VPM's
DR VN BRIMS, Thane
Programme: MMS (2022-24)
Second Semester Regular Examination September 2023

Course Name:	Financial Management	**Course Code**	C202
Roll No.		**Marks**	60
Total No. of Questions	6	**Duration**	3 Hours
Total No. of printed pages	6	**Date**	08.09.2023

Course Outcome Statements:
CO1: Recall basic terminologies in relation to the financial system, sources of finance, Leverages, Ratio, capital structure, investment decisions, dividends, financial planning, inventory and working capital management.
CO2: Explain the concepts & formulas pertaining to Financial Management, financial system 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.

Instructions: -
(1) All questions are compulsory.
(2) Use of a simple calculator is allowed.

Q. No 1 (All Questions are Compulsory)

Q. No.		**Questions**	**Marks**	**BL**	**CO**
Q. 1		Case/Case-let Study (500-800 words)			
		To address severe transport problems in Mumbai, improve livability, and enable the city to develop to its potential, 12 metro lines with a length of 277 kilometers (km) are planned. The metro rail projects are being implemented by the Metropolitan Mumbai Regional Development Authority (MMRDA). The MMRDA is also planning and implementing other metro rail lines as well as planning extensions to lines under construction. The MMRDA is an urban development authority that manages planning, development, financing, and project implementation functions across a very large urban area of the Mumbai Metropolitan Region (MMR). The project proposed for Asian Development Bank (ADB) financing primarily includes the procurement of rolling stock and signaling-related equipment for metro lines 2 and 7. A travel demand forecasting model for the MMR was prepared as part of the comprehensive transportation study for the planning of Mumbai's metro rail system; this was updated, and the transport model was run to derive travel demand forecasts for all			

		transport modes during the analysis period. The expected passers using the metro rail yearly for Line 2 and Line 7 are given in Table 1. **able 1- Expected Number of Passengers (in Crores)** (Table 1 below) **(Source- Metropolitan Mumbai Regional Development Authority estimates)** Total project cost is estimated to be Rs. 12,618 Crores. (Rs. 6410 Crore for Line 2 and Rs. 6208 Crore for Line 7). Average cash inflow per passenger is expected to be Rs. 36. Non-ticket cash inflow including advertising, franchise space, and parking are assumed to be generated after 4 years from the start of the project. It is expected that non-ticket cash inflows will be Rs. 10 Crores on Line 2 annually and Rs. 7 Crores on Line 7 annually. It is expected that this revenue will increase by 5% on a year-to-year basis. The Government has the choice to take a consolidated loan or line wise loans at 5% interest rate. The Government of Maharashtra feels that both the lines are important for making it less painful to Mumbaikars. However, due to the budgetary constraints, they can take only one Line (Line 2 or Line 7) on priority.			
	a.	**Analyze** investment recovery pattern of both the lines using payback period method. And interpret the results.	**6**	**Level 4**	**CO4**
	b.	**Evaluate** which line should be given a priority by the Government of Maharashtra based on the NPV method.	**6**	**Level 5**	**CO5**

Year	Line 2	Line 7
2024	51.34	20.82
2025	52.62	21.34
2026	53.94	21.87
2027	55.28	22.42
2028	56.67	22.98
2029	58.08	23.56
2030	59.54	24.14
2031	61.02	24.75

Year	PV Factor @5%
1	0.952
2	0.907
3	0.864
4	0.823
5	0.784
6	0.746
7	0.711
8	0.677

<table>
<tr><th>Q. 2</th><th></th><th>Answer Any one from the following.</th><th></th><th></th><th></th></tr>
<tr><td></td><td>a.</td><td>Evaluate the financial performance of companies by using the actual ratios of Sunstar Ltd, Bluestar Ltd by referring to the given industry standards
<table>
<tr><th>Ratio</th><th>Blue Star Ltd</th><th>Sunstar Ltd</th><th>Industry Standards</th></tr>
<tr><td>Current Ratio -</td><td>6:1</td><td>5:1</td><td>4:1</td></tr>
<tr><td>Liquid Ratio</td><td>2:1</td><td>1:1</td><td>1.5:1</td></tr>
<tr><td>Gross profit Ratio</td><td>22%</td><td>24%</td><td>22%</td></tr>
<tr><td>Net profit margin</td><td>7%</td><td>12 %</td><td>10%</td></tr>
<tr><td>Inventory Turnover Ratio</td><td>8 Times</td><td>11 times</td><td>10times</td></tr>
<tr><td>Fixed Assets Turnover Ratio</td><td>3 times</td><td>5 times</td><td>4 times</td></tr>
<tr><td>Debt Equity Ratio</td><td>2.50:1</td><td>1.5:1</td><td>1.75:1</td></tr>
<tr><td>Return on Capital Employed</td><td>6%</td><td>10%</td><td>10%</td></tr>
</table>
</td><td>6</td><td>Level 5</td><td>CO5</td></tr>
<tr><td></td><td>b.</td><td>The existing capital structure of Tata Elxsi Ltd. is as under:
<table>
<tr><td>Equity Share Capital (Face value Rs.100 Each)</td><td>10,00,000</td></tr>
<tr><td>10% Preference Shares</td><td>5,00,000</td></tr>
<tr><td>6% Debentures</td><td>5,00,000</td></tr>
</table>
The existing Earnings Before Interest and Tax (EBIT) of the company is Rs.5,00,000. Income tax rate is 30%.
The company requires an additional sum of Rs.10,00,000 to finance its expansion programme on which it will earn Return On Investment (ROI) of 40%.
The company is considering the following alternatives:
i) Issue of 4,000 Equity Shares.
ii) Issue of 8% Debentures.

Evaluate alternatives based on the Highest Earnings Per Share (EPS) and advise the company which alternative is to be chosen for raising additional funds.</td><td>6</td><td>Level 5</td><td>CO5</td></tr>
</table>

<table>
<tr><td>Q. 3</td><td></td><td>Answer Any one from the following.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>The selected financial data for Company Trent and Trident for the year ended 31st March 2023 were as follows-
<table>
<tr><th></th><th>Trent</th><th>Trident</th></tr>
<tr><td>Variable Cost as a percentage of sales</td><td>66 ⅔</td><td>75</td></tr>
<tr><td>Interest Expenses (In Rs. Lakhs)</td><td>200</td><td>300</td></tr>
<tr><td>Degree of Operating Leverage</td><td>5</td><td>6</td></tr>
<tr><td>Degree of Financial Leverage</td><td>3</td><td>4</td></tr>
<tr><td>Income Tax Rate</td><td colspan="2">35%</td></tr>
</table>
Compare the income statements of three companies and comment which company is better financially.</td><td>6</td><td>Level 4</td><td>CO4</td></tr>
<tr><td></td><td>b.</td><td>Arvind Limited belongs to a risk class for which the appropriate capitalization rate is 10% It has 25,000 shares outstanding. The current market price of share is Rs100. The company is contemplating the declaration of dividend of Rs 5 per share at the end of the current year. The company expects to have net income of Rs,250,000 and has proposal for making new investments of Rs 5,00,000/- You are required to compare and prove the proposition of Modigliani and Miller approach that the payment of dividend does not affect the value of firm by finding the market price of share when dividend is distributed and not distributed</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>Camlin ltd. has the following book-value structure as on March, 31,2023 It is expected that the company will pay next year a dividend of Rs 4 per equity share, which is expected to grow at 6% p.a forever. The market price is currently Rs.40 per equity share.
<table>
<tr><th>Particulars</th><th>Rs.</th></tr>
<tr><td>8% Debentures</td><td>4,00,000</td></tr>
<tr><td>10% Preference Share Capital</td><td>6,00,000</td></tr>
<tr><td>Equity Share Capital</td><td>15,00,000</td></tr>
</table>
Assume a 30% corporate tax rate
Compute weighted average cost of capital (WACC) of the company based on the existing capital structure.</td><td>6</td><td>Level 3</td><td>CO3</td></tr>
</table>

	b.	Sales for the year were Rs 600 lakhs for the year ended on 31st March 2020 and are expected to increase by 20%. The profit margin and Dividend payout ratio are expected to be 4% and 50% respectively. Current Assets, Current Liabilities and Fixed Assets will increase as percentage of fixed assets except long term liability. You are required to compute External funds required by using data from the following balance sheet.	**6**	**Level 3**	**CO3**

Liabilities	Amount in lakhs	Assets	Amount in lakhs
Share capital	400	Fixed Assets	500
Reserves and surplus	140	Inventories	300
Long term loans	360	Debtors	140
Short Term Loans		Bills receivables	100
Bills payables	50	Cash & Bank	60
Creditors	70		
Provision for tax	80		
Total	1100	Total	1100

	c.	The following information pertains to Sun Pharma Ltd.	**6**	**Level 3**	**CO3**

Particulars	**Amount**
No. of equity shares	50,000 shares
Cost of Equity	16%
Rate of return on Investment in Retained Earnings	10%
Earnings for Equity Shareholders	Rs.2,50,000
Dividend Payout	60%

		(i) Analyze whether the company is following optimum dividend policy or not by finding the price of equity shares as per Walter Model. Also examine what would be the price of equity shares if optimum dividend policy is followed.			
Q. 5		Answer **Any two** from the following.			
	a.	Explain NI and NOI Approaches of Capital Structure Theories	**6**	**Level 2**	**CO2**
	b.	Explain the Aggressive, Conservative and Hedging Strategy of working capital management	**6**	**Level 2**	**CO2**
	c.	Explain the steps involved in the process of Financial Forecasting.	**6**	**Level 2**	**CO2**
Q. 6		Answer **Any two** from the following.			
	a.	What is Financial Management and what are its objectives?	**6**	**Level 1**	**CO1**
	b.	What do you understand by operating and Financial leverage?	**6**	**Level 1**	**CO1**
	c.	What are the long-term sources of finance?	**6**	**Level 1**	**CO1**