DCBC – 601

VI Semester B.Com. Examination, July/August 2024
(NEP Scheme) (Freshers)
Paper – 6.1 (DSC) : ADVANCED FINANCIAL MANAGEMENT

Time : 2½ Hours | Max. Marks : 60

Instruction *: Answers should be written* ***completely*** *either in* ***English*** *or in* ***Kannada****.*

SECTION – A

1. Answer **any 5** sub-questions. **Each** question carries **2** marks. **(5×2=10)**

   a) What do you mean by cash flow from investing activities ?

   b) What are free cash flows ?

   c) What is systematic risk ?

   d) What is cost of capital ?

   e) The current market price of a share is Rs. 100 and expected dividend at the end of the current year is Rs. 12 with a growth rate of 8%. Find cost of equity capital.

   f) What is bond dividend ?

   g) What are vertical mergers ?

SECTION – B

Answer **any 3** questions. **Each** question carries **4** marks. **(3×4=12)**

2. Explain the principles of cash flows estimation.

3. Explain the financial benefits of synergy in case of mergers and acquisitions.

4. A company has 10% redeemable preference shares of face value of Rs. 100 each which are redeemable at the end of the 10^{th} year from the date of issue. The underwriting expenses are expected to 2%. Find out the effective cost of preference share capital.

5. Advaith Corporation has a net operating income of Rs. 50 million. Advaith employs Rs. 200 million of debt capital carrying 12% interest charge. The equity capitalisation rate applicable to Advaith is 14%. What is the market value of Advaith under the net income method ? Assume there is no tax.

P.T.O.

6. An enterprise is investing 100 lakhs in a project. The risk-free rate of return is 7%. Risk premium expected by the Management is 7%. The life of the project is 5 years. Following are the cash flows that are estimated over the life of the project

Year	Cash inflow (Rs. in lakhs)	PV factors at 14%
1	25	0.877
2	60	0.769
3	75	0.675
4	80	0.592
5	65	0.519

Calculate Net Present Value of the project based on risk adjusted discount rate.

SECTION – C

Answer **any 3** questions. **Each** question carries **10** marks. **(3×10=30)**

7. Dinesh Associates is considering an investment project which has an estimated life of four years. The cost of project is 4,00,000 and the possible cash flows are given below :

Year 1		Year 2		Year 3		Year 4	
Cashflow Rs.	Probability	Cashflow Rs.	Probability	Cashflow Rs.	Probability	Cashflow Rs.	Probability
1,10,000	0.3	1,20,000	0.5	1,30,000	0.2	1,10,000	0.4
1,20,000	0.4	1,30,000	0.3	1,40,000	0.3	1,20,000	0.4
1,30,000	0.3	1,40,000	0.2	1,50,000	0.5	1,30,000	0.2

The cash flows of various years are independent and the risk-free discount rate is 8%. What is the expected NPV ? PV factors at 8% are 0.926, 0.857 and 0.794.

8. The two companies X and Y belong to the same risk class. They have everything in common except that firm Y has 10% debentures of Rs. 5,00,000. The valuation of the two firms is assumed to be as follow.

	X	Y
	Rs.	Rs.
Net operating income	7,50,000	7,50,000
Less : Interest on debt	-------	50,000
Earnings available to ESHs	7,50,000	7,00,000
Equity capitalization rate (Ke)	0.125%	0.14%

Market value of equity (S) = NI/Ke	60,00,000	50,00,000
Market value of debt (B)	-------	5,00,000
Total value of the firm (S + B) = V	60,00,000	55,00,000
Implied overall cost of capital	0.125%	0.1363%
Debt Equity Ratio	00	0.10

An investor owns 10% of the equity shares of overvalued firm. Determine his investment cost of earning the same income so that he is at break even point ? Will he gain by investing in the undervalued firm ?

9. A Ltd. company has the following capital structure;

	Rs.
Equity share capital (2,00,000 shares)	40,00,000
6% Preference shares	10,00,000
8% Debentures	30,00,000
	80,00,000

The market price of the company's equity share is Rs. 20. It is expected that the company will pay a dividend of Rs. 2 per share at the end of the current year, which will grow at 7% forever. The tax rate may be presumed at 50%. You are required to compute the following :

1) WACC based on existing capital structure.
2) The new WACC if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged but the price of the share will fall to Rs. 15 per share.

10. Determine the market value of equity shares of the company from the following information :

Earnings of the company (Rs.)	5,00,000
Dividend paid (Rs.)	3,00,000
Number of shares outstanding	1,00,000
Price-earnings ratio	8
Rate of return on investment	15%

Are you satisfied with the current dividend policy of the firm ? If not, what should be the optimal dividend payout ratio as per Walter's model.

11. The AB Ltd. wants to acquire CD Ltd. by exchanging its 0.8 shares for every share of CD Ltd. The relevant financial data are furnished below.

	A Ltd. Rs.	B Ltd. Rs.
Earnings After Taxes (EAT) (Rs.)	1,00,000	20,000
Number of equity shares outstanding	50,000	20,000
Earnings Per Share	2	1
Market price Per Share (Rs.)	20	8

1) Determine the number of shares to be issued by AB Ltd. for the acquisition of CD Ltd.
2) What would be the exchange ratio if it is based on the market price of the shares of AB Ltd. and CD Ltd. ?
3) What is the current price earnings ratio of two companies ?
4) Assuming earnings of each company remains the same, what is the EPS after the acquisition ?

SECTION – D

Answer the following question. It carries **8** marks. **(1×8=8)**

12. a) If investment proposal costs Rs. 45,00,000 and risk-free rate is 5%, calculate net present value under certainty equivalent technique.

Year	Expected cashflow (Rs.)	Certainty Equivalent Coefficient	PV Factors at 5%
1	10,00,000	0.90	0.952
2	15,00,000	0.85	0.907
3	20,00,000	0.82	0.864
4	25,00,000	0.78	0.823

OR

b) A textile company belongs to a risk class for which appropriate P/E ratio is 10. It currently has 50,000 outstanding shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs. 8 dividends at the end of the current fiscal year which has just started. Given the assumptions of MM, answer the following questions.
   1) What will be the price of the share at the end of the year (a) if dividend is not declared and (b) if it is declared ?
   2) Assuming that the firm pays the dividend, has a net income of Rs. 5,00,000 and makes new investment of Rs. 10,00,000 during the period, how many new shares must be issued ?

ಕನ್ನಡ ಆವೃತ್ತಿ

ವಿಭಾಗ - ಎ

1. ಯಾವುದೇ **5** ಉಪ-ಪ್ರಶ್ನೆಗಳಿಗೆ ಉತ್ತರಿಸಿ. **ಪ್ರತಿ** ಪ್ರಶ್ನೆಯು **2** ಅಂಕಗಳನ್ನು ಹೊಂದಿರುತ್ತದೆ. **(5×2=10)**

ಎ) ಹೂಡಿಕೆ ಚಟುವಟಿಕೆಗಳಿಂದ ನಗದು ಹರಿವುಗಳ ಅರ್ಥವೇನು ?

ಬಿ) ಉಚಿತ ನಗದು ಹರಿವುಗಳು ಯಾವುವು ?

ಸಿ) ವ್ಯವಸ್ಥಿತ ಅಪಾಯ ಎಂದರೇನು ?

ಡಿ) ಬಂಡವಾಳದ ವೆಚ್ಚ ಎಂದರೇನು ?