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Second Semester MBA Degree Examination, Dec.2014/Jan.2015
Financial Management

Time: 3 hrs.

Max. Marks: 100

- Note:** 1. Answer any **THREE** full questions from Q.No.1 to Q.No.6.
 2. Question No. 7 & 8 are compulsory.
 3. PV and FV tables may be used.
 2. Show working notes wherever necessary.

- 1 a. What do you understand by agency problem? (03 Marks)
 b. Write a note on the emerging role of finance managers in India. (07 Marks)
 c. Mr. X deposit Rs.50000 in a bank at 12 percent interest rate. How much shall it grow at the end of 4 years, if interest is compounded annually, semi-annually, quarterly, monthly and daily? (10 Marks)
- 2 a. What is lease financing? (03 Marks)
 b. Define capital budgeting. Explain the capital budgeting process. (07 Marks)
 c. Explain the factors influencing the working capital requirements. (10 Marks)
- 3 a. Name the factors affecting cost of capital. (03 Marks)
 b. Anand Ltd. is in need of Rs.50,00,000 for its expansion programme- apart from the original equity capital of Rs.50,00,000 of Rs.100 each. The directors of the company have the following plan for expansion:
 i) The entire amount of additional capital to be raised through issue of equity shares of Rs.100 each.
 ii) Rs.20,00,000 in equity shares and balance amount in 10 percent debentures.
 iii) Issue 10 percent debentures.
 iv) Rs.20,00,000 in 12 percent preference shares and balance in equity.
 The expected EBIT is Rs.15,00,000. The tax rate applicable to the company is 50 percent. Analyse the options and select the best option. (07 Marks)
 c. A firm's sales, variable costs and fixed cost amount to Rs.75,00,000, Rs.42,00,000 and Rs.6,00,000 respectively. It has borrowed Rs.45,00,000 at 9 percent and its equity capital totals Rs.55,00,000.
 i) What is the firm's ROI?
 ii) Does it have favourable financial leverage?
 iii) If the firm belongs to an industry whose asset turn over is 3, does it have a high or low asset leverage?
 iv) What are the operating, financial and combined leverages of the firm? (10 Marks)

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.

- 4 a. What is trading on equity? (03 Marks)
 b. What is financial modeling? What are the different types of financial model? (07 Marks)
 c. The management of Alfa Ltd. has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product, for the above mentioned activity is detailed below:

	Per unit (Rs.)
Raw materials	20
Direct labour	5
Overheads	15
Total	40
Profit	10
Selling price per unit	50

- i) Past experience indicates that raw materials are held in stock on an average for two months.
 ii) Work-in-progress (100 percent complete in regard to materials and 50 percent for labour and overheads) will approximately be to half a month's production.
 iii) Finished goods remain in warehouse on an average for a month.
 iv) Suppliers of materials extend a month's credit.
 v) Two months credit is allowed to debtors, calculation of debtors may be made at selling price.
 vi) A minimum cash balance of Rs.25,000 is expected to be maintained.
 vii) The production pattern is assumed to be even during the year.
 Prepare the statement showing, the working capital requirement of the company. (10 Marks)

- 5 a. What is financial engineering? (03 Marks)
 b. What is stable dividend policy? Why should a firm follow such a policy? (07 Marks)
 c. Arun Ltd. has Rs.2,00,000 to invest. The following proposals are under consideration. The cost of capital for the company is estimated to be 15%

Project	Initial outlay (Rs.)	Annual cash flow (Rs.)	Life of project
A	1,00,000	25,000	10
B	70,000	20,000	8
C	30,000	6,000	20
D	50,000	15,000	10
E	50,000	12,000	20

Rank the above projects on the basis of:

- i) NPV method and ii) Profitability index method. (10 Marks)

- 6 a. What is MIRR? (03 Marks)
 b. What is relevant cash flow? Also mention the concept of incremental cash flows. (07 Marks)
 c. What are the motives behind mergers? (10 Marks)

- 7 a. Following is the capital structure of a company:

	(Rs.)
Equity capital	4,00,000
10% preference share capital	2,00,000
Retained earnings	1,00,000
5% debentures	3,00,000
Total	10,00,000

The cost of equity capital of the company is 15%, and retained earnings 8%. Assume the tax rate is 50%.

Calculate the WACC.

(10 Marks)

- 7 b. The relevant financial information for ABC Ltd. for the year ended 31st December, 2013 is given below:

	(Rs. in million)	
	1 - 1 - 2013	31 - 12 - 2013
Inventory	18	24
Bills receivables	24	32
Bills payable	14	20
Annual sales		160
Cost of goods sold		112

What is the length of operating cycle and the cash cycle? Assume 365 days to a year.

(10 Marks)

- 8 A company is considering an investment proposal to install a new milling control at a cost of Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 percent. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows:

Year	CFBT (Rs.)
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Compute the following:

- Pay back period.
- Average rate of return.
- Net Present Value (NPV) at 10 percent discount rate and
- Profitability index at 10 percent discount rate.

(20 Marks)
