AFM MMS-III (University Exam) (Finance) fin (new)

Advance Financial Management

QP Code : 26167

(3 Hours) [Total marks : 60

23-11-2015

Instructions

Question No. 1 of 20 marks is compulsory.

Attempt any 4 questions from Q.2 to Q.7 for 10 marks each

All the sub-questions of the main question should be attempted together.

Q.1 A

The total assets of the company is Rs.2,00,000. It's total assets turnover ratio is 3.0, debt / equity ratio is 1:3, total operating costs is Rs.3,40,000 and its variable operating cost ratio is 40%. The face value of the share is Rs.10 each and the interest rate is 12%. The income tax rate is 35%.

a. Calculate the EPS and

b. Operating, financial and combined leverage.

Q.1 B

Shine Equity Ltd. (SEL) and Shine Debt Ltd. (SDL) are the two firms in the same line of business and also have almost the same size. They differ only in their capital structure. SDL has a debt of Rs.150 crore @12%, while SEL has no borrowings. The EBIT for both the firm is Rs.60 crore. Both the firms pay 30% tax. Assume perfect capital market and capitalization rate of 15% for all equity company.

1. If the market value of SEL is correctly determined then, what would be the value of SDL.
2. If investor is holding 5% stake in SDL, what action would you recommend to him to increase his welfare.

Q.2

Glad Corporation has an net earnings level of Rs.10 crore. It is estimated that the firm can earn Rs.3 crore if the amount is invested back in the business. The investors in Glad Corporation have expectations of 35%. Find the following as per Walter's model :

a. The value of Glad Corp. if it follows dividend pay-out ratio of (i) 0%, (ii) 30% and (iii) 60%

b. The optimum pay-out ratio and the maximum value of the shares

Q.3

Compute EVA from the financials given below :

		Amount in Rs. lakhs
Sales		1050
Interest on Investment	40	
Profit on sale of old furniture	10	50
Total Income		1100
Less : Expenses		
COGS	290	
Administrative, Selling and Distribution overheads	300	
Depreciation	25	
Loss on sale of old machine	10	625
EBIT		475
Less : Interest (12% of 100)		12
PBT		463.00
Less : Tax (35%)		162.05
PAT		300.95
Total Assets		500
Debt / Equity		0.25

The firm finances the asset base with 20% debt. The risk free rate is 5.75%, while the return on market portfolio is 16.10%. The beta for the firm is 1.19.

Q.4

Following are the extracts of liabilities and assets as on 31st March 2015 of Galaxy Technologies Ltd. (GTL)

Liabilities	***Rs. in lakhs***
Share capital	30
Retained earnings	40
Term loan	20
Short term borrowings	30
Trade creditors	25
Provision	05
Total	150
Assets	***Rs. in lakhs***
Net Fixed Assets	50
Inventories	40
Debtors	30
Cash	10
Marketable securities	20
Total	150

Sales for 2015 were Rs.160 lakhs, while net profit after taxes was Rs.20 lakhs. GTL paid dividends of Rs.10 lakhs to equity shareholders.

a. If sales increases by 50% during 2016, what would be GTL external funds requirement? Assume that profit margin ratio and dividend pay-out ratio would remain unchanged and current assets and current liabilities will increase by the same percentage as sales.

b. Prepare GTL's projected Balance Sheet as on 31st March 2016. Assume that the external fund requirement will be raised equally from Term Loans and fresh issue on equity capital.

Q.5

Premier Ltd. is planning a mining project costing Rs.300 crore. It is considering two financing alternatives. Under the first alternative, it can raise Rs.200 crore by issuing Equity Shares of Rs.50 each and the remaining Rs.100 crore @ 12% debt. Under the second alternative, it can raise Rs.150 crore by issuing Equity Shares again at a price of Rs.50 per share and raise the remaining Rs.150 crore by loan @ 14%. The returns from the project are extremely volatile and can be either 15% or 18% as return on the assets. This is one of the reasons that the management wants to issue lesser number of equity shares till the revenues stabilizes. Assuming tax rate @ 30%,

1. Find out the EPS under both the financing plan with ROA of 15% and 18% and give recommendations to Primer Ltd. regarding the financing plan?
2. What level of EBIT, the two financing alternatives are indifferent to EPS?

Q.6

What is a Financial System? Explain the structure of Indian Financial System.

OR

Explain the revival programme for a sick industrial unit.

Q.7

Explain in brief any **TWO** of the following:

a. BIFR
b. Disinvestment of PSUs
c. Sources of financing infrastructure projects
d. Derivative products
e. Functions of investment banking
f. Credit rating methodology for a financial instrument
