Universiry paper - 2014

Advanced Financial Management

QP Code : 17559

(3 Hours) **[Total Marks : 60**

N.B. : (1) Question No.**1** is **compulsory**.
(2) Attempt any **four** questions from the remaining **seven** questions.
(3) Answer **each** new question on a **fresh page**.

1. M/s. Strong Ltd. have approached you for valuation of their shares in the context of their forthcoming share issue. The Company was incorporated on 1st April 2010. The following information is extracted from their annual reports for the last three years :– **20**

	Year ended 31st March		
	2011 Rs.	**2012 Rs.**	**2013 Rs.**
Gross Fixed Assets	200	700	750
Accumulated Depreciation	20	80	150
Net Current Assets	300	600	750
Loans	—	500	400
Share Capital Equity shares of Rs. 10/- each	400	500	500
Profit before Tax	20	60	120
Preliminary expenses c/f	30	20	10

It is understood that the Company has implemented a major project in 2010 which started yielding results in 2012-13. Practices among the bankers indicate that an average of value based on net assets and on yield is normally adopted in such cases. The normal industry expectation of yield is 15%. Tax rate is 40%.

You are required to compute the value of the Company's equity shares on the basis of the above Information showing working as necessary.

2. Calculate the operating leverage, financial leverage and combined leverage from the following data under situations I and II and financial plans A and B. **10**

Installed Capacity	:	4000 Units
Actual production & Sales	:	75% of the capacity
Selling Price	:	Rs. 30/- per unit
Variable cost	:	Rs. 15/- per unit
Fixed Cost	:	Under situation I- Rs. 15,000/- ; and
	:	Under situation II- Rs. 20,000/- .

Particulars	Financial Plan A	Financial Plan B
Equity	10,000	15,000
Debt (rate of interest 20%)	10,000	5,000
	20,000	**20,000**

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3. Company X and Company Y are in the same risk class and identical in all respects except that Company X uses debt while Company Y does not. Levered Company has Rs. 9 lakhs debentures carrying 10% rate of interest. Both companies earn 20% before interest and taxes on their total assets of Rs. 15 lakhs. Assume perfect capital markets, tax rate of 50% and capitalisation rate of 15% for an all equity company. **10**

   You are required to :

   (i) compute the value of both the companies using Net Income (NI) approach;

   (ii) compute the value of both the companies using Net Operating Income approach; and

   (iii) using Net operating Income approach, calculate the overall cost of capital for both the companies.

4. (a) Explain the factors which determine the dividend policy of a Company. **5**

   (b) A Company has a total investment of Rs. 5,00,000/- in assets and 50,000 outstanding shares at Rs. 10/- per share (par value). It earns a rate of 15% on its investment and has a policy of retaining 50% of the earnings. If the appropriate discount rate of the firms is 10%, determine the price of the share using Gordon's Model. What shall happen to the price of the share, if the Company has a payout of 80% or 20% ? **5**

5. The Balance Sheet of M/s. XYZ Ltd as in 31st March, 2013 is as follows :– **10**

	(Rs. in laks)	
Sources of Funds :		
Shareholders Funds		
Share Capital	200	
Reserves & Surplus	140	340
Long Term Funds		
Long Term Loans		360
		700
Application of Funds :		
Fixed Assets (Net Block)		500
Current Assets, Loans and Advances		
Inventories	300	
Receivables	240	
Cash and Bank	60	
	600	
Less: Current Liabilities and Provisions		
Short Term Loans	200	
Payables	120	
Provisions	80	
	400	
Net Current Assets		200
Total :		700

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Sales for the year 2012-13 were Rs.600 lakhs. For the year ending March 31, 2014 they are expected to increase by 20 percent. The net profit margin after taxes and dividends payout are expected to be 4 and 50 percent respectively. You are required to :

(i) Estimate the External Funds Needed for the year 2013-14

(ii) Determine the mode of raising External Funds Needed given the following parameters :

(a) Current ratio should be 1.33.

(b) Ratio of Fixed Assets to long term loans should be 1.50.

6. A Ltd. is considering the question of taking up a new project which required an investment of Rs. 200 lakhs on machinery and other assets. The project is expected to yield the following gross profits (before depreciation and tax) over the next five years : **10**

Year	1	2	3	4	5
Gross Profit	80	80	90	90	75

The cost of raising the additional capital is 12% and the assets have to be depreciated at 20% on written down value basis. The scrap value at the end five year period may be taken as Zero. Income Tax applicable to the Company is 50%.

You are required to calculate the net present value of the project and advise the management whether the project has to be implemented. Also calculate the Internal Rate of Return of the Project.

7. Define what is Sick Industrial Company and discuss the Altman's Z score Model in order to detect the financial health of industrial unit to prevent sickness. **10**

8. Write short notes on any **two** of the following :– **10**

(a) Trading on Equity

(b) Objectives and functions of SEBI

(c) Functions of Merchant Banker

(d) Value Based Management

(e) Break-even Analysis

(f) Pecking Order Theory.

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