Seat No._____

GANPAT UNIVERSITY

BBA EXAMINATION, APRIL 2012

BBA (Gen), Semester VI (GPS)

Time : 3 Hours **G604F:Advanced Financial Management** **Total Marks:70**

Instructions:

(1) Use separate answer books for Section I and section II
(2) Q1 in Section I and Q4 in Section II are compulsory.
(3) Figure to the right indicate marks of each question.

Section - I

Q1 Discuss the NI theory of capital structure in depth **(11)**

Q2(A) A company earned Rs 6 per share and paid Rs 4 per share as dividend in the previous year. Its earnings and dividends are expected to grow at 15% for 5 years and then at a rate of 8% indefinitely. The capitalization rate is 18% .what is the price of the share today? **(8)**

Q2(B) Briefly explain and illustrate the concept of 'Time Value of Money". **(4)**

OR

Q2(A) A 10 year bond of Rs 1000 has an annual rate of interest of 12 percent . the interest is paid half yearly.What is value of bond if the required rate of return is (i) 12 per cent (ii) 16 percent? **(6)**

Q2(B) XYZ Ltd is a large manufacturing and marketing company in a private sector. In 2010, the company had a gross sales of Rs 1080.2 crore. The other financial data for the company are given below: **(6)**

Some financial data for XYZ Ltd ,2010.

Items	Rs in Crore
Net worth	162.31
Borrowing	165.47
EBIT	43.17
Interest	34.39
Fixed cost(Excluding interest)	118.23

You are required to calculate (a) debt equity ratio (b interest coverage ratio (c) operating leverage (d) financial leverage (f) combined leverage ratio.

Q3(A) Explain the for the Miller- Modigliani dividend decision **(7)**

Q3(B) What do you mean By dematerialization? Discuss the benefits of dematerialization **(5)**

OR

Q3(A) Explain the Gorden Model of dividend decision. **(7)**

Q3(B) Explain the difference between the future and forward. **(5)**

Section – II

Q4 Give the overview of development of BSE and NSE stock market in India. **(11)**

Q5(A) A project costs Rs 6000 and it has cash flow of Rs 4500, Rs 3000, Rs 2500 and Rs 850 in year 1 through 4 .Assume that the associated αt factor are estimated to be :$\alpha 0$ = 1, $\alpha 1$= 0.9 ,$\alpha 2$ = 0.7,, $\alpha 3$ = 0.6 and $\alpha 4$ = 0.3 and the risk free discount rate is 10 % . calculate the net present value. **(6)**

Q5(B) Explain the difference between the merger and acquisition? Discuss the Motives behind merger and acquisition . **(6)**

OR

Q5 ABC company has developed a scientifically more effective water filter than the one currently available in the market. One option before the company is to start production on a large scale by installing a large plant costing Rs 50 lakh .Alternatively it can initially install a small plant at a cash outlay of Rs 10 lakh and then decide to expand the capacity after a year at cost of Rs 45 lakh if the initial demand is high . There is 50-50 chances that the initial demand will be high or low. If it is high then there is a 70 % chance that demand in the subsequent years will be high. If it turn out to be low, it is expected to remain low in the subsequent years also. **(12)**

The large plant is likely to generate net cash flow of Rs 10 lakh in year 1 if demand is high and Rs 7 lakh if the demand is low . With a high initial demand net cash flows are expected to be Rs 16 lakh in perpetuity if the subsequent demand is high and Rs 10 lakh if the subsequent demand is low. The subsequent demand will remain low if the initial demand is low and the expected cash flow in perpetuity will be 7 lakh. the small plant is estimated to yield net cash flow of Rs 4 lakh in year 1 if the demand is high and Rs 2 lakh if the demand is low. If the initial demand is high the company will expand its capacity and it is expected to generate net cash flows of Rs 20 lakh in perpetuity if the subsequent demand is high and Rs 8 lakh if the subsequent demand is low, if the initial demand is low then subsequent demand will be low and the expected net cash flow is Rs 2 lakh in perpetuity .what should ABC company do? (Assume that Opportunity cost of capital is 20%)

Q6	Explain the concept of leasing and Discuss the types of lease.	**(12)**
	OR	
Q6(a)	What is option contract? Discuss the features of the option contract and also explain the rights and obligation of option buyer and seller.	**(4)**
Q6(B)	Explain the role of credit rating agency in India.	**(8)**

END OF PAPER