Instructions:

a. Question number one is compulsory;
b. Answer any four questions from question number two to seven
c. Start writing each question on a fresh page
d. Figures to the right indicates marks

Q1 (a) The Balance Sheet of Amboli Aluminum Company Limited (AACL) on March 31, 2017 is given below:

Liabilities	Rs.	Assets	Rs.
Share Capital	350000	Fixed	950000
Reserves & Surplus	700000	Inventories	350000
Term Loans	200000	Trade Receivables	250000
Bank Loan (Short Term)	150000	Cash	270000
Trade Payables	370000		
Provisions	50000		
Total Rs.	1820000	*Total Rs.*	1820000

The sales of AACL for the year ended March 31, 2017 were Rs. 40,00,000. The company's net profit margin is five per cent and its dividend payout ratio is 45 per cent. The company expects its sales to increase by ten per cent in the year ending 2018. The ratio of assets to sales and spontaneous current liabilities to sales would remain unchanged.

Required Prepare projected balance sheet of Amboli Aluminum Company Limited for the year ended March 31, 2018, assuming that the external funds requirements, if any, would be raised entirely from term loans. .... (10)

(b) Boisar Blueberries Limited and Bhiwandi Blackcurrant Limited are companies engaged in food processing business and are identical in every respect except that Boisar Blueberries Limited is not levered, while Bhiwandi Blackcurrant Limited has Rs. 30,00,000 in nine per cent bonds outstanding. There are no taxes, dividend payout ratio is 100 per cent, and capital markets are assumed to be perfect. The valuation of the two firms is the following:

Particulars	Boisar Blueberries	Bhiwandi Blackcurrant
Net operating income	25,00,000	25,00,000
Interest on debt	0	2,70,000
Equity-holders' earnings	25,00,000	22,30,000
Required equity rate	0.135	0.14
Market value of stock	1,85,18,519	1,59,28,571
Market value of debt	0	30,00,000
Total value of firm	1,85,18,519	1,89,28,571

Required Assuming that you own ten per cent of Bhiwandi Blackcurrant Limited stock. Show the process and the amount by which you could reduce your outlay using arbitrage. .... (10)

Q2 Answer and two of the three sub-questions:

(a) Cumballa Cake Company (CCC) presently has 200,000 equity shares outstanding and currently has Rs. 20,00,000 of bonds outstanding with annual interest of 10.50 per cent. The company's effective tax rate is 32 per cent. Cumballa Cake Company (CCC) needs to raise Rs. 40,00,000. The following three options are available: (a) issue equity shares at Rs. 100 each; (b) issue new debt at 11.50 per cent per annum; or (c) issue preference shares carrying fixed dividend rate of 12.50 per cent.

Required Which should they choose if they expect EBIT to be Rs. 25,00,000 for the upcoming year if the objective is to maximise earning per share?.... (5)

(b) DEOLALI DRUMS COMPANY LIMITED (DDCL) is engaged in the business of manufacturing musical instruments. At present, the company's earnings per share (EPS) are Rs. 115 and its retention ratio is 20 per cent. The company's return on investment is 10 per cent and its cost of capital is 10.50 per cent.

Required According to Walter's Model what is the expected price of the company's equity share?.. (5)

(c) Explain the role played by the National Bank for Agricultural and Rural Development (NABARD) in the financial system. .... (5)

Q3 Answer and two of the three sub-questions:

(a) Elphinstone Electronics Enterprises (EEE) has reported a net operating profit after taxes (NOPAT) of Rs. 2,100,000; its weighted average cost of capital (WACC) is 14.20 per cent, and has an invested capital of Rs. 1,800,000. The market price of the firm's stock is Rs. 25 per share, and EEE has 32,000 shares outstanding. The market value of the company's long-term debt is Rs. 10,00,000.

Required Calculate EEE's economic value added (EVA) and market value added (MVA).. (5)

(b) Ferozepur Fasteners Company's total sales during the year 2016-17 was Rs. 4,80,000; variable costs were 65 per cent of sales and the fixed costs were Rs. 75,000. The total capital of the company is Rs. 10,00,000. The company's capital structure comprises of equity, preference and debentures in the ratio of 4:1:5. The interest rate on debentures is 11.50 per cent and preference shareholders are entitled to a dividend at the rate of 13.50 per cent. The tax rate applicable to the company is 30 per cent.

Required What is the company's degree of combined leverage?................ (5)

(c) Write a note on different types of projects.. (5)

Q4 Answer and two of the three sub-questions:

(a) Girgaon Galactic Limited is currently an unlevered firm. The company expects to generate Rs. 250 crores in earnings before interest and taxes (EBIT), in perpetuity. The corporate tax rate is 32 per cent. All earnings after tax are paid out as dividends. The firm is considering a capital restructuring to allow Rs.400 crores of debt; the interest rate on debt is 9.50 percent. Unlevered firms in the same industry have a cost of equity capital of 14.50 per cent. **Required** Find Girgaon Galactic Limited's new value assuming the assumptions of Modigliani-Miller hypothesis are satisfied? .... (5)

(b) Hoshiyarpur Helmet Corporation's bonds are presently trading in the secondary market for Rs. 1130. The face value of the bond is Rs. 1000; it pays coupon on nine per cent per annum; and it will mature at the end of the fourth year. **Required** Calculate the yield-to-maturity (YTM) of the bond.. (5)

(c) Explain the features of a futures contract. .... (5)

Q5 Answer and two of the three sub-questions:

(a) Indapur Enterprises is a company engaged in the business of fabrication of shutters. An investment bank believes that, the company is a likely candidate for merger and wishes to estimate its share price in the event of a merger. The investment bank has collected information of two comparable companies: Imphal Limited and Indore Limited. The following table summarizes the information:

Particulars	Imphal	Indore	Indapur
Stock Price (Rs.)	27.00	42.00	?
Earnings per Share (Rs.)	3.50	4.50	2.25

Required Estimate Indapur Enterprises' current value per share using comparable companies approach. .... (5)

(b) Jalgaon Jejube Limited's market capitalisation is Rs. 5 crores. The market price per share is Rs. 20. Its earnings per share is Rs.10 and the cost of capital is 15 per cent. The company is confronted with an investment opportunity which requires an initial investment of Rs. Two crores. The company's board of directors is considering whether to pay dividends to its shareholders and fund the project by issuing fresh equity shares, or not to pay any dividends and fund the project from internal resources.
According to Modigliani-Miller hypothesis what would be expected market value of the company if: (a) the company pays its entire profits as dividends and issues new share to fund the project; and (b) does not to pay any dividend and funds the project from internal resources.. (5)

(c) Explain the process of raising of capital through private placement of securities. .... (5)

Q6 Answer and two of the three sub-questions:

(a) Discuss the causes of industrial sickness. .... (5)

(b) Describe the symptoms of industrial sickness. .... (5)

(c) Explain the factors affecting capital structure of a company. .... (5)

Q7 Write short notes on any two of the following:

(a) Credit rating .... (5)

(b) Proprietary audit .... (5)

(c) Stages of industrial sickness .... (5)

(d) Currency swaps.. (5)

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