

I Semester M.Com. Examination, January 2017 (CBCS) COMMERCE

Paper - 1.5 : Advanced Financial Management

Time: 3 Hours

Max. Marks: 70

SECTION - A

- 1. Answer any seven questions out of ten. Each question carries two marks. (7x2=14)
 - a) Discuss Arbitrage process.
 - b) Explain value of the firm,
 - c) Define opportunity cost of capital.
 - d) Explain decision tree.
 - e) Define 'time value of money'.
 - f) Explain utility theory.
 - g) Discuss the significance of P/E ratio.
 - h) What is Leveraged buyout?
 - i) Define a 'futures' contract.
 - j) Explain the difference between futures and options.

SECTION-B

Answer any four questions out of six. Each question carries five marks. (4x5=20)

- Define strategic financial management. State three examples of strategic financial decisions.
- Discuss the use of sensitive analysis in risk evaluation.
- 4. Critically examine NPV and IRR. Do they give identical results?
- 5. Companies U and L are identical in every respect except that the former does not use debt in its capital structure, while the latter employs Rs. 6 lakh 10% debt. Assuming that (i) all the M-M assumptions are met, (ii) the corporate tax rate is 35%, (iii) the EBIT is Rs. 1,20,000, and (iv) the equity capitalization of the unleveled company is 0.20. What will be the value of the firms U and L?

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- 6. A company is faced with the problem of choosing between two mutually exclusive projects. Project X requires a cash outlay of Rs. 1,00,000 and cash running expenses of Rs. 30,000 per year. On the other hand project Y requires a cash outlay of Rs. 1,50,000 and running expenses of Rs. 20,000 per year. Both the projects have a eight year life. Project X has a salvage value of Rs. 4,000 and project Y has Rs. 14,000. The company's required rate of return is 10%. Assume the corporate tax rate is 50% and the depreciation of the project is on straight line basis. On a differential basis which project should be accepted?
- A particular put is the option to sell stock at Rs. 40. It expires after 3 months and currently sells for Rs. 2 when the price of the stock is Rs. 42.
 - i) If an investor buys this put, what will the profit be after three months if the price of the stock is Rs. 45, Rs. 40 and Rs. 35 ?
 - ii) What will the profit be from selling this put after three months if the price of the stock is Rs. 45, Rs. 40 and Rs. 35?

SECTION-C

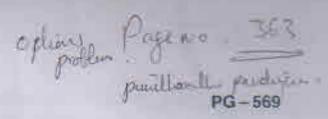
Answer any three out of five. Each question carries twelve marks.

(3×12=36)

- 8. Explain the different Hedging instruments and their features.
- 9. What is optimal capital structure and discuss the cost of capital behavior in Traditional approach?
- 10. A firm has Rs. 6,00,000 available for investment. The investment opportunities available are as follows:

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Proposal	Cost of the Project	IRR%	NPV
1	2,00,000	7	-1400 MV32
2	2,30,000	8	_27000
3	2,00,000	9	-7 os0
4	2,00,000	23	120/00 year)
5	1,20,000	19	54.00 (Siven)
6	1,50,000	17.	57000
7	90,000	16	22/500
8	3,00,000	13	64800
9	3,60,000	12	42.000
10	5,00,000	11	4400
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The firms cost of capital is 10%. Select the best proposals among 10 proposals based on Internal Rate of Return.



11. A company is considering two mutually exclusive projects X and Y. Project X cost Rs. 30,000 and Project Y Rs. 36,000. You have been given below the net present value and probability distribution for each project:

Pro	ject X	Project Y		
NPV Estimate	Probability	NPV Estimate	Probability	
Rs.		Rs.		
3,000	0.1	3,000	0.2	
6,000	0.4	6,000	0.3	
12,000	0.4	12,000	0.3	
15,000	0.1	15,000	0.2	

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- a) Compute the expected net present value of projects X and Y.
- b) Compute the risk attached to each project that is, standard deviation of each probability distribution.
- c) Which project do you consider more risky and why

 Reliance Ltd. wishes to acquire Raja Ltd., a small company with food growth prospects. The relevant information both the companies is as follows:

Company	Equity shares	Share price	Earnings after	EPS
	outstanding	(Rs.)	taxes	(Rs.)
Reliance Ltd.	10,00,000	25	20,00,000	2
Raja Ltd.	1,00,000	- 10	2,00,000	2

Reliance Ltd. is considering 3 different acquisition plans:

- a) Pay Rs. 12.5 per share for each target share.
- Exchange Rs. 25 cash and one share of Reliance Ltd. for every four shares of Raja Ltd.
- c) Exchange 1 share for every two shares of Raja Ltd.
 - i) What will Reliance EPS be under each of the three plans?
 - ii) What will the share prices of Reliance be under each of the three plans, if its current P/E ratio remains unchanged?