M3C1019

Duration: 2 ½ hr **Marks:75**

Note: 1. All questions are compulsory each carrying 15 marks.
2. Use of only simple calculator is permitted.
3. Working notes should form part of your answer.

Q.1 A Pick correct alternative and rewrite the sentence (Any 8) **[08]**

1 GDR means _____ (global depository receipt /German depository receipt /global depression recession/gold depository receipt)

2 _____________ means the sale of securities to a relatively small number of selected investor as a way of raising capital. (Public issue /right issue /bonus issue / private placement)

3 Combined leverage =_______________
(OLxFL/ OL+FL/ OL÷FL/ OL-FL)

4 Higher OL is related to the use of higher _____ (debt/equity/fixed cost/variable cost)

5 If a firm has no debt, which one is correct ?__________
(OL is zero/FL is zero/CL is zero/ None of the above)

6 ________ arises due to movement of prices in financial instrument (market risk /credit risk/legal risk/operating risk)

7 Capital budgeting is a part of ______ (investment decisions/working capital management/cost of capital/capital structure)

8 We include depreciation in cash flow because (it is an unavoidable cost/it involves outflow /it reduces tax liability/it is a cash flow)

9 Which of following sources of funds has an implicit cost of capital _______
(Equity share/preference shares /debentures/retained earnings)

10 NBFC stand for _______
(Net banking financial corporation/non-banking financial company /non-bankrupt financial companies/ Net banking Finance Company)

B True or False (Any 7) **[07]**

1 Operating leverage analyse the relationship between sales level & EPS.

2 Favourable financial leverage & trading on equity are same.

3 Credit purchase can be a good source of short term finance.

4 In, India, all types of short term financing from banks must be secured.

5 Cost of capital is basic data for NPV technique.

6 Cost of existing shares capital & fresh issue of capital are same.

7 Business risk is caused due to internal factors only.

8 There is no cost in respect of retained earnings

9 Flotation cost is incurred at the time issue of securities

10 Earnings per share is distributed as dividend.

Q.2 The existing capital structure of ABC ltd is as follows- **[15]**

Particulars	Rs.
Equity shares of Rs 100 each	40,00,000
Retained Earnings	10,00,000
9% Preference shares	25,00,000
7% Debentures	25,00,000

The company earns a return before interest and tax at 12% and tax on income is 50%.The company wants to raise Rs 25,00,000 for its expansion programme, for which it is considering following alternatives.

a) Issue of 20,000 Equity shares at a premium of Rs 25 per share

b) Issue of 10% Preference shares

c) Issue of 9% Debentures.

It is forecasted that the price-earning ratio in case of these alternatives are :

a) 20 b) 17 c)16.

Which alternative will you consider best?

OR

Q.2 A A company issues Rs 10,00,000 12% debentures of Rs 100 each . The debentures are redeemable after the expiry of fixed period of 7 years. The company is in 35% tax bracket. The discount/premium/flotation cost is to be amortised. **[08]**

Calculate cost of debentures after tax , if debentures are issued at-

i)Par

ii)10% discount

iii)10% premium

Triveni Industries Ltd equity share is currently selling at Rs 68. Next year the company would pay dividend of Rs 8.16 per share of Rs 10. The investor expects a growth rate of 6% p.a.

B Compute- i)Company's cost of Equity capital **[07]**

ii)If anticipated growth rate is 8% p.a what would be the indicated market price of share if the dividend of Rs 9.80 per share is to be declared in the next year at the same cost of equity capital.

Q.3 A A fixed deposit receipt has a maturity value of Rs 1,33,100. What is the amount at which fixed deposit receipt has been initially purchased if compound interest rates is 10% p.a and maturity period is 3 years. **[08]**

B A company offers 8% nominal rate of interest on deposits. What is the effective rate of interest if the compounding is done 1.Quarterly. 2.Monthly. **[07]**

OR

Q.3 A Mr. Akshay deposits Rs. 2,00,000 annually in a bank for 5 years. The deposit earns 10% per year. What is the future value at the end of 5 years? **[08]**

B X invested RS 2, 40,000 at annual rate of interest of 10%. What is amount after 3 years if compounding is done? **[07]**

1. Annually

2. Semi-annually

Q.4 A company is considering the proposal of taking up a new project which requires and investment of Rs 400 lakhs on machinery and other assets. The project is expected to yield the following cash flows over next five years. **[15]**

Year	Cash flow (in lakhs)
1	120
2	112
3	115.6
4	110.48
5	156.92

The cost of raising the additional capital is 12%.The scrap value at end of five years period may be taken as zero. PV of Rs 1 at different interest rates are as below-

Year	10%	12%	14%	16%
1	0.91	0.89	0.88	0.86
2	0.83	0.8	0.77	0.74
3	0.75	0.71	0.67	0.64
4	0.68	0.64	0.59	0.55
5	0.62	0.57	0.52	0.48

You are required to calculate NPV and IRR and advise the management to take appropriate decisions.

OR

Q.4 Taj Ltd has an investment budget of Rs 100 lakhs . It has shortlisted two projects A and B after completing the market and technical appraisal. The management wants to complete the financial appraisal before making the investment. Further particulars regarding two projects are given below- **[15]**

Particulars	(in lakhs)	(in lakhs)
	A	B
Investment	100	90
Average annual cash inflow	19	16.5

Scrap value for both project is nil.

Estimated life is 10 years.

PV of annuity of Rs 1 for 10 years at different rate is given below.

Rate	Annuity value for 10 years
12	5.6502
13	5.4262
14	5.2161

Calculate IRR of 2 projects.

Q.5 **A** Explain the role of Finance manager in a business enterprise **[08]**

B Explain need for foreign capital. **[07]**

OR

Q.5 **Short Note (Any 3)** **[15]**

1 Types of preference shares

2 Public deposits

3 Foreign direct investment

4 Foreign collaboration

5 Factoring

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