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14MBA22

Second Semester MBA Degree Examination, June/July 2018
Financial Management

Time: 3 hrs. Max. Marks:100

SECTION - A

Note : 1. Answer any FOUR questions from Q.No.1 to Q.No.7.
2. Use of Time Value Tables is permitted. (Both Present and Future value tables).

1 What is Financial Management? **(03 Marks)**

2 What is Primary Market? **(03 Marks)**

3 What do you mean by time value of money? **(03 Marks)**

4 State the differences between Forward and Futures. **(03 Marks)**

5 What do you mean by Behavioral Finance? **(03 Marks)**

6 What is Dividend Policy? **(03 Marks)**

7 Define Operating Cycle. **(03 Marks)**

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Discuss the emerging role of Finance Managers. **(07 Marks)**

2 Explain the factors affecting dividend policy decisions. **(07 Marks)**

3 What is Foreign Exchange Market? What are its features? **(07 Marks)**

4 What are the discounted 'Investment Evaluation Techniques'? Explain. **(07 Marks)**

5 Samarth Enterprises Ltd., is considering to distribute its profits of Rs 80,000 to its shareholders. Shareholders are expected to earn 18% on their investment, they are in 30% tax bracket and incur a brokerage cost of 3% on the re – investment of dividend receipt. The firm can earn 12% on the retained earnings. What is the cost of Retained Earnings? Should the firm distribute its profits to shareholders? **(07 Marks)**

6 Suppose a firm borrows Rs 10,00,000 at an interest rate of 15% p.a and the loan is to be repaid in 5 equal installments payable at the end of each of next 5 years. Prepare loan amortization schedule. **(07 Marks)**

7 Hemakesh Ltd., is setting a project with a cost of Rs 50,00,000. It is considering the following three alternatives for financing the project.

Capital Structure	Alternative - I	Alternative - II	Alternative - III
Equity share capital (FV of Rs 10 each)	50,00,000	40,00,000	20,00,000
15% debentures	Nil	10,00,000	30,00,000
Total	50,00,000	50,00,000	50,00,000

The Company's estimated EBIT is Rs 20,00,000 p.a. and tax rate is 30%. Determine (E.P.S). Earnings per share and suggest which alternative is better for financing the project. **(07 Marks)**

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Elucidate the various sources of Long – term funds. **(10 Marks)**

2 Explain the factors influencing working capital requirements of a firm. **(10 Marks)**

3 What do you mean by derivatives? What are its types? Explain. **(10 Marks)**

4 Determine the following :
i) Future value of Rs 1000 deposited in five year time deposit scheme in a bank, which earns 9.5% p.a. compounded semi – annually.
ii) Future value of annuity of Rs 1000 p.m. deposited in two year RD A/c @ 9% p.a.
iii) Present value of Rs 1000 receivable 10 years hence, assume a discount rate of 10%.
iv) Present value of annuity of Rs 1000 p.a payable for a period of eight years. Interest rate prevailing in the market is 9% p.a. **(10 Marks)**

5 A firm's after – tax cost of debt is 8%, cost of preference shares is 14% and equity shares are selling at Rs 20 per share, expected dividend per share is Rs 2 and it will grow @ 7% p.a. The firm has the following capital structure.

Debt capital	Rs 300000
Pref. capital	Rs 200000
Equity capital	Rs 500000
Total	Rs 10,00,000

The firm wishes to raise Rs 500000 for expansion plan of its plant. It estimates Rs 100000 retained earnings and balance as follows.

Long term debt Rs 300000
Pref. share capital Rs 100000
Determine Marginal cost of capital. **(10 Marks)**

6 From the following details you are required to make an assessment of the average amount of working capital requirement of AB Ltd. **(10 Marks)**

Items	Average Period of credit	Estimate for the first year (Rs)
Purchase of R.Ms	6 weeks	26,00,000
Wages	1.5 weeks	1950000
Overheads : Rent & Rates	6 months	100000
Salaries	1 month	800000
Other overheads	2 months	750000
Sales (Cash)	Nil	200000
Sales (Credit)	2 months	6000000
Average amount of stock @ Inventory	Nil	400000
Average amount of undrawn profit	Nil	300000

It is assumed that all expenses and incomes were made at even rate for the year and a minimum cash balance of Rs 100000 is maintained.

7 A firm has sales of Rs 20,00000, variable cost of Rs 1400000 and fixed cost of Rs 400000 and a debt of Rs 1000000 @ 10% interest p.a. What are operating , financial and combined leverages? If the firm wants to double its earnings before Interest and Tax (EBIT), how much of rise in sales would be needed on a percentage basis?

(10 Marks)

SECTION - D
CASE STUDY – [Compulsory]

Samarth Enterprises Ltd., is considering two projects, Project M & Project N, each of which requires an initial outlay of Rs 50 million, having life of 4 years and no salvage value. The expected cash inflows from these projects are :

Year	Project - M	Project – N (Amt Rs in Million)
1	11	38
2	19	22
3	32	18
4	37	10

1. What is the discounted payback period for each of the projects if the cost of capital is 12%? **(10 Marks)**
2. If the two projects are independent and the cost of capital is 12%, which project (s) should the firm invest in based on NPV method? **(10 Marks)**

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