K J SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH
VIDYA NAGAR, VIDYA VIHAR, MUMBAI – 400 077
PGDM (Finance) – IV Trim. 2016-18 batch
Advanced Financial Management
(End Trimester Examination)

Max. Marks: 50
Duration: 3 Hrs.

Sept. 16 , 2017.

Instructions:
1. **Question No.1 is compulsory, which is of 14 marks.**
2. **Answer any THREE questions from the rest, which are of 12 marks each.**
3. **Answer each new question on a fresh page.**
4. **Answer all sub questions 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) From the following information for four firms, calculate EBIT, EPS, Operating leverage and Financial leverage.

Particulars	**Firm A**	**Firm B**	**Firm C**	**Firm D**
Sales (in units)	20,000	25,000	30,000	40,000
Selling price per unit in Rs.	15	20	25	30
Variable cost per unit in Rs.	10	15	20	25
Fixed cost in Rs.	30,000	40,000	50,000	60,000
Interest Rs.	15,000	25,000	35,000	40,000
Tax rate in percentage	40	40	40	40
Number of equity shares	5,000	9,000	10,000	12,000

Q.1 (b) Following table shows the data of two companies X and Y belonging to the same risk class.

Particulars	**Company X**	**Company Y**
Number of equity shares	90,000	1,50,000
Market Price per share in Rs.	1.20	1.00
6 % Debentures	60,000	NIL
Profit before interest	18,000	18,000

All profits after debenture interest are distributed as dividend. Explain how under Modigliani and Miller approach an investor holding 10 % shares in company X will be better off in switching his holding to company Y. It is assumed that interest rate for borrowing by a company and an individual is the same.

Q.2 (a) A firm is expecting earnings in the current year at Rs.6,00,000. It is estimated that the firm can earn Rs. 1,20,000 if the profits are retained. The investors of the company have alternative investment opportunities that will yield them 12 % return. The firm has 60,000 shares outstanding. What should be the dividend payout ratio as per Walter's model? Also find out the current market price of the shares using the same model.

Q.2 (b) The EPS of X Ltd. is Rs.15, current market price of the share is Rs.75, 'r' is 25 %. Find out the change in the market price of the share under Gordon's model if the firm follows payout policy of 50 % and 75 %.

Q.3 From the following information calculate EVA of the firm.

Particulars	**Amt. in Lakhs Rs.**	**Particulars**	**Amt. in Lakhs Rs.**
Sales	1050	Interest @12 % on 100 Lakh	12
Interest income	50	Tax rate in percentage	35
COGS	290	Total Assets	500
Admin and Selling Exp.	300	Debt Equity Ratio	20 : 80
Depreciation	35	Risk free rate of return	5.75 %
Equity Beta	1.19	Market rate of return	16.10 %

Q.4 (a) Explain Balance sheet approach for the valuation of the firm. What are the important precautions that are to be taken while following this method?

Q.4 (b) Explain different types of dividend policies with their suitability.

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

(a) Share buyback

(b) Altman's Z score model

(c) Estimating External funds requirements with financial forecasting

(d) Duration of a bond

(e) Various project appraisal techniques

End of the paper