Name: Enrolment No:	UPES

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, May 2019

Course: Aviation Financial Management — **Semester: II**
Programme: MBA (AVM) — **Code: FINC 7018**
Time: 03 hrs. — **Max. Marks: 100**
Instructions: Scientific Calculator is allowed
NOTE: All questions are compulsory

SECTION A

S. No	**Multiple Choice Questions**	**Marks**	**CO**
1	Principal value of a bond is called the (a)Maturity Value,(b)Issue Price,(c)Par Value,(d)Market Price.	**2**	**3**
2	Cost of issuing new shares to the public is known as: a) Cost of equity b) Cost of capital c) Flotation cost d) Marginal cost of capital	**2**	**2**
3	Which of the following statements is not a correct explanation of the capital asset pricing model? a) Beta gives a measure of the extent of market related risks which are non-diversifiable b) When beta value is 1.0, the investment is considered to be of normal risk c) The expected return on an investment with a beta value of 2.0 is twice as high as the market rate of return d) The expected return from an investment with negative beta would be less than the risk-free rate of return.	**2**	**2**
4.	The discounting rate which equates the PV on inflows with PV of outflows is knows as ________ a. Internal rate of return b. Accounting rate of return	**2**	**1**

	c. Payback period d. Net benefit cost ratio		
5	Walter's Model suggests that a firm can always increase i.e. of the share by (a) Increasing Dividend , (b) Decreasing Dividend, (c) Constant Dividend, (d) None of the above	**2**	**4**
6	Cost of Retained Earnings is equivalent to a. Opportunity Cost, b. Kp c. Kd d. Ke	**2**	**4**
7	(D_1 / P_0) + g is used for………………………………………… a. Ke b. Kd c.Kp d. Ko	**2**	**3**
8	. In MM-Model, irrelevance of capital structure is based on: (a) Cost of Debt and Equity,(b) Arbitrage Process,(c) Decreasing k_0, (d) All of the above	**2**	**1**
9	NOI Approach advocates that the degree of debt financing is: (a) Relevant,(b) May be relevant,(c) Irrelevant,(d) May be irrelevant.	**2**	**1**
10	Which of the following is true? (a) Retained earnings are cost free, (b) External Equity is cheaper than Internal Equity, (c) Retained Earnings are cheaper than External Equity, (d) Retained Earnings are costlier than External Equity.	**2**	**2**
	SECTION B		
11	Write a short note on Types of Shares	**5**	**4**
12	Write a short note on Value of Firm	**5**	**3**
13	Write a short note on Venture Capital	**5**	**4**
14	MM Hypothesis of Capital Structure	**5**	**3**
	SECTION-C		
15	Discuss the process of raising money from primary market through IPO.	**10**	**3**
16	Discuss the difference in the approach of NI and NOI theory of capital structure with suitable estimations based on assumptions.	**10**	**5**
17	Differentiate between the Gorden's and Walter's model of dividend theory.	**10**	**5**

SECTION-D

18 XYZ Ltd for its project investments intends to raise 2000 crores from debt, preference, common equity and retained earnings with a volume of Rs 800 crores, 500 crores, 400 crores and 300 crores respectively.

The company intends to raise the debt by issuing 20% 5 year redeemable debenture to be redeemed at a premium of 15% at the end of the maturity period. The face value of the debenture is Rs100 and it is intended to be issued at a discount of 12% and a flotation cost of 5% on realized value.

The Preference equity has been planned to be issued of 12% Rs 10 at a discount of 10%. The proposed redemption period is 7 years. The flotation cost is 5% of the face value. The preference equity is planned to be redeemed in different instalments as follows:

YEAR	REDEMPTION OF PRINCIPAL (Rs)
1	2
2	1.5
3	1
4	1
5	1.7
6	1.3
7	1.5

The company plans a premium of 20% at the end of the maturity period for the preference share.

For the estimation of the cost of equity by using the market price of the share by implying CAPM model the market information of the prices and relevant industry index is as follows:

Month End	Industry Index	Share Prices
January	16001	455
February	15995	453
March	16010	450
April	16004	455
May	16008	462
June	16009	465
July	16005	469

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August	16011	472
September	16013	467
October	16007	460
November	16015	462
December	16014	468

The market rate of return is 20% and the risk free rate of return is 7%.

As an alternative for the equity issue the bankers have advised that the company would have to offer a discount of 5% on the current market price of Rs 430 per share. The face value of the share is Rs 100. The company can go ahead with plan of dividend of Rs 18 in the very first year. The flotation cost would be 4% of the issue proceeds.

The simulated past information regarding the dividend of an equal size organization is as follows:

Year	Dividend
1	20
2	6
3	8
4	6
5	10

The applicable tax rate for all the estimation is 20%.

A. Suggest the Weighted Average cost of Capital for the firm without and with considering time value of money.
B. Suggest which mode of cost of equity needs to be adopted?
C. Suggest whether the company should accept the proposal of the merchant bankers if the expected market return on the project is 24%.