I Semester M.Com. Examination, May/June 2023
(CBCS Scheme)
COMMERCE
1.5 : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** sub-questions. **Each** question carries **two** marks. **(7×2=14)**
   a) What are the sources of long term finance ?
   b) Mention the relevant theories of capital structure.
   c) What is N.P.V. ?
   d) What is sensitivity analysis ?
   e) Mention various forms of corporate restructuring.
   f) What is P/E Ratio ?
   g) What is capital rationing ?
   h) Write any two assumptions of perfect capital markets.
   i) What is financial risk ?
   j) Give examples of futures.

SECTION – B

Answer **any four** questions. **Each** question carries **five** marks. **(4×5=20)**

2. Explain the relationship between leverage and cost of capital as per Net Income Approach.

3. Describe the steps involved in scenario analysis.

4. Write a short note on IRR.

5. Explain the different forms of mergers, acquisitions and restructuring.

6. Consider the following information for Arpit Ltd.
   a) Net Operating Income Rs. 2,10,000.
   b) Corporate tax rate – 35%.
   c) Market (as well as book) value Rs. 3,00,000.
   d) Capitalisation rate applicable to debt free firm in the risk class to which class Arpit Ltd. belongs – 16%.

   Calculate the value of Arpit Ltd. according MM approach.

7. A firm has funds of Rs. 1,40,000 in view 4 projects with varying NPV and IRR. Find out which of the projects can be taken up if the discount rate is 10%.

Project	Initial investment (Rs.)	NPV (Rs.)	IRR %
A	55,000	3,000	16
B	50,000	2,300	14
C	40,000	1,800	13
D	30,000	1,000	15

SECTION – C

Answer **any three** questions. **Each** question carries **twelve** marks. **(3×12=36)**

8. Discuss in detail various types of derivatives.

9. Zee Ltd. needs Rs. 5,00,000 for construction of new plant. The following three financial plans are feasible.
   a) The company may issue 50,000 equity shares at Rs. 10 per share.
   b) The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 debentures of Rs. 100 denomination bearing an 8% rate of interest p.a.
   c) The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 preference shares at Rs. 100 per share bearing 8% rate of interest p.a.

   If the company's EBIT are Rs. 10,000 ; Rs. 20,000; Rs. 40,000 ; Rs. 60,000 and Rs. 1,00,000. What are the EPS under each of the three financial plans ? Which alterative would you recommend and why ? Assume the corporate tax rate to be 35%.

10. The expected cash flow of a project are as follows :

Year	0	1	2	3	4	5
Cash flow	–1,00,000	20,000	30,000	40,000	50,000	30,000

The cost of capital is 12%. Calculate Payback period, NPV, Benefit-cost ratio and IRR. Find whether the project is feasible or not.

11. The scientist at spectrum have come up with an electric moped. The firm is ready for pilot production and test marketing. This will cost Rs. 20 million and takes six months. Management believes that there is a 70 percent chance that the pilot production and test marketing will be successful. In case of success, spectrum can build a plant costing Rs. 150 million. The plant will generate annual cash inflows of Rs. 30 million for 20 years if the demand is high or annual cash inflows of Rs. 20 million if the demand is low. High demand has a probably of 60% and low demand has 40% probability. Suggest the optimal course of action using Decision Tree Analysis.

12. The following information provided is related the acquiring firm AC Ltd. and the target firm TG Ltd.

	AC Ltd.	**TG Ltd.**
Profit After Tax (Rs.)	1400 lakhs	280 lakhs
Number of shares	140 lakhs	70 lakhs
P/E Ratio (times)	10	5

Required :

a) What is the swap ratio based on the current market price ?

b) What is the EPS of AC Ltd. after acquisition ?

c) What is the expected market price per share of AC Ltd. after acquisition assuming that P/E ratio of AC Ltd. remains unchanged ?

d) Determine the market value of the merged firm.