

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA I - SEMESTER - II EXAMINATION – WINTER • 2014

Subject Code: 2820003

Date: 29-12-2014

Subject Name: Financial Management (FM)

Time: 02:30 pm - 05:30 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) i. Explain why the money has time value? **07**
ii. You can save Rs.2000 a year for 5 years and Rs.3000 a year for 10 years thereafter. What will these savings cumulate to at the end of 15 years, if the rate of interest is 10%.
- (b) i Mr. Raghu deposits Rs10000 in a bank now . The interest rate is 10% and compounding is done semi annually. What will the deposit grow to after 10 years? If the inflation rate is 8% per year what will be the value of deposit after 10 years in terms of the current rupee ? **07**
ii. How much should be deposited at the beginning of each year for 10 years at the rate of 12% in order to provide a sum of Rs.50000 at the end of 10 years?
- Q.2** (a) Sunshine ltd is having its WACC as 11% and its tax rate is 35%.The company's pre tax cost of debt is 10% and its debt equity ratio is 0.6:1. The risk free rate is 8% and the market risk premium is 7%. What will be the beta of this company. **07**
- (b) What do you understand by yield to maturity ? The market value of Rs.1000 par value bond , carrying a coupon rate of 12% and maturing after 7 years is Rs.750. What is the yield to maturity of this bond? (Approximation method should not be followed) **07**
- OR**
- (b) What do you understand by weighted average cost of capital? Briefly explain different factors affecting the weighted average cost of capital. **07**
- Q.3** (a) Consider the following data for a certain item purchased by Harish Ltd. **07**
Annual usage of inventory is 6000 units and the per unit purchase price is Rs.100, Fixed cost per order is Rs.400 and the carrying cost is 20% of inventory value. You are requested to calculate the economic order quantity.
If the supplier of Harish Ltd offers a discount of Rs.5 per unit for an order size of 1000 units then should the company accepts the quantity discount?
- (b) "Expanding on the Baumol Model, Miller and Orr consider a stochastic generating process for periodic changes in cash balance "In the light of the above statement explain Miller and Orr model for cash management. **07**
- OR**
- Q.3** (a) The present credit terms of Anjum Ltd are 1/10 net 30. Its sales are Rs.12 million, its average collection period is 24 days and its variable cost to sales ratio is 0.80 and its cost of funds is 15%. The proportion of sales in which customers currently take discount is 0.3. The company is considering relaxing its discount terms to 2/10 net 30. Such relaxation is expected to increase the sales by Rs1.2 million, reduce the average collection period to 16 days and increase the proportion of discount sales to 0.7.What will be the effect of relaxing the discount policy on residual income. The tax rate of the firm is 50%. **07**

- (b) i What do understand by Operating Cycle and Cash Cycle of a firm. **07**
 ii. Explain the different factors influencing the working capital requirement.

- Q.4 (a)** A company's present capital structure contains 1,5000,000 equity shares and 500000 preference shares. The firm's current EBIT is Rs. 7.2 million. Preference share carry a dividend of rs.12 per share .The earning per share is Rs.2. the firm is planning to raise Rs.10 million of external financing. Two financing alternatives are being considered: i. issuing 1,000,000 equity shares of Rs.10 each, ii) issuing debentures of Rs.10 million carrying 15 % interest. **07**

Compute the EPS – EBIT indifference point. Also define the alternatives which maximises EPS for various levels of EBIT.

- (b) Explain what do you understand by capital budgeting with a suitable example? **07**
 Explain the NPV and IRR methods and enumerate their differences.

OR

- Q.4 (a)** Explain the Modigliani Miller's proposition I and Proposition II .Illustrate how the arbitrage mechanism works in MM hypothesis with help of an example. **07**

- Q.4 (b)** The cash flows associated with an investment are given below **07**

Year	Cash flow
0	-100000
1	25000
2	40000
3	50000
4	40000
5	30000

If the cost of capital of the firm is 15% then find out the NPV and Benefit cost ratio of the firm.

- Q.5 (a)** The following data is available for Maruti Company. **07**

Earnings per share – Rs.3. Rate of Return = 15% and Cost of Capital - 12%

- i. If Walter's valuation formula holds what will be the price per share when the dividend payout ratio is 50%, 75% and 100%?
 ii. If the Gordon's basic valuation formula holds what will be the price per share when the dividend payout is 25%, 50% and 75%?

- (b) Explain what do you understand by Bonus issue and Stock split with examples. Make a comparison between bonus issue and stock split. **07**

OR

- Q.5 (a)** The Corporation ltd's earnings and dividends have been growing at the rate of 12% per annum. This growth rate is expected to continue for 4 years. After that the growth rate would fall to 8% for the next 4 years. Beyond that the growth rate is expected to be 5% forever. If the last dividend was Rs.1.50 and investor's required return on stock is 14% then what should be the intrinsic value of share of Corporation Ltd. **07**

- (b) Explain the rationale for leasing by discussing its Plausible and Dubious reasons briefly and point wise. **07**
