

Chapter wise Test (2004)**Leverage**Instructions

- All questions are compulsory.
- Test Duration will be 45 Minutes, starting from 11:00 AM to 11:45 AM
- 5 minutes reading time will be provided before 11, i.e. question paper will be shared by 10:55 AM.
- Share your scanned answer sheets by 11:50 on below link
<https://forms.gle/wLRZWiTvMELNpCeC6>

1. [5 Marks] A&R Ltd. is a large-cap multinational company listed in BSE in India with a face value of Rs. 100 per share. The company is expected to grow @ 15% p.a. for next four years then 5% for an indefinite period. The shareholders expect 20% return on their share investments. Company paid Rs. 120 as dividend per share for the current Financial Year. The shares of the company traded at an average price of Rs. 3,122 on last day. FIND out the intrinsic value per share and state whether shares are overpriced or underpriced.

2. [5 Marks] a) Compute EPS according to Graham & Dodd approach from the given information:

Market price	Rs. 56
Dividend pay-out ratio	60%
Multiplier	2

b) Given the last year's dividend is Rs. 9.80, speed of adjustment is 45%, target payout ratio is 60% and EPS for the current year Rs. 20. Calculate current year's dividend using Linter's model.

3. [5 Marks] Rex Ltd has 20 lakh equity shares outstanding at the start of the accounting year 2023. The existing market price per share is Rs. 300. Expected dividend is Rs. 20 per share. The rate of capitalization appropriate to the risk class to which the company belongs is 20%.

- CALCULATE the market price per share when expected dividends are: (a) declared, and (b) not declared, based on the Miller – Modigliani approach.
- CALCULATE number of shares to be issued by the company at the end of the accounting year on the assumption that the net income for the year is Rs. 5 crore; investment budget is Rs. 8 crores, when (a) Dividends are declared, and (b) Dividends are not declared.
- PROVE that the market value of the shares at the end of the accounting year will remain unchanged irrespective of whether (a) Dividends are declared, or (ii) Dividends are not declared.

WHAT is the implied growth rate in dividends as per Gordon's model, if expected dividend payment is considered imminent?

4. [5 Marks] INFO Ltd is a listed company having share capital of Rs. 2400 Crores of Rs. 5 each.

During the year 2022-23

Dividend distributed	1000%
Expected Annual growth rate in dividend	14%
Expected rate of return on its equity capital	18%

Required:

- (a) Calculate price of share applying Gordon's growth Model.
(b) What will be the price of share if the Annual growth rate in dividend is only 10%?

According to Gordon's growth Model, if Internal Rate of Return is 25%, then what should be the optimum dividend payout ratio in case of growing stage of company? Comment.

5. [5 Marks] The following information is given below in case of Aditya Ltd.:

Earnings per share = Rs. 60
Capitalisation rate = 15%
Return on investment = 25%
Dividend payout ratio = 30%

- (i) COMPUTE price per share using Walter's Model.
(ii) WHAT would be optimum dividend payout ratio per share under Gordon's Model.