60555

560

I Semester M.Com. Degree Examination, February 2019
(CBCS Scheme)
Commerce
Paper – 1.5 : ADVANCED FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 70

***Instruction** : Answer **all** Sections.*

SECTION – A

1. Answer **any seven** questions. **Each** question carries **2** marks. **(7×2=14)**
   a) What is arbitrage from the view point of capital structure theory ?
   b) How profitability index is superior to net present value method ?
   c) What is sensitivity analysis ?
   d) Distinguish between merger and acquisition.
   e) What is a commodity derivative ?
   f) What is meant by Pecking order theory of capital structure ?
   g) Give the situations suitable for the use of modified IRR.
   h) What is meant by risk from the view point of capital budgeting ?
   i) ABC Corporation stock is currently trading at Rs. 500 per share and its earnings per share for the year is Rs. 50. Calculate ABC's P/E ratio. How do you express the results ?
   j) Distinguish between futures and forwards.

SECTION – B

Answer **any four** questions. **Each** question carries **5** marks. **(4×5=20)**

2. "There are various motives behind corporate mergers and acquisitions". Elucidate.
3. Examine the validity of the assumptions of MM Hypothesis in capital structure.
4. Briefly explain the types of options with suitable examples.
5. A Trader buys a Canadian dollar futures contract at a price of INR 40. The contract size is CAD 1 million. If the spot rate for the CAD at the date of settlement is CAD/INR 41, what is the gain or loss on this contract to the trader ?

P.T.O.

6. Green Way Ltd. employs certainty-equivalent approach in the evaluation of risky investments. The finance department of the company has developed the following information regarding a new project :

Year	Expected CFAT (Rs.)	Certainty-equivalent quotient
0	(2,00,000)	1.0
1	1,60,000	0.8
2	1,40,000	0.7
3	1,30,000	0.6
4	1,20,000	0.4
5	80,000	0.3

The firm's cost of equity capital is 18 per cent; its cost of debt is 9 per cent and the riskless rate of interest in the market on the treasury bonds is 6 per cent. Should the project be accepted ?

7. Determine NPV of the project with the following information :
   Initial Outlay of project : Rs. 80,000
   Annual revenues (Without Inflation) : Rs. 60,000
   Annual costs excluding depreciation (Without inflation) : Rs. 20,000
   Useful life : 4 years
   Salvage value : Nil
   Tax Rate : 50%
   Cost of Capital (Including Inflation premium of 10%) : 12%

SECTION – C

Answer **any three** questions. **Each** question carries **12** marks. **(3×12=36)**

8. From the following particulars, ascertain which project is more risky on the basis of standard deviation :

Project X		Project Y	
Cash Inflow (₹)	Probability	Cash Inflow (₹)	Probability
2,500	0.2	2,800	0.1
4,800	0.3	4,500	0.4
7,000	0.3	6,300	0.4
8,200	0.2	8,400	0.1

9. Shiva Limited is planning its capital investment programme for next year. It has five projects all of which give a positive NPV at the company cut-off rate of 15 percent, the investment outflows and present values being as follows :

Project	Investment	NPV at 15%
	Rs. 000	Rs. 000
A	(50)	15.4
B	(40)	18.7
C	(25)	10.1
D	(30)	11.2
E	(35)	19.3

The company is limited to a capital spending of Rs. 1,20,000.

You are required to optimise the returns from a package of projects within the capital spending limit. The projects are independent of each other and are divisible (i.e., part-project is possible).

10. Pigeon Ltd. reported a profit of Rs. 77 lakhs after 30% tax for the financial year 2011 – 12. An analysis of the accounts revealed that the income included extraordinary items of Rs. 8 lakhs and an extraordinary loss of Rs. 10 lakhs. The existing operations, except for the extraordinary items, are expected to continue in the future. In addition, the results of the launch of a new product are expected to be as follows :

	Rs. in lakhs
Sales	70
Material costs	20
Labour costs	12
Fixed costs	10

You are required to :

i) Calculate the value of the business, given that the capitalization rate is 14%.

ii) Determine the market price per equity share, with Pigeon Ltd.'s share capital being comprised of 1,00,000 13% preference shares of Rs. 100 each and 50,00,000 equity shares of Rs. 10 each and the P/F ratio being 10 times.

11. Gems Ltd. has just installed Machine – X at a cost of Rs. 2,00,000. The machine has a five year life with no residual value. The annual volume of production is estimated at 1,50,000 units, which can be sold at Rs. 6 per unit. Annual operating costs are estimated at Rs. 2,00,000 (excluding depreciation) at this output level. Fixed costs are estimated at Rs. 3 per unit for the same level of production.

    Gems Ltd. has just come across another model called Machine – Y capable of giving the same output at an annual operating cost of Rs. 1,80,000 (exclusive of depreciation). There will be no change in fixed costs. Capital cost of this machine is Rs. 2,50,000 and the estimated life is for five years will nil residual value.

    The company has an offer for sale of Machine – X at Rs. 1,00,000. But, the cost of dismantling and removal will amount to Rs. 30,000. As the company has not yet commenced operations, it wants to sell Machine – X and purchase Machine – Y.

    Gems Ltd. will be a zero-tax company for seven years in view of several incentives and allowances available. The cost of capital may be assumed at 15%.

    You are required.

    i) Advise whether the company should opt for the replacement.

    ii) Will there be any change in your view, if Machine – R has not been installed but the company is in the process of selecting one or the other machine ? Support your view with necessary workings.

12. Write a note on :

    i) Hedging with example

    ii) Scenario analysis

    iii) Decision Tree analysis.

PG – 738

I Semester M.Com. Degree Examination, January/February 2018
(CBCS Scheme)
COMMERCE
Paper – 1.5 : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** sub-questions. **Each** sub-question carries **2** marks : **(7×2=14)**
   a) Define Finance Function.
   b) What is Modified Internal Rate of Return (MIRR) ?
   c) What are Non-Conventional Investments ?
   d) What is meant by Post-Payback Profitability ?
   e) Distinguish between Net Income and Net Operating Income Approach.
   f) What are the important elements of Capital Structure ?
   g) What do you mean by Back to Back Loan ?
   h) Define Derivatives.
   i) What do you mean by Sequential Analysis ?
   j) What do you mean by Real Rate and Nominal Rate of Return ?

SECTION – B

Answer **any four** questions. **Each** question carries **5** marks : **(4×5=20)**

2. Explain how a firm will go about determining its 'Optimal Capital Structure' ?
3. The investment data of XYZ Company Ltd., with 12 percent Cost of Capital, is as follows :

Particulars	**Amount (Rs.)**
Investment	50,00,000
Cash Flow Before Tax	**Rs.**
1	30,00,000
2	30,00,000
3	20,00,000
4	10,00,000
5	5,00,000

Assuming an Inflation rate of 3.5 percent, determine NPV of the project by using real rate of discount.

P.T.O.

4. Certainly Equivalent Approach is theoretically superior to Risk Adjusted Discount Rate. Do you agree ? Comment.

5. 'Conglomerate firm shares tend to have a higher market value due to lower cost of capital'. Elucidate.

6. No Dividends, No Carrying Cost. Compute the theoretical forward price of the following securities for 1 month, 3 months and 6 months :

Securities	**A Ltd.**	**B Ltd.**	**C Ltd.**
Spot Price (So)	Rs. 160	Rs. 380	Rs. 80

You may assume a risk free interest rate of 6% per annum.

7. A company is considering two mutually exclusive projects X and Y. Project X costs Rs. 3,00,000 and Project Y Rs. 3,60,000. You have been given below the net present value, probability distribution for each project.

Project X		**Project Y**	
NPV Estimate (Rs.)	**Probability**	**NPV Estimate (Rs.)**	**Probability**
30,000	0.1	30,000	0.2
60,000	0.4	60,000	0.3
1,20,000	0.4	1,20,000	0.3
1,50,000	0.1	1,50,000	0.2

I) Compute the risk attached to each project i.e., Standard Deviation of each probability distribution.

II) Which project do you consider more risky and why ?

SECTION – C

Answer **any three** questions. **Each** question carries **12** marks : **(3×12=36)**

8. A Limited has Rs. 10,00,000 available for investment opportunities under Capital Rationing and they are as follows :

Proposal	**Cost of the Project Rs.**	**PBP (Years)**	**ARR (%)**	**PI (Times)**	**IRR (%)**
A	4,00,000	4.3	10	1.3	8
B	4,60,000	4	12	1.4	9
C	4,00,000	5	5	0.9	10
D	4,00,000	6	6	1.0	13
E	2,40,000	3	8	1.3	14
F	1,50,000	3.4	10	2.0	16

G	1,20,000	4	12	1.0	10
H	1,40,000	3.9	14	1.7	6
I	1,60,000	3	10	1.9	7
J	4,00,000	3.5	8	2.0	8

The firms cost of capital is 15%. Select the best proposals among 10 proposals based on PBP, ARR, PI and IRR techniques.

9. Write a note on :
   a) Homemade Leverage
   b) Company Arbitrage and Personal Arbitrage
   c) MM's thesis with Corporate Taxes.
   d) Reverse Leverage.

10. The following is the data regarding two Company's. X and Y belonging to the same risk class :

Particulars	**X**	**Y**
No. of Ordinary Shares	90,000	1,50,000
Market Price/ Share (Rs.)	1.2	1.0
6% Debentures	60,000	–
Profit Before taxes (Rs.)	18,000	18,000

All profits after interest are distributed as dividend. Explain how under Modigliani and Miller Approach assuming an investor holding 15% of shares in Company X will be better off in switching his holding to Company Y.

11. Paramount Products Ltd., wants to raise Rs. 100 lakh for diversification project. A current estimate of EBIT from the new project is Rs. 22 lakh p.a.

Cost of debt will be 15% for amounts up to and including Rs. 40 lakh, 16% for additional amounts up to and including Rs. 50 lakh and 18% for additional amounts above Rs. 50 lakh. The equity shares (face value of Rs. 10) of the company have a current market value of Rs. 40. This is expected to fall to Rs. 32 if debts exceeding Rs. 50 lakh are raised. The following options are under consideration of the company.

Option	**Debt**	**Equity**
I	50%	50%
II	40%	60%
III	60%	40%

Determine EPS for each option and state which option should the company adopt. Tax rate is 30%.

12. Company P wishes to takeover Company Q. the details are as follows :

Particulars	Company X (Rs.)	Company Y (Rs.)
Equity shares (Rs. 100 per share)	22,00,000	5,00,000
Share premium account	20,000	30,000
Profit and Loss account	28,000	14,000
Preference shares	25,000	15,000
8% Debentures	10,000	10,000
Fixed assets	11,52,000	3,35,000
Net current assets	1,01,000	46,000
PAT for share holders	66,000	26,000
Market Price/Equity shares	33	23
Price Earnings Ratio	15	10

What offer do you think company P could make to Company Q in terms of Exchange Ratio, based on following methods :

a) Net asset value

b) Earnings per share and

c) Market price per share.

Which method would you prefer from P's point of view ?

PG – 569

I Semester M.Com. Examination, January 2017
(CBCS)
COMMERCE
Paper – 1.5 : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** questions out of **ten**. **Each** question carries **two** marks. **(7×2=14)**
   a) Discuss Arbitrage process.
   b) Explain value of the firm.
   c) Define opportunity cost of capital.
   d) Explain decision tree.
   e) Define 'time value of money'.
   f) Explain utility theory.
   g) Discuss the significance of P/E ratio.
   h) What is Leveraged buyout ?
   i) Define a 'futures' contract.
   j) Explain the difference between futures and options.

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks. **(4×5=20)**

2. Define strategic financial management. State three examples of strategic financial decisions.

3. Discuss the use of sensitive analysis in risk evaluation.

4. Critically examine NPV and IRR. Do they give identical results ?

5. Companies U and L are identical in every respect except that the former does not use debt in its capital structure, while the latter employs Rs. 6 lakh 10% debt. Assuming that (i) all the M-M assumptions are met, (ii) the corporate tax rate is 35%, (iii) the EBIT is Rs. 1,20,000, and (iv) the equity capitalization of the unleveled company is 0.20. What will be the value of the firms U and L ?

P.T.O.

6. A company is faced with the problem of choosing between two mutually exclusive projects. Project X requires a cash outlay of Rs. 1,00,000 and cash running expenses of Rs. 30,000 per year. On the other hand project Y requires a cash outlay of Rs. 1,50,000 and running expenses of Rs. 20,000 per year. Both the projects have a eight year life. Project X has a salvage value of Rs. 4,000 and project Y has Rs. 14,000. The company's required rate of return is 10%. Assume the corporate tax rate is 50% and the depreciation of the project is on straight line basis. On a differential basis which project should be accepted ?

7. A particular put is the option to sell stock at Rs. 40. It expires after 3 months and currently sells for Rs. 2 when the price of the stock is Rs. 42.
   i) If an investor buys this put, what will the profit be after three months if the price of the stock is Rs. 45, Rs. 40 and Rs. 35 ?
   ii) What will the profit be from selling this put after three months if the price of the stock is Rs. 45, Rs. 40 and Rs. 35 ?

SECTION – C

Answer **any three** out of **five**. **Each** question carries **twelve** marks. **(3×12=36)**

8. Explain the different Hedging instruments and their features.

9. What is optimal capital structure and discuss the cost of capital behavior in Traditional approach ?

10. A firm has Rs. 6,00,000 available for investment. The investment opportunities available are as follows :

Proposal	Cost of the Project	IRR%
1	2,00,000	7
2	2,30,000	8
3	2,00,000	9
4	2,00,000	23
5	1,20,000	19
6	1,50,000	17
7	90,000	16
8	3,00,000	13
9	3,60,000	12
10	5,00,000	11

The firms cost of capital is 10%. Select the best proposals among 10 proposals based on Internal Rate of Return.

11. A company is considering two mutually exclusive projects X and Y. Project X cost Rs. 30,000 and Project Y Rs. 36,000. You have been given below the net present value and probability distribution for each project :

Project X		Project Y	
NPV Estimate Rs.	**Probability**	**NPV Estimate Rs.**	**Probability**
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

a) Compute the expected net present value of projects X and Y.

b) Compute the risk attached to each project that is, standard deviation of each probability distribution.

c) Which project do you consider more risky and why ?

12. Reliance Ltd. wishes to acquire Raja Ltd., a small company with food growth prospects. The relevant information both the companies is as follows :

Company	Equity shares outstanding	Share price (Rs.)	Earnings after taxes	EPS (Rs.)
Reliance Ltd.	10,00,000	25	20,00,000	2
Raja Ltd.	1,00,000	10	2,00,000	2

Reliance Ltd. is considering 3 different acquisition plans :

a) Pay Rs. 12.5 per share for each target share.

b) Exchange Rs. 25 cash and one share of Reliance Ltd. for every four shares of Raja Ltd.

c) Exchange 1 share for every two shares of Raja Ltd.

i) What will Reliance EPS be under each of the three plans ?

ii) What will the share prices of Reliance be under each of the three plans, if its current P/E ratio remains unchanged ?

PG – 882

I Semester M.Com. Examination, January 2016
(CBCS)
COMMERCE
Paper – 1.5 : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** sub questions. **Each** sub question carries **2** marks. **(7×2=14)**
   a) Define Finance.
   b) What are European Options ?
   c) What do you mean by Synergy ?
   d) What are the essentials of Sound Capital Mix ?
   e) What do you mean by Investment Timing ?
   f) What is Bailout Takeover ?
   g) What do you mean by Back to Back loan in Swaps ?
   h) What is Decision Tree Analysis ?
   i) What is hostile takeover ?
   j) What is Implicit Reinvestment Rate ?

SECTION – B

Answer **any four** questions; **each** question carries **5** marks. **(4×5=20)**

2. The investment data of A Company Limited launching a new product and with 10 percent cost of capital, is as follows :

Particulars	Amount (₹)
Investment ₹	7,00,000
Cash Flow After Tax :	₹
1	5,00,000
2	4,00,000
3	2,00,000
4	1,00,000
5	1,00,000

Assuming an inflation rate of 5 percent, determine NPV of the project by using both the nominal rate of discount and the real rate of discount.

P.T.O.

3. Briefly explain the participants of Derivatives Market in India.

4. 'Conglomerate firm shares tend to have a higher market value due to lower cost of capital'. Elucidate the statement.

5. What are the critical factors to be observed while making capital budgeting decisions under capital rationing ?

6. Paramount Products Ltd. wants to raise Rs. 100 lakh for diversification project. Current estimates of EBIT from the new project are Rs. 22 lakh p.a.

   Cost of debt will be 15% for amounts up to and including Rs. 40 lakh, 16% for additional amounts up to and including Rs. 50 lakh and 18% for additional amounts above Rs. 50 lakh. The equity shares (face value of Rs. 10) of the company have a current market value of Rs. 40. This is expected to fall to Rs. 32 if debts exceeding Rs. 50 lakh are raised. The following options are under consideration of the company.

Option	Debt	Equity
(i)	50%	50%
(ii)	40%	60%
(iii)	60%	40%

   Determine EPS for each option and state which option should be Company Adopt. Tax rate is 50%.

7. There are two firms 'A' and 'B' which are exactly identical except that A does not use any debt in its financing, while B has Rs. 2,50,000, 6% debentures in its financing. Both the firms have earnings before interest and tax of Rs. 75,000 and the equity capitalization rate is 10%. Assuming the corporation tax is 50%, calculate the value of the firm.

SECTION – C

Answer **any three** questions; **each** question carries **12** marks. **(3×12=36)**

8. Write a critical note on Capital Structure Theories.

9. What are Derivatives ? How Future and Options Contracts are priced ?

10. A company with a 12 percent of cost of funds and limited investment funds of Rs. 4,00,000 is evaluating the desirability of several investment proposals.

Project	Initial Investment (₹)	Life (in years)	Year-end Cash Inflow (₹)
A	3,00,000	2	1,87,600
B	2,00,000	5	66,000
C	2,00,000	3	1,00,000
D	1,00,000	9	20,000
E	3,00,000	10	66,000

i) Rank the projects according to the profitability index, and NPV methods.
ii) Determine the optimal investment package.
iii) Which projects should be selected, if the company has Rs. 5,00,000 as the size of its capital budget ?
iv) Determine the optimal investment package in the above situations, assuming that the projects are divisible.

11. Mr. Agni is considering an investment proposal of Rs. 80,000. The expected returns during the life of the investment are as under :

Year I

Event	Cash Inflow (₹)	Probability
(i)	32,000	0.3
(ii)	48,000	0.3
(iii)	40,000	0.4

Year II

Cash inflows in year 1 are :

Event	32,000		48,000		40,000	
	Cash Inflows (Rs.)	Prob.	Cash Inflows (Rs.)	Prob.	Cash Inflows (Rs.)	Prob.
(i)	60,000	0.2	80,000	0.33	10,000	0.25
(ii)	80,000	0.6	1,20,000	0.34	16,000	0.5
(iii)	1,00,000	0.2	1,60,000	0.33	24,000	0.25

Using 10% as the cost of capital, advice about the acceptability of the proposal.

12. AB Limited wishes to acquire CD Ltd. on the basis of an exchange ratio of 0.8. Other relevant financial data is as follows :

Particulars	AB Ltd.	CD Ltd.
Earnings After Tax (₹)	1,00,000	20,000
Equity Shares Outstanding	50,000	20,000
Earnings Per Share (₹)	2	1
Market Price Per Share (₹)	20	8

i) Determine the number of shares required to be issued by AB Ltd. for acquisition of CD Ltd.

ii) What would be the exchange ratio if it is based on the market prices of shares of AB Ltd. and CD Ltd. ?

iii) What are the Current Price-Earnings of the two companies ?

iv) Assuming the earnings of each firm remains the same, what is the EPS after the acquisition ?

v) What is the equivalent EPS per share of CD Ltd. ?

vi) Ascertain the gain to shareholders of both the companies (a) at 0.8 exchange ratio and (b) an exchange ratio based on market price.

———————

PG – 755

I Semester M.Com. Examination, January 2015
(CBCS)
COMMERCE
Paper – 1.5 : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** sub questions. **Each** sub question carries **2** marks. **(7×2=14)**

1. a) What do you mean by Capital Budgeting ?

   b) What do you mean by Sequential Investment Decision ?

   c) What is Absorption ?

   d) Define Derivatives.

   e) Give the meaning of Utility Theory.

   f) What is MIRR ?

   g) What is Sensitivity Analysis ?

   h) What is hedging ?

   i) How are future contracts priced ?

   j) What is meant by risk-return tradeoff ?

P.T.O.

SECTION – B

Answer **any four** questions; **each** question carries **5** marks. **(4x5=**

2. Is the MM thesis realistic with respect to capital structure and the value of the firm ? If not, what are its main weakness ?

3. Do you agree that an option is always more risky than the associated share with it ? How does the risk of an option change when the share price changes ?

4. The Balance Sheet of Alpha Numeric company is given below :

Liabilities	**Amount**	**Assets**	**Amount**
Equity capital of Rs. 10 per share	90,000	Net Fixed Assets	2,25,000
10% Long term debt	1,20,000	Current Assets	75,000
Retained Earnings	30,000		
Current liabilities	60,000		
Total	**3,00,000**	**Total**	**3,00,000**

The company's total assets turnover ratio is 3, its fixed operating cost is Rs. 1,50,000 and its variable operating cost ratio is 50%. The income tax rate is 50%.

You are required to :

i) Calculate the different types of leverages for the company

ii) Determine the likely level of EBIT if the EPS is

a) Re. 1 b) Rs. 2 c) Rs. 0

5. XYZ expects a net operating income of Rs. 2,00,000. It has 8,00,000, 6% debentures. The overall capitalization rate is 10%. Calculate the value of the firm and the equity capitalization rate (Cost of Equity) according to the net operating income approach. If the debentures debt is increased to Rs. 10,00,000. What will be the effect on volume of the firm and the equity capitalization rate ?

6. A company has under review a project involving the outlay of Rs. 55,000 and expected to yield the following cash flows in current terms.

Year	1	2	3	4
Cash Flows in (Rs.)	10,000	20,000	30,000	6,000

The company's cost of capital, incorporating a requirement for growth in dividends to keep peace with cost inflation is 20% and this is used for the purpose of investment appraisal. On the above basis, the divisional manager involved as recommended rejection of the proposal.

Having regard to your own forecast that the rate of inflation is likely to be 15% in year 1 and 10% in each of the following years, you are required to comment on his recommendation. (Discount factors @ 20% are. 0.833, 0.694, 0.579 and 0.482 respectively.)

7. Explain the difference between operating leverage and financial leverage.

SECTION – C

Answer **any three** questions; **each** question carries **12** marks. **(3×12=36**

8. Mr. Kumar in considering an investment proposal of Rs. 40,000. The expected returns during the left of the investment are as under :

Year – I

Event	Cash Inflow	Probability
i)	16,000	0.3
ii)	24,000	0.5
iii)	20,000	0.2

Year – II

Cash inflows in year 1 are :

Event	16,000		24,000		20,000	
	Cash Inflows (Rs.)	Prob.	Cash Inflows (Rs.)	Prob.	Cash Inflows (Rs.)	Prob.
(i)	30,000	0.2	40,000	0.1	5,000	0.2
(ii)	40,000	0.6	60,000	0.8	8,000	0.5
(iii)	50,000	0.2	80,000	0.1	12,000	0.3

Using 10% as the cost of capital, advice about the acceptability of the proposal.

9. "Changes in capitalization may be sought as a means of easing tension and giving corporation a better opportunity to pursue its purpose." In the light of this statement, discuss various reasons for changes in capitalization.

10. A company is considering which of two mutually exclusive projects is should undertake. The finance director thinks that the project which had higher NPV should be chosen; where as the MD thinks that the one with the higher IRR should be undertaken especially for both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after tax cash flows of the projects are as follows :

Year	Project X	Project Y
1	35,000	2,18,000
2	80,000	10,000
3	90,000	10,000
4	75,000	4,000
5	20,000	3,000

a) Calculate NPV and IRR of each project.

b) State with reasons, which project you would recommend.

c) Explain the inconsistency in the ranking of the two projects.

11. Excellent Limited, acquiring company, is interested in the acquisition of Pathetic Limited, Target company. The management of Excellent Limited wants you to compute the maximum price it should be willing to pay to acquire Pathetic Limited as per adjusted present value approach. For the purpose you have been provided with the following data :

i) As a result of acquisition, it is expected that the FCFF of Excellent Limited are likely to increase as follows for 6 years

Year	Amount (Rs. in lakh)
1	120
2	150
3	200
4	220
5	140
6	100

ii) The FCFF of Pathetic Limited is expected to be contact after 6 years.

iii) Unlevered cost of equity is 15 percent.

iv) 10% Debt (to the extent of Rs. 120 lakh) will finance part of acquisition cost. Debt will be reduced to Rs. 70 lakh at the end of year 6 by repaying Rs. 10 lakh at the end of each year, commencing from year 1. Debt level is expected to remain at that level thereafter.

v) Corporate tax rate is 35 percent.

vi) Advantage from debt is to be valued at cost of debt.

viii) Bankruptcy costs are assumed to be zero.

12. Explain the following derivative instruments in brief :

i) Forward Contract

ii) Futures Contract

iii) Options

iv) Swaps.