MMS – III (Finance) University Exam.
Advanced Financial Management 01-12-2010.

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Con. 5922–10. **(FURTHER REVISED COURSE)** **MR–5892**

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

Instructions to students

(1) Answer any **FIVE** questions. All questions carry **equal** marks.
(2) **Presentation** should be **neat and clean**. Marks will be deducted for **poor presentation**.
(3) All the **sub-questions** of the main question should be attempted **together**.
(4) If students attempt **more than five** questions, **only first five** will be **considered**.
(5) Every **new question** should start on a **new page**.

1. Explain the important functions of either Credit Rating Information Services of India Ltd (CRISIL) or Information & Credit Rating Services Ltd (ICRA).
2. a) Discuss the P/E ratio approach to stock valuation.
   b) Describe and evaluate the adjusted book value approach to corporate valuation.
3. A firm has total sales of Rs. 15 lacs with 40% variable cost and total cost of Rs. 900,000. It also has debt of Rs. 800,000 at 10% rate of interest. If the tax rate is 45%, calculate:
   a) Operating Leverage
   b) Financial Leverage
   c) Combined Leverage
4. A Ltd. paid a dividend of Rs 5 per share for 2009-10. The company follows a fixed dividend payout ratio of 30% and earns a return of 18% on its investments. Cost of capital is 12%. What is the price of the shares of A Ltd as per Walter's model?
5. Explain in brief any three of the following:
   a) Revival programme for a sick industrial unit
   b) Procedure pertaining to IPOs
   c) Regulation of financial markets in India
   d) Rationale of disinvestment in Public Sector Enterprise
   e) Important sources of financing long term projects in India
   f) Financial Interest Rate Swaps
6. The following is the data regarding two Companies 'X' and 'Y' belonging to the same equivalent risk class:

	Company X	Company Y
Number of ordinary shares	90,000	150,000
Market price per share	Rs. 1.20	Rs. 1.00
6% Debentures	60,000	—
Profit before interest	Rs. 18,000	Rs. 18,000

All profit after debentures interest are distributed as dividends.
Explain how under Modigliani & Miller approach, an investor holding 10% of shares in Company 'X' will be better off in switching his holding to Company 'Y'

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7. The balance sheet of Deepak Ltd on December 31, 2009is shown below:

Particulars	**Rs.**	**Particulars**	**Rs.**
Share Capital	150	Fixed Assets	400
Retained Earnings	180	Inventories	200
Term Loans	80	Receivables	150
Short Term Bank Borrowings	200	Cash	50
Accounts Payable	140		
Provisions	50		
	800		**800**

The sales of the firm for the year ending on December 31, 2009 were 1,000. Its profit margin on sales was 6% and its dividend payout ratio was 50%. The tax rate was 60%. Deepak Ltd expects its sales to increase by 30% in the year 2010. The ratio of assets to sales and spontaneous current liabilities to sales would remain unchanged. Likewise the profit margin ratio, the tax rate, and the dividend payout ratio would remain unchanged.
Required:

a) Estimate the external funds requirement for the year 2010.
b) Prepare "projected balance sheet" and "projected profit & loss account", assuming that the external funds requirement would be raised equally from term loans and short term bank borrowings.

8. Acme Ltd is considering a capital project for which the following information is available:

Investment Outlay	1,000	Debt equity ratio	1:1
Project Life	10 Years	Depreciation (for tax purpose)	SLM
Salvage value	0	Tax rate	40%
Annual Revenues	2,000	Annual cost	1,400
Cost of equity	18%	(excluding depreciation, -	
Cost of debt (post tax)	10%	interest and taxes)	-

a) Calculate the EVA of the project over its life.
b) Compute the NPV of the project.
