Financial Mgmt II (Fin)

FMA 03

31.10.2007

Roll no.

Total no. of questions: 9 | Total no. of printed pages: 2

Duration (hrs.): 3 | Max. marks: 50

Note:

A) Question no. one is compulsory and carries 10 marks.
B) Answer any five from the rest which carry 8 marks each.
C) Marks will be deducted for unfocused and not to the point answers. Marks will be awarded for brevity and logical presentation.

Q.1. Heavy Earth Movers Ltd. has the following financing mix:-

(Rs. Lakh)

Equity Capital (10 Lakh shares at par value)	100
12 percent pref. Share capital (10,000 shares at par value)	10
Retained earnings	120
14% Non- convertible Debentures (70000 deb. At par value)	70
14% terms loan	100
Total	400

- The equity shares of the company are trading at Rs.25.
- The next year expected dividend per share (DPS) is Rs.2/- and the DPS is expected to grow at a constant rate of 8%.
- The pref. Shares are redeemable after 7 years at par and are currently quoted at Rs.75/- per share.
- The debentures are redeemable after 6 years at par and their current market price is Rs.90/- per share.
- The tax rate applicable to the firm is 50%.

Find out :

A) the cost of equity share capital
B) the cost of preference share capital
C) the cost of non-convertible debentures
D) the cost of term loan
E) weighted average cost of capital.

Q.2. What is the relationship between the required rate of return and the cost of capital? Explain with examples.

Q.3. Industrial Gadgets Ltd. is expected to grow at the rate of 7 percent per annum and dividend expected year hence is Rs. 5. If the rate of return is 12 percent, what is the price of the share today?

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Q.4. What is sensitivity analysis? How it is useful as tool of risk analysis? Support your answer with examples.

Q.5. Debt financing is an important option for financing infrastructure projects. Discuss with examples.

Q.6. "A financial system is an integrated system whose components interact with each other." In the light of this statement, give an account of the participants in the Indian financial markets.

Q.7. Corporate Debt Restructuring (CDR) mechanism has been lately introduced by the govt. for rehabilitation of large corporates. Discuss, how this mechanism works?

Q.8. Discus the major sources available to an Indian firm for raising foreign finance.

Q.9. Write short notes on any four:

A) Deep discount bonds
B) Debt. securitisation
C) Forfaiting
D) Book building
E) Risk adjusted discount rate