Time 2.5 hours

Total marks :75

Note: All the question are compulsory
Round off up to 2 decimals unless specified in the question

Q1. A State whether the following statements are true or false **(any 8)** **(8)**

1. The expression "3/10, net 45" means that the customers receive a 10 percent discount if they pay within 3 days; otherwise, they must pay within 45 days with no discount.
2. The goal of accounts receivable management is to maximize the business's credit sales.
3. A capital investment involves making a current cash outlay in the expectation of future benefits
4. According to the Net Income approach to valuation, the total value of the firm is not affected by changes in its capital structure.
5. A capital investment involves making a future cash outlay in the expectation of current benefits.
6. Cash flow calculations require adding back depreciation to net income since it is a non-cash expense
7. The internal rate of return is that discount rate that equates the present value of the cash outflows (or costs) with the present value of the cash inflows.
8. The NPV method is based on the assumption that projects' cash flows are reinvested at the project's risk-adjusted cost of capital.
9. The higher a firm's cost of capital, ko, the higher the total valuation of the firm.
10. Capital structure determines the least expensive sources of funds for the firm to borrow.

Q1. B Match the column (any 7) (7)

	Column A		Column B
1	Objective of Strategic Financial Management	A	Ratio between Present Value of Cash Inflow and Present Value of Cash Outflow
2	ABC Analysis	B	Profit Maximisation
3	Net Present Value	C	Fixed Income bearing Security
4	Debentures	D	Maximise Return of Investment
5	Short Term Objective of firm	E	Dividend Capitalisation
6	Gordon Dividend Model	F	Present Value of Cash Inflow less Present Value of Cash Outflow
7	Profitability Index	G	Dividend not relevant for shareholders wealth
8	Modigiliani Miller Dividend Model	H	Capital Structure does not affect value of the firm
9	Collection Cost	I	Debtors Control Technique
10	Net Operating Income Approach	J	Cost of collecting dues

Q2

A limited company is considering the purchase of a new machine which will replace some operations There are two alternatives A and B. From the following information, prepare a profitability statement and work out the payback period for each. Also calculate the net present value of both the alternatives if the cost of capital is 8% p.a.

Particulars	Model A	Model B
Cost of the Machine in Rs	5,00,000	6,00,000
Estimated life in years	5	6
Additional cost in Indirect Materials in Rs	8,000	9,000
Estimated Savings in scrap in Rs	50,000	60,000
Additional cost of maintenance in Rs	15,000	20,000
Estimated savings in Direct wages Employees not required Wages per employee p a in Rs	 15 10,000 p.a	 20 8,000 p.a

Tax rate is 40% suggest which machine should be preferred. **(15)**

OR

Q2 a PQR ltd is considering a project for which the following estimates are available.

Initial cost of the Project	Rs 5 lacs
Sales price/unit	Rs 75
Cost per unit	Rs 45
No of units Sold p.a	5,000
Life of the project	5 years
Cost Of Capital	10%

Calculate the sensitivity of the project with project cost, annual cash flow and state which is the most sensitive? **(8)**

Q2b. In a capital rationing situation (investment limit is Rs 50 lakhs. Suggest the most desirable feasible combination on the basis of the following data (indicate justification) (Rs lakhs)

Project	Initial out lay	NPV
A	29	12
B	21	9
C	10	8
D	20	6

Project B and C are mutually exclusive. (7)

Q3) Delta Trading Ltd has 8% Debentures of Rs.80,00,000. The Earnings before Interest and Tax is Rs.32,00,000. The overall capitalization rate of the firm (WACC) is 10%. The company wishes to raise further Rs.16,00,000 through 8% Debentures. Calculate:

a) The Present Market value and Present Equity Capitalisation rate based on Net Operating Income.

b) The proposed Market Value of the Company and Proposed Equity Capitalisation rate based on Net Operating Income approach.

c) Also verify Present and Proposed WACC under Net Operating Income Approach and give your conclusion. **(15)**

OR

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Q 3 a Following are the details of Alpha Ltd and Beta Ltd

	Alpha Ltd	Beta Ltd
Internal Rate of Return	15%	5%
Cost of Equity Capital	10%	10%
Earnings per Share	Rs.9	Rs.9

Calculate value of an Equity share of each of these companies as per Walter's Model when the Dividend Pay-out ratio is: i) 25% ii) 50% iii) 75% **(8)**

Q3 b. Sun Ltd has a Rate of Return of 15% and its earning Per Share is Rs.80. Calculate the Market Price per Share using Gordon's Model in each of the following cases: (7)

Sr. No.	Dividend Payout (%)	Cost of Capital (%)
1	60	14
2	80	16
3	75	15

Q.4 In order to increase sales from the normal level of Rs. 2,40,000 p.a, the X Ltd. marketing manager submits a proposal for liberalizing credit policy as under:

Normal sales: Rs. 2,40,000

Normal Credit Period: 30 days

PV Ratio: 33.33%

The company expects pre – tax return on investment @ 20%. Suggest which credit policy should be adopted. Assume 360 days in a year. (15)

Proposed Credit Policy	**Expected increase in Average Collection Period (Days)**	**Expected increase over Normal Sales (Rs. in Lakh)**
I	15	12,000
II	30	18,000
III	45	21,000
IV	60	24,000

OR

Q.4 a What is YTM of each Bond? Which Bond would you recommend for investment? **(8)**

	Coupon Rate	Maturity	Price/Rs. 100 Par Value
Bond A	12%	10 Years	Rs. 70
Bond B	10%	6 Years	Rs. 60

Q.4 b A bond of Rs. 100 face value carrying an annual interest rate of 12% is redeemable after 6 years at par if the required rate of return is 15% what is the present value of the Bond and should the investor buy the bond if the current market price of the bond is Rs. 90. **(7)**

Q5. a What are the principles of sound financial plan **(8)**

b. Explain in brief Indifference analysis (7)

OR

Q5 Write short notes on (any 3) **(15)**

a. MM approach of Capital structure

b. Value maximisation

c. Entry load and Exit load

d. Cost of Receivables

e. Financial Break even