Amit Srivastava

JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

TEST -3 EXAMINATION- December 2017

One-to-one Examination - B. Tech IV Semester

COURSE CODE: 10B11PD411 MAX. MARKS: 35

COURSE NAME: Financial Management

COURSE CREDITS: 03 MAX. TIME: 2Hrs

Note: Answer all questions. Carrying of mobile phone will be treated as a case of unfair means. Make suitable assumptions, wherever necessary.

JUIT Test Examination, December 2017

1. Explain Walter's Model of valuation of the firm based on dividend. **(5)**

2. What are limitations of IRR method as compared to NPV method? **(5)**

3. What different factors you would consider while devising a target capital structure? **(5)**

4. 'Working capital management is all about managing the level and financing of current assets'. Comment. **(6)**

5. At what level of EBIT the indifference point between the following financing alternatives will occur: **(3+3=6)**

- **a.** Ordinary share capital of Rs. 10 lakh or 15% debentures of Rs. 5 lakh and ordinary share capital of Rs. 5 lakh.
- **b.** Ordinary share capital of Rs. 10 lakh or ordinary share capital of Rs. 5 lakh, 13% preference share capital of Rs. 2 lakh and 15% debentures of Rs. 3 lakh.

6. Maruti Udyog Ltd wishes to raise additional finance of Rs10 lakhs for starting its new plant. It has Rs 210000 in the form of retained earnings available. The following are the further details: **(2+2+2+2=8)**

D/E mix 30:70;
Cost of debt – Upto Rs180000, 10% (before tax) and Beyond Rs180000, 16% (before tax);
EPS Rs4; D/P – 50% of earnings;
Expected growth rate in dividend is 10%;
Current market price per share is Rs44; Tax Rate is 35.

Determine the:

a) Pattern for raising additional finance, assuming the firm intends to maintain existing D/E mix.
b) Post tax average cost of additional debt.
c) Cost of retained earnings and cost of equity.
d) Overall WACC after tax cost of additional finance