

**AL-106**

April-2015

**T.Y. M.B.A., Sem.-VI (Integrated)****Financial Management – II****Time : 3 Hours]****[Max. Marks : 100**

1. (a) Pinacin manufacturer wants to raise ₹ 12,00,000 of equity share capital through a right offering. It currently has 300000 shares outstanding which has been most recently selling/trading for ₹ 150 per share. Pinacin has set the subscription price for the rights at ₹ 120 per share.
- Calculate :
- (1) Number of new shares company should sell to raise the desired amount of capital.
  - (2) Determine number of right required to purchase one share.
  - (3) Calculate the price of a share being offered.
  - (4) Calculate the ex-right value. 10
- (b) Explain any **two** : 10
- (i) Process of obtaining a term loan.
  - (ii) Convertible debentures
  - (iii) Zero interest bond, floating rate bond and deep discount bond.
2. (a) Explain Sensitivity analysis, scenario analysis and probability distribution approach for judging risk in capital budgeting decision with example. 15

**OR**

Grishma Ltd. is considering one of the investment proposal which requires initial cash outflow of ₹ 1,00,000. The proposal does not have any salvage value having useful life of 2 years.

Following is information of CFAT and its probability of its occurrence in year 1

<b>Probability</b>	0.3	0.4	0.3
<b>CFAT</b>	40,000	55,000	75,000

CFAT of year 2 depends on the CFAT that occurs in year 1. (conditional probabilities). The estimated conditional CFAT and associated conditional probability is as under :

<b>If CFAT1 = 40,000</b>		<b>If CFAT1 = 55,000</b>		<b>If CFAT1 = 75,000</b>	
<b>CFAT2</b>	<b>Probability</b>	<b>CFAT2</b>	<b>Probability</b>	<b>CFAT2</b>	<b>Probability</b>
20,000	0.3	65,000	0.25	80,000	0.4
50,000	0.3	75,000	0.45	1,00,000	0.25
75,000	0.4	80,000	0.3	1,20,000	0.35

Calculate expected NPV assuming 10% discount rate.

- (b) Zombi Ltd. is having investment proposal having initial cash outlay of ₹ 15,00,000. The expected cash flow and certainty equivalent coefficient are as below :

Year	Expected Cash Flow	CEC
1	3,50,000	0.90
2	5,00,000	0.85
3	7,00,000	0.80
4	8,00,000	0.75

Risk free interest rate is 6%. Calculate NPV of this proposal.

5

3. (a) Explain capital budgeting process in detail with example. 5

- (b) "Milestone Ltd." is manufacturing watches requiring initial investment of ₹ 100 lakh and working capital of ₹ 25 lakh. Plant is having annual production capacity of 2 lakh units and capacity utilization during 5 years is as under :

Year	1	2	3	4	5
Capacity Utilisation (%)	30	50	60	80	100

Selling price per unit : ₹ 70  
 Contribution : 50%  
 Annual fixed cost excluding depreciation : ₹ 5 lakh p.a.  
 Rate of depreciation : 10% on WDV basis  
 Tax rate : 35%  
 Cost of capital : 12%

Additional investment of ₹ 30 lakh is required for working capital at the end of 3<sup>rd</sup> year.

Scrap value : 10%

Decide whether the project should be accepted or not ?

15

4. (a) Ganesh Housing wants to acquire JCB truck for construction purpose and is considering buying or leasing the same. The truck costs ₹ 15,00,000 without any salvage value (Depreciation method : SLM, useful life : 5 years). In contrast, the lease rent is ₹ 3,30,000 p.a. to be paid in advance each year for 5 years. Ganesh housing can raise the debt at 13% payable in equal annual instalments, each instalment due at the beginning of the year. Suggest whether it should be bought or taken on lease (tax rate : 50%) 15
- (b) Explain why preference share is considered as a hybrid instrument. 5

**OR**

Write a note on Venture Capital Financing.

5. (a) Explain factors affecting dividend policy in detail with example. 10
- (b) Namanotsav Ltd. is having EPS of ₹ 20 cost of capital is 10%. The company has three options to adopt the dividend payout ratio :
- (i) 40%  
 (ii) 70%  
 (iii) 100%

Assuming the company can have internal rate of return of (i) 18% (ii) 15% (iii) 12%, determine the market price of company's quoted shares. (Use Walter's approach) 10