SVKM'S NMIMS

SCHOOL OF TECHNOLOGY MANAGEMENT& ENGINEERING, NAVI-MUMBAI

Academic Year: 2022-2023

Program: B.tech **Stream:** CSBS **Year:** VI **Semester:** VII

Subject: FINANCIAL MANAGEMENT **Time:** 45 MINS (5:00 PM to 06:00PM)

Date: 28/09/2022 **No. of Pages:** 2

Marks: 20

Mid-Term Examination II

Instructions: Candidates should read carefully the instructions printed on the question paper and on the cover of the Answer Book, which is provided for their use.

1) All Questions are compulsory.
2) Answer to each new question to be started on a new page.
3) Figures in brackets on the right-hand side indicate full marks.
4) Calculators are allowed.
5) Assume Suitable data if necessary.

Q.No.	Statement of the question	CO/ SO/ BL	Marks
Q.1 (a)	State the relation between risk aversion and required returns.	Remember & Understand	(2)
Q.1 (b)	Differentiate between operating, financial and combined leverage.	Remember & Understand	(2)
Q.1 (c)	Explain various approaches to estimate cost of equity.	Remember & Understand	(2)
Q.1 (d)	The total market value of the equity share of ORE Company is Rs. 60,00,000 and the total value of the debt is Rs. 40,00,000. The treasurer estimates that the beta of the stock is currently 1.5 and that the expected risk premium on the market is 10 per cent. The treasury bill rate and cost of debt is 8 per cent. Estimate the company's cost of capital.	Apply & Analyze	(2)
Q.2 (a)	The probability distribution of expected future returns is as follows: Return on shares (percentage) Probability / X / Y 0.1 / -16 / -18 0.2 / 2 / 12 0.4 / 8 / 18 0.2 / 12 / 32	Apply , Analyze & Evaluate	(4)

	0.1 20 40 Compute the (a) Standard deviation of expected returns of each share, (b) Expected return of each share. Which share is more risky? Why?		
Q.2 (b)	The target capital structure of ARN has 60 percent equity, 5 percent preference, and 35 percent debt. ARN's preference capital has a post-tax cost of 7 percent. ARN's debentures consist of Rs.100 par, 8 percent coupon payable annually, with a residual maturity of 3 years. The market price of these debentures is Rs.103. ARN's equity stock is currently selling for Rs.102 per share. Its last dividend was Rs.3.00 per share and the dividend per share is expected to grow at a rate of 14 percent per year in future. ARN's equity beta is 1.5, the risk-free rate is 6 percent, and the market risk premium is 8 percent. ARN's tax rate is 33 percent. a) What is ARN's average pre-tax cost of debt? (Use approximation formula) b) What is ARN's cost of equity using the constant growth dividend discount model? c) What is ARN's post tax weighted average cost of capital? Use the CAPM to estimate the cost of equity and employ the weights in the target capital structure.	Apply & Analyze	(4)
Q.2 (c)	The following key information pertains to Ashika Ltd. for the year 2013-14	Apply & Analyze	(4)

	Rs. In Lakhs
Sales	82.5
Variable Cost	46.2
Fixed Cost	6.6
9% Debentures	50
Equity Shares (Rs. 100 each)	60
Corporate Tax	35%

Calculate operating, financial and combined leverage of the firm.