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T. Y. B. B. A. (NEP) (Sem. - V) Examination October - 2025

Advanced Financial Management

Time: 2 Hours] **[Total Marks: 50**

સૂચના : / Instructions

(1) ઉપરોક્ત દર્શાવેલ વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fill up strictly the above details on your answer book.

Seat No.:

Student's Signature

Q. 1. Answer the following questions in short; (ANY FIVE) **(10)**

1. List out any two assumptions of NOI method of capital structure.
2. Why capital structure is important?
3. What is stable dividend policy?
4. Explain importance of valuation.
5. 10%, Rs. 1000 bond will pay Rs. 100 annual interest into perpetuity. What would be the value of bond if the required rate of return were 15%?
6. What is Weighted Average Cost of Capital?
7. What is Constant Growth Model of Value of Equity? Give formula.

Q. 2. Kolkata Ltd. wishes to determine the weighted average cost of capital for evaluating capital budgeting proposal from the following information. Following is capital Structure of company **(14)**

Source of Capital	Book Value (₹)	Issue Details
Equity Share Capital	30,00,000	FV ₹ 100, Market Price ₹ 150, Flotation Cost ₹ 10, Expected Dividend for Next Year = ₹ 18, Growth (g) = 6%
Retained Earnings	5,00,000	
12% Preference Shares	10,00,000	FV ₹ 100, Issued at ₹ 90
10% Debentures	15,00,000	FV ₹ 100, Issued at ₹ 95, Redeemable at par after 5 years

If corporate tax rate = 30%

OR

Q. 2. a. Panjab Ltd. has the following capital structure as per the balance sheet on 31st March 2025. **(07)**

Particular	Rs. In Lakhs
Equity share capital (Fully paid share of Rs. 10 each)	8
16% Preference share capital (Fully paid of Rs. 100 each)	6
Retained earning	2
12% Debenture (Fully paid of Rs. 100 each)	16

Additional Information:

1) The current market price of the company's equity share is Rs. 70. The dividend expected on the equity share at the end of the year is at 70% which is expected to grow @ 5% p.a. forever.
2) The preference shares of the company which are redeemable after 10 years are currently selling at Rs. 80 per preference share.
3) The debenture of the company which are redeemable after 5 years are currently quoted at Rs. 85 per debenture.
4) Corporate tax rate is 30%.

Calculate Cost of Equity, Cost of debenture, cost of Preference share and Cost of Retained earnings.

b. It is expected that Biyash's dividend will grow by 8% for initial 2 years, 11% for next 3 years then after and 13% forever. Biyash paid dividend of Rs. 7 last year. What will be amount that an investor would like to pay if he expects 19% required return from equity share? **(07)**

Q. 3. a. Two firms X and Y Ltd. belong to homogeneous risk class. From the following particulars, determine the value of firms under (1) NI approach (2) NOI approach: **(07)**

Particular	X Ltd	Y Ltd.
Total assets	30,00,000	30,00,000
Return On Assets	20%	20%
15% Debenture	Rs. 10,00,000	--
Equity capitalisation rate	20%	20%
Corporate Tax rate	50%	

b. The following information is supplied to you about a company Kaveri Ltd: **(07)**

Earnings of company Rs. 1500000
Dividends paid Rs. 500000
No. of issued shares 100000
Price earnings ratio 10
Rate of return on investment 15%

(i) Determine theoretical market price of share.
(ii) Are you satisfied with current dividend policy of firm? If not, what should be the optimal dividend pay-out ratio in this case?

OR

Q. 3. a. Narmada company has 1000000 equity shares outstanding at beginning of accounting year 2025. The current market price per share is Rs. 150. The board of directors of company contemplates declaring Rs. 8 as dividend at the end of current year. The rate of capitalisation appropriate to the risk class to which the company belongs is 12%. **(07)**

(i) MM approach , calculate market price per share of company where contemplated dividend is declared and not declared.
(ii) How many shares are to be issued by the company at the end of the accounting year on assumption that net income of year is 2 crores? Investment budget is Rs. 4 crores and the above dividends are distributed and they are not distributed

b. Vishwamitri Ltd. expects a net operating income of Rs. 1,00,000. It has Rs. 5,00,000, 6% debentures. The overall capitalisation rate is 10%. Calculate the value of the firm and the equity capitalisation rate according to Net Operating Income approach. If the debt is increased to Rs. 7,50,000, what will be the effect on the value of the firm and the equity capitalisation rate?

Q. 4. Write short notes on ANY THREE: (12)

1. Traditional approach of Capital Structure
2. Importance of Cost of Capital
3. Equity valuation
4. Factors affecting Dividend Policy
5. Stable Dividend Policy