

**P.G. Diploma Sem.-1 (Rep) Examination
Paper-2
FM-Foundation of Finance**

Time : 2.30 Hours]

June-2025

[Max.Marks : 70

Note: All questions are mandatory**Q.1 Answer the following (Any 2) Each of 7 marks (14 marks)**

- (a) The share price of Meghna corporation is Rs 200 per share. Megha corporation wants to expands for that it need Rs 100 mn. The Management decided to bring in this fund through an IPO which shall trade at Rs. 95 per equity share. The expect dividend for next year is Rs.5 per share which shall grow at 6%. Calculate the cost of external equity(new issue).
- (b) Anurag WACC is 11 percent and its tax rate is 36 percent. Anurag's' pre-tax cost of debt is 10 percent and its debt-equity ratio is 1.5:1. The risk-free rate is 7 percent and the market risk premium is 8 percent. What is the beta of Anurag's equity?
- (c) The equity capital is cost-free.' Do you agree? Give reasons.

Q. 2 Answer the following (Any 2) Each of 7 marks (14 marks)

- (a) The risk-free return is 8 percent and the return on market portfolio is 16 percent. Stock X's beta is 1.2; its dividends and earnings are expected to grow at the constant rate of 10 percent. If the previous dividend per share of stock X was Rs.3.00, what should be the intrinsic value per share of stock X ?
- (b) What is a valuation of equity shares? Write a brief note on intrinsic value and P/E ratio.
- (c) You are considering purchasing the equity stock of Maulik Corporation. The current price per share is Rs.180. You expect the dividend a year hence to be Re.8.00.
You expect the price per share of Maulik Corporation stock a year hence to have the following probability distribution.
- | | | | |
|--------------------|--------|-----|-----|
| Price a year hence | Rs.175 | 180 | 200 |
| Probability : | 0.2 | 0.3 | 0.5 |

(P.T.O)

What is the expected price per share a year hence? Also find what is the probability distribution of the rate of return on Maulik Corporation 's equity stock?

Q 3. Answer the following (Any 2) Each of 7 marks (14 marks)

- (a) Mammoth Corporation is facing gloomy prospects. The earnings and dividends are expected to decline at the rate of 10 percent. The previous dividend was Rs.3.00. If the current market price is Rs.25.00, what rate of return do investors expect from the stock of Mammoth Limited
- (b) A Rs.100 par value bond bears a coupon rate of 8 percent and matures after 10 years. Interest is payable semi-annually. Compute the value of the bond if the required rate of return is 12 percent.
- (c) The share of a certain stock paid a dividend of Rs.3.00 last year. The dividend is expected to grow at a constant rate of 8 percent in the future. The required rate of return on this stock is considered to be 15 percent. How much should this stock sell for now? Assuming that the expected growth rate and required rate of return remain the same, at what price should the stock sell 3 years hence?

Q.4 Answer the following Each of 7 marks (14 marks)

- (a) What is capital budgeting? Why is it significant for a firm?
- (b) Your company is considering two projects, M and N. Each of which requires an initial outlay of 240MN

Year	1	2	3	4
Cash flow-M	85	120	180	100
Cash flow-N	100	110	120	90

Calculate the payback period for both the projects.

Q.5 . Answer the following (Any 2) Each of 7 marks (14 marks)

- (a) Explain the concept of valuation of securities? Why is the valuation concept relevant for financial decision-making purposes?
- (b) Define systematic and unsystematic risks. Give examples of both.
- (c) How does the modern financial manager differ from the traditional financial manager? Does the modern financial manager's role differ for the large diversified firm and the small to medium size firm?