(3 Hours) [Total Marks : 60

N.B. (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) Every **new question** should **start** on a **new page**.

1. There are two main regulators to regulate the Indian Financial system – RBI and SEBI. Explain the role of SEBI in detail. Do you think that these two agencies can be merged to create a super regulatory body for an effective regulation of the financial system ?

2. (a) Explain the different ways in which a venture capitalist can finance an investment proposal.
(b) What do you understand by financial derivatives ? Explain in detail.

3. Write short notes on any **three** of the following :—
(a) Credit rating methodology for a financial instrument
(b) Book building process for IPO
(c) Revival programme for a sick industrial unit
(d) Functions of investment bank
(e) Rationale of disinvestment in Public Sector Enterprise
(f) Sources of foreign currency finance for a company.

4. Following information is available from the books of XYZ Ltd.

	(Rs. in lakh)
Sales	500
Cost of Raw Materials	200
Labour cost for manufacturing	100
Interest on borrowings	60

The capitalization rate for debt is 10 % and the capitalization rate for the entire firm is 12·5%. Assuming that the firm does not retain any earning and there is no tax, as per net operating income approach —
(a) What is the total market value of the firm ?
(b) What is the market value of the debt of the firm ?
(c) What is the market value of the equity of the firm ?
(d) What is the equity capitalization rate ?

5. A firm has sales of Rs. 10,00,000. Variable cost is 70%, total cost is Rs. 9,00,000 and Debt of Rs. 5,00,000 at 10% rate of interest. If tax rate is 40% calculate :—
(a) Operating leverage
(b) Financial leverage
(c) Combined Leverage
(d) If the firm wants to double up its earning before interest and tax (EBIT), how much of a raise in sales would be needed on a percentage basis ?

6. (a) ABC company Ltd. is expecting 10 % return on total assets of Rs. 50 Lakh. The company has outstanding shares 20,000. The directors of the company have decided to pay 40 % of earning as dividends. The rate of return required by shareholders is 12·5%. Rate of return expected on investment is 15%. You are required to determine the price of the shares using Walter's model.
(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 the capitalization rate is 9·60%. Based on M and M approach calculate the market price of the share of the company when the dividend is declared and not declared. What is your learning out of it ?

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

Income Statement	Year I (Rs.)	Year II (Rs.)
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 / deficit	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.)	Year II (Rs.)
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 expenditures and losses	45	42
	2,223	2,595
Liabilities :		
Share capital —		
Equity	450	450
Reserves and surplus	354	387
Secured loans —		
Term 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 expenditures and losses, will grow proportionally to sales. Likewise, trade credit will be proportional to sales. Finally estimate the amount of external financing needed for year III.

(c) The tax rate expected is 35%. This will be the only provision in the year III.

8. The following is the balance sheet of a corporate firm as on March 31, current year :—

(Rs. in lakh)

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share capital (Rs. 100 each fully paid-up)	200	Land and buildings	80
Reserves and surplus	80	Plant and machinery	160
Sundry creditors and other liabilities	60	Marketable securities	20
		Stock	40
		Debtors	30
		Cash and bank balances	10
	340		340

Profit before tax for current year-end amount to Rs.128 lakh, including Rs. 8 lakh as extraordinary income. Besides, the firm has earned interest income of Rs. 2 lakh in the current year from investments in marketable securities. It is not usual for the firm to have excess cash and invest in marketable securities. However, an additional amount of Rs. 10 lakh per annum, in terms of advertisement and other expenses, will be required to be spent for the smooth running of the business in the years to come. Market values of land and buildings, and plant and machinery are estimated at Rs.180 lakh and Rs. 200 lakh respectively. In order to match the revalued figures of these fixed assets, additional depreciation of Rs.12 lakh is required to be taken into consideration. Effective corporate tax rate may be taken at 30 percent. The capitalization rate applicable to businesses of such risks is 15 percent.

(a) From the above information, compute the value of business, value of equity and price per equity share, based on the capitalization method.

(b) Assuming everything to be the same as given above calculate the expected market price of the share, given the P/E multiple of — (i) 8 times and (ii) 5 times.