

SEAT No. _____ No. of Printed Pages : 2

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SARDAR PATEL UNIVERSITY
B.B.A. (GENERAL)

VI-SEMESTER EXAMINATION

THURSDAY, 6th APRIL 2017
10-00 A.M to 12-00 P.M.

ADVANCED FINANCIAL MANAGEMENT-II: UM06EBBA02

Total Marks: 60

Q-1

- (A) JEE Company expects EBIT of Rs. 1, 00,000. It has, 10%, 3, 00,000 debenture. The company's equity capitalization rate is 12.5 %. Calculate the value of the firm and cost of capital according to NI approach. The company is interested to increase debt by Rs. 1,00,000 with same interest rate. Show value of the firm and K_o . Also comment on V and K_o behavior. 08
- (B) "According to the NOI approach market value of the firm is not affected by Leverage." Discuss with an illustration. 07

OR

Q-1

- (A) The following is the data regarding two companies 'M' and 'N' belonging to the same equivalent risk class: 08

Particulars	M	N
Number of Equity shares	90,000	1,50,000
Market price per share	Rs. 1.20	Rs. 1.0
6% Debentures	60,000	-
Profit before Interest	Rs. 18,000	Rs. 18,000

All profit after debenture interest is distributed as dividends. Explain how under M & M approach, an investor holding 10% of shares in company 'M' will be better off in switching his holding to company 'N'?

- (B) "Traditional approach is mid-way between NI and NOI". Discuss. 07

Q-2

- (A) The following information pertains to M/s. AB Ltd.: 08
Earnings of the company = Rs. 5, 00,000;
DPR = 60%;
Number of shares outstanding = 1, 00,000;
Equity Capitalisation rate = 12 %; &
Rate of return on investment = 15%
a) What would be the market price per share as per Walter's model?
b) What is the optimum dividend payout ratio according to Walter's model and market value of company's share at that payout ratio?

- (B) What is MM irrelevance hypothesis? List out its assumptions. 07

OR

Q-2

- (A) PQR Ltd. Belongs to a risk class of which the appropriate rate is 15%. The company has 10,000 shares selling at Rs. 200 each. The company is contemplating to declare a dividend of Rs. 5 per share at the end of the current year.
- a) Calculate the price per share assuming:
 i) Dividends are declared and ii) Dividends are not declared.
- b) Find out the number of shares to be issued, if the company has net income of Rs. 1,00,000 and it has an investment proposal costing Rs. 3,00,000. 08
- (B) "Does dividend policy affect the value of the firm under Gordon's model"? Explain. 07

Q-3

- (A) A company is considering four proposals. The standard deviation and the expected or target return of each proposal are given below:

Particulars	Proposals			
	I	II	III	IV
Standard deviation	50,000	1,00,000	1,40,000	1,80,000
Expected or Target return	2,30,000	5,50,000	5,80,000	6,00,000

Which of the four proposals carried the lowest degree of risk? 08

- (B) What is risk? Explain the sources of risk and the techniques available to measure risk in capital budgeting decisions. 07

OR

Q-3

- (A) A company has under consideration two mutually exclusive projects for increasing its plant's capacity. The management has developed 3 estimates:

Particulars	Project X	Project Y
Net Investment	60,000	60,000
Cash Inflows:		
Pessimistic	2,400	7,400
Most likely	8,000	8,000
Optimistic	14,000	9,000

Which of the two projects are selected? (The projects life is of 20 years each, The COC is 10%, & PV@ 10% for 20 years is 8.514). 08

- (B) Write a note on: Decision Tree Analysis. 07

Q-4 What is foreign exchange? Explain the different types of exchange rates. 15

OR

Q-4 Describe the various foreign exchange risk management techniques. 15

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