

## PG Diploma Sem.-1 Examination

## Paper-2

## Financial Management (FOF)

January-2025

Time : 2-30 Hours]

[Max. Marks : 70

Q.1 Discuss the interrelationship between risk and return, cost of capital, valuation of securities, and capital budgeting. Explain how these concepts collectively influence a company's financial decision-making process, providing relevant examples to illustrate your points. (14)

Q.2 You are considering investing in one of the following bonds: (14)

**Bond Coupon Rate Maturity (Years) Price (Rs. 100 Par Value)**

A 12% 7 Rs. 930

B 08% 5 Rs. 860

Your income tax rate is 33%, and your capital gains tax is effectively 10%. Capital gains taxes are paid at maturity on the difference between the purchase price and par value. What is your post-tax yield to maturity from these bonds?

**OR**

Q.2 The required return on the market portfolio is 16 percent. (14)

The beta of stock A is 1.6.

The required return on the stock is 22 percent.

The expected dividend growth on stock A is 12 percent.

The price per share of stock A is Rs.260.

What is the expected dividend per share of stock A next year?

What will be the combined effect of the following on the price per share of stock under following conditions

(a) The inflation premium increases by 5 percent.

(b) The decrease in the degree of risk-aversion reduces the differential between the return on market portfolio and the risk-free return by one-half.

(c) The expected growth rate of dividend on stock A decrease to 10 percent.

(d) The beta of stock A falls to 1.1

(P.T.O)

Q.3 Overleaf is the financial data for Reliance Industries Limited, Hindustan Unilever Limited (HUL), and Maruti Suzuki India Limited for the fiscal year 2023-24: (14)

- Calculate each company's Net Profit Margin, Asset Turnover, Equity Multiplier, and ROE.
- Compare and contrast the ROE components among the three companies.
- Identify which company has the highest ROE and discuss the primary factors contributing to this performance.
- Discuss how the differences in industry sectors might influence the variations in these financial metrics.

Company	Net Profit Margin (%)	Asset Turnover (times)	Equity Multiplier (times)	ROE (%)
Reliance Industries	7.1	1.84	1.53	19.98
Hindustan Unilever	16.62	1.24	1.53	31.56
Maruti Suzuki India	9.12	1.84	1.21	20.36

OR

Q.3 Find Beta and Establish Characteristics Line for stock of Aydin Incorps from the following information; (14)

Period	Return on the stock of Aydin Incorps (%)	Return on the market portfolio (%)
1	18	15
2	10	12
3	-5	5
4	20	14
5	9	-2
6	18	16

Q.4 Shehzin Ltd. plans to expand its operations and requires a capital investment of ₹50 crore. The company evaluates its capital cost before proceeding with the project. The following details are provided: (14)

1. The company plans to raise 50% of the funds through equity and 50% through debt.
  2. The expected return on equity is 15%.
  3. The company can secure debt at an interest rate of 10%, and the corporate tax rate is 30%.
  4. The flotation cost for raising equity is 5% of the total equity raised.
  5. Shehzin Ltd. expects a risk-free rate of 6%, a market risk premium of 8%, and its beta is 1.2 (use CAPM to verify the cost of equity).
1. Calculate the **cost of debt (K<sub>d</sub>)** after considering the tax shield.
  2. Determine the **cost of equity (K<sub>e</sub>)** using the CAPM and flotation cost adjustment methods.
  3. Compute the Weighted Average Cost of Capital (WACC) for Shehzin Ltd.
  4. Based on the calculated WACC, discuss whether Shehzin Ltd. should proceed with the project if the expected return on investment (ROI) is 13%.

OR

Q.4 Suhana Ltd. has the following book value capital structure: (14)

Component	Amount (Rs. Million)
Equity capital (25 million shares, Rs. 10 par)	250
Preference capital, 10 percent (800,000 shares, Rs. 100 par)	80
Retained earnings	50
Debentures, 14 percent (2,000,000 debentures, Rs. 100 par)	200
Term loans, 14 percent	220
<b>Total</b>	<b>800</b>

The next expected dividend per share is Rs. 3.00, and it is expected to grow at a rate of 10 percent. The market price per share is Rs. 260. Preference stock, redeemable after 8 years, is currently selling for Rs. 90 per share. Debentures, redeemable after 5 years, are selling for Rs. 105 per debenture. The company's tax rate is 34 percent.

Calculate the average cost of capital using:

- (i) Book value proportions, and
- (ii) Market value proportions

(P.T.O)

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Q.5 (14)

The Textile Manufacturing Company Ltd. is considering two mutually exclusive proposals, Project M and Project N, requiring initial cash outlays of ₹8,50,000 and ₹8,25,000, respectively. The current yield on government bonds (6%) is used as the risk-free rate. The expected net cash flows for both projects are detailed below:

**Year Project M Cash Flow (₹) Project N Cash Flow (₹) .**

1	4,50,000	4,50,000
2	5,00,000	4,50,000
3	5,00,000	5,00,000

The present value factors of ₹1 discounted at 6% for the end of years 1, 2, and 3 are:

**Year-End PV Factor (6%)**

1	0.943
2	0.890
3	0.840

Analyze which project should be accepted based on the discounted payback period method and Profitability index Method.