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(A-16)

SARDAR PATEL UNIVERSITY
T.Y.B.B.B.A. (VI-SEMESTER) EXAMINATION

WEDNESDAY, 25th MARCH. 2015
02-30 P.M. to 04-30 P.M.

ADVANCED FINANCIAL MANAGEMENT-II: UM06EBBA02/07

Total Marks: 60

Q-1

(A) PSR Ltd has an EBIT of Rs. 1, 00,000. The cost of debt is 10% and the outstanding debt amounts to Rs.4, 00,000. Presuming the overall capitalization rate as 12.5%, calculate the total value of the firm and the equity capitalization rate. **08**

(B) Describe the guiding principles of capital structure. **07**

OR

Q-1

(A) In considering the most desirable capital structure for a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt-equity mix:

Debt as % of total capital employed	Cost of Debt (%)	Cost of Equity (%)
0	5.0	12.0
10	5.0	12.0
20	5.0	12.5
30	5.5	13.0
40	6.0	14.0
50	6.5	16.0
60	7.0	20.0

You are required to determine the optimal debt equity mix for the company by calculating composite cost of capital. **08**

(B) Discuss the factors influencing the pattern of capital structure. **07**

Q-2

(A) Following are the details regarding three companies A ltd., B ltd. and C ltd.

	A Ltd.	B Ltd.	C Ltd.
R	15%	5%	10%
Ke	10%	10%	10%
E	Rs. 8	Rs. 8	Rs. 8

Calculate the value of an equity share of these companies applying Walter's formula when dividend payment ratio (D/P ratio) is: 50%, 75% & 25%. **08**

(B) As a finance manager, which factors will you consider while devising a dividend policy of a company? **07**

OR

Q-2

(A) Following are the details regarding three companies A, B and C.

	A	B	C
R	.30	.20	.15
Ke	.20	.20	.10
E	Rs. 5	Rs. 5	Rs. 5

Calculate the value of an equity share of each of these companies using Gordon's formula when retention ratio is: 40% & 60%. 08

(B) What is Modigliani-Miler's irrelevance hypothesis? Explain & evaluate it. 07

Q-3

(A) From the following data, state which project is better:

Project Cash flows - Year	A	B
0	-10,000	-10,000
1	4,000	5,000
2	4,000	6,000
3	2,000	3,000

Riskless discount rate is 5%. Project A is less risky as compared to Project B. The management considers risk premium rates at 5% and 10% respectively appropriate for discounting the cash inflows. 08

(B) How standard deviation helps in identifying projects having different degrees of risks? 07

OR

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	Proposal 1	Proposal 2	Proposal 3	Proposal 4
Std. deviation	Rs. 50,000	Rs. 1,00,000	Rs. 1,40,000	Rs.1,80,000
Expected return	Rs.2,30,000	Rs. 5,50,000	Rs. 5,80,000	Rs. 6,00,000

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

(B) What is Decision Tree Analysis? Explain the steps you take for constructing a decision tree. 07

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

OR

Q-4 Discuss the different foreign exchange risk management techniques. 15

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