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Code No: 762AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA II Semester Examinations, May - 2022

FINANCIAL MANAGEMENT

Time: 3 Hours **Max.Marks:75**

Answer any five questions

All questions carry equal marks

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1.a) Write a note on profit maximization vs. wealth maximization.
b) Explain the concept of 'valuation of the firm'. What are the various methods of valuation? [7+8]

2.a) What is finance function? What are its objectives?
b) What are the major types of financial decisions that a business firm makes? How do they involve risk-return trade off? [7+8]

3.a) Explain the nature and concept of capital budgeting.
b) A company's share is quoted in the market at Rs.20 currently. The company pays a dividend of Re.1 per share and the investor expects a growth rate of 5 percent per year. Calculate:
i) the company's cost of equity capital.
ii) If the anticipated growth rate is 6% p.a. compute the indicated market price per share.
iii) If the company's cost of capital is 8% and the anticipated growth rate is 5% p.a., compute the indicated market price of the dividend of Re.1 per share is to be maintained. [7+8]

4.a) Kashyap &co. is considering two mutually exclusive projects, M and N. Project M will require the initial cost of Rs.14,00,000 with no scrap value and will also require an increase in the level of inventories and receivables of Rs.6,00,000 over its lifetime. The project will generate additional sales of Rs.13,00,000 and will require cash expenses of Rs.4,00,000 in each of its 5 life time. It will be depreciated on straight line basis.
Project-N will require an initial capital of Rs.20,00,000 with no salvage value, and will be depreciated on straight line method. The earnings before depreciation and taxes during its 5-year life are.

Year 1 (Rs.)	Year 2 (Rs.)	Year 3 (Rs.)	Year 4 (Rs.)	Year 5 (Rs.)
7,00,000	7,60,000	8,00,000	9,00,000	9,20,000

The company has to pay corporate income tax@35%, cost of capital stands at 10%.
i) Which project is acceptable under the NPV method?
ii) Will it make any difference to the above decision if profitability index is employed?
b) Give a comparative description of NPV and IRR method. [8+7]

5.a) What is meant by capital structure? What are the major determinants of capital structure?
b) A large sized chemical company has been expected to grow at 14% per year for the next 4 years and then to grow indefinitely at the same rate as the national economy, i.e. 5%. The required rate of return on the equity shares is 12%. Assume that the company paid a dividend of Rs.2 per share last year. ($D_0 = 2$).
Determine the market price of the shares today. You may use the following table: [7+8]

Year	1	2	3	4
Discount Factor at 12%	0.893	0.797	0.712	0.636

6.a) What do you understand by a stable dividend policy? Why should it be followed?

b) Compute the market value of the firm, value of shares and the average cost of capital from the following information:

	Rs.
Net Operating Income	2,00,000
Total Investment	10,00,000
Equity Capitalization Rate: i) If the firm uses no debt ii) If the firm uses Rs.4,00,000 debentures iii) If the firm uses Rs.6,00,000 debentures	 10% 11% 13%

Assume that Rs.4,00,000 debentures can be raised at 5% rate of interest whereas Rs.6,00,000 debentures can be raised at 6% rate of interest. [7+8]

7.a) Define the term working capital. What factors would you take into consideration in estimating the working capital needs of a concern?

b) X Ltd. sells its products on a gross profit of 20% on salles. The following information is extracted from its annual accounts for the current year ended March 31.

Particulars	**Rs.**
Sales at 3 months credit	4,00,000
Raw material	1,20,000
Wages paid- average time lag 15 days	96,000
Manufacturing expenses paid – one month in arrears	1,20,000
Administrative expenses paid – one month in arrears	48,000
Sales promotion expenses – payable half- yearly in advance	20,000

The company enjoys one month's credit from the suppliers of raw materials and maintains 2-month's stock of raw materials and 1.5 month's stock of finished goods. The cash balance is maintained at Rs.10,000 as a precautionary measure. Assuming a 10% margin, find out the working capital requirements of X Ltd. [6+9]

8.a) Explain the motives for holding cash.

b) Smart Ltd., buys in lot of 125 boxes which is a three-month supply. The cost per box is Rs.125 and the ordering cost is Rs.250 per order. The inventory carrying cost is estimated at 20% of unit value per annum. You are required to ascertain:

i) What is the total annual cost of the existing inventory policy?

ii) How much money would be saved by employing the EOQ? [7+8]

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