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12MBA25

Second Semester MBA Degree Examination, Dec.2015/Jan.2016
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.***

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. Explain the concept of time value of money? **(03 Marks)**

b. What is working capital? Explain the dangers of excessive and inadequate working capital. **(07 Marks)**

c. From the following projections of xyz Ltd, for the next year, you are required to determine the working capital required by the company :
Annual sales : Rs 14,40,000 ;
cost of production (including depreciation Rs 1,20,000) Rs 1200000 ;
Raw materials purchases Rs 7,05,000 ;
Monthly expenditure Rs 30,000 ;
Estimated opening stock of Raw materials Rs 4,40,000 ;
Estimated closing stock of Raw materials Rs 1,25,000 :
Inventory Norms :
Raw material 2 months, w/p $\frac{1}{2}$ month, finished goods 1 month. The firm enjoys a credit of half a month on its purchases and allows one month credit on its suppliers. On sales order, the company receives an advance of Rs 15,000/- you are assume hat production is carried out evenly throughout the year and minimum cash balance desired to be maintained is Rs 35,000/-. **(10 Marks)**

2 a. What do you mean by formal and informal financial sector? **(03 Marks)**

b. Explain the factors affecting dividend policy of an organization. **(07 Marks)**

c. A company is considering the following investment projects :

Projects	Cash flows			
	C_0	C_1	C_2	C_3
A	– 10000	+ 10000	-	-
B	– 10000	+ 7500	+ 7500	-
C	– 10000	+ 2000	+ 4000	+ 12000
D	– 10000	+ 10000	+ 3000	+ 3000

Rank the projects according to each of the following methods i) PBP ii) ARR iii) NPV assuming 10% as the discount rate. **(10 Marks)**

3 a. What is financial engineering and financial modeling? **(03 Marks)**

b. What is merger? What are the reasons for the merger? **(07 Marks)**

c. Ojus enterprises is determining the cashflow for a project involving replacement of an old machine by a new machine. The old machine bought a few year ago has a book value of Rs 400000 audit can be sold it realize a post tax salvage value of Rs 500000. It has a remaining life of 5 years after which its net salvage value is expected to be Rs 160000. It is being depreciated annually at a rate of 25% under WDV method. The working capital required for the old machine is Rs 400000.

The new machine cost Rs 1600000/- it is expected to fetch a net salvage of Rs 800000 after 5 years when it will no longer be required. The depreciation rate applicable to it is 25% under WDV method. The net working capital required for the new machine Rs 500000. The new machine is repeated to being a savings of Rs 300000 annually in manufacturing costs (other than depreciation).

The tax rate applicable to the farm is 40% should the old machine be replaced by the new machine (assuming cost of capital to be 10%). **(10 Marks)**

4 a. What do you mean by opportunity cost? **(03 Marks)**

b. Discuss briefly the features of venture capital and private equity as a source of long term finance. **(07 Marks)**

c. i) Exactly year from new Srichand will start receiving a pension of Rs 3000 a year. The payment will continue for sixteen years. How much is the pension worth now, Srichand's interest rate is 10%.

ii) Mohan bougth a share 15 years ago for ₹ 10. It is now selling for Rs 27.60. What is the compound rate of growth in the price of the share.

iii) A borrower offers 16%, nominal rate of interest worth quarterly compounding. What is the effective rate of return? **(10 Marks)**

5 a. Determine the weighted average cost of capital schedule for the company, if it raises Rs 10 crores next year, given the following information.

i) The amount will be raised by equity and debt I equal preparations.

ii) The company expected to retain Rs 15 crore neat year.

iii) The additional issue of equity share will result in the net price per share being fixed at Rs 32/-DPS is expected to grow at the rate of 7%, opportunity cost for the company is 16%.

iv) The debt capital raised by way of term loan will cost 12% for the first Rs 2.5 crores and 13% for neat Rs 2.50 crores. **(10 Marks)**

b. AB Ltd, needs Rs 10,00,000 for expansion the expansion is expected to yield an annual EBIT of Rs 1,60,000. In choosing a financial plan of AB Ltd., has an objective of maximum EPS, it is considering the possibility of issuing equity shares and raising debt of Rs 100000, or Rs 400000 or Rs 600000. The current market price is Rs 25/- and the share price is expected to drop to Rs 20/-, if the bonds are borrowed in excess of Rs 500000. Funds can be borrowed at the rate indicated below;'

i) Up to Rs 100000 at 8%, ii) over Rs 100000 and up to Rs 500000 at 12%, and iii) over Rs 600000 at 18%. Assume after tax rate of 50%. Evaluate all the financial plans and suggest which plan is to be preferred. **(10 Marks)**