

Internal Assessment Test - I

Sub:	Financial Management					Code:	MBA202
Date:	30/06/2025	Duration:	90 mts.	Max Marks:	50	Sem:	II
		Branch:	MBA				

SET- 3

SCHEME OF EVALUATION

Part A - Answer Any Two Full Questions (2* 20 = 40 marks)																
1 (a)	Summarize any three benefits of hybrid financing. To blend asset classes, manage risk, and provide a range of customized risk-return profiles.	[03]	CO1	L1												
(b)	Assess any three pros and cons of (i) Equity capital, (ii) Preference capital and (iii) T-Bills	[07]	CO1	L5												
	<table><tr><th>Type of Capital</th><th>Pros</th><th>Cons</th></tr><tr><td>Equity capital</td><td><ul style="list-style-type: none">• Permanent Capital• No Fixed Cost• Low-Profit Period</td><td><ul style="list-style-type: none">• Dilution of Control• High Cost of Capital• No Tax Advantage</td></tr><tr><td>Preference capital</td><td><ul style="list-style-type: none">• Fixed Return• Flexible Redemption• Claim Priority</td><td><ul style="list-style-type: none">• No Voting Rights• No Tax Advantage• Limited Market Appeal</td></tr><tr><td>T-Bills</td><td><ul style="list-style-type: none">• Fixed and Regular Income• Lower Risk</td><td><ul style="list-style-type: none">• Inflation Risk• Credit Risk</td></tr></table>	Type of Capital	Pros	Cons	Equity capital	<ul style="list-style-type: none">• Permanent Capital• No Fixed Cost• Low-Profit Period	<ul style="list-style-type: none">• Dilution of Control• High Cost of Capital• No Tax Advantage	Preference capital	<ul style="list-style-type: none">• Fixed Return• Flexible Redemption• Claim Priority	<ul style="list-style-type: none">• No Voting Rights• No Tax Advantage• Limited Market Appeal	T-Bills	<ul style="list-style-type: none">• Fixed and Regular Income• Lower Risk	<ul style="list-style-type: none">• Inflation Risk• Credit Risk			
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(c)	“Wealth maximization is superior to profit maximization” – Validate this statement with suitable examples. <ul style="list-style-type: none">• Profit maximization is more tactical and short-sighted and wealth Maximization is a superior and more comprehensive financial objective, focusing on the sustainable growth and value of the firm.• Value maximization is a long-term goal while profit maximization is a short-term goal.• Value maximization focuses on raising the shareholders' value in the long run. Profit maximization involves short-term approaches to increase the profitability of a company.	[10]	CO1	L5												
2 (a)	Calculate the future value of ₹10,000 invested for 3 years and interest is compounded semi-annually at 10%. Solution: ₹13,400	[03]	CO2	L4												
(b)	Manikeshwar Pvt Ltd borrows ₹10,00,000 at the rate of interest 15%. The loan is to be repaid 5 equal installments paid at the end of each year. Find the loan installments and loan amortization. Solution: A =₹298311.55	[07]	CO2	L4												
(c)	(i) If we were required to pay ₹1,000 each for next 7 years for an item with an interest rate of 8%, what will be the present value of delayed annuity and perpetuity?	[10]	CO2	L4												

Solution: A = ₹ 4820.74; P = ₹11574.07

(ii) If the discount/required rate is 10%. Calculate the PV of the cash flow stream detailed below:

- a) ₹100 at the end of year 1
- b) ₹100 at the end of year 4
- c) ₹100 at end of the year 3 and 5 years

Solution: ₹90.90 / ₹ 68.306 / ₹75.13 / ₹296.446

- 3 (a) A company offers a public issue of equity shares of ₹10 each at a premium of 10%. The company pays 5% of issue price as underwriting commission. The rate of dividend expected by the equity share holders is 20%. Calculate the cost of equity if the company is expecting a growth in the dividend in the next year at 12%. [03]

Solution: 31.13%

- (b) From the following information, compute discounted payback period and average rate of return. [07]

Cot of project = ₹50,000 and Life of asset = 5 Years.

Year	1	2	3	4	5
PAT	5,000	20,000	30,000	30,000	10,000
PV Factor @10%	0.909	0.826	0.751	0.683	0.621

Solution: PBP = 2.125 Years; ARR = 76%

- (c) You are required to determine the weighted average cost of capital of M/s Vinayaka Enterprises Ltd., Bengaluru using (i) Book value weights (ii) Market value weights. The company's present book value capital structure is: [10]

Particulars	Amount (₹)
Debenture (₹100 per debenture)	16,00,000
Preference shares (₹100 per share)	4,00,000
Equity shares (₹10 per share)	20,00,000

All these securities are traded in the capital markets. Recent prices are Debentures @ ₹110, preference shares @ ₹120 and equity shares @ ₹22. Anticipated external financing opportunities are:

- (i) ₹100 per debenture redeemable at par, 10 years maturity, 8% coupon rate, 4% floatation cost, sale price ₹100.
- (ii) ₹100 preference shares, redeemable @ par, 15 years maturity, 10% dividend rate, 5% floatation cost, sale price ₹100
- (iii) Equity shares ₹2 per share floatation cost, sale price Rs.22. In addition, the dividend expected on equity share at the end of the year ₹2 per share, the anticipated growth rate in dividends is 5%. The tax rate is 50%.

Solution: (i) $K_d = 4.3\%$; $K_p = 10.59\%$ & $K_e = 15\%$; WACC = 10.273%

(ii) WACC = 11.839%

Part B - Compulsory (01*10=10 marks) – CASE STUDY

ABC Co is considering the following investment projects.

Project	Cash Out Flow (₹ in Crores)	Cash Inflow (₹ in Crores)		
		First Year	Second Year	Third Year
Cauvery	1000	600	700	800
Krishna	2000	800	1000	500
Narmada	3000	1000	1100	1800

- 1) Rank the projects according to each of the following methods
 - a) Payback period
 - b) Net present value at 12% cost of capital
 - c) Internal Rate of return
- 2) Assuming the projects are independent, which one should be accepted? If the projects are mutually exclusive, which project is the best?

Solution:

[10]

Project	PBP	NPV	IRR
Cauvery	1.57 Years	662	45.75%
Krishna	2.4 Years	(134)	7.92%
Narmada	2.5 Years	48.5	14%-15%
Decision	Select Cauvery	Select Cauvery	Select Cauvery

CO3

L4

Course Outcomes (COs)		P01	P02	P03	P04	P05	PS01	PS02	PS03	PS04
CO1:	Understand the basic financial concepts (L2)			1 (a) 1 (b) 1 (c)						
CO2:	Apply time value of money (L3)			2 (a) 2 (b) 2 (c)						
CO3:	Evaluate the investment decisions (L2)			3 (a) 3 (b) 3 (c) 4						
CO4:	Estimate working capital requirements (L3)									
CO5:	Analyze the capital structure and dividend decisions (L4)			4 (a)						

Cognitive level	KEYWORDS
L1 - Remember	list, define, tell, describe, recite, recall, identify, show, label, tabulate, quote, name, who, when, where, etc.
L2 - Understand	describe, explain, paraphrase, restate, associate, contrast, summarize, differentiate interpret, discuss
L3 - Apply	calculate, predict, apply, solve, illustrate, use, demonstrate, determine, model, experiment, show, examine, modify
L4 - Analyze	classify, outline, break down, categorize, analyze, diagram, illustrate, infer, select
L5 - Evaluate	asses, decide, choose, rank, grade, test, measure, defend, recommend, convince, select, judge, support, conclude, argue, justify, compare, summarize, evaluate
L6 - Create	design, formulate, build, invent, create, compose, generate, derive, modify, develop, integrate

PO1–Theoretical Knowledge; PO2–Foster Analytical and Critical Thinking Abilities for data-based decision making; PO3– Develop Value Based Leadership; PO4 –Ability to Understand and communicate various business aspects to global; PO5 – Ability to lead themselves and others in the achievement of organizational goals contributing effectively to a team environment;
PSO1- Comprehend Contemporary features of Business Management Science and its administration
PSO2- Analyze and interpret the dynamic situations for making Business Management strategies
PSO3- Handle responsibility with the ethical values for all actions undertaken by them
PSO4- Adapt and focus on achieving the organizational goal and objectives with complete zeal and commitment.

CI

CCI

HOD