Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 2 – EXAMINATION – SUMMER 2019

Subject Code:3529203 **Date:13/05/2019**

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. No.		Question Text and Description	Marks
Q.1		Explain the following terms: (a) Time Value of Money (b) Yield To Maturity (c) Permanent Working Capital (d) Cost of Capital (e) Discounted Pay Back Period (f) Leverages (g) Price Earning Ratio	**14**
Q.2	**(a)**	What do you mean by Financial Management? Explain its Profit Maximization and Wealth Maximization objectives in details.	**07**
	(b)	A finance company advertises that it will pay a lump sum of Rs.10,000 at the end of 6 years to investors who deposit annually Rs. 1,000. What interest rate is implicit in this offer?	**07**
		OR	
	(b)	A company is currently paying a dividend of Rs. 2 per share. Dividend is expected to grow at 15% annual rate for 3 years, thereafter at 10% for next 3 years and after which it is expected to grow at 5% forever. If capitalization rate is 9% what is the intrinsic value of share?	**07**
Q.3	**(a)**	Give the meaning of Leverage and discuss the types of Leverages in details.	**07**
	(b)	A company belongs to risk class for which capitalization rate is 10%. It currently has outstanding 25000 shares at Rs. 100 each. The expected dividend is Rs. 5 per share, net income is Rs. 2,50,000 and investment is Rs. 5,00,000. Show under M-M assumption the payout of dividend does not affect the value of firm.	**07**
		OR	
Q.3	**(a)**	What do you mean by Dividend and explain the factors affecting dividend decision in details.	**07**
	(b)	Equity (Rs. 10 each)……………………………………….15 cr 12% Preference Shares (Rs. 100 each)……………………..1 cr Retained Earnings……………………………………………..20 cr 11.5% Debentures (Rs. 100 each)…………………………..10 cr	**07**

11% Term Loan……………………………………………..12.5 cr

Next year's dividend on equity is Rs. 3.60 which is expected to grow at 7% and its market price is Rs. 40. Preference shares redeemable after 10 years currently selling at Rs. 75. Debentures redeemable after 6 years are selling at Rs. 80. Tax rate is 40%. Find WACC under book value.

Q.4 **(a)** Give the meaning of Working Capital and discuss the factors affecting Working Capital Requirements. **07**

(b) Calculate (a) the operating leverage, (b) financial leverage and (c) combined leverage from the following data under situations I and II and financial plans, A and B. **07**
Installed capacity, 1,000 units
Actual production and sales, 800 units
Selling price, Rs 20 per unit and Variable cost, Rs 15 per unit
Fixed cost: Under situation I, Rs 800 and Under situation II, Rs.1500

Capital Structure	**Financial Plans**	
	A	**B**
Equity	Rs. 5000	Rs. 7000
Debt (0.10 interest)	Rs. 5000	Rs. 2000

OR

Q.4 **(a)** Discuss the Traditional Approach with the help of diagram. **07**

(b) A Ltd & B. Ltd are identical in all respect except A Ltd issued 12% debentures of Rs. 30,00,000 while B Ltd issued only equity capital. Both companies earn 24% before interest and tax on their total assets of Rs. 50,00,000. Tax rate is 40% and cost of equity is 18%. Find the value and WACC for both firms using NI and NOI approach. **07**

Q.5 A company is considering two mutually exclusive projects. Both require cash outlay of Rs. 10,000 each. Required rate of return is 10% and tax rate is 50%. Cash outflows before interest and tax are as below:

A (Rs.)	4000	4000	4000	4000	4000
B (Rs.)	6000	3000	2000	5000	5000

(a) Calculate Pay Back Period for each project. **07**

(b) Calculate Average Rate of Return for each project. **07**

OR

Q.5 **(a)** Calculate Net Present Value for each project. **07**

(b) Calculate Internal Rate of Return for each project. **07**

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