M.B.A.- II CBCS Pattern Semester-III

PCB3EB1 - Advanced Financial Management

P. Pages : 2 **GUG/W/23/10696**

Time : Three Hours * 5 8 6 2 * Max. Marks : 70

Notes : 1. Attempt **any five** questions.
2. All questions carry equal marks.
3. Use PVF Table.

1. Explain the use of 'EBIT-EPS' analysis for designing capital structure of a company. **14**

2. What are the objectives of cash management? What are the basic strategies of cash management. **14**

3. What are the basic steps are involved in the credit investigation process? **14**

4. Discuss in detail the strategies used for expanding the business. **14**

5. Write a short note on **any two.** **14**

a) Green shoe option.

b) Carbon credit.

c) Initial Public Offer (IPO)

d) Corporate risk analysis.

6. Companies X and Y are identical in all respects including risk Factors except for debt/equity, company X having issued 10% debentures of ₹18 Lakhs while company Y has issued only equity. Both the companies earn 20% before interest and taxes on their total assets of ₹ 30 Lakhs. **14**
Assuming a tax rate of 50% and capitalization rate of 15% for an all equity company, compute the value of companies X and Y using ,
i) Net Income Approach.
ii) Net operating Income Approach.

7. ABC firm is considering to make certain relaxation in its credit policy. The ABC management has evaluated two new policies. From the following details advise the ABC management which policy has to be adopted. **14**

Particular	Existing Policy	Proposed	Policy
		I	II
Credit sales (₹ in Lakhs)	87.5	105	118
Debtors Turnover Ratio (Times)	7	5.25	4.2
Bad debt Losses (₹ in Lakhs)	2.63	5.25	7.88

The ABC is required to give a return over 30% on investment in new account receivable. Its PV Ratio is 30%.

8. The following data is relating to an asset to be leased by A Ltd., Cost of equipment is ₹ 1,00,000.

i) The cost of capital of lessor is 12%

ii) The Lessor is in 40% tax bracket.

iii) The depreciation is charged to SLM and Salvage value is ₹ 20,000 after 5 years.

iv) The direct cost to the lessor is ₹ 500 at the end of the 1st year.

v) The estimated cost for general Administration in respect of the equipment to the lessor is ₹ 1,500 per year.

vi) The lessee agreed to pay : An Annual rent of ₹ 36,000 for 5 years, a security deposit of ₹ 3000 which is refundable at the end of the lease term and a sum of ₹ 1350 as non-returnable management fees payable at the time of inception of the lease.

Evaluate the proposal from the point of view of the lessor.

9. Based on the data given below, ascertain which of the two projects would be more risky based on the coefficient of variation?

Project-A		Project-B	
Cash flow	Probability	Cash flow	Probability
3,000	0.10	2,000	0.10
3,500	0.20	3,000	0.25
4,000	0.40	4,000	0.30
4,500	0.20	5,000	0.25
5,000	0.10	6,000	0.10

10. X Ltd is considering merger with Y Ltd. X Ltd's shares are currently traded at ₹25. It has 2,00,000 shares outstanding and its earnings after taxes (EAT) amount to ₹ 4,00,000. Y Ltd has 1,00,000 shares outstanding, its current market price is ₹ 12.50 & its EAT are ₹1,00,000. The merger will be effected by means of a stock swap. Y Ltd has agreed to a plan under which X Ltd. Will offer the current market value of Y Ltd's shares.

i) What is the pre-merger EPS and P/E ratio of both the companies?

ii) If Y Ltd P/E Ratio is 8, what is its current market price? What is the exchange ratio? What will X Ltd Post-Merger EPS be?

iii) What must be the exchange ratio be for X Ltd's that pre and post merger EPS to be the same?

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