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MBA 3rd Semester Examination

Advanced Financial Management (N.S.)

FM-01

Time : 3 Hours   Max. Marks : 60

The candidates shall limit their answers precisely within the answer-book (40 pages) issued to them and no supplementary/continuation sheet will be issued.

SECTION - A

Answer all the questions. Each question carries 2 marks.

1. What do you mean by Stock spilt?

2. Explain Replacement decision.

3. What do you mean by multiple IRR?

4. Distinguish between Project IRR and Equity IRR.

5. Write short notes on Sensitivity analysis in Capital budgeting.

6. How is Beta calculated?

7. Define Cost of capital.

8. Draw Break-Even analysis chart

9   Does financial leverage always increase the EPS? Illustrate your answer.

10 What do you mean by Bridge finance?   (2×10=20)

SECTION - B

Answer any four of the following. Each question carries 5 marks.

11. Does diversification reduce the risk of Investment? Explain with an example.

12. What is the degree of combined leverage? What do you think is the appropriate combination of operating and financial leverage?.

13. For a given company XYZ, the selling price of its product is Rs. 120, the variable cost per unit is Rs. 70. The company is estimated to produce 10,000 units. Fixed costs related to the production of its product are Rs. 400,000. If the desired profit is Rs. 100,000, determine the number of products to be sold to achieve the desired profits.

14. What is an EBIT-EPS analysis? Illustrate your answer.

15. Write about the exemptions of open offer obligations of acquisitions, as per latest takeover code of SEBI.

16. The cost sheet of Dot Com Co. Ltd. is given in the following table

Cost sheet of Dot Com Co. Ltd.

Particulars	Amount in Rupees
Raw material	45
Direct Labour	18
Overheads (including Depreciation of Rs. 10)	40
Total Cost	103
Profit	17
Sales	120

Average stock of raw material is for one month. Average material in work in progress is for half month, credit allowed by suppliers one month; and credit allowed by debtors one month. Average time lag is payment of wages 10 days, overheads 30 days. 30% of sales are on cash basis and cash balance is expected to be Rs. 100,000. Finished goods lie in warehouse for half a month. Prepare the working capital needed to finance a level of activity of 45,000 units of output. Production is carried on evenly throughout the year and wages and overhead accrue similarly   (5×4=20)

SECTION - C

Answer any two of the following. Each question carries 10 marks.

17. Write about various managerial considerations before arriving at Dividend policy.

18. Sony Ltd. is considering the acquisition of Minolta Ltd. with stock. The relevant financial information is as follows:

Particulars	*Sony Ltd.*	*Minolta Ltd.*
Present earnings (in thousands)	$4,000	$1,000
Common shares (in thousands)	2,000	800
Earnings per share	$2.00	$1.25
Price/earnings ratio	12x	8x

Sony plans to offer a premium of 20% over the market price of Minolta stock.

(a) What is the ratio of exchange of stock?

(b) How many new shares will be issued?

(c) What is the EPS for the surviving company immediately following the merger?

[P.T.O.]

19. A firm has an investment proposal, requiring outlay of Rs. 40,000. The investment proposal is expected to have 2 years' economic life with no salvage value. The probabilities assigned to cash inflows after tax for the two years are as follows:

Year	Cash inflow after tax (Rs.)	Probability	Cash inflow after tax (Rs.)	Probability
Year I	25,000	0.4	30,000	0.6
Year II	12,000	0.2	20,000	0.4
	16,000	0.3	25,000	0.5
	22,000	0.5	30,000	0.1

The firm uses risk free interest rate of 10%. (Discount factor at 10%: Year I - 0.909, Year II - 0.826) You are required to find:

(a) Construct a decision tree for the proposed investment project and calculate expected NPV.

(b) What net present value will the project have if worst outcome is realized? What is the probability of occurrence of this NPV?

(c) What will be the probability of best occurrence?

(d) Will the project be accepted?

20. How will you calculate a project's WACC with its unique capital structure given the firm's cost of capital and capital structure data? (10×2=20)