Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA (International Business) – SEMESTER - 2 EXAMINATION – SUMMER - 2019

Subject Code: 1529302 **Date:10/05/2019**

Subject Name: Financial Management

Time: 10:30 AM to 1:30 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 Explain following terms: **14**

(a) Time Value of Money
(b) Financial Management
(c) Opportunity Cost of Capital
(d) Leverage
(e) Operating Cycle
(f) Optimum Capital Structure
(g) Gross Working Capital

Q.2 **(a)** "Profit maximization is pre-requisite for shareholders' wealth maximization" Do you agree? Give a brief account of the advantages and disadvantages of these goals. **07**

(b) ABC Ltd has borrowed Rs 1,000 to be repaid in equal instalments at the end of each of the next 3 years. The interest rate is 15 per cent. Prepare a amortization schedule. **07**

OR

(b) An investor is 50 years of age today. He will retire at the age of 60. In order to receive Rs 2,00,000 annually for 10 years after retirement, how much amount should he have at the time of retirement? Assume the required rate of return is 10 per cent. **07**

Q.3 **(a)** Discuss the determinants of working capital. **07**

(b) The Complete Gardener is deciding on the economic order quantity for two brands of lawn fertilizer: Super Grow and Nature's Own. The following information is collected: **07**

Particulars	Fertilizer	
	Super Grow	**Nature's Own**
Annual Demand	2,000	1,280
Relevant Ordering Cost per purchase Order	Rs. 1,200	Rs. 1,400
Annual relevant carrying cost per bag	480	560

Required:

(i) Compute EOQ for Super Grow and Nature's Own.

(ii) For the EOQ, what is the sum of the total annual relevant ordering costs and total annual relevant carrying costs for Super Grow and Nature's Own?

(iii) For the EOQ, compute the number of deliveries per year for Super Grow and Nature's Own.

OR

Q.3 **(a)** Write a note on inventory management techniques. **07**

(b) The share capital of a company is Rs. 10,00,000 with shares of face value of Rs. 10. The company has debt capital of Rs. 6,00,000 at 10% rate of interest. The sales of the firm are 3,00,000 units per annum at selling price of Rs. 5 per unit and the variable cost is Rs. 3 per unit. The fixed cost amounts to Rs. 2,00,000. The company pays tax at 35%. If the sales increase by 10%, calculate: **07**

(1) Percentage increase in EPS;
(2) Degree of Operating Leverage at the two levels
(3) Degree of Financial leverage at the two levels.

Q.4 **(a)** What are the essentials of Walter's Dividend Model? Explain its shortcomings? **07**

(b) From the following selected data, determine the value of firms, P and Q belonging to the homogenous risk class. **07**

	Firm P	**Firm Q**
EBIT	Rs. 2,25,000	Rs. 2,25,000
Interest at 15%	75,000	----
Equity Capitalization Rate Ke	20%	
Corporate Tax	50%	

Which of the two firms has an optimal capital structure under the NOI approach?

OR

Q.4 **(a)** What are the advantages and disadvantages of debenture as an instrument of financing from the point of view of the company as well as the investors? **07**

(b) Assuming the rate of return expected by investor is 11%; internal rate of return is 12%; and earnings per share is Rs. 15, calculate price per share by Gordon Approach method if dividend payout ratio is 10% and 30%. **07**

Q.5 XYZ Ltd has the following books values capital structure: **14**

(Rs. in Crore)

Equity Capital (in shares of Rs. 10 each, fully paid up – at par)	15
12% Preference shares	1
Retained Earnings	20
11.5% Debentures	10
11% Term Loans	12.5

The next expected dividend on equity shares per share is Rs. 3.60; the dividend per share is expected to grow at the rate of 7 per cent. The Market price per share is Rs. 40.

Preference stock, redeemable after ten years, is currently selling at Rs. 75 per share.

Debentures, redeemable after six years, are selling at Rs. 80 per debenture. The income tax rate for the company is 40 per cent.

Required:

Calculate the weighted average cost of capital using:

a) book value proportions and b) market value proportions.

OR

Q.5	Nine Gems Ltd has just installed Machine-R at a cost of Rs 2,00,000. The machine has a five year life with no residual value. The annual volume of production is estimated at 1,50,000 units, which can be sold at Rs 6 per unit. Annual operating costs are estimated at Rs 2,00,000 (excluding depreciation) at this output level. Fixed costs are estimated at Rs 3 per unit for the same level of production. Nine Gems Ltd has just come across another model called Machine-S capable of giving the same output at an annual operating cost of Rs 1,80,000 (exclusive of depreciation). There will be no change in fixed costs. Capital cost of this machine is Rs 2,50,000 and the estimated life is for 5 years with no residual value. The company has an offer for sale of Machine-R at Rs 1,00,000. The cost of dismantling and removal will be Rs 30,000. As the company has not yet commenced operations, it wants to sell Machine-R and purchase Machine-S. Nine Gems Ltd will be a zero-tax company, for seven years in view of several incentives and allowances available. The cost of capital may be assumed at 14 per cent. (i) Advise whether the company should opt for replacement. (ii) Will there be any change in your view if Machine-R has not been installed but the company is in the process of selecting one or the other machine?	14

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