



UA-3546

Third Year B. B. A. (Sem. VI) Examination
March/April – 2012
Advanced Financial Management

Time : Hours]

[Total Marks : 70

Instructions :

(1)

नीचे दृष्टावेक निशानीवाणी विगतो उतरवडी पर अवश्य लपवी.
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 Warmex company is interested in measuring its cost of 14 specific types of capital, as well as its overall cost. The finance department of Warmex company indicates that the following cost would be associated with the sales of debenture, preference shares and equity shares. The corporate tax is 35%.

Debenture : The company can sell 15 year 16% debentures of the face value of Rs. 1000, for Rs. 975. In addition, an underwriting fees of 2.5%. The face value would be incurred in this process.

Preference shares : 20% pref. shares, having a face value of Rs. 100/-, can be sold at premium of 15%. An underwriting fee of Rs. 5/- per share is to be paid to the underwriters.

Equity Capital : The companies equity shares are currently selling for Rs. 150/- per share the firm expects to pay Rs. 26.57/- per share at the end of coming year, its dividend payment over the past 6 years per share are given below.

Year	Dividend(Rs.)	Year	Dividend(Rs.)
1	15	4	19.97
2	16.5	5	21.96
3	18.15	6	24.16

It is expected that the new equity share can be sold at Rs. 140/- per share. The company must also pay Rs. 5/- per share as underwriting fees. Market value and book value of each type of capital are as follows :

	<i>Book Value(Rs.)</i>	<i>Market Value(Rs.)</i>
<i>Long – term loan</i>	18,00,000/-	19,30,000/-
<i>Pref. capital</i>	4,50,000/-	5,20,000/-
<i>Equity shares</i>	60,00,000/-	
<i>Retained earnings</i>	15,00,000/-	1,00,00,000/-
<i>Total</i>	97,50,000/-	1,24,50,000/-

- (1) Calculate cost of capital of each sources of finance.
(2) Determined the WACC by book value and market value.
- 2** (a) From the following data determine the value of **07**
Kuber & Mohan belonging to homogeneous risk class :

<i>Particular</i>	<i>Levered Firm 'Kuber'</i>	<i>Unlevered Firm 'Mohan'</i>
<i>EBIT</i>	200,000	200,000
<i>Interest rate @10%</i>	250,000	
<i>Equity Capitalization Rate</i>	17%	17%
<i>Corporate Tax Rate</i>	35%	35%

Calculate the value of firm according to the NI & NOI approach.

OR

- (a) Give a critical appraisal of the M-M approach to the **07**
problem of capital structure.
- 2** (b) The glorious company belongs to a risk class of **07**
which the appropriate capitalization rate is 10%. It currently has 100,000/- share selling at 100 each. The firm is contemplating the declaration of Rs. 6 dividend at the end of the current fiscal year, which has just begun. Answer the following questions based on M-M model and the assumptions of no taxes.
- (a) What will be the price of the shares at the end of the year, if a dividend is not declared ? What will be it be if it is declared ?

- (b) Assume that the firm pays dividend, has a net income of Rs. 1,000,000/- and makes new investment of Rs. 2,000,000/- during the period, how many new share must be issued ? What is the value of firm ?

OR

- (b) What do you mean by stable dividend policy ? **07**
Explain the significance of stable dividend policy.

- 3** The delta corporation is considering an investment in **14**
one of the two mutually exclusive proposals : Project A which involves initial outlay of Rs. 170,000/- and Project B which has an outlay of Rs. 150,000/-. The CE approach is employed in evaluating risky investments. The current yield on T-Bills is 5% and the company uses this as the riskless rate. The expected values of net cash flows with their respective CE are :

<i>Year</i>	<i>Project A</i>		<i>Project B</i>	
	<i>Cash Flow(Rs.)</i>	<i>CE</i>	<i>Cash Flow(Rs.)</i>	<i>CE</i>
1	90,000	0.8	90,000	0.9
2	100,000	0.7	90,000	0.8
3	110,000	0.5	100,000	0.6

- (1) Which project should be accepted to the company ?
- (2) Which project is riskier ? How do you know ?
- (3) If the company was to use the RAD rate method, which project would be analyzed with higher rate ?

OR

- 3** (1) "Risk analysis is an essential feature of investment **14**
decision making proces". What are the major risk factors and how will you control them ?
- (2) A project involves on outlay of Rs. 100,000/-. Its expected cash inflow at the end of year 1 is Rs. 40,000/-. Thereafter it decreases every year by Rs. 2,000/-. It has an economic life of 6 years. The certainty equivalent factor is $\alpha_t = 1 - 0.05t$. Calculate the net present value of the project if the risk free rate of return of 10%.

- 4 Write any four from the followings : 28
- (a) What do you mean by valuation ? Explain the importance of valuation.
 - (b) What do you understand by Hire purchase ? Is there any difference between leasing and hire purchase ?
 - (c) Venture capitalists assume high degree of risk-illustrate.
 - (d) Explain the important steps for decision strategy for a merger.
 - (e) What do you mean by forex rate ? Discuss the factors affecting the forex rates.
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