



SB-1390
Third Year B.B.A. Examination
March/April – 2011
Advanced Financial Management

Time : 3 Hours]

[Total Marks : 70

Instructions :

(1)

<p>नीचे दर्शाविए निशानीवाणी विगतो उत्तरवडी पर अवश्य लखवी. Fillup strictly the details of signs on your answer book.</p> <p>Name of the Examination : T. Y. B.B.A.</p> <p>Name of the Subject : Advanced Financial Management</p> <p>Subject Code No. : 1 3 9 0 Section No. (1, 2,.....): NIL</p>	<p>Seat No. : □ □ □ □ □ □</p> <div style="border: 1px solid black; border-radius: 15px; padding: 10px; text-align: center; width: 100%;">Student's Signature</div>
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- (2) Question one is compulsory.
(3) All questions carry equal marks.

1 Following details are available about Patel Chemical Ltd. 14
Rs.

Equity Share Capital (Each Share of Rs. 10)	10,00,000
11% Preference Share Capital (Each Share of Rs. 100)	2,00,000
Reserves and Surpluses	18,00,000
15% debenture (Each Debenture of Rs. 100)	20,00,000

On Equity shares, the next year's expected rate of dividend is 20%. The growth rate of the earnings of the company is 10%. The average current market price of equity share is Rs. 25. Assume that the cost of retained earnings is 3% less than the cost of Equity capital. The current market prices of preference share and debenture are Rs. 60 and Rs. 69 respectively. The tax rate applicable to the company is 60%.

Ascertain the average cost of capital of the company on the basis of the following :

- (i) Book Value weights
(ii) Market Value weights

- 2 (a) There is strong view prevalent among financial expert 7
that the irrelevant hypothesis underlying the MM theory
of dividend distribution is out-dated and unsuited to
present conditions. Do you agree with this view ? Discuss.
- (b) Two Firms V and D are identical in all respects except 7
that D has Rs. 5,00,000 debt outstanding at a 6% rate of
interest. The values of the two :

	V (Rs.)	D (Rs.)
Net Operating Income (EBIT)	1,50,000	1,50,000
Interest on Debt	-----	30,000
Net Income available to Equity Shareholders (NI)	1,50,000	1,20,000
Rate of equity share capitalization	10%	15%
Market Value of equity share (S)	15,00,000	8,00,000
Market Value of Debenture (B)	---	500,000
Overall Value of the Company (V)	12,00,000	13,00,000
Overall Cost of Capital	10%	11.54%

An Investor holds 10% equity share of V. How can s/he obtain
same return at a lower cost ?

OR

- 2 (a) Consider two firms L and U, which are identical except that 7
L is levered while U is unlevered. Let V_L and V_U stand
respectively, for the market value of Land U, in a perfect
market would one expect V_U to be Greater than, Less than
or equal to V_L ? Explain.
- (b) Determine the market value of equity shares of the 7
company from the following information.

Earning of the company	Rs. 5,00,000
Dividend paid	Rs. 3,00,000
Number of share outstanding	Rs. 1,00,000
Price-Earnings ratio	8
Rate of Return on Investment	15%

Are you satisfied with the current dividend policy of the
firm ? Using Walter's model calculate optimum dividend
payout ratio.

- 3 (a) A company has examined two mutually exclusive investment proposals. The management of the company uses certainty equivalent to evaluate new investment proposal from the following information available to this project. Advise the company as to which project should be taken up. The firm's risk free return is 6%. 7

Year	Proposal A		Proposal B	
	CFAT	C.E.Factor	CFAT	C.E.Factor
0	(25,000)	1	(25,000)	1
1	15,000	0.8	9,000	0.9
2	15,000	0.7	18,000	0.8
3	15,000	0.6	12,000	0.7
4	15,000	0.5	16,000	0.4

- (b) Write a note on Sensitivity Analysis. 7

OR

- (b) Explain the Risk Measurement Techniques. 7

- 5 Write any **Four** from the following : 28

- (a) What are credible reasons as well as the confusing reasons for leasing ?
- (b) Explain the term : Leveraged Buy-outs, Divestitures.
- (c) Indicate why leasing has become a popular method of securing the use of equipment and property in recent year.
- (d) Mr. X has a purchase bond with the face value of Rs. 1,000 redeemable after 15 years. He receives an interest of Rs. 100 annually. Its current value is Rs. 1,333.33. What is the Yield to Maturity ?
- (e) Explain the term : Private Placement and Public Issue.
- (f) What do you mean by Forex Rate ? How it is useful for managing the risk under uncertainty for MNCs.