USN | | | | | | | | | | 10MBA23

Second Semester MBA Degree Examination, December 2011

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 time value tables is permitted.*

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

1 a. What is risk and return? **(03 Marks)**
b. Distinguish money market from capital market. **(07 Marks)**
c. Explain the role of finance managers in the current economic scenario. **(10 Marks)**

2 a. What do you mean by financial management? **(03 Marks)**
b. Write a note on corporate governance in India. **(07 Marks)**
c. i) If you deposit Rs.8000 today at 8% rate of interest, in how many years will this amount double, under Rule 72 and Rule 69?
ii) Mr. X will invest Rs.5000 at the end of each year for 6 years. Calculate its future value if interest rate is 12% per annum.
iii) An employee is about to retire. His employer has offered him two post retirement options: an annual pension of Rs.10000 as long as he lives and a lumpsum payment of Rs.60000 if employee expects to live for 15 years and rate of interest 15%. Which alternative should he select? **(10 Marks)**

3 a. What is capital structure? **(03 Marks)**
b. Critically evaluate profit and wealth maximization objectives of an organization. **(07 Marks)**
c. A company has sales of Rs.5,00,000, variable cost of Rs.3,00,000, fixed cost of Rs.1,00,000 and long term loans of Rs.4,00,000 at 10% rate of interest. Calculate the operating, financial and combined leverage. **(10 Marks)**

4 a. What do you mean ESOP? **(03 Marks)**
b. Explain the factors affecting dividend policy of an organization. **(07 Marks)**
c. Prepare an estimate of working capital requirement from the following information of a trading concern.

Projected annual sales	100000 units
Selling price per unit	Rs.8
Percentage of net profit to sales	25%
Average credit period allowed to customers	8 weeks
Average credit period allowed by suppliers	4 weeks
Average stock holding in terms of sales requirement	12 weeks

Allow 10% for contingencies. 40,000 units sold on cash. **(10 Marks)**

5 a. What is agency cost? **(03 Marks)**
b. Explain the various current assets financing policies. **(07 Marks)**
c. XYZ Ltd. has the following book value capital structure :

	Rs. (crores)
Equity capital (shares of Rs.10 each)	15
12% preference capital (shares of Rs.100 each)	1
Retained earnings	20
11.5% Debentures (Rs.100 each)	10
11% Term loans	12.5

Q.No.5(c) continued...

The next expected dividend on equity shares is Rs.3.60 per share; the dividend per share is expected to grow at the rate of 7%. The market price per share is Rs.40. Preference shares redeemable after 10 years is currently selling at Rs.75 per share. Debentures redeemable after six years are selling at Rs.80 per debenture. The income tax of the company is 40%. Calculate WACC, using book value weights. **(10 Marks)**

6 a. Distinguish stock market from commodities market. **(03 Marks)**

b. What is NPV? How is it superior over other techniques? **(07 Marks)**

c. Assuming that a firm pays tax at 50%, compute the after tax cost of capital, in the following cases:

i) A perpetual bond sold at par, coupon rate of interest being 7%

ii) A ten year 8% Rs.1000 bond, sold at Rs.950 less 4% underwriting commission.

iii) Rs.100 par value, preference share sold at Rs.100 with a 9% dividend and redemption price of Rs.110, if a company redeems in 5 years.

iv) An ordinary share selling at a current market price of Rs.120 and paying a current dividend of Rs.9 per share, which is expected to grow at a rate of 8%. **(10 Marks)**

7 a. What do you mean by forex market? **(03 Marks)**

b. Write a note on capital asset pricing model. **(07 Marks)**

c. An investor holds the following portfolio:

Share	Beta	Investment
Alpha	0.6	Rs.3,00,000
Beta	1.0	Rs.1,80,000
Carrot	1.2	Rs.1,20,000

What is the expected rate of return on his portfolio, if the risk free is 6 percent and the expected return on market portfolio is 15%? **(10 Marks)**

8 a. There are two projects X and Y. Each project requires an investment of Rs.10,000. You are required to rank these projects according to pay back method. **(10 Marks)**

Years	Cash flows	
	Project X	Project Y
1	3000	2000
2	4000	3000
3	5000	4000
4	7000	8000
5	8000	9000

b. Techtronics Ltd. is considering a new project, for the manufacture of pocket video games, involving a capital expenditure of Rs.600 lakhs and working capital of Rs.150 lakhs. The capacity of the plant is for an annual production of 12 lakh units and capacity utilization during 6 years working life of the project is expected to be as indicated below :

Year	1	2	3	4	5	6
% of capacity utilization	33.33	66.67	90	100	100	100

The average price per unit of the product is expected to be Rs.200, netting a contribution of 40%. The annual fixed costs, excluding depreciation, are estimated to be Rs.480 lakhs per annum from the third year onwards; for the first and second year it would be Rs.240 lakhs and Rs.369 lakhs respectively. The average rate of depreciation for tax purposes is 33.33% on capital assets. Tax rate 35% cost of the capital is 15%.

At the end of the third year, an additional investment of Rs.100 lakhs would be required for the working capital. Terminal value of the fixed assets may be taken as 10% and for current assets 100%. Advise using NPV. **(10 Marks)**

* * * * *