[This question paper contains 8 printed pages.]

2828 *Your Roll No.* ....

M.Com./I Sem. (OC) **F**

Paper 6104 : FINANCIAL MANAGEMENT AND POLICY

Time : 3 Hours *Maximum Marks : 100*

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt **All** *questions.*

1. (a) What is Agency problem? What are its causes? How can it be minimized?

(b) Write a detailed note on the role of Finance function in an organization.

OR

(c) What is time value of money? Clearly explain various reasons for it.

(d) Calculate Modified internal rate of return (MIRR) from the following data and interpret the results.

Should this project be accepted?

Investment in the beginning = Rs. 150000, Cost of capital = 10%

Year	CFAT(Rs.)
1	20000
2	45000
3	65000
4	70000
5	75000

(10+10)

2. What is Capital Budgeting decision? Why is it important? Explain in detail the capital budgeting process along with three popular techniques for the evaluation of capital projects.

OR

RQP is evaluating a project which requires an investment outlay of Rs. 40,000 and has a life of three years. The financial analyst of the company has been given the task of assessing the profitability of the project. After careful analysis the financial analyst came to the conclusion that uncertainty is very high and at best the following estimation is made regarding cash inflows after tax for three years.

Year 1		Year 2		Year 3	
CF	Prob.	CF	Prob.	CF	Prob.
10,000	.4	20000	.3	30000	0.2
20000	.2	40000	.4	40000	0.4
40000	.4	50000	.3	70000	0.2

The risk free rate is 10% and cost of capital is 15%. Calculate -

(i) NPV and risk i.e. σ(NPV) of the project.

(i) Coefficient of variation of the project.

(iii) The probability that NPV will be less than 0.

(iv) Should the project be accepted? Why or why not? (20)

3. (a) "When the corporate income taxes are assumed to exist, Modigliani-Miller and Traditional Theory provide same results regarding the relationship between capital structure and firm's value". Do you agree? Explain.

(b) Explain signaling theory of capital structure.

(10+10)

OR

(c) Company Y and Z are similar except that Y is unlevered and Z is levered having Rs. 200000 of 5% debentures outstanding. The net operating income (EBIT) of both the companies is Rs 40,000 and tax rate is 40%. The cost of equity is 10%.

(i) Calculate the value of the companies Y and Z as per MM hypothesis

(ii) If the actual value of company Z is Rs. 360000, then specify whether as per MM hypothesis this represent equilibrium value. How will equilibrium be set? Explain.

(d) Gamma Equipments Ltd. has 15 lakhs equity shares outstanding. It is considering expansion of its plant and equipments for which it requires Rs. 250 Lakhs. This amount can be raised either through -issue of Rs. 175 lakh 10% debentures and 5 lakh equity shares at Rs. 15 per share OR issue of 15 lakhs equity shares at a price of Rs.15 and raising

Rs 25 lakhs by 10% debentures. The face value of the shares is Rs. 10. The company's expected EBIT with associated probabilities after modernization is as follows-

EBIT (Rs. Lakhs)	Probability
80	0.3
90	0.3
100	0.2
200	0.2

Corporate tax rate is 40%. Calculate company's expected EBIT and expected EPS under each plan. What is indifference level EBIT. Interpret the results and advise which plan is better in terms of maximization of EPS. (10+10)

4. (a) What are the various types of dividend policies? Explain in detail.

(b) Space Ltd. currently provides 30 days of credit to its customers. Its present level of sales is Rs.50 lakhs. The firm's cost of capital is 10 percent and the ratio of variable costs to sales is 0.85. The company is considering extending its credit period to 60 days. Such an extension is likely to push sales up by Rs 5 lakhs. The bad debt proportion on additional sales would be 8 percent. The tax rate for the company is 40 percent. Should the company extend its credit period? Why? Show all relevant calculations and specify your assumptions, if any.

OR

(c) Explain the following

(i) Credit analysis

(ii) Ageing Schedule

(d) What are the approaches of working capital financing? Explain in detail the risk return trade off involved in each approach. (10+10)

5. (a) Explain in brief the following models of cash management

(i) Baumol' s Model

(ii) Miller -Orr Model

(b) ACR Ltd. plans to acquire TGT Ltd. The relevant financial data of the two companies prior to merger are given below-

Particulars	ACR Ltd	TGT Ltd
Market price per share(Rs.)	45	15
No. of shares	10,00,000	500,000

The merger is expected to bring gains which have a present value of Rs. 80,00,000. ACR Ltd. offers 275,000 shares in exchange for 500,000 shares to the shareholders of TGT Ltd. Calculate:

(i) the value of merged entity

(ii) true cost of merger

(iii) NPV to Acquirer Ltd

(iv) NPV to Target Ltd. (10+10)

OR

Explain the following-

(i) Objectives of financial management

(ii) Operating cycle Vs. Cash cycle

(iii) Tender offer Vs. Hostile takeover

(iv) Benefits and types of mergers (20)

(100)