VPM's
DR VN BRIMS, Thane
Programme: MMS (2021-23)
First/Second Semester Supplementary/Regular Examination October 2022

Course Name	Financial Management	**Course Code**	C202
Roll No.		**Marks**	60
Total No. of Questions	6	**Duration**	3 Hours
Total No. of printed pages	4	**Date**	07.10.2022

Course Outcome Statements:

CO1. Recall basic terminologies in relation to the financial system, sources of finance, leverage, Ratio, capital structure, investment decisions, dividends, financial planning, inventory and working capital management.

CO2. Explain the concepts & formulas pertaining to Financial Management, financial systems and financial practices to understand its relevance in the current scenario.

CO3. Make use of different models, formulas and frameworks related to Ratio Analysis, Capital structure, Capital budgeting, Leverage Analysis, Working Capital and Dividend Theories

CO4. Examine various financial statements of companies based on ratios, capital structure, capital budgeting, working capital management and dividend policies of companies and study its implications on the profits and valuation of firms

CO5. Evaluate financial results and ratios to take managerial decisions related to financial planning, capital investments, dividend distribution, choice of capital structure and working capital decisions.

<table>
<tr><th colspan="3">Instructions: -</th><th rowspan="2">Marks</th><th rowspan="2">BL</th><th rowspan="2">CO</th></tr>
<tr><th colspan="3">Q. No 1 (All Questions are Compulsory)</th></tr>
<tr><th>Q. No.</th><th></th><th>Questions</th><th></th><th></th><th></th></tr>
<tr><td>Q. 1</td><td></td><td>Case/Case-let Study (500-800 words)</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>Soya foods company Pvt Ltd situated in Ahmedabad is a medium size specialising in packaged food items The Rand D department had develop a new product. For this new initiative, the company is considering purchasing a new machine in replacement of the old machine. Two models Modern and Sky are offered at prices of Rs22.5 Lakhs and Rs 30Laks respectively the expected economic life of these two machines assumes 5 years and 6 years respectively. The salvage value is assumed to be zero. The company expects to sell 10 million units per annum at the price of Rs 60/-per unit Mr Jonas has been the Chief Financial Officer (CFO) of Dark Ltd. and has been the head decision maker in terms of new projects to be undertaken. Ms Sasha has been working as an Assistant to CFO with expertise in various Capital Budgeting methods.
As a part of the strategic capital investment plan, the company is ready to invest in one of the machines. Assume the firm uses straight-line depreciation The estimated Earnings before depreciation and after Tax for two models are given below:
<table>
<tr><th>Year</th><th>annual cash flows before depreciation and after tax (Modern) Rs in Lakhs</th><th>Annual cash Flow flows before depreciation and after tax (Sky) Rs in Lakhs</th></tr>
<tr><td>1</td><td>Rs. 5.00</td><td>6.00</td></tr>
<tr><td>2</td><td>Rs. 7.50</td><td>8.00</td></tr>
<tr><td>3</td><td>Rs.10.00</td><td>10.00</td></tr>
<tr><td>4</td><td>Rs.9.00</td><td>12.00</td></tr>
<tr><td>5</td><td>Rs.8.50</td><td>10.50</td></tr>
</table>
Evaluate the two proposals of the company Which model would you recommend? Justify the reasons for the same.
The present value of Re.1 at 12% discount rates at the end of 1st, 2nd, 3rd, 4th and 5th year is 0.893, 0.797, 0.712, 0.636,</td><td>6</td><td>Level 4</td><td>CO4</td></tr>
</table>

and 0.567, respectively.

b. Healthy Drinks Company is planning to produce a new mixed fruit juice. It has engaged a consultant at fees of Rs 50 million to conduct a market survey to find demand for the juice. The manufacturing facilities of the product will require a cash outlay of Rs.300 million that the firm would depreciate over six years. The salvage value is assumed to be zero. The company expects to sell 10 million units per annum at a price of Rs.60 per unit. The marketing manager has informed that depending on competition and market response to it, both actual volume and price could differ from the expectations. The selling price could decrease as much as 10 per cent under adverse economic conditions and increase as much as 15 per cent under favourable economic conditions Similarly, the actual volume could vary from the expected volume between -10 per cent to +10 per cent. The accountant felt that the actual outlay and variable costs could also be different from the forecasts. The actual outlay could increase by 10 per cent and variable costs by 5 per cent to 10 per cent from the expected values. Exhibit I below gives financial forecasts based on the most expected assumptions.

Fixed Costs include depreciation on a straight-line basis. Assume that the company can charge straight-line depreciation for tax purposes. The company has an after-tax required rate of return of 12 per cent.

Discussion Questions:

1. Identify the factors that are most critical to the decision related to financial forecasts.
2. What is your recommendation to the company? State any additional information that will be helpful to answer this question.

Exhibit I: Financial Forecasts based on Expected Sales 10 million units.

Particulars	**Per Unit (Rs)**	**Total Rs. million**
Selling Price	60	600
Variable Cost:		
Material	16	160
Labour	8	80
Overhead	6	60
Total	**30**	**300**
Contribution	30	300
Fixed Costs	10	100
Profit Before Tax	**20**	**200**
Tax @ 30%	6	60
Profit after tax	**14**	**140**

6

Level 5

CO5

Q. 2 Answer **Any-one** from the following.

a. ITC is one of India's foremost private sector companies with a Gross Sales Value of ₹ 90,104 crores and a Net Profit of ₹ 15,058 crores (as on 31.03.2022). ITC has a diversified presence in FMCG, Hotels, Packaging, Paperboards & Specialty Papers and Agri-Business. ITC's aspiration to be an exemplar in sustainability practices is manifest in its status as the only company in the world, of its size and diversity, to be carbon, water and solid waste recycling positive. In addition, ITC's businesses and value chains create sustainable livelihoods for more than 6 million people, a majority of whom represent the poorest in rural India. The following are KEY FINANCIAL RATIOS OF ITC Ltd and the corresponding industry standards. Compare it with the industry average and evaluate the financial performance of the company based on profitability solvency and liquidity.

Year	Mar 2022	March 2021	March 2020	March 2019	March 2018
Current Ratio	2.85	2.81	3.27	4.13	3.17
Quick Ratio	1.91	2.29	3.19	2.38	2.03
Inventory Turnover Ratio	1.57	4.69	5.51	6.09	5.73
Dividend Pay-out Ratio (NP) (%)	42.44	46.74	46.05	49.91	51.19
Net Profit Margin (%)	25.52	27.17	31.54	26.52	26.43
Asset Turnover Ratio	0.76	66.74	63.85	67.34	67.58
Debt Equity Ratio	0.01	0.01	0.00	0.00	0.00
Return on Shareholders' net-worth	24.40	21.80	23.44	21.29	21.46

6 **Level 5** **CO5**

b. Z limited was started a year ago with paid-up equity capital of Rs 20,00,000. The other details are as follows

Earnings of the company	Rs.2,00,000
Dividend paid	Rs 1,60,000
No of shares	2,00,000
Cost of equity	12.5%

Evaluate whether the company's dividend playout ratio is optimal using Walter's model.

6 **Level 5** **CO5**

Q. 3 Answer **Any-one** from the following.

a. Prepare an income statement from the data given below based on Financial Leverage and Operating Leverage.
Compute the net profit rate for all the 3 companies Give your comments on the operating risk and profitability position of the companies.

Particulars	Alpha Pvt ltd	Beta Pvt Ltd	Gama Pvt Ltd
Operating Leverage	5:1	4:1	7:1
Financial Leverage	4:1	5:1	6:1
Income Tax	50%	50%	50%
Interest	45000	20000	10000
Variable Cost as % of	50%	60%	70%

6 **Level 4** **CO4**

<table>
<tr><td></td><td></td><td><table><tr><td>sales</td><td></td><td></td><td></td></tr><tr><td>Fixed cost as %of sales</td><td>40%</td><td>30%</td><td>30%</td></tr><tr><td></td><td></td><td></td><td></td></tr></table></td><td></td><td></td><td></td></tr>
<tr><td></td><td>b.</td><td>The existing capital structure of Crimson Ltd. is as under:<table><tr><td>Equity Shares of Rs.100 each</td><td>Rs.20,00,000</td></tr><tr><td>Retained Earnings</td><td>Rs. 5,00,000</td></tr><tr><td>10% Preference Shares</td><td>Rs.10,00,000</td></tr><tr><td>8% Debentures</td><td>Rs. 5,00,000</td></tr></table>The existing EBIT of the company is Rs.10,00,000. The income tax rate is 50%.
The company requires the additional sum of Rs.10,00,000 to finance its expansion programme which will earn a New EBIT of Rs.5,00,000.
The company is considering the following alternatives:
(1) Issue of 4,000 Equity Shares.
(2) Issue of 12% Preference Shares.
(3) Issue of 10% Debentures.
Which of the above alternatives would you consider to be the best based on the Highest EPS?</td><td>6</td><td>Level 4</td><td>CO4</td></tr>
<tr><td>Q. 4</td><td></td><td>Answer Any two from the following.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>XY Limited has given the following details: It has borrowed Rs.10,00,000 @ 15%p.a. You are required to compute Operating leverage, Financial Leverage and Combined Leverage.<table><tr><td>Sales</td><td>48.00.000</td></tr><tr><td>Variable cost</td><td>24,00,000</td></tr><tr><td>Fixed Cost</td><td>12,00,000</td></tr></table></td><td>6</td><td>Level 3</td><td>CO3</td></tr>
<tr><td></td><td>b.</td><td>Cosmetic Ltd. Has appointed you as an analyst for finding the intrinsic value of the company’s equity shares based on the Constant Dividend Growth Model (Gordon’s Model). They have provided you with the following data:
Cost of Equity: 14%
The growth rate in dividends: 8%
Last Dividend Paid: Rs.12.50
Also, find what will be the new intrinsic price of equity shares if the Growth rate changes to 10% and the cost of equity is altered to 12% and the last dividend remains the same.</td><td>6</td><td>Level 3</td><td>CO3</td></tr>
<tr><td></td><td>c.</td><td>Unicorn Private Limited is expecting an annual EBIT of Rs 10,00,000 The company has Rs,40,00,000 in 10% Debentures. The cost of Equity capital rate is 12.5% You are required to calculate the cost of capital and the total value of a company.</td><td>6</td><td>Level 3</td><td>CO3</td></tr>
<tr><td>Q. 5</td><td></td><td>Answer Any two from the following.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>Explain the Net Income (NI) Approach and Net Operating Income (NOI) Approach with Diagrams.</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td></td><td>b.</td><td>Explain the concept of net working capital and explain the importance of the working capital cycle in business.
Can companies manage the business with negative working capital?</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td></td><td>c.</td><td>Explain the Financial System of India.</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td>Q. 6</td><td></td><td>Answer Any two from the following.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>What is the role of a financial manager and what are various financial Objectives?</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
<tr><td></td><td>b.</td><td>What are the various Sources of Finance available for a public limited company?</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
<tr><td></td><td>c.</td><td>Why Financial Planning & forecasting is essential and what are various techniques used for financial forecasting?</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
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