TYBMS (V)/ Strategic Finn. Mngt/28

Q.P. Code : 746902

(2½ Hours)

[Total Marks 75]

Note: 1) All questions are compulsory.
2) Figures to the right indicates full marks.
3) Working notes should form part of the answer.
4) Use of simple calculator is allowed.

1. Answer the following (Any Two out of Three) : **(15)**

a) Following are the details regarding three companies A Ltd., B Ltd. and C Ltd.:

Particulars	A Ltd.	B Ltd.	C Ltd.
Internal rate of return	15%	5%	10%
Cost of Equity	10%	10%	10%
Earning per share	Rs.8	Rs.8	Rs.8

Calculate the value of a equity share for each of the company applying Walter's model when dividend payout ratio (D/P ratio) is (i) 50% (ii) 75%.

b) A Large sized chemical company has been expected to grow at 14% per year for the next 4 years and then to grow indefinitely at the same rate as the national economy i.e. 5%. The required rate of return on equity is 12%. Assume that the company paid a dividend of Rs.2 per share last year (D0 =2). Determine the market price per share using Gordon dividend growth valuation Model.

c) What is XBRL? State it Advantages

2. Answer the following (Any Two out of Three) : **(15)**

a) From the following project details calculate the sensitivity of the (a) Project cost (b) Annual Cash flow and (c) Cost of Capital . Which variable is most sensitive?

Project Cost	Rs.24,000
Annual Cash Flow	Rs.9,000
Life of the project	4 years
Cost of Capital	14%

The annuity factor at 14% for 4 years is 2.19137 and at 18% for 4 years are 2.6667

b) Anil Ltd has Rs.5, 00,000 allocated for capital budgeting purposes. The following proposals and associated profitablity Index have been determined.

Project	**Amount (Rs.)**	**Profitability Index**
1	1,50,000	1.22
2	75,000	0.95
3	1,75,000	1.20
4	2,25,000	1.18
5	1,00,000	1.20
6	2,00,000	1.05

Which of the above investments should be undertaken in order to maximise NPV assume that the projects are (a) indivisible (b) divisible.

c) What is Decision Tree Analysis? Explain its Merits and Demerits

3. Answer the following (Any Two out of Three) : **(15)**

a) X ltd is intending to purchase Y (by merger) and the following information is available.

Particulars	**X Ltd.**	**Y Ltd.**
Number of equity shares	10,00,000	6,00,000
Earning after tax (Rs)	50,00,000	18,00,000
Market price per share (Rs)	42	28

You are required to calculate:

i) Present EPS of both the companies

ii) Present Price Earning ratio (P/E Ratio) of both the companies.

iii) If the proposed merger take place, what would be the new EPS of X ltd, assuming merger take place by exchange of equity shares and the exchange ratio is based on the Market price per share.

b) From the following data pertaining to XYZ ltd for the year ended 31st March 2016, you are required to calculate following missing figure.

Sales value	Rs.20,00,000
Income	Rs.4,00,000
Average Investment	Rs.5,00,000
Sales Margin (%)	?
Capital turnover (times)	?
ROI (%)	?
Economic Value Added	?
Weighted average cost of capital	8%

c) What is corporate governance and state the benefits of corporate governance practice.

4. Answer the following (Any Two out of Three) : **(15)**

a) From the following information compute the amount of provision to be made in Profit & Loss a/c of a commercial Bank:

Assets	Rs. In lakhs
Standard Assets	7,000
Sub Standard Assets (fully secured)	3,000
Doubtful	
a) Doubtful upto one year (Realizable value of security Rs.500 lakhs)	1,000
b) Exceeding one year but less than three year (Realizable value of security Rs.300 lakhs)	500
Loss assets	1000

b) Following is the Balance sheet of PBX Ltd. Calculate amount of maximum permissible Bank finance by all the three methods of lending for working capital as per Tandon Committee Assume core current assets is Rs.60 lakhs.

Balance Sheet of PBX Ltd. as on 31st March 2016.

Liabilities	Rs.in (lakhs)	Assets	Rs.in (lakhs)
Equity shares of Rs.10 each	400	Fixed Assets	1000
Retained Earning	400	Current Assets	
11% Debentures	600	Raw Materials	200
Public Deposits	200	Work in Progress	300
Trade Creditors	160	Finished Goods	150
Bills Payable	200	Debtors	200
		Cash at bank	110
	1,960		**1,960**

c) Explain the short term sources of working capital financing.

5. **Case Study** **(15)**

Delta Corporation is considering an investment in one of the two mutually exclusive projects. The certainty equivalent approach is employed in evaluating risky investments. The current yield on treasury bills is 5% and the company uses this as riskless rate. The risk premium rate is 3%. Expected values of the net cash inflow with their respective certainty - equivalents are:

Year	Project A -Cash inflows (Rs.)	Project A Certainty Equivalent	Project B-Cash inflows (Rs.)	Project B-inflows Certainty Equivalent
0	(1,70,000)	1	(1,50,000)	1
1	90,000	0.8	90,000	0.9
2	1,00,000	0.7	90,000	0.8
3	1,10,000	0.5	1,00,000	0.6

Answer the following with reason :

(i) Which project should be acceptable to the company?

(ii) Which project is risky? Why?

(iii) If the company was to use the risk adjusted discount rate method, which project should be accepted?

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