Seat No.: ________ Enrolment No.

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER - II– • EXAMINATION – SUMMER 2016

Subject Code: 820003 **Date: 16/05/2016**

Subject Name: Financial Management (FM)

Time: 10.30 am to 01.30 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)** The earnings of a company have been growing at 15 per cent over the past several years and are expected to increase at this rate for the next seven years and thereafter, at 9 per cent in perpetuity. It is currently earning Rs 4 per share and paying Rs 2 per share as dividend. What shall be the present value of the share with a discount rate of 12 per cent for the first seven years and 10 per cent thereafter? **07**

(b) An investment offer advertises 9.8% per month if you deposit Rs.10, 000 for 2 years. What is effective rate implicit in this offer? **03**

(C) What is agency problem? How can it be mitigated? **04**

Q.2 **(a)** Explain the factors which determine the amount of working capital in a business. **07**

(b) While preparing a project report on behalf of a client you have collected the following facts. Estimate the net working capital required for that project. Add 10 per cent to your computed figure to allow for contingencies. **07**

	Amount per unit Rs
Estimated cost per unit of production is:	
Raw material	42.4
Direct labour	15.9
Overheads (exclusive of depreciation)	31.8
Total cost	90.1

Additional information:

Selling price Rs 106 per unit,
100,000 units
Level of activity of production per annum
Raw material in stock average 4 weeks
Work-in-progress
(assume 50%completion stage) average 2 weeks
Finished goods in stock average 4 weeks
Credit allowed by suppliers average 4 weeks
Credit allowed to debtors average 8 weeks
Lag in payment of wages average 1½ weeks
Cash at bank is expected to be Rs 125,000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

OR

(b) Explain the important features of Miller & Orr model related to cash management. **07**

Q.3 (a) Discuss in detail the advantages and disadvantages of the various discounted cash flow methods of capital budgeting. 07

(b) A firm has the following information about a project: 07

Income Statement (Rs ' 000)			
	C1	***C2***	***C3***
Cash revenue	16	14	12
Cash expenses	8	7	6
Gross profit	8	7	6
Depreciation	4	4	4
Net profit	4	3	2

The initial investment of the project is estimated as Rs 12,000.

(*a*) Calculate the project's accounting rate of return.

(*b*) If it is found that the initial investment will be Rs 9,000 and cash expenses will be more by Rs 1,000 each year, what will be the project's accounting rate of return? Also, calculate the project's NPV if the cost of capital is 9 per cent.

OR

Q.3 (a) Discuss when the ranking of projects are in contradiction under the methods of IRR & NPV. 07

(b) Consider the following three investments: 07

Cash Flows (Rs)			
Projects	***C0***	***C1***	***C2***
X	– 2,500	0	+ 3,305
Y	– 2,500	+ 1,540	+ 1,540
Z	– 2,500	+ 2,875	0

The discount rate is 12 per cent. Compute the net present value and the rate of return for each project.

Q.4 (a) Explain about different sources of long term finance. 07

(b) Discuss relationship between EBIT & EPS with suitable example. 07

OR

Q.4 (a) For *Queen fisher* Ltd the following data is available: 07

Particular	in Rs. '000
EBIT	200
Contribution	400
Interest	100

If the company's sales are expected to decline by 5 per cent, determine the percentage change in EPS.

(b) Describe the following types of lease:(a) Finance Lease (b) Operating Lease (c)Direct Lease (e) Leveraged Lease (f) Domestic Lease (g)International Lease(h)Sale & Lease back 07

Q.5 (a) What is Modigliani-Miller's dividend irrelevance hypothesis? Critically evaluate its assumptions. 07

(b) The following data is related to an ATAT ltd.: earnings per share Rs 10, capitalization rate 10 per cent, retention ratio 40 per cent. Determine the price per share under Walter's and Gordon's models if the internal rate of return is 15 per cent, 10 per cent and 5 per cent. 07

OR

Q.5 (a) What are the factors in real market that influences firms to pay high dividend? 07

(b) CICIC Ltd. has outstanding 50 lakh shares selling at Rs 120 per share. The company is thinking of paying a dividend of Rs 10 per share at the end of 07 current year. The capitalisation rate for the risk class of this firm is 10 per cent. Using Modigliani and Miller's model you are required: (*i*) to calculate the price of the share at the end of the current year if dividends are paid and if they are not paid; (*ii*) to determine the number of shares to be issued if the company earns Rs 9 crore, pays dividends and makes new investments of Rs 6.60 crore?

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