Third Semester M.B.A. (Distance Mode) Degree Examinations
June/July 2009
(Directorate of Correspondence Courses)

MBA DP FDA - 304 : FINANCIAL DECISION ANALYSIS

Time : 3 Hours

Max. Marks : 75

SECTION-A

Answer the following questions in two or three sentences. Each one carries TWO marks. **2x5=10**

1. a) What is retained earnings?
   b) Name any two essentials of lease agreement.
   c) What is YTM?
   d) What is reverse split?
   e) What is bonus share?

SECTION-B

Answer any FIVE of the following. Each one carries SIX marks. **5x6=30**

2. State any four methods of computing cost of equity.
3. Write brief note on types of lease, documentation and legal aspects of leasing.
4. XYZ Ltd. has to decide between launching one or two similar new products. (It does not have the production capacity to launch both products). The fixed costs are Rs.20,000 p.a. product A can be sold for Rs. 400 per item and product B for Rs.350 per item. The variable unit costs are Rs. 240 for products A and Rs. 200 for Product B. the likely demand for both products are given by the following probability distributions:

Likely demand	Probability	
	Product A	Product B
100	0.1	0.3
200	0.3	0.4
300	0.4	0.2
500	0.2	0.1
	1.0	1.0

   a) Calculate the break-even point for each product and estimate the probability of making a loss.
   b) Which product should the company decide to launch.
5. After conducting survey that cost Rs. 2,00,000 X Ltd., decided to undertake a project for placing a new product on the market. The company's cut-off rate is 12 percent. It was estimated that the project would cost Rs. 40,00,000 in plant and machinery

in addition to working capital of Rs. 10,00,000. The scrap value of plant and machinery at the end of 5 years is estimated at Rs. 5,00,000. After providing for depreciation on straight-line basis, profit after tax were estimated as follows:

Year	1	2	3	4	5
PAT (Rs)	3,00,000	8,00,000	13,00,000	5,00,000	4,00,000

Ascertain the net present value of the projects with 12% cost of capital.

6. GPL Company is currently paying an equity dividend of Rs. 2.45 per share. It is expected to grow at a 15 per cent per annum for next 5 years, and then at 10 per cent of ever. Determine value of equity stock assuming required rate of return is 13 per cent.

7. SSS infrastructure Pvt Limited, presently has 3 cranes, and it is decided to go for one more crane. SSS identified a crane which costs Rs. 7 million and its economic life is 5 years. Its scrap value is Rs. 5,00,000. SSS can borrow the amount required to buy asset at 15 per cent. The crane will be depreciated at 30 per cent per annum under diminishing value method. The tax rate applicable to company is 40 per cent.

   The crane can also be taken on lease, by paying Rs. 1.90 million as lease rental. Evaluate the lease using NPV and IRR.

SECTION-C

10+10+15=35

Answer the following. Q.No.8 & 9 carry 10 marks each and Q.No. 10 carries 15 marks.

8. a) A company issued (2 years ago) 10 per cent bonds with a face value of Rs. 500 for a maturity period of 6 years. Required rate of Return is (i) 10 per cent (ii) 12 per cent; and (iii) 8 per cent. Determine value of bond.

   OR

   b) Good Luck Ltd. belongs to risk class of which the appropriate rate is 15 percent. The Ltd. has 10,000 shares selling at Rs. 200 each. The company is contemplating the decelerating of Rs. 5 per share as dividend at the end of the current year.

      a) Calculate the price per share: assuming (i) Dividends are declared? and (ii) Dividends are not declared?

      b) Find out the number of shares to be issued, if the company has net income of Rs.1,00,000 and it has an investment proposal costing Rs. 3,00,000. You may assume MM model assumptions.

9. a) Dream well Co. Ltd belongs to a risk class for which the approximate capitalization rate is 10 percent. It currently has an outstanding 30,000 shares, which are selling in market at Rs. 80. The company is expecting a net income of Rs. 4,00,000 and it has a profitable investment (project) proposed that costs Rs. 6,00,000. The company is interesting to declare a dividend of Rs. 4 per share at the end of financial year. Show that under MM hypothesis the payment of dividend does not affect the value of the firm.

OR

b) X Ltd. has a total capitalization of Rs. 10 Lakh consisting entirely of equity share capital of Rs. 50 each. It wishes to raise another 5 lakh for expansion through one of its two possible financial plans.

a) All equity shares of Rs. 50 each; b) All debentures carrying 9% interest. Present leverage of EBIT is Rs. 1,40,000 and tax 50%. Calculate EBIT level at which EPS would remain same irrespective of raising funds through equity of debentures.

10. A firm belongs to a risk class for that the appropriate capitalization rate is 10 per cent. It has 25,000 shares outstanding and selling at Rs. 100 each. The firm's expected earning available to shareholders are Rs. 6,00,000, and it has an investment proposal costing Rs.8,00,000. The firm is contemplating the declaration of Rs.14 dividend at the end of current financial year. Assuming MM assumptions you are required to compute value firm when (a) dividends are declared, and b) when dividends are not declared.

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