[This question paper contains 4 printed pages.]

Sr. No. of Question Paper : **1149** **Roll No.....**

Unique Paper Code : **248303**

Name of the Course : **B.A. (Hons) Business Economics, 2014**

Name of the Paper : **Business Finance**

Semester : **III**

Duration : **3 Hours**

Maximum Marks : **75**

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt **all** questions.
3. Use of simple calculator and log and annuity tables is allowed.

1. (i) A company issued debentures of Rs. 25,00,000 which are to be repaid after 7 years at par. How much amount should the company invest in an investment going at 12% return?

   (The investment will be utilized later to pay off the debentures)

   (ii) If an investment offers an annuity of Rs. 2,000 for 10 years and Mr. M invests Rs. 10,000 today, what rate of return will he earn?

   (iii) 'Financial Management has much more to do than just procurement of funds.' Do you agree? Elaborate on the responsibilities of a finance manager in the modern scenario. (3×5)

P.T.O.

2. (i) The balance sheet of the A Ltd. reveals the following information:

Source of funds	Amount (Rs. Lakhs)
Equity Capital (Face value Rs.100)	400
12 % Preference Shares	600
16% Debentures	1,000
Total	**2,000**

(a) Calculate the WACC of the company assuming that there are no taxes and as a rule the company pays dividend at a rate of 20%p.a.

(b) What difference will it make if the current price of the share is Rs. 150?

(c) What will be the effect of cost of capital if there is a tax of 50% in both the above cases? (8)

OR

How is the cost of newly issued equity capital determined? Calculate the cost of equity capital using CAPM approach given the following information.

(a) Required rate of return on risk free security 12%

(b) Required rate of return on market portfolio of investment is 15%

(c) The firm's beta is 1.6 (8)

(ii) Y Ltd. And Z Ltd. are identical except that the former uses debt while the latter does not. The levered firm has issued 10% debentures of Rs. 9,00,000. Both the firms earn EBIT of 20% on total assets of Rs. 15,00,000. Assuming tax rate of 50 % and capitalization rate of 15 % for an all-equity firm ;

(a) Compute the value of the two firms using MM approach.

(b) Calculate the overall cost of capital k_0, for both the firms. (7)

3. (i) 'The finance manager should take the best information and techniques available to take the capital budgeting decisions.' Keeping in view the above statement, discuss the steps involved in the process of capital budgeting decisions. (5)

(ii) A company is considering a project which will have an initial cost of Rs. 6,00,000 and an expected economic life of 6 years. The tax rate applicable to the firm is 30%. The firm uses Straight line method of depreciation.

Estimated profits before tax are as under:

Year	Profit (Rs.)
1	1,00,000
2	1,20,000
3	1,50,000
4	1,80,000
5	2,00,000
6	2,20,000

Calculate Payback period , IRR, NPV ,Profitability Index assuming a discount rate of 10%. (10)

OR

XYZ Ltd is considering two different proposals. A and B. The details are as follows:

		Proposal A	Proposal B
Investment cost		9500	20000
Estimated income:	Year 1	4000	8000
	Year2	4000	8000
	Year 3	4500	12000

P.T.O.

Suggest the profitable proposal based on NPV Method considering that the future income is discounted at 12%. (10)

4. (i) The earnings per share of a company are Rs. 10. The equity capitalization rate is 20%. Rate of return on the retained earnings is 10%. Using the Gordon's model answer the following:

(a) What should be the optimum pay out ratio of the company?

(b) What should be the price of the share at optimum pay out ratio?

(c) Will this price be affected if a pay out of 80% is employed? (10)

(ii) Discuss the reasons of conflict between the NPV and IRR techniques of capital Budgeting. (5)

5. Attempt any three of the following

(i) Reasons behind mergers and acquisitions

(ii) Finance Lease vs OperatingLease

(iii) Public deposits

(iv) Trade credit (3×5)