

**R15**
**Code No: 721CM**
**JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD**
**MBA II Semester Examinations, April/May-2019**
**FINANCIAL MANAGEMENT**
**Time: 3hours**
**Max.Marks:75**

**Note:** This question paper contains two parts A and B.  
Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit. Each question carries 10 marks and may have a, b, c as sub questions.

**PART - A**
**5 × 5 Marks = 25**

1. Explain briefly the following:
  - a) Agency relationship. [5]
  - b) Marginal Cost of Capital. [5]
  - c) The MM Approach on Capital Structure. [5]
  - d) Major forms of Dividends. [5]
  - e) Cash Management Techniques. [5]

**PART - B**
**5 × 10 Marks = 50**

2. Explain the concept of Risk –Return trade off, with suitable examples and brief on concept of Time Value of money. [10]
- OR**
- 3.a) You invest Rs. 15,000 at the end of first-year, Rs 20,000 at the end of 2<sup>nd</sup> year, and Rs 50,000 at the end of each year from 3<sup>rd</sup> year to 5<sup>th</sup>. Calculate the Future Value of these cash flows, if the interest rate is 10%.P.A.
- b) An investment of Rs.5,000 in a deep discount bond will return Rs. 1,00,000 in 20 years. Find the interest rate implicit in the offer? [5+5]
4. A company has the following Book value capital structure.

(Amount in Crores of Rupees)

Components of Capital	Amount
Equity Capital (In shares of Rs 10 each, fully paid)	15
12% Preference Capital( In shares of Rs 100 each, Fully paid)	1
Retained earnings	20
11.5% Debentures( Of Rs.100 each)	10
11% Term Loan	14
<b>TOTAL</b>	<b>60</b>

Additional Information:

- a) The Market price per equity share is Rs 40. The next expected dividend per share (DPS) is Rs 3.60 and the DPS is expected to grow at a constant rate of 7%.
- b) The preference shares are redeemable after 10 years at par and are currently selling at Rs 75 per share.
- c) The debentures are redeemable after 6 years at par and their current market rate is Rs 80 per debenture.
- d) The tax rate applicable to the firm is 40%

Calculate the Weighted Average Cost of Capital, using the Market Value proportions.

[10]

**OR**

5. Calculate the NPV and IRR of a project, the cash flows of which are as follows.

(Amount in lakhs of Rupees)

Years →	0	1	2	3	4	5
Investment	70					
Cash Inflows		10	20	30	40	50

Additional Information:

- a) The cost of capital is 10%.  
 b) Salvage value at the end of 5<sup>th</sup> year is Zero. [10]
6. The Income statement of XYZ Company is as follows. Calculate Finance Leverage, Operating Leverage and Composite leverage of the company based on the following data. [10]

	ITEM	Amount in Rupees	
	Total Sales / Revenue*( 5000 units)		25,00,000
Less	Variable Expenses	10,00,000	
Less	Fixed Expenses	9,00,000	
	Earnings Before Interest and Tax		6,00,000
Less	Interest on Debt	75,000	
	Profit Before Tax		5,25,000
Less	Tax @50%	2,62,500	
	Profit After Tax		2,62,500
Less	Preference Dividend	50,000	
	Equity Earnings		2,12,500

**OR**

7. The Equity Capitalization rate and Tax rate are 20% and 35% respectively, for firm A and Firm B. The EBIT of both the firms is Rs 2,25,000 each. Interest on debt in respect of firm A is Rs 75,000 (@15% PA). State, which of the two firms has optimal capital structure under Net Income approach? [10]
8. Explain the factors determining the dividend policy of a company and basic model of valuation of the firm. [10]

**OR**

9. The cost of capital and the rate of return on investments of a company are 10% and 15% respectively. The company has 10 lakhs equity shares of Rs 10 each. Its earnings per share are Rs 5.  
 Calculate the value of the firm in the following situations using Walter Model, and comment on the results.  
 a) 100% Retention      b) 50% Retention and      c) No Retention [10]
10. What are the different methods of financing the Working capital of a firm? Explain them with suitable examples. [10]

**OR**

11. Explain the various types of short term and Long term sources of financing the inventory and receivables. [10]

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