

Code No: 721CM

**JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD**  
**MBA II Semester Examinations, October/November - 2022**  
**FINANCIAL MANAGEMENT**

Time: 3 Hours

Max.Marks:75

**Answer any five questions**  
**All questions carry equal marks**

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- 1.a) Calculate the PV of Rs. 5000 payment received every six months for 3 years interest is 4%, compounded annually.  
b) “The risk-return tradeoff is an investment principle that indicates that the higher the risk, the higher the potential reward.” Comment with a suitable example. [7+8]
- 2.a) If Mr. Reddy wants Rs.50,00,000 for retirement in 30 years, how much would he have to save by the end of each year if he could make 12% per year?  
b) How does agency cost influence the risk and return of a firm? [8+7]
- 3.a) Moon Electronics Company is considering purchasing a piece of equipment. The equipment will cost Rs.30,000 and will increase the annual cash inflow by Rs. 11,000. The useful life of the equipment is 6 years. After 6 years, it will have no salvage value. The company wants a 20% return on all investments.  
Required:  
i) Compute the Net Present Value (NPV) of this investment project.  
ii) Should the equipment be purchased according to NPV analysis?  
b) Differentiate between NPV and IRR. [8+7]
- 4.a) What Is the Gordon Growth Model? Discuss with assumption and example.  
b) Zorex Limited has a target ROE of 30 percent. The debt-equity ratio of the firm is 1.2, and the cost of debt is 8 percent. What ROI should the company plan to earn if its tax rate is 25 percent? [7+8]
- 5.a) A company generates Rs.1,50,000 in earnings and is financed entirely by equity capital in the form of 10,000 common shares. The corporate tax rate is 30%. Calculate EPS.  
b) Discuss Modigliani Miller’s Theory of capital structure. What are its assumptions? [8+7]
- 6.a) Suppose that for the fiscal year 2021, the net income for Citi Bank was Rs.18.232 billion. Its preferred stock dividends were Rs.1.614 billion. Its average outstanding common shares stood at Rs.10.196 billion. Calculate EPS.  
b) Differentiate between financial leverage and operating leverage. [7+8]
- 7.a) A company has an EPS of Rs. 30. The market rate of discount applicable to the company is 15%. Retained earnings can be reinvested at an IRR of 10%. The company is paying out Rs.10 as a dividend. Calculate the market price of the share using Walter’s model.  
b) What are the major components of working capital? [8+7]
- 8.a) Discuss basic strategies for cash management.  
b) What are the advantages of receivable management? [7+8]

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