

Seat No.: \_\_\_\_\_

Enrolment No. \_\_\_\_\_

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA – SEMESTER 2– EXAMINATION – WINTER 2018**

**Subject Code: 3529203****Date: 26/12/2018****Subject Name: FINANCIAL MANAGEMENT****Time: 2.30 PM to 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. No.		Marks
Q.1	Explain following Concepts: (a) Floatation Cost (b) Yield to Call (YTC) (c) Private Equity (PE) (d) Green-Shoe Option (e) Risk Premium (f) Letter of Credit (g) Operating Cycle	14
Q.2	(a) “Financial Management is in many ways an integral part of the jobs of managers” Explain.	07
	(b) i) An Investor deposits Rs. 50000 at the end of each year for 5 years at the rate of 8 percent p.a. interest, compounded half-yearly. Find out the future value of the annuity. ii) You have borrowed a 3 year loan of Rs. 10000 at 9 percent p.a. from your employer to buy a motorcycle. If your employer requires you to pay in three equal end-of-year repayments what will be an installment amount? Prepare loan amortization schedule.	07
<b>OR</b>		
	(b) The market price of a Rs. 1000 par value bond carrying a coupon rate of 14 percent and maturing after 5 years in Rs. 1050. What is the yield to maturity (YTM) on this bond? What will be the realized yield to maturity if the re-investment rate is 12 percent p.a.?	07
Q.3	(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
	(b) The installed capacity of an organisation is 30000 units. The actual exploited capacity is 25000 units. Selling price per unit is Rs. 10 each and variable cost is Rs. 6 per unit. Compute the Operating Leverage in each of the following situation.	07

- (i) When Fixed cost is 25000
- (ii) When Fixed cost is 55000
- (iii) When Fixed cost is 75000

**OR**

**Q.3 (a)** You are the CFO of XYZ Ltd. Your company is planning to design the dividend policy. You have been asked to explain the factors influencing the dividend policy for your company. **07**

**(b)** A company has a total investment of Rs. 500,000 in assets and 500,000 outstanding ordinary shares at Rs. 10 per share (par value). It earns a rate of 15 percent on its investment, and has a policy of retaining 50 percent of its earnings. If the appropriate discount rate of the firm is 10 percent, determine the price of its share using Gordon's model when Earning Per Share (EPS) is Rs.1.50. **07**  
What shall happen to the price of the share if the company has a Dividend payout ratio of 80 percent or 20 percent?

**Q.4 (a)** Discuss various major sources of long term finance of an organisation. **07**

**(b)** The present credit terms of Satvika Ltd are 1/10 net 30. Its sales are Rs.25 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 Rs. 2.5 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 percent. **07**

**OR**

**Q.4 (a)** Explain the factors which determine the amount of working capital in a business. **07**

**(b)** Sujoy Limited is evaluating an expansion project that is expected to cost Rs. 10 Million and generate an annual after tax cash flow of Rs. 2 Million for the next 10 years. The tax rate for the company is 35 percent. Sujoy Limited has debt equity ratio of 1:1. Its cost of equity is 16.9 percent whereas its pre-tax cost of debt is 14 percent. The floatation cost of equity is 12 percent whereas the floatation cost of debt is 2 percent. Calculate the Net Present Value (NPV) of the project after taking into account the floatation cost. **07**

**Q.5** Khatari Ltd. is in Equipment manufacturing business since 2001. It supplies to the equipment manufacturer as well as the replacement market. Recently company has received two projects 'X' and 'Y'; and company will consider either of these projects in the beginning of the year. Depreciation is provided under straight line method in the firm. Following are the details of the two projects 'X' and 'Y'.

	<b>Project X</b>	<b>Project Y</b>
Cost of the Investment	Rs. 25000	Rs. 30000
Life	5 Years	6 Years
	<b>Net Income (After depreciation and tax)</b>	
2011	600	3800
2012	1000	4500
2013	2500	5000
2014	3000	4500
2015	3500	5500
2016	-	6000

- (a) Calculate Net Present Value (NPV) of Project X and Y; assuming the rate of return of 10 percent per annum. **07**
- (b) Calculate Average Rate of Return (ARR) of Project X and Y. **07**
- OR**
- (a) Calculate Profitability Index of the Project X and Y; assuming the rate of return of 10 percent per annum. **07**
- (b) Calculate Payback Period of the Project X and Y. **07**