Name:

Enrolment No:

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, May 2019

Course: Project Finance | **Semester: X**

Programme: Integrated BBA, LLB(Hons) specialization corporate Law | **Code: BBCF 133**

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	Which of the following has the highest cost of capital? (a) Equity shares,(b) Loans,(c) Bonds,(d) Preference shares.	**1**	**3**
2	. Which of the following cost of capital require tax adjustment? (a) Cost of Equity Shares, (b) Cost of Preference Shares,(c) Cost of Debentures,(d) Cost of Retained Earnings	**1**	**2**
3	Minimum Rate of Return that a firm must earn in order to satisfy its investors, is also known as: (a) Average Return on Investment, (b)Weighted Average Cost of Capital, (c) Net Profit Ratio, (d) Average Cost of borrowing.	**1**	**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 c. Payback period d. Net benefit cost ratio	**1**	**1**
5	If Beta<1, then this is ……………………type of a Security a. Neutral b. Aggressive c. Passive d. Both a & b above	**1**	**4**
6	Cost of Retained Earnings is equivalent to a. Opportunity Cost, b. Kp c. Kd d. Ke	**1**	**4**
7	$(D_1 / P_0) + g$ is used for…………………………………………… a. Ke b. Kd c.Kp d. Ko	**1**	**3**

8	. Process of Financial Planning ends with: (a) Preparation of Projected Statements,(b) Preparation of Actual Statements,(c) Comparison of Actual with Projected,(d) Ordering the employees that projected figures m come true.	**1**	**1**
9	Deep Discount Bonds are issued at (a)Face Value,(b)Maturity Value,(c)Premium to Face Value,(d)Discount to Face Value.	**1**	**1**
10	Rate of Interest on convertible debenture is generally________the rate on non-convertible debentures (a)Lower than,(b)Higher than,(c)Same as,(d)None of the above.	**1**	**2**
SECTION B			
11	Write a short note on Book Building Process	**5**	**4**
12	Write a short note on Underwriting	**5**	**3**
13	Write a short note on Risk Sensitivity Matrix	**5**	**4**
14	Write a short note on Convertible Preference shares	**5**	**3**
SECTION-C **Attempt any two questions from the following**			
15	Discuss the process of raising money from primary market through IPO.	**10**	**3**
16	What is the importance of risk identification to the risk management process? Discuss the process of Risk Identification.	**10**	**5**
17	What do you mean by time value of money? Discuss the reasons and concepts of time value of Money.	**10**	**5**
SECTION-D			
18	XYZ Ltd for its project investments intends to raise 1200 crores from debt, preference, common equity and retained earnings with a volume of Rs 200 crores, 300 crores, 400 crores and 300 crores respectively. The company considers the following heads of capital for its capital structure. The company intends to raise the debt by issuing 13 %, 8 year redeemable debenture to be redeemed at a premium of 18 % 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 20 % and a flotation cost of 10% on	**50**	**4**

realized value. The applicable tax rate for the interest is 28 %. The company decides to calculate the cost of debt without incorporating time value of money.

Year	Redemption of Face Value (Rs)
1	2
2	3
3	1
4	1
5	3

The company also considers issuing a 5-year 18% Preference equity with a face value of Rs 10 at a premium of 12 %. The flotation cost is 8 % of the face value. The preference equity is planned to be redeemed in following manner over the period of maturity.

The company also considers paying a premium of 25 % to be paid at the end of the maturity period. The company decides to incorporate time value of money for the estimation of cost of preference equity. The expected tax rate is 30% for this scenario.

For the equity issue the bankers have advised that the company would have to offer a discount of 20 % on the current market price of Rs 400 per share. The face value of the share is Rs 100. The company can go ahead with plan of dividend of Rs 15 in the very first year. The flotation cost would be 12 % of the issue proceeds.

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

Year	Dividend
1	16
2	6
3	8
4	10
5	4

A. Suggest the Weighted Average cost of Capital for the firm
B. Suggest whether the company should accept the proposal of the merchant bankers if the expected market return on the project is 24 %.