

Max. Marks: 75

Time: 2Hrs.30Min.

Instructions:

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

Q1A. Match the Column (any 8)

(08)

A	B
1. Feasibility Study	a. Created in US Market
2. Sensitivity Analysis	b. Economic Surplus
3. Internal Funds	c. Natural Calamity
4. ADR	d. Vulnerability is tested
5. GDR	e. Diversification
6. EVA	f. Mergers and Acquisitions
7. Systematic Risk	g. Cost of Debt is less than Cost of equity
8. Unsystematic Risk	h. Business Plan
9. Strategic Decision	i. Self-Financing
10. Net Income Approach	j. Traded in multiple markets

Q1B. State whether following statements are true or false. (Any 7)

(07)

1. Business risks are associated with market fluctuations to a very great extent.
2. The Modigliani Miller Approach assumes dividend pay out to be 50%.
3. The offer for right shares is available to all the shareholders of the company.
4. In case of cash credit no new account is opened by the bank.
5. Government Bonds are risk free investments.
6. Mutual Funds returns are subject to market risk.
7. The IRR is computed using interpolation technique.
8. Profitability index is the extension of present value method.
9. The risk level of the security varies inversely between the range of its returns during the given period.
10. Low payout ratio at present increases the probability of accumulated profits for future distribution in form of bonus shares.

Q2A. Angad Ltd is considering to import two machines named Sun and Moon for diversification, you as project manager are required to choose the best alternative based on following criteria's (15)

1. Net Present Value
2. Profitability Index
3. Pay Back Period

The initial cash flow for Sun is Rs 10,00,000 while for Moon it is higher by 50%. However Moon Ltd generates even cash flows of Rs 250000 for period of 6 years with no salvage value. On other hand Sun ltd expects the cash flow to increase by 10% each year from the previous one. The cash flow in year one shall be Rs 2,00,000. The life of project is 7 years with zero salvage value. Depreciation admissible by law is @ 10% p.a. on SLM basis and both the companies fall under 25% tax bracket. The company's cost capital is 15% p.a.

Note: The cash flows are before tax and depreciation.

**OR**

Q2B. You are asked to evaluate the following investment for Suraj Ltd based on NPV and Discounted Pay Back Criteria. (15)

Initial Cash Outlay ( Original Cost of Equipment)	Rs 100 Lakhs
Working Capital Required	Rs 25 Lakhs
Depreciation	20% on Original Cost
Salvage	10% of Original Cost
Life	A decade
Expected Sales	Rs 45 Lakhs p.a.
P/V ratio	50%
Tax Rate	30%
Fixed Overheads ( Excluding Depreciation)	10,00,000
Discounting Factor	15%

Q3A. Manju Ltd has the following capital structure as on 31<sup>st</sup> March 2018, (15)

Particulars	Amount ( in Rs)
12% Non-Participating Preference Share Capital (FV 100)	10,00,000
Equity Share Capital ( FV 10)	15,00,000
Retained Earnings	5,00,000
15% Secured Debentures (FV 1000)	20,00,000
<b>Total Capital Employed</b>	<b>50,00,000</b>

You are required to calculate weighted average cost of capital based on following information –

- The tax rate of company is 25% p.a
- The equity shares can be sold in the market at 20% premium. The company expects 10% growth with current dividend being 20% p.a.
- Assume cost of retained earnings equate cost of equity.

**OR**

Q3B. i) Calculate the cost of redeemable 12% debentures with face value Rs 1000. The debentures are sold at par with 2% flotation cost and 10 years maturity period. The tax rate is 25%. (03)

ii) The DPS of the share is 50% of EPS which amounts to Rs 50 per share for the year 2018-19. The shares are being traded at 100% premium ( FV Rs 1000 per share). The expected growth rate is 12%. You are required to calculate cost of equity using EPS Approach. (03)

iii) Calculate WACC from the following capital structure (04)

Particulars	Amount ( Rs)	After Tax Cost of Capital
Equity Share Capital	50,00,000	17%
9% Preference Share Capital	30,00,000	9%
15% Debenture Capital	20,00,000	11.25%

Q3C. An investor has invested Rs 15,00,000 in Fixed Deposit for 4 years at 8.5% p.a. with annual compounding. You are required to calculate the maturity amount. (05)

Q4A. Suraj Ltd. has Equity Share Capital of Rs 15,00,000 divided into shares of Rs 100 each. It wishes to raise further Rs 9,00,000 for expansion – cum- moderation scheme. (15)  
The Company plans the following financing alternatives:

- (i) By issuing Equity shares only.
- (ii) Rs 3,00,000 by issuing Equity shares and Rs 6,00,000 through Term Loan @ 10% per annum.
- (iii) By raising Term Loan only at 10% per annum.
- (iv) Rs 3,00,000 by issuing Equity shares and Rs 6,00,000 by issuing 8% preferences shares.

You are required to suggest the best alternative giving your comments assuming that the estimated operating profit after expansion is Rs 4,50,000 and corporate tax rate is 25%.

**OR**

Q4B. The following information pertains to Meena Ltd. (08)

Total Earnings	Rs. 30,00,000
Dividend Pay-out ratio	40%
No. of Shares outstanding	1,50,000
P/E Ratio	8 Times
Rate of Return on investment	18%

- (i) What should be the market value per share as per Walter’s Model?
- (ii) What is the optimum dividend pay out ratio as per Walter’s Model?
- (iii) What will be the market value per share at optimum pay-out ratio as per Walter’s Model?

Q4C. Calculate EVA from the following information furnished by Kadam & Sons (07)

EBIT	35% of Capital Employed
TAX	25%
Capital Employed	100 lakhs
Debt Equity Ratio	1: 3
Cost of Debt (After Tax)	9%
Cost of Equity	12%

Q5A. Discuss the need and importance of corporate finance. (08)

B. Distinguish between Lease Financing and Hire Purchase System. (07)

**OR**

Q5 Write short notes ( any 3) (15)

- 1. Gordon Model
- 2. Bill Discounting
- 3. Financial Break Even Point
- 4. IRR model
- 5. Time Value of Money

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