Seat No.: ________ Enrolment No.________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–II - EXAMINATION – WINTER 2015

Subject code: 820003 **Date: 19/12/2015**
Subject Name: Financial Management (FM)
Time:02.30 PM TO 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)** Briefly explain the factors that determine the working capital needs of a firm. **07**

(b) Give arguments to support the view that dividends are relevant **07**

Q.2 **(a)** What are the factors that influence the dividend policy of a firm **07**

(b) Explain the main objectives of credit policy? Discuss the optimum credit policy **07**

OR

(b) What are the sources of working capital finance? **07**

Q.3 **(a)** Contrast the salient features of the traditional and modern approaches to financial management? **07**

(b) An investment promises to pay Rs.2000 at the end of each year for the next 3 years and Rs.1000 at the end of each year for years 4 through year 7. **07**

Required

1.What maximum amount will you pay for such investment if your required rate of return is 10 percent?

2. If the payments are received in the beginning of the year, what maximum amount will you pay for the investment?

OR

Q.3 **(a)** Three bonds have face value of Rs. 1000, coupon rate of 10 percent and maturity of 5 years. One pays interest annually, one pays interest half-yearly, and one pays interest quarterly. Calculate the prices of bonds if the required rate of return is 12 percent. **07**

(b) Discuss the important functions performed by financial markets. **07**

Q.4 **(a)** A firm is considering the following two mutually exclusive investments **07**

	Cashflows			
	Year-0	Year-1	Year-2	Year-3
A	-25000	15000	15000	25640
B	-28000	12672	12672	12672

The cost of capital is 12 percent. Compute the NPV and IRR for each project. Which project should be undertaken?

(b) Explain the different approaches for estimation of Cost of Equity **07**

OR

Q.4 **(a)** A company is considering a proposal of installing a drying equipment. The equipment would involve a cash outlay of Rs. 600000 and working capital of Rs80000. The expected life of the project is 4 years with an estimated salvage value of Rs.250000 at the end of its life. working capital will be liquidated at par at the end of equipment life. Depreciation rate is 20% WDV. Tax rate is 30%. The estimated before tax cash flows are given below. **07**

Yr	1	2	3	4
EBDIT	150000	150000	250000	240000

Required:
Estimate cash flows of the project and compute NPV if the cost of capital is 12 percent.

(b) Max Ltd., and all equity firm, is evaluating the following projects: **07**

Project	Beta	Expected Return(%
P	0.6	13
Q	0.9	14
R	1.5	16
S	1.5	20

Risk free rate is 10 percent and the expected market premium is 8 percent. Max's cost of capital is 18 percent. Which projets would be accepted or rejected incorrectly on the basis of the firm's cost of capital as hurdle rate?

Q.5 **(a)** Consider the following information; **07**

	Rs. In lakh
EBIT	1120
PBT	320
Fixed cost	700

Calculate DOL, DFL and DCL

(b) What are the different sources of long term finance? **07**

OR

Q.5 **(a)** Describe the traditional view on the optimum capital structure. Compare and contrast this view with the NOI approach and NI approach. **07**

(b) Define a lease. How does it differ from hire purchase? What are the cash flow consequences of a lease? **07**

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