CBCS SCHEME

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16/17MBA22

Second Semester MBA Degree Examination, Feb./Mar. 2022
Financial Management

Time: 3 hrs. Max. Marks: 80

Note: ***1. Answer any FOUR full questions from Q1 to Q7.***
2. Question No.8 is compulsory.
3. Present and Future value tables may be allowed.

1 a. Define Risk Management. **(02 Marks)**
b. Someone promises to give you Rs.10,000 after 10 years in exchange for Rs.1000 today. What interest rate is implicit in this offer? **(06 Marks)**
c. Explain the Factors influencing on dividend policy of the firm. **(08 Marks)**

2 a. What is Sweat Equity Shares? **(02 Marks)**
b. Briefly explain the different approach to calculate cost of equity capital. **(06 Marks)**
c. Wealth maximization objective is superior than profit maximization objective. Explain. **(08 Marks)**

3 a. What is time value of money? **(02 Marks)**
b. What are the factors affecting on working capital of the firm? **(06 Marks)**
c. The lease rentals for a 5-year contract are Rs300/Rs.1000 payable annually in arrears. Assuming no salvage value. Compute the rate of interest implied by the contract and develop a Lease amortization schedule. **(08 Marks)**

4 a. What is Private Equity? **(02 Marks)**
b. The beta coefficient of Target Ltd., is 1.4. The company has been maintaining 8% rate of Growth in dividend and earnings. The last dividend paid was Rs.4 per share. The return on Government securities is 10% while the return on market portfolio is 15%. The current market price of one share of Target Ltd., is Rs.36. What will be the equilibrium price per share of Target Ltd.? **(06 Marks)**
c. Explain the various Long term sources of finance to the firm. **(08 Marks)**

5 a. Define cost of capital. **(02 Marks)**
b. The expected cash flows of a project are as follows:

Year	Cash flow
0	-1,00,000
1	20,000
2	30,000
3	40,000
4	50,000
5	30,000

If the cost of capital is 12%. Calculate modified internal rate of return. **(06 Marks)**

c. The Elu Ltd. is contemplating a debenture issue on the following terms:
Face value : Rs.100 per debenture
Term of maturity : 7 years
Yearly coupon rate of interest
Year 1 – 2 : 9%
3 – 4 : 10%
5 – 7 : 11%
The current market rate on similar debenture is 11% per annum. The company proposes to price the issue so as to yield a (compounded) return of 12% P.A. to the investors. Determine the issue price. Assume redumption at a premium of 5% on face value. **(08 Marks)**

6 a. What is capital budgeting? **(02 Marks)**
b. Briefly explain the challenging role of financial managers. **(06 Marks)**
c. A firm's sales, variable costs and fixed cost amount to Rs.75,00,000, Rs.42,00,000 and Rs.6,00,000 respectively. It has borrowed Rs.45,00,000 at 9% and its equity capital totals Rs.55,00,000.
(i) What is the firm's ROI?
(ii) Does it have favourable financial leverage?
(iii) If the firm belongs to an industry whose asset turn over is 3, does it have a high or low asset leverage. **(08 Marks)**

7 a. Define working capital. **(02 Marks)**
b. Calculate the operating leverage for each of the firms, A, B and C from the following price and cost data. Assume number of unit sold is 5000.

	Firms		
	A	B	C
Sales price per unit	Rs.20	Rs.32	Rs.50
Variable cost per unit	6	16	20
Fixed operating cost	80,000	40,000	2,00,000

(06 Marks)

c. Naveen Enterprises is considering a capital project about which the following information is available.
- The investment outlay on the project will be Rs.100 million. This consists of Rs.80 million on plant and machinery and Rs.20 million on net working capital. The entire outlay will be incurred at the beginning of the project.
- The project will be financed with Rs.45 million of equity capital, Rs.5 million of preference capital, and Rs.50 million of debt capital. Preference capital will carry a dividend rate of 15%, debt capital will carry an interest rate of 15%.
- The life of the project is expected to be 5 years. At the end of 5 years, fixed assets will fetch a net salvage value of Rs.30 million whereas net working capital will be liquidated at its book value.
- The project is expected to increase the revenues of the firm by Rs.120 million per year. The incease in costs on a/c of the project is expected to be Rs.80 million per year. (This included all items cost other than depreciation, interest and tax). The effective tax rate will be 30%.
- Plant and machinery will be depreciated at the rate of 25%. Per year as per the written down value method. Hence, the depreciation charges will be.
  First year : Rs.20.00 million
  Second year : Rs.15.00 million
  Third year : Rs.11.25 million
  Fourth year : Rs.8.44 million
  Fifth year : Rs.6.33 million

Given the above detail, prepare the project cash flows. **(08 Marks)**

8 The board of directors of Nanak Engineering Company Private Ltd., requests you to prepare a statement showing the working capital requirements for a level of activity at 1,56,000 units of production.

The following information is available for your calculation:

		Cost per unit (Rs.)
A)	Raw material	90
	Direct labour	40
	Overheads	75
	Total	205
	Profit	60
	Selling price per unit	265

B) (i) Raw materials are in stock, an average for one month.
(ii) Materials are in process (50% complete) an average for four weeks.
(iii) Finished goods are in stock, an average for one month.
(iv) Credit allowed by suppliers in one month.
(v) Time lag in payment from debtors is 2 months.
(vi) Average lag in payment of wages is 1 ½ weeks.
(vii) Average lag in payment of overheads is one month.

20% of the output is sold against cash. Cash in hand and in bank is expected to be Rs.60,000. It is to be assumed that production is carried on evenly throughout the year, wages and overheads occurs similarly and a time period of 4 weeks is equivalent to a month.

(16 Marks)

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