PG – 738

I Semester M.Com. Degree Examination, January/February 2018
(CBCS Scheme)
COMMERCE
Paper – 1.5 : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** sub-questions. **Each** sub-question carries **2** marks : **(7×2=14)**
   a) Define Finance Function.
   b) What is Modified Internal Rate of Return (MIRR) ?
   c) What are Non-Conventional Investments ?
   d) What is meant by Post-Payback Profitability ?
   e) Distinguish between Net Income and Net Operating Income Approach.
   f) What are the important elements of Capital Structure ?
   g) What do you mean by Back to Back Loan ?
   h) Define Derivatives.
   i) What do you mean by Sequential Analysis ?
   j) What do you mean by Real Rate and Nominal Rate of Return ?

SECTION – B

Answer **any four** questions. **Each** question carries **5** marks : **(4×5=20)**

2. Explain how a firm will go about determining its 'Optimal Capital Structure' ?
3. The investment data of XYZ Company Ltd., with 12 percent Cost of Capital, is as follows :

Particulars	**Amount (Rs.)**
Investment	50,00,000
Cash Flow Before Tax	**Rs.**
1	30,00,000
2	30,00,000
3	20,00,000
4	10,00,000
5	5,00,000

Assuming an Inflation rate of 3.5 percent, determine NPV of the project by using real rate of discount.

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4. Certainly Equivalent Approach is theoretically superior to Risk Adjusted Discount Rate. Do you agree ? Comment.

5. 'Conglomerate firm shares tend to have a higher market value due to lower cost of capital'. Elucidate.

6. No Dividends, No Carrying Cost. Compute the theoretical forward price of the following securities for 1 month, 3 months and 6 months :

Securities	**A Ltd.**	**B Ltd.**	**C Ltd.**
Spot Price (So)	Rs. 160	Rs. 380	Rs. 80

You may assume a risk free interest rate of 6% per annum.

7. A company is considering two mutually exclusive projects X and Y. Project X costs Rs. 3,00,000 and Project Y Rs. 3,60,000. You have been given below the net present value, probability distribution for each project.

Project X		**Project Y**	
NPV Estimate (Rs.)	**Probability**	**NPV Estimate (Rs.)**	**Probability**
30,000	0.1	30,000	0.2
60,000	0.4	60,000	0.3
1,20,000	0.4	1,20,000	0.3
1,50,000	0.1	1,50,000	0.2

I) Compute the risk attached to each project i.e., Standard Deviation of each probability distribution.

II) Which project do you consider more risky and why ?

SECTION – C

Answer **any three** questions. **Each** question carries **12** marks : **(3×12=36)**

8. A Limited has Rs. 10,00,000 available for investment opportunities under Capital Rationing and they are as follows :

Proposal	**Cost of the Project Rs.**	**PBP (Years)**	**ARR (%)**	**PI (Times)**	**IRR (%)**
A	4,00,000	4.3	10	1.3	8
B	4,60,000	4	12	1.4	9
C	4,00,000	5	5	0.9	10
D	4,00,000	6	6	1.0	13
E	2,40,000	3	8	1.3	14
F	1,50,000	3.4	10	2.0	16

G	1,20,000	4	12	1.0	10
H	1,40,000	3.9	14	1.7	6
I	1,60,000	3	10	1.9	7
J	4,00,000	3.5	8	2.0	8

The firms cost of capital is 15%. Select the best proposals among 10 proposals based on PBP, ARR, PI and IRR techniques.

9. Write a note on :
   a) Homemade Leverage
   b) Company Arbitrage and Personal Arbitrage
   c) MM's thesis with Corporate Taxes.
   d) Reverse Leverage.

10. The following is the data regarding two Company's. X and Y belonging to the same risk class :

Particulars	**X**	**Y**
No. of Ordinary Shares	90,000	1,50,000
Market Price/ Share (Rs.)	1.2	1.0
6% Debentures	60,000	–
Profit Before taxes (Rs.)	18,000	18,000

All profits after interest are distributed as dividend. Explain how under Modigliani and Miller Approach assuming an investor holding 15% of shares in Company X will be better off in switching his holding to Company Y.

11. Paramount Products Ltd., wants to raise Rs. 100 lakh for diversification project. A current estimate of EBIT from the new project is Rs. 22 lakh p.a.

    Cost of debt will be 15% for amounts up to and including Rs. 40 lakh, 16% for additional amounts up to and including Rs. 50 lakh and 18% for additional amounts above Rs. 50 lakh. The equity shares (face value of Rs. 10) of the company have a current market value of Rs. 40. This is expected to fall to Rs. 32 if debts exceeding Rs. 50 lakh are raised. The following options are under consideration of the company.

Option	**Debt**	**Equity**
I	50%	50%
II	40%	60%
III	60%	40%

Determine EPS for each option and state which option should the company adopt. Tax rate is 30%.

12. Company P wishes to takeover Company Q. the details are as follows :

Particulars	Company X (Rs.)	Company Y (Rs.)
Equity shares (Rs. 100 per share)	22,00,000	5,00,000
Share premium account	20,000	30,000
Profit and Loss account	28,000	14,000
Preference shares	25,000	15,000
8% Debentures	10,000	10,000
Fixed assets	11,52,000	3,35,000
Net current assets	1,01,000	46,000
PAT for share holders	66,000	26,000
Market Price/Equity shares	33	23
Price Earnings Ratio	15	10

What offer do you think company P could make to Company Q in terms of Exchange Ratio, based on following methods :

a) Net asset value

b) Earnings per share and

c) Market price per share.

Which method would you prefer from P's point of view ?