[This question paper contains 6 printed pages.]

1970 *Your Roll No.* ....

MIB / II Sem. **A**

Course 522

MANAGERIAL FINANCE

(Admissions of 2004 and onwards)

Time : 3 hours *Maximum Marks : 70*

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

Attempt **all** *questions.*

1. Write short notes on any **three** of the following :

   (a) Hostile Takeover bid

   (b) Cash Budget

   (c) Stability of Dividends

   (d) Annualised Cost of Cash Discount

OR

"An optimal combination of decisions relating to investment, financing and dividends will maximize the value of the firm to its shareholders." Examine.

(14)

P.T.O.

2. X Ltd. purchased a plot of land at a cost of Rs. 20,00,000, a few years ago. Since then, it is not in use and the firm has no plan to sell it in near future. However, the current market price of this plot is Rs. 35,00,000. There is a proposal before the company to take up a project on 50% of the plot. Information regarding this project is as follows :

(a) The project has a life of 5 years after which no scrap value is expected.

(b) Cost of plant is Rs. 40,00,000; 60% of which is payable at the end of year 1.

(c) Plant requires the land development at a cost of Rs. 10,00,000 and it does not qualify for tax deduction.

(d) Sales for 5 years are expected to be Rs. 25,00,000; Rs. 28,00,000; Rs. 35,00,000; Rs. 35,00,000 and Rs. 40,00,000 respectively. For the first year and last year, all sales will be on cash basis. However, for other years 20% of the sales will be on credit for one year.

(e) Variable cost of production is 60%, all payable in cash.

Evaluate the proposal given that :

(i) Tax rate applicable to firm is 30%.

(ii) Firm provides depreciation as per SL method.

(iii) Minimum Required Rate of Return is 15%.

($PVF_{(15,n)}$: .870, .756, .658, .572, .497)

($PVAF_{(15,5)}$: 3.352) (14)

OR

Explain the following :

(i) Modified Internal Rate of Return (MIRR)

(ii) Sensitivity analysis

(iii) Basic principles of cash flow estimation

3. Following is the capital structure of RST Ltd. :

Equity share capital (FV : Rs. 10)	Rs. 50,00,000
Reserves	15,00,000
15% loan	25,00,000
	90,00,000

Last year, the EBIT of the firm was Rs. 21,00,000 and is likely to remain unchanged for few years. The equity shares and debentures are being traded in the market for Rs. 11 and Rs. 90 respectively. Find out the WACC (based on BV as well as on MV) of the firm given that :

(a) Firm follows a 100% Dividend payout Ratio

(b) Tax rate applicable to firm is 30%

(c) No Corporate Dividend Tax rate

OR

Write short notes on any **three** of the following :

(a) Explicit and Implicit Cost of Capital

(b) Debt is the cheapest source of funds

(c) Financial break-even level of EBIT

(d) Cost of equity under CAPM (14)

4. Following information is available in respect of PQR Ltd. :

Earnings (after tax)	Rs. 10,00,000
No. of Shares Outstanding	2,50,000
Dividends paid (per share)	Rs. 3
Rate of Return of the firm	18%
Equity Capitalization Rate	15%

Applying the Wolter's Model, find out the market price of the equity share. Are you satisfied with the dividend policy of the firm ? Under what condition, the market price of the share can be increased ?

Also find out the market price, if the Equity Capitalisation Rate is 20% instead of 15%.

OR

From the following information, prepare a statement showing working capital requirement of the firm :

(i) Cash requirement — Rs. 50,000

(ii) Annual Production (Units) (evenly scattered) — 24,000

(iii) Selling Price (per unit) — Rs. 80

(iv) Cost Structure : Material 50%, Wages 30%, Expenses 10%.

(v) Average Time lag :

Raw Materials	1 month
Operating Cycle for WIP	1 month
Credit for Customers	½ month
Credit from Suppliers	1½ months
Finished good	1 month
Payment of Wages & Expenses	½ month

Make necessary assumptions. (14)

5. Following information is available in respect of three companies. A Ltd. is interested to absorb B Ltd., or C Ltd., or both. Increase in EPS is the criterion for the choice :

	A Ltd.	B Ltd.	C Ltd.
Earnings	Rs. 10,00,000	Rs. 7,00,000	Rs. 5,00,000
No. of Share	2,00,000	1,75,000	1,25,000
Market Price	Rs. 50	Rs. 36	Rs. 28
Swap Ratio	—	7:10	11:25

Find out :

(i) EPS of A Ltd. after merger with (a) B Ltd., (b) C Ltd., (c) both B Ltd. & C Ltd.

(ii) Change in Market worth of shareholders of B Ltd. and C Ltd. in all the three cases. Assume that the PE Ratio of A Ltd. remains same after merger of B Ltd., C Ltd. or both.

OR

ABC Ltd. and JLR Ltd. are operating in the same competitive environment. These are exactly alike in all respect except that ABC Ltd. is an all-equity firm while JLR Ltd. has 15% Debt of Rs. 10,00,000 in its capital structure.

Both firms belong to a risk class where the equity capitalisation rate of 20% is appropriate. Both firms have annual operating profile of Rs. 5,00,000.

You are required to find out :

(i) Value of both firms under Net Income Approach.

(ii) Overall Cost of Capital (k_0) for both firms.

(iii) How an investor (having 10% of equity share capital of over-valued firm) will be benefited by undertaking an arbitrage as per MM Model ? (14)