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JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

END SEMESTER EXAMINATION-2015

B.Tech IVth Semester (All Branches)

COURSE CODE: 10B11PD411 MAX. MARKS: 45

COURSE NAME: FINANCIAL MANAGEMENT

COURSE CREDITS: 03 MAX. TIME: 3 HRS

Note: All questions are compulsory. Carrying of mobile phone during examinations will be treated as case of unfair means. All the parts of a section have to be answered together.

Section A

(9x1=9)

1. a) "The dividend growth approach has limited applications in practice". Justify.
   b) How Multi-Period Compounding is different than normal compounding?
   c) "The required rate of return is the opportunity cost of capital in comparable risk". Explain.
   d) "Under a normal circumstance, the IRR rule can give misleading signal for mutually exclusive projects". Discuss.
   e) How Depreciation is different than other expenditures of a firm?
   f) "A high current ratio not necessarily signifies the strong financial position of a firm". Justify.
   g) "Financial Leverage is a double-edged sword". Comment.
   h) Under what circumstances, the preference shareholders will also get the voting rights?
   i) How an unsecured debenture is different from a secured debenture?

Section B

(3x4=12)

1. Compare and contrast between Irrelevance Approach and Relevance approach of dividend decisions.

2. The following data relates to company Pluto Ltd. Its sales for the year 2013 were Rs 2 crores, netting a contribution of 70% and the fixed cost was Rs 1 crore. The total interest expenses were of Rs 50,000 and corporate tax rate is 30%.
   a) What is the percentage change in taxable income if sales increases by 6%? (2+2=4)
   b) What is the percentage change in EBIT if the sales increase by 10%?

3. a) Calculate the Effective Interest Rate if rate of interest is 12% in each of the following cases:
      i. When interest is compounded half yearly.
      ii. When interest is compounded monthly. (2+2=4)
      iii. When interest is compounded twice a month.
      iv. When interest is compounded daily.

   b) A bank offers fixed deposit scheme whereby Rs 10,000 matures to Rs 12,625 after 2 years, on a half year compounding basis. If the bank wishes to amend the scheme by compounding interest every quarter, what will be the revised maturity value?

P.T.O.

Section C **(3x8=24)**

1. Ms. Shantanu Enterprises wants to start a new project which requires an expenditure of Rs 500 crores, out of which 80% will go for capital expenditure and remaining will be for working capital. The project will be funded through a loan from a public sector bank @ 8% p.a. Life of the project is supposed to be of 5 years. The project will generate a revenue of Rs 1500 crores for the first two years and Rs 2200 crores thereafter. The GPM and OPM of the project is 80% and 60% respectively. Depreciation is charged on WDV basis at 20% p.a. and the terminal value of the asset is 20%. Assuming corporate tax rate is 30% and cost of capital is 12%, what will be change in shareholders' wealth, should the company accepts the project? Show your calculations.

2. a) From the following details of Ms. Nikhil Enterprises, prepare an estimate of requirements of the working capital:
   Production 60000 units p.a.; Selling price is Rs 5 per unit; raw materials, direct wages and overheads are 60%, 10% and 20% of the selling price respectively; raw materials holding period is of 2 months; work-in-progress (100% in respect of material and 50% in respect of conversion cost) is kept for 1 month; finished goods is kept for 3 months; credit allowed by supplier is 2 months and credit allowed to customers is 3 months; lag in payment of overhead is 1 month.
   Assume 80% of purchases and 60% of sales on credit basis. The company wants to keep Rs 40000 as cash balance and wants to maintain a 20% of safety margin.

   b) Differentiate between Hedging Approach and Conservative Approach of Working Capital Management. **(6+2=8)**

3. a) MT Ltd. wishes to raise capital from the market by way of equity and debt. Their merchant bankers advise that:
   i. Debt can be in the form of 12% debenture of Rs 1000 face value, redeemable at par after 8 years. It can be sold at Rs 980 and will involve a floatation cost of 1.5%.
   ii. The equity share is to be priced at Rs 120 per share. Dividend paid last year was Rs 5 and this year Rs 6 and has been growing at the same rate in the past.
   iii. The book value and market value of the company is as below:

Source	Book Value (Rs crores)	Market Value (Rs crores)
Equity	100	820
Reserves	400	
Debt	200	180

   Calculate cost of equity, cost of debt along with WACC using both book value and market value weights.

   b) Briefly discuss the CAP Model of calculating cost of equity. **(6+2=8)**