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.

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08MBA23

Second Semester MBA Degree Examination, December 2012
Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any FOUR full questions from Q.No.1 to 7.***
2. Q.No. 8 is compulsory.

1 a. What is financial management and financial services? **(03 Marks)**

b. Briefly explain the pros and cons of payback period method. **(07 Marks)**

c. Explain the emerging role of financial manager in India. **(10 Marks)**

2 a. A company's shares with a face value of Rs.10 each are quoted at Rs.50 in the stock market. Current rate of dividend is 50% and this is expected to grow at a steady rate of 5% p.a. Calculate the cost of equity capital of the company. **(03 Marks)**

b. Calculate the operating leverage from the following data under situation I and II.

Installed capacity	4000 units
Actual production and sales	75% of the capacity
Selling price	Rs.30 per unit
Variable cost	Rs.15 per unit
Fixed cost: Under situation - I	Rs.15000
Under situation - II	Rs.20000

(07 Marks)

c. The following information is available for X ltd.

Particulars	(Rs. Million)
Average stock of raw materials and stores	200
Average work in process inventory	300
Average finished goods inventory	180
Average accounts receivable	300
Average accounts payable	180
Average raw materials & stores purchased on credit and consumed per day	10
Average work-in-process value of raw materials committed per day.	12.5
Average cost of goods sold per day	18
Average sales per day	20

You are required to calculate

i) Duration of raw material stage
ii) Duration of work in progress stage
iii) Duration of finished goods stage
iv) Duration of accounts receivable stage
v) Duration of accounts payable stage
vi) Duration of operating cycle. **(10 Marks)**

3 a. A firm can invest Rs.12000 in a project with a life of 4 years. The projected cash inflows are as follows:

Year 1 – Rs.3000, Year 2 – Rs.4000, Year 3 – Rs.5000, Year 4 – Rs.3500

The cost of capital is 10%. Calculate the NPV of the project. **(03 Marks)**

b. XY Ltd. Wants to install a new machine in the place of an existing old one which has become obsolete. The company shortlisted two offers. The two models differ in cost, output and anticipated net revenue. The estimated life of both the machines is five years. There will be only negligible salvage value at the end of the fifth year. Further details are

	A	B
Cost of machines.	25	40

Year	P.V. factor @ 16%	Anticipated (A)	After tax cash flow (Rs. lakhs) (B)
1	0.862	-	10
2	0.743	5	14
3	0.641	20	16
4	0.552	14	17
5	0.476	6	8

The companies cost of capital is 16%. Advice the company regarding the selection of the machine. Use NPV method. **(07 Marks)**

c. A company has on its books the following amounts and specific costs of each type of capital.

Type of capital	Book value	Market value	Specific costs (%)
Debt	Rs.4,00,000	Rs.3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	9,00,000	15
Retained earnings	2,00,000	3,00,000	13
	13,00,000	16,90,000	

Determine the (WACC) weighted average cost of capital using i) Book value weights ii) Market value weights. How are they different? **(10 Marks)**

4 a. What is a money market? **(03 Marks)**

b. Explain the following:

i) Stable dividend ii) Primary market iii) Farex market **(07 Marks)**

c. Explain the ways and means of reforming corporate governance in practice. **(10 Marks)**

5 a. Calculate the approximate cost of company's debenture capital, when it decides to issue 10000 Nos of 14% non-convertible debentures, each of face value Rs.100, at par. The debentures are redeemable at a premium of 10% after 10 years. The average realization is expected to be Rs.92 per debenture and the tax rate applicable to the company is 40%. **(03 Marks)**

b. Calculate the EPS of Solid ltd and Sound ltd, assuming

i) 20%before tax rate of return on assets

ii) 10% before tax rate of return on assets based on the following data:

Assume 50% income tax in both cases.

Particulars	Solid ltd. (Rs. lakhs)	Sound ltd. (Rs. lakhs)
Assets	100	100
Debt	-	50 (12% debenture & loan)
Equity	100 (Shares of Rs.10 each)	50 (Shares of Rs.10 each)

Give you comment on the financial leverage. **(07 Marks)**

c. Explain the factors influencing working capital requirements. **(10 Marks)**

6 a. What is cost of capital? **(03 Marks)**

b. Explain the SEBI code related to corporate governance. **(07 Marks)**

c. D Ltd. Is an established co. which requires a further sum of Rs.30,00,000 for its expansion scheme. Apart from the original equity capital of Rs.30,00,000 for its expansion scheme the director have the following plans:
i) all in equity shares
ii) Rs. 10,00,000 in equity and balance in 8% debentures.
iii) all in debt at 8%.
iv) Rs. 10,00,000 in 12% preference shares and balance in equity.
The expected EBIT is Rs.8,00,000 and tax rate applicable is 50%. Analyse the options on the basis of earning per share. **(10 Marks)**

7 a. What is working capital? **(03 Marks)**

b. Find the present values of the following:
   i) Rs. 1500/- receivable in 7 years at a discount of 15%.
   ii) An annuity of Rs.1000 starting immediately and lasting until 9th year at a discount rate of 12%.
   iii) Rs.25,000 received at the end of 5th year at 12%.
(PV factor@12% for 5th year 0.567, PV factor@15% for 7 years is 0.376, Present value annuity factor@20% for 8 years is 3.837.) **(07 Marks)**

c. Write a note on long term sources of funds which can be raised within India. **(10 Marks)**

8 Case Study:

From the following details, prepare the working capital requirement forecast.

Production during the previous year was 1,20,000 units. It is planned that this level of activity would be maintained during the present year. The expected ratios of the cost to selling price are, raw material 60%, direct wages 10%, overheads 20%.

Raw materials are expected to remain in store for an average of 2 months before issue to production. Each unit is expected to be in process for one month, the raw materials being fed into the pipeline immediately and the labour and overhead costs accruing evenly during the month.

Finished goods will stay in warehouse awaiting dispatch to customers for approximately 3 months. Credit allowed by creditors is 2 months from the date of delivery of raw materials credit allowed to debtor is 3 months from the data of dispatch. Selling price is Rs.5 per unit. There is a regular production and sales cycle. Wages and overheads are paid with one month lag (delay). The company normally keeps cash in hand to the extent of Rs.40,000. (Show necessary working notes). **(20 Marks)**

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