Seat No.: ________   Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–II • EXAMINATION – SUMMER 2013

Subject Code: 820003 **Date: 17-05-2013**

Subject Name: Financial Management

Time: 10:30am – 01:30pm **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)** A customer has approached the bank for vehicle loan of Rs.1000000/=. The bank offers vehicle loan for a period of 12 months and charges interest at 12% p.a. However the customer has to repay the loan in equated monthly installments. What will be the size of EMI? Work out the loan amortization schedule. **07**

(b) Define working capital and discuss the components of working capital. **07**

Q.2 **(a)** Describe Baumolõs Model pertaining to cash management **07**

(b) Discuss in detail MM approach advocated by Prof. Modigliani and Miller. **07**

OR

(b) Explain Traditional Approach pertaining to capital structure theory. **07**

Q.3 **(a)** ABC Co. Ltd. uses Equity 60% and Debt 40%. With the help of information given below prepare the schedule of weighted marginal cost of capital. **07**

Type	Range of New Finance (Rs. Lacs)	Cost
Equity	0 -- 1200	20%
	> 1200	22%
Debt	0 -- 2000	16%
	> 2000	17%

(b) NPV and IRR are the techniques of investment decisions. Which technique is superior? Discuss. **07**

OR

Q.3 **(a)** The following information pertains to ABC Ltd. **07**

	Rs.
Sales	3600000
Materials Consumed	900000
Wages paid	720000
Manufacturing Expenses outstanding at year end	80000
Total Administrative Expenses	240000
Sales Promotion Expenses	120000

Goods are sold on two months credit and suppliers of raw material provide two months credit. Wages, manufacturing expenses and administrative expenses are paid one month in arrear. Sales promotion expenses are paid quarterly in advance. Company sells its products at gross profit of 25% on sales and counts depreciation as part of cost of production. It keeps one month stock of each of raw material and finished goods. It also maintains cash balance of Rs. 100000/=. Assuming 20% safety margin calculate the working capital requirement of the company on cash cost basis. Ignore work in process.

(b) Write short notes on i) Time Value of Money (3.5 Marks) **07**

ii) Venture Capital (3.5 Marks)

Q.4 **(a)** MNC Products ltd. Intends to raise Rs. 10000 lacs for its projects. The expected earning before interest and tax stands at Rs.2200 lacs. Cost of debt will be 15% for amounts up to and including Rs. 4000 lacs, 16% for additional amount up to and including Rs.5000 lacs and 18% for additional amount above Rs.5000 lacs. The face value of equity share is Rs.40 each. The company has options of debt-equity mix as under: **07**

Options	Debt	Equity
I	50%	50%
II	40%	60%
III	60%	40%

Determine earning per share under each option and state which option the company should take considering tax rate at 50%.

(b) Explain the role of financial manager in the modern complex business world. **07**

OR

Q.4 **(a)** Following are the details of bond issued by M/s. XYZ Ltd. **07**

Par Value	Rs. 10000	Coupan Rate	14%
Market Value	Rs. 9000	Maturity	5 Years

Reinvestment rate is 10%

Compute Yeild To Maturity and Realised Yeild To Maturity for the said bond.

Q.4 **(b)** Explain Operating Leverage, Financial leverage and Combined leverage. **07**

Q.5 **(a)** The initial investment in a project is Rs. 960 Crores. The estimated cash flows of the project are as under: **07**

Year	Rs. Crores	Year	Rs. Crores
1	+640	4	+ 600
2	+200	5	+ 800
3	+500		

Find out Discounted Payback Period considering cost of capital at 10%, and Modified Internal Rate of Return considering reinvestment rate of 12%.

(b) Why do companies grant credit to its customers? **07**

OR

Q.5 **(a)** Shareholders want more dividend pay out to meet with their need of regular income. The company wants less dividend payout to retain more funds for projects. While striking the balance, the company has to consider the constraints pertaining to payment of dividends. Discuss these constraints. **07**

(b) Write Short notes on (i) Inventory Management (3.5 Marks) **07**

(ii) Term Loan (3.5 Marks)

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