**(3 Hours)** **[Total Marks: 60]**

**Instructions-**

1. Answer question No 1 which is compulsory carries 20 marks.
2. Answer any FOUR from the rest all carry 10 Marks.
3. Presentation should be neat and clean
4. All the sub questions of the main questions should be attempted together

1. Answer both the sub part

(a) The balance sheet of Veena Enterprise is as follows:

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Equity share capital | 60,000 | Fixed assets | 1,50,000 |
| Retained Earnings | 20,000 | Current Assets | 50,000 |
| 10% Long term debt | 80,000 | | |
| Current liability | 40,000 | | |
| | 2,00,000 | | 2,00,000 |

The company's total assets turnover ratio is 3, its fixed operating cost are Rs 1,00,000 and its variable operating cost ratio is 40%. The income tax rate is 30%. Calculate for the company the different types of leverages given that the face value of the share is Rs 10.

(b) Agile Ltd belongs to a risk class of which the appropriate capitalization rate is 10%. It currently has 1, 00,000 shares selling at Rs 100 each. The firm is contemplating declaration of a dividend of Rs 6 per share at the end of the current fiscal year which has just begun. Answer the following questions based on Modigliani and Miller Model and assumptions of no tax.

(i) What will be the price of the shares at the end of the year if a dividend is not declared?
(ii) What will be the price if dividend is declared?
(iii) Assuming that the firm pays dividend, has net income of Rs 10 lakh and make new investment of Rs 20 lakh during the period, how many new shares must be issued?

2. Answer any two

(a) MN Ltd is planning an expansion program which will require Rs 30 crores and can be funded through one of the three following options:

(a) Issue further equity share of Rs100 each at par.
(b) Raise loan at 15% interest
(c ) Issue preference share at 12%

Present paid up capital is Rs 60 crores and average annual EBIT is Rs 12 crores. Assumed income tax rate is 50%. After the expansion, EBIT is expected to be Rs 15 crores per annum. Calculate EPS under the three financing plan.

(b) Calculate EVA from the following data:

| **Particulars** | |
|---|---|
| Average Debt | Rs 50 crores |
| Average Equity | Rs 2766 crores |
| Cost of Debt | 7.72% |
| Cost of Equity | 16.7% |
| Weighted Average cost of capital | 16.54% |
| Profit after taxes but before exceptional items | 15.41 crores |
| Interest after taxes | 5 Crores |

(c) Explain the role of merchant banker in the public issue management?

3. Answer any one

(a) What kind of long term financing options are available to finance a project? Explain.

(b) What is venture capital financing? What are the methods of venture capital financing?

4. Answer any two

(a) Modern Industries Ltd. is engaged in textiles business. Its income statement and balance sheet is given below:

(I) Income Statement for the current year ended

| Particulars | (Rs.Lakhs) |
|---|---|
| Sales revenue | 12,000 |
| Less : Cost of Production | 9,000 |
| EBIT | 3000 |
| Less : Interest on Loan | 20 |
| EBT | 2980 |
| Less: Tax @ 30% | 894 |
| Earnings after tax | 2086 |

(II) Balance Sheet as on end of the current year-

| Liabilities | (Rs.Lakhs) | Assets | (Rs.Lakhs) |
|---|---|---|---|
| Equity Share Capital (Rs.10 each ) | 400 | Land & Building | 200 |

| | | | |
|---|---|---|---|
| | | Plant & Machinery | 400 |
| Reserve & Surplus | 300 | Debtors | 200 |
| 10% Bank loan | 200 | Stock | 150 |
| Creditors | 100 | Cash & Bank | 50 |
| | 1000 | | 1000 |

The Company's weighted average Cost of Capital is 12%.
The Company is listed on BSE and has a P/E Ratio of 6 times.
You are required to calculate (a) Value of the firm (b) EVA (c) MVA

(b) On the basis of 30% growth rate, the sales turnover for next year has been estimated to be Rs 1560 lakhs. As per the practice, the fixed assets and the spontaneous liabilities of the company are expected to increase proportionately with the increase in sales turnover. The fixed assets are two-thirds of total assets and the current assets are financed by spontaneous liabilities to the extent of 40%. The annual report of the current year indicates that the company maintained a Total Assets turnover ratio of 1.6 and recorded a net profit margin of 8% while retained 40% of its total earnings. How much amount of external fund should be required by the company in order to achieve the targeted growth rate?

(c) What are the differences between forward and future contracts?

5. Answer any two

(a) A new project under consideration requires a capital outlay of Rs 300 lakhs. The required funds can be raised either fully by equity shares of Rs 100 each or by equity share of value of Rs 200 lakhs and by loan of Rs 100 lakh at 15% interest. Assuming a tax rate of 50%, calculate the figures of profit before interest and tax that would keep the equity investors indifferent to the two options. Verify your answer by calculating EPS.

(b) The following information is available in respect of a company:

Capitalization arte ( $K_e$) = 0.12
EPS = Rs.15
Rate of return on investments (r): (i) 0.15 (ii) 0.10

The company wants to know the effect on the market price of its shares under the two possibilities of r (i.e.0.15 and 0.10) under two options: (i) if it does not declare any dividend and (ii) if it declares Rs.15 as dividend Using Walter's model

(c) Explain the Balance sheet approach to firm valuation.

6. Answer any two

(a) A firm has sales of Rs 20,00,000, variable cost of Rs 14,00,000 and fixed cost of Rs 4,00,000 and debt of Rs 10,00,000 at 10% rate of interest. What are the operating, financial and combined leverages? If the firm wants to be double its earnings before interest and tax (EBIT), how much of a rise in sales would be needed on a percentage basis?

**Turn Over**

(b) What is financial system? Explain the structure of financial system in India in detail.

(c) Briefly discuss the provision of companies act on Revival of Sick Companies.

7. Short Notes- (Any Two)

a) MM Approach of capital structure
b) Credit rating methodology for financial instruments
c) Rational of disinvestment in public sector enterprise

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