q.2

A The market value of a Rs.1,000 par value bond, carrying a coupon rate of 12 percent and (7) maturing after 7 years, is Rs.750. What is the yield to maturity on this bond?

B A finance company advertises that it will pay a lump-sum of Rs.44,650 at the end of (7) five years to investors who deposit annually Rs.6,000 for 5 years. What is the interest rate implicit in this offer?

Or

Q.2

A The equity stock of Rajvi Limited is currently selling for Rs.32 per share. The dividend (7) expected next is Rs.2.00. The investors' required rate of return on this stock is 12 percent. Assume that the constant growth model applies to Rajvi Limited. What is the expected growth rate of Rajvi Limited?

B Ramesh deposits Rs.200,000 in a bank account which pays 10 per cent interest. How (7) much can he withdraw annually for a period of 15 years?

Q.3

A Which are different sources of Long Term finance. Discuss advantages and (7) disadvantages in detail.

B The rates of return on stock A & market portfolio for 15 periods are given below (7)

Period	Return on stock A(%)	Return on market portfolio (%)	Period	Return on stock A(%)	Return on market portfolio (%)
1	10	12	9	-9	1
2	15	14	10	14	12
3	18	13	11	15	-11
4	14	10	12	14	16
5	16	9	13	6	8
6	16	13	14	7	7
7	18	14	15	-8	10
8	4	7			

What is the beta for stock A?

Or

(P.T.O)

Q.3

A The stock of Disha Limited performs well relative to other stocks during recessionary periods. The stock of Nisha Limited, on the other hand, does well during growth periods. Both the stocks are currently selling for Rs.100 per share. You assess the rupee return (dividend plus price) of these stocks for the next year as follows : (7)

	Economic Condition			
	High growth	Low growth	Stagnation	Recession
Probability	0.3	0.4	0.2	0.1
Return on Disha's stock	100	110	120	140
Return on Nisha's stock	150	130	90	60

Calculate the expected return and standard deviation of investing Rs.500 each in the equity stock of Disha Limited and Nisha Limited.

B What is Working Capital Management ? What are the sources of short term finance in business ? (7)

Q.4

A Ashish Corporation's WACC is 12 percent and its tax rate is 35 percent. Ashish's pre-tax cost of debt is 14 percent and its debt-equity ratio is 1:1. The risk-free rate is 11 percent and the market risk premium is 8 percent. What is the beta of Ashish's equity? (7)

B What is Capital Structure? Explain the theories of capital structure. (7)

Or

Q.4

A Arbuda Limited issued 15 year, 14 percent bonds five years ago. The bond which has a face value of Rs.100 is currently selling for Rs.108.

(a) What is the pre-tax cost of debt ?

(b) What is the after-tax cost of debt ? (Assume a 35 percent tax rate) (7)

B The management of Vihan Fabrics subscribes to the NOI approach and believes that its cost of debt and overall cost of capital will remain at 9 percent and 12 percent respectively. If the debt equity ratio is 0.8, what is the cost of equity? (7)

Q.5

The cost of capital is 12 percent. Calculate the following: (a) net present value, (b) benefit-cost ratio, (c) internal rate of return, (d) modified internal rate of return, (e) payback period, and (f) discounted payback period. (14)

The expected cash flows of a project are as follows:

Year	Cash flow
0	-100,000
1	20,000
2	30,000
3	40,000
4	50,000
5	30,000