Seat No. : 1171

NP-102

November-2017

B.B.A., Sem.-V

CC-307 : Advanced Financial Management

Time : 3 Hours] **[Max. Marks : 70**

1. (A) The following is the capital structure of Saras Ltd. as on 31–3–2016 : 7

	₹
Equity shares – 40,000 shares of ₹ 100 each	40,00,000
10% Preference shares of ₹ 100 each	16,00,000
12% Debentures	24,00,000
	80,00,000

The market price of the company's share is ₹ 110 and it is expected that a dividend of ₹ 10 per share would be declared after 1 year. The dividend growth rate is 6%.

(i) If the company is in 50% tax bracket, compute weighted average cost of capital.

(ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of ₹ 40 lacs from a term loan bearing 14% rate of interest. What will be the company's revised weighted average cost of capital ? This financing decision is expected to increase dividend from 10 to 12 per share. However, the market price of equity share is expected to decline from ₹ 110 to ₹ 105 per share.

OR

ABC Ltd. has following book value capital structure :

Equity capital (₹ 10 per share)	10,00,000
11% Preference shares (₹ 100 each)	1,00,000
Retained earnings	12,00,000
13.5% Debentures (₹ 100 each)	5,00,000
	28,00,000

The next expected dividend per share is ₹ 1.50. The dividend per share is expected to grow at the rate of 7%. The market price per share is ₹ 20. Preference stock is currently selling for ₹ 75 per share. Debentures are selling for ₹ 80 per debenture. The tax rate for company is 50%.

Calculate Weighted Average Cost of Capital using

(i) Book value proportions, and

(ii) Market value proportions.

(B) A firm considering an expenditure of ₹ 60 lakhs for expanding its operations. 7

	₹
Number of existing equity shares	10 lakhs
Market value of existing share	60
Net earnings	90 lakhs

Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of ₹ 52 per share and cost of new issue will be ₹ 2 per share.

OR

(i) A company issued 10% preference shares of ₹ 100 each at par. The preference shares are to be repaid after 10 years. The floatation cost is 4%. The tax rate is 40%. Calculate the cost of preference shares. 4

(ii) A company has issued 12% debentures of ₹ 100 each. You are required to calculate the cost of debentures if they are issued at 3

(a) 10% premium, and

(b) 10% discount

The tax rate for company is 40%.

2. (A) (i) The current price of a company's share is ₹ 75 and dividend per share is ₹ 5. Calculate the dividend growth rate, if investor's required rate of return is 12%. 3

(ii) Face value of a 15% Debenture is ₹ 1,000. The maturity period of the debenture is 5 years. What is the face value of debenture if required rate of return is, (a) 15% and (b) 12% ? 4

OR

(i) An investor expects a dividend of ₹ 5 per share for each of 10 years and a selling price of ₹ 80 at the end of 10 years. Calculate present value of share if his required rate of return is 12%. 4

(ii) BS Ltd. has issued 11% preference shares with face value of ₹ 100. What will be the value of preference shares if the required rate of return is 13% ? 3

(B) Tisha Ltd. declared and paid annual dividend of ₹ 5 per share. It is expected to grow at 20% for next two years and 10% thereafter. The required rate of return is 15%. Compute the price of its shares. 7

OR

Mr. B has invested in a company which is currently paying dividend of ₹ 4 per share. The required rate of return is 16%. Compute the value of equity share 7

(i) If the growth rate in dividend is 6% and

(ii) If the growth rate in dividend is declining by 6%.

3. (A) Write a note on Risk-Adjusted Discount Rate approach. 7

OR

Explain meaning and characteristics of Derivatives.

(B) Give difference between Forwards and Futures. 7

OR

Write a detailed note on Decision Tree Approach in Capital Budgeting.

4. (A) Explain factors affecting dividend policy of a company. 7

OR

Write a note on MM hypothesis.

(B) Explain Walter's model of dividend policy. 7

OR

Discuss various types of dividend policy.

5. Do as directed :

(1) Give full form of CAPM.

(2) Opportunity cost is also known as _________ cost. (Economic, Implicit, Marginal, Explicit)

(3) Cost of retained earnings is the economic cost of dividends foregone by shareholders. (True/False)

(4) Unsystematic risk is also known as _________ risk. (Diversifiable, Undiversifiable)

(5) Give full form of YTM.

(6) Valuation of preference shares are done on the exactly same lines as done for bonds. (True/False)

(7) _________ bonds do not have any redemption value.

(8) American option can be exercised by holder at the end of period only. (True/False)

(9) Uncertainty is possibility of loss or injury from occurrence of an unwanted situation. (True/False)

(10) Risk in derivative can be reduced by _________. (Revoking, Hedging, Waiving)

(11) Gorder's model of dividend policy is based on relevance concept of dividend policy. (True/False)

(12) Company's dividend policy is not affected by future needs of capital. (True/ False)

(13) In options contract, only _________ is obliged to perform the contract. (buyer, seller)

(14) Coupon rate is always equal to Internal rate of return. (True/False)
