

Q.P. Code: 23168**Time: 2 ½ Hours****Total Marks: 75**

Please check whether you have got the right question paper

Instructions:

- 1) All questions are compulsory each carrying 15 marks.
- 2) Use of only simple calculator is permitted.
- 3) Working notes should form part of your answer.

Q1a. Rewrite the following statement and state whether True or False (any eight).**(8 marks)**

1. Receivables Management deals with debtor's collection.
2. Time gap between the time the cheque is written and when it is cleared is known as float.
3. Constant dividend per share indicates stable dividend policy.
4. Business risk is the risk associated with the firm's operations.
5. Portfolio risk cannot be reduced.
6. Different sources have same cost of capital.
7. Use of preference share capital in capital structure increases financial leverage.
8. Deviation is known as dispersion or the spread of probability distribution.
9. Baumol's model attempts at optimization of cash balance.
10. Services of a factor are always beneficial.

Q1b. Match the column: (any seven)**(7 marks)**

Column A	Column B
1. Book value weights	(a) Actual capital structure
2. Market value weights	(b) Accounting values
3. Historical weights	(c) Market prices
4. Target weights	(d) Desired capital structure
5. CAPM	(e) Lower cost
6. Lenient collection policy	(f) Macro in nature
7. Virtual banking	(g) Perfect capital Market
8. Systematic risk	(h) Trading on equity
9. Favourable Financial Leverage	(i) $K_e = R_f + \beta (R_m - R_f)$
10. M-M model	(j) Reduces profitability

Q2a. Following information is available from the investment book of Mr. Parag **(08 Marks)**

The Beta co-efficient of Hiraban Ltd. is 1.25. and 7% rate of growth in dividends and earnings.

The last dividend paid was Rs. 6 per share. The current market price per share of Hiraban Ltd. is Rs. 58.

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Return on risk free securities is 11%. Return on Market portfolio is 17.5%.

You are required to calculate the following and advice Mr. Parag regarding further purchase or sale of the said security:

- i. Expected rate of return as per CAPM
- ii. Expected market price per share of Hiraban Ltd. as per Dividend Growth Model.

Q2b. Calculate the expected returns, variance and standard deviations of shares of Alfa Ltd.

If the expected returns and risk from similar companies is 15% and 14.5% respectively,

- i. Will you still advice purchase of shares of Alfa Ltd.?
- ii. If growth prospects of Alfa Ltd. are high in future, which securities will you advice for purchase?

(07 Marks)

Probability Distribution of Returns

State of Economy	Probability	Returns on shares of Alfa Ltd.
Good	.40	30
Average	.35	20
Bad	.15	10
Poor	.10	5

OR

Q2a. Following are the details of various securities held by Mr. Manorath: **(08 Marks)**

Company	Cost per Equity Share	Dividend per share of Rs. 100 each (pre tax)	Market Price per Equity Share	Beta factor
Excide Ltd.	Rs. 450	Rs. 30	Rs. 600	1.22
Lowburn Ltd	Rs.375	Rs. 50	Rs. 400	.85
Kirloskar Ltd.	Rs. 250	Rs. 28	Rs. 500	1.25
Vijaya Ltd.	Rs. 800	Rs. 60	Rs. 1000	1.4

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Calculate the expected rate of return on each security and average rate of return on portfolio as per CAPM and percentage of total actual returns on portfolio. The tax rate for dividend as well as sale of security is 15% each and 2% brokerage on sale. Interest on risk free investment is 15%.

Q2b. The following details are provided for the year ended 31st March, 2017 for Avon Ltd.

Operating Leverage 3:1, Financial Leverage 2:1, 12.5 % Interest rate on Rs. 2 crores Debentures, Corporate tax rate- 40%, Variable cost – 40% of sales. The company has 1,00,000 Equity shares.

You are required to prepare the income statement of the company. **(07 Marks)**

Q3. A Company expects to have Rs. 37500 cash in hand on 1st April, and requires you to prepare an estimate of cash position during the three months. April, May and June the following information is supplied to you: **(15 Marks)**

Month	Sales (Rs in 000's)	Purchases (Rs in 000's)	Wages (Rs in 000's)	Factory Expenses (Rs in 000's)	Administration Expenses (Rs in 000's)	Selling Expenses (Rs in 000's)
February	75	45	9	7.5	6	4.5
March	84	48	9.75	8.25	6	4.5
April	90	52.5	10.5	9	6	5.25
May	120	60	13.5	11.25	6	6.57
June	135	60	14.25	14	7	7

Other Information:

- (i) Period of credit allowed suppliers 2 months.
- (ii) 20% of sales for cash and period of credit allowed to customers for credit is one month.
- (iii) Delay in payment of all expenses:1 month.
- (iv) Income tax of Rs. 57,500 is due to be paid on June 15th.
- (v) The company is to pay dividend to shareholders and bonus to workers of Rs. 15,000 and Rs. 22,500 respectively in the month of April.
- (vi) A plant has been ordered to be received and paid in May. It will cost Rs. 1,20,000
- (vii) Assume cash o/d facility and opening balance cannot be negative.

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Q3. The following are different state of economy the probability of occurrence of that state and the expected rate of return from Security A and B in these different state **(15 Marks)**

State	Probability	Rate of Return (Security S)	Rate of Return (Security L)	Rate of Return (Security K)
Recession	0.60	75%	30%	45%
Normal	0.30	10%	35%	25%
Boom	0.10	- 20%	38%	20%

You are required to calculate for each security expected return on stock , standard deviation and based on risk factor rank the securities.

Q4a. Abhishek Ltd. has furnished the following information: **(08 marks)**

Earnings per share (EPS)	Rs 4
Dividend pay-out ratio	25%
Market price per share	Rs 40
Rate of tax	30%
Growth rate of dividend	8%

The company wants to raise additional capital of Rs 10 lakhs including debt of Rs 4 lakhs. The cost of debt (before tax) is 10% upto Rs 2 lakhs and 15% beyond that. Compute the after tax cost of equity and debt and the weighted average cost of capital.

Q4b. Ronak purchased 400 shares of Roshani Ltd. at Rs 61 each on 15th October 2014. He paid brokerage of Rs 600. The company paid the following dividends:

June 2015	Rs 800
June 2016	Rs 1,000
June 2017	Rs 1,200

He sold all his holding at Rs 34,500 on 15th October 2017. Calculate holding period return and annualised return. **(07 marks)**

OR

Q4a. A firm has a sale of Rs 75,00,000 , variable cost Rs.42,00,000 and fixed cost of Rs 6,00,000. It has a debt of Rs 45, 00,000 at 9 % and equity of Rs 55,00,000.

(i) What are the operating, financial and combined leverages of the firm?

(ii) If the sales drop to Rs 50, 00,000 what will be the value of new EBIT. **(08 marks)**

Q4b. Stock R has a beta of 1.50 and a market expectation of 15% return. For stock T, it is 0.80 and 12.5% respectively. If the risk free rate is 6% and the market risk premium is 7%, evaluate whether these two stock are priced correctly? **(07 Marks)**

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Q5a. Explain the 'Aging Schedule' in the context of monitoring of receivables. **(08 marks)**

b. Discuss Miller – Orr Cash Management Model **(07 Marks)**

OR

Q5. Write a short note on (any three): **(15 marks)**

- a) Systematic Risk
- b) Financial Leverage
- c) Assumptions of Modigliani – Miller theory
- d) Walter's Model
- e) Baumol's Economic Order Quantity Model.
