R17

Code No: 742AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA II Semester Examinations, June/July-2018
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 = 25 Marks**

1. a) "An agency relationship is a fiduciary relationship." Comment. [5]
 b) Differentiate between NPV and IRR. [5]
 c) Write about Gordon Model with assumption. [5]
 d) Prepare working capital format with its components. [5]
 e) Write about Net Assets Method of merger. [5]

PART-B **5 × 10 = 50 Marks**

2. In December 2015, ZTECH stock had a beta of 0.95. The Treasury bill rate at the time was 5%, and the treasury bond rate was 6%. The firm had debt outstanding of Rs 1.7 crore and a market value of equity of Rs 1.5 crore; the corporate marginal tax rate was 40%.
a) Estimate the expected return on the stock for a short term investor in the company.
b) Estimate the expected return on the stock for a long term investor in the company.
c) Estimate the cost of equity for the company. [10]

OR

3. Discuss the major techniques of calculating TVM. If you want a Rs.10,00,000 for retirement in 30 years, how much would you have to save by the end of each year if you could make 12% per year? How much would you have to set aside each year if you could put money away starting now? [10]

4.a) A company raised preference share capital of Rs. 10,00,000 by the issue of 10% preference share of Rs. 10 each. Find out the cost of preference share capital when it is issued at (i) 10% premium, and (ii) 10% discount.
 b) The entire share capital of a company consist of 1,00, 000 equity share of Rs. 100 each. Its current earnings are Rs. 10,00,000 p.a. The company wants to raise additional funds of Rs. 25,00,000 by issuing new shares. The flotation cost is expected to be 10% of the face value. Find out the cost of equity capital given that the earnings are expected to remain same for coming years. [5+5]

OR

5. Discuss the techniques of calculating cost of capital of a firm. A company issues 10% Debentures tor Rs. 2,00,000 Rate of tax is 40%. Calculate the cost of debt (after tax) if the debentures are issued a) at par b) at a discount of 10% and c) at a premium of 10%. [10]

6. Techno Manpower Ltd. expecting EBIT of Rs. 5, 00,000 per annum on investment of Rs. 10,00,000. Company is in need of Rs. 8, 00,000 for its expansion activities. Company can raise this amount by either equity shares capital or 12% preference share capital or 10% debentures. The company is considering the following financing patterns:
a) 10,00,000 through issue of Equity Shares at par;
b) 5,00,000 by issue of Equity Share Capital and remaining 5,00,000 by issue of Debentures;
c) 5,00,000 through Equity Shares and 2,50,000 through 12% Preference Share Capital and remaining 2,50,000 through 10% Debentures.;
d) 5,00,000 through Debt and 2,50,000 through Equity Shares and remaining 2,50,000 through 12% Preference Share Capital.
Find out the best financing mix assuming 50% tax rate. [10]

OR

7. Discuss about Walters Model. A company has an EPS of Rs. 15. The market rate of discount applicable to the company is 12.5%. Retained earnings can be reinvested at IRR of 10%. The company is paying out Rs.5 as a dividend. Calculate the market price of the share using Walter's model. [10]

8. Write Short notes on:
a) Net Working Capital and Gross Working Capital
b) Financing of working capital [5+5]

OR

9. You are supplied with the following information in respect of XYZ Ltd for the ensuing year: Production of the year, 69,000 units
Finished goods in store, 3 months
Raw material in store, 2 months'
Consumption Production process, 1 month
Credit allowed by creditors, 2 months
Credit given to debtors, 3 months
Selling price per unit, Rs 50
Raw material, 50 percent of selling price
Direct wages, 10 percent of selling price
Manufacturing and administrative overheads, 16 per cent of selling price
Selling overheads, 4 percent of selling price
There is a regular production and sales cycle and wages overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of the production cycle. You are required to ascertain its working capital requirement. [10]

10.a) Why do we prepare cash budget? Draw its specimen.
b) Discuss the role of Factors in credit management system. [5+5]

OR

11.a) Differentiate between merger and acquisition with examples.
b) What is purchase consideration? Also discuss about Net Purchase Method. [5+5]

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