(FURTHER REVISED)

(OLD & REVISED COURSE)

30-11-2011.

(2 Hours) [Total Marks : 60

N.B. : (1) Attempt any **five** questions.
(2) **All** questions carry **equal** marks.
(3) Answer **each** new question on a **fresh** page.
(4) Write all **sub questions** of a main question **together**.
(5) Don't write **extra** answers. Only first **five** will be **assessed**.
(6) Presentation should be **neat** and **clean**. Marks will be deducted for poor presentation.

1. The companies ACC Cements and Dalmia Cements belong to same risk class and are identical in every fashion except ACC Cements uses debt while Dalmia Cements does not. The leveraged company has Rs. 9,00,000 debentures carrying 10% rate of Interest. Both firms earn 20% before Interest and taxes on their total assets of Rs.30 lakhs. Assume perfect capital markets, rational investors and so on; Both companies pay tax at 40% and capitalization rate for an all equity company is 15%.
You are required to :—
(a) Compute the value of the two firms using the Net Income and Modigliani-Miller approach.
(b) Using the M.M. approach, compute the overall Capitalization rate for both the companies.

2. (a) The following data is available for Modi Company Ltd.

Earnings per share	Rs. 2
Internal rate of return	18%
Cost of Capital	16%

If Walters Valuation formula holds, what will be the Price per share when the dividend payout ratio is 50%, 80% and 100% ?

(b) Lever Ltd belongs to a risk class for which the approximate capitalization rate is 12.5%. It currently has 1,00,000 shares selling at Rs. 80 each. The firm is contemplating the declaration of Rs. 6/- per share dividend at the end of the current fiscal year which has just begun.
Based on Modigliani and Miller model and assumption of no taxes, you are required to—
(i) Calculate the share price at the end of the year, if dividend is not declared and dividend is declared.
(ii) Assuming that the firm pays dividends, has net income of Rs. 25,00,000 and makes a new investment of Rs. 42,00,000 during the period, how many new shares must be issued ?

3. The Balance Sheet of Ponds India Ltd as on March 31, current year is as follows :—

Liabilities	Amount Rs. Lakhs	Assets	Amount Rs. Lakhs
Share Capital	300	Fixed assets	750
Reserves & surplus	210	Inventories	450
Long term Loans	540	Receivables	360
Short term loans	300	Cash & Bank	90
Payables	180		
Provisions	120		
	1650		**1650**

Sales for the Current Year were Rs. 900 lakhs. For the next year ending on March 31, they are expected to increase by 20%. The net profit margin after taxes and dividend payout are expected to be 40% and 50% respectively. You are required to :—
(a) Quantify the amount of external funds required.
(b) Determine the mode of raising the funds given the following parameters :
(1) Current ratio should be 1.33
(2) Ratio of fixed assets to long term loan should be 1.5
(3) Long term debt to equity ratio should not exceed 1.06
(4) The funds are to be raised in the order of—
(i) Short term bank borrowings
(ii) Long term loans
(iii) Equities.

4. The following figures are available for ABC Ltd. :—

Net sales	Rs. 2000 (lakhs)
EBIT as % of Net sales	12%
Capital employed	(a) Equity Rs.600 lakhs
	(b) Preference shares Rs.150 lakhs bearing 14% rate of dividend
	(c) Debt @ 16% - Rs. 400 lakhs.

You are required to calculate—

(1) Return on the Equity of the Company.

(2) Operating leverage of the company given that its combined leverage is 3.

5. (a) The following information is available of Tata Steel Co Ltd. Calculate EVA :—

14% Debt Capital	3000 (Rs. lakhs)
Equity Capital	800 (Rs. lakhs)
Reserve & Surplus	6200 (Rs.lakhs)
Risk Free Rate	9%
Beta Factor	1.05
Market Rate of Return	19%
Equity (market) Risk Premium	10%
Operating Profit After Tax	2400 (Rs. lakhs)
Tax Rate	35%

(b) Yes Ltd is considering financial Options. The key information is as follows :—

(i) Total Capital of the three Plans to be raised Rs. 20 lakhs

(ii) Plans of financing.

Plan	Equity	Debt	Preference Shares	Total (Rs. Lakhs)
X	100%	——	——	20
Y	50%	50%	——	20
Z	50%	——	50%	20

(iii) Cost of Debenture is 8% and cost of preference share is 10%.

(iv) Tax rate is 30%

(v) Equity shares of face value of Rs. 10 will be issued at a premium of Rs.10 per share.

(vi) Expected EBIT will be Rs. 8,00,000.

You are required to determine for each plan—

(1) Earning per Share.

(2) Financial Break Even Point.

(3) EBIT ranges among the plans of indifference.

6. Explain in brief any **Three** of the following :—

(a) Symptoms of Sickness.

(b) Private Placement.

(c) Key Financial Intermediaries.

(d) Important Sources of Financing Long-term Projects in India.

(e) Due Diligence.

(f) Procedure of IPO.

7. (a) What are the major problems associated with disinvestment of PSUs in India ?

(b) Describe and evaluate the adjusted book value approach to corporate valuation.

8. (a) What do you understand by financial derivatives ? Explain in detail.

(b) Explain the important functions of Credit Rating Information Services of India Ltd (CRISIL).

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