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SARDAR PATEL UNIVERSITY
B.B.A.[HONOURS][ITM] - Vth Semester
Saturday, 27th October, 2018
Session: Morning Time: 10:00 A.M. TO 12:00 P.M.
Subject Code: UM05EBBI09
Subject: Advanced Financial Management - I

Total Marks: 60

Q1[a] Define the following terms: [08]
 1. Investment 2. Security 3. Portfolio 4. Security Analysis

Q1[b] Explain the characteristics of investment. [07]

OR

Q1 Write a note on: [15]
 1. Sources of investment information
 2. Objectives of investment
 3. Investment versus speculation

Q2[a] A company earned Rs.6 per share and paid Rs.3.48 per share as dividend in the previous year. Its earnings and dividends are expected to grow at 15% for 6 years and then at a rate of 8% indefinitely. The capitalization rate is 18%. What is the price of the share today? [06]

Q2[b] A company has issued 12%, Rs.1000 bond repayable after 10 years at 10% premium. Your required rate of return is 14%. Will you buy the bond if interest is payable annually and semi-annually? [04]

Q.2[c] Explain and illustrate single period valuation. [05]

OR

Q2[a] Assume Rs.100 par value, 8% coupon rate of interest, and 10 years remaining to maturity date. [06]

- If interest is paid annually, find the value of the bond when the required rate of return is 7% and 8%.
- Using 10% required return, what would be the value of the bond if interest is paid semiannually?

Q2[b] [04]
 • A company's current price of share is Rs.100 and the expected dividend per share is Rs.8. If its capitalization rate is 15%, what is the dividend growth rate?
 • A share is currently selling for Rs.120. The expected dividend after a year is Rs.12. The perpetual dividend growth rate is expected to be 8%. What is the equity capitalization rate?

Q.2[c] Explain the bond value theorems which indicate relationship between required rate of return and coupon rate. [05]

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(PTO)

- Q3[a] Define leasing and explain the factors relevant in making the leasing decision. [10]
Q3[b] "Leasing is one of the important means of financing for a firm." Comment. [05]

OR

- Q3 Define leasing and explain in detail the various types of lease arrangements. [15]

- Q4[a] A company's EPS is Rs. 20 on a share of Rs. 100. It has an internal rate return of 25%. Capitalization of its risk class is 12.5%. If Walter's model is used: [07]

1. What should be the optimum payout ratio? What would be the market price at that ratio?
2. Suppose the company has a payout of 25% of EPS, What would be price per share?

- Q4[b] Explain the bird-in-the-hand argument. [08]

OR

- Q4[a] Briefly explain the internal factors affecting dividend policy decision. [08]

- Q4[b] Aagam Ltd belongs to a risk-class for which the appropriate capitalization rate is 10 per cent. It currently has outstanding 25,000 shares selling at Rs 100 each. The firm is contemplating the declaration of dividend of Rs 5 per share at the end of the current financial year. The company expects to have a net income of Rs 2.5 lakh and has a proposal for making new investments of Rs 5 lakh. Show that under the MM assumption, the payment of dividend does not affect the value of the firm. [07]

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