CBCS SCHEME

USN | | | | | | | | | | 18MBA22

Second Semester MBA Degree Examination, Jan./Feb. 2021
Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***
3. ***Use of P.V. tables is permitted.***

1 a. What do you mean by Hybrid financing? **(03 Marks)**
b. Discuss in detail interface of financial management with other functional areas. **(07 Marks)**
c. You are given the following estimates and are instructed to compute working capital requirements of Honey Ltd.

Particulars	Amt (Rs.)
Stocks of finished goods	5,000
Stocks of materials and stores	8,000
Average credit given	
Domestic sales = 6 weeks credit	3,12,000
Export sales = 1.5 weeks credit	78,000
Average time lag in payment	
Wages = 1.5 weeks	2,60,000
Materials = 1.5 months	48,000
Rent = 6 months	10,000
Clerical staff = 0.5 month	62,400
Manager = 0.5 month	4,800
Other expenses = 1.5 months	48,000
Sundry expenses paid quarterly in advance	8,000

(10 Marks)

2 a. Differentiate between forward and future contracts. **(03 Marks)**
b. Briefly explain different dividend policies. **(07 Marks)**
c. Discuss in detail objective of financial management. **(10 Marks)**

3 a. What is meant by capital rationing? **(03 Marks)**
b. Arvind Ltd's most recent balance sheet is as follows:

Liabilities	Amt	Assets	Amt
Equity capital (Rs.10 each)	60,000	Net fixed assets	1,50,000
10% Long term debt	80,000	Current assets	50,000
Retained earnings	20,000		
Current liabilities	40,000		
	2,00,000		2,00,000

The company's total assets turnover ratio is 3 times, its fixed operating cost are Rs.1,00,000 and the variable cost ratio is 40%. Tax rate is 35%. Calculate all the three types of leverages. **(07 Marks)**
c. Discuss in detail various sources of financing. **(10 Marks)**

4 a. What do you mean by gross working capital? **(03 Marks)**
b. Discuss the key steps involved in capital budgeting process. **(07 Marks)**
c. Describe briefly various factors affecting working capital requirements. **(10 Marks)**

5 a. If the interest rate is 12%, what are the doubling periods as per the rule of 72 and the rule of 69 respectively? **(03 Marks)**

b. PFC Ltd wishes to calculate its cost of equity capital using CAPM approach. It is found that the risk-free rate of return is 10%, the firm's beta is 1.5 and the return on the market portfolio is 12.5%. Compute the cost of equity capital. **(07 Marks)**

c. Beta technology's present capital structure consists of Rs.20,00,000 equity capital at Rs.100 each. It requires Rs.10,00,000 for expansion purpose. There are three alternatives are available.

(i) Issue of 10,000 equity shares at Rs.100 each.

(ii) Issue of 1000 equity shares at Rs.100 each and debenture capital Rs.9,00,000 at 10% interest.

(iii) Issue f 5000 equity shares at Rs.100 each and preference capital of Rs.5,00,000 at 12% dividend rate.

The company's tax rate is 50%, EBIT of Rs.8,00,000. What is the EPS in each alternatives of financial plan? Recommend the best plan. **(10 Marks)**

6 a. What do you mean by pre-emptive right? **(03 Marks)**

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

c. 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

The cost of capital and reinvestment rate is 12%. Calculate: (i) NPV (ii) BCR (iii) MIRR. **(10 Marks)**

7 a. What do you mean by weighted average cost of capital? **(03 Marks)**

b. Discuss in brief different factors affecting the dividend policy. **(07 Marks)**

c. The NTPC has the following capital structure:

Equity capital (20,000 shares)	40,00,000
10% Preference capital	10,00,000
14% Debentures	30,00,000
Total	80,00,000

The share of the company sells for Rs.20. It is expected that the company will pay next year a dividend of Rs.2 per share which will grow at 7% forever. Assume a 50% tax rate.

(i) Compute the WACC based on existing capital structure.

(ii) Compute the New WACC, if the company raises an additional Rs.20,00,000 debt by issuing 15% debentures. This would increase the expected dividend to Rs.3 per share and leave the growth rate unchanged, but the price of share will fall to Rs.15 per share. **(10 Marks)**

8 CASE STUDY (compulsory)

Jindal Enterprises is determine the cash flow for a project involving replacement of an old machine by a new machine. The old machine bought a few years ago has a book value of Rs.4,00,000 and it can be sold to realize a post tax salvage value of Rs.5,00,000. It has a remaining life of 5 years after which its net salvage value is expected to be Rs.1,60,000. It is being depreciated annually at a rate of 25% under the WDV method. The working capital required for the old machine is Rs.4,00,000.

The new machine costs Rs.16,00,000. It is expected to fetch a net salvage of Rs.8,00,000 after 5 years when it will no longer be required. The depreciation rate is 25% under the WDV method. The net working capital required for the new machine is Rs.5,00,000. The new machine is expected to bring a saving of Rs.3,00,000 annually in manufacturing costs (other than depreciation). The tax rate is applicable to the firm is 40%.

Compute cash flows for the replacement of capital project. **(20 Marks)**

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