SYBBI / 65

Q. P. Code: 22155

Time: 2Hrs.30Min. **Max. Marks: 75**

Instructions: (a) All questions are compulsory subject to internal choice.
(b) Figures to the right indicate full marks.

Q.1 **Answer any Eight from the following:** **[08]**

A Match the following

A	B
1. Venture capital	a. Long term source of finance
2. Treasury bill	b. Bonus issue
3. Preference share capital	c. objective of F.M
4. Equity	d. Stable dividend policy
5. Stock dividend	e. Hybrid financing
6. Profit maximisation	f. Short term money market instrument
7. Constant payout	g. Expensive source of financing
8. Financial goals	h. Durand
9. NI Approach	i. Considers time value of money
10. Profitability Index	j. Quantitative

B **Fill in the blanks (Answer any Seven):** **[07]**

1. Standard debt equity ratio is ________.
2. Finance function is performed in all the ______.
3. Agency cost includes ________ cost
4. ___________ analysis the value of a unit of money of different time
5. __________ helps the investor to decide the return on investment
6. ___________ are very risky
7. NPV considers ____________ of money.
8. Retirement compensation is treated as ___________.
9. Capital rationing is selection of investment proposal under ________.
10. Capital structure decisions are taken in view of the purpose of _______.

Q.2 Sun Ltd. is considering three proposals for its capital expenditures:

A. The total expenditure is budgeted as Rs. 70,00,000. Rs. 30,00,000 has been utilised for certain expansion plans. The balance Rs. 40,00,000 needs to be allocated amongst any two of the following proposals. Tax rate is 30%. Evaluate the same with the help of Payback period. The details of the proposals are: **[15]**

Details	Proposal A	Proposal B	Proposal C
Cost of the proposal (Rs.)	20,00,000	20,00,000	20,00,000
Expected life	5 years	6 years	4 years
Scrap Value (Rs.)	2,00,000	1,00,000	Nil
Annual Cash Flow before tax after depreciation	5,00,000	4,00,000	6,00,000
Additional working capital at the end of second year (Rs.)	2,00,000	75,000	1,25,000

OR

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B. From the following details calculate: **[15]**

a. Net Present Value at discounting factor of 15%
b. Profitability Index

Year	Annual Cash Flow Project A	Annual Cash Flow Project B	Annual Cash Flow Project C
Cash out flow	35,00,000	40,00,000	20,00,000
1	22,00,000	29,00,000	17,00,000
2	15,00,000	23,00,000	15,00,000
3	8,00,000	19,00,000	10,00,000
4	6,00,000	12,00,000	7,00,000

. Expected life of each project is 4 years. Also rank the projects.

Q.3 A. From the following Capital structure calculate overall cost of capital for ABC Ltd using **[15]**

A) Book value weights
B) Market value weights

Source	Book Value (Rs.)	Market Value (Rs.)	After tax cost of different sources
Equity share capital	60000	90000	15%
Retained Earnings	20000	-	12%
Preference share capital	10000	30000	10%
Debentures	30000	60000	8%

OR

B. A ltd has the following capital structure as on 31st December,2016. **[15]**

	Rs.
10% debentures	600000
9% preference share capital	400000
5000 equity shares of Rs.100 each	500000
	1500000

The Equity shares of the company are quoted at Rs.100 and the company is expected to declare a dividend of Rs.9 per share for 2016.The company has registered a growth rate of 5% which is expected to be maintained .The tax rate applicable to the company is 50%.

Calculate

1. The weighted average cost of capital
2. The revised weighted average cost of capital, if the company raises additional term loan of Rs.5,00,000 at 15% .In such a situation the company can increase dividend from Rs.9 to Rs.10 per share but the market price of the share will go down to Rs.90.

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Q.4

AB company needs Rs. 5,00,00,000 for the construction of a new plant. The following three financial plans are feasible. **[15]**

a. The company may issue 50,00,000 ordinary shares of Rs.10 each.
b. The company may issue 25,00,000 ordinary shares of Rs.10 and remaining amount may be collected by issue of 2,50,000 debentures of Rs.100 each bearing an 8% rate of interest.
c. The company may issue 25,00,000 ordinary shares @Rs.10 each and remaining amount as preference shares of Rs.10 each bearing an 8% rate of dividend.
If the expected EBIT ,which the company may earn is Rs.40,00,000 then suggest which capital structure alternative the company should select. Assume tax rate to be 50%.

OR

A. From the following data, calculate the MARKET PRICE of a share of LSK Ltd., under (i) Walter's formula; and (ii) Dividend growth model. **(08)**

EPS = Rs. 150
DPS = Rs. 90
Ke = 20%
r = 30%
Retention ratio = 55%

FM 09

B. If Ocimum group has a choice of the following three financial plans. **(07)**

(Rs in Lakhs)

	Plan 1	Plan 2
Equity	30	10
Debt	10	30
EBIT	4	4

Interest @12% per annum on debts in all cases. Tax rate 25% . Comment which plan is more beneficial for the owners of the company on basis of its net earnings with appropriate justification.

Q.5

A. What is venture capital? What are its features? **[08]**
B. Explain factors determining dividend policy. **[07]**

OR

C. Write short notes(**any three**) **[15]**
1 Cost of capital
2. EAV
3 long term sources of finance
4 Time value of money
5 MM Approach

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