Seat No.: ________ Enrolment No.___________

# GUJARAT TECHNOLOGICAL UNIVERSITY

**MBA - SEMESTER–II • EXAMINATION – WINTER 2013**

**Subject Code: 2820003** **Date: 26-12-2013**

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

**Time: 2.30 pm – 5.30 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)** Mr. Gotalawala is planning for her daughter's marriage after 10 years. He estimated the total expenses for the marriage Rs. 20,00,000. How much he should invest annually at the end of year in DSP Blackrock mutual funds which give annual return of 15%? **03**

**(b)** Mr. Daruwala borrows from Bank for 5 years worth Rs. 10,00,000 to buy a new car named Honda city. If Mr. Daruwala wants to pay an equal annual installment at the end of every year, and if the rate of interest is 10%, Calculate the amount of installment every year. Also prepare Loan amortization schedule. **04**

**(c)** Katrina Ltd. expected to pay dividend of Rs. 20 after a year if the cost of capital is 15% and the growth rate of dividend is 10% for first 5 years and after that it declines to 5% forever. Calculate the value of share of Katrina Ltd. **03**

**(d)** The cost of capital and rate of return on investment of Netree Ltd. is 10% and 15% respectively. The company has 10 lakh equity shares of Rs.10 each outstanding and its EPS is Rs. 5. Calculate the value of the share in the following situation using the Walter's model. **04**
(a) 100% retention ratio (b) 50% retention ratio

**Q.2** **(a)** What do you mean by term "Working Capital"? Explain the Factors determining the quantum of working capital requirements. **07**

**(b)** Phoenix Limited currently provides 30 days of credit to its customers. Its present level of sales is Rs.150 million. The firm's cost of capital is 14 percent and the ratio of variable costs to sales is 0.70. Phoenix is considering extending its credit period to 60 days. Such an extension is likely to push sales up by Rs.12 million. The bad debt proportion on the additional sales would be 6 percent. The tax rate for Phoenix is 30 percent. What will be the effect of lengthening the credit period on the residual income of Phoenix Limited? Assume 360 days to a year **07**

**OR**

**(b)** The cost of single bearing with no discount is Rs. 25. Annual demand is 250 units. Ordering cost is Rs. 15 per order and carrying cost is Rs. 3 per unit. Determine the EOQ and total cost at EOQ. **07**
If the minimum order size is 100, then quantity discount of 10% is available. Does your Decision change? What is the total cost at this quantity?

**Q.3** **(a)** What is Debenture capital? Evaluate it as a source of long-term finance. **07**

**(b)** Explain the NI and NOI approach of capital structure with graphs. **07**

**OR**

| | | | |
|---|---|---|---|
| **Q.3** | **(a)** | State the limitations of Profit Maximization and narrate how it has been removed from Shareholders' wealth maximization? | **07** |
| | **(b)** | Discuss the various sources of working capital finance. | **07** |

| | | | |
|---|---|---|---|
| **Q.4** | **(a)** | Discuss the three different approach of financing the working capital. You are required to give graphical presentation. | **07** |
| | **(b)** | Jiya Ltd. desires to install a boiler plant. The project involves the cash investment of Rs. 5,00,000. The life of the project is 5 years without any salvage value. The tax rate is 40%. It has estimate the EBDT is as follows: | **07** |

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| EBDT | 280000 | 260000 | 240000 | 210000 | 180000 |

You are required to calculate the cash flow and Find out NPV at 10% cost of capital and give your comments.
(You decide about Depreciation Policy based on available data)

**OR**

| | | | |
|---|---|---|---|
| **Q.4** | **(a)** | Explain the irrelevance theory of MM in Dividend Decision | **07** |
| **Q.4** | **(b)** | A firm has two mutually exclusive proposal A and B requiring initial outlay of Rs. 1000 each. Both projects have life of 7 years with following cash flows. | **07** |

| Year | Project A | Project B |
|---|---|---|
| 1 | 050 | 500 |
| 2 | 100 | 350 |
| 3 | 250 | 250 |
| 4 | 300 | 060 |
| 5 | 400 | 100 |
| 6 | 450 | 100 |
| 7 | 500 | 150 |

Which of the two projects is preferable if the cost of capital is 12% and 15%? Comment on your result.

| | | | |
|---|---|---|---|
| **Q.5** | **(a)** | What is Risk and Return? Explain the concept of systematic risk and its application in CAPM | **07** |
| | **(b)** | Following information is available from Krishna Ltd. | **07** |

| | |
|---|---|
| Raw materials | Rs 100 |
| Direct labour | Rs. 60 |
| Overhead | Rs. 40 |
| Profit | Rs. 50 |

The following further particulars are available: Raw materials in stock, on average, 1 month; Materials in process: 0.5 month; Finished goods in stock, on average, 1.5 month. Credit allowed by suppliers is 2 month; Credit allowed to debtors is 3 months; Average time-lag in payment of wages and overhead expenses is 1 month. 25% of the output is sold against cash; cash in hand and at bank is desired to be maintained at Rs 100000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 50000 units of production.(You have to take 12 month for the calculation purpose)

**OR**

**Q.5** **(a)** Calculate WACC from the following information of Akshara Ltd. **07**

| | |
|---|---|
| Equity Capital(Rs.100 each) | 4,00,000 |
| 12% Debenture | 6,00,000 |
| 16% Term loan | 10,00,000 |

**Other Information**: The current market price of share Rs.150 The company pay 20% dividend every year .You are required to calculate (a) WACC of the company in the above situation. (b) If all the above information will remain same but the tax rate applicable to the company is 50% calculate WACC.

**(b)** Installed capacity, 8,000 units, Actual production and sales 50 % of the capacity, Selling price, Rs 50 per unit and Variable cost, Rs 25 per unit, Fixed cost: 20,000, Capital structure is as follows **07**

| Financial plan | A | B |
|---|---|---|
| Equity Rs | 100000 | 150000 |
| 10% Debenture Rs. | 50000 | 150000 |

Calculate (a) the operating leverage, (b) financial leverage and (c) combined leverage from the above data for financial plans, A and B.

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