

5. Attempt any **two** from a, b, and c :

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- (a) Explain Walter's Model and M-M model of dividend.
- (b) Discuss various approaches of corporate valuation with their merits and demerits in detail.
- (c) Following rates are available on 15-3-2012 :

USD/INR = 52.85/53.25

GBP/USD = 1.25/27

Find out :

- (1) INR/USD Spot
- (2) GBP/INR Spot
- (3) GBP/INR forward rate for 3 months if swap points are 225/275
- (4) Forward premium/discount in % for GBP/INR
- (5) If 6 months forward rate for USD/INR is at a premium of 1% (annualized), what will be forward rates ?

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- (a) From the following data, determine the value of the firms, C and D belonging to the homogeneous risk class under (a) the net income (NI) approach and (b) the net operating income (NOI) approach :

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Particulars	Firm – C	Firm – D
EBIT	₹ 2,25,000	₹ 2,25,000
Interest @ 15%	₹ 75,000	
Equity capitalization rate	20%	
Corporate tax rate	50%	

Which of the two firms has an optimal capital structure under each approach mentioned above ?

- (b) F. Ltd. has total capitalization of ₹ 100 lakhs consisting entirely of equity shares of ₹ 50 each. It wishes to raise another ₹ 50 lakhs for expansion through one of its two possible financing plans; (a) all equity shares of ₹ 50 each (b) all debentures carrying 9% interest.

Present level of EBIT is ₹ 14 lakhs and tax rate is 50%. Calculate EBIT level at which EPS would remain same irrespective of financing plan. Also advise the company about the financing plan.

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- (c) Following data is available for ABC Ltd.

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Sales	₹ 20 lakhs
Variable cost	₹ 14 lakhs
Fixed Cost	₹ 4 lakhs

Fixed cost includes interest at the rate of 15% on ₹ 10 lakhs.

You are required to calculate operating, financial and combined leverages and interpret them.

4. Attempt any **two** from a, b, and c :

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- (a) The Star Ltd. Currently provides 45 days of credit to its customers. Its present level of sales is ₹ 60 lakhs. The ratio of variable costs to sales is 0.80.

The firm is considering extending its credit period to 60 days. The sales are expected to increase by 6 lakhs. The bad debt proportion on additional sales would be 5%. The company's cost of capital is 15% and tax rate is 40%.

Advise the company about the extension of credit period.

- (b) What are the motives for holding cash ? Explain Miller-Orr model of cash management with example.
- (c) What is meant by operating cycle ? Explain the concept with diagram. Also explain calculation of various stages of operating cycle taking imaginary figures and show how working capital estimation can be done based on operating cycle.

2. A company is investigating the feasibility of manufacturing one of the components needed for its finished product rather than purchasing it from an outside supplier. Its present supplier has just announced that he intends to increase the price from ₹ 100 to ₹ 125 per unit, provided the company purchases 6,000 units per year.

The equipment needed to make this product can be purchased for ₹ 12 lakhs and is expected to have salvage value of ₹ 3,00,000 at the end of 6<sup>th</sup> year. Additional fixed costs (excluding depreciation) are estimated to increase by ₹ 1,00,000 per year. The variable costs of manufacturing each component will be ₹ 30 per unit. Straight line depreciation will be used. The company is subject to a 40% tax rate and 15% is the appropriate cost of capital for this project. The company projects annual needs at 7,500 units per year for the 6 years period.

Advice the company whether it should continue buying from outside supplier, or start manufacturing on its own. Will your answer be different if the requirement of the company is only 6,000 units per year ?

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OR

The probability distributions of two projects' NPVs are given below :

Project – A		Project – Y	
NPV (₹)	Probability	NPV (₹)	Probability
5,000	0.2	0	0.1
7,500	0.7	7,500	0.7
10,000	0.1	15,000	0.2

Calculate the expected value, standard deviation and the coefficient of variation for each project. Which of these mutually exclusive projects do you prefer ? Why ?

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3. F.I. Ltd. has the following capital employed :

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Source of Funds	Book Values (₹ crore)	Market values (₹ crore)
Equity shares	60	260
Retained earnings	90	
Preference shares	14	12
Debentures	36	28

The firm paid dividend of ₹ 20 last year, which has been growing at 8%. The tax rate is 35%. Following further information is available in respect of various sources of capital :

Equity Shares : new shares can be issued at a price of ₹ 220 with a floatation cost of 4%.

Preference Shares : new preference shares can be issued at a price of ₹ 110 with 15% dividend and face value of ₹ 100. floatation cost 2%.

Debentures : New debentures can be issued with 12% interest rate, having face value of ₹ 100, at ₹ 95, to be redeemed after 15 years at par. Floatation cost 1.50%.

Find out WACC based on book values and market values.

OR

**AE-149**

April-2015

**IV Year, M.B.A., Sem.-VIII, Integrated.****Advanced Financial Management**

Time : 3 Hours]

[Max. Marks : 100

1. (a) 'Financial Management in simple words is managerial decision making on asset mix, capital mix and profit allocation'. Explain. **8**
- (b) A company is required to redeem its non-convertible debentures of ₹ 50 lakhs after six years from now. What amount should the company deposit in the sinking fund account for the purpose, every year if the interest rate available to the company is at 11 percent p.a., compounded annually ? **6**
- (c) What do you understand by Financial Forecasting ? Explain the steps required for the same. **6**

**OR**

- (a) What do you understand by financial system ? Explain major components of a financial system. **8**
- (b) X and Y are two stocks whose returns are governed by the state of the economy. There are five states of economy that can be identified and analysts estimate that the returns of X and Y under various economics conditions is as follows : **12**

Economic condition	Probability	Return (%)	
		Stock X	Stock Y
Boom	0.10	14	20
Recession	0.20	-5	-2
Normal	0.40	10	9
Recovery	0.10	9	14
Slow	0.20	12	18

Find the following :

- (a) The expected return of each stock
- (b) Standard deviation of each stock