Seat No.: _____   Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA - SEMESTER–II • EXAMINATION – SUMMER • 2014

Subject Code: 2820003   **Date: 27-05-2014**
Subject Name: Financial Management (FM)
Time: 10.30 am - 13.30 pm   **Total Marks: 70**
Instructions:
1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** "Leverage is Double Edge Sword" Explain this with illustration **07**

(b) Miss Akshara is planning to borrow a loan worth INR 1000000 for five years. She **07**
approached SBI and SBI offered her 15% rate of interest. Calculate the annual
installment and prepare loan amortization schedule.

Q.2 **(a)** Why is preference capital considered as a hybrid source of financing? Evaluate it as a **07**
source of long-term finance.

(b) A proforma cost sheet of a Rutavik Ltd. provides the following data: Particulars **07**
Amount per unit

Raw materials	Rs 52.00
Direct labour	19.50
Overhead	39.00
Total cost	110.50
Profit	19.50
Selling price	130.00

Raw materials in stock = one month;
Materials in process = half a month;
Finished goods in stock = one month.
Credit allowed to debtors = two months;
Credit allowed by suppliers = one month;
Average time-lag in payment of wages = 10 Days;
Overhead expenses = one month;
One-fourth of the output is sold against cash;
Cash in hand and at bank is desired to be maintained at Rs 120000.
You are required to prepare a statement showing the working capital needed to finance
a level of activity of 70000 units of production.

OR

(b) Chankya Ltd. is considering increasing the credit period from net 35 to net 50. It is **07**
expected to increase the sales from 120 lakh to 180 lakh. An average collection period
increase from 35 days to 50 days. The bad debt ratio remains 5% and the collection
cost remains 6%. The companie's variable cost ratio is 85%. Corporate tax rate is 35%.
Cost of capital is 20%. Do Analysis of the impact of change in the credit period.

Q.3 **(a)** You are Loan Officer, HDFC Bank. Mr. Topiwala, finance executive of Reliance **07**
Industries Ltd. is in need of working capital finance. He approached you for working
capital financial requirements. Kindly Guide him about the "Bank Finance" for
working capital.

(b) Assuming no taxes and given the EBIT, Interest at 10%, Equity capitalization rate (Ke) **07**
as per below table. Calculate the Total Market Value of each firm.

Firms	EBIT	Interest Amount	Ke
A	200000	20000	12%
B	300000	60000	16%
C	500000	200000	15%

1

OR

Q.3 **(a)** You are working in finance department of Textile Industry. Your superior asked you to forecast the working capital requirements. What are the factors you will consider that affects on working capital requirement in textile industry? **07**

(b) Sales (100000 units Rs. 8 each) = 800000 **07**
Variable Cost (Rs. 4 per unit) = 400000
Fixed Cost = 280000, Interest = 20000
Calculate the degree of operating leverage, financial leverage and combined leverage.

Q.4 **(a)** Net Income approach says that use of Debt reduces the overall cost of capital while Net Operating Income approach does not agree with this. You are required to discuss the above statement and also analyze it with the help of diagram. **07**

(b) Investment of the project is 100000 and cost of capital is 12% **07**
The expected cash flow of the project is as follows

Year	Cash flow
1	20000
2	30000
3	40000
4	50000
5	30000

Calculate the NPV, IRR and PI of the above project and give your comments.

OR

Q.4 **(a)** You are recently promoted in your consultancy company and you are given an assignment to advice your client. Your client is planning for long term investment proposal for expansion of his business. Kindly explain him various discounted and non-discounted methods of Capital Budgeting evaluation. **07**

Q.4 **(b)** The following cashflows are available from XYZ Co. Ltd. **07**

Year	Project A	Project B
1	14000	22000
2	16000	20000
3	18000	18000
4	20000	16000
5	25000	17000

You are required evaluate both the projects with NPV if the discount rate is 10%.
Cash outflow is 70000 for Project A and 70000 for Project B

Q.5 **(a)** You are the CFO of Tata Motors. Your company is planning to design the dividend policy. You have been asked to explain the factors influencing the dividend policy for your company. **07**

(b) From the below information calculate the value of shares by using Gordon Dividend Model if Retention Ratio is 60% and if retention ratio is 10%. **07**
EPS = 10 Rs.
Cost of capital = 10%
Rate of Earning = 15%

OR

Q.5 **(a)** You have been recently graduated from GTU and appointed as Finance Executive at HLL. You have been asked to frame the credit policy of HLL. Which are the major Credit Policy variables you will discuss while designing credit policy of HLL? **07**

(b) Krish Ltd. requires 2000 units of certain items each year. The purchase price per unit is 30 Rs. The carrying cost is 25% of inventory value and ordering cost is Rs. 1000 per order. Determine EOQ and calculate the total cost at EOQ level. **07**

PVIF Table

n	10%	12%	14%	15%	18%	19%	20%
1	0.909	0.893	0.877	0.870	0.847	0.840	0.833
2	0.826	0.797	0.769	0.756	0.718	0.706	0.694
3	0.751	0.712	0.675	0.658	0.609	0.593	0.579
4	0.683	0.636	0.592	0.572	0.516	0.499	0.482
5	0.621	0.567	0.519	0.497	0.437	0.419	0.402
6	0.564	0.507	0.456	0.432	0.370	0.352	0.335
7	0.513	0.452	0.400	0.376	0.314	0.296	0.279
8	0.467	0.404	0.351	0.327	0.266	0.249	0.233
9	0.424	0.361	0.308	0.284	0.225	0.209	0.194

PVIFA Table

n	10%	12%	14%	15%	18%	19%	20%
1	0.909	0.893	0.877	0.870	0.847	0.840	0.833
2	1.736	1.690	1.647	1.626	1.566	1.547	1.528
3	2.487	2.402	2.322	2.283	2.174	2.140	2.106
4	3.170	3.037	2.914	2.855	2.690	2.639	2.589
5	3.791	3.605	3.433	3.352	3.127	3.058	2.991
6	4.355	4.111	3.889	3.784	3.498	3.410	3.326
7	4.868	4.564	4.288	4.160	3.812	3.706	3.605
8	5.335	4.968	4.639	4.487	4.078	3.954	3.837
9	5.759	5.328	4.946	4.772	4.303	4.163	4.031

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