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**BCMCMCN 601**

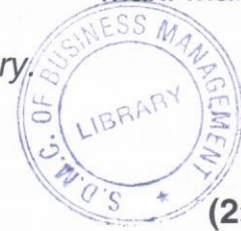
**VI Semester B.Com. Degree Examination, June/July 2025  
(NEP 2020) (2023 – 24 Batch Onwards)  
COMMERCE  
Advanced Financial Management**

Time : 2 Hours

Max. Marks : 60

**Instruction : Provide working note wherever necessary.**

**SECTION – A**



**(2x5=10)**

Answer **any five** of the following questions :

1. Write the assumptions of Net Income (NI) approach of capital structure theories.
2. The share of a company is currently selling for ₹ 100. It wants to finance its capital expenditure of ₹ 100 million by issue of new shares. If the company issue new shares, the issue price will be ₹ 95. The dividend per share next year is ₹ 4.75 and expected to grow at 6%. Calculate the cost of equity.
3. Eureka Ltd. is considering to start a new project. From the following information, calculate the expected cash flows.

<b>Cash flows (₹)</b>	3,00,000	6,00,000	12,00,000	15,00,000
<b>Probability</b>	0.10	0.40	0.30	0.20

4. Ibaco Ltd. enjoyed an EPS of ₹ 14. Its cost of capital is 15%. Dividend payout ratio of the firm is 30%. If the company achieved an ROI of 20%, calculate the market price of its share using Gordon's model.
5. Kunal Ltd. is considering the acquisition of Mrinal Ltd. in a stock-for-stock deal. The companies decided to settle the deal by considering market price of the share as benchmark. The market price per share of Kunal Ltd. is ₹ 180 and of Mrinal Ltd. is ₹ 135. You are requested to calculate the exchange ratio for the acquisition.
6. Give the meaning of Leveraged Buyout (LBO).
7. What is the transaction cost theory ?
8. State one difference between ethics and governance.

P.T.O.



SECTION – B

Answer **any four** of the following questions :

(5×4=20)

9. If a company issues 12%, ₹ 10,00,000 debentures with face value ₹ 100 and incurs an issue expense of ₹ 10,000, which is redeemable at a premium of 10% after 5 years, what is the cost of debt (Tax rate 30%) ?
- If the debentures are issued at par.
  - If the debentures are issued at a discount of 10%.
  - If the debentures are issued at a premium of 5%.
10. Alpha Ltd. is considering the purchase of a new asset. Two alternative investment are available (A) and (B) each costing ₹ 2,00,000. Cash inflows are expected to be as follows.

**Cash inflows (₹)**

Year	Asset A	Asset B
1	80,000	1,00,000
2	70,000	80,000
3	50,000	60,000
4	40,000	60,000

The company has a target return on capital of 10%. Risk premium rates are 2% and 8% respectively for Asset A and Asset B. Which asset has to be chosen based on risk adjusted Net Present Value ?

<b>PVF@12%</b>	0.893	0.797	0.712	0.635
<b>PVF@18%</b>	0.847	0.718	0.609	0.516

11. Apply Modigliani-Miller model and find out the share prices of the following companies after declaration of dividend.

Company	Face value (₹)	Price at the beginning (₹)	Dividend % (₹)	Cost of equity %
A Ltd.	10	2,972	250	2.2
B Ltd.	2	853	1,000	4
C Ltd.	5	746	350	14
D Ltd.	10	2,350	400	18
E Ltd.	1	159	130	12



12. ABC Ltd. is considering the purchase of XYZ Ltd. Following are the pre-merger vital statistics of the two corporates.

Particulars	ABC Ltd. (₹)	XYZ Ltd. (₹)
Earnings available to equity shareholders	88,00,000	18,38,000
Price/Earnings Ratio (in times)	8	6
Total Assets	56,00,000	12,00,000
External Liabilities	20,00,000	6,80,000
Number of outstanding shares	2,25,000	45,000

You are requested to compute share exchange ratio on the basis of :

- i) EPS
- ii) NAV.

13. Explain the Modigliani-Miller (without taxes) approach to capital structure.

14. Elucidate on the contents of an integrated report.

SECTION – C

Answer **any two** of the following questions :

(15×2=30)

15. What is a Merger ? Explain the motives for mergers and acquisitions.

16. The following information has been extracted from the Balance Sheet of SRL Fashions Ltd. as on 31-03-2025.

	₹ in lakhs
Equity share capital	400
12% debentures	400
18% term loan	1,200



- a) Determine the weighted average cost of capital of the company. The expected dividend is ₹ 20 per share and the market price per share is ₹ 100.
- b) What difference will it make if the current price is ₹ 160 ?
- c) Determine the effect of Income Tax on the cost of capital under both premises (Tax rate 40%).



17. Himalaya Ltd. is considering two mutually exclusive Projects X and Y. Project X costs ₹ 3,00,000 and Project Y ₹ 3,60,000. You have been given below the NPV probability distribution for each project.

Project X		Project Y	
NPV (₹)	Probability	NPV (₹)	Probability
30,000	0.10	30,000	0.20
60,000	0.40	60,000	0.30
1,20,000	0.40	1,20,000	0.30
1,50,000	0.10	1,50,000	0.20

Compute :

- 1) The expected NPV.
- 2) The risk associated to each project i.e. standard deviation.
- 3) Comment on your answers and state which project would you recommend based on coefficient of variation.

18. The following information on three companies are provided :

	PQR Ltd.	ABC Ltd.	XYZ Ltd.
ROI	15%	10%	5%
Ke	12%	10%	8%
EPS (₹)	8	8	8

Based on Walter's model, what will be the value of the shares, if Dividend Payout ratio (D/P ratio) is (a) 25%, (b) 50%, (c) 75% ? What conclusions do you draw ?