VPM's
DR VN BRIMS, Thane
Programme: MMS (2014-16)
Second Semester Examination April 2015

Subject	**Analysis of Financial Statements**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages		**Date**	**24.04.2015**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

Apex Ltd is considering an investment in an expansion project requiring an investment of Rs. 25 lakhs. The company is expecting pre-tax rate of return of 20%. To finance this expansion program, the company is thinking of two alternative plans as under:
Plan A: Raise entire amount by issue of 2.5 lakhs equity shares of Rs.10 each
Plan B: Raise Rs.12.5 lakh by issue of 1.25 lakh equity shares of Rs.10 each and balance by way of debentures at 15% interest.
Tax applicable for the firm is 40%.
What is the impact of two plans on EPS and ROE of the company and suggest which plan is suitable for the company and why? Also analyze the impact on the EPS and ROE if the rate of interest is 24%, with reference to interest tax shield enjoyed if the firm uses debt capital.

Attempt Any FOUR from the Remaining SIX Questions

Q2) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

Following details of Godrej Consumer Products Ltd (GCPL) are given below:

Details	2001-02 (Rs.Crores)
Earnings before interest and tax	65.7
Interest	2.5
Earnings before tax	63.2
Provision for tax	15.4
Profits after tax	47.8

Beta Coefficient	0.63
Market Risk Premium	10%
Equity Risk Premium	6.3%
Risk free rate of return	11.5%
Pre-tax cost of borrowing	14%
Tax Rate	35%
Average Equity (Rs.Crores)	102.768
Average Debt (Rs.Crores)	4.282

Attempt any two of the below:

a) Weighted Average Cost of Capital (based on numerical)
b) NOPAT (based on numerical)
c) Explain the concept of Economic Value Added and its significance

Q3) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

India Foils Ltd is intending to acquire Excel Steels Works Ltd (by merger) and the following details of both companies are provided below.

Particulars	India Foils Ltd	Excel Steel Works Ltd
Number of Equity Shares	5,00,000	3,00,000
Profit After Tax(PAT)	25,00,000	9,00,000
Market value per share	21	14

Attempt any two of the below:

a) What is the present EPS of both companies? If the merger transaction takes place, what would be the new EPS for India Foils Ltd, assuming that the merger takes place through exchange of shares and exchange ratio is based on current market price?
b) What should be exchange ratio if India Foils wants to ensure the same earnings to its shareholders as before the merger takes place?
c) Explain spin-off and equity carve-out.

Q4) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

Victoria Fibers Ltd has revenue of Rs.75,00,000. Its variable cost and fixed cost are Rs.42,00,000 and Rs.6,00,000 respectively. It has a debt of Rs.45,00,000 at 9% and equity of Rs.55,00,000.

Attempt any 2 of the below:

a) Calculate the company`s ROI and does it have a favorable financial leverage. Define operating and financial leverage.
b) What is the operating, financial and combined leverage for Victoria Fibers the company?
c) If the revenue drops to Rs.50,00,000, what will be the revised EBIT? Also Define combined leverage.

Q5) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

Following Balance Sheet for Clariant Ltd is provided as on March 31

Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Share Capital	200	Land & Building	80
Reserves and Surplus	80	Plant & Machinery	160
Sundry Creditors & other Liabilities	60	Short Term Investments	20
		Inventory	40
		Debtors	30
		Cash & Bank Balance	10
	340		**340**

1. Profit before tax for current year is Rs128 lakhs including Rs.8 lakhs as extraordinary income
2. Interest income of Rs.2 lakhs in the current year from investments, is earned by the company.
3. Additional amount of Rs.10 lakhs towards advertising expenditure will be required to be spent.
4. Market value of land and building is Rs.180 lakhs, while that of plant & machinery Rs 200 lakhs.
5. In order to match the revalued figures of these fixed assets, additional depreciation of Rs.12 lakhs is required to be considered.
6. Tax rate applicable is 30%; capitalization rate for such businesses is 15%.

Attempt any 2 of the below:

a) Value of business and Value of equity capital (Based on numerical)

b) Explain the concept of Market Value Added and its relevance
c) Explain proprietary ratio and Sales to Working capital ratio.

Q6) *Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks*

Balance Sheet for the year ended 2009-10 and 2010-11 are given for National Organics.

Liabilities	2009-10	2010-11	Assets	2009-10	2010-11
Equity Share Capital	3,000	3,000	Fixed Assets	3,600	4,240
12% Pref. Share Capital	1,000	1,000	Debtors	1,100	1,300
Reserves and Surplus	1,160	1,770	Bills Receivables	860	1,050
10% Debentures	600	900	Inventory	760	920
Creditors	480	640	Prepaid Expenses	80	50
Bills Payable	100	140	Cash at bank	120	120
Bank Overdraft	200	240	Preliminary Expenses	20	10
	6,540	**7,690**		**6,540**	**7,690**

During the year 2010-11, total sales were Rs. 1,80,00,000 and cash sales were 10% of total sales. Inventory turnover ratio was 20 times. NPBT (tax rate of 40%) was Rs. 22,50,000. There were no non-operating expenses and profit on sale of fixed asset Rs.50,000. Equity shares have a face value of Rs.10 per share.

Attempt any 2 of the below:
a) Gross Profit margin, Operating ratio and ROCE.
b) EPS, Debtors Turnover Ratio and Collection Period.
c) Gross Margin Return On Investment.

Q7) *Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks*

a) Financial Leverage and Operating Leverage
b) Current Liability Coverage and Long term debt coverage
c) Earnings Quality
d) Economic Value Added
e) Du-pont Analysis
f) Bonus Shares
g) Buyback of shares