Dr Amit

JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

TEST -3 EXAMINATION- May-2018

B.Tech IV Semester

COURSE CODE: 10B11PD411 MAX. MARKS: 35

COURSE NAME: Financial Management

COURSE CREDITS: 3 MAX. TIME: Two Hours

Note: All questions are compulsory. Carrying of mobile phone during examinations will be treated as case of unfair means. Make suitable assumptions wherever necessary. Answer all subparts of a question at one place.

1. ABC Ltd. is considering purchasing a machine worth Rs 200 lakh. The life of the machine is 4 years and it will produce output of 1 lakh units per annum. The output will be increased by 20000 units per year. The selling price is Rs 500 per unit. Operating profit rate is 40%, salvage value of machine is 15% of purchase price. Assuming the selling price to be constant for the life of the project and the tax rate @25%, calculate the NPV, IRR and MIRR of the project. (Depreciation to be charged on SLM basis). **(2x3=6)**

2. **a)** XYZ Ltd. has issued 12% debt redeemable after 15 years at a premium of 10%. The debenture is issued at a discount of 5% and bearing a floatation cost of %% of the issue price. If the face value of debenture is Rs 400, calculate the cost of debenture.

b) Mega Corporation has got its shares listed on the stock exchange. It has been calculated that the sensitivity of the share relative to the market is 1.5 and the risk free return in the market is 8%. If the investment expects about 15% market risk premium, calculate the cost of equity. **(2+2=4)**

3. Hitech technology is planning for mega expansion which will cost about Rs 20 crore and give an operating profit of about 30% of investment. The company can raise either debt or equity or a mix of the two. Given below is the proportion of debt/ equity, alongwith the cost of debt and equity. Find out which of them is the best of the lot. **(4)**

	Plan I	Plan II	Plan II	Plan IV
D/E	10%	30%	50%	80%
K_d	8%	8%	10%	11%
K_e	15%	16%	18%	22%
Assume tax rate to be 25%				

4. Super industries has a series of projects which can generate a return of 12%, 15% and 18%. At present the EPS is Rs 20 per share and the company is considering a dividend payout of 30%, 50% and 70%. **(2+2=4)**

a) Calculate value of share under different dividend payouts.

b) What conclusion do you draw from the above calculation?

5. Calculate the indifference point between the following two alternative financing plans that a company is considering to finance its modernization efforts requiring a total of Rs 50 crore. Plan A-50% equity, 20% debt and 30% preference capital; Plan B – 60% equity, 30% debt and 10% preference capital. Price of an equity share is Rs 5 and preference shares carry a dividend of 14%. The rate of interest on debt is 12% and the tax rate is 30%. **(2)**

6. a) How is Degree of Operating leverage and Degree of Financial Leverage used to determine an appropriate capital structure?

   b) How does the traditional view of capital structure differ from the NI and the NOI approach?

   c) Differentiate between market value weights and book value weights. Why should market value weights be preferred in calculating WACC? **(3x3=9)**

7. Short notes (Answer in about 50 words) **(2x3=6)**

   a) Final Accounts **b)** Efficiency/Turnover Ratios **c)** Annuity