29/11/12 MMS - III sem Finance Speciz. Adv. Financial Mgmt

Con. 8944-12.

(FURTHER REVISED COURSE)

(3 Hours)

TG-3318

[Total Marks : 60

N.B. : (1) Attempt any **five** questions.

(2) **All** questions carry **equal** marks.

Q1 The operating income of Hypothetical Ltd amounts to Rs 1,86,000. It pays 35 per cent tax on its income. Its capital structure consists of the following: **12**

14% Debentures	Rs. 5,00,000
15% Preference shares	Rs 1,00,000
Equity shares (Rs 100 each)	Rs 4,00,000

(i) Determine the firm's EPS.

(ii) Determine the percentage change in EPS associated with 30 per cent change (both increase and decrease) in EBIT.

(iii) Determine the degree of financial leverage at the current level of EBIT.

(iv) What additional data do you need to compute operating as well as combined leverage?

Q2 A company needs Rs.12 lakhs for the installation of a new factory which would yield an annual EBIT of Rs 2,00,000. The company has the objective of maximizing the earnings per share. It is considering the possibility of issuing equity shares plus raising a debt of Rs. 2,00,000, Rs. 6,00,000 or Rs. 10,00,000. The current market price per share is Rs. 40 which is expected to drop to Rs. 25 per share if the market borrowings were to exceed Rs 7,50,000. **12**

Costs of borrowings are indicated as under:

Upto Rs 2,50,000	10% pa.
Between Rs 2,50,001 and Rs 625,000	14% pa.
Between Rs 6,25,001 and Rs 10,00000	16% p.a.

Assuming a tax rate of 30%, workout the EPS and the scheme which would meet the objective of the management.

Q3 Co. X wishes to take up the following Project: (Rs. Lakhs) **12**

Investment	: 100	Equity Financing	: 100
Project Life	: 4 years	Depreciation	: Straight Line
Salvage Value	: Nil	Tax Rate	: 30 %
Annual Revenues	: 200	Annual Costs	: 135
Cost of Equity	: 15 percent	(excluding depreciation, interest & taxes)	

Calculate EVA & NPV and give your recommendations for Co. X

Q4 a. ABC company Ltd is expecting 10% return on total assets of Rs 50 Lac. The company has outstanding shares 20,000. The directors of the company have decided to pay 40% of the earnings as dividends. The rate of return required by the shareholders is 12.5%. Rate of return expected on investment is 15% .You are required to determine the price of the share as per Walters Model. **6**

b. The current market price of the shares of X Ltd is Rs 120 per share. The company is considering Rs 6.40 per share as dividend. The company belongs to a risk class for which capitalization rate is 9.60%. Based on MM approach calculate the market price of the share of the company when dividend is declared and when the dividend is not declared. **6**

Q5 The income statement of Modern Electronics Limited for years I and II is given below 12
(All figures are in Rs. Lakh):-

Income Statement	Year I (Rs.) Lakhs	Year II (Rs.) Lakhs
Net Sales	2,400	2,670
Cost of goods sold	1,830	2,040
Gross Profit	570	630
Selling expenses	180	195
General and administration expenses	180	156
Depreciation	150	192
Operating Profit	60	87
Non-operating surplus	24	30
Earnings before interest and tax	84	117
Interest	30	33
Earnings before tax	54	84
Tax	21	30
Earnings after tax	33	54
Dividends	18	21
Retained earnings	15	33

The balance sheet of Modern Electronics Ltd. as of the end of years I and II is given below:-

Balance Sheet	Year I (Rs.)Lakhs	Year I (Rs.)Lakhs
Assets		
Fixed assets (net)	900	1,140
Investment	60	60
Current assets, loans and advances		
Cash and Bank	36	42
Receivables	540	600
Inventories	519	576
Prepaid expenses	123	135
Miscellaneous expenditure and losses	45	42
	2,223	2,595
Liabilities:		
Share Capital		
Equity	450	450
Reserves and Surplus	354	387
Secured loans		
Team loans	432	525
Bank borrowings	489	597
Current liabilities –		
Trade creditors	378	501
Provisions	120	135
	2,223	2,595

a) Using the per cent of sales method (except, assume that dividends are raised to 24, depreciation to 180 and interest to 36) prepare the pro forma income statement for year III. Assume that the sales will be Rs. 3,060 in year III.

b) Assume that all items on the assets side, except investment and miscellaneous expenditure and losses; will grow proportionally to sales. Likewise, trade credit will be proportional to sales. Finally estimate the amount of external finance needed for year III .

Q6. a. Explain the various financing options in respect of infrastructure projects. 6

b. Explain the procedure of raising the finance through IPO. 6

Q7. What are possible causes of a sick industrial unit? What according to you can be typical revival programme to revive the sick industries? 12

Q8. Discuss the P/E approach to stock valuation and adjusted book value approach to corporate valuation. 12