R17

Code No: 742AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA II Semester Examinations, December - 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.a) Explain the goals of finance function. [5]
b) What is weighted average cost of capital and marginal cost of capital? [5]
c) What similarities are there between the risk-adjusted discount rate method and the certainty-equivalent method? [5]
d) What is 'informational content' of dividend payments? Explain. [5]
e) A firm has been offered cash management service by a bank for Rs. 1,00,000 per year. It is estimated that such a service would not only eliminate 'excess' cash on deposits (Rs. 8,00,000) but also reduce its administration and other costs to the tune of Rs.5,000 per month. Assuming the cost of capital of 15 percent, is it worthwhile for the firm to engage the cash management service? [5]

PART - B **5 × 10 Marks = 50**

2.a) 'The wealth maximization objective provides an operationally appropriate decision criteria'. Discuss.
b) Explain briefly agency theory. [5+5]

OR

3.a) A limited company borrows from a commercial bank of Rs. 10,00,000 at 12 percent rate of interest to be paid in equal annual end-of- year installments. What would the size of the installment be? Assume the repayment period is 5 years.
b) Explain about sensitivity analysis. [5+5]

4. A company is planning to purchase a machine to meet the increased demand for its products in the market. The machine costs Rs. 5,00,000 and has no salvage value. The expected life of the machine is 5 years, and the company employs straight line method of depreciation for tax purposes. The estimated earnings after taxes are Rs. 50,000 each year for 5 years. The after-tax required rate of return of the company is 12 percent. Determine the IRR. [10]

OR

5.a) Z ltd. is forecasting a growth rate of 12 percent per annum in the next 2 years. The growth rate is likely to fall to 10 percent for the third year and the fourth year. After that, the growth rate is expected to stabilize at 8 percent per annum. If the last dividend was Rs.1.50 per share and the investor's required rate of return is 16 percent, find out the intrinsic value per share of Z ltd as of date.
b) Discuss the approach to determine the cost of retained earnings. [5+5]

6. The well-established company's most recent balance sheet is as follows

Liabilities	Amount	Assets	Amount
Equity Capital(Rs.10 per share)	Rs.6,00,000	Net fixed assets	Rs.15,00,000
10% Lon-term debt	Rs.8,00,000	Current assets	Rs. 5,00,000
Retained earnings	Rs.2,00,000		
Current liabilities	Rs.4,00,000		
Total	Rs.20,00,000	Total	Rs.20,00,000

The company's total assets turnover ratio is 3, its fixed operating costs are Rs.10,00,000 and the variable costs ratio is 40 percent. The income tax rate is 35 percent.
a) Calculate all the three types of leverages.
b) Determine the likely level of EBIT if EPS is i) Rs.1 ii) Rs.3 and iii) zero. [10]

OR

7.a) Explain the relationship between leverage and the cost of capital.
b) What is the indifference point in the EBIT-EPS analysis? How would you compare it? [5+5]

8.a) What are the assumptions and arguments by Modigliani and Miller in support of the irrelevance of dividends? Are dividends really irrelevant? Discuss.
b) Explain the major forms of dividends. [5+5]

OR

9. XYZ Ltd information is given below
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 percent of selling price
Selling over heads, 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. Calculate the working capital requirement. [10]

10.a) What are credit standards? What key variables should be considered in evaluating possible changes in credit standards?
b) What are the limitations of ABC inventory control system? [5+5]

OR

11. XYZ company is considering merging with the ABC ltd XYZ's shares are currently traded at Rs.25 and it has 2,00,000 shares outstanding and earnings of Rs.400,000; ABC has 1,00,000 shares outstanding and earnings of Rs.100,000. The merger will occur by means of a stock swap(exchange), ABC has agreed to a plan under which XYZ will offer current market value for ABC shares (i.e if XYZ's shares current market value is Rs.25 and that of ABC Rs.12.5, the exchange ratio will be Rs.25/ Rs.12.5 =2)

a) What are the pre-merger earnings and P/E ratios of both the companies?

b)If ABC's P/E ratio is8, what is its current market price? What is the exchange ratio? What will XYZ's post-merger EPS be?

c) What must the exchange ratio be for XYZ's post-merger EPS to be the same as its EPS before the merger? [10]

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