VCD 28/10/23 SYBBI SEM III FINANCIAL MANAGEMENT 2hrs.30min. MARKS- 75

Q1. a) State whether following statements are true or false. (Any 8). (8)

1. Debentures has fixed rate of interest.
2. Profit maximization is the goal of financial management.
3. Debt is considered as a cheaper source of finance than equity.
4. The Traditional Approach is relevance theory of dividend.
5. Capital budgeting decisions are long term long term decisions.
6. The payback period is considered as a time value of money.
7. Dividends are the cash flow returned to the shareholders.
8. Zero NPV is considered as an adequate for accepting future proposals.
9. Commercial papers are considered as a long term source of finance.
10. Treasurer manages cash flow of business.

Q.1.b) Match the Column (Any 7). (7)

Column 'A'	Column 'B'
(1) Cash Profit	(a) Capital Budgeting Decisions
(2) Debt Capital	(b) Owed Capital
(3) External Source	(c) Debentures
(4) Preference Share capital	(d) Own Capital
(5) Held-to-Maturity	(e) Intent to buy and hold until fixed maturity date.
(6) Economic Value Added	(f) EVA
(7) Capital Budgeting	(g) Planning Capital Outlay
(8) WACC	(h) Overall Cost of Capital
(9) Flotation cost	(i) Issue of new securities
(10) Capital Structure	(j) Debt Plus Equity

Q.2 ABC Company needs 5,00,00,000 for the construction of a new plant. The following three financial plans are feasible: (15)

i) The company may issue 50,00,000 ordinary shares of Rs.10 each.

ii) The company may issue 25,00,000 ordinary shares @ Rs.10 and remaining amount may be collected by issue of 2,50,000 debentures of Rs.100 each being an 8% rate of interest.

iii) The company may issue 25,00,000 ordinary shares @ Rs.10 and remaining amount as preference shares of Rs.10 each bearing 8% rate of dividend.

If the expected EBIT, which the company may earn Rs.40,00,000; then suggest which Capital Structure alternative the company should select? Assume tax rate to be 50%.

OR

Q.2 a) A firm which paid no dividend anticipated a long run level of earning of Rs 7 per shares. The firm's current market price of equity share is Rs 50 per share. Calculate the cost of equity share capital. (8)

Q.2 b) Calculate EVA from the following information relating to RR Ltd. (7)

Capital Employed 2,000 crores
Debt Equity ratio: 2:3
Cost of equity: 18%
Cost of Debt: 15%(before Tax)
Tax rate: 50%
Return on Capital employed: 25%.

Q.3. Meera Engineering Co. is Considering purchase of a machine costing Rs. 5,00,000. Machine is expected to have five years of life with no scrap value. Company provides depreciation on Straight line method. Income tax rate is 30%. Expected Profit after depreciation but before tax and present value of Rs.1 at 10% rate for the next five years is as follows: (15)

Year	PV of Rs.1	N.P. after Dep. But before Tax
1	0.909	1,20,000
2	0.826	1,60,000
3	0.751	2,00,000
4	0.683	2,40,000
5	0.621	2,80,000

You are required to calculate:

1. Average Rate of Return on Average Investment
2. Pay Back Period
3. Net Present Value

OR

Q.3. Following are the details regarding three companies M Ltd, N Ltd and O Ltd. (15)

	M Ltd	N Ltd	O Ltd
Internal Rate of Return	15%	5%	10%
Cost of Equity Capital	10%	10%	10%
Earnings Per Share	Rs.8	Rs.8	Rs.8

Calculate value of an equity share of each of these companies as per Walter's Model when the dividend payout ratio is:

a) 50%
b) 75%
c) 25%

Q.4. Krishna Ltd. has the following capital Structure as on 31st March, 2022. (15)

Particulars	Rs.
10% Debentures	3,00,000
9% Preference Shares	2,00,000
Equity Shares of Rs 100 each	5,00,000
Total	**10,00,000**

The equity shares of the company are quoted at Rs.102 and the company is expected to declare a dividend of Rs.9 per share for the year.

Required:

a) Assuming the tax rate applicable to the company to be 50%, calculate the cost of capital. State clearly assumptions you make.

b) Assuming that the company can raise additional term loan at 12% for Rs 5,00,000 to finance an expansion, calculate the revised WACC. The company's assessment is that it will be in a position to increase the dividend from Rs.9 per share to Rs.10 per share, but the business risk associated with new financing may bring down the market price from Rs. 102 to Rs. 96 per share.

OR

Q.4. Radha Ltd. is considering purchase of a machine two machines – A machine and B machine are available, each costing Rs. 5,00,000. In comparing profitability of machines, a discounted rate of 10% is to be considered. Expected profits after tax and before depreciation are as follows: (15)

Year	1	2	3	4	5
A machine profit	1,60,000	2,00,000	2,50,000	1,50,000	2,00,000
B machine profit	60,000	1,50,000	2,00,000	3,00,000	2,00,000

Indicate which machine would be more profitable under following methods:

(1) Pay back period method (2) Net present value method (3) Pay back profitability

The net present value of Rs.1 @ 10% discounting factor is as follows:

Year	1	2	3	4	5
PV Factor	0.909	0.826	0.751	0.683	0.621

Q.5 a) Define Financial management. State the objectives of financial management. (8)

b) Explain in brief long term sources of finance. (7)

OR

Q.5 Write short notes (Any 3). (15)

1. Time value of Money
2. EVA
3. NOI approach
4. Wealth maximization
5. Net Present Value.