62215

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

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

MANAGEMENT

Financial Management

(CBCS Scheme 2019-20)

Paper : 2.5

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

SECTION - A

Answer any **FIVE** questions. Each question carries 5 marks. **(5×5=25)**

1. Discuss the phases of capital budgeting.

2. What do you understand by Wealth Maximization with suitable example?

3. Why does money has time value?

4. Ravi borrowed a 3 years loan of Rs. 10,000 @ 9% p.a to buy an asset. If he requires repaying the entire amount in 3 equal annual instalments (end-of-year repayments), ascertain the Instalments payable by Mr. X and also prepare a loan amortization schedule.

5. A simplified income statement of Z limited is given below: Compute and Interpret its OL, FL and CL.

Income statement	
Sales	10,50,000
V.Cost	7,67,000
Fixed exp	75,000
EBIT	2,08,000
Interest	1,10,000
Taxes at 30%	29,400
Net Income	68,600

6. The Malabar Corporation currently provides 45 days of credit to its customers. Its present level of sales is Rs.15 million. The firm cost of capital is 15% and the ratio of variable cost to sales is 0.80. The firm is considering extending its credit period to 60 days. Such an extension is likely to push sales up by Rs.1.5 million. The bad debt proportion on additional sales would be 5%. The tax rate is 45%.

   What will be the effect of lengthening the credit period on the residual income of the firm?

7. Magna Corporation has target capital structure of 60% equity and 40% debt. It's cost of equity is 18% and its pretax cost of debt is 13%. If the rate of tax is 35%, what is the WACC?

SECTION - B

Answer any **THREE** questions. Each question carries **10** marks. **(3×10=30)**

8. Define dividend policy. What are the factors which influence the dividend policy of a company?

9. Following is the capital structure of X Ltd. as on 31-12-2022:

Equity capital (20,000 shares of Rs. 100 each)	20,00,000
10% Preference share capital (100 each)	8,00,000
12% Debentures	12,00,000
	40,00,000

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after one year.

The dividend growth rate is 6%

Company is in 50% tax bracket. Compute the WACC

Assuming that in order to finance an expansion plan, the company intendeds to borrow a fund of Rs. 20 lakhs bearing 14% Rate of interest, what would be the company revised WACC?

This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price per equity share is expected to decline from Rs. 110 to Rs. 105 per share.

10. A proforma cost sheet of a company provides the following particulars:

Elements of Cost

Material	40%
Direct Labour	20%
Overheads	20%

The following further particulars are available:

It is proposed to maintain a level of activity of 2,00,000 units

Selling price is Rs. 12/- per unit

Raw materials are expected to remain in stores for an average period of 1 month

Materials will be in process, on average half a month

Finished goods are required to be in stock for an average period of one month

Credit allowed to debtors is 2 months

Credit allowed by suppliers is 1 month.

You may assume that sales and production follow a consistent pattern.

You are required to prepare a statement of working capital requirements, a forecasted Profit and Loss A/c and also Balance Sheet of the company, assuming that:

Share Capital	15,00,000
8% Debentures	2,00,000
Fixed Assets	13,00,000

11. A company wants to raise Rs. 100 lakhs for diversification project. Current estimate of earnings before interest and taxes from the new project is Rs. 22 lakh per annum.

Cost of debt is 15% for amount up to and including Rs. 40 lakh, 16% for additional amount up to and including Rs. 50 lakh and 18% for additional amounts above Rs. 50 lakh.

The equity share value is Rs. 10 of the company has a current market value of Rs. 40. This is expected to fall to Rs. 32 if debt exceeding Rs. 50 lakhs are raised. The following options are under considerations:

Option	Equity	Debt
I	50%	50%
II	60%	40%
III	40%	60%

Determine the EPS and suggest the right option to the company. The applicable tax rate is 50%.

SECTION- C
(Case Study)
(Compulsory question)

(1×15=15)

12. A company is considering an investment proposal to install milling controls. The project will cost Rs. 5,00,000. The facility has a life expectancy of 5 years and no salvage value. The company tax rate is 30% . The firm uses straight line depreciation which is allowed for income tax purposes. The estimated cash inflows before tax (CFBT) from the purposed investment proposals are as follows:

Year	Cash Flow Before Taxes (CFBT)
1	1,00,000
2	1,10,000
3	1,40,000
4	1,50,000
5	2,50,000

From the above information, compute the following

i) Payback period of the proposal

ii) Average rate of return

iii) NPV by assuming 10% cost of capital

iv) IRR of the proposal by assuming a discount rate of 10% and 15%.

v) Profitability index at 10% cost of capital.