CFP-C6-A18

ST. JOSEPH'S EVENING COLLEGE (AUTONOMOUS)

VI SEMESTER B.COM EXAMINATIONS - APRIL 2018

CORPORATE FINANCIAL POLICY

Duration: 2.5 Hours **Max. Marks: 70**

SECTION-A

Answer any EIGHT of the following questions **(8x2=16)**

1. What is financial management?
2. What is financial planning?
3. Define the term capitalization.
4. What is EPS? How is it calculated?
5. Mention the types of merger.
6. Define point of indifference.
7. What is replacement value?
8. What do you mean by composite cost of capital?
9. What is wealth maximization?
10. Define sweat equity shares.
11. State the four methods to find out the value of a firm.
12. A. Ltd issues Rs.100000 8% debentures at par. Tax rate applicable to the Co. is 50%. Calculate cost of capital.

SECTION-B

Answer any THREE of the following questions **(3x8=24)**

13. Explain the factors determining the capital structure.
14. What are the favorable factors for profit maximization as the objective of business?
15. A new project under consideration requires a capital outlay of Rs.60 lacks for which the funds can either be raised by the issue of equity shares of Rs.100 each or by the issue of equity shares of the value of Rs.40 lacks and by the issue of 15% loan of Rs. 20 lacks.

    Find out the indifference level of EBIT given tax rate at 50%.
16. A company issues 10000, 10% preference shares of Rs. 100 each. Cost of issue is Rs.2 per share. Calculate cost of preference share capital if these shares are issued, a) at par, b) at a premium of 10% and c) at a discount of 5%.

17. ABC company is proposing to issue a 5 years debenture of Rs. 1000 redeemable in equal installments at 14% rate of interest p.a. If an investor has a minimum required rate of return of 12%, calculate the debenture's present value. What should investor be willing to pay now to purchase the debenture?

SECTION-C

Answer any TWO of the following questions **(2x15=30)**

18. Explain the reasons of mergers or amalgamation of companies.

19. XYZ CO.'s capital structure consists of the following:

Equity shares of Rs. 100 each	Rs.	2000000
Retained earnings	Rs.	1000000
9% Preference shares	Rs.	1200000
7% Debentures	Rs.	800000
Total	Rs.	5000000

The Co. earns 12% on its capital. The income tax rate is 50%. The Co. requires a sum of Rs. 2500000 to finance its expansion programme for which the following alternatives are available to it:

a) Issue of 20000 equity shares at a premium of Rs. 25 per share.
b) Issue of 10% preference shares.
c) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debenture financing would be 21.4, 17and15.7 respectively.

Which of the three financing alternatives would you recommend and why?

20. The following is the capital structure of XYZ Ltd. as on 31-03-2017:

Equity shares – 20000 shares of Rs.100 each	Rs. 2000000
10% Preference shares of Rs.100 each	Rs. 800000
12%Debentures	Rs. 1200000
Total	Rs. 4000000

The market price of the company's share is Rs.110 and it is expected that dividend of Rs.10 per share would be declared after 1 year. The dividend growth rate is 6%.

a) If the company is in the 50% tax bracket, compute the weighted average cost of capital.
b) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 2000000 bearing 14% rate of interest, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from Rs. 10 to Rs.12 per share. However, the market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

21. ABC Ltd. is taking over PQR Ltd. as per the understanding between the managements of the two companies. Shareholders of PQR Ltd. would receive 0.7 shares of ABC Ltd. for each share held by them. The relevant data for the two companies are as follows:

Particulars		**ABC Ltd**	**PQR Ltd**
Net sales	(Rs. in Lakhs)	80	30
Profit after tax	(Rs.in Lakhs)	16	4
No. of shares	(in Lakhs)	3.2	1
EPS (Rs.)		5	4
Market price per share (Rs.)		30	20
Price – Earnings ratio		6	5

Ignoring the economies of scale and the operating synergy, you are required to calculate:

a) Premium paid by ABC Ltd to the shareholders of PQR Ltd.
b) Total no. of shares after the merger.
c) Combined EPS.
d) Combined P/E ratio.
e) Market value per share.
f) Total market capitalization after the merger