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| **ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27** |  |
| **M.COM - II SEMESTER** |  |
| **SEMESTER EXAMINATION: APRIL 2019** |  |
| **MCO8218: Advanced Financial Management** |  |
|  |  |  |  |  |  |  |  |
| **Time- 2 1/2 hrs** |  | **Max Marks-70** |  |  |
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| **This paper contains \_3\_printed pages and four parts** |  |

**SECTION A**

**Answer any TEN of the following. Each question carries two marks. (10x2=20)**

1. Mention the important decisions in Financial Management.
2. What is Optimal Capital Structure?
3. Distinguish between IRR and NPV.
4. What is Stable dividend policy?
5. Define sensitivity analysis.
6. What are the types of merger in corporate restructuring?
7. What are the two theories in the M & M Approach of capital structure?
8. What are the risks associated in capital budgeting?
9. What is meant by discounted cash flow techniques?
10. Mention the significance of PE ratio
11. What is the difference between NI and NOI approach?
12. Give the disadvantages of bonus shares to the issuing company.

**SECTION B**

**Answer any THREE of the following. Each question carries five marks. (3x5=15)**

13. X Ltd. is expecting an annual EBIT of Rs. 1 lakh. The company has Rs.4 lakhs in 10% debentures. The equity capitalization rate is 12%. The company decided to raise Rs.1 lakh by issue of 10% debentures and use the proceeds to redeem the equity shares. Calculate the total value of the firm and also the overall cost of capital.

14. A company proposes to install a machine involving a capital cost of Rs.360000. The life of the machine is 5 years with no salvage value. The machine will produce net operating income after depreciation of Rs.68000 per annum. The tax rate applicable to the company is 45%. The NPV factors for 5 years are as under:

Discount rate 14 15 16 17 18

Cumulative factor 3.43 3.35 3.27 3.20 3.13

Calculate the IRR of the proposal of the company regarding machinery installation.

15. A company is considering Project Alpha and Project Beta with the following information

|  |  |  |
| --- | --- | --- |
| Project | Expected NPV (Rs.) | Standard Deviation |
| Alpha | 122000 | 90000 |
| Beta | 225000 | 120000 |

1. Which project will you recommend based on the above data?
2. Explain whether your opinion will change, if you use coefficient of variation as a measure of risk?
3. Which measure is more appropriate in this situation and why?

16. Give the features of a sound capital mix.

17.“Risk and uncertainty is quite inherent in capital budgeting”. Comment.

**SECTION C**

**Answer any TWO of the following. Each question carries ten marks. (2x10=20)**

1. The following information is available for a limited company:

Share capital

Equity (Rs. 10 each) Rs.100000

10% Preference Shares (Rs.10) Rs.50000

10% Debentures Rs.100000

Tax Rate 40%

Earnings before interest and taxes (EBIT) Rs.18333

Calculate EPS

1. At present level of EBIT
2. If EBIT increases to Rs.25000
3. If EBIT increases to Rs.35000
4. M Co. Ltd. Is studying the possible acquisition of N Co. Ltd. By way of merger. The following data are available in respect of the following companies:

|  |  |  |
| --- | --- | --- |
| Particulars | M Co. Ltd. | N Co. Ltd. |
| Earnings after tax (Rs) | 8000000 | 2400000 |
| Number of equity shares | 1600000 | 400000 |
| Market value per share (Rs) | 200 | 160 |

1. If the merger goes through by exchange of equity and the exchange ratio is based on the current market price, what is the new EPS for M. Co. Ltd.?
2. N Co. Ltd. wants to be sure that the earnings available to its shareholders will not be reduced by the merger. What should be the exchange ratio in that case?
3. What is meant by a dividend policy? Explain the Walter and Gordon model of dividend policy.

**SECTION D**

**Answer the following compulsory question. The question carries fifteen marks. (1x15=15)**

1. RIL split in June 2005 due to issues between the two successors. The RIL struggle was not only a conflict of titans, but it was also about wealth in the area of Rs.1000 billion which was not uncomplicated to distribute. On January 17th, 2006, a unique trading and investment era was over. The demerger permitted by RIL board in August 2005, both brothers, Mukesh and Anil–directed different businesses and five listed companies emerged as potential investment opportunities for investors by March 2006. Among the group companies of RIL, Reliance Energy and Reliance Capital, were already listed at the exchanges. The remaining four companies were listed by the end of March 2006.

The new RIL structure gave Mukesh absolute independent control in the business of oil exploration, refining, petrochemicals, and textile businesses through a standalone entity in RIL along with IPCL. His shares also included biotech firm Reliance Life Sciences and Trevira, a company in Europe which manufactures polyester fibres. Anil got control over power, communication, and financial businesses through four companies which came under Anil Dhirubhai Ambani Enterprise (ADAE) as part of the Reliance group. These four companies were named as Reliance Capital Ventures Ltd. (proposed to be merged with another listed company Reliance Capital Ltd.), Reliance Energy Ventures Ltd. (proposed to be merged with existing company Reliance Energy Ltd.), Reliance Communication Ventures Ltd.(these include both Reliance Infocomm and Reliance Telecom) and Reliance Natural Resources Ltd. (which includes businesses in gas based energy undertakings)

Elaborate the corporate restructuring undertaken by Reliance Industries Limited. Point out the merits and demerits of the different types of restructuring.

**MCO8218\_A\_19**