VPM's

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Programme: PGDM (2016-18)

PGDM Trimester II Examination December 2017

Subject	**Financial Management**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**6**	**Duration**	**3 Hours**
Total No. of printed pages	**3**	**Date**	**20.12.2017**

Given below are 11 Questions. You are supposed to solve any 6 questions.

Q1 Cash Flows associated with Project XY are given below

Year	Cash Flow
0	-2,00,000
1	1,50,000
2	1,50,000
3	7,50,000

WACC is 10%.

Calculate the Net Present Value (NPV) for the Project. Do you think, the company should go for the project?...**10 Marks**

Q2 A. Calculate the Payback Period for the above project XY..................**5 Marks**

Q2B. The IRR for the project XY is: ....**5 Marks**

a) Can’t say.
b) 10%
c) More than 10%

Q. 3 Given below are financials of Ramsum Corporation

Balance Sheet	
Capital (1,000 Shares with a face Rs.10)	
Reserves	
Equity (Total Shareholders Func	

Profit & Loss	
Sales	
Less: COGS	
Gross Profit	

Cash Flow Statement	
Cash Flow from Operations	
Net Profit	
Add:Depreciation	

Calculate the following ratios for Ramsum Corporation:...............................**10 Marks**

a) RoE (Using Du-Pont Formula) **(4 Marks)**
b) RoCE **(4 Marks)**
c) Gross Profit Margin (**2 Marks**)

Q4 Prepare a vertical Common Size P&L statement for Ramsum Corporation for 2016. ....**10 Marks**

Q5 Prepare a vertical Balance Sheet for Ramsum Corporation for 2016.**10 Marks**

Q6 Answer the Following

1. Calculate WACC..**2 Marks**

   Given:

   Weights

   Equity – 60%

   Debt – 40%

   Required Return on Equity – 16%

   Cost of Debt – 12%

   Tax Rate – 30%

2. A) Given below is the cost structure of two companies operating in similar industry but with different business models:..................................**2 Marks**

Company A

Fixed Cost as % of total cost 80%

Variable Cost as a % of total cost 20%

Company B

Fixed Cost as % of total cost 30%

Variable Cost as a % of total cost 70%

Other things being equal, which company do you believe will have higher operating leverage?

a) Company A

b) Company B

c) Can't say.

2. B) "There are no free lunches in life" ....**2 Marks**

Operating and financial Leverage may help Business perform better from RoE perspective. But it is not always the case.

Briefly describe any two scenarios where leverage may hurt business performance and why.

3. Rahul Pvt Ltd saw its RoE steadily increase from 10% in 2007 to 30% in 2017. After doing a Du - Pont Analysis we found that almost all the growth in RoE can be attributed to increase in Equity Multiplier or Leverage.

While Net Profit Margin and Asset Turnover haven't changed much.

Please, answer the questions below: ....**4 Marks**

A) In Your Opinion, how will you qualitatively judge the increase in RoE. Has quality

a) Improved

b) Deteriorated

c) Can't say

B) The increase in Equity Multiplier may happen due to, closest being from the options below,

a) Increase in Cash

b) Increase in Sales

c) Increase in Debt

Q.7 Given below is some financial data of two companies A and B. Calculate the Du Pont for both the companies from the data given. Also comment which company do you feel is better run and why? (Ignoring the capital structure and its influence in generating RoE) 10 Marks

Sales		
Net Profit		
Total Asset		
Debt		

Q8 Build a Vertical Common Size Cash Flow statement for the year 2016 for Ramsum Corporation. Details of Financials can be found in Q.3...........................**10 Marks**

Q9 Cash Flows associated with Project AB are given below

Year	CashFlow
0	-5,00,000
1	2,50,000
2	3,00,000
3	6,00,000

WACC is 7%.

Calculate the Net Present Value (NPV) for the Project. Do you think, the company should go for the project?..**10 Marks**

Q10 **A.** Calculate the Payback Period for the above project AB....................**5 Marks**

B. The IRR for the project AB is:..**5 Marks**

a) Can't say.
b) 7%
c) More than 7%

Q11 Answer the following:

Given Below is Financial data about 2 companies X and Y.

Sales		
Gross Profit		
EBIT		
Net Profit		

A. Calculate the following ratios X: ....**2 Marks Each**

a) Gross Profit Margin
b) Net Profit Margin
c) Debt to Equity Ratio

B. Calculate the Asset Turnover Ratio for both the Companies X & Y and which company do you believe has a relatively asset Light Model ....**4 Marks**