Seat No. : _______________

AG-159

April-2015

Second Year M.B.A.

Integrated

Financial Management

Time : 3 Hours] **[Max. Marks : 100**

1. (a) Define financial management and discuss various objectives of financial management. **10**

   (b) You can save ₹ 5,000 a year for 3 years and ₹ 7,000 a year for 7 years thereafter. What will these savings cumulate to at the end of 10 years, if the rate of interest is 8 percent ? **10**

OR

   (a) Discuss the emerging role of finance manager in India.

   (b) If you invest ₹ 6,00,000 with a company they offer to pay you ₹ 1,00,000 annually for 10 years. What interest rate would you earn on this investment ?

2. The following annual figures relate to Super Limited. **20**

Sales (at two months' credit)	60,00,000
Materials consumed (suppliers extend two months credit)	16,00,000
Wages paid (monthly in arrear)	13,00,000
Manufacturing expenses outstanding at the end of the year (Cash expenses are paid one month in arrear)	1,40,000
Total administrative expenses, paid as incurred	4,40,000
Sales promotion expenses, paid quarterly in advance	2,00,000

The company sells its products on gross profit of 20 percent counting depreciation as part of the cost of production. It keeps one month's stock each of raw materials and finished goods and a cash balance of ₹ 2,00,000.

Assuming a 25 % safety margin, work out the working capital requirements of the company on cash cost basis. Ignore work-in-process.

OR

   (a) Explain the concept of operating cycle in detail,

   (b) Discuss various sources of working capital finance.

3. (a) ABC Ltd. issues 14% debentures, par value of which was ₹ 100. The issue involves a flotation cost 2% and a 3% discount. The debentures are redeemable after 10 years. The company's tax rate is 35%. What is the cost of debenture, if debentures are redeemable at 5 % premium ? **10**

(b) XYZ Ltd. currently maintaining 6% rate of growth in dividends. The last year dividend was ₹ 9 per share. Equity shareholders required rate of return is 15%. What is the equilibrium price per share ? **10**

4. A company has currently an equity share capital of ₹ 25 lakhs, consisting of 25,000 shares of ₹ 100 each. The management is planning to raise another ₹ 20 lakhs to finance a major programme of expansion through one of three possible financing plans:

(1) Entirely through equity shares.

(2) 50% through equity shares and 50% through long term borrowing at 10% interest p.a.

(3) 50% through equity shares and 50% through preference shares with 8% dividend.

The company's expected EBIT will be ₹ 8 lakhs. Assuming a corporate tax rate of 40%, determine the EPS in each alternative and comment which alternative is best and why ? **20**

OR

(a) What do you understand by capital structure ? Explain various forms of capital structure. **10**

(b) What is meant by leverage ? Explain various leverages and their interpretation. **10**

5. After conducting a survey that cost ₹ 2 lakhs, X Ltd., decided to undertake a project for placing a new product in the market. The company's cost of capital is 12%. It was estimated that the project would cost ₹ 40 lakhs in plant and machinery in addition to working capital of ₹ 10 lakhs. The scrap value of plant and machinery at the end of 5 years was estimated at ₹ 5 lakhs. After providing for depreciation on straight line basis, profits after tax were estimated as follows : **20**

Year	1	2	3	4	5
PAT (₹)	3,00,000	8,00,000	13,00,000	5,00,000	4,00,000

Ascertain the Internal Rate of Return (IRR) of the project.

OR

(a) Give the meaning of capital budgeting and discuss various types of investment decision. **10**

(b) Explain profitability index as method of capital budgeting with its benefits and drawbacks. **10**