MMS-III (Finance) 23-11-2016

University Exam.

Advanced Financial Management

Q.P. Code : 795502

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

Instruction: 1) Q No 1 Compulsory Answer any FOUR from the rest.
2) Presentation should be neat and clean.
3) All the sub-questions of the main question preferably be attempted together.
4) Every new question should start on a new page

1 A) Net Sales of ADITYA Limited is Rs. 30 Crores its EBIT is 12% of Net Sales. The company is in 40% tax Bracket, the Capital Employed comprises of

Equity Capital	Rs. 10 Crores
13% Cumulative Preference Share Capital	Rs. 2 Crores
15% Debentures	Rs. 6 Crores

Calculate:

1) ROE , ROI and WACC

2) Calculate Operating Leverage if the Degree of Combined leverage is 3.

B) Following are the Balance sheets of Reid & Tailor as on March 31st 2016 :

Particulars	REID (Rs.in Lakhs)	TAILOR (Rs. in Lakhs)
Liabilities		
Equity Share Capital	400	180
General Reserve	350	98
P & L Account	450	82
12 % Debentures	250 250	0
CreditoRs.	195	105
Bills Payables	65	85
Total Liabilities	1710	550
Assets:		
Fixed Assets	860	315
Investments	550	-
Current Assets	300	235
Total Assets	1710	550

The Board of Directors of Reid approved a Takeover of Tailor as on 30th Sep 2016. Find out the exchange ratio considering the following Information

a) Out of the Total Creditors of Reid Rs. 15 Lakhs are no more payable.

b) The Market Value of various Assets are as under (Rs. in Lakhs)

Assets	REID	TAILOR
Fixed Assets	1040	413
Investments	570	0
Current Assets	285	227

TURN OVER

2: Answer Any Two

A) Following data is available for VEDANT

Expected Net Operating Income	Rs.. 50,000
10 % Debt	Rs.. 2,00,000
Equity Capitalization Rate	12.5 %

1) Determine the Total Value and the WACC assuming no tax under, Net Income Approach.
2) State the effect on the Total Value and WACC in part (a) if the firm decides to raise the debt further by Rs.1,00,000 and use the proceeds to buy back equity shares.

B) VIVA Limited has estimated that the for a New product its Break Even Point is 2000 Units with Selling price of Rs. 14 , with a Variable cost being Rs. 9 Per Unit.

a) Find the Degree of Operating Leverage at volume of 2500 Units , and 3000 units

b) Bring out the changes in combined leverage for the firm at Different levels

C) Discuss Trading on Equity

3 Write a Short Note on Any Two

a) Venture capital — concept and application
b) Mitigating Risk with Derivative
c) Interest rates Swaps and Currency Swaps
d) Offshore/onshore instruments and multiple-option bonds.
e) Sovereign Rating

4 Answer any Two

A) Asha is unlevered company while Usha has Rs. 6 Crores 15 % Debt. Both Firms are otherwise identical units having EBIT of Rs. 2 Crores , Tax Bracket of 35%. Considering that all the M&M Assumptions are met, the Capitalization rate for unlevered Company of 20% what would be the value of Asha and Usha? Also calculate the WACC for both Firms.

B) FALCON is listed on BSE and has a P/E of 6 Times , consider the following data for year ended March 31,2016

Particulars. (Profit & Loss A/c)		Rs. in Lacs
Revenue : Sales	12000	12000
Other Non-Operating Income	600	
Total Revenue		12600
Less Cost of Production		9000
EBIT		3600
Less: Interest on Loan		20
EBT		3580
Less: tax @ 30 %		1074
Earnings After Tax		2506

Balance Sheet

Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Equity Share Cap (Rs. 10Each)	400	Land & Building	200
Reserves and Surplus	300	Plant and Machinery	400
		Debtors.	200
10% Bank Loan	200	Stock	150
Creditors.	100	Cash & bank	50
Total	1000	Total	1000

Calculate EVA and MVA of FALCON if Overall capitalization rate is 12%

C) Discuss Propriety Audit

5 : Answer any Two

A) ASTHA has Total 10,00,000 Equity Shares outstanding as of today and Expects to generate the following Net Income and incur the following Capital Expenditure in the next Five Years.

Year	1	2	3	4	5
Net Profit	50	40	25	20	15
Capital Expenditure (Rs. in Lakhs)	20	25	32	40	50

Determine the External Financing required and also the Dividend Per Share if it follows

1) Residual Dividend Policy
2) Maintains 50% Dividend Payout ratio

Under Which Options the Dividend is Maximized and Under which option the External Financing is Minimized.

B) Consider the following cost estimates for the Financing , advise the Optimal Debt Equity Mix

Debt % in Capital Employed	NIL	10%	20%	30%	40%	50%	60%
Cost of Debt in %	5%	7%	8%	10%	10%	11%	12%
Cost of Equity in %	16%	16%	16%	17%	18%	19%	20%

C) Explain Sensitivity Analysis

6 Answer any Two

A) DON Agro is considering Investment in Two Mutually exclusive Machines with unequal Lives , the Initial Cost and the Yearly Operating Cost for the life are expected as under: (Rs. in Crores)

Year	0	1	2	3	4	5	6	7	8	9	10
Machine X	100	20	20	20	25	25	25	30	30	30	30
Machine Y	80	25	25	25	38	38	38	-	-	-	-

At 10 % Cost of Capital recommend the Machine to buy if salvage value f the Value of the Machine X is Rs. 15 Crores and Machine Y is Rs. 10 Crores.

B) M/s MMK Belong to a risk class for which the appropriate capitalization rate is 12%. the Company has EPS of Rs. 15 Using Walter Model Advise Ms. Sampada and Mr. Samarpan on the market value of MMK in case Dividend is not Paid and if Dividend of Rs. 15 Per Share is Paid if ,

a) Ms. Sampada feels Appropriate ROI for MMK is 15 %

b) Mr. Samarpan Feels Appropriate ROI for MMK is 10 %

C) Mr. RAM is considering an investment in One of the following bonds , please advise him on the YTM and the most advantageous investment.

Particulars. of Bond	Coupon	Maturity	Price(Rs.) (Par Value 100)
LLML	12%	10 Years.	70
PQRL	10%	6 Years.	60

7: Answer Any ONE

1) Briefly Discuss the Provisions of Companies Act, 2013 on Revival of Sick Companies.
2) Discuss the role of Public Investment Board.
3) Discuss the SEBI Regulations for Issue of Bonus Shares.
