

- (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 7
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.
- 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 7
the features of an appropriate capital structure ?
- (b) The EPS of a company is Rs. 10. It has an internal 7
rate of return of 15% and the capitalization rate of its
risk class is 12.5%. If Walter's model is used :
- (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 7
financial consideration" – examine.

- 3 A firm has an investment proposal, requiring an outlay 14
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 :

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.