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Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

Third Semester MBA. Degree Examination, December 2011
Advanced Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. *Answer any FOUR full questions, from Q.No.1 and Q.No.7.*
2. *Question No.8 is compulsory.*

1 a. How zero working capital is possible for a firm? **(03 Marks)**

b. Explain briefly the strategies available to a firm for managing surplus cash. **(07 Marks)**

c. Elucidate the various revival measures adopted by sick units. **(10 Marks)**

2 a. Vintex Limited has a target ROE of 20%. The debt – equity ratio of the firm is 1.2 and its pre tax cost of debt is 12%. What ROI should the company plan to earn, if its tax rate is 30%? **(03 Marks)**

b. Define working capital leverage. Determine the working capital leverage for the two companies Box Limited and Cox Limited from the information given below. Also comment on it. Assume 20% reduction in current assets. **(07 Marks)**

Particulars	Box Limited	Cox Limited
Current Assets	₹ 150 million	₹ 50 million
Net Fixed Assets	₹ 50 million	₹ 150 million
Total Assets	₹ 200 million	₹ 200 million
EBIT	₹ 30 million	₹ 30 million
ROI	15%	15%

c. Modern Enterprises requires 90,000 units of a certain item annually. It costs Rs 3 per unit. The cost per purchase order is Rs 300 and the inventory carrying cost is 20% per year.

i) What is the Economic Order Quantity, if there is no quantity discount?

ii) What should the firm do if the supplier offers discounts as below?. **(10 Marks)**

Order Quantity	Discount (%)
4,500 – 5,999	2
6,000 and above	3

3 a. Following are the data pertaining to Falcon Ltd. Calculate the break even EBIT from it.
Existing capital structure : 1 million equity shares of Rs 10 each. Tax rate : 50%.
Falcon Ltd., plans to raise additional capital of Rs 10 million for financing an expansion project. In this context, it is evaluating two alternative financing plans : i) Issue of equity shares (1 million equity shares of Rs 10 per share) and ii) Issue of debentures carrying 14% interest. **(03 Marks)**

b. The following information is available for Avinash Company :

	Month	Sales in Million ₹	End – of - Quarter receivables (₹ in Million)
I Quarter	January	40.0	3.0
	February	50.0	20.0
	March	60.0	40.0
II Quarter	April	60.0	5.00
	May	50.0	18.00
	June	40.0	25.00
III Quarter	July	50.0	4.00
	August	50.0	20.00
	September	50.0	30.00

Required :

i) Calculate the daily sales outstanding (DSO) at the end of each quarter for averaging periods of 30 days and 60 days. **(05 Marks)**

ii) Draw up the ageing schedules (A/S) at the end of each quarter using the age brackets 0 – 30, 31 – 60 and 61 – 90 days. **(02 Marks)**

c. Beta Ltd., provides the following information about its liquidity. It wants you to establish the 'return point' and the 'upper control limit'. Annual yield on marketable securities is 12%. The fixed cost of effecting a marketable securities transaction is ₹ 1,600. The standard deviation of the change in daily cash balance is ₹ 5000. The management wants to maintain a minimum cash balance of ₹ 50,000. Also explain the working of this with a graph. **(10 Marks)**

4 a. Compare a bonus issue with a stock split. **(03 Marks)**

b. Describe the various methods of pricing raw materials. **(07 Marks)**

c. Discuss the different sources of financing working capital. **(10 Marks)**

5 a. What do you mean by float and what are its types? **(03 Marks)**

b. The following information is available for Avinash Metals :

Net operating income - ₹ 40 million ; Cost of equity – 18% ;

Interest on debt - ₹ 10 million ; Cost of debt – 12%.

i) What is the average cost of capital of Avinash?

ii) What happens to the average cost of capital, if it employs ₹ 100 million of debt to finance a project which earns an operating income of ₹ 20 million? Assume that the net operating income (NOI) method applies and there are no taxes. **(07 Marks)**

c. Determine the share price of Faber Ltd., as per the Walter model and Gordon model for the different situations given. Also discuss its implications. **(10 Marks)**

r = 20%, k = 15%. E = ₹ 4,	when D = Rs 4 & b = 0.25 and when D = Rs 2 b = 0.50
r = 15%, k = 15%, E = ₹ 4,	when D = Rs 4 & b = 0.25 and when D = Rs 2 b = 0.50
r = 10%, k = 15%, E = ₹ 4	when D = Rs 4 & b = 0.25 and when D = Rs 2 b = 0.50

6 a. Mention the sources of information to do credit analysis in terms of 5C'S. **(03 Marks)**

b. Discuss how multivariative analysis can be employed for predicting industrial sickness. **(07 Marks)**

c. Describe briefly the important types of intangible assets and the approaches to valuing it. **(10 Marks)**

7 a. S Ltd., issued convertible bonds at face value of Rs 100 with a coupon of rate 12% p.a. The required rate of return is 14%. The debenture will be converted into two equity shares of Rs 60 each at the end of the year 2. The likely market price of a share at the end of year 2 would be Rs 70. Calculate the value of the convertible bond. **(03 Marks)**

b. Multiplex Ltd., is considering the following capital project (₹ in lakhs) :

Investment outlay : 5000	Depreciation : Straight line
Project life : 4 yrs	Tax rate : 40%
Salvage value : 0	Debt equity ratio : 4 : 5
Annual revenues : 6000	Cost of equity : 18%
Annual cost : 4000 (excluding depreciation, interest and taxes)	Cost of debt : 9% (Post tax)

Calculate the EVA of the project over its life. **(07 Marks)**

c. The ZBB Ltd., needs ₹ 5,00,000 for construction of a new plant. The following three financial plans are feasible :
   i) The company may issue 50,000 equity shares at ₹ 10 per share.
   ii) The company may issue 25,000 equity shares of ₹ 10 each and 2,500 debentures of ₹ 100 each bearing an 8% rate of interest.
   iii) The company may issue 25,000 equity shares of ₹ 10 each and 2,500 preference shares at ₹ 100 per share bearing 8% rate of interest.

   If the company's EBIT are ₹ 10,000, ₹ 20,000, ₹ 40,000, ₹ 60,000 and ₹ 1,00,000, what are the EPS under each of the three financial plans? Which alternative would you recommend and why? Assume corporate tax to be 50%. **(10 Marks)**

8 <u>**CASE STUDY**</u> **: (Compulsory)**

AB Ltd provides the following data :

	₹
Profit (EBIT)	3,00,000
(-) Interest on debentures @ 12%	60,000
	2,40,000
(-) Income tax @ 50%	1,20,000
PAT	1,20,000

No. of equity shares (Rs 10 each) is 40,000 ; EPS is Rs 3 ; MPS is Rs 30 ; P/E ratio is 10. The company has undistributed reserves of Rs 6,00,000. It needs Rs 2,00,000 for expansion. This amount will earn at the same rate as funds already employed. Debt equity ratio higher than 35% will push the P/E ratio down to 8 and raise the interest rate on additional amount borrowed to 14%. You are required to ascertain the probable price of the share if the :

a. additional funds are raised as debt and **(10 Marks)**
b. amount is raised by issuing equity shares. **(10 Marks)**

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