VPM's
DR VN BRIMS, Thane
Programme: PGDM (2014-16) Fourth Batch
Third 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		**Date**	**20-04-2015**

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

Q1) 20 Marks (Compulsory)

Domino's Pizza - Strategies to Tackle Global Economic Slowdown

"Ultimately, this franchise-only business model is what helps Domino's rake in the cash even in a downturn. Restaurant chain Pizza Hut may have a strong brand, but it is weighed down by its portfolio of managed restaurants; Domino's has none. It also means Domino's has its strategy laid out not just for the next year, not even for the next five years, but until 2017. The company wants to open hundreds of new stores until then, at a rate of around 50 per year, before taking a breather."- Lionel Laurent, Markets Reporter for Forbes.com, London, in January 2009.

"Domino's Pizza's same-store sales should still relatively outperform those of other quoted restaurant companies because they will, amongst other reasons, benefit from people tightening their belts rather than eating out at restaurants."
- John Beaumont, Analyst with Singer Capital Markets Limited in January 2009.

Introduction

As of mid-2009, US-based Domino's Pizza Inc. (Domino's), was one of the world's largest pizza chains. In fiscal 2008, the company reported global retail sales of US$ 5.5 billion which included retail sales of both company-owned and franchise stores. The company reported revenues of US$ 1.425 billion and net income of US$ 54 million for the fiscal year 2008. As of December 2008, Domino's operated 8,773 stores across 60 countries and had approximately 170,000 employees worldwide (Refer to Exhibit I for number of stores and their classification according to domestic and international, company-owned and franchises).

Domino's reported improved fourth quarter results for its international business. This marked the 60th consecutive quarter of growth in international same store sales. However, it announced a decline in domestic growth for the last quarter of 2008 (Refer to Exhibit II for Domino's same Store Sales Growth and Retail Sales Growth in domestic and international markets for 2008 and to Exhibit III for Selected Financial Data of Domino's). Commenting on the fiscal 2008 financial results, David A. Brandon (Brandon), Chairman and CEO, Domino's, said, "Throughout 2008, we battled many external challenges while laying the groundwork for better future results. I have mixed feelings about our overall results. I am disappointed with our domestic sales performance and the pressure this created on our short-term profits. However, I am excited about the aggressive steps we have taken to improve our franchise system, expand our menu and lunch day-part, and strengthen our marketing. And, our International business continues to expand and grow. The current economic crisis has been challenging and at times, painful. However, I am convinced we will come out of this a stronger brand, stronger system of stores, and a stronger company."Domino's Pizza originated as a small pizza store owned by Dominick Di Varti at the Michigan University campus in the US under the name 'DomiNick's Pizza'. The pizza store was bought by two brothers who were students at the University, Thomas S. Monaghan (Tom) and James S. Monaghan (James) in 1960... Domino's Master Franchise Model Industry analysts believed that Domino's master franchise model was one of the reasons for its success in international markets in light of the global economic slowdown in 2008... How Domino's International Bucked the Trend

The strong performance of Domino's international master franchises in the midst of the global economic slowdown was a widely debated topic among analysts. While some analysts believed that the recession had helped the growth of these chains due to the 'trading down factor' of people preferring to eat at home rather than dine out at expensive restaurants, others believed it was a combination of aggressive marketing and the franchise model that had helped the company buck the trend...Promotional and Advertisement Campaigns

The pizza delivery business had traditionally been promotion driven. Coupons and discounts were offered by all pizza delivery chains to woo customers. Since its inception, Domino's had been known for its unique promotions that included fast delivery and innovations to cater to a varied palette...

The '30 Minutes' Promise In the year 1973, Domino's began a guarantee scheme that its pizzas would be delivered in 30 minutes or less of ordering failing which the customer would receive the pizza free...

Use of Technology: At DPG, online sales accounted for over 70 percent of its total sales in 2008. DPG planned to further exploit the increasing potential of the online medium as one of the promotional and distributional channels in the downturn, "This is the 10th year we have had an e-commerce platform. We were the first to it back in 1999. We do a number of different activities online to increase sales but there are other things we will be launching this year."...Domino's US - Experiencing the Downturn: While Domino's was successful in international markets, the company experienced a slow down on the domestic front. In the US, in 2008, the pizza industry was witnessing a slowdown due to recession in the economy. As a result, a significant number of people remain unemployed while others had to suffer pay cuts...Future Outlook: Domino's forecast flat same store sales for domestic and international markets combined in the fiscal year 2009.

Questions:

a) The company reported that it was not sure whether the increase in sales in international markets would be sustainable due to the adverse foreign currency movements that would impact the royalties from franchises...give your views on the statement

b) Explain the Strategies by Domino's Pizza to Tackle Global Economic Slowdown

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

a) 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.200,000
Dividend paid	Rs 160,000
Price earning ratio	12.5 times
No of shares	200000

You are required to find out whether the company's dividend payout ratio is optimal using Walter's model.

b) D limited belongs to a risk class for which the appropriate capitalization rate is

10%. It has 25000 shares outstanding. The current market price of share is Rs 100. The company is contemplating the declaration of dividend of Rs 5 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 calculate

a. Market price per share when dividend is declared
b. Market price per share when the dividend is not declared.
c. Number of new shares to be issued.
d. Show that the payment of dividend does not affect the value of firm.

c) What do you mean by bond yield method? (Yield to maturity)

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

a) What do you understand by
1) EVA **2)** Capital Asset Pricing model (CAPM).

b) H limited agrees to acquire K limited based on the capitalization of last 3 years profits of K limited at an earning yield of 20%.
Profits of K limited

Year	**Rs in lakhs**
2007	70
2008	90
2009	80

Calculate the value of business on earnings yield model.

c) A project requires an initial investment of Rs 2, 00,000 and the annual cash inflows for 5 years are Rs 60,000, Rs 80,000, Rs 50,000, Rs 40,000 and Rs 30,000 respectively. What is the payback period?

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

a) A company has under consideration 2 mutually exclusive projects X and Y for increasing its plant capacity. Each project requires net investment of Rs 10,000. Each project has an economic life of 10 years. The companies cost of capital is 10%. The management of company has made the following pessimistic, most likely and optimistic estimates of annual cash inflows associated with each project:

Estimated annual cash inflows	**Project A**	**Project B**
Pessimistic	2000	1000
Most likely	2500	2500
Optimistic	3000	5000

Determine the net present value of each project

Which project do you think should be selected by the management?

Note: The present value factor of an annuity of Rs 1 @10% for 10 years is 6.145

b) A machine is available for purchase of cost of Rs 8, 00,000. It is expected to have a life of 5 years and have a scrap value of Rs 1,00,000 at the end of 5 years period. The machine will generate following profits over its life as under:

Year	Amount (Rs)
1	2, 00,000
2	3, 00,000
3	4, 00,000
4	1, 50,000
5	50,000

The above estimates are profits before depreciation. You are required to calculate accounting rate of return.

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

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

a) What is the future value of Rs.10, 000 invested today at the end of 7 years, given the investment is to earn 9% rate of return, in the following cases?

1. Annual Compounding
2. Semi Annual Compounding
3. Quarterly Compounding
4. Continuous compounding

b) What is the present value of Rs.10, 00,000 which you would get at the end of 10 years, given the average inflation in the interim is say 8% per annum, in the following cases?

1. Annual Compounding
2. Semi Annual Compounding
3. Quarterly Compounding
4. Continuous compounding

c) Explain working capital cycle. What is its importance in business? Can companies

manage the business with negative working capital?

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

a) What is the present value of an annuity which pays Rs.25000 per year at the end of the each next 15 years, given the investment is to earn 11% rate of return? What if this investment is done till infinity?

b) Write short notes on **1)** stock markets and its type's **2)** Commodity markets

c) Explain various methods of valuation of shares and business

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

a) An investment project costs Rs1, 00,000/-initially. It is expected to generate cash flows as follows

Year	Cash inflows
1	50,000
2	40000
3	30,000
4	20,000

What is net present value of project assuming a 10% risk free rate? Should the project be accepted?

b) Explain what do understand by derivatives, options and futures .e

c) X ltd is currently under evaluation of project which will yield the following returns over a period of time

Year	Gross yield Rs
1	80,000
2	80,000
3	90,000
4	90,000
5	75,000

Cost of machinery to be installed amounts to Rs 2,00,000 and the machine is to be depreciated at 20% p.a.at WDV .Income tax rate is 30%.If the average cost of raising capital is 10%would you recommend accepting the project under the IRR Method

Present Value of money is as under:

Year	10%	14%
1	0.91	0.88
2	0.83	0.77
3	0.75	0.67
4	0.68	0.59
5	0.62	0.52