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Reg. No. | | | | | | | | |

II Semester M.B.A. (Day) Degree Examination, December - 2022

MANAGEMENT

Financial Management

(CBCS Scheme 2018-20 Repeaters)

Paper : 2.5

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Time : 3 Hours **Maximum Marks : 70**

SECTION - A

Answer any **FIVE** questions, each carries **5** marks. **(5×5=25)**

1. What is Financial Management? Discuss the scope of Financial Management.
2. What are the various sources of short term and long term sources of finance?
3. Discuss the factors that influence the capital structure.
4. Calculate the present value of the following cash flows assuming a discount rate of 10%.

Year	1	2	3	4	5
Cash flows	2000	5000	10000	5000	2000

5. Determine the payback period for a project which requires a cash flow of Rs. 10000 and generates cash inflows of Rs. 2000, Rs. 4000, Rs. 3000 and Rs. 2000 in the four years.
6. Prepare an estimate of working capital requirement from the following information.

   Annual sales : Rs. 1,00,000 units;

   Selling price : Rs. 8 per unit.

   Percentage of net profit on sales - 25%;

   Average credit allowed to customers : 8 weeks;

   Average credit allowed by suppliers - 4 weeks;

   Average stock holding period - 12 weeks;

   Allow 10% for contingencies.

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7. Calculate the operating leverage, financial leverage and combined leverage from the following data under situation - I and II and financial plans A and B.

Fixed cost : Under situation - I = 1,50,000

Under situation - II = 2,00,000

Capital structure :

Financial plan	A	B
Equity	10,00,000	15,00,000
Debt @ 15% interest	10,00,000	5,00,000

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SECTION - B

Answer any **THREE** questions, each carries **10** marks. **(3×10=30)**

8. A. Ltd wishes to raise additional finance of Rs. 10,00,000 for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earnings available for investment purposes. The following are the further details.

a)	Debt equity mix	30% : 70%
b)	Cost of debt	
	Up to Rs. 1,80,000	10% (before tax)
	Beyond Rs. 1,80,000	16% (before tax)
c)	Earnings per share	Rs. 4
d)	Dividend payout	50%
e)	Expected growth in dividend	10%
f)	Current market price per share	Rs. 44
g)	Tax rate	50%

You are required to

i) Determine the pattern for raising additional finance.

ii) Compute the weighted average cost of capital.

9. X. Limited sells a product at a gross profit of 20 percent on sales. The following details are extracted from the annual records of the company for the year.

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	Amount Rs.
Sales (3 months credit)	60,00,000
Raw Materials	18,00,000
Wages (15 days in arrears)	9,60,000
Manufacturing expenses (one month in arrears)	12,00,000
Administrative expenses (one month in arrears)	4,80,000
Sales promotion expenses (payable half yearly in advance)	12,00,000
Income Tax (Last quarter installment due)	4,00,000

The company enjoys one month credit from the suppliers of raw material and maintain two months of stock of raw materials and one month of finished goods. Cash balance is maintained at Rs. 1,00,000.

Calculate its net working capital.

10. A manufacturing company is planning to purchase a machinery. Two machines X and Y are available in the market each costing Rs. 5,00,000. Both have equal life of 5 years. Earnings after taxation are expected to be as under :

Cash flows (after taxation)

Year	Machine X Rs.	Machine Y Rs.
1	1,50,000	50,000
2	2,00,000	1,50,000
3	2,50,000	2,00,000
4	1,50,000	3,00,000
5	1,00,000	2,00,000

Indicate which machine will be more profitable investment using the NPV and IRR methods assuming 10% rate of discount.

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11. X Ltd. has the following capital structure as on 31st March 2010.

Equity capital 2,00,000 shares	Rs. 40,00,000
10% preference shares	Rs. 10,00,000
14% debentures	Rs. 10,00,000

The equity shares of the company sells at Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 per share which will grow at 7% for ever. Assume 35% tax rate. You are required to :

a) Compute a weighted average cost of capital based on existing capital structure.

b) Compute a new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 15% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of the equity share will fall to Rs. 15 per share.

SECTION - C

(Case Study)

(Compulsory question)

(1×15=15)

12. A limited company has the following earning per share and capitalization rate made available for your information :

Earning per share Rs. 20

Rate of capitalization 10%

It is desirous of knowing the expected market value of shares when its payout ratio is at different levels. It asks to evaluate the market price of the company's quoted shares using the Walter's Model, when the dividend pay - out ratio is 0%, 25%, 50%, 75% and 100%, if it can earn a return of :

a) 15%.

b) 10% and

c) 5%.