K.J. Somaiya Institute of Management Studies & Research
Course: PGDM (IB) – III Tri. End Term Exam
Sub: Advanced Financial Management

Date of Exam: 26th March, 2018 Time: 3 Hrs. Marks: 50

1. Question No.1 is compulsory carries 20 marks.
2. Solve any THREE from remaining each carries 10 marks.
3. Use of scientific calculator is allowed but not financial calculator or mobile phone.

Question No.1 (A) (12 Marks)

The income statement & balance sheet of Modern Electronics limited for yr.1 & yr.2 are as follows:

Profit & Loss Account (Rs. In lakhs)	**Year 1**	**Year 2**
Net sales	2400	2670
Cost of goods sold	1830	2040
Gross profit	570	630
Selling expenses	180	195
General & administration exp.	180	156
Depreciation	150	192
Operating profit	60	87
Non-operating surplus/deficit	24	30
Profit before interest & tax	84	117
Interest	30	33
Profit before tax	54	84
Tax	21	30
Profit after tax	33	54
Dividends	18	21
Retained earnings	15	33

BALANCE SHEET (Rs. In lakhs)	**Year 1**	**Year2**
Assets		
Fixed assets (net)	900	1140
Investments	60	60
Current assets, loans & advances		
· Cash & bank	36	42
· Receivables	540	600
· Inventories	519	576
· Prepaid expenses	123	135
Miscellaneous expenditure & losses	45	42
Total	**2223**	**2595**
Liabilities		
Share capital		
· Equity	450	450
Reserves & surplus	354	387
Secured loans		
· Term loans	432	525
· Bank borrowings	489	597

Current liabilities		
· Trade creditors	378	501
· Provisions	120	135
Total	**2223**	**2595**

a) Using the percent of sales method (except, assume that dividends are raised to 24, depreciation to 180 & interest to 36) prepare the pro forma income statement for the year 3. Assume that the sales will be Rs.3060 in year 3.

b) Assume that all items on the assets side, except investment & miscellaneous expenditures & losses, will grow proportionally to sales likewise, trade credit will be proportional to sales. Finally estimate the amount of external financing needed for year 3.

The tax rate expected is 35%. This will be the only provision in the year 3.

Question No.1 (B) (8 Marks)

The following figures are collected from the annual report of XYZ Ltd.:

Net Profit	Rs.30 lakhs
Outstanding 12% Preference shares	Rs.100 lakhs
Number of equity shares	3 lakhs
ROI	20%

What should be the approximate dividend payout ratio so as to keep the share price at Rs.42 by using the Walter Model?

Question No.2

The operating income of H Ltd amounts to Rs. 186000. It pays 35% tax on its income. Its capital structure consists of the following:

14% Debentures	Rs.500000
15% Preference Shares	100000
Equity Shares (Rs.100 each)	400000

1. Determine the firm's EPS.
2. Determine the DOF at the current level of EBIT.
3. Determine the % change in EPS associated with 30% change (both increase and decrease) in EBIT.
4. What additional data do you need to compute operating as well as combine leverage?

Question No.3

Calculate EVA with the help of following data of Help Limited

Financial Leverage	1.4 times
Capital Structure:	Equity capital, Rs.170 lakh Reserves & Surplus Rs.130 lakhs 10% Debentures Rs.400 Lakhs
Cost of equity	17.5%
Tax Rate	30%

Question No.4

Following information is available from the books of XYZ Ltd.

Particulars	Rs. In Lakhs
Sales	500
Cost of Raw Material	200
Labour cost for Manufacturing	100
Interest on borrowings	60

The capitalization rate for debt is 10 % and for the entire firm it is 12.5 %. Assuming that firm does not retain any earning and there is no tax, as per Net operating Income Approach

(a) What is the total market value of the firm?
(b) What is the market value of the debt of the firm?
(c) What is the market value of equity of the firm?
(d) What is the equity capitalization rate?

Question No.5

The following financial statistics is available in respect of a listed company:

Price-earnings (P/E) ratio	8 times
Number of equity shares	4 lakhs
Earnings available to equity shareholders	Rs.40 Lakhs
EPS	10
MPS	80

The company is currently considering whether it should use Rs.20 lakh of its earnings to pay cash dividend or to repurchase shares at Rs.85 per share..

Required:

(a) How many equity shares can be repurchased, using the funds that would have been distributed to pay the cash dividend?
(b) Determine the EPS after the proposal share repurchase.
(c) Assuming no change in the current P/E ratio, compute the market price after share repurchases.
(d) Compare and contrast the shareholders positions under the cash dividend and repurchase alternatives

Question No.6

Good Company Ltd. has currently an ordinary share capital of Rs. 25 lakh, consisting of 25000 shares of Rs.100 each. The management is planning to raise another Rs. 20 lakh to finance a major programme of expansion through one of four possible financing plans. The options are as under:

(a) Entirely through ordinary shares.
(b) Rs.10 lakh through ordinary shares and Rs.10 lakh through long term borrowings at 15% interest.
(c) Rs.5 lakh through ordinary shares, and Rs.15 lakhs through long term borrowings at 16% interest.
(d) Rs.10 lakh through ordinary shares, Rs.10 lakh through preference shares with 14% dividend.

The company expected EBIT is Rs.8 lakh. Assuming tax rate of 35%, determine the EPS in each alternative and comment on the implication of financial leverage.