AS–759

M.B.A. Semester—II (New Course) Examination

FINANCIAL MANAGEMENT

Paper—MBA/204

Time : Three Hours] [Maximum Marks : 70

Note :—(1) Attempt **all** questions.

(2) Figure to the right indicate marks.

(3) Annuity Tables showing total and present value and scientific calculator are allowed.

SECTION—A

1. (a) "Financial Management is the best tool for the Management to achieve higher profits and efficient operations". Elucidate the statement. 14

OR

(b) In what way can degree of operating leverage and the degree of financial leverage be used to find an optimal capital structure ? 14

SECTION—B

2. (a) Describe the instruments that are available to Indian Firms to raise Capital from the Capital Markets. 7

(b) An ordinary share selling at a current market price of Rs. 120 and paying a current dividend of Rs. 9 per share, which is expected to grow at a rate of 8%. Compute the after tax cost of Capital. 7

OR

(c) What are the most usual resources of short term finance for the business ? 7

(d) The following particulars relate to Ambuja Ltd. :

Equity Share Capital 1,00,000 Shares of Rs. 10	Rs. 10,00,000
Profit after tax	Rs. 90,00,000
Current market price of equity share	Rs. 75

(i) Calculate the cost of equity.

(ii) What is the cost of retained earnings if the average personal tax rate of shareholders is 30% and the brokerage cost for making new investment is 2% ? 7

3. (a) "Stocks are considered to be risky but bonds are not". This is not fully correct. Elucidate. 7

(b) Swami Industries Ltd. Company is considering to invest in a project requiring a capital outlay of Rs. 2,00,000. Forecast for annual income after depreciation but before tax is as follows. Depreciation may be taken as 20% on original cost and taxation at 50% of net income. You are required to evaluate the project according to Rate of Return on original investment method.

Year	Rs.
1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

7

OR

(c) Under what circumstances do the net present value and internal rate of return methods differ ? Why ? 7

(d) Mercury India Ltd. is expected to declare dividend of Rs. 2.50 and reach a price of Rs. 35.00 a year hence. What is the price at which the share would be sold to the investors now if the required rate of return is 13% ? 7

SECTION—C

4. (a) Explain the nature of the factors which influence the Dividend Policy of a firm. 7

(b) Peerless Ltd. is engaged in customer retailing. You are required to forecast their working capital requirements from the following information :

Projected annual Sales	Rs. 6,50,000
Average credit allowed to debtors	10 weeks
Average credit allowed to creditors	4 weeks
Average stock carrying	8 weeks

Add 20% to allow for contingencies. 7

OR

(c) What are the two important characteristics of current assets ? What are their implications for Working Capital Management ? 7

(d) The earnings per share of Beta Ltd. is Rs. 20. The rate of capitalization is 12% and the rate of return on investments is 9%. Compute the market price per share using Walter's formula if the dividend payout is 20%. 7

SECTION—D

5. NCP Company Ltd. has an all equity capital structure consisting of 20,000 equity shares of Rs. 100 each. The management plans to raise Rs. 30 lakhs to finance a programme of expansion. Three alternative methods of financing are under consideration :

(i) Issue of 30,000 new shares of Rs. 100 each

(ii) Issue of 30,000, 8% debentures of Rs. 100 each

(iii) Issue of 30,000, 8% preference shares of Rs. 100 each.

The company's expected Earnings Before Interest and Taxes (EBIT) are Rs. 10 lakhs. Determine the earnings per share in each alternative assuming a corporate tax rate 50%. Which alternative is best and why ? 14