VPM's
DR VN BRIMS, Thane
Programme: MMS (2023-25)
Second Semester Regular Examination April 2024

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**	19-04-2024

Course Outcome Statements:

CO1: Recall basic terminologies in relation to 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 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: -

Q. No 1 (All Questions are Compulsory)

Q. No.		**Questions**	**Marks**	**BL**	**CO**
Q. 1		Case/Case-let Study (500-800 words)			
	a.	Tetra Pak Ltd. is one of the leading providers of food processing and packaging solutions across the globe. It offers packaging equipment and containers for liquid food products and a range of processing and packaging technologies for use with numerous products, including fruits, vegetables, ice cream, cheese, dry foods, and pet food. The company also delivers a wide range of carton packaging solutions for refrigerated, non-refrigerated, and particulate foods, processing and distribution equipment, automation, environmental improvement, installation, maintenance, and training programs. This company is considering purchase of a new packaging machine. Two models ‘Auto-pack’ and ‘Super-pack’ are offered at prices of Rs 25 Lakhs and Rs 35 Lakhs respectively. The expected economic life of these two machines are 5 years after that the salvage value of ‘Auto-pack’ and ‘Super-pack’ would be Rs.1 lakh and Rs.2 lakhs respectively. Mr. Mayer has been the Chief Financial Officer (CFO) and decision maker in terms of new projects to be undertaken.	**6**	**Level 4**	**CO4**

<table>
<tr><td></td><td></td><td>With given capital rationing as a part of the strategic capital investment plan, company is ready to invest in one of the machines. 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 (Auto-pack) Rs in Lakhs</th><th>Annual cash flows before depreciation and after tax (Super-pack) Rs in Lakhs</th></tr>
<tr><td>1</td><td>7.00</td><td>8.00</td></tr>
<tr><td>2</td><td>8.50</td><td>9.00</td></tr>
<tr><td>3</td><td>11.00</td><td>11.00</td></tr>
<tr><td>4</td><td>10.00</td><td>13.00</td></tr>
<tr><td>5</td><td>9.50</td><td>11.50</td></tr>
</table>
Analyze the two proposals of the company using NPV method. Entire sum can be solved in Rs. Lakhs up to 2 decimals.

The present value of Re.1 at 12% discount rates at the end of 1st, 2nd, 3rd, 4th and 5th year are 0.893, 0.797, 0.712, 0.636, 0.567, respectively</td><td></td><td></td><td></td></tr>
<tr><td></td><td>b.</td><td>Evaluate the above 2 projects based on Payback Period and Profitability Index and recommend which projects would be selected based on the respective 2 methods.</td><td>6</td><td>Level 5</td><td>CO5</td></tr>
<tr><td>Q. 2</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>DLF Ltd. belongs to a risk class for which the appropriate equity capitalization rate is 10%. It has 25,000 shares outstanding. The current market price of share is Rs.200. The company is contemplating the declaration of dividend of Rs.20 per share at the end of current year. The company expects to have net income of Rs 2,50,000 and has a proposal for making new investments of Rs 5,00,000. You are required to Evaluate the proposition that payment of dividend does not affect the value of firm using Modigliani and Miller approach by computing
a. Market price per share when dividend is declared and not declared
b. Number of new shares to be issued
c. Total Worth of Equity Shareholders</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 Sons Ltd. is as under:
<table>
<tr><th>Particulars</th><th>Amount Rs.</th></tr>
<tr><td>Equity Shares of Rs.100 each</td><td>40,00,000</td></tr>
<tr><td>Retained Earnings</td><td>8,00,000</td></tr>
<tr><td>10% Preference Shares</td><td>20,00,000</td></tr>
<tr><td>8% Debentures</td><td>7,00,000</td></tr>
</table></td><td>6</td><td>Level 5</td><td>CO5</td></tr>
</table>

		The existing EBIT of the company is Rs.20,00,000. Income tax rate is 25%. The company requires additional sum of Rs.20,00,000 to finance its expansion programme. This additional sum will generate a new EBIT as 40% of investment. The company is considering the following alternatives: (1) Issue of 5,000 Equity Shares. (2) Issue of 14% Preference Shares. (3) Issue of 12% Debentures. **Compare** which of the above alternatives would give you the Highest EPS?			
Q. 3		Answer **Any one** from the following.			
	a.	Holiday resort ltd is a listed company paying dividends every year. The dividend track record of the company for the last five years is given below: Year Ended 31st March.	**6**	**Level 4**	**CO4**

Year Ended 31st March	**Paid up Capital in Rs. Lakhs**	**Earning for Equity in Rs. Lakhs**	**Dividend paid Rs.in Lakhs**
2010	500	125	75
2011	500	132	80
2012	700	196	117
2013	700	215	130
2014	700	220	136

The face value of share is Rs.10 each. You are required to **analyse** company's dividend policy

	b.	Ratios of Marico Ltd. and FMCG Industry are given below:	**6**	**Level 4**	**CO4**

Ratio	**Marico**	**Industry**
Gross Profit Margin	17.01%	19.51%
Operating Profit Margin	15.42%	16.74%
ROE	34.27%	22.34%
Asset Turnover	0.73	0.57
Current Ratio	1.26	0.57
Debt Equity	0.43	0.07

Examine the financial ratios with reference to the industry average and write appropriate analytical comments.

Q. 4		Answer **Any two** from the following.			
	a.	Aether has the following book-value structures as on March, 31,2024.	**6**	**Level 3**	**CO3**

Particulars	**Amount Rs.**
Equity Share capital	40,00,000
12% Preference Share Capital	10,00,000
8% debenture	30,00,000
	80,00,000

<table>
<tr><td></td><td></td><td>Assume a 30% corporate tax rate and cost of equity as 15%. Make use of the data to calculate weighted average cost of capital (WACC) for Aether.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>b.</td><td>Thermax Ltd. has given the following details: It has 5,000 equity shares outstanding currently and has borrowed Rs.10,00,000 @ 15% p.a. rate of interest. You are required to Solve for Operating leverage, Financial Leverage, Combined Leverage and EPS. Assume corporate tax rate @30%.
<table><tr><th>Particulars</th><th>Amount Rs.</th></tr><tr><td>Sales</td><td>58.00.000</td></tr><tr><td>Variable cost</td><td>29,00,000</td></tr><tr><td>Fixed Cost</td><td>14,50,000</td></tr></table></td><td>6</td><td>Level 3</td><td>CO3</td></tr>
<tr><td></td><td>c.</td><td>The following information pertains to ACE Equipment Ltd.
<table><tr><th>Particulars</th><th>Amount</th></tr><tr><td>Earnings of the company</td><td>Rs.10,00,000</td></tr><tr><td>Dividend Payout Ratio</td><td>30%</td></tr><tr><td>No. of shares outstanding</td><td>1,00,000</td></tr><tr><td>Equity Capitalization Rate</td><td>15%</td></tr><tr><td>Rate of Return on Investment</td><td>12%</td></tr></table>Apply Walter’s Model and find the price of equity share at the given dividend payout ratio.
Also compute new price of equity share if the company follows the Optimum dividend policy.</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 Traditional and NOI approach of Capital Structure Theories</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td></td><td>b.</td><td>Outline importance of working capital cycle in business and various strategies of working capital management.</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td></td><td>c.</td><td>Summarize various sources of Finance available for a public limited company?</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>Recall the purpose of Financial Forecasting and various steps involved in Financial Forecasting?</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
<tr><td></td><td>b.</td><td>What is Ratio Analysis and recall different types of ratios?</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
<tr><td></td><td>c.</td><td>What is role of financial manager and what are various Objectives of Financial Management?</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
</table>