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MB–202

M. B. A. (SECOND SEMESTER) END SEMESTER EXAMINATION, June, 2023

FINANCIAL MANAGEMENT

Time : Three Hours

Maximum Marks : 100

Note : (i) This question paper contains two Sections–Section A and Section B.

(ii) Both Sections are compulsory.

(iii) Answer any *two* sub-questions among (a), (b) and (c) in each main question of Section A. Each sub-question carries 10 marks.

(iv) Section B consisting of case study is compulsory. Section B is of 20 marks.

Section—A

1. (a) Discuss how consideration of time is important in financial decision-making. How can time value be adjusted ? (CO1)

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(b) The basic formula to calculate cost of equity is (D / NP)+ g. Describe its rationale. (CO1)

(c) HHC Ltd. issues 12% perpetual preference shares of face value of ₹ 200 each. Compute cost of preference share without tax as well as with 10 % dividend tax. (CO1)

2. (a) A firm's sales, variable costs and fixed costs amount to ₹ 75,00,000; ₹ 42,00,000 and ₹ 6,00,000 respectively. It has borrowed ₹ 45,00,000 at 9%. Calculate operating leverage, financial leverage, and combined leverage. If the sales drop to ₹ 50,00,000, what will the new EBIT be ? (CO2)

(b) Explore the various theories of capital structure along with the underlying assumptions underlying the NI,NOI and MM hypothesis. (CO2)

(c) Compare and contrast IRR method and NPV methods of capital budgeting. Which is better technique and why ? (CO2)

3. (a) Examine how the length of operating cycle influences the working capital requirements of a business. Determine the dangers of having high levels of working capital. (CO3)

(b) Identify the factors that influence the management's decision to pay dividends of a certain amount. (CO3)

(c) Given the following information about Sundrop Industries Ltd, show the effect of the dividend policy on the market price per share , using Walter's model : (CO3)

EPS = ₹ 10. The firm has the policy of paying 50% of earnings as dividends.

Cost of capital (K) = 10%

Assumed rate of return (*r*) :

(i) 15%

(ii) 10%

(iii) 8%

4. (a) Estimate the cost of redeemable and irredeemable debt with hypothetical example. (CO4)

(b) A project requires an initial investment of ₹ 20,000 and the annual cash inflows for 5 years is ₹ 6,000; ₹ 8,000, ₹ 5,000 and ₹ 4,000 respectively. Find the payback period. (CO4)

(c) The capital structure of XL Ltd. consists of the following securities : (CO4)

10% Debentures	₹ 5,00,000
12% Preference shares	₹ 1,00,000
Equity shares of Rs 100	₹ 4,00,000

Operating profit (EBIT) of ₹ 1,60,000/- and the company is in 50% tax bracket.

(i) Determine the company's EPS.

(ii) Determine financial leverage.

(iii) Determine the percentage change in EPS associated with 30% increase in EBIT.

Section–B

5. **Case Study :**

A choice is to be made between the two competing proposals which require an equal investment of ₹ 1,00,000 and are expected to generate net cash flows as under : (CO5)

Year	Project A	Project B
1	45,000	40,000
2	15,000	25,000
3	20,000	16,000
4	NIL	35,000
5	25,000	13,000
6	6,000	4,000

Cost of capital is 10 %

PVF at

12 % 0.893 0.797 0.712 0.683 0.636 0.567

Using NPV and PI method suggest which project should be accepted and why ?