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3003E1425

Candidate's Seat No :________

BBA Semester-5 Examination
CC 307
Adv. Financial Management
March-2024

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

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1. [A] Assuming a corporate tax rate of 35 percent, compute the after tax cost of capital in the following situations: [7]
   (a) A ten year 14% debenture of ₹ 2000, redeemable at par, with 5% floatation costs.
   (b) An equity share selling at ₹ 50 and paying a dividend of ₹ 6 per share, which is expected to be continued indefinitely.
   (c) The same equity share that is described in situation (c), if the dividends are expected to grow at the rate of 5%.

   [B] Shakti Ltd. has the following book value capital structure as on March 31, 2023: [7]

	₹
Equity share Capital (8,00,000 shares)	80,00,000
11.5% Preference shares	20,00,000
10% Debentures	60,00,000
	1,60,00,000

The equity share of the company sells for ₹ 40. It is expected that the company will pay next year a dividend of ₹ 4 per equity share, which is expected to grow at 7% per annum forever. Assume 35% corporate tax rate. Compute Weighted Average Cost of capital of the company based on the existing capital structure.

OR

   [A] Discuss the Capital Asset Pricing Model (CAPM) in brief. [7]

   [B] The shares of a textile company are selling at ₹ 50 per share. The firm had paid ₹ 4 per share dividend last year. The estimated growth of the company is approximately 5% per year. [7]
   (a) Determine the cost of equity capital of the company.
   (b) Determine the cost of equity capital if the anticipated growth rate of the firm (i) rises to 8% (ii) falls to 3%.
   (c) If the required rate of return (cost of equity capital) is 14%, what is the growth rate in dividend ?

2. [A] The directors of a company decided not to pay any dividend for coming three years after which dividend of ₹ 30 per share will be paid every year indefinitely. The required rate of return on such shares is 10%. Find the value of such equity share. [7]
   If the directors decided to pay divided of ₹ 24 forever from the beginning, what is the cost to each shareholder of the policy of skipping the dividend for 3 years ?

   [B] If the market price of the bond is Rs. 95, Years to maturity is 5 years. Coupon rate is 12% p.a. (paid annually) and issue price is Rs. 100. What is the yield to maturity? [7]

OR

   [A] An investor has invested in a company in which dividend is growing by 20% every year for 7 years. Thereafter, growth rate in dividend stabilizes to 7%. The required rate of return by the investors is 9% and the current dividend per share is Re. 1 per share. Determine the value of the equity share. [7]

   [B] A company expects to pay a dividend of ₹ 7 next year, which is expected to grow at 6%. It retains 30% of earnings. Assume a capitalization rate of 10%. You are required to [7]

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calculate **(a)** the expected earnings per share next year (EPS) **(b)** return on equity (ROE), and **(c)** the price of share with zero growth and with 6% growth.

3. **[A]** Explain the difference between Forwards and Futures. [7]

[B] Explain Risk Adjusted Discount Rate Approach in detail. [7]

OR

[A] Discuss the Decision Tree Approach in detail. [7]

[B] Define Derivatives. Discuss its characteristics in detail. [7]

4. **[A]** Explain Walter Model in detail. [7]

[B] Discuss the types of dividend policy. [7]

OR

[A] Briefly explain the Modigliani-Miller (MM) Model of irrelevance of dividends. [7]

[B] Explain Gordon Model in detail. [7]

5. **Do as directed** (Attempt **any 7 out of 12**): [14]

(1) There is no cost for internally generated funds. (True/False)
(2) Find the present value of ₹ 700 at 11% received after 3 years.
(3) The cost of perpetual debt capital if interest rate is 9% and tax rate is 30% is_______. (6.2%, 6.3%, 7.2%, 7.3%)
(4) Opportunity cost is also known as________ cost. (Economics, Implicit, Marginal, Explicit)
(5) Find the value of perpetual 9%, 1000 ₹ face value Bond with 12% required rate of return.
(6) The value of bond is only dependent on the interest payments. (True/False)
(7) There is potential of unlimited gain and risk of unlimited loss for the option buyer. (True/False)
(8) The price of a commodity or financial asset for immediate delivery is known as the _______. (Forward, Spot, Future, Options)
(9) Give the meaning of Call Option.
(10) According to Walter's dividend model, optimum dividend payout ratio in case of growing firms is_______. (0%, 50%, 75%, 100%)
(11) Stock dividend is also known as ______. (Deferred share, Bonus share, Promoters' share, Profit)
(12) Dividend is a part of _______. (Loss, Assets, Profit, Wealth)

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