4. (a) There are two companies ABC Ltd. and XYZ Ltd. the equity capitalization rate of both the companies is 10%. Rate of return on investment is 15% for company ABC Ltd. and 10% for company XYZ Ltd. The earnings per share of each company is Rs 5. Both the companies have 10,00,000 equity shares. Apply Walter's model and-

   (i) Calculate the price of the share and value of each company for a retention ratio of 50% and in case of no retention.

   (ii) What would be the optimum dividend payout ratio of each company? State the relationship between dividend payout ratio and share price for each company. (9)

   (b) What do you mean by working capital? What are the factors affecting working capital requirements? (9)

5. Write short notes on **ANY 3** of the following: (6x3)

   (a) Systematic Risk and its sources.

   (b) Problems in Capital Budgeting

   (c) Weighted Average Cost of Capital.

   (d) Stability of Dividends

(200)

[This question paper contains 4 printed pages.]

Your Roll No..............

Sr. No. of Question Paper : 4706 **J**

Unique Paper Code : 2924002008/2924000017

Name of the Paper : Finance for Non-Finance Executives

Name of the Course : **Bachelor of Management Studies (GE)**

Semester : II/IV

Duration : 3 Hours Maximum Marks : 90

<u>Instructions for Candidates</u>

1. Write your Roll. No. on the top immediately on receipt of this question paper.
2. Attempt **ALL** questions.
3. All questions carry equal marks

1. (a) Financial management is concerned with the solution of three major decisions a company must make. What are these decisions and how are they interrelated? (9)

(b) Ram borrows from Axis Bank an amount of Rs. 10,00,000 @ 12% p.m. on April 01, 2021. As per agreement, repayment including interest is to be made in five equal annual instalments with first instalment falling due after three years i.e., on March 31, 2024. What would be the amount of each instalment? (9)

2. ABC Ltd. Is Planning to buy a machine for Rs. 1,00,000. The earnings before interest, depreciation and tax from this machine in the next five years will be as follows:

Year	1	2	3	4	5
EBIDT (₹)	30,000	35,000	40,000	45,000	50,000

The machine will be depreciated on Straight Line Method basis. The company is subject to 40% tax. Using Payback Period (PBP), Net Present Value (NPV) and Profitability Index (PI) methods, give your advice whether the machine should be purchased if the cost of capital is 10%. (18)

3. Attempt ANY 2 of the following:

(a) Kartik Ltd is planning to raise Rs. 1 crore by the issue of 12% preference share of Rs. 100 each at

10% discount. The underwriting expenses are expected to be 2%. Find out the cost of preference share capital if preference shares are

(i) irredeemable,

(ii) redeemable at the end of 10 years at 15% premium. (9)

(b) Calculate Earnings per Share (EPS), operating leverage and financial leverage for Manvi Ltd.

Particulars	**Amount (₹)**
Equity Share Capital of ₹ 10 each	40,00,000
10% Preference Share Capital of ₹ 100 each	2,00,000
12% Secured Debenture of ₹ 100 each	20,00,000
Net Sales	1,60,00,000

The Net Sales for the company were Rs. 1.60 crores. Earnings before interest and taxes (EBIT) is estimated to be 10% of sales. Corporate tax rate is 40%. Fixed Cost is estimated to be Rs. 50,00,000. (9)

(c) Explain and compare the 'Net Income' and 'Net Operating Income' approaches to capital structure and firm valuation. (9)