

Seat No. : \_\_\_\_\_

# MB-206

May-2025

MBA, Sem.-2 (Regular/Repeater)

Course Name : MBA in Public Policy Management (PPM)/MBA in Event Management (EM)/MBA in Business Economics and Public Finance (BEPF)

Subject & Code : Fundamentals of Financial Management (FFM)

Code : EPF-202/ PPM-202/ EM-202

Time : 2:30 Hours]

[Max. Marks : 70

1. Explain the concept of Valuation of securities. Why is it important for the financial manager to understand valuation ? What are the different methods of valuation of assets ? 14

2. Assume that a ₹ 20,00,000 plant expansion is to be financed as follows : 14  
The firm makes a 15% down payment and borrows the remainder at 9% interest rate. The loan is to be repaid in 8 equal annual instalments beginning 4 years from now. What is the size of required annual loan payments ?

OR

2. PQR & Co. has following capital structure as on Dec 31. 14

Equity Share Capital (5000 shares of ₹ 100 each)	₹ 5,00,000
9% Preference Shares	₹ 2,00,000
10% Debentures	₹ 3,00,000

The equity shares of the company are quoted at ₹ 102 and the company is expected to declare a dividend of ₹ 9 per share for the next year. The company has registered a dividend growth rate of 5% which is expected to be maintained.

- (i) Assuming the tax rate applicable to the company at 30%, calculate the weighted average cost of capital and
- (ii) Assuming that the company can raise additional term loan at 12% for ₹ 5,00,000 to finance its expansion, calculate the revised WACC. The company's expectation is that the business risk associated with new financing may bring down the market price from ₹ 102 to ₹ 96 per share.

3. CKS Ltd. is planning to install a new machine costing ₹ 15,00,000 with a salvage value of ₹ 1,00,000 after 5 years of life. Following information is available in respect of the machine : 14

Annual Production : 1,00,000 units for year 1 and to increase by 10,000 units p.a. over immediately preceding year production for next 4 years.

Selling price : ₹ 15 per unit

Variable cost : ₹ 10 per unit

Fixed cost : ₹ 2,00,000 p.a.

Tax rate : 30%

Depreciation : 20% on Written Down Value

Find out Initial, Subsequent and Terminal cash flows from the machine.

**OR**

3. What is working capital management ? Explain the factors considered while determining the need for working capital. Why is depreciation ignored while determining the working capital need for a firm ? 14

4. A company plans to manufacture 24,000 units of a product per year. The cost and price per unit are estimated as follows : 14

Particulars	₹ per unit
Raw Materials	120
Direct Labour	40
Overheads (50% fixed)	60
Selling Price	250

**Additional Information :**

- (i) Raw materials in store: 2 months
- (ii) WIP : 1 month (Material 100%, Labour & Overhead 50%)
- (iii) Finished goods in stock : 1 month
- (iv) Debtors : 1 month of credit
- (v) Creditors for raw materials : 1 month

- (vi) Lag in payment of wages : 0.5 month
- (vii) Overheads outstanding : 1 month
- (viii) Desired cash balance : ₹ 1,00,000

You are required to :

- (a) Prepare the Statement of Cost and Profit
- (b) Estimate Working Capital Requirement

**OR**

4. What is inventory management ? What are the costs and benefits associated with inventory ? Explain briefly the techniques associated with inventory management. 14
5. A company is considering the following investment projects : 14

Cash Flows (₹)				
Projects	C <sub>0</sub>	C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>
A	-10000	+10000	-	-
B	-10000	+17500	+7500	-
C	-10000	+12000	+4000	+12000
D	-10000	+10000	+3000	+13000

- (a) Rank the project according to each of the following methods : (i) Payback, (ii) ARR, (iii) IRR and (iv) NPV; assuming discount rates of 10 and 30 percent.
- (b) Assuming the projects are independent, which one should be accepted ? If the projects are mutually exclusive, which project is the best ?

