

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 7

**NOTE** : 1. Answer **ALL** Questions.

2. Tables showing the present value of ₹1 and the present value of an annuity of ₹1 for 15 years are annexed.

1. Comment on the following :

- (a) Current assets are financed by current liabilities.
- (b) Commodity trading causes high level of inflation.
- (c) Economic Value Added (EVA) concept is in conformity with the objective of wealth maximisation.
- (d) Higher financial leverage is better than higher operating leverage.

(5 marks each)

**Attempt all parts of either Q.No. 2 or Q.No. 2A**

2. (a) "The investors behaviour criterion provides framework for analysis of risk-return choices" — Markowitz. Do you agree ? (4 marks)
- (b) Distinguish between 'sensitivity analysis' and 'scenario analysis'. (4 marks)
- (c) The time value of money concept is needed to maximise wealth. (4 marks)
- (d) Distinguish between 'interest rate parity' and 'purchasing power parity'. (4 marks)

**OR (Alternate question to Q.No. 2)**

- 2A. (i) Describe participants in the foreign exchange market. (4 marks)
- (ii) How does capital asset pricing model (CAPM) help in estimating expected rate of return of a security ? (4 marks)

(iii) Explain the net income approach to capital structure.

(4 marks)

(iv) How do firms manage required level of receivables ?

(4 marks)

*Attempt all parts of either Q.No. 3 or Q.No. 3A*

3. (a) A financial literacy house buys 72,000 reams of a special type paper per annum at a cost of ₹90 per ream. Ordering cost per order is ₹500 and the carrying cost is 5% per year of the inventory cost. Normal lead time is 20 days and safety stock is nil. Assume 300 working days in a year.

You are required to —

- (i) Calculate the economic order quantity (EOQ);
- (ii) Calculate the re-order inventory level; and
- (iii) If 1% quantity discount is offered by the supplier for purchases in lots of 18,000 reams or more, should the buyer accept the proposal ?

(4 marks)

(b) Ravi buys 10,000 shares of FPS Ltd. @ ₹22 per share and obtains a complete hedge of shorting 400 Nifties at ₹1,100 each. He closes out his position at the closing price of the next day at which point the shares of FPS Ltd. have dropped by 2% and the nifty future has dropped by 1.5%. What is overall profit or loss of this set of transactions ?

(4 marks)

(c) Queen Ltd., an Indian company, has an export exposure of ¥ 100 lakh value at September end. Yen is not directly quoted against rupee. The current spot rates are  $\text{INR/USD} = 62.685$  and  $\text{JPY/USD} = 194.625$ . It is estimated that Yen will depreciate to 216 level and rupee to depreciate against dollar to 64.50. Forward rate for September, 2013 was  $\text{JPY/USD} = 206.025$  and  $\text{INR/USD} = 64.335$ . If the spot rate on 30<sup>th</sup> September, 2013 was eventually  $\text{INR/USD} = 64.17$  and  $\text{JPY/USD} = 206.775$ , is the decision to take forward cover justified ?

(4 marks)

: 3 :

(d) Monoplast Co. Ltd. has the following capital structure on 31<sup>st</sup> March, 2013 :

	₹
Equity shares (4,00,000 shares)	80,00,000
10% Preference shares	20,00,000
14% Debentures	60,00,000
	1,60,00,000
	1,60,00,000

Share of the company sells for ₹20.

It is expected that company will pay next year a dividend of ₹2 per share which will grow at 7% forever. Tax rate is 30%.

You are required to compute weighted average cost of capital.

(4 marks)

**OR (Alternate question to Q.No. 3)**

3A. (i) The following quotes are available for 3-month options in respect of a share currently traded at ₹31 :

	₹
Strike price	30
Call option	3
Put option	2

A funds manager devises a strategy of buying a call and selling the share and a put option. Draw his profit/loss profile if it is given that the rate of interest is 10% per annum. What would be the profit/loss if the strategy adopted is selling a call and buying a put and a share ?

(4 marks)

(ii) Your client is holding following securities as proxy of market portfolio :

<i>Particulars of securities</i>	<i>Purchase Price (₹)</i>	<i>Dividends (₹)</i>	<i>Expected Market Price after 1 year (₹)</i>	<i>BETA (β)</i>
Equity shares :				
Company–A	8,000	800	8,200	0.80
Company–B	10,000	800	10,500	0.70
Company–C	16,000	800	22,000	0.50
PSU bonds	34,000	3,400	32,300	1.00

: 4 :

Assume a risk free rate of 15%.

Calculate expected rate of return in each, using capital asset pricing model if shares are held for 1 year.

(4 marks)

- (iii) Priyanka Corporation has financial structure of 30% debt and 70% equity. The company is considering various investment proposals costing less than ₹30 lakh. The corporation does not want to disturb its present capital structure.

The cost of raising the debt and equity are as follows :

<i>Project Cost</i>	<i>Cost of debt</i>	<i>Cost of equity</i>
Upto ₹5 lakh	9%	13%
Above ₹5 lakh and upto ₹20 lakh	10%	14%
Above ₹20 lakh and upto ₹40 lakh	11%	15%

If tax rate is 30%, you are required to calculate the cost of capital of two Projects A and B whose funds requirements are ₹8 lakh and ₹21 lakh respectively.

(4 marks)

- (iv) The earning per share of a company is ₹10. It has an internal rate of return of 15% and the capitalisation rate of risk class is 12.5%. If Walter's model is used —
- What should be the optimum payout ratio of the firm ?
  - What should be the price of a share at this payout ?
  - How shall the price of a share be affected if different payouts were employed ?

(4 marks)

4. (a) Seven Wings Ltd. has been engaged in manufacturing of garments. It has current sales of ₹30 lakh per annum. The cost of sales is 75% of sales and bad debts are 1% of sales. The cost of sales comprises 80% variable cost and 20% fixed cost while the company's required rate of return is 12%.

The company currently allows customers 30 days credit. But the company is now considering increasing the credit period to 60 days credit in order to attract more customers.

It has been estimated that this change in policy will increase sales by 15% while bad debts will increase from 1% to 4%. It is expected that the policy change will not result in any increase in fixed cost, creditors and stock level.

Should Seven Wings Ltd. introduce proposed policy ?

(8 marks)

: 5 :

- (b) Simon Ltd. is considering two mutually exclusive projects. Investment outlay of both the projects is ₹5 lakh and each is expected to have a life of 5 years. Under three possible situations their annual cash flows and probabilities are as under :

<i>Situation</i>	<i>Probabilities</i>	<i>Project–A cash flow (₹)</i>	<i>Project–B cash flow (₹)</i>
Good	0.30	6 lakh	5 lakh
Normal	0.40	4 lakh	4 lakh
Worse	0.30	2 lakh	3 lakh

If the cost of capital is 7%, which project should be accepted ? Consider the risk parameter also in decision making. Explain with workings.

(8 marks)

5. (a) Financial management means the management of finances of a business organisation in order to achieve financial objectives. Elaborate the financial objectives of a firm.  
(4 marks)
- (b) What is a financial lease ? How is it different from sale and leaseback ?  
(4 marks)
- (c) What factors are to be considered while deciding the financial and commercial viability of a project ?  
(4 marks)
- (d) Describe briefly the different roles of treasury manager in overall functioning of a firm.  
(4 marks)

6. Write notes on the following :

- (a) Mark-to-market process  
(b) Asset backed securitisation  
(c) Currency derivatives  
(d) Financial insolvency.

(4 marks each)

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TABLE - 1 : PRESENT VALUE OF RUPEE ONE

RATE	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		
5%	0.9524	0.9070	0.8638	0.8227	0.7835	0.7462	0.7107	0.6768	0.6446	0.6139	0.5847	0.5568	0.5303	0.5051	0.4810		
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584	0.5268	0.4970	0.4688	0.4423	0.4173		
7%	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	0.5083	0.4751	0.4440	0.4150	0.3878	0.3624		
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632	0.4289	0.3971	0.3677	0.3405	0.3152		
9%	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470	0.5019	0.4604	0.4224	0.3875	0.3555	0.3262	0.2992	0.2745		
10%	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855	0.3505	0.3186	0.2897	0.2633	0.2394		
11%	0.9009	0.8116	0.7312	0.6587	0.5935	0.5346	0.4817	0.4339	0.3909	0.3522	0.3173	0.2858	0.2575	0.2320	0.2090		
12%	0.8929	0.7972	0.7118	0.6355	0.5674	0.5066	0.4523	0.4039	0.3606	0.3220	0.2875	0.2567	0.2292	0.2046	0.1827		
13%	0.8850	0.7831	0.6931	0.6133	0.5428	0.4803	0.4251	0.3762	0.3329	0.2946	0.2607	0.2307	0.2042	0.1807	0.1599		
14%	0.8772	0.7695	0.6750	0.5921	0.5194	0.4556	0.3996	0.3506	0.3075	0.2697	0.2366	0.2076	0.1821	0.1597	0.1401		
15%	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323	0.3759	0.3269	0.2843	0.2472	0.2149	0.1869	0.1625	0.1413	0.1229		
16%	0.8621	0.7432	0.6407	0.5523	0.4761	0.4104	0.3538	0.3050	0.2630	0.2267	0.1954	0.1685	0.1452	0.1252	0.1079		
17%	0.8547	0.7305	0.6244	0.5337	0.4561	0.3898	0.3332	0.2848	0.2434	0.2080	0.1778	0.1520	0.1299	0.1110	0.0949		
18%	0.8475	0.7182	0.6086	0.5158	0.4371	0.3704	0.3139	0.2660	0.2255	0.1911	0.1619	0.1372	0.1163	0.0985	0.0835		
19%	0.8403	0.7062	0.5934	0.4987	0.4190	0.3521	0.2959	0.2487	0.2090	0.1756	0.1476	0.1240	0.1042	0.0876	0.0736		
20%	0.8333	0.6944	0.5787	0.4823	0.4019	0.3349	0.2791	0.2326	0.1938	0.1615	0.1346	0.1122	0.0935	0.0779	0.0649		
21%	0.8264	0.6830	0.5645	0.4665	0.3855	0.3186	0.2633	0.2176	0.1799	0.1486	0.1228	0.1015	0.0839	0.0693	0.0573		
22%	0.8197	0.6719	0.5507	0.4514	0.3700	0.3033	0.2486	0.2038	0.1670	0.1369	0.1122	0.0920	0.0754	0.0618	0.0507		
23%	0.8130	0.6610	0.5374	0.4369	0.3552	0.2888	0.2348	0.1909	0.1552	0.1262	0.1026	0.0834	0.0678	0.0551	0.0448		
24%	0.8065	0.6504	0.5245	0.4230	0.3411	0.2751	0.2218	0.1789	0.1443	0.1164	0.0938	0.0757	0.0610	0.0492	0.0397		
25%	0.8000	0.6400	0.5120	0.4096	0.3277	0.2621	0.2097	0.1678	0.1342	0.1074	0.0859	0.0687	0.0550	0.0440	0.0352		

.. 6 ..

TABLE - 2 : PRESENT VALUE OF AN ANNUITY OF RUPEE ONE

RATE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
5%	0.9524	1.8594	2.7232	3.5460	4.3295	5.0757	5.7864	6.4632	7.1078	7.7217	8.3064	8.8633	9.3936	9.8986	10.3797
6%	0.9434	1.8334	2.6730	3.4651	4.2124	4.9173	5.5824	6.2098	6.8017	7.3601	7.8869	8.3838	8.8527	9.2950	9.7122
7%	0.9346	1.8080	2.6243	3.3872	4.1002	4.7665	5.3893	5.9713	6.5152	7.0236	7.4987	7.9427	8.3577	8.7455	9.1079
8%	0.9259	1.7833	2.5771	3.3121	3.9927	4.6229	5.2064	5.7466	6.2469	6.7101	7.1390	7.5361	7.9038	8.2442	8.5595
9%	0.9174	1.7591	2.5313	3.2397	3.8897	4.4859	5.0330	5.5348	5.9952	6.4177	6.8052	7.1607	7.4869	7.7862	8.0607
10%	0.9091	1.7355	2.4869	3.1699	3.7908	4.3553	4.8684	5.3349	5.7590	6.1446	6.4951	6.8137	7.1034	7.3667	7.6061
11%	0.9009	1.7125	2.4437	3.1024	3.6959	4.2305	4.7122	5.1461	5.5370	5.8892	6.2065	6.4924	6.7499	6.9819	7.1909
12%	0.8929	1.6901	2.4018	3.0373	3.6048	4.1114	4.5638	4.9676	5.3282	5.6502	5.9377	6.1944	6.4235	6.6282	6.8109
13%	0.8850	1.6681	2.3612	2.9745	3.5172	3.9975	4.4226	4.7988	5.1317	5.4262	5.6869	5.9176	6.1218	6.3025	6.4624
14%	0.8772	1.6467	2.3216	2.9137	3.4331	3.8887	4.2883	4.6389	4.9464	5.2161	5.4527	5.6603	5.8424	6.0021	6.1422
15%	0.8696	1.6257	2.2832	2.8550	3.3522	3.7845	4.1604	4.4873	4.7716	5.0188	5.2337	5.4206	5.5831	5.7245	5.8474
16%	0.8621	1.6052	2.2459	2.7982	3.2743	3.6847	4.0386	4.3436	4.6065	4.8332	5.0286	5.1971	5.3423	5.4675	5.5755
17%	0.8547	1.5852	2.2096	2.7432	3.1993	3.5892	3.9224	4.2072	4.4506	4.6586	4.8364	4.9884	5.1183	5.2293	5.3242
18%	0.8475	1.5656	2.1743	2.6901	3.1272	3.4976	3.8115	4.0776	4.3030	4.4941	4.6560	4.7932	4.9095	5.0081	5.0916
19%	0.8403	1.5465	2.1399	2.6386	3.0576	3.4098	3.7057	3.9544	4.1633	4.3389	4.4865	4.6105	4.7147	4.8023	4.8759
20%	0.8333	1.5278	2.1065	2.5887	2.9906	3.3255	3.6046	3.8372	4.0310	4.1925	4.3271	4.4392	4.5327	4.6106	4.6755
21%	0.8264	1.5095	2.0739	2.5404	2.9260	3.2446	3.5079	3.7256	3.9054	4.0541	4.1769	4.2784	4.3624	4.4317	4.4890
22%	0.8197	1.4915	2.0422	2.4936	2.8636	3.1669	3.4155	3.6193	3.7863	3.9232	4.0354	4.1274	4.2028	4.2646	4.3152
23%	0.8130	1.4740	2.0114	2.4483	2.8035	3.0923	3.3270	3.5179	3.6731	3.7993	3.9018	3.9852	4.0530	4.1082	4.1530
24%	0.8065	1.4568	1.9813	2.4043	2.7454	3.0205	3.2423	3.4212	3.5655	3.6819	3.7757	3.8514	3.9124	3.9616	4.0013
25%	0.8000	1.4400	1.9520	2.3616	2.6893	2.9514	3.1611	3.3289	3.4631	3.5705	3.6564	3.7251	3.7801	3.8241	3.8593

.. 7 ..