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SARDAR PATEL UNIVERSITY

B.B.A. (VI SEMESTER) EXAMINATION

FRIDAY, 6th APRIL, 2018.

10.00 a.m. to 12.00 p.m.

ADVANCE FINANCE MANAGEMENT-II(UM06EBBA02)

Total Marks: 60

NOTES- 1. Figures to the right indicate full marks of each question.
2. Answer should be precise and to the point.

1(a) What is capital Structure? Explain the factors affecting the pattern of Capital structure. 7

(b) Current operating income of Jindal Ltd. is Rs.12,00,000. The Company has 10% Debentures of Rs.30,00,000 outstanding. It's cost of equity capital is estimated is estimated to be 16%. 8

The Company is considering to increase its leverage by raising the additional Rs. 15,00,000 Debt and using the proceeds to retire the amount of Equity.
As a result of increased financial risk, the cost of Debt is likely to go up to 12% and cost of equity capital 18%.
You are required to determine the current value of the company using traditional model. Give your advise regarding the company's proposal to increase its leverage.

OR

1(a) What is Optimum Capital Structure? What are the Guiding Principles of capital Structure Decisions? 8

(b) What is Net Operating Income Approach? Explain this approach with illustrative example. 7

2(a) Mention the different Forms of Dividends paid by Companies and explain the importance of Dividend Policy in Financial Decision. 10

(b) J. K.tyre Ltd. has 12% actual capitalization rate, a dividend payout of 40% and declares a dividend of Rs. 3.00 per share. The normal capitalization rate in the industry to which this company belongs is 14%. 5

Find out the value of equity shares of the Company, using the Gordon Model.

OR

2(a) JSW Ltd. earns Rs.18 per share is capitalized at a rate of 14% and has a rate of return on investment of 18%. According to the Walter Model what will be the per share when the dividend payout ratio is 30%, 50% and 100%. 9

(b) What is Modigliani-Miller's Model? Give its assumptions. 6

3(a) What are the Conventional Techniques of Risk Analysis? 5

(b) Write short note on : Coefficient of Variation. 5

(c) Jaya Ltd. Consider the following new project. The Cost of project is Rs. 30,000. The economic life is 5 Years and it has no scrap value. Its estimated cash flows and Certainty Equivalent are as under: 5

[P.T.O.]

Year	Cash Flow	CE
1	22,500	0.9
2	26,250	0.7
3	18,750	0.5
4	13,125	0.4
5	11,250	0.2

If the Cost of Capital is 10%, calculate the Net Present value of the Project.

OR

3 Jeet ltd. is considering a proposal to purchase a new Plant has an initial cost of Rs.6,000.The capital budgeting department has developed the following discrete probability distribution for cash flows generated by the project during its useful life of 3 years. 10

Year 1		Year 2		Year 3	
CFAT	Prob	CFAT	Prob.	CFAT	Prob.
2000	0.2	3000	0.5	3750	0.1
3000	0.4	3450	0.1	4500	0.3
3750	0.3	3750	0.2	5250	0.3
4500	0.1	4200	0.2	7500	0.3

1. Assuming that the probability distribution of cash flows for future periods are independent, the firms cost of capital is 10%, and the company can invest in 5% treasury bills, determine the expected NPV.
2. Determine the standard deviation about the expected value.

(b) Explain the meaning of Nature of Risk. 5

4(a) What do you mean by Foreign Exchange Market? Explain the determinant of Exchange Rates. 8

(b) What is foreign Exchange Rates? Explain the Forward Rate. Cross Rate and Spot Rate. 7

OR

4 Write notes on:

1. Select Theories of Exchange Rates. 8
2. Foreign Exchange Risk and Hedging. 7