

VPM's
DR VN BRIMS, Thane
Programme: PGDM (2014-16) Fourth Batch
Second Semester Examination December 2014

Subject	Financial Management		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	3	Date	26-12-2014

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

Calculate (a) Operating leverage (b) Financial leverage (c) Combined Leverage from the following data under situation I and II and

Financial plan A and B

Installed Capacity —4800 Units

Actual Production and sales ---75% of the capacity

Selling Price—Rs 30/ per unit

Variable cost – Rs 15/- per unit

Fixed cost

Under situation I----- Rs 25,000/-

Under situation II----- Rs 30,000/-

Capital structure	Financial Plan	
	A (Rs)	B(Rs)
Equity	1, 00,000	1, 50,000
Debt @15%	1, 00,000	50,000
	2, 00,000	2, 00,000

Q2) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

A) The operating income of Hypothetical Ltd. amounts to Rs 186000. It pays 35% on its income. Its capital structure consists of following:

14% Debentures	5, 00,000
15% preference shares	1, 00,000
Equity shares (Rs 100 each)	4,00,000

- 1) Determine the firms EPS
- 2) Determine the percentage change in EPS associated with 30% change (both increase and decrease) in EBIT

B) Explain the Net Income theory of capital structure and Net operating Income theory of capital structure

C) What is financial system? Explain the structure of financial system in India.

Q3) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

A) A company need Rs 12 lakhs for the installation of new factory which would yield an annual EBIT of Rs 2, 00,000/-. The company has the objective of maximizing the earnings per share. It is considering the possibility of issuing shares plus raising a debt of Rs 200000, Rs 600000, OR Rs 10,00,000./- The current market price per share is Rs 40/- which is expected to drop to Rs 25 per share if the market borrowings were to exceed Rs.7,50,000/-

Cost of borrowings are indicated as under:

Upto Rs 2,50,000 10% p.a.

Between 2,50,001 and Rs 6,25,000 14% p.a.

Between 6,250,001 and Rs 10, 00,000 16% p.a.

Assuming a tax rate of 30% workout the EPS and the scheme which would meet the objective of the management.

B) Explain the types of dividend and what are legal provisions for payment of dividends?

C) Explain working capital cycle. What is its importance in business? Can companies manage the business with negative working capital?

Q4) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

A) 'A' firm has sales of Rs. 10, 00,000/- Variable cost is 70% Total cost is Rs 9, 00,000/- and debt of Rs 5, 00,000 at 10% rate of interest .If the tax rate is 40% calculate

(a) Operating leverage (b) Financial leverage (c) Combined Leverage (d) If the firm wants to double up its EBIT, How much of a raise in sales would be needed on percentage basis?

B) Explain types of dividend policies.

C) Write short notes on (1) Role of investment banks (2) IPO

Q5) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

A) Following information is available from the books of XYZ Ltd

	Rs In Lakhs
Sales	500
Cost of Raw Materials	200
Labour cost for manufacturing	100
Interest on borrowings	60

The capitalization rate for debt is 10% and capitalization rate for the entire firm is 12.5%. Assuming that the firm does not retain any earnings and there is no tax, As per Net Operating Income Approach---

- What is the total market value of firm?
- What is the total value of the debt of the firm?
- What is the total value of the equity of the firm?
- What is the equity capitalization rate?

B) Write short notes on (1) ADR/GDR (2) Venture capital

C) Explain theories of capital structure with graphical representation.

Q6) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

A) A firm has total sales of Rs 15 lacs with 40% variable cost and the total cost of Rs 9,00,000/- It also has debt of Rs 8,00,000, at 10% rate of interest. If the tax rate is 45%. Calculate a) operating leverage, financial leverage and combined leverage

B) Holiday Resort Limited is a listed company paying dividends every year. The dividend track record of the company for the last 5 years is given below (Rs in lakhs)

Year ended 31 st march	Paid up capital (Equity)	Profits	Dividend paid
2005	500	125	75
2006	500	132	80
2007	700	196	117
2008	700	215	130
2009	700	220	136

The face value of share is Rs 10 per share. You are required to analyze the company's dividend policy

C) Write short note on Role of SEBI

Q7) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

Write short notes:

A) Traditional approach of capital structure.

B) Modigliani and Miller Approach.

C) Net present value method and internal rate of return.