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8379

Your Roll No.

BFIA / II Sem. - 2011

FINANCIAL AND INVESTMENT ANALYSIS

Paper 204 - Financial Management

Time : 3 hours

Maximum Marks : 75

(Write your Roll No. on the top immediately
on receipt of this question paper.)

Attempt any Nine questions from Q. 1 to
Q. 10 which are of 7 marks each and
Q. 11 which is of 12 marks. Non-Programmable
scientific calculator is allowed.

1. Mr. A wanted to buy a laptop worth Rs. 50000. The seller has offered 2 schemes; scheme A and scheme B. As per scheme A, 2% discount is available on cash purchasing where as, as per scheme B, 50% down payment is required and remaining 50% in 5 equal monthly installments at 0% interest. Rs. 300 will be charged upfront for administrative expenses.

The person Mr. A has got the facility to borrow from employer @ 10% p.a.

Suggest the appropriate scheme to Mr. A

P.T.O.

2. What is the present value of an income stream which provides Rs. 1000 at the end of year one, Rs. 25000 at the end of year two, and Rs. 50000 during each of the years 3 to 10, if the discount rate is 12%?
3. A person requires Rs. 20000 at the beginning of each year from 2005 to 2009. How much should he deposit at the end of each year from 1995 to 2000? The interest rate is 12%
4. The risk free rate of return is 9%. The expected rate of return on the market portfolio is 13%. The expected rate of growth for the dividend of firm A is 7%. The last dividend paid on the equity stock of firm A was Rs. 2.00. The beta of firm A's equity stock is 1.2.
 - (a) What is the equilibrium price of the equity stock of firm A?
 - (b) How would the equilibrium price change when
 - (i) the inflation premium increases by 2%
 - (ii) the expected growth rate increases by 3%
 - (iii) on beta of A's security rises to 1.3%

5. Bata Technologies is considering an expansion project involving a cost of Rs. 500 million. The management is convinced that debt is a cheaper source of finance and is confident that it can raise the entire amount of debt finance at an interest rate of 14%. However, there is some apprehension about the firm's ability to meet interest burden during a recessionary year. The management feels that in a recessionary year, the net cash flows of the company, not taking into account the interest burden on the new debt, would have an expected value of Rs. 160 million with a standard deviation of Rs. 90 million.
 - (i) What is the Probability of cash inadequacy during a recessionary year, if the entire Rs. 500 million is raised as debt finance?
 - (ii) If the management is prepared to accept only a 12.5% chance of cash inadequacy, what Proportion of Rs. 500 million can be raised as debt finance?
6. Vintex limited has a target ROE of 20 percent. The debt equity ratio of the firm is 1.2 and its pre tax cost of debt is 12%. What ROI should the company plan to earn if its tax rate is 30 percent?

7. The relevant financial information for Xavier Ltd. for the year ended 20×1 is given below :

<i>Profit and Loss</i>		<i>Balance Sheet Data</i>		
<i>Account Data</i>		<i>Beginning of</i>		<i>End of</i>
<i>(Rs. Million)</i>		<i>20×1</i>		<i>20×1</i>
Sales	80	Inventory	9	12
Cost of goods sold	56	Accounts Receivable	12	16
		Accounts Payable	7	10

What is the length of the operating cycle? The cash cycle? Assume 365 days in year.

8. Vineeta enterprises sell on terms 2/10, net 45. Annual sales are Rs. 90 million. 30% of its customers pay on the 10th day and take the discount. If accounts receivable average of Rs. 12 million, what is the average collection period (ACP) on non-discount sales?
9. The expected return from the X Ltd, Y Ltd and Market are as follows :

Probability	X Ltd	Y Ltd	Market
0.20	5	18	6
0.30	10	15	9
0.25	15	12	12
0.15	20	10	15
0.10	25	7	18

Calculate the risk and return if investment is made

- (a) only in X Ltd
 (b) only in Y Ltd
 (c) 70% in X Ltd and remaining in Y Ltd.
10. Krishna cables requires aluminum for its factory. The probability distribution of the daily usage rate and the lead time for procurement are given below (these distribution are independent)

<i>Daily usage rate in</i>		<i>Lead time in</i>	
<i>Tons</i>	<i>Probability</i>	<i>Days</i>	<i>Probability</i>
2	0.2	25	0.2
3	0.6	35	0.5
4	0.4	45	0.3

The stock-out cost is estimated at Rs. 8,000 per ton and the carrying cost in Rs. 2,000 per ton per year.

- Required :* (a) What is the optimal level of safety stock?
 (b) What is the Probability of stock-out?

11. Explain the followings in brief (any four) :

(a) Security market Line

(b) Beta as a risk measure

(c) NOI approach

(d) Financial Leverage

(e) Rule of 72

(f) Intrinsic Value

(g) Convertible Debenture