Seat No. : ______________

AF-106

April-2019

S.Y. M.B.A. Integrated, Sem.-IV

Fundamentals of Financial Management

Time : 2:30 Hours] **[Max. Marks : 70**

1. (A) What do you understand by word 'Financial Management' ? Briefly explain main functions of financial management. **7**

OR

Critically evaluate major goals of financial management.

(B) Mr. Kishan has ₹ 1,00,000 to deposit in a bank account for 3 years. Assuming (i) annual compounding, (ii) semi-annual compounding, (iii) quarterly compounding at a stated annual interest rate of 4 %, compute (a) the amount he would have at the end of the third year, leaving all interest paid on deposits in the bank, (b) the effective rate of interest he would earn on each alternative, and (c) which plan should he choose ? **7**

2. (A) Define the word 'Working Capital Management' and explain classification of working capital for different purpose. **7**

OR

Give a brief note on sources of working capital financing available to a company.

(B) From the following data, compare the duration of the operating cycle for each of the two years and comment on the increase/decrease : **7**

Particulars	Year-1	Year-2
Stocks :		
Raw Materials	₹ 20,000	₹ 27,000
Work-in-process	₹ 14,000	₹ 18,000
Finished Goods	₹ 21,000	₹ 24,000
Purchase of Raw Materials	96,000	1,35,000
Cost of Goods Sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 days per year for computations purposes.

3. (A) Examine critically the different approaches to the calculation of cost of equity. **4**

(B) A company issues ₹ 10,00,000 12% debentures of ₹100 each. The debentures are redeemed after the expiry of fixed period of 7 years. The company is in 35% tax bracket.

You are required to calculate the cost of debt after tax, if debentures are issued at – (1) Par, (2) 10% discount, (3) 10% premium. **4**

If brokerage is paid at 2%, what will be the cost of debentures, if issue is at par ?

(C) As a financial analyst of a big company, you are require to determine the weighted average cost of capital of the company using book value weights and market value weights from the following information : **6**

The company's present book value capital structure is :

Particulars	**Amount (₹)**
Debentures (₹ 100 per debenture)	8,00,000
Preference shares (₹ 100 per share)	2,00,000
Equity shares (₹ 10 per share)	10,00,000
	20,00,000

All these securities are traded in the capital markets. Recent prices are: Debentures, ₹ 110 per debenture, Preference shares, ₹ 120 per share, and Equity shares, ₹ 22 per share.

Anticipated external financing opportunities are:

(i) ₹ 100 per debenture redeemable at par; 10 years maturity, 11% coupon rate, 4% flotation costs, sell price, ₹ 100

(ii) ₹ 100 per preference share redeemable at par; 10 years maturity, 12% dividend rate, 5% flotation costs, sell price, ₹ 100

(iii) Equity shares : ₹ 2 per share flotation costs, sell price, ₹ 22.

In addition, the dividend expected on the equity share at the end of the year is ₹ 2 per share; the anticipated growth rate in dividends is 7% and the firm has practice of paying all its earnings in form of dividends. The corporate tax rate is 35%.

4. Attempt any **two** from the following :

(A) Give a critical appraisal of the (a) Traditional approach and (b) MM approach to the theory of Capital Structure. **7**

(B) ABC Ltd. is considering three financing plans : **7**

Financial Plans	**Equity**	**Debt**	**Preference**
A	100%	–	–
B	50%	50%	–
C	50%	–	50%

Total Funds to be raised : ₹ 200 Crore

Rate of interest on debt : 12%

Corporate Tax Rate : 35%

Dividend on preference shares : 9%

Face Value of equity shares : ₹ 10 each. These shares will be issued at a premium of ₹ 10 per share

Expected EBIT : ₹ 80 Crore

Determine :

(i) EPS for each plan;

(ii) Indifference points between financial plans A and B; and A and C.

(C) A firm's sales, variable costs and fixed cost amount to ₹ 75,00,000, ₹ 42,00,000 and ₹ 6,00,000 respectively. It has borrowed ₹ 45,00,000 at 9% and its equity capital is ₹ 55,00,000. **7**

(i) What is the firm's ROI ?

(ii) What are the operating, financial and combined leverages of the firm ?

(iii) If the sales drop to ₹ 50,00,000, what will be the new EBIT ?

(iv) At what level will the EBIT of the firm equal to zero ?

5. (A) Discuss traditional technique of evaluation of capital budgeting project in detail. **7**

(B) The projects (A, B and C) are expected to require ₹ 2,00,000 each, have an estimated life of 5 years, 4 years and 3 years respectively, and have no salvage value. The required rate of return is 10%. The expected cash flows after taxes for the three projects are as follows : **7**

Year	**CFAT**		
	A	**B**	**C**
1	50,000	80,000	1,00,000
2	50,000	80,000	1,00,000
3	50,000	80,000	10,000
4	50,000	30,000	–
5	1,90,000	–	–

Rank each project applying the methods of pay-back, ARR, NPV, IRR and PI. Recommend the project to be adopted and give the reasons.