

[Total No. of Questions - 20] [Total No. of Printed Pages - 4]
(2123)

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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 dividend?
2. Distinguish between NPV and IRR.
3. What do you mean by capital rationing?
4. Explain modified IRR.
5. Write in brief about Buy back of shares.
6. Write short notes on CAPM.
7. What do you mean by Cost of capital?
8. Draw CVP analysis chart.
9. What is an indifference point?
10. Explain the concept of Operating leverage. **(2×10=20)**

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[P.T.O.]

SECTION - B

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

11. Define systematic and unsystematic risks. Give examples of both.
12. Define operating and financial leverage. How can you measure the degree of operating and financial leverage? Illustrate with an example.
13. For a given company Barco Fibre Ltd, total sales revenue is Rs. 20,00,000 and total variable costs are Rs. 16,00,000, then determine its contribution margin. The total fixed costs is Rs. 2,50,000. Also find the Break even sales.
14. Is Certainty-Equivalent approach theoretically superior to the Risk Adjusted Discount Rate? Give reason.
15. What are the limits on acquisition of shares or voting rights as per 2011 takeover code of SEBI?
16. The information is taken from the books of a manufacturer, calculate the operating cycle in days.

Period covered	365 days
Average period of credit allowed by suppliers	15 days
Average debtors outstanding	Rs.450
Raw materials consumption	Rs.4000
Total Production cost	Rs.9500
Sales for the year	Rs. 15500
Total cost of goods sold	Rs. 10000
Value of average stock maintained	
Raw materials	Rs.300
Work in progress	Rs.330
Finished goods	Rs.270

(4×5=20)

SECTION - C

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

17. Write in detail about various Dividend valuation models.
18. Sun Pharma is considering the acquisition of Sandoz Ltd. with stock. The relevant financial information is as follows:

Particulars	Sun Pharma	Sandoz 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

Sun Pharma plans to offer a premium of 20% over the market price of Sandoz stock.

- (a) What is the EPS for the surviving company immediately following the merger?
- (b) If the Price/earnings ratio stays at 12 times what is the market price per share of the surviving company?
- (c) What would happen if it went to 11 times?
19. A firm has an investment proposal, requiring outlay of Rs. 80,000. 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 1	50,000	0.4	60,000	0.6
Year 2	24,000	0.2	40,000	0.4
	32,000	0.3	50,000	0.5
	44,000	0.5	60,000	0.1

[P.T.O.]

The firm uses risk free interest rate of 10%. (Discount factor at 10%: Year 1 - 0.909, Year 2 - 0.826)

Your 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. What is the logic of the MM adjusted cost of capital? Can you use it as a discount rate for evaluating an investment project?
(2×10=20)