Seat No. : 01216

NJ-102

November -2018

B.B.A., Sem.-V

CC-307 : Adv. Financial Management

Time : 2:30 Hours] **[Max. Marks : 70**

1. (A) The following information is available to you of a large steel company. Determine the weighted average cost of capital of the company using book value weights and market value weights : **14**

Capital Structure as per books :	₹
Equity Shares (₹ 10 per share)	20,00,000
Preference Shares (₹ 100 per share)	4,00,000
Debentures (₹ 100 per debenture)	16,00,000
12% term loan of Axis Bank	10,00,000
	50,00,000

All the securities are traded in the capital markets. Recent prices are :

Debentures – ₹ 110 per debenture

Preference Shares – ₹ 120 per share

Equity Shares – ₹ 22 per share

Anticipated external financing opportunities are :

(i) ₹ 100 per debenture redeemable at par having 10 year maturity, 11% coupon rate, 4% floatation cost and sale price ₹ 100.

(ii) ₹ 100 per share, preference shares redeemable at par having 10 year maturity, 12% dividend rate, 5% floatation cost and sale price ₹ 100.

(iii) Equity shares with ₹ 2 per share floatation cost and sale price ₹ 22. In addition, the dividend expected on the equity share at the end of year is ₹ 2 per share, the anticipated growth rate in dividend is 7% and firm pays all its earnings in form of dividends. The corporate tax rate is 35%.

OR

(i) A company is considering raising the funds of ₹ 100 lakhs by one of the two alternatives. One alternative is 14% term loan and other is 13% non-convertible debentures. The term loan option would not attract any additional cost. However the debentures would have to be raised at discount of 2.5% and would involve cost of issue ₹ 1 lakh. The face value of debenture will be ₹ 100. 7

Advice the company about the best option for raising capital from above information by calculating the cost of capital. Assuming a tax rate of 50%.

(ii) Assuming a corporate tax rate of 35%, compute the after tax cost of capital in following situations : 7

(a) A perpetual 15% debentures of ₹ 1,000 sold at the premium of 10% with no floatation cost.

(b) A ten year 14% debenture of ₹ 100 redeemable at par with 5% floatation cost.

(B) Do as directed : (any **four**) 4

(i) Unsystematic risk is also known as ________ risk.
(undiversifiable, unavoidable, diversifiable)

(ii) Retained earnings carry ________ cost.
(Economic, Fixed, Variable, Implicit)

(iii) When the debentures are issued at discount, the cost of debt goes ________.
(up, down, can't say)

(iv) Cost of equity is higher than cost of debt. (True / False)

(v) ________ weights are assigned on the basis of values in balance sheet.
(Book, Marginal, Market)

(vi) Give full form of CAPM.

2. (A) Techno Ltd. currently pays ₹ 3 per share as annual dividend. Assuming 10% required rate of return on shares, compute the value of shares under each of following dividend growth rate assumptions. 14

(i) Annual rate of growth, zero percent annually infinitely.

(ii) Annual constant rate of growth, 5% to infinity.

(iii) Annual growth rate of 5% for each of next three years followed by constant annual rate of 4% to infinity.

OR

(i) Karma Ltd. is planning to issue a 5 year, 12% Debentures. The debentures will be redeemed at ₹ 1,100 at the end of 5th year. Its face value is ₹ 1,000. If the required rate of return by investor is 15%, what is the value of debentures ? **7**

(ii) An investor is considering to purchase the following bond : **7**

Face value	₹ 10,000
Current price	₹ 10,500
Years to maturity	10 years
Coupon rate	12% p.a.

What would be his yield ?

(B) Do as directed : (any **four**) **4**

(i) The preference shares always have finite life. (True/False)

(ii) A bond can be issued at premium if the coupon rate is _______ than required returns. (greater, less, equal to)

(iii) YTM is another name for IRR. (True/False)

(iv) The value of bond is only dependent on the interest payments. (True/False)

(v) Debentures are form of hybrid security. (True/False)

(vi) Valuation of preference shares and bonds are done on similar lines. (True/False)

3. (A) Explain the concept of Risk and Uncertainty, and discuss the Decision tree approach of capital budgeting for risk evaluation. **14**

OR

(i) Discuss the meaning and characteristics of derivatives. **7**

(ii) Explain difference between forwards and futures. **7**

(B) Do as directed : (any **three**) **3**

(i) The buyer of the option receives the ________ to buy or sell an asset. (obligation, right, liability)

(ii) The insurance business was started to manage the areas of _________ risk. (Pure, Speculative, Credit)

(iii) In commodity market, the lot size is not standard in _________ contracts. (Futures, Forwards, Options)

(iv) As per certainty-equivalent coefficient approach, a project is accepted if NPV of _________ cash flows is positive. (risky, riskless, future)

(v) In call option, the buyer gets right to buy an asset at a particular price. (True/False)

4. (A) Explain the Walter's model and Gordon's model of dividend theory. 14

OR

(i) Discuss various types of dividend policies. 7

(ii) Explain the factors affecting dividend policy of a company. 7

(B) Do as directed : (any **three**) 3

(i) In India, the dividend has to be paid in cash and not by shares. (True/False)

(ii) Dividend has to be paid out of current financial year's earnings. (True/False)

(iii) M & M model is also called dividend ________ model. (relevance, regulatory, irrelevance)

(iv) The dividend decision of the company affects the retained earnings of the company. (True/False)

(v) A company with stable earnings over a period of time can follow stable dividend policy. (True/False)