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K-3546

Third Year B. B. A. (Sem. VI) Examination

September / October – 2012

Advanced Financial Management

Time : Hours] [Total Marks : 70

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :
☛ T. Y. B. B. A. (Sem. 6)

Name of the Subject :
☛ Advanced Financial Management

☛ Subject Code No. : 3 5 4 6 ☛ Section No. (1, 2,.....) : NIL

Seat No. :

Student's Signature

(2) All questions are compulsory.

1 Yashvi Limited wishes to raise additional finance of Rs. 1,500,000/- for meeting its investment plant. It was Rs. 300,000/- in the form of retained earnings available for investment purposes. The following are the further details : 14

Debt	35%
Equity	40%
Preference Share	25%
Cost of Debt up to Rs. 180,000	12% (before tax)
beyond Rs. 180,000	15% (before tax)
EPS	Rs. 5/- per share
Dividend payout	50% of earnings
Expected growth rate in dividend	13%
Current market price per share	Rs. 63/-
Flotation cost for issuing new equity	Rs. 4
Tax rate	33%

You are required to calculate :

(i) To determine the pattern for rising the additional finance, at the level of existing capital structure.

(ii) To determine the cost tax, average cost of additional debt.

(iii) Cost of Preference, if 15% preference share, having a face value of Rs. 100/-, can be sold at premium of 10%. An underwriting fee of Rs. 2/- per share is to be paid to the underwriters.

(iv) To determine the cost of retained earning and cost of equity.

(v) Compute the overall WACC after tax cost of additional finance.

2 (a) Sweet Corn company has Net Operating Income is Rs. 500,000/-. Company has Rs. 1,000,000 outstanding debt @ 10% and overall capitalization rate is 12.5%. What would be the value of firm and equity capitalization rate ? Assume no. of equity share is 20,000. 7

- If debt is increase from Rs. 1,000,000/- to Rs. 1,300,000/-. What happen in equity capitalization rate.
- If debt is decrease from Rs. 1,000,000/- to Rs. 700,000/-. What happen in equity capitalization rate.

OR

(a) Define capital structure. What should generally be the features of an appropriate capital structure ? 7

(b) The EPS of a company is Rs. 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%. If Walter's model is used : 7

(i) What should be the optimum payout ratio ?

(ii) What would be the price of the share at this payout ?

(iii) How shall the price of the share be affected if 20% payout were employed.

OR

(b) "Payment of dividend involves legal as well as financial consideration" – examine. 7

3 A firm has an investment proposal, requiring an outlay of Rs. 40,000/-. The investment proposal is expected to have 2 year's economic life with no salvage value. In year 1, there is 0.4 probability that cash inflow after tax will be Rs. 25,000 and 0.6 probability that cash flow after tax will be Rs. 30,000/-. The probabilities assigned to cash inflows after tax for the year II are as follows : 14

The cash flow year I	Rs. 25,000	Rs. 30,000
The cash flow year II	Rs. 12,000 (0.2)	Rs. 20,000 (0.4)
	Rs. 16,000 (0.3)	Rs. 25,000 (0.5)
	Rs. 22,000 (0.5)	Rs. 30,000 (0.1)

The firm uses a 10% discount rate for this types of investment.

You are required to calculate :

(i) Construct a decision tree for the proposed investment project.

(ii) What net present value will the project yield if worst outcome is released ? What is the probability of occurrence of this NPV ?

(iii) What will be the best and the probability of that occurrence ?

(iv) Will the project be accepted ?

OR

3 Santram Ltd. is considering to diversify into a new line of business by acquiring a running firm by paying Rs. 20,00,000/- cash. The finance department of the firm has prepared the following report in support of the proposal. **14**

Annual Projection

Particulars	Amount (Rs.)
Sales	18,00,000/-
Variable Cost (66.67%)	12,00,000/-
Contribution	6,00,000/-
Less : Fixed Cost	1,00,000/-
Less : Depreciation	2,00,000/-
Profit Before tax	3,00,000/-
Less : Tax	1,00,000/-
Profit After Tax	2,00,000/-
Cash Flow (PAT + Dep.)	4,00,000/-
$PVIFA_{(12\%,10)}$	5.650
PV of Annual Cash Flows	22,60,000/-
Cash Outflow	22,00,000/-
Net Present Value (NPV)	2,60,000/-

However, as a Managing Director, you feel that the profit of the project may vary widely as the variables contributing to NPV are sensitive. For this purpose, the Sales, Variable Cost, Fixed Cost and Initial Investment have been pointed out as sensitive. Under the Optimistic, Pessimistic and Expected situations, these variables may take the following values.

	Optimistic	Expected	Pessimistic
Investment	Rs. 18,00,000/-	Rs. 20,00,000/-	Rs. 24,00,000/-
Sales	Rs. 21,00,000/-	Rs. 18,00,000/-	Rs. 15,00,000/-
Fixed Cost	Rs. 80,000/-	Rs. 1,00,000/-	Rs. 1,30,000/-
Variable Cost	65%	66.67%	70%

Analysis the sensitivity of these variables vis-a-vis the NPV of the proposal.

4 Write any **four** from the followings : 28

(a) Consider a Rs. 1,000/- par value bond whose current market price is Rs. 850/-. The bond carries a coupon rate of 8% and has a maturity period of 9 years. What would be the rate of return that an investor earns if he purchases the bond and holds till maturity ?

(b) What are the major similarities and major differences between lease and hire purchasing ? In what circumstances may leasing be most attractive ?

(c) Write a note on venture capital in India.

(d) Explain term 'Merger' and it's various forms.

(e) Write a note on MPBF.