

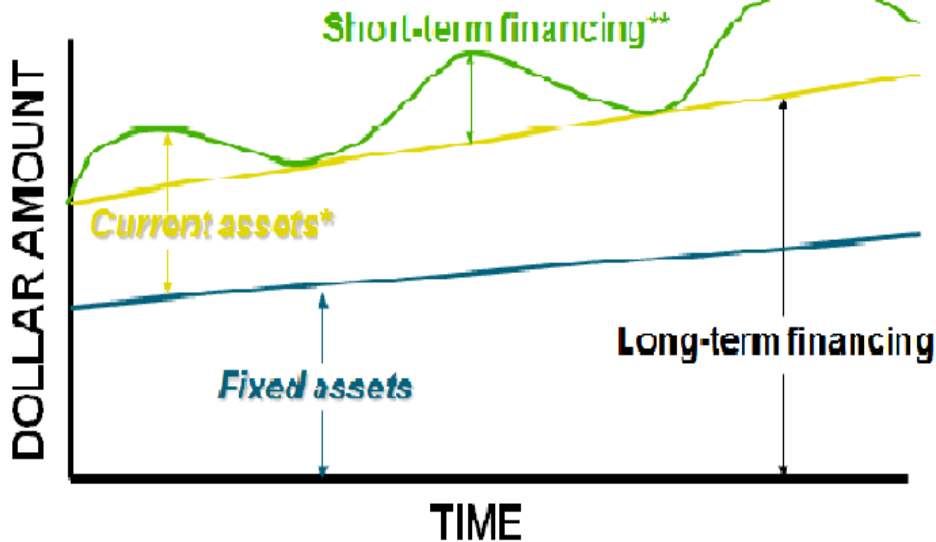
VPM's
DR VN BRIMS, Thane
Programme: MMS (2017-19)
Second Semester Examination April 2017

Subject	Financial Management		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	3	Date	21.04.2018

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

Q1) 20 Marks (Compulsory):

- A) Explain concept of working capital. What is the importance in business Can companies manage the business with negative working capital.
- B) From the diagram find out the type of working capital management strategy implemented in business organization? explain the strategy in detail



- C) ABC Ltd is stock exchange listed company making good profits every year. However the board of directors is very conservative and has declared dividend at fix rate of Rs 2 per share, when EPS is always above Rs 25, for last 5 years. The last bonus issue was made 6 years ago. The salary packages are also not so attractive. As a result there is high turnover of employees and low volume of company's shares on bourses. The young members of the director's family wish to make the company more dynamic and employee friendly to the share holders so as to make the company most valued one. What steps would you suggest to achieve these objectives?
- D) 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 31 ST March	paid capital	up	profit s	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 analyze company's dividend policy

Q 2) Any two from (a) or (b) or (c) _____

10 Marks

- A) The following information is available of Tata steel company ltd. Calculate EVA by using CAPM method.

Particulars	Rs. Lacs
14% Debt Capital	5000
Equity Capital	2800
Reserves and surplus	8200
Risk free rate	9%
Beta factor	1.05
Market Rate of Return	17%
Equity Market Risk Premium	10%
Operating Profit after Tax	4400

Tax Rate	35%
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- B) X India Ltd is considering investing in project of Rs 100 lacs which is expected to generate following cash flows at constant price level over its life of 5 years. Cost of capital is 10%. Management expects inflation at the rate of 7.5% per annum. Evaluate project based on NPV

Year	Inflows (Rs)
1	15,00,000
2	25 00,000
3	30 00,000
4	40 00,000

- C) Write short notes on various types of stock exchanges in India

Q 3) Any two from (a) or (b) or (c) ————— 10 Marks

- A) The operating income of Hypothetical Ltd. amounts to Rs1 86,000. 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

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

- B) 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

- c) 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.4,00,000	
Dividend paid	Rs
160,000	
Price earning ratio	12.5 times
No of shares	200000
Cost of capital	7%

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

Q 4) Any two from (a) or (b) or (c) ————— 10 Mark

- A) Explain the Net Income theory of capital structure and Net operating Income, traditional and Modigliani & Miller theory of capital structure
 B) What do mean by operating leverage ,financial leverage and combined leverage ?
 C) Explain the Modigliani & Miller dividend theory model

Q 5) Any two from (a) or (b) ————— 10 Marks

- A) Write short note on following valuation methods
 1. Dividend yield method 2.Price earning method
 B) What is the future 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 ?
 C) Explain the structure of financial markets in India and various instruments of money market and capital market

Q6) Any two (a) or (b) or (c) 10 Marks

- A) What is the present value of Rs.14,00,000 which you would get at the end of 8 years, given the average inflation in the interim is say 6% per annum, in the following cases ? Annual Compounding 2) Semi Annual Compounding 3) Quarterly Compounding
- B) A firm has total sales of Rs 15 lacs with 40% variable cost and the total cost of Rs 900000/- 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
- C) Explain the role of different regulators in India required in the financial system

Q7) Any two from (a) or (b) or (c)

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

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