

F.M. - II

25.11.19

22



Marks: 75

(08)

Duration: 2.5 hrs

Instructions: All questions are compulsory.

Q.1. a] Select the appropriate option. (Any 8)

1. Allocation of resources is a \_\_\_\_\_ strategy.
  - a) Corporate level
  - b) Business level
  - c) Functional Level
  - d) None of the above.
  
2. \_\_\_\_\_ method does not consider investment profitability.
  - a) Payback
  - b) ARR
  - c) NPV
  - d) IRR
  
3. The IRR is same as \_\_\_\_\_.
  - a) ARR
  - b) Hurdle rate
  - c) Interest rate at which NPV is zero
  - d) None of the above
  
4. \_\_\_\_\_ factor is not relevant for determination of debt equity mix.
  - a) Taxation
  - b) Nature of asset base
  - c) Industry Norms
  - d) Viability of cash flows.
  
5. Net income approach assume \_\_\_\_\_.
  - a) No change in risk
  - b) No corporate taxes
  - c) Both a & b
  - d) None of the above.
  
6. NPV method is \_\_\_\_\_.
  - a) Most Traditional
  - b) Most Modern
  - c) Most Complicated
  - d) All of the above
  
7. Hybrid schemes invest in \_\_\_\_\_.
  - a) Equity shares
  - b) Debentures
  - c) Equity shares & Debentures
  - d) None of the above

8. Technical analysis considers \_\_\_\_\_.

- a) Price Movement
- b) Trend Analysis
- c) Comparative Analysis
- d) None of the above

9. Strategic Financial Management includes \_\_\_\_\_.

- a) Strategic Investment Management Decisions
- b) Strategic Financing Management Decisions
- c) Strategic Liquidity Management Decisions
- d) All of the above

10. A close end fund has a \_\_\_\_\_.

- a) Stipulated maturity period
- b) Fixed maturity period
- c) Fluctuating maturity period
- d) None of the above

Q.1. b] State whether True or False (any 7)

(07)

1. Cash sale result in account receivable.
2. YTM can be calculated using IRR.
3. Capital structure is organization structure of a company.
4. Boards of director decide dividend policy.
5. Inflation does not affect rate of return.
6. Modigliani & Miller approach assume capital market is perfect.
7. External loan affects the dividend paying ability of the organisation.
8. Strategic financial management minimize risk.
9. Capital structure influence risk and return of the shareholders.
10. Liquidity is benefit of investing in mutual fund.

Q.2a] Company requires an initial investment of Rs. 2,40,000. The estimated net cash flows are as (15) follow:

Year	Net Cash Flow(Rs)
1	42,000
2	42,000
3	42,000
4	42,000
5	42,000
6	48,000
7	60,000
8	90,000
9	60,000
10	24,000

Using 10% as the cost of capital (Rate of Discount) determine the following:

- (1) Pay Back Period
- (2) Net Present Value
- (3) Profitability Index





OR

Q.2b] X LTD is considering a project with the following cash flow:

(08)

year	Purchase plant	Running cost	savings
0	1,40,000		
1		40,000	1,20,000
2		50,000	140,000

The cost of capital is 8% measure the sensitivity of the project to change in the level of running cost, saving and plant cost. Which factor is the most sensitive?

The present value of Rs.1 at 8% for year 1 and year 2 are respectively 0.9259 and 0.8573

Q.2c]. X LTD has a capital budget of Rs 40,00,000 for the year . It has before it the following 6 Proposals for which the necessary information is provided here under.

(07)

PROPOSAL	Outlay (rs)	NPV(RS)	IRR
A	28,00,000	12,00,000	20.0%
B	10,00,000	6,40,000	17.0%
C	20,00,000	8,00,000	19.0%
D	8,00,000	4,00,000	17.5%
E	22,00,000	18,00,000	18.0%
F	30,00,000	-10,00,000	12.0%

Find out the ranking of the proposals based on NPV & PI Method.

Q.3 (a) Salma Ltd. has an Earning before Interest and Tax of Rs. 1600000 and 8% Debentures of Rs. 4000000. The overall Capitalisation Rate (WACC) is 10%. The company Decides to Raise Further Rs. 800000 through 8% Debentures. You are Required to compute:

- The Present Market value and Present Equity Capitalization Rate based on Net Operating Income Approach.
- The Proposed Market Value of the company and Proposed Equity Capitalization Rate Based on Net Operating Income Approach of Salma Ltd.
- Also Give Conclusion and Verify WACC Present and WACC Proposed Under Net Operating Income Approach.

(15)

OR

Q.3 (b) The Dividend of Reliance Co.Ltd. are Expected to grow at the Rate of 25% for 2 Years, After Which the Growth Rate is Expected to Fall to 5%. The Dividend Paid for Last Period was Rs.2.The Investors Desires a 12% Return. You are Required to Find the Market Price Per Equity Share for Second Year under GORDON MODEL. Also Calculate Present Value of Market price for Second year and Present value of First year and Second Year Dividend. PV FACTOR @ 12% is 0.893 and 0.797

Q. 3c Birla Mutual Fund Has the following Assets and its Prices on 1st April, 2019.

(07)

Investments	No. of Units	Market price per unit(Rs.)
X Ltd.	10000	18.50
Y Ltd.	35000	384.40
Z Ltd.	10000	263.60
P Ltd.	75000	575.60
Q Ltd.	20000	27.65

No. of Units Outstanding = 500000.  
Calculate NAV of the Fund.

Q.4 PV Ratio: 30%

The company expects pre – tax return on investment @ 20%. Suggest which credit policy should be adopted. Assume 360 days in a year. (15)

Particulars	Present Policy	Plan I	Plan II	Plan III
Credit Period	20	40	70	100
Sales (Rs. in Lakh)	15	16	18	21
Fixed Cost (Rs. in Lakh)	3	3	4	4
Bad Debts (%)	0.25	0.5	1	2.5

OR

Q.4 A What is YTM of each Bond? Which Bond would you recommend for investment? (08)

Bond	Coupon Rate	Maturity	Price/Rs.100 Par Value
Bond X	11%	10 years	Rs. 76
Bond Y	12%	7 years	Rs. 69

Q.4 B The following data is available for a bond. Face value is Rs. 100, coupon rate is 14%, years to maturity is 5 years, redemption value is Rs. 100. YTM is 15%. Calculate duration of bond. (07)

Q.5.A. Explain the determinants of Capital Structure. (08)

Q.5.B. Explain the parameters for evaluation of portfolio performance. (07)

OR

Q.5. Write Short Notes on: (Any 3) (15)

- A. 5 C's of Credit
- B. Yield to Maturity
- C. Open ended and closed ended scheme of mutual fund
- D. Internal Rate of Return
- E. Methods of Assessing Receivables