31703 **M-1329**

Sl. No. **Total No. of Pages : 4**

I Semester M.Com. Examination, December - 2018
(Scheme : CBCS)
COMMERCE
Financial Decisions (HC)

Time : 3 Hours **Max. Marks : 70**

Instruction : ***Statistical/Financial Tables and Non-programmable Calculators permitted inside the examination hall.***

PART - A

Answer any **five** of the following. Each question carries five marks: **[5 × 5 = 25]**

1. Why value maximisation is superior to profit maximisation?
2. Define the concept of TVM with suitable examples.
3. What are the merits and limitations of DPB as a capital budgeting technique?
4. Briefly explain the importance of risk analysis in capital budgeting.
5. Define the concept of financial leverage. How is it measured?
6. Consider the following project :

Year	(NCF Rs. in lakh)
0	-1200
1	800
2	500
3	200

Find IRR of the project.

7. KP Ltd. is evaluating two projects X and Y on the basis of DPB method. NCF profile of the projects is given below.

	NCFs (Rs in Millions)	
Year	Project X	Project Y
0	-140	-140
1	100	120
2	30	80
3	40	20

P.T.O.

Required

a) Determine the DPB period of both the projects. Assume discount rate to be 10%.

b) If target DPB period is 3 years, are the projects acceptable?

c) If these are mutually exclusive projects which one you suggest? Why?

8. On the basis of following data, determine the cost of equity (K_e) under MM's Hypothesis II. Draw a diagram representing MM's Theory. Assume K_0 to be 13%.

Leverage (D/S):	10%	20%	40%	60%	80%
Cost of Debt (K_d) :	7%	7.4%	8.2%	11.5%	14.5%
Cost of Equity :	?	?	?	?	?

PART - B

Answer **any three** of the following. Each question carries **ten** marks: **[3 × 10 = 30]**

9. Discuss the relevance of traditional view on the relationship between leverage and cost of capital.

10. Examine Gordon's hypothesis underlying dividend decision.

11. TR Ltd is considering a project with NCF profile as stated below :

Year	NCFs (Rs. '000')
0	-117
1	-121
2	252
3	143
4	-25

TR's cost of capital is 10%

Required :

a) NPV of the project.

b) Do you think the project has multiple IRR problem?

c) If your answer to sub question (2) above is yes, suggest how you could resolve the problem by calculating modified internal rate or return.

12. Risk return profile of 3 projects X, Y & Z is as given below :

		Project		
		X	Y	Z
1.	Expected NPV (Rs. lakh)	20	30	10
2.	Std. deviation of ENPV	25	32	15

Required :

a) Find the probability of NPV being –ve for all the projects. Which project is preferable?

b) Find the probability NPV being above Rs. 10 lakh for project X, above Rs. 40 lakhs for project Y, above Rs. 12 lakh for Z.

13. Following table gives the details of cost of capital of SP Ltd. as on 31.3.17.

(Rs. Mill.)

	Capital Component	Face (book) value (Rs.)	Market value (Rs.)	Cost (%) (Before tax)
01	Equity (Total 10 mill. shares)	100	850	??
02	Preferred (Total 2 mill shares)	20	28	??
03	12% Debentures (Total 2 lakh deb.)	100	110	11.1
04	Long-term loans (Rs. in Mill.)	240	240	9.5
05	Retained Earnings (Rs. in Mill.)	500	-	??

Preferred shares carry a fixed dividend of 11%. Marginal tax rate applicable for the company is 25%. Company's earnings are growing at a rate of 5% p.a. Current dividends are Rs. 2.5 per share.

Required :

a) Find the cost of equity for the company.

b) Compute the WACC on the basis of book – value weights.

c) Compute the WACC on the basis of market value weights.

PART - C

14. Case Study (Compulsory) : **[1 × 15 = 15]**

A Company is evaluating two mutually exclusive projects R and S. Both the projects involve a cash outlay of Rs. 2500 lakh each and are expected to yield NCFs as follows :

NCFs – Rs. lakhs

Year	Project R	Project S
1	Rs.3300	Rs.800
2		800
3		1800
4		1100

Questions :

a) Find NPV of both the projects applying a discount rate of 10 percent.

b) Find IRR of both the projects.

c) Which of the two is preferrable?

d) Is there a conflict b/w NPV and IRR? If so, why?

e) Find revised NPV and IRR for both the projects on the basis of reinvestment approach. Assume reinvestment rate of 15%.

f) Now rank the projects on the basis of their revised NPV and IRR, which project do you suggest?

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