Max. Marks: 75 Time: 2Hrs.30Min.

Instructions:

A. All questions are compulsory subject to internal choice.
B. Figures to the right indicate full marks.

Q. 1. A. State whether the following statements are true or false. **(Any 8)** [08]

1. Equity shares are medium term source of finance.
2. Financial management is restricted only upto raising of finance.
3. Cumulative debentures are a type of debentures.
4. Issue of debentures does not affect the control of the company.
5. Preference shares are costliest source of capital.
6. Creditors are short term source of finance.
7. Time value does not affect the price of bond.
8. Net present value method doesn't have any drawback.
9. Compounding factor is the present value of the money to be received in future.
10. Financial break-even point is where there is only profit no loss.

B. Choose the correct alternative. (Attempt any **Seven**) [07]

1. Present value of Rs. 13,310 to be received after three years at interest rate of 10% p.a. compounded annually will be Rs. __________.
   a. 10,000 b. 9,500
   c. 17715.61 d. 33,100

2. The Cost of 15% debentures, assuming tax rate to be 30% will be __________.
   a. 5% b. 10%
   c. 10.5% d. 15%

3. Following is an example of long term source of finance __________.
   a. Preference shares b. Debentures
   c. Bank loan d. All of the above

4. __________ are deposit made by one company with others.
   a. Public deposit b. Treasury bills
   c. Inter-Corporate deposits d. None of the above

5. Global depository receipts are tradable in __________.
   a. United States of America b. Europe
   c. Both of the above d. None of the above

6. The term net worth includes __________.
   a. Equity shares b. Preference shares
   c. Reserves and surplus d. All of the above

7. __________ are the owners of corporate entity.
   a. Shareholders b. Debenture holders
   c. Lenders d. Creditors

8. __________ is a method based on time value of money.
   a. Payback period b. Payback profitability
   c. Internal rate of return d. None of the above

9. __________ ratio indicates the relation of dividend paid with respect to the earnings.
   a. Dividend per share b. Dividend coverage ratio
   c. Dividend pay-out ratio d. Price earning ratio

10. The dividend irrelevance theory was given by __________.
   a. Gordon b. Walter
   c. Ojha d. Modigliani-Miller Approach

Q. 2. A. [15]

Finanza ltd. is considering three financial plans for funding its amusement park project which requires capital of Rs. 1,00,00,000. The financial proportion sorted by manager is as under:

Plan	Equity	10% Debt	13% Preference Share
A	80%	20%	-
B	60%	30%	10%
C	50%	25%	25%

Tax rate = 30%. Equity shares of the face value of Rs. 20 each will be issued at a premium of 50%. Expected EBIT is Rs. 15,00,000. As a senior manager you are required to advice the management of Finanza Ltd. regarding the best plan for the company based on earnings per share. The face value of debentures and preference shares is Rs 1000 and Rs 100 respectively.

OR

Q. 2. B. [15]

Company Kingston Ltd. requires finance for the project 'Juke'. The various combination of debt equity mix available are provided as follows - .

Debt as a percentage of Total Capital Employed	Cost of Debt (%) (After Tax)	Cost of Equity (%)
0	12	18
25	13	17
50	14	19
75	15	20
100	18	18

You are required to determine the OPTIMAL DEBT-EQUITY mix for the company.

Q. 3. A. [08]

Bhagyashree Ltd. is considering two projects, Jaipur Rugs and Jaipur Dairy, each of which requires an initial outlay of Rs. 500 lakhs.

The expected cash inflows from these projects are: (Rs. in lakhs)

Year	Jaipur Rugs	Jaipur Dairy
1	100	400
2	200	300
3	300	200
4	400	100

You are required to calculate:

a. Payback period.
b. Discounted payback period if the cost of capital is 14%.
c. Advise which project should be selected?

Q. 3. A. [07]

Red Ltd. issued 12% Debentures of Rs. 100 each. You are required to calculate the cost of debentures under each of the following situations:

a. The debentures are irredemable. Tax rate 25%
b. The debentures are redeemable at 5% premium after 8 years and issued at par. Tax rate 25%

OR

Q. 3. B. [15]

Prithvi Ltd. has to select between production one of two Bikes Model i.e. RX 100 or RX 135. The particulars of which are given below:

Particulars	RX 100	RX 135
Initial Outlay	Rs. 1,20,000	Rs. 1,10,000
Scrap Value at the end of useful life	Rs. 2,000	Rs. 3,000
Working Capital Required	Rs. 1,00,000	Rs. 90,000
Profit after tax but before depreciation (Rs.)		
Year 1	70,000	20,000
Year 2	50,000	40,000
Year 3	30,000	50,000
Year 4	1,20,000	40,000
Year 5	1,10,000	20,000
Year 6	-	10,000
Project life	5 years	6 years

Prithvi Ltd. can arrange funds @ 15% p.a

Compute:

Net Present Value and Average Rate of Return for both the models and comment on the same.

Q. 4. A [15]

Swati Ltd. has the following capital structures as on 31.03.2018:

Particulars	Rs.
Ordinary Share (FV Rs 10)	1,00,00,000
14% Preference Shares (FV Rs 100)	60,00,000
10% Term loan	90,00,000

The shares of the company are presently selling at Rs. 50 per share. It is expected that the company will pay next year dividend @ 40% per share which will grow @ 10% forever. The company pays tax rate @ 40% p.a . You are required to:

a. Compute the weighted average cost of capital based on the existing capital structure.
b. If the company raises an additional capital of Rs. 50 lakhs by issuing 12% Debentures only, the expected dividend at the year end will be Rs. 5 per share, however the market price of share will fall by 10% , the growth rate will remain unchanged. Calculate the new weighted average cost of capital.

OR

Q. 4. B. [08]

Calculate Economic Value Added from the following information relating to Axles Ltd.

Capital employed 2,000 crores

Debt equity ratio: 2:3

Cost of equity: 18%

Cost of Debt: 15% (Before Tax)

Tax rate: 50%

Return on capital employed: 25%

Q. 4. B. [07]

How much should an investor pay for the bond currently which has face value of Rs. 100 and coupon rate of 10% . The bond shall be maturing after 5 years with redemption par. The investor expects 12% rate of return.

Q. 5.

A. Briefly explain the debenture as source of finance. [08]

B. Critically evaluate IRR as method of evaluating capital projects. [07]

OR

Q. 5. C. Short Notes: Any **3**) [15]

1. Venture Capital
2. Cash Credit
3. Financial break-even point
4. Commercial papers
5. Objectives of financial management

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