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1205E502

Candidate's Seat No :________

M.B.A.-I (Sem.-II) Examination

Fundamental of Financial Management

May-2017

Time : 3 Hours] **[Max. Marks : 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** You are recently promoted in your consultancy company and you are given an assignment to advice your client, Miss Shardha Kapoor. She is planning for long term investment proposal for expansion of her business. Kindly explain her various discounted and non-discounted methods of Capital Budgeting evaluation. **10**

(b) You are the CFO of Reliance. Your company is planning to design the dividend policy. You have been asked to explain the factors influencing the dividend policy for your company. **10**

Q.2 **(a)** FF8 Ltd. is planning for expansion of business. You are required to consult a company for the issue of Equity capital. Evaluate Equity Capital as a source of long-term finance and advice the CEO of FF8 Ltd. **10**

(b) Discuss the various methods of monitoring and controlling Debtors in a company **10**

OR

Q.2 **(a)** Discuss the traditional theory on Capital Structure with hypothetical data and Graphical presentation. **10**

(b) Discuss your views on MM theory of Capital structure. **10**

Q.3 **(a)** Explain the Agency cost. What are the solutions to minimize this? **10**

(b) Discuss "Bank Finance" as a source of working capital finance. **10**

OR

Q.3 **(a)** Following information is available for Kattapa Corporations. **10**

Sales: 10000 units @ Rs. 40 each

Variable Cost: Rs. 20 per unit

Fixed Cost = 100000, Interest = 25000

Calculate the degree of operating leverage, financial leverage and combined leverage.

(b) From the below information of Bahubali Ltd., calculate the value of shares by using Walter Dividend Model if Retention Ratio is 60% and if retention ratio is 70%. **10**

EPS = 100 Rs., Cost of capital = 10%, Rate of Earning = 15%

Q.4 **(a)** The present credit terms of Parinita Ltd.are 1/10 net 30. Its annual sales are Rs 80 lakh, its average collection period is 20 days. Its variable costs and average total costs to sales are 0.85 and 0.95 respectively and its cost of capital is 10 per cent. The proportion of sales on which customers currently take discount is 0.5. Parinita Ltd. is considering relaxing its discount terms to 2/10 net 30. Such relaxation is expected to increase sales by Rs 5 lakh, reduce the average collection period to 14 days and increase the proportion of discount sales to 0.8. What will be the effect of relaxing the discount policy on company's profit? Take year as 360 days **10**

(P.T.O)

(b) Anna Hazare Ltd has the following book-value capital structure as on 31 March 2016. **10**

Equity share capital (2,00,000 share)	Rs 40,00,000
11.5% preference shares	10,00,000
10% debentures	30,00,000
	80,00,000

The equity share of the company sells for Rs 20. It is expected that the company will pay next year a dividend of Rs 2 per equity share, which is expected to grow at 5% p.a. forever. Assume a 35% corporate tax rate.

1. Compute weighted average cost of capital (WACC) of the company based on the existing capital structure.
2. Compute the new WACC, if the company raises an additional Rs 20 lakh debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs 2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs 16 per share.

Comment on the use of weights in the computation of weighted average cost of capital.

OR

Q.4 Rutvik & Suzan Ltd. plans to use equity and debt in the following proportion. **20**

Equity: 40% and Debt: 60%

The company estimates the cost of its sources of finance for various levels of usage as follows:

Source	Range	Cost
Equity	0 to 30 00 000	18%
	More than 30 00 000	20%
Debt	0 to 50 00 000	10%
	More than 50 00 000	11%

Determine the weighted average marginal cost of capital schedule.

Q.5 Kareena group of Industries is planning to introduce a new product with a projected life of 8 years. The project, to be set up in backward area, qualifies for a one time (as its starting) tax-free subsidy from the govt. of Gujarat of Rs. 20 lakhs. Initial equipment cost will be Rs. 140 lakhs and additional equipment cost of Rs. 10 lakhs will be needed at the end of second year. In addition to this Rs. 15 lakhs will be required for working capital in the beginning of the project. At the end of project original equipment will not have any salvage value but the additional equipment will be sold for Rs. 1 lakh. The sales volume forecasted as under. **20**

Year	1	2	3 to 5	6 to 8
Units	80 000	1 20 000	3 00 000	2 00 000

A sale price of Rs. 100 per unit is expected and variable cost will be 40% of sales revenue. Fixed cash operating costs will amount to Rs. 32 00 000 per year. The company is subject to 50% tax rate and considers 12% to be an appropriate after tax cost of capital for the project. The company follows the straight line method of depreciation. Should the project be accepted?

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