Seat No.: _____ **Enrolment No._____**

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA(TM) – SEMESTER – 09 • EXAMINATION – WINTER 2016

Subject Code: 4290105 **Date: 29/11/2016**

Subject Name: Financial Management

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) Explain the Net Income (NI) Approach and Net Operating Income (NOI) approach of capital structure in brief. **07**

(b) Define Working Capital Management. Explain the factors which determine the amount of working capital in a business. **07**

Q.2 (a) Idea Limited and Vodafone Limited operate in the same line of business of manufacture of rubber components. However their cost structures and financing structures differ substantially. An analysis of their financial performance has revealed the following data: **07**

Particulars	Idea Ltd. (in Rs.)	Vodafone Ltd. (in Rs.)
Sales	5,00,00,000	10,00,00,000
Less: Variable Cost	2,00,00,000	3,00,00,000
Contribution	3,00,00,000	7,00,00,000
Less: Fixed Cost	1,50,00,000	4,00,00,000
Operating Profit, EBIT	1,50,00,000	3,00,00,000
Less: Interest	50,00,000	1,00,00,000
Earnings Before Tax (EBT)	1,00,00,000	2,00,00,000

Find out the following:

a) Degree of Operating Leverage;
b) Degree of Financial Leverage; and
c) Degree of Combined Leverage.
What is the interpretation of DOL, DFL and DCL?

(b) Under what circumstances do the Net Present Value (NPV) and the Internal Rate of Return (IRR) methods differ? Which method would you prefer and why? **07**

OR

(b) A machine costs Rs. 5, 00,000 and its effective life is estimated to be 6 years. A sinking fund is created for replacing the machine at the end of the effective life time when its scrap will realizes a sum of Rs. 20,000 only. Calculate the amount which should be provided every year for the sinking if it accumulates at 8 % per annum compounded annually. **07**

Q.3 (a) Critically examines the assumptions underlying the irrelevance hypothesis of Modigliani – Miller (MM) approach regarding cost of capital. **07**

(b) Expected EBIT of the firm is Rs. 2, 00,000. The equity capitalization rate is 10 %. Find out the value of the firm and overall cost of capital on the basis of Net Income approach if degree of leverage is: **07**

(i) Rs. 2, 00,000;
(ii) Rs. 5, 00,000; and
(iii)Rs. 7, 00,000.

The Debenture interest rate is 6 % per annum.

OR

Q.3 (a) Explain critically the different approaches to the calculation of cost of equity capital with the help of suitable example. **07**

(b) From the following capital structure of Malhotra Limited, calculate Weighted Average Cost of Capital, using (i) Book value weights; and (ii) Market value weights. **07**

Particulars	Book value (in Rs.)	Market value (in Rs.)
Equity Shares Capital	90,000	1,80,000
Retained Earnings	30,000	Nil
Preference Share Capital	20,000	20,000
Debentures	60,000	60,000

The after-tax cost of capital for specific sources is as follows:
Equity Share Capital: 14 %, Retained Earnings: 13 %, Preference Share Capital: 10 % and Debentures: 5 %.

Q.4 (a) What are the various sources of Short-Term Finance? Explain them. **07**

(b) The project investment is Rs. 5, 00,000. Cash inflows of a project is as given below: **07**

Year = N	Cash Inflows
1	1,00,000
2	2,00,000
3	1,50,000
4	2,00,000
Total	6,50,000

You are required to evaluate Net Present Value Method whether the project is feasible. Ascertain discounted cash flow assuming rate of interest is 15 % p.a.

OR

Q.4 (a) What are the various sources of working capital finance? Explain in brief. **07**

(b) Following is the data of M/S Ambika Industries Ltd.: **07**

10 % Debentures Rs. 50, 00,000
Equity Share Capital Rs. 10, 00,000
Retained Earnings Rs. 5, 00,000
The corporate tax rate is 40 %.
Market Price of Share is Rs. 20.
The company is expected to declare dividend of Rs. 4 per share in the next year.
You are required to calculate Weighted Average Cost of Capital.

Q.5 **(a)** What do you understand by Economic Order Quantity (EOQ)? On the basis of following information, you are required to calculate: **07**

(i) Economic Order Quantity; and

(ii) Number of Orders per Annum.

The annual demand for the product is 6,400 units. The unit cost is Rs. 6 and inventory carrying cost per unit per annum is 25 % of the average inventory cost. If the cost of procurement is Rs. 75.

(b) Discuss the relationship of bond value with respect to yield and maturity. **07**

OR

Q.5 **(a)** Define Dividend Policy. Explain the factors which influence the dividend policy of the firm. **07**

(b) The following information is available for Avani Corporation: **07**

Earnings Per Share Rs. 4

Rate of Return on Investments 18 %

Rate of Return required by Shareholders 15 %

What will be the price per share as per the Walter Model if the Dividend Pay Out Ratio is 40 %, 50 % and 60 %?

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