Assignment – Financial Policy and Corporate Strategy - AFM - Final Level

Question 1

Following Financial data are available for PQR Ltd. for the financial year ending 2018:

	(₹ in lakh)
8% debentures	125
10% bonds (2017)	50
Equity shares (₹ 10 each)	100
Reserves and Surplus	300
Total Assets	600
Assets Turnovers ratio	1.1
Effective interest rate	8%
Effective tax rate	40%
Operating margin	10%
Dividend payout ratio	16.67%
Current market Price of Share	₹ 14
Required rate of return of investors	15%

You are required to:

(i) Draw income statement for the year.

(ii) Calculate its sustainable growth rate of earnings.

Question 2

The following data pertains to ABC Ltd.

Balance Sheet as on 31.03.21

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity	45,00,000	Net Fixed Assets	24,60,000
Long Term Debt	13,30,000	**Current Assets:**	
Current Liabilities:		Cash	3,48,000
Accounts Payable	1,25,000	Bills Receivable	16,98,000
Outstanding Exp.	45,000	Closing Stock	14,94,000
	60,00,000		60,00,000

Income Statement for the year ending 31.03.2021

Particulars	Amount (₹)
Sales	1,35,80,000
Less: COGS	74,70,000
Gross Profit	61,10,000

Less: Indirect Exp.	33,95,000
EBIT	27,15,000
Less: Interest	1,50,000
EBT	25,65,000
Less: Tax @ 42%	10,77,300
EAT	14,87,700

Assume that next year there will be an increase in Sales by 15% then what would be the modified Income Statements.

Also prepare the Revised Balance Sheet of ABC Ltd. and analyse the External Funding Requirement (EFR) under following three scenarios assuming increase in sale by 15%.

(a) Scenario 1: No change in Fixed Assets in proportion of sales and no dividend is declared.

(b) Scenario 2: Change in Total Assets in proportion of sales and no dividend is declared.

(c) Scenario 3: Change in Total Assets in proportion of sales and 50% of profit is declared as dividend.

Question 3

The Balance Sheet of M/s. Sundry Ltd. as on 31-03-2020 is follows:

(₹ in lakhs)

Liabilities	**₹**	**Assets**	**₹**
Share Capital	3000	Fixed Assets	6000
Reserves	2000	Inventory	5000
Long Term Loan	4000	Receivables	2400
Short Term Loan	3000	Cash	600
Payables & Provisions	2000		
Total	**14000**	**Total**	**14000**

Sales for the year was ₹ 6000 lakhs. The sales are expected to grow by 20% during the year. The profit margin and dividend pay-out ratio are expected to be 4% and 50% respectively.

The company further desires that during the current year Sales to Short Term Loan and Payables and Provision should be in the ratio of 4 : 3. Ratio of fixed assets to Long Term Loans should be 1.5. Debt Equity Ratio should not exceed 1.5.

You are required to determine:

(i) The amount of External Fund Requirement (EFR)

(ii) The amount to be raised from Short Term, Long Term and Equity funds.

[Adapted from January 2021-Old Scheme Examination]

Question 4

DEF Ltd. has outstanding 10% Callable Bonds of ₹ 20 Crore that has 10 years to maturity. The call premium is 7% of Par Value of the Bond. Since for the last some years due to falling interest rates in the market the company can issue 10-year Bonds with same features of the same amount at the interest rate of 8% per annuam. The flotation cost of the new issue is expected to be ₹ 60,00,000.

You are required to advise the company whether it should refund the old bond and issue fresh bonds at lower rate or not.

Present Value Factor @ 8%

Year	1	2	3	4	5	6	7	8	9	10
PVF	0.926	0.857	0.794	0.735	0.681	0.630	0.583	0.540	0.500	0.463