R19

Code No: 762AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA II Semester Examinations, March /April - 2023
FINANCIAL MANAGEMENT

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

Note: i) Question paper consists of Part A, Part B.
ii) Part A is compulsory, which carries 25 marks. In Part A, Answer all questions.
iii) In Part B, Answer any one question from each unit. Each question carries 10 marks and may have a, b as sub questions.

PART - A

(25 Marks)

1.a) What are the major types of financial management decisions that business firms make? [5]
b) When might two mutually exclusive projects having unequal lives be incomparable? How should this problem be dealt with? [5]
c) Explain the major factors affecting dividend policy. [5]
d) Write a note on operating cycle. [5]
e) Briefly explain Lock box system of cash management. [5]

PART - B

(50 Marks)

2.a) Why is the financial management function in a firm so important?
b) What are the major factors that determine the value of the firm's stock? [5+5]

OR

3.a) To supplement your planned retirement after 30 years, you estimate that you need to accumulate Rs.22,00,000 by the end of 30 years from today. You plan to make equal end-of-the year deposit into an account paying 6% annual interest.
Calculate the amount to be deposited each year.
b) Brief on the concept of time value of money. [5+5]

4. A firm is considering two mutually exclusive projects whose annual net flows have the following distribution:

Project A –net cash flow Rs.	Probability of Project A	Project B—net cash flow Rs.	Probability of project B
2,00,000	0.1	2,10,000	0.2
3,00,000	0.6	3,30,000	0.6
4,50,000	0.3	4,50,000	0.2

Project A requires an initial investment of Rs.11,00,000 whereas project B calls for investing Rs.10,00,000. Both projects would last for 5 years.
Calculate the standard deviation for the net cash flows for both projects. Which one appears to be riskier? [10]

OR

5.a) How is the cost of retained earnings calculated? What are the practical and theoretical difficulties in estimating this cost?
b) What are the likely effects if a firm uses multiple investment selection criteria? [6+4]

6.a) Critically evaluate the MM theory on capital structure.
b) Write a short note on Walter's approach to dividend policy. [5+5]

OR

7. The shares of a chemical company are selling at Rs.20 per share. The firm had paid dividend at Rs.2 per share last year. The estimated growth of the company is approximately 5% per year.
a) Determine the cost of equity capital of the company.
b) Determine the estimated market price of the equity share if the anticipated growth rate of the firm i) rises to 8% and ii) fall to 3%. [10]

8. Bangalore Electric Company, manufacturer of various types of electrical equipment, is examining its working capital investment policy for next year. Projected fixed assets and current liabilities for next year are Rs.20 crore and Rs.18 crore, respectively. Sales and EBIT are partially a function of the company's investment in working capital – particularly its investment in inventories and receivables. The company is considering the following three different working capital investment policies.

Working capital investment policy	Investment in current assets (in crores of rupees)	Projected sales (in crores of rupees)	EBIT (in crores of rupees)
Aggressive (small investment in current assets)	28	59	5.9
Moderate (moderate investment in current assets)	30	60	6.0
Conservative (large investment in current assets)	32	61	6.1

a) Determine the following for each of the working capital investment policies:
i) Rate of return on total assets (that is EBIT/total assets)
ii) Net working capital position.
iii) Current ratio
b) Describe the profitability versus risk tradeoffs of these three policies. [10]

OR

9.a) What is meant by working capital leverage?
b) How would you assess the working capital requirements of seasonal industry? [5+5]

10. In order to increase sales from the normal level of Rs.2.4 lakhs per annum, the marketing manager submits a proposal for liberalizing credit policy as under:
Normal sales Rs. 2.4 lakhs
Normal credit period 30 days.

Proposed increase in credit period beyond normal 30 days	Relevant increase over normal sales Rs.
15 days	12,000
30 days	18,000
45 days	21,000
60 days	24,000

The P.V ratios of the company is 33.33 percent. The company expects a pre-tax return of 20 percent on investment. Evaluate the above four alternatives and advise the management.
(Assume 360 days a year) [10]

OR

11.a) Briefly explain the 'cash conversion cycle' in business.

b) What are the ingredients of a good inventory policy? [5+5]

---oo0oo---