

B.B.A. Sem.-5 Examination

CC-307

Adv. Financial Management

November-2025

Time : 2-30 Hours]

[Max. Marks : 70

Q-1 Following details relate to the M/s Jublee Ltd. for the year ended on 31st March 2022. 14

Source	Book Value	Market Value
Equity Share capital (each of Rs. 10)	1600000	Rs. 20 per share
12% Preference Share capital (each of Rs. 100)	400000	80 per share
15% Debentures (each of Rs. 100)	2000000	75 per debenture
Total	4000000	

The expected dividend on equity in the next year is 22%, which will grow at 9%. The tax bracket of the company is 25%.

Answer the following –

- 1) Calculate the Weighted average cost of capital under the market value weights.
- 2) The company is planning to finance an expansion project costing Rs. 10,00,000/- through an issue of equity shares at Rs 18/- per share. Calculated Marginal cost of capital of the company.

OR

- A Pratham Ltd. is contemplating an issue of new equity shares. Its equity shares are currently selling at ₹ 130 a share. The historical pattern of dividend payments per share, for the last 5 years is given below: 7

Year	Dividend (₹)
1	10.35
2	11.45
3	12.75
4	13.45
5	14.60

The floatation costs are expected to be 6% of the current selling price of the shares. You are required to determine the following:

- 1) Growth rate in dividends
 - 2) Cost of Equity capital assuming growth rate determined under situation (1) continues for ever.
 - 3) Cost of new equity shares assuming growth rate determined under situation (1) continues for ever.
- [FVIF(8%,4yrs)=1.36, FVIF(9%,4yrs)=1.41, FVIF(7%,5yrs)=1.40,
FVIF(8%,5yrs)=1.47, FVIF(9%,5yrs)=1.54]

- B The mining company's iron ore reserves are being depleted, and its cost of recovering a declining quantity of iron ore are rising each year, as a sequel to it, the company's earnings and dividends are declining at a rate of 7% year. If the previous year's dividend was Rs. 12 and the required rate of return is 18%, what would be the current price of the equity shares of the company? 7

Q-2 Arati Ltd has been growing at the rate of 16% per year and this is expected to continue for 5 years. Then after for next 3 years it expects to grow at 13% per year and thereafter it is likely to grow at the rate of 9% forever at the industry average. The investors expect a return of 15%. The dividend paid for shares last year is Rs. 7. Determine at what price an investor will be ready to buy the shares of the company at the current level. 14

OR

A The current market price of the share of XL Ltd. is Rs.25. The dividend expected in the coming years are as follows: 7

Year	Expected Dividend
1	2.35
2	2.55
3	3.35
4	3.55
5	4.35

At what price should an investor expect to sell his shares at the end of 5 years to earn a compound rate of return of 18%.

B JP Ltd. is proposing to issue a 5-year, 14% Preference Shares. The shares will be redeemed at Rs. 110 at the end of 5th year. Its face value is Rs. 100. If an investor has a minimum required rate of return of 18% what is the present value of such preference shares for him? 7

Q-3 Explain in detail any 2 risk evaluation approaches in capital budgeting. 14

OR

A Define risk and distinguish between risk and uncertainty. 7

B Define Derivatives and discuss its characteristics. 7

Q-4 Explain the relevance approach of dividend decision as presented by Walter and Gordon. 14

OR

A What are the factors affecting Dividend Policy? 7

B Discuss the assumptions and criticisms of MM approach in detail. 7

Q-5 Do as directed (any 7 out of 12) 14

1) "A bird in hand is better than two in bush" this emphasis that an investor prefers _____ dividend.

(Future, Stable, Current, No)

2) According to Walter and Gordon Model, Growth firm means $r < k$. (True/False)

3) The rate of dividend on preference share capital is decided at the time of _____. (Issue, Payment, Redemption)

4) Tax is taken into consideration while calculating Cost of Debenture. (True/False)

5) Loss of property by fire is one of the categories of risk which is not measurable. (True/False)

6) The cost of retained earnings may be defined as opportunity cost in terms dividend foregone by or withheld from the equity shareholders. (True/False)

7) The spot rate is also known as benchmark price. (True/False)

8) Zero coupon bonds are always issued at discount. (True/False)

9) Insurance contract is not a loss financing method. (True/False)

10) Preference share is a form of pure equity. (True/False)

11) _____ is the term used for reducing risk by using derivatives. (Waiving, Revoking, Hedging)

12) _____ weights are assigned on the basis of values found in the balance sheet. (book, market, average)