K J SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH
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PGDM (Finance) Trimester. IV. Batch: 2017-19
Advanced Financial Management
(End Term Examination)

Max. Marks: 50
Duration: 3 Hrs.
Instructions September 19, 2018

(1) Question **No.1 is compulsory**, which is of **14 marks.**
(2) Attempt any **THREE** questions from the rest, which are of **12 marks** each.
(3) Answer each new question on a fresh page.
(4) Write all sub question of a main question together.
(5) Don't write extra answers. Only first four will be assessed.
(6) If these instructions are ignored, appropriate marks will be reduced.

Q.1 (A) Following data is collected from XYZ Ltd. **(10 Marks)**

Particulars	**Amt.in INR**
EBIT	3,00,000
Less: Interest on debentures @ 12 %	60,000
EBT	2,40,000
Less: Tax @ 50 %	1,20,000
EAT	1,20,000
Numbers of equity shares of Rs.10 each	40,000
EPS	3
Current Market Price of share	30
P/E Ratio	10

The company has a reserve of Rs.6,00,000. The company needs Rs.2,00,000 for expansion. This amount will earn at the same rate of funds already employed in the business. If the company will raise the additional funds required by debt, it will be at 14 percent interest and it will push P / E ratio of the firm to 8. You are required to find the probable price of the share in the following two conditions.

(a) If additional funds are raised as debt.
(b) If additional funds are raised by equity shares.

(B) A new project under consideration by a firm requires capital of Rs.30 lacs. This funds can be raised either by issue of equity shares of Rs.100 each or by the issue of equity shares of Rs.20 lacs and balance amount by debt @ 15 percent interest. Find out the indifference level of EBIT given the tax rate 50 %. **(4 Marks)**

Q.2 (A) The EPS of a company is Rs.25. The market rate of discount applicable to the company is 15.50 percent. Retained earnings can be employed to return of 12 %. The company is considering the payout of 20 %, 40 % and 80 %. Which of these will maximize the wealth of the shareholder as per Walter's model?

(B) A company had 10,00,000 equity shares outstanding. The current market price per share is Rs.150. Last year the company has declared the dividend of Rs.5 per share which the analyst expects to increase at the end of the current year by 60 % as the business of the company is too good. The rate of capitalization appropriate to the risk class to which the company belongs is 12 %. Find out the market price of the share using M & M approach, if the company

(a) Declares the dividend.

(b) Do not declare the dividend.

Q.3 Based on the following information available for a project, you are required to calculate EVA of the project for each year end of the life of the project.

Investment outlay	Rs. 5000	Depreciation	Straight line
Project life	4 years	Tax rate	40 %
Salvage value	0	Debt equity ratio	4 : 5
Annual revenue	Rs. 6000	Cost of equity	18 %
Annual Cost (excluding depreciation, interest and tax)	Rs. 4000	Post tax cost of debt	9 %

Q.4 (A) Explain the concept of Operating leverage.

(B) Explain the concept of Yield to Maturity of a bond.

(C) How to estimate external funds required for a growing business?

Q.5 Write short notes on any **TWO** of the following.

(A) Share buyback.

(B) Impact of industrial sickness.

(C) Optimal capital structure of a company.

End of the paper