Seat No.: ________ Enrolment No.___________

# GUJARAT TECHNOLOGICAL UNIVERSITY

**MBA - SEMESTER–II • EXAMINATION – SUMMER • 2014**

**Subject Code: 820003** **Date: 27-05-2014**

**Subject Name: Financial Management (FM)**

**Time: 10.30 am - 13.30 pm** **Total Marks: 70**

**Instructions:**

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

**Q.1** **(a)** Describe the main functions of a finance manager. **07**

**(b)** 1) Mehta is planning for his retirement. He is 40 years old today & would like to have Rs. 600,000 when he attains the age of 60 years. He intends to deposit a constant amount of money at 12% each year in PPF of SBI to achieve his objective. How much money should Mehta invest at the end of each year for the next 20 years to obtain Rs. 600,000 at the end of that period? **07**

2) A company paid a dividend per share of Rs. 3.70 in the previous year. The dividends in the future are expected to grow perpetually at a rate of 8%. Find out the share price as of today, if the market capitalization rate is 12%.

**Q.2** **(a)** Explain the determinants of Working Capital. **07**

**(b)** The relevant financial information for I Ltd. For the year ending 2013 are given below. **07**

| (Rs. Millions) | | | Rs. (Million) | |
|---|---|---|---|---|
| P & L Account | | Balance Sheet Data | Year Beginning 2012-13 | Year Ending 2012-13 |
| Sales | 80 | Inventory | 9 | 12 |
| Cost of Goods Sold | 56 | Account Receivables | 12 | 16 |
| | | Account Payables | 7 | 10 |

Assuming 365 days in a year calculate

a) Length of Operating Cycle.
b) Length of Cash Cycle.

**OR**

**(b)** A company is currently selling 100,000 units of its product at Rs. 50 per unit. At current level of production, the cost per unit is Rs 45, variable cost per unit being Rs. 40. The company is currently extending one month's credit to its customers. It is thinking of extending the credit period to two months in the expectation that sales will increase by 25 percent. If the required rate of return (before tax) on the firm's investment is 30%, is the new credit policy desirable? **07**

**Q.3** **(a)** Briefly describe the different methods used for evaluating a capital investment decision? **07**

**(b)** The following are the net cash flows available for an investment done by a company. **07**

| Year | 0 | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Cash Flow | -100000 | 20000 | 30000 | 40000 | 50000 | 30000 |

Calculate: a) NPV b) IRR c) Profitability Index

Ke= 12%

**OR**

**Q.3** **(a)** 1) Under what conditions would the IRR be a reciprocal of the payback period? **07**
2) Despite its weakness, Payback is still a popular measure for capital budgeting. Explain

**(b)** Consider the following two projects. Calculate their NPV at 9% and their IRR. Do you find a difference in project ranking as per these two criteria? Why? Which project will you choose? **07**

| Cash Flows | Project P | Project Q |
|---|---|---|
| $C_0$ | -840 | -840 |
| $C_1$ | 700 | 70 |
| $C_2$ | 350 | 420 |
| $C_3$ | 70 | 760 |

**Q.4** **(a)** Explain briefly the different sources of long term finance for a firm. **07**

**(b)** Volga is a large manufacturing and marketing company in the private sector. In 2013, the company had gross sales of Rs. 980.2 crore. The other financial data for the company are given below. **07**

| Particulars | Rs (Crores) |
|---|---|
| Net worth | 152.31 |
| Borrowings | 165.47 |
| EBIT | 43.17 |
| Interest | 34.39 |
| Fixed Cost (Excluding interest) | 118.23 |

Calculate
a) Debt-Equity Ratio
b) Debt Ratio
c) Interest Coverage
d) Operating Leverage
e) Financial Leverage
f) Combined Leverage

**OR**

**Q.4** **(a)** List the most critical factors of the determination of the capital structure. **07**

**(b)** A company wants to raise 2 crore from different sources. The EBIT of the firm is Rs. 80,00,000. There are three alternative plans available for the firm. **07**
**Plan A:** Raise the fund entirely through equity shares of Rs. 100 each.
**Plan B:** 50% amount through issue of 8% debentures & 50% by equity at Rs 50/share
**Plan C:** 25% amount through issue of 13% preference shares, 30% amount by issue of 9% debentures and remaining amount by equity at Rs 90 each.
The tax rate is 30%. If the objective of the company is to maximize EPS, which is the best alternative?

**Q.5** **(a)** Explain Gordon's Relevance Model of Dividend. **07**

**(b)** The following information relates to Ranjit Ltd. **07**

| Particulars | Value |
|---|---|
| Earnings | 10,00,000 |
| Dividend payout ratio | 60% |
| No. of Shares | 2,00,000 |
| ROI | 15% |
| Cost of equity | 12% |

Calculate

a) Market Price of share as per Walter Model

b) Optimum payout ratio as per Walter Model and Value of share at optimum payout.

**OR**

**Q.5** **(a)** Explain in brief **07**

a) Constant Dividend Rate Policy.

b) Constant Payout Dividend Policy.

**(b)** P.L. Engineering Ltd. belongs to a risk class for which the capitalization rate is 10 per cent. It currently has outstanding 10,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of a dividend of Rs. 5 per share at the end of the current financial year. It expects to have a net income of Rs. 1,00,000 and has a proposal for making new investments of Rs. 2,00,000. Show how under M - M Hypothesis, the payment of dividend does not affect the value of the firm. **07**

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