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SARDAR PATEL UNIVERSITY
B.B.A. (VI - Semester) (NC) Examination (2010 Batch)
Monday, 16th April, 2018
2.00 pm - 4.00 pm
UB06EBBA02/07 - Advanced Finance Management - II

Total Marks : 60

Note : Figures to the right indicate marks.

Q.1

(A) Give significance and assumptions of capital structure theories. (07)

(B) The two firm, U & L belong to the same risk class, however firm U is unlevered and firm L has 10% debt of Rs. 30 lakhs; other details are as under: (08)

Particulars	Firm 'U'	Firm 'L'
Net operating income (EBIT)	Rs. 750000	Rs. 750000
Interest (I)	--	300000
Earinings to equity holders (NI)	750000	450000
Equity Capitalisation Rate (Ke)	0.15	0.20
Market Value of Equity (S)	5000000	2250000
Market Value of Debt (B)	--	3000000
Total Value of Firm (V)	5000000	5250000
Overall Capitalisation Rate (Ko)	15%	14.28%
Debt Equity Ration (B/S)	0	1.33

(i) An investor own 10% equity shares of company L. Show the process & the amount by which he could reduce his outlay through the use of leverage.

(ii) According to M & M, when will this arbitrage process come to an end?

OR

Q.1

(A) Discuss : Factors affecting pattern of capital structure. (07)

(B) According to traditional approach the market value of company 'X' and 'Y' are as under : (08)

Particulars	X (Rs.)	Y (Rs.)
Net operating Income (EBIT)	50000	50000
Cost of Debt	0	10000
Earnings to equity Holders	50000	40000
Cost of Equity capital (Ke)	0.10	0.11
Market Value of equity capital (S)	500000	360000
Market value of Debt (D)	0	200000
Total Value of the Company (V)	500000	560000
Average cost of capital (Ko)	0.10	0.09
Debt : Equity Ratio	0	0.556

According to M.M. approach, calculate cost of capital and the value of company 'X' and 'Y'.
Assume that there is no taxes and rate of equilibrium value is 12.5%.

Q.2
(A) Explain the significance of dividend policy in financial management. (07)

(B) 'X' Ltd. has EPS of Rs. 25 on a share of Rs. 100. It has an IRR of 20%. Capitalisation of same risk class is 15%. If Walter's model is used. (08)

(1) What should be the optimum payout ratio? What would be the market price at that ratio?
(2) If company has a payout of 50% of EPS, what would be price per share ?

OR

Q.2
(A) Describe the variables influencing dividend decision. (07)

(B) Reliance Ltd. has cost of equity capital of 15%, the present market value of the firm (v) is Rs. 2500000 (Rs. 25 per share). Assure values for 1 (New Investment) Rs. 850000, Y (Earnings) 225000 and D (dividend) Rs. 1.25 per share at the end of the year. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. (08)

Q.3
(A) Explain statistical techniques for risk analysis. (07)

(B) A company is considering to buy a machine with investment of Rs. 50000 having useful life of 4 years and salvage value of Rs. 5000 at the end of useful life. The risk adjusted discounted rate is 16% while the riskless discount rate is10%. (08)

	Machine-A		**Machine-B**	
Year	**Cash flow (Rs.)**	**Certainity equivalent**	**Cash flow (Rs.)**	**Certainity equivalent**
1	30000	0.8	18000	0.9
2	30000	0.7	36000	0.8
3	30000	0.6	24000	0.7
4	30000	0.5	32000	0.4

Which machine should be purchased ?

OR

Q.3

(A) Discuss: Conventional techniques for risk analysis. (07)

(B) Omega Co. Ltd. is considering a proposal to invest in one of the two proposals. The following data are provided. (08)

Particulars	**Project A**	**Project B**
Estimated initial investments	Rs. 20000	Rs. 20000
Cash flow p@ in Rs. Pessimistic	3000	2000
Most Likely	4000	4000
Optimistic	5000	8000
Cost of Capital	10%	10%
Economic Life	15 Years	15 Years

(i) Calculate NPV using Sensitivity Analysis.
(ii) Which project do you consider more risky ? Why ?

Q.4 Give meaning of foreign exchange market. Explain determinant and select theories of exchange rates (15)

OR

Q.4 Narrate : Foreign exchange risk management techniques. (15)

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